Statement by Supachai Panitchpakdi, Secretary-General of UNCTAD (2008-2010)

Jeddah Economic Forum 2010: Session V - Tackling Protectionism in Trade and Investment

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[AS PREPARED FOR DELIVERY[

Your Royal Highness Prince Khaled Al-Faisal [Governor of Makkah Region]
Excellencies,
Distinguished guests,
Ladies and gentlemen,

The current economic climate has stoked a fear that governments around the world might introduce protectionist policies in trade and investment, or via other policy tools, as happened in previous episodes of global recession. The instinct to protect one´s own economy -- the jobs and welfare of citizens -- appears logical, but we have learnt that it is not: we know that retaliatory protectionism leads to an aggregate loss of trade, investment and wealth. This is especially so during the current crisis, when both trade and investment flows have fallen dramatically.

Such was the fear when the first G20 summit took place in Washington in November 2008, and 17 out of 20 members were found to have introduced measures which could be viewed as protectionist. To respond to the crisis, G20 leaders met again in London in April 2009, where they pledged to fight against all forms of protectionism and to maintain trade and foreign investment. They repeated that pledge in Pittsburgh in September 2009. Leaders requested UNCTAD, together with the WTO and the OECD to monitor trade and investment measures in G20 countries and report on a quarterly basis, including during the G20 summits.

Subsequently, UNCTAD in cooperation with the WTO and the OECD submitted a report on G20 adherence to their undertakings on resisting protectionism and promoting global trade and investment. Overall, the findings of the report did not observe widespread resort to trade or investment restrictions as a reaction to the global financial and economic crisis. The great fear that such a deep recession would lead to the kind of economic nationalism that characterised the 1930s has not (yet) happened. In addition to active monetary and fiscal policies which have maintained demand -- and have arguably dampened protectionist tendencies -- international rules for trade and investment have restrained beggar-thy-neighbour trade and investment policies.

Nevertheless, and in line with the findings of 4th Global Trade Alert Report, we noted that there has certainly been policy slippage since the global crisis began. In some cases, G20 members have raised tariffs and introduced new non-tariff measures, and most of them have continued to use trade defence mechanisms: indeed, the WTO notes, for example, the increase in the number of anti-dumping, safeguard and countervailing measure investigations. These measures, along with reports of additional administrative obstacles being applied to imports may retard the global recovery. It will be imperative to continue to monitor these trends and the outcome of ongoing investigations in 2010.

The large differential -- or "water" -- that currently exists between bound and applied import tariff rates means that many countries can legally increase tariffs within the scope of their WTO commitments. The fact that they have not, is discussed in Simon Evenett´s background paper to this round table, which I will not go into here. However, I would like to support his assertion that because tariffs weren´t greatly increased in 2009, doesn´t mean they won´t increase in the future. For this reason, the Doha round of trade negotiations should be successfully concluded at the earliest opportunity in order to remove the "water" from the system, and bring bound rates down to applied rates - thereby removing the potential for protectionism.

With regard to the fiscal and monetary packages introduced to tackle the crisis, most of them clearly favour the restoration of trade growth globally. However, some of the stimulus packages contain elements that favour domestic goods and services at the expense of imports. Some so-called "buy/ lend/ invest/ hire local" clauses have been added to government procurement and industrial subsidies. In most cases, developing countries that cannot apply similar support measures to their economy are discriminated against by default. Such actions could have negative spill-over effects and distort competitive conditions and decisions about the future location of production.

In the area of foreign direct investment, the general observable trend in terms of investment rules and regulations has for many years been towards liberalization, and open and transparent investment regimes. Policy measures taken by G20 members in the past year still paint a reassuring picture: a substantial number of policy changes undertaken during the period under review were directed at increasing openness and clarity for foreign investors, not restricting it. However, many countries have started to exercise their right to regulate foreign investment to pursue domestic policy objectives. One of the main areas where a more restrictive approach towards foreign investment has been building relates to national security, and to the protection of strategic industries, such as oil and minerals [Russia, Venezuela, Bolivia, Ecuador], and critical infrastructure, such as pipelines and ports [Russia, U.S.]. While national security concerns in relation to foreign investment are nothing new and must be an issue even for the most liberal country, cases have become more frequent in recent years where foreign investors have been rejected for national security reasons or subjected to other restrictive measures after establishment. This highlights the important role of international investment agreements in ensuring a fair and non-discriminatory treatment of foreign investors. Furthermore, protectionist policies in the area of trade can have an impact on the investment decisions of multinational firms involved in international value chains, and can lead to investment creation, diversion and relocation.

As far as other countries are concerned, UNCTAD´s recent Investment Policy Monitor finds that the majority of policy changes continued to be in the direction of liberalization and the promotion of trade and investment. Furthermore, the report finds that larger economies prolonged their stimulus packages and increased their State aid. At the international level, countries continued to conclude international trade and investment agreements, including double taxation treaties in order to promote trade and investment and to eliminate international tax havens.

To conclude: whilst our initial fears of a retaliatory protectionist war in response to the economic crisis did not materialize, there are enough signs to warn of potential coming threats. In addition to the trade and investment measures I have mentioned, we should not forget that unemployment still remains extremely high in many countries. This will put increased pressure on governments to put domestic concerns first and create jobs, especially when many stimulus packages are reduced or removed this year. President Obama has recently indicated his shift of focus to the domestic economy in his recent State of the Union address, and following the precipitous decline in trade flows last year, big emerging economies, such as China, are also trying to develop their domestic market.