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Impact of the current global financial and economic crisis on LDCs' trade: how can the Multilateral Trading System support LDCs in coping with the crisis?

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The problem

As we have heard, the world economy remains fragile and the economic outlook is still uncertain. In spite of some encouraging signs lately, the crisis is far from over, in particular in many developing countries and the least-developed among them, that are now starting to feel its full force on their trade and economic growth. The collapse of aggregate demand is still working its way through the global economy while unemployment continues to increase. The global economy continues to contract, by a forecasted 2.9 per cent in 2009 according to the World Bank. As far as trade is concerned, the latest WTO Secretariat forecast is a contracting of merchandise trade of 10 per cent in 2009 in volume terms, down from our previous estimate of 9 per cent; a 14 per cent decline for developed economies, and a 7 per cent decline for developing countries.

The crisis we are seeing is basically a lack-of-demand crisis; the results in terms of trade are massive. The global downturn has led to a decline in demand, a decline in trade, thus in exports, also from LDCs, a decline in commodity prices, which is an important export segment fort LDCs, and, importantly, a decline in remittances, a considerable source of income for many LDCs. The tourism industry is also in recession. A sharp reduction in available trade finance is another factor that contributed to declining trade figures: traders are ready to sell, or buy but cannot, because they get no credit. Trade finance is the oil of global commerce. It is vital that developments in this sector are being monitored, using our networks of banks, governments and international institutions. ODA on the other hand shows a different picture where commitments are being upheld and in the recent AfT Global Review, held on 6 and 7 July, at the WTO, even some new pledges were made.

What can WTO do to support LDCs in coping with the crisis?

There should be no doubt that the most significant thing the WTO can do to bolster the global economy is **to conclude the Doha Round of trade negotiations**. The DDA remains the stimulus package that many of WTO Members need now. It does not require trillions of dollars but rather, renewed political attention and energy. In pledging to roll back barriers to trade in goods, services and agriculture – most recently at the G-8 - governments have sent a powerful signal that they are ready to work together to build on and improve the open, rules-based trading system which has delivered prosperity and stability for six decades.

Protectionism is a real threat. Protectionist measures by some have the effect of making export by others, such as the LDCs, even more difficult.

Until the DDA is concluded successfully, there is a large amount of room in which protectionist pressures can continue to agitate. One example makes this very clear. As you know, Members in the WTO bind their tariffs. However, many apply tariff rates which are much below their bound rates. The difference is sometimes referred to as the water between the applied and bound rates, or the "tariff-overhang". Members can increase their tariffs anywhere in that space of over-hang or water, without violating their WTO commitments, as long as they stay underneath their bound rates. A successful conclusion of the DDA will lead to that "water", or tariff-overhang being greatly reduced, leaving less space to Members wanting to raise their tariffs, to do so within the WTO system. Saying this in different words, **reducing the gaps between applied and bound levels of trade restriction and distortion will substantially strengthen the capacity of the multilateral trading system to help governments resist protectionist pressures**. There will still be flexibility available for WTO Members to cope with exceptional circumstances such as the current economic crisis. Another result from a successful conclusion of the DDA will be strengthened disciplines on agricultural subsidies, which can be said to represent the most trade-distorting trade policy measures.

In the meantime, WTO is **monitoring any upsurge in protectionism**. On 13 July, 2009, WTO's Director-General, Pascal Lamy introduced WTO's third Report on recent trade and trade-related developments. The Report presents a mixed picture of recent trade policy developments. On the one hand, there has been further slippage towards increased restrictions and distortions in certain tradable goods sectors of the world economy. On the other hand, there have been some signs of improvements as more governments have introduced trade-opening and facilitating measures in the last three months. However, there is no indication yet of governments more generally unwinding or removing trade-restricting or distorting measures that they imposed early on in the crisis.

In drawing up these Reports, it became clear that monitoring the impact on trade of fiscal stimulus and industrial and financial support programmes presents a particular challenge because of the paucity of data available, in particular on the specifics of how these programmes are being implemented. Concerns continue to be raised by governments and business about "buy/invest/lend/hire local" requirements that have officially or unofficially been attached to some of these programmes. Because of the evident nationalistic appeal in current circumstances, there is a particular danger that these programmes could become targets of retaliation and proliferate. Concerns have also been raised about the competition-distorting effects of the subsidy components of these programmes. The longer the subsidies remain in place and the more they will distort market-based production and investment decisions globally, the greater will become the threat of chronic trade distortions developing, and the more difficult it will become to correct those distortions. The case of distortions to international trade in agricultural products today provides a historical lesson in that respect. Think about cotton.

Nonetheless, the good thing is that the Report concludes that these trends do not represent an outbreak of high-intensity protectionism, involving widespread resort to trade restrictions and counter-retaliation. **The multilateral trade rules continue to be well respected by WTO Members and are helping to contain protectionist pressures. In fact, the Director-General recently said that we can continue to take heart from the fact that the WTO's multilateral trade rules continue to provide a valuable insurance policy against protectionism spiralling out of control**.

Keeping trade open is an essential ingredient to help exit the crisis. But for many developing countries this will not be enough. The crisis is starting to have an impact on our social fabrics. It is affecting workers who are losing their jobs; immigrants who can no longer send remittances back home; youngsters who are having enormous difficulties entering the job market.

In order to fully reap the benefits of an open trading system, poorer countries need an accompanying **Aid for Trade package** to address their supply-side constraints and boost competitiveness.

On 6 and 7 July, WTO had its second global review of Aid for Trade, which evaluated progress made to date and ensured keeping the momentum, now that we are in the midst of the biggest global economic crisis ever.

A significant leap forward was made since WTO launched this initiative in 2005. We have seen a 10 per cent annual increase in funds committed, funding pledges today standing at more than US$25 billion annually; non-concessional loans adding an additional US$27 billion.

Of course, for the LDCs, the instrument to generate aid for trade is **the Enhanced Integrated Framework for Least Developed Countries**. The EIF is aid for trade in action for LDCs. The EIF is now fully up and running and the first two projects, for Sierra Leone and Yemen have been approved. Others are in the pipeline. We had a very successful first EIF Global Focal Points Workshop from 8 – 10 July, 2009, at the WTO, with over 170 EIF stakeholders participating. As you know the EIF is the mechanism available to LDCs to use trade as one of their policy instruments of national development. It is an international partnership, through which the IMF, ITC, UNCTAD, UNDP, the World Bank and WTO (the IF Core Agencies) combine their efforts with those of least-developed countries, donors and other development partners, such as UNIDO, to respond to the trade development needs of LDCs. The EIF has two main objectives: to mainstream trade into national development plans, such as the PRSP, and to facilitate the coordinated delivery of trade-related assistance. This will assist LDCs in addressing trade policy issues and related supply-side constraints, and generally in becoming full and active players and beneficiaries of the multilateral trading system. The EIF is designed to be the overarching mechanism available to LDCs to map out the totality of their trade priorities (upstream and downstream), integrating them into their national development strategies. This integration of trade and priority setting will assist LDCs when they approach their donor community to seek necessary funding. Hence, the EIF is Aid for Trade in action for the LDCs. The IF was first created, jointly with the partners, at the WTO in October 1997. Since then, it has undergone a number of revisions and improvements to arrive at the stage it is in now (the enhanced IF: EIF) and which is witnessing an ever increasing constructive political visibility at the cross-roads of trade and development.

I think I have spoken enough. Thank you for your attention.