



Trade policy after three years of populism

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The populist and nationalist turn in many nations' politics has sharpened the rhetoric against globalisation (Müller 2019, Rodrik 2018). The most salient shift in trade policy during the most populist-era has occurred in the US, with the adoption of so-called *America First* trade policies. The most salient manifestation is the outbreak of a bilateral trade war between China and the US (as documented by Bown 2019). But did this rhetorical turn translate into changes on the ground in trade, investment, and migration policies elsewhere?

The latest *Global Trade Alert* report, titled *Going It Alone?*, examines whether a worldwide shift away from the level commercial playing field is underway or whether turns inward are localised. Unlike many reports by international organisations (WTO 2019), which tend to focus on six-month reporting cycles, the evaluation here covers the entire, recent populist-era from the start of 2017 until today.

Based on analysis of 6,755 changes to public policy affecting cross-border trade, investment, data flows, and labour migration implemented since 1 January 2017, this report confirms that the political rhetoric more critical of a liberal trading system witnessed in recent years has translated into greater protectionism and less trade liberalisation worldwide.

This commercial policy shift is not confined to China and to the US. Nor is it across-the-board, nor uniform across governments. Moreover, no account of trade policy in the populist-era would be complete without reference to significant pockets of tariff cutting and subsidy reduction seen during the past three years.

The turn towards populism and nationalism over the past three years is taking its toll on the world trading system, not just on Sino-US trade. Full implementation of the 'phase one deal' between Beijing and Washington won't unwind all populist-era tariff hikes on Sino-US trade, let alone the shift towards protectionism seen elsewhere.

To the extent that corporate leaders curtail investment on account of protectionism worldwide – as opposed to focusing on Sino-US trade tensions – then the policy dynamics documented here imply a sustained drag on global economic growth.

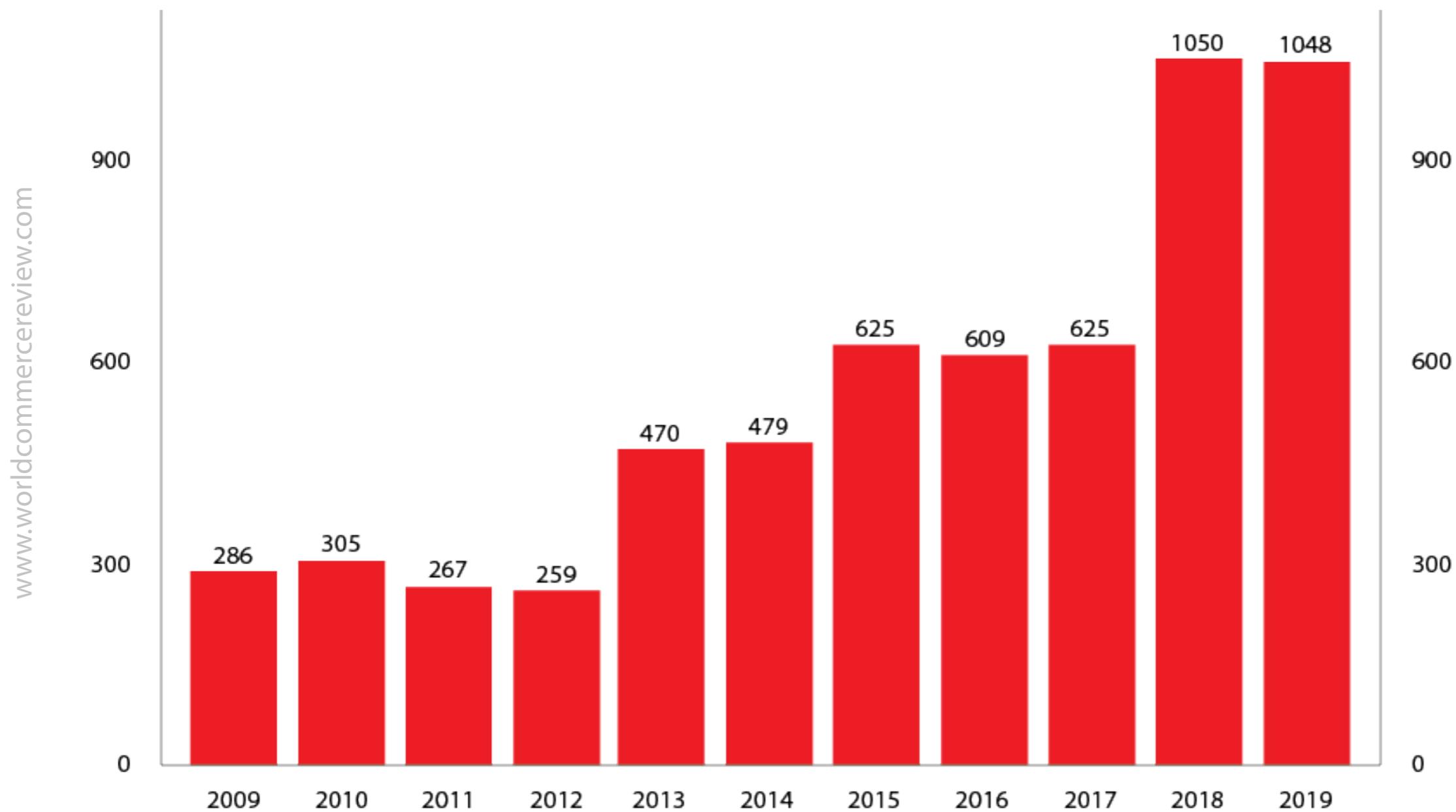
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Trade policy dynamics during the recent populist-era

The focus of this report is on policies affecting all forms of cross-border commerce implemented from 1 January 2017 to 15 November 2019. To be clear, protectionism introduced before the populist-era does not contribute to these statistics. The principal findings of this report are:

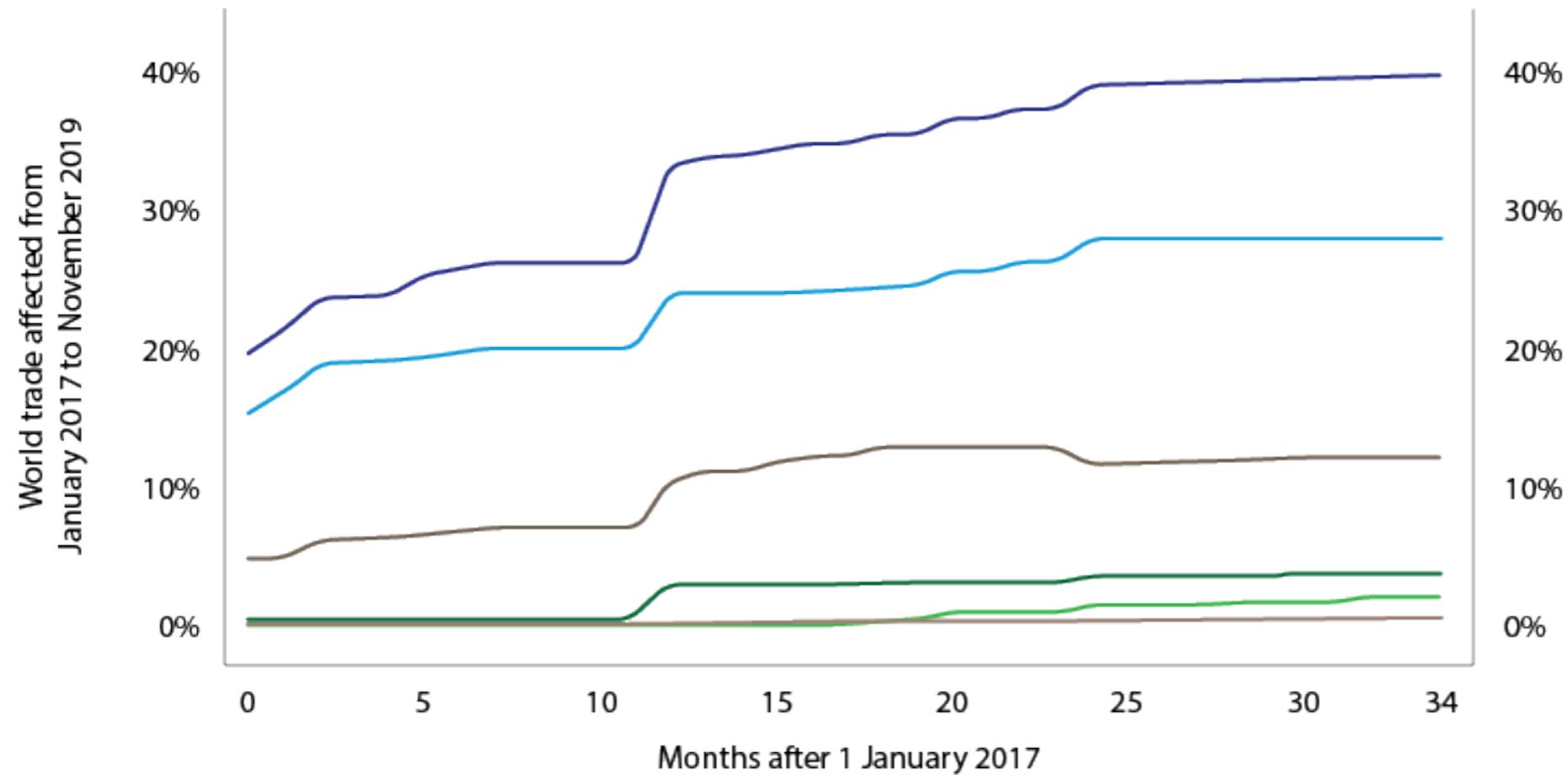
- During the populist-era governments worldwide introduced 2,723 new trade distortions, the cumulative effect of which was to distort 40% of world trade by November 2019.
- China and the US were responsible for 'only' 23% of new trade distortions introduced by governments during the populist-era.
- Counting the EU as one, a total of 15 governments enacted policies that distorted more than \$10 billion of trade on 73 occasions during the populist-era. President Trump's trade wars and foreign reaction to them were responsible for 'only' 14 instances of such jumbo protectionism.
- Resort to protectionism accelerated in 2018 and 2019. In 2017 a total of 625 additional trade distortions were introduced by governments. That total of new protectionism jumps to 1050 in 2018 and 1048 in 2019. 'Us versus them' rhetoric took time to translate into action.
- Trade reform dynamics evolved during the populist-era. The year 2017 saw 240 new trade reforms introduced, up 27 on the total for 2016. 2018 saw a jump to 332 additional trade reforms but momentum was lost in 2019, with a total of new 258 tariff cuts, subsidy reductions, and other reforms being introduced this year. Not since 2012 has such a large fall in new market opening been witnessed.

Number of discriminatory commercial policy interventions implemented 1 January to 15 November of year in question



Intervention type and target

- all interventions affecting all nations
- export incentive interventions affecting multiple exporters
- non-tariff interventions affecting multiple exporters
- non-tariff interventions affecting single exporter
- tariff interventions affecting multiple exporters
- tariff interventions affecting single exporter



- Correcting properly for duration in force, by November 2019 2.1% of world trade was affected by tariff hikes implemented since 1 January 2017 that target a single country. All tariff increases during the populist-era implicate 5.8% of world trade, which pales when compared to the world trade shares affected by subsidies.

Import-competing firms benefiting from state largesse during the populist-era implicate 9.2% of world trade. By November 2019 state-provided export incentives affected even more trade (28% of world trade).

- In assessing net changes in access to the markets of the major trading powers, taking account of the amount of trade implicated by reforms is important. Remarkable as it may seem, once account is taken of commercial policy reforms, six G20 members saw their share of exports to the US market benefit more from tariff cutting and the like than from US resort to trade distortions during the populist-era.
- Such is the range of industries affected by 521 Chinese subsidy reductions that no G20 trading partner of Beijing, including the US, saw their export exposure to Chinese trade distortions exceed their exposure to Chinese trade reforms.
- G20 export exposure to reforms and trade distortions undertaken by the EU is smaller than for China and for the US and more balanced.
- Least Developed Country and African Union export exposure to Chinese reforms far exceeds that to Chinese trade distortions. The opposite is true for the rest of the BRICS. Meanwhile, less than an eighth of both groups of developing countries' exports were exposed to EU and US commercial policy changes during the populist-era. Lower and upper middle-income countries follow the same pattern except that the latter had greater export exposure to populist-era US trade distortions than to trade reforms.

Comparing populist-era protectionism with earlier times

Useful perspective is added by comparing commercial policies imposed during this populist-era with those implemented during two recent periods of equal length (35 months), one just before the populist-era (1 January 2014 to 15 November 2016) and one at the start of the global economic crisis (1 January 2009 to 15 November 2011). Doing so reveals:

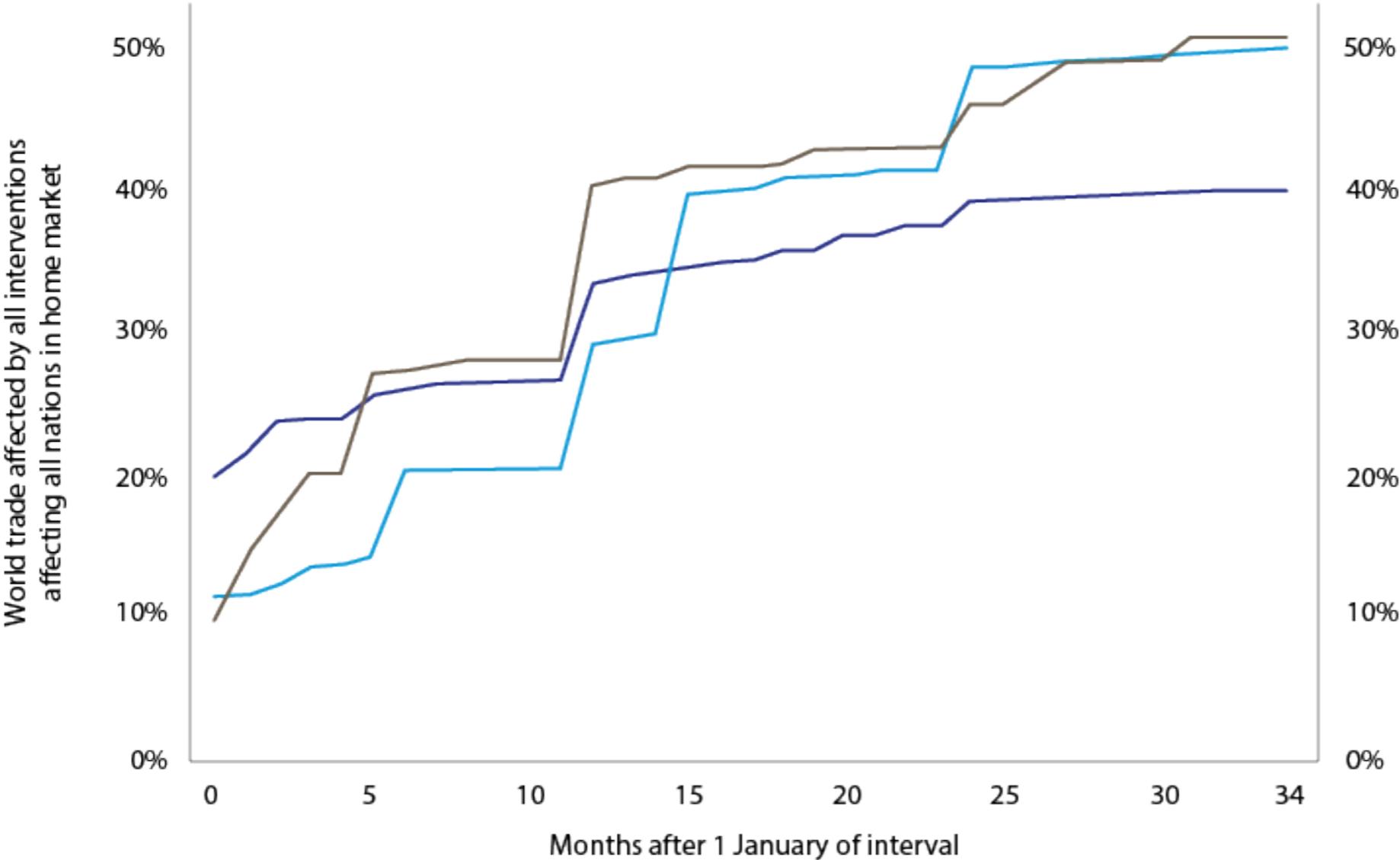
- The share of world trade affected by the protectionist build-up during the current populist-era is ten percentage points less than the comparable shares associated with the immediate pre-populist era (starting on 1 January 2014) and that at the beginning of the global economic crisis (starting on 1 January 2009).
- That most reports on Chinese subsidies awarded in 2019 won't become available until 2020 likely accounts for part of this shortfall, but a careful review finds no evidence that to date the scale of populist-era protectionism exceeded that of the two alternatives.
- Putting these findings on trade implicated by populist-era protectionism with the totals on resort to new protectionism above indicates how the past three years differ from earlier times: more new trade distortions have been imposed during the populist-era on a smaller share of world trade.
- Yet populist-era protectionism has a higher profile, probably on account of the salience of far-reaching tariff increases over the past three years and President Trump's brazen rejection of the tenets of liberal trade. As in earlier times, more world trade is distorted by different types of subsidies, but these tend not generate the same degree of corporate ire as large tariff hikes.

Comparing populist-era protectionism with earlier times

Interval

2017-2019 2014-2016 2009-2011

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- That many corporate leaders have spoken out much more against the tariff increases of recent years than against subsidies is intriguing and worrying. When foreign rivals receive a subsidy perhaps it is easier for local firms to quietly seek subsidies from their government than it is to campaign against foreign largesse. If so, corporate support for reversing populist-era subsidies won't match their zeal for reversing tariff hikes, even though subsidies distort much more global trade.

Corporate pressure for selective trade reform

Ultimately, companies are both the victims and beneficiaries of populist-era trade distortions. Given the relative ease of securing state largesse as compared to sustaining a successful public campaign against large tariff increases, there may not be enough support among corporate leaders for a reversal of all populist-era trade distortions.

In this regard, it is worth noting that 2,431 of 6,755 public policy interventions affecting global commerce during the populist-era were increases in trade-distorting subsidies. Where will the pressure to reverse populist-era protectionism come from?

Once the full measure of policies distorting trade is taken and, bearing in mind that the 'phase one deal' between China and the US only partially reverses the tariff hikes on Sino-US trade, then the findings of this report imply that heightened trade policy uncertainty, associated dampening of business confidence and corporate investment, and their adverse macroeconomic implications are almost certain to endure. ■

Simon Evenett is Professor of International Trade, and Johannes Fritz is Max Schmidheiny Foundation Research Fellow, at the University of St Gallen

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