

## Protectionism Doesn't Pay

*China calls on the world's governments to learn from history.*

**By CHEN DEMING**

The global financial crisis is no doubt a catalyst for trade protectionism. As the world economy deteriorates, some countries try to boost growth prospects by erecting trade barriers. China calls on these governments not to replay history and revert to protectionism and economic isolationism.

Previous global economic crises were accompanied by frequent trade disputes. The U.S. passage of large-scale tariffs in 1930, for example, triggered a retaliatory global trade war. During the two oil shocks in the 1970s and 1980s, trade frictions emerged when major economies attempted to increase exports by depreciating their currencies. And in the wake of the 1997 Asian financial crisis, there was a notable uptick in antidumping actions, countervailing duties and other protectionist measures.

The financial crisis is now spilling over into the real economy, hitting sectors like manufacturing and services. In almost all countries, factories are closing and unemployment is rising, creating political pressure and social problems. More and more governments are strengthening intervention in their economies under the excuse of "economic security," and protecting vulnerable domestic industries by curbing imports from other countries.

Trade protectionism differs from legally acceptable measures to protect trade. It is an abuse of remedies provided by multilateral trade rules. This kind of protectionism is morphing into more complex and disguised forms, ranging from conventional tariff and nontariff barriers to technical barriers to trade, industry standards and industry protectionism.

With the economic crisis worsening, caution must be taken even in employing trade protection measures consistent with World Trade Organization rules. At the G-20 Financial Summit in November 2008, world leaders called for countries to resist trade protectionism and committed themselves to refraining from new barriers to trade and investment, a message strongly echoed by the Asia-Pacific Economic Cooperation summit at the end of last year and the World Economic Forum held in Davos last month.

History tells us that trade protection measures hurt not only other countries, but eventually the country that erected them in the first place. To counter the Great Depression, the U.S. adopted the Smoot-Hawley Act in 1930, which raised import duties of over 20,000 foreign products significantly and provoked protectionist retaliation from other countries. Faced with that crisis, other countries pursued beggar-thy-neighbor policies that slashed global trade volume from \$36 billion in 1929 to \$12 billion in 1932. Among the victims, not the least was the U.S. itself, where exports shrank from \$5.2 billion in 1929 to \$1.2 billion in 1932. Even in the U.S., the Smoot-Hawley Act was widely believed to be a catalyst that aggravated the effects of the Great Depression.

Global trade is now in dire straits. Thanks to shrinking external demand caused by the economic crisis, major trading countries have seen their export growth tumble or have suffered huge contractions. Germany's exports dropped 10.6% in November 2008, compared to the same period the prior year -- the highest one-month drop since 1990. China also experienced negative export growth in November, and a 17.5% decline last month, when compared to the prior year. Protectionist policies would make things even worse, and the consequences would be hard to predict.

In the heat of the crisis, it's critical that all countries refrain from pointing fingers at each other or pursuing their own interests at the expense of others. The financial crisis reflects a chronic illness resulting from global economic structural imbalance and financial risk accumulation, and there is no quick fix to this malady. The fundamental interest of every country is to step up consultation and cooperation and keep international trade smoothly flowing. Healthy international trade can help revive the world economy. During the Great Depression, the U.S. recovered from its economic woes because the Roosevelt administration implemented the New Deal and shunned protectionism.

Today's unprecedented financial crisis has inflicted a severe impact on China and other countries. China's economic growth has slowed, exports have plunged, and unemployment pressure has mounted. Yet even so, China still firmly believes that trade protectionism isn't a solution to the world's problems. In 2008, amid a contraction in global trade, China imported \$1.133 trillion worth of goods from countries around the world -- an 18.5% increase over the prior year. These imports are boosting the economic development of China's trading partners. Since the crisis broke out, the Chinese government has put forward a series of measures aiming at stimulating domestic demand. Given the size and openness of our country, the growth in China's domestic markets can be translated into greater market potential and investment opportunities for other countries. This year China will continue to increase imports and send buying missions abroad for large-scale purchase of equipment, products and technology.

China has always championed our mutually beneficial opening-up policy and advocated international economic cooperation. We maintain that the Doha Round of global trade negotiations should be taken forward in a way that meets the interests of members and complies with the multilateral trading system already established. China is ready to stand together with all nations in the world to face up to the challenges of today, tackle the financial crisis through cooperation, and guide the world economy into a new period of prosperity.

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