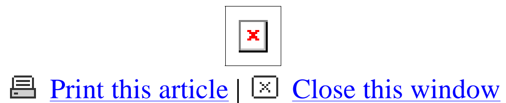

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G20 leaders need crash course on global economy

Daniel Ikenson and Alec van Gelder
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G20 leaders are convening in Pittsburgh this week during a sticky time for global trade relations.

Brazilians, Canadians, Mexicans, and Chinese are angry with the Americans. The Indians and the Chinese are furious with each other, as are the Europeans and the Americans.

Most of this stems from new trade restrictions imposed despite repeated pledges from G20 countries to avoid protectionism.

To quell the anger and gain a constructive focus in Pittsburgh, leaders must recognise how outdated it is to view the world as “Us” versus “Them.”

A crash course on the global economy is in order.

The largest “American” steel producer is the majority-Indian-owned Arcelor-Mittal, with headquarters in Luxembourg and Hong Kong, and listed on the New York Stock Exchange and five European stock exchanges.

The largest “German” producer, Thyssen-Krupp, a conglomerate with 670 companies worldwide, is investing $3.7 billion in a carbon and stainless steel factory in Alabama, which will create 2,700 permanent jobs there.

California's steel industry consists almost entirely of rolling mill operations, which process imported carbon steel slabs from Brazil, Russia and other countries. The Californian finished products are disqualified from President Obama's Buy American procurement rules for failing to meet the statutory definition of American-made steel. This illustrates the impossibility, futility and harm of attempting to define producers by national characteristics.

Today, the factory floor is no longer contained within four walls, one roof and national borders.

Instead, the factory floor spans the globe, allowing firms to optimise investment and output decisions by matching production, assembly and other functions to the locations best suited for those activities.

Nokia is a Finnish brand but produces most of its components and performs most of its assembly in other countries.

Lenovo is a worldwide Chinese computer brand name but it maintains headquarters in Singapore and the USA, it operates research centres in the USA and Japan, and assembles products in India, Mexico, Poland, and China.

Apple's ubiquitous iPods are designed in labs in California then assembled in China drawing on labour and components from South Korea, Taiwan, Singapore and Japan.

This is true not only for Big Business but many of the goods now considered essential to our daily lives--from roses to screws to coffee.

Trade policies over the past 25 years have generally accommodated this new reality. According to the World Bank, between 1983 and 2003 only three countries (out of 136) increased overall trade restriction, while developing countries were some of the biggest reformers, having reduced their weighted average tariffs by 21 percentage points (from 29.9 to 9.3 per cent).

To emphasise how these reforms are self-helping, two-thirds of those cuts were unilateral.

Trade has also benefitted from huge improvements in transport and communications.

These gains are often discussed in terms of their impact on producers but the consumer is by far the biggest winner, getting a more consistent supply and better choice of cheaper, better products.

This global factory has changed the old “Us versus Them” characterisation of international trade for good--and for the good. Trade is increasingly the process of importing a good, adding value to it, and then exporting it to another producer further down the production chain. These complicated production and supply chains rely upon the rapid flow of goods and services across borders.

The current economic crisis, however, has tested our leaders' commitment to these reforms. Political leaders condemned protectionism at the G20 meeting in November 2008 and then again in April 2009. They returned home to yield to vested interests, imposing anti-trade measures that add complexity, cost and delay to internationalised production and supply chains.

Such an approach made no sense when times were good. It is especially wrong-headed when times are tough.

Banning containerised shipping (perhaps the most important technique in 20th century trade) or broadband Internet connections (which have paved the way for millions of call-centre jobs) would clearly be ridiculed.

Yet it is equally ludicrous for governments to promote “temporary” tariffs to shelter “domestic” industries, or subsidies for “local” producers, or “environmental” regulations that hobble foreign competitors.

World leaders need to understand this in time for Pittsburgh. The only real stimulus the global economy needs is to continue the reforms that have guided the past 30 years of unprecedented global expansion: reduce trade barriers and remove the regulations and administrative burdens that prevent people from maximising their potential in the global economy.

Daniel Ikenson is Associate Director of the Cato Institute's Center for Trade Policy Studies and author of “No Longer Us versus Them: Trade Policy for the 21st Century". Alec van Gelder is Project Director at International Policy Network.

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