

Prospects for Global Trade: Growth Amidst Protectionism?

By Anushka Wijesinha

This month marks ten years since the biggest meltdown in financial markets the world has seen – the global finance crisis (GFC). A decade on since then, developed and developing countries are just about getting back to normal; albeit a ‘new normal’ of tepid growth, slower trade and investment, unconventional monetary policy, and strained labour and financial markets.

The last two and a half years in particular have been a topsy-turvy ride for the global economy. A fragile recovery in parts of Europe, a vote by Britain to leave the EU, recovery in jobs and investment the US, protectionist rhetoric from leaders in leading liberal economies, anti-globalisation pressure from disenchanted voters, questions around China’s new growth trajectory, slowdown in trade, shipping lines under stress, and buoyancy in parts of emerging Asia. Last year saw one of the worst years for global trade, with trade growth at the slowest rate since the financial crisis. Yet, the latest IMF World Economic Outlook (July 2017 edition) provides some signs for optimism.

Normalcy Returning, But a ‘New Normal’

According to the IMF’s latest World Economic Outlook report, global growth is projected to be at 3.5% in 2017 and 3.6% in 2018. Although the forecasts for the US and UK were revised slightly downward to 2.1% from 2.3% in April and to 1.7% (from 2.0%) respectively, growth elsewhere will counterbalance this. In their latest report, the IMF revised upward its growth projections for emerging economies in Europe, economies of China and Japan, and more broadly for emerging and developing Asia. Meanwhile in the US, the Federal Reserve steadily continues the exit from the ‘ultra-easy’ monetary policy stance followed since the crisis, adding to the growing sense that normalcy might be returning. IMF’s Chief Economist Maurice Obstfeld, writing alongside the release of the reportⁱ asserted that the recovery in global growth is “*on a firmer footing*” than previously estimated and that “*there is now no question mark over the world economy’s gain in momentum*”.

Over the past few months, the outlook for world trade has been under particular stress on account of the political turbulence in some of the world’s key developed and emerging economies – whether it is the US and UK, or Brazil and Turkey. As Nobel prize-winning economist and renowned growth theorist Michael Spence argued in a recent articleⁱⁱ, “*The world’s major economies are experiencing a steady recovery, and financial markets are showing no signs of convulsion, even as monetary stimulus is gradually withdrawn. This is all the more remarkable when one considers the sharp increase in risk stemming from profound political dysfunction*”.

He Who Pursues Protectionism...

One of the most disconcerting features of the current global trade scenario is the tendency towards protectionism by advanced economies, as agitations by domestic constituents reach fever pitch and globalization and trade are blamed. This is most evident in the US. Hitherto the bulwark of a liberal trading regime, the US has begun sharpening their protectionism tools – from filing anti-dumping measures to mooted thinly veiled para-tariffs like a ‘Border Adjustment Tax’, with President Trump leading the charge. To be sure, advanced economies like the US have reasons to despair. While the increasingly protectionist stance is deeply concerning to many of economists, Ken Rogoff (the former Chief Economist at the IMF) argues that it is not surprising, given how China operates. He saysⁱⁱⁱ, *“Many Chinese steel plants have state-of-the-art pollution controls, but these can be switched off to save costs. When the result is that excess output is dumped at cheap prices into world markets, Western countries are fully justified in taking countermeasures”*.

It is ironic then, but unsurprising, that we hear China’s leader extolling the virtues of globalisation, while we hear America’s leader threaten to recoil from it. Xi Jinping, the new advocate for freer trade, remarked in Davos earlier this year that, *“Pursuing protectionism is like locking oneself in a dark room. While wind and rain may be kept outside, that dark room will also block light and air. No one will emerge as a winner in a trade war.”*

Protectionism Abating, Except in the US?

A good source of insight on the status of protectionist worldwide is the Global Trade Alert database and report, led by trade economist at the University of St. Gallen, Simon Evenett. The bad news is that US commercial policy has become ever more protectionist. Sri Lanka too was affected. Discriminatory measures by the US on Sri Lanka has risen from 3 in 2014 to 11 in 2017, while liberalising measures have fallen from 9 to 0 over the same period. The good news is that things are getting better elsewhere. Despite the US’s actions, the rest of the G20 has been resorting to less protectionism. Overall, 2017 has so far seen the sharpest reduction in new trade-restrictive interventions deployed, since 2009.

Not Just Import Restrictions

Much of the tension, however, is not around blatant tools like import restrictions. It is around subsidies. Out of the measures deployed in the last 8 years, while 18% were import tariffs and 15% were anti-dumping measures, 14% were financial grants and preferential trade finance. By 2016, ‘state loans’ had entered the top 5 policy instruments used by governments in the G20. The latest Global Trade Alert notes that, *“Import restrictions are far less important trade distortions for most G20 governments than those created by state largesse given to farmers and manufacturers and by fiscal incentives for exporters that seek to gain market share from trading partners in overseas markets”*.

This has important implications for Sri Lanka’s own efforts at calibrating trade, investment, fiscal, and industrial policies. At a time when conventional ‘Washington

Consensus' wisdom has been abandoned by the Washington institutions themselves, Sri Lanka must re-strategise its trade and industrial policies smartly and anchor them to the country's economic goals and current realities. Sri Lanka can observe and learn from what is unfolding in the advanced economies, and pay greater heed to charting a smarter trade strategy. We must be adequately armed to fight any further rise in protectionism, while ensuring our own trade strategy is on the offensive. But let's not mistake 'being offensive' with 'being protectionist'. Rather, we need to be smart, savvy and proactive. To keep the nationalist or protectionist voices at bay, we must ensure policymakers do more to help build export capacity – through real reforms - beyond the current 'go-to' policy tool of FTAs. As Andrew Mackenzie, CEO of Australian minerals giant BHP Billiton, wisely remarked earlier this year^{iv}, “[We should] push hard on political leaders who choose to avoid some of those difficult and real reforms that are required and [instead] go for some of the false gods of protectionism and nationalism.”

ⁱ 'A Firming Recovery', Maurice Obstfeld, July 2017, https://blogs.imf.org/2017/07/23/a-firming-recovery/?utm_medium=email&utm_source=govdelivery

ⁱⁱ 'Explaining Global Recovery Amid Political Recession', Michael Spence, August 2017
<https://alpha.project-syndicate.org/commentary/political-dysfunction-economic-recovery-by-michael-spence-2017-08>

ⁱⁱⁱ 'Protectionism Will Not Protect Jobs Anywhere', Kenneth Rogoff, August 2017
<https://www.project-syndicate.org/commentary/protectionism-saves-no-jobs-by-kenneth-rogoff-2017-08>

^{iv} 'BHP boss urges business to push back against rising protectionism', Australian Business Review, March 2017,
<http://www.theaustralian.com.au/business/mining-energy/bhp-boss-urges-business-to-push-back-against-rising-protectionism/news-story/0044359e475bcfa0c7d5eb98db9e517d>

Anushka Wijesinha is Chief Economist at the Ceylon Chamber of Commerce. This article is part of the Chamber's 'Trade Intelligence for the Private Sector' (TIPS) initiative. Write to eiuc@chamber.lk to engage.

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Prepared by Economic Intelligence Unit (EIU), The Ceylon Chamber of Commerce.
For queries, contact EIU on eiuc@chamber.lk