



GLOBAL
TRADE
ALERT

Anatomy of the Breakdown in Trade Cooperation

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Purpose of this presentation

- To put the Brazen Unilateralism of recent years in perspective so as to shed light on potential root causes of (one aspect of) the current malaise of the multilateral trading system.
 - I will draw inspiration—at least in terms of identification of competing explanations—from assessments of the breakdown of trade cooperation in the 1930s.
- A by-product will be to highlight those policies that discriminate against foreign commercial interests which affect the most trade in goods.
- To put in quantitative terms what is at stake for Canada.
- All of this—I hope—will trigger an insightful Q & A session and provide a potential contrast to Doug Irwin's dinner speech.

The 1930s as a source of inspiration—not for trade policy, but for competing explanations

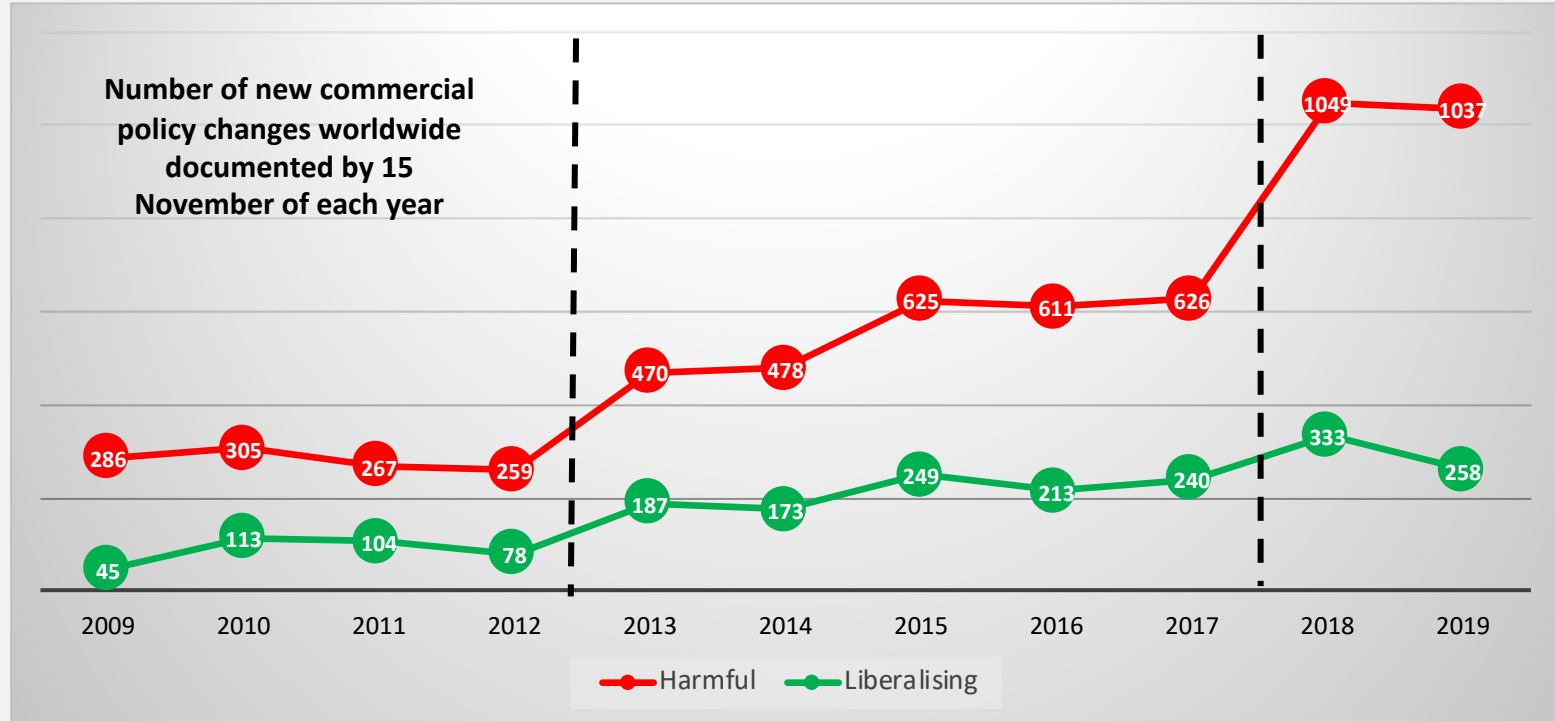
Explanation	“Defining moment” explanations	“Slow rot” explanation
Manifestation	Smoot Hawley Tariff (folklore)	Trade cooperation slows breaks down from 1927 on. League of Nations unable to solve international commercial tensions. The fragility of the liberal system of global commerce was exposed by the economic upheaval and rivalries (Boyce).
	British abandoning the Gold Standard and turn towards Imperial Preferences (Irwin)	
	Credit-Anstalt crisis (Straumann)	
Explanation	Single unilateral events trigger breakdown in trade cooperation.	Seeds for collapse laid in the 1920s when states that promoted a liberal world economy delivered opening and restoration of the Gold Standard but did not create a robust system to manage it.
Root cause	Domestic political imperatives	Poor system design

The Global Trade Alert Database—the independent trade policy monitoring initiative

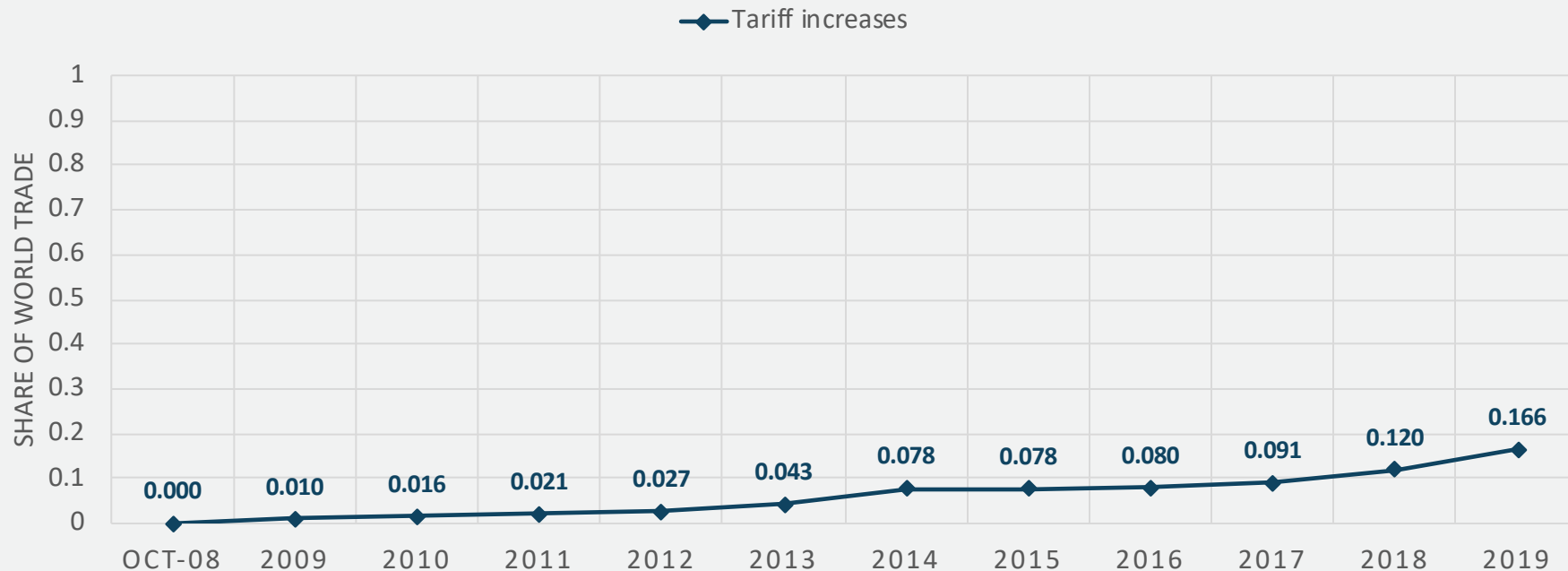


- Established in June 2009 after fears of a 1930s return to protectionism.
- Documents public policy changes that alter relative treatment of domestic and foreign commercial interests from first G20 Leaders Summit in November 2008.
- Interested in reforms not just harmful policy interventions.
- To date documented over 25,000 public policy interventions.
- IMF stated in 2016 that GTA has the largest coverage of crisis-era trade policy changes.
- Produced 24 reports of increasing sophistication. Cited in over 1,800 entries in *Google Scholar*.
- Team: 10 part-time team members plus one full time colleague.
- Annual budget: around 400,000 CHF. A cheap global public good.

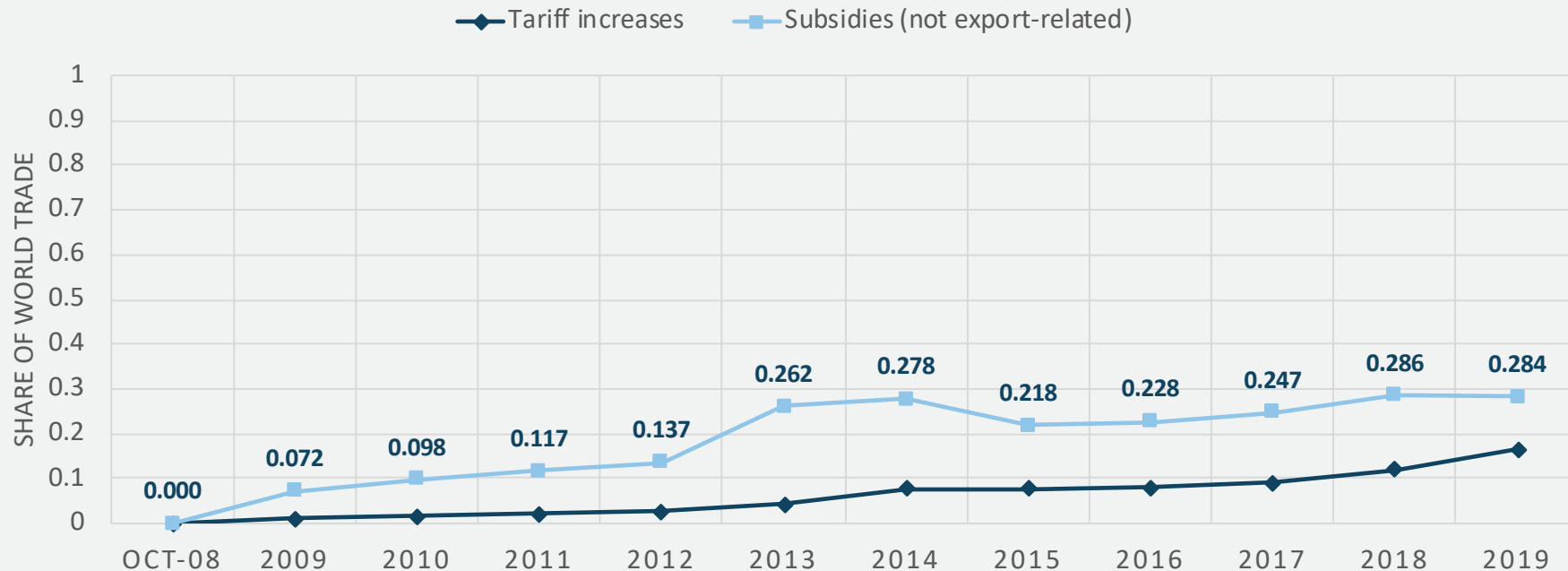
Three phases of crisis-era commercial policy



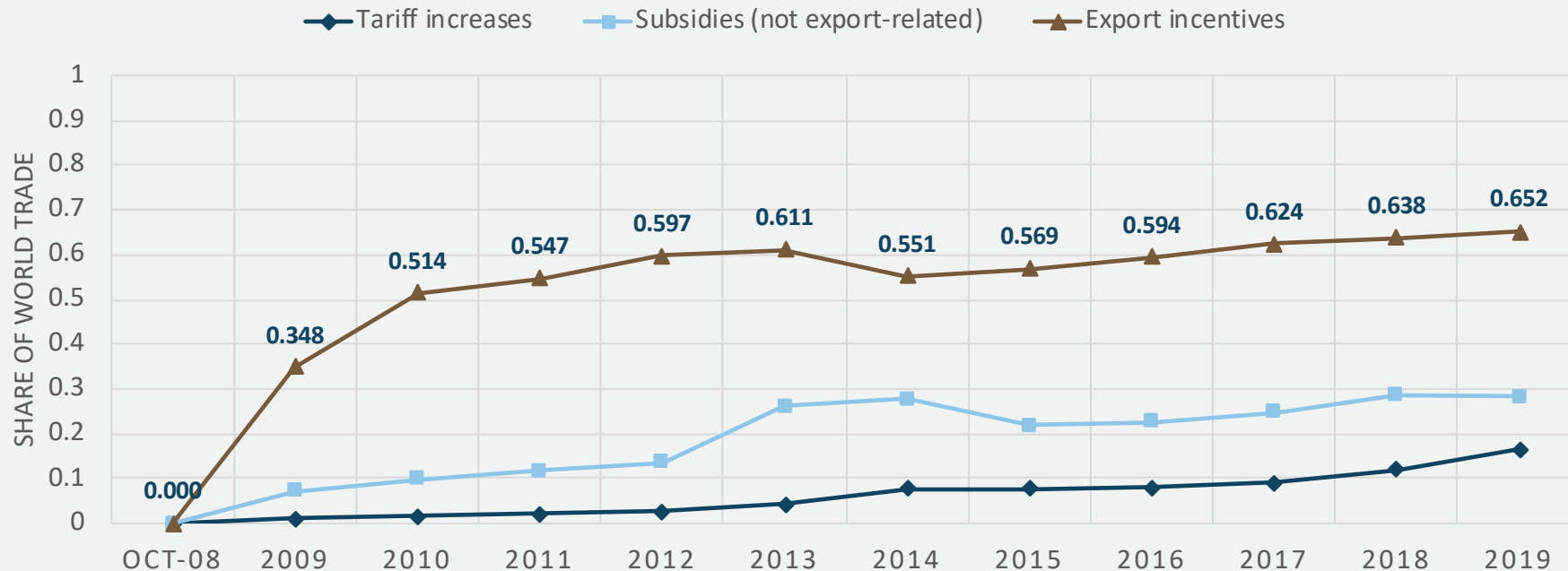
Trade facing tariff hikes rose in 2014 and with the Sino-U.S. trade war



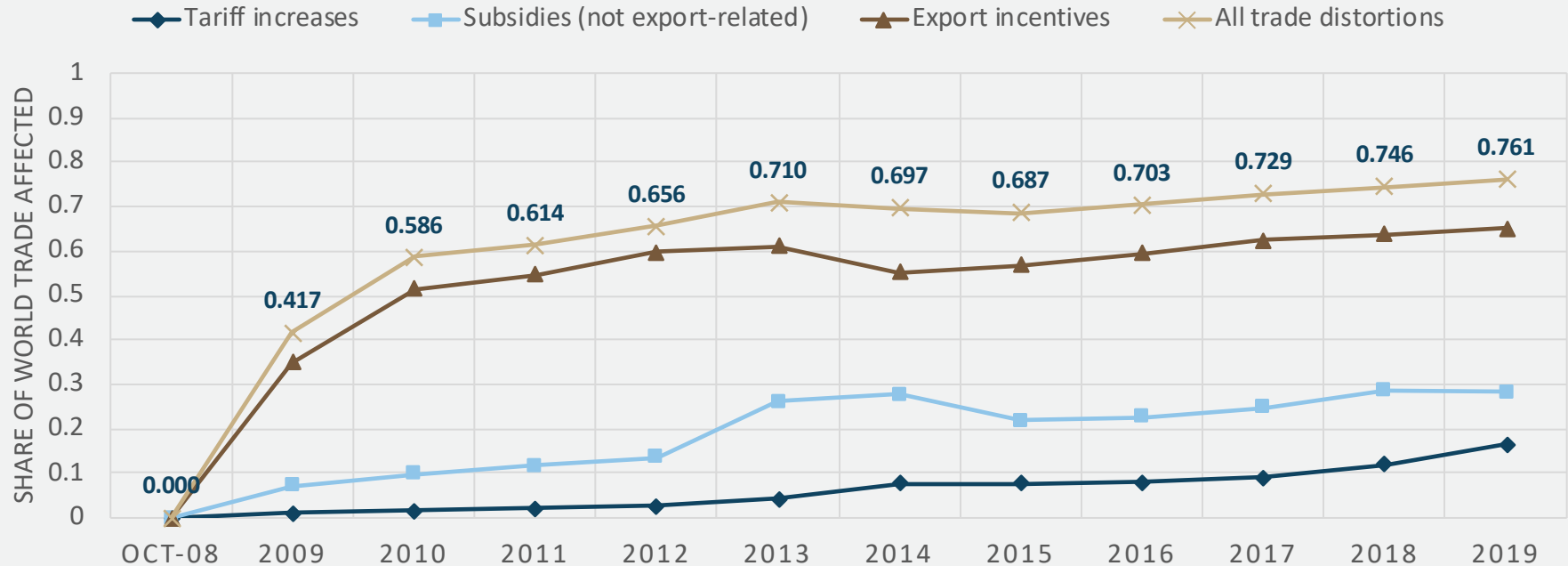
Subsidies to import-competing firms now cover just under 30% of world trade



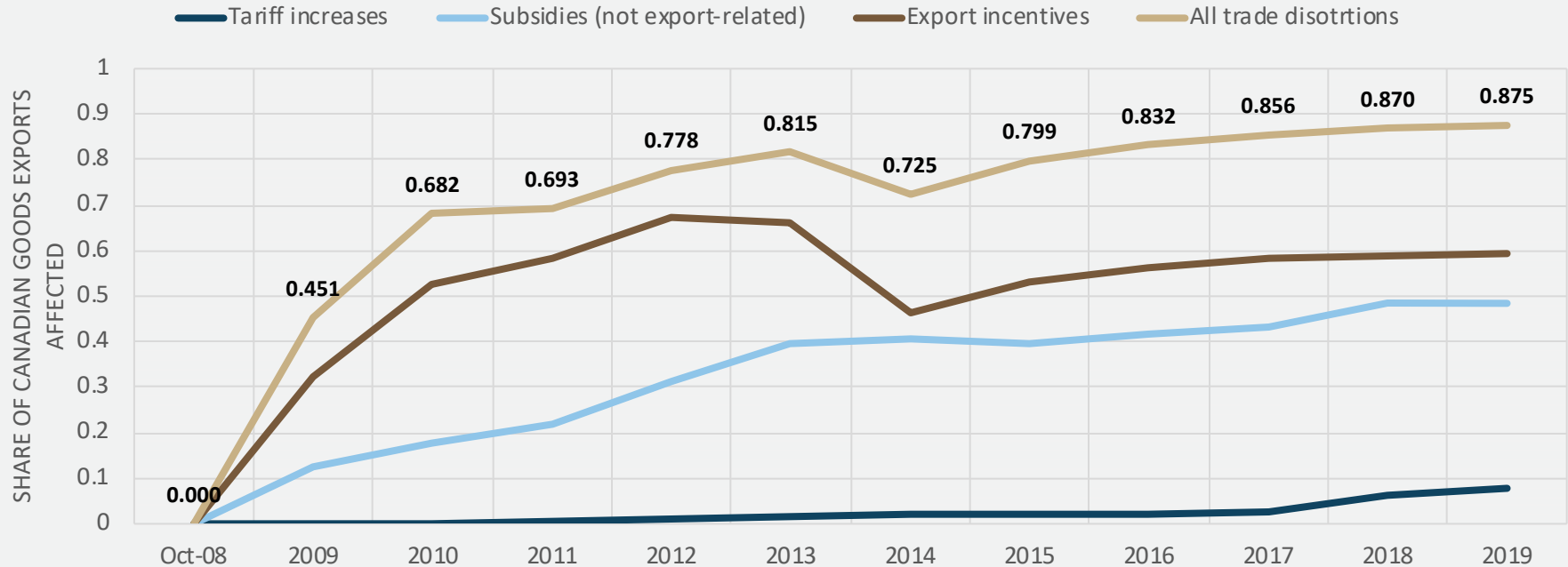
The trade policy response to the crisis involved expanded export incentives



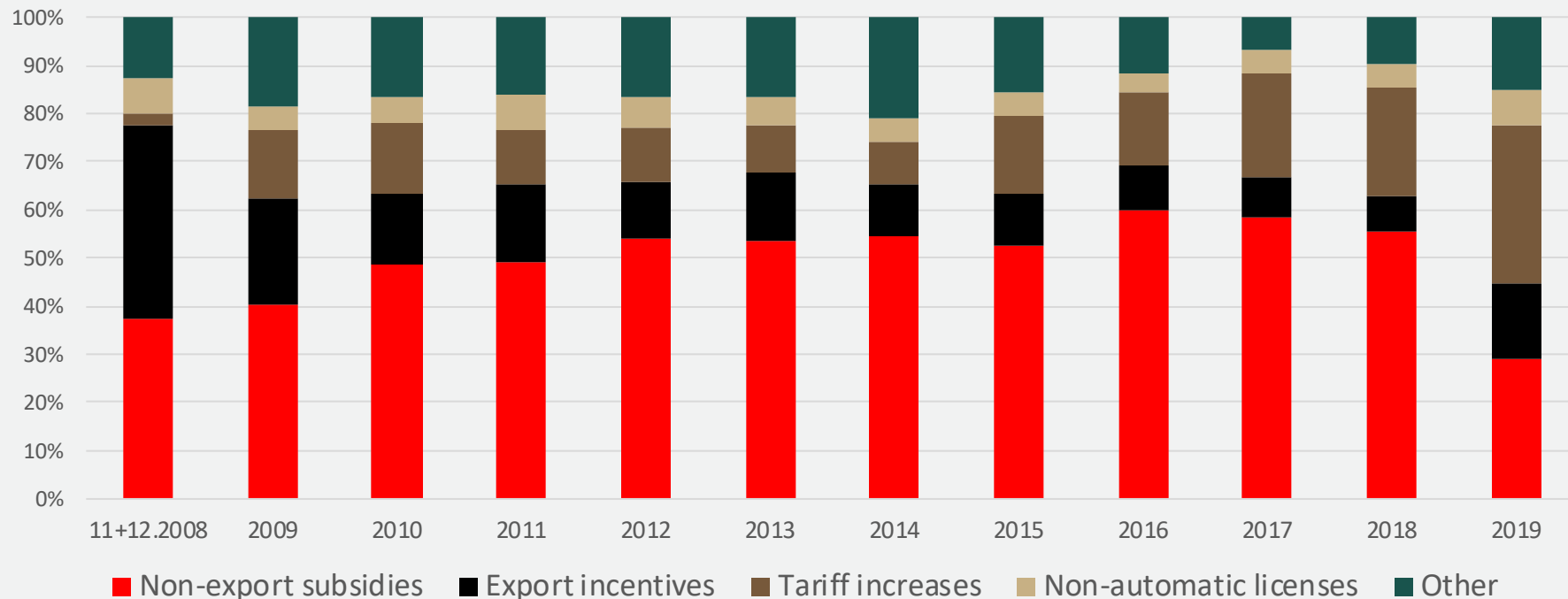
Three-quarters of world goods trade facing trade distortions—the rot started 10 years ago



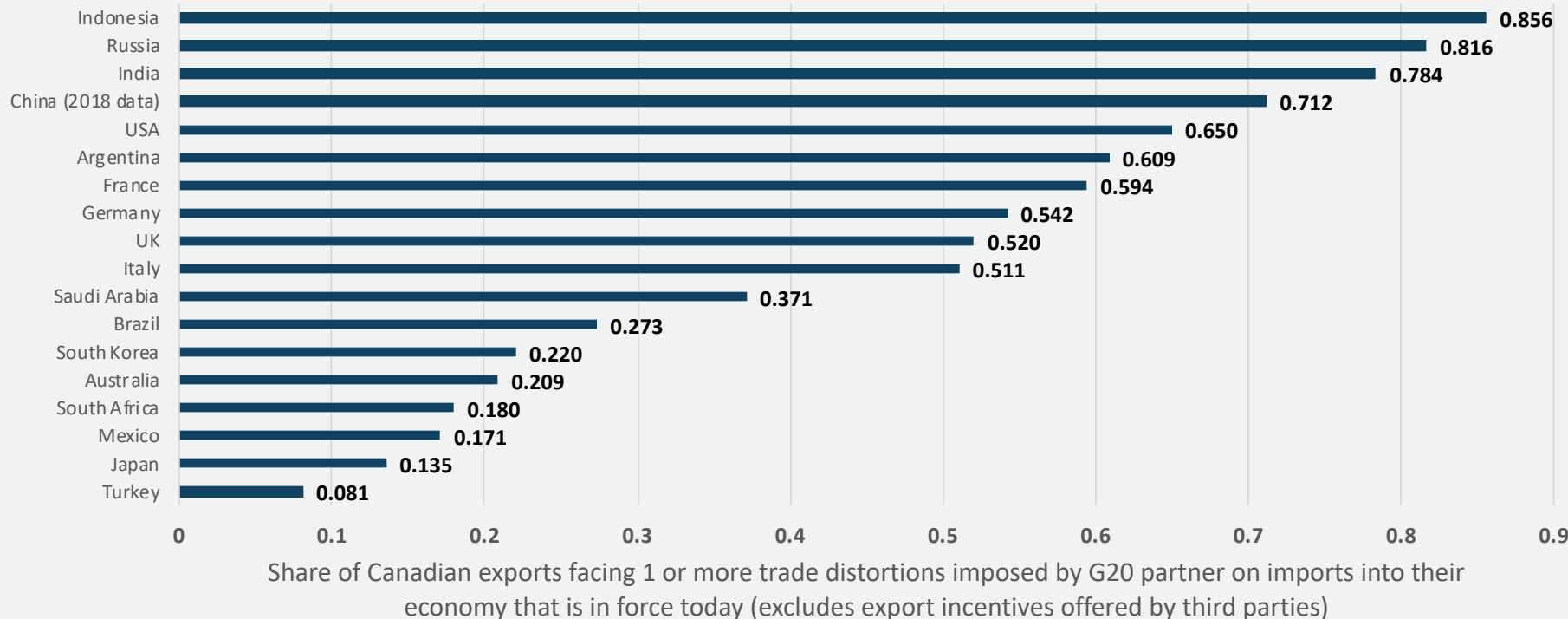
Canada's exposure exceeds the global total, in particular for non-export-related subsidies



Subsidies of different types dominate trade-distortions facing Canadian exporters



Erosion of Canadian access in G20 partners' markets: Latest estimates



What is really going on here?

● I incline towards a slow rot explanation. A possible interpretation:

1. 2008-9 crisis hits—govt imperative is to stabilize economies.
2. Govts resort to targeted, fast subsidy intervention as part of crisis response, essentially sacrificing competition-on-the-merits but not openness as a key tenet of economic policy.
3. Burden of adjustment shifted abroad but simultaneous nature of crisis results in “hear no evil, see no evil, speak no evil” dynamic.
4. Credibility of WTO rules, monitoring, and DSU undermined.
5. Populist politicians highlight evident rule-breaking, imply the system is broken and, in their view, that justifies unilateral action.
6. Covert trade distortions are increasingly replace by brazen unilateralism. Multilateral trading rules suffer further loss in credibility.
7. Conclusion: when tested “the system” could not cope with a dramatic economic shock. Rivalry between U.S. and China exacerbated matters but was not the root cause.



Adopt a Notion of Protectionism That is Relevant to Today



- Many discussions of protectionism implicitly define it as relating to the imposition of tariffs on imported goods.
 - Some mention import quotas.
 - Some broaden the notion to “beggar thy neighbour” and include currency devaluations.
- In a world where services, capital, people, ideas, data, and intellectual property cross borders this notion of protectionism needs widening.
- A *form-based* definition invites circumvention by governments.
- Best then to classify policy as to whether it improves/worsens the relative treatment of domestic commercial interests vis-à-vis their direct foreign rivals—an *treatment-based* classification.
- The Global Trade Alert employs a restricted relative treatment standard (excludes TBT, SPS, RTAs).