Part six
Conference reports
Trade-led growth is still a sound strategy

Report from the ARTNeT 5th Anniversary Conference

*Trade-led Growth in Times of Crisis*

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Not surprisingly a diversity of views were expressed at this research conference, that took place on 2-3 November 2009 in Bangkok at the United Nations Conference Centre. The purpose of this report is to summarise a number of the leading positions advanced at this conference. Those positions addressed the implications of the global financial crisis for different aspects of trade and development thinking and policymaking.

Apart from concluding remarks, for the purpose of this report the arguments made at the conference are separated into two groups. The first set of arguments examined to what extent the crisis required a new understanding of trade flows and associated development processes, often with implications for the complementarities between trade reform and other policy initiatives. The second set of arguments explored the extent to which the crisis had altered – or revealed – the political economy of trade reform.

In addition to opening and closing sessions, the conference involved two high-level plenary sessions and several parallel sessions. As it was impossible for any one person to attend multiple parallel sessions simultaneously, this report will focus on deliberations at the two half day-long plenary sessions.

A. The crisis and our understanding of trade and development dynamics

As it happened much of the discussion in the plenary sessions on the implications of the recent global economic crisis for our understanding of the analytics of trade and development centred on three perspectives, each of which is discussed below.

One speaker noted that it was often claimed that exposure to international trade had made developing countries more vulnerable to shocks. This speaker did not deny that volatility in world markets and the like existed. Rather, it was pointed out that national economies contain sources of volatility too. On this view, openness to the world economy alters the mix of volatility faced by a country; this aspect of openness could, it was suggested, be thought of in the same way as the diversification of a financial portfolio comprising assets with different degrees of volatility. No new analytical tools were needed to develop this perspective, it was noted.
The same speaker also provided a theoretical rationalisation, using well known analytical tools, for the existence of large current account imbalances. Differences in supply side capacities combined with differences in valuation of current versus future consumption could account for such imbalances. The speaker noted, however, that current imbalances have capital flowing from poorer to richer countries, which is counter to the predictions of frameworks where the payoff to investment projects are higher in poorer countries than in richer countries. Still, it was possible to amend existing frameworks to account for “excess” saving in poorer countries that was said to be one determinant of current account imbalances. Making reference to Chinese and United States experience, the speaker argued that this perspective should lead analysts to ascertain what factors lead to the very different savings rates observed in these two countries before the crisis. On this view, trade is merely the vehicle by which other underlying differences between economies manifest themselves. It is, therefore, those differences that should be the primary concern of policymaking; attempts to limit trade would not tackle the underlying causes of current account imbalances.

A second speaker was more critical of so-called mainstream economic models. This speaker contended that these models never allowed for the possibility of systemic failure, and therefore shed little light on the causes and ongoing dynamics of crises. Too much faith, it was said, was put in the efficiency of financial markets. Although no alternative framework was proposed or referred to by this speaker, it was asserted that more active exchange rate management was needed to limit one important source of financial instability.

Traditional supply-and-demand considerations were invoked by a third speaker to account for food and fuel bubbles that were witnessed before and during the first part of the global financial crisis. Presentation of this viewpoint prompted others to suggest that speculation had also influenced the prices of these commodities, a view that revealed that conference participants were not at one with the proposition that speculation helps stabilise markets. It was argued that export interventions (be they subsidies by industrialised countries or restrictions by many countries, both rich and poor) added to the volatility of international food prices, suggesting that the existing policy mix may well have inadvertently contributed to outcomes that harm the poor.

Making a link between these bubbles and the important matter of food security, this speaker argued that supporting greater research and development in agriculture in developing countries was a more effective response than closing agricultural markets to international trade, including invoking export restrictions. More generally, the speaker noted that often the legitimate objectives of government in the food security and related areas could be best accomplished by measures not traditionally associated with discriminatory trade policy. For example, the development of rural safety nets would be more effective than border measures that raise the price of food for developing country consumers (that include the poor.) Steps to develop the institutions enabling water markets needed greater priority in the years to come.

Despite the diversity in subject matter and perspective, it is noteworthy that when speakers felt the crisis called for new policies those policies were not discriminatory trade
policies. Moreover, in the case where new analytical perspectives was called for the assumptions attacked were not specific to the standard toolkit of international trade researchers. It would be difficult to contend, therefore, that this conference resulted in a new trade and development framework for the Asia-Pacific or even calls for the development of such a framework. Participants, it seems, were by and large satisfied with existing tools. This is not to say that participants did not recognise that the many legitimate objectives of government often require a broad-based policy response including commercial and, importantly, other complementary policies.

**B. The crisis and the political economy of trade reform**

Although repeated reference was made to developments at the World Trade Organization (WTO) in particular to the Doha Development Agenda (DDA), speakers and participants recognised that political economy forces and reform imperatives play out at the national, bilateral, regional, as well as multilateral levels. Three of the plenary presentations and associated discussion are particularly relevant here and this provides the subject matter for this section.

At the core of one speaker's analysis of contemporary political economy dynamics was the observation that support for trade reform in leading industrialised economies, such as the United States and the members of the European Union, was declining. The populations, and perhaps more importantly the business communities, of these jurisdictions appear to be losing faith in open markets. The speaker suggested that has manifested itself during the DDA negotiations and the recent global economic crisis was said to have reinforced the disenchantment with trade liberalisation.

In contrast, support for further global economic integration was higher and growing among the fast growing Asia-Pacific region, the same speaker argued. Extra- and intra-regional trade was expanding too, reinforcing the link between trade and prosperity. This contrast led the speaker to contend that no one should assume that the multilateral trading system would be sustained by its traditional postwar supporters and that Asians, as the principal contemporary beneficiaries, should take a leadership role at the WTO. Specifically, this speaker recommended that three steps be taken. First, that the traditional intellectual consensus for free trade be reinforced, especially in the certain industrialised countries where it is under attack in the media. Second, that a political consensus be developed within East Asia to provide global leadership for the WTO. And, third, that networks be developed within the Asia-Pacific region to encourage more Asian voices to speak out on trade matters.

A second speaker noted that the global financial crisis had altered some fundamental factors in the world trading system while other longer-standing challenges facing the WTO remain to be addressed. While international trade flows were expected to fall by 10 per cent in 2009, a substantial setback given the postwar track record, protectionism on the scale of the 1930s had been avoided. Still, the crisis would have longer term implications for international commerce not least because of the impact of falling financial wealth on consumption levels, the reorientation of some countries' aggregate
demand away from export sources, disruption to supply chains and trade finance, and the potential ending of the so-called Great Moderation in macroeconomic performance. How these factors would ultimately play out was not clear at the moment, but they would surely reorder the interests in favour or against openness and the political viability of export-led growth strategies. Uncertainty, in particular as it relates to job losses, was said to lower support for globalisation too.

With respect to the WTO, this speaker argued that it faced four enduring difficulties all of which call for greater leadership on the part of member governments. It was said that the WTO was having difficulties managing diversity among its large membership; that WTO had not managed the co-existence of regionalism (that is now entrenched) with the principles and operation of the multilateral trading system; that decision-making processes could be refined; and that the failure to conclude the DDA was a particular concern. Any atrophy of the multilateral trading system would be unfortunate at a time when climate change was going to be added to the list of issues that can only be effectively dealt with at the multilateral level. Worse failure to revitalise the WTO, it was argued, might ultimately jeopardise its binding dispute settlement understanding which for many, including many in smaller countries, is one of the jewels in the crown of the world trading system.

An alternative, perhaps less WTO-centric perspective, was taken by a third speaker. While the crisis had had awful economic consequences, it was argued that there was some good news in the past 12 months. With the exception of some missteps by the United States, the European Union, and China, there has not been the surge in border protection that many feared would happen at the turn of the year. Many of the largest developing countries have not used the so-called water in their tariff schedules to raise applied tariffs up to legal maximums. Moreover, trade matters appear to have been well managed through the G20 process and could bring further order to the world trading system (on this point see more below.)

Having made the case that some matters went well during the past year, this speaker recognised that the prospects of signing ambitious binding trade disciplines were bleak. There was a declining appetite for trade reform in many countries and in some sectors (such as agriculture and services) the demand for future reform was weak or non-existent in certain jurisdictions. Many governments only had the support of small majorities in legislatures and this made it easier for entrenched interests to oppose further opening of national economies.

Moreover, the emasculation of the European Union’s subsidy regime during the past year surely points to the limits of signing new binding rules when there is insufficient national support for them. Indeed, this speaker argued that it was necessary to shore up support for reforms in domestic politics and not rely solely on international fixes. Australia’s early experience with its Productivity Commission providing impartial evidence on different policy options was said to offer lessons for other countries.

In addition to reinforcing domestic allies of openness, the third speaker argued that there might be an opportunity in 2010 for progress on trade matters at the G20. Canada and Republic of Korea will share the leadership of the G20 during the coming year and, while
both countries have widespread trading interest, proposals from either are unlikely to engender the fear that generated by others. This opportunity should be taken, it was argued, to kick-start the services negotiations of the DDA (which is an important building block of any final accord) initially through an informal G20-centred process and to create the information flow from the relevant international organizations necessary to monitor the unwinding of government intervention taken during the crisis. In this manner the G20 would reinforce its position as the premier organisation of global economic governance.

C. Concluding remarks

While this report summarises the principal arguments advanced at ARTNeT’s 5th anniversary conference, it is worth noting that certain important propositions relating to trade and development were not raised. It was telling that no speaker or participant openly questioned the export-led growth model that has been pursued by many countries in the Asia-Pacific region. Indeed, the calls from others located elsewhere for a reorientation of economic growth towards domestic sources were not discussed or evaluated. More generally, there were no calls for generalised disengagement from the global economy after the crisis. These observations may reveal something about the similarities and differences in underlying assumptions concerning trade and growth dynamics held by experts in Asia-Pacific region and elsewhere.