Trade Policies and Institutional Agreements

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6 June 2009

Outline

- Global crisis: finance overcomes trade
- Competing theories
  –> trade -> development -> poverty
- Development as objective of trade policy
  - Structural transformation (human development?)
  - Permanent advances in productivity and income
- Impact of Trade Policy
- Design of Trade Policy

Global Financial Crisis

- Epicenter – Developed Countries = Main developed country export markets
- Collapse in trade volumes
- Collapse in commodity prices
- Collapse in external financing

Global Financial Crisis

	Export volume growth (percent)		Industrial production growth (percent)	
	2008	2009	2008	2009
	(Whole year)	(Y/y latest)	(Whole year)	(Y/y latest)
World	4.5	−24.1	0.5	−12.8
High-income	1.7	−24.3	−1.9	−17.6
United States	6.0	−16.2	−2.2	−12.5
Japan	−1.6	−36.0	−3.2	−34.0
Germany	1.1	−22.6	0.0	−21.7
All developing	5.0	−22.5	6.2	−2.5
East Asia and Pacific	4.8	−25.0	11.2	4.6
China	14.6	−22.7	13.0	7.4
Europe and Central Asia	1.7	−32.0	0.7	−14.0
Russian Federation	0.0	−38.0	2.3	−16.8
Latin America and the Caribbean	−7.0	−11.0	1.0	−10.2
Brazil	−2.1	−29.0	2.9	−13.3
Middle East and North Africa	6.5	−3.5	3.6	−0.5
South Asia	10.4	−23.7	4.1	−4.4
Sub-Saharan Africa	7.1	−5.0	1.0	−4.5

Source: World Bank 2009

Impact Most Severe on ‘Transition’ Economies

	Per capita GDP growth rate			Change in growth rate	
	2004-07	*2008*	*2009*	*2009/ 2008*	*2009/ 2004-7*
World	2.6	0.9	-3.4	-4.3	-6.0
Developed economies	2.1	0.3	-4.1	-4.4	-6.1
Economies in transition	7.7	5.5	-2.6	-8.1	-10.2
Developing economies	5.7	4.0	0.1	-3.9	-5.6
LDCs	5.2	3.6	0.3	-3.3	-4.9

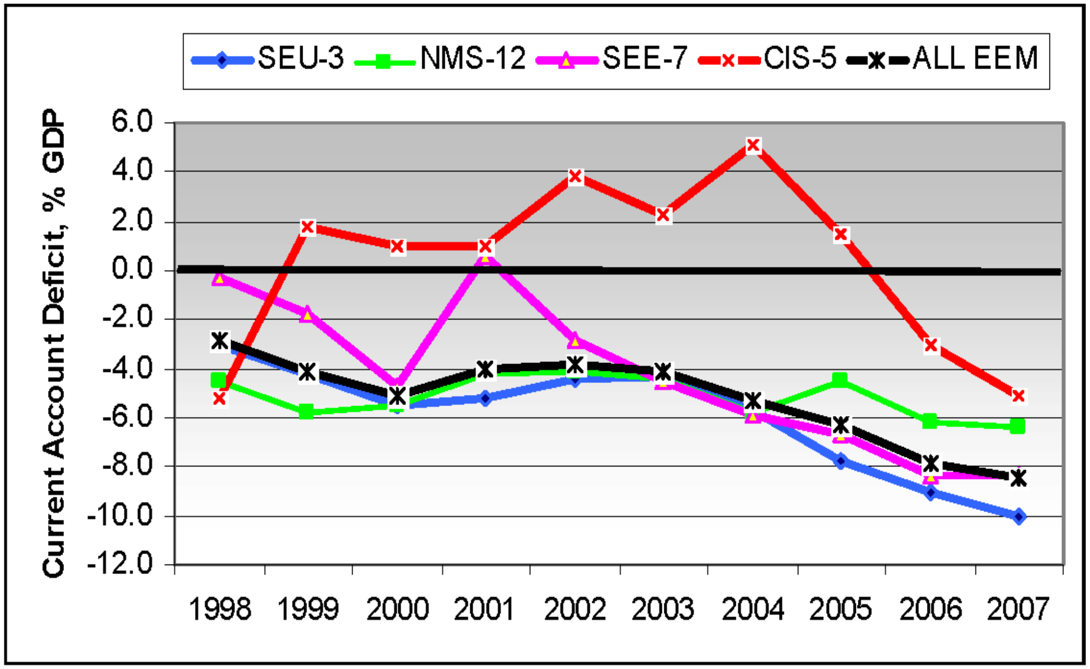
Development Financing from Trade

- Crisis -> loss of potential trade surplus for investment
  - Trade volume collapse -> employment collapse
  - Commodity prices collapse -> incomes and govt revenue collapse

- Before the crisis, it was not clear if Trade was contributing development finance
  - With the exception of China and a few other surplus countries plus commodity exporters right before the crisis
  - Most financing due to external borrowing and FDI, esp. C/E Europe & LA

- Before the crisis, also not clear if External Borrowing and Trade Surpluses were being invested domestically
  - In LA, surge in foreign investment, but total investment to GDP stayed constant, foreign investment substituted for domestic investment

‘Developing Europe’ - Negative and Deteriorating Current Account Deficits



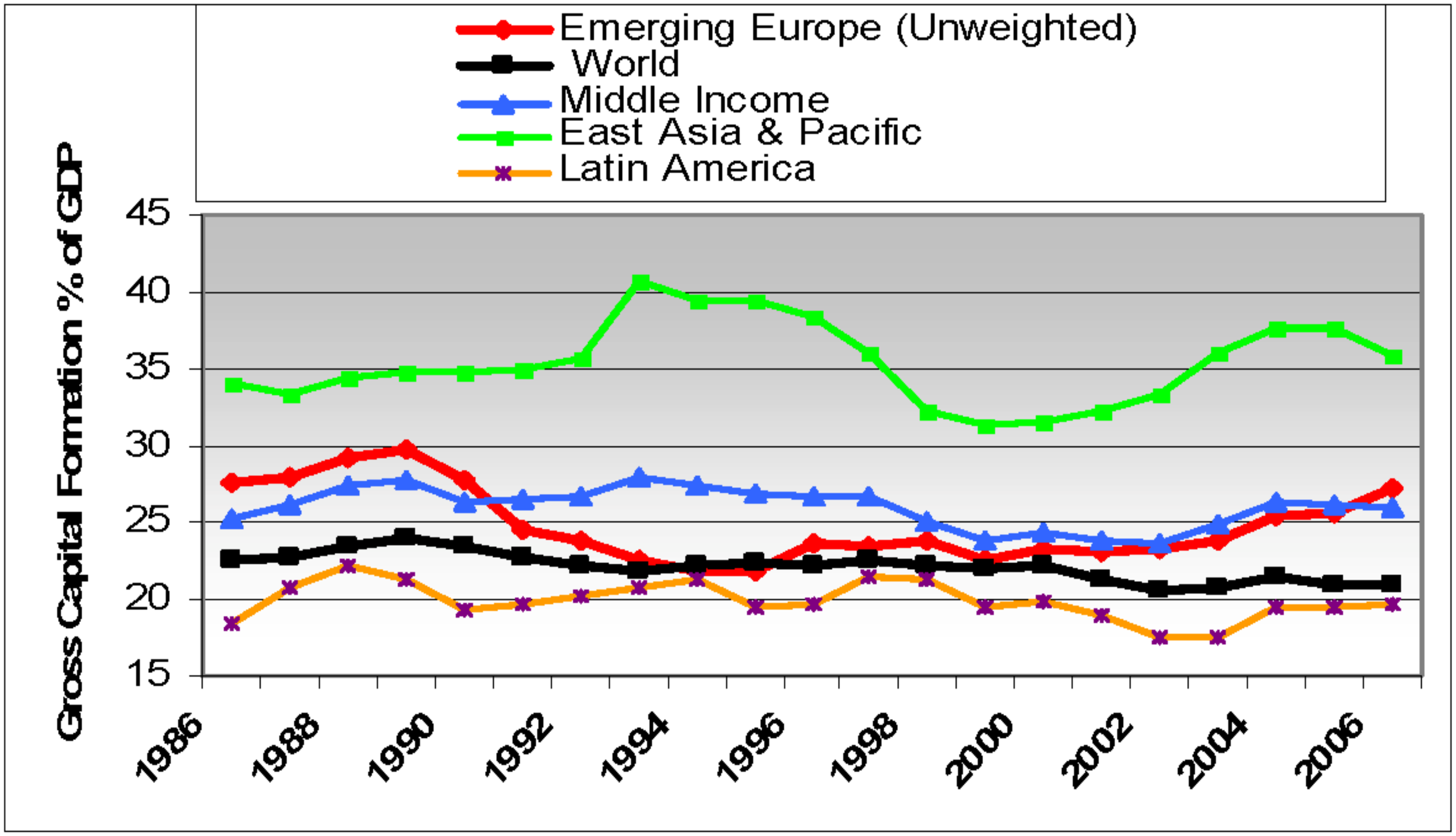
SEU3 – Spain, Portugal, Greece

NMS12 – Bulgaria, Czech, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia

SEE7 – Albania, Bosnia/Herz, Croatia, Montenegro, Serbia, FYRoM, Turkey

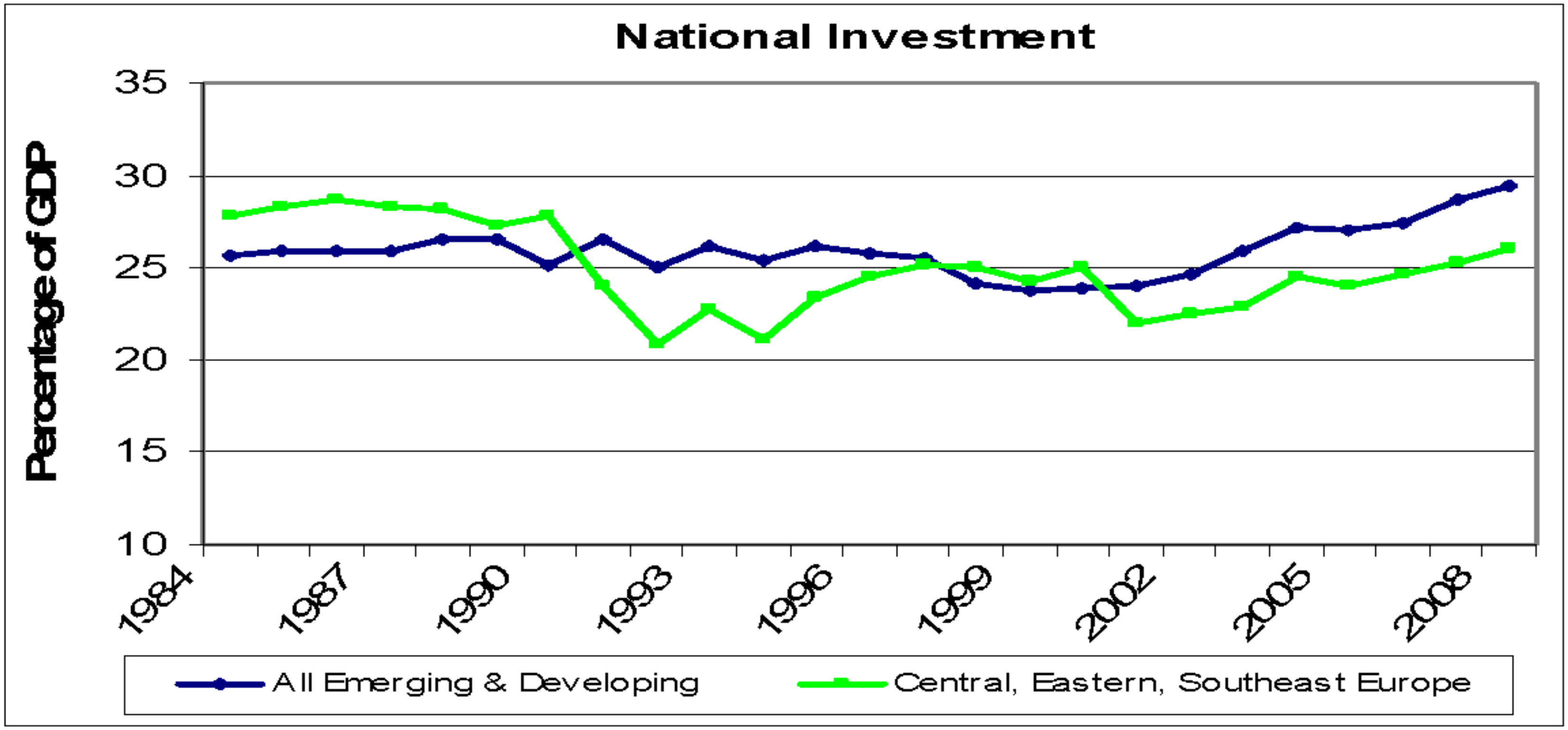
CIS5 – Armenia, Belarus, Georgia, Moldova, Ukraine

Minimal Increase in Capital Formation Everywhere



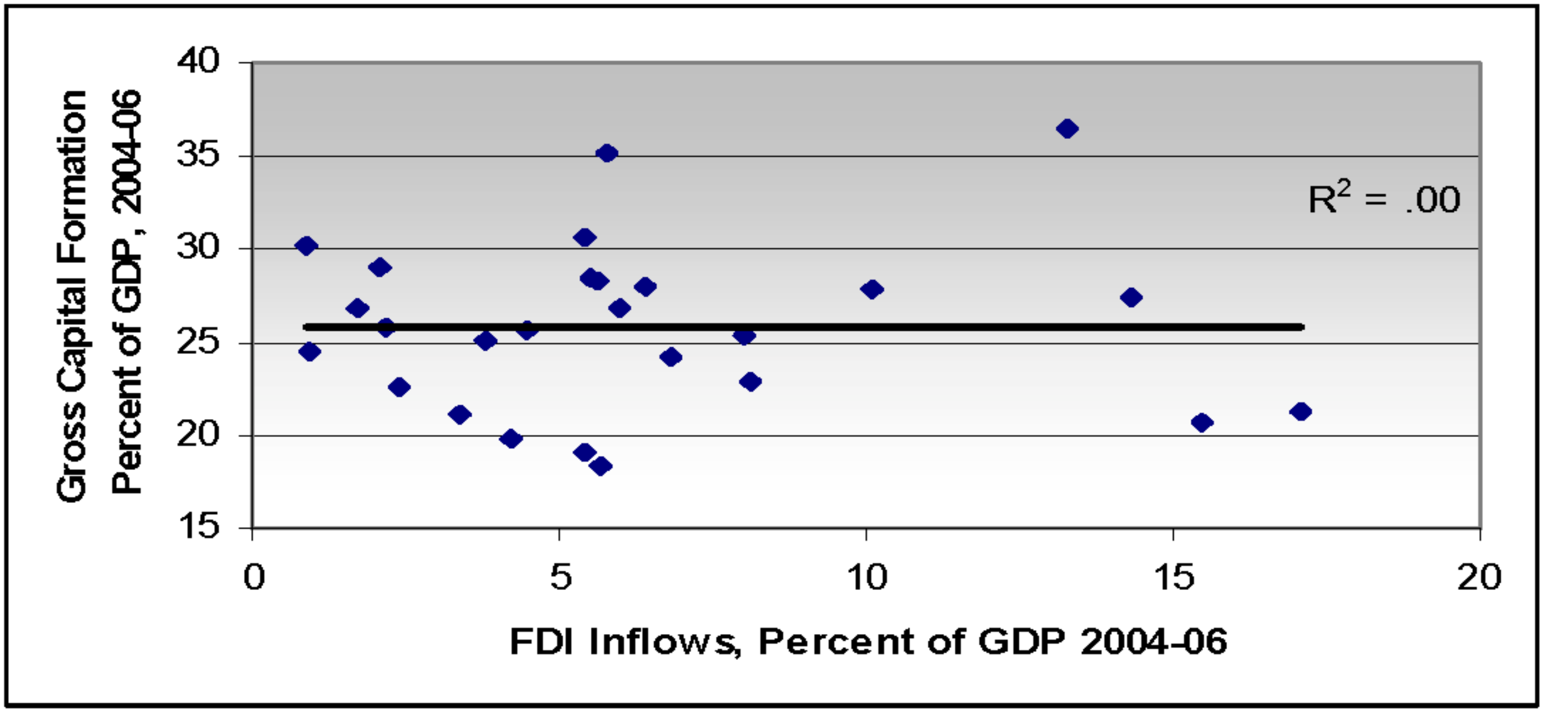
Source: Shelbourne (2008)

Including in ‘Developing’ Europe



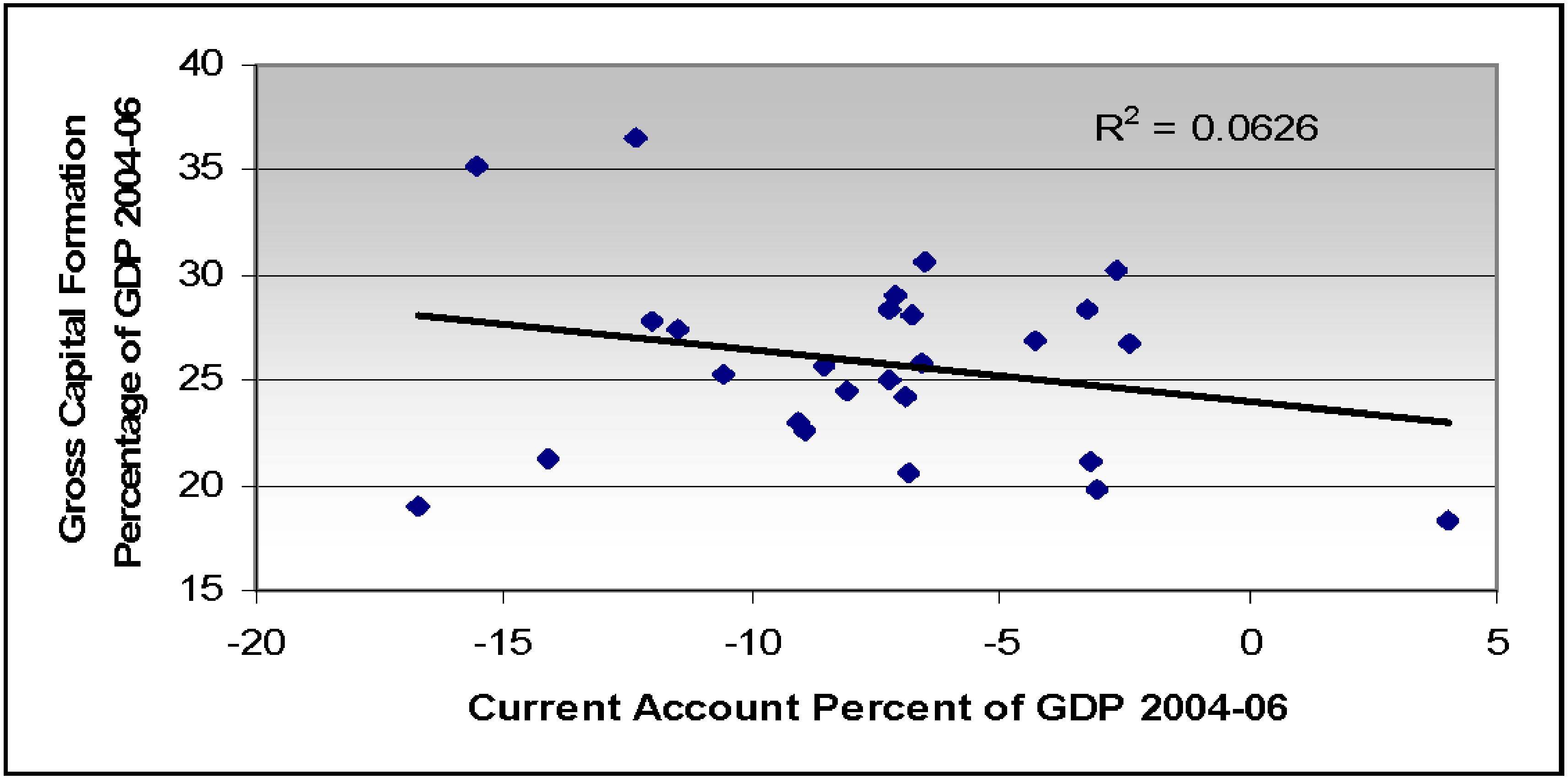
Source: Shelbourne (2008)

FDI and Capital Formation in 'Developing Europe'



Source: Shelbourne (2008)

Capital Inflows – Little Impact on Investment in Developing Europe



Source: Shelbourne (2008)

Net Resource Transfers to Primary Metropole – Global Imbalances

	1989	1992	1997	2001	2006	2007
Metropol	**96.5**	**23.7**	**-39.3**	**299.2**	**751.6**	**705.1**
USA	113.4	72.4	161.1	416.4	848.1	812.9
Japan	-39.8	-76.9	-38.5	-18.6	-52.2	-74.6
Other Metropol	23.0	28.3	-161.9	-98.6	-44.3	-33.3
Periphery	**-47.2**	**28.8**	**-16.50**	**-205.7**	**-912.7**	**-966.6**
*China**	4.3	-6.4	-37.0	-36.6	-238.1	-360.7

Source: Boratav (2009)

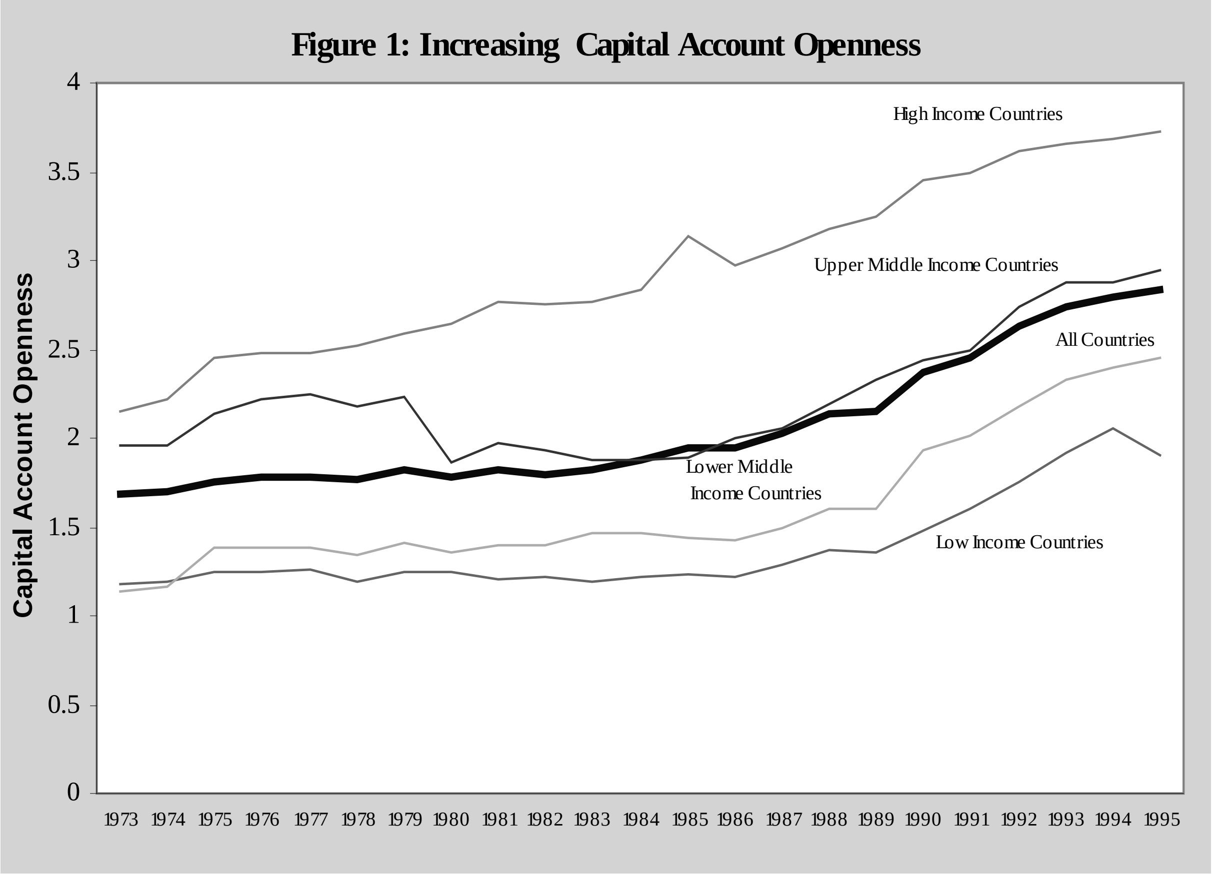
US: Prime Example of Unproductive Capital Inflows

- Capital inflows to US
  - Import surges, trade deficits, and increase in external debt
    - US Favor to ROW – consumer of first/last resort
  - Mainly into US treasury, since dot-com bust no industrial destinations
  - Translated into increased financial liquidity that has to be intermediated (re-lent)

- Liquidity -> Increased financial intermediation
  - Increased financial profits -> increased income to upper class (no increase in lending for new real domestic production)
  - Increased national and household debt (faster than income/productivity increase)

- Depressed manufacturing employment, increased housing production, and other non-tradeables

Global Capital Account Liberalization

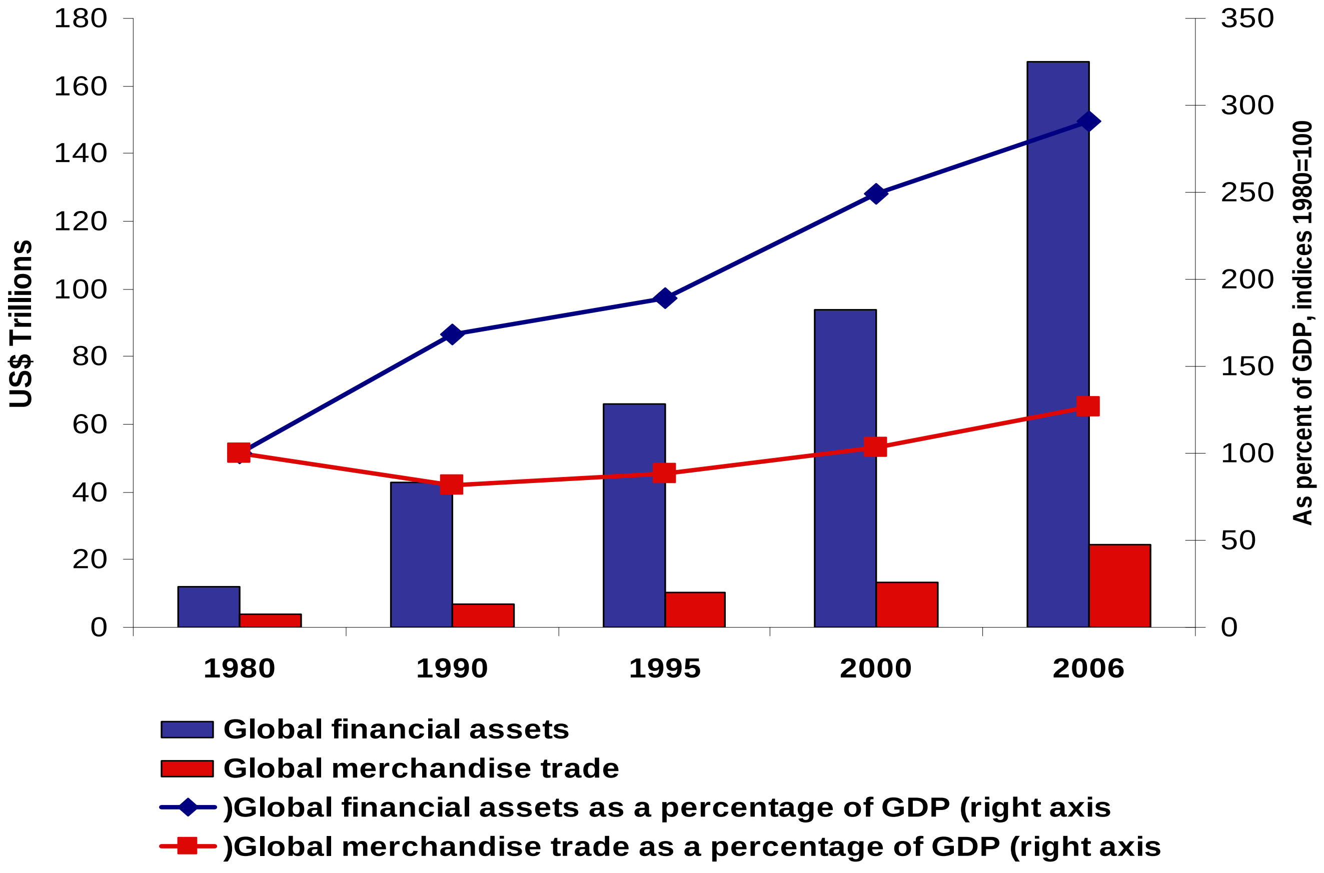


Source: Jayadev and Lee, 2005

(in)Equity as Cause and Outcome of Finance-based Growth

- Solving insufficient global demand
  - Export surpluses have no domestic market
  - US as consumer of developing country exports
  - Lack of investment possibilities in US
- Sustaining demand through debt creation
  - Consumer finance in US outstrips income increases
  - Exporting countries finance their exports by financing US deficits
- Financing
  - Debt creation solves lack of demand and investment opportunities
  - Exacerbates inequality through returns in the financial sector (not invested in production)

Financial Globalization Overcomes Trade Globalization



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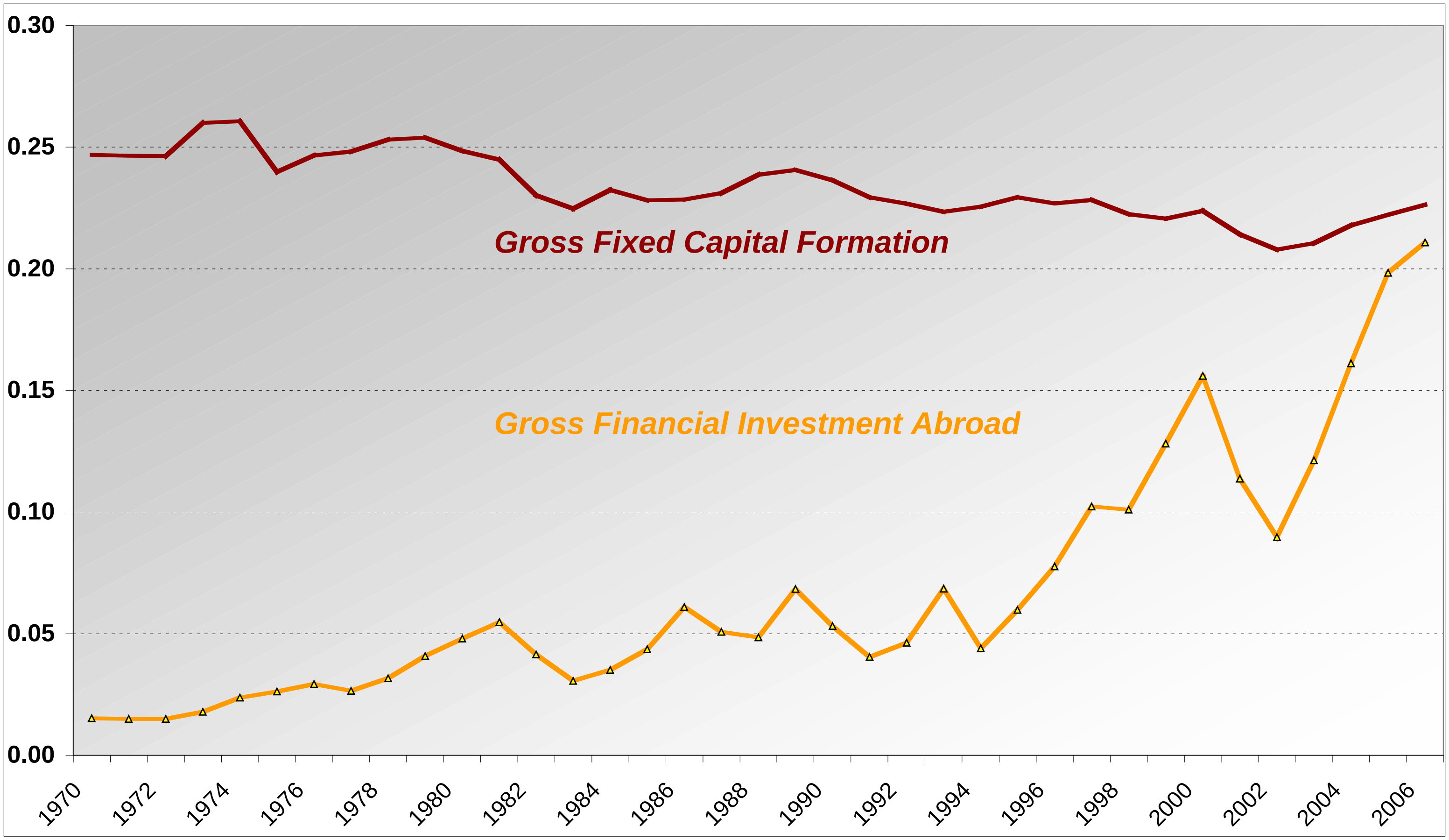
Global Financial Flows No Impact on Capital Formation



Trade Liberalization As Development Policy

- Trade liberalization as development policy
  - Elimination of price and regulatory distortions
  - Private investment based on international prices

- Based on positive cycle: efficiency -> investment -> growth -> poverty reduction

- ‘Faith based’ linkages
  - Efficiency -> investment (comparative advantage + diminishing returns to scale)
  - Growth -> poverty reduction (then afford gender equality)

Trade and Financial Liberalization

- Trade Liberalization- immediate impact
  - Import surges, trade deficits, and increase in external debt
  - Industrial and employment dislocation

- Financial Liberalization – immediate impact
  - Capital outflow surge (S Africa, CIS, China?)
  - Increase in external indebtedness of residents
  - Loss of monetary, exchange rate, fiscal policy space

- Waiting for Private Sector response
  - Investment in internationally competitive industries
  - Dependence on external debt finance

Competing Theories

- Imperfect markets : imperfect economy
  - Imperfect substitutability among traded goods
  - Increasing returns to scale, dynamic effects
- Less than perfect liberalization
  - WTO, Regional trade diversion/creation
  - Subsidies, industrial policy
- Imperfect states : ineffective interventions
- 'Ethics based' critiques of public policy
  - Corruption
  - Privileging of elite classes vs poor (poor for trade lib)

Competing Theories

- Competitive advantage and class-dependent (poverty-creating?) growth
  - Sustaining investment by wealthy classes
  - Wage dispersion as basis for profitability/investment
- Redistribution as sustainable development
- Critique-rich methodology
  - Does it fit the data?
  - Does it generate 'simple-enough' and feasible policy suggestions ?

Competing Theories

- Three+ economy approach
  - Care economy, unpriced goods not transacted in markets
  - Public sector role in markets and care economy
- Full costing/pricing and human rights as development strategy
- Poverty reduction and gender equality
  - Limits of political action and political economy constraints
  - Empirical problems (gender disaggregated and time use data)

Impact of Trade Policy

- Livelihoods and employment
- Economic, social, political rights and Democratic and Policy Space
- Vulnerability and volatility of employment and growth
- Distribution of income, assets and political power

Contrasting Views of the Role of Trade Liberalization

	Prelude to Private Economy	Tool of Public Policy
Indicators of Progress	Level of tariffs; no. of import controls	Growth, employment; gender impact
Responsible party	Government	Private sector response
Governance	Smaller government	Increased public sector capacity
International	Unilateral, fixed	Policy space

Development and Trade

- Trade -> Economic Growth -> Human Development (Gender Equality)
- Trade -> Economic Growth ? Or Economic Growth -> Trade (Warner-Sachs vs Rodrik)
- Human Development -> Economic Growth (and Trade)
- Design of Trade Policy

Does Trade Cause Human Development or Human Development Cause Trade ?

- Neither
- All of the above:

  Gender Equality and Human Development as method to evaluate sustainability and effectiveness of elements of all development paradigms and strategies

Features of Gender Equality Oriented Development Paradigm

- 1 Empowerment
  - capability of members of society to shape processes and events that shape their lives

- 2 Productivity
  - lifting the capability of members of society both as an end and as a means

Features of Gender Equality Oriented Development Paradigm

- 3 Equity
  - progressive realization of access to opportunity by all members of society

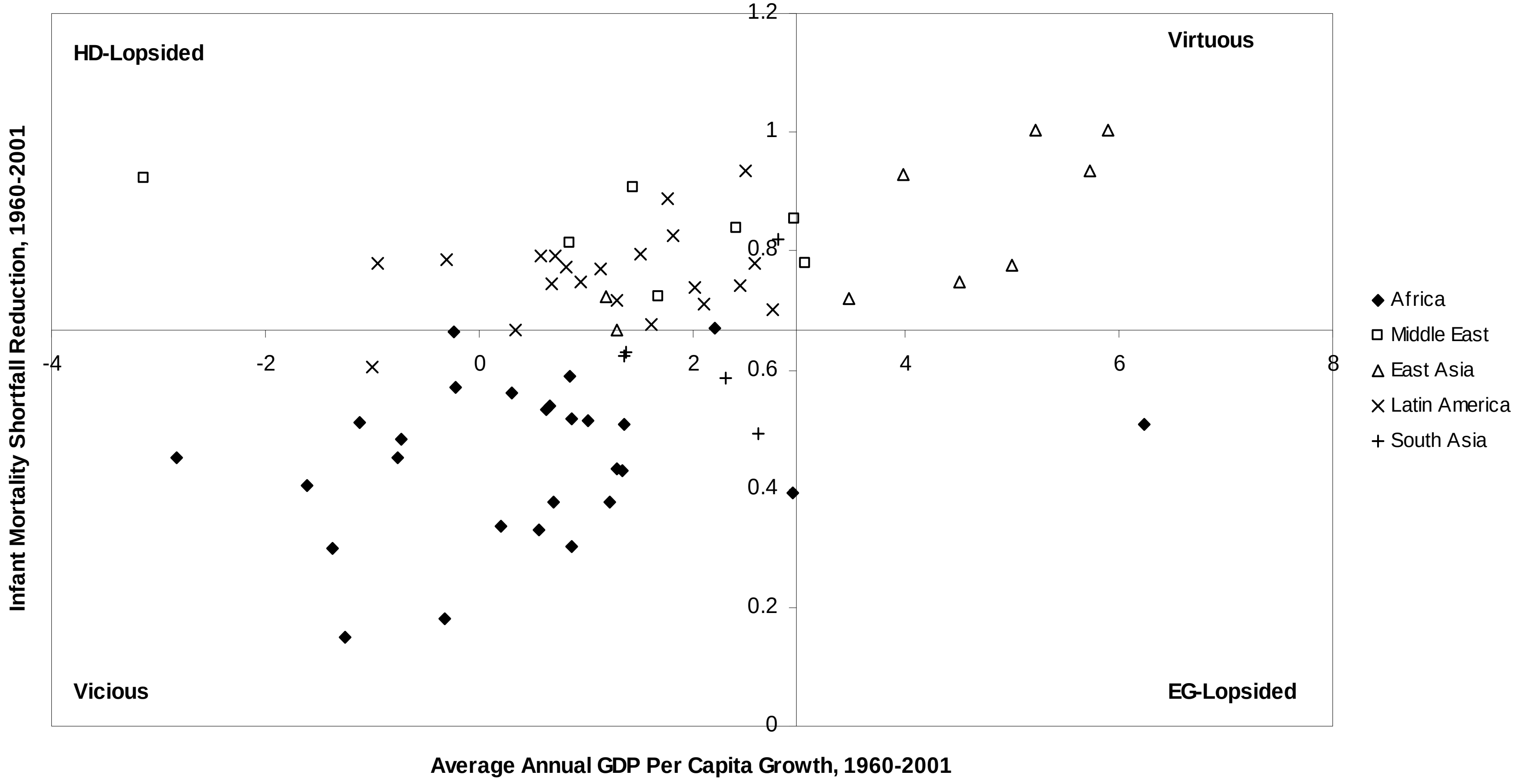
- 4 Sustainability
  - durability of social gains into the next generation (no backsliding)

Human Development first?
Growth (and Trade) first?

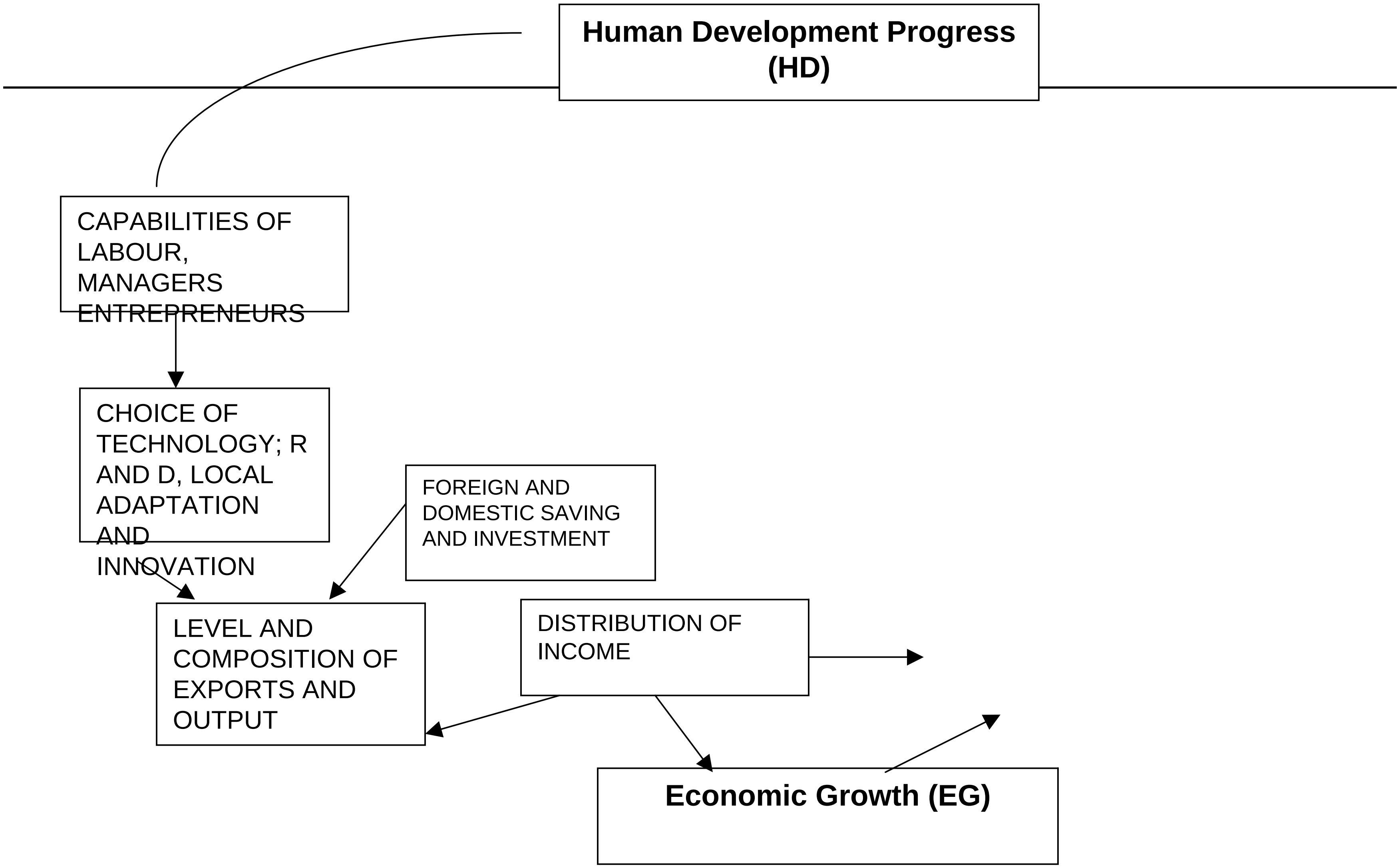
- Balanced vs. lopsided strategies|
- Lopsided not sustainable
- Lopsided to HD more easy to recover growth

Ranis & Stewart: HD vs EG

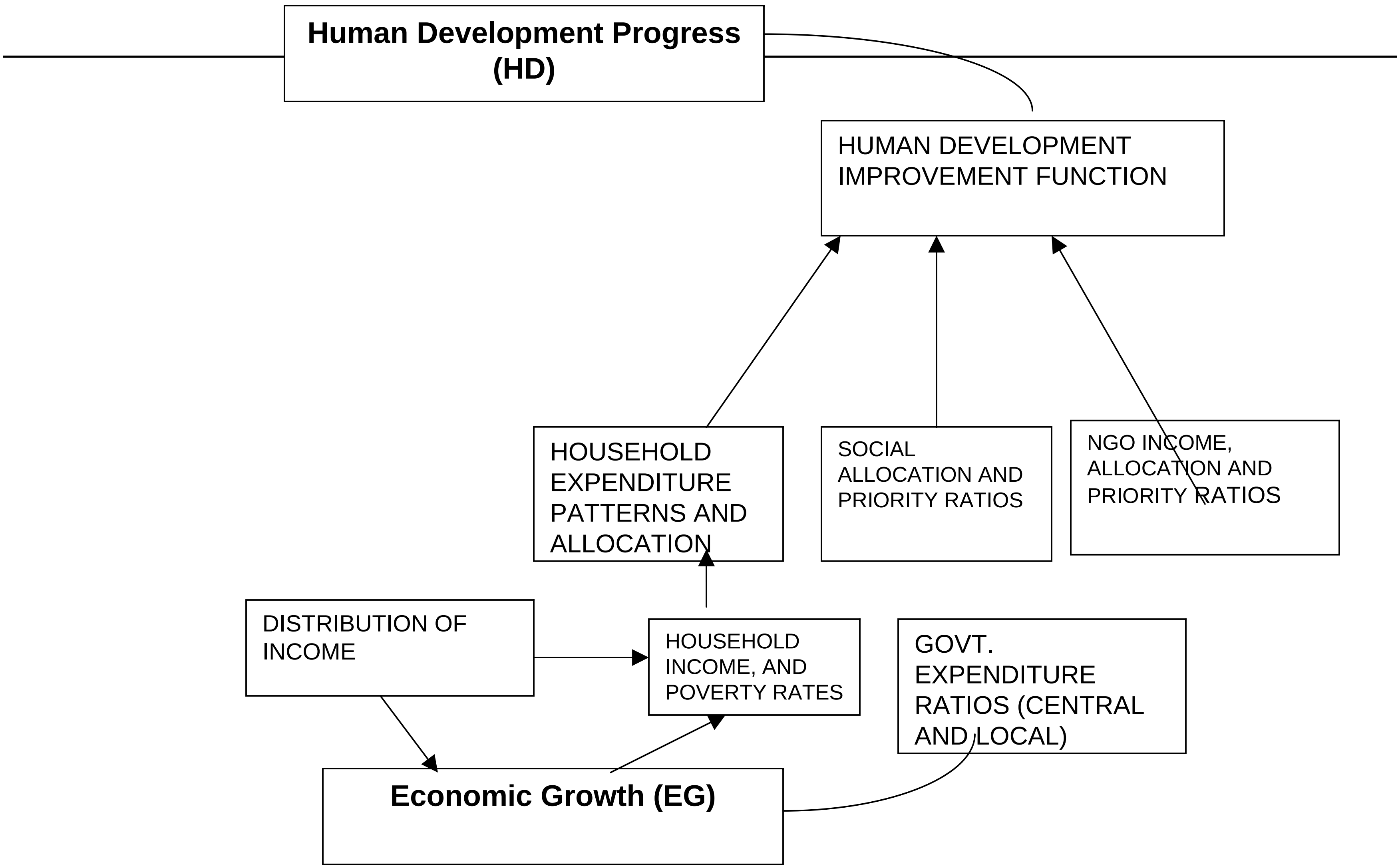
Figure 2
HD and EG Performance, 1960-2001



Ranis & Stewart: HD to Economic Growth



Ranis & Stewart: from Economic Growth to HD



Impact of Trade Policy

- Livelihoods and employment
- Economic, social, political rights and Democratic and Policy Space
- Vulnerability and volatility of employment and growth
- Distribution of income, assets and political power

Global Crisis as 'Opportunity'

- Disappearance of Export Markets in Developed Countries – Need for Domestic Demand
- Protect and expand domestic employment and incomes
- Trade defense measures
  - Save foreign exchange
  - Protect domestic employment
- Economic, social, political rights and Democratic and Policy Space

Where to Work?

- Country by country
- Sector by sector

- Agriculture and fisheries
  - Role of women in production
  - Livelihoods and food security
  - Public investment and credit in agriculture
  - Market access, versus industrial economy subsidies

Arenas of Work ?

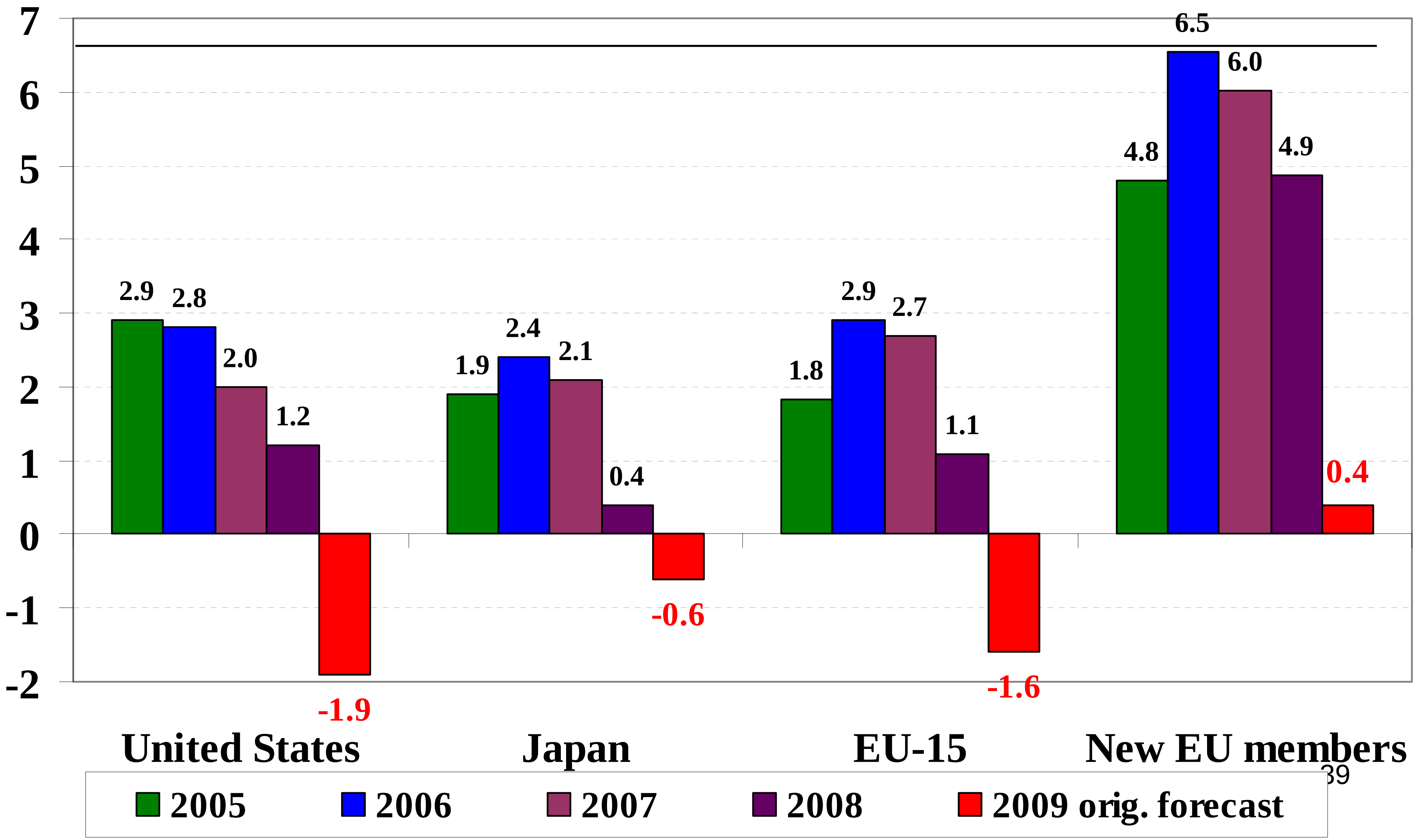
- Industrial Sector
  - 'Strategic international integration' and industrial policy
  - Women's role in textile and clothing sector
  - Development of a domestic private sector
  - Policy space – TRIMs, TRIPS,
- Trade in Services
  - Health, education, utilities, movement of natural persons
  - Employment and livelihood of the poor
  - Women's role in services – informal and formal

Maraming salamat po

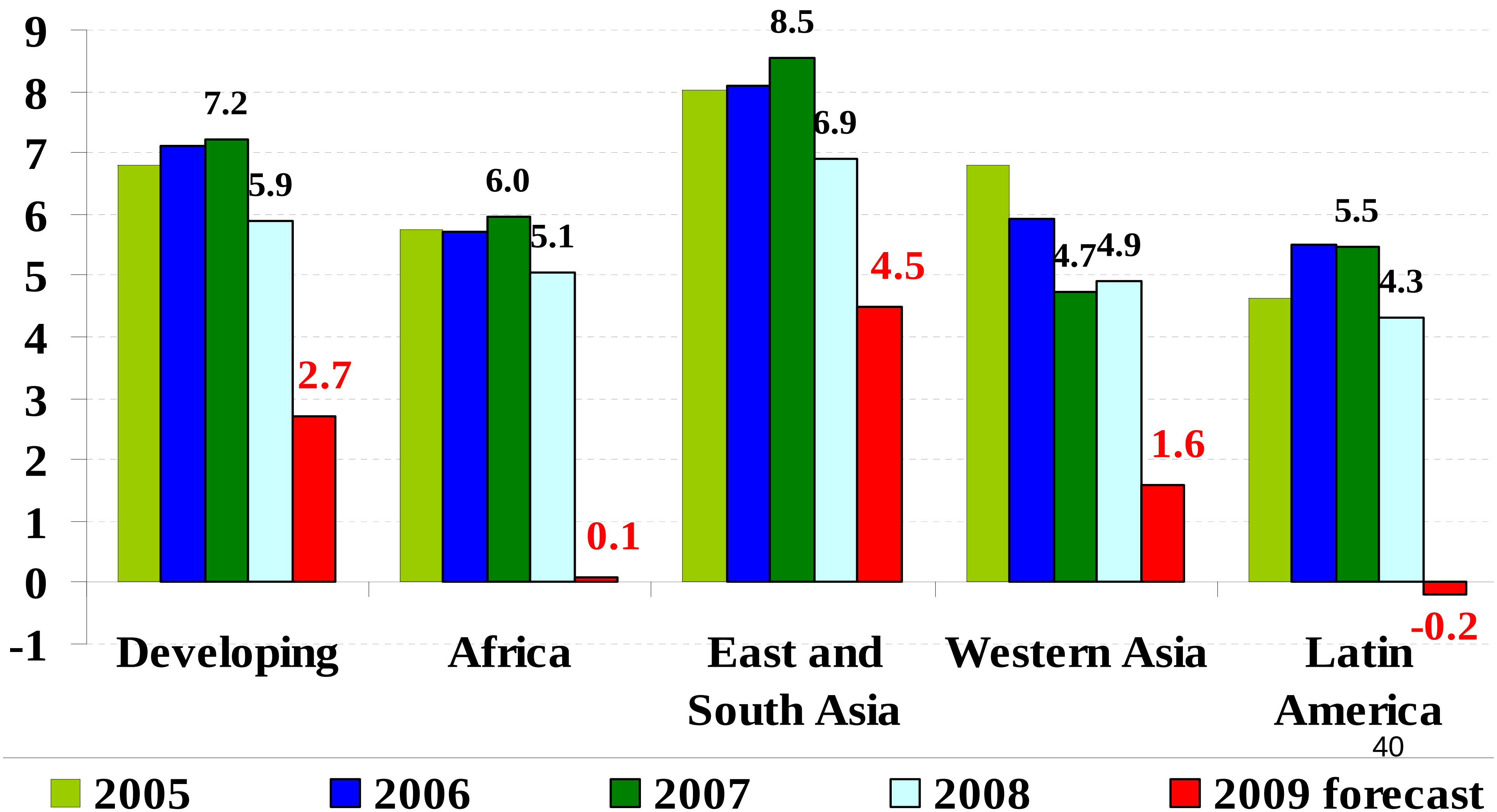
Mahalo, Спасибо, Vinaka, Kiitos…

Unused Slides follow

Recession in most developed economies



Slower growth in all developing countries



Growth by main regional groups

	Per capita GDP growth rate			Change in growth rate	
	2004-07	**2008**	**2009**	***2009/ 2008***	***2009/ 2004-7***
World	**2.6**	**0.9**	**-3.4**	**-4.3**	**-6.0**
Developed economies	**2.1**	**0.3**	**-4.1**	**-4.4**	**-6.1**
USA	1.6	0.1	-4.4	-4.6	-6.0
Japan	2.1	-0.6	-5.9	-5.3	-8.0
European Union	2.4	0.7	-3.4	-4.1	-5.8
Economies in transition	**7.7**	**5.5**	**-2.6**	**-8.1**	**-10.2**
Developing economies	**5.7**	**4.0**	**0.1**	**-3.9**	**-5.6**
Africa	3.4	2.5	-1.0	-3.5	-4.4
North Africa	3.6	3.6	1.4	-2.3	-2.2
Sub-Saharan Africa	3.6	2.2	-1.9	-4.1	-5.5
East and South Asia	7.3	5.0	1.8	-3.2	-5.5
East Asia	7.8	5.3	1.8	-3.5	-6.0
South Asia	6.5	4.9	2.6	-2.4	-3.9
West Asia	3.7	2.6	-1.2	-3.8	-5.0
Latin America + Caribbean	4.0	2.7	-3.0	-5.8	-7.0
LDCs	**5.2**	**3.6**	**0.3**	**-3.3**	**-4.9**
LDCs excl. Bangladesh	*5.4*	*3.4*	*-0.6*	*-3.9*	*-6.0*

What is Needed for Development – Contrary View

Sustained investment (capital accumulation)

- Stable, non-volatile, growth
- Public sector: strategic guidance and investment
- Private sector: higher returns on risky ventures

Thus, state involvement and capability in structural change required

For Sustained Investment

Ability to influence the volume of investment and skew rates of return on private investment

- management of trade and competition from imports
- management of capital flows

Ensuring financing for investment

- maintain orderly predictable external capital flows
- Reinvestment of trade surpluses