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The long trend to remove import barriers to international trade may now be over. Reversing the process, countries that produce raw materials are instituting curbs on exports as they regain long-lost purchasing power. Asia is in the lead. - **Joergen Oerstroem Moeller**

Protectionism goes into reverse
By Joergen Oerstroem Moeller

SINGAPORE - For more than 60 years the world has labored in the same stony vineyard of dismantling import barriers. Now we are almost there, few of these restrictions still harass international trade. Just when celebrations were due, a new monster is emerging to disturb things and distort international trade: export restrictions and export tariffs. Asian countries are in the forefront as potential major players in this new game.

They are in fact the twins of the new age of scarcity. For decades, even centuries, the world has basked in an era of plenty. Enough of everything and at low prices. It was a buyer's market to set conditions, terms and prices; the seller had little choice but to comply. Buyers could - and did - play suppliers against each other and took advantage of the situation to exercise downwards pressure on prices. Just ask producers of raw materials, food and to a certain extent oil how they fared and you will know.

Now it starts all over again, but in reverse, with an increasing scarcity of food, raw materials, energy, water and clean environments. There is not enough to feed growing populations, expanding economies, more factories and consumers all wanting cars, refrigerators and other energy-consuming gadgets and having the money to buy them.

It is no longer a buyer's market. It is becoming a seller's market. Those who think that international trade policy will remain unchanged are in for a nasty surprise. Economic textbooks mention as a curiosity export restrictions and tariffs as the contrast to import restrictions and tariffs, but they have never really analyzed them and there are few cases to build empirical analysis on. They may have to start doing so now.

The first shot has been fired. Over the first half of 2008, Cambodia, Indonesia, Kazakhstan, Russia, Argentina, Ukraine, Thailand, Vietnam and India have all introduced restrictions on exports of all or selected agricultural goods, justifying those measures with scarcity at home. These countries are not just anybody. Thailand and Vietnam, restricting export of rice, are the world's number one and two rice exporters. Importing countries suffered when the supply of vital foodstuffs was curtailed. Riots resulted in several countries.

Russia took similar steps at the end of June by imposing export duties on raw timber, a step that may cost 16,000 jobs in neighboring Finland's paper-processing industry and sour ongoing negotiations for a renewal of the existing agreement between Russia and the

European Union.

This is nothing compared to what we may expect over the coming decades.

Most economists subscribe to the view that since the middle of the 19th century the terms of trade for commodities has deteriorated. There are many reasons for that and economic models offer various suggestions as to why it came about, but it is difficult to escape the conclusion that real income has been transferred from raw material producing countries to manufacturing nations.

The tide is turning and those who suffered will try to get back what they lost. There is no reason to expect countries in possession of scarce goods to hold back. Why should they? Trade policy will be one of several quivers in their arsenal.

As we have seen, export restrictions can and will be used. Economics spell out that if supply goes down, prices go up. Raw-material producers may follow in the footstep of oil exporters to hike the price for exports of commodities while keeping the price for domestic consumption low. Export earnings will boom and lower real wages compared with other countries will improve competitiveness.

This is rewinding the past 100 years or more, when manufacturing nations enjoyed low food prices keeping wages down. The British economic boom in the 19th century is worth studying. Until 1846, the Corn Laws prohibited import of corn when the price was below a certain minimum. When the Corn Laws were repealed, prices started to fall and hit less than half of the earlier level in the 1880s. Imports took up more than 50% of total consumption compared with almost nil previously and real wages improved for British workers at the expense of corn exporters abroad, who were squeezed.

In reverse it will look like this: commodity exporters impose restrictions. The price goes up boosting export earnings. Low domestic prices on commodities financed by the higher export earnings enhance competitiveness in other economic sectors. Importing countries such as Britain, the rest of Europe, Japan, to a certain extent China and India and the US will see competitiveness eroded by higher prices pushing wage levels up and a deterioration of terms of trade eating into national income.

A cartel such as the Organization of Petroleum Exporting Countries (OPEC) works more or less like a combination of export restrictions and export tariffs. By agreeing to a high price guaranteed by manipulating output, demand forces prices up and the importers pay a higher price. OPEC was established when certain conditions, which we are going to see for a number of foodstuffs and raw materials, prevailed in the early 1970s: demand outstripping supply and a limited number of countries in control of output.

The world better brace itself for a totally new paradigm for international trade and trade policy triggered off by commodity exporters starting to play the game used against them to their advantage. Isn't fascinating that a decade or two from now item number one on a new trade round might be efforts to reduce restrictions and tariffs for export of commodities?

There are two more twists to it. According to reports, oil rich countries having no agricultural sector themselves are starting to buy farmland around the world to secure supply of food and avoid future high prices.

Saudi Arabia and the United Arab Emirates (UAE) are looking to Asia and Africa as opportunities for agricultural investments, Agence France Presse (AFP) reported this month. UAE President Sheikh Khalifa bin Zayed al-Nahayan was quoted as saying his country was interested in Kazakhstan "to diversify its sources of food supplies". The UAE imports about 85% of its food, the report said.

The UAE is considering buying more than 40,470 hectares of Pakistan farmland worth US$500 million, AFP said, citing press reports, adding that private firms such as Dubai-based Abraaj Capital have also reportedly been buying agricultural land in Pakistan.

It won't last long before the target countries in question guess the intention and it is unlikely that they will accept the consequences. After all it will deprive them of what could turn out to be the family silver. But how to prevent such investments in a world where international capital movements are free of restrictions? The answer is not far away; they may start to question the rules.

Australia has floated the idea to cap foreign investment in the country's resource companies at 49.6% obviously to maintain control over those valuable assets. There may be several reasons behind such considerations, but one of them could be that Australia wants to secure the option of export restrictions/duties if or when it is deemed suitable.

Domestically, food producers suddenly discover that scarcity endows them with power they did not enjoy in the past. Beginning in June, Europe saw fishermen blockade harbors in a number of countries and German farmers stopping the supply of milk. If you think these are isolated and one-offs events you will have to think again. They signal a power shift.

A tremendous battle of redistributing wealth and income inside and between countries is gaining momentum and will rule the domestic and international agenda for years even decades to come.

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