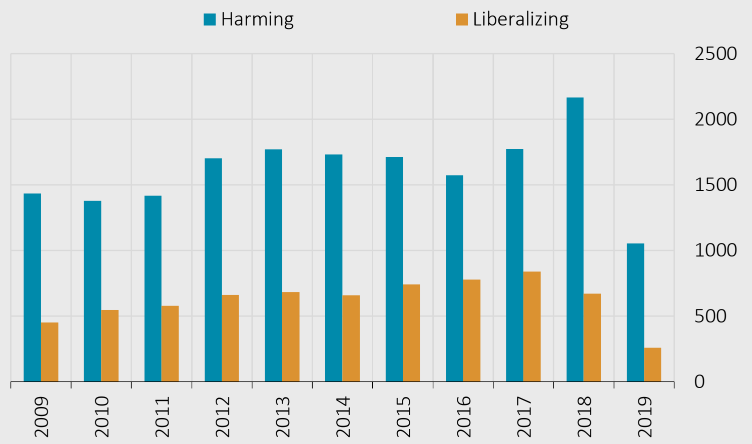
Box 2.1

A Closer Look at Global Trade Interventions

Many protectionist interventions into foreign trade have been on the agenda since the global financial crisis. Especially in recent years, with the trade war between the United States and China, such steps have become the most important global issues for both policy makers and academicians. Protectionist trade policies are known to affect global financial markets as well as global trade, economic growth and investments (Caldara et al. 2019; Evenett & Fritz, 2019). The Global Trade Alert (GTA) initiated by the Center for Economic Policy Research (CEPR), has been classifying measures (i) related to imports, (ii) promoting exports, and (iii) restricting exports, taken in foreign trade since the global financial crisis, under the headings of "harming international trade" or "liberalizing international trade".[1] This data set also includes information about which sectors have been affected by the measures taken and how the different measures that countries have taken vis-à-vis each other have affected other countries.

The GTA, which is followed by many companies and international organizations, provides access to a comprehensive set of data on the analysis of policy steps restricting (harming) or liberalizing international trade (IMF, 2016, p.76). The data set used is collected by the United Nations. Each intervention in the data set is defined by using a classification consisting of several variables (sector, product, country and region, etc.). The Harmonized System is used for the classification of commercial products while the database provides information on interventions in international trade in goods and services.[2] Considering that the content and impact area of the intervention are as important as the number of interventions implemented, according to GTA data, it is estimated that the interventions made since 1 November 2008 have negatively affected 30% of the global trade volume on average.[3] In this estimate, the indirect effects of the interventions are also taken into account, as well as the direct effects on other countries that are involved in foreign trade.

Chart 1: Interventions by Countries (Number)



Source: Global Trade Alert (www.globaltradealert.org).

[1] The Global Trade Alert classifies a measure as harmful if the implementation of a government policy instrument likely or almost certainly worsens the treatment of one or more foreign commercial interests relative to domestic rivals.

[2] The Harmonized System is a system that represents nearly 5,000 different goods groups and uses 6-digit classification. For more detailed information on the method of classification and nomenclature used in the system, see the website of the World Customs Organization.

[3] Although the database was created based on the number of interventions, it was also evaluated in terms of its impact on foreign trade. Although the evaluation is based on estimates, it is mostly compatible with the realizations. For more details, refer to the Global Trade Alert Guide (April 2019 version).

The number of trade-restrictive interventions after the global crisis was well above the number of trade-liberalizing interventions (Chart 1). The number of interventions of both types tended to increase after the global financial crisis, and the number of interventions that damaged foreign trade and the gap with liberalizing measures both peaked in 2018. In other words, it can be asserted that global trade in 2018 was negatively affected not only by the increase in the number of trade-restrictive interventions, but also by the decrease in the number of trade-liberalizing interventions.

Chart 2.a: Import-Related Interventions (Number)

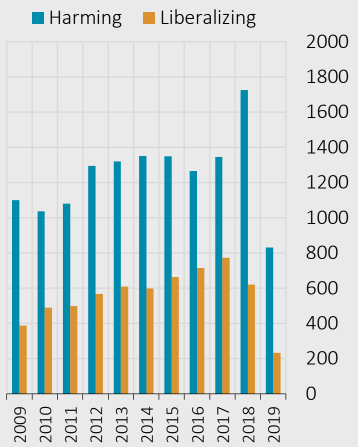


Chart 2.b: Interventions Promoting Exports (Number)

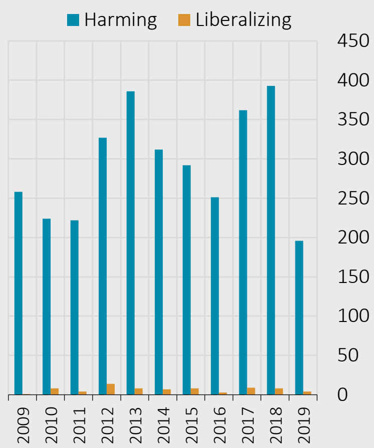
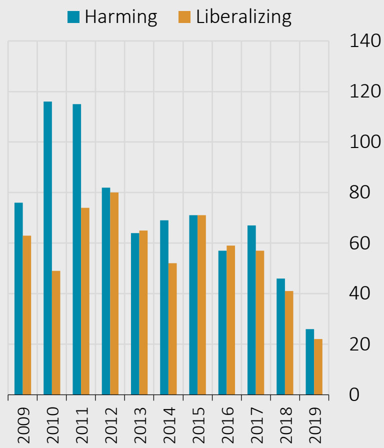


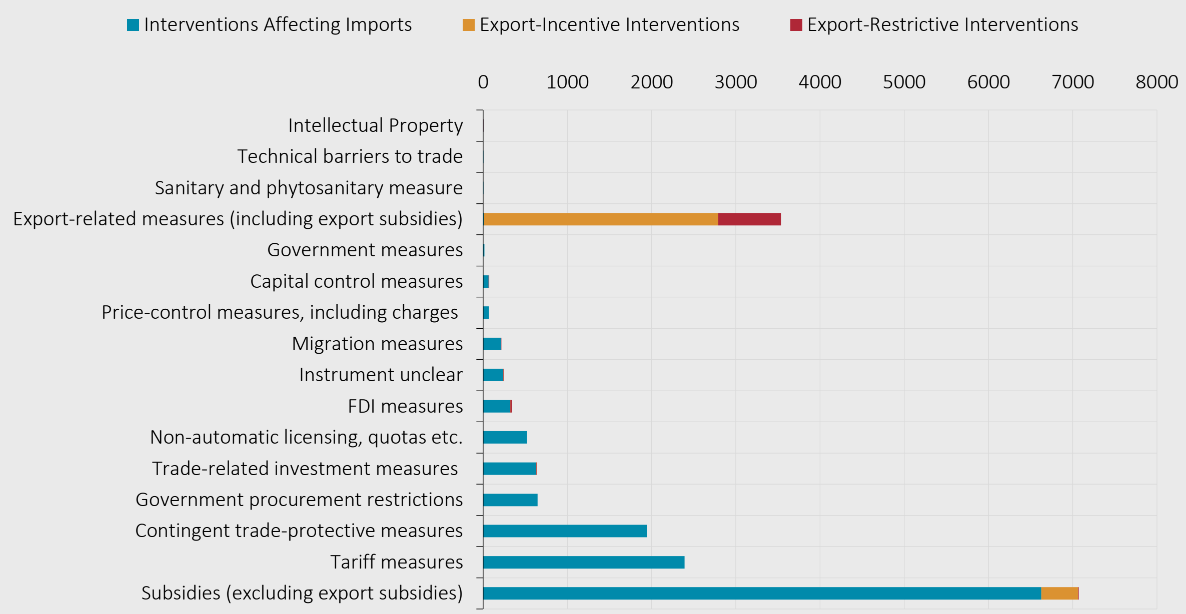
Chart 2.c: Interventions Restricting Exports (Number)



Source: Global Trade Alert (www.globaltradealert.org).

Distinguishing between interventions aimed at imports and those aimed at exports can also help better understanding of the impacts. The number of interventions related to imports is significantly above the number of interventions that promote and restrict exports (Chart 2.a, Chart 2.b and Chart 2.c). The number of trade-restrictive ones always exceeds the number of trade-liberalizing interventions. The number of interventions restricting exports displayed a similar trend in the two years following the global financial crisis, but after 2012, the number of interventions of both types remained close to each other.

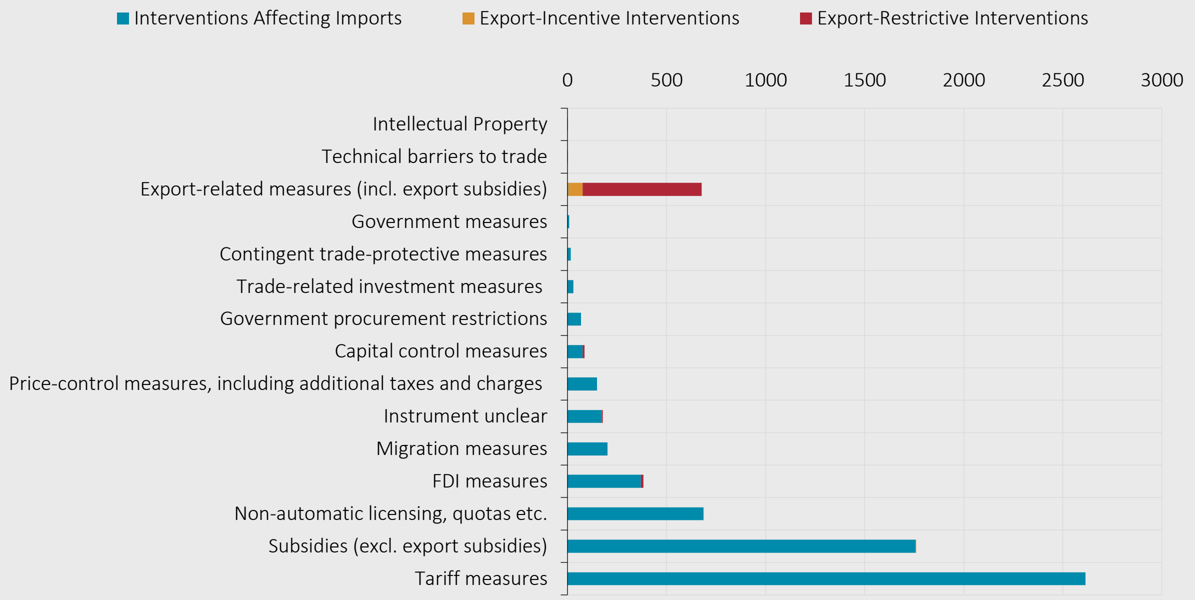
Chart 3: Most Used Policy Tools in Trade-Harmful Interventions (Number)



Source: Global Trade Alert (www.globaltradealert.org).

Which policy tools are used in interventions and which sectors are affected by these interventions is also important. Chart 3 shows that among the policy instruments that have been harmful to international trade since 2009, the import-related subsidies and tariff measures, along with contingent trade-protective measures are at the forefront. Subsidies are applied mostly to companies in the form of incentives for loan repayment and trade support loans. Export-related measures and other subsidies, including export subsidies, were used more in export-incentive interventions. Similarly, the two tools mentioned above were the most preferred export-restrictive interventions. The fact that subsidy, which is the most used tool in both exports and imports, can be employed as a direct policy tool and shows its effectiveness faster, makes it a more preferred instrument by countries (Anderson, 2004). In addition to conventional tools such as subsidies and tariffs, different interventions such as contingent trade-protective measures, non-automatic licensing and quotas are also preferred and show their impacts on international trade.

Chart 4: Most Used Policy Tools in Trade-Liberalizing Interventions (Number)



Source: Global Trade Alert (www.globaltradealert.org).

Tariff measures, subsidies (excluding export subsidies), and non-automatic licensing and quota practices are among the most used trade-liberalizing policy instruments (Chart 4). On the export-oriented side, export-related measures, mostly including export subsidies, draw attention.

Chart 5.a: Major Sectors Affected by Restrictive Interventions on Imports (Top Ten Sectors, Number)

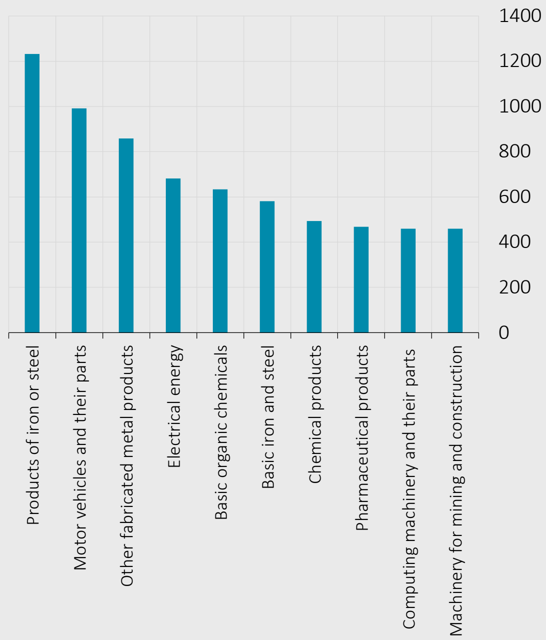
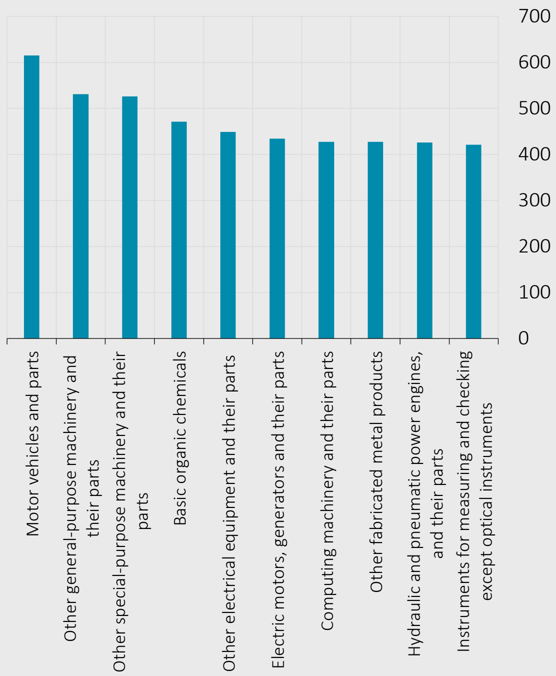


Chart 5.b: Main Sectors Affected by Import-Related Liberalizing Interventions (Top Ten Sectors, Number)



Source: Global Trade Alert (www.globaltradealert.org).

Looking at sectoral differentiation, restrictive interventions on imports are mostly seen in groups with heavy industry and high value-added products such as products of iron or steel, motor vehicles, machinery and machine parts (Chart 5.a and Chart 5.b). Similarly, the groups with heavy industry and high value-added products are the ones mostly affected by the trade-liberalizing interventions on the import side. The findings of the evaluations made based on the magnitude of the impact on global trade also support the conclusion that those sectors are the most affected.

On the export side, there are fewer measures for global foreign trade, as well as a limited variety of policy tools compared to imports. Additionally, it turns out that the number of interventions that promote exports are preferred more than restrictive measures, and that the sectors most affected by the measures taken differ. On the side of trade-harmful measures, high value-added product groups and heavy industry products are most affected ones in number, while on the trade-liberalizing measures side, groups including agricultural products and convenience foods stand out.

As a result, the interventions of countries to control foreign trade affect the total trade volume and hence the national economies in many ways such as economic growth, investment and price stability. The number of interventions has increased in recent years, affecting global trade significantly. It should be noted that, the interventions are mostly import-oriented and that the number of trade-liberalizing measures decreased, while trade-restrictive ones increased. Although the short-term negative impact of the interventions that peaked in 2018 on net trade and growth is known, how they will affect the world economy in the long term will be worth following.

References

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