



Workshop on Developing Countries and the Global Crisis

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The Key Issues

- The G-20 have developed policies that appear to be leading to a nascent recovery that remains vulnerable.
- Recent signs raise the prospect of a new round of protectionism - this can only be effectively contained through continued dialogue and co-ordination.
- Managing a successful exit from current stimulus packages with rising unemployment while adapting to a new global economic structure will remain key policy challenges.
- G20 is in an ideal position to play a major role in promoting openness, especially during transitional periods.

Outcomes of the G20 Summits

Pledges include:

- Long term fiscal sustainability, price stability and preparation of credible exit strategies for crisis-related policy actions.
- Conduct policies cooperatively and act responsibly with respect to the impact on other countries.
- Promote global trade and investment by
 - i) avoiding new restrictions and notifying any such measures;
 - ii) minimising third-party impacts of domestic policy actions;
 - iii) agreeing to unconstrained international capital flows, especially to developing countries;
 - iv) agreeing to a \$250 bn package for trade and export finance
 - v) maintaining ODA flows; and
 - vi) completing the DDA.

Overview of Current Situation

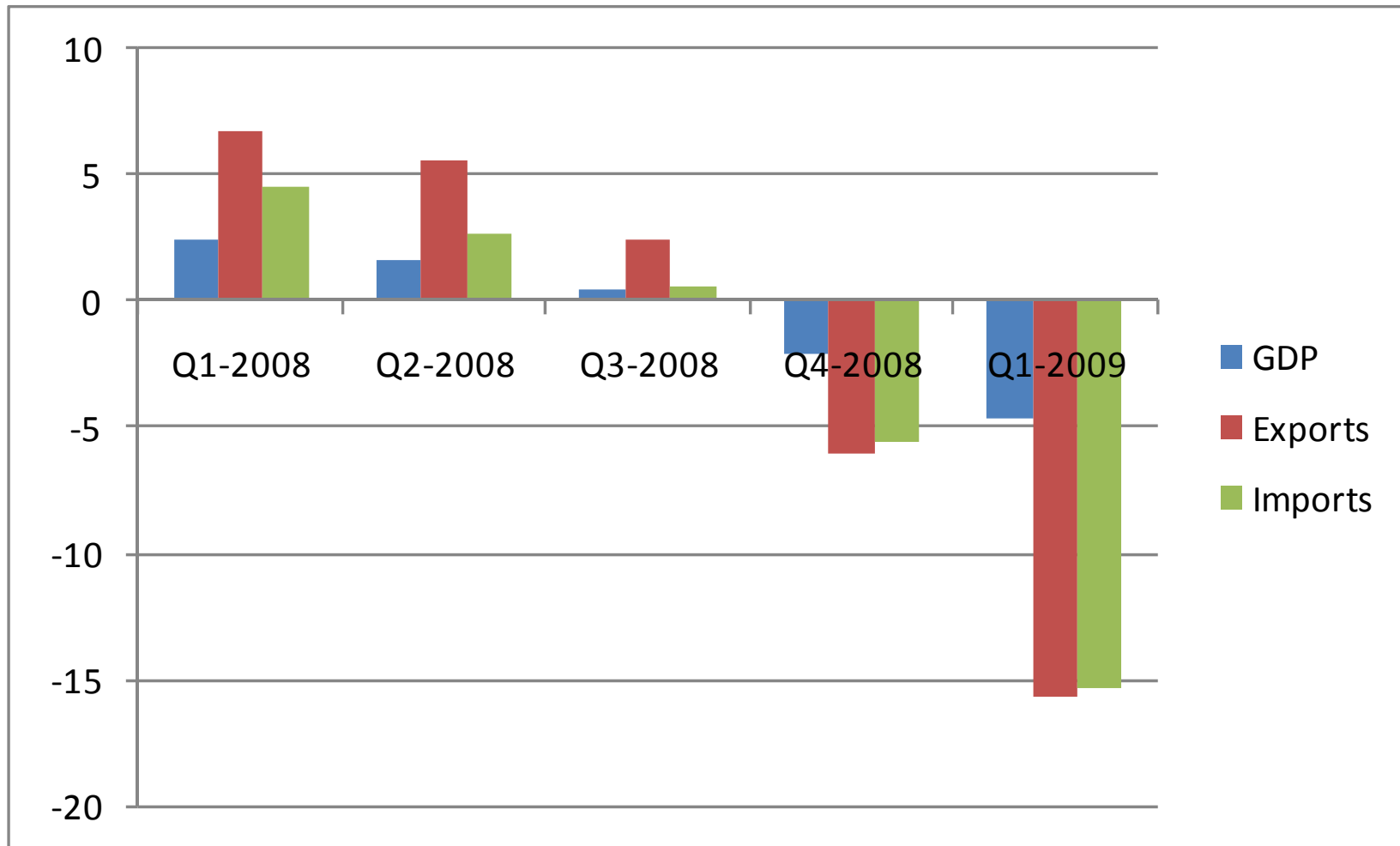


**Signs of stabilization are there,
but remain fragile**

- **Global trade remains down but rate of decline has slowed. Services have shown most resilience.**
- **FDI declines continue through 2009 but expected to expand moderately in 2010, gaining momentum into 2011.**
- **The OECD predicting major rebalancing of ownership structure in global industries.**

“Trade collapsed” but were there particular factors affecting trade during the crisis?

Y-o-y percentage change in volumes of GDP, exports and imports of goods and services, OECD area (volume)



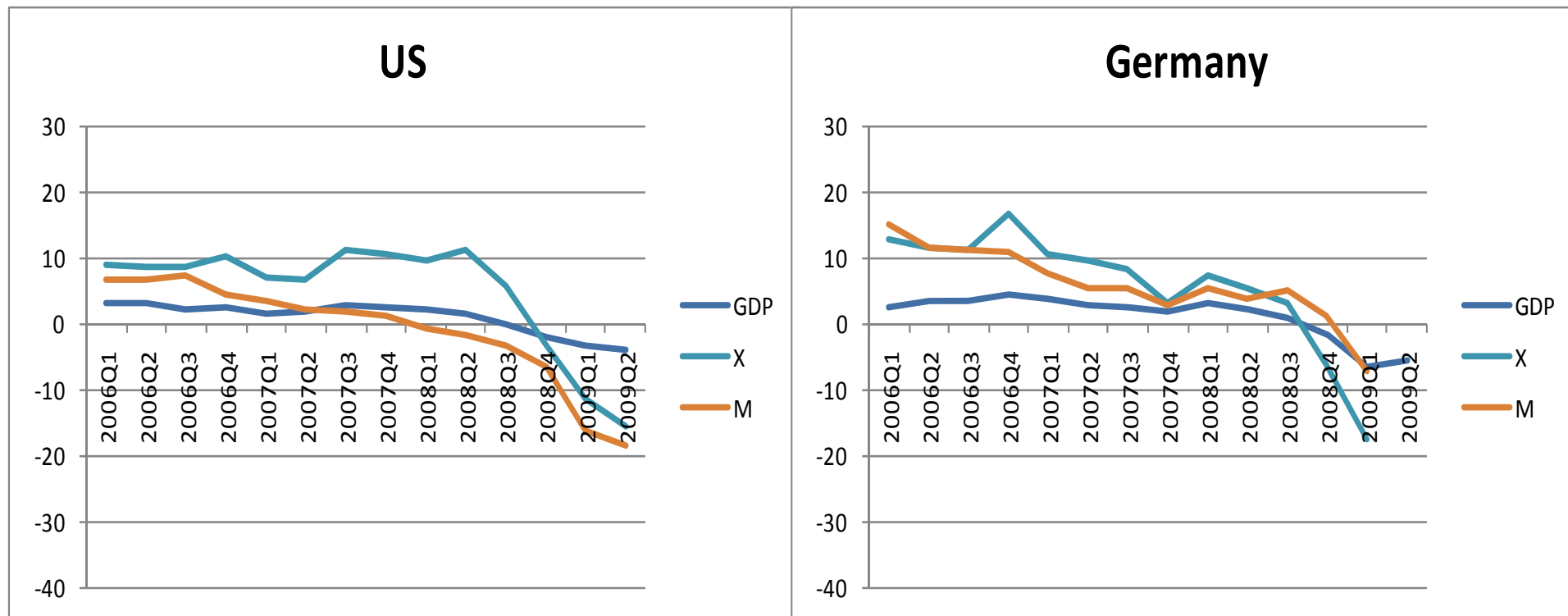
Source: OECD National Accounts Database, year-on-year change in volume estimates, fixed PPPs, OECD reference year, annual levels, seasonally adjusted

What caused trade to fall?

- Several factors were at work but the trade collapse was largely a consequence of falling demand.
- The tight credit environment has reduced demand both for consumer durables and investment (capital goods).
- Trade finance became scarcer, generally more expensive and selective, restricting exports & imports.
- Global supply chains have added to spread and synchronisation of global trade declines.
- Little or no impact from protectionist measures.

Demand has significantly contributed to the drop in trade but it cannot explain it fully...

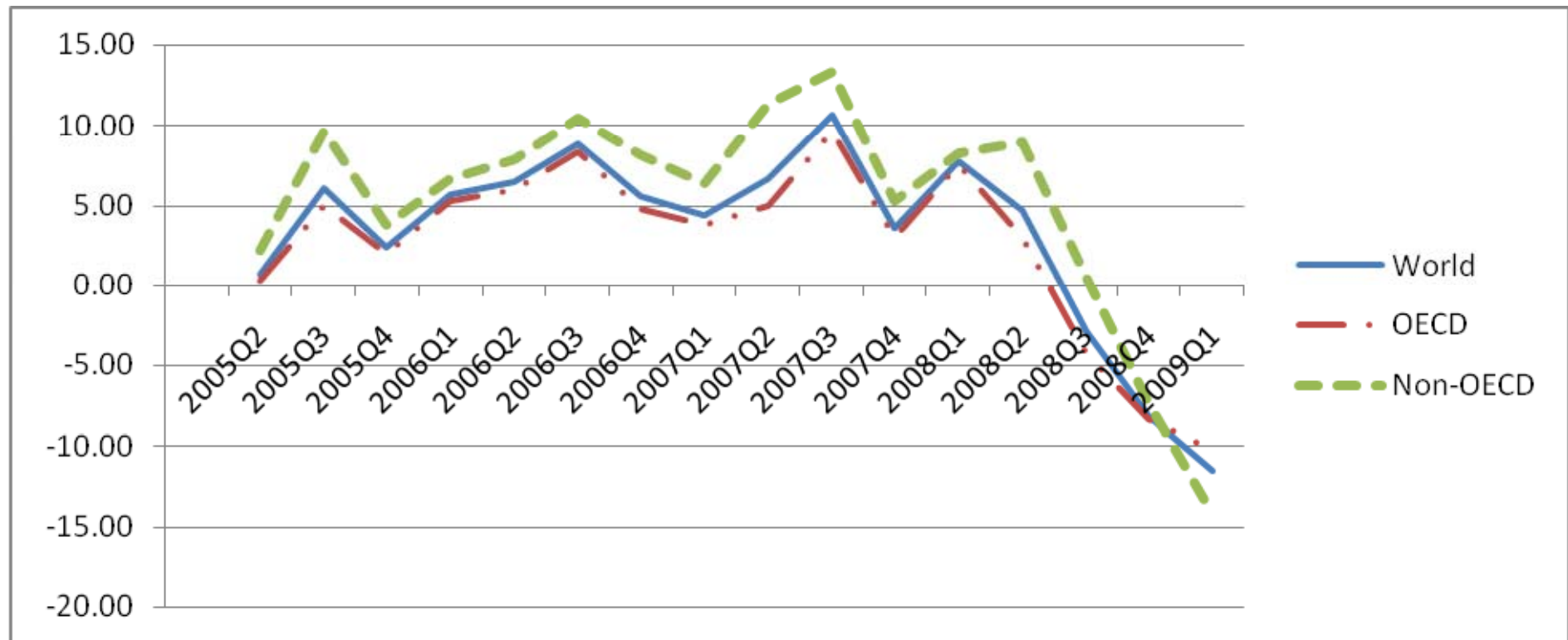
... and there were also significant differences in the sequence of events



Source: OECD National Accounts Database, authors' calculations

Trade finance availability becomes more important during crisis

Changes in short-term trade finance, q-o-q



Source: Berne Union

Policy Responses to the Economic Crisis

Direct trade instruments

- The share of imports targeted by new restrictive measures is small
- Measures are concentrated in sectors already subject to high barriers, textiles, steel, agriculture
- Targeted countries follow also patterns observed in the past
- There has been an increase in non-tariff measures and in resort to trade remedies such as anti-dumping and countervail
- There have also been trade opening measures with developing/ emerging economies more active

Stimulus Packages: Opportunities and Dangers



Investment provisions along with spending packages are key: long term recovery hinges on productive investment.

- Opportunity to invest in much needed infrastructure upgrades
- Opportunity to reinforce commitments to openness by government procurement processes
- Opportunity to shift resources into a more sustainable growth path.

A crisis too good to waste?



- There have been numerous calls to use stimulus money to shift the world's economies onto a “greener”, more sustainable path – particularly one that involves less dependency on fossil fuels and addresses the transport, water and sanitation needs of the poor.
- Many governments were already heading down this path before the crisis.
- Some 16% of spending under economic stimulus plans announced by February 2009 was in support of environmental objectives.
- OECD Governments underscored their commitment to in June 2009 by issuing a “Declaration on Green Growth”.

However, there are concerns

- Trade distorting impacts could be increasing with new round of stimulus packages targeted at specific industries.
- ‘Buy local’ provisions in many stimulus packages are raising further cries of protectionism.
- Concerns about size of government debt, currency pressures and longer term inflation.
- The competition distorting effects of programmes could be long lasting.

Protectionism

- **Protectionist pressures have been constrained, but with difficulty. The main concern now is rising unemployment.**
- **There are already signs that increased pressure is occurring (WTO and Global Trade Alert).**
- **Measures taken by national governments to stabilize their financial systems have been seen as protectionist.**
- **Other avenues may be exploited.**

T & E issues over longer term

- Tariffs and non-tariff barriers to trade in environmental goods & services remain moderately high. WTO negotiations on liberalizing such trade are stuck.
- Proposals to impose border-adjustment measures (taxes or permits) on goods imported from countries not undertaking “equivalent efforts” to mitigate their emissions of greenhouse gases.
- Meanwhile, the practice of labelling products with estimates of their life-cycle carbon emissions (“carbon footprinting”) is expanding quickly.



Next Steps

- **G20 action plan to maintain open markets**
 - The WTO monitoring system provides an experienced and proficient source which can enhance and inform the process.
- **G20 must make the completion of the Doha Round a top priority**
 - Experts agree Doha pre-requisite for a long term sustainable recovery.
- **G20 support for necessary restructuring**
 - Broad consensus that a rebalancing needs to take place and this will entail -sometimes major - adjustment costs across economies.