CURRENT ISSUES IN INTERNATIONAL TRADE POLICY:
THE ECONOMIC CRISIS, INTEGRATING THE POORER COUNTRIES AND CLIMATE CHANGE

Presented by Raúl Torres Troconis
WTO Visiting Fellow - Institute for International Trade, University of Adelaide
Counsellor - Development Division, World Trade Organization

April 2010
Thank you very much for your invitation to speak at this trade policy course. During this course you will become familiar with many of the key issues and challenges on the international trade policy agenda and gain an understanding of the functioning of the WTO and the multilateral trading system. The issues that are being discussed throughout these three days are extremely relevant in the background of the current economic situation and the emerging challenges for the global community. This is why in my intervention tonight I will attempt to bring you the latest thinking from the WTO on what is probably the three most important issues facing the international community today. First, I will touch upon the economic crisis, its effects on the poorest countries, and the governance changes it has brought about. Second, I will speak about the multilateral trading system and how it can help its poorest members through a swift conclusion of the Doha Round and Aid for Trade interventions. Finally, I will talk about the complex issue of the relation between trade and climate change and what the multilateral trading system can and cannot do on this subject. In all of these three topics there is one common thread and that is the importance of finishing the Doha Round of negotiations and of coordinated multilateral action to provide global solutions to global problems.

The Economic Crisis and the Emergence of a New Governance Architecture

In big or small economies, ranging from OECD economies to single commodity exporting small economies, the effect of the crisis has been devastating. Of course, while no economy has been spared, it is developing countries, particularly the least developed amongst them that have more acutely felt its full impact. These are countries whose ability to fight the crisis is more limited, given their limited financial resources — they cannot afford multibillion dollar stimulus packages to bail out struggling enterprises or expand their social safety nets to help those that lost their jobs — and therefore are very much at the mercy of the global economic system for their recovery. We now also have data that confirms the negative impact that the crisis has had in the achievement by the Least Developed Countries of their development targets in the UN’s Millennium Development Goals.

The effects of the economic crisis have been compounded by the previous crisis that came before it, like the food and energy prices crisis. All this in an ambience where the effects of climate change are already starting to be felt, threatening the poorer and most vulnerable populations.

The family of the International Organisations, and the WTO, have taken steps to help minimise the impact of the crisis, bearing in mind the high trade dependence of many developing countries economies.

First, the WTO has worked to keep trade flowing, by mobilising efforts into trade finance. Second, it has helped Members fight against protectionist pressures by ensuring transparency in the measures taken by them to respond to the crisis. Thirdly, it has continued to mobilise international support towards developing countries to boost their productive and trade capacity through increased aid for trade.

The WTO has also responded to the crisis by cautioning governments against beggar-thy-neighbour policies, which have been tried in the past, in similar situations, and which have shown their gross inadequacy. It has cautioned against protectionism through a monitoring mechanism of trade restrictions that it enacted in the immediate wake of the financial crisis. A WTO “Radar Screen,” if you will.
What this radar shows so far is an increase in “low-intensity” protectionism; in other words, a large number of measures whose intensity has so far remained constrained. In fact the number of trade-restricting measures applied by governments has actually gone down in late 2009 and early 2010. But there should be no complacency. Rising unemployment will continue to usher in the inevitable protectionist pressures, and due to its "lag" with other economic indicators it may continue to rise in 2010 and in all probability 2011.

Most prognostications now suggest that we will get small positive numbers for trade growth in 2010. The global recovery is proceeding at varying speed in different regions, so again we cannot let down our guard. Recovery has been tepid in advanced economies, but more solid in most emerging and developing countries. The latest projections from the IMF’s World Economic Outlook expect world growth to be around 4.2% in 2010 and 4.3% in 2011. Among advanced economies, the United States is off to a better start (3.1% in 2010) than Japan (1.9%) and the euro zone (1%). By now you probably all have read in the papers that Australia was the only advanced economy that posted positive growth numbers in 2009, this growth is expected to increase in 2010 to 3% and to 3.5% in 2011. Among the developing world, Asia is leading the recovery (8%), while many European and CIS countries are lagging behind (2%). This multi-speed recovery is expected to continue in 2011 with growth of 4.3% globally.

Specifically in the area of international trade things are also starting to look better. The 2009 figures were shocking with a 12% contraction in the volume of world merchandise trade, the largest drop in more than 70 years and more than was predicted by most economists. Services trade also suffered with a decline of 13% in 2009. Thankfully, we now know that most of the fall in international trade is attributable to a collapse in demand, accentuated by a shortage of trade finance, and not protectionist measures. For 2010, provided there are no further major shocks in the global economy, both trade in goods and in services should start to grow again but we will not return to pre-crisis levels this year. The WTO Secretariat estimates that world exports in volume terms will grow by 9.5%, this year, while developed economies’ exports will expand 7.5% and the rest of the world (developing economies plus the CIS) will advance 11%. This projection assumed a global GDP growth of 2.9% in 2010, but as we have seen the IMF has revised their figures to 4.2%, so hopefully trade volumes will also be higher than expected.

Thus, the current crisis will end but it will have changed the world, and against the background of a world already in an important phase of transformation, these new realities will challenge the ingenuity and commitment of policy-makers across the globe.

The crisis, however, has shown that multilateral cooperation is needed more than ever before, including in trade, and in that connection the completion of the Doha Round should be a priority. Countries must act collectively to send the right signals and establish a favourable trade environment for a sustainable recovery for all. Moreover, the crisis has also shown the value of the Multilateral Trading System as insurance against protectionism, completing the Doha Round would serve increase the coverage of this insurance policy.

Another consequence of the crisis is that it has exposed the limitations of global governance to tackle problems requiring quick and effective global solutions. This illustrates the need for a new architecture of governance and of global cooperation to emerge, providing a framework for effective multilateral engagement. One cannot ignore the significance of the establishment of the G-20 as the gravity centre in the provision of political leadership and policy direction. And I note that the G-20 is only the centre of gravity because the rest of the constellation of countries represented in the United Nations, or the G-192, needs to play its role also as a forum providing accountability of the actions and measures of the G-20 and the international
organisations acting in a coherent manner providing their expertise and specialized inputs. Acting in this manner is crucial if we want to improve legitimacy, efficiency and coherence.

In the WTO we are very much aware that we now face new challenges, including managing the relationship between trade and climate change. This is an important issue that we must attend to, nevertheless, as they say in English "first things first", we must complete the current Doha Round. Not just because a successful conclusion of the Doha Round offers an attractive global stimulus package and an important signal to the world economy. It is also that systemic integrity demands that we finish what we started. The WTO cannot credibly embrace new challenges without settling the current agenda.

Moreover, the Doha Round also has a role to play in tackling issues of climate change. Let us all recall that the WTO has an environmental negotiation taking place as we speak. Part of the Doha Round of trade negotiations includes a chapter to accelerate market opening for environmentally friendly goods and services. Many climate-friendly goods and services are being penalized upon importation, rather than encouraged, and this is a situation that needs to be changed. A successful conclusion of the WTO negotiations will help improve access to climate-friendly goods and technologies for developed and developing countries alike.

The Multilateral Trading System and Helping the Bottom Billion

Another issue which is of pressing relevance to the WTO and the multilateral community is assisting the poorest nations in our midst, or the bottom billion which is the term that has been coined by Professor Collier of Oxford University. For these countries climate change is and will be an enormous challenge, but it also opens new opportunities.

As Professor Collier has argued, the bottom billion have to a large extent been left behind by the train of globalization. This need not be this way forever; climate change brings about a paradigm shift in the world economy. As I said before, climate change poses daunting development challenges to developing countries but it also calls for new ways of doing business, new goods and services for growth to be sustainable. These new opportunities will be accessible to the most marginalized countries, including those in the bottom billion. But taking advantage of these opportunities will not be easy, since at the moment there is a considerable problem of access to technology in the least developed countries. Indeed, more research is needed on how trade and trade opening contribute to the development and diffusion of climate-friendly technology and what instruments can be used to ensure that developing countries can acquire the technologies necessary to develop the marketable products and services in this area. Since it is predominantly private companies that retain ownership of various technologies, it is relevant to identify ways within the private sector, such as foreign direct investment, licence or royalty agreements and different forms of cooperation arrangements, which can facilitate technology transfer. Moreover, bilateral and multilateral technical assistance programmes can play a key role in technology transfer, and this also includes the Aid for Trade initiative.

Countries in the bottom billion also face the challenge of increased competition because of globalization, in particular with more advanced developing countries. The development and utilization of productive capacities should be placed at the heart of national and international policies to combat poverty. Export supply capability is only one aspect of this. It is important to diversify and move up the value chain. Therefore, there is a need to have domestic poverty reduction and economic growth strategies coupled with a specific set of international support measures, including creation of a conducive environment leading to value-addition, employment creation, technology and knowledge transfer.
Let me now give another example of how the WTO and in particular the Doha Round can contribute to improve the situation in the bottom billion. Professor Collier has rightly identified the landlocked developing countries as suffering from a particular disadvantage or what he calls a "trap". He makes the argument that one of the particular problems landlocked developing countries face is that they do not have the leverage to impose measures on neighbouring countries to help them reduce transport costs. One of the areas where we have been able to make the most progress in the Doha Round is that of Trade Facilitation. A WTO Agreement on Trade Facilitation with ambitious and binding rules will give the landlocked developing countries the leverage they lack. Now, due to the principle under which these negotiations operate, which is that of a single undertaking, a swift conclusion to the round remains the best means to capture the progress we have made in the trade facilitation area and deliver in this very important issue for some of the countries in the bottom billion.

The landlocked developing countries provide another example of how the work of the WTO and the other multilateral institutions is important for the bottom billion; this is the area of Aid for Trade in infrastructure development. The other main problem of being landlocked is that the transport links necessary to get your goods to your export markets are not entirely under your control. One of the conclusions from the 2nd Global Review on Aid for Trade in July 2009 was the need to pay particular attention to the regional dimension and move from commitment to implementation of projects such as the North-South corridor linking 8 countries of Eastern and Southern Africa – of which 4 are landlocked. These types of regional projects will contribute greatly to ensure that landlocked-country goods are able to move swiftly, not just from the factory to the border but beyond to ports in the transit countries, significantly reducing transport costs and increasing competitiveness.

Now, I am not saying that all of the problems constraining trade integration of the bottom billion are going to be solved through Aid for Trade interventions. Although infrastructure and supply side capacity are important, one cannot put all eggs in one basket. There is the need to develop markets for the bottom billion that are closer to home. In this area, although there has been an enormous proliferation of regional trade arrangements, locking-in the liberalization of markets at the multilateral level is of great importance. Hence, concluding the DDA will create new trade opportunities for developing countries not just in the markets of the developed countries, but also in the markets of other developing countries.

Trade and Climate Change, What Can the MTS Do?
Let me now turn to the specific issue of trade and climate change. The climate crisis that we are witnessing today is the single biggest challenge to civilization as we know it. Responding to that crisis is urgent, and is a top priority on the international agenda. Because that crisis is so serious, responding to it requires that we unleash all our resourcefulness and creativity.

The relationship between trade and climate change must not exclusively be viewed through a negative prism, there is tremendous scope for complementarity between a climate agenda and a trade agenda. Climate Change intersects with international trade in a multitude of different ways. While the WTO does not have rules that are specific to energy or to climate change per se, there is no doubt that the rules of the multilateral trading system as a whole are indeed relevant to climate change.

There are many different perceptions of what the trading system ought to do on climate change. While some would like to see the trading system curb its own “carbon footprint,” through the greenhouse gas emissions it generates in the course of the production,
international transportation, and consumption of traded goods and services; others are more interested in how they can preserve their own competitiveness under a stringent climate change mitigation regime.

More specifically, they would like to impose an economic cost on imported products at their borders equivalent to the one they suffer in curbing their own emissions. In other words, a “levelling of the playing field” of sorts, based on an importing country's perception of how that field may best be levelled.

Naturally, there are many different ideas floating on what these “offsetting” measures may be, with most of the discussion focussing on countries' most trade-exposed, energy-intensive, economic sectors like iron and steel, and aluminium. For instance, while some policy-makers are considering the imposition of domestic carbon taxes, with adjustment for those taxes at their border; others are contemplating emission cap-and-trade systems, with an obligation upon importers to participate in those systems.

Yet another set of policy-makers would prefer to focus on what is most immediately “deliverable” by the trading system in terms of the fight against climate change. And by this, they mean the opening of markets to environmental goods and services; in particular to those that are relevant to climate change, through the ongoing Doha Round of trade negotiations, which I already talked about.

These are but some of the ways in which some would position the multilateral trading system on the issue of climate change. Personally, I am of the firm conviction that the relationship between international trade — and indeed the WTO — and climate change, would be best defined by a consensual comprehensive international accord on climate change that successfully embraces all major players. Unfortunately this was not fully achieved in the Copenhagen summit.

So, until a truly global consensus emerges on how best to tackle the issue of climate change, WTO Members will continue to hold different views on what the multilateral trading system can and must do on this subject, and may act in accordance to their views. However, the more countries move toward a multilateral framework on climate change and border measures, the more unilateral measures will be difficult to justify.

**Conclusion**

One of the reasons why I have put so much emphasis tonight on the need to conclude the Doha Round is that, besides all the benefits that the round itself could bring in terms of increased trade, it will reinforce multilateral cooperation which will be critical to tackle urgent policy matters outside the current negotiating agenda. Not concluding the DDA will create an enormous rift of mistrust between the developed and developing countries. This will in turn have a negative impact on the likelihood of future international cooperation to address issues that have large cross-border externalities. Climate change is of course an obvious example where this cooperation is needed, but it is not the only one. Other issues that may require multilateral attention - where international trade may have a role to play – are: managing increasing prices and scarcity of some raw materials, energy and foodstuffs; addressing global imbalances in population growth and utilization of resources; and ensuring coherence between regional and multilateral approaches to trade cooperation and development.