

## Global Economic Crisis: Liberalization of trade and protectionism

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The East-West Business Forum 2009

Prague, 17 September 2009

Lichtenstein Palace

Your Excellencies, Ladies and Gentlemen:

The world is a significantly different place than it was just over a year ago. A near collapse of the world financial system has resulted in the most serious global recession since the Great Depression of the 1930s. Across the industrialized world and in emerging economies, unemployment has risen sharply, trade has plummeted, and industrial production has tumbled. Furthermore, a dangerous crisis of confidence in the market economy has spread rapidly around the world.

The economic slump has its roots in a decade of cheap money, high leveraging, easy credit, and associated real estate speculation which has proved – yet again in history – an explosive mixture.

Key actors in the financial sector in many countries – retail banks, investment banks, central banks, bank regulators/supervisors and credit rating agencies – must all accept a share of the blame. Nor can governments, legislators and consumers be exonerated: so many encouraged and enjoyed the illusion that the bubble was creating real wealth.

ICC has consistently argued that a market economy can only work well within a framework of rules. Clearly, the rules governing financial markets were inadequate, unsuitable, or simply not enforced. Public authorities seemed oblivious to the colossal risks that financial institutions were taking. The consequences of the financial sector's mistakes have inflicted great damage on other sectors of business where the market economy was functioning normally to allocate scarce resources productively and to create real wealth.

The mistakes and failures in the financial sector will doubtless lead to greater regulation and supervision. However, governments should bear in mind that the biggest failures appear to have been in the quality of regulation in that sector rather than in the quantity. Furthermore, care should be taken not to allow a mood of regulatory enthusiasm to spill over into other sectors of business where the market, or current light regulation, and or self-regulation, is working well.

***Immediate priority is to boost confidence, demand and credit***

Government intervention – at enormous cost to the taxpayer and to future generations – seems to have prevented the wholesale collapse of the financial sector and, as the G20 leaders prepare for their summit in Pittsburgh next week, there is even reason for cautious optimism that the recession is bottoming out in some key economies. Nonetheless, it remains a most urgent priority to reverse the nosedive in economic demand and restore credit and bond markets to more normal conditions. Getting the banks to restore lending is especially vital for small- and medium- sized companies.

Of particular concern to ICC is the urgent need to boost trade finance on which international trade – the lifeblood of the global economy – so heavily depends. ICC has been leading a call to action on this issue since the start of the crisis. Prior to the G20 meeting in April, we communicated this view at the highest level of government, organizing ICC leaders at our national committees around the world as well as company members to speak to their governments. The ICC Chairman, Victor Fung, met personally

with UK Prime Minister Gordon Brown in March. We also communicated our messages through media interviews and through an advertising campaign on CNN and in the *Financial Times*. We backed up our views with facts, conducting the first international survey ever on trade finance, which has become an important benchmarking tool for the World Trade Organization as well as governments and the trade finance industry.

We therefore very much welcomed the agreement of the G20 leaders in London last April to ensure US\$250 billion of support for trade finance over the next two years and to encourage the use of available flexibility in capital requirements for trade finance. ICC continues to urge official development banks and export credit guarantee agencies to sharply expand their trade finance facilities in these exceptional times.

We have just released our interim trade finance survey detailing the progress in trade finance over the last six months. Although there has been some progress, the global economy is still on shaky ground, and despite budding signs of recovery, evidence is not strong enough to conclude that the current recession is waning.

The interim report cautions against excess optimism and calls for renewed attention to be given to the G20 trade finance agenda following findings that there had been no significant sign of relief in capital requirements for trade assets – which ICC had previously stated was curbing bank incentive to offer trade finance.

Government stimulus packages should seek to target fiscal measures on projects which have a rapid impact on demand and jobs and which are not inconsistent with longer-term national economic objectives. Measures which unavoidably distort competition and international trade should be kept to a minimum and should be clearly stated to be temporary.

The global crisis must not be used as an excuse for further delaying internationally-agreed and effective action to combat climate change. Indeed, the more rapid and

successful attainment of environmental objectives should be a priority in government stimulus plans.

***Economic nationalism must be avoided***

Governments must avoid the temptation to seek isolation from the global crisis through protectionist measures – including in the financial sector – to restrict imports and foreign investment. ICC has therefore welcomed the pledge of the G20 leaders not to raise trade barriers before the end of 2010. We also applaud the efforts of the World Trade Organization (WTO) to monitor compliance. With the world as economically integrated as it has become over recent decades, any lurch into economic nationalism would dislocate commercial activity even further and risk turning the global crisis into a depression. The negative impacts would spread rapidly through global supply chains and hurt a lot of small producers as well as large ones.

Governments have at hand a means to send a strong signal to traders, investors and consumers that they intend to resist protectionist pressures. They must finally summon the will to complete the long-stalled Doha round of trade negotiations under the aegis of the WTO. The current global crisis makes it more urgent than ever to achieve that objective. By concluding Doha, governments would demonstrate unambiguously that they are serious about fighting protectionist pressures and reviving international trade, which is forecast to fall 10% this year – its biggest decline since World War II. They would also give a boost to the rules-based multilateral trading system which is one of the central pillars of international cooperation with a long and proven track record in stimulating global growth and employment.

Throughout my career I have witnessed how open trade can contribute to raising living standards and can help bring peace and prosperity to a greater number of the world's citizens. A solid multilateral, rules-based trading system is all the more vital given current economic circumstances. Some have tried to use the economic crisis to call into question

the very principle of open trade, and we have seen attempts to bring back the protectionism that deepened and prolonged the Great Depression. Although these efforts have mainly failed so far, we must remain vigilant. ICC will continue to press governments to bring the Doha Round of trade negotiations to a successful conclusion and to resist protectionism in all its forms.

Economic success is linked to confidence – people will consume, companies will invest and hire people if there is confidence.

What single global event could give a greater boost of confidence to the world? I believe that it would be the signing of the Doha Round trade agreement. All the ingredients are there. The Indian government has been re-elected and is stronger and more committed. Since the last round of negotiations, all agree that a deal is within reach. We need a final push from the bigger players. The new US government has several issues on its plate, however, if it sets its mind to it, the deal could be closed. Europe has a challenge – it can have a united front and be a strong voice for a deal – or it can fragment itself to oblivion. None of the European leaders – Gordon Brown, Nicolas Sarkozy or Angela Merkel -- would want the latter. What better time than now for a united Europe to forcefully bring this issue to Pittsburgh and close a deal that could be the global shock of confidence the world needs to shift into a strong economic recovery mode.

We call upon the G20 countries – yet again – to exercise the leadership required and commit themselves to bring about a Doha agreement with the minimum of further delay.

As part of the fight against protectionist pressures, governments should also be cooperating closely to find more effective ways to reduce the big imbalances in the external current accounts of some major trading nations.

Efforts to put globalization into reverse must be opposed. Globalization has raised some worrying issues that remain to be adequately addressed, and today's economic crisis is

raising others. However, globalization has a creditable record of pulling millions of people out of extreme poverty in recent years. Its role as a worldwide transmission belt for goods, services, capital, technology, management know-how and ideas must be preserved with care even if, during occasional economic downturns, it also transmits negative impulses.

### ***Need for better governance of the global economy***

Governments must develop more effective ways of governing an interdependent world with an integrated global economy. Better international cooperation is vital to tackle major challenges which transcend national boundaries and which governments are increasingly unable to resolve on their own. Today's global economic crisis is clearly in that category. And so are several other very big issues: climate change, water scarcity, food security, poverty alleviation.

ICC welcomes the new role being given to the G20 forum in the current crisis since we believe that countries with big emerging markets must be brought more actively into the international decision-making process if problems of global proportions are to be effectively addressed. Governments need to modernize the institutional structure created to help manage international economic relations after World War II. What today's world requires are new arrangements to facilitate the development of more global rules and better governance.