

THE ECONOMIC AND FINANCIAL CRISIS AND TRADE-RELATED DEVELOPMENT UNDER THE WTO UMBRELLA

KATERINA RIHOVA

Law Faculty, Masaryk University, Czech Republic

Abstract in original language:

Ekonomická a finanční krize-dvě slova, která otřásají současnou politickou scénou po celém světě a která zaplňují první strany předních novin a časopisů. V této souvislosti jsme se stali svědky nejhlubšího ekonomického propadu od druhé světové války. Příčina současné ekonomické a finanční krize byla v minulosti již mnohokrát rozebírána. Mnohem důležitější je však analyzovat její následky a dopad na chování členů WTO jako světových obchodních hráčů.

Key words in original language:

Ekonomická a finanční krize, Světová obchodní organizace, ekonomický propad, ochranářské prostředky, Doha Round, summit G20, globalizace, pokles globálního obchodu, vývoj spojený s mezinárodním obchodem, následky spojené s mezinárodním obchodem

Abstract:

Economic and financial crisis-two words which are shaking with current political situation all over the world and which are filling up the front pages of major newspapers and magazines. We have been witness to the deepest global economic downturn since World War II. The reason of current economic and financial crisis has been the subject of discussion already for some time, but what is nowadays unambiguously more important are its consequences and impact on behavior of WTO Members as world trade players

Key words:

Economic and Financial Crisis, World Trade Organization, Economic Downturn, Protectionist Measures, Doha Round, Summit G20, Globalization, the Fall of Global Trade, Trade-Related Development, Trade Connected Consequences

1. INTRODUCTION

Economic and financial crisis—two words which are shaking with current political situation all over the world and which are filling the front pages of major newspapers and magazines. We have been witness to the deepest global economic downturn since World War II. Maybe the most poignant reason of the crisis can be found in the text of R.V.Kanoria. According to this author the crisis is the result of greed and indiscriminate lending by financial institutions and absence of prudent financial regulation, combined with a „herd instinct“¹. The reason of current economic and financial crisis has been the subject of discussion already for some time, but what is nowadays indisputably more important are its consequences and impact on behaviour of WTO Members as world trade players. The Doha Round is famous for its inability to be successfully finished in already so many artificial deadlines because of the

¹ Kanoria, R.V. Protectionism and the crisis, in What world leaders must do to halt the spread of protectionism, edited by Richard Baldwin and Simon Evenett, Geneva: The Graduate Institute, 2008, p. 19.

WTO Members lack of political will to find compromises and collective way. It was launched as an act of post 9/11 international solidarity with many open question marks.

Regarding the crisis, the behaviour of WTO Members is truly reverse. As a common answer to the current situation, trade barriers around the world are going up.

2. THE TRADE RELATED DEVELOPMENT

In spite of the assurance of G20 Members during the Washington summit last November and London summit meeting last month to protect free trade, 47 protective measures were adopted by 17 of G20 members since the Washington summit². The form of used trade-distorting measures varies from tariff increases, more strict import standards, bans, restrictive import licensing, anti-dumping actions, discriminatory government procurement, undervalued exchange rates, environmentally motivated trade restrictions, to subsidies and so called famous “stimulus packages” as state aid. Using some of these measures doesn’t have to breach current obligations of WTO Members. In fact, the wide spectrum of new protectionist measures share according some experts two common features – they are WTO-legal and largely unaddressed by the ongoing Doha Round.³ The risk exists as long as there continues to be significant scope for WTO Members to increase their applied levels of tariffs and trade-distorting subsidies without breaching their bound rates or other relevant WTO disciplines.

Some experts already proposed the launch of so called “Crisis Round”, which would aim to hold the line on protectionism and would be completed in 12 months⁴. Some countries have also proposed a „standstill“ principle, encouraging other not to increase protectionism. As a way of example Members can legally raise applied tariffs up to the bound levels or use safeguards or antidumping measures. The French bailouts or US „Buy American“ clause in the US stimulus package have been seen by many experts on the thin edge of protectionist wedge. South Africa has not indicated any obvious protectionist measures, but it would encourage „buy local“ system of governments procurement as a part of the response plan. On the other hand, some of the countries take advantage from the globalization and interdependency. They refuse to impose protectionist measures, because it would raise their own prices and it could cause other undesirable side effects.

The WTO has forecasted that global trade will fall of by 9 % in the year 2009, which is one of the steepest drop in the history of past 80 years of international trade⁵. The fall of the world trade is partly due to globalisation. Products now contain parts from all over the world. Similar prediction can be applied also to FDI. The year 2008 clearly marked the end of a growth cycle in international investment that started in 2004⁶. The financial and economic crisis is the well-timed period for various open trade unfriendly lobbyists and other

² http://www.nytimes.com/2009/03/23/world/23trade.html?_r=1&emc=eta1

³ <http://www.voxeu.org/index.php?q=node/3367>

⁴ <http://www.voxeu.org/index.php?q=node/3367>

⁵ http://www.economist.com/displaystory.cfm?story_id=13362879

⁶ Assessing the Impact of the Current Financial and Economic Crisis on Global FDI Flows, Geneva: UNCTAD, 2009, p. vii.

economically insecure populations which will put pressure on the world leaders. The surge of protectionism could even more hinder the Doha Round negotiations. The decrease in economic activity has already created new macroeconomic sources of protectionist pressure. Many protectionists measures can be hidden behind the climate debate and take green face. The G20 agreed to refrain from raising new barriers to investment or to trade in goods and services regardless of whether the measures complied with trade laws. Let's hope that WTO will somehow keep the situations under control and Members will not move to the trade wars which could ruin more than 60 years of trade liberalizing efforts. The situation is constantly monitored by the Trade Policy Review Body which undertook a regular review of developments in the international trading environment which are having an impact on the multilateral trading system.

In January 2009 has the DG Pascal Lamy issued first important report about the financial and economic crisis and trade-related developments. This report provided WTO Members with background information on trade-related developments that have occurred since the third-quarter of 2008 as a result of, or in the context of, the financial crisis and its impact on the global economy. In this report is emphasized the importance of keeping open markets and not to solve the burdensome situation by imposing trade-restrictive measures. According to this report most WTO Members appeared to have successfully kept domestic protectionist measures under control and evidence of increases in tariffs and non-tariff barriers, or increased resort to trade-remedy actions, has been rather limited. The most significant actions taken by OECD countries in response to the financial and economic crisis have mostly involved financial support to banks, other financial institutions and certain industries, notably automobile industry. However in the latest report issued in March 2009, the DG Pascal Lamy addressed the issue, that many WTO Members were facing increased pressure to take protectionist actions and the pressure was not kept under the control anymore. Since January 2009 the increase in tariffs and non-tariff barriers was significant.

India raised tariffs on some steel products and issued notifications restricting imports of some steel products in November 2008. Mercosur members agreed to raise their common external tariff by 5 percentage points in average on a number of specific items as wine, peaches, dairy products, textiles, leather and wood furniture. Ecuador raised its tariffs on 940 products by between 5 and 20 percentage points. Only five ports and certain international airports are to serve as entry points for certain imports in Indonesia since December 2008. Argentina has recently imposed non-automatic licensing requirements on products considered as sensitive. The Republic of Korea raised tariffs on imports of crude oil. The EC re-introduced export subsidies for butter, cheese and whole and skim milk powder from January 2009. Russia adopted measures to support domestic car manufactures including state subsidies and it raised duties on cars and trucks. China has banned imports of Irish pork and Italian brandy. Apart of above mentioned, many other measures were performed.

However this development is nothing new. Similar sudden increase in protectionist pressures was recorded many times in the history. One of the most famous cases is Smoot-Hawley Bill from 1930 or period after 1974/1975 recession⁷.

⁷ Blackhurst, R., Marian, N., Tumlrir, J. Trade Liberalization, Protectionism and Interdependence: GATT Studies in International Trade, Geneve: GATT, 1977, p. 44.

3. CONCLUSION

The financial and economic crisis occurred already at a time when economic growth was already showing signs of slowing down in the main OECD countries. Thus, instead of moderate slowdown a sharp decline in the rate of growth and recession in many OECD countries appeared. Credit to consumers and business sector was restricted. As a consequence, this spread quickly to emerging market economies and other developing countries in form of export demand fall. The export opportunities for developing countries have rapidly diminished. Instead of maintaining the trade openness and strengthening the economies of scale, protectionist measures appeared. As a common answer to the current financial and economic crisis, trade barriers around the world are going up. In spite of the assurance of G20 Members during the Washington summit last November and London summit meeting last month to protect free trade, 47 protective measures were adopted by 17 of G20 members since the Washington summit. As the financial and economic crisis has spread all over the world, governments have started to provide significant bailout programmes for troubled banks, financial institutions and certain industries together with other monetary and fiscal policy initiatives. Many WTO Members were facing increased pressure to take protectionist actions. In January 2009, most WTO Members appeared to have successfully kept these pressures under the control however since then the increase in evidence tariffs and non-tariff barriers was significant.

The World Trade Organization continues to monitor whether its Members are slipping into protectionism as a part of their response to the economic and financial crisis. The temptation is big. Since January 2009 several reports concerning WTO Members behaviour and various measures have been issued. These reports are actually surveys of the policies which WTO Members have adopted, whether in the context of their fiscal stimulus packages, or independently.

The WTO Members should not respond to the current crisis by raising the protectionist measures. To maintain an open international trading system the rights solution is to expand the economics of scale is the rights solution for that difficult situation. Some protectionist measures can be beneficial for the particular country in short run, however by its behaviour all the trading partners will be harmed and this harm will spread as a domino effect. The surge of protectionism could also even more decelerate the Doha Round negotiations. As already Pascal Lamy emphasized, the adoption of protectionist measures would only make the situation worse. It would also diminish prospects for an early recovery in activity and provoke retaliatory action by other that would compound the damage caused⁸. In this context, it has become more urgent for the WTO to strengthen multilateral disciplines that will reduce the scope for increased trade restriction by reaching an early agreement on modalities in NAMA and Agriculture. According to Pascal Lamy is the Doha Development Agenda the best stimulus package itself⁹. Hopefully, there will be no Smoot-Hawley bill raising tariffs at the onset of the depression as happened in the history. This global crisis is asking for global trade-friendly and open-minded solutions.

⁸ <http://www.engineeringnews.co.za/article/wto-continues-to-probe-whether-countries-are-indeed-retreating-into-protectionism-2009-03-19>

⁹ http://www.wto.org/english/tratop_e/tpr_e/tpr_e.htm

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Reviewer:

Josep Bosch

Contact – email:

santaventino@centrum.cz