

Trade and the Financial Crisis

March 27, 2009



Richard Baldwin

→ Presentation 1

Richard Baldwin

The collapse of global trade, murky protectionism, and the crisis: Recommendations for the G-20

Professor Baldwin, who recently published an ebook titled "The collapse of global trade, murky protectionism, and the crisis: Recommendations for the G-20," began by expressing his concern over the level of commitment world leaders placed behind their pledges made at the G-20 summit in November 2008. Baldwin also pointed out the fragility and interconnectedness of the world financial system and how those characteristics have shaped the crisis. Regarding the crisis denouement, he emphasized that uncertainty among investors and consumers is causing devastating effects on both manufacturing and global market for trade, which is experiencing a synchronized and severe collapse.

Baldwin laid out two potential scenarios, with the more likely one resulting in governments experiencing increasing difficulty resisting domestic protectionist pressures as the

CEPR and RIETI held a "Trade and Financial Crisis" mini-workshop to discuss the impact of the current financial crisis on trade and how to contain protectionism. The guest speakers included Professor Richard Baldwin, Graduate Institute and Policy Director of CEPR; and Ms. Naoko Munakata, Director of the Multilateral Trade System Department of METI; with Dr. Akira Kotera, Professor of International Law and International Economic Law at the University of Tokyo; and Dr. Keiichiro Kobayashi, RIETI Senior Fellow serving as commentators. The speakers' presentations and policy proposals were followed by an enthusiastic discussion.

crisis persists. The nightmare scenario, on the other hand, is one where countries that have relied both economically and politically on export-led growth might attempt to protect their domestic economies through measures that could cause retaliation from other countries. Baldwin concluded his remarks with a proposal for G-20 ministers to agree to five crisis-related policies: (1) Standstill commitments with surveillance by either the WTO and/or other independent bodies; (2) Development of exit strategies to remove any crisis-linked protectionism after the crisis has passed; (3) Getting Doha back on track, especially with a few additional concessions from the United States and EU; (4) Avoiding green protectionism; and (5) Institutionalizing the trade agenda in the G-20.

→ Presentation 2

Naoko Munakata

Fighting against protectionism: The view from the frontline

Ms. Munakata next presented a summary along with her observations on the trade barriers that have been imposed or are under consideration in various countries. She explained

the trade measure surveillance role that METI and related organizations in the Japanese government had taken on since the turn of the year and noted that quick consultations with governments before barriers are introduced have been somewhat effective in alleviating trade-restrictive measures, especially in cases where producers in a host country would suffer adverse effects from more expensive imports.



Naoko Munakata

She also pointed out that anti-dumping measures, which are under negotiation in the Doha Round, have assumed additional importance given the current economic crisis. Regarding subsidies, which only rich countries can afford, countries have more room to deploy them under the pledge made at the November G-20 summit than to raise tariffs or other trade barriers. Munakata observed that transparency and peer pressure are important means of ensuring that the subsidies are both non-sector specific and nondiscriminatory.

Wrapping up her analysis of trade barriers, she illustrated the options at hand for fighting protectionism: monitoring and peer pressure, safe harbors, setting time limits for crisis-related trade measures, standstill pacts, and concluding the Doha Development Agenda (DDA). Munakata also emphasized the importance of the DDA as a comprehensive solution, and expressed concerns about the deteriorating support within the U.S., among members of Congress and industry leaders, for an early conclusion of the DDA. In her closing remarks, she noted that what needs to be done is clear, and the question is whether we can muster the political will to achieve those objectives.

→ Discussion

Professor Akira Kotera

spelled out two points. First, he noted that one of the major differences between the 1930s' protectionist war and the present situation is the WTO, which was not around in the 1930s. The WTO has detailed regulations with a strong dispute



Akira Kotera

settlement mechanism that restrains the adoption of blatant protectionist measures. As a consequence, most measures are either tariff increases that fall within bounded rates or subsidies that have not been prohibited outright. Second, DDA is not an adequate forum to deal with a surge in protectionism because it is primarily a part of the permanent structure of the WTO. Instead, Kotera suggested that G-20 countries should agree on a temporary commitment not to raise current tariffs and to provide only subsidies that are non-discriminatory and market oriented.

Dr. Keiichiro Kobayashi made a short presentation on the financial crisis and focused on the vicious circle of the ongoing "balance sheet trap" that was also a problem experienced by Japan a decade ago. According to Kobayashi, the balance sheet trap occurs when the balance sheets of financial institutions become hampered by bad assets, which increases uncertainty and depresses domestic demand. The two options for dealing with the trap are expanding domestic demand in countries other than the U.S., and repairing the balance sheets of banks and firms in the U.S. by eliminating bad assets from the financial system. Remarking on the dispersion of bad assets throughout the world, Kobayashi concluded by emphasizing the importance of coordinated action among G-20 countries for the disposal of bad assets.