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Trade Barriers Toughen With Global Slump

Despite Free-Market Pledge, Many Nations Adopt Restrictive Policies

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Only a few weeks after world leaders vowed at a Washington summit to reject trade protectionism and adhere to free-market principles as they combat the global financial crisis, a host of nations are already breaking that promise.

Moving to shield battered domestic manufacturers from foreign imports, Indonesia is slapping restrictions on at least 500 products this month, demanding special licenses and new fees on imports. Russia is hiking tariffs on imported cars, poultry and pork. France is launching a state fund to protect French companies from foreign takeovers. Officials in Argentina and Brazil are seeking to raise tariffs on products from imported wine and textiles to leather goods and peaches, according to the World Trade Organization.

The list of countries making access to their markets harder potentially includes the United States, where critics are calling the White House's $17.4 billion bailout of the U.S. auto industry an unfair government subsidy that would put foreign competitors at a disadvantage.

Though still relatively narrow in scope, the moves, observers warn, in the coming months may grow into a broader wave of protectionism. That could worsen the global financial crisis by further choking world trade, which is already facing its first decline since 1982 as the world economy sharply slows and demand dries up.

In hard times, analysts say, nations are more inclined to take steps that inhibit trade, often with dire consequences. Trade restrictions imposed by countries trying to protect domestic industries in the 1930s, for instance, escalated into a global trade war that deepened and prolonged the Great Depression.

"Exporting firms tend to be innovative, dynamic and capable of generating good job growth," said Eswar S. Prasad, a professor of trade policy at Cornell University and senior fellow at the Brookings Institution in Washington. "If trade restrictions caused by trade wars shut them down, their suppliers shut down, job losses get worse, and you can quickly have a spiraling downward effect on the entire economy."

To be sure, most of the measures taken to date appear to be within the limits of current international trade treaties, which grant countries some room to raise tariffs and contain loopholes that can be exploited to protect domestic industries.

But the general trend toward protectionism could undermine what has been the steady march of free trade during the era of globalization, with export-dependent countries such as China standing to lose the most.

Seeking to avoid such a reversal, leaders from 20 major and emerging economies gathered in Washington on Nov. 15 for a global economic summit, issuing a pledge to refrain from protectionist measures for at least 12 months. They also vowed to reach a breakthrough this year on a stalled global trade deal that would bring down tariffs on a wide variety of exports, injecting as much as $100 billion into the global economy.

But nations have failed to comply with both of those promises, with many not waiting for the ink to dry on the summit agreement before reversing course.

For example, on Nov. 18 -- just three days after the summit -- India levied a new 20 percent duty on imports of some soybean oils to protect domestic farmers as international prices have dropped during the global economic slump. Experts in India think the government may soon raise taxes on other types of foreign-made cooking oils.

Increasingly, nations are rolling out support for battered domestic industries that critics are decrying as trade-distorting government subsidies. The United States, under fire for bailing out General Motors and Chrysler, on Friday announced that it was taking legal action against China at the WTO for allegedly offering unfair support of its export industry -- including the award of cash grants, rebates and preferential loans to exporters.

Russia is the largest car market in Europe, but with the crisis dramatically slowing sales there, Moscow increased taxes on imported foreign cars by as much as 35 percent on Dec. 10. The measure is aimed at protecting the struggling Russian auto industry, including the makers of the boxy Lada. The move provoked protests early last week by 3,000 workers in the Pacific port city of Vladivostok, whose jobs depend on foreign car sales, and on Saturday police broke up another protest and reportedly arrested at least 15 people. Prime Minister Vladimir Putin has also proposed a 15 percent duty on agricultural equipment.

To protect farmers, the Kremlin on Dec. 11 significantly increased duties on pork and poultry imports in a move likely to reverberate in the United States. Russia is the single largest market for U.S. poultry producers, which this year have exported $740 million worth to Russian shores.

"This is dangerous for several reasons, not the least because it is a move that could spread to other nations that are under pressure now to keep imports out to help domestic producers," said Franklin J. Vargo, vice president of international economic affairs at the National Association of Manufacturers.

Perhaps the biggest blow against trade, however, came this month when Pascal Lamy, director-general of the World Trade Organization in Geneva, conceded that there was not enough consensus among major countries to reach the pledged breakthrough on global trade talks before year's end.

The fate of the Doha Round of trade talks -- so named because a group of nations gathered in Qatar's capital, Doha, and agreed to work toward dramatic new cuts in subsidies and trade tariffs -- is now more uncertain than ever. The talks have been stalled since 2001, with analysts seeing support for a global deal waning as countries try to contain job losses at home in 2009.

Lamy voiced his concern about creeping protectionism this week, suggesting the WTO begin monitoring and issuing reports on the new anti-trade measures being taken by nations worldwide.

"The WTO has a particular responsibility to follow up on the trade measures which have been taken in the wake of the financial crisis," Lamy told a commission trade committee in Geneva last week.

The march of free trade is also facing a possible course correction from the change in leadership in the United States. President-elect Barack Obama has signaled a much more skeptical attitude toward unfettered free-trade deals than President Bush or even former President Bill Clinton.

Obama on Friday named former Dallas mayor Ron Kirk as U.S. trade representative. The city's first black mayor, Kirk, 54, is viewed as generally pro-trade, having voiced support for the North American Free Trade Agreement and touted its benefits during and after his time in office from 1995 to 2001. But in accepting the post, Kirk suggested he would champion Obama's vision on trade.

During the campaign, Obama said he generally supports free-trade policies, but also said he would seek more-enforceable labor and environmental standards. Obama has said he would "amend" NAFTA, approved in 1993 under Clinton, to reflect those concerns.

"Trade can help us create jobs at home and encourage development abroad," Kirk said, adding that he believes "a values-driven agenda that stays true to our commitment to America's workers and environmental sustainability is not only consistent with a pro-trade agenda, but it's also necessary for its success."

As a senator, Obama voted for a free-trade agreement with Oman but opposed a deal with Central American and Caribbean countries because he said it had weak labor and environmental provisions. He also has been critical of free-trade agreements the Bush administration reached with South Korea and Colombia, which have stalled in Congress.

There are reasons to believe trade will not be high on Obama's agenda. Rep. Xavier Becerra, (D-Calif.), an early favorite to be picked by Obama for the top trade job, signaled as much in a recent interview.

"My concern is how much weight this position would have had, and I reached the conclusion that it would not be a top priority, or even second or third priority," Becerra told the editorial board of La Opinion, a Spanish-language newspaper in his home town of Los Angeles.