



Leverhulme Centre
for Research on Globalisation and Economic Policy

GEP IN CHINA:
THE GLOBAL FINANCIAL CRISIS

Protectionism would 'devastate' recovery prospects

Growing calls for protectionism must be resisted to avoid the risk of a return to the economic nightmare of the 1930s, a major international conference hosted by GEP has been told.

Daria Taglioni, of the European Central Bank, told a gathering of some of the world's leading economists that the dangers of protectionism remain high and "should not be neglected".

She delivered her warning at GEP in China's second annual conference, entitled The Global Financial Crisis, at the Centre's branch at the University of Nottingham, Ningbo.

Delegates from around the globe attended the prestigious event to discuss a variety of issues arising out of the seismic economic shocks that began in the middle of 2007.

Topics addressed included how nations can respond to a collapse in exports, how they might recover from the slump and China's likely future role in the wake of meltdown.

Ms Taglioni, Senior Economist at the ECB, warned an escalation of pressures could trigger "high-intensity protectionism" as a reaction to the crisis.

A year ago, for example, G20 leaders committed to "refrain from raising new barriers to investment or trade in goods" – yet since then 17 of the 20 nations have announced protectionist measures.

Ms Taglioni said: "Fears of rising protectionism come at a delicate time for the world economy, as global trade flows have considerably weakened since the end of 2008.

"Not only has world trade been severely hit by the drop in demand but trade itself has propagated the crisis across borders, making it a truly global phenomenon.

"Against this background, a resurgence of protectionism would have devastating effects on the recovery process

Conference briefing

by further hampering already-weak trade flows and global demand."

ECB researchers studied a range of indicators, including changing attitudes to globalisation, to assess the likely effects of protectionism in light of the current crisis.

They concluded it would lead to a "worldwide loss" in efficiency and productivity by reducing the average size of firms, leading to higher prices for consumers.

Ms Taglioni said: "The consequences of a rise in protection are potentially very substantial.

"The outburst that followed the 1929 market crash is considered to have contributed to the propagation of the crisis and to a marked worsening of the Great Depression.

"The possibility that a similar event will materialise in the aftermath of the current crisis should not be ruled out."

Ms Taglioni stressed that a comparison with the dark days of the 1930s might not be “fully justified” for a number of reasons.

Public opinion favours free trade, and general support for globalisation – though roughly evenly split in many EU nations – is high in developing countries and emerging market economies.

In addition, countries are now bound by a series of treaties and free trade agreements designed to limit the scope for moves towards protectionism.

Yet Ms Taglioni said it would still be dangerous to ignore the fact that demands for protectionism have been growing significantly since the financial crisis unfolded.

She said: “Our simulations suggest the impairment of the global flow of trade would hamper the recovery process, as well as the long-term growth potential of the global economy.

“It is also unlikely that protectionism would help correct existing imbalances, and countries that implement such measures should expect a deterioration of their international competitiveness.”

About GEP

GEP is based at the University of Nottingham and is substantially funded by grants from the Leverhulme Trust.

In January 2008 it opened GEP in Malaysia at the University of Nottingham’s purpose-built Semenyih campus, 30km from Kuala Lumpur.

In November 2008 it launched GEP in China at the University of Nottingham, Ningbo, China.

GEP is keen to promote its research work and is committed to communicating its expertise through the media and to assisting journalists whenever able.

Website: www.gep.org.uk

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Conference delegates included:

Professor David Greenaway, University of Nottingham

Professor Shujie Yao, University of Nottingham

Professor Tony Venables, University of Oxford

Professor Wing Thye Woo, University of California, Davis

Professor Bob Anderton, European Central Bank

Professor Jiadong Tong, Nankai University

Professor Lina Song, University of Nottingham

Professor Xianguo Yao, Zhejiang University

Dr Spiros Bougheas, University of Nottingham

Professor Innwon Park, Korea University

Professor Doug Nelson, Tulane University

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