



Rising Trade Protectionism and its Impact on Hong Kong

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Since the financial crisis, the economic recovery remained sluggish globally, which could, to a certain extent, be directly attributable to the slowdown of global trade flows. Rising protectionism was the main reason for the sluggish trade flows and environment globally over the past few years. According to the WTO's World Trade Report, the global trade flows only increased by a mere 3.1% annually between 2008 and 2015. It was not only lower than the annual GDP growth during the same period, but also lower than the 6.7% annual growth in the decade before the financial crisis when it was 3 percentage points higher than the global GDP growth. This clearly showed that its contribution to the global economy has been waning. Therefore, the rapidly rising and spreading protectionism was one of the major causes for the sluggish global economic growth currently.

1. Three characteristics of trade protectionism

The new phase of trade protectionism is a by-product of the global financial crisis. With the increasing pressure from the social and political environment in the Western countries, the ever rising trade protectionism is the result of a desire for global rebalancing and protection of local employment. Specifically:

First, trade protectionism has an ever rising trend. Trade protectionism and economic crisis are mutually complementary with each other. Since the global financial crisis in 2008, the economic environment worsened rapidly and the drive of trade protectionism became much stronger. According to the relevant statistics, there were over 5,000 trade protection measures implemented globally between October 2008 and end-2015. These trade protection measures became more board-based, which not only included traditional trade barriers like tariffs, prohibition orders and quotas etc, but also new protection measures like export supportive measures, emergency trade subsidies, government procurement rights, government subsidies and localization requirements etc.

It should be noted that even though the negative impact of the financial crisis has been waning over the past few years, and the policy focus around the world also shifted from crisis management to long-term economic sustainability, the impact of trade protection on global economic growth became more prominent. However, trade protectionism did not have any sign of fading. It even

gained increasing support around the globe. The Centre for Economic Policy Research in the UK recently published a report called Global Trade Alert, which showed that the number of trade protection measures globally increased by 50% last year from the preceding year, i.e. three times more than the trade liberalization measures. This means that the force of trade liberalization was lagging far behind those numerous exclusivity trade protection measures.

Second, some G20 countries also became the leaders of trade protectionism. According to European Council's report on Trade and Investment Barriers and Protectionist Trade in June 2016, the trend of trade protectionism has been rising globally, with some advanced G20 countries even taking the lead. Based on the statistics, the G20 countries implemented 1,583 trade restrictive measures between 2008 and May 2016, with only one-fourth having been repealed currently and 1,196 measures still in force. In June 2016, the UNCTAD, OECD and WTO issued a report on G20 Trade and Investment Measures. The report stated that the G20 countries introduced 21 trade restrictive measures on average monthly between October 2015 and mid-May 2016, the fastest pace since the financial crisis in 2008. With the G20 countries accounting for 85% of global GDP and 80% of global trade volume, they have a dominant position in the global economy and world trade. Thus, their lead in trade protectionism would have profound effect on the world economy.

Indeed, the US, an advocate of free trade among the G20 countries, implemented the most trade protection measures. Since 2008, the US has introduced over 600 trade protection measures against other countries or regions, accounting for 40% of all measures implemented by the G20 countries. It also introduced 90 measures in 2015, the most in the world, and that was roughly one measure for every four days. Their pace of introducing trade protection measures was unprecedented. Moreover, the US also introduced numerous trade protection measures this year. Even though many of these measures were introduced against unfair trade treatments by the foreign companies on the surface, it was a kind of trade protection behavior in reality, with the aim of restricting foreign imports. Moreover, their trade protection measures included not only anti-dumping, anti-subsidy and other protection measures, but also a wide range of implicit requirements, such as product safety, technology restrictions, environmental protection, intellectual property protection, and labour protection etc.

Third, China is the victim of trade protectionism. The recent reports by the WTO and European Council both held the view that protectionism is rising around the world, with around one-third of those protection measures directly targeting China-related trade. The Ministry of Commerce stated that China has long been an investigation target, claiming that China provided trade subsidies to its companies. Since the establishment of WTO in 1995, 48 of its members opened 1,149 investigation cases accusing China of providing different types of trade subsidies, accounting for 32% of the

world total. China was also the largest target of anti-dumping and anti-subsidy for the past 21 and 10 consecutive years respectively, losing tens of billions of dollars in trade value. This can best support the WTO and European Council's conclusion that China mainly relied on its continuous opening policy, strengthened international cooperation and stronger international competitiveness rather than trade protection to gradually achieve its largest trade entity status.

The US and India, the largest advanced economy and second largest emerging economy respectively, were the ones which launched the most investigation cases on trade subsidies against China. According to the relevant statistics, the US launched 13 rule enforcement cases against China in the WTO. In late June 2016, the US International Trade Commission announced that the US domestic industry was being hurt by the imports of corrosion-resistant plates and cold rolled sheets from China and, thus, they introduced anti-dumping and anti-subsidy tariffs against relevant products from China. In mid-July, the US Department of Commerce also launched trade subsidy investigation against imports of stainless steel belts from China and stated that China provided 57.3% to 193.9% of subsidies to its companies. India also launched five cases of trade subsidy investigation against steel products from China this year, and it became the one which opened the most trade subsidy investigation cases against Chinese steel products.

2. Long-lasting impact on Hong Kong trade

As an open and multi-function free port, external trade is the largest economic pillar of Hong Kong. With the rising trade protectionism and declining trade flows, Hong Kong's overall trade performance has been directly affected. According to the WTO statistics, global trade flows had suffered from four major corrections over the past five decades, i.e. in 1975, 1982-1983, 2001 and 2009, mainly against the backdrop of economic crises. However, the growth of global trade flows continued to lag behind the GDP growth for four consecutive years since 2012, a rather unusual situation over the past 50 years, indicating that this wasn't only a result of cyclical change, but also structural change. With the drive of the Western economies for re-industrialization and global economic rebalancing through rising trade protectionism, the original China-centric global manufacturing value chain and division of labour also underwent new changes, and this explained why China became the target of rising trade protectionism.

As such, the impact of trade protectionism on Hong Kong is also structural in nature. Since the financial crisis eight years ago, the trade performance of Hong Kong also went from bad to worse. Except a 5.6% rebound in 2010, trade volume only recorded 4% growth or below in most years and included two years of contraction. Thus, the annual growth rate was a mere 0.6% on average over the past eight years, lower than the 3.1% global average by 2.5 percentage points. In recent years,

with the increasing pressure of trade protectionism, the trade performance of Hong Kong worsened further, with the import and export trade volume contracting by 2.5% last year. However, the global trade volume increased by 2.8%, the difference between the two widened to 5.3 percentage points. In the first seven months of 2016, the trade volume of Hong Kong declined by another 2.1%, nearly 4 percentage points lower than the 1.7% growth globally as projected by the WTO. In further details, the trade volume between Hong Kong and the Mainland contracted by 2.5%, leading to a 1.25 percentage points' reduction of Hong Kong trade growth. This showed that Hong Kong and Mainland trade accounted for roughly 60% of the overall trade contraction of Hong Kong this year. If the trade between Hong Kong and Japan, the other three Asian tigers, and ASEAN were also included for the whole Asia region, Hong Kong and Asia trade accounted for 72% of overall trade contraction. Obviously, the trade protection measures targeting China had some spillover effects on the overall Asia trade flows, also weakening Hong Kong's re-exports and offshore trade functions, as well as its role as a trading hub in the Asia Pacific region.

Second, the rising trade protectionism also affected services exports in Hong Kong. Merchanting trade, trade related services and transportation services, which accounted for roughly half of the services exports, were also affected by the decline in trade flows in different degree. Merchanting and trade related services are mainly offshore trade activities, which grew rapidly since the beginning of this century. The exports of trade related services recorded an annual growth of 13.8% between 2000 and 2007. Although the amount of merchanting trade has now overtaken that of re-exports, the growth of trade related services exports slowed notably after the financial crisis, with annual growth of just 1.9% between 2009 and 2014. It even declined 1.8% last year and another 0.9% in 1H 2016. Exports of transportation services also showed a similar trend, with its growth slowing from an annual growth of 11.2% between 2000 and 2007 to a mere 0.7% between 2009 and 2014. Its growth then declined further to 0.2% and even contracted by 1.2% in 1H 2016. As a result, Hong Kong's exports of services recorded negative growth last year and even contracted by 4.8% in 1H 2016 after relatively fast growth in the first eight years of this century and a period of slowing down since the financial crisis. Even though the rise and fall of services exports could not be totally attributable to trade protectionism, it did very much match the rising and spreading of trade protectionism in the past few years.

Furthermore, the contribution of trade and logistics industry to Hong Kong GDP growth also showed a similar change over the past years. According to government's statistics, the value-added of the trade and logistics industry accounted for 23.6% of Hong Kong's GDP in 2000. It then gradually increased to a peak of 28.5% in 2005, with its contribution to GDP growth even accounting for roughly one-third between 2001 and 2007. However, the re-exports and offshore trade function of Hong Kong has been weakening after the financial crisis and rising protectionism.

The share of trade and logistics industry to Hong Kong's GDP then declined gradually back to the level in the beginning of this century in 2014, with its contribution to GDP growth also declining by half to 17.3% between 2009 and 2014. Even though the 2015 figures have yet to be available, it is believed that its contribution to GDP growth should be negative, given the rising and spreading of trade protectionism as well as the negative growth of Hong Kong trade flows. Its share in the overall economy is also likely to decline further to the 1990s' level.

Finally, the negative impact of trade protectionism on the trade and logistics industry and the overall economy would subsequently be reflected in the labour market as well. Trade and logistics industry once employed 836,200 persons at its peak in 2007, accounting for over 24% of total employment in Hong Kong. Its employment then declined to 765,000 in 2014, over 70,000 fewer than in 2007, and its share of total employment also declined to 20.4%. As the 2015 figures have yet to be released, the government's quarterly report of employment and vacancies statistics showed that the employment in import and export trading industry declined 12,300 from December 2014 to June 2016, larger than the average decline between 2009 and 2014, indicating that the impact of trade protectionism and sluggish external trade on Hong Kong labour market has even been increasing.

3. Development outlook and prospects

Given that rising trade protectionism has plunged the world trade into the longest correction phase over the last five decades, the G20 countries should notice that trade protectionism could not resolve its own development bottlenecks, and would also hinder economic recovery and deepen the crisis. As such, the G20 leaders promised to strengthen international cooperation and oppose to trade protectionism. In the G20 Trade Ministers conference in early July this year, China's proposal on the extension of G20's promise of not introducing any new trade protection measures until 2018 received positive feedback from different countries. Different members also reached compromises on strengthening multilateral trade mechanism, indicating that different members now have a more uniform view on supporting global trade and economic recovery.

It should be noted that the G20 Hangzhou Summit in September had successfully reached three agreements on the trade related matters. The most important one was the G20 Strategy for Global Trade Growth. The G20 countries committed to ratify the Agreement on Trade Facilitation before the year-end. This is a very important way forward for the strengthening of multilateral trade mechanism. Currently, there are around 90 WTO members that have completed the ratification of the Agreement, and that is still short of the threshold required to take effect. Thus, the G20's commitment to ratify the Agreement is very important to put it into effect in the future. According to the forecast of international experts, the global trade value could increase by US\$ 1 trillion and 21

million new jobs could be created, including 18 million in developing countries, when the Agreement on Trade Facilitation comes into full effect.

Furthermore, even though the G20 Trade and Investment Working Group stated that the abolition of all trade protection measures will boost the annual global GDP by US\$ 432 billion and create 900 million employment opportunities, it is not easy for the countries to fully abolish those measures, and the implementation of the Strategy for Global Trade Growth requires a long period of hard work for the following reasons :

On one hand, trade protectionism is now an important political issue, amid the right leaning trend of the Western countries' political environment. It is not only because re-industrialization and global rebalancing require the implementation of difficult structural reforms, globalization also leads to the dissatisfaction related to job security, stagnant income growth and widening income inequality. This has put intense pressure on the governments to protect local employment and income. As globalization and free trade are always believed to be the root cause of the problem, it is not easy for the opponents to believe that trade liberalization could benefit different countries and social classes.

On the other hand, different countries normally implemented trade protection measures under the multilateral trade mechanism. On the surface, it does not violate WTO rules, but it is inseparable with the deficiency of the WTO system. Moreover, the adoption of new trade theory related to strategic trade policy, protection of high-end manufacturing and strategic new industries from international competition etc also resulted in trade protectionism. Under this scenario, even though the victims could recourse to the WTO dispute settlement mechanism, it is a time consuming and fruitless process.

As the world is now overshadowed by rising trade protectionism, Hong Kong needs to better assess the situation and actively find its new way forward. One of the ways is to leverage on its advantage at fintech, equity investment and professional services, and fully support the belt-and-road initiative, so as to expand itself to a 4.5 billion people emerging market. This new market will be a driving force for Hong Kong trade ahead. Another way forward is to actively participate in other regional economic cooperation. Hong Kong could benefit more from regional trade liberalization through the conclusion and participation in more regional free trade agreements. In addition, Hong Kong should also speed up its pace of re-industrialization, better utilize new technology and encourage innovation, develop more high value-added manufacturing industry and facilitate those product exports, so as to better diversify its economy and enhance the overall competitiveness.