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Implications of the global economic crisis for developing country trade – and trade programming

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The North-South Institute

Remarks to CIDA February 19, 2009



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Key points

1. Key trade dimensions of the crisis: global; regional; national
2. Policy responses: at the WTO; regionally; nationally
3. Implications for aid programming?: staying the course; increasing assistance; or changing gear?



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The trade crisis: Global dimensions

- Slump in world trade – recent past and current projections
- Demand falling; trade credit tightening (even mncs affected); shipping lines diminishing
- Currency volatility
- Trends towards protection and discrimination, and many disputes arising



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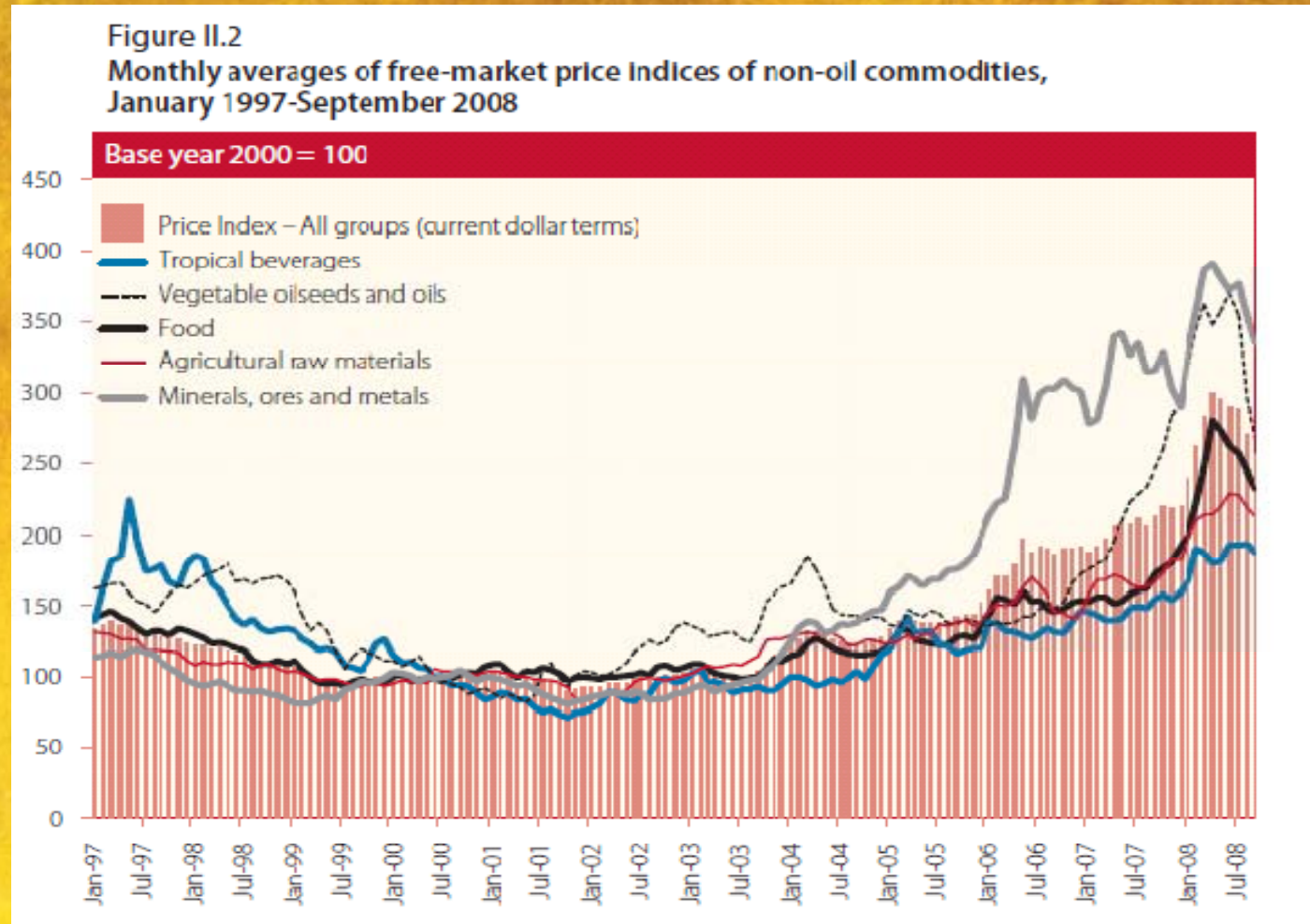
Source: UN WESP 2009





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Source: UN WESP 2009





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Source: UN WESP 2009

Table II. 6
Commodity price indices in real dollar terms, 1974-2008

Base year 2000 = 100

| | <i>1st half 1974</i> | <i>1st half 1997</i> | <i>1st half 2008</i> | <i>1997-2008 change (percentage)</i> | <i>1974-2008 change (percentage)</i> |
|---------------------------------|----------------------|----------------------|----------------------|--|--|
| All non-oil commodities | 317.8 | 121.9 | 197.3 | 61.9 | -37.9 |
| Food | 386.7 | 126.2 | 175.8 | 39.2 | -54.5 |
| Tropical beverages ^a | 617.7 | 161.9 | 129.8 | -19.8 | -79.0 |
| Vegetable oilseeds and oils | 433.9 | 144.3 | 248.6 | 72.3 | -42.7 |
| Agricultural raw materials | 203.1 | 115.0 | 151.3 | 31.5 | -25.5 |
| Minerals, ores and metals | 239.7 | 103.8 | 262.0 | 152.5 | 9.3 |

Source: UNCTAD, Commodity Price Statistics and Infocomm.

- ^a The highest prices for tropical beverages were recorded in 1977, which for this group of commodities is used as the year of reference instead of 1974.



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The trade crisis: Regional dimensions

- Developing countries: decline in volume, prices of commodities, manufactures, services (tourism, shipping, movement of service providers), remittances
- Falling FDI (1/3 in 09) affecting output and exports; also tighter capital markets
- Mounting concern for smaller open developing countries with few reserve funds
- Particular regions most affected – SSA and LLDCs (X↓ 28%)
- While M costs, trade deficits ↑



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Source: UNCTAD/UN

% change in value

| | | 2008 | 2009 |
|----------|---|------|-------|
| world | X | 18.9 | -4.4 |
| | M | 13.9 | -7.3 |
| E Asia | X | 18 | 6.5 |
| | M | 24 | 17.5 |
| S Asia | X | 20 | 0 |
| | M | 31 | 3.6 |
| LAC | X | 21.3 | -2.5 |
| | M | 26.8 | 0.2 |
| SSA-Nig, | X | 42.1 | -22.5 |
| -S Af | M | 18.2 | 2.8 |
| LLDCs | X | 42.8 | -22.6 |
| | M | 22.3 | 6.4 |



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The trade crisis: National dimensions

- 2009 data worse than projected?
- Balance of payments/debt
- Fiscal effects (M, X tariff revenues?)
- Compounded by FDI, remittances ↓
- Employment/income losses, return of migrant workers
- Most growth projections cut; increase in nos. of unemployed and poor



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Examples of crisis impacts on national trade

- Jan 09 Vietnam X fell 24% (all yr on yr)
(Korea X fell 33%)
- Dec 08 India X fell 20%
- Nov 08 Colombia X fell 27%, ind.
output 13%
- Dec 08 China M fell 21%
- Madagascar – slowdown on major
nickel mine (Sheritt)
- Indonesia -- >100,000 migrant workers
to be evicted from Malaysia in 09,
already 35,000 in 08



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Policy responses: Global/WTO

- Return to the negotiating table and accelerate agreement? unlikely
 - S&DT still key
 - Redo the calculus
 - Market gains? Smaller markets, increasing competition, “Buy national” climate
- Go back to the drawing board
 - Broaden agenda? WTO to mediate exch rate differences? (need to regulate fin and trade jointly?) Change nature of WTO
- Status quo? Unsustainable – pressures on TPRM/monitoring, dispute settlement



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Policy responses: Regional

- Renewed interest in regionalism
 - UK/Commonwealth preferences in the 30s
 - Collier – uniform OECD preferences for the Bottom Billion (“preferential protectionism”)
 - S-S cooperation, de-coupling?
 - What about global value chains?
- Also bilateralism
 - Canada and.. India, EU etc (Caricom?)
 - US, EU, other countries of greater importance to many CIDA countries of focus



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Policy responses: National

- Very difficult to manage revenue swings/falls
- Many smaller/poorer countries lack institutional capacity for remedial industrial and social policies
- Lack of trade adjustment funds
- Some tariff raising, import licensing,
- Currency devaluation, lower interest rates, domestic demand stimulus
- Buy national?
- Increased need for credit to facilitate trade
- Diversify trade (composition and direction)? More production for dom. mkt? (difficult for smaller economies)



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Implications for aid programming

- Responses by the World Bank –
 - “vulnerability fund”
 - IFC Global Trade Finance Program
- UNCTAD –
 - assistance with commodity diversification
 - compensatory financing/ stabilization funds
 - S-S cooperation incl. cooperative responses; taking advantage of “policy space”



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Areas for TRTA/CB (1)

- Dealing with impacts of the crisis
 - Trade credit (esp for SMEs and S-S trade); other trade facilitation
 - Trade adjustment assistance
- Developing s/t trade policy responses
 - And defending these in bilateral, regional, WTO fora
- Monitoring others' policy responses that affect trade
 - And contesting these in bilateral, regional, WTO
- Reviewing national interests in current WTO DDA



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Areas for TRTA/CB (2)

- Developing negotiating position on new issues – e.g. exchange rate management, national controls on fin sector/capital flows, ag. export controls and biofuel policies, export cartels (energy), sovereign wealth funds/investment, climate change/envt stds (Mattoo & Subramaniam For Aff Jan-Feb 2009)
- Other “new” issues trade and... investment, movement of professionals and unskilled temporary workers, labour standards, public procurement
- Revisiting older issues such as reducing dependence on particular commodities, markets (de-coupling?)
- Creating reserve funds for counter-cyclical use