

FDI Recovers?

The 20th Global Trade Alert Report

by Simon J. Evenett and Johannes Fritz

CEPR PRESS

GLOBAL TRADE ALERT

CEPR Press

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FDI Recovers? The 20th GTA Report

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RECENT PRIVATE SECTOR PERSPECTIVES ON PROTECTIONISM AND WORLD TRADE

"In times of economic uncertainty it must sound seductive or comforting to want to put up the barriers but we must keep markets and trade open."
Sam Walsh, CEO, Rio Tinto.

"In general, trade barriers weaken global growth…Low trade barriers not only help trade growth, but also economic growth."
Trond Westlie, CFO, A. P. Moeller-Maersk A/S

"Free trade is important and my hope is that the political leaders around the world don't vilify it because of political pressure… I think the lens we look at to manage our business has changed. You've got to look through the lens of the local market more and more…The need for me to invest more time in government affairs is more relevant than it was two years ago."
David Taylor, CEO, Proctor & Gamble

"I can't believe what's happened with the trade environment around the world lately."
Doug Oberhelman, CEO, Caterpillar

"In the long run, it doesn't help to subsidize the industry, thereby keeping outdated operations running. A 50- or 100-year-old steel plant is not competitive compared to a modern one just because it is state-supported. When I look back at how the situation developed in Europe in the 1980s, when the steel industry was still heavily subsidized in every country, there was a point at some time when the states simply couldn't afford the enormous amounts of subsidies any longer. Several parts of the world might see a similar situation coming up right now."
Wolfgang Eder, Chairman, World Steel Organization and Chairman and CEO, Voestalpine

"We have anti-dumping in Australia, but the US has anti-dumping on steroids."
Paul O'Malley, CEO, BlueScope Steel

"Algoma has been successfully serving the Canadian market for over 100 years however, we cannot compete against government-funded exporters that dump steel in our market. While today's decision is a positive development for Canada's steel industry, we remain very concerned about the continued presence of unfairly traded steel in the Canadian market. We are especially concerned in light of the ongoing proceedings against hot-rolled sheet from various countries in the United States, which could divert higher volumes of dumped steel into Canada."
Kalyan Ghosh, CEO, Essar Algoma

RECENT OFFICIAL PERSPECTIVES ON PROTECTIONISM AND WORLD TRADE

“Protectionism offers nothing but declining living standards to Australia”
Malcolm Turnbull, Prime Minister, Australia

“There is growing public sentiment against free trade in many countries, and we have found ourselves fighting nationalism and populism.”
Shinzo Abe, Prime Minister, Japan

“The global trade slowdown and a lack of productive investment have sharpened the deep divides between those who have benefited from globalization, and those who continue to feel left behind… And rather than working to change the economic model for the better, many actual and would-be leaders are instead embracing protectionism and even xenophobia.”
Ban Ki-Moon, Secretary-General, United Nations

“In the current environment, a rise in trade restrictions is the last thing the global economy needs. This increase could have a further chilling effect on trade flows, with knock-on effects for economic growth and job creation.”
Roberto Azevedo, Director-General, World Trade Organization

“Brexit could stimulate nationalist movements in countries on the continent, which always or almost always involves some component of protectionism…Because you have one of the more liberal members leaving, the level of protectionism on average should rise.”
José Serra, Foreign Minister, Brazil

“While today’s patently global problems — low growth, trade protectionism, financial instability and deep-seated inequality, as well as mass migration — cry out for co-ordinated global solutions, politicians act as if such problems are best addressed by nation states acting alone and shy away from advocating the international co-operation essential for inclusive growth. As a result, the one global economic organisation where political leadership could make the most difference — the G20 group of leading industrial nations — is widely viewed as ineffective, while the EU has come to be viewed as part of the problem rather than the solution.”
Gordon Brown, former Prime Minister, United Kingdom

EXECUTIVE SUMMARY

While global trade stagnates the spotlight shifted to foreign direct investment (FDI) during China's G20 Presidency. Two recent developments brought FDI to the forefront of international deliberations:

- In July 2016 G20 trade ministers endorsed nine G20 *Guiding Principles for Global Investment Policymaking*.
- In June 2016 UNCTAD flagship World Investment Report showed that FDI flows "soared" in 2015 to its highest level since the crisis. To be fair, UNCTAD was cautious about the prospects for FDI in 2016.

Our report – released in advance of the G20 Leaders' Summit in Hangzhou, China – critically evaluates the recovery of FDI, the G20's contribution to that recovery, the coherence of G20 trade and investment policies, and ultimately, the new G20 *Guiding Principles*.

There is less to FDI's recovery in 2015 than meets the eye. Specifically, in this report we show:

- While global FDI inflows have reached a crisis-era peak, FDI into G20 nations has yet to break out of a narrow range witnessed since 2009.
- Despite rising in 2015, global FDI flows remain 33% below their long term trend. G20 FDI inflows are 40% below trend.
- As shares of the global stock of FDI and global investment spending, latest FDI flows remain below crisis-era peaks.
- Properly benchmarked, greenfield FDI has yet to recover to levels seen before the boom years preceding the crisis.

By adopting the *Guiding Principles for Global Investment Policymaking*, G20 trade ministers have aligned themselves with a central objective of the G20—namely, restoring economic growth. In essence, the rest of our report evaluates whether G20 commercial policymaking has been investment-friendly, that is, pro-growth.

The G20's record is at best mixed. Having documented another 2,000 commercial policy changes worldwide since the last G20 Leaders' Summit, we find:

- Since November 2008 G20 governments have implemented just over 150 reforms to their FDI regimes. Unfortunately, they have taken nearly as many steps that harm foreign investors. Remarkably, this is the brightest spot in G20's investment-related track record.
- Seven emerging markets account for the lion's share of G20 investment policy changes. Richer OECD G20 members have made far fewer changes to their FDI regimes.
- By now, the sustained violation of the G20's pledge on protectionism has resulted in nearly 4,000 trade barriers and financial incentives that will distort calculations on the financial returns to FDI.
- Trade in investment goods is heavily distorted by G20 policy intervention. The total number of measures liberalising trade in capital goods currently in force is outnumbered by discriminatory and restrictive policy interventions by more than 10 to one. No statistic better highlights the growth-threatening nature of G20 commercial policies.

Since 2012 the G20 has accelerated its resort to protectionism. In the first eight months of 2016 alone G20 governments implemented nearly 350 measures that harmed foreign interests. The jumps in G20 protectionism in 2015 and 2016 coincide ominously with the halt in the growth of global trade volumes.

This report contains new features that help evaluate commercial policy stance by the G20. Relative to their average performance since the onset of the crisis, there has been a pronounced worsening of commercial policy in Australia, France, Germany, Italy, Saudi Arabia, the UK, and the USA during 2015 and 2016. To see what's at stake for each G20 member, we publish estimates of the percentage of national exports that face trade distortions in foreign markets (see the country annexes).

Investment flourishes in a stable business environment with low levels of corporate political risk. We used well-regarded indices of economic policy uncertainty to gauge whether policy risks faced since the onset of the global trade plateau in January 2015 have fallen below levels seen in 2010-4 and 2002-6.

For 11 of the 12 G20 nations for which such data is available, the message is clear: policy-related risks remain elevated compared to the before the crisis. For Brazil and China levels of corporate political risk are even higher during 2015-6 than in 2010-4. The good news is that G20 trade officials have put their fingers on a major problem. The bad news is that lack of clarity or follow up work programme for the *Guiding Principles* casts doubt on whether their fine words will translate into tangible reforms.

The most charitable take on the G20's track record is that there is plenty of room for improvement as the G20 *Guiding Principles* are implemented. Only a credible change of tack by G20 governments that results in reduced corporate political risk will induce the private sector to invest more. G20 trade ministers will find it hard to pull the wool over the eyes of corporate board members. The closer trade and investment policy is to the growth-promoting G20 mission, the more trade officials will have to deliver.

CHAPTER 2
FDI RECOVERS?

In its June 2016 World Investment Report the United Nations Conference on Trade and Development (UNCTAD) stated that foreign direct investment (FDI) flows had "soared" 38% in 2015 to reach a total of $1.76 trillion. This took FDI inflows to their highest levels since before the crisis and the report indicated that "FDI recovery was strong in 2015."[1]

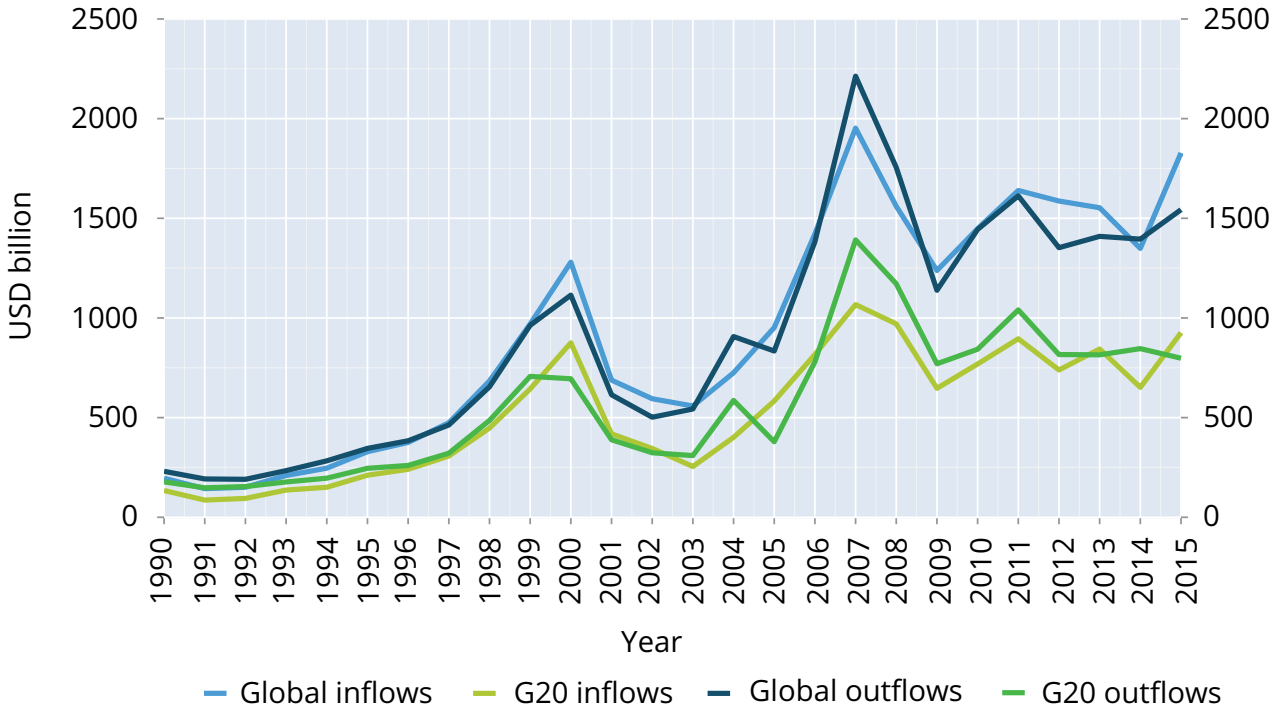
Rather than adopt a congratulatory tone, UNCTAD's Secretary-General noted that "...we are not yet out of the woods."[2] Indeed, in the press release accompanying that report the prospects for FDI in 2016 were characterised as follows:

> *"FDI flows are expected to decline in 2016 in both developed and developing economies, barring another wave of cross-border mega-deals and corporate reconfigurations. UNCTAD forecasts that FDI flows are likely to contract by 10–15 per cent in 2016, reflecting the fragility of the global economy, the persistent weakness of aggregate demand, sluggish growth in some commodity-exporting countries, effective policy measures to curb tax inversion deals and a slump in multinational enterprises profits in 2015 to the lowest level since the global economic and financial crisis of 2008/09.*
>
> *Elevated geopolitical risks and regional tensions could further amplify the expected downturn. Over the medium term, FDI flows are projected to resume growth in 2017 and to surpass $1.8 trillion in 2018."*[3]

Given the lags in reporting data on FDI it is too soon to say if this gloomy prognosis has come to pass. Even so, data for the years up to 2015 is available and permits a critical evaluation of the apparent recovery of FDI last year.[4] The purpose of this chapter is perform such an evaluation, highlighting the contribution of the G20 nations to FDI flows. The G20's contribution is of particular interest given the emphasis that the Chinese presidency has placed on promoting the linkages between international trade and investment.

FIGURE 2.1

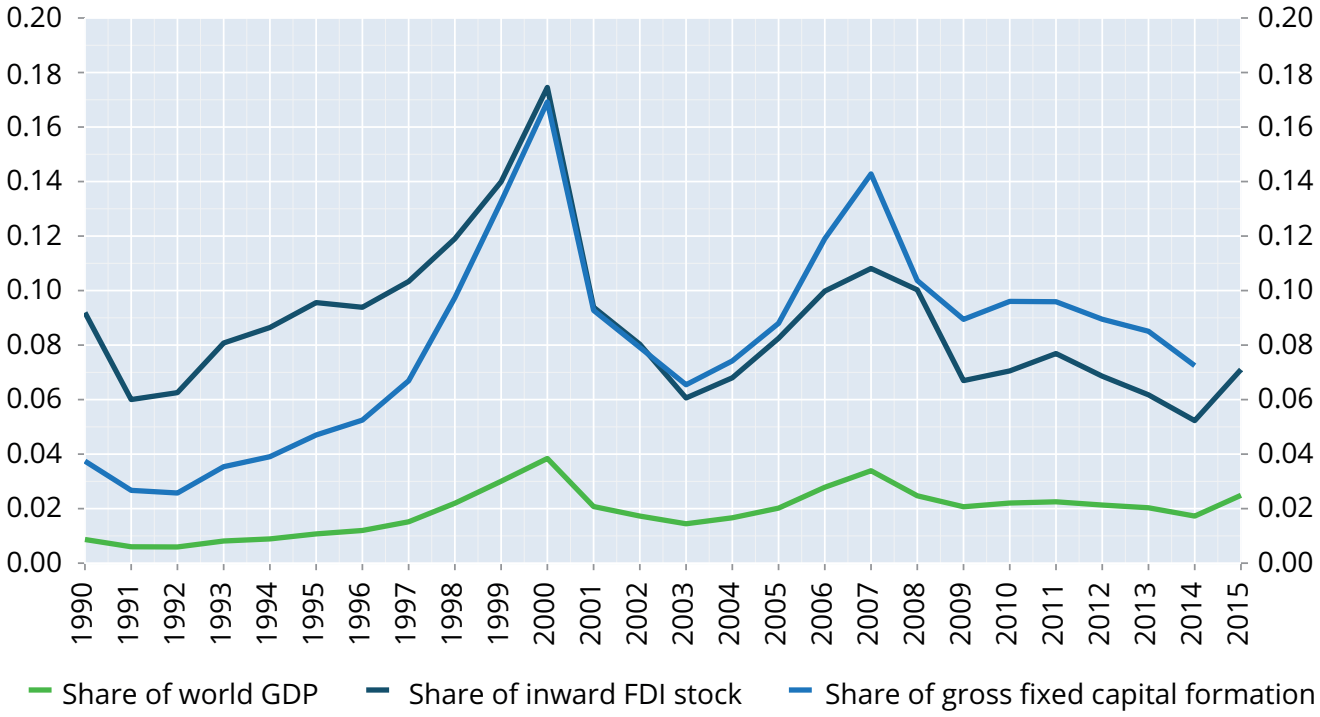
The G20's limited contribution to the 2015 rebound in global FDI.



1 UNCTAD (2016), page 3.
2 http://unctad.org/en/pages/PressRelease.aspx?OriginalVersionID=304
3 http://unctad.org/en/pages/PressRelease.aspx?OriginalVersionID=304
4 To facilitate comparisons between our findings and those found in the World Investment Report 2016 wherever possible we make use of UNCTAD's data on FDI.

FIGURE 2.2

The 2015 rebound is less impressive once benchmarked.



The rebound in 2015 seen in context

As Figure 2.1 shows, the increase in FDI flows was more pronounced in data on FDI inflows than outflows. Worldwide FDI inflows increased by $479 billion in 2015 whereas global outflows of FDI recorded an increase of $148 billion, a marked discrepancy. Put another way, the former represents a 35.5% increase in global FDI whereas the latter implies a smaller rise of 10.6%.

Taking the headline-catching increase in global FDI inflows, it is also apparent from Figure 2.1 that the G20 contributed only part of that increase. In fact, FDI inflows into the G20 rose $274 billion in 2015, which is equivalent to 57% of the global increase. The latter percentage is well below the G20's share of world output, suggesting that non-G20 countries were better able to lure foreign investors.

Even more interesting is the fact that, while global FDI inflows have clearly surpassed its previous crisis-era peak in nominal terms, this is barely the case for the G20. For the latter the 2015 level of total FDI inflows just exceeds the previous crisis-era peak in 2011. Indeed, viewing the data on G20 total FDI inflows and outflows in Figure 2.1 one might readily conclude that there has been little apparent growth in their nominal values from 2009 to 2015.

Further perspective can be gained by comparing the changes over time in global FDI inflows to sensible benchmarks. This could help questions of the sort: did global FDI inflows grow in line with global totals for investment (taken here to be global fixed capital formation)? As prior FDI can generate profit streams that can be re-invested, perhaps it makes sense to benchmark current global FDI inflows to the existing stock of FDI? Moreover, comparing global FDI inflows to global GDP affords some sense of the scale of the former. These calculations were performed for the quarter of a century from 1990 to 2015 and the results can be found in Figure 2.2.

Before commenting on the 2015 rebound, benchmarking global FDI inflows since 1990 highlights just how much larger in relative terms was the FDI surge around the time of the dot-com boom in 1999-2001. The boom that followed (during the years 2006 to 2008) was smaller and yet it is the latter peak that the 2015 data are being compared to in recent official reports. Seen in this light FDI has been on the back foot for many years.

As a share of world GDP, global FDI inflows in 2015 exceeded the prior crisis-era peak (which was in 2011). As a share of the existing stock of FDI, 2015 global inflows did not accomplish this feat. Unfortunately, 2015 data on global gross fixed capital formation is not available—it is quite possible that the 2015 global FDI inflows may have begun to reverse their declining share of global investment expenditures.

Another way to benchmark the 2015 FDI data is against the long run trend that would have prevailed if the last pre-crisis boom and resulting bust had not occurred. To that end the trend rate of growth of FDI during 1990 to 2005 was computed for both global FDI inflows and total FDI inflows into the G20. The percentage deviation of each year from those trends are reported in Figure 2.3.

While 2015 saw some catching up, global FDI inflows remain 33% below their long run trend. For the G20 countries total FDI inflows are 40% below trend. This highlights the scale of the task ahead of G20 governments as they seek to restore the world economy to its pre-crisis momentum.

Greenfield FDI has yet to recover

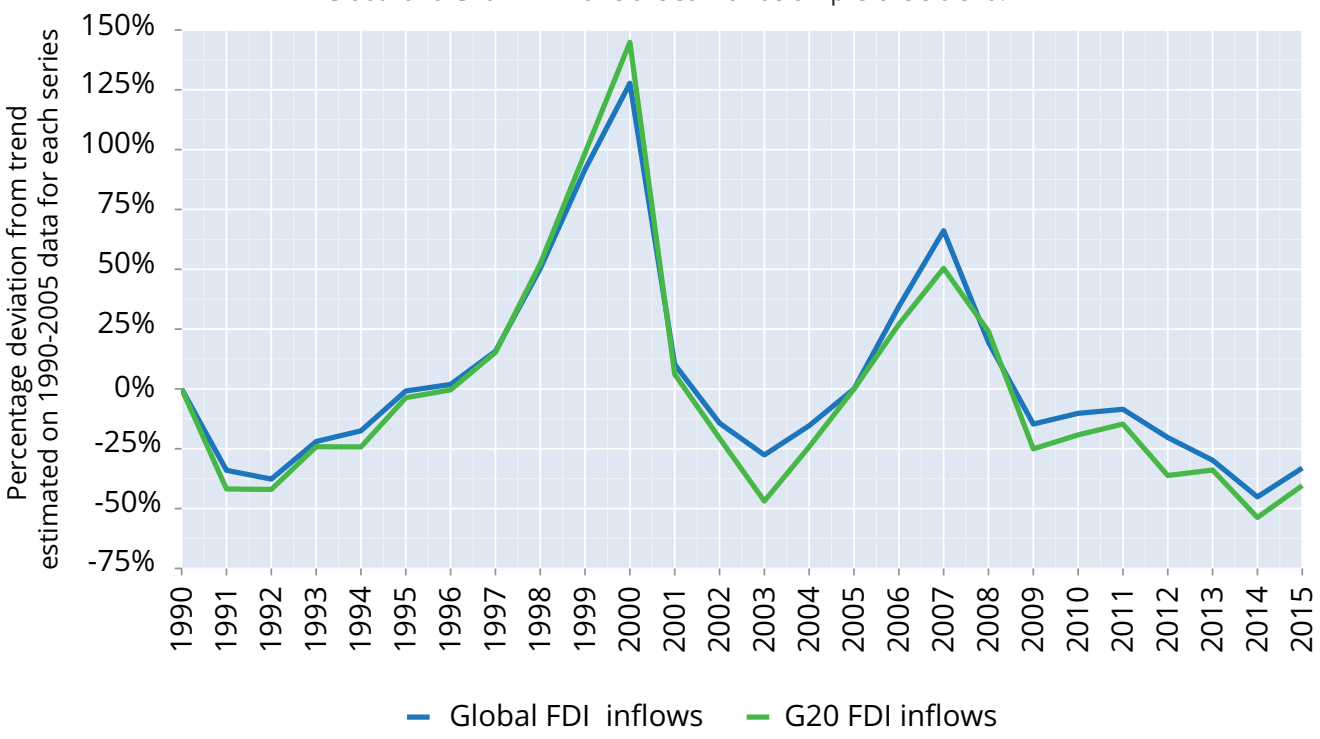
The *World Investment Report 2016* correctly identified the central role that cross-border mergers and acquisitions—as opposed to greenfield investments—played in the 2015 revival of nominal FDI flows. According to UNCTAD data, reproduced in Figure 2.4, the rise in cross-border mergers and acquisitions was equivalent to 60% of the increase in global FDI inflows in 2015. Moreover, such M&A has risen $450 billion in value since 2013.

In marked contrast, the total nominal value of greenfield FDI has fluctuated in a range between $600 billion and $800 billion during the years 2010 to 2015. Still, such FDI rose $52 billion in 2015. Furthermore, one might well argue that annual total greenfield FDI inflows measured in nominal terms lie in the same range during 2010-5 as they did before the crisis during 2003-7.

However, once increases in prices are taken into account[5] it is apparent that greenfield FDI has yet to recover to levels seen before the global economic crisis. In fact, real global FDI inflows during the years 2010 to 2015 are approximately a quarter below the levels seen during 2003 to 2007. When compared to the total nominal value of global fixed capital formation, nominal global FDI inflows fare no better. Given the substantial benefits that many attribute to greenfield FDI, these findings are disturbing.

FIGURE 2.3

Global and G20 FDI inflows are still far below pre-crisis trend.



5 Specifically, the global GDP price deflator available from the World Development Indicators database of the World Bank.

FIGURE 2.4

Cross-border mergers and acquisitions amount to 60% of the increase in global FDI flows in 2015.

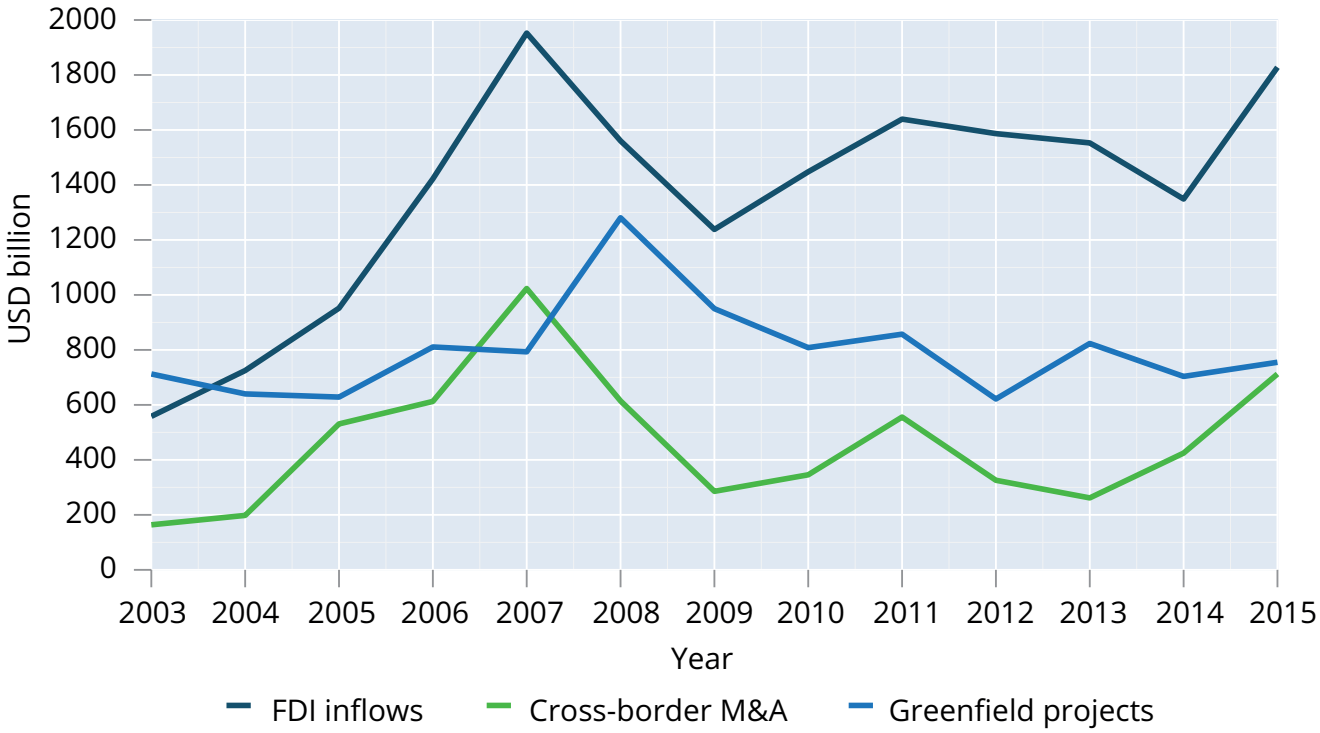


FIGURE 2.5

Properly benchmarked, greenfield FDI has yet to return to pre-crisis levels.

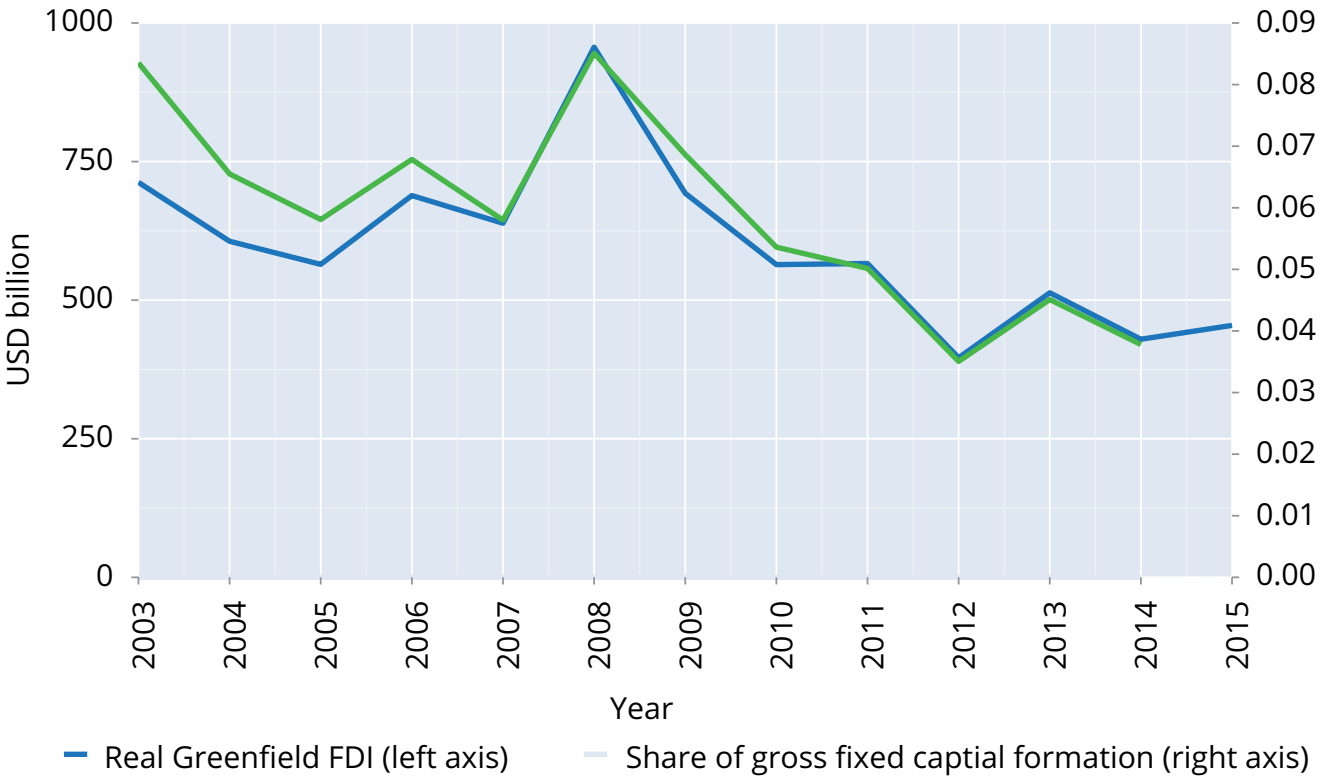
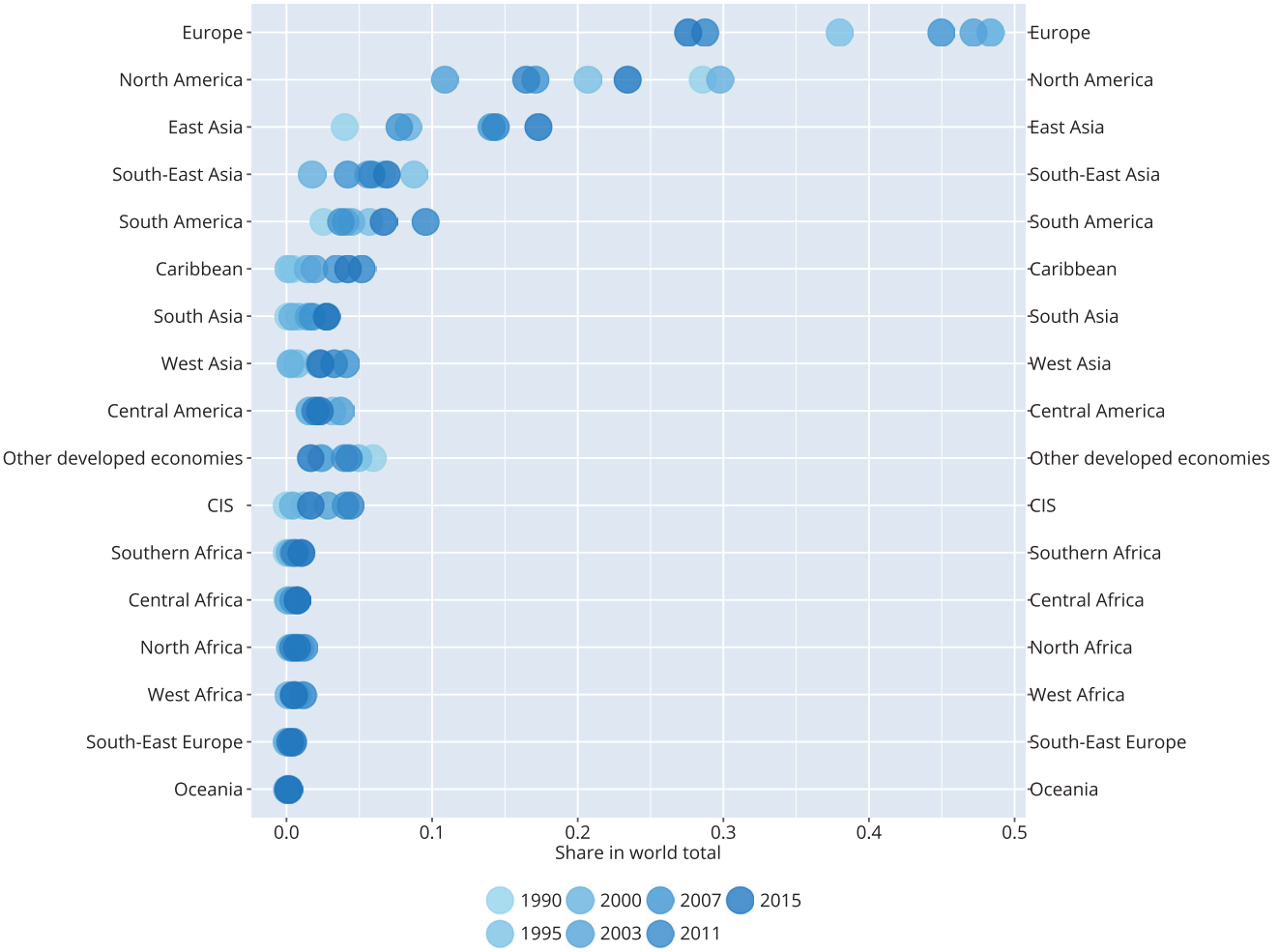


FIGURE 2.6

East Asia's share of global FDI inflows grew during the crisis era, while that of Europe fell.



Europe loses ground while East Asia gains favour with foreign investors

Data on FDI inflows by region reveal interesting crisis-era changes in the relative attractiveness of different parts of the world economy. In Figure 2.6 the shares of global FDI inflows accounted for by each region that UNCTAD reports data for are presented for selected years from 1990 to 2015. To highlight the crisis-era changes in the global allocation of FDI, the regions are arranged in terms of the biggest change in share from 2007 to 2015. What stands out in this chart is the marked decline in global share of FDI inflows going to Europe during the crisis era. While North America's share fluctuates during the crisis era, the share for East Asia increased markedly. The skewed nature of the allocation of FDI across the world—a fact much commented upon—is borne out in Figure 2.6 as well.

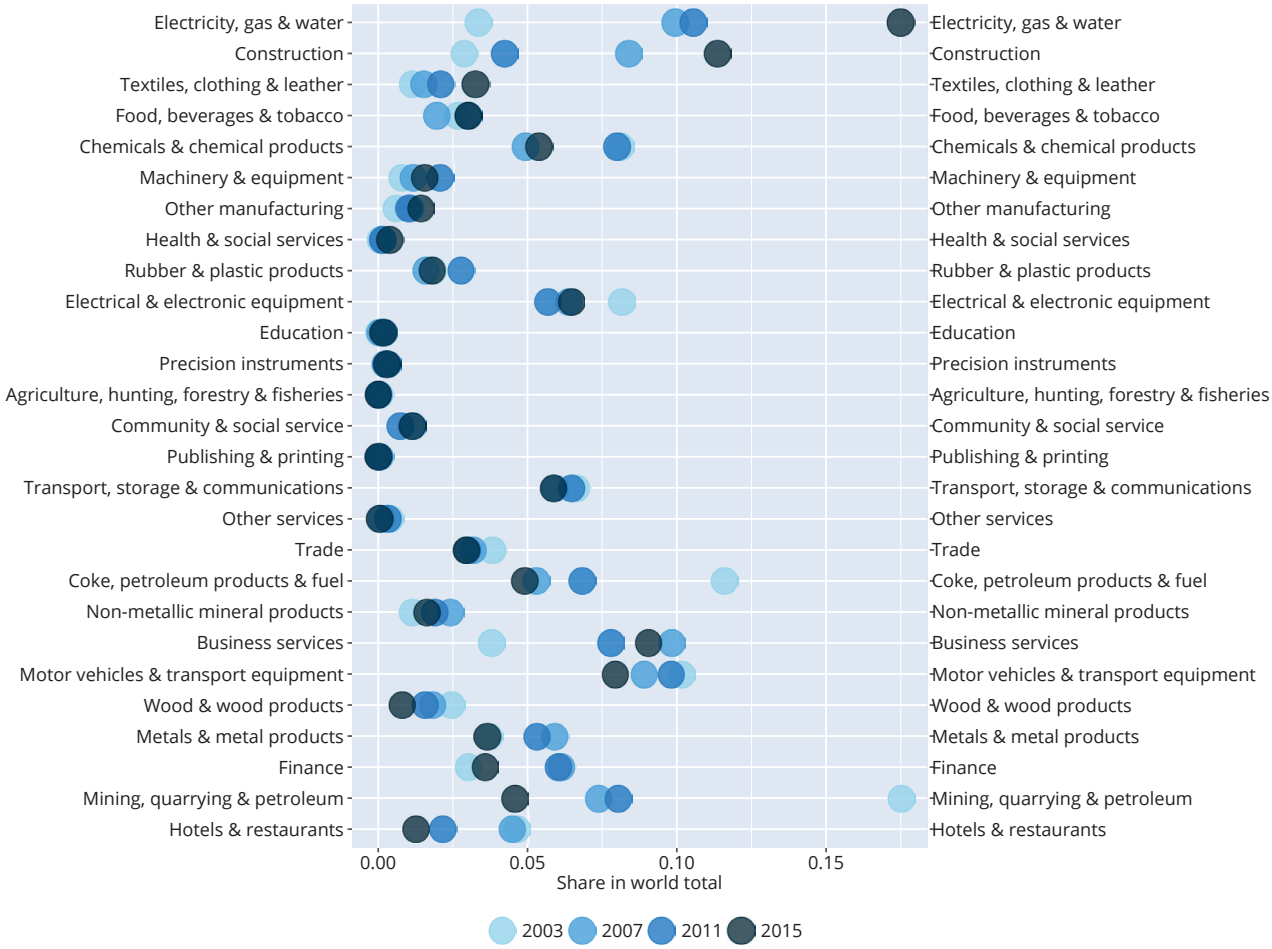
Sectoral allocation of global FDI reshuffled during the crisis era

The retrenchment in greenfield FDI inflows since the onset of the global economic crisis has not been evenly felt across the sectors of the world economy. As illustrated in Figure 2.7, which shows changes in each sector's share of global greenfield FDI flows from 2003 to 2015, investments in electricity, gas, water, and construction have risen sharply during the crisis era. Meanwhile, investments in steel, finance, mining, petroleum, and hotels have fallen as shares of the global total. The woes besetting each of the latter sectors are widely recognised.

In contrast to the changing sectoral distribution of greenfield FDI, there has been little change in the allocation of cross-border M&A since 2007 (see Figure 2.8). Given the volatility in commodity prices, perhaps it is not that surprising that the share of mining in global M&A has fallen (although one could have expected that such transactions might have become more prevalent as excess capacity is addressed.) The share of cross-border M&A in the finance sector fell sharply after the onset of the global economic crisis and has almost completed a bounce back.

FIGURE 2.7

Certain utilities and construction gain larger shares of the global pot of Greenfield FDI.



Concluding remarks

While the fortunes of certain sectors and regions ebb and flow, overall the rebound in FDI witnessed in 2015 was far less impressive than the nominal, headline numbers suggest. Sensible corrections for changing prices and for existing stocks and flows of overall investment reveal a far more sanguine picture ahead of the G20 Leaders Summit. Moreover, global FDI flows remain well below the trend growth path established before the go-go years that preceded the global financial crisis.

Another force knitting the economies of the world together has yet to recover its pre-crisis momentum, which is all the more worrying given the growing evidence that global trade flows reached a plateau in early 2015.[6] As the organisation that set itself the task of restoring the world economy to health, attention rightly shifts to what steps the governments of G20 nations have taken to influence the size and distribution of global flows of foreign direct investment.

References

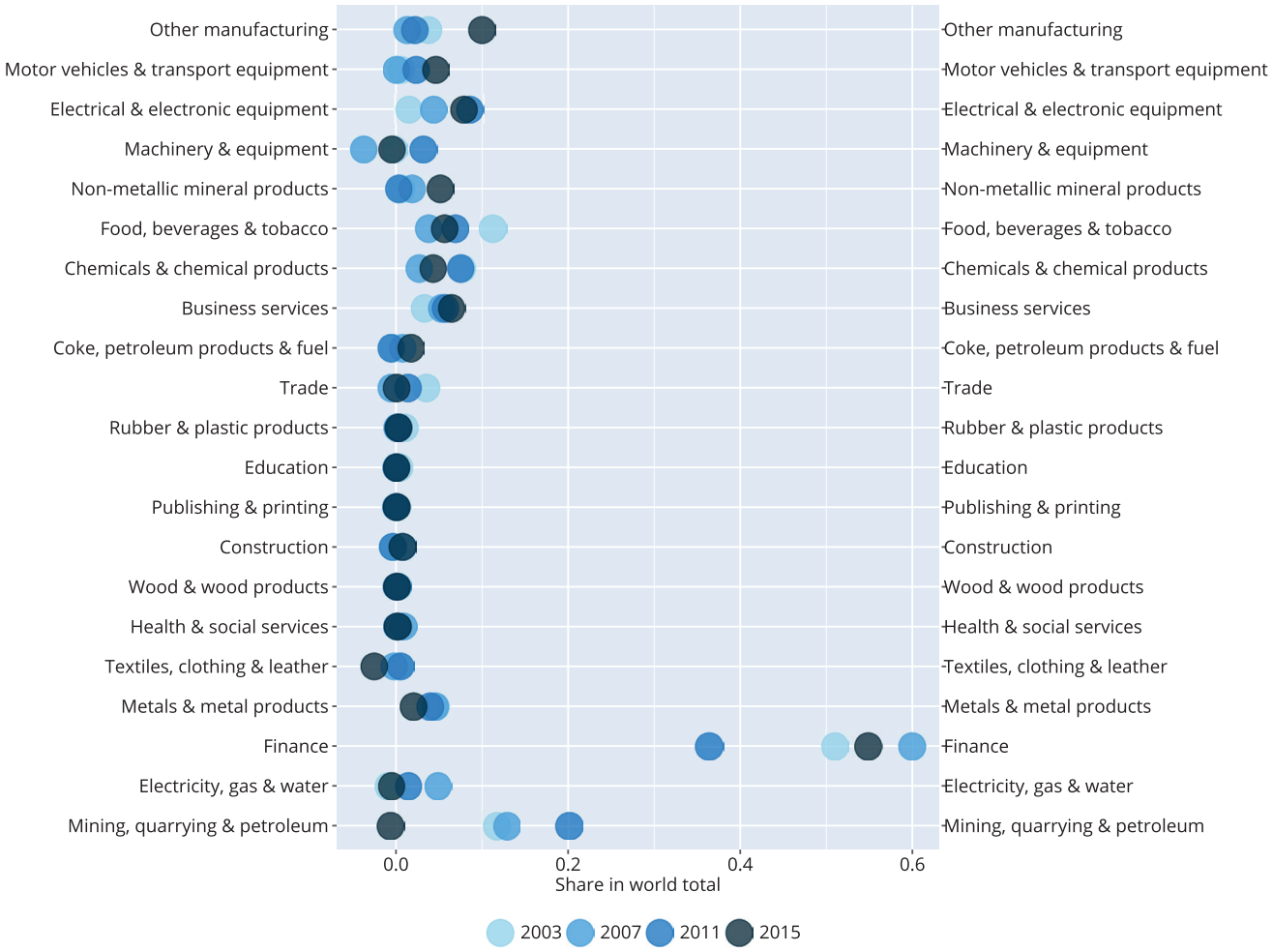
United Nations Conference on Trade and Development (UNCTAD) (2016). World Investment Report. Investor Nationality: Policy Challenges. Geneva.

Evenett, Simon, and Johannes Fritz (2016). *Global Trade Plateaus: The 19th GTA Report*. CEPR Press.

6 This was documented in our last report (Evenett and Fritz 2016). Subsequent trade volume data has borne out the finding that global trade plateaued in January 2015.

FIGURE 2.8

Finance almost recovers its share of global M&A while mining flounders.



CHAPTER 3
THE G20'S MIXED RECORD ON FOREIGN INVESTMENT POLICIES

A wide range of policies affect foreign direct investment flows and the purpose of this chapter and the next is to document the record of the G20 in this regard. The information presented could serve at least three purposes. First, it could inform assessments of whether G20 members abide by the spirit as well as the substance of the G20 *Guiding Principles for Global Investment Policymaking*, which G20 Trade Ministers endorsed in July 2016.[1]

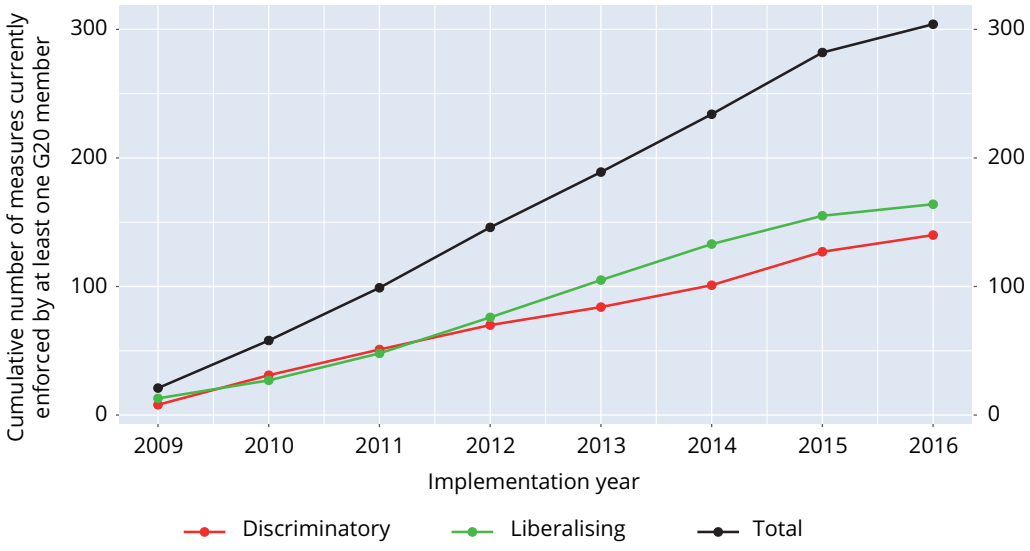
Second, comparisons of the propensity to discriminate against foreign commercial interests in investment policymaking can be made with the tendency to take steps to tilt the playing field in favour of domestic commercial interests in general. Third, analysis of G20 investment policy intervention can reveal which sectors of the global economy benefit or are harmed most often. In turn, this may inform analyses of where the impact to date of G20 "action" on investment policy is likely to be found.

In this chapter the focus is on policies that direct relate to the pre-entry and post-entry treatment of foreign firms desiring to invest in a jurisdiction. The next chapter focuses on the non-investment policies that might influence foreign direct investment flows but which do not condition access to foreign investors to national markets or their treatment post-establishment.

Since November 2008 a total of 324 investment policy measures implemented by G20 member governments have been documented by the Global Trade Alert team. Another 220 investment policy measures implemented by non-G20 nations have been documented, but that is not the focus of this chapter. Still, it does imply that G20 nations are responsible for a majority of the investment policy measures taken since the first G20 Leaders' Summit.

FIGURE 3.1

Around 150 G20 discriminatory and liberalising FDI policy measures remain in effect.



1 Those principles can be accessed at http://investmentpolicyhub.unctad.org/Upload/Documents/Annex%20III%20G20%20Guiding%20Principles%20for%20Global%20Investment%20Policymaking.pdf

Of the 324 investment policy measures implemented by the G20, 307 remain in effect as of 19 August 2016 (see Figure 3.1). The total number of implemented investment policy measures has grown steadily over time. A total of 51 investment policy measures were implemented during 2015 and so far this year the G20 are responsible for introducing 22 new reforms. Given reporting lags, it is very likely that the latter totals will be revised upwards over time.

As Figure 3.1 shows, of the G20 investment policy measures that remain in effect, from 2009 to 2012 the total number of measures that benefited foreign investors grew in line with the total harming foreign investors. From 2013 on the cumulative number of G20 investment policy measures benefiting foreign investors that are still in effect is higher than those harming them. Whether this gap persists is another matter.

Of course, as the latest UNCTAD and OECD monitoring reports on G20 investment policy measures argues counts of policy interventions need not provide a reliable guide to the impact of liberalisation or discrimination. Still, counting is less controversial than attempts to estimate econometrically the impact of G20 policy measures (which is probably why the relevant reports of the international organisations tend to stick to the former.) As far as counts are concerned, the G20's record on foreign investment policy is mixed.

The mixed performance of the G20 on foreign investment policies should be seen in light of their government's general tendency to discriminate against foreign commercial interests. With this in mind Figure 3.2 was constructed. It compares the proportion of G20 investment policies that are discriminatory and liberalising with the five policy instruments that the G20 resorts to most often (state aids, trade defence and safeguards, import tariffs, export taxes and restrictions, and buy national provisions in public procurement) and to all of the measures that the G20 has implemented.

Just under half of the changes to foreign investment policies implemented by the G20 since the crisis began discriminate against foreign commercial interests. In contrast, of all of the 6,497 measures implemented by the G20 that have been documented by the Global Trade Alert team, over three-quarters are discriminatory. The G20's record on investment policies is better than its overall record.

When compared to the five policy instruments most used by the G20, the propensity to resort to discrimination in investment is roughly in line with its changes in import tariffs and in export taxes and restrictions. The G20's resort to discriminatory subsidies (state aids) and duties on import surges and dumped or subsidised goods is much higher than that for investment policy. In this sense, foreign investment policies are one of the brighter spots of G20 policymaking since the onset of the global economic crisis. Still, it is worth bearing in mind that the total number of discriminatory state aid and trade defence measures implemented by the G20 outnumber the total number of beneficial G20 investment policy changes by 15-to-one.

FIGURE 3.2

The G20's record on foreign investment policies is better than its overall record on protectionism.

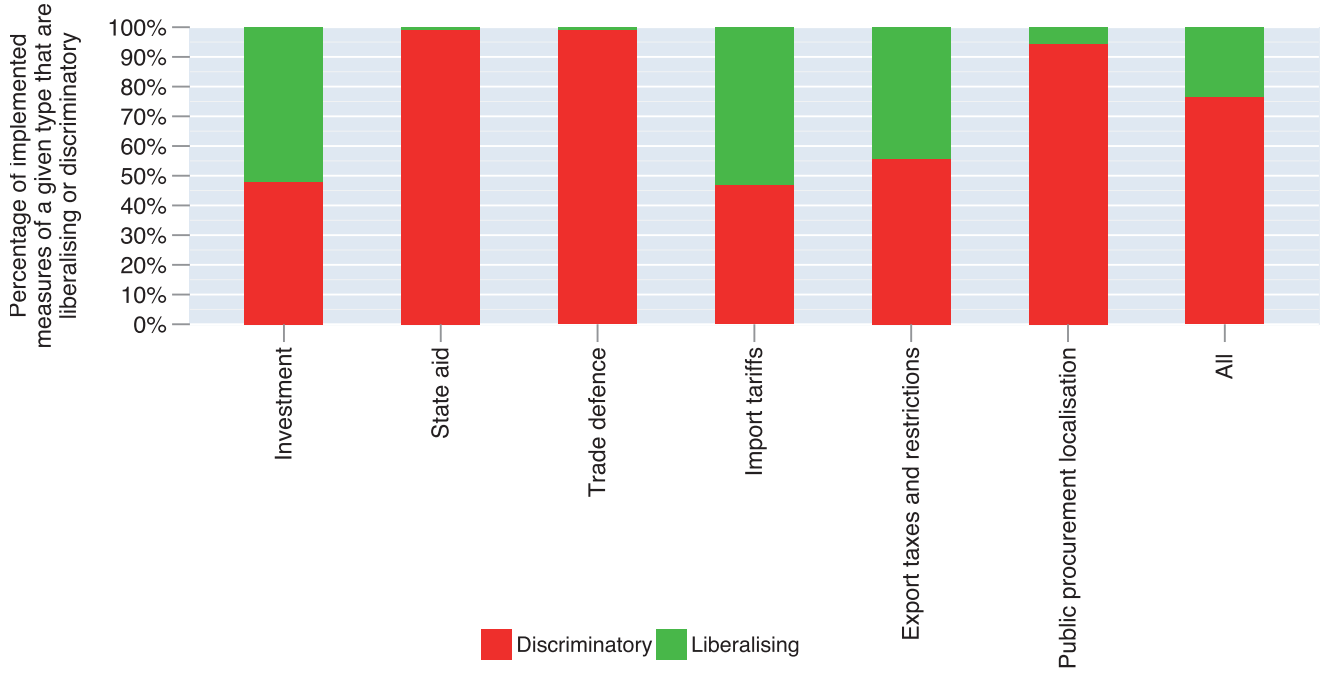
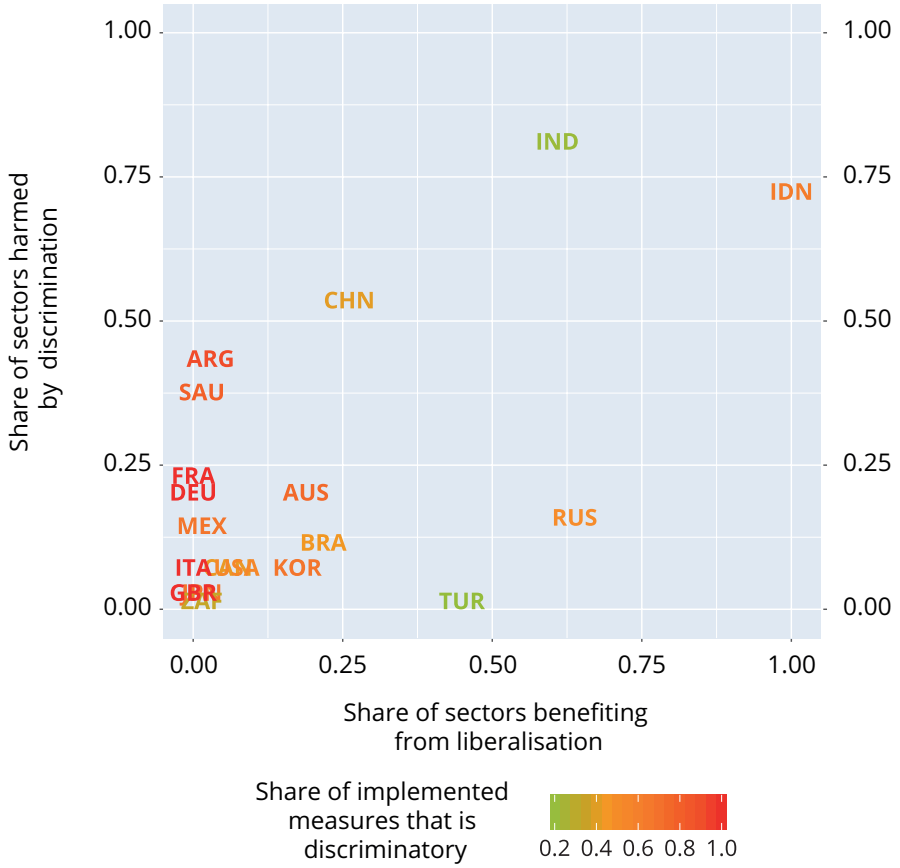


FIGURE 3.3

Many more sectors are affected by foreign investment policy changes in the large emerging market members of the G20.



Likely sectoral impact of investment policy changes varies across the G20

When documenting investment policy changes the Global Trade Alert team tries to identify—wherever possible—the economic sectors affected.[2] Figure 3.3 shows for each G20 member the proportion of sectors implicated by measures that benefit and by measures that harm foreign investors. Moreover, the mix between discriminatory and liberalising investment policy measures is indicated by the colour of the acronym used to report each G20 member's position in this chart.

The more sectors implicated by either liberalisation or harmful measures the further the location of the country acronym is from the bottom right hand corner (the origin of the chart). Interestingly, no member of the Group of Seven industrialised countries has taken investment policy measures during the crisis—of either type—that affect more than a quarter of its economic sectors.

In contrast, seven large emerging markets have taken measures that implicate at least one quarter of the sectors in their economies. These seven emerging markets are responsible for 211 of the 324 investment policy changes implemented by the G20 nations since November 2008. The mix between discrimination and liberalisation varies considerably among those seven—with India and Turkey resorting to relatively more liberalisation and Argentina, Indonesia, and Saudi Arabia resorting to more discrimination.

Overall, this data suggests that much of the G20 investment policy "action" is undertaken by half of the emerging market members of the G20. In turn, this raises questions as to what the other G20 members are doing to advance the G20 *Guiding Principles for Global Investment Policymaking*.

As a result of tracking the sectors affected by G20 investment policy changes it is possible to identify which sectors benefit most often or are harmed most often. The top 10 sectors affected are identified in Table 3.1. The degree to which service sectors are affected as opposed to manufacturing and agricultural sectors is striking. Again, this raises questions as to whether the G20 is able to deliver broad-based investment policy changes affecting (ideally positively) a wide range of economic activity. To date that does not appear to have been the case.

2 The Global Trade Alert team uses the standard two-digit United Nations CPC classification for sectors of economic activity. More information on that classification is available at http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=9&Lg=1.

TABLE 3.1

Service sectors are well represented among the sectors affected by G20 investment policy changes.

Top 10 sectors benefiting from liberalisation of foreign investment policies implemented by the G20 that are still in effect				Top 10 sectors most often hit by harmful foreign investment policies implemented by the G20 that are still in effect			
Rank	UN CPC code	Sector description	Number of liberalising policies	Rank	UN CPC code	Sector description	Number of discriminatory policies
1	81	Financial services	46	1	81	Financial services	28
2	75	Post and Telecoms	14	2	71	Land transport services	16
3	51	Construction work	13	3	82	Real estate services	14
4	73	Air transport	12	4	73	Air transport	14
5	63	Retail trade	12	5	72	Water transport services	12
6	52	Constructions	11	6	75	Post and Telecoms	12
7	93	Health and social services	10	7	34	Basic chemicals	11
8	34	Basic chemicals	9	8	1	Agricultural products	10
9	96	Recreational services	9	9	12	Crude petroleum and natural gas	9
10	87	Business services	9	10	46	Electrical machinery	9

Concluding remarks

In this chapter it was demonstrated that the G20's track record on investment policy change is better than its record on protectionism in general. That is good news but it should not be forgotten that just under half of G20 investment policy changes harm foreign commercial interests which, as we shall see in Chapter 6, is hard to reconcile with the *Guiding Principles*.

Another significant finding in this chapter is the degree to which investment policy changes are skewed towards service sectors and are implemented by a third of the G20 membership. This suggests that the G20 has some way to go before it can claim either broad-based contributions by its members or far-reaching impact to its much heralded recent investment policy initiative.

CHAPTER 4
G20 MARKET DISTORTIONS THAT CAN INFLUENCE FDI

It has long been understood that many policy interventions affect the incentive to engage in foreign direct investment, not only measures conditioning access to national markets by foreign firms. Internationally-active firms have a choice as to how to supply customers abroad—exporting goods to the country in question and establishing a factory in that country being two of the options available—and public policies can influence, for better or for worse, such choices.

For example, the imposition of tariffs on a particular imported good diminishes the profitability of supplying that good from abroad, shifting the commercial calculus in favour of other modes of supply, including foreign direct investment, that may be less efficient. As a result, the tariff increase will affect trade and investment flows. It is for this reason that concerns have often been raised concerning "tariff jumping" FDI.

Moreover, starting to allow foreign firms to invest in a sector that is protected from import competition is likely to attract firms interested only in securing fat profit margins. Once invested, those foreign firms will have a strong incentive to resist further reductions in import barriers and to limit future entry by foreign firms. In short, in a sector where both trade and investment restrictions are in place, the impact of liberalising the latter may depend on the former.

BOX 4.1 EXAMPLES OF FDI DECISIONS INFLUENCED BY G20 LOCAL CONTENT REQUIREMENTS

Spanish Soltec Energías Renovables will produce SF utility tracker controllers in Bahia, Brazil. Having noted that meeting LCRs was required to obtain funding from the national development bank BNDES, Jose Teruel, an engineer at Soltec said, "We needed to have some parts of our trackers to be manufactured in Brazil so we decided to start with electronics."

Suzion, an Indian wind manufacturer, is opening a nacelle-assembly plant so that it can sell its S111 machine in Brazil. Compliance with LCR was a key factor in this investment decision. Tulsi Tanti, chairman of the Suzion group, is reported as stating "Our key focus will be on BNDES compliance and launch of the S111 with 90-metre and 120-metre towers, which will be game-changer product in the Brazilian market. I am confident that we will be among the top five in Brazil within the next three years." He went on to say "If the company develops a supply chain and then opens an assembly plant, it's possible to comply with local content rules."

Polytron, an Indonesian producer of 4G smartphones, repatriated production from China in 2012 to comply with local content requirements at home. Santo Kadarusman, a spokesman for Polytron, stated "Honestly, we are doing it because of the regulation, to be in compliance." He amplified the commercial logic of the move as follows: "Our support from the government is the promise that other 4G brands cannot sell in Indonesia if local content is not 30 percent. Polytron is already at 35 percent. If Polytron gets to 40 percent local content, [the government told us] there is a possibility the local content requirement will go to 40 percent."

Danish headquartered firm LM Wind Power confirmed in September 2013 that it will set up a manufacturing plant for blades in South Africa. The company noted that the government would soon hold auctions for renewable energy. Søren Høffer, Vice President for Sales and Marketing, is reported stating "The development in South Africa coupled with increased local content requirements have the potential to drive the development of a local wind energy supply chain, which could ultimately lead to South Africa becoming a manufacturing hub for all of or part of the African continent."

Now that the G20 is keen on reviving foreign direct investment, a different concern is that governments use this objective as cover for introducing distortions to market forces that seek to attract as much FDI as possible. Just as more trade need not indicate better government policies (recall the effect of much lamented agricultural export subsidies), more FDI need not indicate a better policy mix either.

The purpose of this chapter is to examine the extent to which G20 governments have taken measures likely to alter the incentive to engage in FDI indirectly. Furthermore, the degree to which G20 nations are substituting between these incentives and direct FDI restrictions is considered as well. In conjunction with the evidence presented in the last chapter, the discussion below will facilitate a broader-ranging assessment of the policies implicating FDI that have been undertaken by G20 governments.

In preparing this chapter, data on three broad classes of policy intervention by G20 members was assembled from the Global Trade Alert database. The first class relates to government policies that erect barriers to imports (tariff increases, import bans, import quotas, safeguard duties, and duties resulting from trade defence actions), thereby raising domestic prices and increasing the profitability of supplying a national market from within its borders.

The second class of intervention are requirements—imposed on foreign investors or on firms bidding for state contracts—to source or produce locally. Four examples where foreign firms have publicly acknowledged the central influence of local content requirements on their investment decisions into G20 countries can be found in Box 4.1.

The third class of intervention are subsidies that are offered to firms that produce within a jurisdiction. Such subsidies attract foreign investors just like pollen attracts bees. Frequently, those subsidies come in the form of tax incentives, cheaper credit, loans, and other opaque policy interventions.

Table 4.1 reports for each G20 member the total number of interventions of each class that it has implemented since November 2008 and that remain in force today (and are therefore still relevant for contemporary policy discussions). Separate totals are reported for measures introducing or expanding distortions to markets and for measures reducing or eliminating distortions to markets.

For all of the concerns about tariff jumping and the like, Table 4.1 makes clear that many G20 governments have cut traditional import barriers since the onset of the global economic crisis. In this instance the counts of barrier cutting may not be very reliable indicators of policy stance as tariff cuts can be temporary and therefore lapse in the future. Any doubts concerns the renewal of temporary tariff cuts adds uncertainty to foreign investors seeking additional return on investment by hiding behind border barriers.

TABLE 4.1

Frequency of resort to policy interventions likely to affect the profitability or necessity of FDI, by G20 government.

Measures still in force that distort markets				Measures still in force that reduced distortions to markets			
Implementing nation	Traditional import barriers	Localisation requirements	Trade-distorting subsidies	Implementing nation	Traditional import barriers	Localisation requirements	Trade-distorting subsidies
Argentina	232	16	26	Argentina	26	0	2
Australia	55	10	8	Australia	4	0	0
Brazil	146	54	40	Brazil	100	1	0
Canada	52	7	28	Canada	9	0	1
China	87	12	19	China	38	4	1
France	130	4	51	France	27	0	1
Germany	128	20	58	Germany	27	0	1
India	230	131	33	India	83	4	0
Indonesia	80	26	21	Indonesia	41	1	3
Italy	129	3	47	Italy	27	0	1
Japan	7	2	84	Japan	4	0	0
Mexico	81	4	5	Mexico	20	0	0
Russia	96	35	217	Russia	102	0	0
Saudi Arabia	9	28	130	Saudi Arabia	1	0	0
South Africa	76	6	5	South Africa	81	0	0
South Korea	26	2	12	South Korea	7	0	0
Turkey	141	6	0	Turkey	20	0	0
United Kingdom	128	20	43	United Kingdom	27	0	1
United States	217	164	492	United States	44	23	2
Total	2050	550	1319	Total	688	33	13

Other than cuts to traditional trade barriers, precious few localisation requirements or trade-distorting subsidies have been removed by G20 governments (see the last two columns of Table 4.1). For foreign investors this implies that should the latter market distortions be imposed then, on the basis of the evidence presented here, they are unlikely to be unwound, which from the point of view of limiting resource misallocation is not very encouraging.

Turning to policies that introduce market distortions capable of stimulating FDI, it should be clear from comparing the final row of Table 4.1 that they are far more numerous than steps taken to remove market distortions. Moreover, resort to all three classes of market distortion—trade barriers, localisation, and subsidies—has been substantial. The G20 alone is responsible for implementing over 2,050 traditional trade barriers since November 2008, which can raise the return on investments for protected firms, including foreign investors.

But G20 governments have not stopped there. Requirements to source or produce locally—often a condition for receiving some type of state largesse—have been imposed 550 times by G20 governments. These requirements encourage firms to substitute trade for foreign direct investment and local provision.[1]

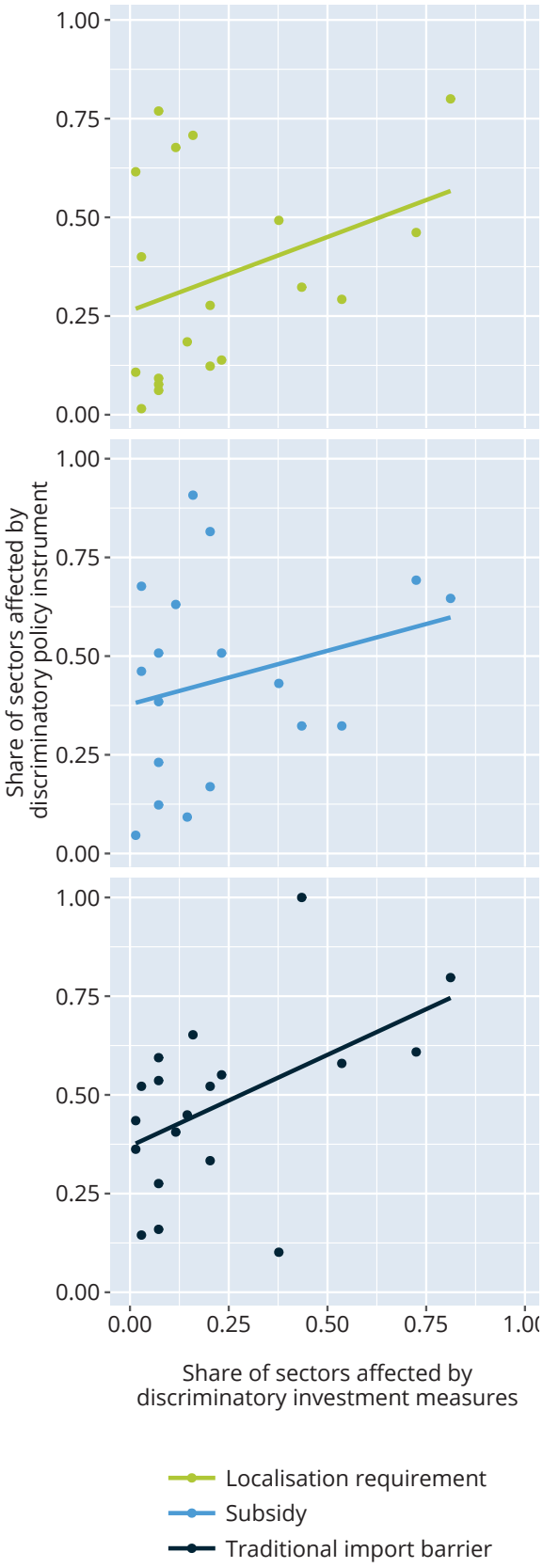
The vast array of subsidies and other forms of state aid offered by G20 governments cannot have gone entirely unnoticed by foreign investors. Given that over 1,300 forms of state aid have been offered by G20 governments since November 2008, it would be remarkable if foreign investors did not take these policies into account. In the past year or so the availability of trade finance appears to be a magnet for foreign investment. As the Vice Chairman of General Electric, an American multinational company, was reported to have said in July 2016:

> *"If there was a comprehensive export credit facility here in India, we and other investors would certainly look at doing more here."*[2]

One retort to this barrage of statistics is that G20 economies that resort more to the three classes of market distortions evidenced here happen to resort less to discrimination against foreign direct investment. One way to examine this matter is to examine whether there is a positive or negative correlation across the G20 in the number of sectors affected by market distortions and by FDI restrictions. Figure 4.1 presents plots of the sectors affected by the latter against each of the three classes of market distortions. In each case the correlation is positive—increasing the likelihood that firms in sectors that benefit from trade distortions also benefit from limits on further foreign direct investment.

FIGURE 4.1

Little evidence of substitutability between investment policy restrictions and trade distortions frequently employed by the G20.



1 A summary of recent studies of the impact of localisation measures can be found in chapter 5 of our last report (Evenett and Fritz 2016).

2 See http://economictimes.indiatimes.com/news/economy/policy/india-can-create-more-jobs-if-make-in-india-is-tweaked-to-export-from-india-john-rice-ge/articleshow/53199779.cms.

Concluding remarks

The inter-relationship between trade and investment policies is frequently remarked upon in presentations to G20 officials during the Chinese presidency. The failure of G20 members to keep their "no protectionism" pledge has knock-on effects for incentives to engage in foreign direct investment. Worse, to the extent that G20 governments chase foreign direct investment they may be tempted to resort to greater market distortions, the effects of which will be felt by taxpayers and downstream buyers.

Reference

Evenett, Simon, and Johannes Fritz (2016). *Global Trade Plateaus: The 19th GTA Report*. CEPR Press.

CHAPTER 5
G20 POLICIES TOWARDS TRADE IN INVESTMENT GOODS

Foreign direct investors are not the only source of foreign investment goods—they can also be imported by domestic enterprises. Government policies that affect the market access for foreign investment goods will alter the price and availability of the latter, with knock-on effects for domestic investment and ultimately national economic growth. This link between trade policy and investment is particularly important for countries seeking to catch up with better practice production methods developed abroad. It is also of interest to countries with internationally competitive export industries selling investment goods.

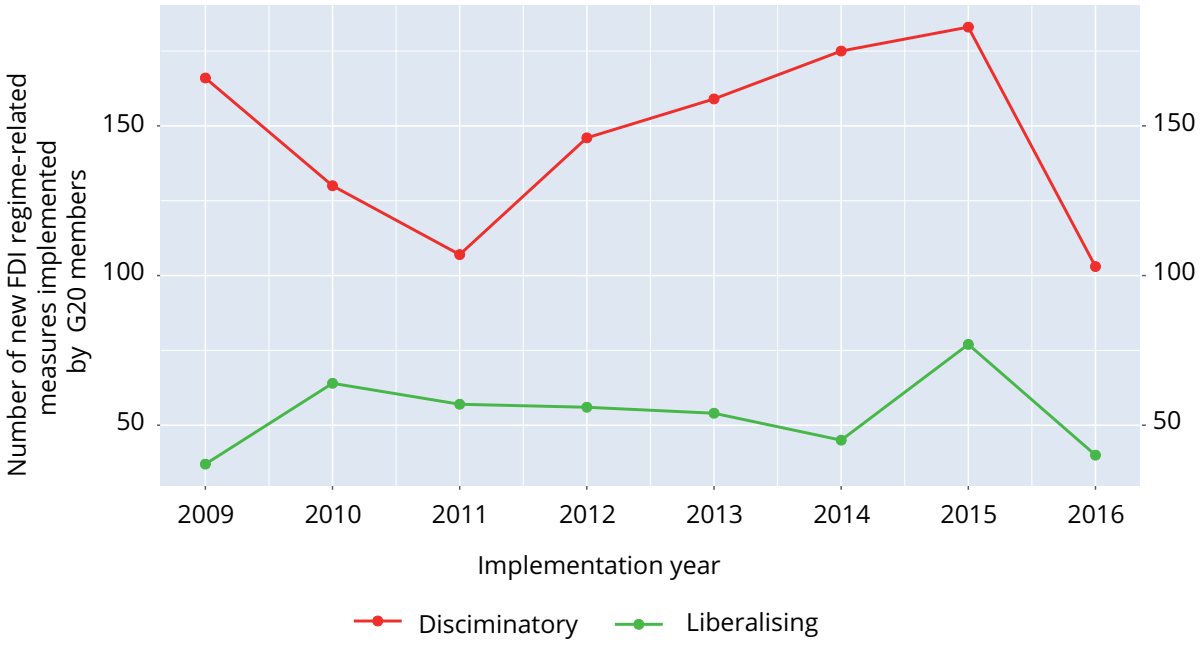
In this chapter the goal is to summarise the frequency, form, and likely trade coverage of the policies implemented by G20 nations towards investment goods. For the purposes of this chapter investment goods are taken to be products that the United Nations Conference on Trade and Development (UNCTAD) lists as capital goods in the "stages of processing" classification of traded goods.[1] A total of 200 four-digit product categories in the United Nations Harmonised System of products are classified as capital (or investment) goods.

Since the Global Trade Alert (GTA) database conservatively estimates the four-digit product categories associated with each government policy intervention, information on the discriminatory and liberalising interventions by G20 members that affect trade in capital goods can be extracted. That information formed the basis of the results presented below.

Are G20 policy interventions involving investment goods that implicate foreign commercial interests rare? Given that governments have sought to increase investment expenditures as part of plans for national economic recovery, one might expect to see plenty of measures liberalising the importation of investment goods. However, to the extent that sectors producing investment goods employ many workers or are seen as "strategic", then discrimination against foreign producers of investment goods might be expected.

FIGURE 5.1

G20 governments frequently intervene to influence trade in investment goods.



1 For the products so classified see the relevant file titled "UNCTAD-SoP4: Capital goods" at http://wits.worldbank.org/referencedata.html

FIGURE 5.2

As so many liberalising measures are temporary, so few were in effect on 19 August 2016.

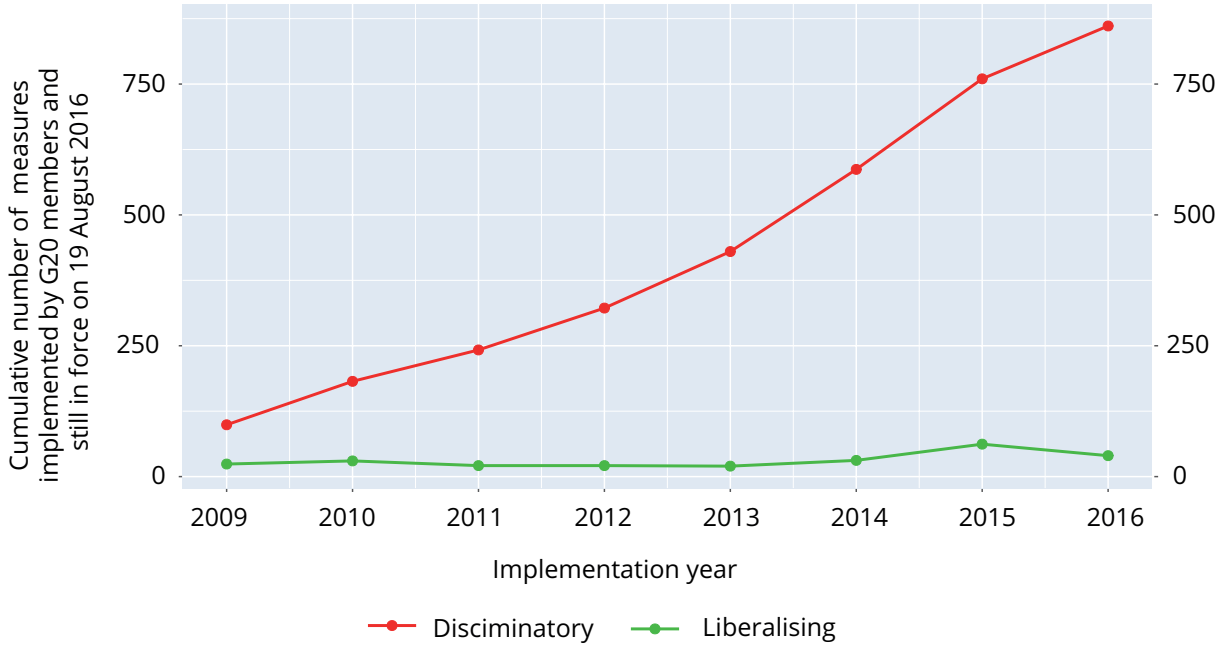


Figure 5.1 presents the annual totals of new interventions by G20 governments that alter the relative treatment of foreign commercial interests. Despite the contribution that foreign technology could play to raising the rate of economic growth, the striking finding is that the total number of protectionist measures implemented every year since 2009 by the G20 is twice the total number of new liberalising measures.

The situation is actually worse than this once one appreciates that many of the protectionist measures are permanent changes in policy while the liberalising measures are often a sequence of temporary import tariff cuts. To tease this out we calculated the number of discriminatory (liberalising) measures implemented by G20 governments each year from 2009 to 2016 that were still in effect on 19 August 2016. These totals are then plotted in Figure 5.2.

The contrast between Figure 5.1 and 5.2 is striking. The number of G20 policy interventions whose implementation permanently benefited foreign sellers of investment goods is stable over time at around 50-60. In contrast, the G20 policy interventions that harm foreign interests grow steadily to 2013 and then accelerate. By 2015 over 750 protectionist measures on investment goods implemented by G20 members were still in force and the total rose further in 2016.

By the time G20 Leaders meet in Hangzhou, China, their governments will have implemented more than 10 times as many measures distorting the supply of investment goods as measures freeing up commerce in these growth-boosting products. It is difficult to think of a statistic that better highlights the lack of coherence between the ends and means of the G20.

There are also pronounced differences in the mix of policies used by G20 governments to encourage or distort international commerce in investment goods. Using data on the 1183 policy instruments used by G20 governments since November 2008 to discriminate against foreign commercial interests and the 432 policy instruments implemented in a liberalising manner, it was possible to determine the policy mix employed in the former and latter. Figure 5.3 summarises the key findings using a stacked bar chart that shows the relative use of different types of policy instruments.

As far as the liberalising G20 measures are concerned, three quarters of them are import tariff reductions. As noted earlier, many of those tariff reductions were temporary and were often renewed. Brazil and to a lesser degree Russia follow this practice. In contrast, five policy instruments are frequently used to discriminate against foreign suppliers of investment goods. Two are transparent trade-restrictive measures imposed at the border (import tariffs and trade defence or safeguards duties), one measure that subtly restricts trade and encourages the localisation of production (public procurement measures requiring local sourcing or production), and two measures that offer financial support to favoured producers and exporters.

FIGURE 5.3

When discriminating G20 countries tend to use five tools, when liberalising the emphasis is on import tariff cuts.

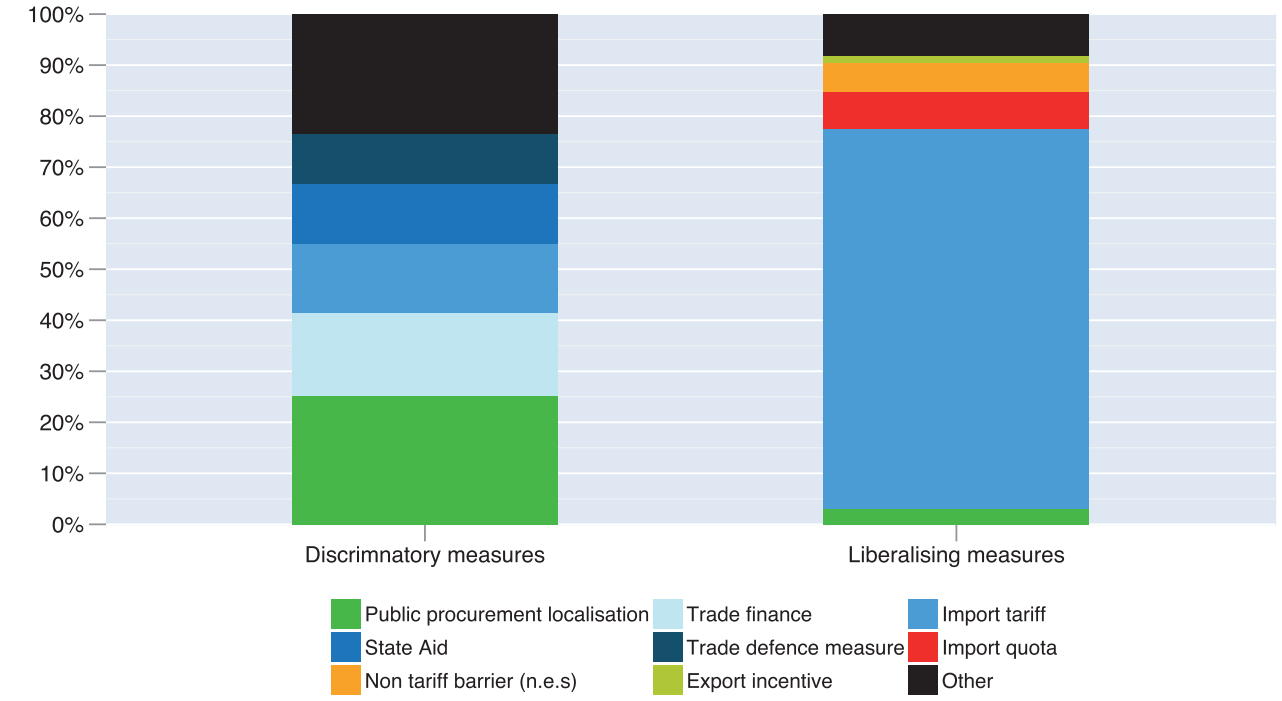
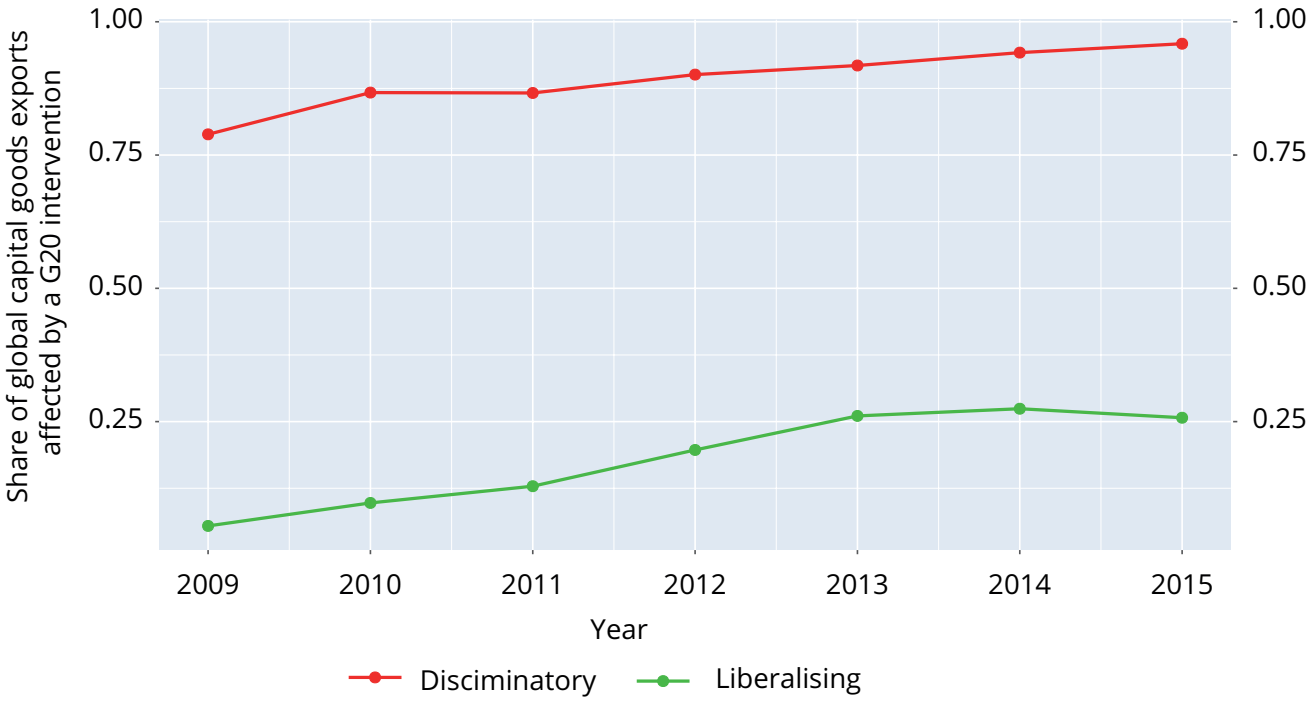


FIGURE 5.4

By 2015 a quarter of trade in investment goods benefited from G20 liberalisation, while nearly all such trade faced a trade distortion when competing abroad.



With bilateral trade data at the product level it is possible to go a step further and identify for each year from 2009 on which trade flows are affected by the imposition of a G20 policy intervention related to cross-border commerce in investment goods.

Having done so, it is possible to calculate the shares of global trade in investment goods affected by discriminatory and liberalising measures implemented by G20 members since November 2008. Such shares give a sense of the scale of the policy intervention involved. It is possible that a large number of discriminatory measures do not cover that much trade—and the opposite could happen as well.

The shares of global trade in investment goods affected by G20 discrimination and liberalisation during the years 2009 to 2015 are portrayed in Figure 5.4. The share of global trade that benefits from liberalisation grew to one-quarter by 2013 and then stabilised. In contrast, such was the discriminatory policy intervention against foreign producers of investment goods in 2009 alone, that over three-quarters of global trade in these products was affected during that year.

Discriminatory policy interventions in the years that followed have lifted that share to almost one, implying that by 2015 only a tiny percentage of global trade in investment goods did not face discrimination when competing in foreign markets. Given the scale of the discriminatory intervention, it would certainly be interesting to learn subsequently how much trade in investment goods was held back by G20 protectionism and the extent to which economic growth rates inside and outside the G20 have been held back. Such analysis would highlight the costs resulting from the incoherence between the G20's growth-promoting goals and its commercial policies.

All in all, domestic investment goods producers in the G20 have benefited from a wide range of measures that privilege them over their foreign rivals. At present the G20 are far from a level playing field in investment goods—departures from which compound year after year. This can be seen as either a major failure in G20 policymaking to date or as a significant opportunity for improved policymaking in the future.

CHAPTER 6
THE G20'S *GUIDING PRINCIPLES FOR INVESTMENT POLICYMAKING*: AN EVALUATION

Without suggesting that the connections between trade and investment were the only matter considered during the past year by G20 trade officials, it is fair to say that this matter received prominent billing and appears to have been an important priority of the Chinese G20 Presidency. Associated deliberations resulted in the adoption by G20 Trade Ministers at their meeting in Shanghai in July 2016 of the G20's *Guiding Principles for Global Investment Policymaking*. These principles have been reproduced at the end of this chapter.

The purpose of this chapter is to evaluate the *Guiding Principles* in light of the evidence presented in previous chapters, prior G20 trade initiatives notably the pledge on protectionism, and based on a reading of the *Guiding Principles*. We do not claim to "know" what G20 officials "really" want to achieve with this initiative,[1] nor do we speculate on motives. Wherever possible, we have grounded this evaluation in evidence on the policy interventions by G20 governments and experience with previous G20 trade initiatives.

Of course, our evaluation must surely be preliminary—over time more and more evidence will gather as to whether the adoption of these *Guiding Principles* altered government decision-making.

Guiding Principles to fix what problems?

A good place to start is to ask the question: If the *Guiding Principles* are the solution, then what is the problem? One reason for asking this question is that it might shed light on observable metrics that can be used in future years to assess the G20's progress in implementing, or at least living up to, these *Guiding Principles*.

Taken at their word, following their ministerial meeting in July 2016 G20 trade ministers:

- referred to the contribution that trade and investment growth could play to raising global economic growth by two percent by 2018,[2]
- recognised that "global investment flows remain well below pre-crisis peak levels" and the case for taking steps that "to put investment growth back on track,"[3]
- saw the need to foster "an open, transparent and conducive global policy environment for investment,"[4]
- advocated coherence in investment-related policymaking[5] and,
- called for greater predictability for business that is expected to encourage further investment.[6]

In the light of these statements the *Guiding Principles* can be seen as helping fix some unacceptable outcomes (such as low global economic growth, low levels of cross-border investment, high levels of economic policy uncertainty) and fix some undesirable policy regimes (that are incoherent and opaque and elements of which are not supportive of investment).

1 There being no presumption that all of the officials involved saw this matter the same way.
2 www.wto.org/english/news_e/news16_e/dgra_09jul16_e.pdf, page 2. On page 7 the following complementary statement is made: "In a continuing environment of low global economic growth, the role of the G20 in strengthening trade and investment remains vital."
3 www.wto.org/english/news_e/news16_e/dgra_09jul16_e.pdf, page 6.
4 www.wto.org/english/news_e/news16_e/dgra_09jul16_e.pdf, page 6. On the same page the following complementary statement is made "We are committed to ensuring that trade, investment and other public policies, at both national and global levels, remain coherent, complementary and mutually reinforcing."
5 www.wto.org/english/news_e/news16_e/dgra_09jul16_e.pdf, page 6.
6 www.wto.org/english/news_e/news16_e/dgra_09jul16_e.pdf, page 6.

Given the forecasts of international organisations concerning weak near term global economic growth,[7] the below trend levels of foreign direct investment highlighted in chapter 2, the mixed record of G20 governments in their policies towards FDI flows discussed in chapter 3, the extensive resort to policies likely to distort the commercial calculus for FDI highlighted in chapter 4, and the fact that G20 governments have sought to discourage trade in investment goods (documented in chapter 5), then on the basis of the available evidence it would be fair to conclude that there is substantial room for progress by the G20.

Elevated levels of economic policy uncertainty in many G20 members

One of the problems it seems the G20 wants to fix with the *Guiding Principles* is the high level of policy-related uncertainty facing businesses that might invest—or more to the point, might put off investment. On the basis of the best available indicator—the so-called Economic Policy Uncertainty (EPU) Index assembled by three leading US economists[8] and widely used by government agencies and the private sector—there is indeed evidence that such uncertainty is still elevated in a significant number of G20 nations during 2015 and 2016.

Economic Policy Uncertainty Indices are available on a monthly basis through to July 2016 for 12 G20 members (specifically Australia, Brazil, Canada, China, France, Germany, Italy, India, Japan, Russia, UK, and USA). Higher values of these indices imply greater levels of economic policy uncertainty faced by the private sector. For each of these 12 G20 members, we took monthly readings of these indices for three periods: the years 2002-2006, 2010-2014, and 2015-2016. The first time period captures the pre-crisis era; the second the era of stabilisation, fiscal austerity, and (in the eyes of some) the start of "secular stagnation"; and the third the most recent period during which global trade volumes have plateaued and, amongst other events, the UK voted to leave the European Union.

We deliberately left out the period of intense economic policy uncertainty associated with the height of the global economic crisis (taken to be years 2007 to 2009) and seek to compare the levels of uncertainty before and after. Specifically, we used reported values of a nation's EPU Index to estimate the distribution associated with each time period and want to see if there are profound differences across those distributions. In this manner, we can establish whether current economic policy uncertainty levels faced by the private sector (taken to be those in years 2015 and 2016) remain above the levels witnessed in earlier eras.

If a distribution of the EPU Index for a given time period substantially overlaps with that of another era, then this can be taken as evidence of little change in underlying economic policy uncertainty faced by the private sector. However if, for a G20 member, the distribution for a given time period (say 2015-6) lies substantially to the right of the corresponding distribution for an earlier period (say pre-2007) then this reflects markedly higher values of the EPU index and a worsened climate for private sector investment.

Figures 6.1 reports the estimated distributions of the EPU Index for each of the 12 G20 nations for which data is available. The distribution in blue represents the pre-crisis era, that is, for the years 2002 to 2006. The distribution in green represents the stabilisation era from 2010 to 2014. The distribution in red represents the most recent era, namely, 2015-July 2016.

With the exception of Italy, in the other 11 G20 members the levels of economic policy uncertainty since the beginning of 2015 is markedly higher than in the pre-crisis era. For these 11 nations the much of the mass of the distribution indicated in red (relating to 2015-16) lies to the right of the distribution marked in blue (which relates to the years 2002 to 2006). In these G20 nations any notion that policy-induced uncertainty faced by firms has returned to "normal" levels can be set to one side.

When it comes to comparing the economic policy uncertainty faced during 2010-14 and 2015-July 2016, these 12 G20 members fall into three groups. There is no marked deterioration in eight of these nations, indicated by the fact that the green and red distributions largely overlap. In contrast, economic policy uncertainty appears to have fallen in India and Italy as the distribution for the most recent period (indicated in red and relating to 2015-July 2016) lies for the most part to the left of the distribution relating to 2010-14 (indicated in green.) Interestingly, the indexes constructed for Brazil and China show a marked increase in policy-related uncertainty from the stabilisation period (2010-14) to the most recent period (2015-July 2016).

In sum, for 11 out for the 12 G20 members for which measures of economic policy uncertainty are available the private sector presently faces elevated levels of policy-induced risk when compared to the years preceding the global economic crisis. Given the adverse effect such uncertainty has on investment and therefore on economic growth, which is a key concern of G20 Leaders, steps ought to be taken to increase the predictability of the regulation of national business environments. At first G20 governments could target reductions in policy-induced uncertainty to pre-crisis levels and, once successful, follow up with measures to reduce such uncertainty even further.

7 The title of the April 2016 edition of the IMF's *World Economic Outlook*, namely, "Too Slow for Too Long" says it all. The July 2016 update of the IMF's forecasts did not fundamentally alter its assessment of near term growth prospects. However, the IMF did offer words of caution concerning the impact of greater uncertainty about economic policies.

8 Further information about these indices can be found at www.policyuncertainty.com/index.html. Baker, Bloom, and Davis (2016) describe the manner in which these indices are constructed and presents evidence of the impact of economic policy uncertainty indices on private investment decisions.

FIGURE 6.1

The range of Economic Policy Uncertainty measures during 2002-6, 2010-4, and 2015-6 for 12 G20 members.

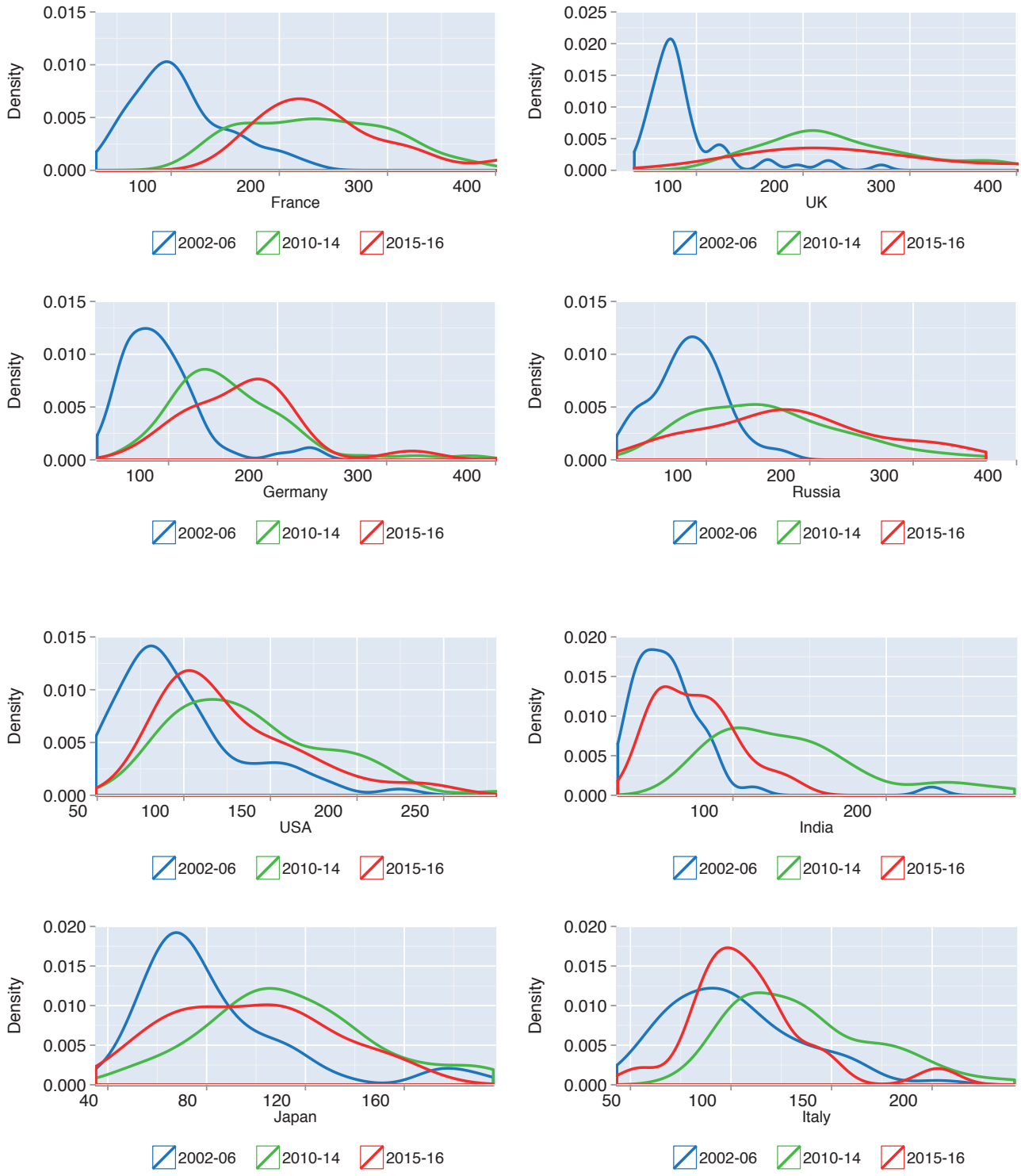
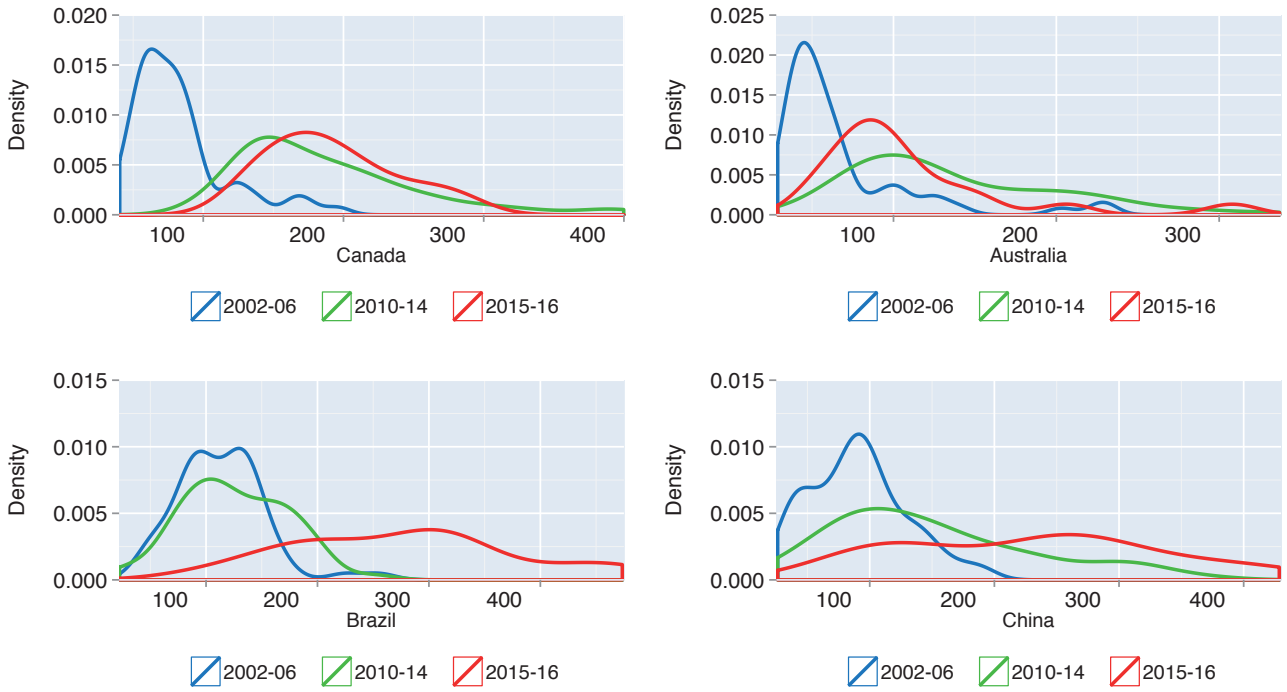


FIGURE 6.1
(contd.)



In identifying policy-induced uncertainty faced by business G20 trade officials have put their fingers on a matter where the evidence suggests considerable progress could be made in the years to come. Whether such officials will take steps to limit arbitrary policy interventions, credibly influence private sector expectations, and do so in a manner that does not introduce more discrimination against foreign firms, remains to be seen. Nevertheless, there is an opportunity here.

Concerns about the clarity of the *Guiding Principles*

It is not uncommon for ambiguity to be used strategically to gain acceptance for an international accord. This being understood concerns still arise as to what the *Guiding Principles* mean at certain critical points in the text. The first being whether the *Guiding Principles* refer to policies towards cross-border investment or policies towards all forms of investment, cross-border and domestic. The phrase "cross-border investment" is used once in the text of the *Guiding Principles*, otherwise the term investment is used.[9] This has important implications for the scope of the initiative and for the government ministries implicated by the implementation of the *Guiding Principles* (which may go well beyond a nation's trade ministry).[10]

In addition, it is unclear what policies are implicated by the *Guiding Principles*. For example, the first *Guiding Principle* states "Governments should avoid protectionism in relation to cross-border investment." This leaves open the definition of what constitutes protectionism in this context.[11] In many respects this is a step backwards from the original G20 pledge to eschew protectionism which, despite the evident deficiencies, at least specified some policy actions that governments would refrain from taking. If there was a deliberate decision to keep vague the policies implicated by the *Guiding Principles*—perhaps reflecting disagreement among the G20 members as to the specifics—then this does not bode well for its implementation.

The lack of clarity concerning the policies implicated stands in contrast to the clear statement of government rights in the sixth *Guiding Principle*, namely, "Governments reaffirm the right to regulate investment for legitimate public policy purposes." This gives a poor impression of the balance in the *Guiding Principles* between the rights and obligations of G20 members.

9 It is also unclear whether the *Guiding Principles* refer only to private sector investment or include public sector investment as well.
10 If several ministries are implicated, questions concerning their "buy in" to this initiative and its coherent implementation arise.
11 Similar concerns could be raised as to what constitutes "coherence" between trade and investment policies.

Perhaps most important of all it is unclear what the status the *Guiding Principles* have. They are clearly not a set of binding legal obligations. But what type of "soft law" are they? For example, the word "should" is found 10 times in the text of the *Guiding Principles*, whereas the word "shall" is not used at all. Perhaps the *Guiding Principles* will be used as part of a subtle peer pressure exercise to nudge G20 members towards better investment-related policies? In which case this could be a beneficial initiative. However, on the face of it, there is little to prevent this initiative degenerating into another exercise in peer protection, where fealty to the *Guiding Principles* is loudly proclaimed while these principles are honoured more in the breach.

Metrics to evaluate G20 investment-related policy choice

In the statement released after the meeting of G20 Trade Ministers no mention was made of steps to evaluate the progress of G20 members towards the *Guiding Principles.* Given the stated objectives of this initiative (recounted earlier in this chapter) it would have been possible to develop observable measures that could support an evidence-based progress assessment.

Nothing appears to prevent the G20, international organisations, and others from developing a set of metrics that could guide the evaluation of G20 investment-related policy choice. Of course, the ambiguities highlighted in the last section are relevant and would ultimately require any evaluation effort to take a position on the scope and meaning of the *Guiding Principles*, which some might object to on substantive or tactical grounds. Even so, if one of the goals of the *Guiding Principles* is to influence private sector expectations, then a transparent, data-driven evaluation process could usefully complement the qualitative deliberations of G20 trade officials.

In light of the matters discussed in this chapter the following empirical indicators could be developed to assess progress towards the *Guiding Principles*:

- Estimates for each G20 member of the contribution of investment to GDP growth.
- Tracking over time the real value of global foreign direct investment flows, alone and benchmarked against sensible metrics (such as those developed in Chapter 2).
- Inventories of policy changes directly affecting access of foreign investors to national markets, including policies affecting cross-border mergers and acquisitions as well as greenfield investments.
- Inventories of policy changes that affect the commercial interests of foreign investors that have already established presence in country.
- Inventories of non-investment policy changes that can influence the profitability of foreign direct investment.
- Inventories of policy changes that affect international trade in capital goods.
- Indexes of economic policy uncertainty faced by the private sector, perhaps adapting those available at present.

Concluding remarks

While there is little to object to in the apparent objectives of the *Guiding Principles*, much has been left open to interpretation and it is far from evident what follow up there will be to this investment-related initiative, in terms of either elaboration or evaluation. Given the importance G20 Leaders attach to restoring the global economy to health, there is a substantial opportunity here for G20 trade ministers and officials to demonstrate how they can contribute towards this central mission of the G20. As the chapters of this report have demonstrated, there is plenty to be done.

Reference

Baker, Scott, Nicholas Bloom, and Steven Davis (2016). "Measuring Economic Policy Uncertainty." Mimeo. 10 March 2016. Available at www.policyuncertainty.com/media/EPU_BBD_Mar2016.pdf.

Annex: G20 *Guiding Principles* for Global Investment Policymaking

With the objective of (i) fostering an open, transparent and conducive global policy environment for investment, (ii) promoting coherence in national and international investment policymaking, and (iii) promoting inclusive economic growth and sustainable development, G20 members hereby propose the following non-binding principles to provide general guidance for investment policymaking.

I. Recognizing the critical role of investment as an engine of economic growth in the global economy, Governments should avoid protectionism in relation to cross-border investment.

II. Investment policies should establish open, non-discriminatory, transparent and predictable conditions for investment.

III. Investment policies should provide legal certainty and strong protection to investors and investments, tangible and intangible, including access to effective mechanisms for the prevention and settlement of disputes, as well as to enforcement procedures. Dispute settlement procedures should be fair, open and transparent, with appropriate safeguards to prevent abuse.

IV. Regulation relating to investment should be developed in a transparent manner with the opportunity for all stakeholders to participate, and embedded in an institutional framework based on the rule of law.

V. Investment policies and other policies that impact on investment should be coherent at both the national and international levels and aimed at fostering investment, consistent with the objectives of sustainable development and inclusive growth.

VI. Governments reaffirm the right to regulate investment for legitimate public policy purposes.

VII. Policies for investment promotion should, to maximize economic benefit, be effective and efficient, aimed at attracting and retaining investment, and matched by facilitation efforts that promote transparency and are conducive for investors to establish, conduct and expand their businesses.

VIII. Investment policies should promote and facilitate the observance by investors of international best practices and applicable instruments of responsible business conduct and corporate governance.

IX. The international community should continue to cooperate and engage in dialogue with a view to maintaining an open and conducive policy environment for investment, and to address shared investment policy challenges.

These principles interact with each other and should be considered together. They can serve as a reference for national and international investment policymaking, in accordance with respective international commitments, and taking into account national, and broader, sustainable development objectives and priorities.

Source: "G20 Trade Ministers Meeting Statement. 9-10 July 2016. Shanghai." Available at www.wto.org/english/news_e/news16_e/dgra_09jul16_e.pdf.

CHAPTER 7
THE G20 RECORD ON PROTECTIONISM SINCE THE CRISIS BEGAN

Citing a finding in the latest World Trade Organization (WTO) monitoring report on G20 trade policy measures—that the monthly rate of imposition of trade restrictive measures by G20 countries was at its highest levels since the onset of the global economic crisis—G20 trade ministers announced in July 2016 that "we recommit to our existing pledge for both standstill and rollback of protectionist measures, and to extend it until the end of 2018."[1]

While the WTO's monitoring of G20 trade policy initiatives is certainly informative, the headline numbers published in its reports refer to a narrow range of policy instruments. Our purpose here is not to contrast the approaches taken to trade policy monitoring by the WTO and the Global Trade Alert (GTA) team[2] rather, on the basis of an extensive update of the GTA database in which over 2,000 measures have been added since our last pre-G20 summit report was published in November 2015, the goal is to summarise the latest available information on the resort by G20 governments to measures that discriminate against foreign commercial interests.

It is worth recalling that the GTA team collects data on government measures that alter the relative treatment of domestic commercial interests vis-à-vis their foreign rivals. Those commercial interests could include importers and exporters, foreign investors, foreign owners of intellectual property, or migrant workers. One major advantage of adopting this relative treatment standard is that it is not policy instrument-specific. Therefore, if a government innovates and deploys a new means of protectionism then, so long as it alters the relative treatment of foreign commercial interests, it falls within the remit of the GTA's monitoring.

The GTA collects data on measures harming foreign commercial interests (which are referred to as discriminatory) and beneficial to foreign commercial interests (which are labelled liberalising.) The GTA team adds information to its database on any measure that was implemented after November 2008, the month when the G20 Leaders met for the first time and pledged not to engage in protectionism.

While the GTA team collects data on measures taken by governments worldwide, the data reported in this chapter refers only to measures implemented by the G20 nations.

Another important point to bear in mind in interpreting data on G20 policy intervention is that experience has shown that reporting lags matter. Sometimes governments take a long time to make public statements about previously undertaken policy interventions. In other cases it may take time to find and document an intervention. Information on an opaque trade-distorting subsidy dispersed in 2010, therefore, could be added to GTA database several years later.

This updating of the database has continued over the years and implies, for example, that the GTA team has had over seven years to document policy interventions taken in 2009. In contrast, just under eight months of time has been available to collect data for government measures undertaken in 2016. Consequently, at various stages of our reporting, the total number of measures documented from the earlier years of the crisis exceeded those in later years, erroneously giving the impression that there was less intervention in later years.

In the assessment presented here to neutralise the impact of reporting lags we have computed for each year from 2009 to 2016 the total number of G20 measures that discriminate against foreign commercial interests that were implemented and were documented by the GTA team by 19 August of the year in question. The choice of 19 August reflects the decision to close our reporting for this publication on 19 August 2016. Each year, then, is treated the same.

1 www.wto.org/english/news_e/news16_e/dgra_09jul16_e.pdf, pages 3 and 4.
2 A detailed comparison of these two approaches and their findings can be found in chapter 12 of Evenett and Fritz (2015).

FIGURE 7.1

Correcting for reporting lags, resort to protectionism by G20 members has accelerated since 2012.

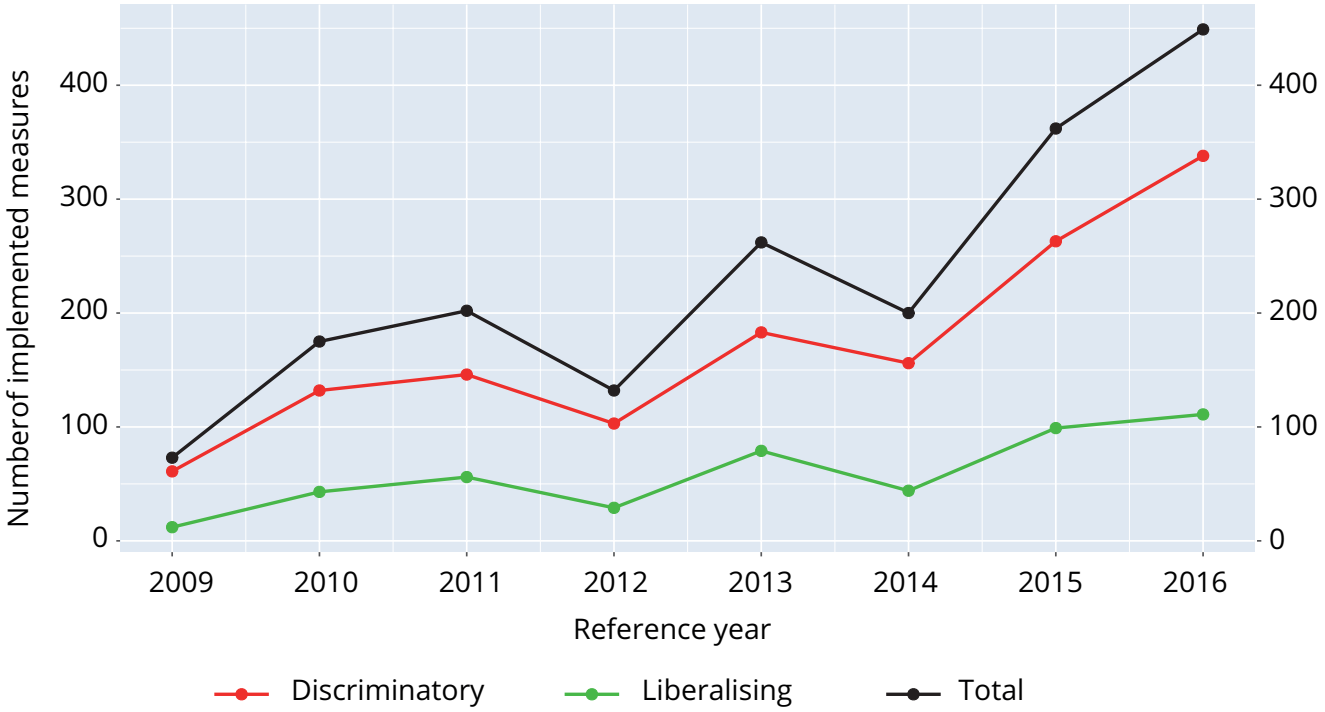


Figure 7.1 reports the total number of discriminatory and liberalising measures implemented each year from 2009 to 2016 and reported by 19 August of year of implementation. Apart from small dips in 2012 and 2014, over the years there has been a steady increase in the total number of protectionist measures implemented by the G20. Between 1 January and 19 August 2016 G20 governments have implemented nearly 350 measures that discriminate against foreign commercial interests. This total for 2016 is more than four times the number implemented by the G20 in 2009 that were documented over the same time frame.

The variation over time in the total number of liberalising measures implemented by the G20 follows that of the protectionist measures, however the former is typically a third of the latter. The balance of G20 trade policy intervention is tilted heavily towards measures that harm foreign commercial interests. Worse, despite repeated calls for self-restraint, professed commitment to the principles and rules of the world trading system, and cycles of monitoring, the G20's protectionist record goes from bad to worse.

That the GTA team continues to update its records of G20 policy intervention taken since November 2008 permits a comparison over time of the number of implemented discriminatory measures found in each quarter. Figure 7.2 presents the quarterly totals of the number of new discriminatory measures implemented by the G20 that had been documented on 19 August 2009, 19 August 2012, 19 August 2014, and 19 August 2016. Comparing the lines in this Figure reveals just how much the record of G20 protectionism was understated earlier in the global economic crisis.

Take the case of the first quarter of 2009 (Q1 2009), when many G20 Leaders voiced fears about protectionism taking off. By 19 August 2009 the GTA team had documented 25 protectionist measures implemented by the G20 in Q1 2009. By 19 August 2016, seven years later, the GTA team has been able to document over 150 policy interventions by the G20 that harmed foreign commercial interests that were implemented in Q1 2009. This represents over a 500% increase in the amount of protectionism found.

Another feature of Figure 7.2 is the impression given by the totals for measures documented by August 2012 and 2014 that G20 resort to protectionism jumped in 2009 and then maintained a steady flow of new protectionism. Such a finding would be worrying. However, with our latest report (as shown by the line for 19 August 2016 in Figure 7.2), it now appears that G20 report to protectionism grew from 2009 to 2013. From 2013 on the quarterly totals fall off but again recall the importance of reporting lags. If previous experience is anything to go by, one should expect upward revisions in the quarterly totals from the start of 2014. It would not take much more evidence of protectionism from recent years to support a conclusion that the G20's record on protectionism continues to deteriorate (which is the finding supported by the data presented in Figure 7.1).

FIGURE 7.2

Sustained updating led over time to a much worse assessment of G20 protectionism.

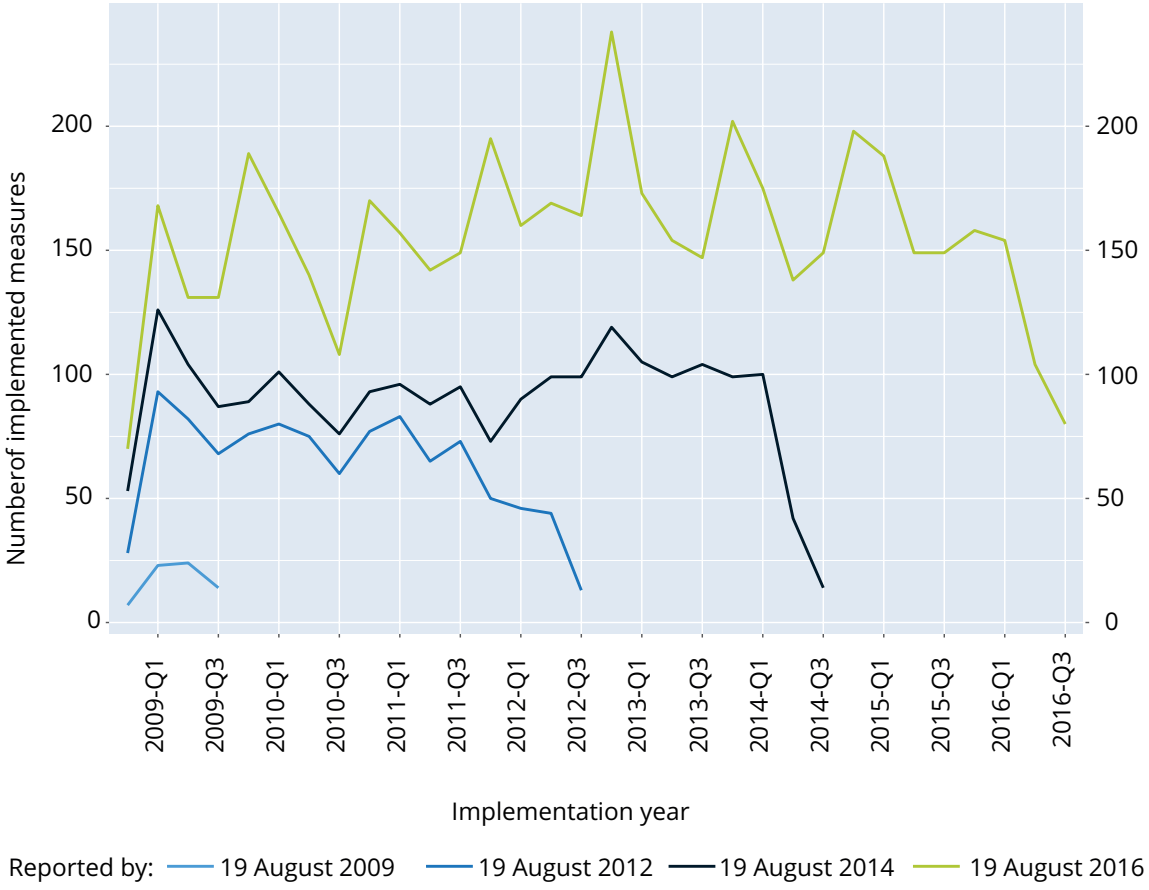
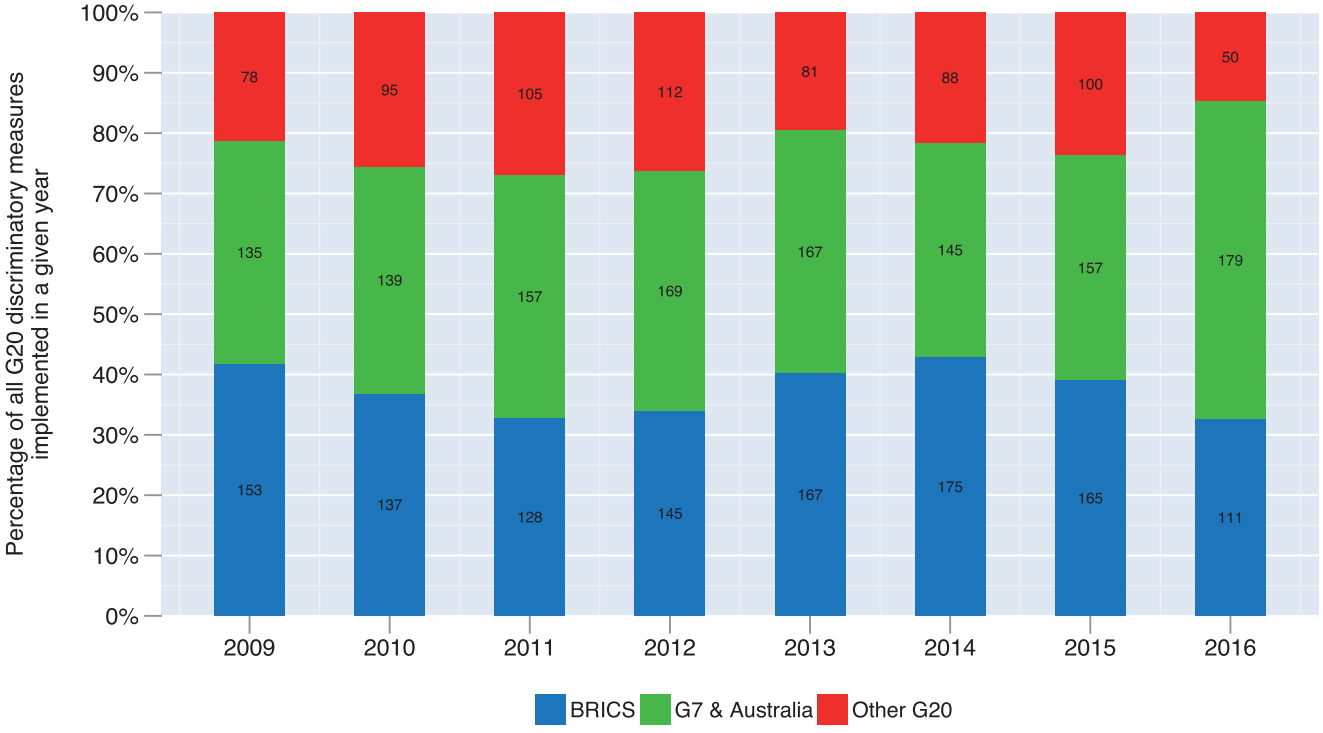


FIGURE 7.3

The G7 and Australia are responsible for an unusually large share of G20 protectionism in 2016.



In the next chapter the spotlight will be on the protectionist record of each G20 nation, however, it may be useful to discuss here the resort to protectionism by different groups of G20 nations. We put the five BRICS countries in a group. Another group was formed of the Group of Seven industrialised countries plus Australia. The remaining G20 nations formed a third group.

In Figure 7.3 the total number of discriminatory measures implemented by each group is reported in the central columns for each year from 2009 to 2016.[3] The vertical axis of this chart has been arranged so that the percentage of the total number of G20 protectionist measures that each group is responsible for can be inferred as well. Therefore, in 2015 the BRICS nations implemented a total of 165 protectionist measures, which accounted for just under 40% of all of the protectionist measures implemented by the G20 during that year.

Interestingly, the BRICS share of G20 protectionism appears to ebb and flow (in some of our previous reports we had found this share to be rising over time.) In 2016, for example, the BRICS share was as low as it was in 2011, but was still above 30% of the G20 total. In general, the BRICS are responsible for between 30% and 40% of the instances of G20 protectionism every year.

The share of G20 protectionism that the Group of Seven industrialised countries and Australia are responsible for this year has risen sharply—to over half. This is a worrying development and casts industrialised country complaints about BRICS protectionism in a poor light. Restraint is needed on all sides.

3 This figure was constructed with all of the available data for each year and therefore does not adjust for reporting lags.

CHAPTER 8
WHICH G20 NATIONS DISTORT COMMERCE MOST OFTEN?

Since our last pre-G20 summit report the number of state measures announced or implemented by G20 member governments that have been entered into the GTA database has risen from 4820 to 6479, thus expanding our coverage of G20 government intervention by one-third.

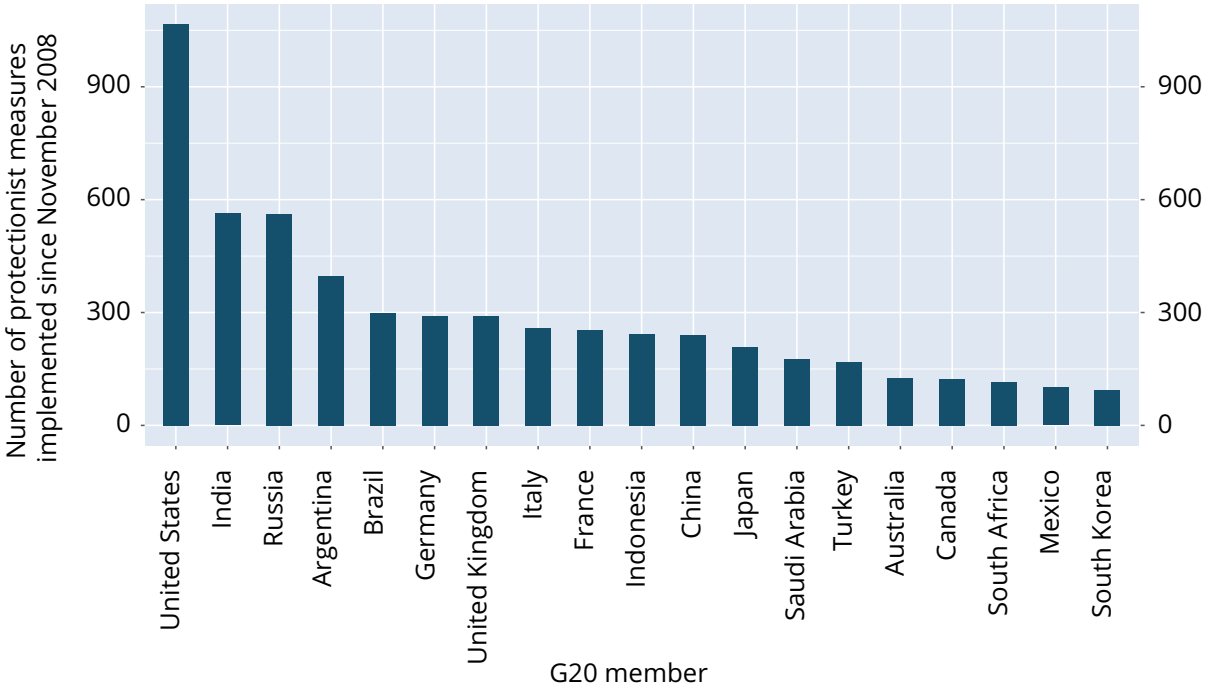
There are many ways to assess national policy stance, but in the monitoring of G20 trade policymaking something of a minor tradition has emerged whereby counts of intervention are an oft-reported summary statistic. Such counts appear to have an impact: as noted at the start of the last chapter, counts of recent G20 trade restrictive measures were cited by G20 trade ministers as a reason to extent their standstill on protectionism to 2018.

The purpose of this chapter is to compare G20 governments according to the frequency with which they discriminate against foreign commercial interests or, put more simply, how often they resort to protectionism. In our last report (Evenett and Fritz 2016) we discussed the pros and cons of using counts to assess policy stance and we reiterate that this is only one of a number of ways by which national commercial policy stance can be assessed.

Given that counts are the currency of the realm (well at least as far as this chapter is concerned), then it appropriate to note at this point that since our last report was published in July 2016 two troves of state aid measures—one implemented by the United States and one by Saudi Arabia—have been documented and included in the GTA database. This accounts for a large part of the changes in the total number of counts for these two G20 members.

FIGURE 8.1

A ranking of G20 members according to the total number of protectionist measures implemented since the first G20 Leaders' Summit in November 2008.



A ranking of G20 members based on the frequency with which their governments have implemented measures that discriminated against foreign commercial interests since November 2008 is presented in Figure 8.1. Compared to our last pre-G20 summit report the ranking of countries has changed. India and Russia who vied for first place in the rankings published before the G20 Leaders' summit in Antalya, Turkey, have been overtaken by the United States (largely on account of large numbers of tax incentives and subsidy decisions documented during the past 12 months but often implemented in earlier years).

Compared to last November, in the middle of the ranking France, Italy, and the United Kingdom have moved up considerably, indicating a worsening relative track record in resisting protectionism. China has moved down four places in the rankings. Saudi Arabia has, as a result of documenting the many loans and grants offered by its state development funds, moved from the bottom of the ranking to seventh from bottom, which probably better reflects its propensity to discriminate against foreign commercial interests.

As information is collected in the GTA database on the date a policy intervention begins to discriminate against foreign commercial interests, it is possible to assess changes in a G20 member's policy stance over time. Figure 8.2 uses a heat map—where the redder the cell the more instances of discrimination against foreign commercial interests—to summarise the resort to protectionism over time of each G20 member.

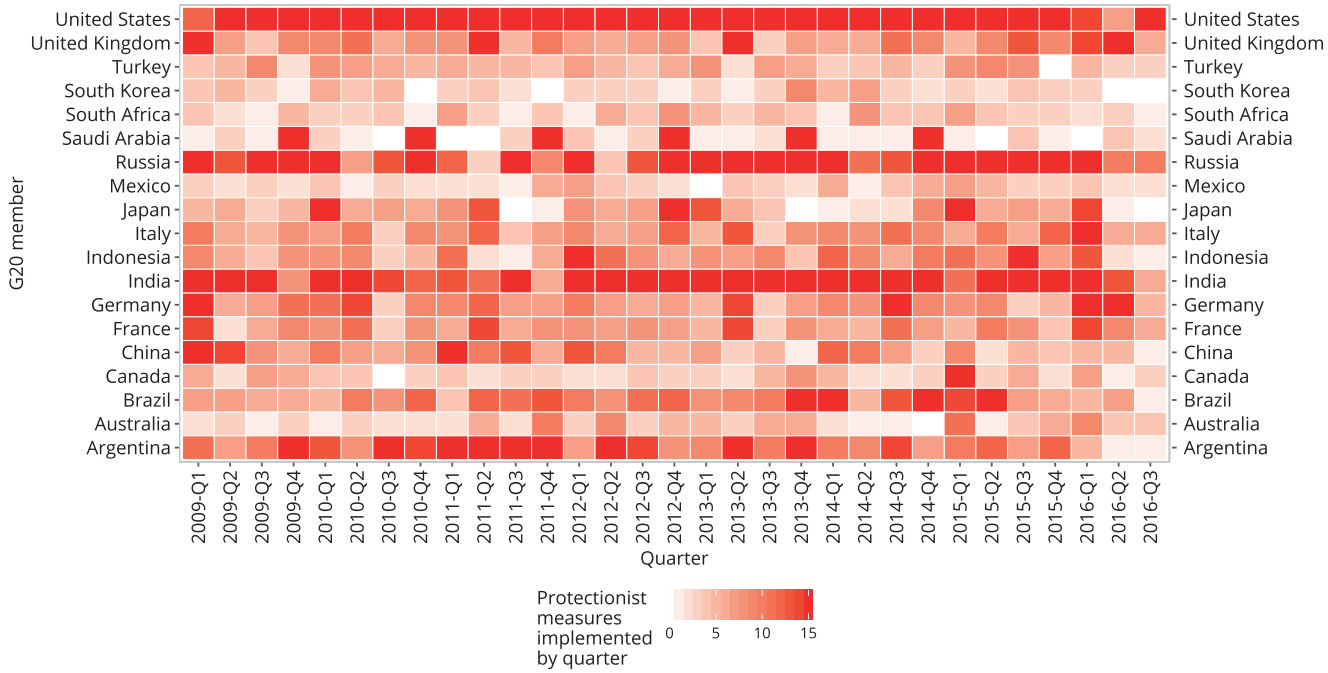
Given what Figure 8.1 has revealed about the large total number of interventions by the United States, India, Russia, and Argentina, it is not terribly surprising that there is plenty of "red" in the rows of Figure 8.2 for these countries. In the case of the United States, however, the resort to protectionism appears more sustained than in the other three countries mentioned, at least as indicated by lighter cells for the latter three in some quarters.

This heat map can help identify when a country resorts to more protectionism over time. Protectionist activity intensified in Brazil, for example, from Q4 2013 to Q2 2015. On-and-off tendencies to resort to protectionism can be detected for Indonesia, Japan, and Turkey. Figure 8.2 also reveals the sustained levels of quarterly resort to protectionism by the four EU members of the G20, of approximately 10 protectionist measures per quarter. However, there are quarters in 2016 when these four EU members have resorted more often to discrimination against foreign commercial interests.

One objection to Figure 8.2 is its absolute scale. That is, if a G20 member resorts to protectionism less often than the Argentina, India, Russia, and the United States, then their heat map will by construction look more benign. Moreover, Figure 8.2 does not correct for reporting lags, which has a tendency to make the earlier quarters look redder than later ones.

FIGURE 8.2

Quarterly resort to protectionism, by G20 member.



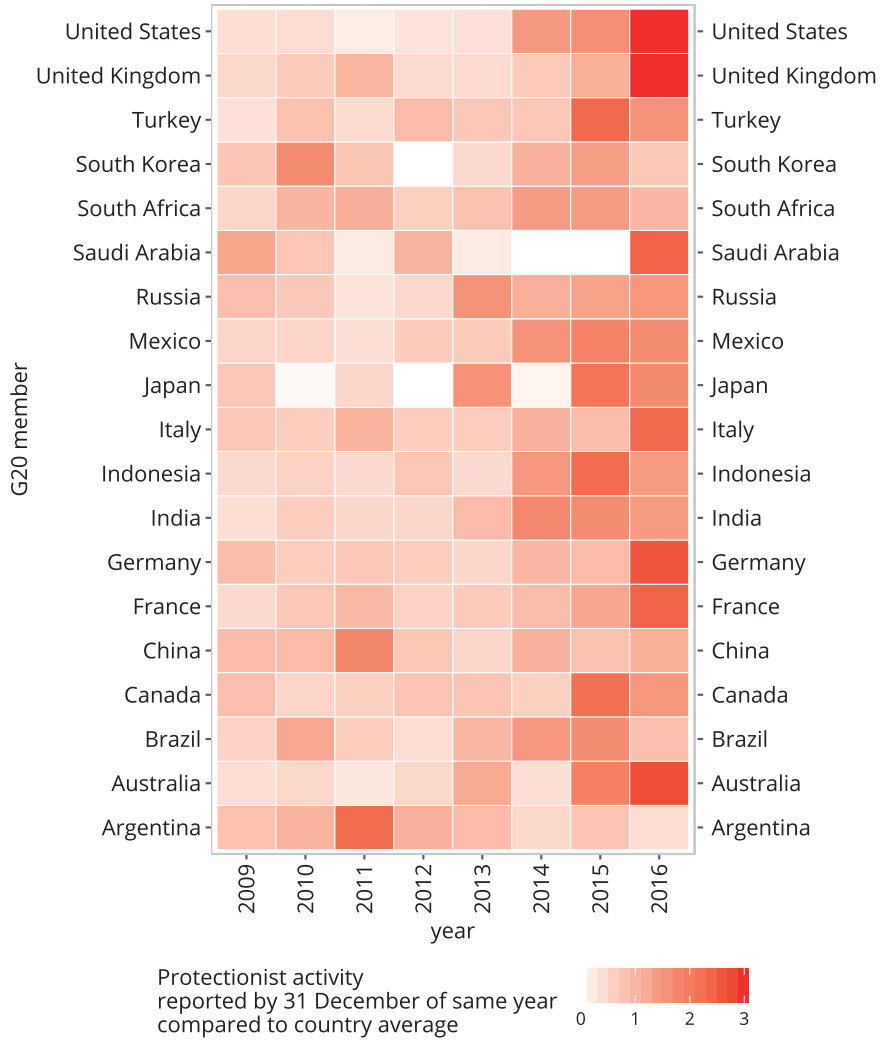
To obtain a better sense of how a G20 member's performance in any one year compares to its average performance, we proceeded as follows: for each G20 member and for each year 2009 to 2016, we calculated the number of discriminatory measures that it had implemented in a given year that had also been documented by 31 December of that year.[1] We then computed the annual mean of the number of discriminatory measures implemented by each G20 country.

So as to put each G20 country on a common scale, we then divided each G20 member's total number of implemented protectionist measures in a given year (that had been documented by 31 December of that year) by the annual mean for that G20 country. If the resulting number was below one, it implies that the G20 country in question implemented a below average number of protectionist measures during a given year. The more this ratio exceeds one, the greater the resort to protectionism by a G20 member in that year compared to the crisis-era average for that country. Figure 8.3 summarises this relative measure over time of the resort to protectionism by each G20 member, again using a heat map where darker colours imply higher relative levels of protectionism.

That the shading in Figure 8.3 gets darker for many G20 members as one's eye moves horizontally (that is, for years 2009 to 2016) indicates a greater willingness to resort to protectionism in recent years, in particular since 2014.[2] In fact, Argentina and China are the only G20 members where no pronounced pick up is found in 2015 and 2016. At least as far as developments this year are concerned, that pick up is most pronounced for Australia, France, Germany, Italy, Saudi Arabia, the UK, and the USA. There are legitimate concerns about the protectionist dynamics building up in these G20 members.

FIGURE 8.3

Seven G20 members have implemented more protectionist measures this year than compared to their crisis-era annual average.



1 The latter is one way to correct for reporting lags. As 2016 is not over yet we annualised the number of protectionist measures implemented for each G20 member in the calculations that follow.

2 This finding is consistent with the data presented in Figure 7.1 in the last chapter.

CHAPTER 9
WHICH NATIONS' INTERESTS HAVE BEEN HIT MOST OFTEN BY THE G20?

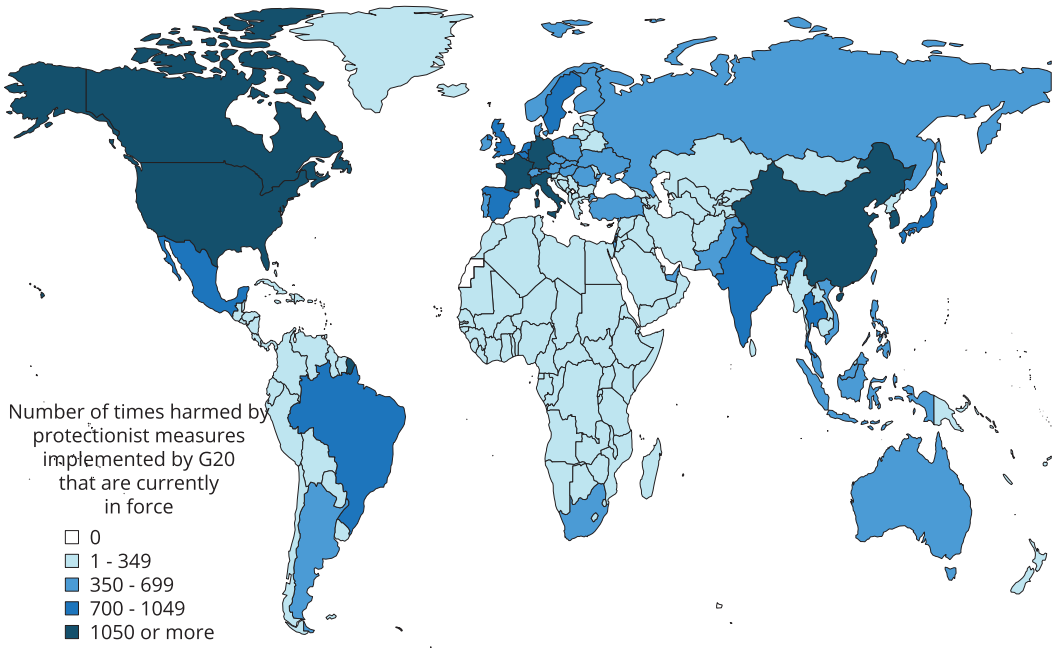
Some protectionist measures target a single trading partner—others harm more nations' commercial interests. Consequently, the number of nations hit by G20 protectionism can exceed the total number of protectionist measures imposed in the first place. That the harmed nations could be non-G20 members as well begs the question: What is the global incidence of harm from G20 protectionism? This chapter seeks to answer this question taking account of the latest substantial update of the Global Trade Alert database.

To focus on the global incidence of G20 protectionism that is still in force today we ignored all of the information on G20 discriminatory measures that have lapsed or been withdrawn. With information on the former and available data on trade flows, FDI flows, and labour migration flows we calculated the number of times each country's commercial interests were harmed by protectionism imposed by the G20 that is still in effect.[1] Map 9.1 summaries the key findings.

Given their share of the world economy it is not surprising to see in this map that the G20 members are hit very often by G20 protectionism. More information on G20-on-G20 protectionism is presented later in this chapter. What is also interesting in this map is the number of times non-G20 members have seen their commercial interests hit by G20 protectionism, for it indicates adverse global effects of G20 violations of its no protectionism pledge. Thailand, Pakistan, the non-G20 members of the European Union, and other Eastern European nations have seen their commercial interests each hit over 350 times by G20 protectionism, and in some cases over 700 times. These findings largely reflect "neighbourhood" effects—that is, discrimination imposed by G20 members located nearby.

MAP 9.1

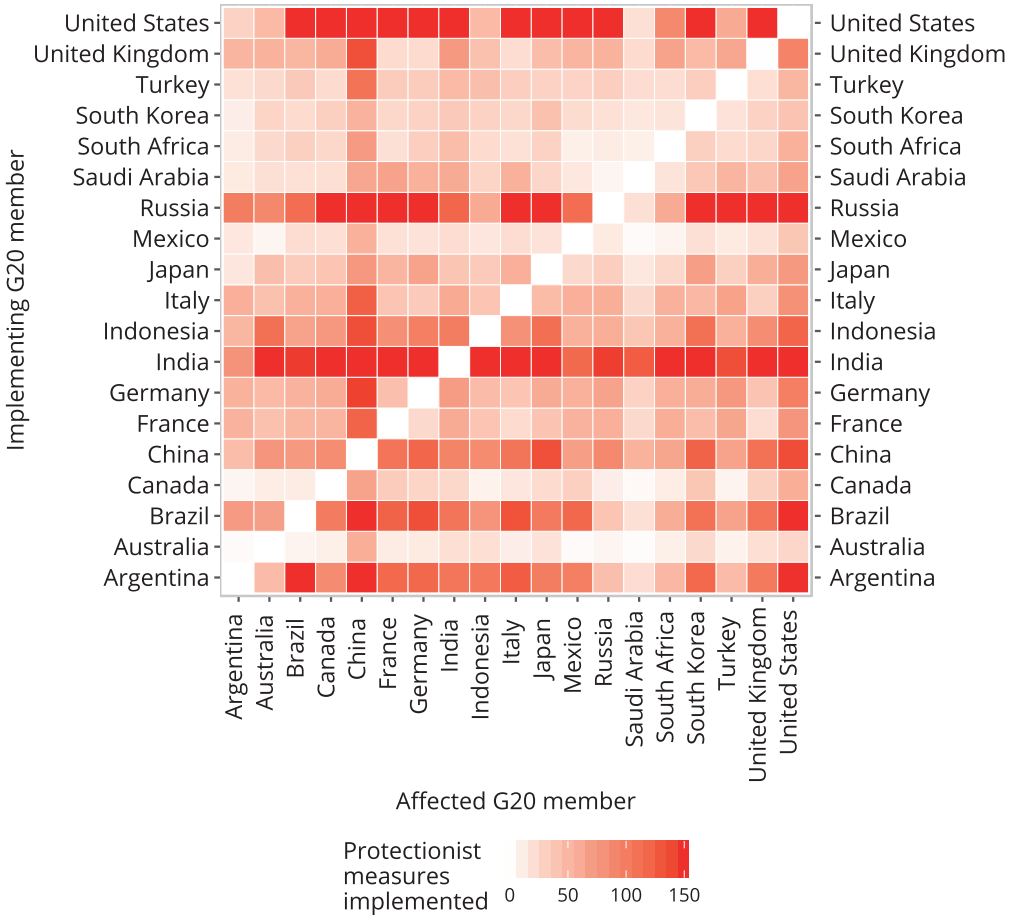
The worldwide incidence of harm from crisis-era G20 protectionism



1 For example, if a country imposes a higher tariff on imports of butter then we use United Nations trade data to identify the trading partners that ship butter to that country. The trading partners so identified are taken to be the nations affected by the tariff increase on butter. Various thresholds are used so that de minimus levels of commerce do not unduly inflate the number of trading partners affected. For more details please contact the authors.

FIGURE 9.2

How often has each G20 member hurt the commercial interests of every other G20 member?



To highlight how often each G20 member has harmed the commercial interests of every other G20 member Figure 9.2 was constructed. Again, the redder the cell in this matrix the more harm done by the implementing nation against the affected nation.

Looking across the rows of Figure 9.2 it is evident that Indian and Russian protectionism frequently hits G20 partners across the board. Interestingly the United States, which has imposed more protectionist measures overall, harmed fewer G20 members as frequently as India and Russia have done.[2] In contrast, relative to other G20 members, Australia, Canada, and Mexico harm G20 partners less often with their protectionism.

Looking up and down the columns of Figures 9.2 reveals the frequency with which a G20 member's commercial interests are harmed by other G20 members. China stands out as being hit very often almost across the board by its G20 partners. To a lesser degree this also true of the United States (as shown by the numerous redder cells in the last column of Figure 9.2). The exporters of resources in the G20 tend to see their commercial interests hit less often by other G20 members.

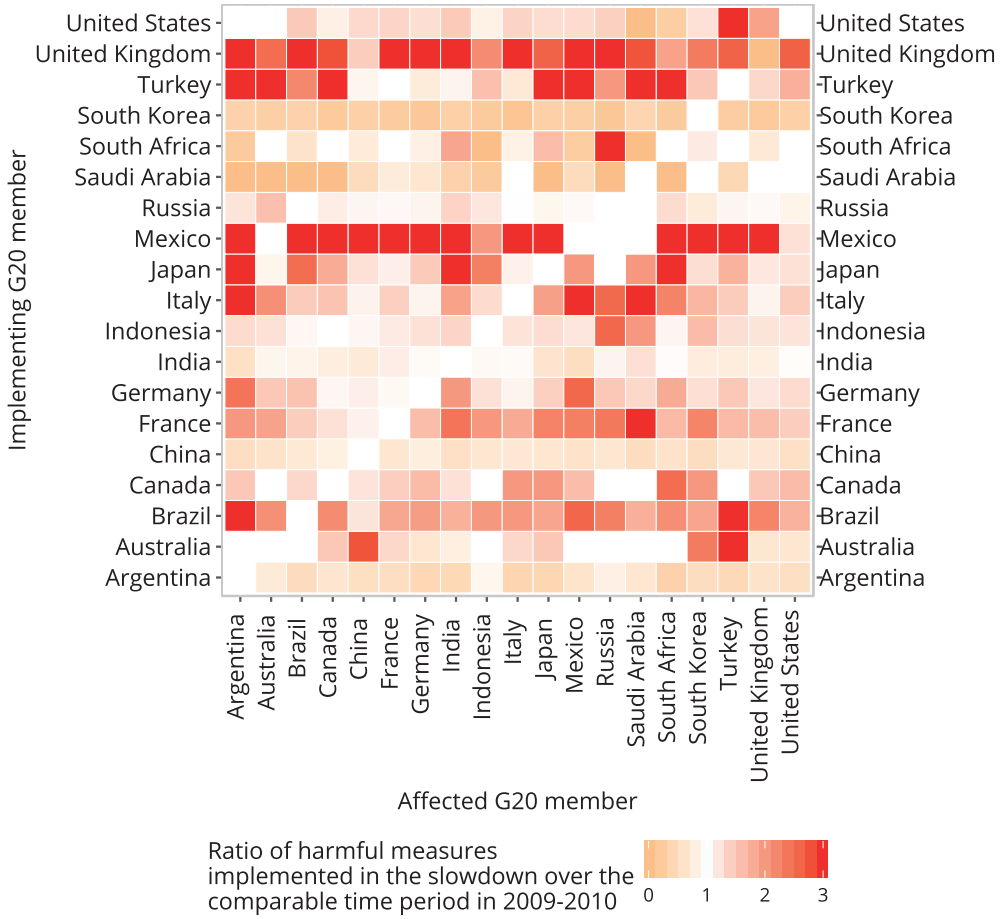
In previous chapters we have noted that resort to protectionism by G20 members accelerated in 2015 and 2016. Compared to the fearful early years of the crisis (taken here to be 2009 and 2010), it will be interesting to see which G20 countries are harming their G20 partners more often since the beginning of 2015. Readers of our last report will recall that from January 2015 global trade volumes stopped growing at all, raising interest further in the G20 policy changes during 2015 and 2016 (Evenett and Fritz 2016).

Several logical possibilities arise. For example, it may be that some heavy users of protectionism in 2009 and 2010 continue to harm their G20 partners very often in 2015 and 2016. Alternatively, it could be that some G20 members that showed relatively more restraint early in the crisis are now harming more of their trading partners more often. Figure 9.3 was constructed with such early-and-later-crisis comparisons in mind. The redder the cell the more a G20 member has harmed another G20 country in 2015-6 compared to 2009-10.

2 This demonstrates that counts of the number of protectionist measures imposed by a nation may have little relation to the frequency with which that nation's protectionism harms other nations.

FIGURE 9.3

During 2015-6 which G20 members have harmed other G20 members more frequently than in 2009-10?



Three of the four heaviest users of protectionism in the G20 (Argentina, India, and the United States) hit their G20 partners more often with protectionism in 2009-10 than since the start of 2015. In contrast, Mexico, Turkey, and the UK have harmed the commercial interests of G20 trading partners relatively more often since global trade plateaued. Japan and Italy are intermediate cases where the incidence of harm is greater in more recent years.

In terms of harm done to G20 members, China and the United States have been hit relatively less often by their G20 partners during 2015-6 than in the earlier years of the crisis 2009-10. In contrast, the resource exporters in the G20 plus India, Mexico, and Turkey have been hit more often since global trade stopped growing, at least as compared to the earlier years of the crisis.

Concluding remarks

The statistics presented in this chapter help make two points of policy significance. First, violations of the G20's protectionist pledge have hit the commercial interests of nations worldwide, with harm being done more frequently to the non-G20 nations that are neighbours of G20 members.

Second, although the frequency of harm done by G20 members against each other varies over time and across countries, the notion that any G20 member has emerged unscathed from crisis-era protectionism can be set to one side. Each G20 member has a strong interest in seeing restraint by other G20 members—a reality that gains in policy importance during a time when resort to protectionism is accelerating.

Reference

Evenett, Simon, and Johannes Fritz (2016). *Global Trade Plateaus: The 19th GTA Report*. CEPR Press.

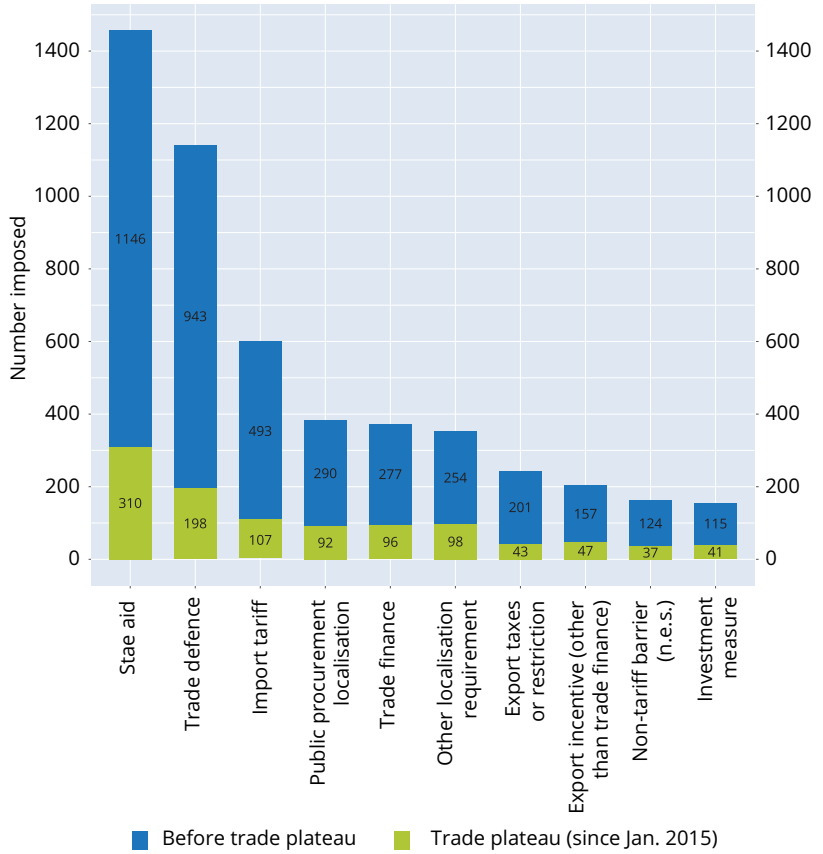
CHAPTER 10
WHICH PROTECTIONIST POLICY INSTRUMENTS DO THE G20 USE MOST OFTEN?

The protectionist wave in the 1930s was associated with tariff increases and the imposition of import quotas. The wave of beggar-thy-neighbour activity spawned by the sharp global economic downturn of the early 1980s was typified by widespread resort to voluntary export restraints. What policy instruments are the G20 nations using most often these days to tilt the commercial playing field in favour of their domestic interests? The purpose of this chapter is to answer this question. Particular attention will be given to whether the discriminatory policy mix used by G20 nations has changed since the onset of the global economic crisis.

The 10 policy instruments most used by G20 governments to discriminate against foreign commercial interests are reported in Figure 10.1 in descending order of use.[1] With the recent addition of two troves of information on state aid measures taken by the United States and Saudi Arabia since November 2008, the totals for subsidies have increased markedly and a total of 1456 such measures have been documented to date.

FIGURE 10.1

State aid surge ahead of trade defence actions as the most frequently used forms of G20 protectionism.



1 Data on those policy interventions where discrimination was implemented at some point from November 2008 was used to construct Figure 10.1. It is possible that some of these interventions have subsequently lapsed or been withdrawn. Therefore, Figure 10.1 should be seen as depicting the resort by G20 nations to different discriminatory policy instruments throughout the entire crisis era—rather than characterising the most used discriminatory policy instruments that are currently in force.

In previous reports state aids and duties associated with trade defence and safeguard investigations vied for the top slot, however state aids have now pulled decisively ahead. Having said this, as more of the wave of trade defence investigations launched in 2015 and 2016 result in preliminary duties being imposed, this will start pushing up the respective trade defence total in the next 12 months.

Another noteworthy feature of Figure 10.1 is the diversity of discriminatory policy instruments used by the G20. Eight policy instruments have been used over 200 times by the G20 to discriminate against foreign commercial interests. Some of those instruments restrict imports, some promote exports, and others sustain firms in production and may delay the reduction of excess capacity in a sector, depressing prices on national and world markets. Such evidence casts attempts to track a limited range of policy instruments in a poor light—doing so is likely to overlook much G20 discrimination against foreign interests.

To see how different the protectionist policy mix is now as compared to earlier eras it is worth noting that tariff increases and trade defence and safeguard duties account for less than half of the total number of G20 protectionist measures imposed since November 2008. There are as many G20 measures that cushion the finances of local firms and exporters, not to mention an assortment of other discriminatory measures.

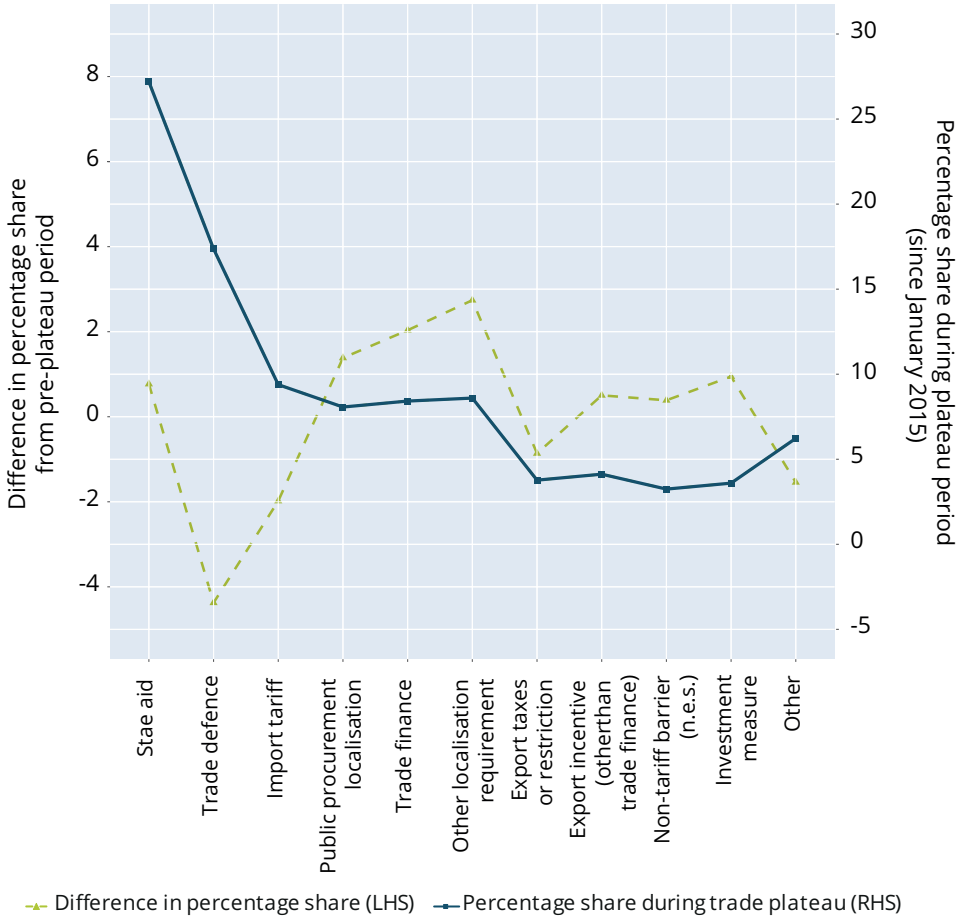
Given global trade plateaued in January 2015 and to date global trade volumes show no sign of growing, it may be instructive to see if the policy mix employed by the G20 differed before and after the start of 2015. Figure 10.1 distinguishes between the measures taken before and after global trade plateaued. The substantial resort to subsidies is apparent. Still, nearly 200 trade defence and safeguard duties have been imposed by the G20 since the beginning of 2015.

To facilitate comparison between the years before and since global trade plateaued, in Figure 10.2 the change in the percentage of the total number of G20 discriminatory measures accounted for by each of the top 10 used instruments is reported. There is little change in the resort by the G20 to state aids before and since the start of 2015. In contrast, the G20 has imposed proportionally fewer trade defence- and safeguard-related duties since global trade plateaued.

G20 resort to localisation requirements has grown. Since the beginning of 2015 just under 15% of G20 protectionist measures involve some kind of requirement that foreign firms source or produce locally. The protectionist policy mix of the G20 countries appears to shifting, in this case away from traditional import barriers. The perils of confining monitoring and assessments of contemporary protectionism to the beggar-thy-neighbour instruments of yesteryear should be apparent.

FIGURE 10.2

The G20's mix of protectionism changed once global trade plateaued.

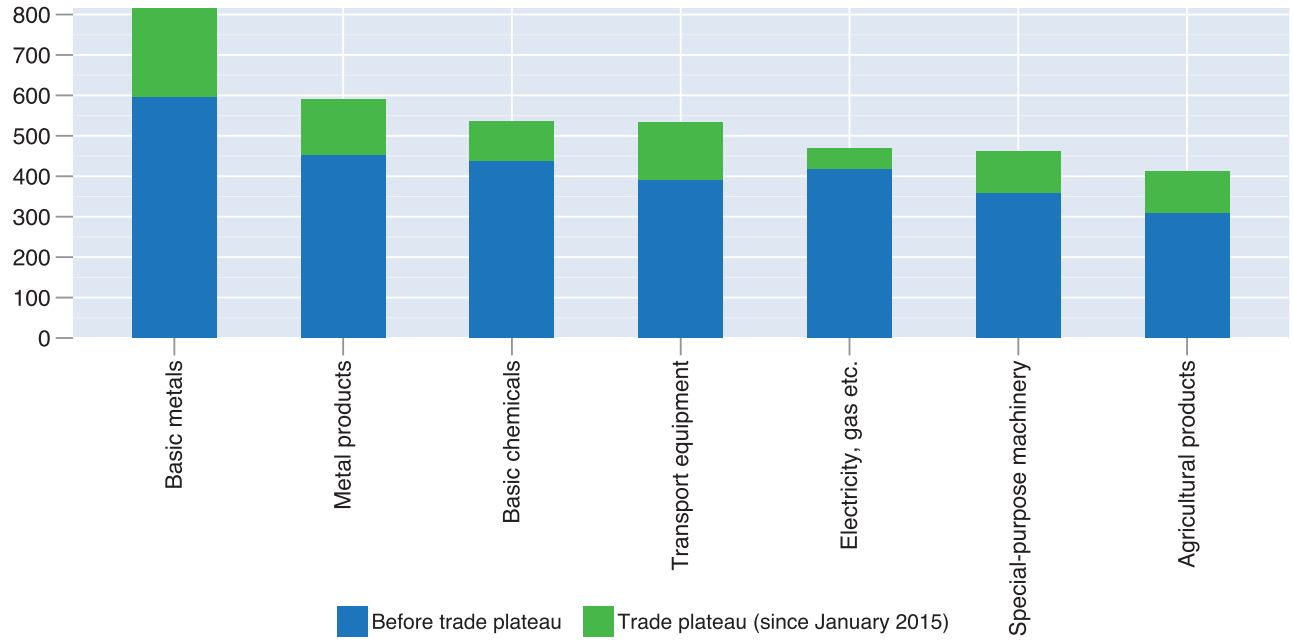


CHAPTER 11
WHICH SECTORS HAVE BEEN HIT MOST OFTEN BY G20 PROTECTIONISM?

Since the onset of the global economic crisis in 2007 no major trading power has raised trade barriers across the board. In reality, some protectionist measures are surgical, sometimes going as far as to target specific firms from certain trading partners. Other measures are broader in reach, affecting single or even multiple sectors of the world economy. The purpose of this chapter is to identify the sectors that have been harmed most often by the discriminatory policies implemented by G20 governments. Doing so may reveal which sectors have been exposed to more trade-related corporate political risk.

When a measure is entered into the Global Trade Alert (GTA) database, wherever possible the economic activities likely to be implicated directly by the implementation of the policy measure in question are identified. The United Nations two-digit CPC classification[1] is used to link policy interventions to specific sectors and consequently it is possible to calculate the total number of times each sector has been the target of acts of G20 protectionism since November 2008. Figure 11.1 presents in descending order the 10 sectors most frequently harmed by crisis-era G20 protectionism. With the latest update of our database basic metals—which includes not just steel but also copper and aluminium products—stands out as the most affected sector. Since November 2008, the G20 nations have taken 819 measures that discriminated against foreign commercial interests in this sector. Three other sectors (fabricated metal products, basic chemicals, and transport equipment) have been hit over 500 times since the first G20 Leaders Summit in Washington DC. In total, the top 10 sectors have been hit 4,822 times by measures taken by the members of the G20.

FIGURE 11.1
Ten most affected sectors by G20 protectionism



1 A list of these two digit sectors can be found at http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=9&Lg=1

FIGURE 11.2

Almost all G20 members have imposed protectionism in basic metals.

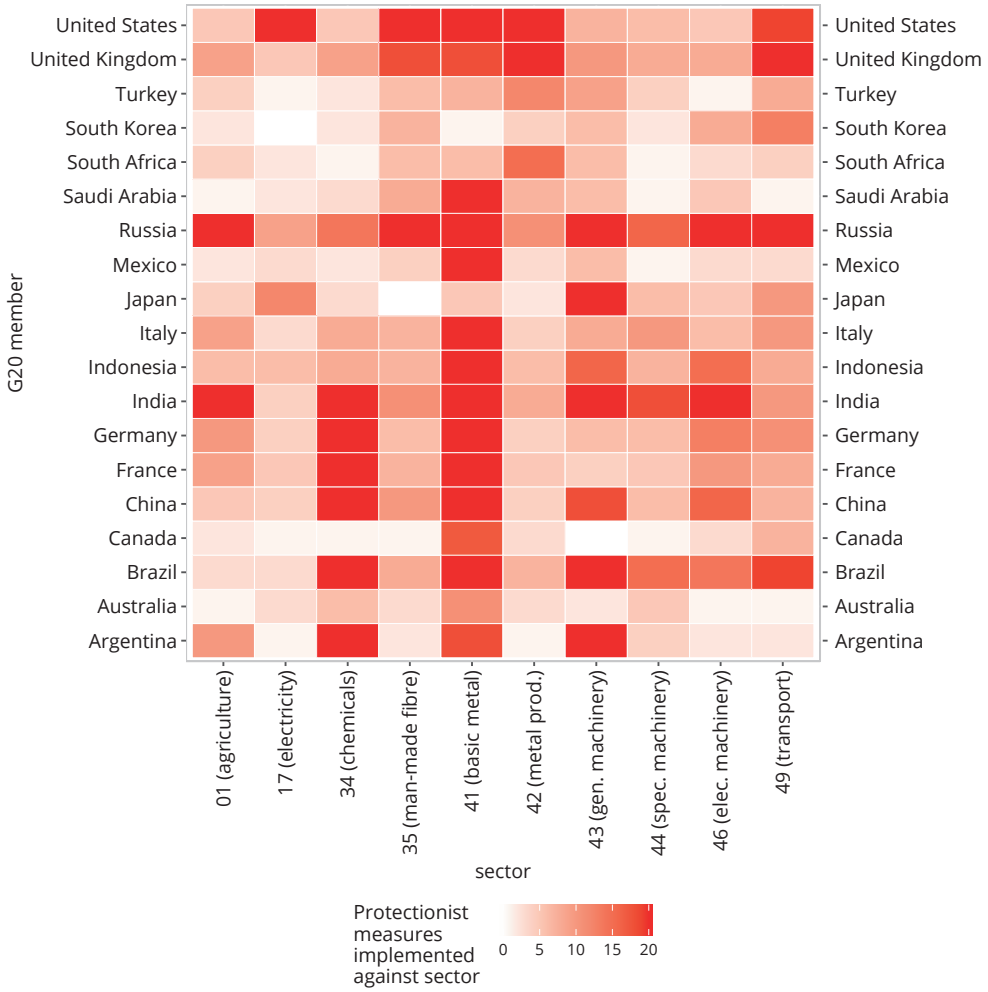


Figure 11.1 also distinguishes between the protectionism imposed before global trade plateaued (which we estimate started in January 2015) and during the plateau. During the period from January 2015 to August 2016 the basic metals sector has witnessed 218 protectionist acts by G20 governments, a remarkably high number for a period lasting less than 20 months. Many of those acts are trade restrictions and subsidies in the steel sector, whose travails have received a lot of attention from G20 governments during the past 12 months.

Even since global trade volumes stopped growing, four other sectors have suffered from over 100 protectionist measures imposed by G20 members. Those sectors are transport equipment (hit 143 times), metal products (hit 137 times), and special purpose machinery and agricultural products (each hit 102 times). On the other hand, basic chemicals and the electricity and gas sector have been relatively less often during the global trade plateau. Once again protectionist dynamics alter over time—any notion that discrimination will remain localised to certain parts of the global economy should be set to one side.

It is also possible to identify which G20 governments have imposed protectionism on the top 10 most affected sectors. A heat map summarises the relevant information in Figure 11.2. Russia is the only G20 member that has made repeated protectionist interventions across the top 10 most affected sectors. The rest of the G20 has taken action much more selectively.

With respect to harm to specific sectors, the basic metals sector stands out for attracting the protectionist wrath of nearly all of the G20 members. Basic chemicals and general machinery have each been the target of many protectionist interventions from six G20 members. The pattern and frequency of hits faced by other sectors is far more uneven.

These findings imply big differences in the degree of commercial policy-related corporate political risk faced by firms in these 10 most affected sectors. Given variation in the risk of adverse policy interventions across G20 countries and over time, any reluctance on the part of private sector decision-makers to invest in these sectors may not be that hard to understand.

CHAPTER 12
WHAT'S NEW IN THE GLOBAL TRADE ALERT DATABASE?

The data collection in advance of the preparation of this report ceased on 19 August 2016. Compared to our last pre-G20 Leaders' summit report (published in November 2015) a total of 2,073 new entries were added to the Global Trade Alert database, taking the total number of entries in the database to 9,738. In a ten month period, therefore, the GTA database expanded by 27%.

Of the 2,073 new database entries, 1,659 were measures announced or implemented by a G20 member. Our database now includes 6,479 entries relating to liberalising or discriminatory measures undertaken by the G20 or announcements by G20 governments of future policy interventions. In the past 10 months the number of entries relating to G20 members has expanded 34%.

Compared to our previous pre-G20 Leaders' summit report, the GTA database now contains 68% more records of discriminatory state aids. As noted in earlier chapters, this is in part due to finding new state records of subsidies, loans, and tax incentives awarded by the US Federal Government and by two development funds administered by the government of Saudi Arabia. Those state aids were implemented throughout the crisis era.

In our 19th Report we discussed the implications of including such troves of information in the GTA database. A comparison of this report with its two predecessors will reveal the steps we have taken to include additional, different statistics that can inform assessments of government policy stance—which can be based on intertemporal as well as cross-sectional comparisons.

The number of state purchasing decisions that involve some type of buy local or buy national requirement documented by the GTA team has increased from 120 to 409 during the past 10 months. Over the same timeframe the number of implemented import tariff increases documented rose 13% and the number of duties imposed as a result of trade defence and safeguards investigations documented rose 8%.

The sources consulted by the GTA team did not alter fundamentally in the preparation of this report. Tracking literally hundreds of specific pages on the websites of government ministries and international organisations yields many measures. Leads generated by social media searches and notifications and reports in the public domain from law firms, industry organisations, and others also triggered further investigation, some of which resulted in measures being included in the GTA database.

We may be alerted to some government policy change by a non-official source but our longstanding and strong preference when writing up measures for inclusion in the database is to support any report with official sources. This has not changed. Nor have our internal review processes—each measure must be approved by two trade policy experts before being published. Many measures are returned to the initial author for improvement before being reconsidered for publication. Some submissions of reports on government policy interventions are rejected where appropriate and so are not published.

Since the publication of our last pre-G20 Leaders' Summit report in November 2015, the Global Trade Alert database has:

- Expanded to include 9,738 reports on government policy changes, a 27% increase in available reports.
- Increased coverage of G20 policy announcements by 1,659 to a total of 6,479 reports. Over 200 US government procurement initiatives mandating certain products be bought locally have been added to the GTA database.
- 68% more reports on trade-distorting subsidies.
- 240% more reports on public sector purchasing decisions including buy local or make local provisions.

WHAT IS THE GLOBAL TRADE ALERT?

Global Trade Alert aims to provide information in real time on state measures taken during the global economic downturn that are likely to discriminate against foreign commerce. Global Trade Alert is:

Independent: GTA is a policy-oriented and research initiative of the Centre for Economic Policy Research (CEPR), an independent academic and policy research think-tank based in London, UK. Simon J. Evenett, the co-director of CEPR's International Trade and Regional Economics Programme, is the coordinator of the GTA.

Comprehensive: GTA complements and goes beyond the WTO, UNCTAD, and OECD's monitoring initiatives by identifying those trading partners likely to be harmed by state measures. The GTA considers a broader range of policy instruments than other monitoring initiatives.

Accessible: The GTA website allows policy-makers, exporters, the media, and analysts to search the posted government measures by implementing country, by trading partners harmed, and by sector. Third parties can report suspicious state measures and governments have the right to reply to any of their measures listed on the website.

Transparent: The GTA website represents a major step forward in transparency of national policies, reporting not only the measures taken but identifies the implementing country, trading partners likely harmed, and product lines and sectors affected.

Timely: The up-to-date information and informed commentary provided by Global Trade Alert will facilitates assessments of whether the G20 pledge not to "repeat the historic mistakes of protectionism of previous eras" is met, and the bite of multilateral trade rules.

For further information, visit www.GlobalTradeAlert.org

ACKNOWLEDGEMENTS

As the statistics presented on the last page reveal the GTA team has managed to document a substantial amount of commerce-related government intervention since the Antalya G20 Leaders' Summit in November 2015. The colleagues responsible for documenting these measures are Craig van Grasstek, Chintan Jadwani, Josse Jakobsen, Piotr Lukaszuk, Iva Mihaylova, and Adelina Selima. I thank the team for their diligence, hard work, and commitment to high professional standards.

Johannes Fritz took day-to-day responsibility for managing the GTA team and reviewed the first submissions of all of the measures reported since November 2015. He also contributed extensively to the research for this report, to its design, and to the construction of the new summary statistics found herein. Anil Shamdasani seamlessly wove together the different parts of this report and contributed a number of valuable insights that enhanced the quality and ascetic appeal of this publication.

The Global Trade Alert is an initiative of the Centre for Economic Policy Research (CEPR), whose leadership has offered fulsome support since we started this venture in the second quarter of 2009. The funding from the Global Trade Alert comes principally from sources associated with the University of St Gallen. Of the most important of these is the Max Schmidheiny Foundation, whose financial support and practical advice is greatly appreciated.

Simon J. Evenett, Coordinator

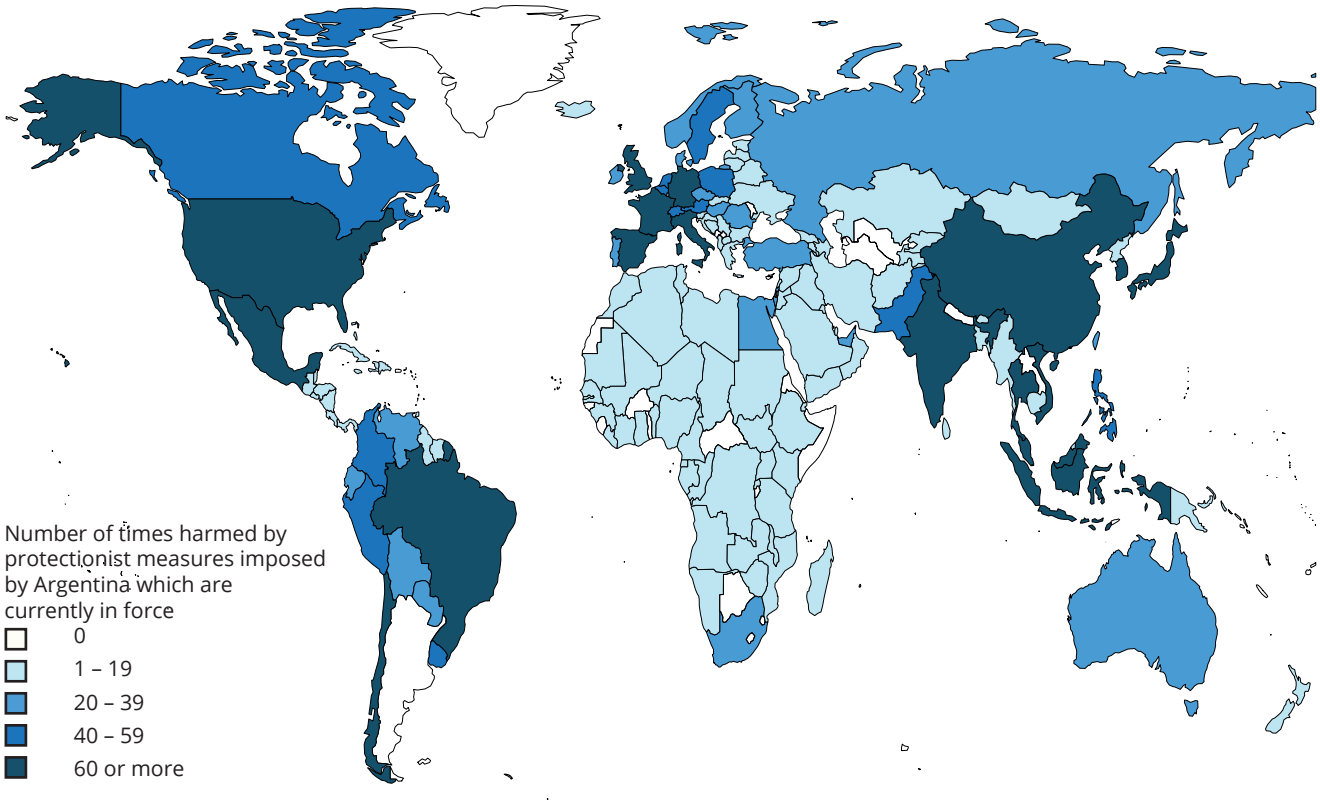
HOLD THEIR FEET TO THE FIRE: THE TRACK RECORD OF EACH G20 MEMBER

ARGENTINA

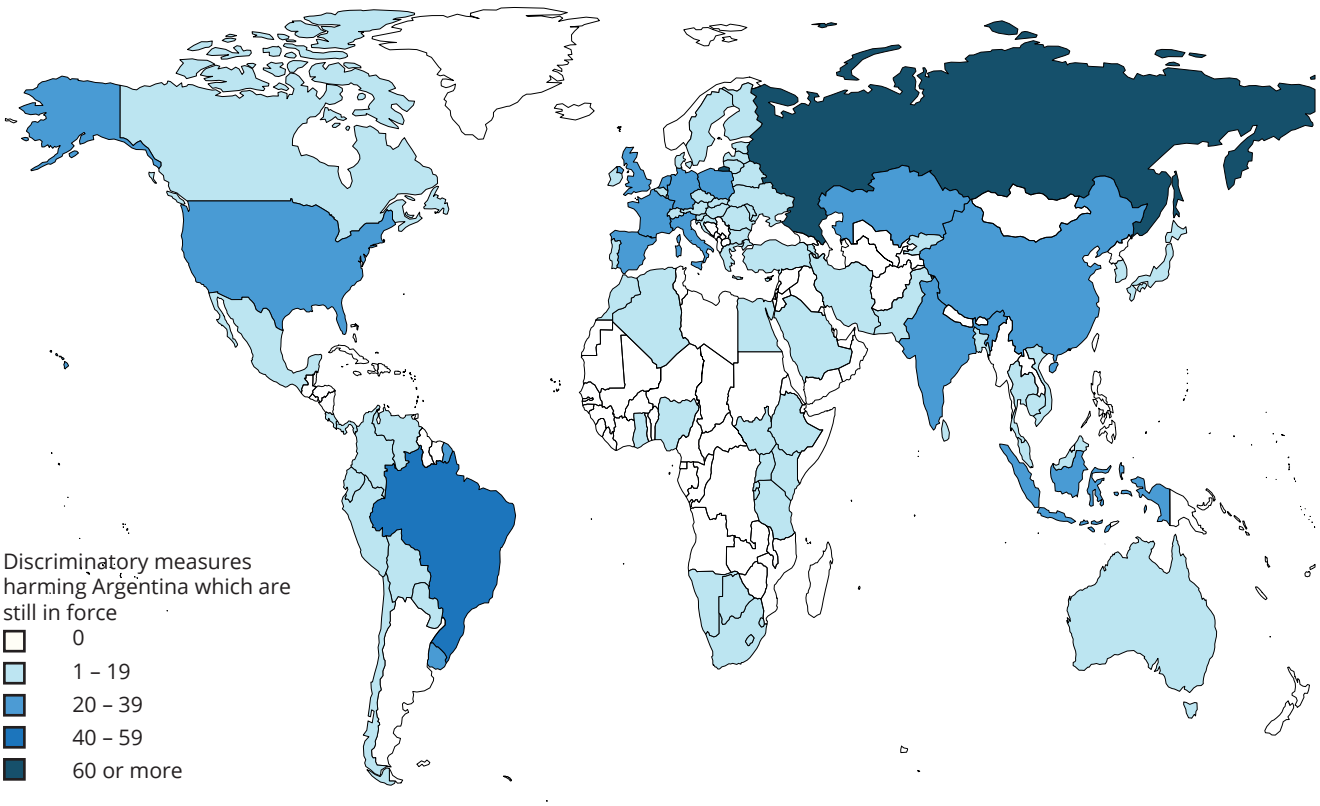
What is at stake for Argentina's exporters?

Foreign discriminatory policy instrument	Percentage of exports at risk during ...						
	2009	2010	2011	2012	2013	2014	2015
All forms of foreign discrimination	43.66%	77.96%	80.31%	82.82%	80.56%	73.04%	81.67%
Import tariff increases	1.11%	1.37%	2.55%	4.21%	7.34%	4.48%	9.37%
Trade defence and safeguard duties	0.33%	0.38%	0.40%	0.13%	0.61%	0.95%	0.95%
Localisation requirement	0.03%	0.09%	0.10%	0.19%	3.85%	5.78%	9.18%
Buy national public procurement	0.49%	0.55%	0.55%	1.06%	2.14%	2.44%	2.71%
Competition with bailed out firm in latter's home market	1.34%	2.42%	2.09%	3.25%	7.11%	10.64%	13.96%
Export incentives, competition in third markets	40.70%	76.60%	77.86%	78.92%	76.59%	68.97%	78.13%

COUNTRIES HARMED BY ARGENTINA'S DISCRIMINATORY MEASURES

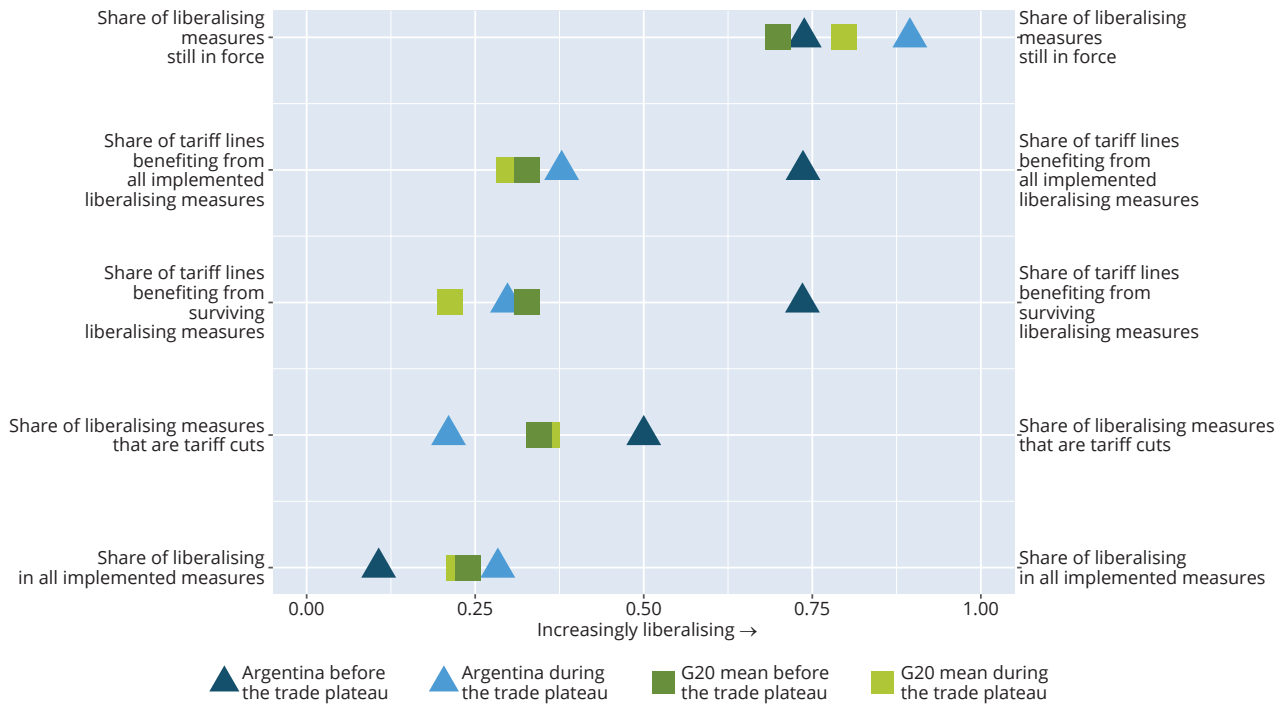


DISCRIMINATORY MEASURES HARMING ARGENTINA'S INTERESTS



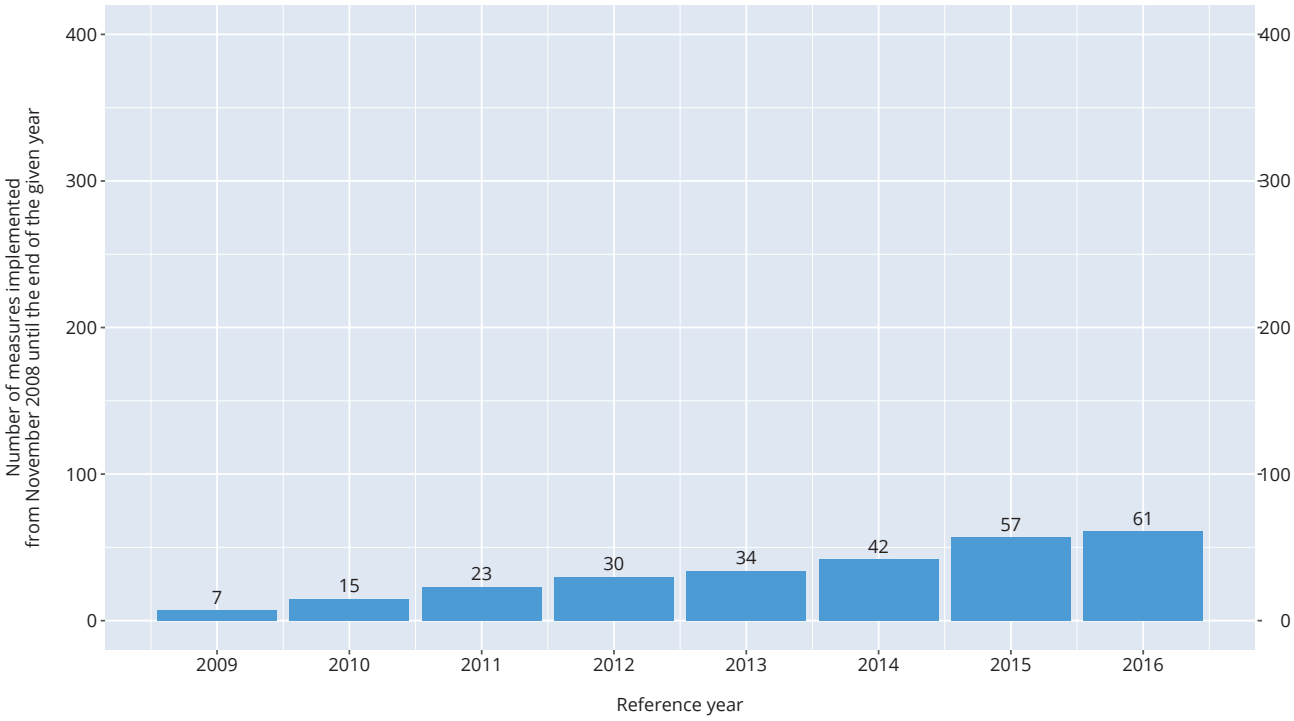
ARGENTINA

Track record of liberalisation



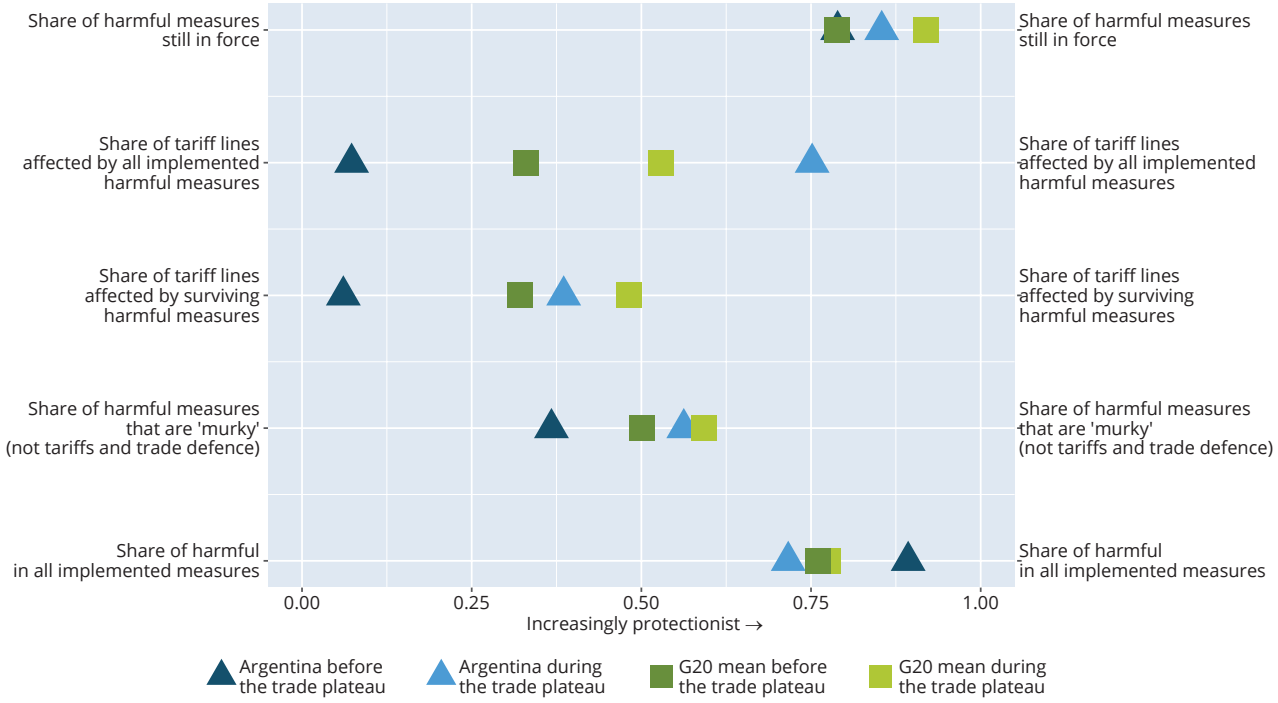
ARGENTINA

Number of liberalising measures imposed since November 2008



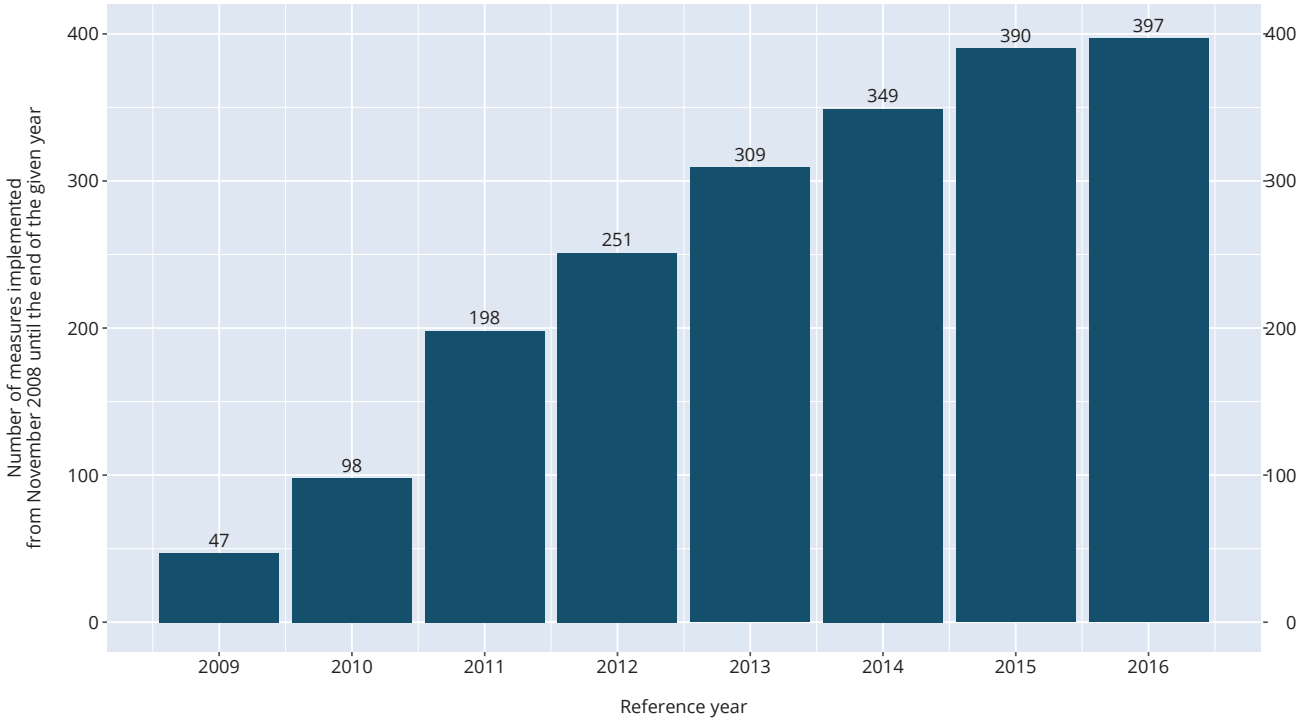
ARGENTINA

Track record of protectionism



ARGENTINA

Number of discriminatory measures imposed since November 2008

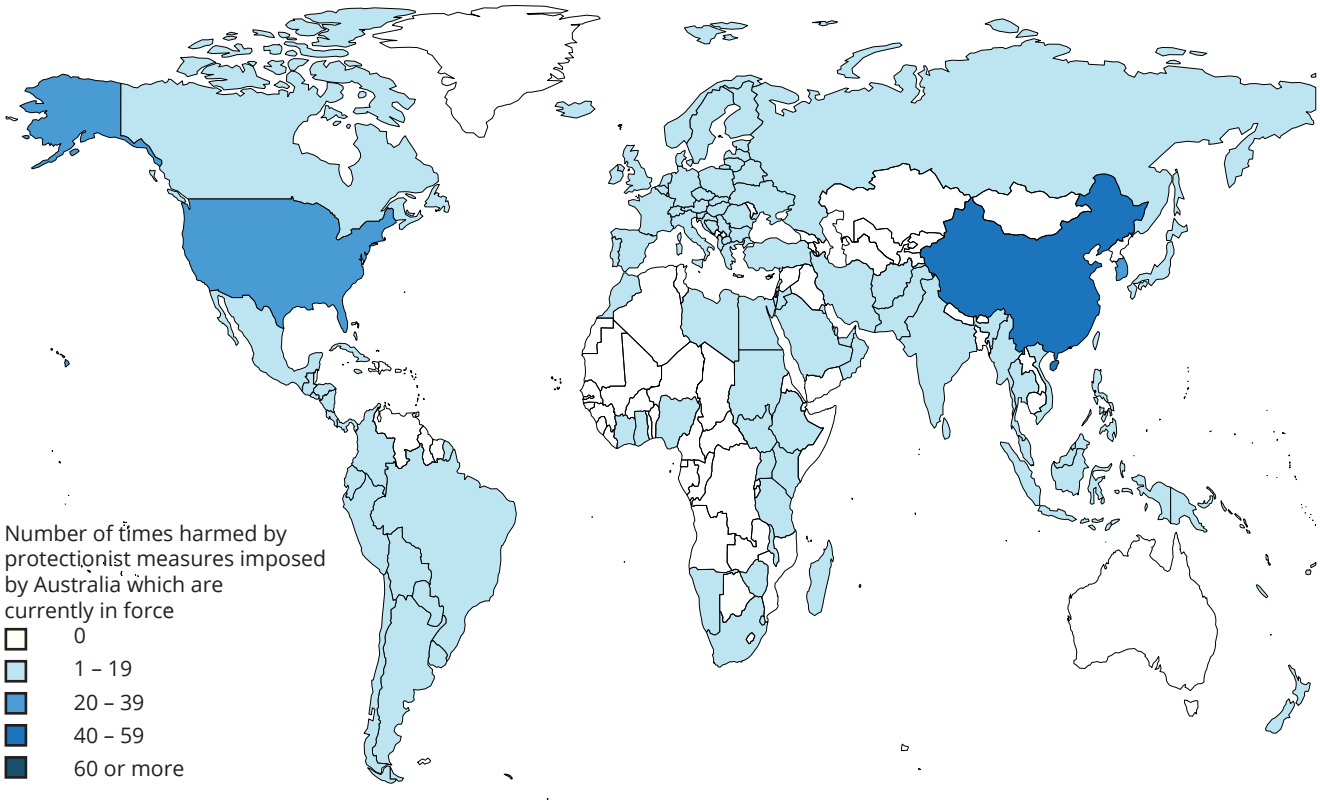


AUSTRALIA

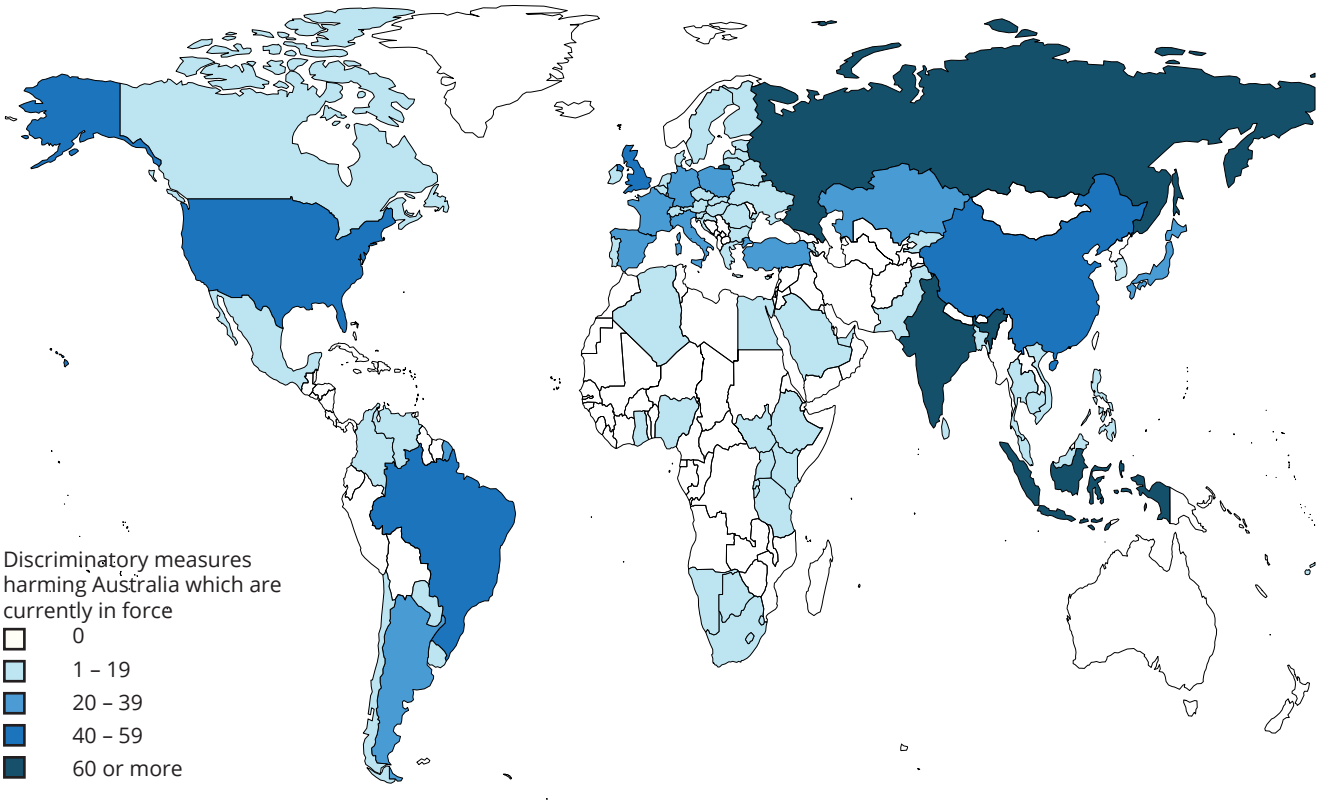
What is at stake for Australia's exporters?

Foreign discriminatory policy instrument	Percentage of exports at risk during ...						
	2009	2010	2011	2012	2013	2014	2015
All forms of foreign discrimination	35.35%	57.01%	67.12%	69.58%	70.63%	73.33%	79.08%
Import tariff increases	10.44%	13.12%	14.48%	14.94%	16.60%	17.66%	18.16%
Trade defence and safeguard duties	0.04%	0.05%	0.03%	0.04%	0.08%	0.98%	1.88%
Localisation requirement	0.03%	0.21%	0.48%	0.49%	0.53%	0.74%	1.18%
Buy national public procurement	0.89%	1.14%	1.18%	1.29%	1.37%	1.49%	2.15%
Competition with bailed out firm in latter's home market	0.51%	1.17%	2.37%	3.34%	3.99%	6.41%	8.89%
Export incentives, competition in third markets	24.77%	48.13%	56.02%	57.47%	56.60%	61.77%	68.82%

COUNTRIES HARMED BY AUSTRALIA'S DISCRIMINATORY MEASURES

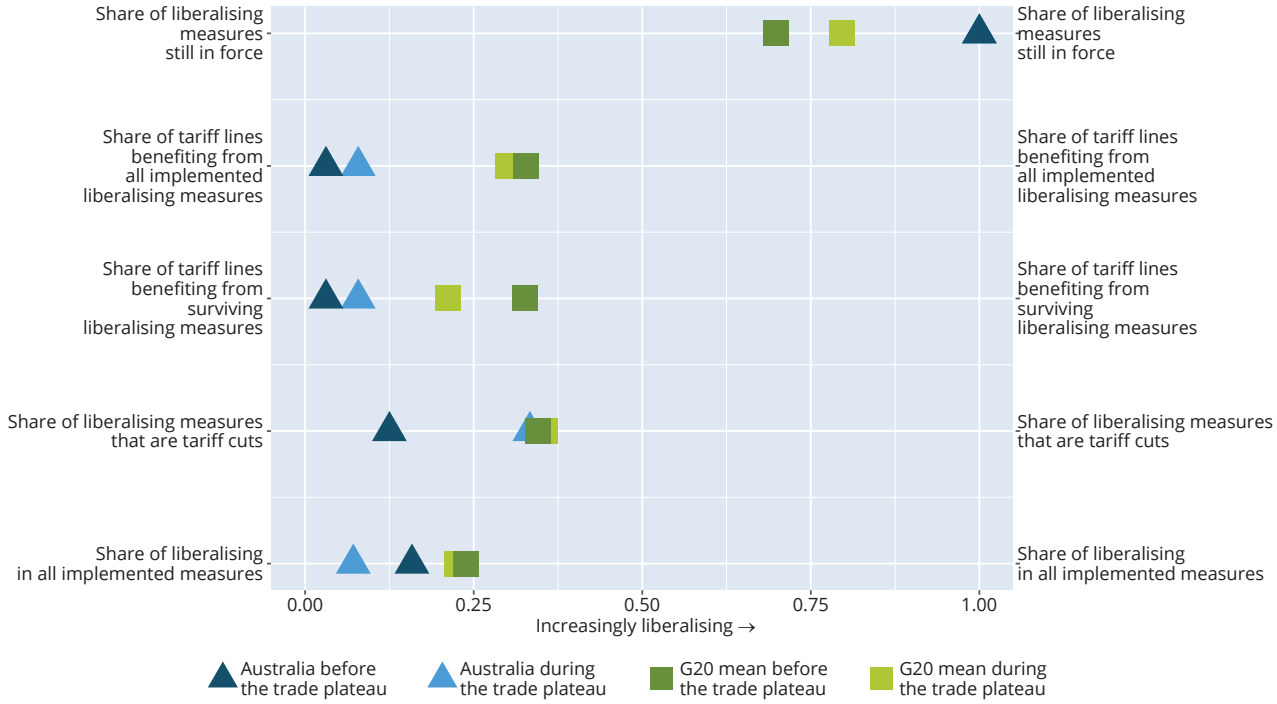


DISCRIMINATORY MEASURES HARMING AUSTRALIA'S INTERESTS



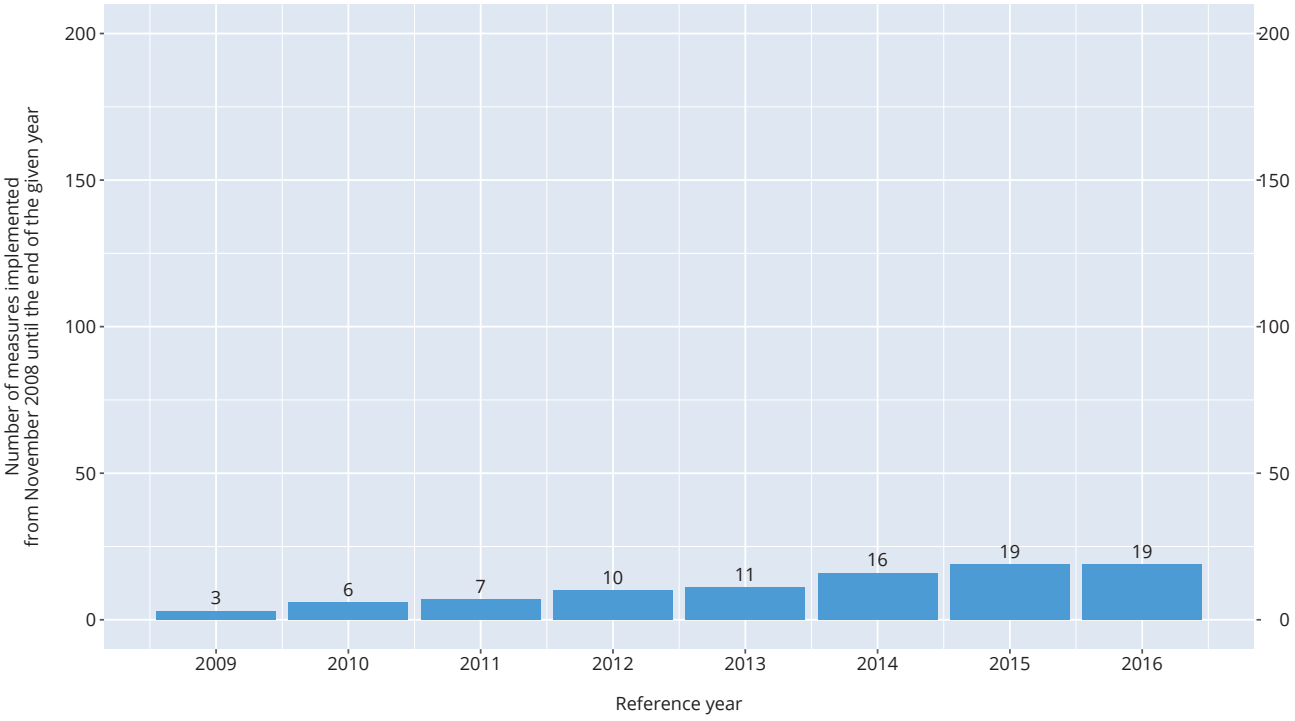
AUSTRALIA

Track record of liberalisation



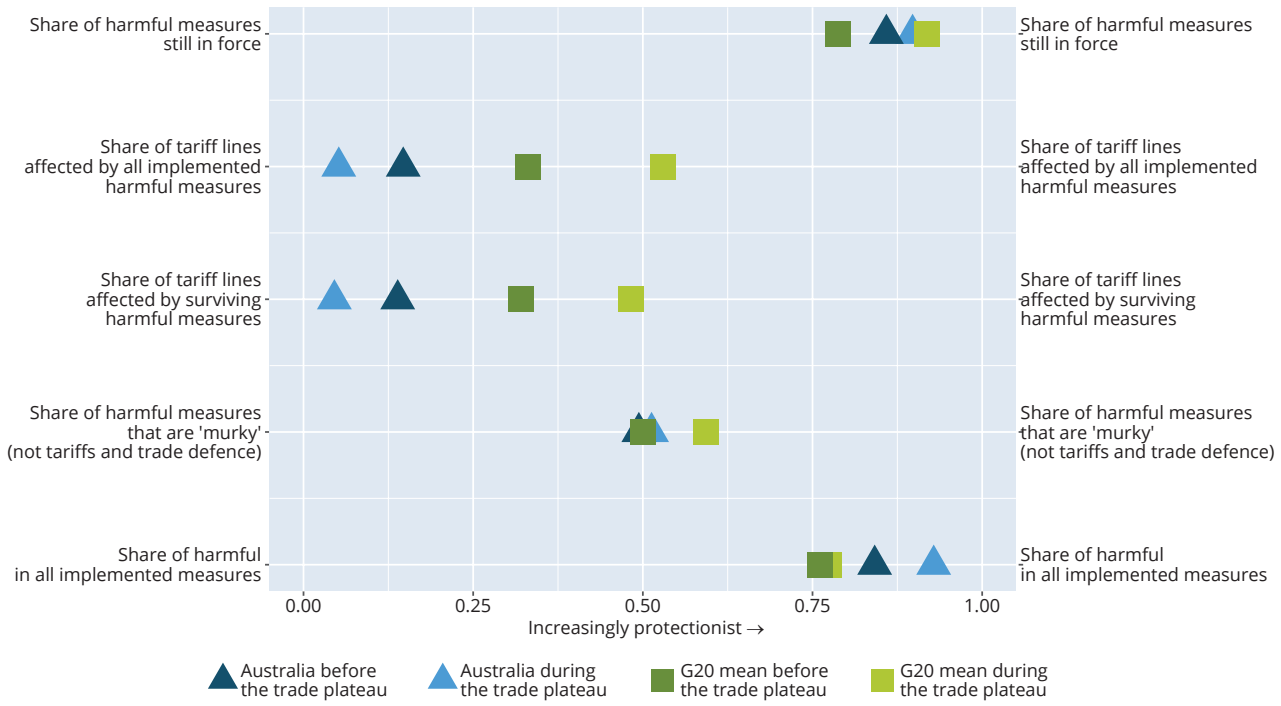
AUSTRALIA

Number of liberalising measures imposed since November 2008



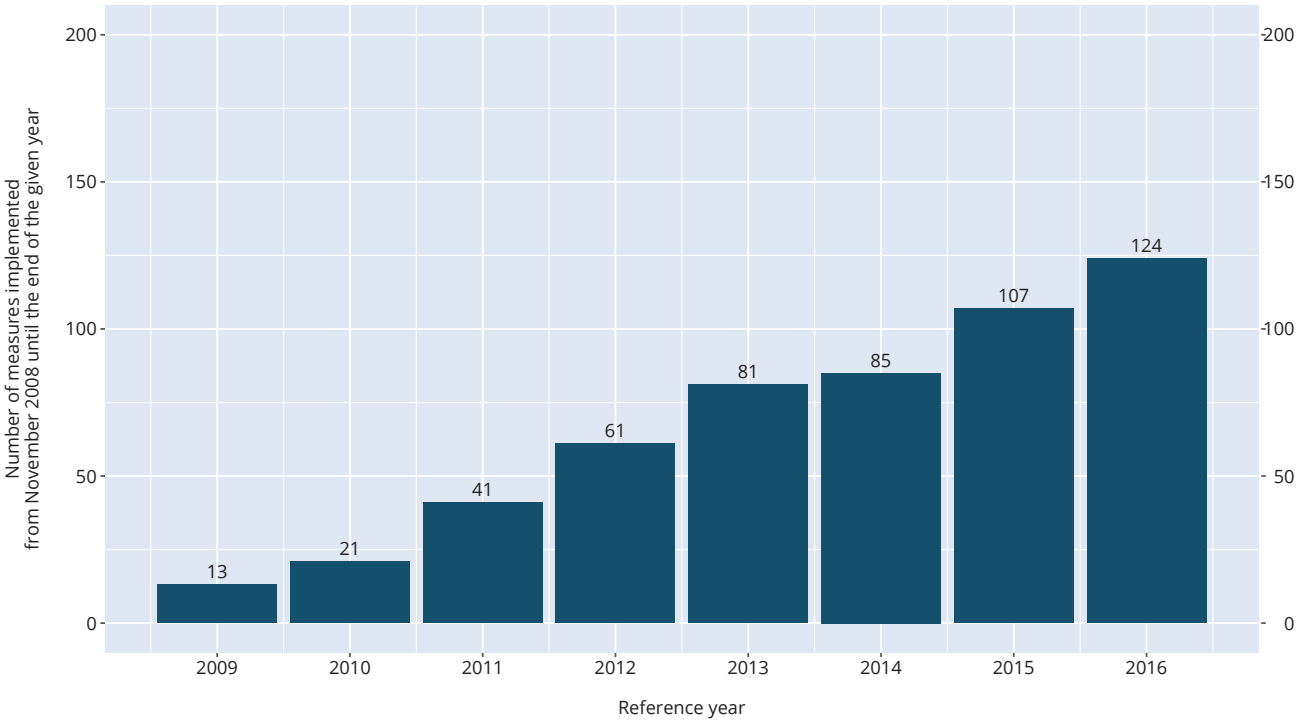
AUSTRALIA

Track record of protectionism



AUSTRALIA

Number of discriminatory measures imposed since November 2008

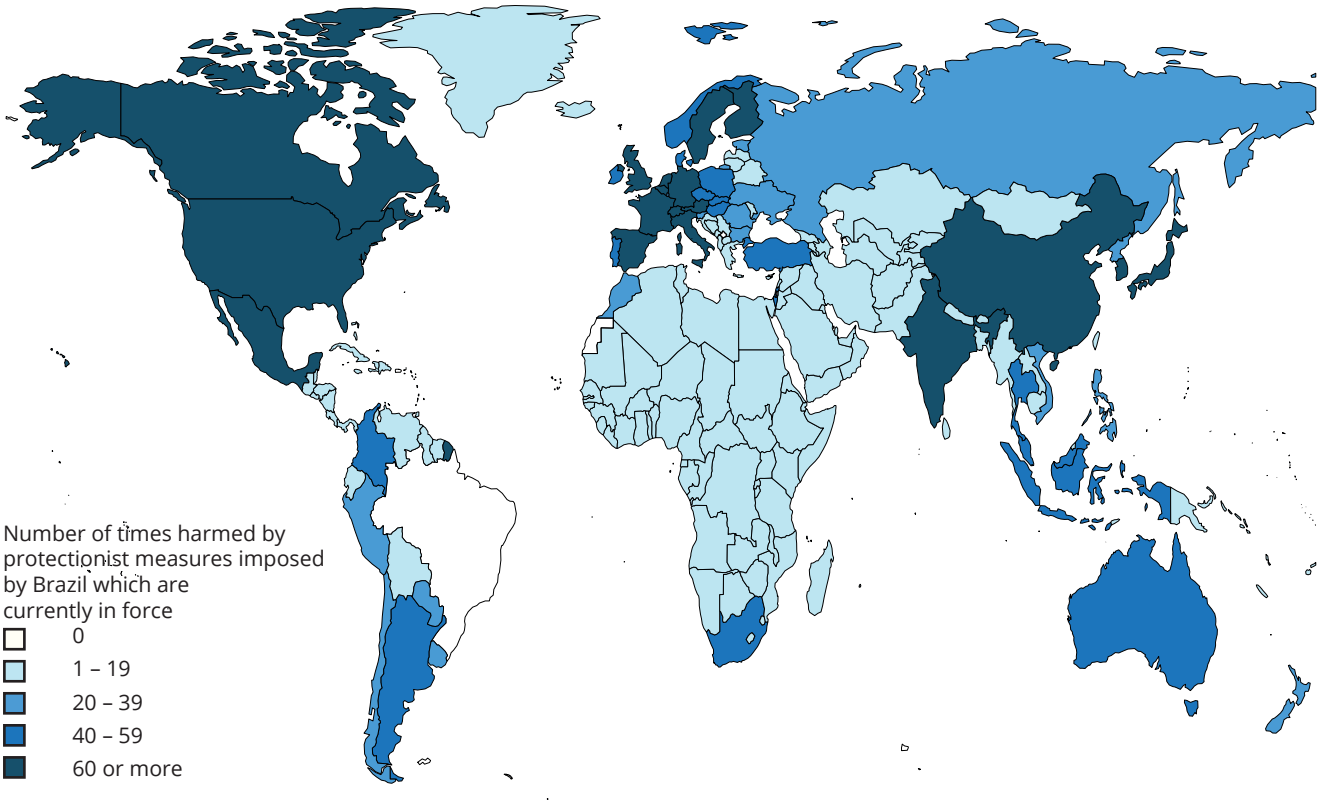


BRAZIL

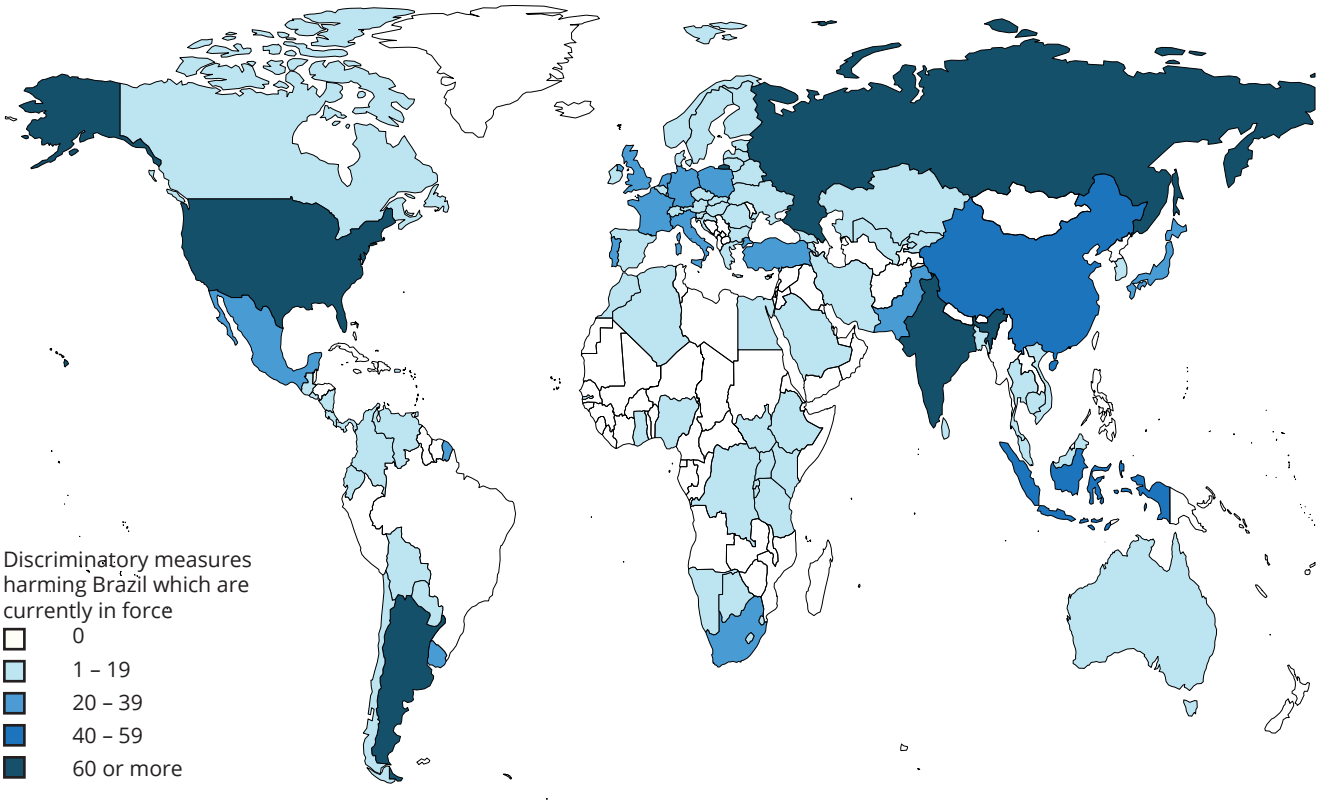
What is at stake for Brazil's exporters?

Foreign discriminatory policy instrument	Percentage of exports at risk during ...						
	2009	2010	2011	2012	2013	2014	2015
All forms of foreign discrimination	45.02%	58.22%	61.03%	64.50%	73.72%	78.64%	81.49%
Import tariff increases	6.38%	6.79%	8.22%	8.62%	9.78%	9.98%	13.82%
Trade defence and safeguard duties	0.09%	0.20%	0.32%	0.51%	0.56%	0.61%	0.65%
Localisation requirement	0.09%	0.86%	2.17%	2.19%	2.26%	3.10%	3.83%
Buy national public procurement	4.26%	4.79%	4.87%	6.36%	7.70%	7.79%	7.85%
Competition with bailed out firm in latter's home market	3.25%	8.51%	7.69%	9.47%	10.88%	13.22%	15.36%
Export incentives, competition in third markets	33.09%	42.53%	45.60%	47.90%	62.74%	68.81%	71.52%

COUNTRIES HARMED BY BRAZIL'S DISCRIMINATORY MEASURES

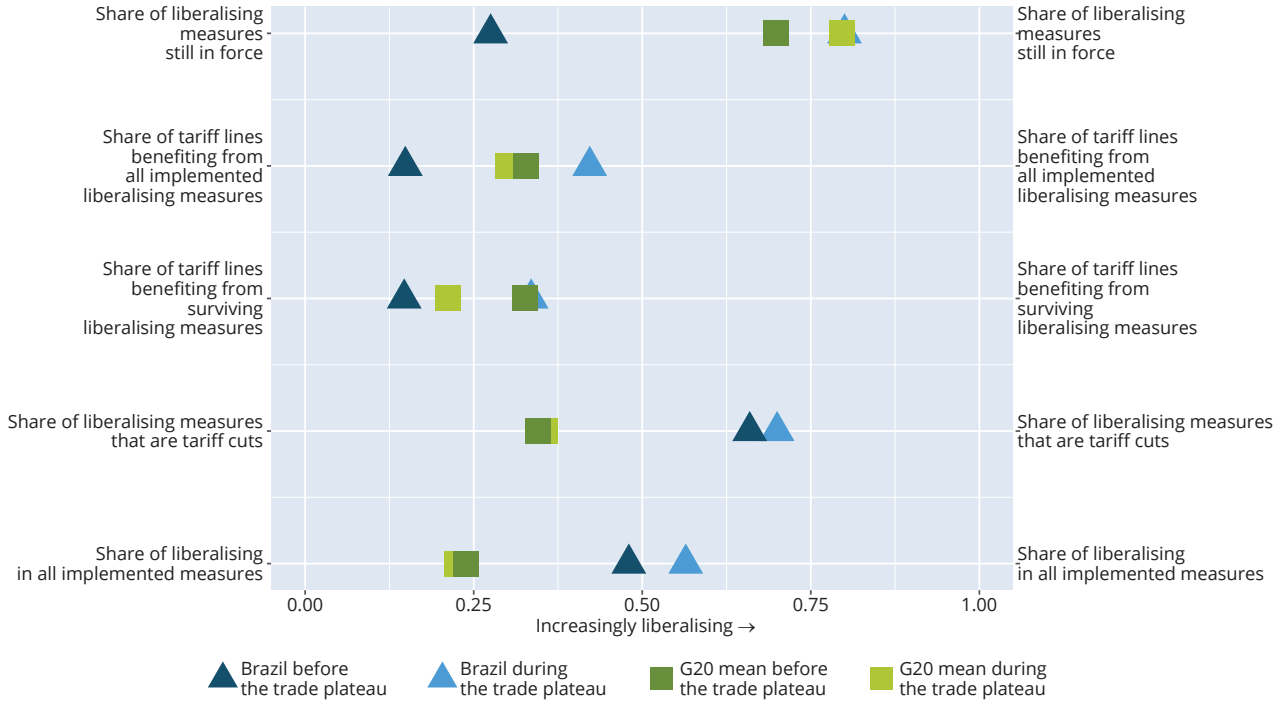


DISCRIMINATORY MEASURES HARMING BRAZIL'S INTERESTS



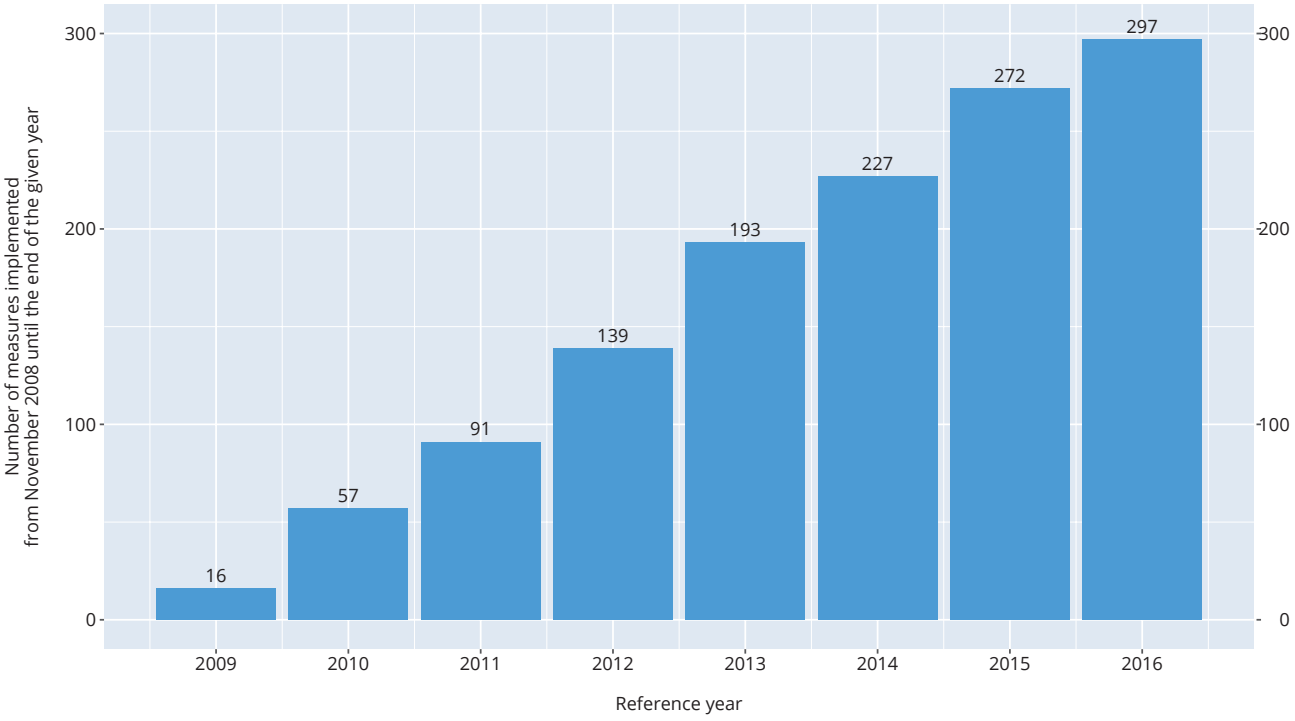
BRAZIL

Track record of liberalisation



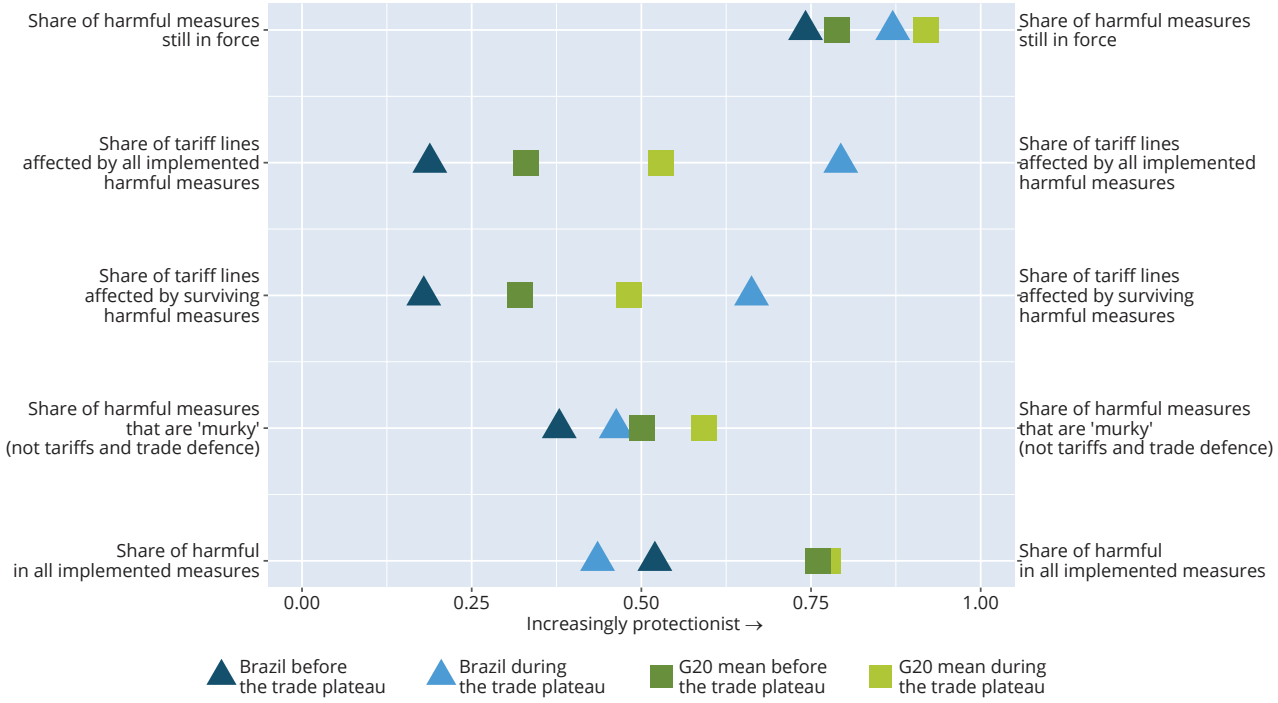
BRAZIL

Number of liberalising measures imposed since November 2008



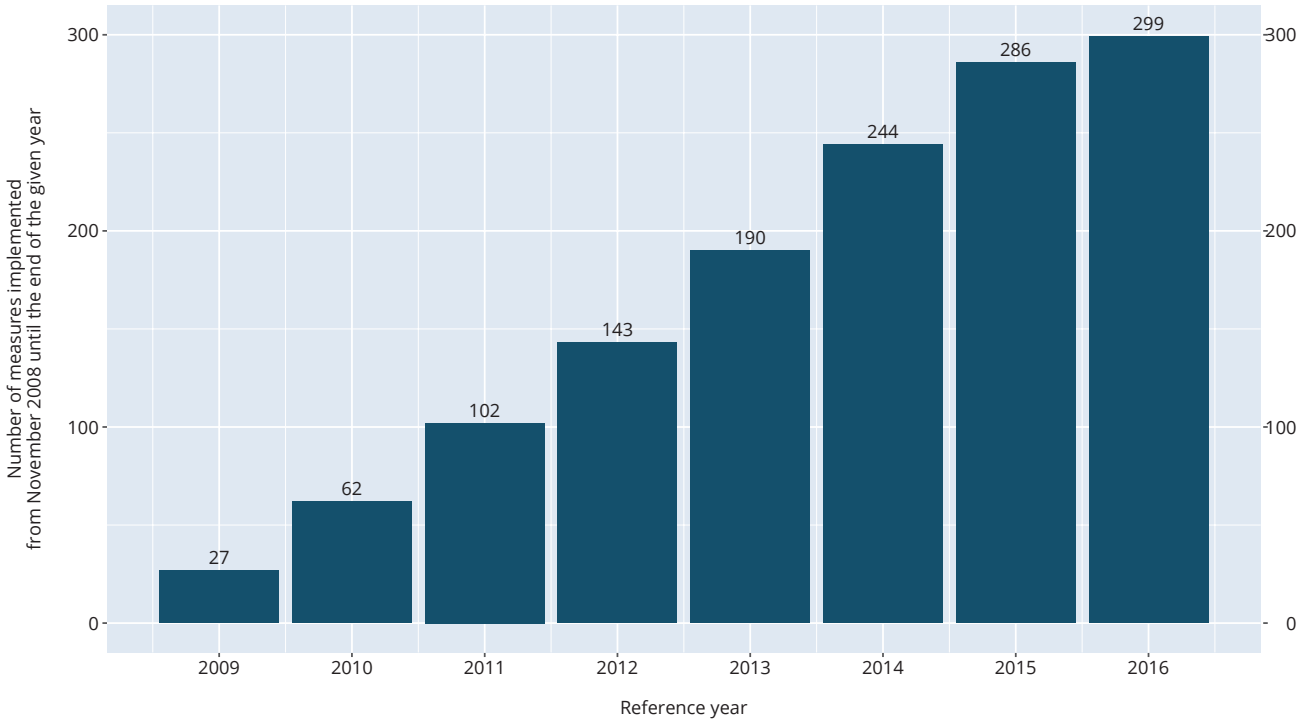
BRAZIL

Track record of protectionism



BRAZIL

Number of discriminatory measures imposed since November 2008

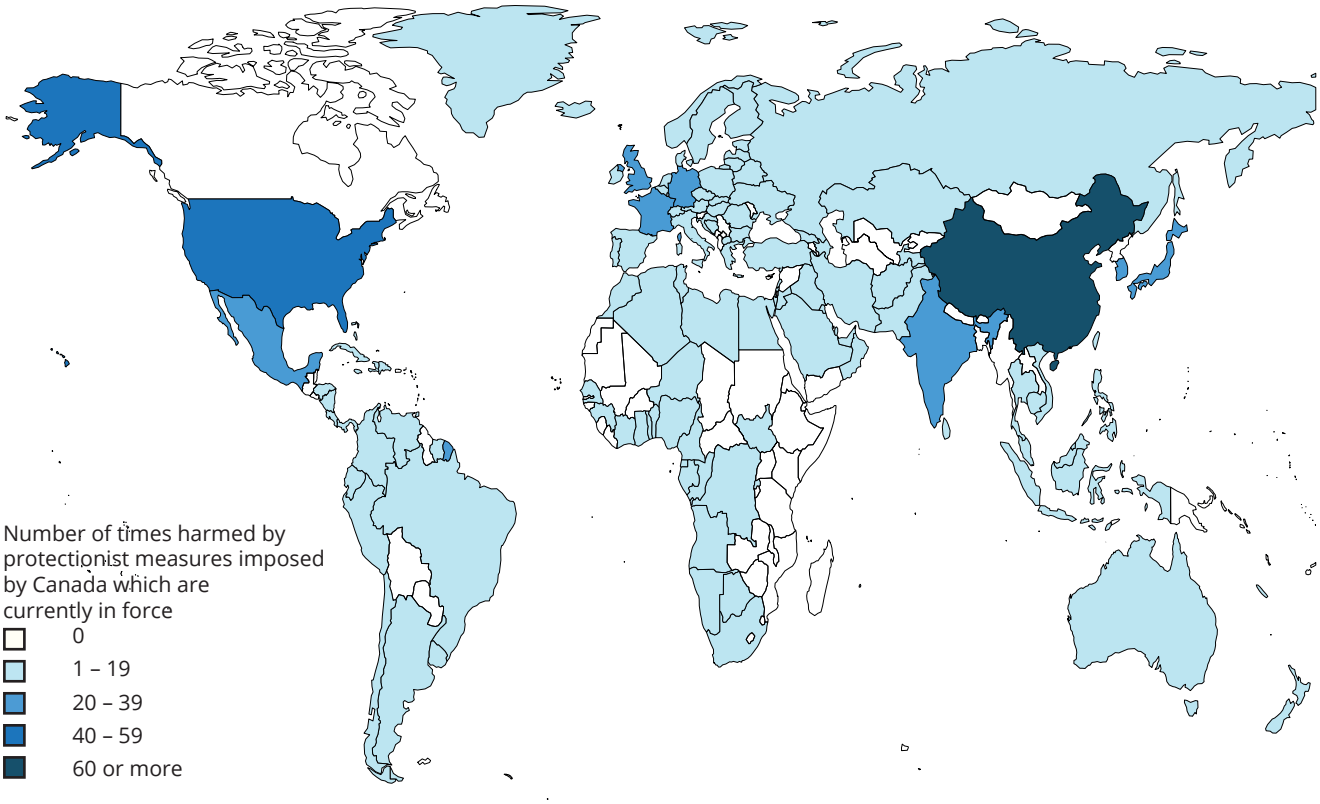


CANADA

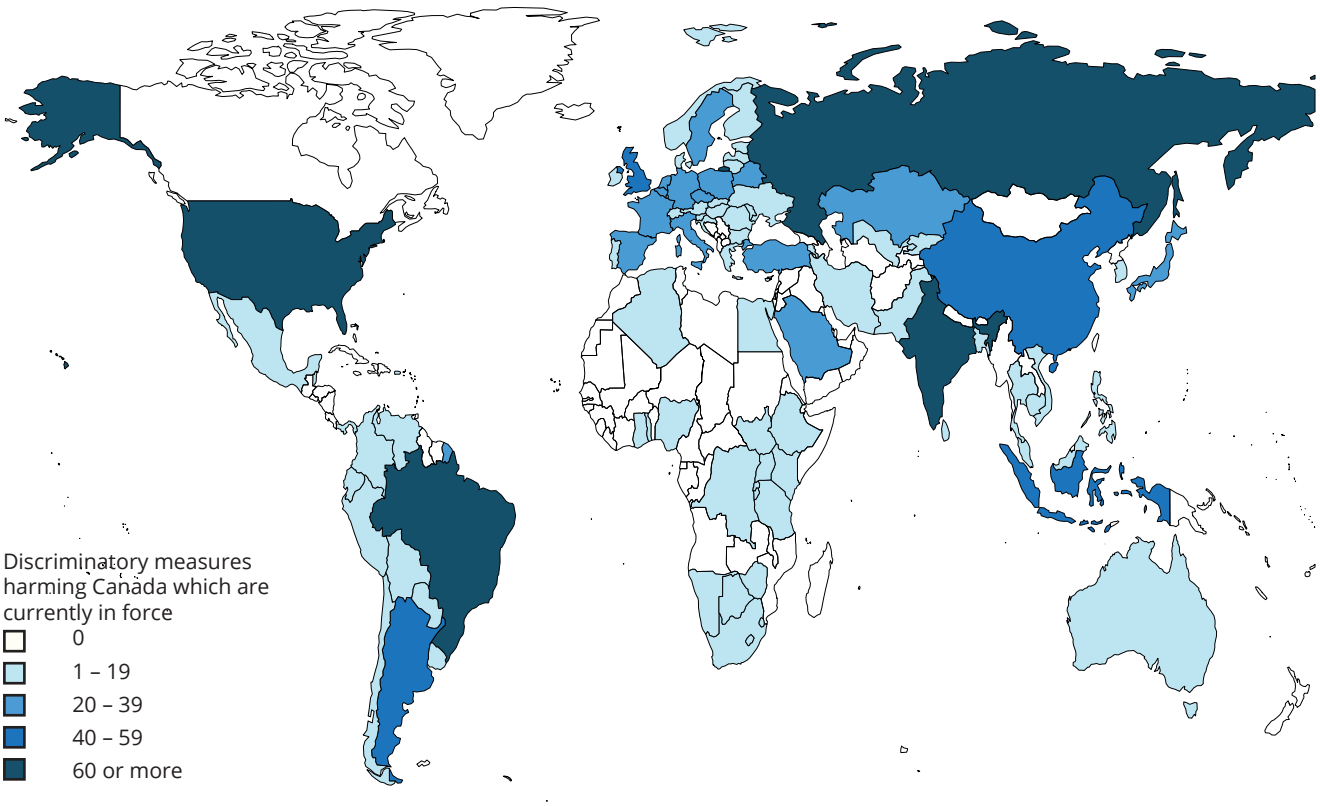
What is at stake for Canada's exporters?

Foreign discriminatory policy instrument	Percentage of exports at risk during ...						
	2009	2010	2011	2012	2013	2014	2015
All forms of foreign discrimination	58.20%	81.41%	81.77%	82.44%	81.65%	82.95%	87.34%
Import tariff increases	0.50%	0.90%	1.12%	1.20%	1.28%	4.29%	5.28%
Trade defence and safeguard duties	0.07%	0.09%	0.14%	0.14%	0.14%	0.16%	0.18%
Localisation requirement	0.05%	0.49%	1.37%	6.08%	8.47%	9.24%	10.07%
Buy national public procurement	4.73%	6.18%	6.46%	16.52%	18.66%	18.76%	19.16%
Competition with bailed out firm in latter's home market	12.04%	15.17%	17.29%	25.36%	28.72%	29.48%	30.34%
Export incentives, competition in third markets	55.43%	79.35%	79.58%	80.32%	79.11%	79.29%	84.60%

COUNTRIES HARMED BY CANADA'S DISCRIMINATORY MEASURES

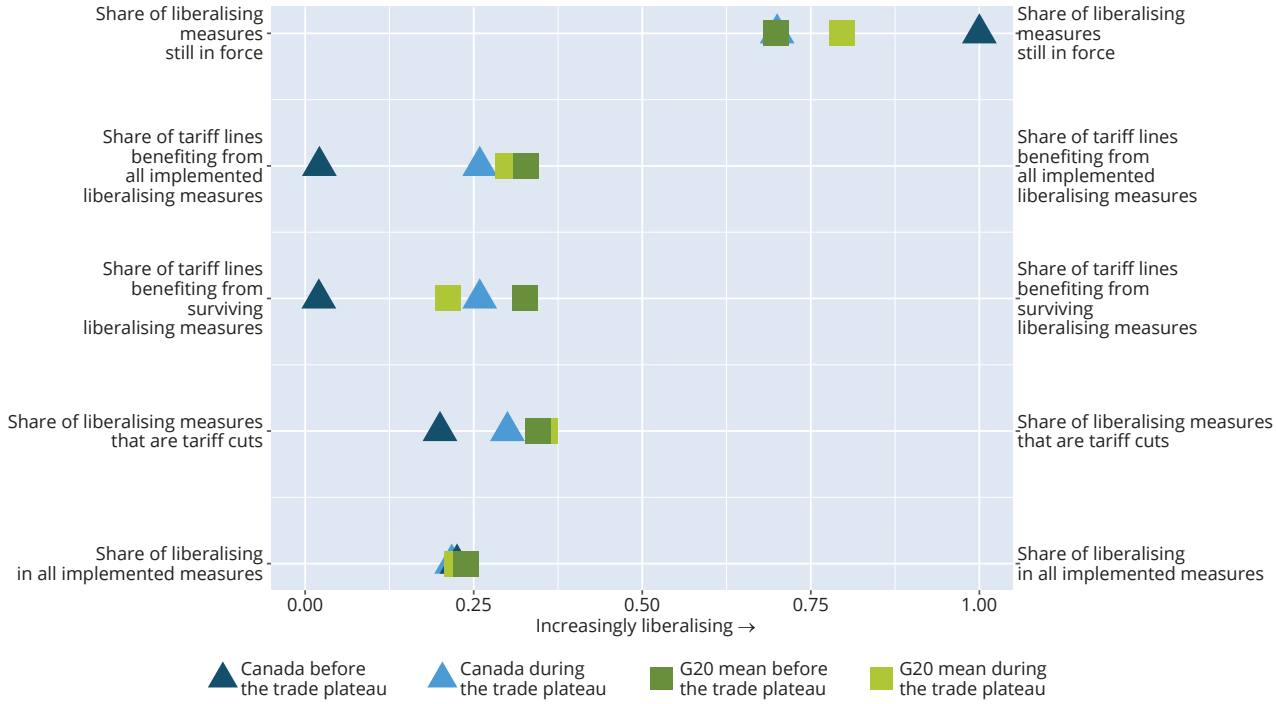


DISCRIMINATORY MEASURES HARMING CANADA'S INTERESTS



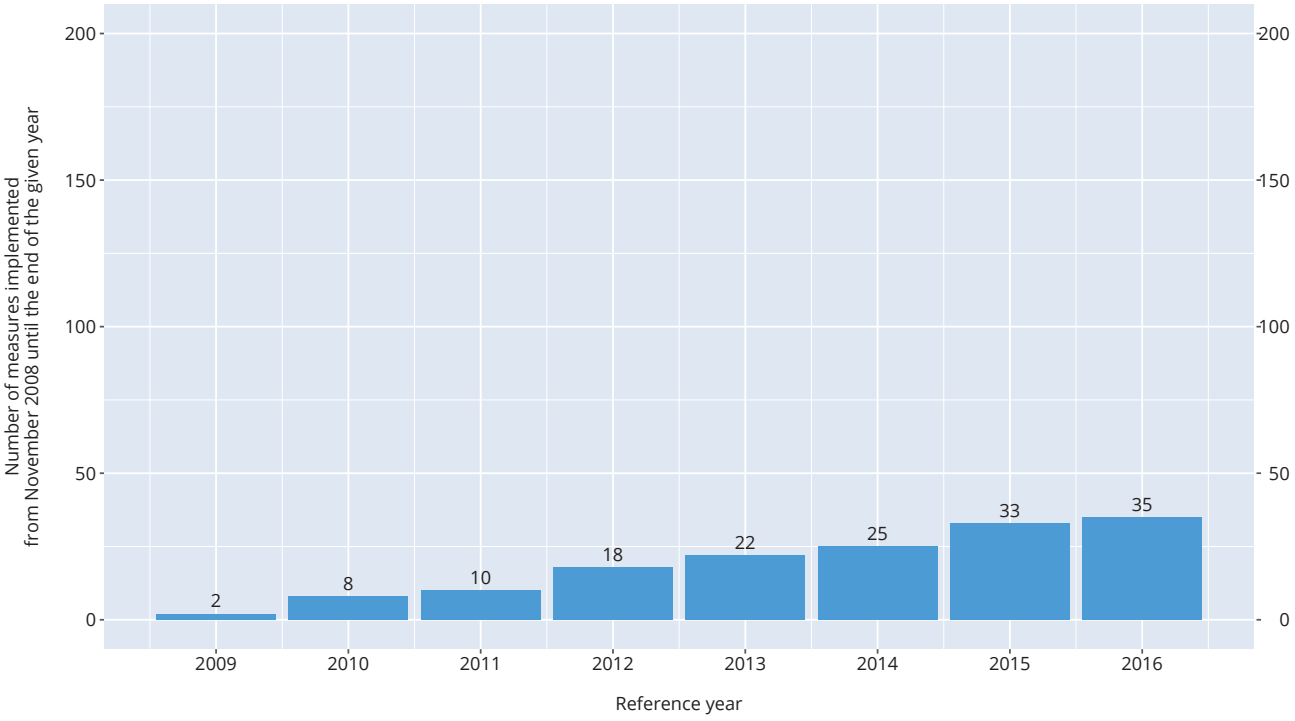
CANADA

Track record of liberalisation



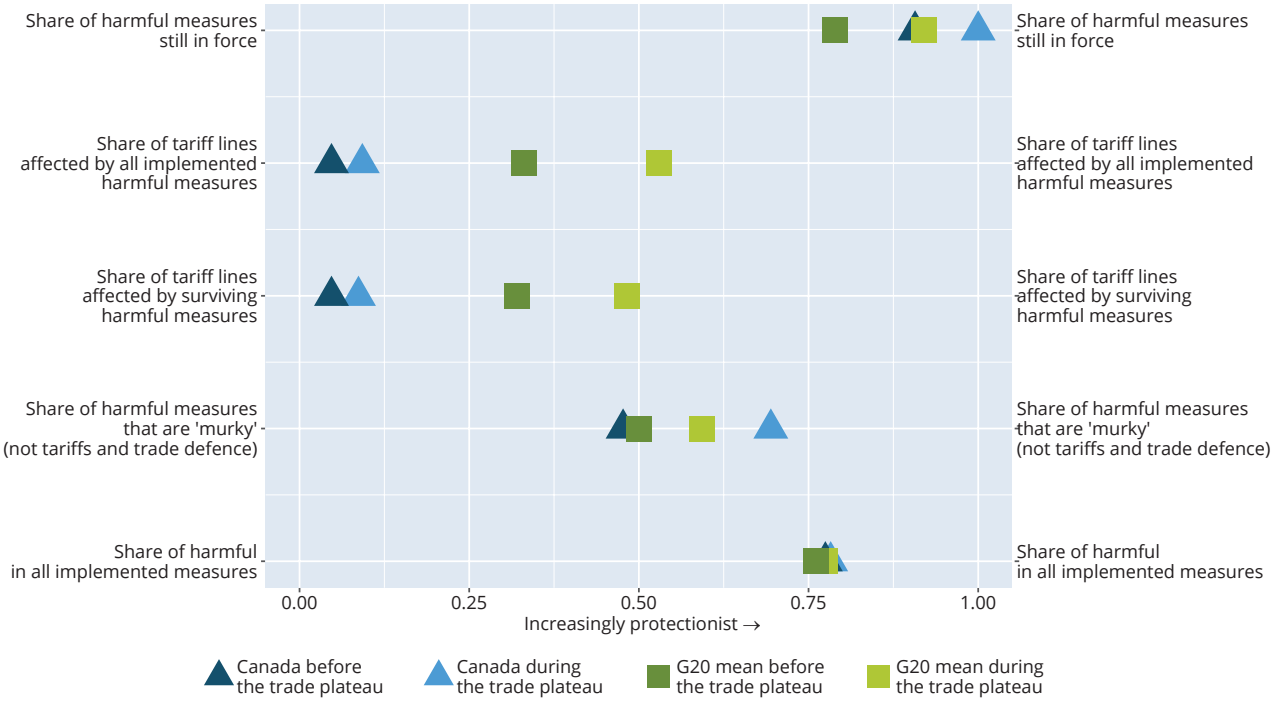
CANADA

Number of liberalising measures imposed since November 2008



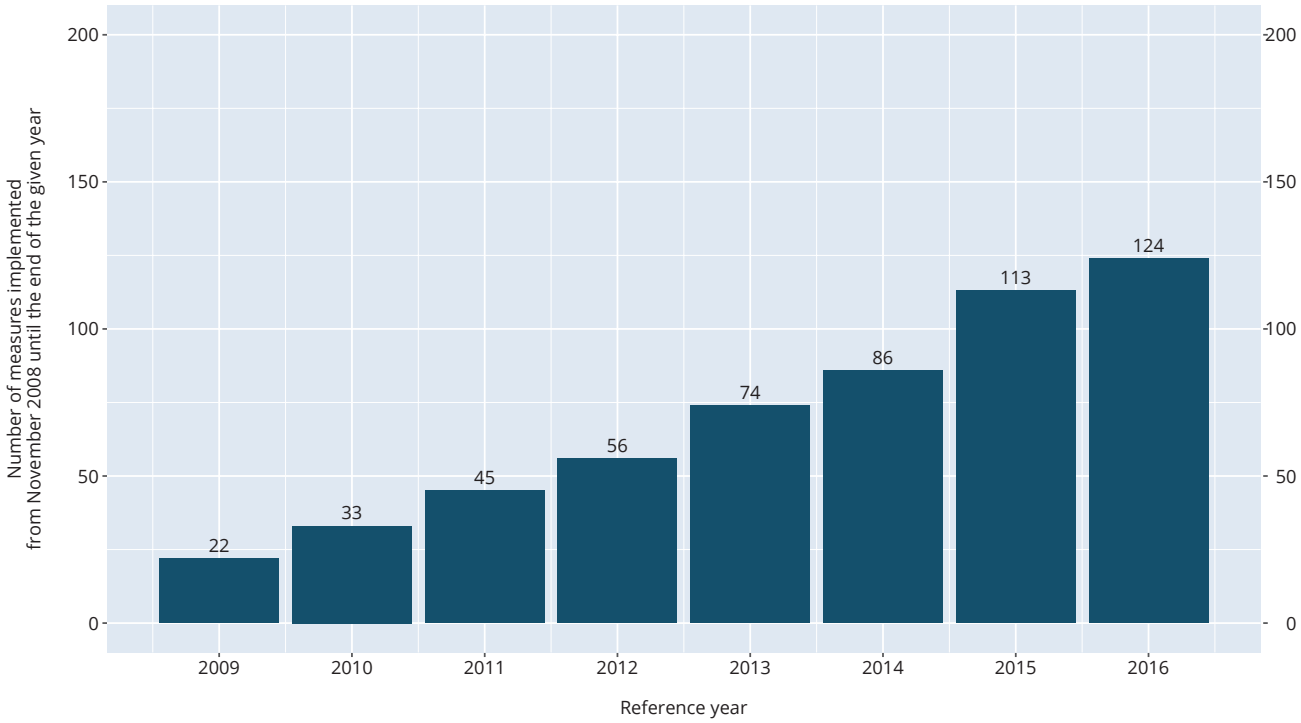
CANADA

Track record of protectionism



CANADA

Number of discriminatory measures imposed since November 2008

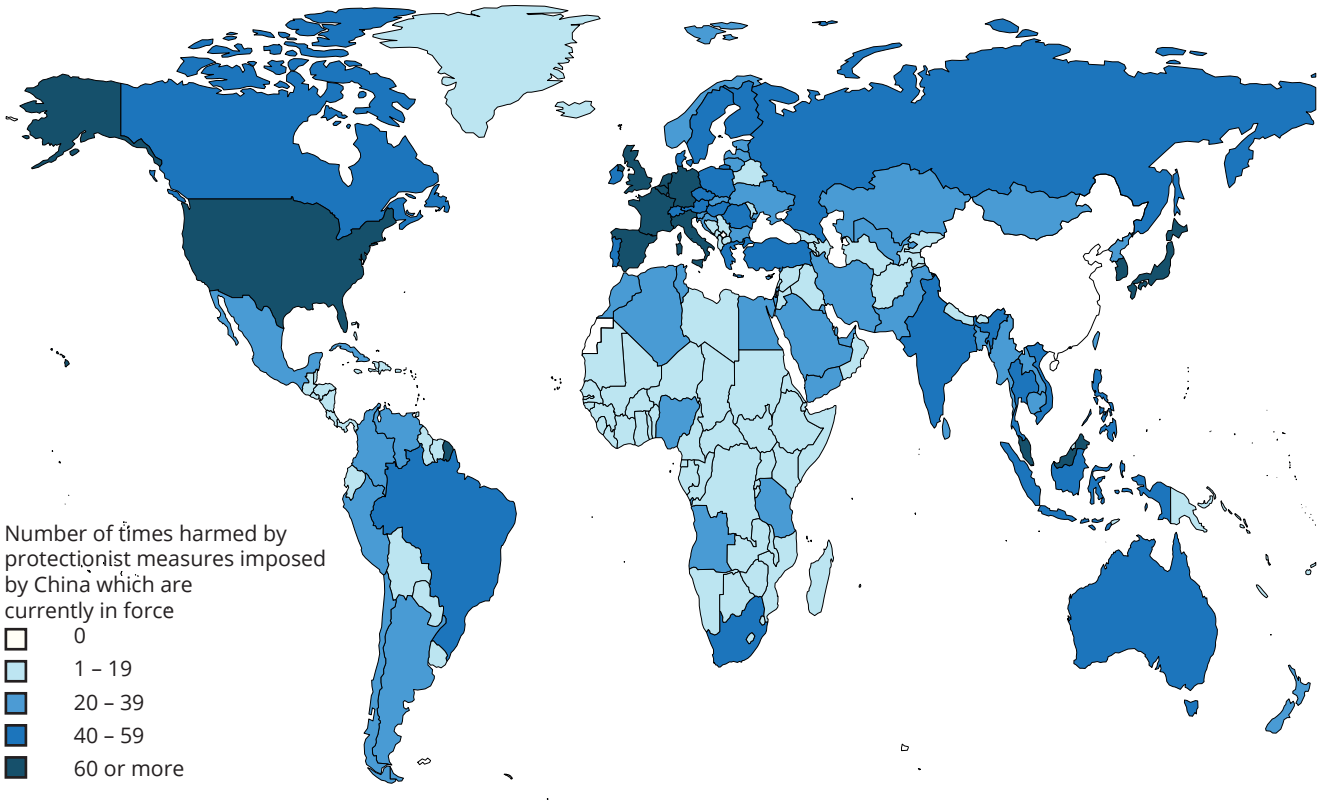


CHINA

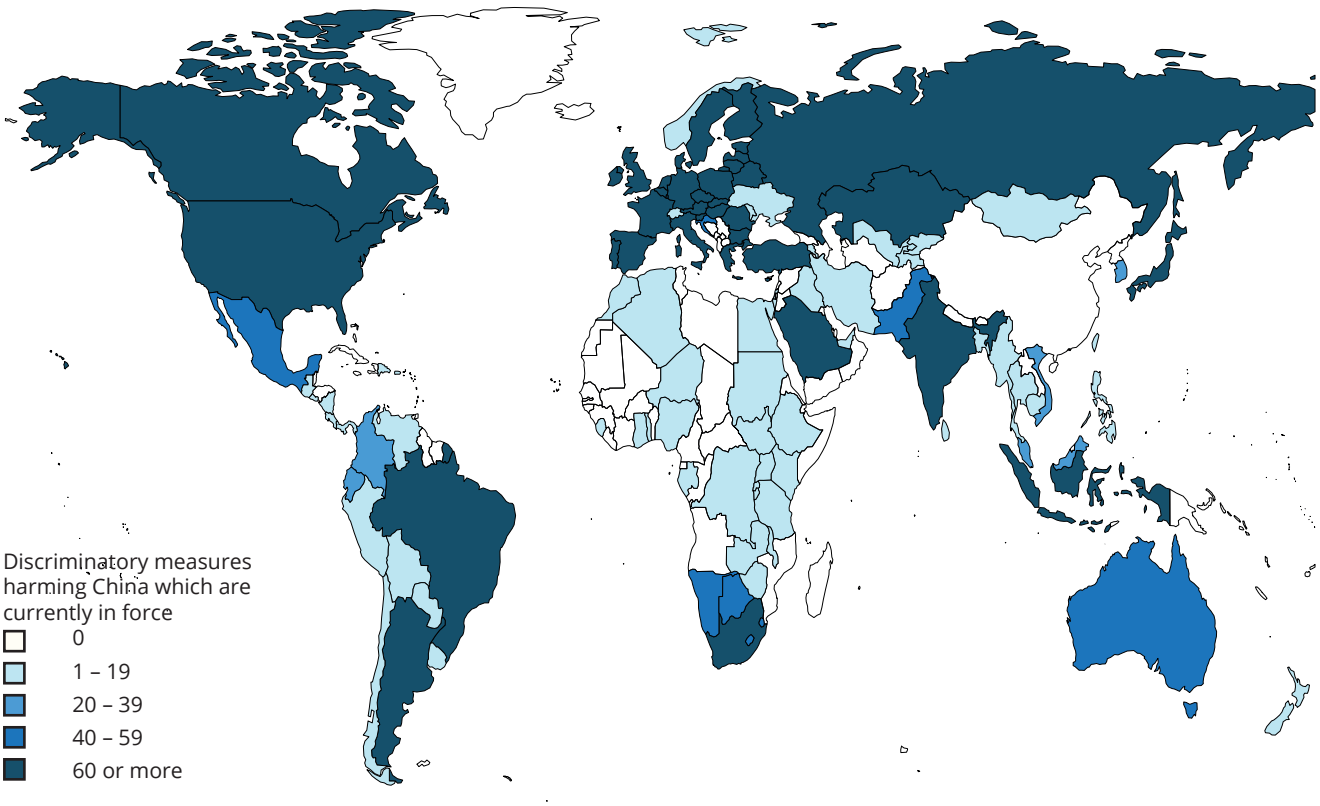
What is at stake for China's exporters?

Foreign discriminatory policy instrument	Percentage of exports at risk during ...						
	2009	2010	2011	2012	2013	2014	2015
All forms of foreign discrimination	41.52%	63.19%	65.17%	72.27%	76.81%	81.93%	85.12%
Import tariff increases	0.56%	1.06%	1.49%	1.90%	2.36%	2.82%	8.13%
Trade defence and safeguard duties	1.00%	2.71%	4.16%	4.79%	5.75%	6.34%	7.10%
Localisation requirement	0.03%	0.24%	0.52%	0.65%	0.71%	1.25%	1.83%
Buy national public procurement	7.01%	9.08%	9.34%	9.51%	12.00%	12.63%	12.76%
Competition with bailed out firm in latter's home market	1.63%	2.37%	5.16%	6.47%	9.05%	10.05%	11.40%
Export incentives, competition in third markets	36.50%	60.06%	61.63%	69.62%	74.50%	79.83%	83.29%

COUNTRIES HARMED BY CHINA'S DISCRIMINATORY MEASURES

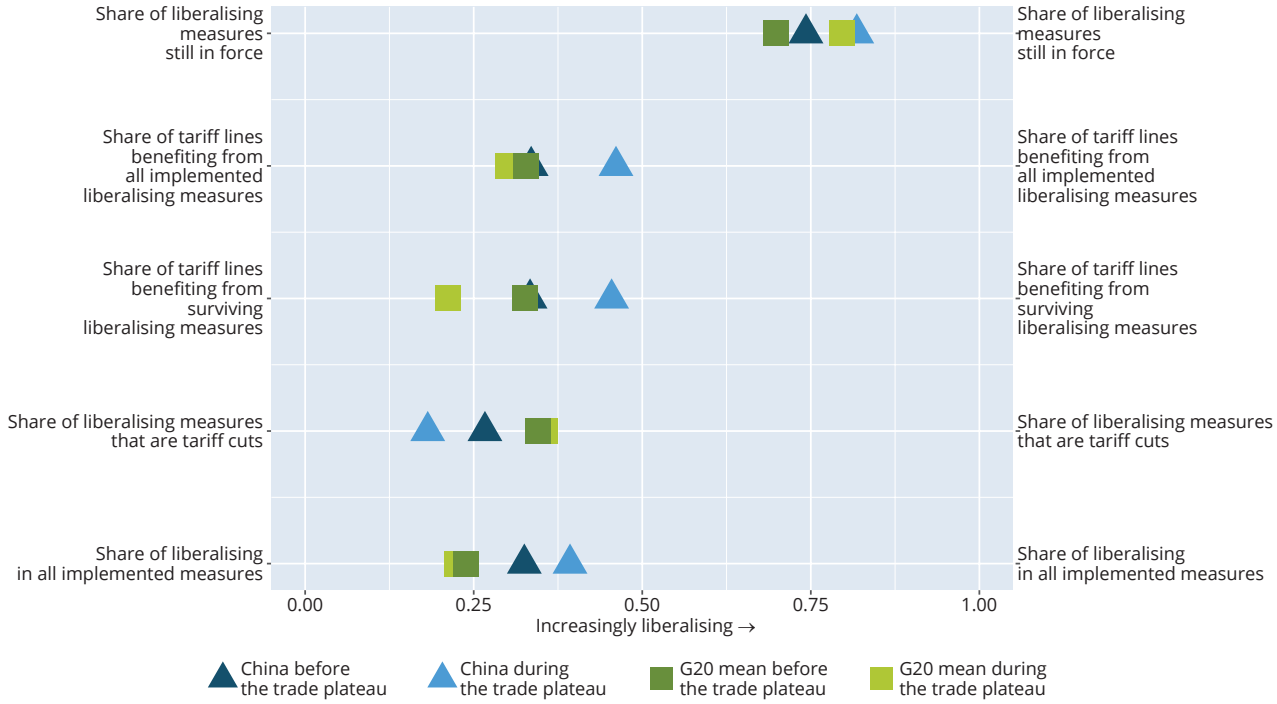


DISCRIMINATORY MEASURES HARMING CHINA'S INTERESTS



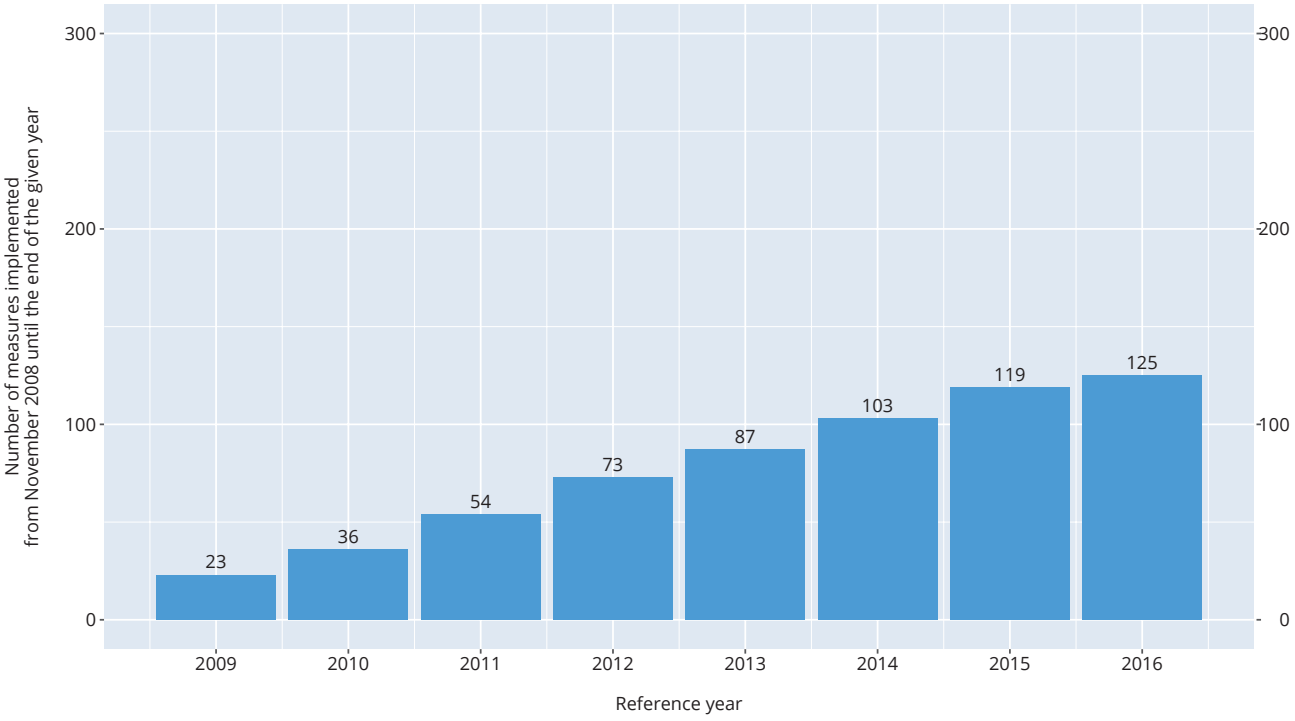
CHINA

Track record of liberalisation



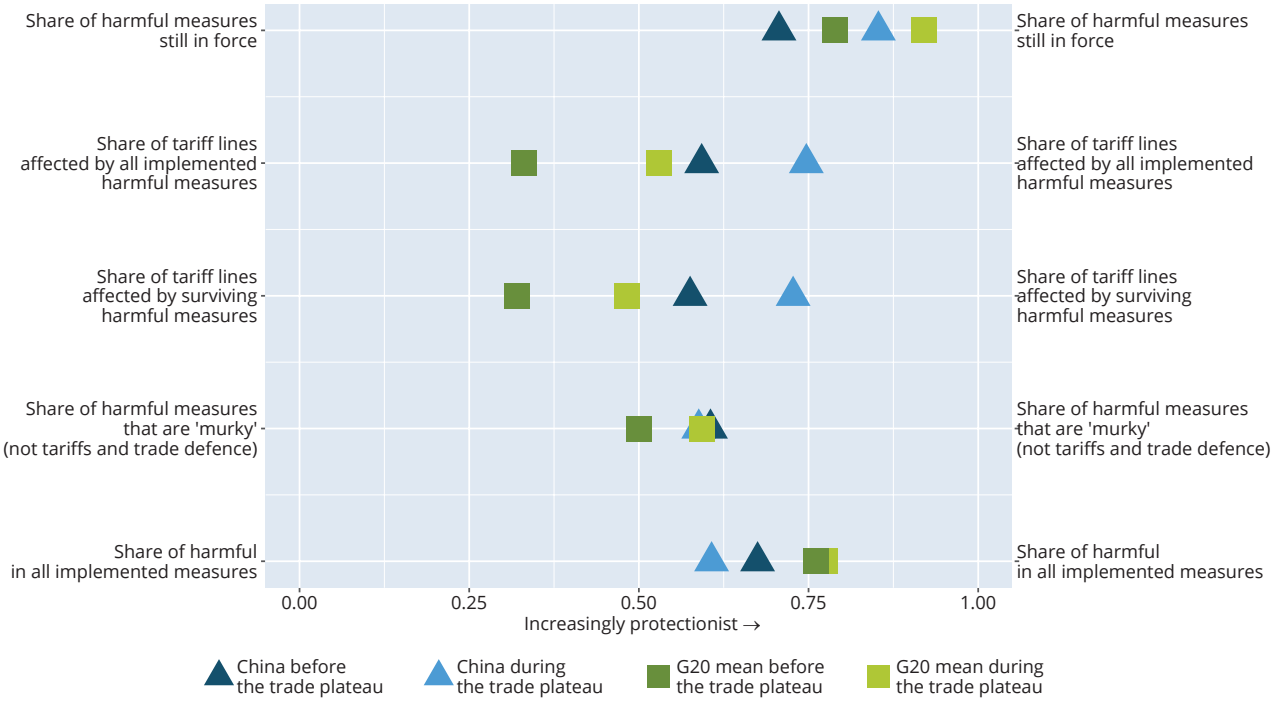
CHINA

Number of liberalising measures imposed since November 2008



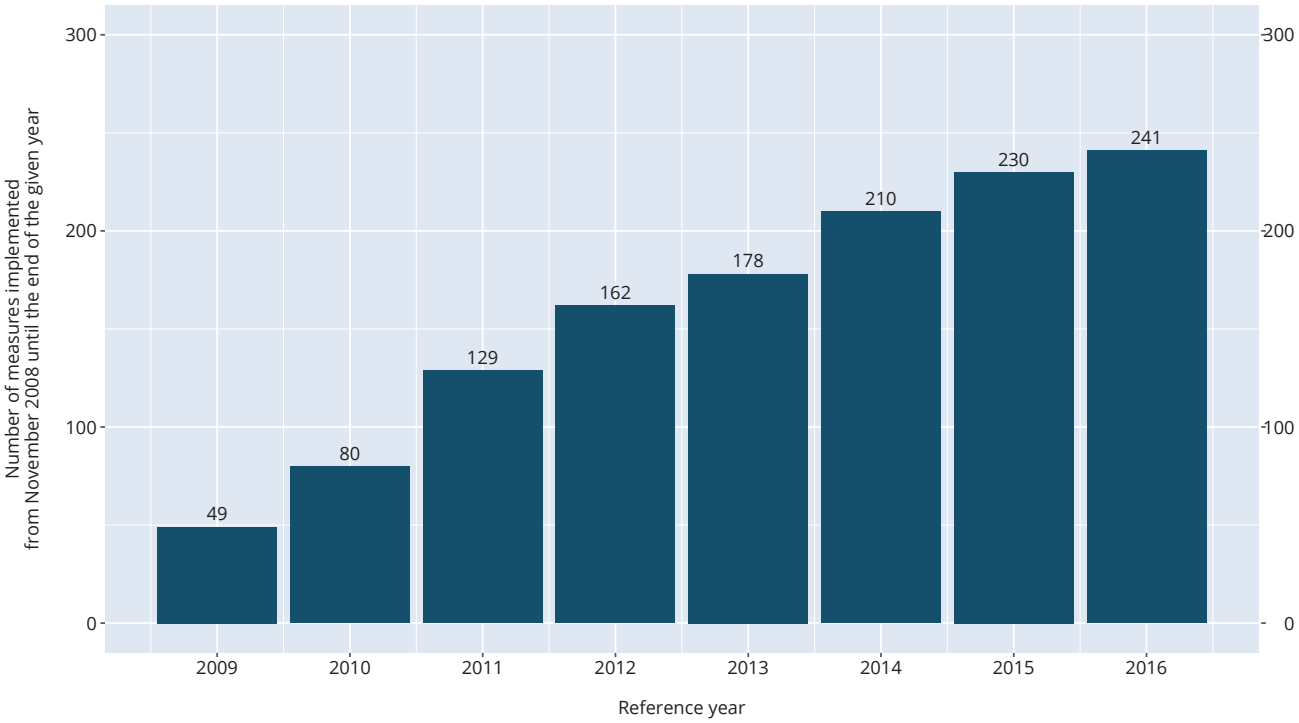
CHINA

Track record of protectionism



CHINA

Number of discriminatory measures imposed since November 2008

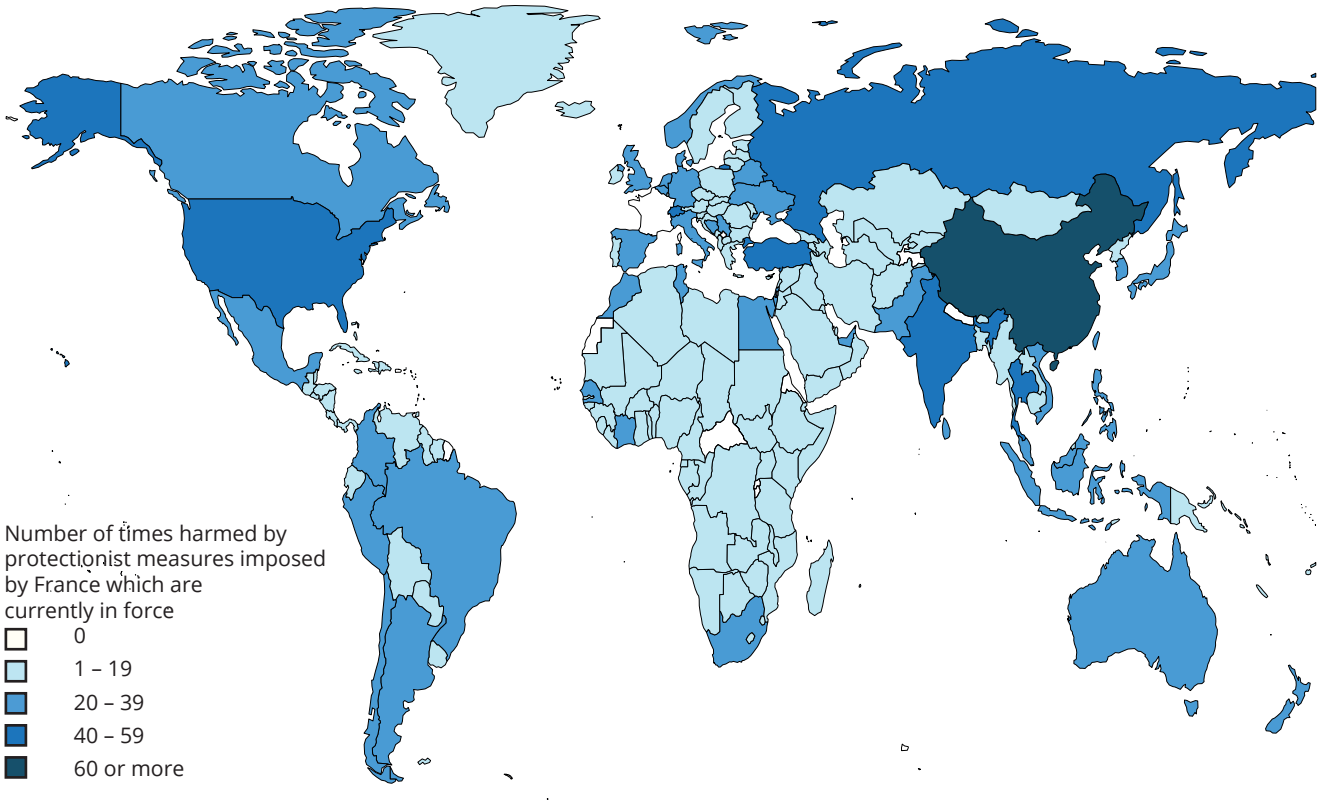


FRANCE

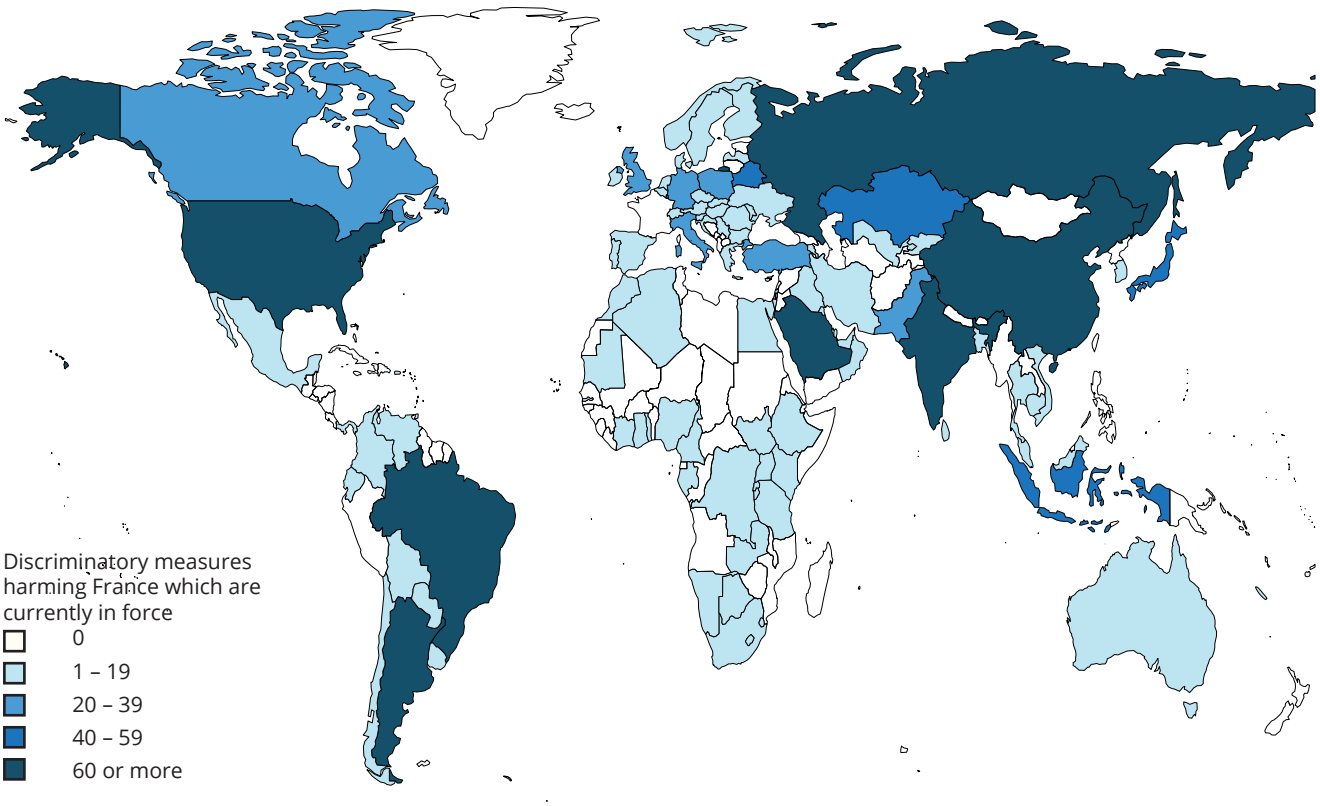
What is at stake for France's exporters?

Foreign discriminatory policy instrument	Percentage of exports at risk during ...						
	2009	2010	2011	2012	2013	2014	2015
All forms of foreign discrimination	57.58%	71.50%	73.34%	75.29%	76.64%	82.13%	86.15%
Import tariff increases	0.38%	0.82%	0.95%	1.10%	1.59%	2.48%	2.70%
Trade defence and safeguard duties	0.02%	0.05%	0.08%	0.12%	0.15%	0.26%	0.28%
Localisation requirement	0.10%	0.32%	0.59%	0.60%	0.69%	0.88%	1.07%
Buy national public procurement	1.24%	1.67%	1.78%	1.89%	1.97%	2.12%	2.51%
Competition with bailed out firm in latter's home market	5.01%	8.39%	6.19%	7.69%	8.32%	11.44%	12.05%
Export incentives, competition in third markets	56.22%	69.06%	71.90%	74.14%	75.52%	80.90%	85.11%

COUNTRIES HARMED BY FRANCE'S DISCRIMINATORY MEASURES

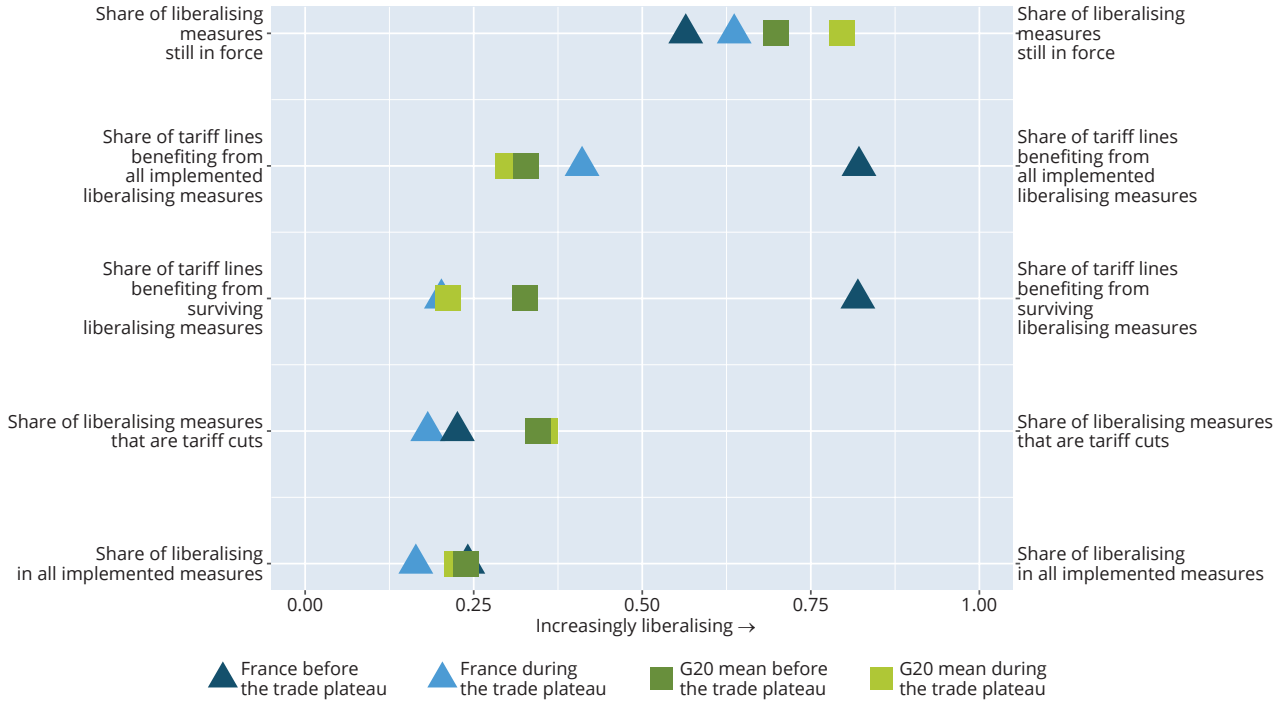


DISCRIMINATORY MEASURES HARMING FRANCE'S INTERESTS



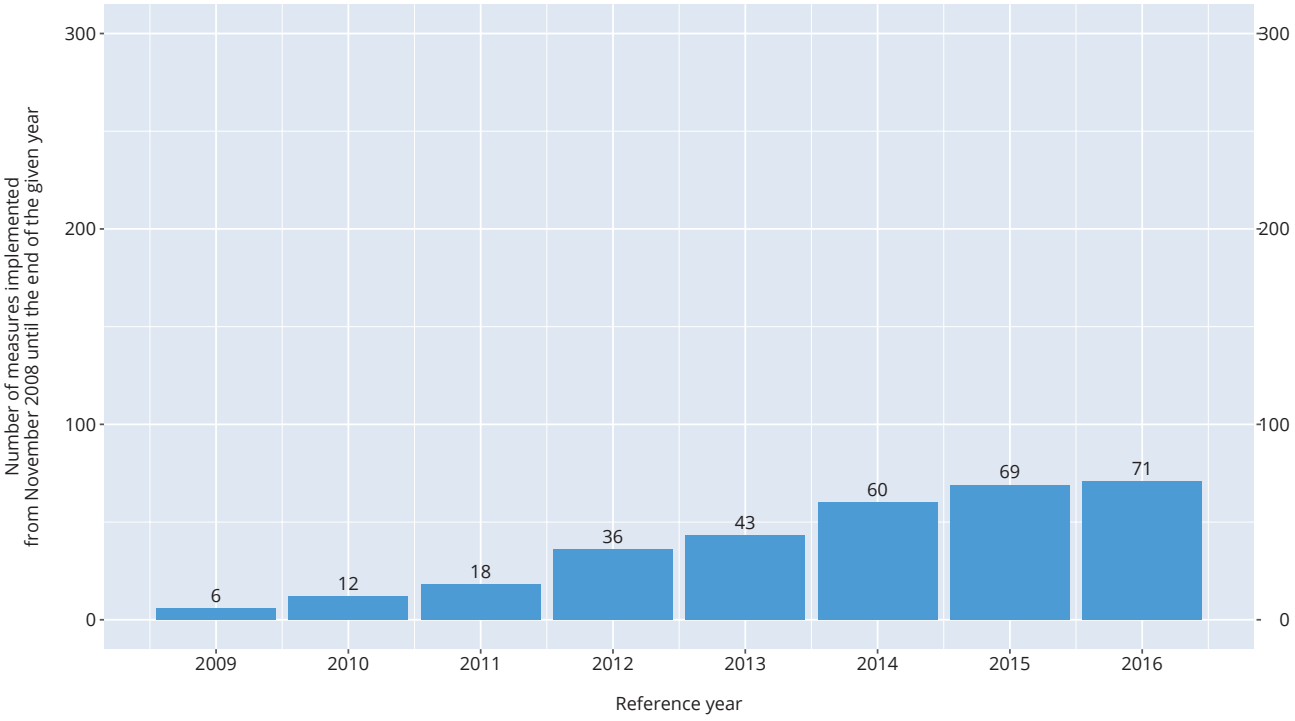
FRANCE

Track record of liberalisation



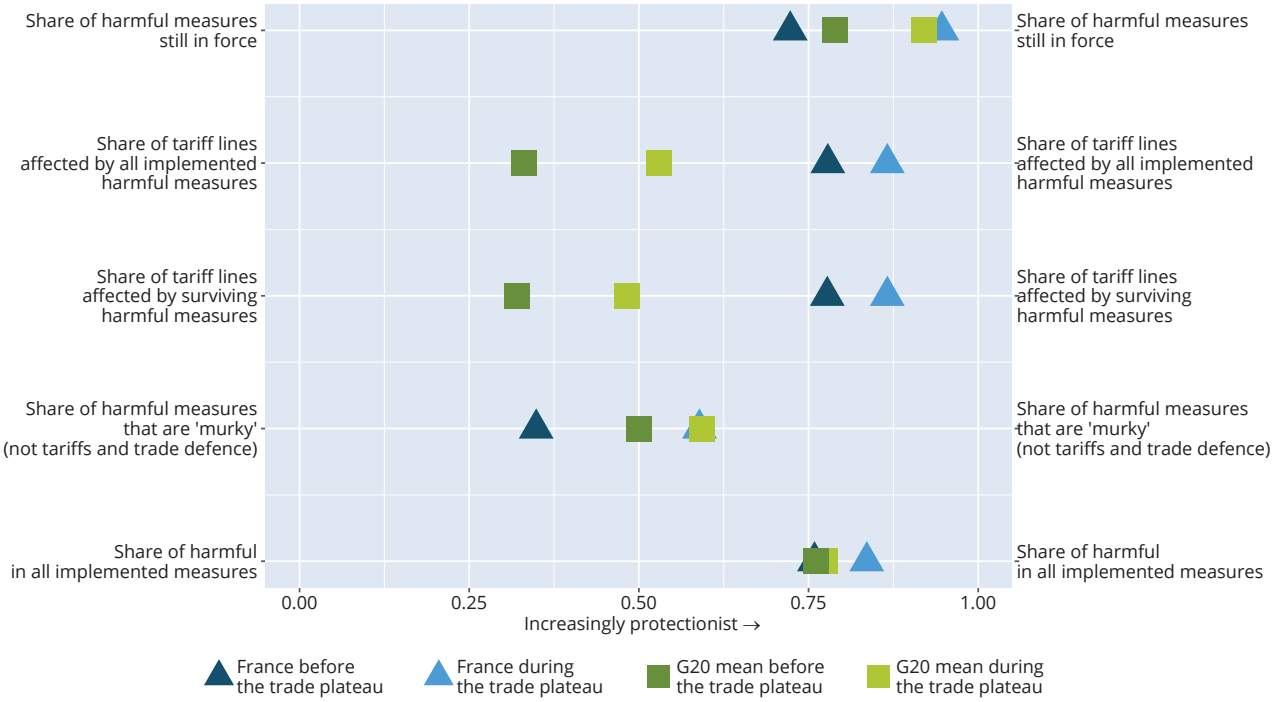
FRANCE

Number of liberalising measures imposed since November 2008



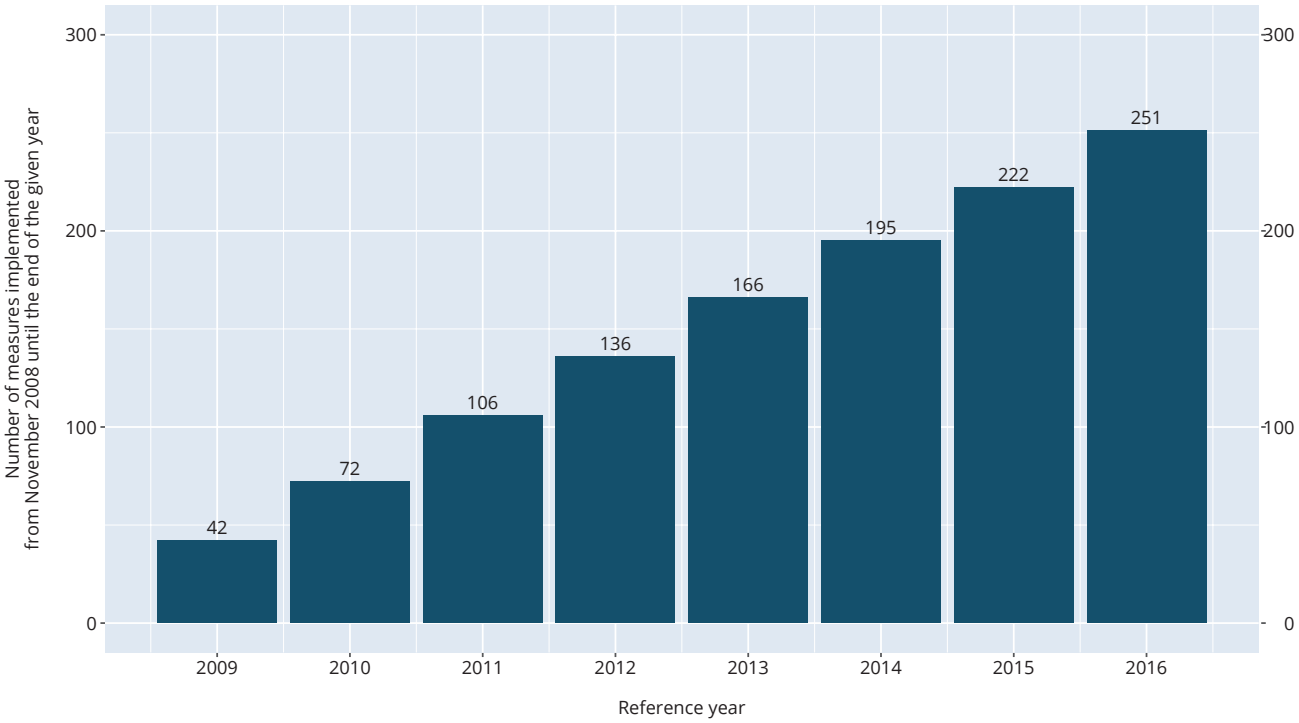
FRANCE

Track record of protectionism



FRANCE

Number of discriminatory measures imposed since November 2008

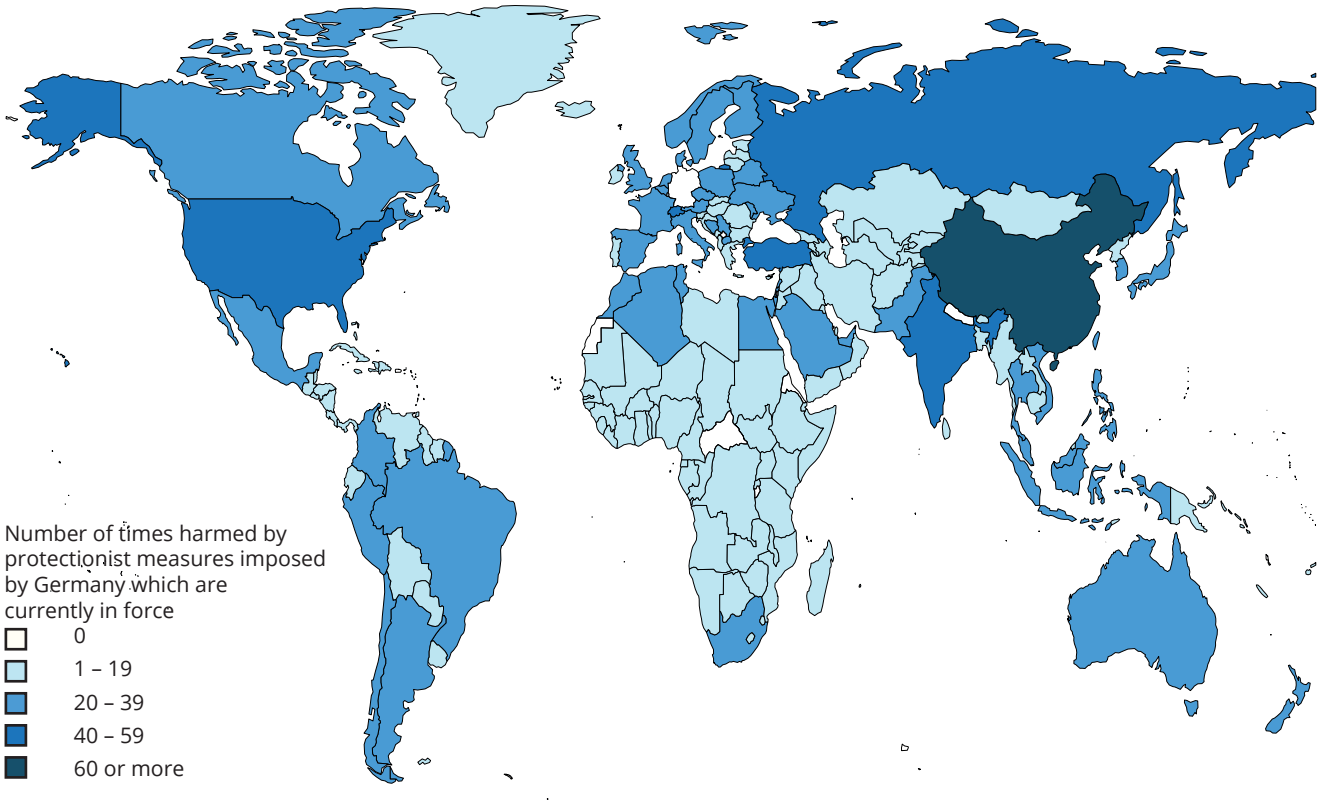


GERMANY

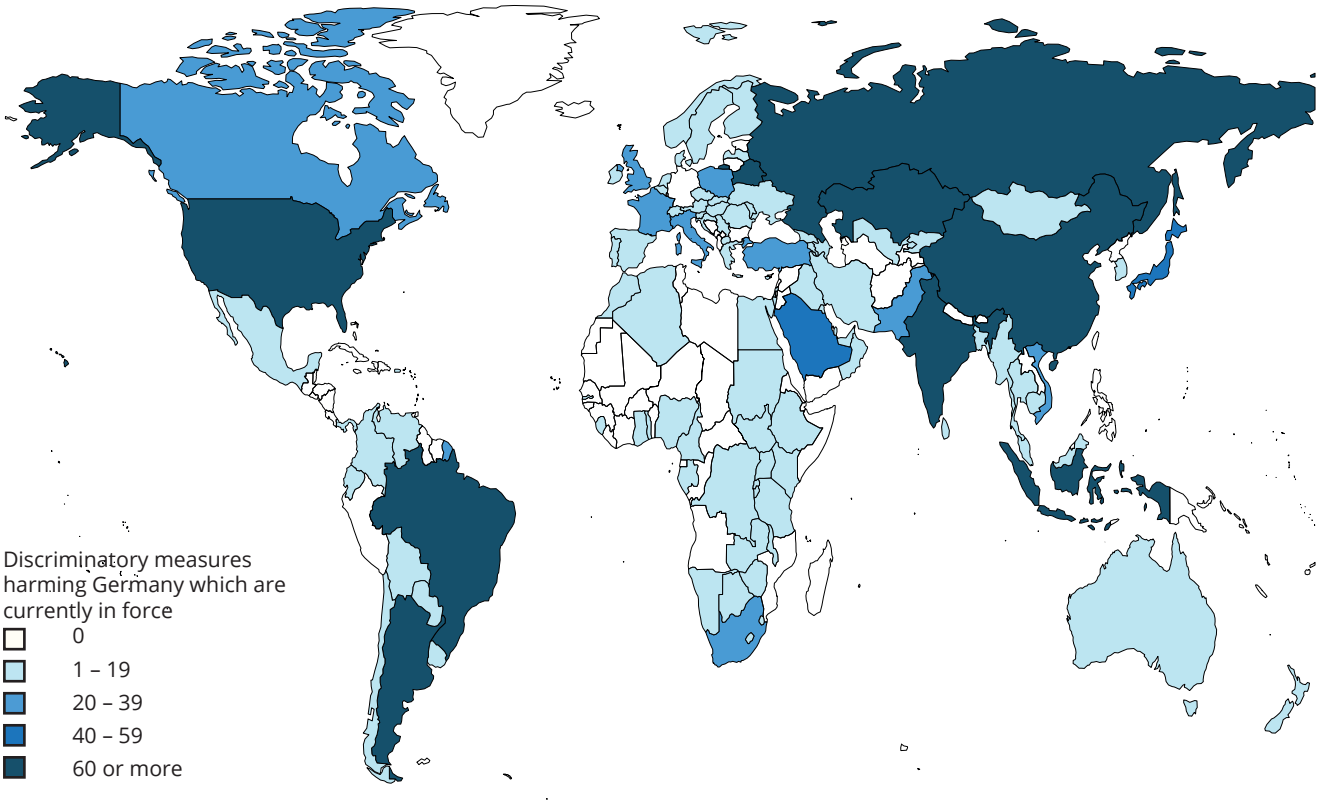
What is at stake for Germany's exporters?

Foreign discriminatory policy instrument	Percentage of exports at risk during ...						
	2009	2010	2011	2012	2013	2014	2015
All forms of foreign discrimination	66.16%	77.24%	78.41%	79.65%	81.12%	87.48%	90.73%
Import tariff increases	0.99%	1.99%	2.01%	2.25%	2.59%	3.65%	3.91%
Trade defence and safeguard duties	0.06%	0.15%	0.19%	0.26%	0.36%	0.44%	0.49%
Localisation requirement	0.19%	1.88%	2.28%	2.29%	2.40%	2.62%	2.89%
Buy national public procurement	2.00%	2.73%	2.80%	4.47%	4.87%	5.15%	5.43%
Competition with bailed out firm in latter's home market	7.98%	10.74%	7.42%	8.35%	8.85%	10.12%	10.56%
Export incentives, competition in third markets	64.39%	74.98%	76.58%	78.22%	79.89%	86.58%	90.07%

COUNTRIES HARMED BY GERMANY'S DISCRIMINATORY MEASURES

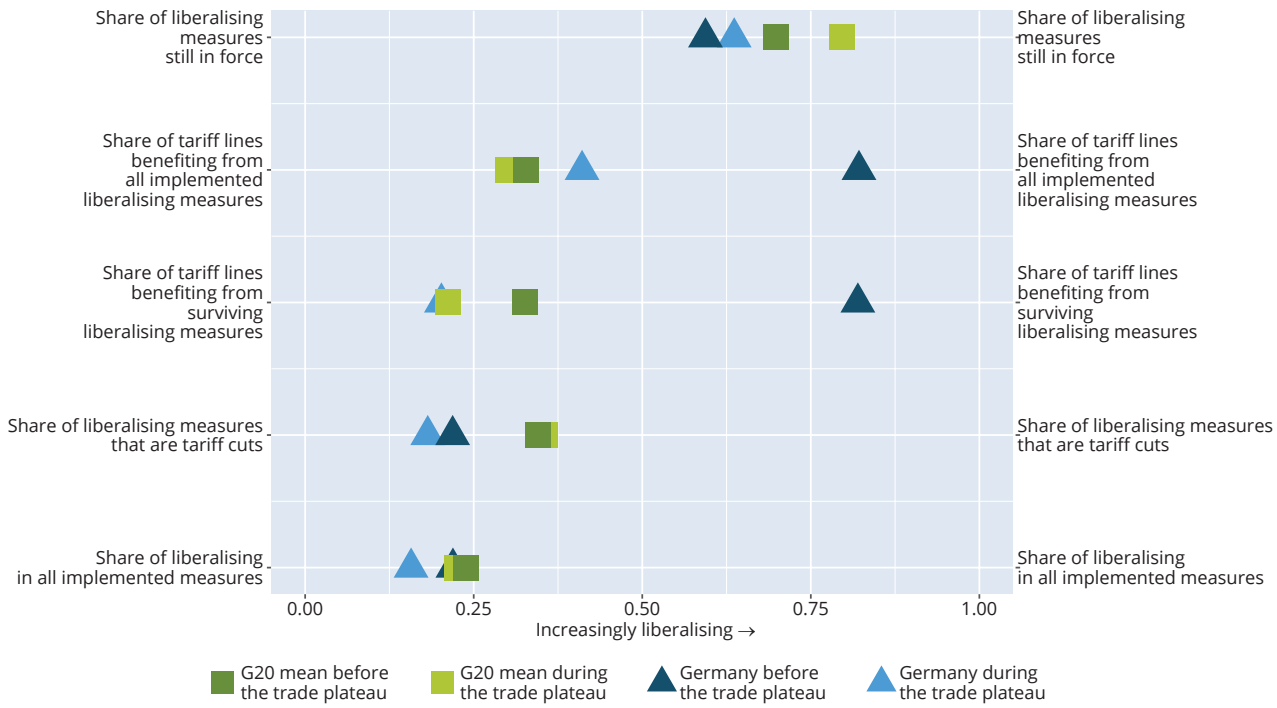


DISCRIMINATORY MEASURES HARMING GERMANY'S INTERESTS



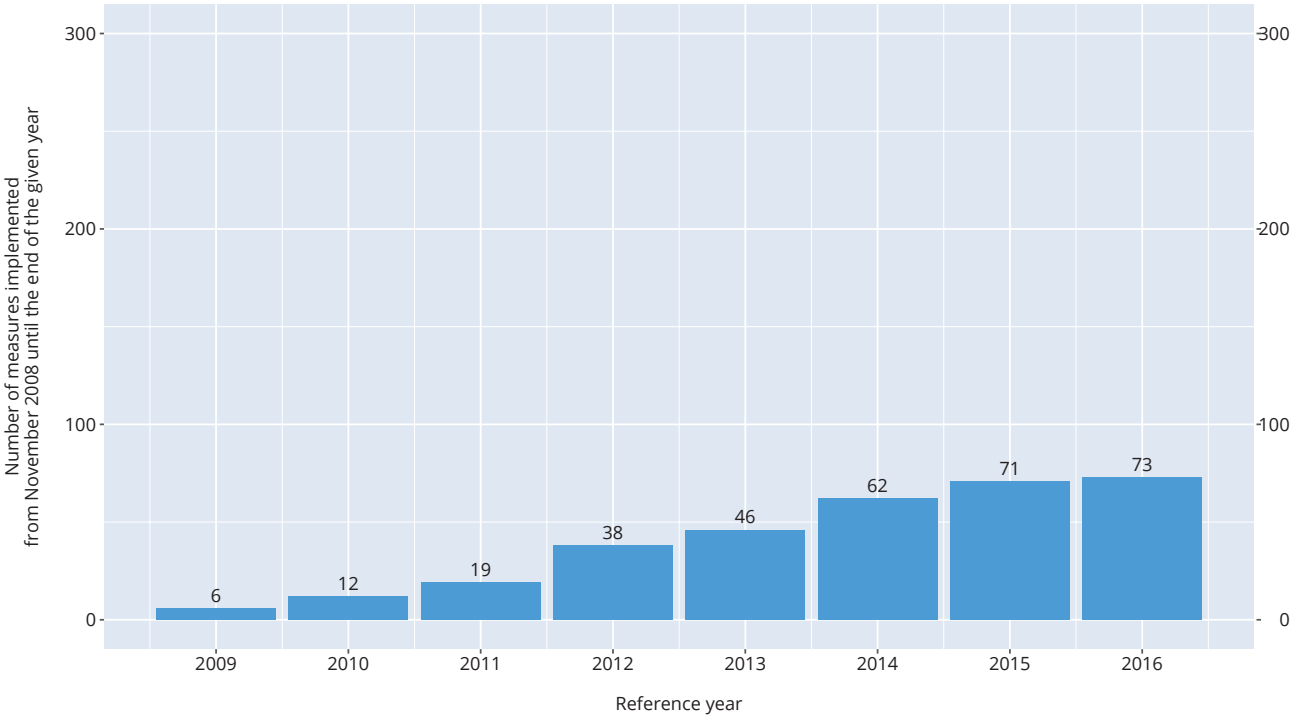
GERMANY

Track record of liberalisation



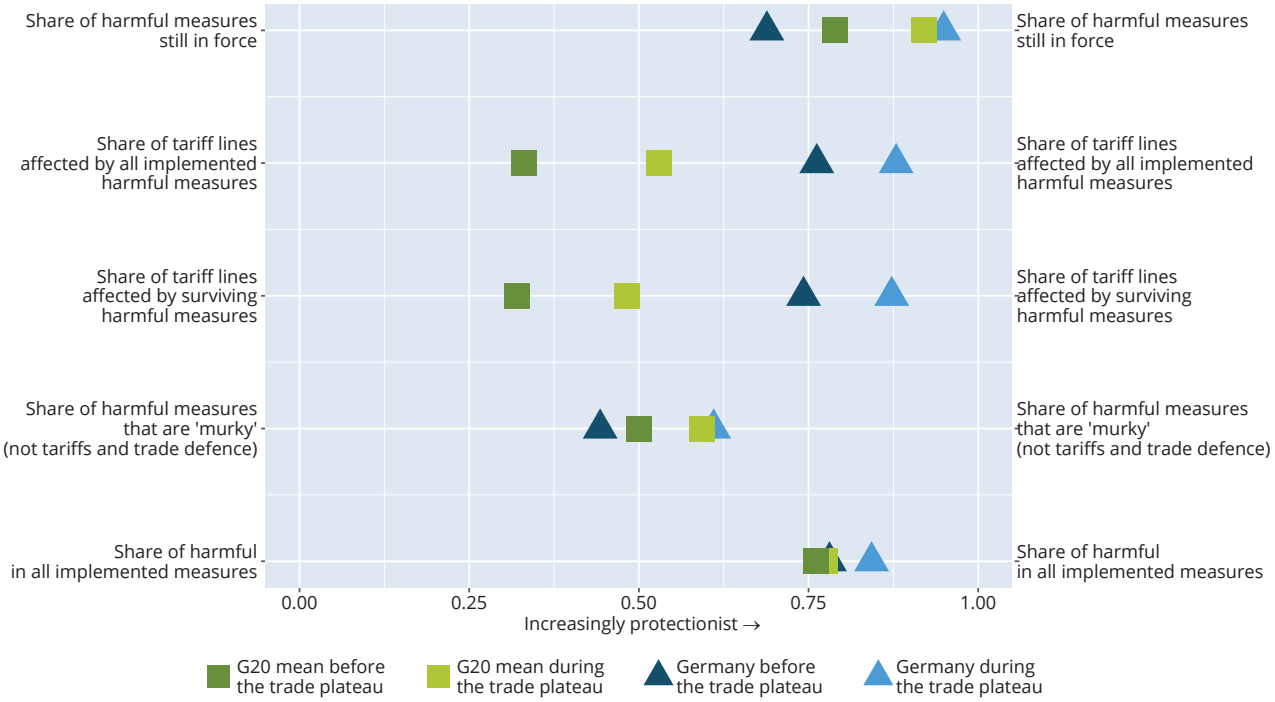
GERMANY

Number of liberalising measures imposed since November 2008



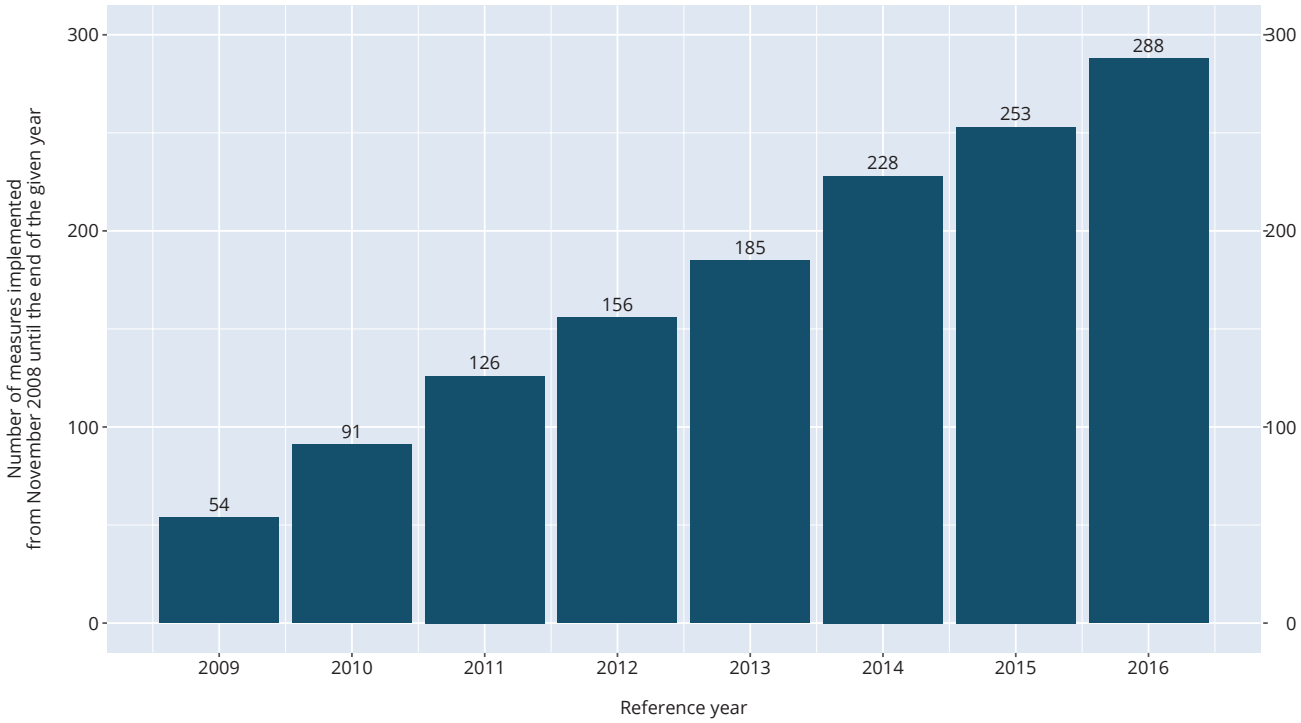
GERMANY

Track record of protectionism



GERMANY

Number of discriminatory measures imposed since November 2008

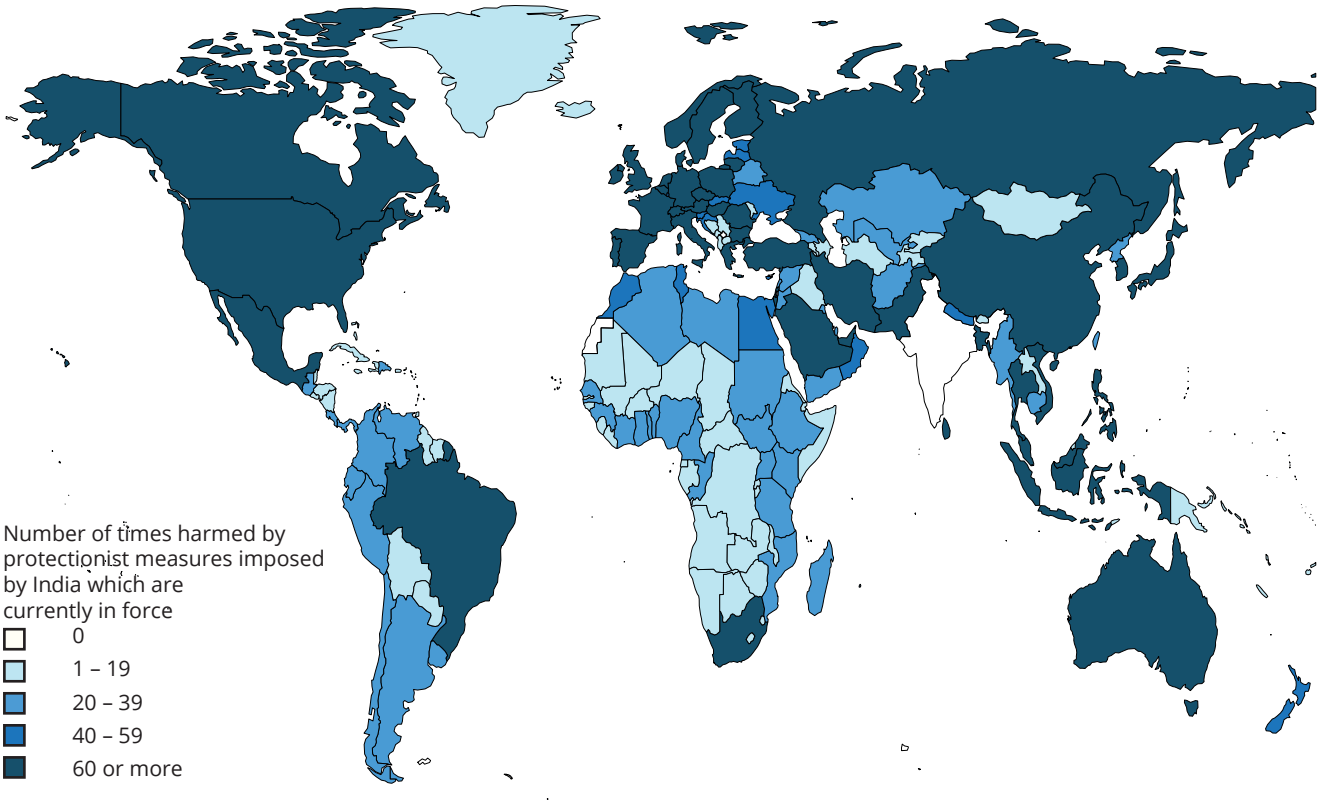


INDIA

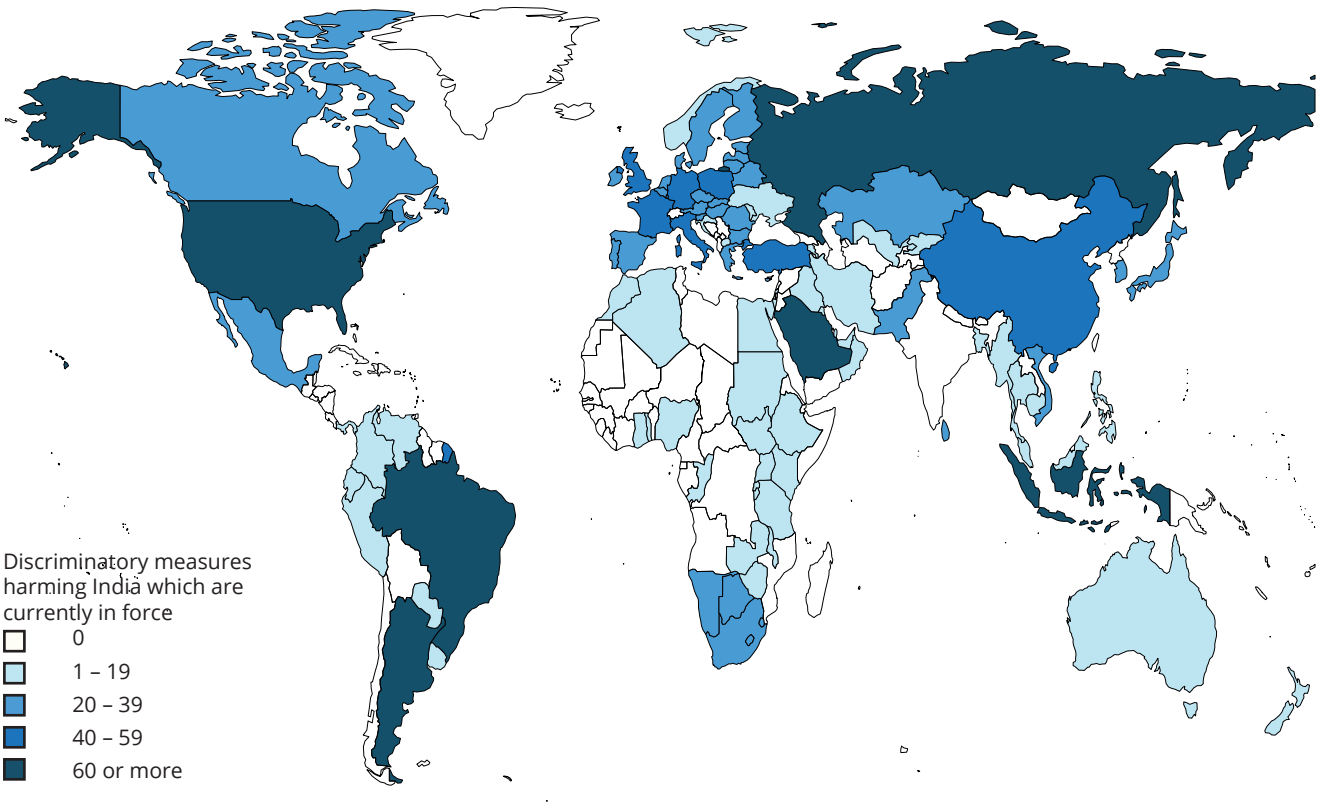
What is at stake for India's exporters?

Foreign discriminatory policy instrument	Percentage of exports at risk during ...						
	2009	2010	2011	2012	2013	2014	2015
All forms of foreign discrimination	58.21%	74.24%	79.86%	75.63%	72.57%	76.36%	87.21%
Import tariff increases	5.62%	6.17%	6.69%	7.31%	8.13%	9.00%	13.02%
Trade defence and safeguard duties	0.18%	0.36%	0.85%	1.31%	1.41%	1.58%	1.63%
Localisation requirement	0.03%	0.32%	0.75%	0.83%	1.05%	1.11%	1.74%
Buy national public procurement	3.16%	5.60%	5.81%	6.03%	6.11%	6.44%	6.64%
Competition with bailed out firm in latter's home market	1.05%	2.34%	2.96%	4.77%	6.01%	7.32%	9.51%
Export incentives, competition in third markets	53.30%	72.77%	78.37%	72.63%	69.42%	72.69%	84.25%

COUNTRIES HARMED BY INDIA'S DISCRIMINATORY MEASURES

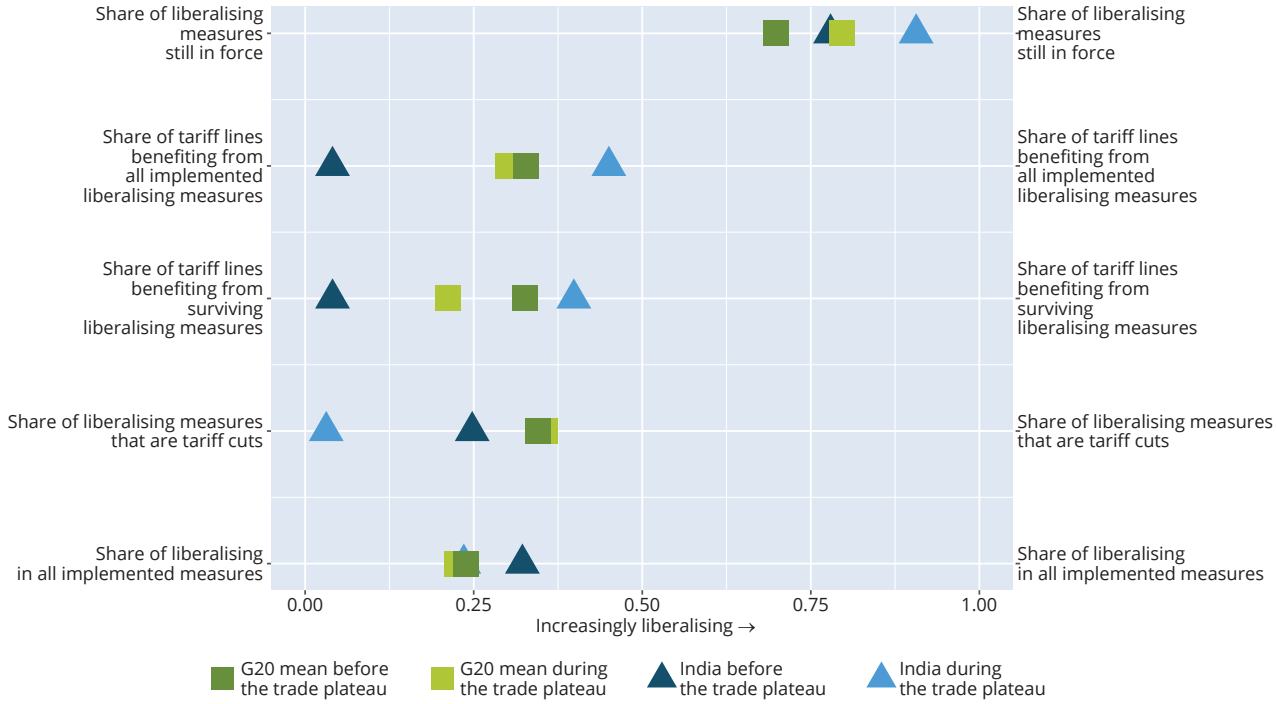


DISCRIMINATORY MEASURES HARMING INDIA'S INTERESTS



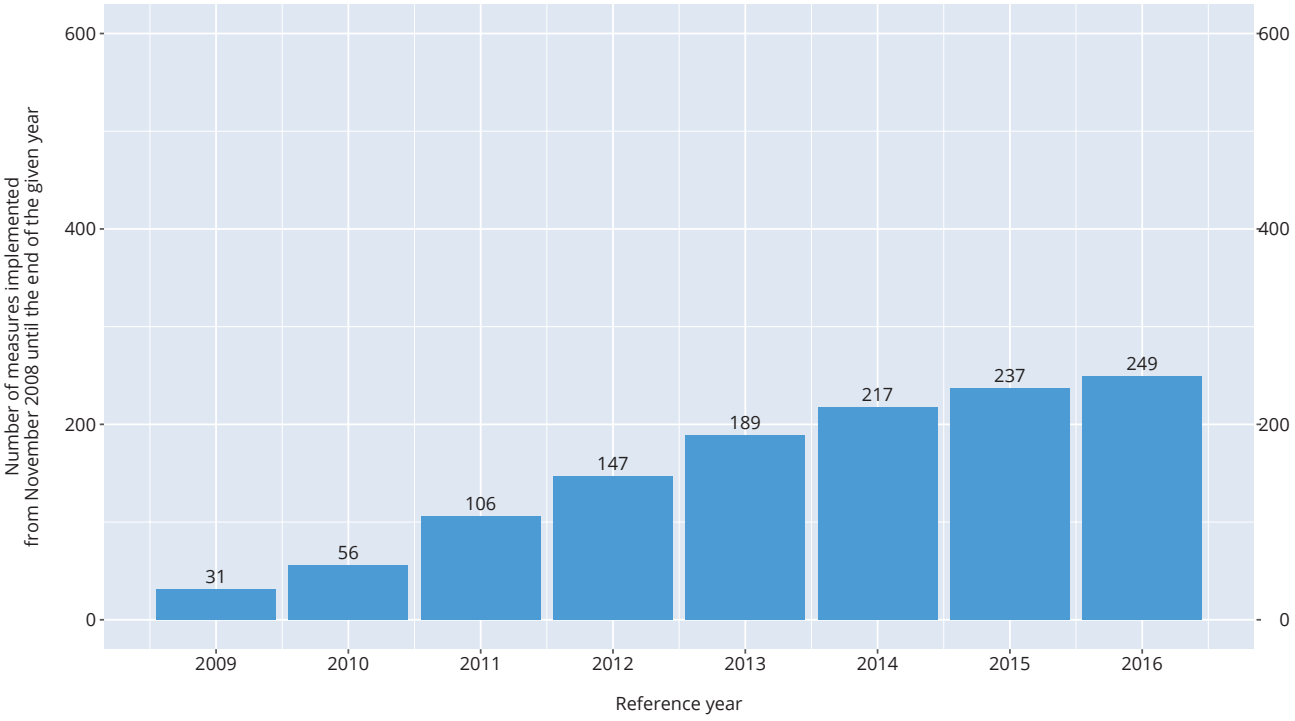
INDIA

Track record of liberalisation



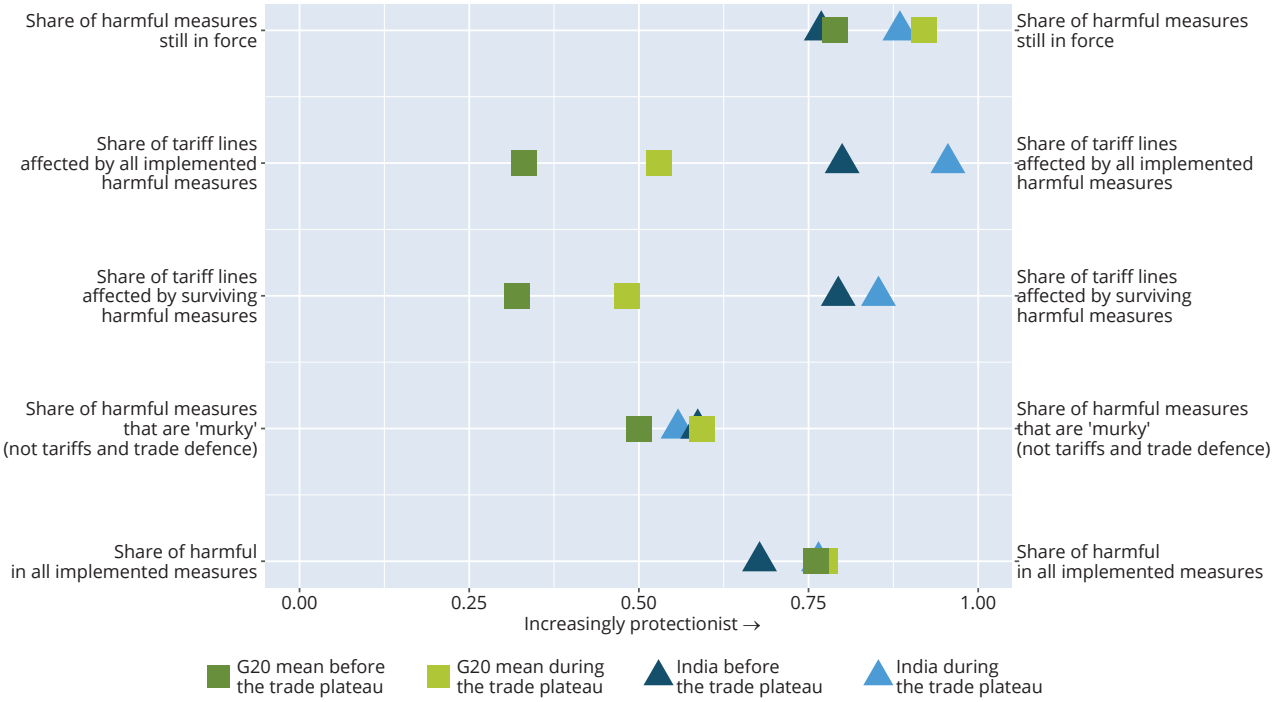
INDIA

Number of liberalising measures imposed since November 2008



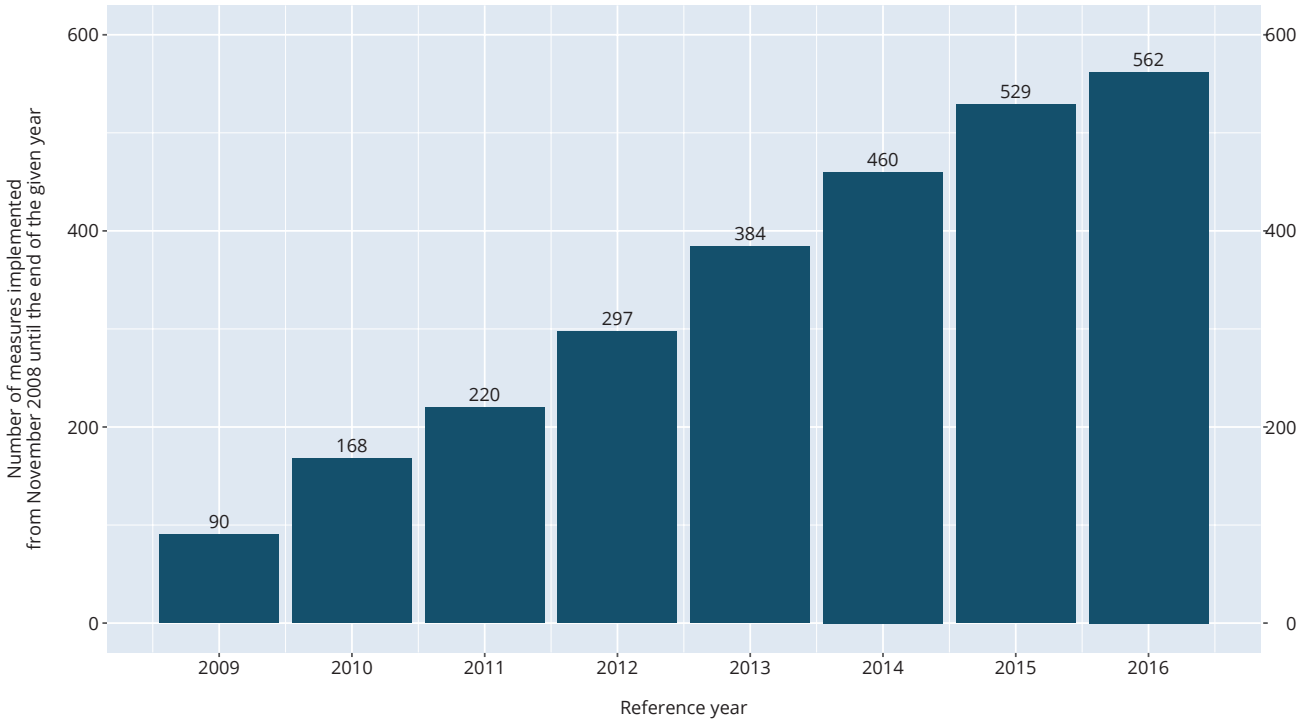
INDIA

Track record of protectionism



INDIA

Number of discriminatory measures imposed since November 2008

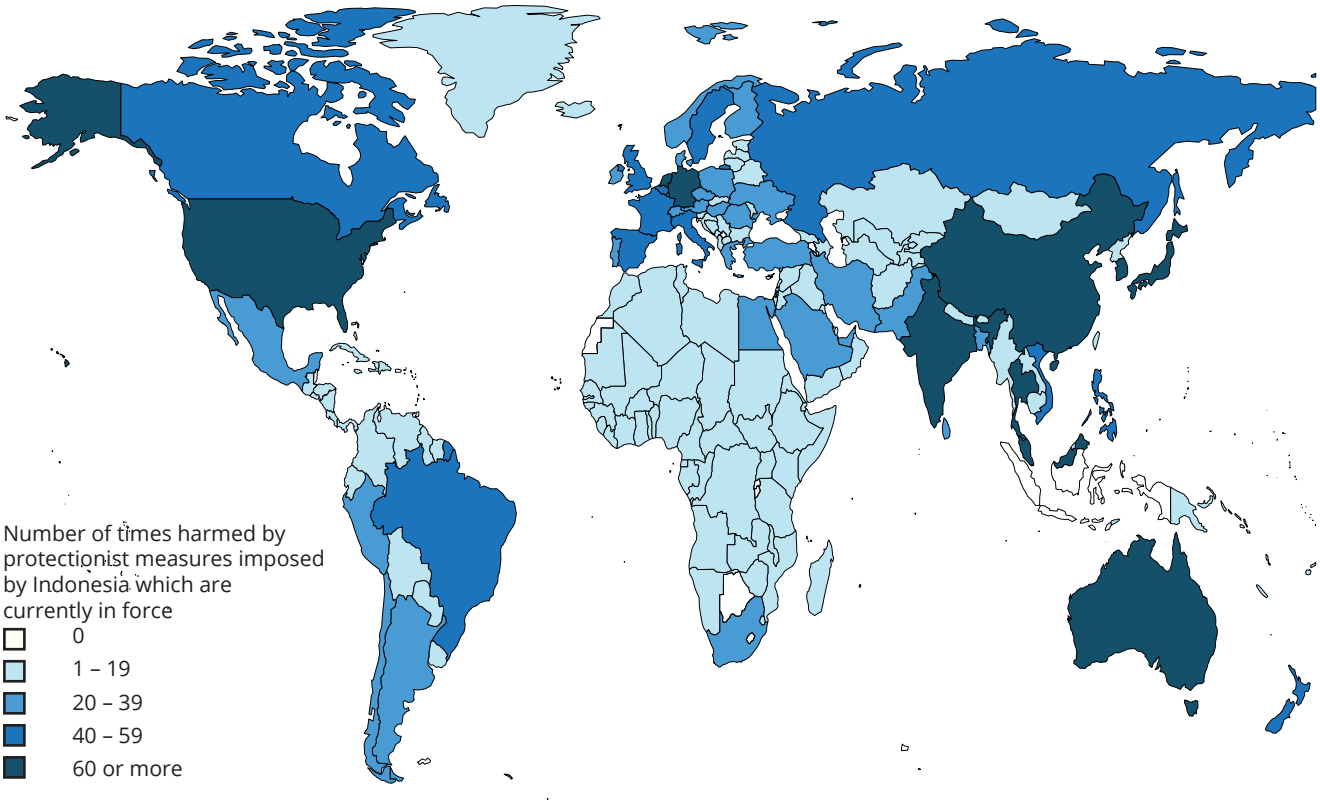


INDONESIA

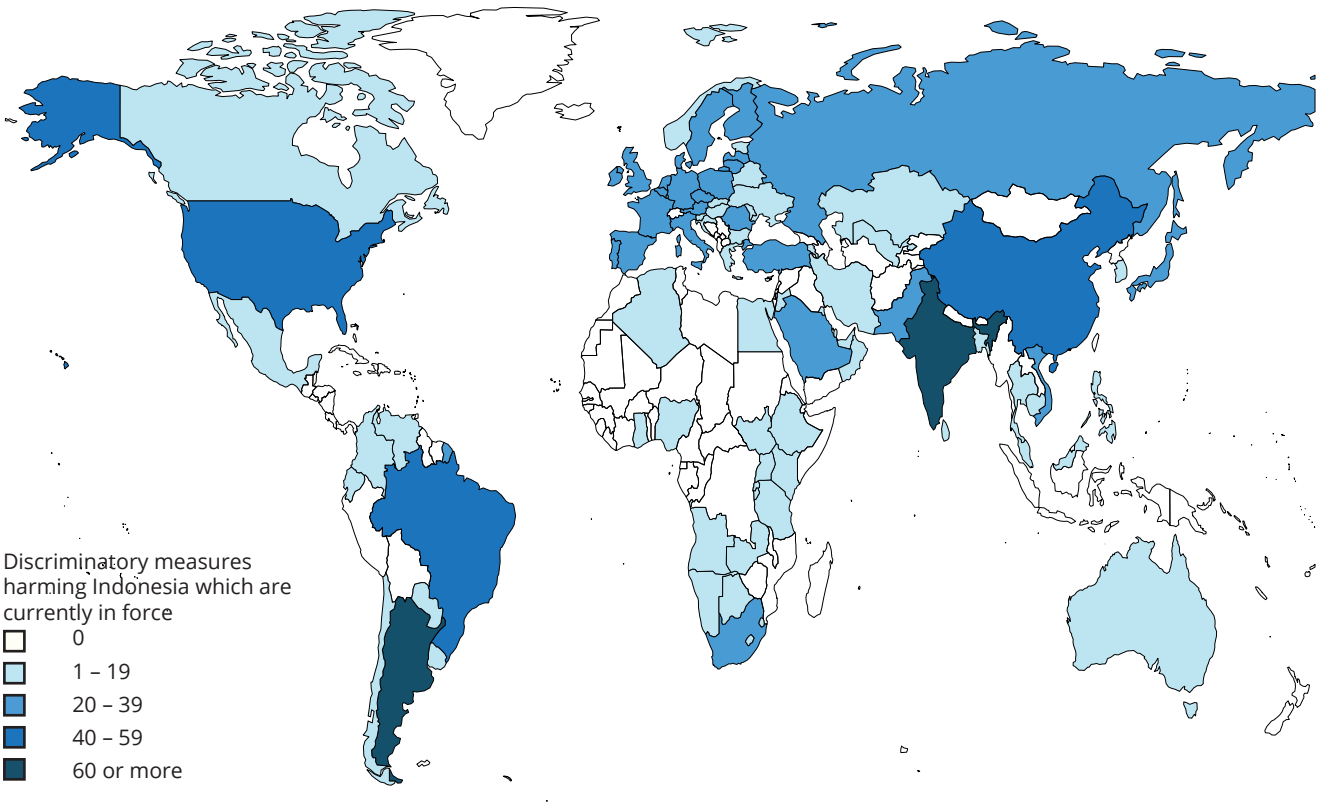
What is at stake for Indonesia's exporters?

Foreign discriminatory policy instrument	Percentage of exports at risk during ...						
	2009	2010	2011	2012	2013	2014	2015
All forms of foreign discrimination	47.89%	66.47%	73.24%	74.03%	77.64%	76.53%	78.38%
Import tariff increases	2.59%	4.05%	4.45%	4.79%	6.87%	8.07%	11.52%
Trade defence and safeguard duties	0.28%	0.39%	0.63%	0.76%	0.87%	1.43%	1.92%
Localisation requirement	0.07%	0.15%	0.36%	0.38%	0.46%	0.65%	0.72%
Buy national public procurement	3.71%	5.55%	5.58%	5.61%	5.65%	5.72%	5.74%
Competition with bailed out firm in latter's home market	0.39%	0.74%	0.95%	1.29%	2.32%	2.95%	5.02%
Export incentives, competition in third markets	44.98%	63.40%	69.60%	70.46%	71.75%	70.61%	72.15%

COUNTRIES HARMED BY INDONESIA'S DISCRIMINATORY MEASURES

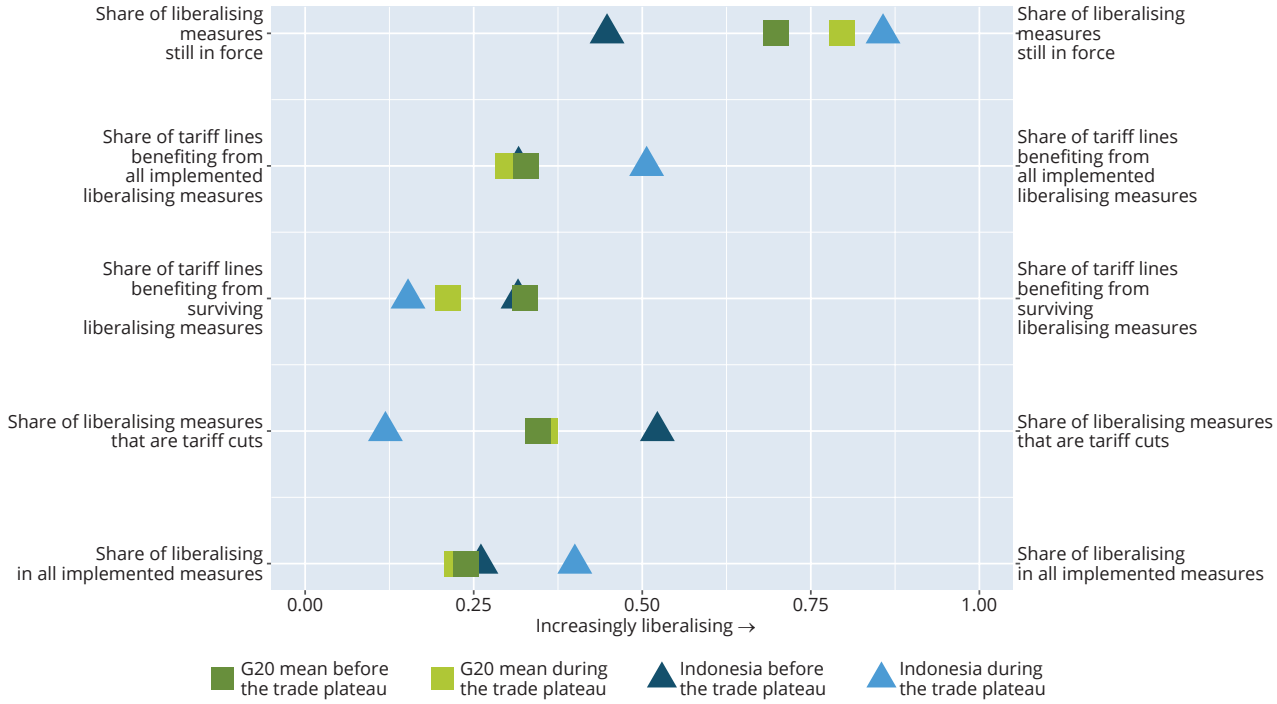


DISCRIMINATORY MEASURES HARMING INDONESIA'S INTERESTS



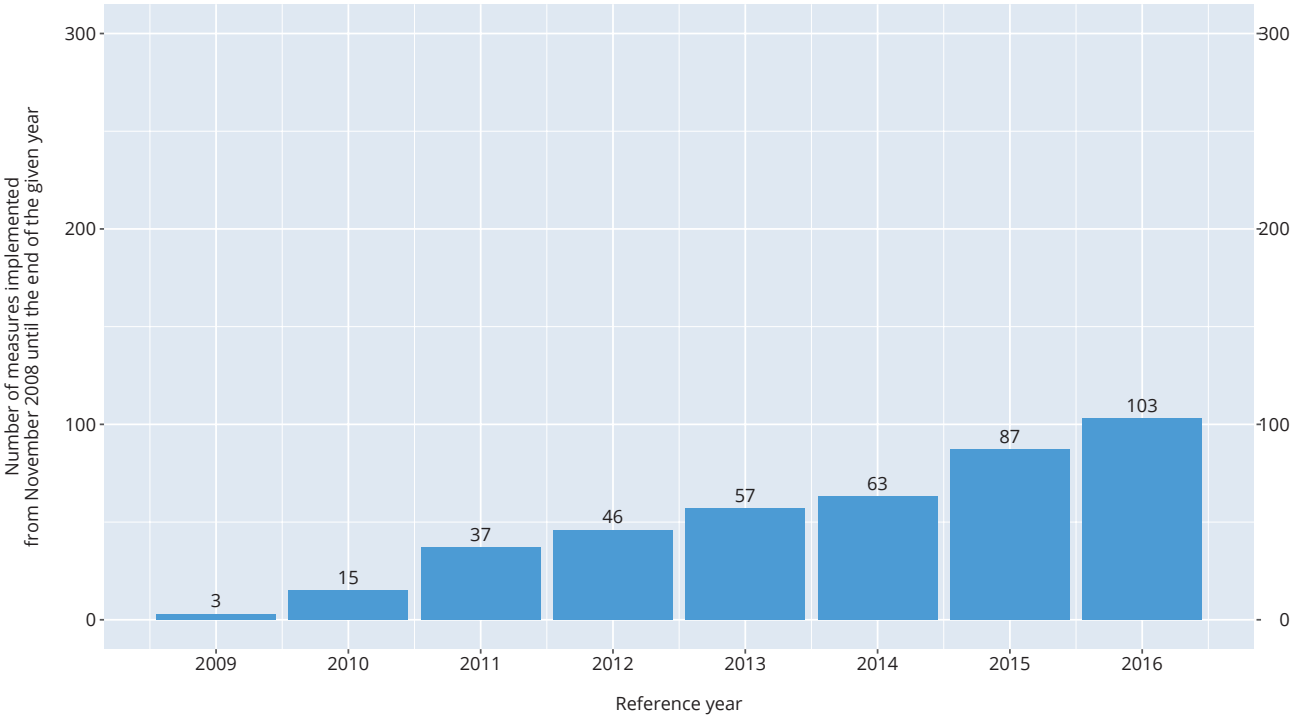
INDONESIA

Track record of liberalisation



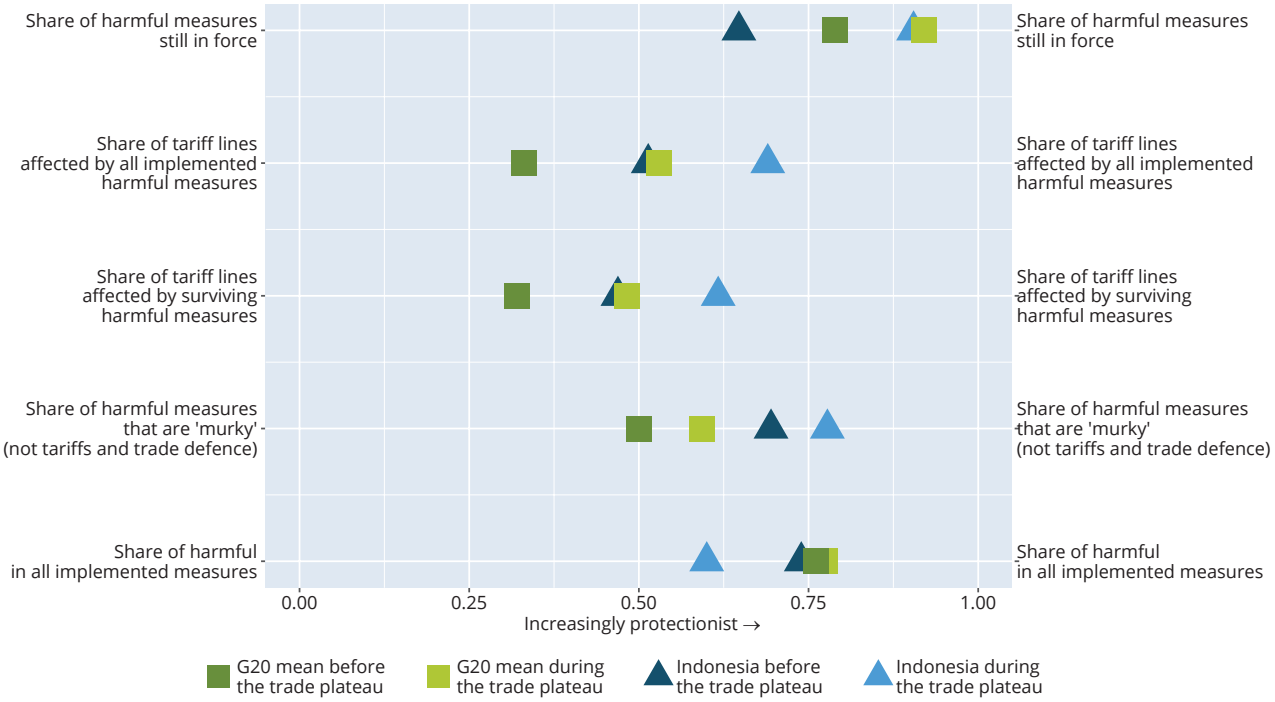
INDONESIA

Number of liberalising measures imposed since November 2008



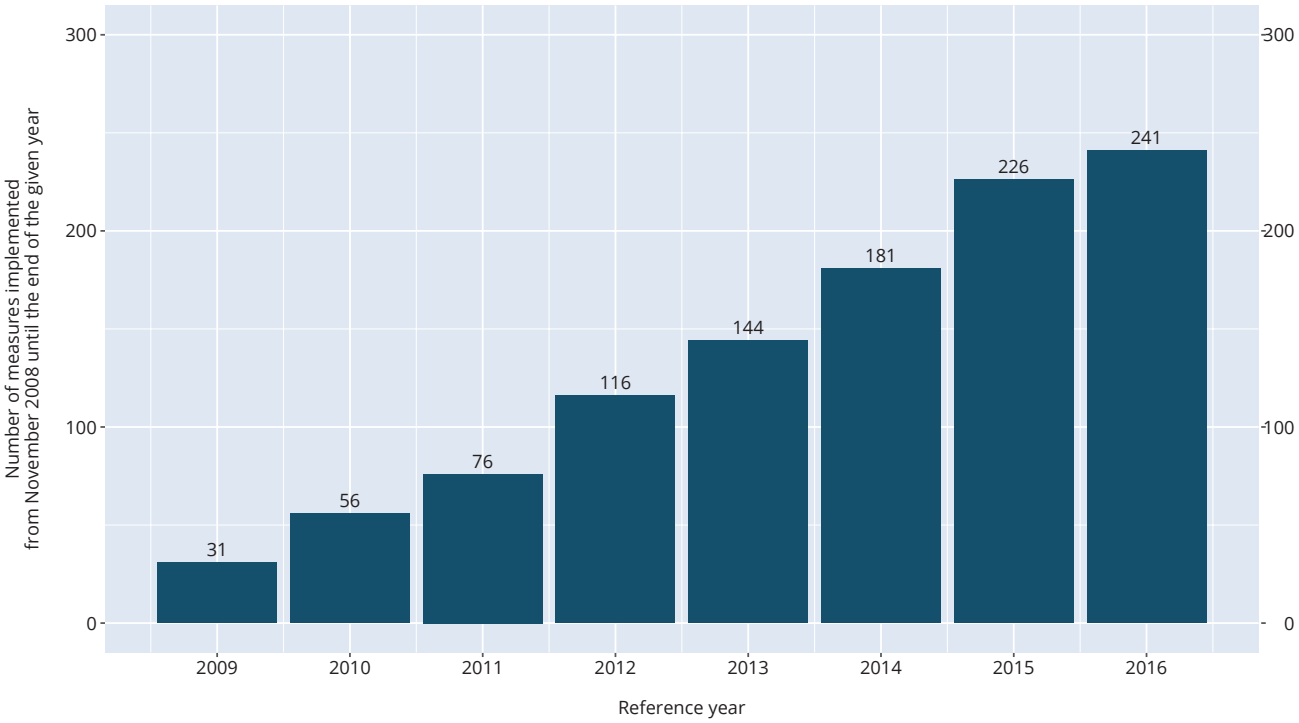
INDONESIA

Track record of protectionism



INDONESIA

Number of discriminatory measures imposed since November 2008

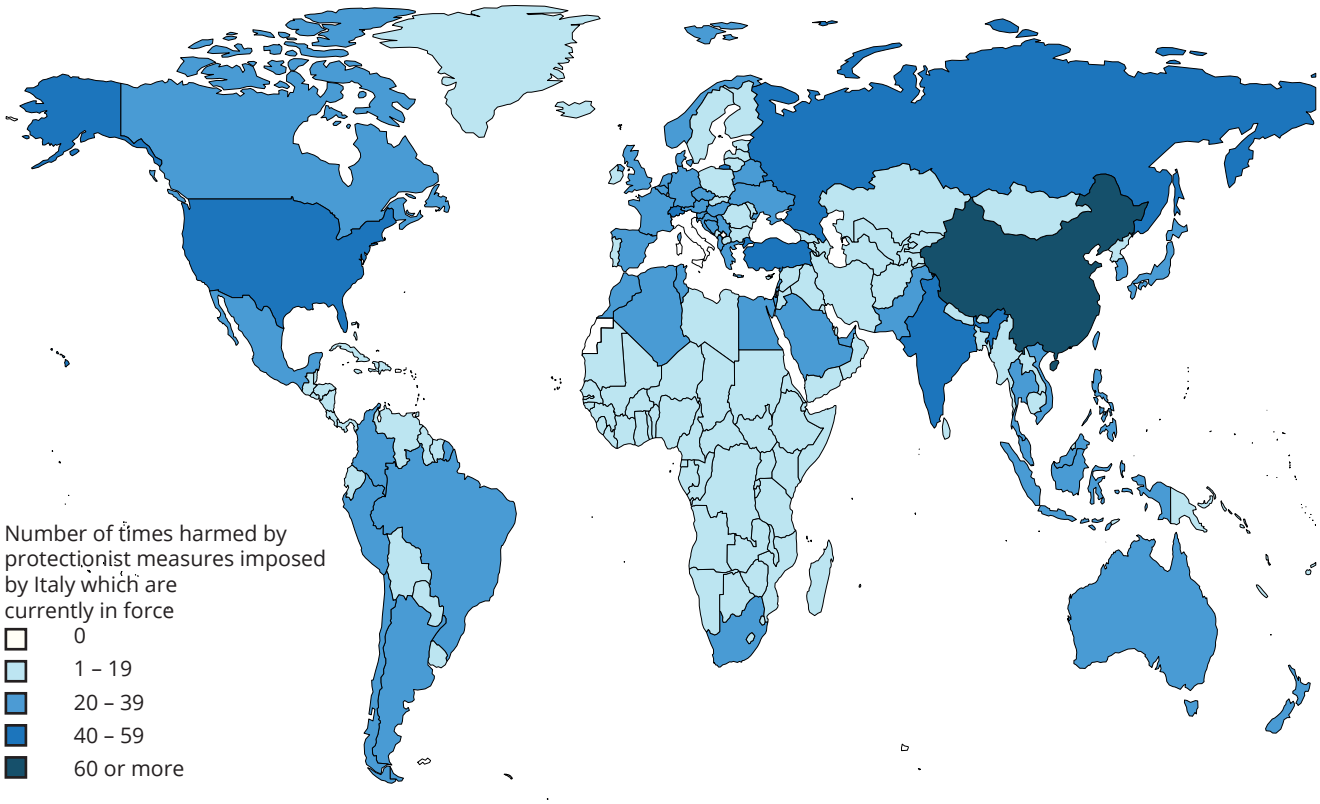


ITALY

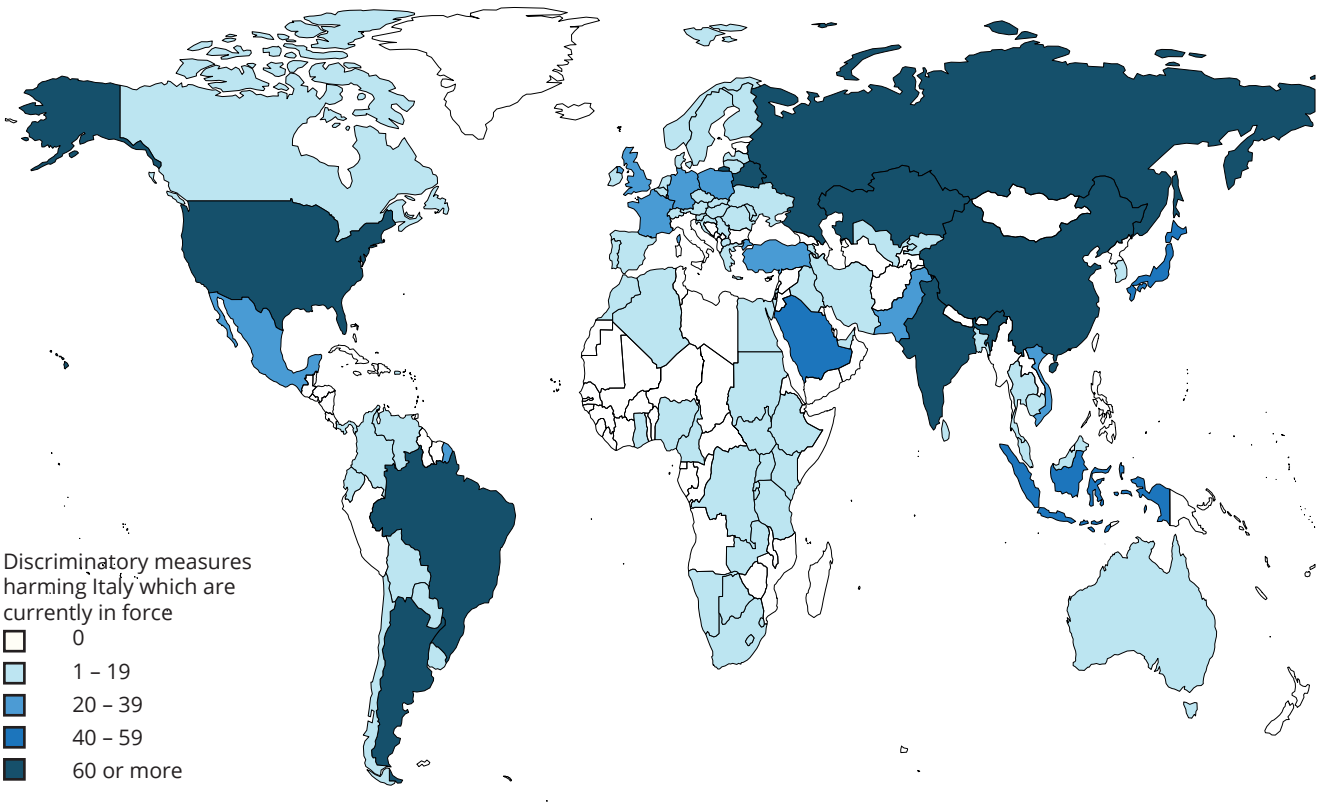
What is at stake for Italy's exporters?

Foreign discriminatory policy instrument	Percentage of exports at risk during ...						
	2009	2010	2011	2012	2013	2014	2015
All forms of foreign discrimination	66.60%	79.16%	79.85%	80.87%	82.55%	86.95%	89.45%
Import tariff increases	0.55%	1.33%	1.44%	1.61%	1.97%	2.36%	2.62%
Trade defence and safeguard duties	0.04%	0.09%	0.12%	0.19%	0.25%	0.34%	0.35%
Localisation requirement	1.72%	3.01%	3.17%	3.36%	3.54%	3.84%	4.53%
Buy national public procurement	0.78%	0.77%	0.70%	0.78%	0.81%	0.88%	0.91%
Competition with bailed out firm in latter's home market	3.33%	4.98%	3.08%	3.80%	5.26%	7.93%	8.49%
Export incentives, competition in third markets	64.89%	77.37%	78.24%	79.51%	81.42%	85.88%	88.55%

COUNTRIES HARMED BY ITALY'S DISCRIMINATORY MEASURES

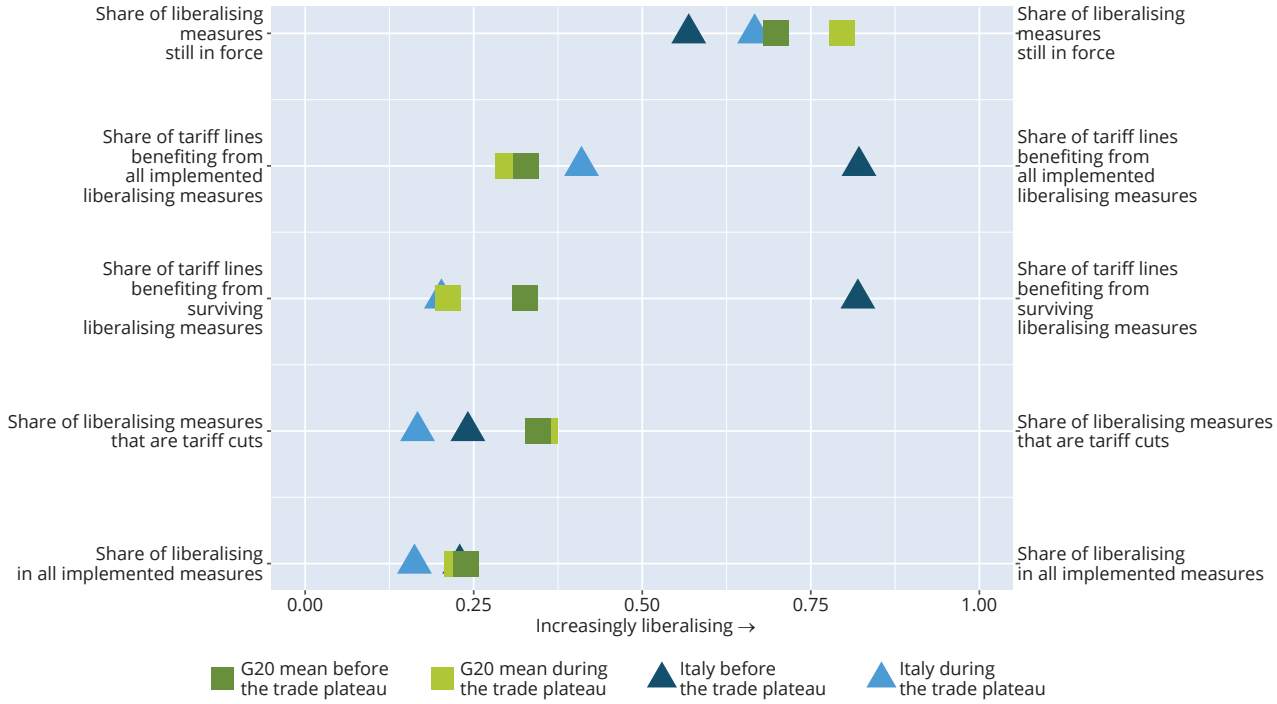


DISCRIMINATORY MEASURES HARMING ITALY'S INTERESTS



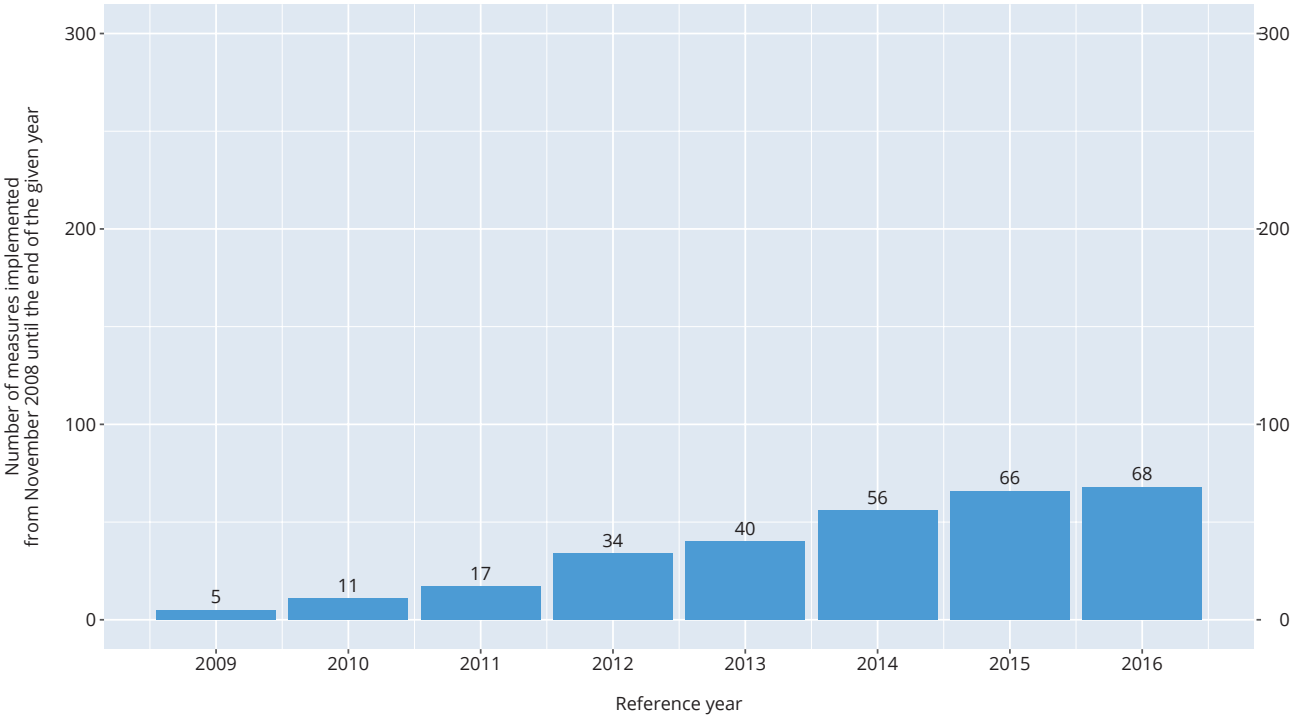
ITALY

Track record of liberalisation



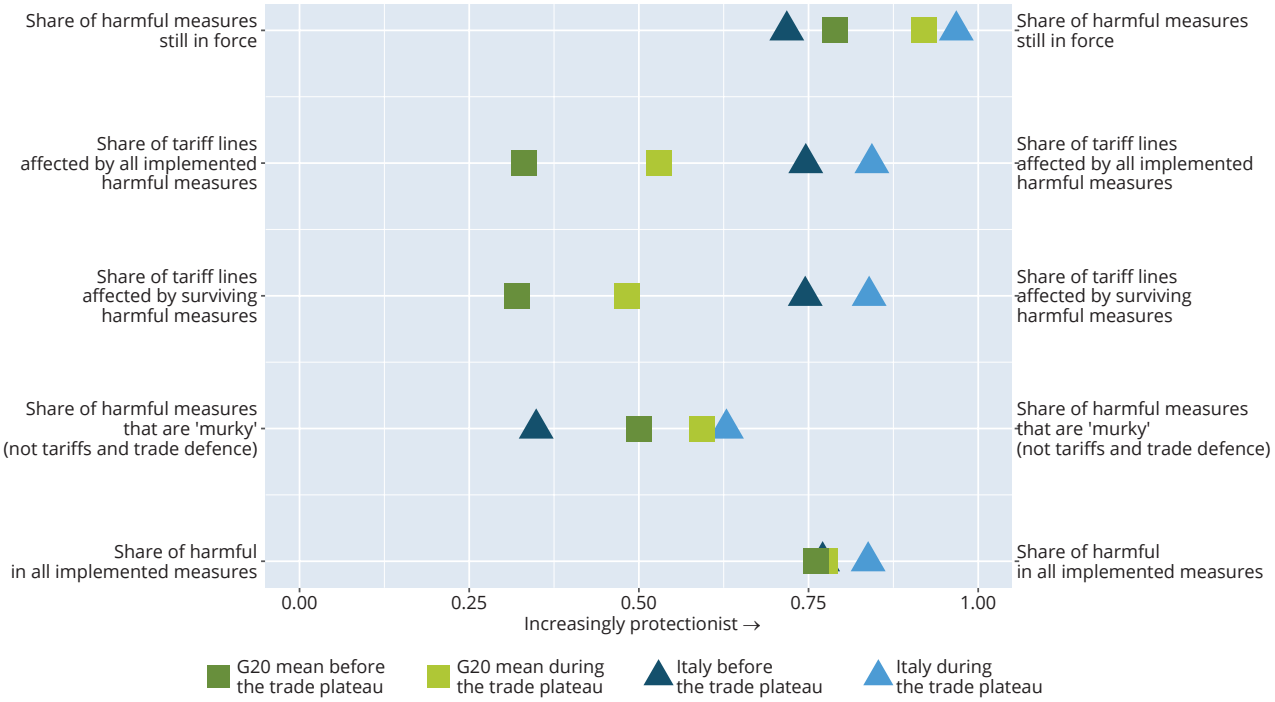
ITALY

Number of liberalising measures imposed since November 2008



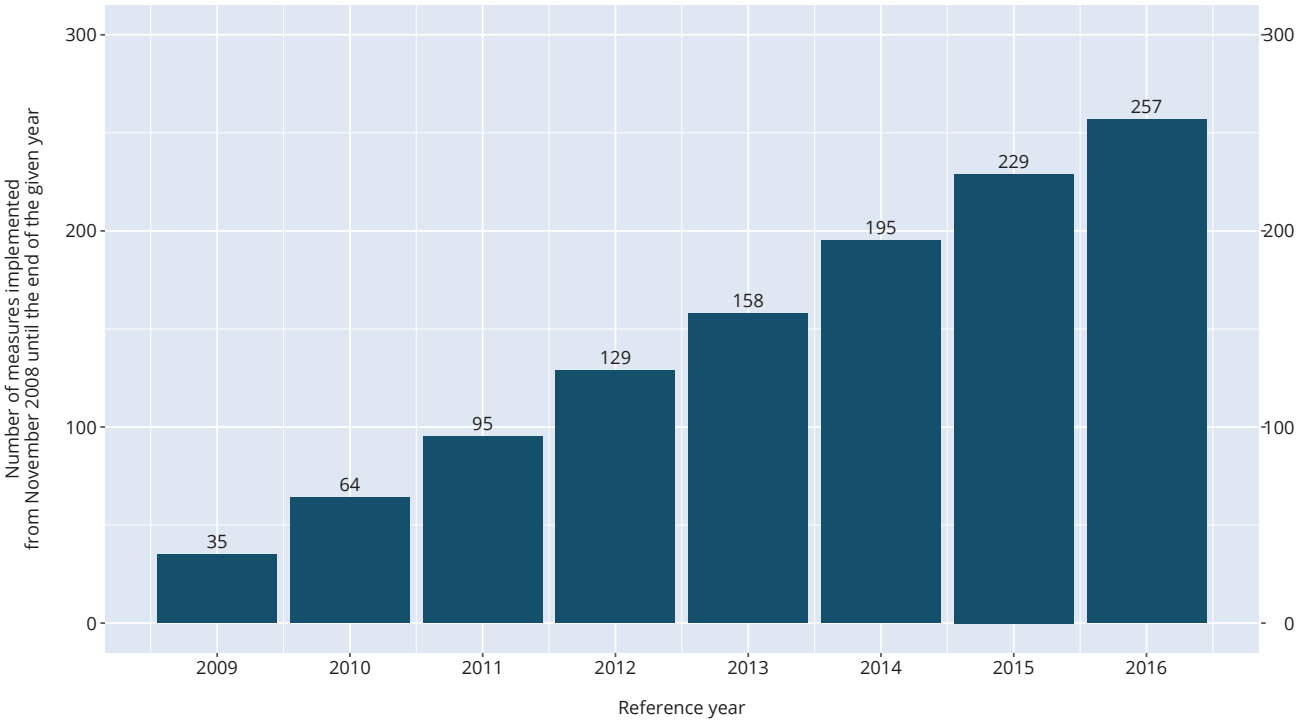
ITALY

Track record of protectionism



ITALY

Number of discriminatory measures imposed since November 2008

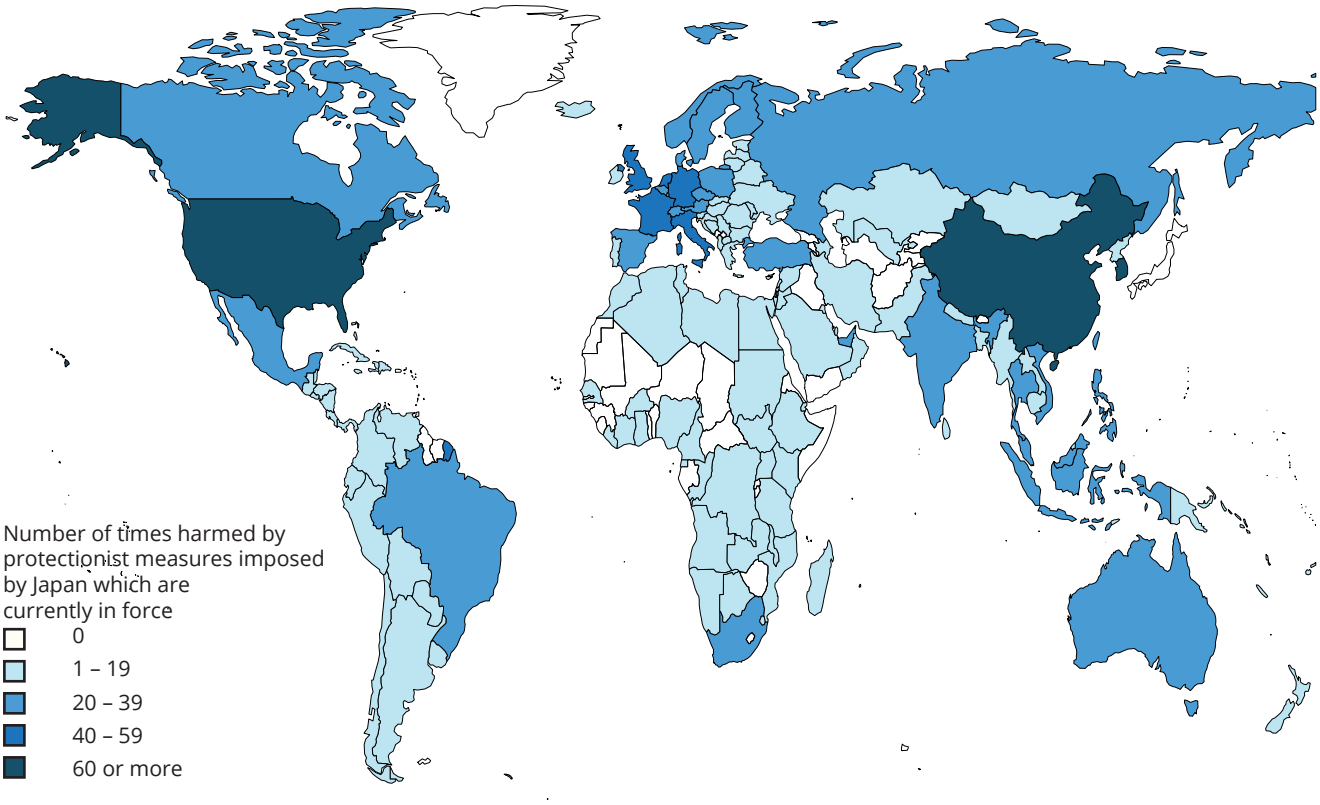


JAPAN

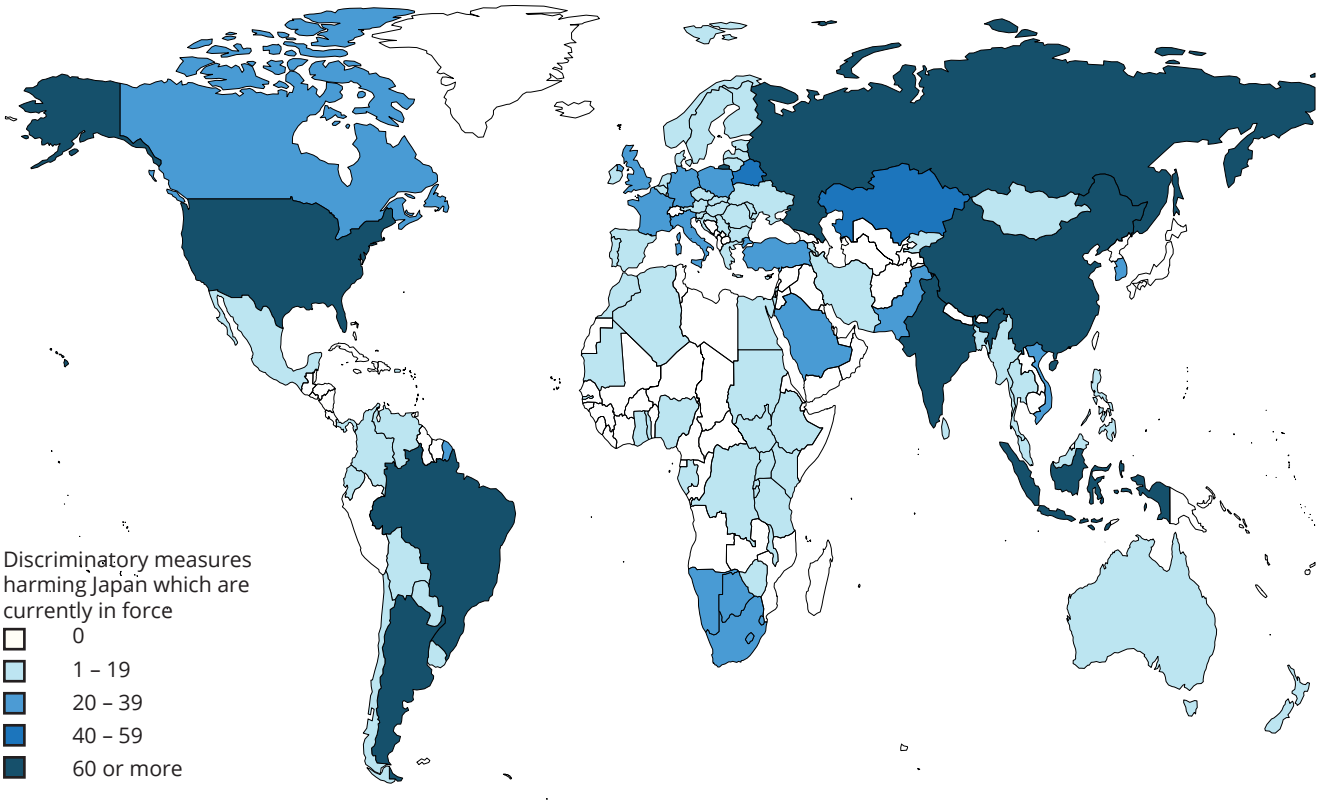
What is at stake for Japan's exporters?

Foreign discriminatory policy instrument	Percentage of exports at risk during ...						
	2009	2010	2011	2012	2013	2014	2015
All forms of foreign discrimination	76.94%	87.39%	88.64%	90.24%	91.30%	93.51%	95.00%
Import tariff increases	2.92%	5.91%	6.31%	6.55%	6.89%	11.23%	17.01%
Trade defence and safeguard duties	0.28%	0.64%	1.04%	1.28%	1.52%	1.63%	1.90%
Localisation requirement	0.81%	2.96%	5.11%	5.14%	5.23%	5.61%	6.15%
Buy national public procurement	7.95%	11.35%	11.57%	16.90%	18.05%	18.35%	19.18%
Competition with bailed out firm in latter's home market	9.81%	11.95%	13.27%	15.02%	15.58%	16.67%	17.72%
Export incentives, competition in third markets	72.66%	84.38%	84.91%	87.63%	90.26%	92.69%	94.21%

COUNTRIES HARMED BY JAPAN'S DISCRIMINATORY MEASURES

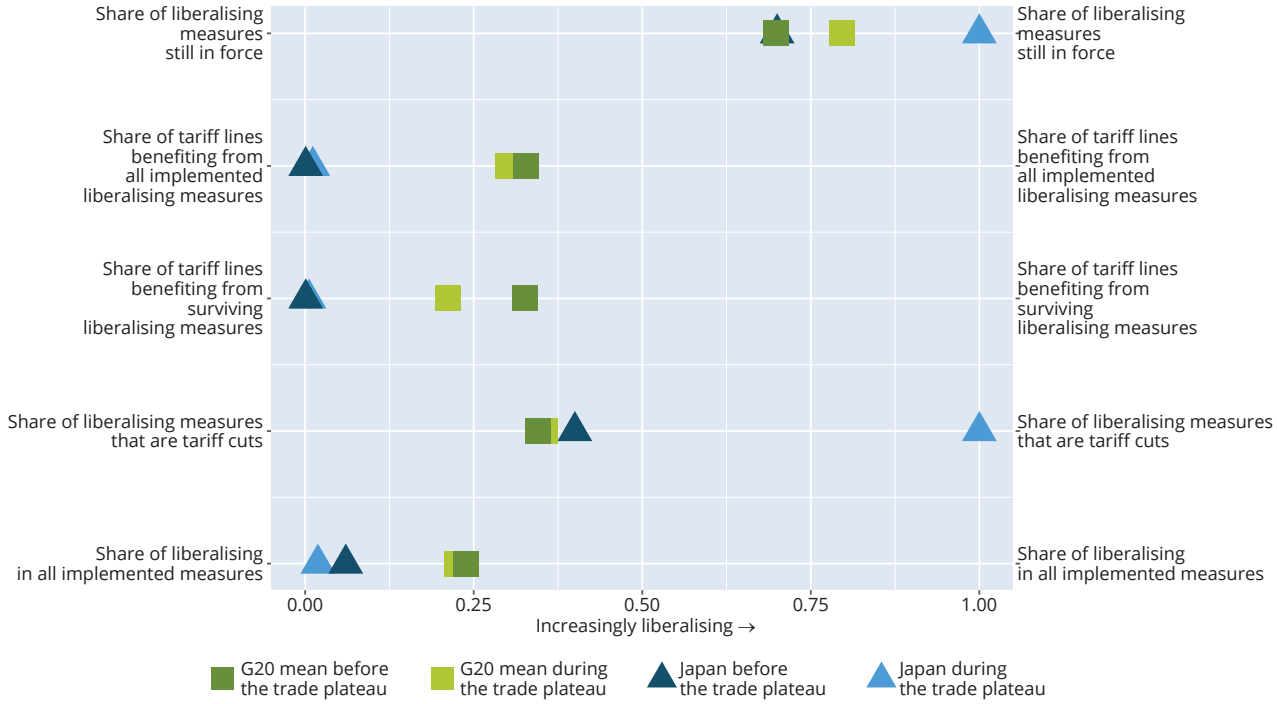


DISCRIMINATORY MEASURES HARMING JAPAN'S INTERESTS



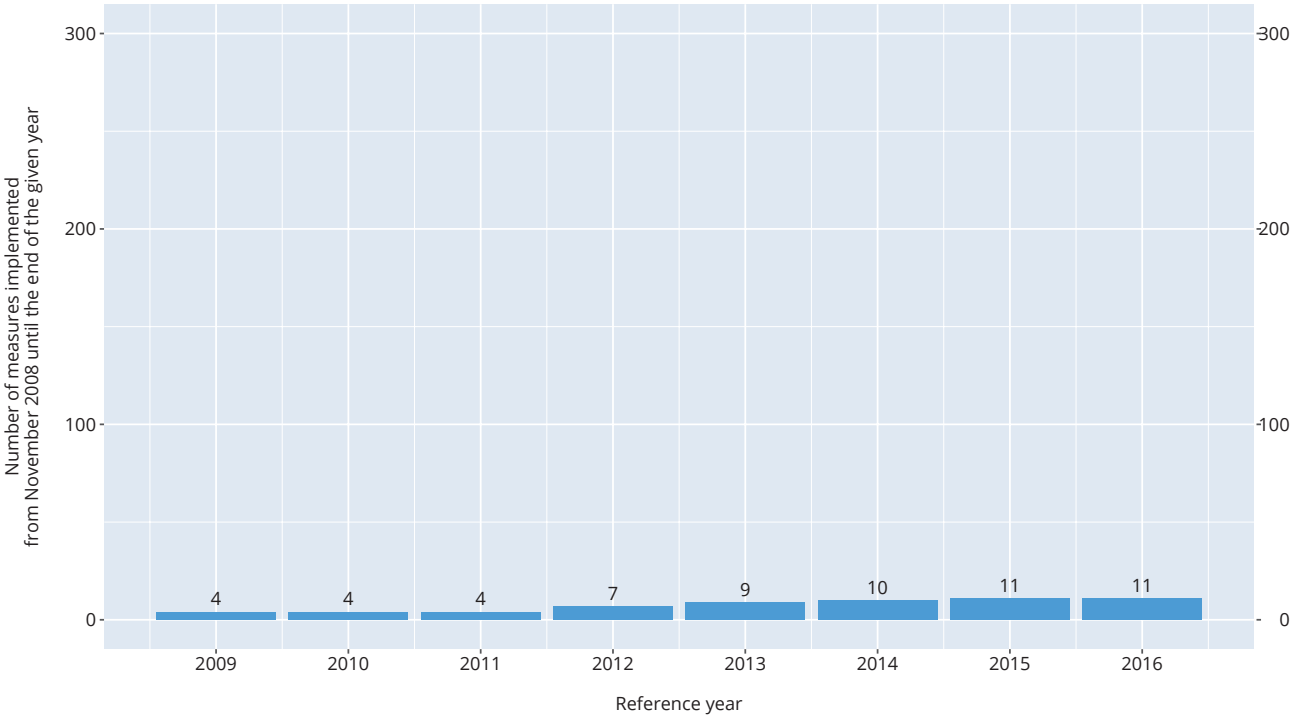
JAPAN

Track record of liberalisation



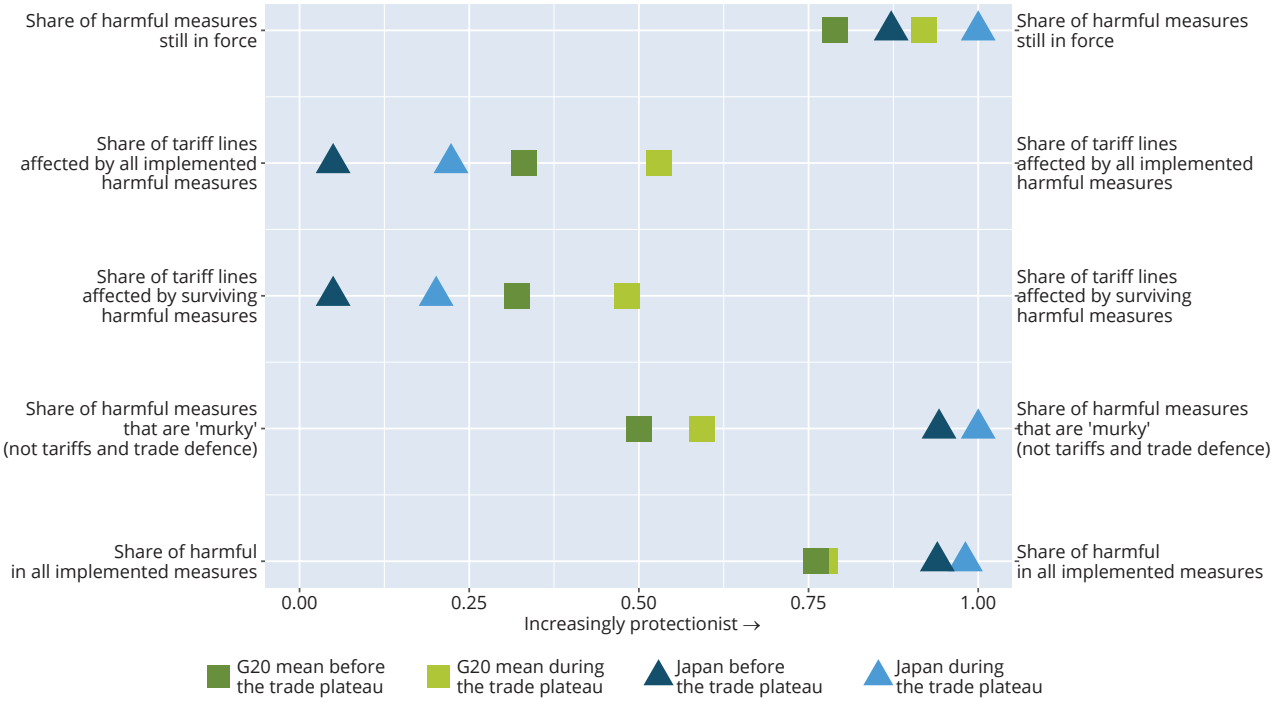
JAPAN

Number of liberalising measures imposed since November 2008



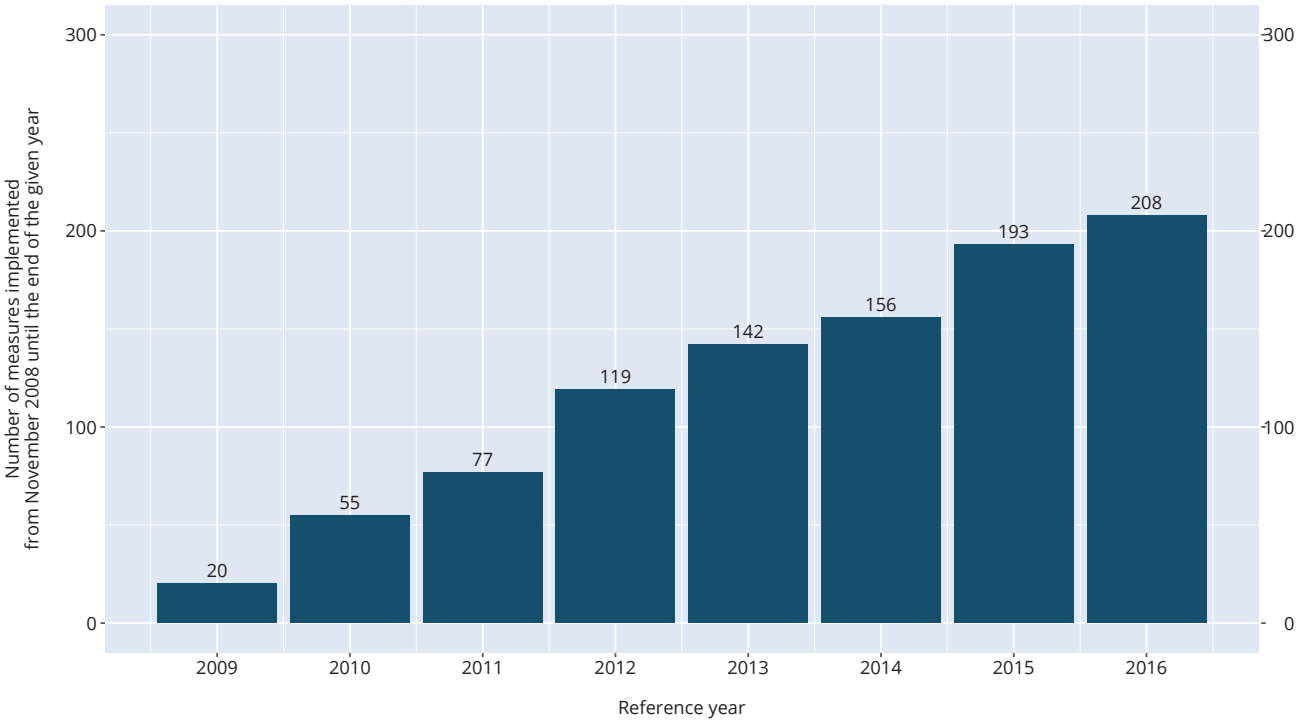
JAPAN

Track record of protectionism



JAPAN

Number of discriminatory measures imposed since November 2008

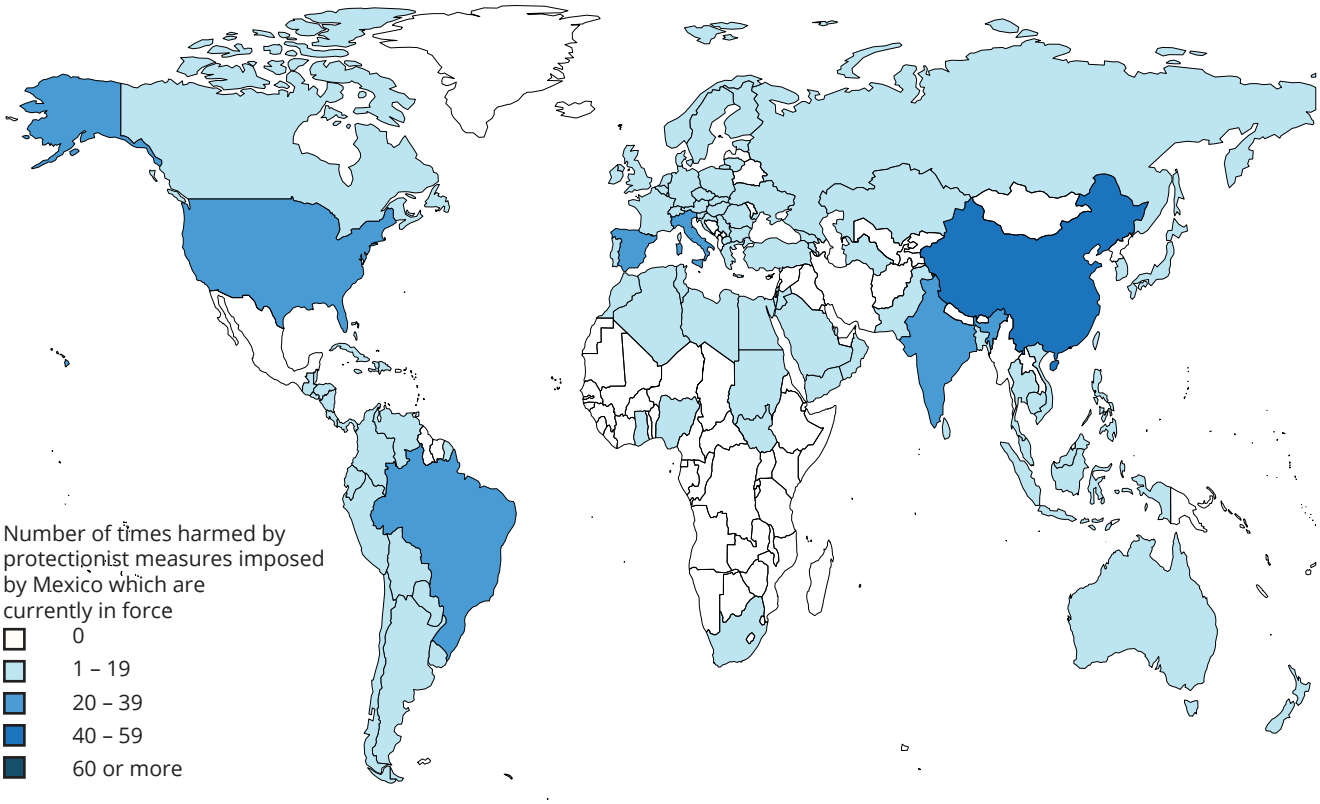


MEXICO

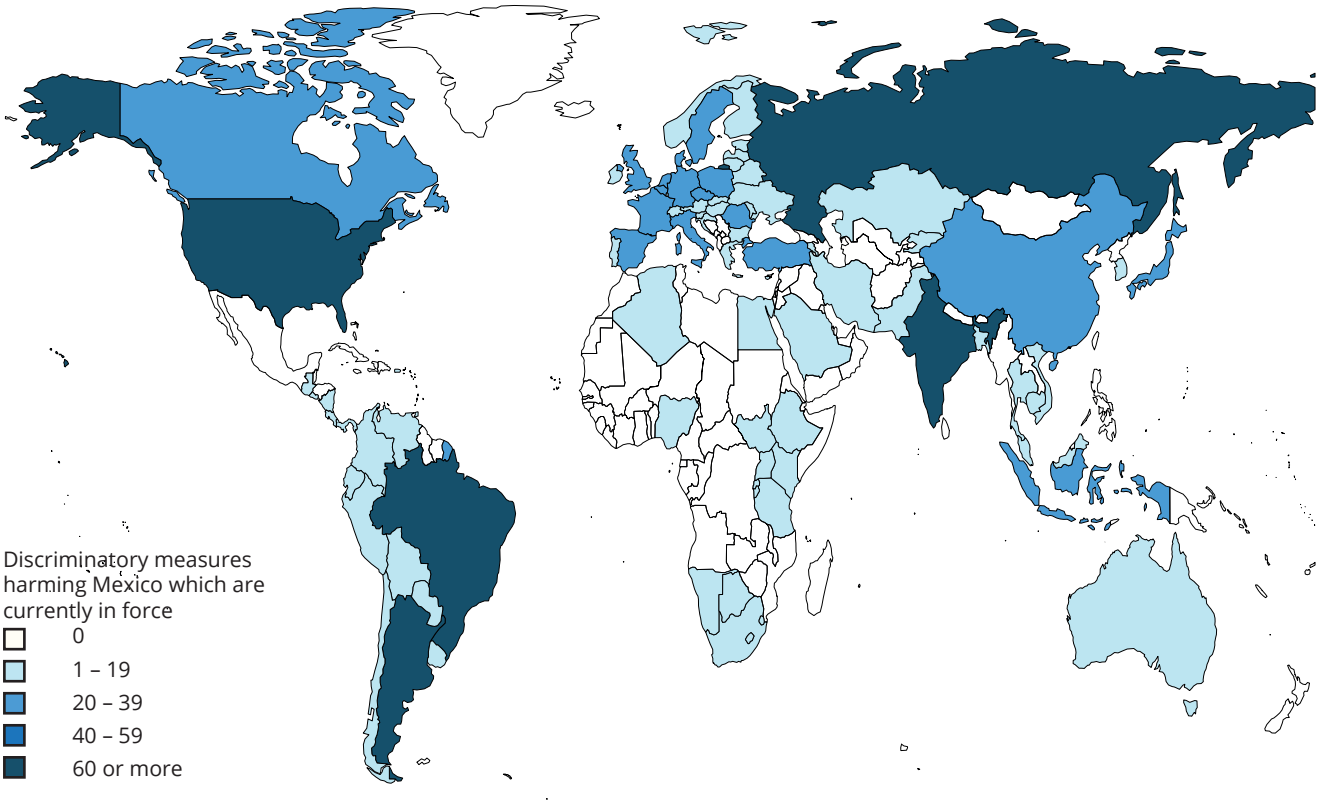
What is at stake for Mexico's exporters?

Foreign discriminatory policy instrument	Percentage of exports at risk during ...						
	2009	2010	2011	2012	2013	2014	2015
All forms of foreign discrimination	77.30%	91.21%	91.52%	91.99%	90.35%	89.50%	93.22%
Import tariff increases	1.47%	1.69%	2.05%	2.37%	2.80%	3.36%	4.53%
Trade defence and safeguard duties	0.00%	0.18%	0.68%	0.70%	1.10%	1.31%	1.55%
Localisation requirement	0.06%	0.75%	1.41%	1.50%	1.67%	2.37%	2.88%
Buy national public procurement	20.49%	24.37%	24.60%	31.84%	33.44%	33.76%	36.48%
Competition with bailed out firm in latter's home market	8.51%	10.85%	23.94%	27.65%	28.04%	28.74%	28.99%
Export incentives, competition in third markets	75.48%	90.79%	91.00%	91.54%	88.91%	87.38%	92.26%

COUNTRIES HARMED BY MEXICO'S DISCRIMINATORY MEASURES

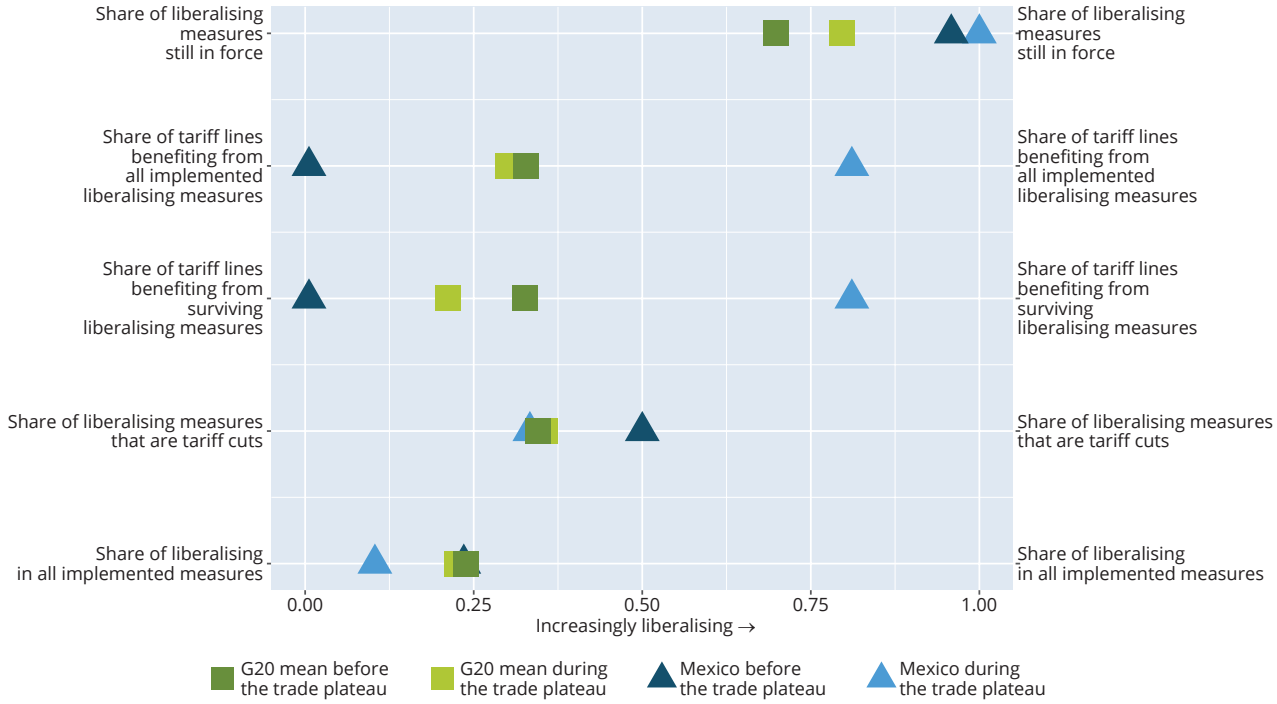


DISCRIMINATORY MEASURES HARMING MEXICO'S INTERESTS



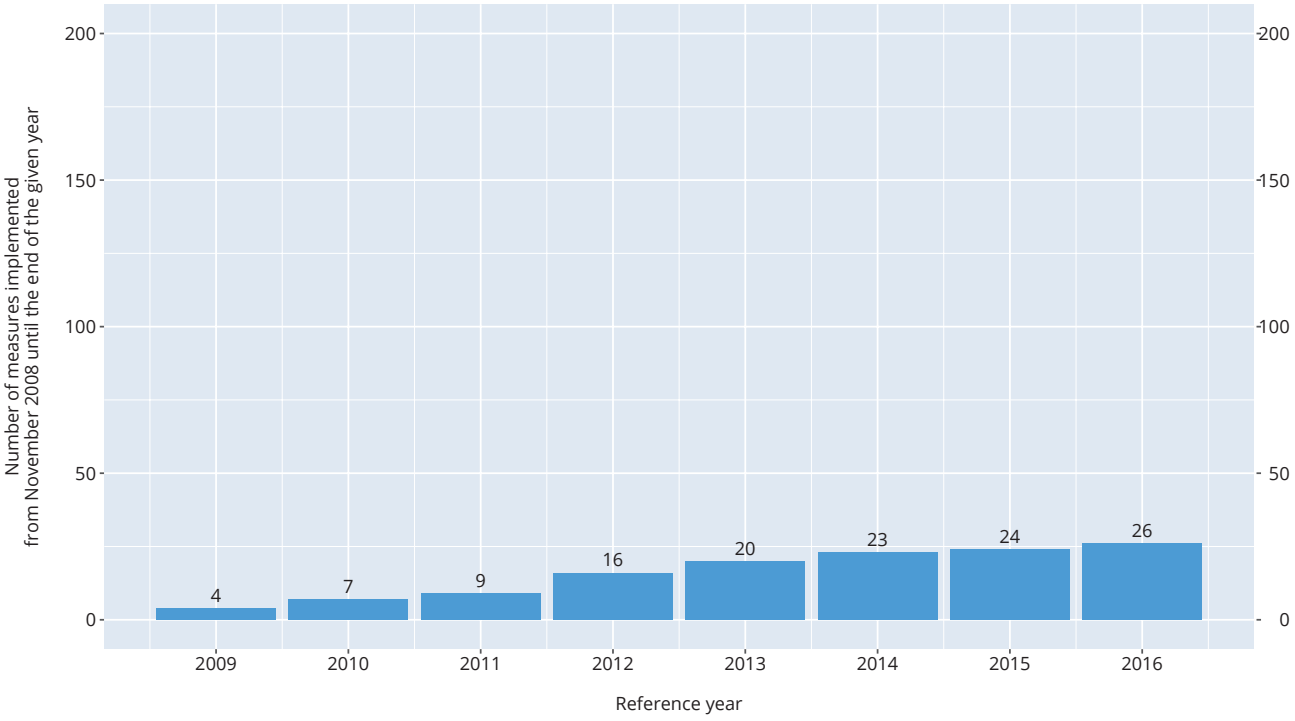
MEXICO

Track record of liberalisation



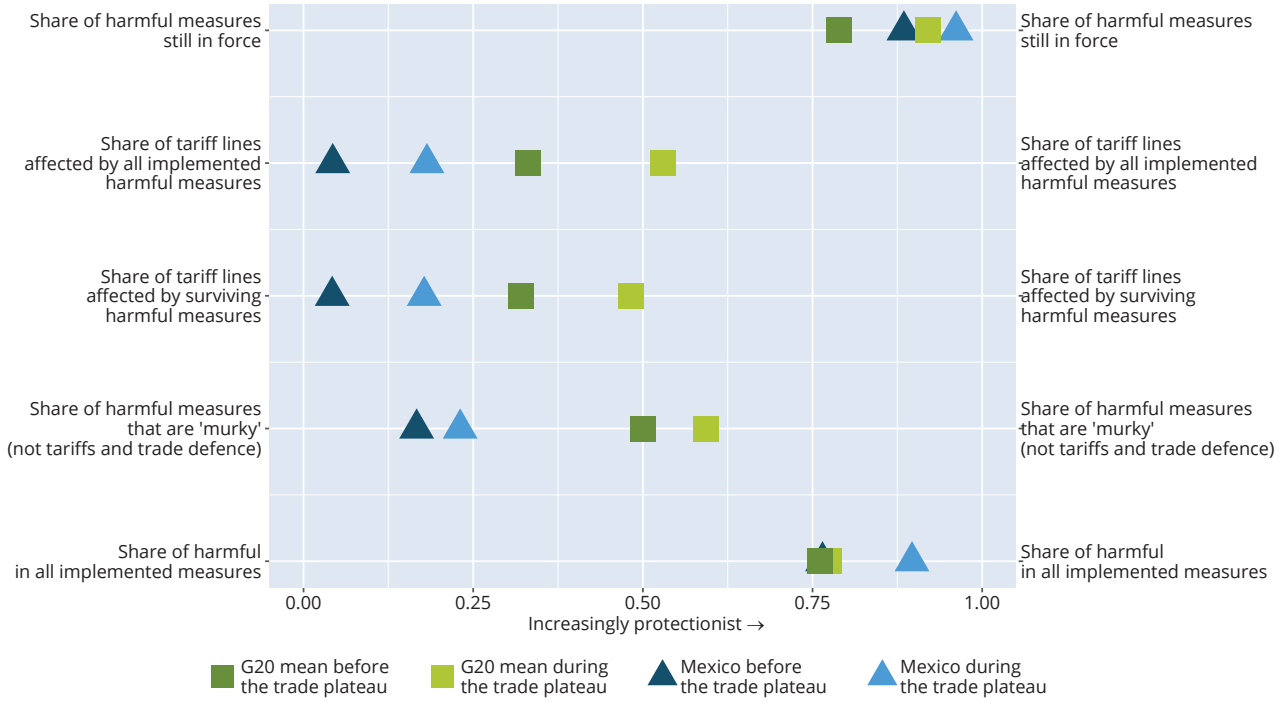
MEXICO

Number of liberalising measures imposed since November 2008



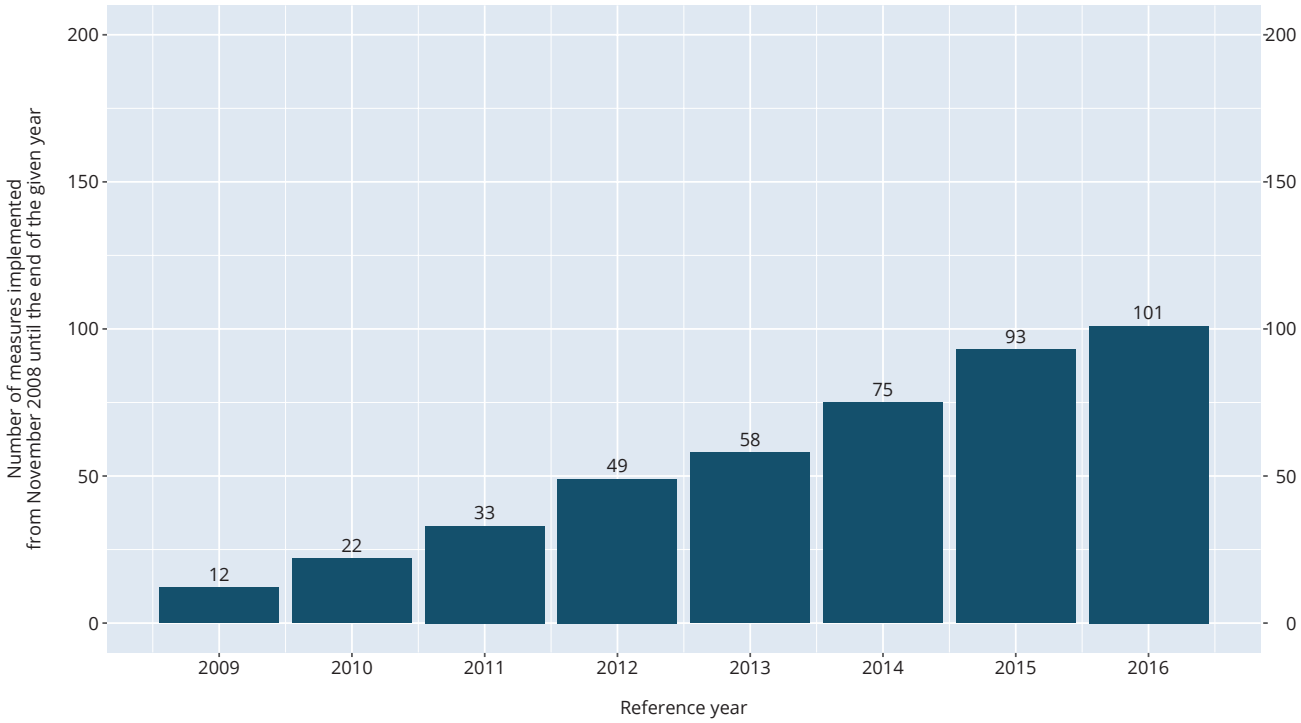
MEXICO

Track record of protectionism



MEXICO

Number of discriminatory measures imposed since November 2008

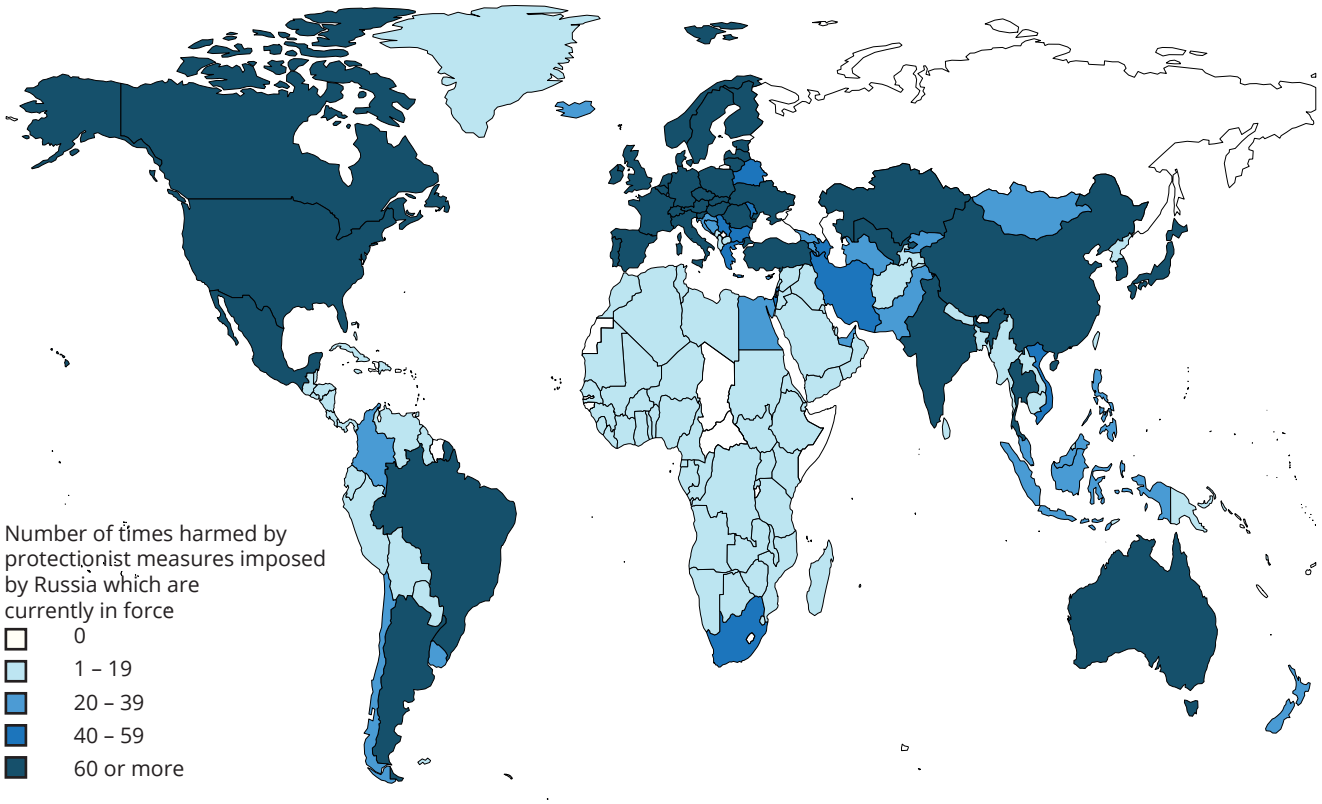


RUSSIA

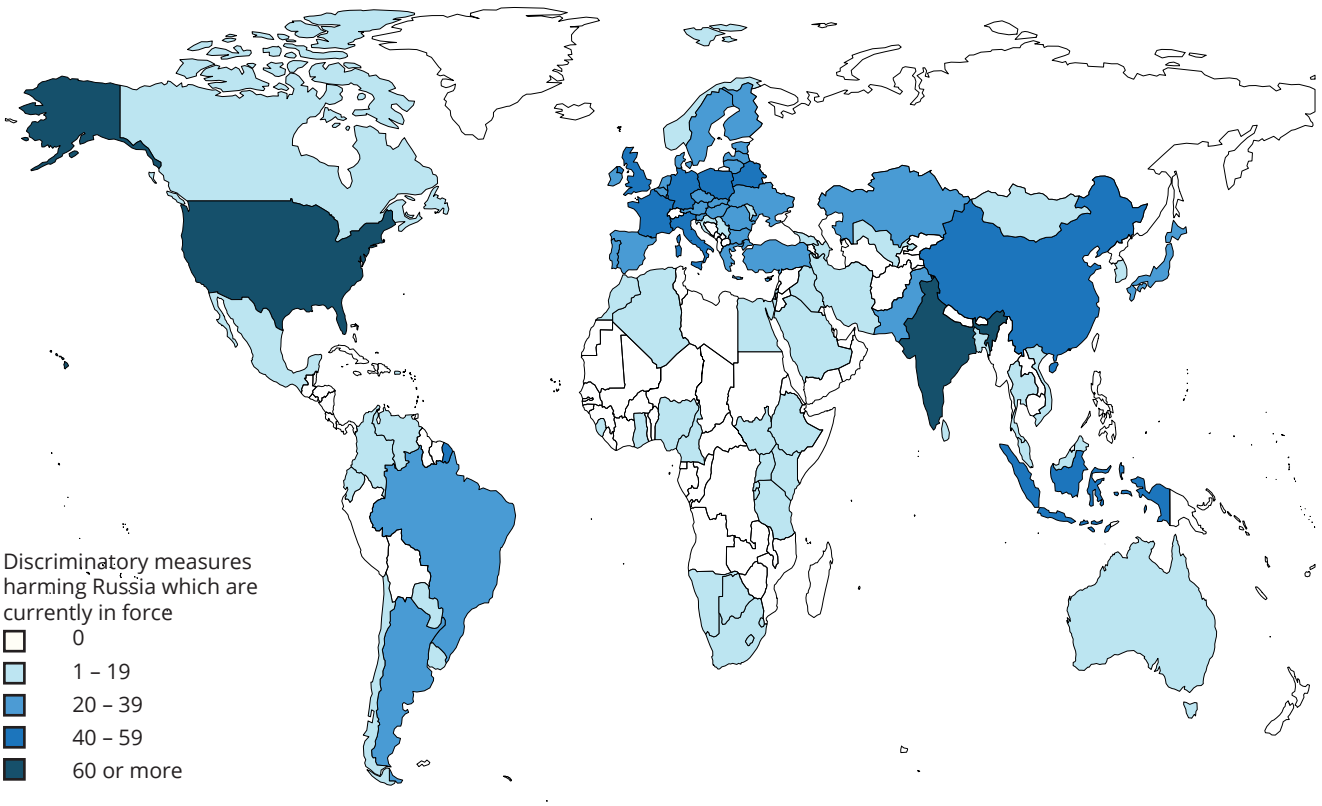
What is at stake for Russia's exporters?

Foreign discriminatory policy instrument	Percentage of exports at risk during ...						
	2009	2010	2011	2012	2013	2014	2015
All forms of foreign discrimination	27.83%	55.69%	58.44%	60.79%	59.24%	64.80%	75.06%
Import tariff increases	1.42%	2.36%	2.52%	2.66%	3.39%	3.72%	4.90%
Trade defence and safeguard duties	0.09%	0.26%	0.34%	0.74%	0.92%	1.30%	1.65%
Localisation requirement	0.08%	1.26%	1.72%	1.72%	1.83%	1.98%	2.05%
Buy national public procurement	0.66%	0.93%	0.98%	0.99%	1.00%	1.00%	1.02%
Competition with bailed out firm in latter's home market	1.44%	4.28%	6.41%	8.98%	10.67%	13.78%	13.85%
Export incentives, competition in third markets	22.72%	48.65%	50.81%	52.86%	50.20%	58.23%	69.14%

COUNTRIES HARMED BY RUSSIA'S DISCRIMINATORY MEASURES

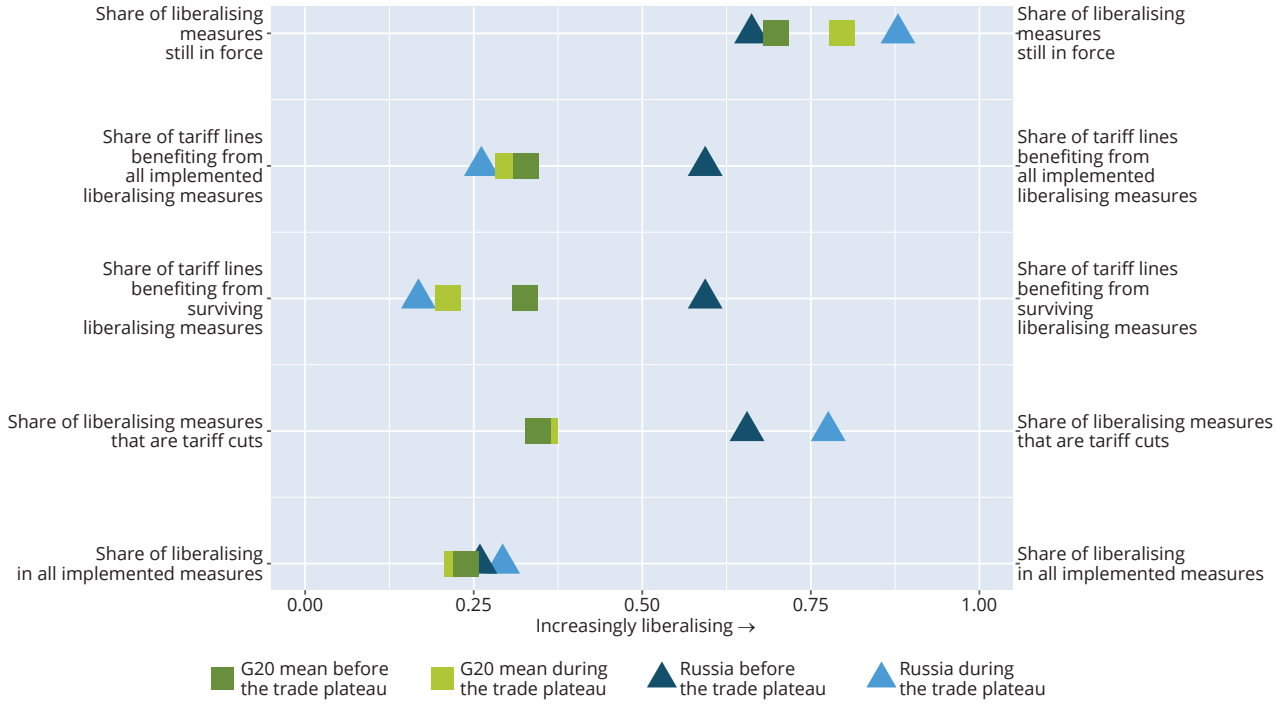


DISCRIMINATORY MEASURES HARMING RUSSIA'S INTERESTS



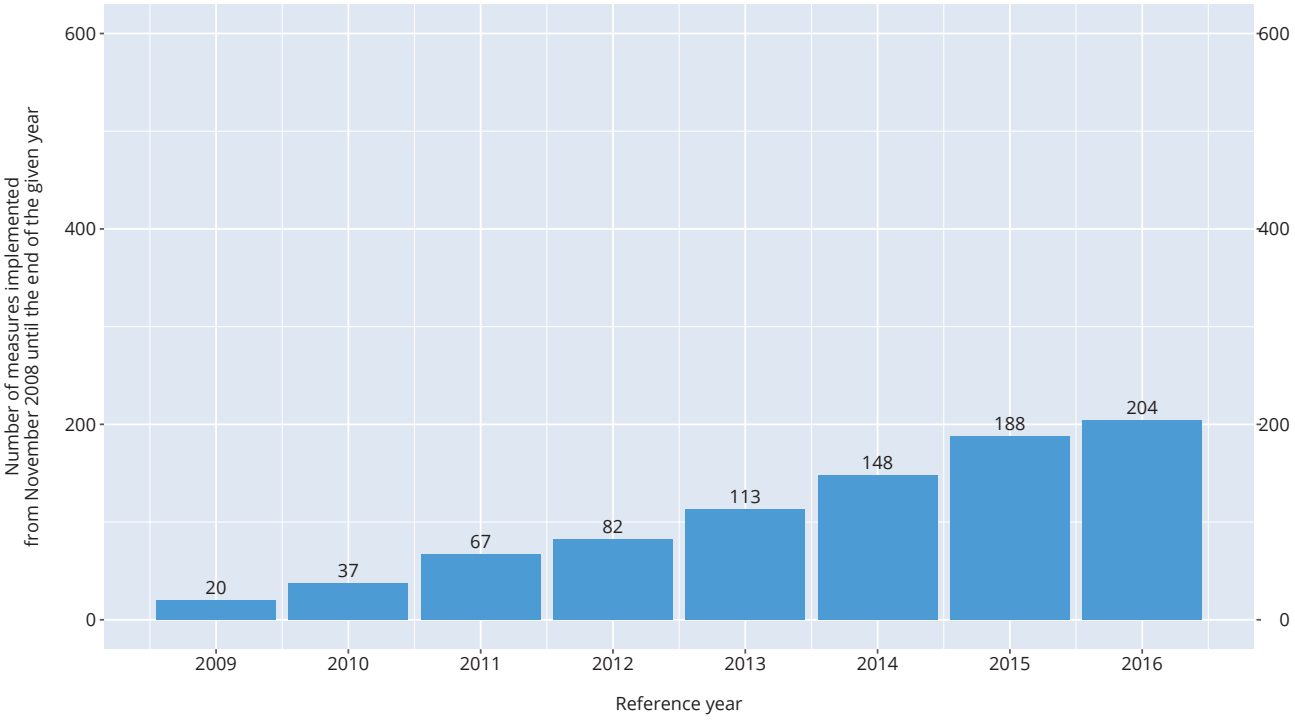
RUSSIA

Track record of liberalisation



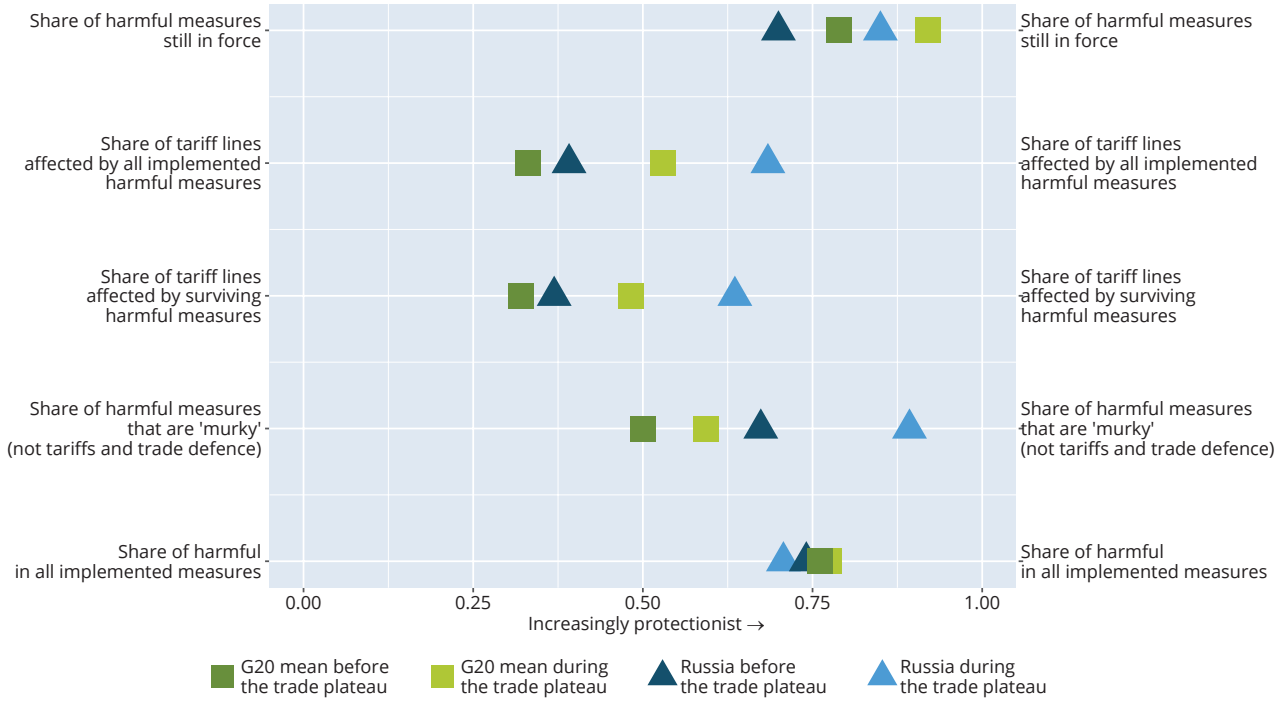
RUSSIA

Number of liberalising measures imposed since November 2008



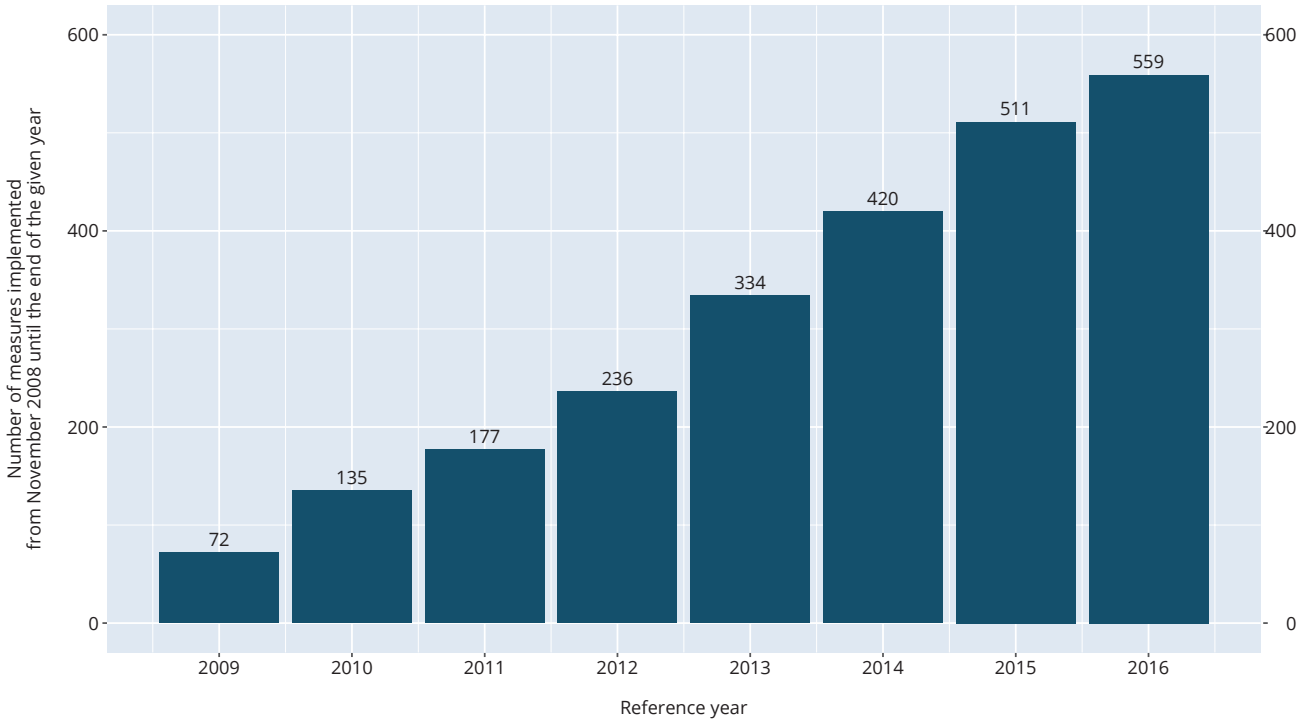
RUSSIA

Track record of protectionism



RUSSIA

Number of discriminatory measures imposed since November 2008

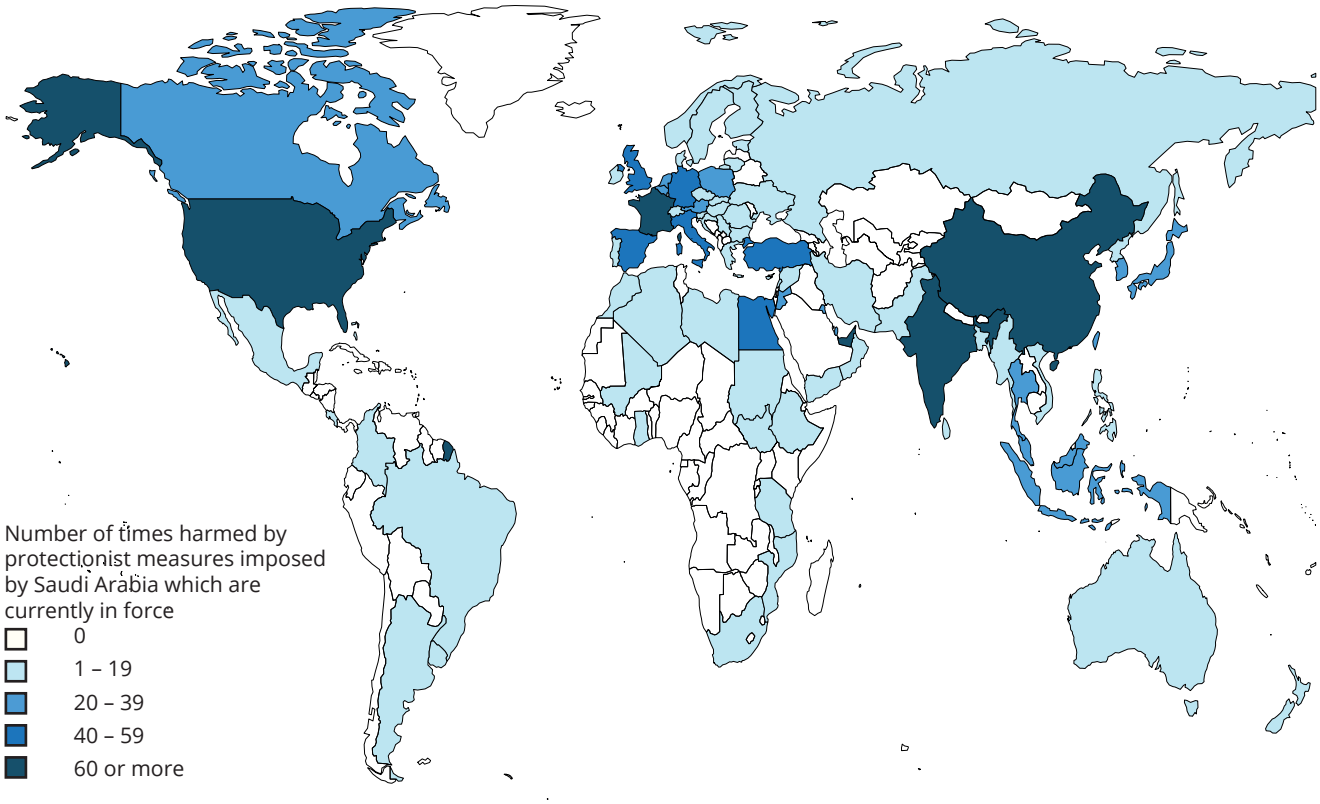


SAUDI ARABIA

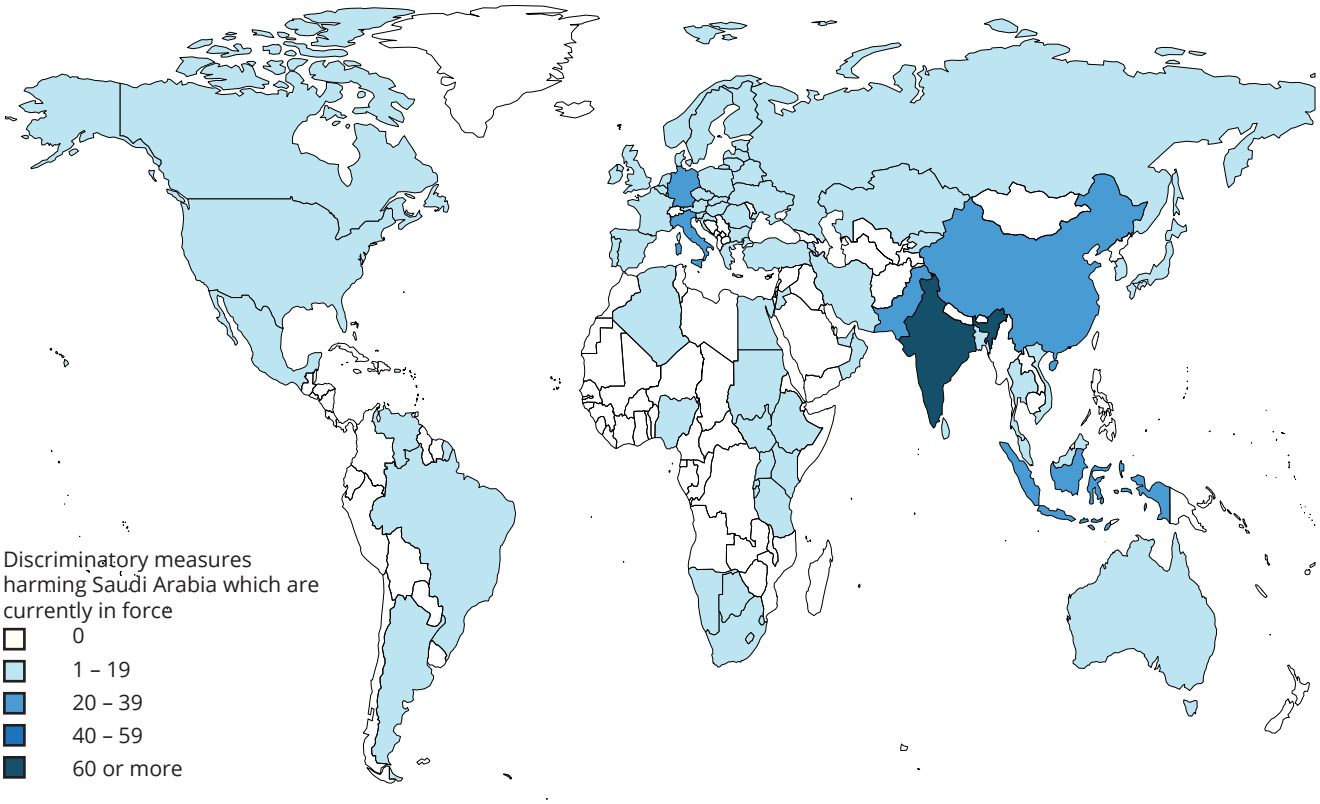
What is at stake for Saudi Arabia's exporters?

Foreign discriminatory policy instrument	Percentage of exports at risk during ...						
	2009	2010	2011	2012	2013	2014	2015
All forms of foreign discrimination	29.38%	58.76%	61.10%	62.48%	59.15%	62.62%	84.43%
Import tariff increases	7.31%	9.55%	13.33%	13.52%	13.86%	14.27%	17.31%
Trade defence and safeguard duties	0.57%	0.87%	0.88%	0.90%	0.88%	1.23%	1.49%
Localisation requirement	0.00%	0.00%	0.01%	0.01%	0.03%	0.23%	1.44%
Buy national public procurement	0.00%	0.01%	0.01%	0.01%	0.01%	0.10%	0.13%
Competition with bailed out firm in latter's home market	0.06%	0.15%	2.73%	4.03%	4.28%	5.31%	5.67%
Export incentives, competition in third markets	21.80%	49.91%	51.29%	51.87%	46.90%	52.75%	81.48%

COUNTRIES HARMED BY SAUDI ARABIA'S DISCRIMINATORY MEASURES

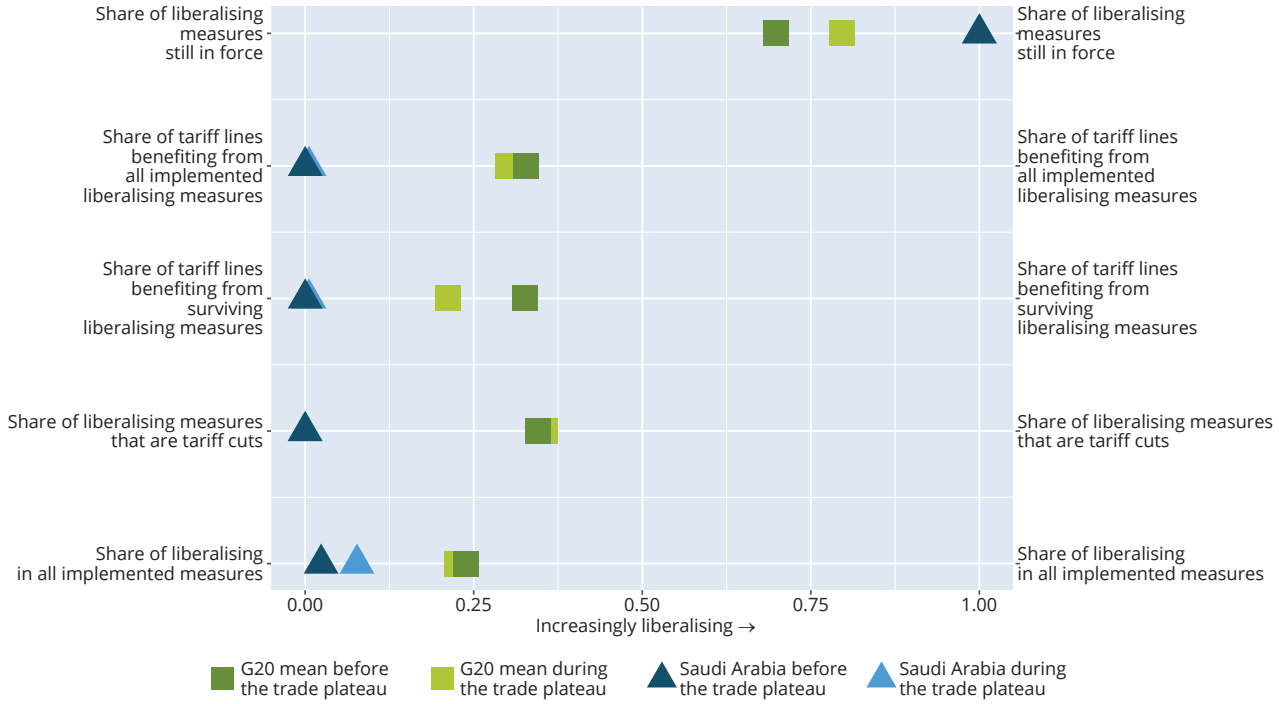


DISCRIMINATORY MEASURES HARMING SAUDI ARABIA'S INTERESTS



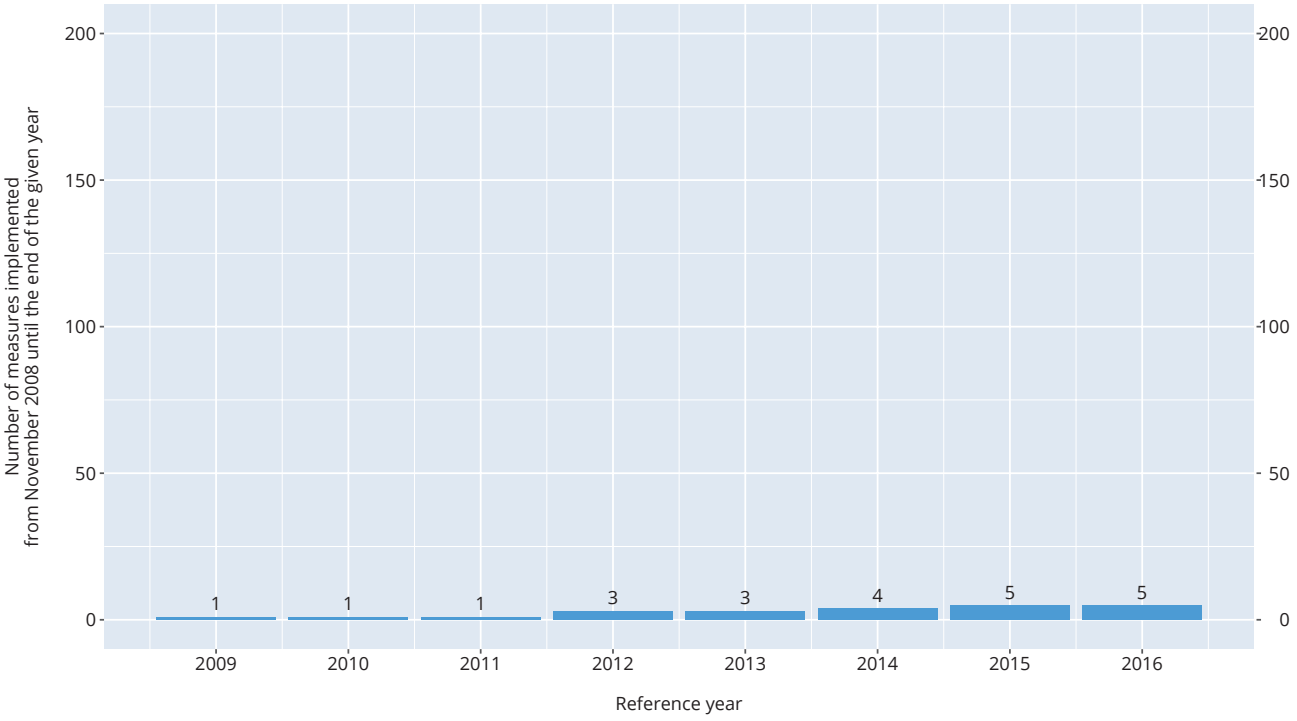
SAUDI ARABIA

Track record of liberalisation



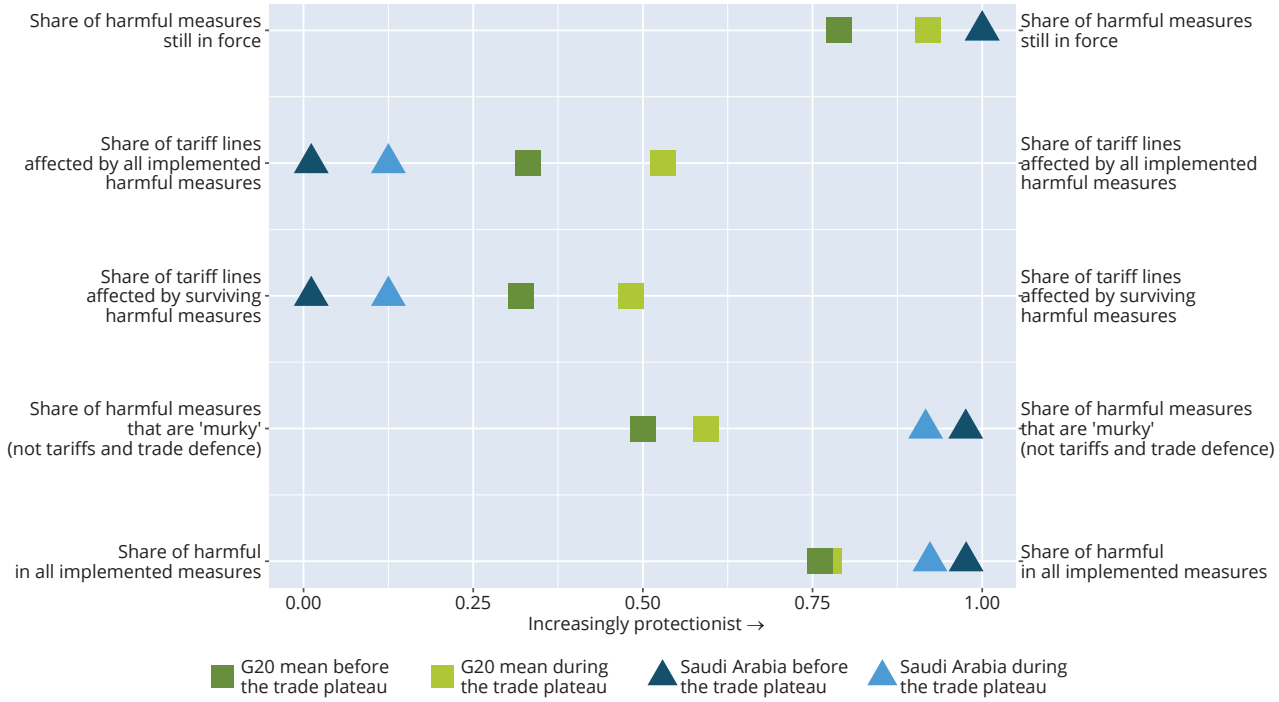
SAUDI ARABIA

Number of liberalising measures imposed since November 2008



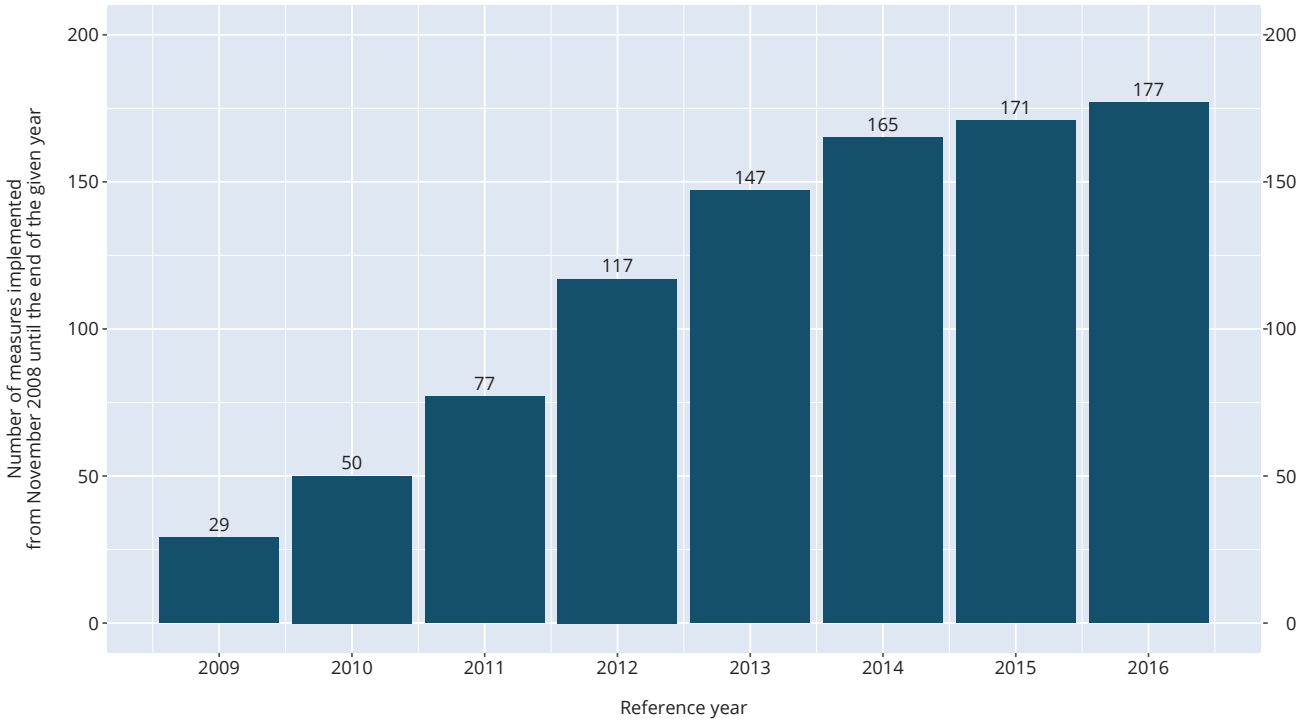
SAUDI ARABIA

Track record of protectionism



SAUDI ARABIA

Number of discriminatory measures imposed since November 2008

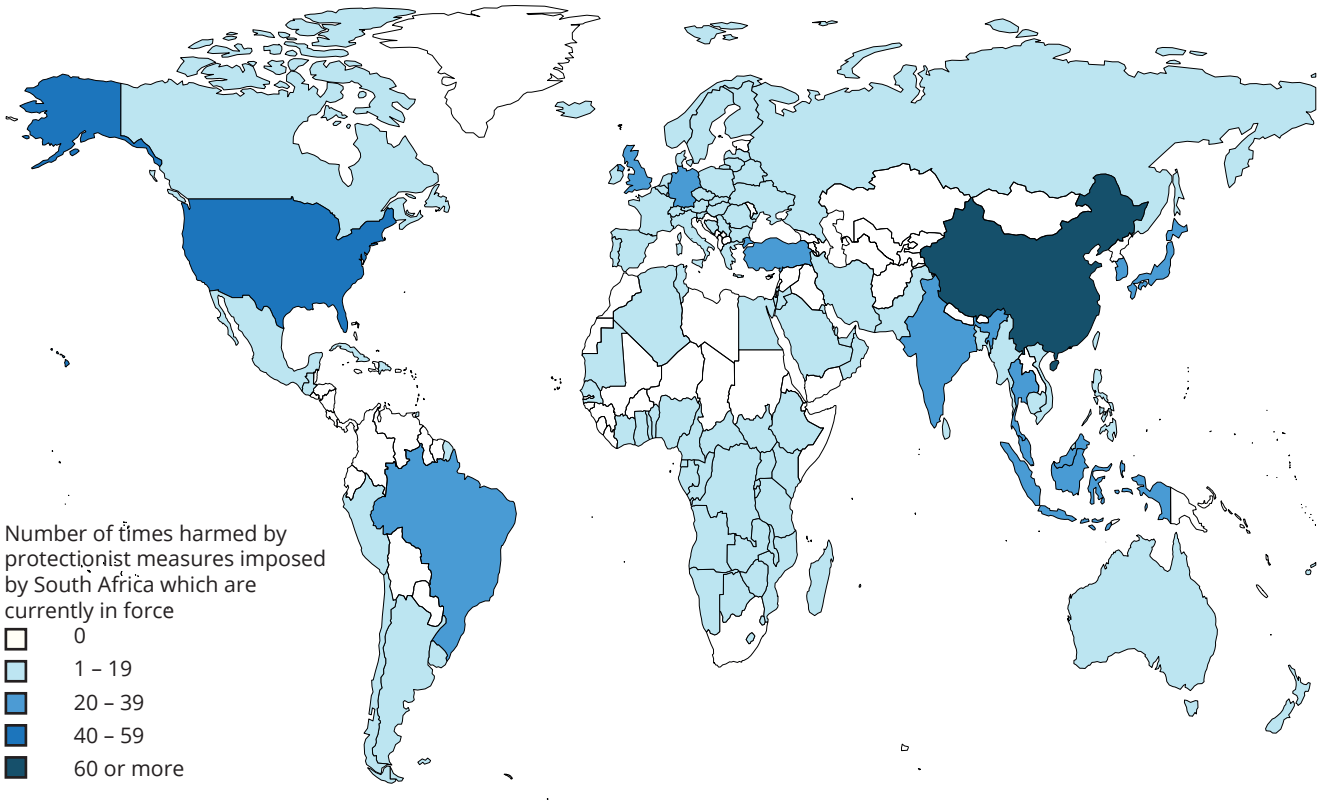


SOUTH AFRICA

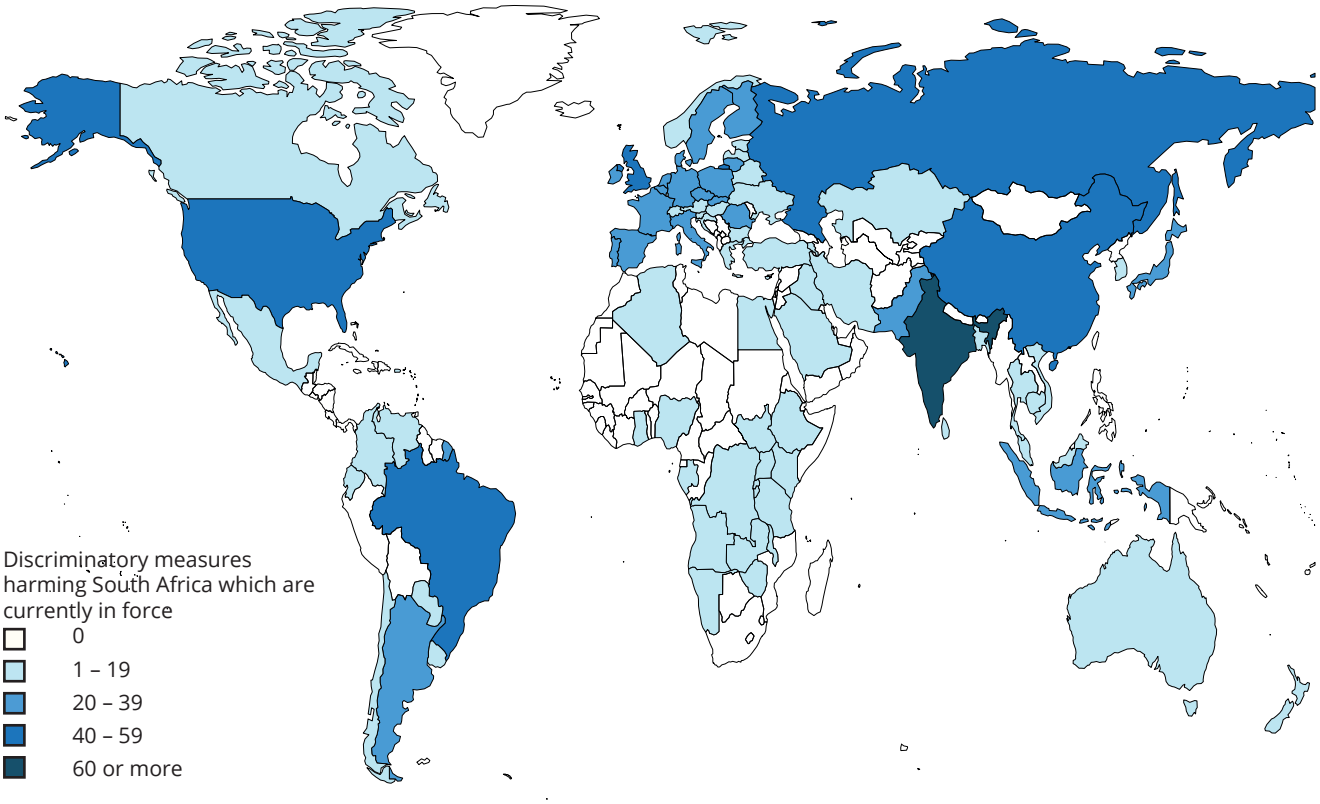
What is at stake for South Africa's exporters?

Foreign discriminatory policy instrument	Percentage of exports at risk during ...						
	2009	2010	2011	2012	2013	2014	2015
All forms of foreign discrimination	46.30%	64.81%	66.52%	67.25%	68.35%	73.45%	77.47%
Import tariff increases	2.31%	4.79%	5.27%	5.51%	6.13%	7.07%	9.52%
Trade defence and safeguard duties	0.64%	0.65%	0.68%	0.70%	0.70%	1.03%	1.34%
Localisation requirement	0.00%	0.49%	1.19%	1.19%	1.32%	1.39%	1.45%
Buy national public procurement	1.22%	1.42%	1.40%	1.80%	1.92%	1.93%	2.02%
Competition with bailed out firm in latter's home market	4.02%	5.16%	4.49%	5.01%	5.69%	7.60%	9.01%
Export incentives, competition in third markets	42.79%	60.37%	60.60%	61.34%	61.55%	68.42%	73.33%

COUNTRIES HARMED BY SOUTH AFRICA'S DISCRIMINATORY MEASURES

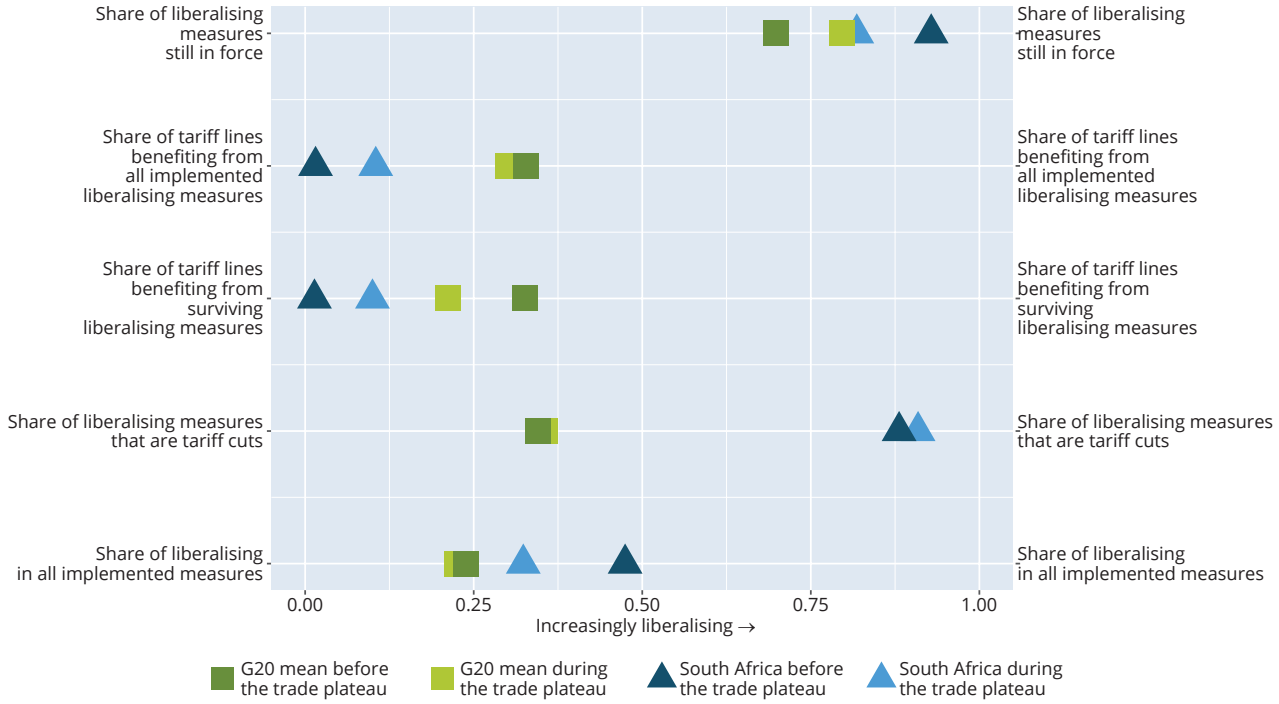


DISCRIMINATORY MEASURES HARMING SOUTH AFRICA'S INTERESTS



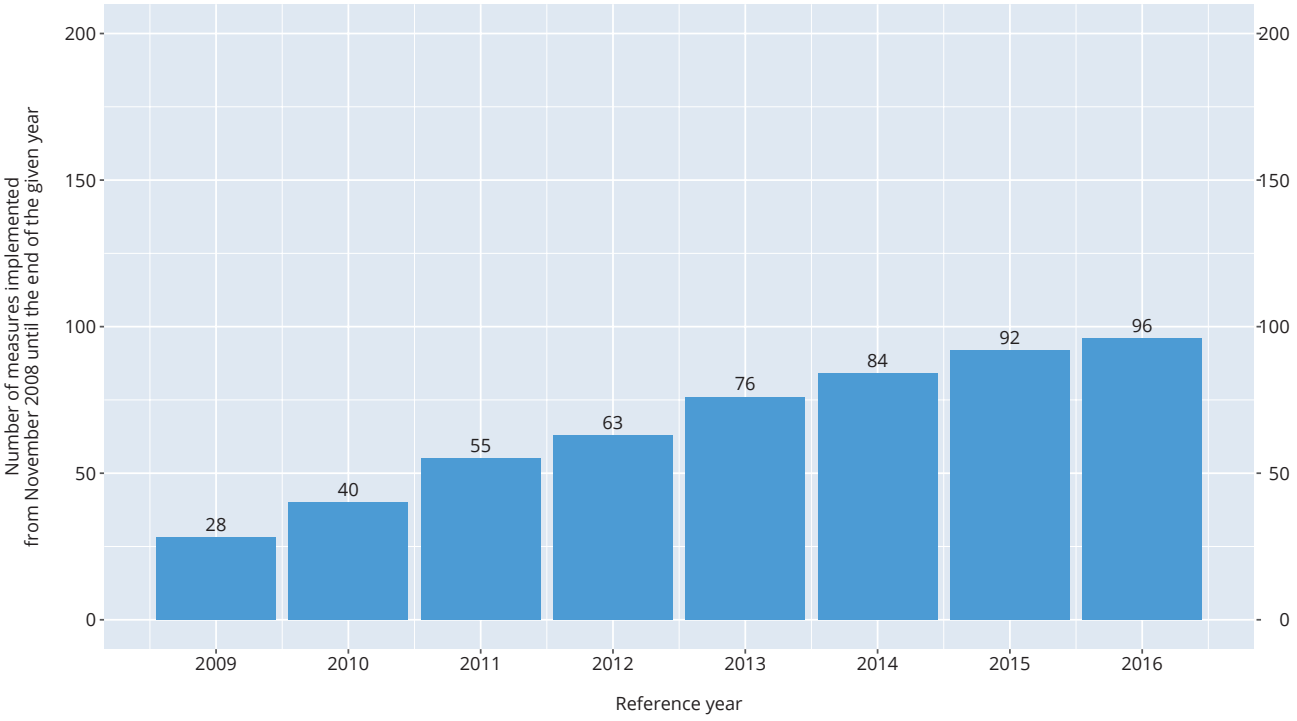
SOUTH AFRICA

Track record of liberalisation



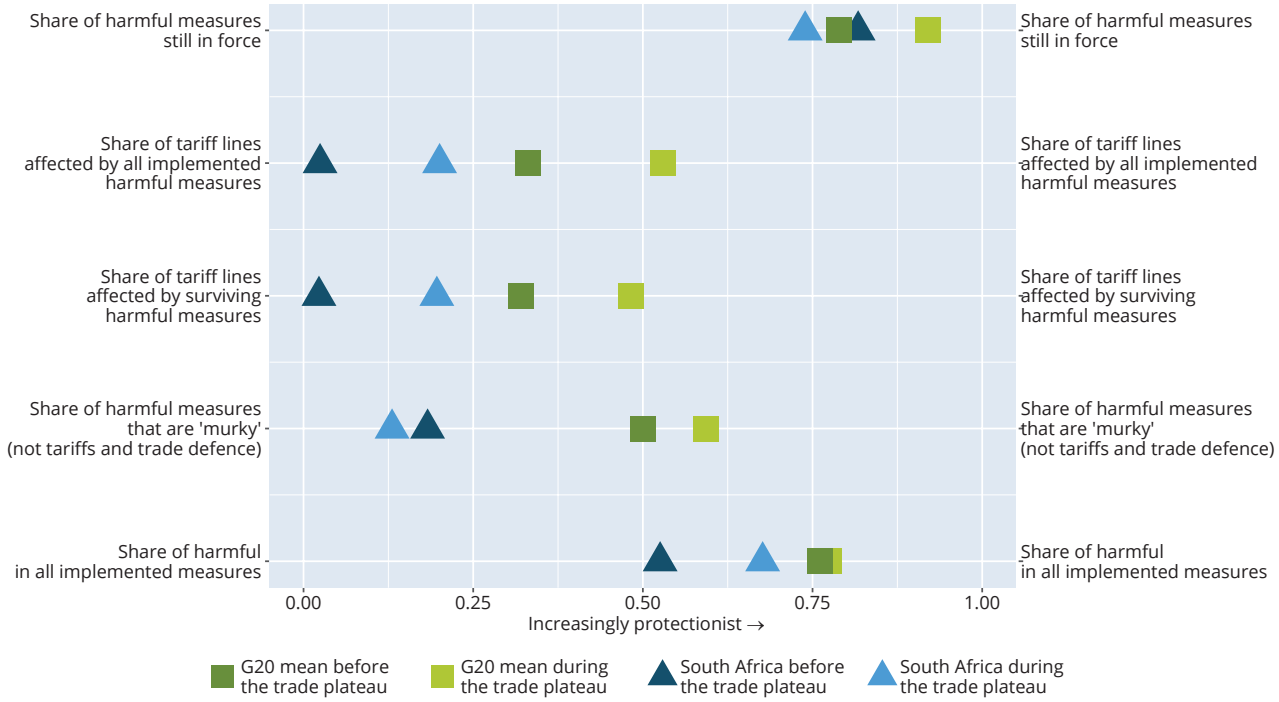
SOUTH AFRICA

Number of liberalising measures imposed since November 2008



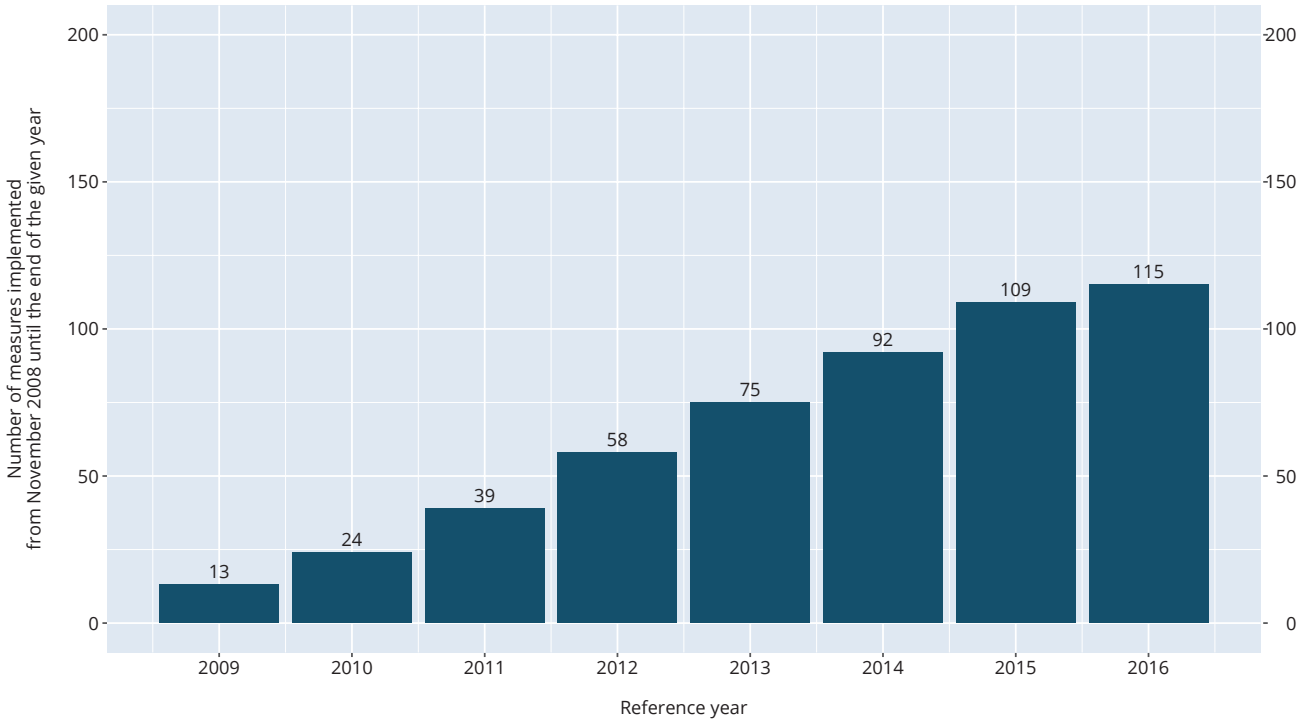
SOUTH AFRICA

Track record of protectionism



SOUTH AFRICA

Number of discriminatory measures imposed since November 2008

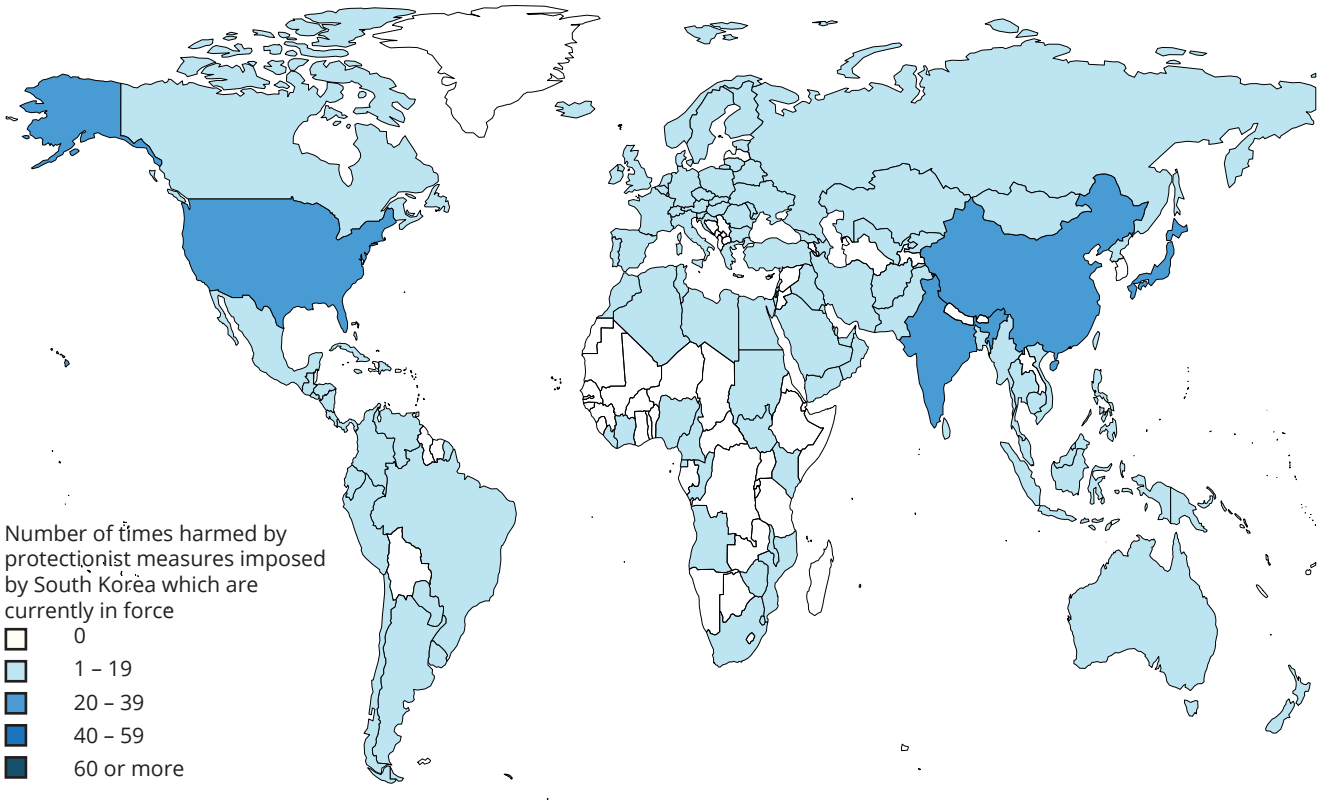


SOUTH KOREA

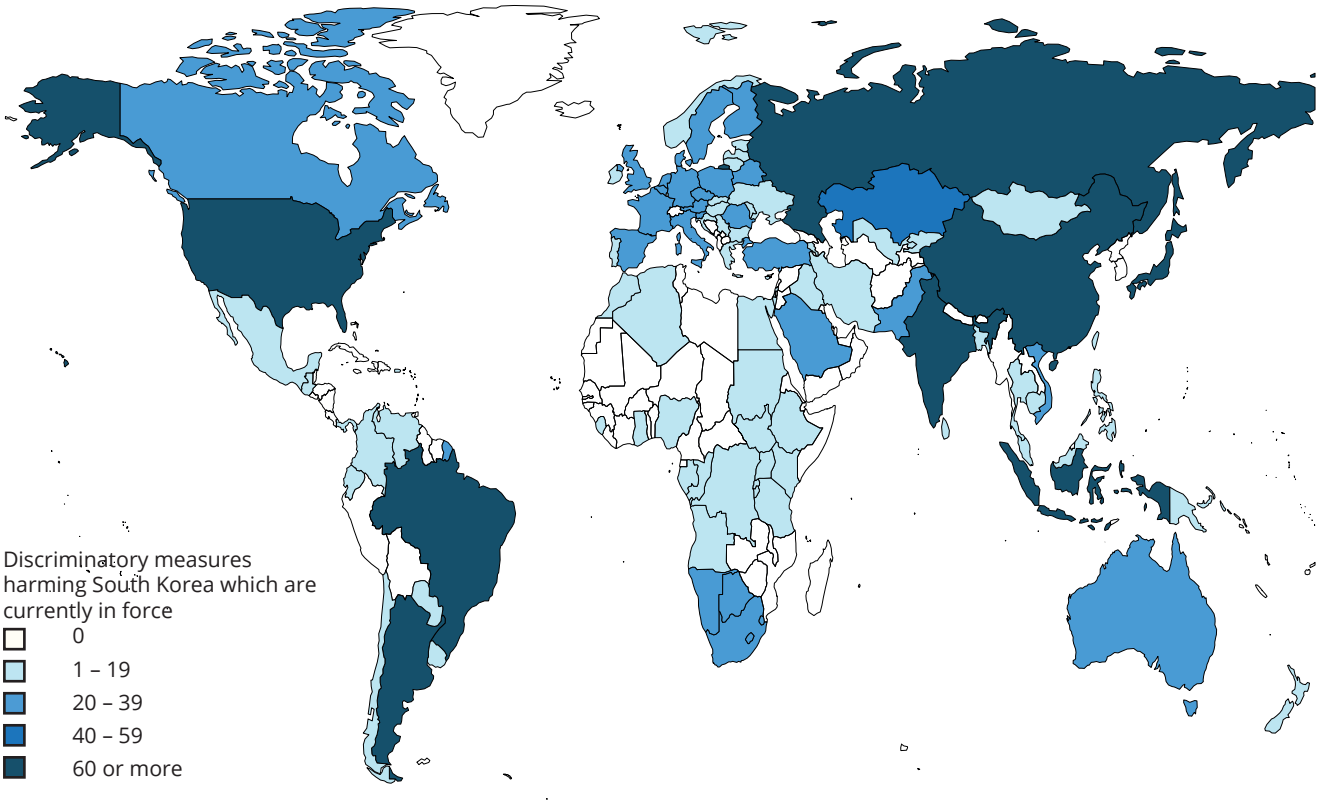
What is at stake for South Korea's exporters?

Foreign discriminatory policy instrument	Percentage of exports at risk during ...						
	2009	2010	2011	2012	2013	2014	2015
All forms of foreign discrimination	73.21%	89.54%	90.73%	92.87%	93.96%	95.30%	96.59%
Import tariff increases	1.31%	4.52%	5.17%	5.81%	6.31%	10.83%	16.92%
Trade defence and safeguard duties	0.74%	1.68%	2.09%	2.39%	2.77%	2.95%	2.96%
Localisation requirement	2.60%	5.96%	12.16%	12.18%	12.26%	12.64%	13.16%
Buy national public procurement	11.61%	16.21%	16.34%	16.45%	16.76%	17.03%	17.39%
Competition with bailed out firm in latter's home market	6.07%	7.90%	16.17%	18.29%	19.65%	20.72%	22.35%
Export incentives, competition in third markets	67.20%	83.53%	83.77%	87.63%	92.88%	94.68%	96.00%

COUNTRIES HARMED BY SOUTH KOREA'S DISCRIMINATORY MEASURES

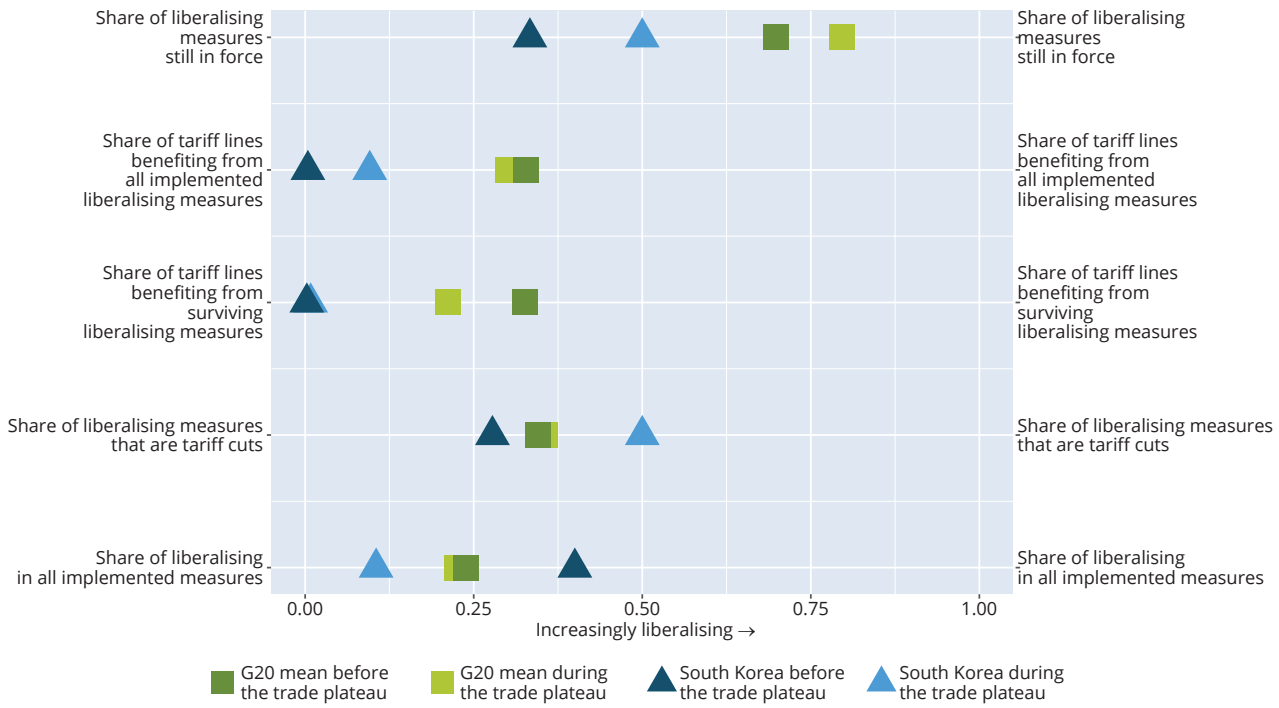


DISCRIMINATORY MEASURES HARMING SOUTH KOREA'S INTERESTS



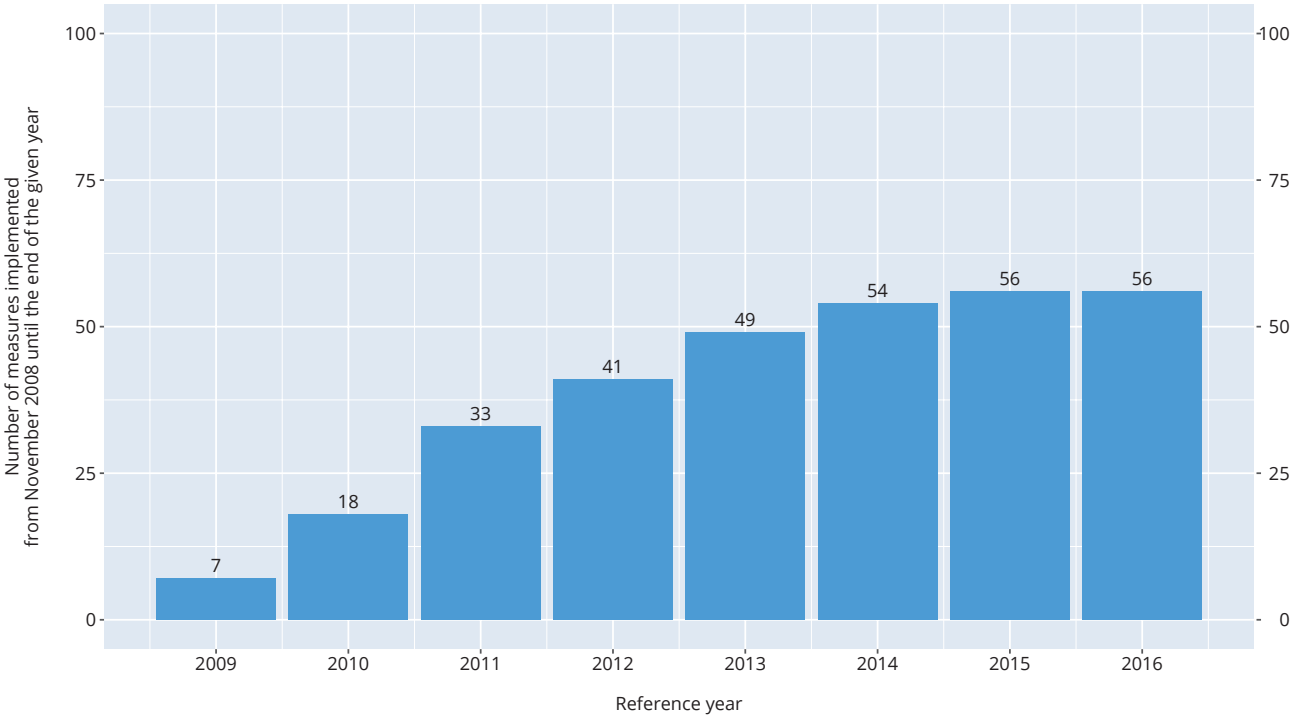
SOUTH KOREA

Track record of liberalisation



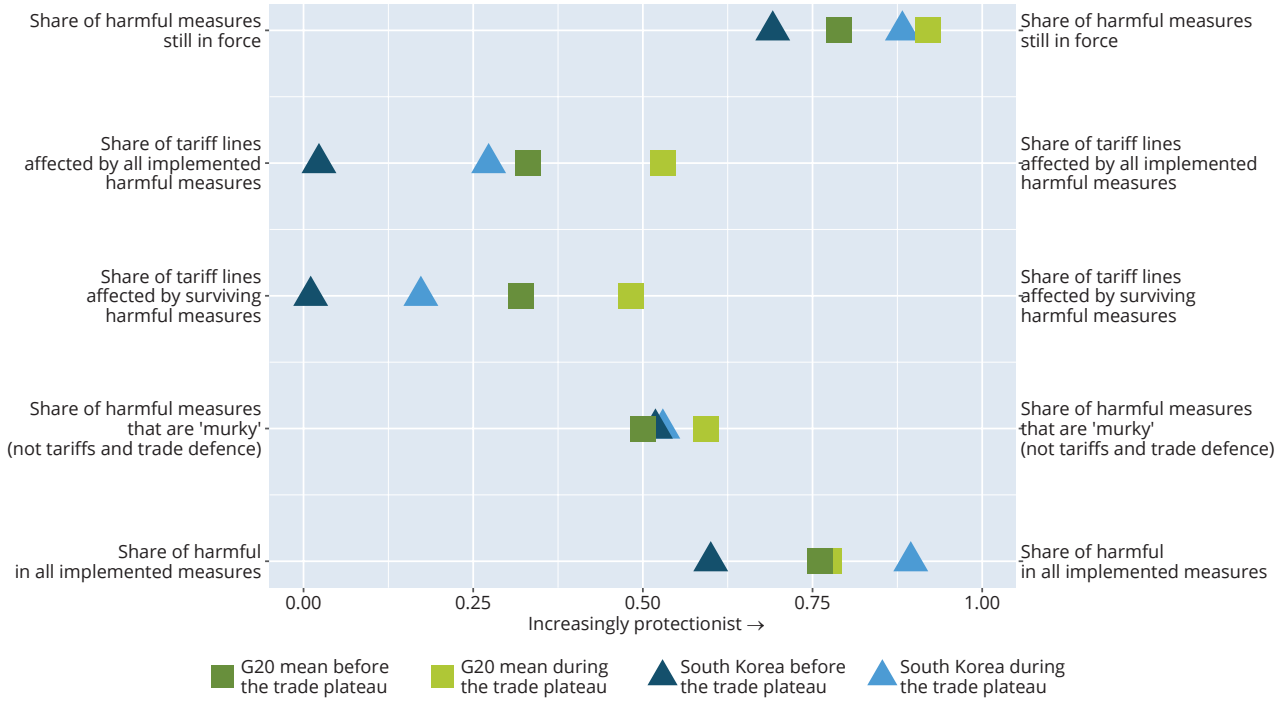
SOUTH KOREA

Number of liberalising measures imposed since November 2008



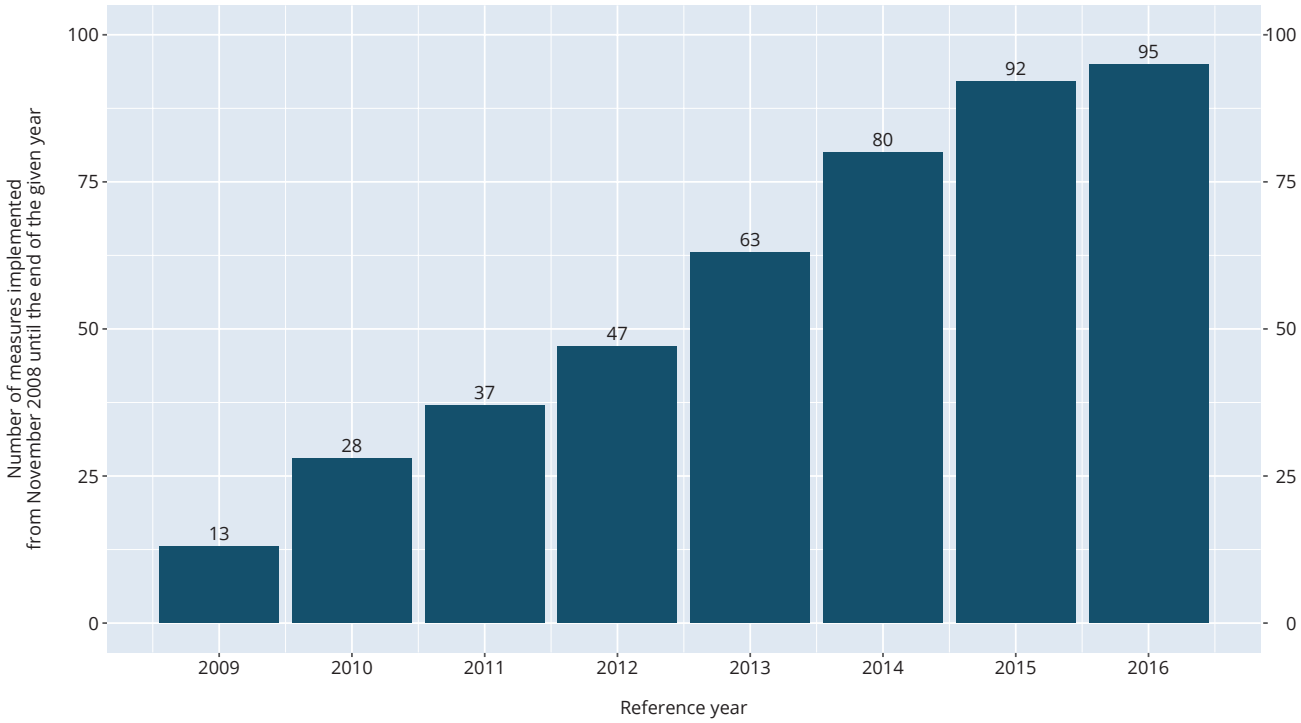
SOUTH KOREA

Track record of protectionism



SOUTH KOREA

Number of discriminatory measures imposed since November 2008

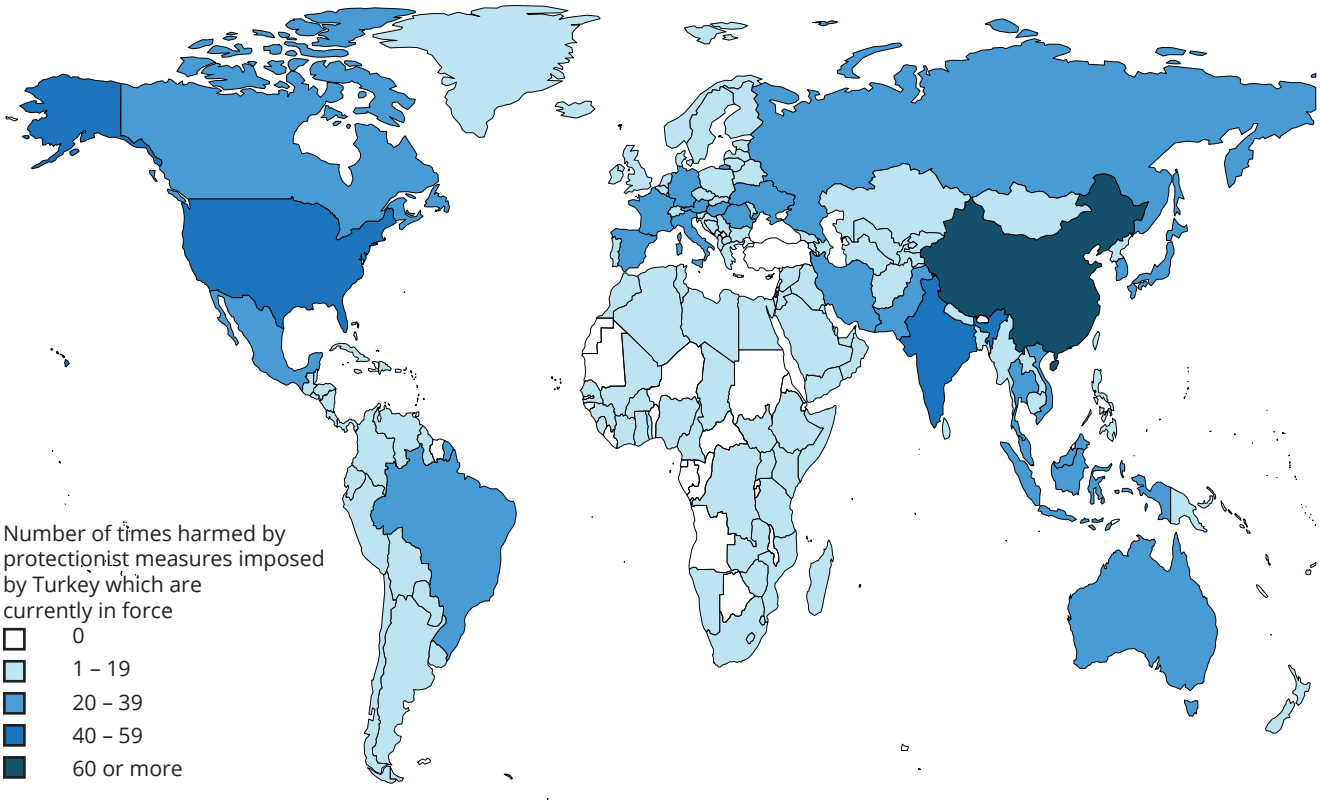


TURKEY

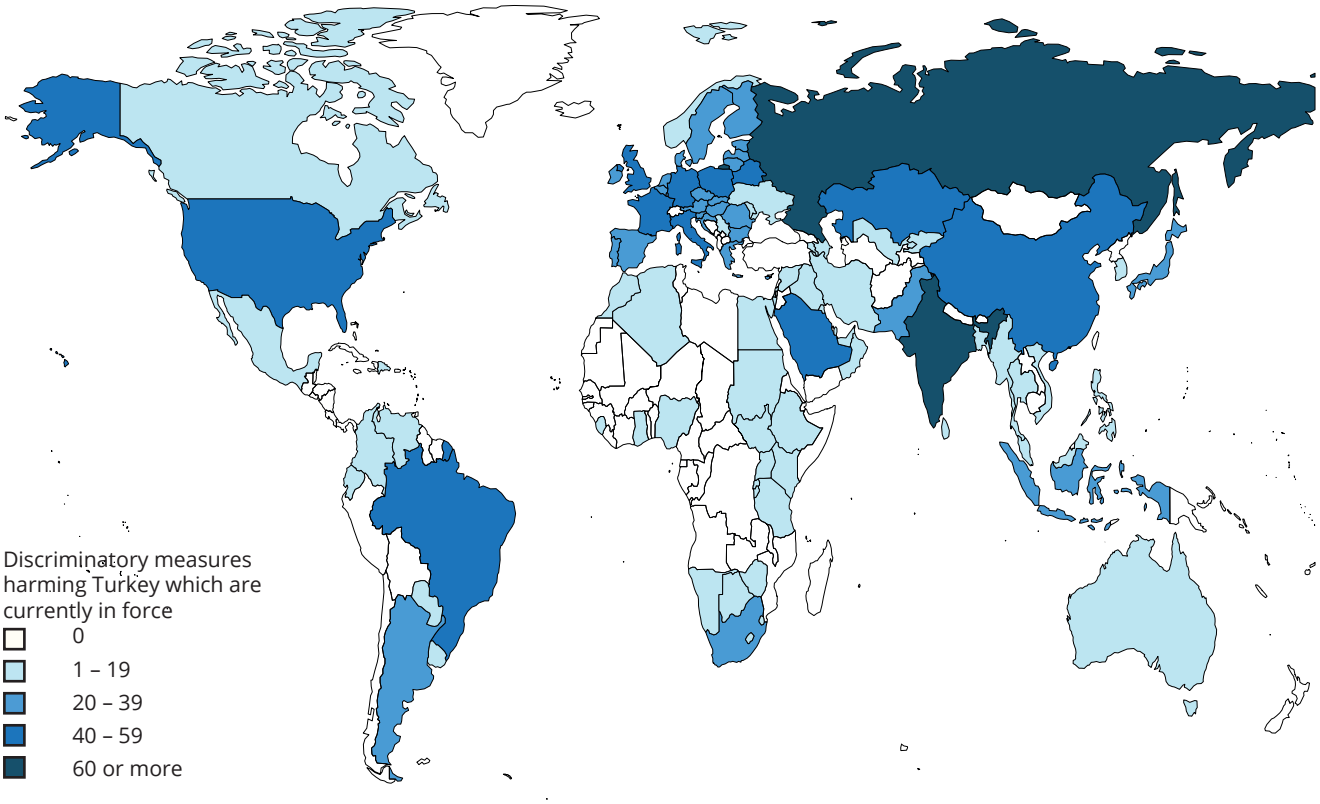
What is at stake for Turkey's exporters?

Foreign discriminatory policy instrument	Percentage of exports at risk during ...						
	2009	2010	2011	2012	2013	2014	2015
All forms of foreign discrimination	71.99%	83.07%	83.68%	84.65%	86.08%	87.28%	88.98%
Import tariff increases	1.24%	1.18%	1.19%	1.30%	1.66%	2.51%	12.89%
Trade defence and safeguard duties	1.08%	1.06%	1.07%	1.09%	1.24%	1.42%	1.78%
Localisation requirement	0.08%	1.95%	3.06%	3.09%	3.14%	3.21%	3.60%
Buy national public procurement	2.25%	3.29%	3.35%	3.37%	3.45%	3.90%	4.21%
Competition with bailed out firm in latter's home market	6.32%	9.24%	6.75%	8.03%	9.28%	11.35%	12.84%
Export incentives, competition in third markets	68.83%	80.38%	80.85%	81.62%	82.95%	83.80%	86.22%

COUNTRIES HARMED BY TURKEY'S DISCRIMINATORY MEASURES

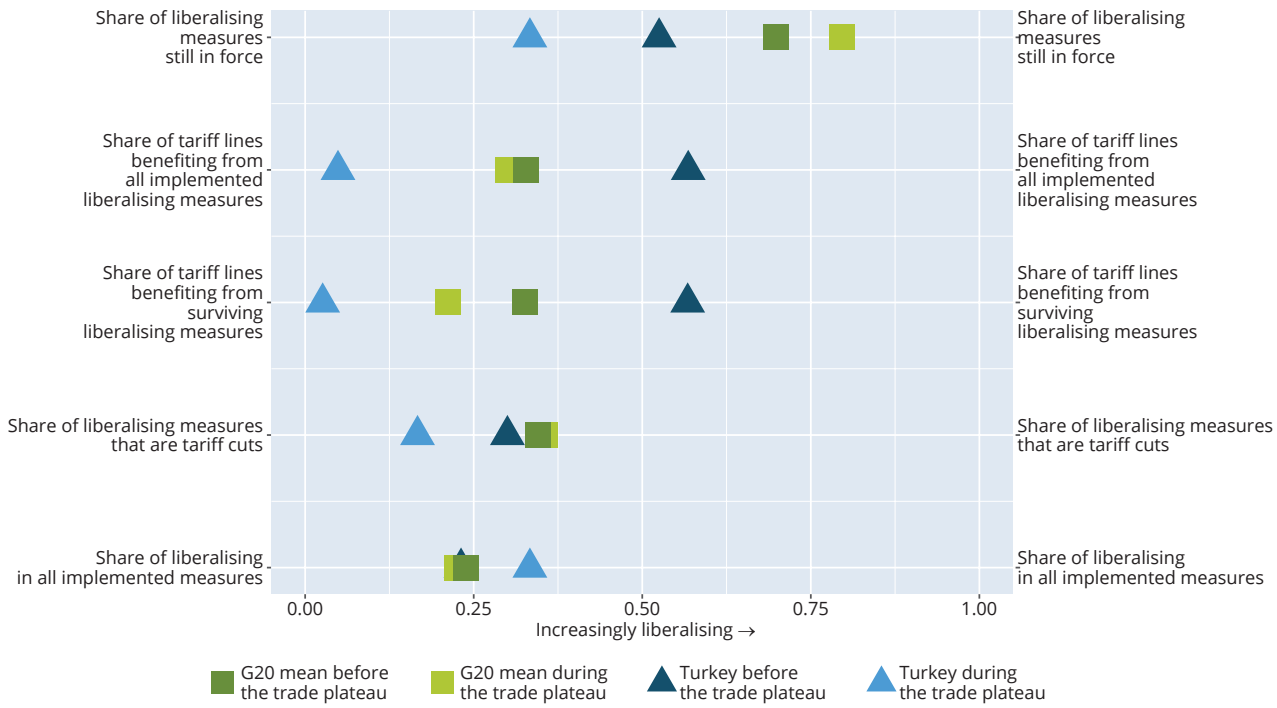


DISCRIMINATORY MEASURES HARMING TURKEY'S INTERESTS



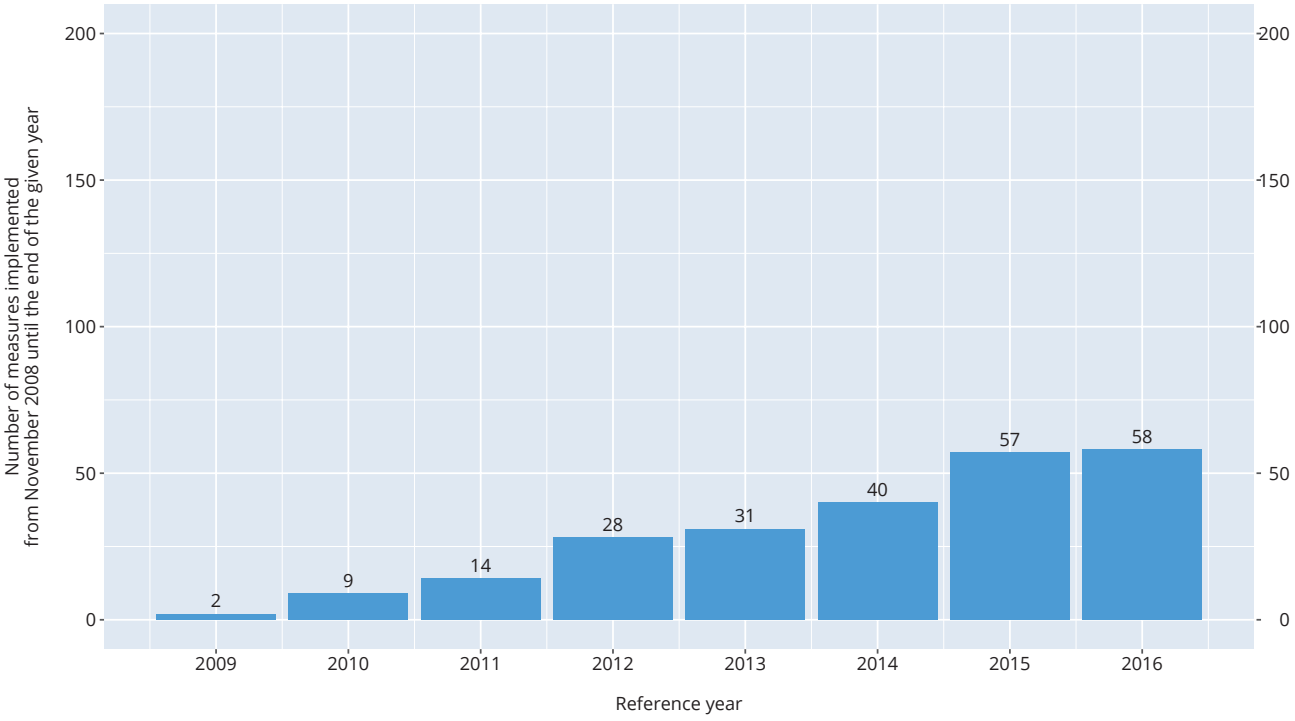
TURKEY

Track record of liberalisation



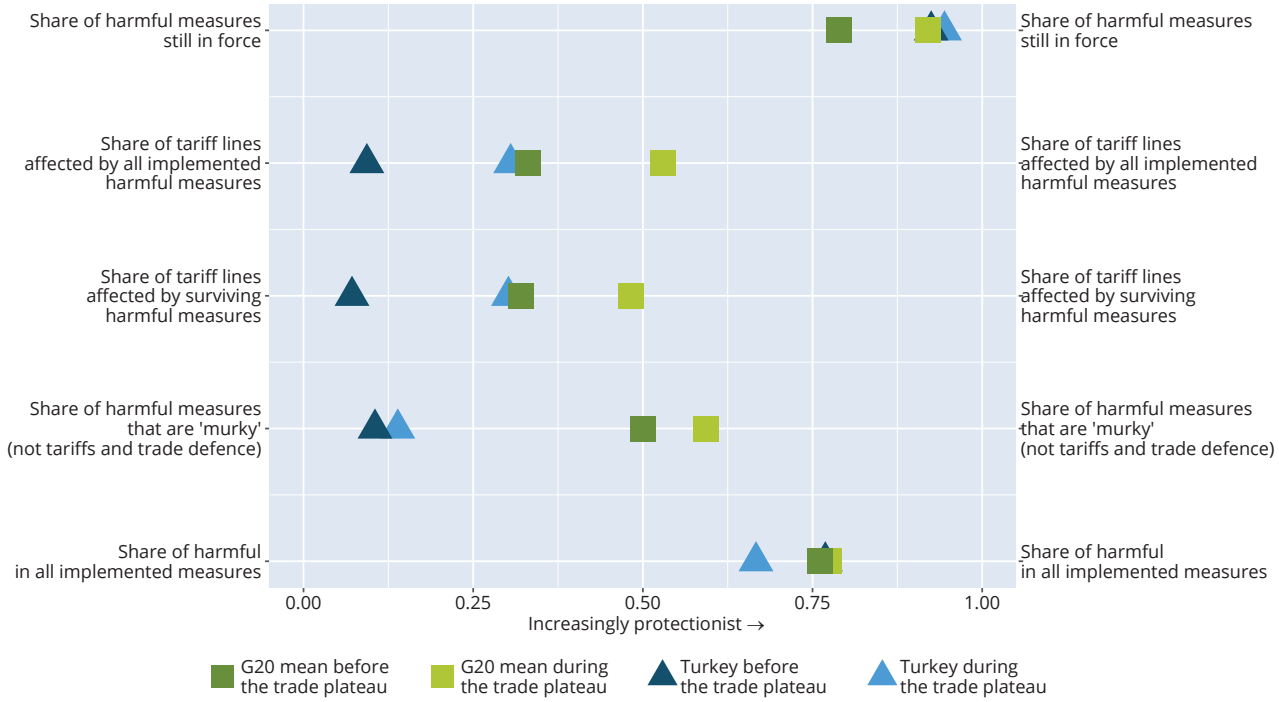
TURKEY

Number of liberalising measures imposed since November 2008



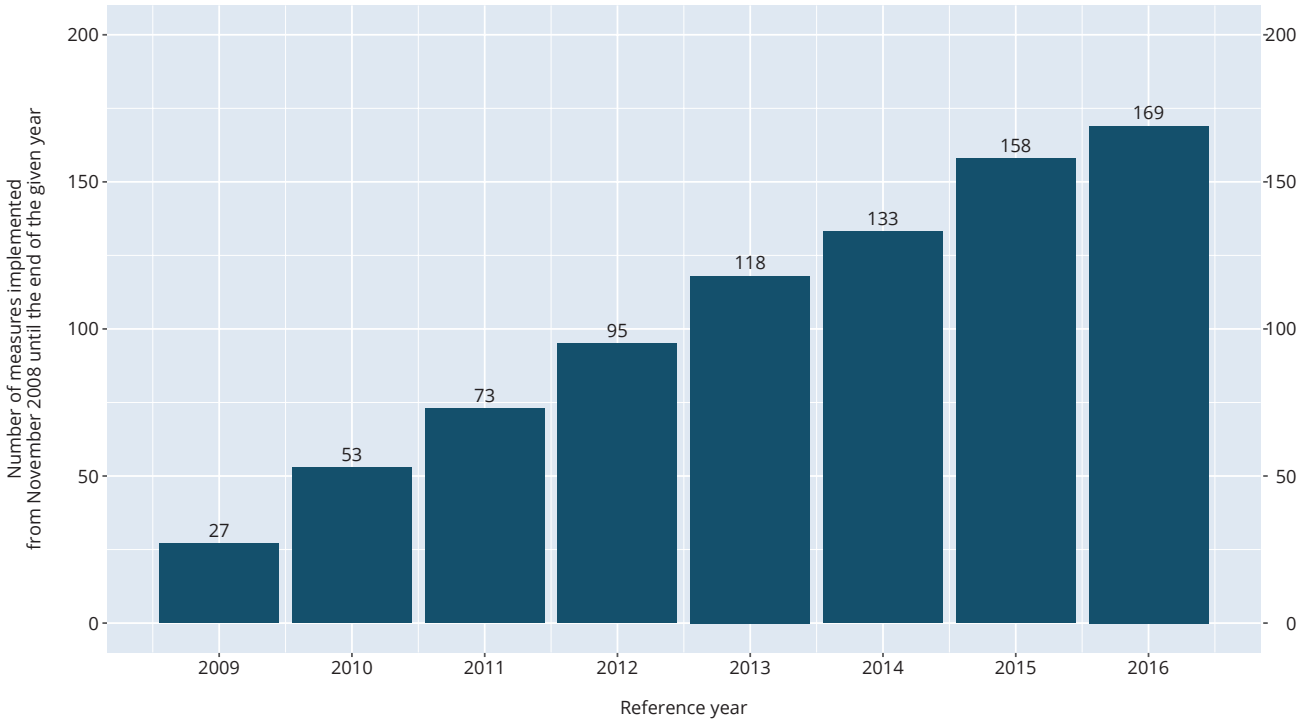
TURKEY

Track record of protectionism



TURKEY

Number of discriminatory measures imposed since November 2008

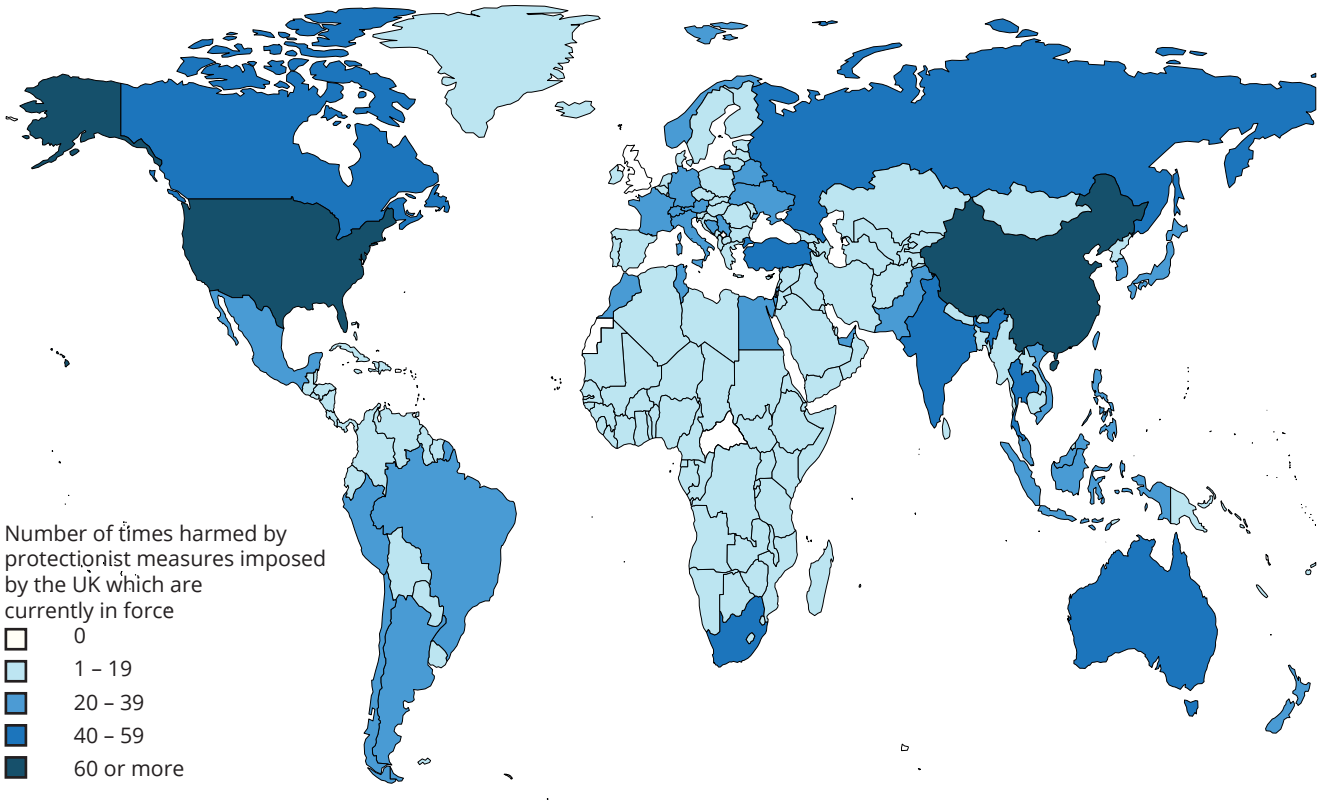


UNITED KINGDOM

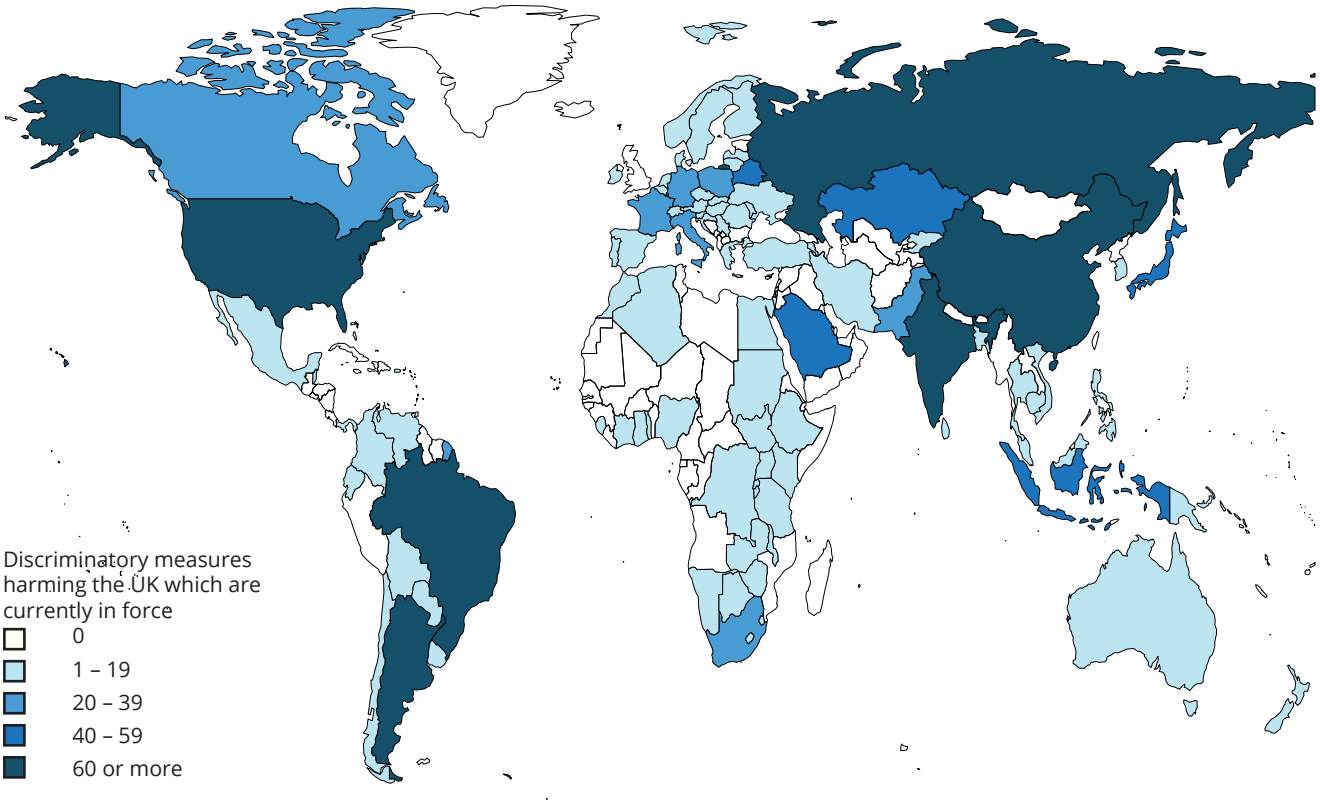
What is at stake for the United Kingdom's exporters?

Foreign discriminatory policy instrument	Percentage of exports at risk during ...						
	2009	2010	2011	2012	2013	2014	2015
All forms of foreign discrimination	57.78%	73.90%	74.81%	76.27%	77.00%	73.96%	77.09%
Import tariff increases	0.64%	1.05%	0.96%	1.51%	1.72%	2.12%	2.29%
Trade defence and safeguard duties	0.02%	0.05%	0.08%	0.09%	0.12%	0.34%	0.54%
Localisation requirement	0.09%	1.00%	1.63%	1.66%	1.72%	1.82%	1.99%
Buy national public procurement	1.45%	2.21%	2.36%	3.68%	3.98%	4.16%	4.39%
Competition with bailed out firm in latter's home market	3.48%	4.80%	5.87%	8.93%	9.71%	13.59%	13.79%
Export incentives, competition in third markets	56.75%	72.47%	73.41%	74.67%	75.33%	70.14%	73.93%

COUNTRIES HARMED BY THE UK'S DISCRIMINATORY MEASURES

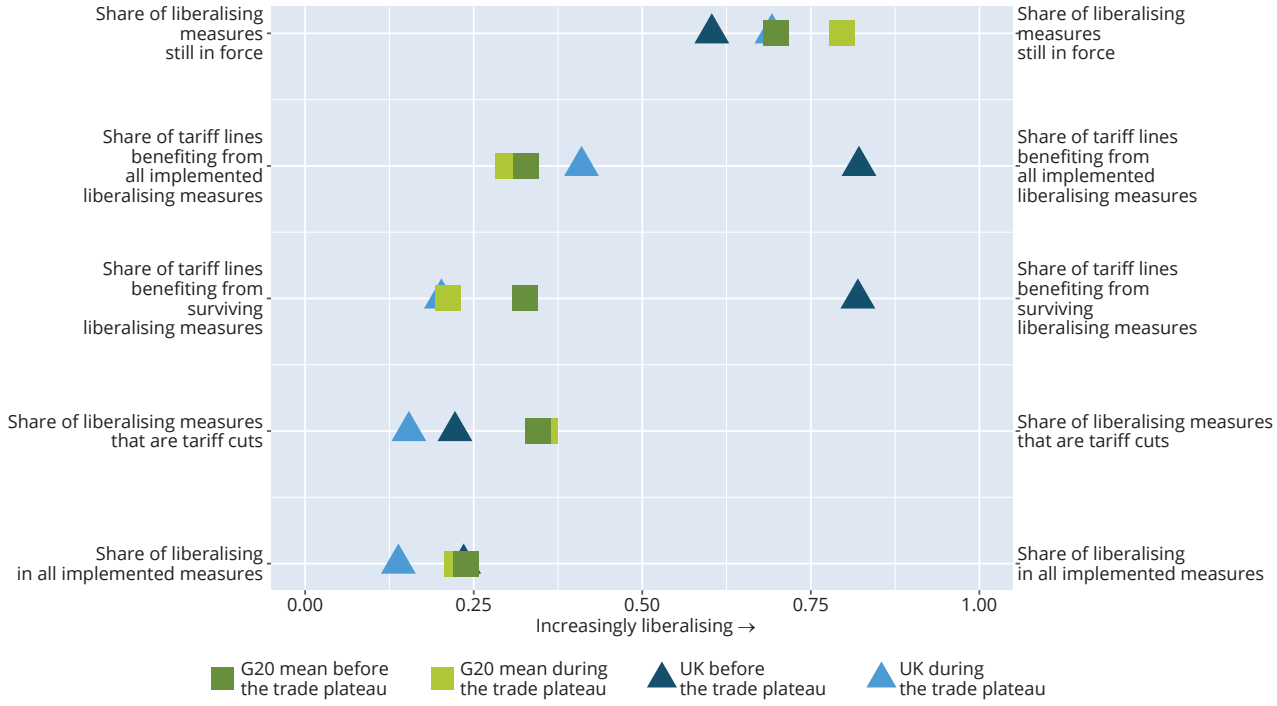


DISCRIMINATORY MEASURES HARMING THE UK'S INTERESTS



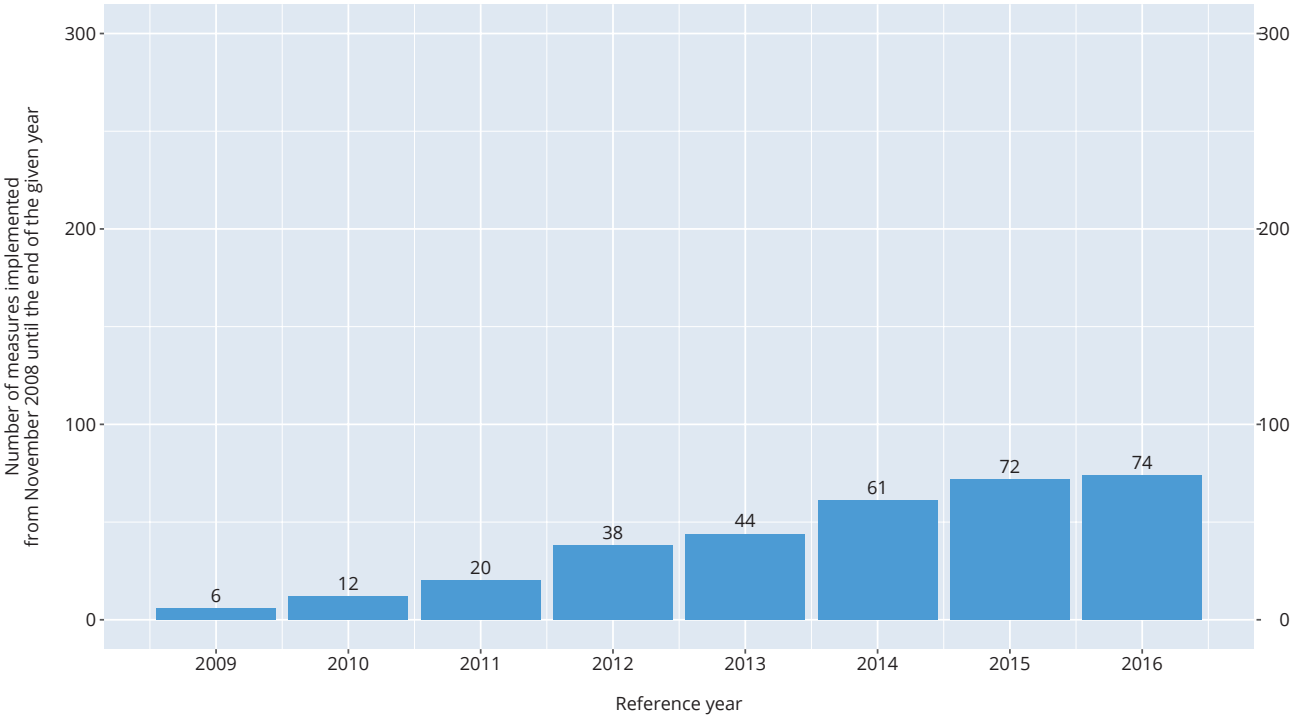
UNITED KINGDOM

Track record of liberalisation



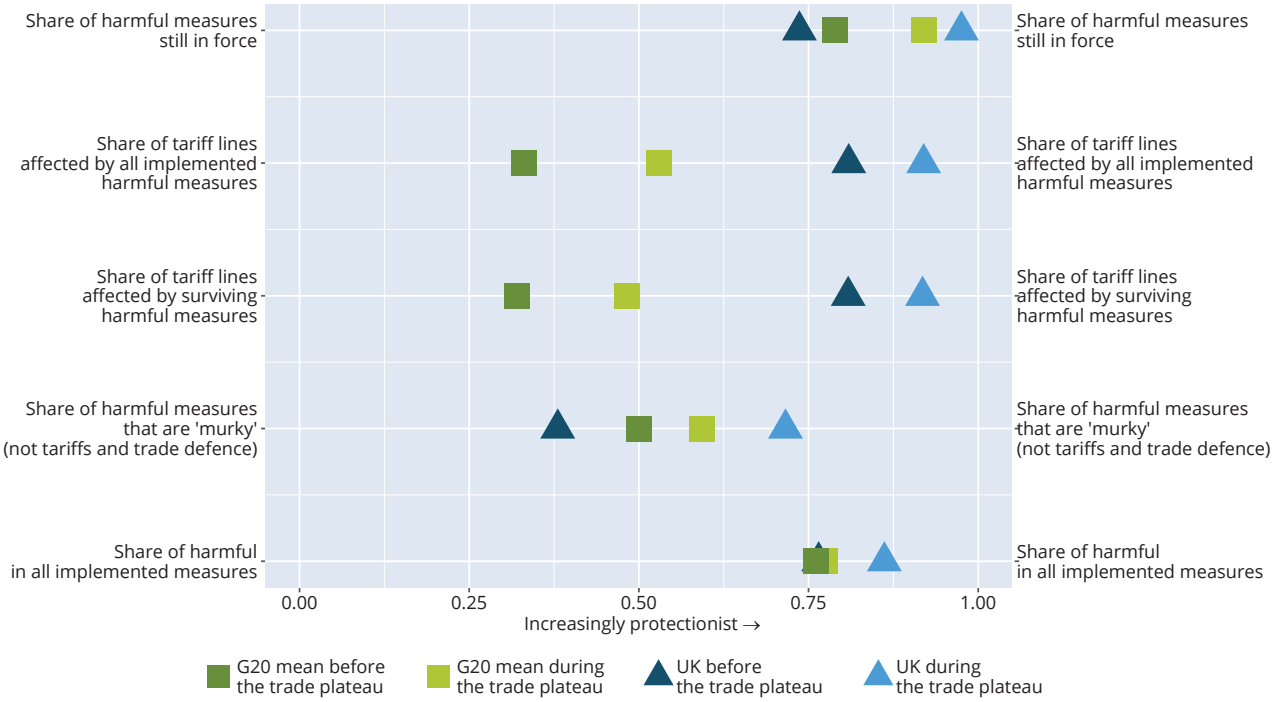
UNITED KINGDOM

Number of liberalising measures imposed since November 2008



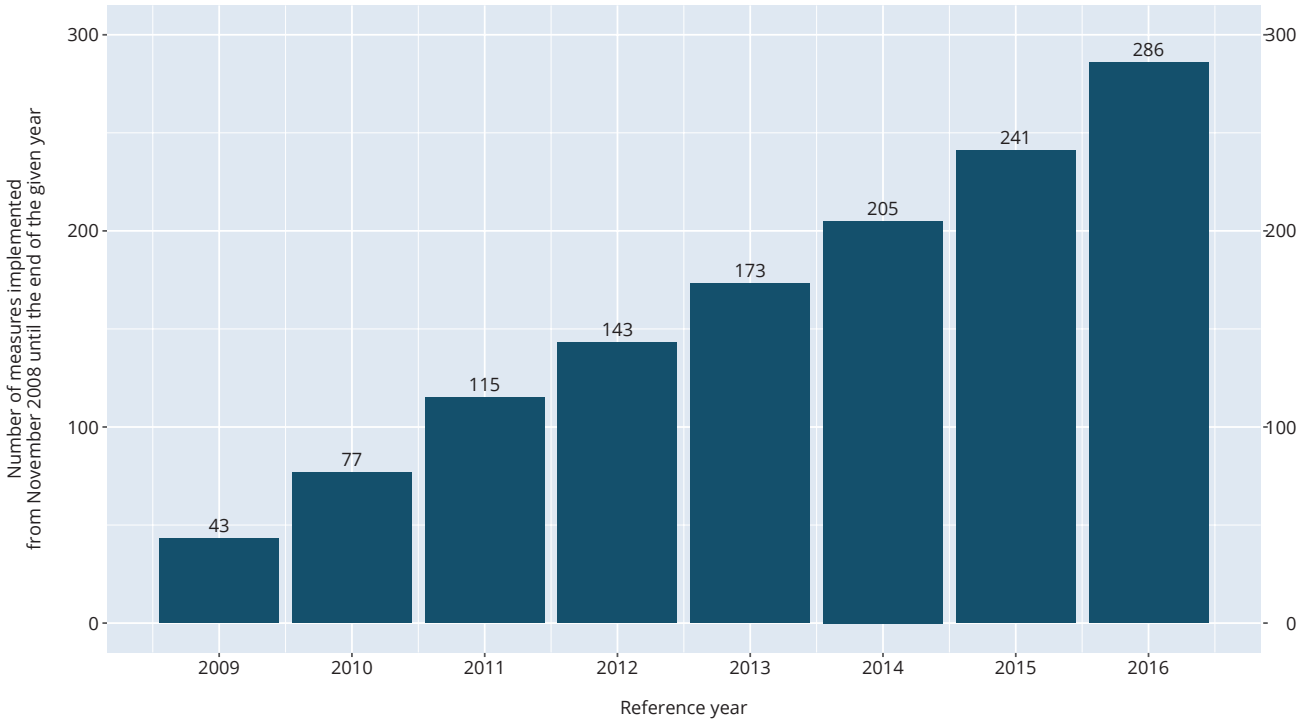
UNITED KINGDOM

Track record of protectionism



UNITED KINGDOM

Number of discriminatory measures imposed since November 2008

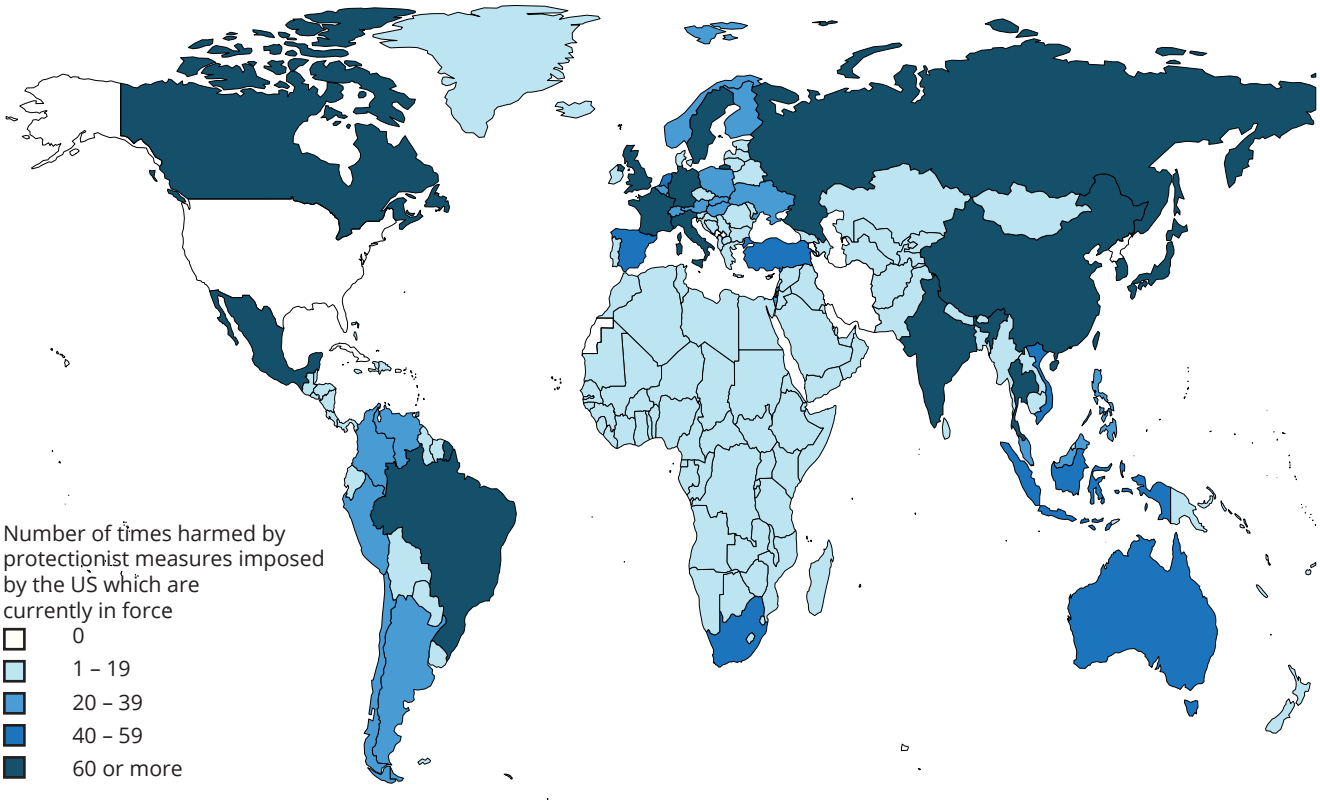


UNITED STATES

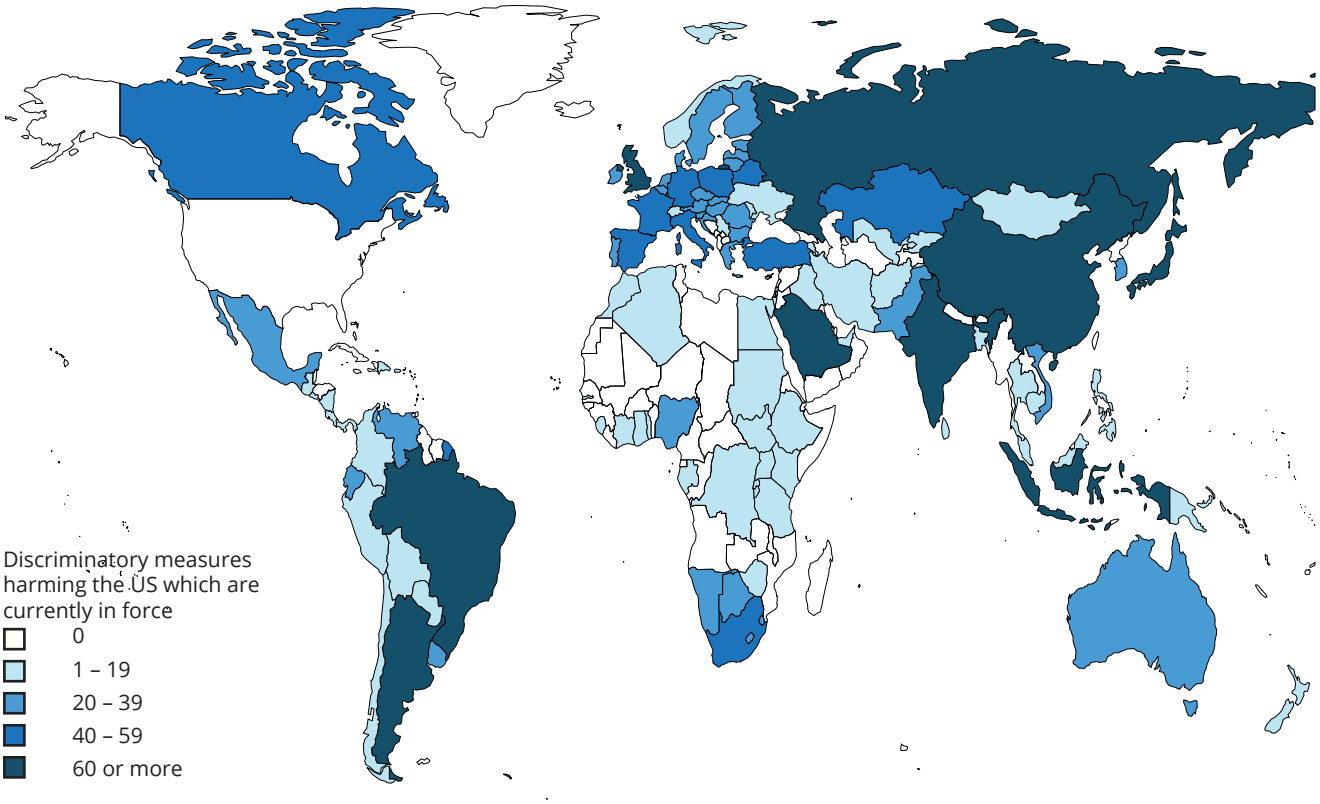
What is at stake for the United States' exporters?

Foreign discriminatory policy instrument	Percentage of exports at risk during ...						
	2009	2010	2011	2012	2013	2014	2015
All forms of foreign discrimination	61.98%	74.97%	78.24%	81.01%	81.92%	84.84%	88.98%
Import tariff increases	1.66%	3.14%	3.77%	4.20%	4.96%	6.03%	11.98%
Trade defence and safeguard duties	0.38%	0.60%	0.70%	0.90%	0.99%	1.11%	1.24%
Localisation requirement	0.31%	0.76%	1.44%	1.47%	1.56%	2.13%	3.53%
Buy national public procurement	1.04%	1.75%	1.80%	2.00%	2.18%	2.37%	2.94%
Competition with bailed out firm in latter's home market	3.74%	4.89%	4.32%	4.86%	5.81%	7.68%	11.54%
Export incentives, competition in third markets	59.71%	72.65%	75.68%	78.62%	79.52%	82.45%	86.94%

COUNTRIES HARMED BY THE US' DISCRIMINATORY MEASURES

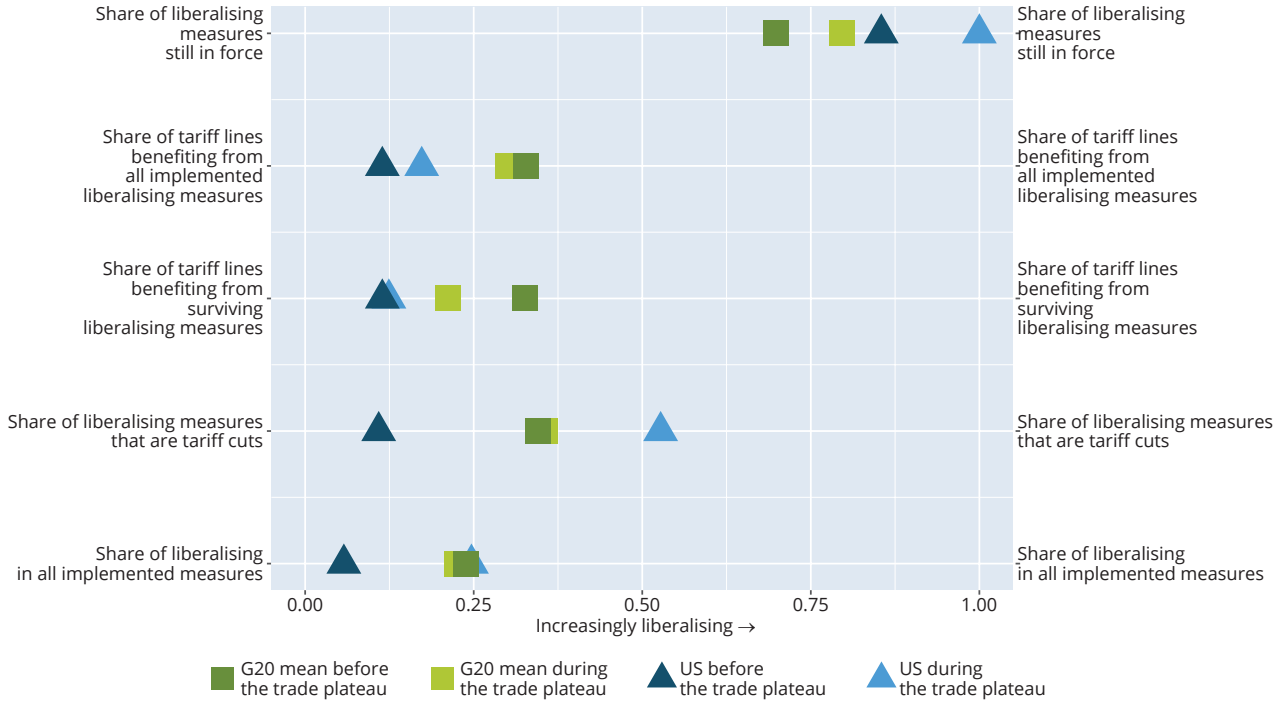


DISCRIMINATORY MEASURES HARMING THE US' INTERESTS



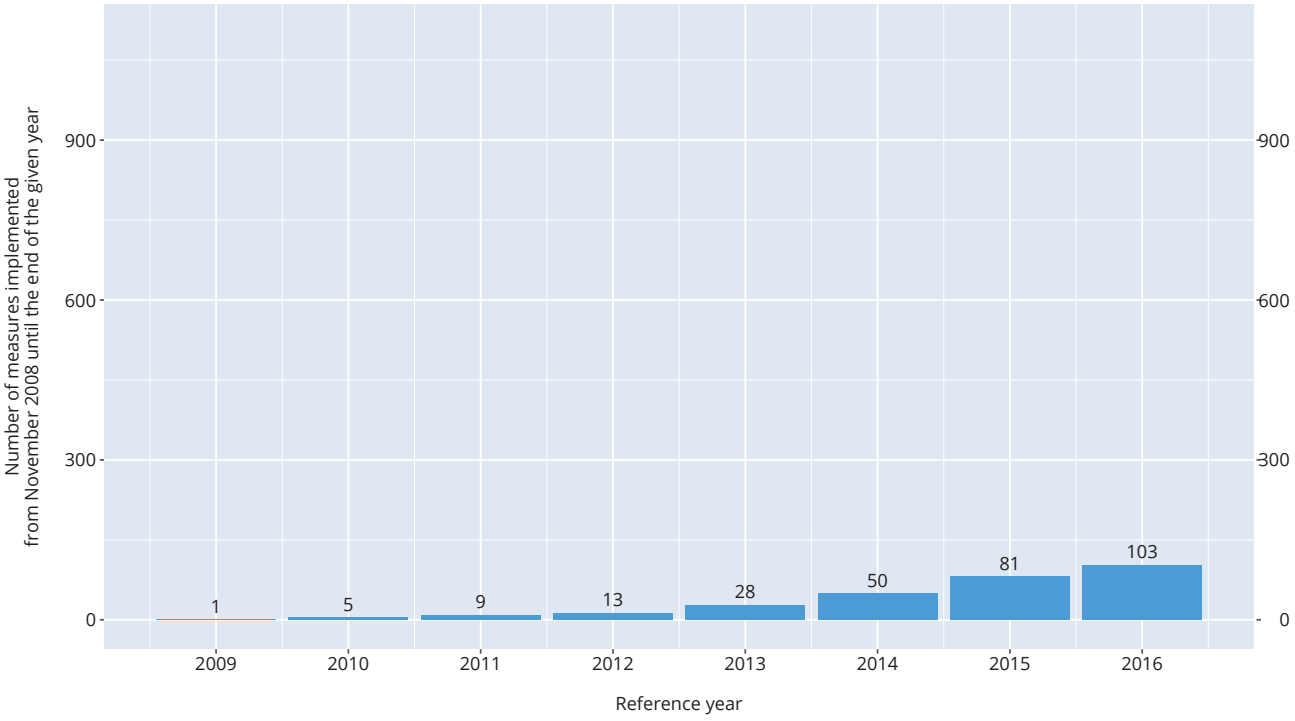
UNITED STATES

Track record of liberalisation



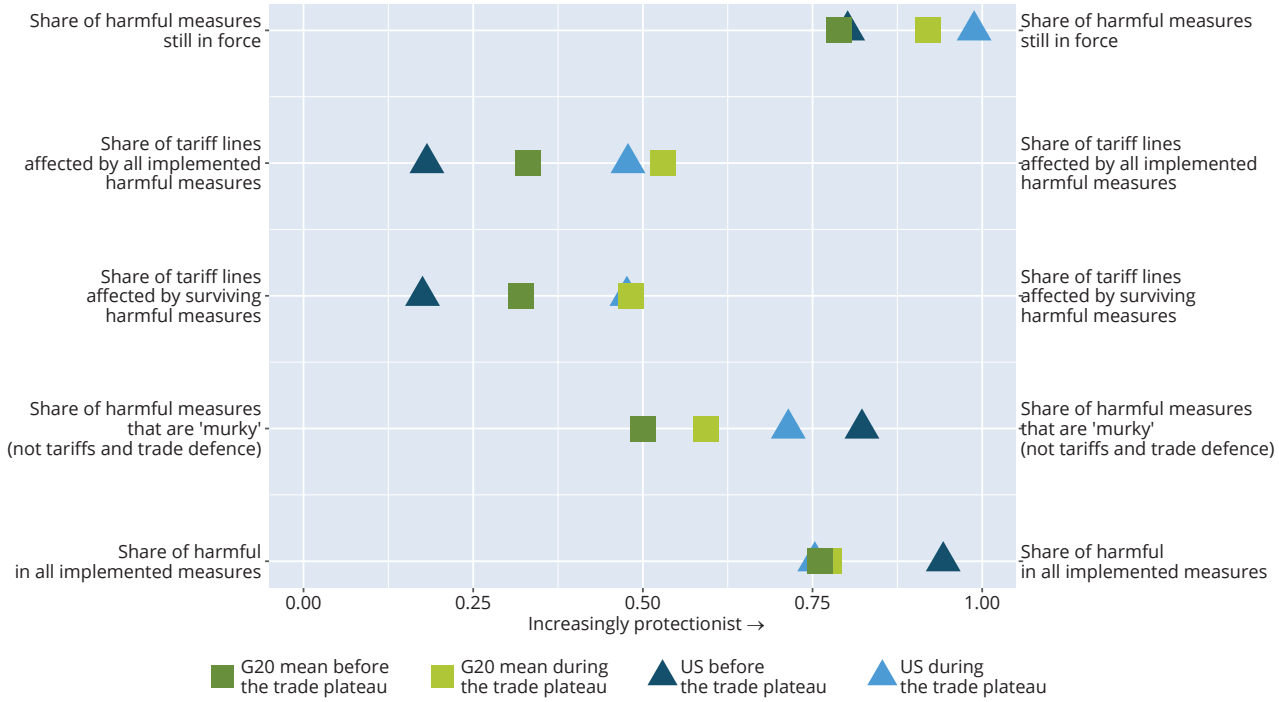
UNITED STATES

Number of liberalising measures imposed since November 2008



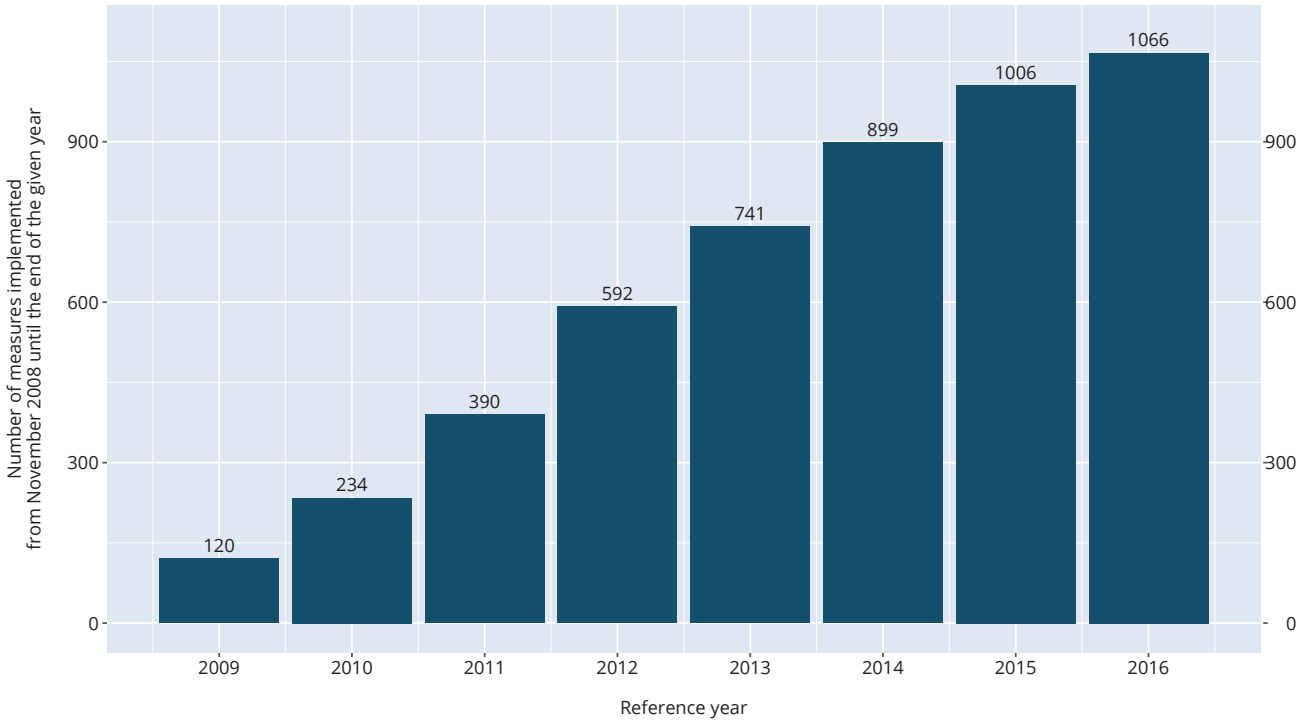
UNITED STATES

Track record of protectionism



UNITED STATES

Number of discriminatory measures imposed since November 2008



As global trade continues to stagnate, the spotlight has shifted during China's G20 Presidency to foreign direct investment (FDI).Two recent developments have brought FDI to the forefront of international policy deliberations. First, at their annual meeting in July 2016, G20 trade ministers endorsed nine G20 Guiding Principles for Global Investment Policymaking. Second, in June 2016 UNCTAD published its flagship annual World Investment Report showing that FDI flows "soared" in 2015 to its highest level since the onset of the global economic crisis. This report – released in advance of the G20 Leaders' Summit in Hangzhou, China – critically evaluates the recovery of FDI, the G20's contribution to that recovery, the coherence of G20 trade and investment policymaking to date, and ultimately, the new G20 Guiding Principles.

Drawing upon a 27% expansion in the Global Trade Alert's sizeable database on commercial policy intervention, the latest data on corporate political risk, and information on global and investment flows, this report offers an evidence-based assessment of the rationale, content, and factors likely to determine the success of the G20's new work programme on trade and investment policies.

The findings of this report will be of interest not just to observers of the G20, but to those interested in the drivers of FDI flows, the growing political risks created by greater resort to beggar-thy-neighbour activity, and the record of national trade and investment policymaking of the world's largest economies.

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