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Trade policy in a time of crisis: Suggestions for developing countries

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The world is enduring the worst economic setback since the Great Depression. Real estate and share prices have fallen sharply; major firms are failing; credit conditions are extremely tight; manufacturing production has dropped like a stone; commodity prices have plunged; and unemployment is rising everywhere.

Major central banks are riding to the rescue with near-zero interest rates, deposit guarantees, emergency loans to private firms, and the purchase of corporate debt. The US, other advanced countries, and a few emerging nations with ample reserves are enacting huge fiscal stimulus programs. The G20 has promised to boost the resources of the IMF and the Multilateral Development Banks by over $1 trillion. But even these unprecedented monetary, fiscal and international resource measures will take time to put the world on the road to recovery. Misery is widespread and could last well into 2010.

Impact on the world's poor

Poor countries are especially hard hit. According to the World Bank, slower economic growth in 2009 will add an additional 53 million people to those living on less than $1.25 a day and 64 million to those living with less than $2 a day (World Bank, 2009). This figure comes on top of the 130-155 million people pushed into poverty by soaring food and fuel prices during 2008. . As World Bank President Robert B. Zoellick stated: 'While much of the world is focused on bank rescues and stimulus packages, we should not forget that poor people in developing countries are far more exposed if their economies falter. This is a global crisis requiring a global solution. The needs of poor people in developing countries must be on the table' (Giles and Barber 2009).

Most of the afflicted countries in Africa, Asia and Latin America lack the policy space to undertake massive public spending or monetary ease, as doing so would destroy their currencies, spark wild inflation, and create a surge of corruption. What can these countries do instead?

Foremost they are seeking financial assistance from the IMF, the World Bank, regional development banks, and bilateral aid programs (IMF 2009). In February 2009, World Bank Chief Economist Justin Lin (2009) proposed a $2 trillion rescue program over five years devoted to infrastructure projects, which would be financed by OECD countries and emerging nations with ample reserves (such as China). This creative and bold idea evidently attracted serious attention from the G20, and the outcome, as mentioned, was a commitment to increase the resources of the international financial institutions by over $1 trillion, with the possibility of further enlargements depending of the depth and duration of the slump. Implementation, however, will take time.

Trade policy as self-help

Meanwhile, as a means of national self-help, many poor countries are asking whether a change in trade policy might relieve some of the pain. Leaders know the follies of the Great Depression, when world trade was cut two-thirds by a combination of collapsing economies and spiralling protection (Between 1929 and 1934, world exports plunged from 33.0 billion US gold dollars to 11.4 billion US gold dollars. Expressed in 2007 dollars, using the US GDP deflator index, 1929 world exports were $384 billion and 1934 exports were $159 billion (between 1929 and 1934, prices measured by the GNP deflator dropped by 17%) (League of Nations 1935)). But the leaders of impoverished nations are under tremendous pressure to take immediate steps, and trade policy is one of the few levers at their disposal. Moreover, these leaders see examples in the rich countries. The US, with its Buy American rider to the stimulus bill; Britain with a bout of financial protection as private banks pull funds from emerging markets; and France with an aborted proposal to shut auto production in the Czech Republic and move the jobs back home.

Currently international trade is contracting fast. As

WTO Director General Pascal Lamy recently put it (2009) 'Trade has become another casualty of the global economic crisis'. With the fall in availability of trade finance and the downturn in demand, the WTO has revised its downward estimate for world trade to predict a drop of around 9% in 2009 in volume terms, the first fall after 27 years of uninterrupted expansion and the biggest contraction since the Second World War. According to our estimates, world merchandise exports in 2008 were around $15,800 billion compared to $13,900 billion in 2007, a 6.6 increase in due to the strong showing in the first half of 2008. However, with the predicated decline by the WTO in world trade this year, the decline in trade in 2009 will be around $1,400 billion (in 2008 US dollars), bringing total exports down to $14,400 billion.

Many developing countries, particularly the most successful, have become highly integrated into the world market, with trade accounting for more than half of their GDP growth. The decline in trade will hit them especially hard. Recently the Brazilian President Lula da Silva, positioning his country as a leading advocate for emerging countries in the G20, expressed concern about the decline of world trade and the rising wave of protectionist measures. He made this topic his top priority for discussion during his first meeting with President Barack Obama (Wall Street Journal 2009).

And just as world trade has grown faster than world output during the large majority of our post-war period, trade has also contracted faster than output during periods of recession.

Before turning to policy advice for developing nations, we survey episodes of trade protection that have erupted since September 2008, and commitments by world leaders to resist protection.

Smouldering protection

To inform our discussion of developing country options, Tables 1a and 1b (see Appendix) summarise new and worrisome measures affecting trade adopted since September 2008, a date we choose as that was when the crisis entered its acute phase with the failure of Lehman Brothers. In drawing up this analysis, we have drawn heavily on data gathered by Elisa Gamberoni and Richard Newfarmer (2009). Table 1a lists new and worrisome measures adopted by developed countries; Table 1b lists the same for developing countries.

A quick reading of the tables Tables 1a and 1b shows that, as a general observation, the type of measures differs between developed and developing countries. Developed governments have provided low-interest loans to the automobile industry in particular and small businesses, as well as financial bailouts to banks. Developing country governments, lacking deep pockets, have focused on overtly protectionist actions such as border measures (increased tariffs, import quotas or bans, import licensing for certain products or various non-tariff inspection procedures for customs clearance). This distinction between the types of measures recently adopted by developed and developing economies was first made in Gamberoni and Newfarmer, 2009. For example, Mexico, until recently one of only three G20 countries that had not yet imposed protectionist measures since the November 2008 pledge, limited imports of used diesel trucks and tractors weighing more than 3,857 kilos to models 2004 and newer, with a prohibition on older trucks and tractors entering the country. Although purportedly for environmental reasons, the protectionist impact, though limited, is evident (SEMARNAT 2009). Moreover, the measure appears to violate Mexico's obligations under the NAFTA. Only a few developing nations have been able to offer low-interest loans to exporters (Brazil, Chile, Colombia, Uruguay).

The table contains a wealth of information. To organise this into a useful form, we distinguish four types – financial measures, investment measures, job protection measures, and trade measures – and discuss examples of each.

• Financial measures: Measures involving financial protection do not violate existing international obligations; even worse, they are usually invisible and easily denied. WTO and FTA rules simply do not cover measures taken with the intent of protecting financial markets, nor is this phenomenon addressed by agreements reached under the auspices of the Bank for International Settlements (BIS) (Tarullo 2008) or the Financial Stability Forum (FSF 2008)) In the WTO context there are no disciplines on subsidies in the GATS (General Agreement on Trade in Services), so it would be impossible for a WTO panel to judge whether bank bailouts would be regarded as downstream subsidies to their industrial customers.

Financial protection occurs when major banks – headquartered in centres such as New York, London, Frankfurt and Tokyo – give preference in their lending decisions to borrowers at home rather than borrowers abroad. This is most likely to erupt when the bank in question has been nationalised or effectively backstopped by its home government and placed under pressure to take such steps. Financial protection is most insidious, with the purpose not of keeping foreign banks out of markets but of steering domestic banks towards supporting investment activities and jobs at home.

In the most prominent case, after the British government took majority control of the Royal Bank of Scotland in November 2008, it was instructed to sharply increase lending to British companies and home buyers and to curtail its lending to customers overseas. According to reports months later, RBS has retrenched in at least 15 countries and has sold off branches in countries from Vietnam to Argentina, Pakistan, the Philippines and Romania, as well as 65 of its subsidiary branches in the US (Washington Post 2009, p.1 to 10). Likewise, Lloyds Bank has been instructed by the British government to increase lending at home by an equal amount of $36 billion a year for the next two years (Washington Post 2009, p. 10).

Many large banks are now surviving on lifelines from their governments – to mention the headlines, Citigroup, Bank of America, Anglo-Irish, UBS, and Credit Lyonnais – and with no public notice these banks could be influenced by public opinion, their political overseers, or their regulators to favour domestic lending. The Swiss government encourages banks to favour domestic loans by ignoring them when calculating the capital its banks need to hold, while foreign loans are counted in full (The Economist 2009, p.9). ING, a Dutch bank, announced as part of the government assistance package that it received on January 26th, that it would be extending 25 to 32 billion Euros in lending to Dutch businesses and consumers in return (The Economist 2009, p.70). And the governor of the Greek Central Bank has warned Greek banks against using funds from a $28 billion government assistance program to prop up their subsidiaries in Eastern Europe.

• Investment measures: Existing international obligations scarcely limit, if at all, the scope for investment protection. Like financial protection, investment protection can be easily hidden from public view.

Investment protection erupts when a country gives policy guidance to its domestic non-financial firms to pull back on their investments or operations abroad. It can also occur when governments provide subsidies through low-interest loans to the operations of domestic firms to see them through difficult economic times. Such guidance has the greatest force when it is proffered to firms that depend on government support for their survival. However, tax policy can also be designed to favour investment at home rather than investment abroad. At the Democratic Convention, held in late August 2008, Senator Obama declared: 'Unlike John McCain, I will stop giving tax breaks to corporations that ship jobs overseas, and I will start giving them to companies that create good jobs right here in America.' In his State of Union address on February 23, 2009, President Obama again declared: 'we will restore a sense of fairness and balance to our tax code by finally ending the tax breaks for corporations that ship our jobs overseas.' If translated into new tax policy that penalises investment abroad by US-based MNCs, these sentiments would be a form on investment protection.

Right now, in the non-financial sector, auto firms are the object of most measures of investment protection, since auto sales worldwide have collapsed, and prominent firms need government support to survive (Brunel, Claire and Gary Clyde Hufbauer 2009). Government support can easily be accompanied by advice to pull back abroad. France is the headline example, since the French government indicated to Renault and Peugeot PSA that they should slim operations in the Czech Republic before trimming jobs in France. Fortunately, at the insistence of the European Commission, the French government withdrew its advice, but of course the managers of Renault and Peugeot PSA know how the wind is blowing. GM and Chrysler desperately require support from the US Treasury and other governments to stay afloat, and some degree of investment protection could be an unstated part of the policy package.

Again, WTO rules are of little help in restraining investment protection. The WTO Agreement on Trade-Related Investment Measures (TRIMs) limits incentives granted to multinational corporations (MNCs) that are designed to boost host country exports or local procurement of parts and components. It would be a legal stretch to extend these provisions to the contemporary phenomenon of investment protection.

The WTO Agreement on Subsidies and Countervailing Measures (ASCM) might have some role, but only in the event that investment protection eventually serves to boost exports, or limit imports, in a manner that has an adverse trade effect on the industry of another country (The adverse trade effect could be 'serious prejudice' or 'threat of serious prejudice' for a case brought to the WTO, or 'material injury' or 'threat of material injury' for a case brought to a national authority that decides countervailing duty complaint). If that happens, it could be years after the initial investment protection. Under the provisions of the ASCM, only when such subsidies cause 'serious prejudice' or the 'threat of serious prejudice' to imports from another WTO member, would they fall in the category of measures inconsistent with ASCM rules. Given the legal grey area surrounding domestic subsidies, it is not obvious that the low-interest loans provided by governments to the automobile industry and to small business are necessarily inconsistent with the ASCM measures, although to the extent that they are directed at firms that export a substantial percentage of their output, or to firms that compete heavily with imports, they are more likely to fall in this category. While the EU was preparing a complaint for the WTO on the low-interest loans provided by the US government to the automobile sector due to their potential to negatively affect its own car exports, the Commission decided not to submit this when it became clear that similar support was also being provided by EU members (Spain, Germany, Sweden, Italy).

Nor are rules under FTAs or bilateral investment treaties (BITs) likely to be of much help. These rules are largely designed to protect the right of establishment and national treatment for MNCs that venture from their home base in one treaty partner to conduct operations in the other treaty partner. The rules are not designed to ensure that MNCs maintain a customary level of investment or operations abroad.

• Job protection measures: The WTO does not establish international obligations for most forms of job protection; existing regional free trade agreements only remotely address the issue; however, the EU, CARICOM, and other customs unions do afford protections to workers from other member states.

By job protection, we mean public protest against recent immigrants in favour of native-born workers. This phenomenon has erupted in Britain, Ireland, and the US, and was translated into official policy by Malaysia (foreign workers first). In the US, the Employ American Workers Act (EAWA) was folded into the stimulus bill and has made it harder for companies receiving government support to hire skilled immigrants with H-1B visas. Companies must show that they have not either laid off or plan to lay off an American worker from a similar occupation before they can hire a foreign national. This means that the over 400 US firms who have received money from the Troubled Asset Relief

Program (TARP) will be obliged to follow these restrictions on hiring foreigners (Danos, Slaughter and Hansen (2009), The authors point out that according to the National Science Foundation, 42% of PhD science and engineering workers in the United States at present are foreign born.) There are already informal reports from foreign students that job offers from US financial firms have been revoked as a result of this provision and many are returning home after their graduate studies to try and find alternative employment (Vivek Wadhwa (2009), the author writes that of the 80 or so international students in the Master of Engineering Programs at Harvard and Duke Universities, nearly all of them are returning home permanently because of the near impossibility of obtaining an H-1B visa).

The danger of adopting measures for job protection reasons is highlighted by the dispute between the US and Mexico over trucking, sparked by the recent US action under the Stimulus Bill to cancel a pilot program that gave Mexican truckers access to US highways. This right to cross-border trucking is legally required under NAFTA and was upheld by two previous panel decisions, now ignored by the US. As a result, Mexico has raised tariffs on 89 American products worth $2.4 billion in annual trade in retaliatory action. American fruit, wine and washing machines will be among the goods affected (Diario Oficial de Mexico, 2009 and White and Case, 2009). Labour rules are not subject to WTO obligations, other than the very limited bound market access commitments found in the GATS Agreement for the temporary movement of natural persons, known as Mode 4. Indeed, at the Singapore WTO Ministerial meeting, held in December 1996, WTO members by a large majority rejected a US proposal that labour should be put on the negotiating agenda.

By contrast, many regional trade agreements do have labour rules, but these rules address topics that are only remotely connected to current episodes of job protection. One topic is fundamental rights in the workplace (based on ILO Conventions), such as the right to form unions, restrictions on child labour, and discrimination based on race or sex. The second topic is rules that either allow workers in certain skilled categories to migrate on a temporary basis (the case of free trade agreements) or to settle and work freely in any member of the regional grouping (the case of customs unions). Within the EU, the Treaty of Rome enumerates free movement of labour among the fundamental principles (along with free movement of capital and free trade).

- *Trade protection measures: While international obligations with respect to trade in goods and services are by far the strongest among the areas of worrisome and potentially protectionist measures we have listed, and while the obligations often create hard ceilings on the extent of permissible protection, considerable head room exists in the WTO arena between current levels of applied protection and the legal ceilings.*

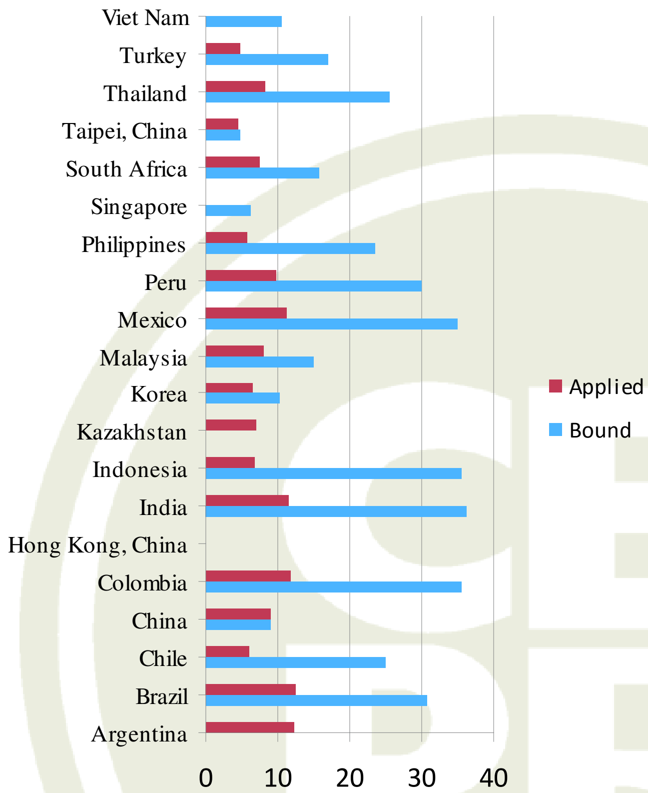
Many of the newly worrisome measure summarised in Tables 1a and 1b are overt instances of trade protection. It would be tempting to claim that many of these violate existing international obligations, but that would be wrong.

For many countries, especially developing countries, there is a great deal of space or 'water' between tariff rates that they actually apply to their trading partners on a most-favoured-nation (MFN) basis, and tariff rates that they have bound themselves not to exceed in their WTO schedules.

Figure 1 illustrates this phenomenon for the top 20 developing country exporters (see Table 2 in the Appendix for a more complete list). A potentially huge negative impact on world trade and welfare could result if all countries were to take advantage of the gap that is currently present in their tariff schedules. By WTO accounts, if all WTO members raised their currently applied tariffs to today's WTO ceilings, tariffs worldwide would double (Lamy 2009). A study by researchers at IFPRI using a sophisticated Mirage CGE model found that raising tariffs to their legally permissible rates would result in a contraction of world trade by 7.7% and of world real income by US $353 billion (Bouet and Laborde 2008).

The potential magnitude for this incipient protectionism is huge. Of the 34 largest trading economies/groups, only eight impose their applied tariffs at or very close to their bound levels (Canada, China, the EU, Hong Kong China, Japan, Macao, Taiwan and the US) (Messerlin 2008). For many of the major developing country exporters, their bound industrial tariffs are often 20 to 40% higher than their applied tariffs. An unpublished study by IFPRI reports that, among developing countries, the frequency of augmenting tariffs above previously applied rates, between 1995 and 2006, ranged between 10% and 33% of tariff lines (Bouet and

Figure 1 Bound and applied tariff rates for top 20 developing world exporters



Laborde (2008). In other words, even before the crisis, raising applied rates was common practice. Patrick Messerlin writes that the Doha Round emerging market economies could increase their applied tariffs on average by 3.5 times without providing compensation to the WTO partners; if this happened it would tremendously dampen world trade (Achard, J. Rupp and P. Jomini, 2008). An unpublished manuscript by Matthew Adler and Gary Hufbauer reports that a reversion to Uruguay Round bound tariff rates would reduce two-way US trade by about 5% (Adler and Hufbauer 2009).

Antidumping and anti-subsidy duties

Trade remedies – meaning antidumping duties, countervailing duties, and safeguard measures – are enshrined in the GATT and the WTO as permissible responses when imports adversely impact domestic firms. Among the trade remedies, antidumping duties are easiest to apply, both because the arithmetic tests to show dumping are not demanding and because the trade impact standard ('material injury') is low.

Tables 3a and 3b summarise the recent evolution in the adoption of antidumping investigations and measures, showing that the number of antidumping investigations was up by 31% in 2008 compared with 2007 and the number of antidumping measures up by 20%. Equally worrying, most of the recent investigations have led to the imposition of actual restrictive measures. As antidumping measures require relatively few financial resources to pursue, and since they lack 'deep pockets' to implement other forms of relief, it may not be surprising that developing countries initiated the large majority of these fresh investigations (73%) and a majority of newly applied measures (55%) (Bown, 2009). Among developing countries, India leads in pursuing antidumping remedies, followed by Brazil, Turkey and Argentina. China was the most frequent target of antidumping investigations in 2008, followed by Thailand and Indonesia, primarily in the iron and steel, chemical and textile sectors).

Table 3a Initiators of antidumping investigations and measures

	2007	2008	Change 2007/2008
New antidumping investigations	143	188	31.5%
Developing countries	85	138	62.4%
Share (%)	*59.4%*	*73.4%*	
Developed countries	58	50	-13.8%
Share (%)	*40.6%*	*26.6%*	
New antidumping measures applied	100	120	20.0%
Developing countries	77	66	-14.3%
Share (%)	*77.0%*	*55.0%*	
Developed countries	23	54	134.8%
Share (%)	23.0%	45.0%	

Source: Bown (2009).

Table 3b Targets of new antidumping investigations

	2007	2008	Change 2007/2008
New antidumping investigations	143	188	31.5%
Developing countries	101	147	45.5%
Share (%)	*70.6%*	*78.2%*	
Developed countries	42	41	-2.4%
Share (%)	*29.4%*	*21.8%*	

Source: Bown (2009).

Other trade barrier measures: Procurement, trade facilitation, standards

Moreover, certain important areas of trade are lightly covered, if at all, by commitments scheduled in the WTO. This is true of government procurement, where only 39 WTO members have signed the Government Procurement Agreement (GPA), and for each member, the agreement only covers the public entities actually enumerated (a 'positive list' approach), and even then some goods and services are excluded from coverage (Hufbauer and Schott 2009).

International obligations are also light in the area of trade facilitation. This is a topic under discussion in the Doha Development Round, but so far no agreement has been reached. Countries are relatively free to operate their seaports, airports, and customs services as they see fit, and in the process can impede imports by channelling commerce through slow lanes. Such measures as those taken by Argentina and Indonesia to tighten customs controls with respect to certain products and/or importers are examples where legality may not be at issue but the trade impact of such measures cannot be questioned.

Other areas where existing international obligations allow some flexibility are trade remedies (antidumping, countervailing duty, and safeguard measures), sanitary and phyto-sanitary standards (SPS), and technical barriers to trade (TBT). The recent amendment by the US Congress of the Lacey Act to require importers of virtually all products containing wood to declare the genus, species and country of origin of the wood used in the products (for all imports classified under HTSUS Chapters 6 or 44) beginning on April 1, 2009, is a clear example of a non-tariff type of action purportedly passing as a stricter SPS measure. A significant amount of trade from nine exporting countries will be affected by the implementation of this new requirement, and six of these are developing exporters (Miller & Chevalier, 2009. The six developing countries most affected by this SPS measure are China, Brazil, Chile, Mexico, Malaysia and Indonesia. Developed countries most affected are Canada, Germany, New Zealand and Italy). Moreover, obligations with respect to services imports are relatively thin and given the relatively sparse coverage of service sectors in the GATS Schedules of Commitments by developing WTO members, this means that countries have considerable room to restrict inward service-related investment or imports without breeching their obligations.

Export credit financing

Lastly, the insertion by governments into the arena of trade finance in order to supplement the drying up of other sources of export credits can constitute another area of covert protection. When the government loans provided to exporters are at less than market rates of interest and contain unusually long pay-back periods, they can undercut the ability of other exporters to compete. While the rules of the OECD Export Credit Agreement should discipline this behaviour for its members, there is no equivalent instrument for developing countries.

Pledges on protectionism

G20 commitments on protectionism

At the G20 Summit, held in Washington on November 15, 2008, world leaders attempted to head off new protection by issuing this statement as part of their larger 'Commitment to an Open Global Economy':

> 13. We underscore the critical importance of rejecting protectionism and not turning inward in times of financial uncertainty. In this regard, within the next 12 months, we will refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organisation (WTO) inconsistent measures to stimulate exports. Further, we shall strive to reach agreement this year on modalities that leads to a successful conclusion to the WTO's Doha Development Agenda with an ambitious and balanced outcome. We instruct our Trade Ministers to achieve this objective and stand ready to assist directly, as necessary. We also agree that our countries have the largest stake in the global trading system and therefore each must make the positive contributions necessary to achieve such an outcome.

The G-7 finance ministers issued a similar statement within their communiqué, after meeting in Rome, on February 14, 2009:

> An open system of global trade and investment is indispensable for global prosperity. The G7 remains committed to avoiding protectionist measures, which would only exacerbate the downturn, to refraining from raising new barriers and to working towards a quick and ambitious conclusion of the Doha round. The G7 also stresses the need to support emerging and developing countries' access to credit and trade financing and resume private capital flows, and is committed to explore urgently ways, including through multilateral development banks, to enhance this support.

Such declarations were certainly helpful, but they did not amount to binding international obligations. In fact, countries remained free to impose a great deal of new protection without breeching their international obligations. While it is widely understood that countries can enjoy this freedom yet still respect the letter of their commitments to the World Trade Organisation (WTO) and their bilateral and regional free trade agreements (FTAs), it is worth emphasising just how much policy space exists. The spectre of protectionist actions began to raise its head in the aftermath of the September 2008 crisis.

Much ink has been devoted to this new danger of economic nationalism and the temptation to try and keep jobs and output in domestic markets (The cover of the February 7th, 2009 issue of *The Economist* newspaper reads 'The Return of Economic Nationalism' and several of the articles in this issue are focused on this new threat to the world trading system. See the following analysts and institutions for recent analysis on the dangers of the current protectionist trends: Baldwin and Evenett (2008), Evenett (2009), Ahearn (2009) and the Brookings Institution (2009).

Nearly all major economic institutions and think tanks published studies and recommendations in this area prior to the G20 London Summit of April 2, 2009. Fortunately, the Communiqué issued by the G20 leaders contains strong pledges against new protection, whether or not consistent with WTO rules, and further commends a sturdy system of surveillance by the WTO and other international institutions:

> 22. World trade growth has underpinned rising prosperity for half a century. But it is now falling for the first time in 25 years. Falling demand is exacerbated by growing protectionist pressures and a withdrawal of trade credit. Reinvigorating world trade and investment is essential for restoring global growth. We will not repeat the historic mistakes of protectionism of previous eras. To this end:
>
> - we reaffirm the commitment made in Washington: to refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organisation (WTO) inconsistent measures to stimulate exports. In addition we will rectify promptly any such measures. We extend this pledge to the end of 2010;
> - we will minimise any negative impact on trade and investment of our domestic policy actions including fiscal policy and action in support of the financial sector. We will not retreat into financial protectionism, particularly measures that constrain worldwide capital flows, especially to developing countries;
> - we will notify promptly the WTO of any such measures and we call on the WTO, together with other international bodies, within their respective mandates, to monitor and report publicly on our adherence to these undertakings on a quarterly basis;
> - we will take, at the same time, whatever steps we can to promote and facilitate trade and investment; and
> - we will ensure availability of at least $250 billion over the next two years to support trade

> finance through our export credit and investment agencies and through the MDBs. We also ask our regulators to make use of available flexibility in capital requirements for trade finance.
>
> 23. We remain committed to reaching an ambitious and balanced conclusion to the Doha Development Round, which is urgently needed. This could boost the global economy by at least $150 billion per annum. To achieve this we are committed to building on the progress already made, including with regard to modalities.

The April 2009 Communiqué promised landmark commitments in terms of both financial resources and open markets. But the trade recommendations focused on developed economies and the handful of large developing countries that are members of the G20.

There have been few proposals made from the point of view of developing country governments that are not members of the G20 as to how they might best face the current set of very difficult circumstances and adopt actions that can help re-stimulate economic growth, while they await fresh resources from the international financial institutions.

Consequences of the April G20 Communiqué

Our analysis of smouldering protectionism stressed the consistency of most of the new protectionist measures with existing the 'letter of the law' when it comes to WTO commitments. Given this, did the G20 Communiqué shift the legal terrain? We argue that while the G20 Communiqué may prove to be a decisive turning point in arresting the global slump and averting a severe outbreak of protection by the G20 members, it does not commit developing countries which are not members of the elite G20 club.

The relevant commitments read:

> *to refrain from raising new barriers to investment or to trade in goods and services,* imposing new export restrictions, or implementing World Trade Organisation (WTO) inconsistent measures to stimulate exports. In addition we will rectify promptly any such measures. [emphasis added]

Two points can be said about these commitments.

- A G20 Communiqué does not have the same legal standing as the WTO or other international agreements. After all, the Communiqué is a declaration of intent by the leaders present at the Summit meeting, not a text ratified by legislatures that supersedes domestic law and creates binding international obligations.
- The G20 Communiqué commits only the leaders of the 20-odd countries in attendance, not the 130-plus countries not invited to the Summit.

As for the G20 members, observance of 'no new barriers' will depend both on self-discipline and on the quality of surveillance by the WTO and other international institutions, in accordance with the Communiqué:

> we will notify promptly the WTO of any such measures and we call on the WTO, together with other international bodies, within their respective mandates, to monitor and report publicly on our adherence to these undertakings on a quarterly basis;

Policy space for least developed countries

Because of their economic circumstances developing countries are unable to invoke financial protection or investment protection as means of coping with the crisis. They do not host international banks nor, with very few exceptions, do they serve as the home base for multinational corporations. They lack the financial muscle to divert large-scale lending activity or corporate operations to their shores. For a few developing countries, illustrated by Malaysia, job protection (as we have defined it) can offer some relief to native-born workers, but it is extremely inhumane to immigrant workers.

Before suggesting possible measures, it will be useful to review the long-term and recent trade experience of the developing countries, highlighting the difference between those very successful exporters and the rest. For reasons of data availability, we focus on merchandise trade, but for some countries (particularly tourist destinations) services trade would also be important.

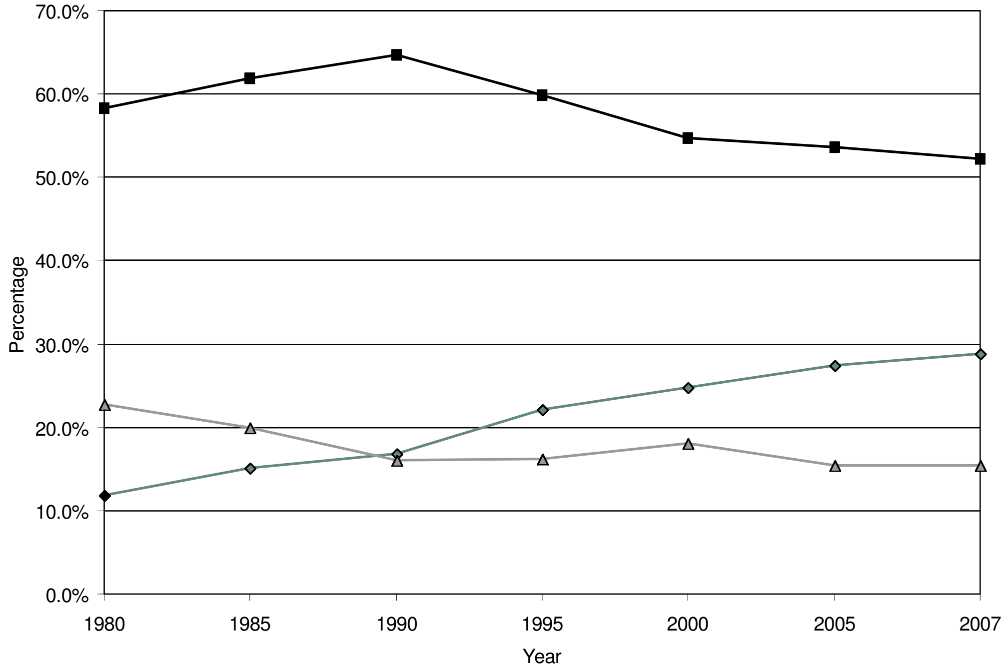
Trade experience of developing countries

For examining their trade experience, we define our categories of developing countries by a process of exclusion. The criteria for exclusion are designed to single out countries which, in our view, should not be invoking trade protection as a crisis response. Our shortcut method for reaching these categories does not exactly coincide with definitions used by the World Bank and other institutions, but it suffices for an overview.

First we exclude the 27 OECD countries (apart from Korea, Mexico and Turkey, which are listed among the top 20 developing country exporters) and the Russian Federation. These nations are primarily responsible for preserving an open world trading system. The larger ones are members of the G20 (The G20 members are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, UK, US, and the EU (which is represented by the rotating Council presidency and the European Central Bank). To ensure that global economic institutions work together, the Managing Director of the IMF and the President of the World Bank, plus the chairs of the International Monetary and Financial Committee and Development Committee of the IMF and World Bank, also participate in G20 meetings on an ex-officio basis. The Secretary General of the United Nations is also invited to the meeting, to represent the interests of the developing countries that are not at the table). None of these countries should be invoking trade protection in the current crisis.

Then we exclude the top 20 developing country exporters (a category that includes Korea, Mexico and Turkey). Some of these are poor countries, notably Vietnam. In our view, even poor countries that rank

Figure 2. Long-term export analysis: shares of world trade



Notes: Black = developed countries + Russia; dark grey = top 20 developing countries; light grey = other developing countries

among the top 20 developing country exporters have a huge stake in the trading system, and should not be considering trade restrictions as a means of coping with the crisis (The top 20 developing country exporters, based on the importance of their exports in 2007, are China, Singapore, Republic of Korea, Hong Kong China, Mexico, Taiwan China, Brazil, Malaysia, India, Thailand, Indonesia, Turkey, South Africa, Argentina, Chile, Kazakhstan, Vietnam, Philippines, Colombia and Peru.

Finally, we exclude three prominent OPEC members. Although these countries have suffered a financial hit with the sharp drop in oil prices (from around $150/barrel in mid-2008 to around $50/barrel in April 2009), they have large financial reserves and substantial borrowing capacity.

Remaining after these exclusions are those in our residual category of developing countries. As mentioned, not all of them are truly 'developing'. Some are small but rich oil-producing states like Brunei. Others are well-off tourist destinations, like Barbados. Others are financial centres, like the Cayman Islands. Still, for portraying the long-term and short-term trade experience of countries most entitled to use trade protection as a coping mechanism, our residual category seems useful.

Long-term experience, 1980-2007

Figure 2 provides a snapshot of the long-term merchandise export experience of the enumerated country groups, and individual developing countries within the top 20, over the 27 years between 1980 and 2007. The table provides both value and share of world export figures. The value figures are in nominal dollars with no adjustment for inflation. As a matter of reference, over this time period, the US price level, measured by producer price index for finished goods, rose by 1.76 times. In other words, in broad terms, merchandise prices rose 76% over the period in question (see Table 4 in Appendix for more details).

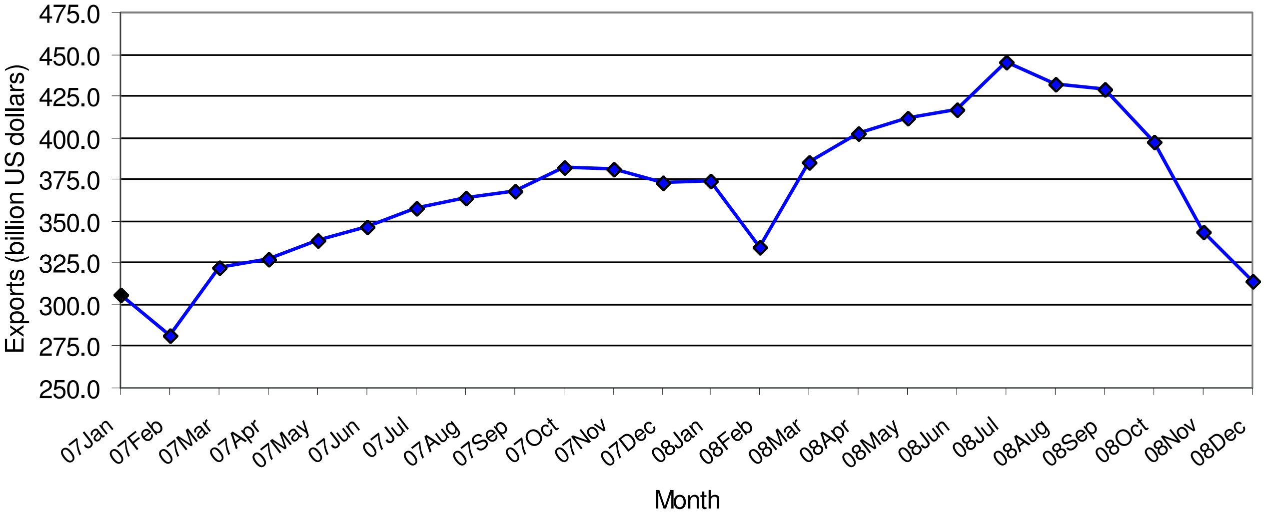
Our focus is not on the excluded country groups, but a few short observations may be useful. The 27 OECD countries plus Russia increased their collective exports, measured in current dollars, by 6.1 times over this period, substantially faster than the increase in their collective GDP (4.8 times in nominal terms). Nevertheless, because other regions of the world increased their exports even faster, OECD exports as a share of world exports declined modestly from 58.4% to 52.2%.

The big winners in the export arena were the top 20 developing countries, led by China, The top 20 increased their collective exports by 16.7 times in nominal terms over the 27 years, again substantially faster than their collective GDP. Top 20 exports as a share of the world total rose dramatically from 11.8% to 28.8%.

The three OPEC countries singled out in Table 4 increased their exports by just 3.4 times in nominal terms, and their share of the world total actually declined from 7.0% to 3.5%. Table 4 reveals that OPEC exports as a share of world exports took a sharp fall between 1980 and 1985, a period that coincided with a steep decline oil prices. After that, the share figure fluctuated between 2 and 4%.

Turning now to our residual category of developing countries, the long-term picture is not particularly happy. Their collective total exports only rose by 4.6 times, and their share of world exports actually declined from 22.8% to 15.4%. In other words, the trade experience of the residual category of developing countries was a far cry from the top 20 developing countries. The last 27 years was an export boom period for the top 20. Although it was not an export bust for the other developing countries, neither was the period a golden era. The mediocre export experience of the least developed countries may colour their policy response to the crisis.

Figure 3. Top 20 developing countries monthly exports, Jan. 2007 - Dec. 2008 (billion US dollars)



Short-term experience of top 20 developing countries, 2007-2008

Figure 3 illustrates the recent short-term experience of the top 20 developing countries. As a rough approximation, the top 20 experience suggests the difficulties befalling all developing countries, but the next section provides a more nuanced look at the experience of the non-top 20. Let it be observed, however, that as a group, other developing countries are not likely to fare better than the top 20. Exports worldwide are declining sharply, and the top 20 have a superior long-term export record compared with the residual category of developing countries (as discussed above).

As Table 5 shows (in Appendix), exports of the top 20 developing countries grew rapidly between January 2007 and July 2008, expanding 45% over this 18 month period. Between July 2008 and December 2008, however, exports fell like a stone, dropping 30% in less than six months. The decline will no doubt continue, though perhaps at a slower pace, through the first half of 2009. To illustrate, China's monthly exports fell by 19% between June and December 2008; Brazil's dropped 33% in the same period; India's fell by 22%; Mexico's dropped 32%; and South Africa's dropped 31%. These sharp declines by the export stars among developing countries portend hard times ahead.

Additionally, the availability of external financing, so critical for the major developing exporters, fell dramatically. Table 6, based on the most recent data compiled by the Institute of International Finance, shows the sharp decline of external financing for emerging market economies. Private flows have fallen more than fivefold between 2007 and projected 2009 (from $928 billion to $165 billion). Commercial banks and bilateral creditors are forecast to provide negative credit in 2009: they will extract more from emerging markets in debt repayments than they inject in new loans. The World Bank estimates that net private debt and equity flows to developing countries will fall from $1 trillion in 2007 to $530 billion in 2009, dropping from 7.7% to 3% of the GDP of those countries (*The Economist* 2009).

Although the international financial institutions (IFIs) have stepped up their lending considerably (from $2.7 billion in 2007 to $16.6 billion in 2008), a huge gap remains. Fortunately, the G20 committed to provide $250 billion of new export finance for developing countries over the next two years. If delivered, this will go a long way to fill the export financing gap.

Table 6. External finance for emerging market economies

	2006	2007	2008e	2009f
Private Flows, net ($ billions)	**564.9**	**928.6**	**465.8**	**165.3**
Equity Investment, net	222.3	296.1	174.1	194.8
Direct Investment, net	170.9	304.1	263.4	197.5
Portfolio Investment, net	51.5	-8.0	-89.3	-2.7
Private Creditor, net	342.6	632.4	291.7	-29.5
Commercial Banks, net	211.9	410.3	166.6	-60.6
Non-banks, net	130.7	222.2	125.1	31.1
Official Flows, net ($ billions)	**-57.5**	**11.4**	**41.0**	**29.4**
IFIs	-30.4	2.7	16.6	31.0
Bilateral Creditors	-27.1	8.7	24.3	-1.6

Notes: e = estimates, f = IIF forecast

Source: Institute of International Finance (2009)

Short-term experience of non-top 20 developing countries, 2007-2008

Figure 4 gathers available monthly data for seven of the non-top 20 developing countries over the period from January 2007 to December 2008 (see Table 7 in the Appendix for more details). This small group – covering just countries with available data – does not pretend to represent the experience of all the non-top 20 developing countries, but the sample does cover diverse countries in terms of their export mix. Some, such as Zambia or Morocco, are more "merchandise-oriented" than others. Some countries rely extensively on agricultural products (Costa-Rica) or mineral fuels (Ecuador).

As the figure shows, exports from the non-top 20 countries followed a pattern very similar to the top 20. They grew rapidly from January 2007 until July 2008, expanding almost 70% over this 18-month period. Some countries, such as Zambia, Uruguay or Paraguay, saw their exports increasing by more than 100% during that period.

Figure 4. Non top 20 developing countries monthly exports Jan.2007 - Dec.2008 (billion US dollars)

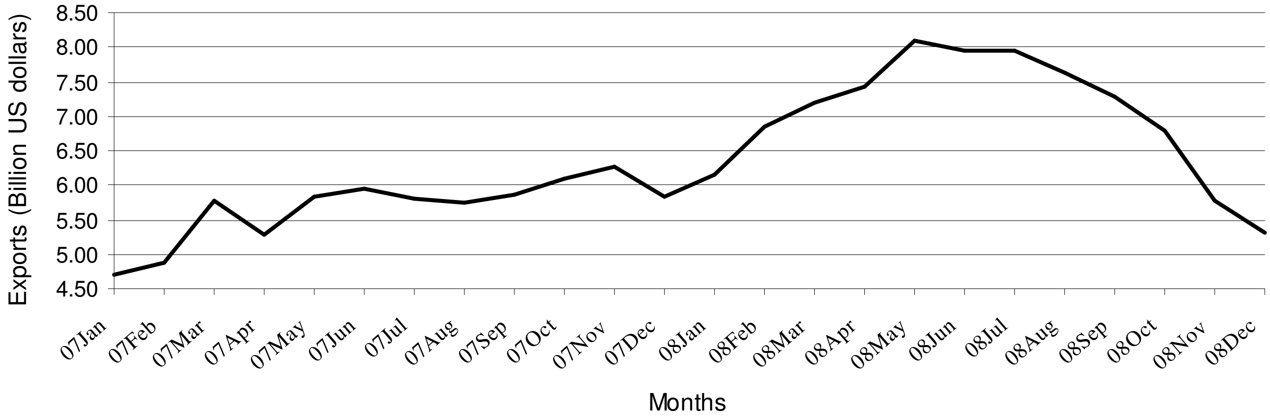
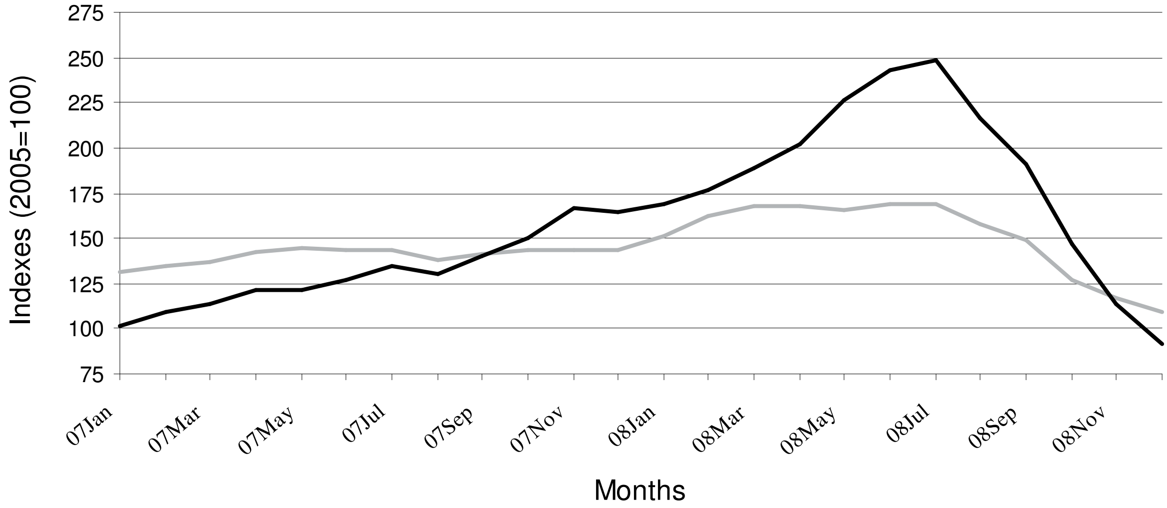


Figure 5. Price indexes Jan2007-Dec2008 (2005=100)



Notes: Non fuel commodities in grey; fuel in black

After June 2008, exports from these non-top 20 countries dramatically decreased from July 2008 to December 2008. As a group, these seven countries saw their exports fall by 33% over a 6-month period. For some countries, such as Ecuador or Zambia, the drop exceeded 50%.

These non-top 20 countries are more severely affected by changes in world demand than the top 20. Their exports increased more rapidly during the period January 2007 to July 2008, and they fell faster during the rest of 2008. Based on this evidence, the trade crisis is even more acute for non-top 20 developing countries than for the top 20.

Price or volume effect?

Tables 8 and 9 (in Appendix) try to distinguish between price and volume effects for ten of the non-top 20 countries (the same countries as in Table 8, plus Armenia, Senegal and Paraguay) and five of the top 20 countries (China, Mexico, Thailand, India and Brazil). Figure 5 illustrates the evolution of world export prices over the 2007-2008 period based on price indexes from the IMF and the Economist Intelligence Unit.

They rise sharply during the period from January 2007 to July 2008 and drop just as fast in the last six months of 2008. The fuel price index rises and drops relatively more than the non-fuel commodity index. Compared with the commodity indexes, the manufactured goods price index is stable, showing a gentle upward trend through 2007 and 2008.

Based on these indexes we calculate a price effect for each developing country weighted by its export mix. This methodology does not give us the exact price effect (as each country's export prices do not exactly correspond to world prices). However, this rough calculation enables a rough comparison as to how the top 20 and non-top 20 countries are affected by the changes in export prices, depending on their export mix. The price effects are calculated for two periods. The first period runs from the last quarter of 2007 to the second quarter of 2008. The second period runs from the second quarter of 2008 to the last quarter of 2008.

• From the last quarter of 2007 to the second quarter of 2008

From the last quarter of 2007 (2007Q4) to the second quarter of 2008 (2008Q2), export prices are increasing for every country. As expected, countries whose exports are mostly fuel and non-fuel commodities enjoy a larger price effect than countries which rely more on manufactured goods. For instance, Ecuador and Senegal see export prices increase by 31% and 19% respectively, while Zambian export prices (which are more "merchandise oriented') only increase by 9%. Overall, the price effect is larger for our group of non-top 20 countries than for the top 20, as non-top 20 countries export relatively more fuel and non-fuel commodities.

Once we have the price effect from the 2007Q4 to

Figure 6 Price and volume decomposition, 2007Q4 - 2008Q2

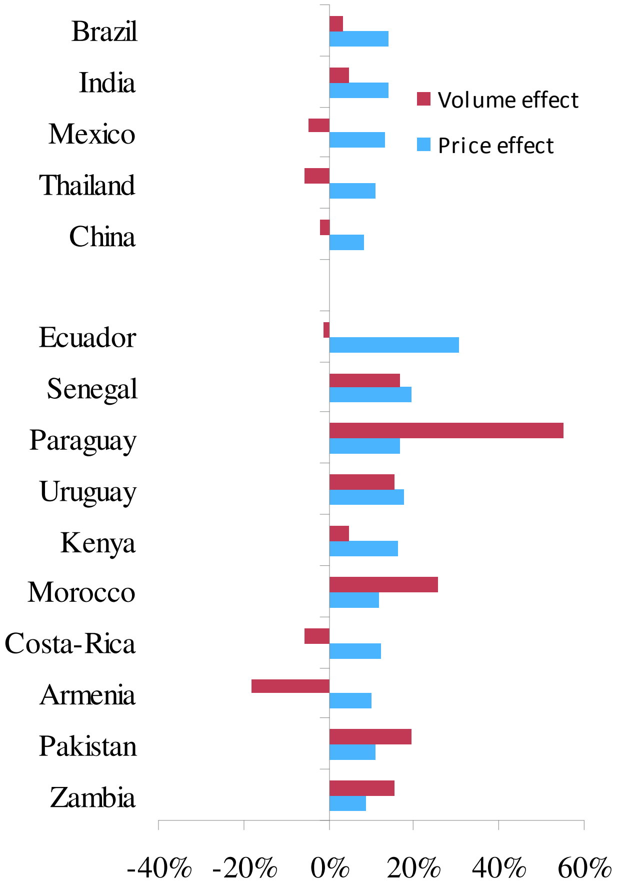
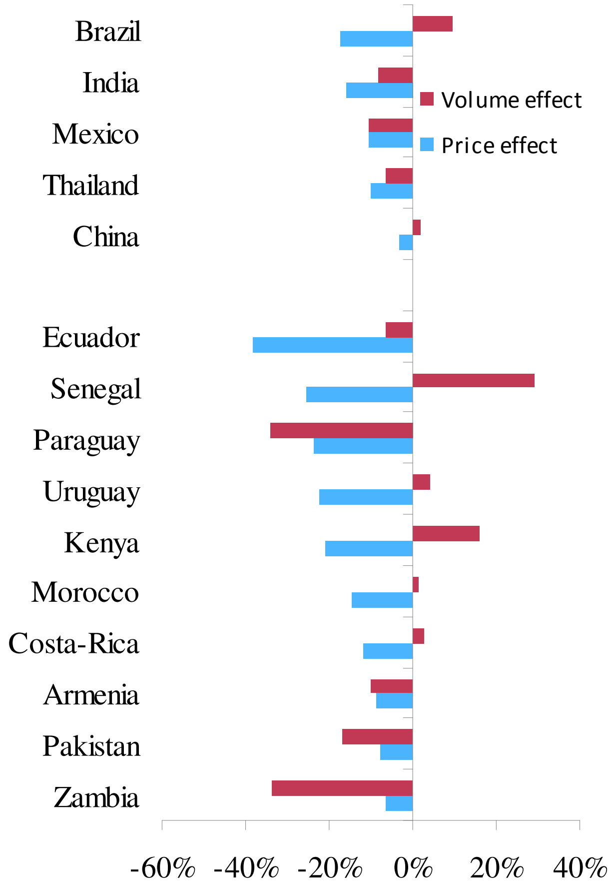


Figure 7 Price and volume decomposition, 2008Q4 - 2008Q4



2008Q2, we can calculate the amount of exports that would have been sold in 2008Q2 without any change in volume, simply by adjusting for the price effect. By comparing the hypothetical amount of exports (after adjusting for the price effect) with actual exports in 2008Q2 (based on EIU data), we can calculate the volume effect between 2007Q4 and 2008Q2. Overall, the volume effect is positive (+12.2%) for the select group of non-top 20 countries. We can run the same exercise for 5 of the top 20 exporters. Interestingly the volume of exports from these top 20 countries decreased by almost 2%, which shows that the first signs of the trade slump were felt by the first semester of 2008.

- *From the second to the last quarter of 2008*

Applying the same methodology to the 2008Q2 to 2008Q4 period, we see that fuel and non-fuel commodities prices drop more than manufactured goods price, so the non-top 20 countries face a worse price effect (-18.9%) than the top 20 countries (-7.2%). Ecuador's export prices decreased by almost 40% compared with China's export prices (3%).

In addition to a larger price effect, non-top 20 countries also do worse in term of volume effect. On average non-top 20 export volume decreases by 7% over the period, whereas top 20 exports volume is practically unchanged. Thus the volume effect is a more important cause in the drop of exports for non-top 20 developing countries than for the top 20 countries.

In sum, exports from non-top 20 developing countries are more sensitive to world demand than the top 20 developing countries. Over the first semester 2008, both price and volume effects are larger and contribute to the huge increase of non-top 20 exports. However the second semester 2008 shows the exact opposite; non-top 20 exports decrease more than exports from the top 20. This is primarily due to a very negative price effect, contributing about two-thirds of the decrease. Non-top 20 countries also do worse than top 20 countries in terms of export volumes.

Possible trade measures

We now examine possible trade measures that the world community might endorse and developing countries (understood in our discussion below as those developing countries other than the top 20 exporters) might take as coping devices during the time of crisis. In constructing this menu, we have been guided by three principles.

- First, measures adopted should be minimally trade distorting; to achieve that goal, the measures should be fairly uniform across productive sectors.
- Second, export incentives are preferred to import restrictions, on the argument that world trade is well below optimal levels and it is already curtailed by durable import restrictions.
- Third, it would be highly desirable for advanced countries (principally OECD nations) to implement measures that would facilitate the exports of developing countries.

The 90 or so developing countries in 'non-top 20 developing nation exporters' should not automatically resort to the measures on our menu, and few if any countries would want to consider all of them. Later in this note we suggest possible criteria for identifying countries that have the strongest claim to use the trade measures on our menu. The countries themselves would need to decide what measures make sense in their own circumstances. In any event, measures adopted should be seen as temporary, with an initial duration limited to the end of 2011 – on the assumption that the world will be on the recovery road by 2012, if not sooner.

As explained earlier, since no WTO member violates its international obligations by increasing its applied tariffs on an MFN basis up to the level of the bound tariffs in its WTO schedule, accordingly no international 'permission slip' is needed for these actions to protect domestic markets. However, we are not enthusiastic about raising applied tariffs, even when the increase fully respects international obligations, because the example can have a domino effect on other countries, and lead to widespread reduction in global trade. As developing countries now trade substantially with each other, raising tariffs would only exacerbate tensions and invite retaliation among low-income neighbours. We would advocate pursuing other types of measures as better options.

Our menu therefore includes the following measures:

- Depreciation of the local currency in order to shift relative prices in favour of tradable goods (exports, or import-competing products).
- Ramp up export credits for products sold by developing countries, supported by the MDBs, the IFC, and G20 official export credit agencies.
- Immediate implementation of the duty-free quota-free (DFQF) provisions outlined in the Doha negotiations for developing countries.
- Trade facilitation measures supported by the MDBs.
- A time-limited 'holiday' on trade remedies taken by G20 countries against imports from developing countries, such as countervailing duties, antidumping duties and safeguard actions.
- A time-limited 'holiday' from WTO rules that prohibit the use of export subsidies, coupled with across-the-board export rebates.
- Deferred payment of corporate income taxes and customs duties on imports of capital goods for firms producing traded goods and services.

We have listed these measures approximately in the priority we would assign to their use. However, we note two important qualifications. First, decisions on exchange rates are normally the province of the finance ministry, and the trade ministry plays a supporting role. The same is true of export rebates and tax deferrals; however the trade ministry often has a large say on fiscal measures that affect the country's trade position. Second, we have listed several measures that depend on actions by the G20 or the IFIs, such as ramping up export credits and implementing the DFQF provisions. Others depend on forbearance by individual G20 countries in the context of WTO proceedings or their own trade remedy laws.

The bottom line is that trade ministers in developing countries have their work cut out: to a very large extent, their success in addressing the crisis will depend on enlisting the support of the nation's leader, the finance minister, the G20 countries, and the international financial institutions.

Depreciation of the local currency

Stimulating exports is one of the best ways that developing countries can act in order to boost their domestic economies, especially as many of them are very open to international trade. A focus in the current downturn on a more competitive real exchange rate management can have an economy-wide impact. Not only are exports stimulated, but also import-competing sectors are given a boost. Moreover an undervalued currency can stimulate export expansion and domestic production without biasing incentives toward any particular domestic industry. It also has the advantage of changing relative prices with minimal political influence. The ability to carry out this policy depends upon the response of global economic demand as well as on the local market, the capacity to increase production of tradable goods, and political considerations.

Developing countries should avoid currency appreciation at all costs, as well as the expenditure of reserves to support unrealistic currency values (as seems to be the case of Russia and Argentina). Pursuing an undervalued currency requires complementary monetary policies in order to keep inflation within reasonable bounds and thereby sustain a real depreciation. As a by-product, an undervalued currency will lead to the accumulation of foreign exchange reserves. This policy combination will prove challenging for those developing countries that lie within the sphere of a dominant trading partner and thus a de facto dominating currency, such as Central America with the US dollar, or Northern Africa/Sub-Saharan African countries with the Euro. However, when feasible, an activist policy focusing on the exchange rate would be the first best instrument, supported by monetary policy and reserve accumulation.

Not everything is roses with a real depreciation, however. Among adverse side effects, wages denominated in local currency will buy fewer imported goods, and the balance sheets of companies with exposure to foreign currency debt will be impaired.

To counteract the adverse balance sheet effect of depreciation, we recommend that the IMF should use some its new-found resources to enable local finance ministries and central banks to make temporary loans to distressed but solvent firms when the country depreciates its currency. Appropriate 'lifeline' programs can be patterned after recent practices in the US and the EU.

Ramp up export credits

In the wake of the financial crisis, export credit is scarce. While comprehensive data is not available, it stands to reason that, when banks worldwide are shrinking their balance sheets to ensure their own survival, the financial system would be less willing to extend new export credits. Marc Auboin reports a financing gap of around

$25 billion, based on the main Wall Street banks, and spreads of 300 to 600 basis points over Libor, contrasted with normal spreads of around 30 basis points (Auboin 2009 and Canuto 2009). A survey conducted jointly by the IMF and the Banker's Association for Trade and Finance suggests that flows of trade finance to developing countries fell by 6% or more year-on-year between 2007 and 2008, significantly more than the drop in trade flows over the same period (Auboin 2009).

The G20 Communiqué promised a $250 billion increase in export finance for developing countries over the next two years. Much of this will be financed by the IFIs, particularly the multilateral development banks and the International Finance Corporation, but a large and unspecified part will be financed by G20 official export credit agencies, such as the US Export-Import Bank, the Japan Export-Import Bank, and the British ECGD. In fact, the International Finance Corporation has already launched two programs, the Global Trade Liquidity Program (GTLP), with an initial commitment of around $1.5 billion, and the Global Trade Finance Program (GTFP), with an initial commitment of around $3 billion. Other IFIs are also stepping up. To quote Auboin (2009):

> Regional development banks and the IFC have recently enhanced their trade facilitation programmes: the IFC from $1.5 billion to $3 billion, the Inter-American Development Bank (from $0.5 billion to $1 billion), the EBRD (from $1 billion to $2 billion), and the Asian Development Bank (from $0.4 billion to $1 billion). This has brought the total capacity to $7 billion on a roll-over basis, financing potentially some $30 billion or so of trade involving small countries and small amounts ($250,000 on average by transaction).

Our immediate suggestion – which may amount to pushing on an open door -- is that the MDBs and the IFC should rapidly expand the size of their export financing commitments. We doubt that these institutions have the staff to evaluate the credit risk of buyers; however, with appropriate guarantees and incentives, that task can be left to private banks. For example, the IFC and the MDBs can guarantee 90% of the credit at a low fee, and all the private banks to charge a reasonable margin over LIBOR.

Under the G20 Communiqué, official export credit agencies are also committed to extend export finance to developing countries – a new twist for nearly all the G20 export credit agencies. As a rule, official export credit agencies only support the exports of their own domestic firms. However, decades ago, the US Export-Import Bank did support trade finance for US imports, and other agencies may have done the same. In this episode of acute distress, the G20 official export credit agencies will need to find the legal and political flexibility to support the exports of developing countries. Like the IFIs, the export credit agencies will probably do best working through the private banks, and again a combination of guarantees and incentives may offer the best approach.

To jump start exports, we suggest that the MDBs, the IFC, and the official export credit agencies announce very low guarantee fees, and a generous premium over LIBOR, for export finance agreements initialled in the next six months. For example, a flat guarantee fee of 0.5% a year, for guarantees up to 90% of the export value, and a premium over LIBOR of 400 basis points might be announced for export finance agreements initialled through December 2009.

Immediate implementation of DFQF provisions

Within the broader Doha Development Round a negotiation, an agreement in principle has been reached that would extend duty-free, quota-free (DFQF) access for exports from developing countries. The genesis of the DFQF provision was an understanding reached in the WTO Hong Kong Ministerial meeting, held in December 2005. As summarised by Kimberly Elliott of the Center for Global Development in a private email:

> The Hong Kong proposal was for developed countries, and developing countries in a position to do so, to provide DFQF for UN-designated least developed countries. The US insisted that it could do so on only 97% of tariff lines. (Right now under US one-way preference programs, AGOA, CBTPA, and Andean meet close to the 97% threshold but there are a dozen or so least developed countries that get only regular GSP benefits. About 96% of tariff lines for 'lesser-developed' countries (not the same as the UN-designated LDCs) are duty-free, but they are not quota-free because there is a cap on how much apparel can be shipped using third-country fabric. For non-LDCs, about 90% of lines are duty-free, but not necessarily quota-free.)
>
> The EU, as of the end of 2009, will provide DFQF on 100% of tariff lines under the Everything But Arms program; Canada provides such access for everything but supply-managed agricultural items (eggs, dairy, and poultry); Japan provides DFQF on about 98% of tariff lines. Brazil, India, and China have announced programs that vary – Brazil is offering only for least developed members as recognised by the WTO (not the UN-designated list); China only for least developed countries that do not recognise Taiwan; and India for all least developed countries, but scope of tariff line coverage is unclear.

While completion of the Doha Round seems unlikely before 2010, despite the urgings of the G20, we suggest that DFQF provisions should be immediately implemented by all G20 members. Kimberly Elliott has authored a Policy Brief urging the US to take this step (Elliott 2009). This would open the door to an expanded range of exports by developing countries.

In this context the consideration of rules of origin stands front and centre. Several economists have shown how rules of origin, when designed with protectionist intent, can take away benefits that have been conferred under preferential schemes. Therefore, it would be important in a complementary manner to review the design and definition of the rules of origin that would accompany the DFQF provisions.

Trade facilitation

Significant in its potential trade impact is the improvement of customs and other administrative procedures associated with the shipment of goods. Reducing delays at ports and border crossings as well as the time required for processing import and export paperwork can potentially cut dead weight losses and improve competitiveness. This is one of the focus areas of the 'Aid for Trade' work and it should be highlighted in the current circumstances. The World Bank and other MDBs should expand their programs to help developing countries that ask for assistance in trade facilitation.

Time-limited holiday for export subsidies

The WTO Agreement on Subsidies and Countervailing Measures (ASCM) prohibits export subsidies, namely subsidies that favour export sales by comparison with domestic sales of the same product. The prohibition does not depend on trade impact; it is a per se rule regardless of any effect on trade or injury to firms in the importing country. The G20 Communiqué issued in April 2009 (like its predecessor issued in November 2008) alluded to this prohibition.

Our first suggestion is a two-year 'holiday' for the application of this prohibition to the exports of developing countries. We do not have in mind a formal WTO waiver or an annex to the ASCM text. Instead, we suggest that the G20 countries themselves should commit not to bring WTO cases against developing countries that subsidise their exports during the holiday period. With this example by the G20, it seems far less likely that other WTO members would bring cases.

Our suggestion leaves open the possibility that G20 countries, as well as other WTO members, can impose countervailing duties on subsidised imports, provided the imports have the requisite trade impact ('material injury') on domestic firms. This test will rarely be met with respect to imports from the residual category of developing exporters because they are very small suppliers to world markets.

To complement our suggestion of a WTO holiday from ASCM obligations, we suggest afflicted developing countries should give across-the-board rebates to their exports – for example, 5% of the FOB value. Certain large exporters (China and India) have already taken steps to restore the GATT-permissible rebate of indirect taxes on exported goods. However, our suggestion is directed towards those other than the 20 larger exporters, to allow them to go beyond the GATT-permissible level of export rebates.

Two ideas motivate this suggestion. First, in a world where trade is collapsing, it is far better to spur exports than to restrict imports. Spurring exports plays to comparative advantage and tries to energise trade flows; restricting imports works in the opposite direction. Second, we want to minimise distortions to the structure of production in developing countries. Distortion will be less when incentives are more uniform with respect to value added in the production of different goods and services. An across-the-board export rebate is relatively uniform across sectors; however, the incentive will be larger when imported inputs make up a bigger share of the FOB value.

Tax holidays are less uniform, because exporting firms differ quite a bit in profitability and payroll costs per million dollars of export sales. However, the advantage of tax holidays is that they are less susceptible to corruption than across-the-board export rebates.

Deferred payment of corporate tax and social security contributions

Recently Spain initiated novel measures to alleviate the crisis – allowing firms to defer payment of their corporate income tax and social security contributions. Of course this worsens the immediate budget picture, but not the long term outlook. We suggest that developing countries allow firms that produce traded goods and services (excluding oil and few other commodities) to defer their corporate tax payments for two years. As a companion recommendation, we suggest that developing countries defer the collection of customs duties on capital goods that are essential for ramping up production of traded goods and services.

Time-limited holiday on trade remedies

Our final suggestion is a time-limited holiday on trade remedies applied by G20 countries against their imports from developing countries. We realise that the application of anti-dumping duties, countervailing duties, and safeguard measures is, to a large extent, determined by statutory and regulatory provisions, and not subject to administrative discretion. We are not suggesting any statutory or regulatory changes, because that would take too long and be too controversial.

What we are suggesting is that the G20 countries use whatever administrative discretion they retain under their trade remedy laws to lighten the burden of these provisions with respect to imports from developing countries. The anti-protection language in the April G20 Communiqué is sufficient to set the wheels in motion for this initiative.

Relative position of developing countries in the current crisis: Possible self-selection criteria

In this section, we discuss the relative position of individual developing countries in the current economic climate as they might consider the recommendations outlined above. We suggest that the governments of the 91 developing countries should review a handful of economic criteria in determining which measures are the most appropriate to their own circumstances during the current economic crisis. Table 10 (see Appendix) lists data for these countries to illustrate the criteria we have in mind.

The first criterion is the trade position. Table 10 presents merchandise import, export and trade balance figures for the year 2007, and for most countries these figures have changed dramatically for the worse during the past six months. However, for countries that have trade surpluses, any resort to new trade protection or the use of export subsidies seems less appropriate. Obviously, the world as a whole cannot run a trade surplus with itself. As a matter of respect for the world community, in this time of threatened depression, countries with trade surpluses should be cautious about offering export subsidies or applying any other form of trade protection (To be sure, the merchandise trade position is not the same as the overall current account position in the balance of payments, since countries have service receipts and payments, and remittances. For some countries with a merchandise trade surplus, other international flows on current account will be negative, leading to current account deficit. Nevertheless, as a rough guide, the merchandise trade position is a useful criterion).

The second criterion is GDP per capita, shown in Table 10 for 2007. Countries with higher GDP per capita usually have more scope to consider alternative anti-depression measures, rather than resort to trade protection. That's the reason, of course, that successful developing countries, notably China, Chile and India are implementing their own domestic stimulus programs. In our view, the same spirit should inform the better-off countries listed in Table 10.

The third criterion is foreign exchange (FX) reserves relative to annual imports, the FX ratio, also shown in Table 10 for 2007. Countries with higher FX ratios have more scope to implement fiscal and monetary stimulus measures without getting dangerously low on their foreign exchange reserves. Again, they have less reason to resort to any form of trade protection (A recent editorial in The Economist discussed the ability of emerging markets to finance a current-account shortfall and stated that most of the emerging markets should not have a financing gap in the near future, thanks to their large foreign exchange reserves. The editorial thus concluded that these countries would not be amongst those financially vulnerable to the global credit crunch in the near future. While these are not for the most part countries found in our residual category of 91, the same reasoning would nonetheless apply. See The Economist (2009 Feb 28).

To repeat the point made earlier, these criteria (and others that may be relevant) are offered as self-selection tools. They are not intended as hard-and-fast eligibility criteria imposed by the international community.

Conclusion

The enormous challenges of the current economic and financial situation worldwide are affecting all countries without exception. However, developing countries have fewer tools and financial resources to deal with these challenges and risk a stronger negative impact on their growth and economic welfare. The critical nature of the crisis requires a creative and more flexible approach to identifying policy options for developing country governments.

We have argued in this note that developing countries should not be viewed as a monolithic bloc in this current environment. As the top 20 developing exporters have experienced tremendous success over the past two decades in integrating themselves into world markets, they should now have a strong stake in preserving the openness of the world trading system. Thus, like the developed countries, they should refrain from taking any form of measures, either covert or overt measures, which will negatively affect world trade. Additionally, most of them have built up substantial amounts of foreign exchange holdings due to their current account surpluses and should be better able to weather the drop in the provision of trade financing, at least for the near future.

Developing countries other than the top 20 exporters are in a different situation. They do not represent a significant amount of total world trade and any trade-related actions they might take would not have a large detrimental effect on the trading system. We therefore propose that they should be allowed to respond to domestic pressures and to adopt well-crafted trade measures to counter the impact of the current economic crisis.

We suggest that this latter group of developing countries should self-select themselves based on the relative strength of their trade, GDP and foreign exchange reserve positions. For the most vulnerable of this group, adoption of trade measures should be allowed but viewed as time-limited, until the end of 2011. Such measures should be carried out within broad parameters; that is, they should be focused on promoting exports rather than restricting imports.

The first best measure would be to pursue an undervalued currency to stimulate trade expansion without biasing incentives toward any particular domestic industry or sector. This would also have the advantage of changing relative prices with minimal distortions and political influence. Pursuing a change of relative prices through the exchange rate would need to be supported by monetary policy and the accumulation of reserve holdings. The G20 initiative to vastly expand the export finance available to developing countries should be implemented as rapidly as possible. Lastly, developed countries should allow time-limited 'holidays' from WTO rules with respect to export subsidy use by developing countries, and developed countries should refrain from taking trade remedy actions against developing countries during the economic slump.

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Appendix

Table 1a. New and worrisome measures: developed countries

Country	Date	Sector	Protection type	Description
Britain	Oct-08	Finance	Finance	Royal Bank of Scotland, HBOS, Lloyds TSB are bailed out, in exchange for raising the amount of lending to UK companies and individuals.
	Jan-09	Oil-industry	Job protection	'British Jobs for British workers'': French oil firm Total agrees to hire British workers.
	Jan-09	Auto-industry	Investment	Low-interest loans ($1.4 bn).
Ireland	Oct-08	Finance	Finance	Anglo-Irish Bank, Allied Irish Bank and Bank of Ireland are bailed out ($7 bn) in exchange for increasing loans to small businesses and first-time home buyers.
	Dec-08	Construction	Job protection	Protest against Polish workers.
USA	Oct-09	Finance	Job Protection	It is more difficult for companies that have received funds from TARP to attain H-1B visas for their foreign workers.
	Dec-09	Auto-industry	Investment	Low-interest loans for General Motors, Ford and Chrysler ($17.4 bn)
	Feb-09	Construction	Trade	'Buy American': only US-produced iron, steel and other manufactures can be used for projects funded by the stimulus package (but applied consistent with US international obligations).
	Feb-09	Wood products	Trade	Requires importer of all wood products to declare species and country of origin of the wood used in the product.
	Feb-09	Foreign workers	Job protection	H1-B visas for foreign employees more difficult for firms awarded contracts under the stimulus package.
	Mar-09	Mexican trucks	Job protection	Closes its southern border to any mexican truck additional to those with existing permits (non-conform with NAFTA)
	Mar-09	Auto-part makers	Investment	The government garantees auto company payments to suppliers. The program is not open to foreign automakers.
Swiss	Oct-09	Finance	Finance	Favors domestic loans by ignoring them when calculating the capital a bank needs to hold, while foreing loan are counted in full.
Russia	Dec-08	Auto-industry	Trade	Raises custom duties from 25% to 30% on all imported vehicles.
			Investment	Low-interest loans for domestic automakers ($6 bn).
			Investment	The government offers credit assistance for the purchase of domestic-built cars and pays the cost of shipping them.
European Commission	Dec-09	Imports	Trade	Imposes duties on preserved fruits (from China) and on some iron and steel products (from Belarus, China and Russia)
	Jan-09	Dairy Products	Trade	Reintroduces export subsidy for butter, cheese and milk-powder (suspended in June 2007 when international dairy prices climbed).
Australia	Dec-08	Auto-industry	Investment	Low-interest loans ($4.3 bn)
Canada	Dec-08	Auto-industry	Investment	Low-interest loans for the Canadian manufactures of General motors and Chrysler ($4.0 bn)
France	Jan-09	Auto-industry	Investment	Low-interest loans in exchange for keeping factories in France ($7.8 bn). Drops condition (Mars-09)
Netherland	Jan-09	Finance	Finance	ING bank is bailed out ($28bn) in exchange for increasing loans to Dutch businesses and consumers.
Spain	Feb-09	Auto-industry	Investment	Allows car-makers to put off paying social security contributions ($5.2 bn).
Germany	Feb-09	Volkswagen's Bank	Investment	Low-interest loans ($2.5 bn).
		Auto industry	Investment	Stimulus package encourages consumers to buy cars ($0.5 bn).
Sweden	Feb-09	Auto industry	Investment	Government backed loans from European Investment Bank to Volvo cars.
Italy	Feb-09	Auto-industry	Investment	Stimulus package encourages consumers to buy cars, in exchange for keeping factories in Italy ($2.6 bn).
Japan	Mars-09	Auto-industry	Investment	Low-interest loans ($2.0 bn).

Table 1b. New and worrisome measures: developing countries

Country	Date	Sector	Protection type	Description
China, PR	Nov-08	Exports	Trade	Restores GATT permissible rebate of indirect taxes on exported goods.
	Dec-09	Imports	Trade	Ban on Irish pork, Belgian chocolate, Italian brandy, British sauce, Dutsh eggs and Spanish dairy products
	Jan-09	Auto-industry	Investment	Consumer subsidies and reduction of sales taxes (10% to 5%) for fuel-efficient vehicles.
India	Nov-08	Steel	Trade	Raises tariffs on steel.
	Jan-09	Chinese toys	Trade	Ban on toys imported from China
	Feb-09	Aluminum	Trade	Raises tariffs on aluminum imported from China.
	Feb-09	Exports	Trade	Increases GATT permissible rebate of indirect taxes on exported goods.
Argentina	Dec-09	Auto-industry	Investment	Automakers sell their cheapest models at cost. Government provides low-interest loans for cars consumers
	Feb-09	Food	Trade	Cuts export taxes on wheat and corn by 5%.
	Feb-09	Imports	Trade	Tighter customs controls for goods "sensitive for national industry" (textiles, footwear, metallurgical goods...).
Bolivia	Dec-08	Imports	Trade	Bans imports of used cars
Indonesia	Dec-08	Chinese exports	Trade	Requires all Chinese imports to enter through only 5 ports and airports.
	Dec-08	Exports	Trade	Introduces special licenses (designated by the government) for importing goods in 500 tariffs lines (textiles, footwear, toys, food and beverage, electronic products).
	Feb-09	Public spending	Trade	'Buy local": Will order nearly four million civil servants to use local products ranging from footwear to heavy machinery.
Colombia	Dec-08	Exports	Trade	Government-backed loans for banks to finance export sectors ($910 million).
Mercosur	Dec-08	Imports	Trade	Raises the Common External Tariffs by 5 points on average.
Uruguay	Jan-09	Exports	Trade	Government loans to exporters ($100 million).
Ecuador	Jan-09	Imports	Trade	Mandatory quotas to reduce imports (up to 35%), increase in import tariffs (of 10 to 35%) on more than 600 items.
	Jan-09	Exports	Trade	Export sectors exempted from advance payment of income tax in 2009.
				Government loans to finance trade operations ($100 million).
Chile	Jan-09	Exports	Trade	Enhance the program covering bank loans to exporters.
Brazil	Jan-09	Exports	Trade	Use of reserves to finance exports.
				Allows central bank to grant loans directly to private banks, exclusively to finance foreign-trade transactions.
	Jan-09	Imports	Trade	Reintroduces government licenses for 24 imported goods (wheat, plastic, copper, iron, aluminum, transport equipment...).
	Feb-09	Imports	Trade	Raises tariffs on steel imports.
Malaysia	Feb-09	Labor market	Job Protection	Ban on recruitement of foreign workers in factories, stores and restaurants (expects to send home 60% of Malaysia's 2 million foreign workers)
Mexico	Mar-09	Imports	Trade	Raises tariffs on 90 US products (in retaliation against the US for canceling the mexican truck program)

Table 2. Bound and applied tariff rates of developing countries (ad valorem percentages)

	Agriculture		Non-Agriculture			Agriculture		Non-Agriculture	
	Bound	Applied	Bound	Applied		Bound	Applied	Bound	Applied
Albania	9.4	7.8	6.6	5.0	Liberia	--	--	--	--
Angola	52.8	10.0	60.1	6.9	Macedonia	13.4	13.9	6.3	6.8
Argentina	32.9	10.2	31.8	12.2	Madagascar	30.0	14.7	25.3	12.1
Armenia	14.7	6.9	7.5	2.3	Malawi	121.3	14.7	42.4	13.3
Bangladesh	192.0	16.9	34.4	14.2	Malaysia	76.0	11.7	14.9	7.9
Benin	61.8	14.5	11.4	11.5	Mali	59.2	14.5	13.5	11.5
Bhutan	--	41.4	--	18.9	Mauritania	37.7	10.1	10.5	12.1
Bolivia	40.0	9.8	40.0	8.1	Mauritius	119.6	7.4	19.1	2.9
Bosnia & Herzegovina	--	12.6	--	6.2	Mexico	44.1	22.1	34.9	11.2
Botswana	38.4	9.2	15.7	7.6	Moldova	13.5	11.7	6.0	4.2
Brazil	35.5	10.3	30.8	12.5	Mongolia	18.9	5.1	17.3	5.0
Burkina Faso	98.1	14.5	13.1	11.5	Mozambique	100.0	13.5	6.6	9.9
Burundi	95.1	10.5	26.6	13.1	Namibia	40.8	9.4	15.7	7.6
Cambodia	28.1	18.1	17.7	13.6	Nepal	41.4	14.0	23.7	12.4
Cameroon	80.0	21.9	50.0	17.3	Niger	83.1	14.5	38.1	11.5
Cape Verde	--	12.1	--	10.2	Nigeria	150.0	15.6	48.5	11.4
Chad	80.0	21.9	75.0	17.3	Pakistan	95.6	15.8	54.6	13.8
Chile	26.0	6.0	25.0	6.0	Papua New Guinea	47.1	16.6	30.1	3.6
China, PR, Mainland	15.8	15.8	9.1	9.0	Paraguay	33.2	10.0	33.5	10.4
Colombia	91.9	16.6	35.4	11.8	Peru	30.8	13.6	30.0	9.7
Comoros	--	26.2	--	29.3	Philippines	34.6	9.6	23.4	5.8
Congo, DROC	98.2	12.8	95.9	11.9	Rwanda	74.3	14.6	91.9	19.4
Congo, ROC	30.0	21.9	14.6	17.3	Samoa	--	--	--	--
Djibouti	48.4	21.2	39.9	28.8	Sao Tome & Principe	--	--	--	--
Ecuador	25.6	14.6	21.2	11.3	Senegal	29.8	14.5	30.0	11.5
Ethiopia	--	17.1	--	16.7	Seychelles	--	20.7	--	6.4
Fiji	47.5	22.3	40.0	7.6	Sierra Leone	40.3	16.4	48.5	13.1
Gabon	60.0	21.9	15.5	17.3	Singapore	36.5	0.1	6.3	
Gambia	103.5	18.9	56.1	19.0	Solomon Islands	75.7	17.1	79.6	9.2
Georgia	13.9	8.8	6.5	0.3	South Africa	40.8	9.2	15.7	7.6
Ghana	97.1	17.4	34.7	12.3	Sri Lanka	50	23.1	19.7	9.1
Guinea	39.7	14.2	10.0	11.5	Suriname	19.9	--	17.1	--
Guinea-Bissau	40.0	14.5	50.0	11.5	Swaziland	40.8	9.5	15.7	7.5
Guyana	100.0	21.1	50.0	9.6	Taipei, China	18.4	17.5	4.8	4.6
Haiti	21.3	5.7	18.3	2.1	Tanzania	120	19	120	11.7
Hong Kong, China					Thailand	40.2	22	25.5	8.2
India	114.2	34.4	36.2	11.5	Togo	80	14.5	80	11.5
Indonesia	47.0	8.6	35.6	6.7	Tonga	19.2	14.1	17.3	15.8
Jamaica	97.1	17.2	42.4	5.8	Tunisia	116.3	65.1	40.5	21
Kazakhstan	--	12.5	--	7.1	Turkey	60.1	46.7	16.9	4.8
Kenya	100.0	19.0	54.1	11.7	Uganda	77.7	19	50.6	11.7
Kiribati	--	25.5	--	16.3	Uzbekistan	--	18.6	--	15.1
Korea, Republic of	59.3	49.0	10.2	6.6	Vanuatu	--	34.6	--	13.9
Kyrgyz Republic	13.1	8.0	6.7	4.3	Viet Nam	18.5	24.2	10.4	15.7
Lesotho	200.0	9.6	60.0	7.5	Yemen	--	10.2	--	6.6
					Zambia	123.3	19.4	42.2	13.1

Source: WTO

Table 4. Long-term export experience (1980-2007, billion US dollars)

	1980	1985	1990	1995	2000	2005	2007	Ratio 2007/1980
World Exports								
Total ($bn)	2034.0	1954.0	3449.0	5164.0	6456.0	10485.0	13950.0	6.9
Top 20 developing countries								
China, PR, mainland	18.1	27.4	62.1	148.8	249.2	762.0	1217.8	67.3
Singapore	19.4	22.8	52.7	118.3	137.8	229.7	299.3	15.4
Korea, Rep	17.5	30.3	65.0	125.1	172.3	284.4	371.5	21.2
Hong Kong, China	20.3	30.1	82.4	173.9	202.7	292.1	349.4	17.2
Mexico	18.0	26.8	40.7	79.5	166.4	214.2	272.0	15.1
Taiwan, China	19.8	30.8	67.2	113.0	151.4	189.4	246.4	12.4
Brazil	20.1	25.6	31.4	46.5	55.1	118.5	160.6	8.0
Malaysia	13.0	15.4	29.5	73.9	98.2	141.6	176.2	13.6
India	8.6	9.1	18.0	30.6	42.4	103.4	145.3	16.9
Thailand	6.5	7.1	23.1	56.4	69.1	110.1	153.1	23.5
Indonesia	21.9	18.6	25.7	45.4	65.4	85.7	118.0	5.4
Turkey	2.9	8.0	13.0	21.6	27.8	73.5	107.2	36.8
South Africa	25.5	16.3	23.5	27.9	30.0	47.0	69.8	2.7
Argentina	8.0	8.4	12.4	21.0	26.3	40.1	55.9	7.0
Chile	4.7	3.8	8.4	16.0	19.2	41.3	68.3	14.5
Kazakhstan	2.0	1.9	3.5	5.3	8.8	27.8	47.8	23.3
Vietnam	0.3	0.7	2.4	5.4	14.5	32.4	48.4	143.2
Philippines	5.7	4.6	8.1	17.5	39.8	41.3	50.5	8.8
Colombia	3.9	3.6	6.8	10.1	13.0	21.1	30.0	7.6
Peru	3.9	3.0	3.2	5.6	7.0	17.4	28.0	7.2
Total ($bn)	*240.4*	*294.1*	*579.0*	*1141.8*	*1596.3*	*2873.0*	*4015.4*	*16.7*
% of total world exports by top 20 developing countries	**11.8%**	**15.1%**	**16.8%**	**22.1%**	**24.7%**	**27.4%**	**28.8%**	**2.4**
Top 3 OPEC countries								
Saudi Arabia	109.1	27.5	44.4	50.0	77.6	180.7	234.2	2.1
United Arab Emirates	22.0	16.8	23.5	28.4	49.8	115.5	173.0	7.9
Iran	12.3	14.2	19.3	18.4	28.7	60.0	86.0	7.0
Total ($bn)	*143.4*	*58.4*	*87.3*	*96.8*	*156.2*	*356.2*	*493.2*	*3.4*
% of world exports by top 3 OPEC countries	**7.0%**	**3.0%**	**2.5%**	**1.9%**	**2.4%**	**3.4%**	**3.5%**	**0.5**
Developed Countries								
OECD + Russian Federation ($bn)	1186.9	1210.4	2230	3088.6	3533.7	5630.3	7288.1	6.1
Share of world exports (OECD + Russia)	**58.4%**	**61.9%**	**64.7%**	**59.8%**	**54.7%**	**53.7%**	**52.2%**	**0.9**
Other Developing Countries (minus top 20 and OPEC 3)								
Total other developing countries ($bn)	463	391	553	837	1170	1625	2153	4.6
% of world exports by other developing countries	**22.8%**	**20.0%**	**16.0%**	**16.2%**	**18.1%**	**15.5%**	**15.4%**	**0.7**

Source: WTO

Table 5. Short-term export experience (January 2007-December 2008): Top 20 developing countries, monthly exports (billion US dollars)

	2007 07Jan	07Feb	07Mar	07Apr	07May	07Jun	07Jul	07Aug	07Sep	07Oct	07Nov	07Dec	2008 08Jan	08Feb	08Mar	08Apr	08May	08Jun	08Jul	08Aug	08Sep	08Oct	08Nov	08Dec	Change Jan07 to Jul08	Change Jul08 to Dec08
China, PR, mainland	86.6	82.1	83.6	97.5	94.1	103.4	107.7	111.4	112.3	107.7	117.5	114.3	109.6	87.3	108.9	118.7	120.5	121.1	136.6	134.8	136.4	128.3	115.0	111.2	57.7%	-18.6%
Hong Kong, China	26.6	21.9	26.5	27.2	27.7	28.8	30.5	31.1	30.7	32.6	31.4	29.8	30.8	23.6	28.6	31.2	30.6	28.6	34.0	31.7	31.7	35.7	29.8	26.6	27.8%	-21.8%
Korea, Rep	28.1	26.2	30.4	29.9	31.0	32.0	31.0	29.3	34.4	35.8	33.0	32.3	31.2	36.0	37.8	39.4	37.3	41.0	36.6	37.4	37.4	29.3	27.3	21.7	30.2%	-40.7%
Singapore	37.3	30.8	38.4	36.2	36.0	38.0	39.2	38.9	38.8	40.8	38.6	37.6	42.5	36.2	40.0	42.2	40.5	42.1	45.2	41.8	43.2	39.1	34.0	30.0	21.2%	-33.6%
Mexico	19.0	19.6	21.7	21.1	23.8	22.8	22.6	24.5	23.1	26.1	24.3	23.3	22.2	22.9	25.1	27.1	26.0	26.4	27.6	25.8	25.1	24.5	20.4	18.7	45.3%	-32.2%
Taipei, China	18.9	14.2	18.7	18.8	18.7	19.2	20.1	20.3	21.1	21.7	20.9	22.3	21.1	16.9	23.1	21.7	22.6	23.3	21.7	24.0	20.8	19.9	15.9	12.9	14.8%	-40.6%
Malaysia	14.0	12.0	14.3	13.4	14.5	14.3	14.7	15.7	15.8	16.0	15.9	15.8	14.7	13.1	14.4	15.5	17.0	16.2	17.6	16.6	17.3	14.8	14.4	12.8	25.7%	-27.3%
Brazil	11.0	10.1	12.9	12.4	13.6	13.1	14.1	15.1	14.2	15.8	14.1	14.2	13.3	12.8	12.6	14.1	19.3	18.6	20.5	19.7	20.0	18.5	14.8	13.8	86.4%	-32.7%
Thailand	10.4	11.2	13.1	10.8	12.8	12.7	12.2	13.7	13.6	14.8	15.0	13.6	14.4	13.4	15.5	13.9	15.5	16.0	17.2	16.0	16.1	15.0	11.6	11.6	65.4%	-32.6%
India	10.9	10.5	12.9	11.0	12.2	10.5	12.5	12.6	12.5	14.6	12.8	12.8	14.7	15.1	17.3	16.0	15.6	16.4	16.3	16.0	14.6	12.8	11.5	12.7	49.5%	-22.1%
Indonesia	8.3	8.2	9.1	8.9	9.8	9.6	10.0	9.6	9.5	10.3	9.8	10.9	11.2	10.5	12.0	10.9	12.9	12.9	12.6	12.5	12.2	10.8	9.6	8.6	51.8%	-31.7%
Turkey	6.6	7.7	9.0	8.3	9.1	9.0	8.9	8.7	9.0	9.9	11.3	9.7	10.6	11.1	11.4	11.4	12.5	11.8	12.6	11.0	12.8	9.7	9.3	7.2	90.9%	-42.9%
South Africa	4.2	5.2	5.8	5.4	6.2	5.9	6.0	5.9	5.6	6.1	7.2	6.2	5.6	6.1	6.4	7.2	7.4	7.6	8.1	7.9	7.6	6.7	5.3	5.6	92.9%	-30.9%
Argentina	3.4	3.6	4.2	4.3	4.9	4.5	4.6	4.9	4.8	5.5	5.4	5.7	5.8	5.2	5.0	5.8	6.2	5.4	7.0	7.4	7.0	6.3	5.1	4.3	105.9%	-38.6%
Philippines	4.0	3.7	4.5	4.1	4.1	4.1	4.2	4.1	4.4	4.7	4.0	4.5	4.2	4.1	4.2	4.3	4.2	4.5	4.4	4.4	4.4	4.0	3.5	2.7	10.0%	-38.6%
Chile	5.9	4.8	5.9	6.0	6.9	5.4	6.1	5.1	5.0	6.3	5.4	4.8	6.5	5.7	6.9	6.7	5.8	5.8	6.6	5.7	4.5	5.5	4.4	3.6	11.9%	-45.5%
Vietnam	3.8	2.9	3.9	3.7	4.1	4.2	4.3	4.3	3.7	4.3	4.5	4.7	4.9	3.8	4.7	5.1	5.2	5.5	6.5	6.0	5.3	5.0	4.2	4.9	71.1%	-24.6%
Kazakhstan	3.7	2.7	3.7	3.4	4.1	4.3	3.7	3.9	4.4	4.1	4.7	5.2	5.2	5.1	5.5	5.7	6.5	7.0	7.0	7.6	6.5	6.3	3.0	1.5	89.2%	-78.6%
Colombia	1.8	1.9	2.4	2.5	2.7	2.1	2.6	2.6	2.5	2.6	3.1	3.2	2.8	2.8	3.0	3.4	3.4	3.7	3.8	3.3	3.1	3.1	2.3	1.7	111.1%	-55.3%
Peru	1.7	1.9	2.1	2.1	2.1	2.5	2.7	2.4	2.5	2.7	2.4	2.8	2.5	2.4	2.8	2.7	2.9	2.8	3.1	3.0	2.7	2.4	2.1	1.7	82.4%	-45.2%
TOP 20 total	306.1	281.4	322.8	327.0	338.5	346.4	358.0	364.2	368.1	382.3	381.3	373.7	374.0	334.2	385.1	403.0	411.9	416.7	445.0	432.6	428.8	397.8	343.5	313.7	45.4%	-29.5%

Source: Economist Intelligence Unit.

Table 7. Short-term export experience (January 2007-December 2008): developing countries, monthly exports (billion US dollars)

	2007 07Jan	07Feb	07Mar	07Apr	07May	07Jun	07Jul	07Aug	07Sep	07Oct	07Nov	07Dec	2008 08Jan	08Feb	08Mar	08Apr	08May	08Jun	08Jul	08Aug	08Sep	08Oct	08Nov	08Dec	Change Jan07 to Jul08	Change Jul08 to Dec08
Non Top 20 exporters																										
Pakistan	1.176	1.272	1.523	1.469	1.585	1.544	1.472	1.465	1.485	1.378	1.539	1.32	1.464	1.538	1.772	1.791	1.921	1.909	1.879	1.564	1.772	1.475	1.528	1.311	59.8%	-30.2%
Morocco	1.08	1.05	1.27	1.01	1.18	1.21	1.08	1.04	1.12	1.32	1.31	1.23	1.33	1.55	1.79	1.71	1.9	1.8	1.82	1.92	1.69	1.73	1.41	1.54	68.5%	-15.4%
Ecuador	0.90	0.93	1.05	1.10	1.07	1.19	1.36	1.18	1.28	1.43	1.37	1.47	1.57	1.61	1.43	1.63	1.97	1.90	1.83	1.82	1.53	1.27	1.04	0.88	102.2%	-51.9%
Costa-Rica	0.70	0.70	0.86	0.73	0.86	0.82	0.73	0.81	0.75	0.86	0.81	0.71	0.72	0.85	0.84	0.89	0.84	0.79	0.80	0.80	0.86	0.97	0.69	0.63	14.6%	-20.7%
Kenya	0.30	0.35	0.34	0.30	0.37	0.34	0.35	0.36	0.32	0.37	0.40	0.29	0.35	0.46	0.42	0.47	0.42	0.40	0.46	0.44	0.40	0.42	0.37	0.38	52.2%	-17.4%
Uruguay	0.30	0.30	0.33	0.33	0.39	0.42	0.40	0.42	0.39	0.38	0.44	0.42	0.38	0.46	0.46	0.49	0.54	0.64	0.65	0.56	0.44	0.53	0.45	0.37	116.4%	-42.3%
Zambia	0.242	0.281	0.398	0.333	0.384	0.434	0.412	0.466	0.515	0.365	0.385	0.40	0.3427	0.3723	0.4951	0.4405	0.4957	0.5039	0.5337	0.5272	0.60	0.4074	0.30	0.1868	120.5%	-65.0%
TOTAL	**4.70**	**4.88**	**5.76**	**5.27**	**5.85**	**5.95**	**5.81**	**5.74**	**5.86**	**6.09**	**6.25**	**5.83**	**6.17**	**6.84**	**7.21**	**7.42**	**8.08**	**7.94**	**7.96**	**7.62**	**7.29**	**6.80**	**5.79**	**5.30**	**69.5%**	**-33.4%**
Top 20 exporters																										
China, PR, mainland	86.6	82.1	83.6	97.5	94.1	103.4	107.7	111.4	112.3	107.7	117.5	114.3	109.6	87.3	108.9	118.7	120.5	121.1	136.6	134.8	136.4	128.3	115.0	111.2	57.7%	-18.6%
Mexico	19.0	19.6	21.7	21.1	23.8	22.8	22.6	24.5	23.1	26.1	24.3	23.3	22.2	22.9	25.1	27.1	26.0	26.4	27.6	25.8	25.1	24.5	20.4	18.7	45.3%	-32.2%
Brazil	11.0	10.1	12.9	12.4	13.6	13.1	14.1	15.1	14.2	15.8	14.1	14.2	13.3	12.8	12.6	14.1	19.3	18.6	20.5	19.7	20.0	18.5	14.8	13.8	86.4%	-32.7%
Thailand	10.4	11.2	13.1	10.8	12.8	12.7	12.2	13.7	13.6	14.8	15.0	13.6	14.4	13.4	15.5	13.9	15.5	16.0	17.2	16.0	16.1	15.0	11.6	11.6	65.4%	-32.6%
India	10.9	10.5	12.9	11.0	12.2	10.5	12.5	12.6	12.5	14.6	12.8	12.8	14.7	15.1	17.3	16.0	15.6	16.4	16.3	16.0	14.6	12.8	11.5	12.7	49.5%	-22.1%
TOTAL	**137.9**	**133.5**	**144.2**	**152.8**	**156.5**	**162.5**	**169.1**	**177.3**	**175.7**	**179.0**	**183.7**	**178.2**	**174.2**	**151.5**	**179.4**	**189.8**	**196.9**	**198.5**	**218.2**	**212.3**	**212.2**	**199.1**	**173.3**	**168.0**	**58.2%**	**-23.0%**

Source: Economist Intelligence Unit.

Table 8. Price and volume Effect for developing countries (from 2007 quarter4 to 2008 quarter4)

	Period 2007 Quarter4 - 2008 Quarter2						Period 2008 Quarter2 - 2008 Quarter4				
	Actual exports 2007 Q4 (US$ bn)	Price effect 08Q2/07Q4 (%)	Exports 'without any volume effect' (US$ bn)	Actual exports 2008Q2 (US$ bn)	Volume effect 08Q2/07Q4 (%)	Total variation 08Q2/07Q4 (%)	Price effect 08Q4/08Q2 (%)	Exports 'without ' any volume effect'(US$ bn)	Actual exports 2008Q4 (US$ bn)	Volume effect 08Q4/08Q2 (%)	Total variation 08Q2/07Q4 (%)
Non Top 20 exporters											
Zambia	1.2	8.6%	1.2	1.4	15.3%	25.2%	-6.6%	1.3	0.9	-33.9%	-38.2%
Pakistan	4.2	10.9%	4.7	5.6	19.5%	32.5%	-7.6%	5.2	4.3	-17.0%	-23.3%
Armenia	0.3	10.1%	0.3	0.3	-18.0%	-9.8%	-8.5%	0.3	0.2	-9.8%	-17.5%
Costa-Rica	2.4	12.4%	2.7	2.5	-5.8%	5.9%	-11.7%	2.2	2.3	2.9%	-9.1%
Morocco	3.9	11.7%	4.3	5.4	25.5%	40.2%	-14.8%	4.6	4.7	1.5%	-13.5%
Kenya	1.1	16.2%	1.2	1.3	4.8%	21.8%	-21.0%	1.0	1.2	15.8%	-8.6%
Uruguay	1.2	17.4%	1.4	1.7	15.4%	35.5%	-22.3%	1.3	1.3	3.9%	-19.2%
Paraguay	0.8	16.7%	0.9	1.5	54.9%	80.8%	-23.5%	1.1	0.7	-34.2%	-49.6%
Senegal	0.4	19.4%	0.5	0.5	16.8%	39.5%	-25.5%	0.4	0.5	29.1%	-3.8%
Ecuador	4.3	30.7%	5.6	5.5	-1.2%	29.1%	-38.1%	3.4	3.2	-6.3%	-42.0%
TOTAL	**19.7**	**16.5%**	**22.9**	**25.7**	**12.2%**	**30.7%**	**-18.9%**	**20.9**	**19.4**	**-7.2%**	**-24.7%**
Top 20 exporters											
China, PR, Mainland	339.5	8.2%	367.4	360.3	-1.9%	6.1%	-3.4%	348.1	354.5	1.8%	-1.6%
Thailand	43.4	10.8%	48.1	45.4	-5.6%	4.6%	-10.0%	40.9	38.2	-6.5%	-15.9%
Mexico	73.7	13.1%	83.4	79.5	-4.6%	7.9%	-10.6%	71.1	63.6	-10.5%	-20.0%
India	40.2	14.1%	45.9	48.0	4.7%	19.4%	-16.1%	40.3	37.0	-8.1%	-22.9%
Brazil	44.1	13.9%	50.2	52.0	3.5%	17.9%	-17.4%	42.9	47.1	9.7%	-9.4%
TOTAL	**540.9**	**10.0%**	**594.9**	**585.2**	**-1.6%**	**8.2%**	**-7.2%**	**543.2**	**540.4**	**-0.5%**	**-7.7%**

Sources: Economist Intelligence Unit, COMTRADE by products (nomenclatura SITC revision1)

Table 9. Price index, Jan.2007 – Dec2008

	2007												2008											
	07Jan	07Feb	07Mar	07Apr	07May	07Jun	07Jul	07Aug	07Sep	07Oct	07Nov	07Dec	08Jan	08Feb	08Mar	08Apr	08May	08Jun	08Jul	08Aug	08Sep	08Oct	08Nov	08Dec
Non-Fuel Commodities Price Index Source: IMF (2005=100)	132	135	137	143	144	144	143	138	141	143	143	143	152	162	168	167	166	168	169	158	149	126	117	109
Fuel (Energy) Index (IMF) Source: IMF (2005=100)	102	109	114	121	121	126	135	130	141	151	166	164	169	177	189	202	226	243	248	217	191	147	114	92
Manufactured goods Index (EIU)	95.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	100	n/a	n/a	n/a	n/a	n/a	107	n/a	n/a	n/a	n/a	107.1

Source: EIU estimates (2008=100)

Table 10. Possible self-selection criteria for developing countries

	GNP/Capita 2007 (nominal) ($US)	Imports 2007 ($US million)	Exports 2007 ($US million)	Tradebalance 2007 ($US million)	Foreign exchange ($US million)	Ratio of reserves to imports
Albania	3290	4196	1072	-3124	2092	0.50
Angola	2560	11400	39900	28500	18489	1.62
Argentina	6050	44780	55933	11153	42981	0.96
Armenia	2640	3282	1157	-2125	1494	0.46
Bangladesh	470	18595	12453	-6142	5442	0.29
Benin	570	1500	650	-850	1244	0.83
Bhutan	1430	480	600	120	649	1.35
Bolivia	1260	3444	4490	1046	6627	1.92
Bosnia and Herzegovina	3790	9772	4166	-5606	3693	0.38
Botswana	5570	4035	5117	1082	9318	2.31
Brazil	5910	126581	160649	34068	193735	1.53
Burkina Faso	430	1650	607	-1043	923	0.56
Burundi	110	319	62	-257	194	0.61
Cambodia	540	5500	4100	-1400	2291	0.42
Cameroon	1050	3760	3604	-156	3029	0.81
Cape Verde	2130	750	19	-731	248	0.33
Chad	540	1500	3450	1950	990	0.66
Chile	8350	47114	68296	21182	22775	0.48
China, PR, Mainland	2360	955950	1217776	261826	1503851	1.57
Colombia	3250	32897	29991	-2906	22197	0.67
Comoros	660	120	9	-111	104	0.87
Congo, DROC	140	3700	2650	-1050	--	--
Congo, ROC	1540	2900	6100	3200	3109	1.07
Djibouti	1060	410	60	-350	117	0.29
Ecuador	3080	13565	13785	220	5475	0.40
Ethiopia	220	5395	1284	-4111	126	0.02
Fiji	3720	1795	755	-1040	323	0.18
Gabon	5360	2250	6150	3900	1322	0.59
Gambia	290	315	13	-302	126	0.40
Georgia	212	5217	1240	-3977	1293	0.25
Ghana	590	8043	4214	-3829	2053	0.26
Guinea	400	1190	1100	-90	98	0.08
Guinea-Bissau	190	140	95	-45	148	1.06
Guyana	1150	1063	681	-382	329	0.31
Haiti	560	1682	522	-1160	464	0.28
Hong Kong, China	31610	370132	349386	-20746	147712	0.40
India	950	216622	145325	-71297	268488	1.24
Indonesia	1650	92381	118014	25633	52827	0.57
Jamaica	3560	5899	1942	-3957	2261	0.38
Kazakhstan	5060	32756	47755	14999	18895	0.58
Kenya	680	8989	4080	-4909	3098	0.34
Kiribati	1240	95	9	-86	--	--
Korea, Republic of	19690	356846	371489	14643	231788	0.65
Kyrgyz Republic	590	2417	1135	-1282	1143	0.47
Lesotho	980	1730	805	-925	643	0.37
Liberia	150	499	184	-315	126	0.25
Macedonia	3070	5228	3356	-1872	2112	0.40
Madagascar	320	2590	1190	-1400	919	0.35
Malawi	250	1450	710	-740	119	0.08
Malaysia	6540	146982	176211	29229	113463	0.77
Mali	500	2255	1480	-775	1105	0.49
Mauritania	840	1510	1510		205	0.14
Mauritius	5430	3895	2231	-1664	1864	0.48
Mexico	8340	296275	271990	-24285	93053	0.31
Moldova	1260	3690	1342	-2348	1699	0.46

Table 10. Possible self-selection criteria for developing countries (continued)

	GNP/Capita 2007 (nominal) ($US)	Imports 2007 ($US million)	Exports 2007 ($US million)	Tradebalance 2007 ($US million)	Foreign exchange ($US million)	Ratio of reserves to imports
Mongolia	1000	2117	1889	-228	1040	0.49
Mozambique	320	3300	2700	-600	1579	0.48
Namibia	3210	3420	2919	-501	1394	0.41
Nepal	340	2904	888	-2016	1545	0.53
Niger	280	970	733	-237	798	0.82
Nigeria	930	29500	65500	36000	58536	1.98
Pakistan	870	32590	17838	-14752	5381	0.17
Papua New Guinea	850	2909	4671	1762	2541	0.87
Paraguay	1670	7280	2785	-4495	2810	0.39
Peru	3450	20180	27956	7776	31895	1.58
Philippines	1620	57985	50466	-7519	31183	0.54
Rwanda	320	737	177	-560	593	0.80
Samoa	2270	227	15	-212	97	0.43
Sao Tome and Principe	800	70	3	-67	37	0.52
Senegal	820	4452	1698	-2754	1472	0.33
Seychelles	8870	859	360	-499	37	0.04
Sierra Leone	260	445	244	-201	185	0.42
Singapore	32470	263155	299272	36117	158992	0.60
Solomon Islands	690	240	168	-72	95	0.40
South Africa	5760	90990	69788	-21202	29258	0.32
Sri Lanka	1540	11300	7740	-3560	3715	0.33
Suriname	4210	1185	1400	215	461	0.39
Swaziland	2400	2650	2450	-200	781	0.29
Taipei, China	17252	219649	246377	26728	264363	1.20
Tanzania	400	5337	2022	-3315	2351	0.44
Thailand	3400	140795	153103	12308	94401	0.67
Togo	360	1440	690	-750	556	0.39
Tonga	2250	143	8	-135	51	0.36
Tunisia	3200	18980	15029	-3951	7536	0.40
Turkey	8020	170057	107215	-62842	72450	0.43
Uganda	340	3466	1623	-1843	2411	0.70
Uzbekistan	730	4848	8029	3181	--	--
Vanuatu	1690	215	30	-185	112	0.52
Viet Nam	790	60830	48387	-12443	18835	0.31
Yemen	870	6500	7310	810	7633	1.17
Zambia	800	3971	4619	648	1206	0.30

Sources: World Bank (GNP/capita), WTO (Trade), IMF (Foreign Exchange Reserves)