The Business Convention

Monday 27th April 2009

The ICC, Birmingham

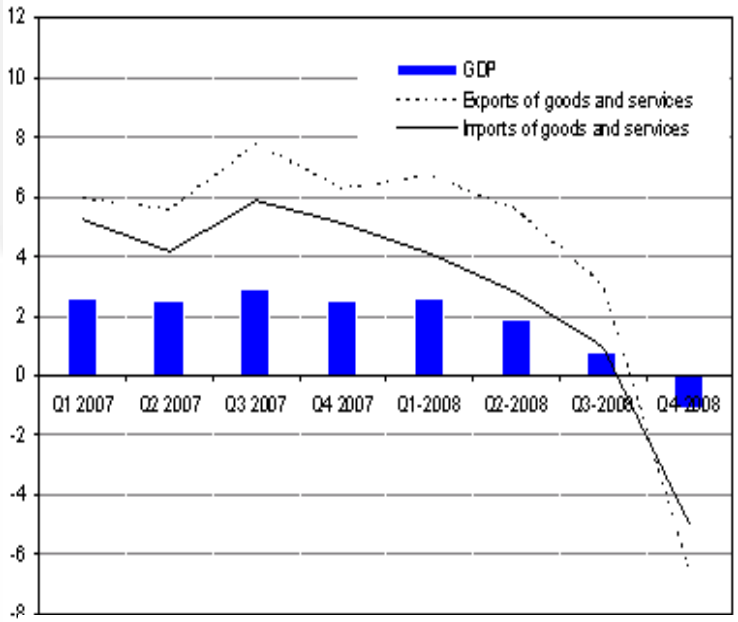
International Trade and the Single Market

By Milan Shah, President, Northamptonshire Chamber

NORTHAMPTONSHIRE Chamber

Contraction in Global Trade

Global Chamber movement is built on free and fair trade



Real GDP and Trade Growth in OECD Countries, OECD

- Sudden and synchronised fall
- First aggregate fall since 1982
- Sharp drop in oil price has contributed to fall in trade by value
- Global merchandise trade will shrink by 9% in 2009 (WTO)

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Trade Contraction: Reason 1

Contraction in trade credit…

- Less working capital available to lubricate international trade
- Estimated $100bn shortfall in global trade finance

…and credit insurance

- Paucity of credit insurance availability a key constraint to trade
- Greater counter-party risk amongst traders, so greater demand for payment guarantee based trade credit products (eg. letters of credit)
- Greater counter-party risk amongst financiers, so less supply

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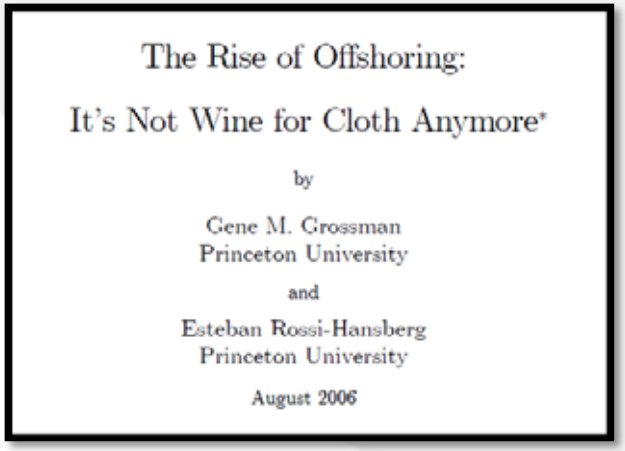
Trade Contraction: Reason 2

“Unbundled” international supply chains

- Complex international networks
- Decline in trade (in gross value terms) is a multiple of decline in demand
- Import costs critical in export competitiveness
  - mitigates benefit of fall in £ and prospects for export driven recovery


The Rise of Offshoring:

It’s Not Wine for Cloth Anymore*

by

Gene M. Grossman
Princeton University

and

Esteban Rossi-Hansberg
Princeton University

August 2006

PRIME MINISTER'S OFFICE
ECONOMIC COUNCIL OF FINLAND

eu2006.fi

20 September 2006

Richard Baldwin[1]

Globalisation: the great unbundling(s)

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Trade Contraction: Reason 3 ?

Protectionism

- Despite rhetoric of November 2008 G20…
- …and awareness of history: Smoot Hawley Act 1930
- Scope to increase actual applied tariff rates within current WTO maxima
- Effect of tariffs amplified, given globalised supply chains
- Indiscriminate tariffs can increases raw material / intermediate goods costs
- Non tariff barriers to trade: tighter licensing, anti dumping, trade prohibitions
- Conditions in fiscal stimulus and bailout packages
- “Murky” protectionism

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Single Market

- To businesses, the EU is primarily the internal market
- Single market in which to trade freely and without barriers
- Free movement of goods, services, persons and capital
- Enlarged and deepened over time
- Increase in GDP and employment rate relative to non-EU counterfactual
- Necessarily accompanied by:-
  - Social and regional policy agenda
  - EU structural funds

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Single Market

Must accommodate:-

- Extreme contraction in trade with third countries
- Heightened global protectionism
- Financial challenges: eg. fiscal deficits
- Social challenges: eg. unemployment

Therefore, requires flexibility:-

- Therefore, accelerate the elimination of any remaining barriers to a fully functioning and free internal market

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Business diplomacy

"Chambers of Commerce across the globe have been at the heart of international trade for generations, bringing the world closer together. In fact, there have been times in history when it seems that businesses were the only ones maintaining sensible relationships across borders." European Parliament of Enterprises, October 2008

Thank you.

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