

Corporate Subsidies & Global Trade Rules: Findings for Researchers & Officials

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**St. Gallen
Endowment**
for Prosperity through Trade

WTO Relevance of Corporate Subsidy Tracking

- **Scale:** To determine the quantum of trade and investment potentially influenced by the award of corporate subsidies, a matter of greater significance given the revival of industrial policy.
- **Necessity:** To determine if award of corporate subsidy is absolutely necessary to attain certain societal objectives or whether such subsidies seek to offset some other government failure.
- **Allocation:** To understand the range of factors that account for observed patterns of subsidy award (form, recipient, supplier, supplier objective, strings attached, evidence-driven, review).
- **Tit-for-Tat:** To discern whether sequences of subsidy and non-subsidy interventions observed by leading governments are a coincidence or deliberate.
- **Bite:** To identify the circumstances, if any, where current WTO subsidies rules have actually changed government behaviour in the desired manner.

Challenges in Comprehensive & Accurate Subsidy Measurement For Trade Policy Purposes

- The focus should be on state measures that transfer state resources in a selective manner to enterprises engaged in commerce (irrespective of ownership of the enterprise.)
- Concerns about the scope of recordable subsidies.
 - Implicit subsidies.
- Failure of public bodies to publish complete and timely information on their subsidies:
 - Sub-national entities.
 - Development Banks and other state-led investment vehicles.
 - Reporting by G20 members on general support measures to the WTO Secretariat.
- Scale of benefits to corporate recipients hard to compare across subsidy instruments.

Still, Do Not Let the Perfect Be The Enemy of the Very Good

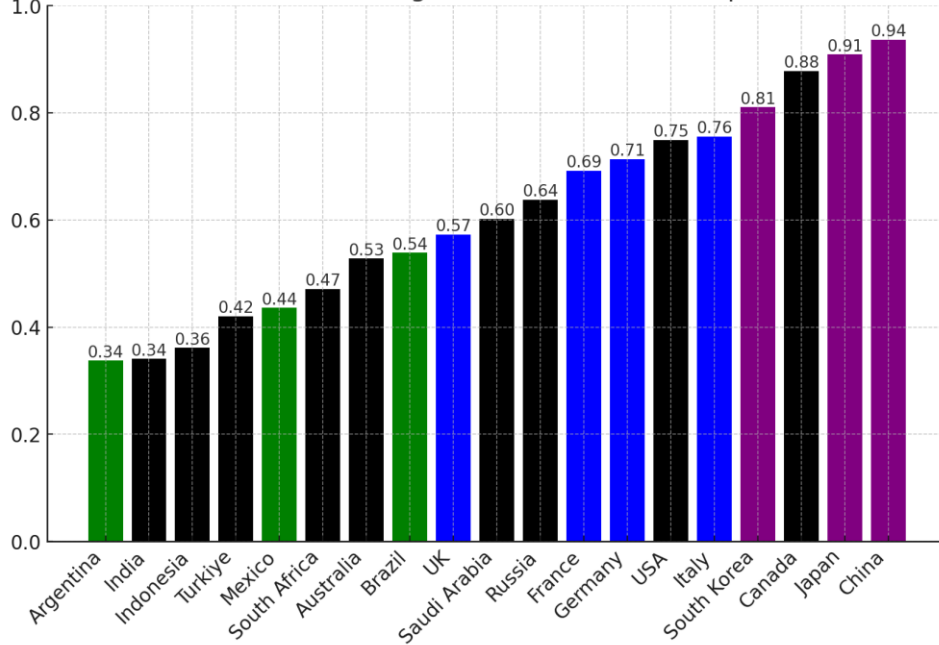
The Approach Taken By The Global Trade Alert team to for 15 years



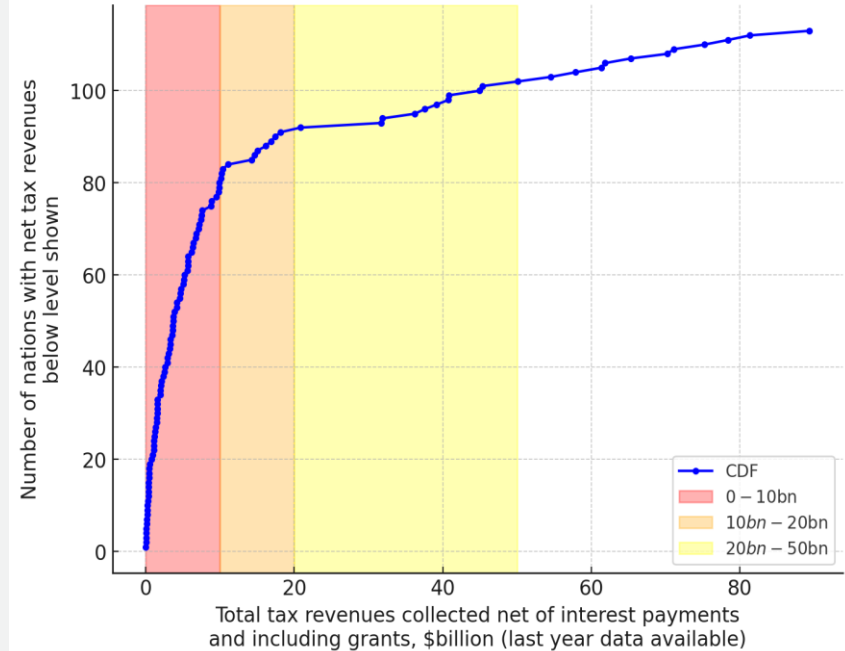
- Recorded over 43,000 corporate subsidy awards and the introduction, termination, and modification of corporate subsidy policies made since November 2008. Subsidy cuts tracked too (<2% cases).
- Same **seven-step methodology** consistently applied over time. **Credible Action** and **Meaningful Change** are key requirements for inclusion—a key differentiator from others’ tallies.
- Expected impact of subsidy implementation on **competitive position** of recipient vis-a-vis foreign rivals used to classify policy intervention. We refer to **harmful subsidies**—not discriminatory subsidies.
- 19 types of corporate subsidy tracked. In 99% of cases an **official source** or legally-mandated declaration by a firm of subsidy receipt was used to document the subsidy.
- A conservative methodology used to identify UN CPC sectoral codes to recorded subsidies.
- So as to allow trade coverage to be calculated as well as to identify affected trading partners, a conservative methodology was used to assign 6 digit HS codes to goods subsidies.
- Overall, the GTA database now includes information on over 75,000 distinct policy interventions (but no TBT and SPS). Mentioned in 3,900 studies and entries in Google Scholar. Database is used by all leading international organisations, major business associations, and leading newspapers.

Doubts on the Necessity and Affordability of Corporate Subsidies

Share of measures favouring local firms that are corporate subsidies



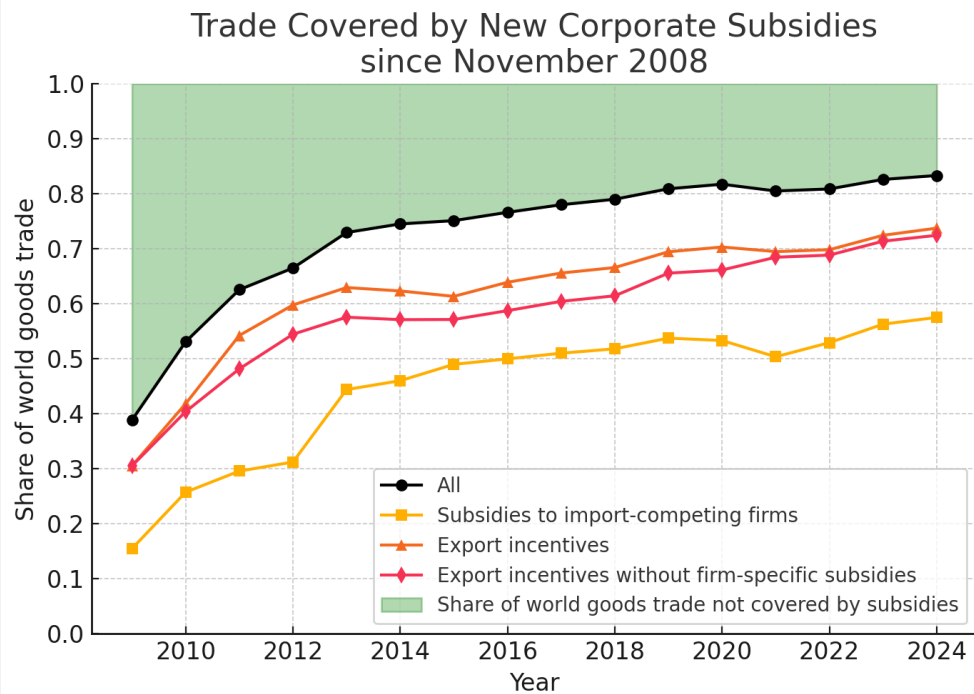
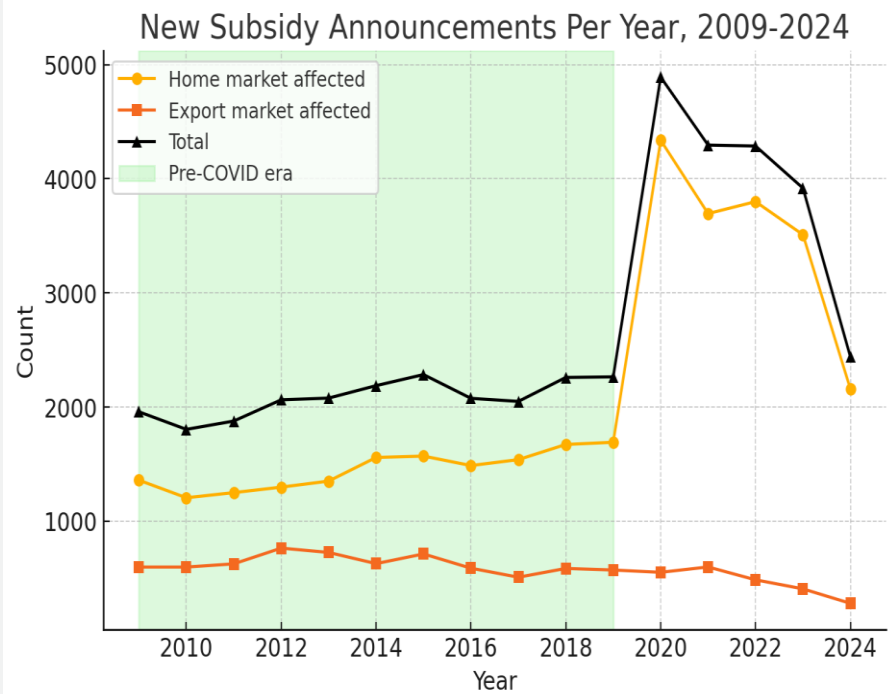
Nations with Net Tax Revenues less than \$100bn



Why are Latin American nations policy mixes so different?

Very few nations have deep pockets for subsidies

The Corporate Subsidy Build Up Since the Global Financial Crisis—little retrenchment post-COVID



Pure Coincidence or Sequential Decision-making? Evidence from 2018

Trigger		Responding Jurisdiction								
		China			EU-27			USA		
First mover	Form of Policy Intervention	Within 6 Months	Within 12 Months	Within 24 Months	Within 6 Months	Within 12 Months	Within 24 Months	Within 6 Months	Within 12 Months	Within 24 Months
China	Introduce New Subsidy				0.81	0.92	0.96	0.56	0.72	0.84
	Introduce New Import Curb				0.48	0.72	0.91	0.59	0.71	0.82
EU-27	Introduce New Subsidy	0.66	0.85	0.89				0.65	0.73	0.82
	Introduce New Import Curb	0.30	0.47	0.60				0.44	0.58	0.76
USA	Introduce New Subsidy	0.61	0.81	0.86	0.74	0.79	0.86			
	Introduce New Import Curb	0.34	0.46	0.61	0.52	0.70	0.88			

Principal takeaways from this presentation

- **Scale:** Given the large shares of goods trade covered, there is a case that corporate subsidies deserve much more analysis and deliberation. Affordability is a major source of asymmetry.
- **Necessity:** Among the available policy set, establish whether corporate subsidies are the most effective way to attain the societal objective in question. Benchmark national solution sets.
- **Allocation:** The Devil is in the Details here. Be open to arguments that through poor design a subsidy won't fix a market failure and that "money is fungible" (subsidy as pure transfer).
- **Tit-for-Tat:** Current sequence of decision-making looks suspicious. Needs more analysis.
- **Bite:** What evidence is there to reject the following conclusion? "At most, existing WTO subsidy rules have affected behaviour at the margins." Do examples of G20 restraint/impact exist? Don't only ask "did the rules bite?" Ask how could rules have bitten? Which features mattered?