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Simon J Evenett

Institute for International Trade

AUSTRALIAN EXPORT EXPOSURE TO FOREIGN TRADE DISTORTIONS: EVIDENCE FROM THE GLOBAL TRADE ALERT

Executive Summary

Given Australia's significant economic integration into the world trading system, foreign protectionism poses a genuine threat to Australian living standards. While the current US administration's trade policy has put the spotlight on protectionism, in fact over the past decade there has been sustained resort to trade distortions by many governments. According to Global Trade Alert (GTA) data, Australian exporters have faced a total of 2,192 new foreign trade distortions since November 2008, when GTA reporting began. In contrast, Australian exporters benefited from 926 foreign trade reforms. Very few of those foreign commercial policy interventions specifically target Australian exports; Australia's trading interests are harmed frequently by its trading partners' policy changes, implemented seemingly on a most-favoured-nation basis.

Matching detailed trade data to the foreign trade distortions faced by Australian farmers and manufacturers over the past decade reveals that, as of January 2019, 60% of Australian exports face one or more trade distortions that are still in effect. The scale of foreign protectionism affecting Australia has grown steadily over time. Over a third of Australian goods exports compete against a foreign rival that has received some type of state-provided incentive to export. A sixth of Australian goods exports compete in the home markets of firms that have received some type of government subsidy for their domestic operations.

Another sixth of Australian goods exports face continuing import tariff increases. Significant shares of Australian goods exports today face non-automatic import licences, import quotas, and foreign price-control measures. These statistics lay bare the multilateral trading system's deterioration over the past decade and its failure to shield Australian farmers and manufacturers from foreign protectionism. They also point to potential trade policy priorities for the Australian Government. Taking account of foreign measures harming Australian service providers, although not the focus here, would add to this unsettling picture.

Australia's G20 partners differ markedly in their scale of protectionism erected against Australian exports. Over three-quarters of Australian goods exports to buyers in Argentina, China, India, and Indonesia do not compete on a level playing field. In contrast, less than 10% of Australian goods exports to Brazil, Japan, Mexico, South Africa and Turkey face locally imposed trade distortions that are still in effect. Given that so many Australian goods face multiple trade distortions when competing in foreign markets, the removal of all trade distortions imposed over the past decade by any one trading partner would have minimal impact, reducing the total share of Australian exports facing trade distortions by less than eight percentage points. Such findings should temper expectations as to what bilateral Australian trade policy can accomplish. First-order initiatives to reverse the protectionism facing Australian commercial interests must be focused on Geneva.

1. Contents of this memorandum

This memorandum summarises, using the latest information on trade distortions implemented by foreign governments, the degree to which Australian goods exports are discriminated against in foreign markets. The policy instruments and foreign governments responsible for impairing Australian export opportunities are identified.

Section two describes the data set employed to construct the statistics reported here. Section three shows that, although significant and growing shares of Australian goods exports face an uphill battle in foreign markets because of trade distortions, very few of these distortions single out Australian products. Australia's exports typically face trade distortions that affect all foreign rivals operating in a given overseas market.

The fourth section reports statistics on the share of Australian goods exports facing trade distortions implemented over the past 10 years, correcting for the removal of foreign trade barriers if and when that occurred. Finally, section five shows that gains to Australian export interests from the elimination of trade distortions by any one trading partner would be limited, given many Australian exports compete in foreign markets distorted by the harmful policies of more than one foreign government. Alternatives to bilateral trade diplomacy are then discussed.

2. Data set employed

The World Trade Organisation (WTO) Trade Monitoring Database of crisis-era policy interventions records 24 policy interventions implemented by foreign governments that affect, or have affected, Australian commercial interests. The independent GTA database contains a total of 3,118 liberalising and harmful commercial policy interventions implemented by foreign governments that affect Australian commercial interests. The range of policies covered by the latter database is wider than the former, which is advantageous given the many ways governments can tilt the commercial playing field in favour of domestic firms. This memorandum draws on the information contained in the GTA database.

A government intervention is included in the GTA database if its implementation alters foreign firms' treatment relative to local rivals in the enacting jurisdiction. This relative treatment test is applied consistently to all potential entries in the database. Available trade, investment and migration data is used to identify trading partners affected by each entry, with over 93% documented using official sources. Technical barriers to trade (TBTs), sanitary and phytosanitary (SPS) measures and regional trade agreements (RTAs), which some analysts contend are discriminatory, are not included.

Only government interventions announced or implemented since November 2008, when the G20 first committed to eschewing protectionism, are included in the GTA database. Particular attention is given to identifying if and when a policy intervention lapses. Over 18,000 commercial policy interventions have been documented since the GTA began operation in mid-2009. The GTA is independent of any government or corporate interest. It operates out of the University of St.Gallen, Switzerland, and is funded from sources associated with that university.

Access to the GTA database is free and the GTA team routinely helps interested parties extract information. Statistics on the GTA website are updated each time a measure satisfying its multi-step review procedure and standards is published. Summary statistics on the foreign government interventions affecting Australian commercial interests can be found here. The GTA website can be searched by: implementing jurisdiction; affected trading partners; policy instrument; UN Harmonised System (HS) product code; central product classification sector code; and specific time periods.

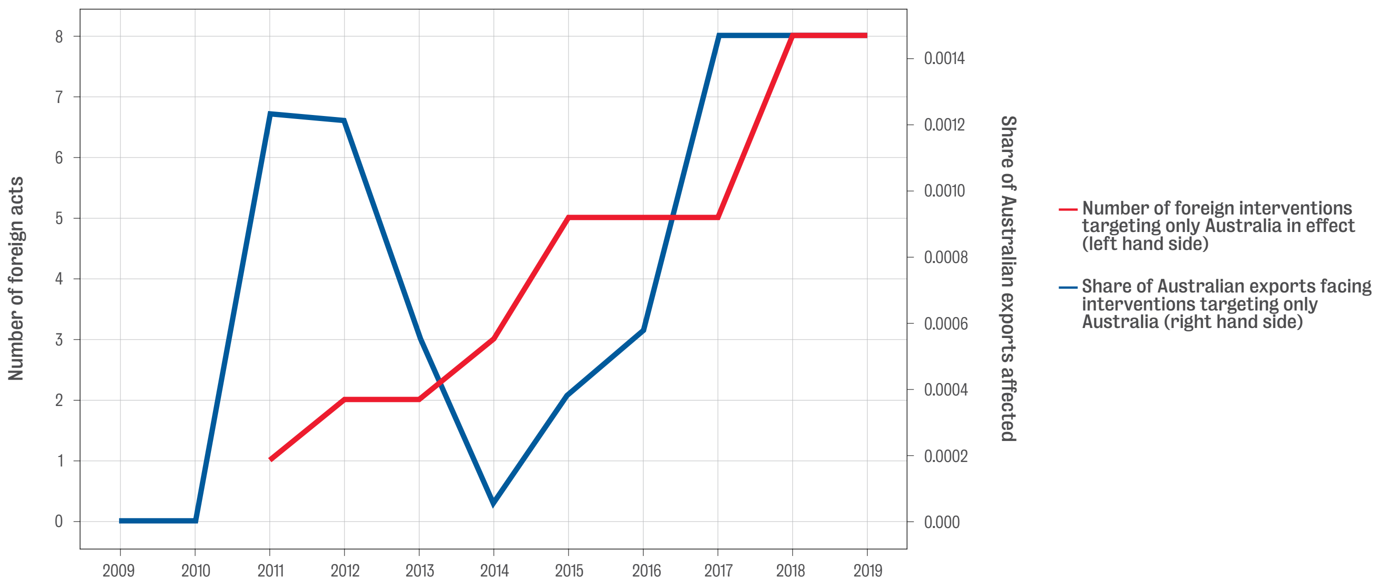
At the time of writing, the GTA and its data have been mentioned in over 1,580 studies and reports recorded in the Google Scholar database. Many official bodies and international organisations use GTA data. For example, the International Monetary Fund includes trade policy indicators based on the GTA database in its Article IV consultation processes with member governments.

3. Few foreign trade distortions single out Australian exports

If a foreign government deliberately targets Australian exports, then Australia's commercial interests could be harmed. However, the former is not a necessary condition for the latter. Australian and other countries' commercial interests can face collateral damage from a foreign government's actions that favour domestic firms in ways which do not discriminate across importers.

As **Figure 1** makes clear, as of January 2019 only eight foreign-government commercial policy interventions specifically targeting Australian goods exports were in effect—all imposed over the past 10 years.[1] Those eight policy interventions covered less than 0.2% of Australian goods exports. In a nutshell, the targeting of Australian goods exports over the past decade has occurred rarely, at least as far as the policy instruments covered in the GTA database indicate.[2]

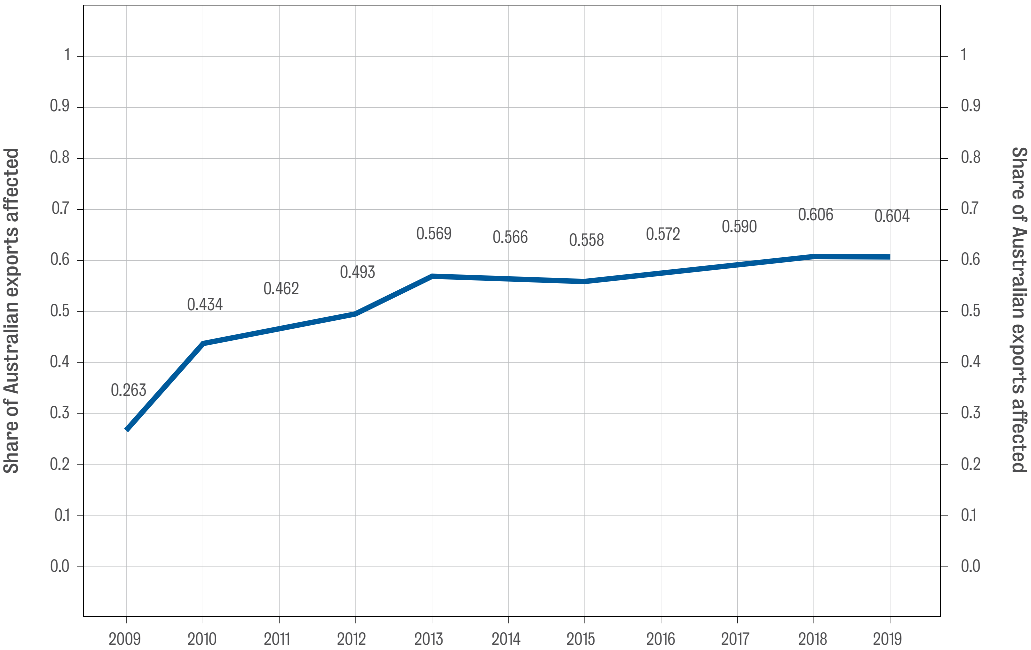
FIGURE 1: LESS THAN 0.2% OF AUSTRALIAN GOODS EXPORTS HAVE BEEN TARGETED BY FOREIGN GOVERNMENTS.



[1] In fact, 12 such foreign commercial policy interventions were taken against Australian exports since November 2008 and eight remain in effect. Of the 12, five involved import quotas and three import tariff increases.

[2] This finding of rare targeting requires care in interpretation. Perhaps it reflects vigilance on the part of Australian trade officials, identifying nascent targeting by foreign governments and successfully discouraging the latter from following through on implementation. Separately, this analysis does not consider cases where Australian exports, and those of a small number of trading partners, were singled out by foreign governments. (For what it's worth, there have been a further 23 cases where foreign protectionism has harmed the commercial interests of Australia and one other trading partner. Such pairwise targeting, if that is an accurate characterisation, is rare too.)

FIGURE 2: BY 2019 OVER 60% OF AUSTRALIAN GOODS EXPORTS FACED FOREIGN TRADE DISTORTIONS.



If this were the end of the matter, it would be tempting to conclude that Australian exports emerged pretty much unscathed from the trade policy discrimination that took place in the decade following the global financial crisis. Alas, this is not the case.

4. Overall exposure of Australian goods exports to foreign trade distortions

The focus here is on trade in goods, both agricultural and manufactured, and therefore the evidence presented below relates to Australian goods exporters' exposure to foreign trade distortions implemented since November 2008. It's worth remembering that Australian exporters can suffer from those foreign commercial policies that restrict access to their home markets or those that tilt the playing field in third markets, principally through state-provided export incentives. Whichever market is affected, foreign trade distortions can result in Australian exporters losing foreign orders outright or having to shave their prices (and therefore profit margins) in order to compete against favoured foreign firms.

The GTA database uses conservative methods to identify the products (and their associated six-digit HS classification number) and, using UN COMTRADE data, the trading partners affected by a commercial policy intervention. Taking account of the day on which a policy intervention comes into force—and, where appropriate, lapses—allows the flows of Australian exports facing foreign trade distortions to be identified. In turn, this enables calculation of the percentage of total Australian exports facing one or more overseas trade distortions each year.

These calculations are also adjusted for duration. For example, if a trade distortion were implemented on 1 December 2018 and removed on 31 December 2018, then the relevant recorded trade flow in the UN COMTRADE database would be multiplied by 31/365, reflecting the total number of days the policy intervention was in effect. Correcting for duration in this way yields estimates of the exports confronting foreign protectionism that are lower than the headline numbers reported in many newspapers.

Given the conservative methods used by the GTA team, plus the possibility that it has missed some foreign trade distortions that harm Australian goods exporters, the statistics presented here underestimate the threat to Australian exports from foreign protectionism. Furthermore, it's worth recalling that the GTA database only includes policy interventions implemented from 1 November 2008. Therefore, any foreign protectionism that predates 1 November 2008, and remains in force, is likely to add to the export exposure statistics reported below. Still, the statistics presented here are useful. They shed light on the extent to which Australian exports were disadvantaged since the onset of the global financial crisis, providing grist for the mill for discussions as to whether the system "worked" in containing beggar-thy-neighbour behaviour. One implication of the GTA's methodology is that, by definition, the share of Australian exports facing foreign protectionism is set to 0% on 1 November 2008, which should be kept in mind when interpreting the figures that follow.

Figure 2 plots the evolving share of Australian goods exports facing foreign trade distortions from 2009 to 2019. The share rose sharply in 2009 and 2010, then slowly until 2013, and more gradually since. By 2018 over 60% of Australian goods exports competed against one or more foreign trade distortions in overseas markets. Comparing this statistic to those found in the country annexes of the last GTA report for other G20 members, published shortly before the last G20 Leaders' Summit, Australian export exposure to trade distortions worldwide is below average. Only resource exporters Russia and Saudi Arabia had lower percentages of exports exposed to foreign trade distortions. However, this in no way diminishes the scale of the protectionist threat to Australian living standards.

Lastly, notice that the build-up of Australian export exposure to foreign protectionism took place well before the Trump administration took office in the US, or the UK's 2016 BREXIT referendum. Whatever policymaking dynamic resulted in this sustained resort to protectionism predates the populist politics of recent years.

Given that there have been no Smoot Hawley–like across-the-board increases in import tariffs since the onset of the global financial crisis, some may be puzzled by the finding that three-fifths of Australian exports now compete against foreign rivals favoured by their governments. How did the media miss this development? How did the WTO secretariat, which is supposed to be monitoring trade policy developments, miss it too? The answer is that the trade distortions covering the most international trade today are not the ones tracked regularly by the WTO. The policies in question often seek to boost national exports (at the expense of trading partners) rather than restrict imports. Indeed, far too many analysts, policymakers and

TABLE 1: GROWING EXPORT EXPOSURE TO FOREIGN TRADE DISTORTIONS FROM 2009 TO 2019, BY MAJOR TYPE OF PROTECTIONIST POLICY INSTRUMENT.

UN MAST Chapter	Foreign discriminatory policy instrument	Percentage of Australia's exports at risk due to....										
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	All instruments	26.24	43.33	46.12	49.27	56.93	56.62	55.71	57.11	58.94	60.51	60.33
D	Contingent trade-protection	0.04	0.02	0.02	0.03	0.05	0.08	0.13	0.32	0.39	0.45	0.48
E	Non-automatic licensing, quotas	1.53	6.13	10.49	11.59	12.56	12.64	12.85	12.91	12.95	13.70	13.87
F	Price control measures	9.06	9.06	9.10	9.12	9.11	10.07	11.03	11.03	11.03	14.58	14.95
G	Finance measures	0.06	0.30	0.69	0.69	0.69	0.69	1.07	1.19	1.19	1.19	1.19
I	Investment measures	0.00	0.02	0.03	0.04	0.04	0.33	0.47	0.48	0.48	0.48	0.48
L	Subsidies (except export subsidies)	0.58	1.62	1.81	2.65	10.44	11.21	8.46	11.89	13.83	15.79	16.20
M	Government procurement	0.58	0.90	0.81	1.74	1.83	1.94	2.00	2.01	2.17	2.55	3.06
P	Export measures	17.48	37.62	39.55	41.19	39.48	28.69	27.01	29.95	38.18	38.02	36.30
TARIFF	Import tariff increases	0.16	3.15	3.33	4.85	12.59	14.30	14.55	15.22	15.60	15.98	15.95
X	Instrument unclear	0.20	0.39	0.40	0.96	2.42	3.14	1.41	1.36	1.74	2.59	2.73

Note: Once a foreign trade distortion lapses it no longer counts towards the percentages reported in this table. All estimates are duration-corrected (which reduces the percentages compared to traditional "headline" estimates of exports at risk.) Six-digit product level trade data, the most fine-grained available for global trade, was used to calculate these estimates. Since the GTA only includes policies implemented from November 2008, the above percentages would have been zero on 1 November 2008.

journalists instinctively equate protectionism with import restrictions. Beggar-thy-neighbour export policies distort trade flows and reduce welfare too.[3]

Table 2 breaks down Australian goods exports' exposure to foreign trade distortions from 2009 to 2019 by major classes of policy instrument. At present, over 36% of Australian goods exports compete in third markets against a foreign rival that has received some type of export incentive. Since November 2008, Australia's trading partners have implemented a total of 306 measures that bolster their nations' product exports in markets where Australian firms compete, 214 of which are still in force.[4] One hundred and sixteen of those export incentives involved tax breaks specifically benefiting exporting firms (and 71 such tax breaks are still in force).

A sixth of Australian goods exports compete in the home markets of foreign firms that have received some form of (non-export-related) state aid. Just over 15% of Australian goods exports compete in overseas markets where import tariff increases have been implemented over the past 10 years and are still in effect.[5] A seventh of Australian goods exports are disadvantaged by price-control measures, non-automatic import licences and import quotas. That the sum of the export coverage percentages associated with these five classes of policy instrument exceeds sixty implies that some Australian goods exporters currently face multiple trade distortions when competing abroad.

That foreign export incentives and traditional state aids feature so prominently as threats to Australian export performance aligns with similar findings for: other G20 nations; groups such as the EU and Least Developed Countries; and the world overall. When this era's history is written, do not be surprised if the pervasive resort to state aids that cushion firm performance is given pride of place in assessments of crisis-era policy responses relevant to the multilateral trading system.

TABLE 2: AUSTRALIAN GOODS EXPORTERS' ACCESS TO G20 PARTNERS' HOME MARKETS VARIES SIGNIFICANTLY.

Importing country	Share of Australian goods exports facing market access impairment in January 2019
Argentina	0.85
Brazil	0.05
Canada	0.34
China	0.92
France	0.27
Germany	0.26
India	0.97
Indonesia	0.76
Italy	0.35
Japan	0.01
Mexico	0.01
Republic of Korea	0.27
Russia	0.27
Saudi Arabia	0.65
South Africa	0.09
Turkey	0.08
United Kingdom	0.63
United Stae of America	0.60

[3] Perhaps the fact that there is, for most WTO members, a ban on export subsidies for manufactured goods has led some analysts and trade policy officials to erroneously assume that export incentives are not implemented in practice.

[4] A list of these export incentive schemes is available upon request. Note that to count towards this total, a foreign export incentive must be given to a product exported to a market in which Australian firms have a track record of exporting the same product to; an exact product and market match is needed.

[5] The GTA database contains information on every tariff increase reported to the WTO since 2009. Curiously, the WTO secretariat's trade monitoring reports do not make use of these tariff notifications.

The above remarks notwithstanding, trading partners' steps to reduce their home markets' foreign penetration will remain of interest to trade policymakers. To this end, Table 2 shows, for each G20 member's home market, the share of Australian goods exports that face at least one trade distortion implemented by that G20 member. Import tariff increases count towards these totals, as do bail-outs to import- competing firms. Export incentives, however, do not, as they distort competition overseas, rather than in home markets. The calculations are based only on foreign trade distortions in effect in January 2019. The statistics in Table 2, therefore, provide one indicator of the extent to which Australian exports' bilateral market access is currently impaired in G20 markets.

There is considerable variation across the G20 members in the degree to which they impair Australian exports. Brazil, Japan, Mexico, South Africa and Turkey impair less than 10% of Australian goods exports' access to their markets. In contrast, over three- quarters of Australian goods exports to Argentina, China, India and Indonesia have to compete in these countries' home markets against local firms that benefit from government favouritism. Ascertaining which policy interventions contribute most to the market-access impairments reported in Table 2 could be useful: in bilateral consultations; when asking questions at WTO trade policy reviews; and in WTO dispute settlement relating to multilateral trade rules violations. It's also noteworthy that significant shares of Australian goods exports face market access problems in countries that Australia has, or may negotiate, an RTA with.

Given the build-up in the shares of Australian goods exports facing foreign trade distortions, the question must be asked: What is the Australian Government's appropriate policy response?

5. The limits of bilateral trade diplomacy

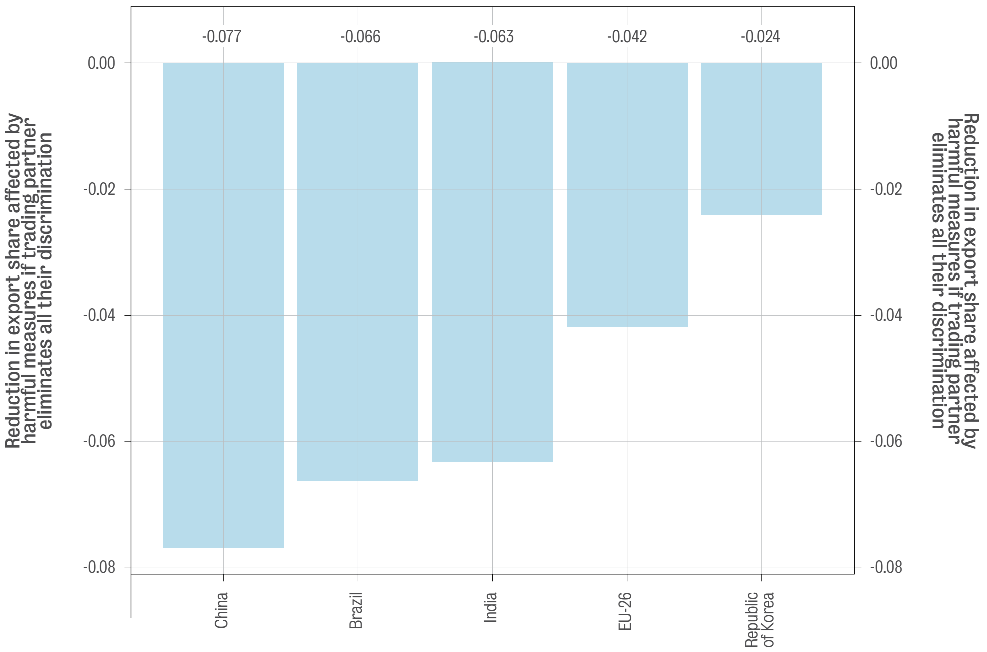
In tackling crisis-era foreign protectionism, Australian trade officials could try persuading individual G20 governments to remove their crisis-era protectionism. But would this generate a large reduction in the percentage of exports facing foreign trade distortions?

To explore this option, for each G20 member in turn, the percentage of Australian exports facing trade distortions *worldwide* was recomputed, based on the optimistic assumption that the G20 trading partner in question eliminated all its policies tilting the commercial playing field against Australian exports. As shown in Figure 3, the five largest reductions would occur in China, Brazil, India, the EU (taken to include actions by the European Commission and the Member States) and the Republic of Korea. Tellingly, the *maximum* increase in the share of Australian exports that would trade freely—which would occur if China removed all of its discriminatory policies—would be less than eight percentage points.

In sum, while bilateral trade diplomacy may appeal, it can do little to increase the overall percentage of Australian exports that trade freely. The reason is that, in far too many instances, Australian exporters of a particular good to a particular market compete against trade distortions implemented by several governments. For example, Australian beef exports to Brazil may face import duty hikes imposed by the importing nation as well as Argentine rivals that have received export subsidies. Persuading the Brazilians to reverse the tariff hikes still leaves the Argentine export incentive crimping Australian beef exports.

> Clearly, thinking of foreign market access impairments solely in terms of importing nations' policies misses important threats to Australian exports.

FIGURE 3: BILATERAL ELIMINATION OF ALL CRISIS-ERA TRADE DISTORTIONS WILL REDUCE AUSTRALIAN EXPOSURE TO TRADE DISTORTIONS GLOBALLY BY LESS THAN 8 PERCENTAGE POINTS.



Perhaps the point should be made differently: bilateral trade diplomacy is unlikely to put much of a dent in the protectionism faced by Australian exporters. No one is under any illusion as to the difficulties in making progress on trade matters in Geneva at this time, but it's difficult to see any alternative that can tackle the volume of protectionist "silt" that has accumulated over the past decade.

While it may not be realistic to expect new trade disciplines to be negotiated in Geneva any time soon, analyses such as these help to identify which trade distortions require monitoring, analysis and deliberation. If there's a lesson to be learned from the painful discussions about the Singapore issues in the Doha Round, it's that the absence of any widely accepted evidential base opens the door for all sorts of blocking and delaying tactics by opponents of new multilateral disciplines.

Efforts to revitalise the WTO's monitoring and deliberation functions, such as the current initiative instigated by Canada, afford an opportunity to establish the factual base about contemporary protectionism in all its major forms; to present estimates of the commerce affected and ascertain its adverse effects. Doing so may also encourage WTO members harmed by certain policy instruments to form coalitions.

Much as the General Agreement on Tariffs and Trade secretariat's work collecting evidence on voluntary export restraints in the 1980s supported that policy instrument's inclusion on the Uruguay Round negotiating agenda, the groundwork for the next multilateral or plurilateral talks should be laid now. The darkest hour is just before dawn.

ABOUT THE AUTHOR

Simon J Evenett is a Professor of International Trade and Economic Development at the University of St. Gallen, Switzerland, and Global Trade Alert Coordinator.

FOR FURTHER ENQUIRIES

Institute for International Trade
The University of Adelaide
Level 5, 10 Pulteney Street SA 5005 Australia

TELEPHONE +61 8 8313 6900

EMAIL iit@adelaide.edu.au

WEB iit.adelaide.edu.au

SOUTH AUSTRALIA