
Market Protection: The Impact of Protectionism on Global Trade

**48th ACI World Congress
Cape Town, March 13th, 2009**

**Dr Iraj Abedian
Pan-African Investment & Research Services**

Outline

- Political Economy of Protectionism
- Various Guises of Protectionism
- Protectionism and Global Trade
- Concluding Remarks

Political Economy of Protectionism



- Ever since 1500s, protectionism has been integral to the evolution of the world trade system.
- Whereas both theoretical and empirical evidence proves the adverse effects of protectionism, yet it recurs, each time with considerable socio-political cost!
- Protectionism has a strong political appeal, yet it is partisan in nature, anti-growth, anti-development and anti-poor!
- Recently, USA, UK, France, China, India, South Africa, and others have made protectionist pronouncements.
- This **creeping protectionism** is highly problematic and capable of prolonging the structural drivers of the prevailing economic meltdown.

Protectionism in Various Guises

- Economic patriotism
- Sectoral subsidies; i.e : agriculture, etc.
- Currency manipulation....
- Conditional financial sector rescue plans....
- Various sectoral rescue plans such as motor industry support, etc..

via:

**A mix of : Tariffs, Taxes, Subsidies, Quotas,
Regulation**

Protectionism & Global Trade



Some of the stylized facts of economic history over the past century are:

Stylized Fact One:

International Trade and Global GDP have positive and strong correlation

Global GDP driven by Global Trade



Protectionism & Global Trade



Some of the stylized facts of economic history over the past century are:

Stylized Fact Two:

International trade is a leading indicator of global GDP growth

Collapse in world trade, Oct – Dec 08



Baltic Dry Index collapses....



Chart created with NeoTicker EOD © 1998-2007 TickQuest Inc.

Baltic Dry Index is to remain low.....

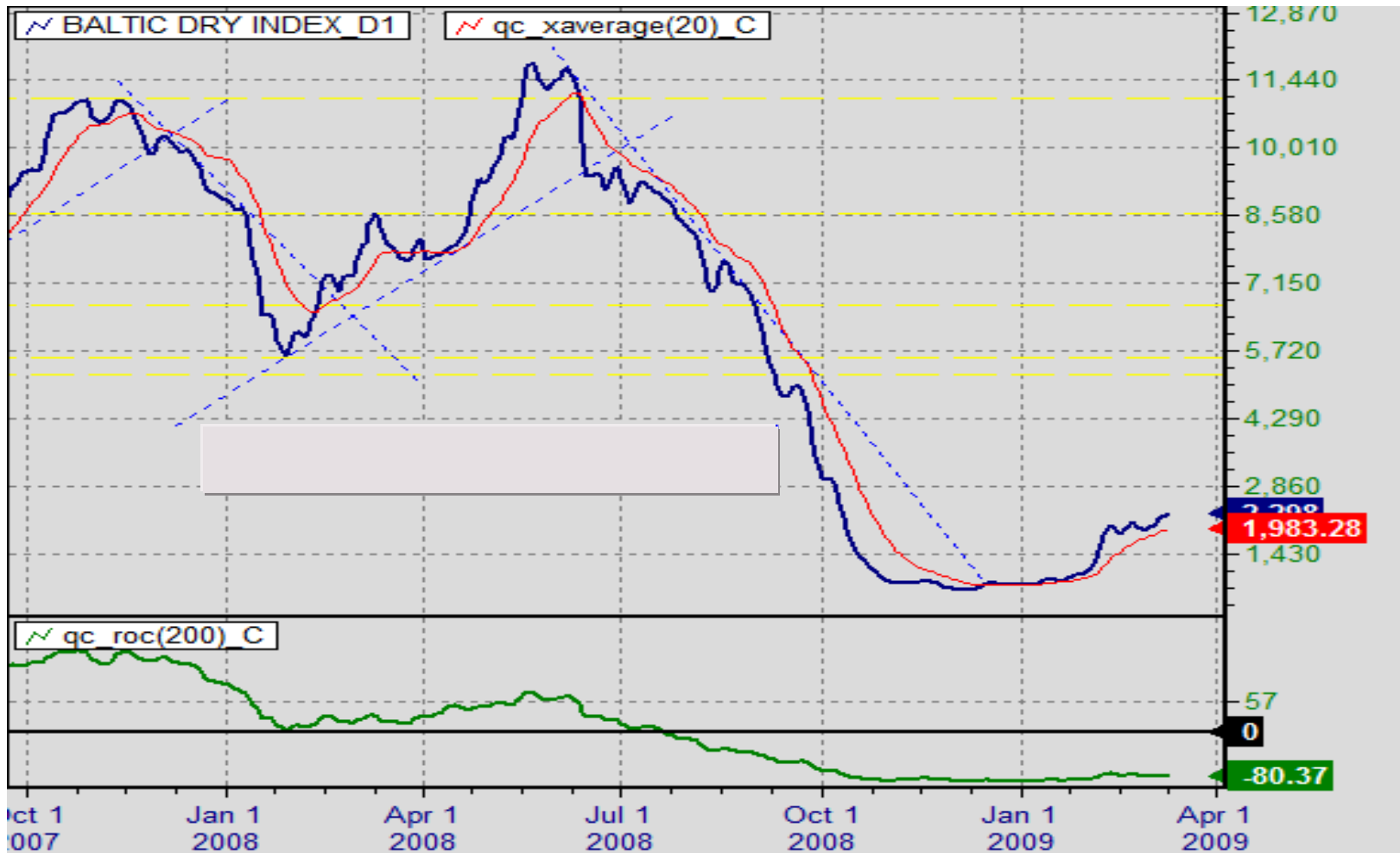


Chart created with NeoTicker EOD © 1998-2007 TickQuest Inc.

Export & Industrial Production Volumes falling.....



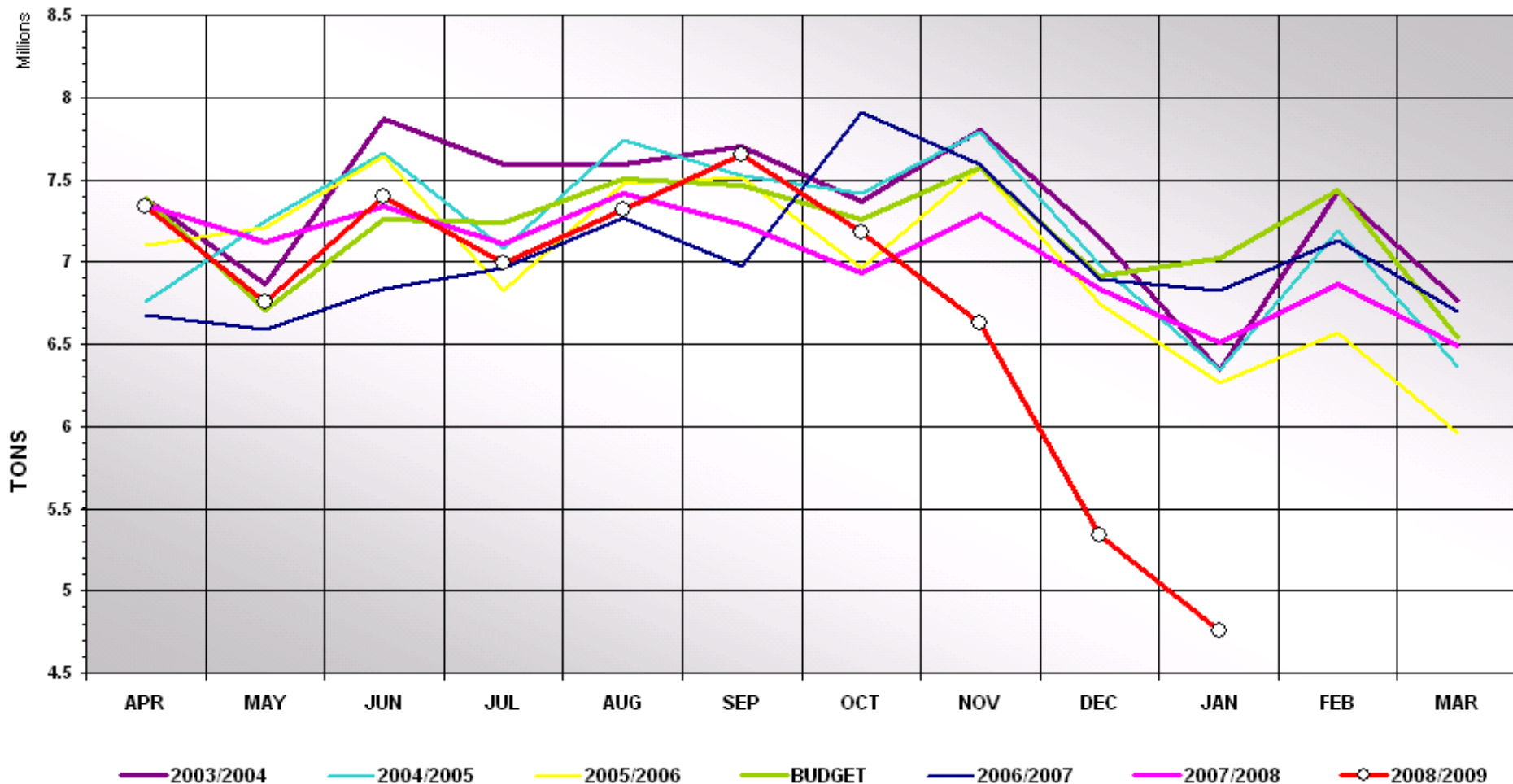
Business & Consumer Confidence Collapsing.....



GENERAL FREIGHT TREND (South Africa)



General Freight has dropped frighteningly ...

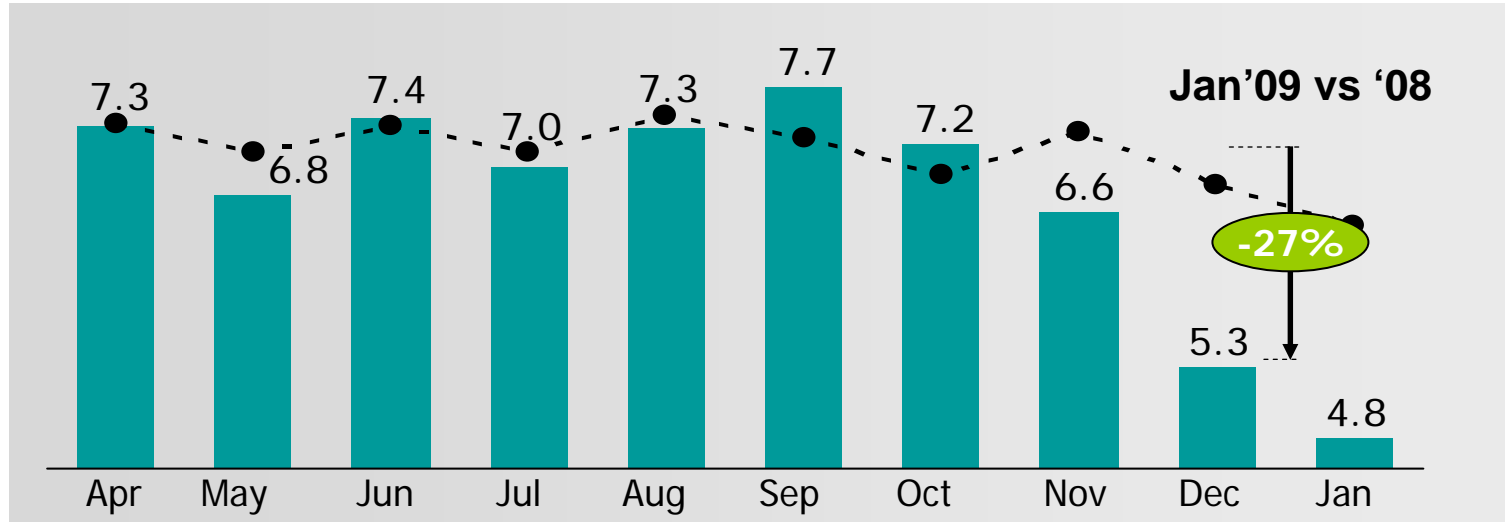


MONTHLY VOLUMES ON KEY COMMODITIES (April – January) (South Africa)

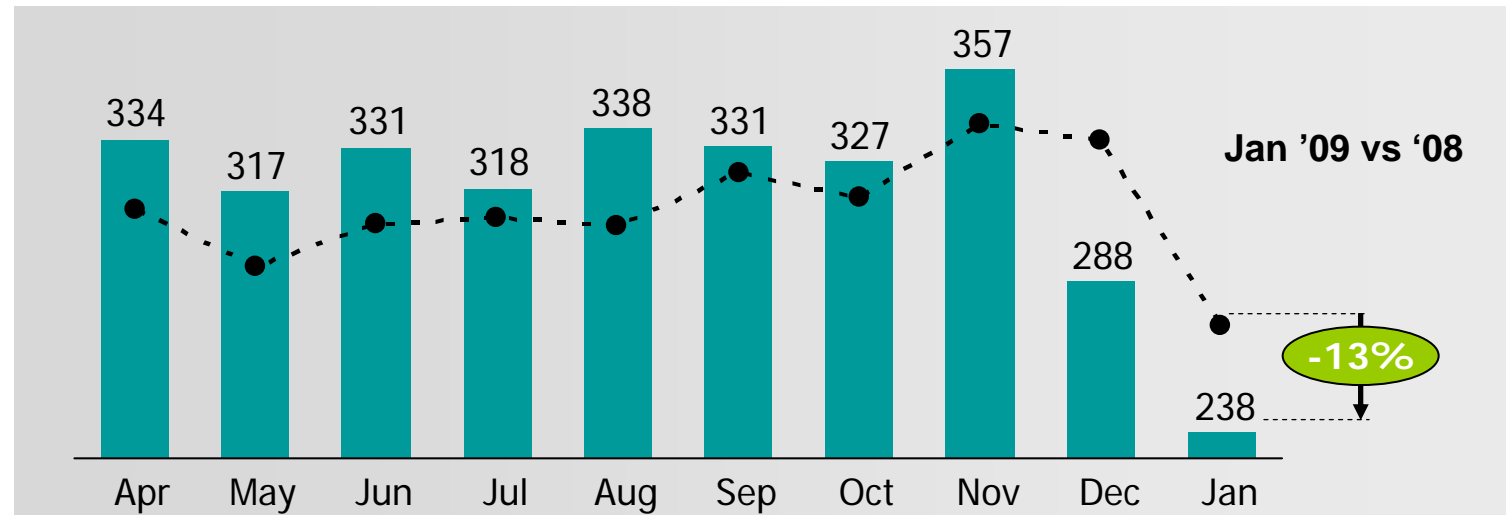


RAIL General Freight (mt)

■ 2008/09
-●- 2007/08



PORTS Containers (000 TEU'S)



Upshot of it all:

- Short term global growth has fallen from 6.4% to below zero.
- Medium-term growth contours have shifted down to 3% levels from 6%
- Focus on domestic economies will lead to vastly different regional growth patterns.

Protectionism & Global Trade



Some of the stylized facts of economic history over the past century are:

Stylized Fact Three:

Protectionist subsidies are wasteful and undermine growth.

Let's examine the case of agriculture subsidies:

Protectionist Agriculture Policies costly to all Regions (2008 estimates)



	World	OECD	Non-OECD
Agriculture Policies of	income loss(US\$ Bn)		
World	334	254	80
OECD	264	241	23
Non-OECD	70	13	57
	Export Revenue Loss (US\$ Bn)		
World	980	663	317
OECD	668	608	60
Non-OECD	312	54	258

Agriculture subsidies in effect:



1. To a large extent neutralize the impact of fiscal rescue packages!
2. Tend to exacerbate income disparities and global pattern of development
3. As a result, these are anti-growth, and anti-poor!

Concluding Remarks

- Current global conditions are caused by structural not cyclical factors- trade protectionism & its resultant imbalances are but two of the contributing factors.
- The current **creeping protectionism** has the potential to turn the recession into a global depression with massive socio-political consequences.
- Furthermore, **murky protectionism** bypasses WTO agreements and hence can become systemically embedded.
- More than ever before, the world now needs a multi-lateral trade regime that can improve resource efficiency, promote growth and development, and lead to reduced income disparities globally.

Trade & Common Sense?

“If your trading partner throws rocks into his harbor, that is no reason to throw rocks into your own. It may sound "fair" to do so, but it is downright silly, even self-destructive.”

Prof. Joan Robinson,

Cambridge School of Economics, UK

Thank you for your attention

