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## **Protectionism Could Cost the Worldwide Economy \$10 Trillion in 2025**

### **New Report Released to G20 Shows That High Tariffs and Trade Restrictions Could Reduce Global GDP By \$10 Trillion per Year, Slowing Economic Recovery from the COVID-19 Crisis**

The global economy will lose up to \$10 trillion in GDP in 2025 unless governments repeal or reduce tariffs and nontariff barriers that currently obstruct global merchandise trade, according to a new report released today for G20 governments.

The report, titled *The \$10 Trillion Case for Open Trade*, was produced by experts at HSBC and Boston Consulting Group (BCG). Drawing on work prepared for the Business 20 (B20)—the forum of global business leaders providing policy recommendations to the G20—it quantifies the relative benefits and costs of open trade versus protectionism.

Using a proven model for analyzing the impact of trade flows on economic growth, the research team compared two scenarios of merchandise flows among the G20 countries. One scenario assumes a high level of open and rules-based trade, and the other assumes the maximum plausible level of trade restrictions, including a rise in average global tariffs, the continuation of tariffs associated with US-China trade tensions, and the implementation of few new trade-facilitating measures.

In the first year, the two scenarios have similar economic impacts, but then they diverge. Under the protectionist scenario, the value of traded goods levels off, and so does GDP. Under the open trade scenario, trade value grows by 2.0 to 2.6 percentage points per year, with GDP following at a growth rate of 1.8 to 2.3 percentage points per year. The research takes into account only merchandise trade. If services trade were included, the value of easing trade restrictions would be even more material.

“In a global economy that is already struggling with the impacts of the COVID-19 pandemic, our analysis shows that open trade delivers benefits to every country, as well as to the overall global economy.,” said Sukand Ramachandran, a BCG managing director and senior partner. “The additional growth we calculate from open trade translates into jobs around the world.”

According to the WTO, import-restrictive measures implemented since 2009 and still in force affect about 10.3% of G20 imports, worth about \$1.6 trillion.

#### **A Roadmap for G20 Action**

The report also lays out five steps that world leaders must take to maximize the health of the global economy over the next five years and beyond:

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1. **Strengthen international institutions**, including the WTO, so they can keep pace with the new challenges businesses face globally.
2. **Rethink the rules of trade** to create a better, more enforceable rulebook that rolls back protectionism, supports open markets, and ensures a level playing field globally.
3. **Ensure that technology fosters the growth of e-commerce and digital trade**, by developing infrastructure, skills, and universally accepted legal frameworks and standards for digital trade.
4. **Promote the export of services and nonphysical goods**, by reducing services trade restrictions, encouraging a common understanding on intellectual property regulation, adopting shared standards for data localization, and abolishing customs duties on electronic transmissions.
5. **Promote the positive effects of trade in society**, by aligning trade and investment rules to spur innovation, inclusive growth, and technologies that minimize harmful environmental impacts.

“The B20 Trade and Investment Taskforce has developed a consensus set of bold and ambitious policy recommendations for the G20 to adopt that chart a clear path for inclusive and sustainable growth,” said Natalie Blyth, HSBC’s global head of trade and receivables finance. “It’s critical that trade play its part in securing the post-COVID-19 economic recovery—and more open policies would give the global economy a head start measured in the trillions of dollars.”

## Media inquires

**Hyonjin Suh 02-2004-0882**

**hyonjinsuh@kr.hsbc.com**

## Notes to Editor

### Methodology

To assess the impact of trade policy on economic growth, we used the BCG Global Trade Model as a baseline to estimate G20 trade in merchandise flows. The formulas this model uses have consistently correlated with actual trade developments and economic growth rates. The five-year time horizon reflects recognition of the evolutionary nature of trade dynamics: they tend to reinforce themselves over time, becoming more extreme in the direction first chosen.

Then, based on historical and observed relationships between trade policy and trade values, we projected trade in merchandise value (exports only, to avoid double counting) and gross domestic product (GDP) for each G20 country and for the whole group under each scenario. We then estimated the GDP effect of each trade scenario, on the basis of the historical relationship between trade and GDP in each G20 country.

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