

The G20 London Summit: trade protectionism is threatening global recovery hopes

Can the plan to save the world economy in two days in London this week achieve anything if trade protectionism is not higher on the agenda?

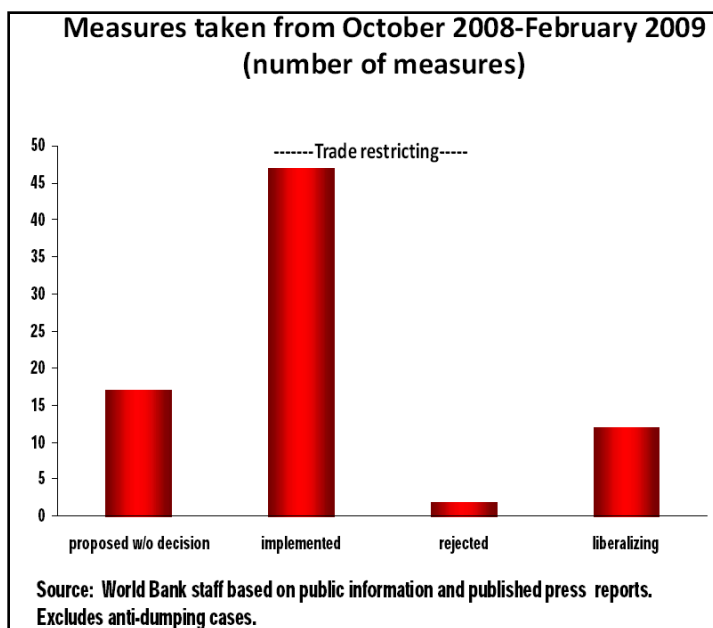
On the 2 and 3 April world leaders will gather in London to address the global financial crisis. The three aims of the summit are stabilising financial markets, strengthening global financial and economic institutions and putting the global economy back on track for sustainable growth. But the agenda for the summit contains surprisingly little of substance about trade, which is of equal importance to future economic stability. There are worrying trends in global trade that mean it should be of greater concern.

Rising protectionism

The recent financial turmoil has had a knock-on effect on ordinary goods and services trade. At the summit, world leaders are expected to call for an early completion of the current global trade negotiations, the Doha Round and repeat commitments to refrain from measures that are protectionist either in intention or effect. Neither of these commitments has much substance.

The Doha Round is all but dead. Even if a deal were reached, the common denominator would be so low as to render it useless in terms of advancing global trade liberalisation. But, more crucially, restrictive trade measures are being ramped up alongside global pledges to resist protectionism. Since they last met in late 2008, 17 out of the 20 countries that compose the G-20 group have already implemented new trade protection measures.

The World Bank has identified 66 new trade-restricting measures (Chart 1) since October 2008.



These have included:

- France's \$8.3 billion package for its automobile industry,
- New European export subsidies on butter, cheese, whole and skim milk powder,
- Russian state subsidies to manufacturers and its import duties raising on cars and trucks,
- Ecuador's tariff increases of between 5 and 20 % on 940 items,
- China's import ban on certain products such as Irish pork, Belgian chocolate, Italian brandy, British sauce, Dutch eggs and Spanish dairy products,
- Mexico's tariffs increases on 90 U.S. products by up to 20 %...

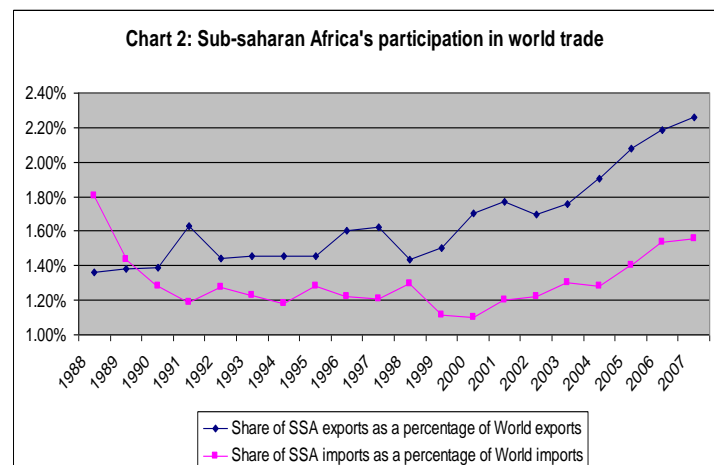
Groups of business leaders from Asia, Latin America and Europe recently estimated that protectionism already costs the global economy \$170 billion per year in misallocated resources and unnecessary price increases. These new measures will increase this waste in the coming months, further threatening prospects of global economic recovery.

A global problem

And the effects are spreading wider than originally thought. Current trends in trade protectionism will affect all countries, even those previously considered too peripheral to the global economy, i.e. in sub-Saharan Africa and South-East Asia. In the run up to the summit, European leaders have agreed to make \$100 billion in loans available to the International Monetary Fund (IMF) to support the developing world. But again, they are simultaneously implementing trade policies that will spread the crisis further afield and harm producers in the same countries they are claiming to help.

Most poor-nations are dependent on exports of goods and services to Western markets. Sub-Saharan Africa's exports for example account for 35 % of the region's GDP. The "Buy American" clause, for instance, stating that only US iron, steel and manufactured goods are covered by the American recovery package, will be catastrophic for African exports. Iron and steel products represent the second export category of the Sub-Saharan region accounting for 10 % of total exports and the United States is the first destination for these products with more than \$1 billion in 2008.

Between 2000 and 2007, African participation in international trade increased by 45 % (Chart 2).



This optimistic trend is being reversed by trade protectionism. The IMF expects Sub-Saharan Africa's growth to fall from 5.25% in 2008 to 3.25 % in 2009. Economic development in the developing world is under threat if protectionism is not contained.