Article

The Trump-Induced G20 Stress Test on Trade: Did the German Presidency Pass?

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At the beginning of its G20 year, the German Presidency attached little priority to trade policy. That stance had to change with the ascension to office of a U.S. President unwilling to follow the diplomatic niceties on trade policy of his predecessors. Moreover, following the U.S. withdrawal from the Trans-Pacific Partnership (TPP) in the first quarter of 2017, the fear grew that election-era protectionist slogans might be converted into action by the United States. This article assesses how effectively the German Presidency and the G20 process in general managed the Trump-induced "stress test" on trade policy. The non-binding form of international economic cooperation, evident with the Leaders' Summit appears, in our opinion, to have been only partially successful.

Introduction

Somewhat surprisingly, trade and investment policy became one of the most controversial issues described by the media during the German G20 presidency in 2017. In the run-up to the G20 Hamburg Summit there was genuine uncertainty as to whether a consensus among the G20 countries could be reached on trade and investment policy for the Leaders statement. This was not how the German government had envisaged it. In fact, German officials originally decided to prioritize other policy domains at the start of its presidency. Yet adjustments had to be made once it became clear that there was a significant risk that the new U.S. administration might break sharply from prior administrations and forsake international economic cooperation on international trade and investment policies.

This Trump-induced "stress test" on trade policy, we suggest, is interesting as potentially it may reveal something about the effectiveness of the G20's particular approach to international economic cooperation. Could this non-binding consensus process that directly implicates heads of government and state pass its Trump-induced stress test? The purpose of this article is to answer this question, drawing upon public information and interviews conducted with some government participants. Additional questions include: what deal could be done under these circumstances? Given the choice between hard and soft law approaches, was the flexibility associated with the latter useful in managing this stress test? Is there any evidence that the deal

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that was eventually agreed at the G20 Hamburg Summit affected the execution of trade policy on the ground? And, lastly, what are the implications of this Hamburg Summit episode for the Argentine G20 presidency, especially since the "G20 protectionist pledge" is up for renewal in the next twelve months? This stress test, then, could be particularly revealing.

Before developing our argument in the following sections, some other contextual comments are in order. Our focus on the Trump-induced stress test should not be taken to mean that it is the only factor affecting trade policy formation in the G20 members. In fact, rising inequalities within states and other matters, including negotiations of potentially far-reaching trade agreements, such as the Transatlantic Trade and Investment Partnership (TTIP), played significant roles in the trade narrative of recent years. Furthermore, the evident growing economic nationalism expressed by the new U.S. administration is not just confined to U.S. politics. If the growing number of trade distortions imposed by G20 governments is anything to go by, then zero-sum thinking has led various G20 governments to try and shift abroad the burden of economic adjustment Evenett (2011). Lastly, and distinctly, our focus on the Trump-induced stress test during the German presidency should not be confused with a broader assessment of the G20's contribution to trade and investment policy since this non-binding form of international cooperation was elevated to the G20 leaders level in November 2008.

The article is organized into a number of additional sections. The next section "G20's Influence on national trade policy formation" reprises the G20's role in trade policymaking since November 2008. The third Section describes and assesses the German priorities for its presidency and the role that trade and investment policy played. The controversies witnessed from the beginning of 2017 to the G20 Leaders' Summit in Hamburg are summarized and analyzed in Section "The bumpy road to Hamburg". An assessment of the outcomes of the Hamburg Summit is presented in Section "Analyzing the outcomes of the German G20 Summit". Concluding remarks are found in the last section.

G20's Influence on National Trade Policy Formation

Trade is one of the core issues on the agenda of the G20 since its elevation to the leaders' level towards the beginning of the global financial crisis in 2008. The main objective of the G20 was to deal with the immediate consequences of the economic crisis by coordinating members' initial responses. The effort consisted of mainly implementing large domestic fiscal stimulus packages and by taking measures to reassure participants in the international financial markets. Mindful of the fact that financial crises can often lead states to resort to protectionism, G20 Leaders at the London Summit on April 2, 2009, stated: "We will not repeat the historic mistakes of protectionism of previous eras" (G20 2009). Clearly, G20 Leaders and their officials had the woes of the financial and economic crisis of the 1930s in mind when drafting this statement. One of the severest consequences of the crisis that followed Black Tuesday on October 29, 1929, was the erection of high protectionist barriers and the implementation of beggar-thy-neighbor policies. These policy actions contributed to the contraction of international trade flows and worsened the Great Depression. G20 Leaders wanted to avoid this historic mistake.

At their first summit in November 2008 in Washington, G20 Leaders stressed the importance of open markets for trade and investment and committed to "refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organization (WTO) inconsistent measures to stimulate exports" (G20 2008). In Washington, G20 Leaders also pledged to advance the Doha Development Agenda negotiations within the WTO and highlighted the importance of trade finance. At subsequent summits, additional trade-related issues were added to the G20 agenda including the monitoring of G20 trade protectionism (London 2009), aid for trade (London 2009), trade facilitation (Toronto 2010), global value chains (Los Cabos 2012), regional trade agreements (Saint Petersburg 2013) and cross-border investment policy reform (Hangzhou 2016).

Trade ministers of G20 countries met for the first time under the Mexican presidency on April 18–20, 2012, in Puerto Vallarta, Mexico. Since then, trade minister meetings have become a common feature of the G20 process. Such meetings took place in 2014 (July 19, Sydney), 2015 (October 6, Istanbul) and 2016 (July 9–10, Shanghai). During the Chinese presidency, trade and investment negotiations within the G20 were further institutionalized and a dedicated Trade and Investment Working Group (TIWG) was established.

The G20 as an informal forum of economically significant countries seeks, it appears, to fulfill two crucial functions on trade and investment policymaking. First, collectively the G20 discourages the resort to protectionism by its members. The commitment to refrain from implementing protectionist measures and to dismantle existing ones has been part of the G20's standard repertoire since the Washington and the London Summits, respectively, although if published official texts are anything to go by, the priority given to this commitment appears to have varied over time (Evenett S. J. 2013). Indeed, at the Los Cabos Summit in 2012, G20 Leaders had their doubts about the effectiveness of their own anti-protectionist pledge noting "We are deeply concerned about rising instances of protectionism around the world." (G20 2012).

In order to enhance the credibility of this commitment, the G20 in 2008 called upon international organizations, including the WTO, the Organisation for Economic Co-operation and Development (OECD), and the United Nations Conference for Trade and Development (UNCTAD) to monitor protectionist measures and to publish reports on how the G20 members adhered to the G20's anti-protectionism pledge. Since the London Summit in April 2009, the WTO publishes biannual reports on trade restricting and facilitating measures implemented by G20 countries. Information on investment measures is collected and reported on a biannual basis by the OECD and UNCTAD. We will discuss the G20's track record later in this section.

Second, in addition to eschewing protectionism at home, the G20 looked at supporting the international trading system and in particular the WTO (Berger and Brandi 2016). Since its first meeting in Washington, the G20 has committed itself to contribute to a successful conclusion of the Doha Development Round, conducted under the auspices of the WTO since 2001. Further, the G20 fostered consensus on new issues on the trade agenda such as trade facilitation. It also supported the negotiation and later the implementation of the WTO's Trade Facilitation Agreements. Last, but not the least, the G20 plays a growing role in the reform of the international investment system that lacks a multilateral, WTO-like organization and is instead based on more than 3,000 bilateral treaties (Berger 2017). In order to support such a reform process the G20 adopted nine Guiding Principles for Global Investment Policymaking at the Hangzhou Summit (Zhan 2016).

Analysts seeking to assess the impact of the G20's work program on trade and investment policy face several pitfalls. First, even in cases where the language in G20 declarations appears clear, what G20 members understood by such text may differ. For example, one of participants who negotiated the original G20 anti-protectionist pledge suggested that the pledge did not cover so-called trade defense actions (such as antidumping and countervailing duties), a claim that was confirmed by another participant in the deliberations in the run-up to the November 2008 G20 Leaders Summit. Yet, the exclusion of these oft-used policy instruments cannot be discerned from the publicly available text. The analyst, then, faces a challenge in determining what the "bite" of the G20 anti-protectionism pledge is in the first place.

Second, beyond import tariff changes, trade defense actions and some policy interventions in agriculture, there was little readily available data on trade distortions before the November 2008 G20 Leaders Summit. The lack of such data rules out the use of intertemporal variation in policy choice to estimate whether the G20 anti-protectionism pledge affected the behavior of member governments. Moreover, the paucity of data—and the fact that G20 members know that there is limited data available from official sources, and what is available, is often published with a considerable lag—may itself influence government policy choice. The game theory literature on imperfect monitoring suggests this (Green and Porter 1984).

Third, defining the relevant counterfactual is difficult given that governments can, in principle, be discouraged from resort to protectionism by domestic political economy factors and by commitments in regional trade agreements and WTO accords. In general, conjectures about the mechanism by which the G20 initiative affected member government policy choice are needed. Put simply, before asking, "Did the G20 anti-protectionism pledge work?", analysts need to ask, "Given the other factors influencing government policy choice, how could the G20 anti-protectionist pledge have ever worked?" Generic answers to the latter question for soft law initiatives such as these—for example, peer pressure—merely beg further questions, such as, "how would G20 peer pressure work in this context?" Moreover, in thinking through the causal mechanisms at work, as one of us has argued elsewhere, it is important to appreciate that the systemic nature of a global economic crisis implies that G20 governments may simultaneously have strong incentives to shift the burden of painful adjustment on to trading partners through resort to protectionism (Evenett S. J. 2011). Analysts need to be open to the possibility of collective deviation from international norms during systemic crises.

The foregoing considerations indicate just how difficult it is to apply the tools of modern social science research to the problem of assessing the G20's track record on trade policy. Still, this has not stopped analysts and officials from opining on this matter. Some dismiss the notion that any resort to protectionism since November 2008 casts the G20 anti-protectionist pledge in a bad light, arguing that some protectionism is expected even during mild economic downturns (Hoekman 2015).[1] Others argue that the absence of across-the-board tariff increases of the type witnessed in the 1930s proves that the G20 anti-protectionism pledge worked (Drezner 2014). Such a

[1] *Proponents of "Embedded Liberalism" might take this view as well (Ruggie 1982).*

position implicitly assumes that only import restrictions can distort trade flows evidently discounting the possibility that the accumulation of thousands of other trade distortions cannot cover large amounts of world trade. Still, others point to the small number of crisis era trade disputes taken to the WTO as evidence that the system worked, although how the success is to be apportioned between the WTO and the G20 is far from clear (Azevedo 2015). Lastly, some have argued that world trade did not collapse in a manner similar to the 1930s as evidence that the "protectionist dog" failed to bark (Agah 2015). But, again, to simply associate protectionism with traditional trade restrictions, such as rising tariffs would suggest overlooking the important distortions to world trade that the subsidization of agricultural exports or export incentives can provide. In short, in the absence of counterfactuals, certain analysts and officials have employed dubious metrics to assess the effectiveness of the G20 anti-protectionist pledge.

What the evidence does currently demonstrate is that G20 members have implemented since November 2008 a total of 6,842 policy instruments that discriminate against foreign commercial interests.[2] In contrast, only 2,213 policy instruments that benefit foreign commercial instruments have been implemented by the G20.

The scale of the G20 trade affected by protectionism worldwide has reached the point in 2017 that 80.3 percent of G20 exports competed in foreign markets where one or more trade distortions were operated (Evenett and Fritz 2017a). Furthermore, when one compares, on various metrics relating to the resort to protectionism and the range of imports affected, the collective performance of the G20 nations and the next ten largest trading nations, then only when the proportion of non-transparent (or murky) trade distortions is concerned does the G20 members perform markedly better than the next ten. Such comparisons are interesting (but not necessarily conclusive) for if the G20 anti-protectionist pledge has some bite then surely it should result in "better" behavior when compared to a group of active trading nations that did not sign up to this pledge.

Economic research has tended to focus on estimating the impact of the resort to certain import restrictions on world trade flows (Kee, Neagu and Nicita 2013); (Henn and McDonald 2011), (Eaton, Kortum, Neiman, and Romalis 2016). Typically, these studies have found little estimated impact of trade policy on crisis era trade flows. As noted earlier, data on only a limited range of trade distortions is available before the recent global economic crisis. Worldwide, over 9,500 policy instruments that harm foreign commercial interests have been implemented since November 2008: over 5,500 of them are *not* import tariff increases and trade defense actions (Evenett and Fritz 2017b). Consequently, these studies have not considered the majority of policy instruments that can distort trade. Econometric attempts to assess the broader range of policy instruments have resulted in far larger estimates for exports affected (see, (Evenett and Fritz 2015) for the impact on the exports of the Least Developed Countries and (Evenett and Fritz 2017c) for the impact on the export growth rates of the EU Member States.) At present, the impact of crisis-era trade distortions on world trade is contested, yet there is more evidence of a positive correlation between the percentage of exports exposed to crisis-era trade distortions and impaired export performance. That the G20 is responsible for implementing the overwhelming majority of

[2] *Data extracted from the Global Trade Alert website, www.globaltradealert.org, on April 9, 2018.*

discriminatory policy instruments worldwide, the failure to adhere to its anti-protectionism pledge has almost certainly distorted cross-border commerce.

German Priorities

Initially, trade was not one of the top priorities on the agenda of the German G20 presidency. The German G20 agenda was framed around three overarching themes: building resilience, improving sustainability, and assuming responsibility. Each theme then incorporated five sub-priorities (G20 Germany 2016). Trade and investment policy matters were subsumed under the goal of building resilient economies. The priorities' document published by the German government at the start of its G20 presidency in December 2016 highlighted the need to tackle the growing angst over globalization and other isolationistic tendencies in some societies. In her foreword, German Chancellor Merkel emphasized: "There can be no return to a pre-globalisation world." (G20 Germany 2016, p. 3). However, at the same time the priorities document made clear that the German G20 presidency intended to focus primarily on issues beyond the traditional topics of global economic cooperation. These new priority issues included topics such as digitalization, climate change, health, migration, and the cooperation with Africa. Trade and investment only later became an issue of highest priority as a result of the sea change in the U.S. position on international cooperation as we will discuss in the subsequent section.

Since the Chinese G20 presidency in 2016, trade and investment issues were primarily negotiated in the TIWG of the G20. During the German G20 presidency, TIWG officials met three times. In contrast to previous years, there was no meeting of trade ministers. Instead, given the focus of the German G20 presidency on the issue of digitalization, a meeting of digital ministers took place on April 6 and 7, 2017, in Düsseldorf, where digital trade issues were also discussed.

The German chair put forward three issue areas for the trade and investment negotiations in the run-up to the Hamburg Summit on July 7 and 8, 2017: supporting the multilateral trading system, digital trade, and investment facilitation. As part of the first issue area, supporting the multilateral trading system, Germany proposed, in line with the work that started under the Chinese G20 presidency, to respond to increasing anti-trade sentiments in many countries by discussing ways to better communicate the benefits of trade and identify best practices of adjustment policies to cushion shocks that may arise from international trade integration. Under this issue area the TIWG chair also proposed to discuss on how to better implement and monitor the G20's longstanding standstill and rollback commitments. These anti-protectionist measures are up for renewal in 2018 during Argentina's G20 presidency. Among other things, the chair suggested to work more closely with the business sector, represented by the Business 20 (B20) engagement group, to advance this agenda.

The second issue discussed in the trade and investment work stream of the German G20 process related to digital trade. Given the strong focus of the German G20 presidency on digitalization, confirmed by a dedicated ministerial meeting, digital trade issues were of high importance during the TIWG process. Building on the work during the Chinese G20 presidency, the German chair proposed to focus on issues related to improving the measurement of digital trade flows and to reflect on new multilateral rules for digital trade.

The third issue area during the TIWG negotiation was investment facilitation. The work on this issue goes back to the deliberations during the Chinese presidency on investment facilitation in particular in low-income countries (G20 2016a). In contrast to continuing the work that was started during the Chinese G20 presidency on the reform of international investment rules, the German chair intended to focus on measures to enhance transparency, efficiency, and predictability of domestic legal frameworks for foreign investors.

In addition to these three issues, the priorities' document of the German chair also mentioned the aim of taking actions against excess capacity in the steel sector by enhancing information exchange and cooperation in the context of the Global Forum on Steel Excess Capacity.

With the exception of digital trade, Germany pursued a circumscribed agenda on trade and investment issues. However, in the run-up to the Hamburg Summit and at the summit itself trade, along with the Paris Agreement on climate change, became one of the most contested topics during G20 deliberations in 2017. In order to understand this shift of political priorities one has to understand the international context that changed radically at the beginning of the German G20 presidency.

The Bumpy Road to Hamburg

When Donald Trump, a declared trade-skeptic, was sworn in as U.S. President on January 20, 2017 matters fundamentally changed. Traditionally, the U.S. has been one of the strongest advocates for a free trade agenda within the G20 and other international fora. In sharp contrast, candidate Trump won the presidential election by promising to: raise taxes on imports from China and Mexico, withdraw from the TPP, a twelve-party mega-regional trade agreement in the Asia-Pacific region, and renegotiate the North American Free Trade Agreement (NAFTA) (Hufbauer 2016).

A strategy paper from the United States Trade Representative (USTR) submitted to the Congress in March 2017 outlined the trade policy of the new U.S. administration (USTR 2017). The key principles of the new U.S. trade policy include: the "America First" principle with regard to promoting economic growth and job creation in the United States; reliance on a notion of fairness based upon perceived reciprocity; and a categorical focus on bilateral negotiations rather than multilateral cooperation. Furthermore, the strategy paper underlines the deep-rooted skepticism of the Trump administration toward the multilateral trading system and the WTO dispute settlement mechanism. In order to realize these principles, the paper outlined four priorities: first, the defense of national sovereignty in particular in relation to WTO dispute settlement rulings; second, the strict enforcement of U.S. trade laws on antidumping, countervailing duties, and safeguards to mitigate market distortions; third, the opening up of foreign markets for American goods and services; and fourth, the renegotiation of trade agreements such as NAFTA and the U.S. Korea FTA with the aim to reduce bilateral trade deficits (USTR 2017).

While this new stance of the United States on trade policy is striking — underlined by the withdrawal from the TPP on President Trump's first day in office - it is important to note that the underlying factors that led to the election of Donald Trump are not confined to the U.S. Public support for freer trade has been deteriorating for years in many countries due to rising inequalities and wage stagnation. While income inequality has been decreasing between countries in recent decades, inequality levels within countries, in particular in high-income economies, have been growing and are important drivers of the growing unease with globalization (Rodrik 2017). This broader trend of increasing trade skepticism is significant as it may make it harder for governments, in particular in view of the anti-trade rhetoric and policy in Washington, to resist calls from their domestic constituencies to resort to protectionism.

In light of these broader developments and the new trade policy of the United States, trade became one of the top priorities for the German G20 chair. While the initial focus of the German presidency was on other issues such as digitalization, climate change, health, migration, and the cooperation with Africa, the German chair, in collaboration with key partners such as Canada and Japan, had to utilize every political resource to dissuade the Trump administration from deviating from the previous commitments of the G20 with regard to trade and investment. For the G20 in 2017 the challenge ultimately became to preserve the status-quo ante on trade and investment.

The meeting of G20 finance ministers and central bank governors on March 17–18, 2017 in Baden-Baden was one of the first important opportunities to gather a "reading" of the new Trump administration's stance on trade. Given the importance attached to trade in realizing the G20's targets for economic growth, finance ministers and central bank governors traditionally included a strong reference to eschewing protectionism in their communiqués. After their meeting in Chengdu in July 2016, for example, finance ministers and central bank governors stated: "We will resist all forms of protectionism" and "underscore the role of open trade policies and a strong and secure global trading system" (G20 2016b). While the Baden-Baden meeting resulted in agreements on a number of issues such as crisis prevention in the financial sector, digitalization, international tax policy, and the compacts with Africa, attempts to renew the commitment on open trade proved futile. The European members of the G20 and in particular China tried to push for the inclusion of strong language on free trade. However, the new U.S. Treasury Secretary Stephen Mnuchin was not willing to underwrite the pre-existing consensus on trade (Jones and Fleming 2017). In order to avoid a high-level spat well before the Hamburg Summit, the German chair, Wolfgang Schäuble, decided to say nothing on protectionism and to include the following general statement, proposed by Canada (Jones and Fleming 2017): "We are working to strengthen the contribution of trade to our economies" (G20 2017a). The same phrase was used in the communiqué after the meeting of G7 finance ministers and central bank governors in May in Bari, Italy (G7 2017a).

Given the deadlock of the negotiations on trade policy in the Finance Track, it came as no surprise that the Sherpa Track negotiations also failed to make progress. These negotiations took place mainly in the TIWG that reports to the G20 Sherpas. The negotiations on digital trade in the first and second TIWG session moved forward and issues such as the measurement, assessment of international frameworks, and the development dimension of digital trade were included in an Annex to the declaration issued after the meeting of digital ministers in Düsseldorf from April 6 and 7, 2017 (G20 2017b). The German chair, however, faced resistance in the pursuit of its other priorities, namely on strengthening the G20's standstill and rollback commitment on protectionist measures and on a proposed investment facilitation package. While it may come as no surprise that the United States blocked attempts to strengthen the G20's stand against protectionism, the strong U.S. opposition to progress on the rather technical issue of investment facilitation was a surprise to some.

The German chair proposed a non-binding investment facilitation package. This package reaffirmed the Guiding Principles for Global Investment Policymaking adopted at the Hangzhou Summit in 2016 and stated that investment policy frameworks should be transparent, efficient, predictable, and consistent (Kanth 2017a). The German proposal was supported by a coalition of eight countries (China, Russia, Brazil, Mexico, Indonesia, Korea, Turkey, and Australia) that wanted to use an agreement by the G20 to lay the foundation for successful talks on investment facilitation under the auspices of the WTO, including at the latter's subsequent 11th ministerial conference in December 2017 in Buenos Aires (Kanth 2017b).

The United States made its negative stance on the investment facilitation package clear in a letter sent prior to the third meeting of the TIWG on May 4–5, 2017. According to Rajani Kanth (2017a) the United States wrote to the German TIWG chair: "Regarding investment, the United States does not support moving forward with the draft deliverable or any alternative package on investment facilitation" and that it

> does not believe that G20 TIWG negotiation of detailed policy prescriptions in this area is necessary or helpful at this time, nor that the TIWG should seek to prioritize policy actions in certain areas of investment over others, including with respect to which issues should be on the agenda of separate bilateral, plurilateral, and multilateral negotiations.

With this statement, the United States blocked not only the G20 negotiations on investment facilitation but also voiced its opposition to the strategy of using the G20 as a catalyst for negotiations on investment facilitation in the WTO.

The negotiations during the third TIWG meeting eventually failed due to U.S. opposition to stronger measures to implement the standstill and rollback commitment on protectionism and on investment facilitation. On investment facilitation the United States, joined by South Africa and India, refused to support the investment facilitation package on the grounds that it would restrict their policy space (Kanth 2017b). In view of this logjam, instead of trying to negotiate a consensual outcome document, the German chair only issued a chair's summary of the negotiations. In view of the fact that it was not possible to conclude the negotiations on trade and investment at the working group level, the negotiations had to be resumed at the next higher level by the G20 Sherpas.

In the meantime, trade and investment policy matters were also on the agenda at other international fora, specifically at the G7 and the OECD. Prior to the G7 Summit on May 26–27, 2017, in Taormina, Italy, President Trump made headlines by criticizing Germany for its trade surplus

(Chassany and Parker 2017). At the earlier G7 Summit, negotiations over migration and climate change were tense and did not result in agreement (Irish and Balmer 2017). On trade, however, G7 leaders were able to agree on a common language. In the communiqué, G7 Leaders stated: "We acknowledge that free, fair and mutually beneficial trade and investment, while creating reciprocal benefits, are key engines for growth and job creation. Therefore, we reiterate our commitment to keep our markets open and to fight protectionism, while standing firm against all unfair trade practices." Notably, in contrast to previous G7 declarations, the commitment in the Taormina declaration to free trade was made conditional on notions of reciprocity and fairness. This shift in emphasis is also noticeable in the following sentence: "We push for the removal of all trade-distorting practices – including dumping, discriminatory non-tariff barriers, forced technology transfers, subsidies and other support by governments and related institutions that distort markets – so as to foster a truly level playing field." At the same time, the G7 Leaders were able to confirm their previous positions on the importance of a rules-based international trading system and excess steel capacity. They also recognized the importance of foreign investment and agreed to "strive to foster a predictable environment so as to facilitate foreign direct investment" (G7 2017b).

The outcome of the G7 Summit represented a rapprochement on trade and investment between the United States and the other G7 nations. The shakiness of this newfound consensus was underlined at the OECD meeting of trade ministers that took place only two weeks after the G7 Summit. Following a controversial negotiation, the Danish chair decided to publish a chair's statement instead of a consensual outcome document. In his statement, the chair reported that there was a "near consensus" on issues such as the importance of a rules-based multilateral system and the WTO in particular and the standstill and rollback commitment against all forms of protectionism (OECD 2017).

To complicate the negotiations ahead of the Hamburg Summit, the United States removed its Sherpa, Kenneth Juster, only four weeks before the Hamburg Summit (Behsudi, Restuccia, and White 2017). This prompted the German G20 Sherpa to travel to Washington, D.C. one week prior to the Hamburg Summit to prepare the negotiations of G20 Leaders (Roßbach and Schäfers 2017). While the U.S. position remained unclear in the run-up to the Hamburg Summit and the United States threated to impose punitive tariffs against the EU, other nations made their voices heard on trade and investment policy. The BRICS nations, for example, issued a statement in which they emphasized their support for "a rules-based, transparent, non-discriminatory, open and inclusive multilateral trading system" (BRICS 2017). Furthermore, it was surely no coincidence that the EU and Japan announced reaching a "political" (as opposed to a technical) decision to conclude their free trade agreement in Brussels one day before the start of the G20 negotiations in Hamburg.

Analyzing the Outcomes of the German G20 Summit[3]

Before parsing the summit communiqué, it is worth recalling two points. First, all the G20 Leaders had to do at Hamburg was agree on a statement opposing protectionism. That text did not need to be elegant. It need not be constrained by logic. And, of course, the text—like its predecessors—would be non-binding and need not be adhered to. No G20 member would be forced to change trade policy following the conclusion of the Hamburg Summit. Given these realities, the bar set for a successful summit outcome was not that high. Still, such text does send a signal of sorts and that is worth examining.

Second, G20 Leaders text on protectionism may be read in a number of different ways. Worse, what may be understood by the negotiators of a text may not be at all evident from what is written. Consequently, analysts have to be aware that the contents of any G20 text may have little bearing on what the officials who negotiated that text understood it meant. Still, all those outside of government have to rely on is the published text.

In order to interpret the relevant Hamburg text on protectionism, it will be useful to recall the text issued after last year's G20 Leaders summit in Hangzhou, China:

> We reiterate our opposition to protectionism on trade and investment in all its forms. We extend our commitments to standstill and rollback of protectionist measures till the end of 2018, reaffirm our determination to deliver on them and support the work of the WTO, UNCTAD and OECD in monitoring protectionism.

Contrast that with the Hamburg text:

> We will keep markets open noting the importance of reciprocal and mutually advantageous trade and investment frameworks and the principle of non-discrimination, and continue to fight protectionism including all unfair trade practices and recognise the role of legitimate trade defence instruments in this regard. We will strive to ensure a level playing field, in particular by promoting a favourable environment for trade and investment in this regard.

Notice immediately the simplicity and clarity of the first sentence of Hangzhou text opposing protectionism and contrast that with the convoluted Hamburg text (more on that below). Furthermore, the Hangzhou statement extended the standstill and rollback of protectionism until the end of 2018. No such statement was made in the Hamburg text. Arguably, it was unnecessary (this being 2017 not 2018) but it does beg the question whether there will be enough support among G20 governments in 2018 to extend the standstill and rollback commitment during Argentina's G20 presidency.

The first sentence of the Hamburg text contained something for everyone—notwithstanding its possible incoherence. American officials likely valued the statement about unfair trading practices and the carve out for trade defense instruments. Other G20 members were reassured that specific mention of protectionism was not dropped and that non-discrimination was included. They may not have been so keen to see trade and investment rules referred to using the weaker term "frameworks." Still, in other parts of the Hamburg declaration statements supportive of the WTO were made.

[3] *The text in this section draws heavily on a longer assessment (see Evenett 2017).*

If, as argued earlier, the original G20 no-protectionism pledge involved an informal understanding that it excluded antidumping, then the Hamburg text essentially makes this explicit. This may matter for how the international organizations monitor protectionism. Indeed, there have already been some changes in this regard, as the most recent WTO monitoring report makes clear (WTO 2017). Excluding antidumping actions from the WTO's reported totals of trade restrictions will leave little left, perhaps creating the false impression of insignificant resort to protectionism.

However, as far as future discussions of G20 trade policymaking are concerned, much will depend on how elastic is the definition of trade defense instruments. The conventional interpretation is that it includes antidumping and countervailing (anti-subsidy) actions. But could the definition be stretched over time to include safeguard actions and actions justified on the grounds of national defense or national security? The latter question is important given the Section 232 investigation recently undertaken in the United States into the alleged threat posed by foreign steel to national security.

The phrase "*continue to fight protectionism including all unfair trade practices*" will cause some to scratch their heads. Are not all unfair trade practices forms of protectionism? If so why, other than for signaling, mention them? Or was the intent that unfair trading practices involve certain policy interventions that some G20 members had previously deemed not to be protectionism? If so, then arguably the G20 non-protectionism pledge expanded in scope. Again, there is a risk of reading too much into what is an inelegant sentence.

The last sentence of the Hamburg text that relates to a level playing field in trade and investment policy sustains the priority given to investment policy in the Hangzhou text. In doing so, it does not abandon one of the accomplishments that Chinese trade officials are proud of. Still, it is possible to detect a weakening in the Hamburg statement—a shift from a wide-ranging statement opposing all investment protectionism to the much more ambiguous formulation concerning a "level playing field" and "favourable environment" for investment. This weakening should be seen in light of recent French and other European proposals for the enhanced screening of non-EU mergers and acquisitions, thought to target Chinese transactions.

In sum, compared to the alternative, that a text on protectionism was agreed at Hamburg is encouraging. But at what price? Increased ambiguity concerning the range of undesired policy interventions, *carte blanche* on trade defense, and equivocation over the treatment of foreign direct investment seems to be the answer. But that is not all. Protectionism was not the only trade policy-related matter deliberated upon in the run-up to and at the G20 Hamburg summit.

The G20 Leaders Communiqué calls for tackling global industrial overcapacity and, in particular, singles out steel for special attention. Again, it is instructive to compare the relevant Hangzhou text with its Hamburg successor. The former stated:

> We recognize that excess capacity in steel and other industries is a global issue which requires collective responses. We also recognize that subsidies and other types of support from government or government-sponsored institutions can cause market distortions and contribute to global excess capacity and therefore require attention. We commit to enhance communication and cooperation, and take effective steps to address the challenges so as to enhance market function and encourage adjustment.

Contrast that with the Hamburg text on "excess capacities":

> Recognizing the sustained negative impacts on domestic production, trade and workers due to excess capacity in industrial sectors, we commit to further strengthening our cooperation to find collective solutions to tackle this global challenge. We urgently call for the removal of market-distorting subsidies and other types of support by governments and related entities. Each of us commits to take the necessary actions to deliver the collective solutions that foster a truly level playing field. Therefore, we call on the members of the Global Forum on Steel Excess Capacity, facilitated by the OECD, as mandated by the Hangzhou Summit, to fulfil their commitments on enhancing information sharing and cooperation by August 2017, and to rapidly develop concrete policy solutions that reduce steel excess capacity. We look forward to a substantive report with concrete policy solutions by November 2017, as a basis for tangible and swift policy action, and follow-up progress reporting in 2018.

The Hangzhou text states this problem of overcapacity "requires collective responses" whereas the Hamburg text calls for "strengthening our cooperation," the verb in the latter implying perhaps that less had been accomplished than desired. The Hangzhou text notes that subsidies can cause market distortions whereas the Hamburg text calls for the urgent removal of market-distorting subsidies, again highlighting the need to act. In a similar vein, the Hamburg text defines both specific steps and a timetable for G20 members to address excess capacity in the steel sector before the end of 2017. All of these observations support the contention that tackling global industrial overcapacity is one message the G20 wanted to send at the Hamburg summit.

Arguably, the language in the Hamburg text on excess capacities, in particular as it relates to steel, is more specific than that relating to protectionism. Even so, it is unclear what actions governments are expected to take. It may not be possible to reverse in a straightforward manner a bailout or a cash-injection given to a steel mill five years ago, for example. Are bailout beneficiaries expected to repay all state funds received? What if a firm cannot make such a payment without going bankrupt? What if the state aid is in the form of guarantees and no cash changed hands?

Given the resurgence of interest in industrial policy since the onset of the global economic crisis (Aggarwal and Evenett 2014), the Hamburg communiqué text on overcapacity begs other questions. Are G20 governments expected to encourage the consolidation of firms in sectors with excess capacity? Will that result in more "picking winners" industrial policy? Or, is the intention to encourage mutual withdrawal of financial and other support by G20 governments to firms in sectors with overcapacity? Critical details are missing generating, amongst others, more political risk for firms in sectors with overcapacity.

Given pre-summit fears that the G20 Leaders would be unable to agree on any text on protectionism and the adverse signal that would have sent to firms and governments around the world, then the Hamburg summit outcome is to be welcomed. The price paid to reach consensus at Hamburg was not trivial, at least as far as the text is concerned (and one doesn't know what unpublished side deals might have been made.) The price for concluding a statement includes greater ambiguity concerning the scope of undesired protectionism, *carte blanche* on the use of trade defense instruments, and potentially worse treatment of foreign direct investment, in particular, cross-border mergers and acquisitions. Still, where the G20 firmed up its language was on tackling excess capacity, especially in the steel sector. For sure, important details need to be determined, but over time this step could assume greater significance.

Conclusion

This article has examined how during the German presidency the G20 managed the trade policy-related stress test created with the election of Donald Trump. The new U.S. administration signaled not only an "American First" approach to policy, but also disdain for many of the existing approaches to managing commercial relations between nations. At the beginning of 2017, and in the run-up to the Hamburg summit, it was far from clear whether the G20's existing approach to trade policy cooperation, especially as it related to the G20 statements on protectionism, would survive. For sure, part of the uncertainty reflected delays in key G20 and trade-related appointments being made in Washington, D.C. But there were more substantial concerns as well.

From the point of view of preserving a semblance of unity, G20 diplomacy was flexible enough to accommodate the demands from Washington D.C., while keeping other major trading nations, such as China, on board. Certain trade policy instruments were explicitly excluded from the G20's definition of protectionism. American concerns about excess capacity received prominent billing and negotiators agreed to continue the discussion in a multilateral forum. Proposals to facilitate cross-border investment were tempered but 2016's progress in this regard was not abandoned. Since G20 commitments and communiqués are not legally binding, coming to agreement on these matters is easier than in certain other international fora, such as the WTO. Even so, the language adopted on digital trade was weak and no fresh impetus was added to deliberations in the run-up to the eleventh WTO Ministerial Conference.

From the perspective of altering government behavior, however, there are more grounds for circumspection. There was little indication in the approach to, or at the Hamburg summit, to suggest that G20 deliberations altered its members' commercial policy formation. Although there is certainly variation across G20 members, together their track record to date calls into question their fealty to the anti-protectionism pledge. Furthermore, notwithstanding a conference on steel overcapacity, since the Hamburg summit no high-profile initiatives have been taken to address the causes of overcapacity. Whatever momentum there was after the Hamburg summit appears to have been lost.

As far as trade and investment policy is concerned, the omens for the Argentine G20 presidency are not encouraging. Existing problems—further resort to protectionism and persistent overcapacity in sensitive sectors—continue to mount. Additionally, at their next summit, G20 Leaders must decide whether to extend the anti-protectionism pledge. The price that the Trump administration demands for renewal, and the reaction it induces from other G20 nations, may well prove to be the next stress test for the G20. As trade and investment policy matters become more and more controversial, the temptation to adopt less ambitious, least common denominator statements and initiatives will grow. These stress tests, then, may cruelly reveal the limits of G20 and global summitry diplomacy.

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