



WORLD TRADE ORGANIZATION

Financial Crisis

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Introduction and Summary of the Problem

The financial crisis of 2008 quickly grew into a global economic crisis, resulting in sharp drops in consumer demand and a severe liquidity crunch, bringing down trade volume. As the demand for manufactured goods lies largely on credit, the demand for these goods have declined significantly in the wake of the credit crunch. Services exports, particularly transportation and tourism, have also been adversely affected by the financial crisis. The credit crisis will remain a retarding factor in the recovery of the global economy. The WTO is therefore intrinsically entwined with the crisis, and must determine a short and long-term response to the recent economic events.

Focus of the Debate

Role of the WTO in Response to a Crisis

In a recent convention in September 2009, the WTO addressed its role in response to the financial crisis. Some of the questions raised were, “Do the interventions of governments in the real economy over the past year raise concerns under WTO subsidy rules? Do WTO rules discipline the policy autonomy of governments that undertake rescue operations in the financial services sector? What role do trade remedies play in the context of the current crisis – are they a legitimate safety valve or a problem in their own right? [And finally,] Will the global crisis have a negative impact on the institutional credibility of the WTO and on the continued adherence of members to the basic principles on which the multilateral trading system is based?” In summary, would changing the rules of the WTO in order to salvage countries have ultimate negative repercussions? The short-term and long-term effects of WTO initiatives must be examined.

Impact of the Financial Crisis on the Least Developed Countries

In the Doha Declaration, the WTO commits itself “to addressing the marginalization of least developed countries in international trade.” Because least developed countries (LDCs) often depend on fewer than five commodities for their export trades, they are extremely vulnerable to upsets in the global trading system. As soon as the crisis became apparent in September 2008, global trade declined at a monthly rate of 3 per cent. The full repercussions of the crisis are still working their way through the LDC economies: global trade declined by 10 per cent in 2009. While the worst of the crisis is over, the effects are long lasting. Challenges facing LDCs include the reduction in demand for exports, large fluctuations in commodity prices, contraction of private capital flows towards LDCs, reduction in overseas aid. The collapse of oil and commodity prices was particularly severe on LDCs, as fuel and minerals are large exports. The WTO must strengthen its current efforts to improve market access for LDC exports, specifically those negotiated in the Doha Development Agenda, along with the Aid for Trade and the Enhanced Integrated Framework for LDCs.

Recent Developments

Speech: Lamy states that new banking rules must be non-discriminatory

In a speech at the Conference on the New Global Trading System in the Post-Crisis Era in December 2009, Director-General Pascal Lamy emphasized the importance that “re-regulation be applied in a non-discriminatory manner, avoiding any form of ‘re-nationalization’ of lending.” The balance between national and foreign-owned institutions must be maintained on a “level playing field.” Lamy places particular pressure on the Doha Round, as success would not only boost consumer confidence, but also strengthen governments as they “confront protectionist pressures.”

Speech: Trade is the stimulus package available to developing countries

In his speech to the UNIDO LDC Conference in Vienna on December 3, 2009, Director-General Lamy points his attention towards least developed countries, insisting on a “more open trading system” that would include the weaker economies. Lamy recognizes the clear decline in LDC economies during 2009, as delineated in empirical data. LDCs do not have the capacity to provide the same government bailouts that industrialized countries do. This is where the WTO can step in and provide aid: according to Lamy, “trade is the stimulus package available to developing countries and that it has to be part and parcel of the economic recovery effort for growth to be sustainable.” Open trade is therefore the answer to the LDCs’ economic disadvantage.

Questions a Resolution Should Address

How best can the WTO tackle the negative repercussions from the financial crisis? The WTO, as an organization that promotes free trade, must be careful in offering new legislation to counteract the crisis. The ultimate goal should be to maintain a level playing field between national and foreign-owned institutions: the WTO must negotiate between these two. In addition, the WTO must remain wary of protectionism, [measures taken to protect the domestic economy at the cost of the international economy, such as trade barriers], pressures for which become all the more stronger during a financial crisis. Lastly, the WTO must take up its responsibility to ensure that the LDCs continue to have access to global markets, and be wary of the differing abilities and needs of LDCs and industrialized countries.

Conclusion

There are indications that the recovery from the crisis will last well into 2010, if not beyond. The WTO must hold multiple perspectives in its mind as it moves forward with its legislation: how to balance solutions in the short and long term, how to balance domestic and international interests, and how to resolve tensions between developed and least developed countries. The WTO, as an international body, holds an enormous responsibility towards leading the efforts in offsetting the adverse effects of the credit crisis in 2010.

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