

# The National

## Protectionism threatens world economy

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TIANJIN, CHINA// With financial markets in disarray and growth slowing, some government and business leaders are concerned about a third threat to the global economy: trade protectionism.

Global trade initiatives, from the complex multilateral negotiating rounds sponsored by the World Trade Organisation (WTO) to individual countries unilaterally cutting barriers to the flow of goods, have been a huge driver of economic growth in recent decades.

They have been the main sinews of a complex web of business and financial connections woven in that time, opening new possibilities for Chinese manufacturers to sell their wares in US retail stores while huge companies such as Boeing and Airbus sell goods in the other direction.

In the middle, countries like the UAE have benefited from the huge ports and logistics industries that have made their hubs here, shuffling everything from flowers to construction cranes from one side of the globe to the other. The UAE's exports – and re-exports – of goods and services are expected to reach US\$206.5 billion (Dh756.5bn) this year, up from US\$165.7bn last year, while imports are expected to grow from \$120.5bn in 2007 to \$134bn in 2008, according to the International Monetary Fund.

The fortunes of companies such as DP World, the Dubai-based global ports operator, depend directly on a steady expansion of world trade. Firms like Agility, a Kuwait-based global logistics firm and the largest in the Middle East, have expanded rapidly into Asia based in part on the prospects for expanded global trade.

But executives and government officials gathered at the World Economic Forum's New Champions conference in Tianjin, China – a bustling coastal province in a country that was not long ago entirely closed to foreign commerce – expressed concern that the expansive, open-markets mentality that has gained force in recent decades could wane in the face of economic headwinds.

"People say globalisation is irreversible," said Jean-Pierre Lehmann, a professor of international economy at the Institute for Management Development International in Switzerland. "It's not irreversible. It's been reversed many times."

Indeed, just as the current financial crisis in the US has drawn comparisons to the great market crash of 1929, some worry the economic fallout could echo what followed: a move towards isolationism and tendency to circle the wagons. The US Congress's Smoot-Hawley Act of that era shut down trade and has since been blamed by economists for helping drag the global economy into the Great Depression.

Trade efforts have already been faltering. The WTO's current set of negotiations between its 153 members – known as the Doha Round, after the city where it kicked off – has run into a wall this year and is widely viewed as barely alive. It got hung up on some of the hardest-to-solve issues, including how deeply developed countries should cut politically sensitive subsidies for farmers and agriculture.

With a recession looming, the US and EU may be even more resistant to inflicting any pain on farmers already suffering from a general downturn in the economy. Developing countries are likely to find themselves in much the same boat, reluctant to further alienate already suffering constituencies by making concessions at part of any renewal of the Doha Round talks. "In the current global financial crisis, it will be very difficult to revive," said Wu Jianmin, a former Chinese ambassador to France.

Many hold out hope that even if resuscitating complex global trade rounds proves impossible, then regional trade deals and bilateral free-trade agreements – such as those the UAE is negotiating with the EU – can still progress. India, which has agreed to deals with several neighbours, is also pushing for a free-trade pact with Japan, for example.

Some hold out hope that those regional and bilateral deals will eventually create support for the wider Doha Round, or something like it. Meanwhile, just building on the momentum of previous agreements among newer members such as Saudi Arabia would keep barriers falling.

Still, the expected fallout from the global financial meltdown could be translated quickly into trade spats, some say. With financial flows frozen, “country ‘A’ doesn’t trade with country ‘B’”. That’s what I’m worried about,” said Khalid Abdulla-Janahi, the chairman of Bahrain’s Ithmaar Bank.

A setback for global trade initiatives – along with the international institutions such as the WTO that have grown up with it – could have effects well beyond trade itself. At a time when global co-operation is ever more important, for example, the end of the Doha Round would be “one more thread pulled from the fabric of a multilateral world”, said Kishore Mahbubani, the dean of the Lee Kuan Yew School of Public Policy in Singapore.

The crisis could exacerbate a problem that he says has already plagued the Doha Round. The traditional big backer of the multilateral rounds, the US, has lost some of its zeal to lead the efforts as jobs have been lost. But the new beneficiaries of global trade – countries such as the UAE, China and India – are either too small or not yet willing to take a leadership role in guiding them.

“It takes extraordinary political leadership to turn it around and the greatest scarcity we have in the world today is of global leadership,” said Mr Mahbubani.

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