

Chapter 2 The rise of protectionism and the need to reestablish the international trading system

Section 1 The history of protectionism and the development of free trade

1. Overview of the history

As described in the preceding chapter, the world economy has achieved great growth with expansion of free trade. Over the course of history, however, free trade has expanded while repeatedly experiencing close contests with protectionist ideas and measures. This section gives a historical overview of protectionist ideas and growing concerns about them, as well as movements of international cooperation for checking protectionism.

For the historical analysis, the focus is placed on newspaper reports to examine long-term changes in the share of articles dealing with protectionism. Despite difficulty in offering any clear-cut causal relationship, it can be assumed that the share of articles dealing with protectionism among newspaper reports, which can be believed to reflect the interests of the public, should move roughly in proportion to movements of protectionism around the world.

In Figure II-2-1-1, Protectionism Indicator (1) represents, among six newspapers published in Japan, the United States, and Europe⁷⁹ between 1960 and 2018, the share of articles that included "protectionism" or any synonym for the term. Indicator (1) is normalized such that the average during the period is 100. Before the 1960s, there were much fewer articles dealing with "protectionism," as the term was still unfamiliar in the news media. To observe trends before 1960, we narrowed the target to two major Japanese papers (*Nihon Keizai Shimbun* and *Yomiuri Shimbun*) and expressed the share of articles dealing with specific measures of protectionism⁸⁰ in a barometer, Protectionism Indicator (2).

These two indicators suggest rises of protectionism ideas and movements especially (1) after the Great Depression, (2) during a period of trade disputes primarily between Japan and the United States in the 1980s, and (3) in the most recent two or three years, after establishment of the Trump administration. In fact, in the Global Financial Crisis in 2009, despite concerns about growing protectionism amid an economic downturn all over the world, no major move was observed in either tariff rates or the number of newspaper articles, which suggests success in preventing the spread of protectionism.

Based on the findings outlined above and moves in terms of multilateral free trade systems around the world, this section looks back over the history of protectionism and international cooperation in five periods of history: after (1) the Great Depression, (2) the establishment of GATT, (3) the

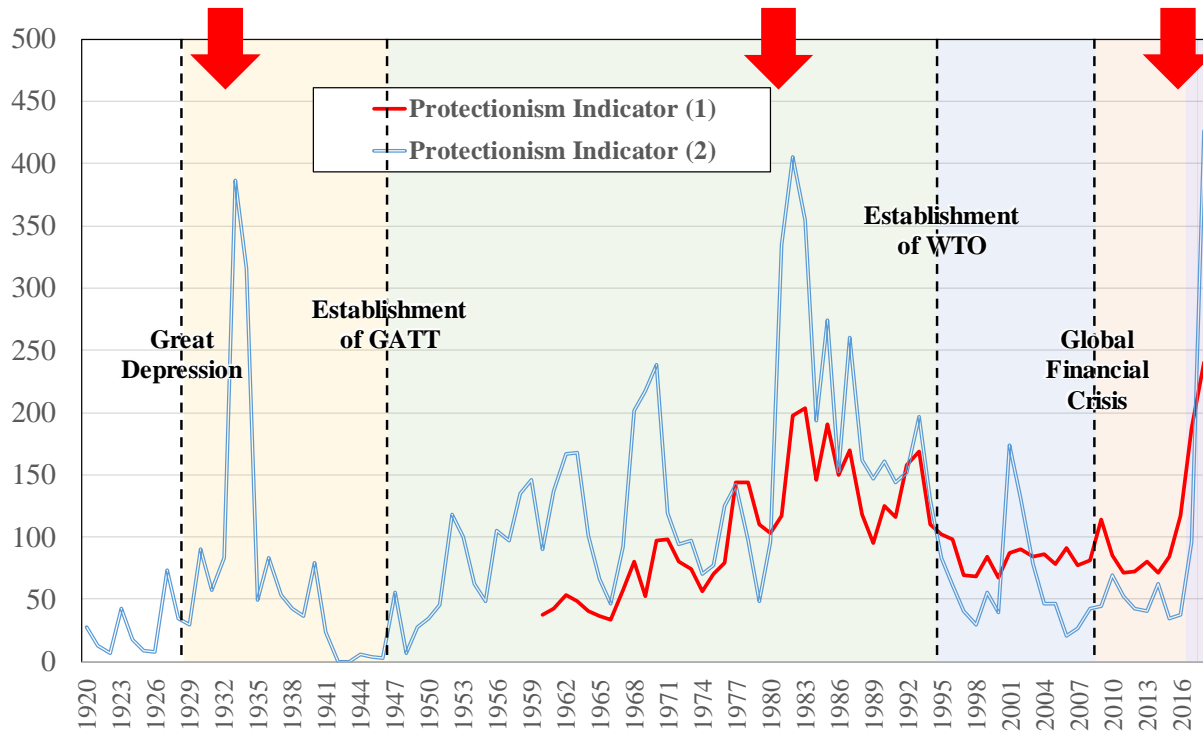
⁷⁹ The six newspapers are *Nihon Keizai Shimbun* (data obtained from Nikkei Telecom), *Yomiuri Shimbun* (from Yomiuri Database Service), *The Washington Post* (from LexisNexis), *The New York Times* (from The New York Times HP), *Le Monde* (from Le Monde HP), and *The Guardian* (from The Guardian website and LexisNexis). Retrieval was performed with "protectionism" for the English papers, "protectionnisme" for the French paper, and "保護 和 貿易 (or 通商)" for the Japanese papers.

⁸⁰ Specifically, retrieval was performed with Japanese words that represent "tariff increase OR increase of tariff OR import control OR control of import OR export control OR control of export OR import restriction OR restriction of import OR export restriction OR restriction of export OR tariff barrier OR managed trade OR voluntary export restraint OR addition tariff OR additional tariff OR tariff addition OR addition of tariff."

establishment of the WTO, (4) the Global Financial Crisis, and (5) establishment of the Trump administration.

Figure II-2-1-1 Share of articles dealing with "protectionism" among newspaper reports

(Average during the period=100)



Protectionism Indicator (1):

an indicator which has been obtained by integrating the share of articles that included "protectionism" or any synonym for the term on The Washington Post (U.S.), The New York Times (U.S.), *Nihon Keizai Shimbun* (Japan), *Yomiuri Shimbun* (Japan), *Le Monde* (France), The Guardian (U.K.) and by normalizing the average during the period to be 100

Protectionism Indicator (2):

an indicator which has been obtained by integrating the share of articles that included the terms; tariff increase, increase of tariff, import control, control of import, export control, control of export, import restriction, restriction of import, export restriction, restriction of export, tariff barrier, managed trade, voluntary export restraint, addition tariff, additional tariff, tariff addition, or addition of tariff; on *Nihon Keizai Shimbun* and *Yomiuri Shimbun* after normalizing the share

2. History of protectionism and international cooperation

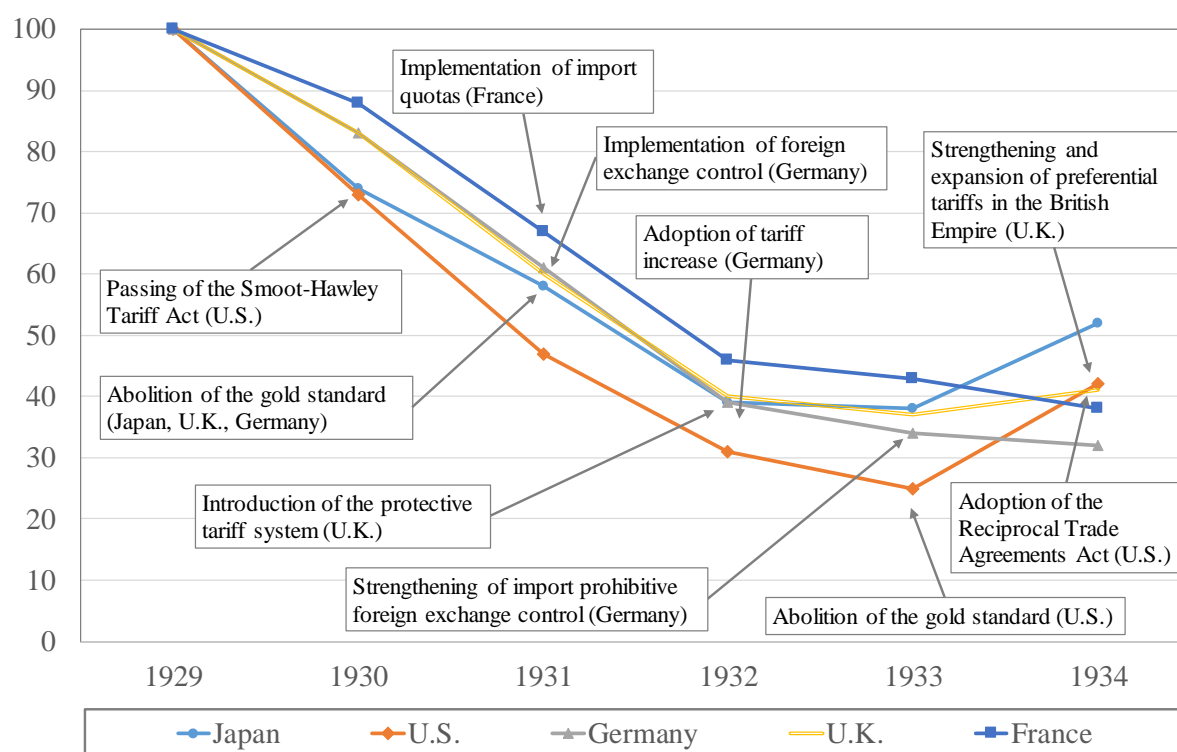
(1) From the Great Depression to World War II

On October 24, 1929, or "Black Thursday," Wall Street saw a crash in stock prices, which triggered a chain of economic depressions around the world. In 1930, the United States passed the Smoot-Hawley Tariff Act, a law for introducing higher tariff rates and import restrictions to protect domestic agriculture, followed by other countries adopting all the protectionist measures they could for protecting domestic industry, including higher tariff rates, import quantity limits and quotas, export subsidies granted for promoting export, foreign exchange restriction for restraining import, and

abolition of the gold standard for revaluing currency.⁸¹ These protectionist measures they had slapped on each other hindered cross-border trade. In 1932, total imports of 75 major countries fell below 40% of the 1929 level (Figure II-2-1-2 and Table II-2-1-3).

Major powers set preferential tariffs for trade with their own colonies and overseas possessions to secure markets and resources while imposing higher tariffs on countries outside the league, building exclusive economic blocs. With development of exclusive trade systems based on a common currency, the world economy was divided into several blocs (Table II-2-1-4). Bloc economy not only hindered free trade and prolonged the depression but also contributed to emergence of economic nationalism among countries and aggravation of political and economic frictions between blocs, one of the factors that caused World War II.

Figure II-2-1-2 Trade value of Japan, U.S., U.K., Germany, and France



Source: *White Paper on International Trade and Economy 2009* (METI).

Table II-2-1-3 Trends of the world trade value between 1929 and 1932

	1929	1930	1931	1932
Monthly ave. (million dollars)	2,868	2,327	1,668	1,122
Compare to 1929-level	-	81.1%	58.1%	39.1%

Note: Total imports of 75 countries.

Source: Kindleberger (1984), *"The World in Depression 1929-1939."*

⁸¹ Watanabe (2011), p.69.

Table II-2-1-4 Bloc economies of great powers

United States Dollar bloc	Under the 1930 Smoot-Hawley Tariff Act, the average tariff on imports was raised from 38.5% (1925) to 59% (1932). The dollar bloc was formed with Latin American countries.
France Franc bloc (Gold bloc)	As a country richer in gold reserve, France formed the "gold bloc" together with Poland, Belgium, the Netherlands, Switzerland, and others to maintain free export of gold. Then, in 1929 they started to build an exclusive economic bloc, mainly with colonies in Africa, using the franc as the key currency.
Japan Yen bloc	With Manchukuo, a state founded in 1932, Taiwan, and Republic of Korea, Japan established a bloc using the yen as the key currency. They restricted exchange of foreign currencies within the bloc.
Germany Mark bloc	After they came into power under the banner of exclusivism, the Nazis refused to pay reparations imposed after World War I and concluded reciprocal settlement agreements with countries in southeastern Europe.
United Kingdom Sterling bloc (Pound block)	In 1932, the Import Duties Act was enacted. At the British Empire Economic Conference, held in Ottawa that year, the Commonwealth established a tariff bloc based on a preferential tariff system between the kingdom and its autonomous dominions. They then formed a currency block using the pound as the key currency.

(2) The Age of GATT (1948 -)

Protectionism, which rapidly spread around the globe in the 1930s, was partly responsible for World War II. Having learned from history, the General Agreement on Tariffs and Trade (GATT) was brought into effect in 1948 with a view to achieving liberalization of multilateral trade. The Agreement had most-favorable-nation treatment (Article 1) and national treatment (Article 3) as its main principles.

Through eight series of multilateral negotiations, including several large-scale "Rounds," the GATT system achieved a significant level of tariff reductions and development of other trade-related rules. Among them, three Rounds are notable. The Kennedy Round (1964-1967) contributed to large reductions of tariffs on industrial products. The Tokyo Round (1973-1979) succeeded in lifting non-tariff barriers. And the Uruguay Round (1986-1994) introduced a framework of rules for three new areas, services, intellectual property, and investment.⁸² The largest contribution the GATT made was a series of large reductions of tariffs. In 1945, the average tariff rate among developed economies stood at 40 to 50%, which fell to around 3%.⁸³ Under the GATT system, trade liberalization made progress. After Germany and Japan became members of GATT in 1951 and 1955, respectively, they achieved amazing economic growth with expansion of international trade.

However, despite large declines in the level of tariffs, non-tariff measures, which are barriers to trade other than tariffs, increased, offsetting the effects of tariff reductions. Typical cases can be found in controlled trade by the United States, described below.

As mentioned above, Japan, Germany, and other countries achieved rapid economic growth under the GATT system. The United States, having enjoyed absolute superiority in the world economy,

⁸² Watanabe (2012), p.30.

⁸³ Tamura (2006), p.13 and Higuchi (2006).

found its status being relativized.⁸⁴ As exports from Japan to the United States rapidly increased with its growing trade surplus (Figure II-2-1-5), the United States placed ever greater protectionist pressure on Japan.

In the 1950s, accepting requests from the textile industry and other individual sectors that had lost competitiveness in the global market, the United States demanded that their trading partners adopt trade restriction measures, such as import quantity limit and voluntary export restraint. In 1962, the Trade Expansion Act was enacted, which authorized the president to take measures needed to mitigate the impact of a rapid increase of imports on domestic industries, followed by the Trade Act of 1974, a law passed to grant the president authority under its Section 301 to unilaterally recognize trade policies of other countries as unfair practice and impose trade sanctions on them.⁸⁵ In the 1970s, against such backdrops, import restriction measures covered a broader range of sectors, including color TVs, steel, and machine tools. In the 1980s, regarding their growing trade deficit with Japan as a problem, the United States escalated their demand beyond import quantity limits, requiring Japan to lift non-tariff barriers and resolve structural problems of the market, among others, in the individual sectors of semiconductors and automobiles. They frequently used Section 301 of the Trade Act during negotiations with Japan amid trade disputes between the two countries, as well as with other countries, as a card for extracting concessions from their counterpart (Figure II-2-1-6). As the United States hinted at the possibility of excluding Japan from their huge market, the trading partner gave in to the pressure, and decided to introduce voluntary export restraint (VER) to deal with the problem (Table II-2-1-7).

With its growing trade deficit, the United States had trade disputes intensified with other countries and regions, such as the EC and Canada. They also invoked Section 301 against several trading partners other than Japan, such as the EC, Canada, and Republic of Korea.⁸⁶

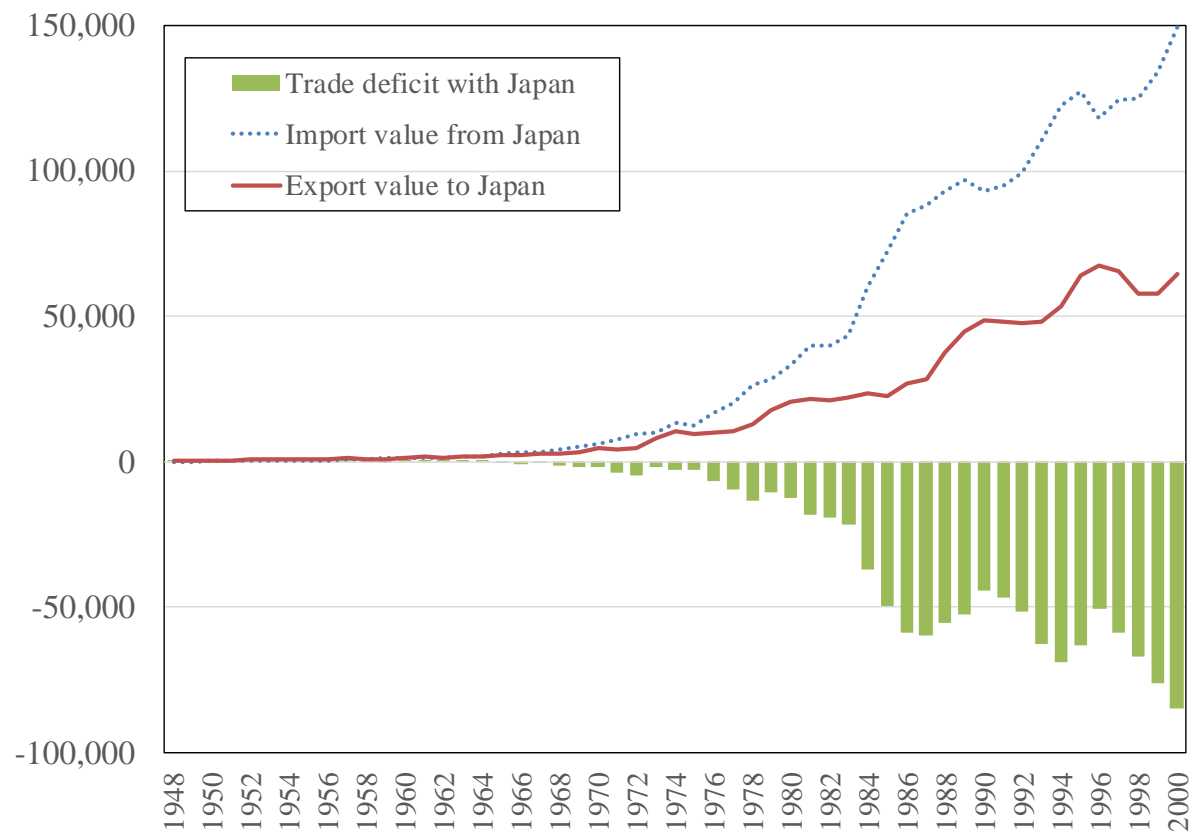
⁸⁴ See Ministry of Foreign Affairs (1969), Chapter 12.

⁸⁵ METI (2012), p.423.

⁸⁶ JETRO (1986), p.55.

Figure II-2-1-5 Trade balance of the United States with Japan

(Million dollars)



Source: IMF DOTS.

Figure II-2-1-6 Number of inquiries launched by the United States for their unilateral measures (Section 232 of the Trade Expansion Act & Section 301 of the Trade Act) (annual)

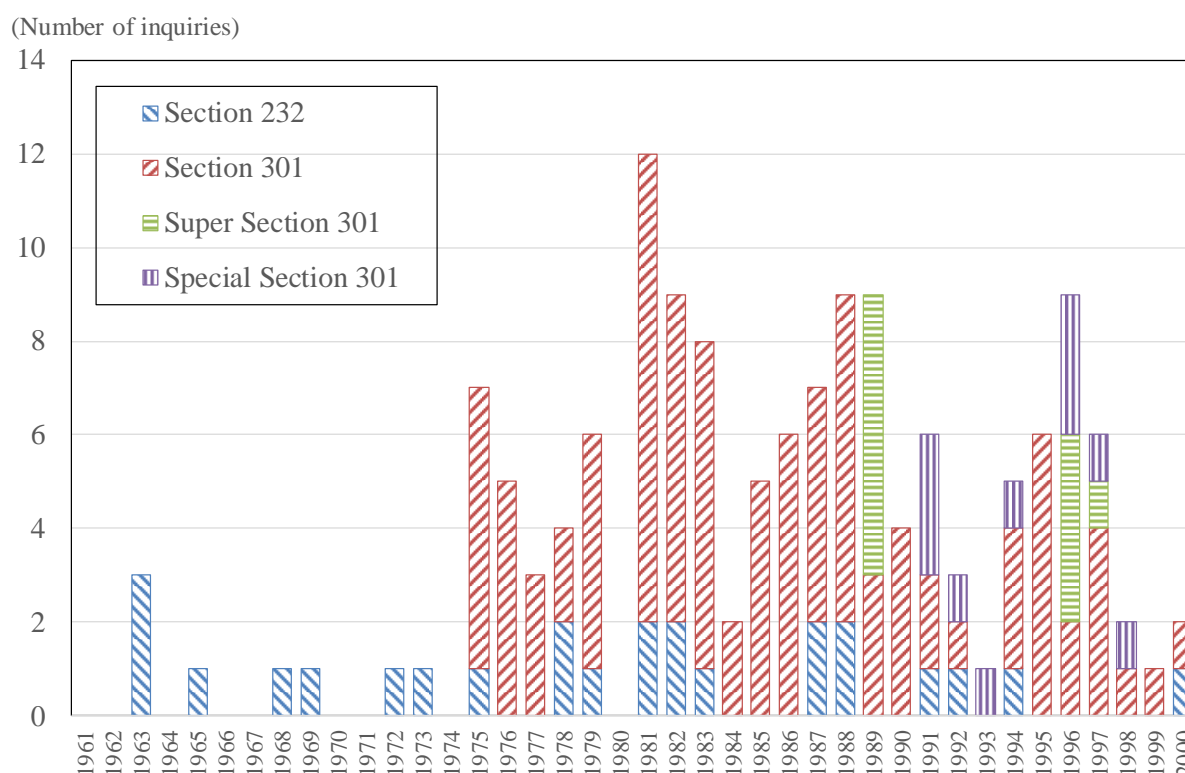


Table II-2-1-7 History of trade disputes between Japan and the United States

Year	Agreement	Description
1957	Japan-U.S. Cotton Textile Agreement	Voluntary export restraint (Quantity quota by product)
1972	Japan-U.S. Textile Agreement	To restrict the annual growth of wool & synthetic fabric textile exports to 5%.
1977	Voluntary restraint of color TV export to U.S.	To restrict export of finished & semi-finished products to 1.75 mn. units.
1981	Voluntary restraint of automobiles export to U.S.	To restrict annual export to 1.65 - 2.30 mn. units.
1985	Japan-U.S. Steel Agreement	To restrict the share of Japanese products to 5.8% of U.S. consumption.
1986	1st Japan-U.S. Semiconductor Agreement	
1986	Voluntary restraint of machine tools export to U.S.	Voluntary restraint for six items, incl. machining centers and NC lathes.
1991	2nd Japan-U.S. Semiconductor Agreement	Having seen the import target missed, the U.S. considered invoking Section 301.
1995	Japan-U.S. automobile trade negotiations	Agreement reached on purchase of components produced & units of cars assembled in N. America.

Table II-2-1-8 Characteristics of the WTO

Status as international institution	<ul style="list-style-type: none"> Established as a formal international institution for trade based on an agreement that authorizes its foundation.
Enhance trade rules	<ul style="list-style-type: none"> Help conclude agreements for trade of specific goods (agricultural, textile, etc.). Develop trade rules, such as anti-dumping regulations and safeguards.
Prepare rules for new sectors	<ul style="list-style-type: none"> Cover a broader field beyond trade of goods, incl. service trade, trade-related IP, and investment measures.
Strengthen dispute resolution procedures	<ul style="list-style-type: none"> Introduce the negative consensus rule, where proposals are decided/adopted unless rejected unanimously. Prohibit unilateral measures being invoked outside the WTO's dispute resolution procedures. Enhance effectiveness of procedures to make them quicker and smoother. Set up the standing Appellate Body to review reports filed by Panels in terms of their interpretation of law.
Rights and obligations of member states	<ul style="list-style-type: none"> Oblige members to accept all the WTO Agreements, incl. those for trade of goods and services and for dispute resolution, simultaneously to secure their uniform application.

Another move that hindered the aim of the GATT system, trade liberalization, was seen in protectionist behaviors of developing countries. Rapid economic growth of developed nations left greater disparities with developing economies as they only grew at a slower tempo (North-South divide). Developing economies depended largely on exports of primary commodities, a form of trade beset with instability, causing them to suffer from chronic imbalances in trade with developed countries, as they were more competitive. As a result, many developing nations in Latin America and Asia adopted import-substituting industrial policy and introduced protectionist measures, such as higher tariff rates and quantity quotas.

As described above, GATT successfully established a multilateral free trade system that underpinned growth of world trade after World War II. However, the scheme failed to prevent a rise of protectionist measures, such as controlled trade by the United States. One of the factors that contributed to the failure could be found in the fact that originally, GATT was nothing more than a provisional agreement that had been concluded and brought into effect on a multilateral basis in the process of establishing an international institution for trade liberalization, International Trade Organization (ITO), and that the scheme had no basis on which strong regulatory authority could be established. After failure to set up an ITO in the end, the GATT had been on a fragile base for almost 50 years, assuming the role of offering a basic legal framework for postwar international trade. Especially, lack of smooth and effective dispute resolution procedures led Member States to solve disputes through unilateral measures they had established by themselves outside the framework of GATT.⁸⁷

(3) Establishment of the WTO (1995 -)

Upon the principles of liberalization, non-discrimination, and multilateralism, the GATT system

⁸⁷ Sato (2003).

achieved great contribution to lowering the level of tariffs. However, weakness of the system was exposed when trade frictions and protectionist measures increased against backdrop of problems it faced, especially in its dispute resolution procedures. The WTO was founded in January 1995 as a framework for solving challenges GATT had encountered and building a more advanced multilateral trade system. The international organization is intended to enhance functions that the GATT system performed and put into practice achievements of the Uruguay Round on a uniform basis. It also administrates new rules for trade of goods and services, as well as new trade rules for intellectual property and trade-related investment measures. Moreover, the new institution has critical roles to play as a forum for resolving international disputes⁸⁸ (Table II-2-1-8).

Equipped with much stronger functions to perform than those of the GATT mechanism, the WTO system provides an enhanced framework for "free trade" on a multilateral basis. The Organization explicitly prohibits unilateral measures for resolving disputes as seen in the days of GATT, offering greater confidence in rule-based dispute resolutions. Under the WTO system, 4.2-fold more disputes (seen in the number of requests for consultation delivered as a precondition for starting dispute resolution procedures) were dealt with on an annual average basis than under GATT. (During its 47 years of life, from 1948 to 1994, GATT handled 314 cases,⁸⁹ while the WTO saw 388 cases during the 14 years from 1995 to 2008.⁹⁰)

As one of the trade-restrictive measures that characterized this period of time, a set of trade remedies authorized under WTO Agreements; namely, anti-dumping duty (AD), countervailing duty (CVD), and safeguard (SG), are noteworthy. The three measures are recognized under WTO Agreements as fair trade-related actions to prevent damage to domestic industries and to redress any damage they suffer from unfair trade or a rapid increase of imports. However, given that these measures allow lawful imposition of additional tariffs and/or import quantity restrictions, there are always concerns that they might be abused beyond their original purposes as protectionist measures. Since the Global Financial Crisis, the WTO has monitored trade-restrictive measures among the G20 countries and published semiannual reports. Until 2017, the WTO had regarded the trade remedies as a major element of trade-restrictive measures, giving warning against their abuse.

Among the three, the anti-dumping measures were most frequently used. According to the WTO, during the 14 years from 1995 to 2008, AD measures were implemented in 1,947 cases. In contrast, CVD and SG measures were used in 111 and 89 cases, respectively⁹¹ (Figure II-2-1-9).

These trade remedies, it should be noted again, are authorized under WTO Agreements as fair measures. There are some who argue against dealing with them as protectionist measures. However, anti-dumping measures, when used improperly, are feared to neutralize the effort that has been made for the liberalization of trade. Based on the understanding that some ambiguities had been left in the anti-dumping agreement at the conclusion of the Uruguay Round negotiations, the Doha Round

⁸⁸ JETRO (1995), p.29.

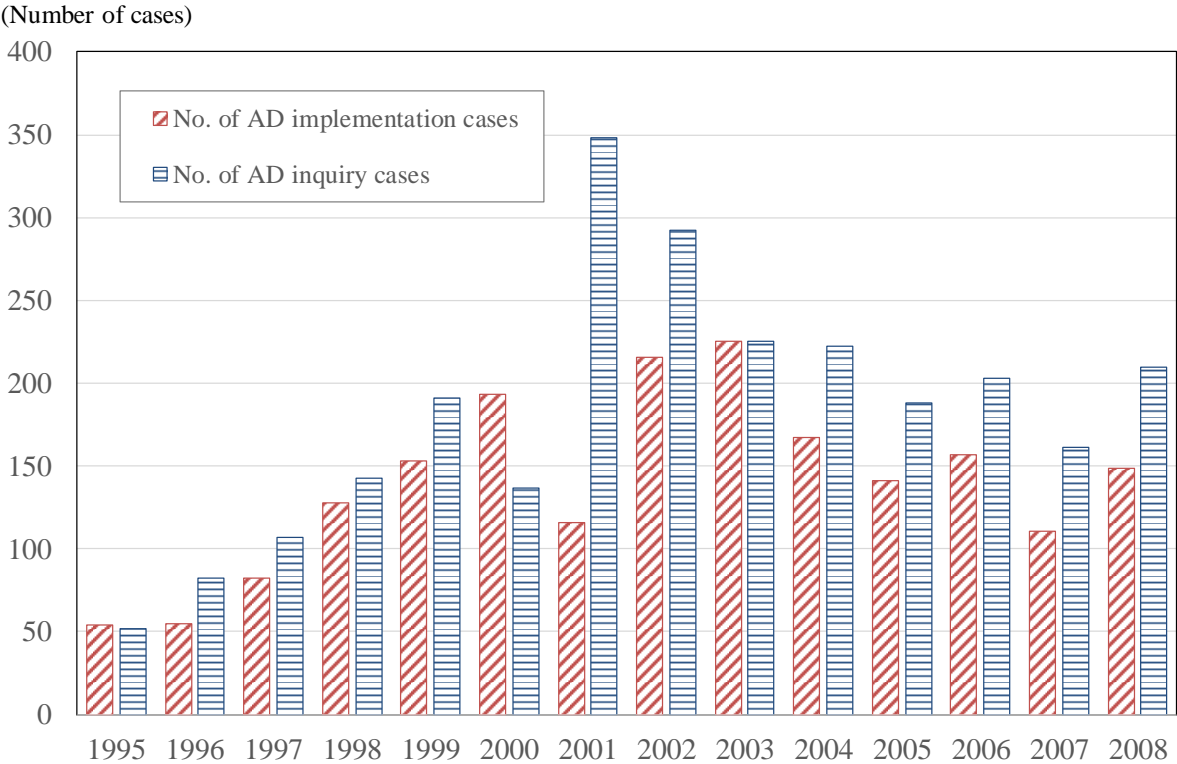
⁸⁹ METI, "*Dispute Resolution at the WTO*" (https://www.meti.go.jp/policy/trade_policy/wto/3_dispute_settlement/31_about/ds.html).

⁹⁰ WTO Integrated Trade Intelligence Portal (I-TIP).

⁹¹ WTO Integrated Trade Intelligence Portal (I-TIP).

discussed, under the initiative of Japan, enhancement of disciplines for preventing any abuse of anti-dumping measures.

Figure II-2-1-9 Number of anti-dumping measures (1995-2008)



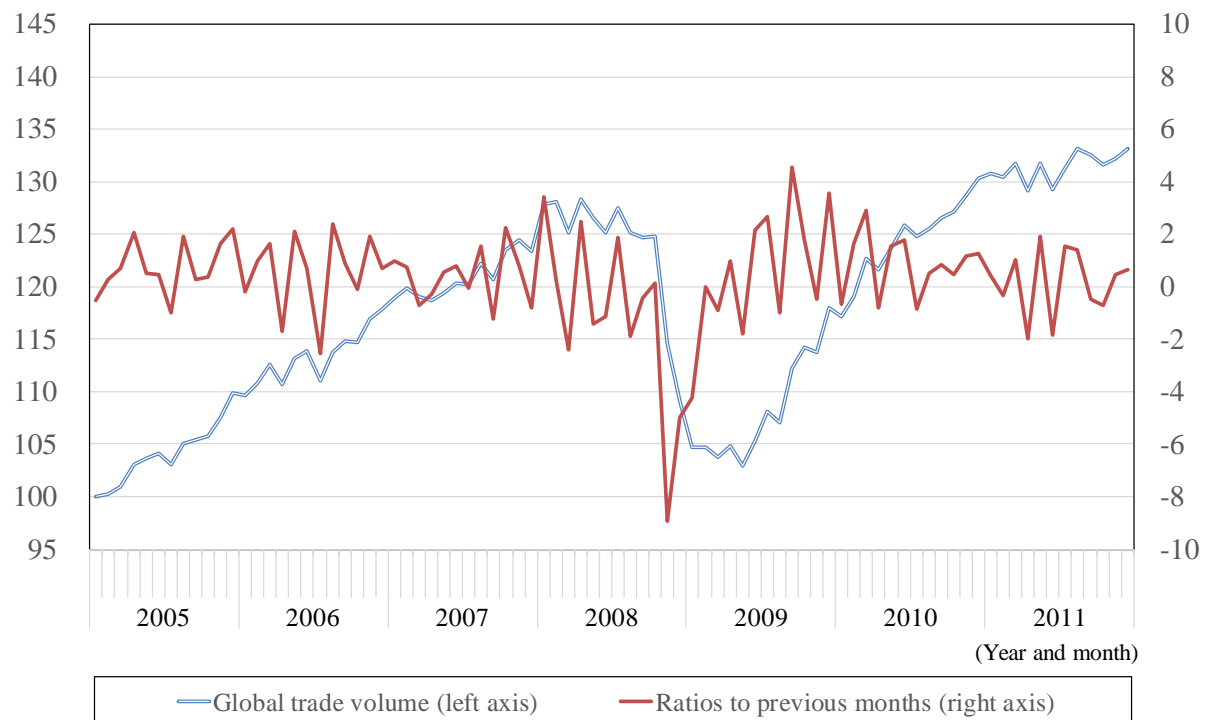
Source: WTO I-Tip.

(4) Immediately after the Global Financial Crisis (2008) through the establishment of the Trump administration

After Lehman Brothers, a U.S.-based investment bank, collapsed in September 2008, chain reactions of instability spread in the financial industry around the world. The global financial crisis also gave impact on the real economy, throwing countries around the world into recession at a time, with a huge number of people having lost their jobs. Immediately after the crisis erupted, the volume of global trade marked a sharp decline. However, it started to pick up gradually in the latter half of 2009, before recovering at the end of the next year to almost the same level as before the crash. Then, the trend of expansion continued (Figure II-2-1-10).

Figure II-2-1-10 Volume of world trade before and after the Global Financial Crisis

(January 2005=100)



Source: Netherlands Bureau for Economic Policy Analysis (CPB).

Immediately after the Global Financial Crisis, countries, falling into recessions one after another, were quick to adopt trade-restrictive measures to protect domestic industry, moves feared to spread protectionism around the world. Actually, some of them introduced protectionist measures to support domestic industry and/or secure employment.⁹² However, they only seem to have produced limited impact. A major factor that lay behind the result seems to be that countries effectively used opportunities offered by the WTO, an institution that embodies multilateralism in trade, and the G20, a forum of economies that account for more than 80% of the global GDP,⁹³ to act together with international cooperation as a given, and successfully contained protectionism.⁹⁴ Below are some of the international developments that helped hold back protectionism.

To cope with economic and financial crises that occurred after the collapse of Lehman Brothers, the first G20 Summit Meeting was held in Washington D.C. in November 2008. The forum of heads of state from major developed and emerging economies was set up as an upgrade version of the existing G20 Financial Minister and Central Bank Governor Meeting. In their joint declaration, world leaders stood against protectionism, calling for effort to prevent any chain reaction of negativity being caused by protectionist measures and instead facilitate stable growth of the world economy. The Summit

⁹² See METI (2009), Chapter 2, Section 3.

⁹³ Ministry of Foreign Affairs "G20 Summit: Basic Q&As" (https://www.mofa.go.jp/mofaj/ecm/ec/page25_001040.html).

⁹⁴ METI (2011), p.72.

played a role in enabling major countries to get into step and hold back protectionism.⁹⁵ In the same month, an APEC Summit Meeting was also held in Lima, and top leaders of the region expressed similar commitments (Table II-2-1-11). These political declarations adopted at the G20 and APEC meetings for containing protectionism, the members included some promises they should fulfill to deter protectionism more effectively, stating that they would restrain themselves to the maximum from exerting measures that may produce material protectionist effect, even if they might be consistent with the WTO rules, and commit themselves to "stand still" for refraining from adopting any new protectionist measures. Member states are obliged to comply with the WTO Agreements in the first place. These political agreements are implied expression of commitments to contain protectionism beyond the WTO Agreements.

Table II-2-1-11 G20 & APEC summit declarations

November 15, 2008 G20 Washington D.C. Summit	We underscore the critical importance of rejecting protectionism and not turning inward in times of financial uncertainty. In this regard, within the next 12 months, we will refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing measures inconsistent with the World Trade Organization (WTO) to stimulate exports.
November 22, 2008 Lima APEC Summit	We strongly support the Washington Declaration and will refrain within the next 12 months from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing measures inconsistent with the World Trade Organization (WTO) in all areas, including those that stimulate exports.
April 2, 2009 G20 London Summit	We reaffirm the commitment made in Washington: to refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing measures inconsistent with the World Trade Organization (WTO) to stimulate exports.
September 25, 2009 G20 Pittsburgh Summit	It is imperative that we stand together to fight against protectionism. We welcome the swift implementation of the \$250 billion trade finance initiative. We will keep markets open and free and reaffirm the commitments made in Washington and London.
June 27, 2010 G20 Toronto Summit	Open markets play a pivotal role in supporting growth and job creation, and in achieving our goals under the G-20 Framework for Strong, Sustainable, and Balanced Growth.
November 12, 2010 G20 Seoul Summit	Our determination to resist protectionism has enabled us to both address the root causes of the crisis and safeguard the recovery.
November 4, 2011 G20 Cannes Summit	It is important to underscore the merits of the multilateral trading system as a way to avoid protectionism and not turn inward. We reaffirm our standstill commitments through the end of 2013, as agreed in Toronto, commit to roll back any new protectionist measure that may have arisen, including new export restrictions and measures inconsistent with the WTO to stimulate exports, and ask the WTO, OECD, and UNCTAD to continue monitoring the situation and to report publicly on a semi-annual basis.
June 19, 2012 G20 Los Cabos Summit	We are firmly committed to open trade and investment, expanding markets and resisting protectionism in all its forms, which are necessary conditions

⁹⁵ "G20 (Summit on Financial Markets and the World Economy)" (Ministry of Foreign Affairs, https://www.mofa.go.jp/policy/economy/g20_summit/index.html).

	for sustained global economic recovery, jobs, and development. We are deeply concerned about rising instances of protectionism around the world. Following up our commitment made in Cannes, we reaffirm our standstill commitment through the end of 2014 with regard to measures affecting trade and investment, and our pledge to roll back any new protectionist measure that may have arisen, including new export restrictions and measures inconsistent with the WTO to stimulate exports.
September 8, 2012 Vladivostok APEC Summit	We reaffirm our commitment to roll back protectionist measures and continue maximum restraint in implementing measures that may be consistent with the WTO but have a significant protectionist effect.
November 11, 2014 Beijing APEC Summit	We remain committed to exercise maximum restraint in implementing measures that may be consistent with WTO provisions but have a significant protectionist effect, and to promptly rectify such measures, where implemented.

Source: Ministry of Foreign Affairs.

Since the end of 2008, the WTO has been monitoring trade measures of countries to publish quarterly reports. Since September 2009, three organizations, the WTO, UNCTAD, and OECD, have been working together to monitor trade-restrictive measures of G20 countries and produce semiannual reports. The purpose of the reports is to make their measures visible. They are neither to ask them to roll back any measure they have introduced, nor to produce any legal effect. Nonetheless, the process helps keep trade practices of countries and regions more transparent. It could be evaluated as having shed light on the "monitoring" function the WTO has to perform for checking any trade-restrictive measures that might be implemented.⁹⁶

As seen above, enhanced monitoring by the WTO of trade-restrictive measures and a high level of international political commitment among major countries at the G20 and APEC seem to have successfully prevented the spread of protectionism even in the days of economic depression around the globe.

(5) After the inauguration of the Trump administration

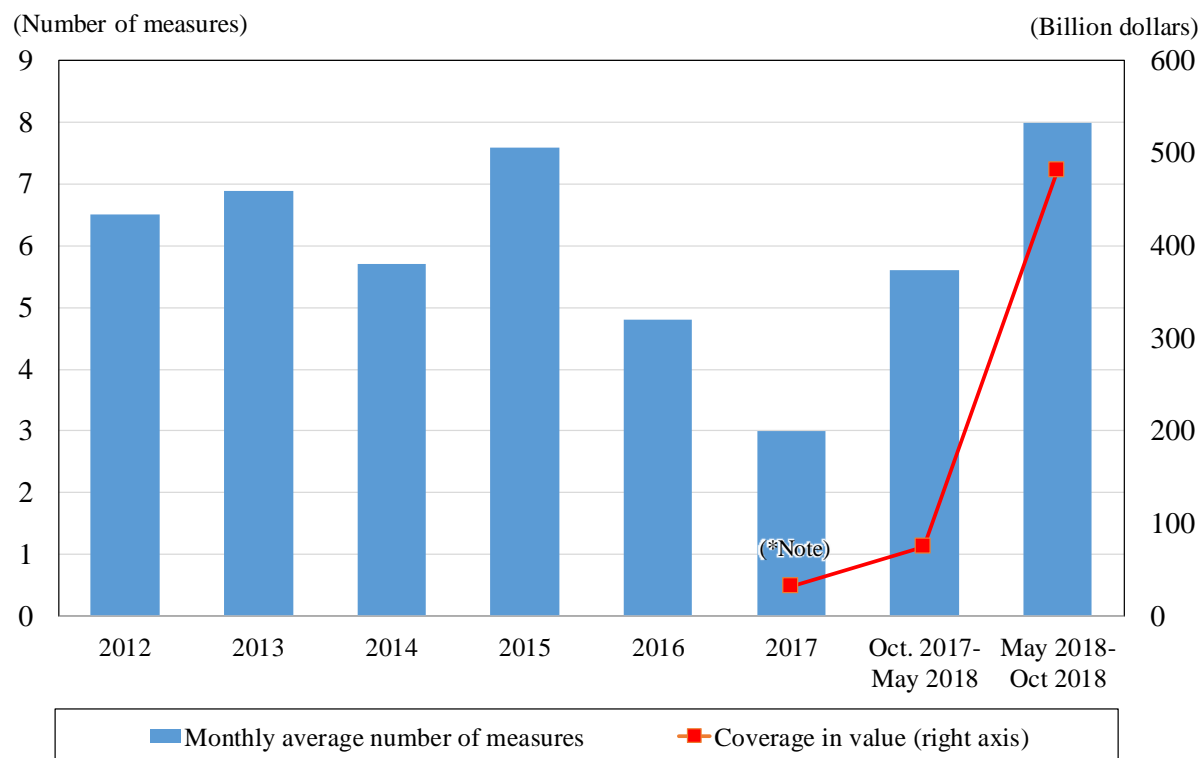
The rise of protectionism after the Global Financial Crisis had been contained by countries working in cooperation through the WTO and other institutions. It seems, however, that in recent years, protectionist moves have been growing despite no economic crisis having occurred.⁹⁷ Since 2017, new trade-restrictive measures adopted by the G20 countries have been increasing on a monthly average basis. In its "Report on G20 Trade Measures" (November 22, 2018), the WTO revealed that during the period from May 16 to October 15, 2018, G20 economies had applied 40 new trade-restrictive measures, or roughly eight per month, an increase from six, a monthly average reported for the previous review period, from October 16, 2017 through May 15, 2018 (Figure II-2-1-12).

⁹⁶ JETRO, "Region & Analysis Report 'Feature: Global Trends of Trade Liberalization; Column: WTO Redefines Trade-Restrictive Measures'" (<https://www.jetro.go.jp/biz/areareports/special/2017/10/3c0756aa16380baf.html>).

⁹⁷ Since 2017, the G20, leaders of major economies, the IMF, and the WTO, among others, have expressed concerns about growing tensions amid protectionism and trade disputes.

Figure II-2-1-12 Trade-restrictive measures of G20 countries (monthly average) and their coverage in value

(*Number of new measures: Monthly average; Coverage: Cumulative value during the review period)



Notes: 1. Excl. trade remedies (AD, SG & CVD).

2. No. of measures: (- 2017) Monthly average of the year; (October 2017 -) Monthly average of the review period.

3. Value: Accumulated during the review period.

(*) For 2017, accumulated between May and October 2017.

Source: Report on G20 Trade measures (WTO).

Trade-restrictive measures included raised tariffs, stricter customs procedures, and export duties. Among them, raised import tariffs accounted for 60%, the highest share. The WTO estimated that the coverage of the import-restrictive measures of G20 countries sharply increased to 481 billion dollars, more than six times that recorded in the previous period, 74 billion dollars. It is the largest since 2012, the first year of the monitoring, amounting to 3.5% and 2.7% of merchandise imports among the G20 economies and all around the globe, respectively. The results reflected impacts of additional tariffs the United States and China imposed on each other, and raised import duties of Indonesia,⁹⁸ as well as larger surtaxes Canada imposed on imports from the United States. According to the Report, G20

⁹⁸ The Indonesian Ministry of Finance decided to increase the rate of prepaid income tax on imported consumer goods (Minister of Finance Regulation No.110/PMK.010/2018 (PMK-110), September 2018). In the country, those who import certain goods are in principle liable to pay income taxes equivalent to 2.5% to 10% of their value. The tax rate increase is intended to set a higher barrier and reduce imports of consumer goods. Behind the action lies an intention of the government to reduce trade deficits and underpin consumer spending for strengthening fundamentals of the economy.

economies also implemented 33 measures aimed at facilitating trade, including eliminating or reducing import tariffs and export duties. Among them were China's reduced tariffs on automobiles and Brazil's lower customs duties on information and communication equipment. The estimated trade coverage of import-facilitating measures amounted to 216.2 billion dollars, where motor vehicles (HS87) accounted for 40%, and general machinery (HS84) and electrical machinery (HS85) each made up 10%.

Despite implementation of tariff reductions and other import-facilitating measures as seen above, their coverage in value was less than half of the trade covered by import-restrictive measures. During the review period, the number of trade-facilitating measures, seen in monthly average, was also smaller than that of trade-restrictive measures. That demonstrates that trade-restrictive measures are more influential at the moment.

Behind the recent increase of trade-restrictive measures lie overheated exchanges of retaliation countries have inflicted on each other concerning their trade policies. As one of the elements that induce such actions, countries around the world are carefully watching developments of trade policy adopted by the United States. Below is an overview of major trade-related measures the United States has introduced under the Trump administration and actions other countries have taken against them.

(A) Measures adopted on the grounds of threats to national security (Section 232 of the 1962 Trade Expansion Act)

On account of the grave impact steel and aluminum imports made on national security of the United States, on March 23, 2018 the Trump administration started to impose additional duties on imported steel and aluminum, 25% and 10%, respectively, under Section 232 of the 1962 Trade Expansion Act. At first, the additional duties applied to steel and aluminum imported from countries and regions other than those granted temporary exemptions (the EU, Canada, Mexico, Argentina, Brazil, Republic of Korea, and Australia), amounting to 10.2 billion dollars (based on FY2017 imports). In June, six of them, or those other than Australia,⁹⁹ also found additional duties of 13.1 billion dollars and import quotas of 5.5 billion dollars imposed on them. Seen in value of U.S. imports in 2017, the measures covered 45.0% and 76.8% of steel (HS72 and 73) and aluminum (HS76) imports, respectively.¹⁰⁰

Against these measures, six countries and regions, or the EU, Canada, Mexico, China, Russia, and Turkey, imposed tariffs on imports from the United States as countermeasures.¹⁰¹ Measures

⁹⁹ Australia was the sole country granted exemptions for both steel and aluminum.

¹⁰⁰ Based on GTA. For steel and aluminum combined, the coverage amounts to 53.2%.

¹⁰¹ The United States and its trading partners disagree on interpretation of the Agreement on Safeguards (Paragraph 2, Article 8), which states "... the affected exporting Members shall be free ... to suspend ... the application of ... concessions or other obligations ... the suspension of which the Council for Trade in Goods does not disapprove." Under the system Japan has in place, additional duties may be imposed on designated cargoes from a certain country mainly when (1) they are recognized as necessary to protect our interests in compliance of the WTO agreements and achieve their purposes, and (2) the country provides discriminatory treatment to ships, airplanes, or export or transit cargo of Japan to their disadvantage, and they must not be more than equivalent to their dutiable value (Ad valorem duty rate of 100%) (Article 6 of the Customs Tariff Act). In principle, retaliatory duties must

implemented by the United States and countermeasures adopted by the six economies are outlined in Table II-2-1-13. Together with retaliatory tariffs, they also applied dispute resolution procedures under the WTO Agreements. The EU and Canada¹⁰² also implemented safeguards to steel imports.¹⁰³

(B) Unilateral measures on the grounds of violation of trade agreements, etc. (Section 301 of the 1974 Trade Act)

On March 22, 2018, President Trump signed a Presidential Memorandum to order that sanctions be imposed on China under Section 301 of the 1974 Trade Act. Sanctions against China were implemented based on findings of the examination the USTR¹⁰⁴ had started in August 2017, pointing out unfair interventions Beijing had made to have intellectual properties and/or technologies of U.S. firms transferred to Chinese firms. Among the sanctions are additional duties imposed on specific items imported from China, countermeasures through WTO resolution procedures against discriminatory practices of China for technical license, and proposals of more stringent regulations for investment of China in, among others, emerging technologies of the United States.¹⁰⁵ Additional duties were imposed in three stages in 2018, first on July 6, then on August 23, and finally on September 24. As countermeasures, China also started to impose additional duties on imports from the United States on the same days as they implemented sanctions (Figure II-2-1-14).

obtain approval from the WTO before implementation.

¹⁰² After the United States implemented these measures, the EU launched a safeguard investigation on steel imports in March 2018, and implemented provisional safeguard measures in July, before adopting definitive measures in February the next year. Canada also started imposing safeguard measures on imported steel in October 2018. The United States, insisting that these measures did not fall under safeguards, requested trade partners that had implemented countermeasures for WTO consultation.

¹⁰³ In addition to these countermeasures, Turkey adopted additional duties for protecting domestic industry and reduce trade deficit.

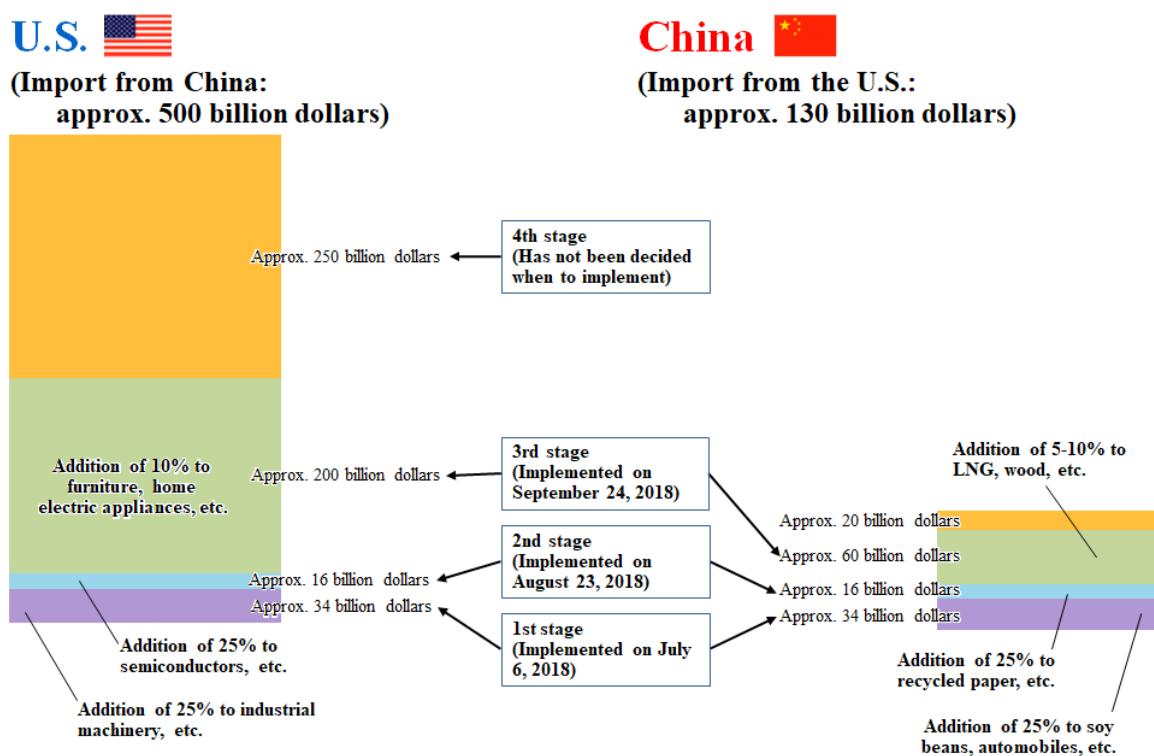
¹⁰⁴ Office of the United States Trade Representative Executive Office of the President "Findings of the Investigation into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation Under Section 301 of the Trade Act of 1974" (2018/3/22) (<https://ustr.gov/sites/default/files/Section%20301%20FINAL.PDF>), and an update to the report (2018/11/20) (<https://ustr.gov/sites/default/files/enforcement/301Investigations/301%20Report%20Update.pdf>).

¹⁰⁵ For the expanded scope of investment reviews, see Part I, Chapter 3, Section 1.

Table II-2-1-13 U.S.'s measures under Section 232 and countermeasures

			Measures implemented by the U.S. under Section 232	
			Steel	Aluminum
United States	Duties		Additional duties: 25%	Additional duties: 10%
	Import quota	Argentina	Ceiling: 135% of average btw. 2015 and 2017	Ceiling: 100% of average btw. 2015 and 2017
		Brazil	Ceiling: 100% (semi-finished) and 70% (finished) of average btw. 2015 and 2017	-
		Republic of Korea	Ceiling: 70% of average btw. 2015 and 2017	-
			Countermeasures	
Retaliating economies	Duties	EU	Additional duties: 25% on 182 items (from June 20)	
		Canada	Additional duties: 10 - 25% on 229 items (from July 1)	
		Mexico	Additional duties: 7 - 25% on 71 items (from June 5)	
		Russia	Additional duties: 25 - 30% on 79 items (from August 6)	
		China	Additional duties: 15 - 25% on 229 items (from April 2)	
		Turkey	Additional duties: 5 - 40% on 22 items (from June 21) (WTO notification basis)	

Figure II-2-1-14 The scale of duties: United States and China



Note: Imports are estimated based on U.S. trade statistics (2017). Charts are based on data available as of April 2019.