



Beyond the crisis: Keeping markets open?

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Moderator: **Larry Elliott**, Economics Editor, *The Guardian*, United Kingdom

Sharan Burrow, President, Australian Council of Trade Unions

Alfredo Vicente Chiaradia, Secretary of Trade and International Economic Relations, Argentina

Jean-Christophe Donnelier, Directeur des relations économiques internationales, Ministère de l'Économie, des Finances et de l'Industrie, France

Jean-Luc Gréau, Economist, JLG Economic Studies, France

Tim Groser, Minister of Trade, New Zealand

Pascal Lamy, Director-General, WTO

International trade is down 16%, the steepest drop since the Second World War. And yet there is still no concrete sign of a protectionist backlash. Larry Elliott asked panellists if such a reaction is on the horizon and if so, would that be a problem?

Pascal Lamy said that world trade is projected to fall by 10% this year, and the pain will be far-reaching, due to the multiplier-effect of trade. He cited difficulties in financing investment as one of the causes of the collapse in global trade. With banks and financial institutions becoming more risk-averse, there is a drought in liquidity, he explained. But trade rests on the decisions made in domestic politics, as well. Given this, Mr Lamy listed four crucial factors that will bring about a more robust, fairer trading system: resisting the temptation to resort to protectionist measures; providing adequate social safety nets; adhering to international agreements; and deciding upon how globalisation will take place. In response to Mr Elliott's question on where to draw the line between social protection and protectionism, Mr Lamy said that the critical question is: "is it legal?" That is, measures for social protection must be judged on whether they follow clear guidelines and do not distort international trade.

In the absence of Anne-Marie Idrac, **Jean-Christophe Donnelier**, who replaced her, largely echoed the concerns and opinions of Mr Lamy. With trade and investment falling dramatically, he was relieved to see that there were no global movements toward protectionism. But he warned that we could not let our guard down and had to continue to fight moves toward protectionism. He emphasized the WTO's role to monitor countries' trade and protectionist policies. For future trade to be fairer and better regulated, he said, there should be reciprocity between countries engaged in trade. This was directly linked to the need for internationally shared rules and regulations that are enforced.

Jean-Luc Gréau offered a different diagnosis of the current crisis. He argued that the underlying cause was that of a drop in demand rather than tight credit. Although the 1980s and 1990s saw surges in international trade, consumption and economic growth, mostly fueled through unsustainable leverage, working conditions and wages have succumbed to downward pressures, partly due to globalisation and offshoring. Adequate wages, he argued, were key to increasing demand. He rejected the claim that protectionism was universally negative and would seal off markets. Protectionism, he argued, could allow producers to work closer to their customers and could spur more intra-regional trade. This would keep jobs closer to home and ease pressure on wages.

Acknowledging that open trade will be vital for recovery, **Sharan Burrow** said that Forum discussions might be overlooking the “fundamental fault lines” that were widening even before the crisis. Capital flows to developing countries are down 28% from 2007 levels, suggesting that full recovery is still a long way off. Moving forward, the debate should be framed in terms of the space nations have to develop decent jobs, growth and sustainability policies. Developing nations should be granted a fair share of production in the development of green industries, she said. A global minimum might ensure fairer standards for workers in developing countries who too often are denied fundamental rights, earn a declining share of wages compared to profits, and suffer serious damage to the environment. Governments and the multi-lateral system should use the recently adopted ILO global jobs pact as a tool to realising a more sustainable employment outlook. The global crisis is “a bitter crisis of unemployment,” she said, “and workers who are victims of the casino capitalism that caused the crisis will not be satisfied with a return to business-as-usual.” The globalisation model that grabbed jobs and markets from others should be replaced by a new form of globalisation that favours domestic growth and contributes to the development of all, she said. She also pointed out the difference between protection and protectionism, and between a globalization that combines social and economic goals and one that is purely economic and harms the social side. Nor were international labour standards a form of protectionism, Ms Burrow maintained.

Alfredo Vicente Chiaradia said that the session title implies that markets are open, but in reality, openness of trade varies across products. Trade tends to be fairly open in areas where developed countries are competitive and closed in areas such as agriculture, which should favour developing countries. Open markets should be characterised by greater symmetry. In order to argue effectively against protectionism, he said, it’s important to know who makes the rules, to contextualise trade situations, and evaluate how different countries are faring. Whereas poorer countries prefer broad measures, rich countries favour more subsidies, first, because they can afford them, but also because subsidies allow for a certain level of ambiguity so that those countries can conduct business as they choose while criticizing others. “Do not apply different yardsticks,” warned Mr Chiaradia. The system has to become more sophisticated

to take into account what measures are most effective. While it might be better in the short term to resist protectionist measures, he said, at some point it will be necessary to analyse the reasons behind protectionist pressures. He urged for agreement in the current Doha round, which he sees as a means to promote sustainable development and inject greater equity into the global trade system.

Regarding the current Doha negotiations, **Tim Groser** agreed it was imperative “to close this deal.” The \$150 billion of stimulus contained in the agreement will come at the right time for recovery. He evoked a “bicycle theory of international trade” that says that the system is either moving forward or backwards. Unfortunately, he said, certain political interests are keeping the bike motionless. The WTO, however, need not be considered a uniform system as it “allows for greater political choice”, he said. Greater protectionism cannot be regarded as a solution. The only nation completely unaffected by the global crisis is North Korea because it never participated in global trade to begin with. Is this the better choice?” Mr Groser asked. Conversely, (South) Korea illustrates how well the system can work. The gains they have made compared to the North since 1960 could never have been possible without the benefits of international trade. “This is where I sit,” said Mr Groser, “and this is where the international community should sit.”

Ken Ash, Director of the OECD Trade and Agriculture Directorate and a member of the audience, commented that a fair multilateral system and open markets were indispensable. He also underlined the need for flexible labour markets and stronger social safety nets in order to weather out crises like the current ones.

In response to a question from the floor about “smart protectionism”, Mr Lamy said that there was no proposed working methodology for such an approach and the distinction with outright protectionism was unclear.

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