Sharp fall in global trade growth

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27 October 2001

Figures from the World Trade Organisation released this week are a further indication that the global economy is moving into recession. The WTO said that after increasing by more than 12 percent in 2000, it expected world trade to grow by barely 2 percent this year, and that even this estimate may have to be revised downwards.

The speed of the contraction is illustrated by the fact that as recently as last May the WTO forecast trade would grow by 7 percent this year.

Explaining the sudden decline, the WTO pointed to “the unexpectedly strong slowdown in demand growth in Western Europe, [and] the stagnation of imports into the United States in the first half of the year.” Another key factor was “the repercussions on trade, especially that of East Asia, of the dramatic downturn in production and investment in the information technology industry world-wide.” Sales of personal computers are expected to fall this year for the first time ever and exports of semiconductors were down 30 percent in the first half of the year.

The situation is not likely to improve. The WTO warned that following September 11 there was “great uncertainty about trade and growth developments in the fourth quarter of 2001” and consequently “even the 2 percent trade growth forecast must be considered tentative.”

The gloomy trade report was issued as trade negotiators in Geneva try to decide whether the WTO ministerial meeting scheduled to be held in Doha, Qatar, from November 9-13, will attempt to launch a new trade round.

Following the September 11 events, the ministerial meeting itself was in doubt and only received the final go ahead last Monday. But whether it will be able to reach agreement on the framework for a new trade round is another question because the major powers seem no closer to agreement than they were in Seattle two years ago.

There are fears that if the decision is put off it might not get back on the agenda. On the other hand, a failed attempt to make the launch could cause more damage than doing nothing.

In a recent comment entitled “A round to steady the nerves,” the *Financial Times* said that launching a new trade round “is increasingly considered essential for symbolic and psychological reasons as much as economic ones” and would send a “powerful political signal of countries’ determination to make common cause in the face of adversity.”

“Equally important,” it continued, “is fear of the consequences if a round is not launched ... A second failure, after the collapse of the WTO’s meeting in Seattle two years ago, could trigger the outbreak of protectionism and discriminatory bilateral deals that would severely weaken the global rules-based trade system.”

But the differences from Seattle have remained, prompting a warning from WTO director-general Mike Moore last July that the situation was “fragile.” Little seems to have changed since then with the *Economist* noting that “there has continued to be a great deal of foot-dragging from most countries.”

One of the biggest differences is on agriculture, with the European Union together with Japan and Korea resisting demands from agricultural exporters for the removal of farm subsidies.

This is linked to another area of dispute—the demand by the EU that so-called non-trade issues such as competition policy, investment and the environment be placed on the agenda. Opponents of the EU push, including the US, say such proposals, especially on the environment, are a way of imposing protection, above all in agriculture.

The so-called developing countries, representing the majority of the world’s population, have yet to be convinced that there should be a new round. This is because of the slow pace that previous agreements from the Uruguay round beneficial to them have been implemented. On October 23, a meeting of the Group of 77, now comprising 130 such countries, issued a statement, together with China, that the rich nations had to place assistance to the poor at the centre of their agenda.

One of the issues with which they are most concerned is the use of "anti-dumping" policies to discriminate against their exports. The main offender is considered to be the United States, where there is strong protectionist sentiment in the Congress.

The atmosphere leading up to the meeting is not likely to have been improved by a decision this week by the US International Trade Commission permitting President Bush to impose restrictions—including heavy duties or quotas—on steel imports from early next year. Bush ordered the commission to investigate complaints from the US steel industry last July.

Its decision to allow protection has sparked anger from other steel producers. Pascal Lamy, the European Union commissioner for trade, said the case would be taken to the WTO if the US went ahead with sanctions. "Shifting responsibility for the problems facing the US steel industry onto the rest of the world by imposing protectionist measures will only make matters worse," he said.

With the world steel industry already suffering from a massive glut and falling demand, steel producers fear they could be severely damaged if the US market is closed off. Chang Che Shik, commerce minister of South Korea, one of the countries most severely affected, warned that the ruling would cause a "long-term slump in the global steel industry" and set off a "chain reaction" as competitors countered with their own import regulations.