

Make Doha a reality for trade-led global recovery

Victor K. Fung

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Next week, Group of 20 leaders will meet in Pittsburgh to push the global economy further towards recovery. Notwithstanding the enthusiasm in some equity markets, and Asia's positive growth figures in the second quarter, the world remains constrained by the most synchronised global recession on record.

At the core of the economic slump is the dramatic collapse of international trade, projected by the World Trade Organisation to contract by 10 per cent for 2009, its worst decline since the second world war.

The lack of trade finance has been a significant obstacle to global trade since the start of the financial crisis, as lenders faced tighter credit conditions and higher reserve requirements. The cost of trade finance also shot up and specific countries perceived to be risky have been targeted, subjecting even strong producers in these countries to much higher costs.

The G20's decision in April to support US\$250 billion worth of trade over a two-year period, together with the follow-on actions of multilateral institutions such as the Asian Development Bank, the International Finance Corporation, the World Bank and the African Development Bank, has proved to be a major step in alleviating the trade finance gap.

According to a survey by the International Chamber of Commerce's Banking Commission, availability and demand for trade finance have improved significantly. The survey, conducted in July and August, shows that the severe funding gap and price increases for trade finance - that strangled global trade at the end of 2008 and earlier this year - have softened. Both the demand for trade finance and the supply are either stable or increasing in most sectors. We should, however, note that these are broad trends and solutions have yet to reach far ends of the market, such as poorer emerging economies and small and medium-sized enterprises, and that some sectors of the industry are still reporting declines in volume. Thus, we must remain vigilant.

We must also continue to keep our eyes on the bigger battle. We may have averted a "trade finance tsunami" but, to really restart global trade, we need a return of demand, open markets and a conclusion of the Doha round of trade negotiations. The Washington-based Peterson Institute has estimated that a successful Doha agreement would provide a stimulus of US\$300 billion to US\$700 billion to global gross domestic product, much of it from increased trade after tariffs and subsidies are slashed.

The G20 leaders have acknowledged the central role of trade in economic recovery, and have pledged to avoid protectionism and remove obstacles to the conclusion of the Doha round. So far there is little to show for these pledges. Many countries have retreated to familiar protectionist measures in the past few months. These take many guises: anti-surge and anti-dumping mechanisms, emissions related tariffs, "buy local" incentives, and other bans on alleged safety grounds. We see examples in some of the current high-profile US-China trade disputes.

While these manoeuvres pacify certain domestic producers, they create a much greater problem for global industry. History shows that protectionist barriers provide only short-term relief to the politically connected few, while the victims are spread far and wide down the global supply chain - both inside and outside the country practising protectionism.

To achieve real progress towards global economic recovery, G20 leaders must make good on pledges to conclude the Doha round. The Pittsburgh meeting is the time to deliver. Participation in the multilateral trading system has proved to be the single most effective engine of economic development, stability and social progress, but only if it is grounded in an open, multilateral and inclusive framework. The sooner we recognise this, the closer we will be to a durable framework that will propel economic growth for generations to come.

Victor K. Fung is chairman of the International Chamber of Commerce and chairman of Li & Fung Group, based in Hong Kong