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A Trade Agenda for the G-8 Summit in Italy

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Leaders from the U.S., France, Italy, Germany, Japan, Russia, Canada, and the United Kingdom are scheduled to meet July 8–10 in Italy for the latest G-8 summit meeting. Looming ever larger on the economic policy agenda is the state of global trade.

With so many countries' economic well-being linked with others' through trade and investment, a worldwide liberal trade and investment regime is crucial to helping the global economy recover and grow, especially with forecasts of global trade contracting significantly this year. Yet promises made by G-20 leaders in November 2008—and again during the London Summit in April 2009—to protect the international trading system from anti-market policies in response to the global economic downturn have gone unfulfilled. Caving to domestic pressure, G-20 and other countries have variously introduced new tariffs, quotas, government subsidies to businesses and farmers, domestic preferences in government procurement, and new regulatory barriers to trade.

While policymakers often justify such protectionism as a means to bolster their domestic economies, these measures are likely to have just the opposite effect. They not only distort and shrink international markets for goods and services, but have a chilling effect on private investment at home—the very thing needed to help economies recover and grow in the longer term. Trade barriers also add to the economic burden faced by families trying to stretch incomes in uncertain times and may drive import-using firms out of business altogether. Moreover, while protectionism

Talking Points

- The promises made at the previous two meetings of the G-20 have failed to translate into comprehensive policy actions that enshrine open markets as the foundation of nations' long-term economic strategies. That failure has resulted in a slow creep of protectionism that no country can afford.
- The WTO is forecasting that global trade will contract this year by 10 percent. The worsening climate for trade is being driven largely by falling global demand and by growing uncertainty over the impact of new protectionist measures implemented by countries around the world.
- In the upcoming G-8 meeting, G-8 leaders should commit to eliminating trade barriers established in the aftermath of the financial crisis within the year, establish a global moratorium on new trade barriers and excessive use of trade remedies, and set a hard timeline and blueprint for concluding trade negotiations within the WTO.

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may save a few jobs in a globally uncompetitive industry, it does so at the expense of many more jobs across the economy as a whole.

For all of the costs associated with erecting barriers against trade with the rest of the world, protectionism remains the easy and typical policy reaction to an economic downturn. Policymakers seeking to provide relief to struggling firms and families frequently turn to subsidies and other market barriers to soften the blow of a weak economy—even at the risk of undermining longer-term economic recovery and tempting international retaliation for new discriminatory and protectionist measures.

Thus, it is no surprise that the promises made at the previous two meetings of the G-20 have failed to translate into comprehensive and consistent policy actions that enshrine open markets as the foundation of countries' long-term economic recovery strategies. That failure has resulted in a slow creep of protectionism around the world that no country can afford to sustain. As nations whittle away at the progress made over the past 60 years toward dismantling obstacles to the international flow of goods and services, they undermine the very engine of growth that has eased poverty and brought prosperity to so many.

National leaders must do more than offer what have proven to be empty promises to resist protectionism. Instead, the upcoming G-8 meeting in Italy should be used as a serious forum to invite all countries to make honest commitments to reverse any protectionist measures adopted since 2008 and to establish a tangible, timely agenda for getting multilateral trade talks back on track in the World Trade Organization (WTO).

The High Price of Protectionism

Recent WTO and World Bank studies show the impact the global recession has had on trade and shed light on the protectionist measures that countries have adopted in response to tougher economic times. In a speech at the annual ministerial meeting at the Organisation for Economic Co-operation and Development (OECD) in June, WTO Director-General Pascal Lamy stated that the WTO is forecasting that global trade will contract this year by 10 percent—a full 1 percent worse than predicted in March.[1]

Additionally, the volume of trade from developed countries is expected to fall by an average of 14 percent, and from developing countries by an average 7 of percent.[2] These numbers are significantly larger than the WTO estimated in March, with 10 percent and 2 percent to 3 percent losses, respectively.[3] The worsening climate for trade is being driven largely by falling global demand and by growing uncertainty over the impact of an increase in the number of protectionist measures implemented by countries around the world either to help certain industries or in retaliation for trade measures elsewhere.

With many countries taking an incremental approach to adding barriers to trade, many measures may seem trivial when considered in isolation and relative to total trade flows. However, when these measures are aggregated, the concern that the international trading system will eventually drown under a steadily rising tide of protectionism becomes very real.

Global trade is put at risk today by the growing number of distortions that new protectionist policies are imposing on markets. Moreover, global trade is put at risk in the future as the specter of a global trade war looms larger with each new tit-for-tat trade restriction that countries impose on each other and as the worsening and increasingly confrontational trade environment undermines the chance for a timely conclusion to the Doha Round of trade negotiations.

Yet More Anti-Trade Measures

Since the onset of the financial and economic crisis, national governments have increasingly been

1. "WTO Chief Sees Sharper Drop in Global Trade for 2009; Down 10%," Bureau of National Affairs *Daily Report for Executives*, June 26, 2009.
2. *Ibid.*
3. Press release, "WTO Sees 9% Global Trade Decline in 2009 as Recession Strikes," World Trade Organization, March 23, 2009, at *http://www.wto.org/english/news_e/pres09_e/pr554_e.htm* (June 30, 2009).

using anti-dumping investigations and imposing punitive measures to stem imports of steel products, chemicals, textiles, and other sensitive products.[4] Article 6 of the General Agreement on Tariffs and Trade (GATT), in conjunction with the WTO Anti-Dumping Agreement, allows countries to retaliate against dumping by assessing additional duties on dumped products from specific countries if the dumping is causing material damage to the importing country's respective industry. But excessive use of investigations serves as a trade barrier—increasing the uncertainty faced by importers and exporters alike, as well as raising tensions between countries relevant to the investigations.

Direct and indirect subsidies, too, have been on the increase. The U.S. auto bailout set off a rash of government handouts, cheap loans, and other interventions in the industry in France, Japan, Germany, the United Kingdom, China, Argentina, Brazil, Sweden, and Italy among other countries.[5]

Direct and indirect subsidies for the financial sector, insurance firms, and other sensitive industries can be very costly for both domestic and global markets. Firms receiving government handouts obtain an artificial competitive advantage over firms that do not, which could result in more efficient and productive companies being driven out of business. If those subsidies come with requirements that subsidized firms employ only domestic workers, lend only to domestic businesses, or buy only from domestic suppliers, the economic distortions they introduce are even more pernicious, driving the inefficient allocation of resources across countries and causing economic harm to businesses and families around the world.

In late May 2009, the U.S. announced export subsidies to bolster international sales of U.S. dairy products. Blaming the role of similar subsidies introduced by the European Union (EU) in January 2009 for declining U.S. competitiveness in global dairy markets, America has opted to respond in kind instead of trying to persuade the Europeans to eliminate the trade-distorting measures—the very kinds of measures that both the EU and U.S. promised to avoid in their G-20 pledges.

Export subsidies are particularly trade-distorting and, in the case of agriculture products, an especially sensitive topic within the WTO. Subsidies and many other domestic support programs artificially prop up domestic prices for food and food products. Thus, they raise the cost of living for families buying food that is produced expensively in home markets. In addition, the same trade measures depress world prices for agricultural products, negatively affecting farmers in developing countries and stifling their attempts to rise from poverty and improve their living standards.

In the aftermath of the U.S. move, at a recent meeting of the Cairns Group of agricultural exporting nations in June, the attending countries' ministers rightfully decried the subsidies, reiterating the critical need for the world's economic leaders to prevent the widespread implementation of trade barriers by resisting additional protectionist pressures at home.[6] Progress in WTO negotiations has already been thwarted by developing countries' displeasure with lackluster offers from the U.S. and EU to cut existing agriculture support. New programs will certainly do little to defuse the problem.

The expanded use of domestic preferences in government procurement as dictated in Buy American provisions harms the domestic economy as well as the international market. Limiting competition to domestic firms increases the likelihood that government will not get the best value for the taxpayers' dollar.

Moreover, while the U.S. promised to adhere to its international commitments of maintaining some openness to foreign sources in government procurement, this promise means less than it might appear.

4. Press release, "WTO Secretariat Reports Increase in New Anti-Dumping Investigations," World Trade Organization, May 7, 2009, at *http://www.wto.org/english/news_e/pres09_e/pr556_e.htm* (June 30, 2009).
5. Elisa Gamberoni and Richard Newfarmer, "Trade Protection: Incipient but Worrisome Trends," The World Bank, *Trade Note* No. 37, March 2, 2009; Global Trade Alert, "Measures," at *http://www.globaltradealert.org/* (June 27, 2009).
6. "Bali Communiqué," The Cairns Group, June 9, 2009, at *http://www.cairnsgroup.org/media/090609_communique.html* (June 30, 2009).

Only national signatories to the Agreement on Government Procurement in the WTO or U.S. free trade agreements have some protection under the new provisions. Many more countries, including such key U.S. trade partners as India, Brazil, and China, could be shut out from U.S. government contracts and retaliate in kind, closing the door on U.S. firms anxious to find customers anywhere they can. Where America walks, others may choose to follow.

Not forgotten are new or higher tariffs, quotas, import and export taxes, and outright bans on trade. Among others, Russia has raised tariffs on automobiles; Brazil, on certain steel products; Vietnam, on semi-finished iron and non-alloy steel; India, on soybean oils; Zambia, on finished petroleum products; and Ecuador, on more than 600 products.[7] China has banned the import of Belgian chocolate, Italian brandy, and other products, and India has closed its market to toys from China.[8]

Less transparent, but with as much potential to undermine international trade, are new, excessive trade licensing rules, tax levies and rebates, sanitary and product safety restrictions, environmental controls, and other regulatory non-tariff barriers to trade that many countries are adopting. Examples include Indonesia's restriction of port access for certain garments, footwear, toys, electronics, and food and Argentina's imposition of non-automatic licensing requirements on a host of goods.[9]

In March 2009, the World Bank reported that 17 G-20 members and other countries have implemented approximately 78 new protectionist measures since the onset of the financial crisis in fall 2008. Forty-seven of these were implemented *after* the G-20 pledge against protectionism in November 2008—a sad example of governments saying one thing while doing another.[10] Since March, even more barriers to trade have been erected or are being considered by countries around the world. Not all of these measures violate international trade commitments made by countries in the WTO or other regional and bilateral trade agreements; but all restrict trade, distort economic incentives, restrain worldwide growth, and ultimately undermine the rules-based spirit of the WTO and the international trade system it monitors.

Based on their track record of anti-protectionist pronouncements, the leaders of the G-20 have the message about the benefits of trade right—at least at the rhetorical level—but that rhetoric must be backed with consistent and substantive policy action. The mere promise to protect trade is clearly not enough.

Protecting Free Trade: Concluding the Doha Round

The evidence linking economic growth to trade freedom is strong. According to data from the 2009 *Index of Economic Freedom*, countries with freer trade policies experience significantly higher per capita economic growth than countries that maintain trade barriers. The top 10 percent of countries in terms of trade freedom had five-year compound per capita gross domestic product (GDP) growth rates averaging 5.6 percent. By contrast, the 10 percent of countries with the lowest levels of trade freedom had five-year per capita GDP growth averaging just half as much, or 2.8 percent.[11]

Changes in trade freedom are also important to GDP growth. The 20 countries whose trade freedom has improved the most over the 15-year history of the *Index* enjoyed per capita GDP growth averaging 3.35 percent between 1995 and 2006. The 20 countries whose trade freedom scores fell or improved the least saw their per capita GDP grow at an average rate of only 1.37 percent.[12]

7. Gamberoni and Newfarmer, "Trade Protection: Incipient but Worrisome Trends"; Global Trade Alert, "Measures."
8. *Ibid.*
9. *Ibid.*
10. Gamberoni and Newfarmer, "Trade Protection: Incipient but Worrisome Trends."
11. Daniella Markheim and Ambassador Terry Miller, "Trade Liberalization Continuing Despite Doha Impasse," Heritage Foundation *Backgrounder* No. 2187, September 19, 2008, at *http://www.heritage.org/Research/TradeandEconomicFreedom/bg2187.cfm*.
12. *Ibid.*

When a country lowers its barriers to trade, it opens its economy to competition and a wider variety of goods and services than was previously available. Competition spurs the movement of labor and capital from industries that cannot compete to those that can, enabling a nation both to produce more efficiently and to attract new investment—critical elements of any long-term growth development strategy.

Because of the vital link between economic prosperity and trade freedom, it is vital that countries strive to advance liberal trade rules and dismantle new and existing trade-distorting non-tariff barriers. Agriculture protections that have largely survived over six decades of trade liberalization, market restrictions in services, manufacturing tariffs and subsidies, and the multitude of trade barriers to which developed and developing countries so tenaciously cling need to be eliminated to reap the economic benefits from international trade.

The Doha Development Agenda includes some of the member countries' most politically sensitive and difficult trade issues. The U.S. and the EU need to make meaningful offers to cut—not add—agricultural protection, and countries such as India and Brazil need to offer reductions in manufacturing and services barriers. Developing countries overall need to offer to bring bound rates closer to rates that are applied at the border. All countries need to commit to some level of tangible liberalization.

Regrettably, member countries have yet to step forward with offers sufficient to bring the round to a successful conclusion. Indeed, many are compounding the problem by adding trade barriers in response to the economic slump.

The collapse of global trade negotiations in July 2008 was more a reflection of the participants' inability to agree on a handful of "deadlocked" issues than a sign of broad disagreement about what a comprehensive multilateral trade agreement should look like. Of particular concern was the demand that developing countries be granted an excessive special safeguard mechanism for use as a means to protect domestic producers from import surges. Had the demand been fulfilled, developing countries would have been able to apply higher, temporary tariffs in excess of current bound rates, not only undermining the fundamental objective of negotiating for freer trade, but also reversing progress made with the conclusion of the Uruguay Round in 1994 and in the accession agreements defining the trade-liberalizing commitments of newer members.

Today, economic conditions, changing policies, and the simple politics of trade are keeping the talks on hold. G-8 nations and other countries around the world offer rhetoric about the importance of reviving the negotiations; however, the longer the Doha Round remains in limbo and the more confrontational and complex international trade becomes, the less likely it is that the talks will be restarted. As they try to cope with the economic crisis, countries are turning increasingly inward, leaving liberal trade policy out of national recovery strategies at the very time that such a policy is needed to keep global commerce flowing.

The loss or even reversal of progress already made in lowering trade barriers would have a tangible impact on all nations. Since the WTO was established in 1995 and up until the current economic downturn, real growth in trade of goods and services has averaged more than 7.5 percent among lower-income and lower-middle-income countries and 7.2 percent for high-income countries—faster growth on average than these countries' average rates of GDP growth.[13] With countries trading more, it is no surprise that they are more integrated with the global economy. Measured by the ratio of trade to GDP, lower- and middle-income countries' trade integration has risen from an average of 71 percent in the early 1990s to 94 percent today. Trade integration has increased for high-income countries as well, climbing from an average 113 percent to 132 percent.[14]

13. Calculated from data in *World Trade Indicators 2008: Benchmarking Policy and Performance*, The World Bank, at *http://info.worldbank.org/etools/wti2008/docs/mainpaper.pdf* (June 30, 2009).

14. *Ibid.*

With international trade playing an increasingly large role in national economic performance, and with individual countries becoming ever more connected to global markets, the cost of backtracking on the commitments that WTO members have already made harms the implementing country and its trade partners and would leave the world waiting longer for a recovery from today's economic slump. Thus, the risk of delaying progress in the WTO is twofold:

First, countries will look increasingly to bilateral and regional free trade arrangements to reap the benefits of lower trade barriers more quickly.

Second, the domestic pressure to implement protectionist measures in response to the current economic downturn will be unchecked and could lead to an unraveling of the international market.

Free trade agreements (FTAs) can help to reduce trade restrictions globally by demonstrating solutions to difficult trade problems. However, they can also discriminate against countries that are not party to the agreements, and their differing rules can add to the cost of trade. FTAs are not a perfect substitute for multilateral trade liberalization, and WTO members need to ensure that concluding the Doha Round takes priority over FTA negotiations.

With trade negotiations in the WTO stalled, the continued lack of a new, comprehensive multilateral trade pact reduces national governments' discipline in reining in protectionism. Such discipline can evaporate altogether during an economic slump and could lead to a costly explosion of trade measures, further complicating negotiations on a multilateral trade deal and feeding a vicious cycle that undermines the WTO, the rules-based system of international trade, and the integrity of global markets.

Moreover, without the new market access a multilateral deal would bring, it will be more difficult for firms that are struggling domestically to export instead. When all sales opportunities dry up, companies go out of business, jobs are lost, and the chance for economic recovery is postponed.

Ultimately, the costs of delaying a multilateral deal pale in comparison to the cost of a complete failure of the trade round. Liberalization of multilateral trade and investment is crucial not only to help the global economy recover, but also to reduce poverty and promote growth over time. The G-8 and the world cannot afford to let the Doha Round be the latest victim of the global recession.

American Leadership at the G-8

President Barack Obama, U.S. Trade Representative Ron Kirk, and other U.S. government officials have been quick to give public assurance that America supports a meaningful conclusion to the Doha Round and subscribes to the belief that open international markets are critical for the global economy. Much of Congress, however, has remained openly antagonistic to trade, tucking protectionist provisions into the stimulus bill and other legislation and, most recently, introducing trade legislation that will likely deal a real blow both to America's prominent role in global markets and to the integrity of those markets themselves.[15]

While the Obama Administration has sought to reassure America's trade partners that the U.S. will not abandon its legacy of supporting open and free commerce, it has done little to demonstrate that commitment in substantive terms, stop anti-trade legislation, or combat growing protectionism in the U.S. Indeed, the little guidance offered to date on what shape trade policy will take under the Obama Administration leaves few questions answered.[16]

Most troubling is the indication that America's international trade commitments will not ultimately discipline the Administration's policy approach to the environment, energy, or the aggressive tactics the U.S. will employ to combat what it perceives as the unfair trade practices of other nations. Thus, it is no surprise that the U.S. is already on the path to enacting protectionist government procurement provisions, subsidies, regulatory barriers to trade, and other interventionist

15. H.R. 3012, Trade Reform, Accountability, Development, and Employment (TRADE) Act of 2009, at *http://www.govtrack.us/congress/bill.xpd?bill=h111-3012* (June 30, 2009).

16. Office of the U.S. Trade Representative, "The President's Trade Policy Agenda," February 27, 2009, at *http://www.ustr.gov/sites/default/files/uploads/reports/2009/asset_upload_file810_15401.pdf* (June 27, 2009).

measures to restrict markets while lambasting other nations for doing the same.

Because America leads on trade policy by example, those policies must be clear, certain, and consistent with the open-market principles the U.S. has long fought for and supported. The Administration must do more than offer free trade rhetoric if confidence in the U.S. and world economies is to be restored.

The Administration should arrive at the G-8 summit ready to lead the international debate on rolling back creeping protectionism and establishing a hard commitment to conclude the Doha Round of trade negotiations. Ultimately, G-8 leaders should:

- **Commit to eliminating trade barriers established in the aftermath of the financial crisis within the year.** Subsidies, tariffs, quotas, green protectionism, labor restrictions, domestic preferences in government procurement, and other discriminatory measures distort trade, undercut the effectiveness of the international rules-based approach to trade, and undermine the potential for concluding a new round of multilateral trade negotiations.
- **Encourage countries outside G-8, G-20, and other multilateral fora to match the stand-down on protectionism and commit to a global moratorium on new trade barriers and excessive use of trade remedies.** Trade barriers do nothing to bolster employment, productivity, or economic growth. They harm both the country implementing them and the rest of the world. Economic recovery depends on restoring confidence: Transparent, consistent, and beneficial liberal market policies are the correct approach to kick-starting the world's economic recovery.
- **Establish a hard timeline and blueprint for resuming global trade negotiations within the WTO and bring the round to a rapid conclusion.** G-8 and other WTO member countries need to be flexible in finding a way forward for multilateral trade talks. Negotiations collapsed in 2008, despite the fact that negotiations on trade facilitation and other issues had reached broad consensus. While the political need for a comprehensive deal remains, members should consider moving forward with those pieces of the deal that work so that negotiators can focus on the remaining topics.

Conclusion

Critical to the recovery of both the U.S. and international economies is the need to bolster consumer and business confidence. Also critical to economic recovery is the need to maintain free and open markets in spite of domestic pressures to erect barriers to trade that many countries are experiencing. Tariffs, quotas, many government subsidies and cheap loans to businesses, outright nationalization of industry, and other policy mechanisms serve not only to distort and reduce international markets for goods and services, but also to depress private investment—the very thing needed to help economies get back on track and grow in the longer term.

With the international engine of economic growth increasingly threatened, time is running out for the world's leaders to take sound steps to strengthen the global trading system. G-8 leaders have yet another opportunity in July to revitalize the Doha Development Round of trade talks by acting aggressively to remove the barriers to trade that they promised to avoid last November. They should include a hard timetable for the elimination of protectionist measures introduced since the onset of the financial and economic crisis last fall. Adopting these and other trade-promoting measures would boost public confidence in markets and help to speed the economic recovery that American and world leaders are seeking—and that their citizens so desperately need.

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