WebMemo
Published by The Heritage Foundation

No. 2366
March 27, 2009

G-20 Summit: Rhetoric and Empty Promises Will Not Protect Free Trade

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With the next G-20 summit only days away, President Obama and other world leaders are once again promising to oppose protectionism as a central tenet of their post-summit economic agenda. Unfortunately, these promises are unlikely to be backed with tangible policy action.

Bowing to protectionist pressures, the U.S., Europe, and many other G-20 members have already reneged on similar pledges made at an earlier meeting by introducing measures to restrict trade in the face of the current economic crisis. G-20 nations, as well as other countries, have variously introduced new tariffs, quotas, government subsidies to businesses, domestic preference requirements like the Buy American provisions of the U.S. stimulus bill, and new regulatory barriers to trade.

While policymakers 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 reduce international markets for goods and services, but they also have a chilling effect on private investment at home—the very thing needed to help economies get back on track and grow in the longer term. Trade barriers also add to the economic burden facing families trying to stretch incomes in uncertain times and may drive import-using firms out of business altogether.

The U.S. and other members of the G-20 should commit to getting multilateral trade talks back on track in the World Trade Organization and should reverse the protectionist measures they have adopted since they last met in 2008.

Reversing the Rising Tide of Protectionism. Recent World Trade Organization (WTO) and World Bank studies show the impact the global recession has had on trade and shed light on the protectionist measures countries have adopted in response to tougher economic times. The WTO reports that the volume of international merchandise trade is likely to fall 9 percent in 2009, with exports from developed countries falling an average 10 percent and developing countries an average 2–3 percent.[1]

This forecasted contraction in trade is largely being driven by falling global demand, but it could be exacerbated by an increase in the world's use of protectionist measures. Already, the World Bank reports that 17 G-20 members and other countries have implemented approximately 78 new protectionist measures since the onset of the financial crisis; 47 of these actually followed the G-20 pledge against protectionism in November 2008, a startling example of governments saying one thing while doing another.[2]

Such protectionist measures include:

- Increased use of anti-dumping polices;
- Greater use of new licensing and regulatory non-tariff barriers to trade;

This paper, in its entirety, can be found at:
www.heritage.org/Research/TradeandEconomicFreedom/wm2366.cfm

Produced by the Center for International Trade and Economics (CITE)

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002–4999
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- U.S. auto subsidies and more restrictive domestic preference provisions for government procurement;
- EU export subsidies on cheese, butter, and milk powder;
- Higher Russian tariffs on a variety of products; and
- New Chinese bans on imports.

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 activity, and hurt worldwide growth.

With trade negotiations in the WTO stalled, the continued lack of a new, comprehensive multilateral trade pact reduces countries' discipline in keeping a rein on protectionism. Such discipline can evaporate altogether during an economic slump.

Developing countries, many of which have substantially grown their economies through trade in recent decades, are among those hardest hit by the economic recession. The G-20 has tried to address their concerns through proposals to maintain liquidity in trade credit or the provision of economic aid. Yet trade finance has value only if markets remain open to trade. For the countries hardest hit by the economic downturn, no amount of aid will make up for less access to developed country markets.

Based on their recent 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 this rhetoric must be backed with consistent and substantive policy action: Merely promising to protect trade is not enough.

Trade Deal Needed. An ambitious trade deal would go far to stopping the trend of increasing protectionism and reverse the contraction in trade that is feeding today's global economic doldrums. A multilateral deal would provide new market access and restore export-led growth that could help compensate for lagging domestic demand. Next week, G-20 leaders have an opportunity to kick start the Doha Development Round of trade talks by acting aggressively to remove the barriers to trade they promised to avoid last November. The G-20 nations should seize this opportunity by:

- Providing a hard timetable for the elimination of protectionist measures introduced since the onset of the financial crisis; and
- Adopting a blueprint for resuming global trade negotiations within the WTO and bring the round to a rapid conclusion.

Embracing these and other trade-promoting measures would shore up confidence in markets and help to speed the economic recovery the U.S. and other G-20 leaders are seeking.

The Sooner the Better. With most countries' economic well-being linked through trade and investment, the need for all nations to embrace trade and investment liberalization has become even more critical to current economic recovery efforts as well as future growth.

The sooner an agreement in the WTO can be reached, the faster the world will begin recovering from today's economic downturn, and the more rapidly the benefits of more open markets can accrue to developed and developing countries alike.

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1. 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* (March 25, 2009).
2. Elisa Gamberoni and Richard Newfarmer, "Trade Protection: Incipient but Worrisome Trends," World Bank *Trade Note* No. 37, March 2, 2009, at *http://siteresources.worldbank.org/NEWS/Resources/Trade_Note_37.pdf* (March 25, 2009).

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