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State capitalism is the real enemy of fair free trade

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Three cheers for free trade: *a new study from the World Trade Organization reports no significant intensification of trade or investment restriction since September 2009. This is good news for anyone who values global prosperity over "beggar thy neighbor" egoism. In the wake of the Subprime Crisis, the improvised G-20 summitry produced plenty of solemn declarations in favor of open markets. But by the time the world leaders had returned to their respective capitals, they collectively succumbed to that apparently irresistible crisis temptation of protectionism. We were living in an increasingly schizophrenic world of official globalization speak and practical de-globalization policy. The World Bank monitored an ever accelerating rise of protectionist initiatives throughout 2008 and 2009. It now seems that this upward trend of knee-jerk protectionism has peaked in the final months of 2009.*

But let's not get carried away. It is not because the fever of economic nationalism is no longer rising that the patient is actually cured. The years of 2008-09 still leave a painful legacy of hundreds of protectionist hurdles whose future elimination is far from certain. More importantly, the fever of protectionism hides a much more fundamental crisis disease: the rise of state capitalism. The Subprime Crisis and the Great Recession have catapulted the state to another level of economic activism. It has brought governments to pick winners and losers in financial and insurance markets, to save moribund car makers and supplant them with government approved owners and management, and to direct the economy through a cacophony of Keynesian stimulus plans.

Every turn of this tale has meant the injection of borrowed taxpayer money in the perceived national interest and to the benefit of preferred industries and companies, with an inevitable protectionist effect vis-à-vis the international competition. When Barack Obama saved the Detroit car giants he did so by massively undercutting the competition from other countries, by riding rough-shod over thousands of workers in profitable companies that do not benefit from American tax dollars, and by confiscating billions of dollars that could otherwise have been spent or invested freely by millions of voluntary decisions. This did not bring a trade war to the WTO, but instead triggered a global wave of state support for car manufacturers.

Is this anyone's understanding of fair competition and attractive globalization? Evidently, it is not. But the same dismal equation applies to the new vogue of government sponsored industrial strategies. Keen to shift from recession to expansion, governments around the world are eagerly developing national strategies for future growth. The new mantra of "sustainable growth" is witnessing a veritable arms race of state-driven investment and planning. The green car mesmerizes politicians and draws in billions of state support across the globe. France has embarked on a €35billon national loan to fund strategic investments, obviously hand-picked by a certain Nicholas Sarkozy. And so the beat goes on.

> *"The fever of protectionism hides a much more fundamental crisis disease: the rise of state capitalism, and its inevitable protectionist effect vis-à-vis international competition."*

This particular trend of government-directed growth is much more fundamental and much more problematic for the future of global trade than the mostly accidental surge of protectionist reflexes in the midst of global crisis pandemonium. More importantly, the trend by far predates the crisis itself. Developing economies with a state capitalist bent – China in particular – had been gaining momentum and market share for years prior to the Subprime debacle. Both their economic clout and their economic model have since benefited from a crisis that is globally portrayed as a failure of US-style free market capitalism.

Trade liberalization requires an intellectual understanding that it will serve the mutual interest, the possibility to convince national public opinion of its benefits, and an international leader to push countries into concessions. None of these conditions has survived the Subprime Crisis and the Great Recession without serious damage. The science of economics has seemingly failed, the electorate and the politicians alike eschew foreign competition while their national economy bleeds, and America has lost its aura. The US president is no longer a missionary preaching the gospel of open markets and democracy: he is a pilgrim who travels the world in humble admiration of other countries' models.

None of this transpires easily into WTO-monitoring. But it is altering the course of the tectonic plates that carry the entire construction of globalization, towards less open and more mercantilist neo-globalization. The tell-tale signs are there for everyone to see. The persistent failure of the Doha-round for multilateral trade liberalization is matched by an enormous inflation of bilateral trade agreements, especially in Asia. These bilateral agreements are increasingly stumbling-blocks, not building-blocks for multilateral trade liberalization. The limited win-win of bilateral free trade has become the enemy of global free trade. It divides more than it unites. The uneven path of the global economic recovery is its ally. In many developing countries government is the face of present and future economic growth. For the United States and for Europe, persistent unemployment and sluggish growth are enemies of markets and trade, but harbingers of governments. State capitalism is clearly not going away anytime soon.

Free trade has only ever worked politically when it was to the mutual benefit of the trading partners. Market-led globalization brings growth, but it also presupposes growth. When the feeble global economic recovery turns into a genuine global expansion, its rising tide may once again lift barriers and drive back nationalism. But as long as much of the world remains stuck in crisis-mode, the future for globalization and trade will look markedly less bright than its pre-crisis past.

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