

trade hot topics

An ACP Perspective of the WTO's role in the economic recovery, growth and development

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Background

The global economic crisis created by the financial crisis of 2008 has affected developed and developing countries alike. However, the impact will be much greater in some low income developing countries, including many African, Caribbean and Pacific (ACP) states, with limited capacity to address its consequences. Recent reports show that over 15 ACP states face a potential negative impact from this economic crisis of 4% or more of their gross domestic product (GDP). Consequently, the crisis will adversely impact on growth in ACP countries. It will retard progress towards achieving Millennium Development Goals (MDGs) given their economic and trade weaknesses including undiversified export base, high dependence on external sources of revenue, small markets and high transport costs.

Trade is one of the key mechanisms through which the economic crisis impacts on those low income developing countries with strong links to global markets for their export earnings, remittances, foreign direct investment, etc. In this regard, the World Trade Organization (WTO) can make significant contributions in addressing the economic and commercial weaknesses that this crisis has revealed. This is in line with its mandate which provides a direct link to support for global growth

and a commitment to promote development under the Doha Development Round (DDR). This issue of the Commonwealth Trade Hot Topics focuses on the impact of the crisis on the ACP and identifies the implications for the WTO system. For example, which key issues on (and off) the current negotiating agenda of the DDR have an enhanced priority for the ACP states as a result of the stresses created by the economic crisis? What should be covered by a 'crisis package' of measures agreed either as an 'early harvest' from the DDR or, more controversially, as an alternative to full completion of the Round? This brief is intended to contribute to the understanding of the relevance of the WTO in helping ACP countries address the consequences of the current economic crisis.

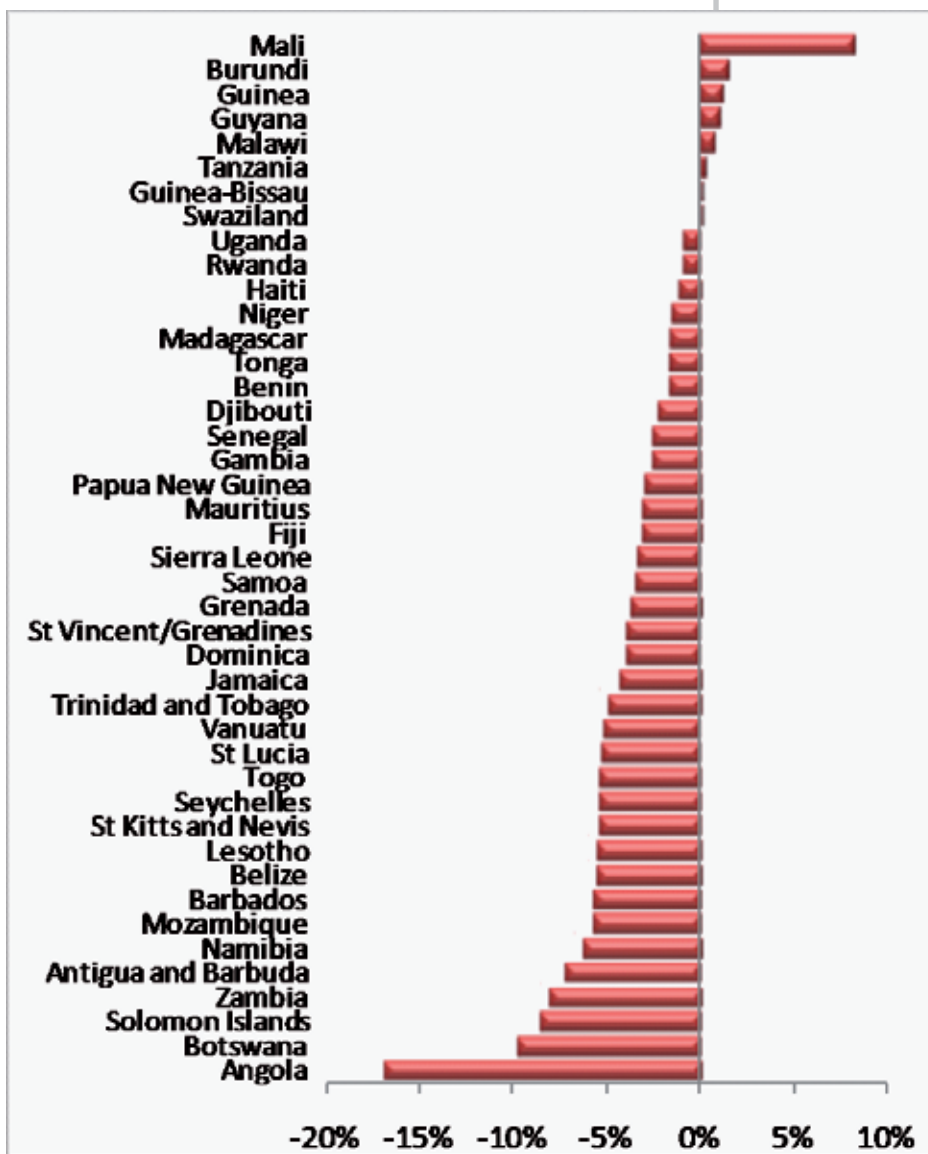
Effects of the economic crisis on ACP

The economic crisis has had an adverse impact on the growth and trade prospects of many ACP countries given their underlying economic and trade policy weaknesses. Many ACP members have been affected by the crisis specifically through lower demand for their exports and loss of confidence, which predominantly affects demand not only for capital goods (which they do not produce) but also those where inventory changes can be large such as fuel and minerals (which they do produce); and also through rising protectionism in

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their markets¹. For example, the UNCTAD (2009) report estimates that world merchandise trade will fall by between 6% and 8% in 2009. Cali and Kennan (2009a and 2009b) predict a range of effects of the economic crisis on many ACP countries (Figure 1).² Although not all ACP countries are expected to be adversely affected by the crisis, most will be. About 15 of the 43 countries in Figure 1 face a potential negative impact of 5% or more of GDP, and 17 of 4% or more with greater likelihood to have a significant adverse impact on employment, poverty and achievement of trade-related MDGs.

Figure 1: Possible GDP effects of the crisis as a result of trade shocks (% of GDP)



Note:
The states shown are those for which predictions are available in Cali and Kennan 2009a and 2009b.

Source:
Adapted from Cali and Kennan 2009a and 2009b.

In many aspects, a number of ACP countries have fared worse than other developing countries because of their export market and commodity composition. Even in the case of services exports (that appear to have been more resilient than goods), ACP exports are concentrated on tourism and transport which have been more severely affected than the average and have dropped by a similar proportion to goods. Most of the exports from ACP countries are destined for industrial country markets, which are experiencing severe declines in demand due to the economic crisis

It is important to note that there have been only a few signs of traditional protectionist measures so far but a number of countries, especially large

ones, have implemented trade distorting stimulus packages targeted at affected export industries or competing import industries, and a number of countries have passed non-tariff measures.³ These interventions have not had direct impacts on most ACP exports, as they relate mainly to capital-intensive manufacturing and services and are in markets to which the ACP states do not export, but there have been an increase in the number of antidumping cases in 2008 which might be a pointer for future actions that would have more direct consequences for the ACP exports. The most worrying protectionism for ACP

¹ Some observers suggest that the drying up of trade finance may have been a third trade channel of transmission of the crisis on to the economies. However there is a lack of systematic data to confirm this hypothesis and governments and international organisations have acted promptly to prevent any major fallout of a reduction in trade finance.

² The two sets of data have been combined for ease of reference (and non-ACP states removed). In fact, the methodology was not identical for the two studies and so caution is required when generalising between them. In three cases (Gambia, Lesotho, Solomon Islands) a country was included in both studies, and what is reported in Figure 1 is the result derived from the LDC study.

³ The report of the Global Trade Alert sounds a more concerned tone as it warns that a protectionist trend is under way, although it also notes that there is no evidence the trend involves tariff measures. In fact according to the data in the report only 15 countries have increased some of their tariffs between November 2008 and September 2009, while at the same time a number of other countries implemented tariff reductions. This evidence is not yet sufficient, in our view, to alter fundamentally the view that there has not yet been the rise in overt protectionism that some feared a year ago, but that this does not mean it will not happen and that extreme vigilance is required.

countries is in relation to labour standards and other related non-tariff measures.

Policy strategy

A fundamental goal of the ACP group is to promote development, for which economic growth is an essential component. The economic crisis has shown the challenges of achieving this goal given the weakness of growth in many ACP states, and the lack of sustainability even in those states that have grown relatively fast in the recent past. As noted above, most of the ACP states are LDCs and SVEs which are characterised by small markets, and high transport costs often due to being landlocked and geographically distant from key markets all of which put them at a relative competitive disadvantage in global trade. It is critical that these weaknesses are addressed. This requires greater production, and a diversification of markets and sectors (including into services) in order to enhance revenue and export earnings and to sustain adequate levels of growth.

Market and sector diversification, however, requires action both on the supply side (via investment) and on the demand side (via improved market access and trade facilitation). The scale of the investments needed is often large. Most of the required types of investment have a public good nature. In this time of crisis, public budgets in ACP countries are overstretched hence it is particularly critical to ensure enhanced external assistance for example under the aid for trade initiative.

Measures within the WTO remit

The WTO could play an important role in fostering policies to help international trade withstand the adverse effects of the economic crisis. The responses that would support ACP states achievement of their development goals go beyond a narrow view of the WTO's function that focuses simply on removing barriers to trade through liberalisation to include:

- (i) Supporting measures to secure adequate resources, for example aid for trade to finance inter alia infrastructure and the removal of other supply bottlenecks. The WTO offers a forum within which to launch and monitor action plans for implementation by donor agencies.
- (ii) The WTO is a valuable forum within which reforms required by the global crisis can be discussed. Unlike many of the alternatives, it is a forum in which the ACP states are represented on an equal basis with the rich and powerful. By encouraging such debate within the WTO

itself, the chances of any solutions taking account of the interests and concerns of poorer more vulnerable developing countries will be enhanced.

- (iii) Although limited so far, protectionist responses to the crisis remain a potential problem to ACP countries given that the mechanisms whereby rich countries can shift the burden of adjustment onto poor, vulnerable countries are many, varied and often opaque. Through its Trade Policy Review and Dispute Settlement Mechanisms, the WTO can play a key role (which may need to be temporarily re-focused on the effects of the crisis) in preventing such action.

How can the WTO system be more supportive?

While the conclusion of Doha may take some time, concluding the Round on terms favourable to developing countries would certainly be an important step towards fortifying the international trading system. On the other hand, keeping this Round of negotiations alive indefinitely could have the effect of delaying the move to centre stage of new trade-related issues which have become important for many ACP countries including trade and the environment, and aid for trade. Specifically, there are three (not necessarily mutually exclusive) possible approaches the ACP countries could consider with respect to the Doha Round.

- (i) 'The big agenda' focusing on the completion of a full DDR establishing a supportive set of international trade rules that would facilitate the structural changes revealed by the global economic crisis to be necessary.
- (ii) A 'Doha-lite' agenda: focusing on those elements that have the highest priority for an early settlement. This option would be particularly worthwhile should the consensus move towards a piecemeal approach to concluding the Round. This option could also include the possibility of incorporating a time bound provision to end the Round with whatever can be agreed by a certain date.
- (iii) A 'non-agreement agenda': scrapping the current round of negotiations in order to develop a new one which would move to centre stage the new trade-related themes, which have become important for ACP countries. This would be an extreme option, which we do not necessarily support at this stage, but it is one worth considering should the negotiations be kept alive indefinitely.

In brief, a crisis package that needs to be implemented as soon as possible could include a variety of different measures to stimulate economic recovery leading to positive developmental outcomes in ACP countries. This package could include the following.

- (a) Items on the DDR agenda including: DFQF to non-EU markets (particularly to large developing countries, such as China and India, which are experiencing a rapid recovery from the crisis); positive measures to offset preference erosion (and to ensure that it occurs at a measured pace), particularly for tropical products such as bananas and sugar; action to deal with the WTO Hong Kong Ministerial decision for LDCs and ACP demands on cotton; special safeguard measures for those most adversely affected by the global economic crisis; and action on Mode 4 to avoid a protectionist-induced disruption to temporary migration, including the introduction of special Mode 4 quotas for LDCs.
- (b) Institutional strengthening of importance for ACP countries include a short-term re-focusing of the Trade Policy Review Mechanism and/or strengthening of the WTO's surveillance process

to track new protectionist measures applied by members as well as its broadening to cover a wide range of potentially distorting measures.

- (c) Enhanced support for the WTO's Aid for trade initiative, which is even more important in the aftermath of the crisis. This initiative could be instrumental in the recovery and resilience building of ACP countries, both by providing assistance to help the diversification process and by applying the principle of compensation of losers to the case of global shocks such as the current crisis.

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