The Economist

The recovery in trade

Defying gravity and history

Despite dire predictions of a repeat of the 1930s, trade is bouncing back

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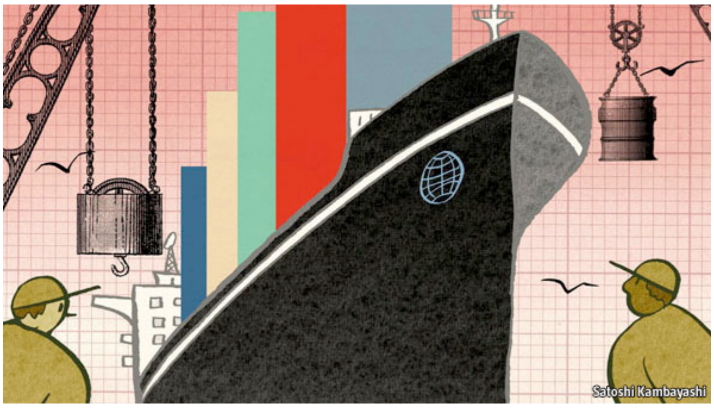
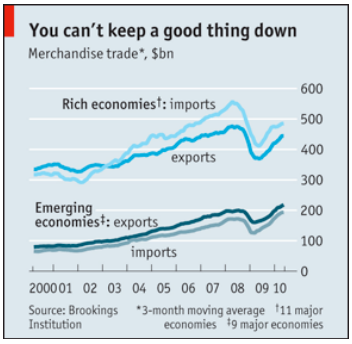


DURING the Great Depression, America's protectionist Smoot-Hawley Act of 1930 raised tariffs on more than 900 goods. A series of retaliatory actions by other countries followed. The effect on global commerce was devastating. In the three years to June 1932, the volume of world trade shrank by over a quarter. No wonder, then, that the spectre of the worst recession since the Depression led many to fear another descent into protectionism and a similar decline in trade.

At first, the recession did hit trade hard. Global GDP fell by 0.6% in 2009 while the volume of world exports dropped by 12.2%. But whereas the Depression saw trade decline for at least four years, this time the rebound has been quick, and sharp. By May this year, emerging-economy members of the G20 were importing and exporting around 10% more than their pre-crisis peaks (see chart). Rich-world trade has recovered from the trough too, though it has not yet made up all the ground lost since the credit crunch began.

Trade has not been devastated by the raft of protectionist actions taken during the downturn. According to the World Bank, the rise in tariffs and anti-dumping duties explains less than one-fiftieth of the collapse in world trade during the recession. For the most part, the fall in trade reflected a drop in demand.



There is even some evidence that activity has rebalanced from the lopsided trade pattern that existed just before the crisis. Then, the share of emerging-world imports that came from rich countries had been on a steadily declining path. But now demand from emerging economies is helping to prop up rich-world exports to a larger degree than is commonly realised. According to IMF figures, of nine emerging markets in the G20, seven got a higher share of their imports from rich countries in 2009 than they did a year earlier. Just 59% of China's imports came from rich countries in 2008, but this rose sharply to 66% in 2009. India obtained 42% of its imports from rich countries in 2008, but last year this rose to 47%.

That mutually beneficial pattern points to the importance of both rich and poor countries keeping their markets open, so that growth in one part of the world can help stimulate a recovery elsewhere. Yet the pressure to protect domestic industry and jobs will only grow as unemployment remains stubbornly high. At the moment, countries have plenty of room to raise tariffs without falling foul of their multilateral commitments.

Reducing this wiggle room means reviving the Doha round of trade talks, which began in 2001 and collapsed in a bout of finger-pointing in July 2008. At the most recent G20 summit in Toronto, the commitment to conclude the deal by the end of 2010 was quietly dropped from the leaders' communiqué.

Despite this, the WTO's chief, Pascal Lamy, remains upbeat. On July 27th he said that "after some months of impasse in the negotiations…we are beginning to see signs of a new dynamic emerging." He is not alone in sensing a change for the better. Christopher Wenk of the US Chamber of Commerce, which represents American business interests, reckons that "there really has been a shift in the mood." That partly reflects a change in America's stance. It took Barack Obama until April this year to appoint Michael Punke as America's ambassador to the WTO. "Until recently, it was difficult for business to say with a straight face that the administration was serious about trade," says Mr Wenk.

Yet whatever the mood music, the gaps between what different countries expect from further negotiations seem only to have grown wider. America believes that inking a trade deal that results in little fresh liberalisation is pointless. But India's recently-departed ambassador to the WTO, Ujal Bhatia, says that the focus should be on "capturing liberalisation that has [already] happened autonomously", rather than striving for further opening. China's position is pretty similar.

Without tangible benefits in terms of new market access, however, America's administration will find it difficult to sell any deal on Doha back home, particularly given a stuttering economic recovery. It is said to be urging the likes of China and India to commit to much deeper cuts in their tariffs on manufactured-goods imports than were proposed earlier. One Indian official suggests that some flexibility might be forthcoming.

A deal could actually be made easier by bringing other industries into the talks. Mr Punke argues that "services need to be a bigger part of the discussions," which have so far largely concentrated on agriculture and manufactures. Aaditya Mattoo, a trade economist at the World Bank, believes that offers on services could help break the deadlock in the Doha talks. For instance, India's thriving outsourcing industry relies on access to the American market. An offer to firm up the legal status of that access might make India more willing to compromise on matters like agriculture: its intransigence on farm trade was blamed for the collapse of the talks in July 2008.

Unfortunately success also depends on an end to the impasse between America and China, whose trade relations seem stuck. Mr Punke is downbeat, saying "there are no suggestions from China for a fruitful mechanism, only the same talking-points repeated." If the bounce back in global trade since the crunch has been surprising and encouraging, the sheer slog involved in trade negotiations is all too familiar and depressing.

Finance and Economics

