Global trade stagnates amid wave of protectionism

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Recent months have seen a series of warnings from the World Trade Organisation and other international bodies on the slowdown in world trade and the rise of protectionism. But according to Global Trade Alert (GTA), an organisation that monitors protectionism, the situation is much worse than previously estimated.

A report issued by the GTA on Wednesday said the term “slowdown” created the impression that, while it is losing momentum, world trade is still growing and one country’s exports do not come at the expense of others. These “rosy impressions” should be set aside because its analysis revealed that world export volume reached a plateau at the beginning of 2015. World trade was not only slowing down, but not growing at all.

The GTA says it constructed a detailed dataset in preparation for the report that showed that world export volumes came in at markedly lower rates than those of other organisations, including the International Monetary Fund, the WTO and the World Bank.

According to its calculations, falling commodity prices could not account for the fall in the value of world trade in 2015 because they had recovered partially in the last quarter of 2015. The total value of capital goods also fell in the first half of last year and then plateaued, as did consumer goods. It noted that, except for periods of recession, the “plateau” of 15 months stagnation, which affects both advanced economies and emerging markets alike, is “practically unheard of since the Berlin Wall fell.”

There were falls in world trade following the collapse of the dot-com boom in the early 2000s and the Great Recession that followed the financial crisis of 2008. But the fact that the current stagnation has lasted for 15 months “highlights how unusual it is when compared to the global trade dynamics we have witnessed over the past quarter of a century.”

“With every additional month of data confirming a global trade plateau, the odds lengthen that the current global trade dynamics are a temporary pause, a soon-to-be reversed cyclical phenomenon, or a statistical freak.”

The general trend is widening. In its report last year, the GTA noted that 28 product groups had each accounted for 0.5 percent or more of the fall in the value of world trade. This has now increased to 38.

The stagnation in global trade is being accompanied by a rise in protectionist measures. Tracking the total number of trade liberalising and protectionist measures since 2009, the report said the results were “striking,” with the number of discriminatory measures imposed in 2015 some 50 percent higher than in 2014. By this measure, the resort to protectionism last year was “far higher” than in 2009 “when world leaders openly fretted about threats to the global trading system.”

The steel industry is the most prominent expression of this trend. According to the report, the number of discriminatory measures implemented in 2015 was 118, exceeding the two worst years since the financial crisis, 2009 and 2013. Since November 2008 a total of 740 measures had been documented in the steel industry discriminating against foreign interests with the number of such measures outnumbering liberalising measures by a ratio of 4.5 to 1.

The shift towards protectionism goes across the board. The use of protectionist measures overall in 2015 was up by 50 percent over that of 2014 and the number of initiatives harming foreign commercial interests outnumbered trade liberalisation measures in 2015 by three to one. Since 2010, in the first four months of each year, between 50 and 100 protectionist measures were implemented. In the first two months of 2016 the figure was 150.

Significantly, in the light of its repeated declarations eschewing protectionism and warnings about the descent into the kind of beggar-thy-neighbour policies that

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characterized the 1930s, the report pointed out that members of the G20 were responsible for 81 percent of protectionist measures in 2015, with the United States and Russia topping the list of countries most responsible.

The report warned that a “negative feedback loop” could develop where zero trade growth fuelled the resort to ever-more protectionist measures, leading to a further decline in trade. While the report did not draw out the implications of its warning, they are clear. It was such a feedback loop that developed in the 1930s, intensifying the Great Depression and ultimately leading to the outbreak of the Second World War in 1939.

The ever-more aggressive trade policies of the major powers, especially the US, were underscored within a day of the GTA’s report release with the decision by president Obama that he was initiating a formal complaint against China over nine key industrial commodities which the US says are being unfairly priced for American manufacturers.

The *Financial Times* noted that the formal complaint to be lodged with the WTO took place as both his potential successors, Donald Trump and Hillary Clinton “push the domestic political debate in an increasingly protectionist direction on the campaign trail.” It said the action had been undertaken to counter claims that the administration had been “weak on China” and was part of a push to step up trade actions against Beijing.

The rising tide of economic nationalism in the US was evident in a speech delivered by vice-president Joseph Biden in San Diego on Thursday on the latest initiative. He said the Obama administration had issued more than 300 antidumping actions, launched 62 trade investigations last year and would continue to be aggressive in trade enforcement.

In a definite pitch towards the strident economic nationalism at the centre of the Trump campaign, he said “not all the effects of globalisation” were good but Americans had always “bent reality to the benefit of Americans.”

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