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Protectionism is No Way Out

This year, global trade will record its largest decline of the postwar period. With this, the long phase of a strong dynamism has come to an abrupt end. Is the golden age of global trade over? Will free trade be replaced by protectionist tendencies?

Global trade collapses

The bankruptcy of Lehman Brothers a little over a year ago brought in its wake not only an economic crisis, but also a collapse of global trade. Since the end of the Second World War, the global exchange of goods has not declined as strongly as it did at the end of last year. Hardly a country felt it more strongly than export-focused Germany.

Risk of protectionist tendencies

When times are getting tougher, however, the motto is often "Charity begins at home." The temptation to favor the domestic economy at the expense of foreign competitors is therefore great. Accordingly, the political environment has been rather inauspicious for free trade. The representatives of the various governments failed in their attempt, in the middle of 2008, to bring to a conclusion the WTO round of talks to liberalize global trade that was begun in Doha in 2001. Although in the final analysis it was the differences between the industrial countries and the emerging countries that were paramount, an economic environment that was becoming more difficult surely did not promote a willingness to compromise.

So far, the collapse of global trade has been attributed to a lack of demand

Judging from the presence of the topic in the media, a noticeably greater number of attempts were made over the past months to close off domestic markets. The number of new protectionist measures confirms at least the general trend. We see that the number of anti-dumping cases that were initiated surged especially in the quarter when the crisis reached its peak. But obstacles to trade usually do not show their effect that quickly. On average it takes a year from the time an anti-dumping case is brought to the point when sanctions are actually imposed. Import restrictions therefore are not the cause behind the massive slump in trade. They are probably more of an indication that in times of crisis, politicians put up less resistance than usual to the every-present populist tendencies for more protectionism.

Political pressure rising

The stimulus packages that were enacted in many countries, not least the US, were intended above all to help the domestic economies get through the crisis. However, it turned out to be very diffi-

cult to cast this intention into legal form without violating the contractual obligations of the WTO. In practice, however, discrimination against foreign suppliers does not seem to be the dominant feature of the packages. In the media, protectionist aspects like the “Buy American” clause in the American stimulus package were singled out – but that the relevant stipulations were defused following international criticism received much less attention. Political declarations that the stimulus packages were intended for the domestic economy are probably mostly intended to weaken criticism at home that they were also benefiting foreign companies.

Subsidies en vogue again

More problematic is the considerably expanded use – in the wake of the crisis - of direct subsidies in many sectors. These measures do not pose an acute threat to global trade or the global economy. Long-term, however, they bring structural problems – such as permanent excess capacities and inefficiencies. It is therefore more than justified to ask critical question about them.

Hope for a cyclical effect

The protectionist tendencies of the past months do not mark a fundamental turning away from free trade on the part of the leading trading nations, even if the hoped-for gains in prosperity from the successful conclusion of the Doha Round are not likely to be realized in the foreseeable future. Since the popularity of trading restrictions are subject to clear cyclical fluctuations, there is much to suggest that the attractiveness of protectionism will wane following its “boom” during the crisis once the recovery sets in.

No comparison with the 1930s

In contrast to the global economic crisis in the 1930s, the most important countries will not wage a trade war this time or engage in a race to depreciate their currencies. Still, higher trade barriers and generous subsidies buy dubious short-term advantages at the expense of the future. Over the long term we thus squander growth and efficiency gains – and thus real resources that we will lack to solve the challenges of the next years, from climate change to the aging of society.

Commentary for *Die Welt*, 19 September 2009 ■

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