WTO forecasts huge drop in global trade

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In a report released this week, the World Trade Organisation (WTO) has predicted a drop in global trade this year of 9 percent by volume—the largest decline since World War II. Among developed countries, the fall is forecast to be even higher at 10 percent. While less affected, the estimate for developing countries is nevertheless a drop of 2-3 percent—down from an average growth of 15 percent for the years 2000 to 2008.

WTO figures show a slowdown in trade from 6 percent growth by volume in 2007 to 2 percent in 2008. But the impact of the financial chaos that erupted in the US last September began to be felt toward the end of last year as consumer demand slumped in the US, Japan and Europe. "Since the recession began to take hold in the fourth quarter of 2008 there has been little cause for optimism in the outlook for trade in 2009," the report stated.

In an article this week entitled "Going under," the *Economist* magazine commented: "The world is seeing falls in exports that are dizzying and close to universal, and which exceed declines in output. Among 45 countries for which the World Bank has January trade data, the average fall in exports from a year ago was a staggering 32 percent, and 37 countries saw exports decline by more than a quarter. The drops cut a wide swathe across the world, with exports plummetting in rich and poor countries alike. Exports from Argentina in January were 36 percent lower than a year before. The corresponding drop for Canada was 35 percent. Chile's exports fell by 41 percent, Japan's fell by 35 percent."

Official statistics released this week in Japan were even bleaker—exports for February fell by 49.4 percent year-on-year. The result was the worst since the country began keeping comparable trade figures in 1980. Japan only avoided another trade deficit as a result of a 43 percent drop in imports. The economy is dependent not only on the export of consumer goods, such as cars and electronics to the US and Europe, but the sale of capital goods and components to Asia, particularly China.

The WTO report explained: "Not even China, with its dynamic economy, can insulate itself from global downturn when most of its main trading partners are in recession. China's exports to its top six trading partners (treating the EU as a single partner) represented 70 percent of the country's total exports in 2007. All of these trading partners are currently experiencing economic contraction or slowdown and are likely to exhibit weak import demand for some time." China's exports fell year-on-year by 26 percent in February, following a drop of 28 percent in January.

The WTO noted other signs of shrinking global trade. According to the International Air Transport Association (IATA), air cargo traffic was down by 23 percent in December compared to a year earlier, with the largest fall of 26 percent in the Asia Pacific region. Amid falling demand for shipping, the Baltic Dry Index—a measure of the cost of shipping bulk cargo by sea—fell by 94 percent between June and December 2008. Statistics released by Singapore last week showed a 19.8 percent fall in February year-on-year for containers handled in the world's busiest port.

Even the current WTO forecast may turn out to be optimistic. As the report explained, its projections "assume a normal pattern for a recession where trade falls, remains weak for a time and then resumes its upward trajectory and begins to return to its previous trend." Along with the IMF, the WTO is currently predicting a global contraction of 1 to 2 percent for 2009. Given the continual downward revision of growth estimates in recent months, the WTO assumption is little more than a stab in the dark.

The global credit crunch is further impacting on trade. With an estimated 90 percent of world merchandise trade reliant on various forms of credit, the International Monetary Fund (IMF) is predicting a shortfall of $100-300 billion in trade credits this year. A recent IMF study found the lack of trade financing was already affecting 6-10 percent of the trade of developing countries.

The sharp declines in world trade reflect the globalised character of production. A finished item is increasingly not the product of one country but involves inputs from a large number of countries—all of which add to global trade figures. As a result, over the past decade, world trade has grown faster than world output. However, as the world economy contracts, the same processes amplify the decline in trade as falling demand for finished items results in declining purchases of related inputs.

The WTO report bluntly explained that the "aggregate magnitude [the impact of globalised production processes] can only be guessed at on account of the absence of systematic information". The *Economist* estimated that "vertical specialisation"—specialisation by countries in a step or steps of the production process—had grown by about 30 percent and accounted for a third of growth in trade over the past two to three decades.

The contraction in world trade recalls the 1930s when economic slump fuelled protectionist measures and the emergence of currency blocs that led to a collapse of trade. Governments around the world are well aware of the dangers of another Great Depression, yet in the scramble to shore up their own economies are increasingly resorting to protectionist beggar-thy-neighbour policies.

In releasing the report this week, WTO director-general Pascal Lamy appealed to leaders due to attend the G20 meeting in London this week to "refrain from any further protectionist measures which will render global recovery efforts less effective". However, there is little prospect of the G20 meeting making anything other than empty promises to avoid protectionism amid increasingly acrimonious debates over the causes of and remedies for the crisis.

At the previous G20 gathering in November, the assembled leaders formally pledged a one-year moratorium on protectionist policies and to reach a deal in the Doha round of trade talks before the end of last year. The Doha round remains stalled, with no expectation that serious negotiations will be revived in the immediate future, and protectionist measures have mushroomed.

A second WTO report issued this week provides a long list of new tariffs and quotas implemented by various countries in defiance of the G20's November communiqué. Of the 20 countries attending the summit, only two—Saudi Arabia and South Africa—are not included.

While the WTO's "name and shame" list has not been released, the Associated Press and Reuters obtained copies and published details. The US was criticised for the "Buy American" clause inserted in its stimulus package and for its bailout of US automakers. The EU was named for imposing anti-dumping duties on Chinese screws, fasteners, candles and steel wire products, reinstating dairy subsidies and imposing penalties on US biodiesel imports. China was listed for blocking access to various markets and providing unfair help to exporters. And the long list continued.

The WTO's Lamy attempted to put the best possible face on the report, declaring that free trade had suffered a "significant slippage." While saying there was no indication of a descent into global trade war, he warned: "The danger today is of an incremental buildup of restrictions that could slowly strangle international trade and undercut the effectiveness of policies to boost aggregate demand and restore sustained growth globally."

As the global economy continues to contract, however, trade tensions will only increase and protectionist measures can easily snowball into full-blown trade war. Even before the G20 summit convenes, the divisions between the major powers over a range of economic policies are all too evident.