Aid for Trade post-crisis

Dr Dirk Willem te Velde

Overseas Development Institute,

London

dw.tevelde@odi.org.uk

The global financial crisis and trade

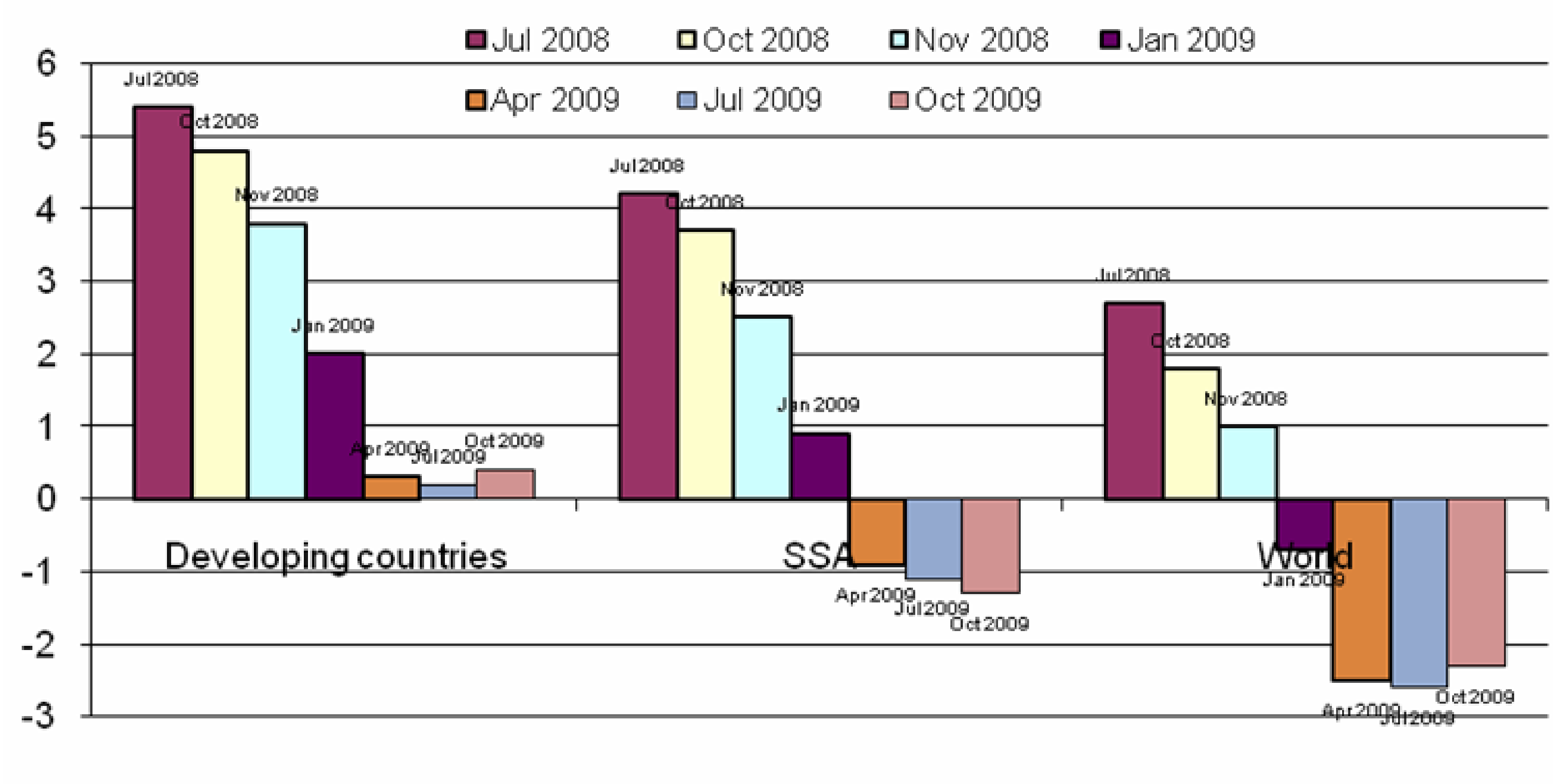
What way forward for the Bretton Wood Institutions?

Seminar for EDs of BWI, 5 March 2010

Outline – in 4 parts

1. The global financial crisis; effects in perspective
2. Lessons from the crisis (based on ODI's monitoring work of the global financial crisis in 11 countries)
3. Analysis of donor responses to crisis
4. New context for Aid for Trade

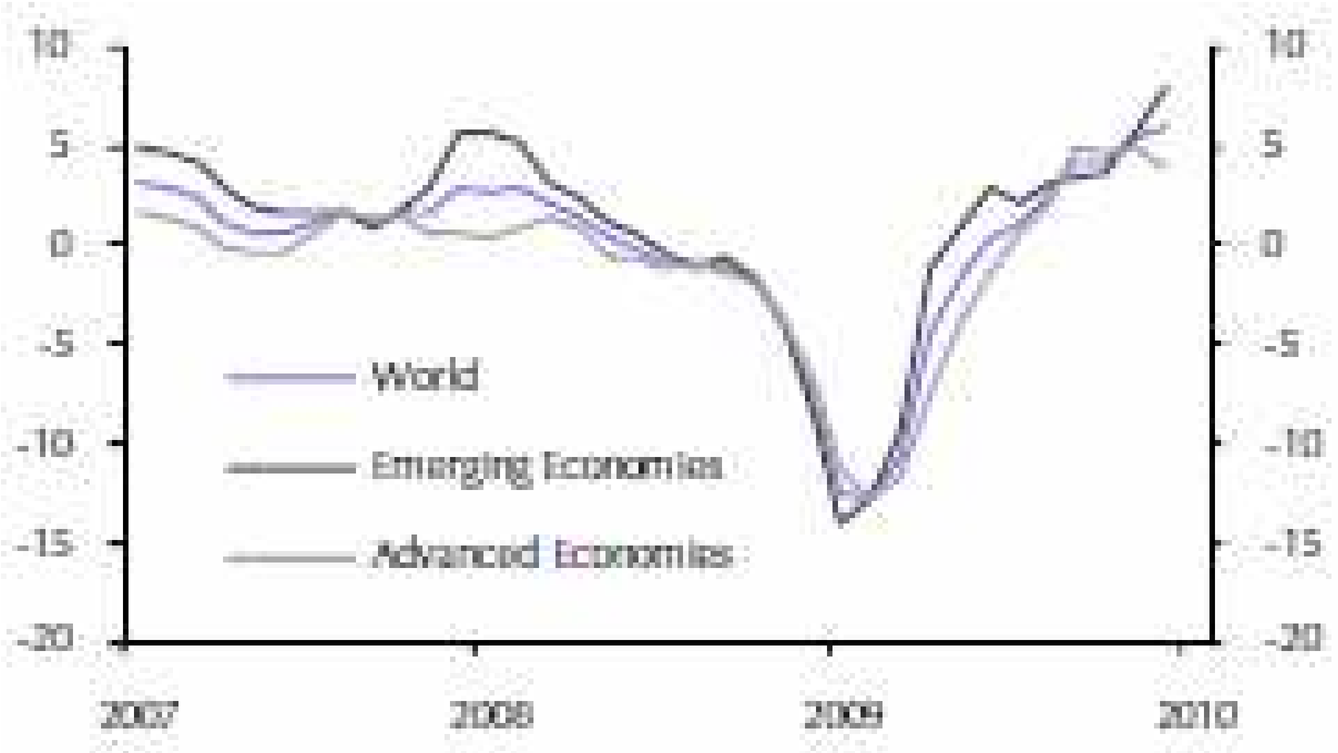
Growth effects (5%points): GDP per cap revisions for 2009 (IMF)



SSA: effect of GFC approx 5% of GDP in 2009; 10% over 2008-2010
SSA: conclusion of Doha round would increase GDP by 0.3%
SSA: with no corrective action climate change might reduce GDP by 6%

GFC and trade (3m/3m volume growth rate)

world trade recovering (behind in levels)



Source: CPB

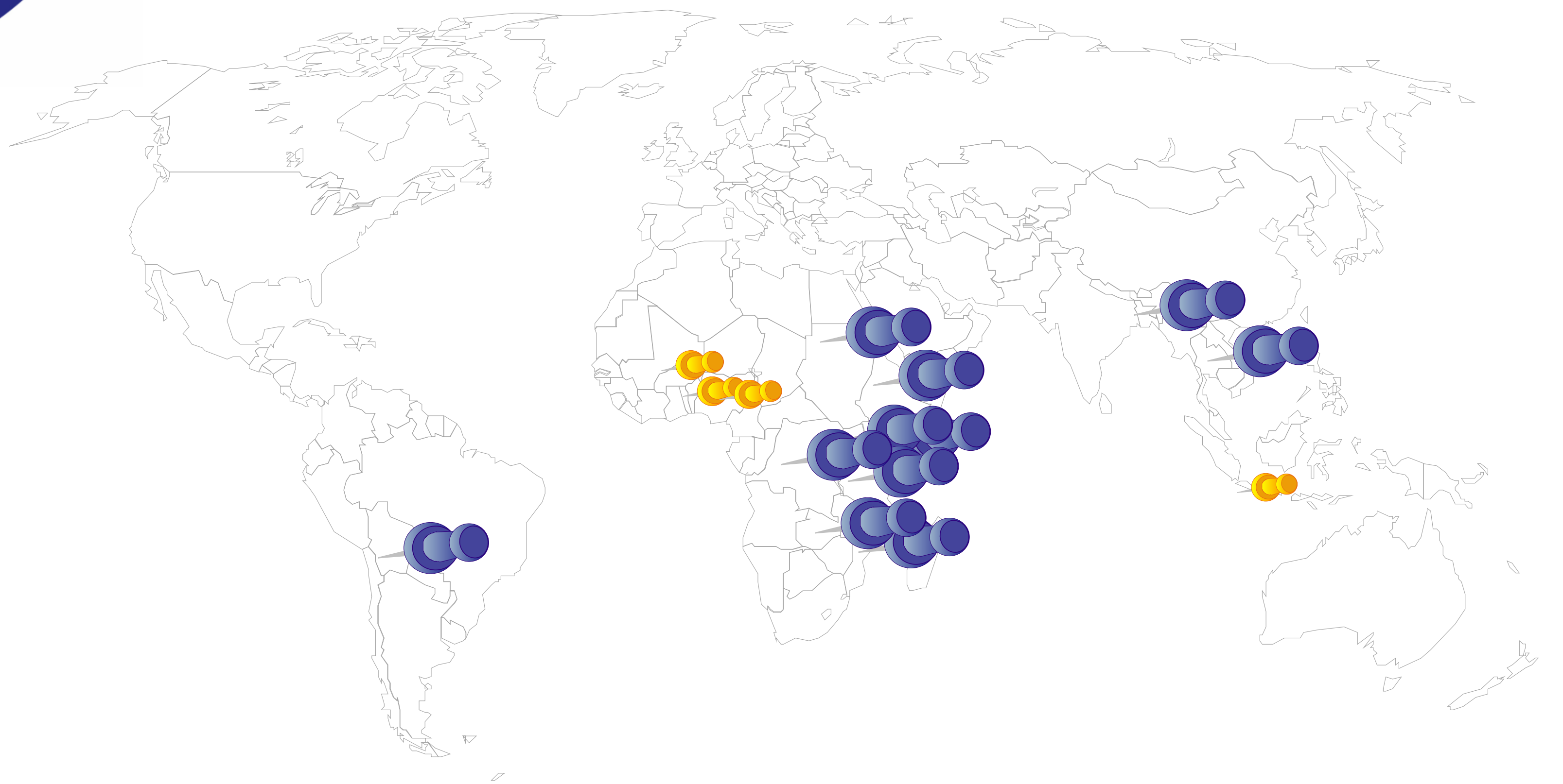
Summary BOP effects for SSA: - $134 bn

- The trade balance between SSA and Japan/EU/ US declined between June-August 2009 and June-August 2008 by $25 billion, i.e. an annualised **$100 billion**. (ODI)
- **$10 billion** drop in international bank lending from SSA over the year to June 2009 (BIS) (ODI)
- Possible decline in remittances of **$2 billion** (ODI)
- Estimated fall of net portfolio flows to SSA by $25 billion over 2007-2008, and **$6 billon** over 2009- 2007. (IMF)
- FDI expected to decline in 2009 by around **$16 billion** (ODI).

→ For some individual countries combined BoP very big

Overseas Development Institute

Effects of GFC on low income countries



ODI project (phase 2)

THE GLOBAL FINANCIAL CRISIS AND DEVELOPING COUNTRIES

LEGEND

Additional in phase 1: Indonesia, Benin, Ghana and Nigeria

Phase 2: Sudan, DRC, Ethiopia, Uganda, Kenya, Tanzania, Zambia, Mozambique, Bolivia, Bangladesh, Cambodia

Lessons from ODI's GFC work (1) *Exposure to GFC*

- The effects of the GFC on developing countries are <u>larger and smaller</u> than expected depending on underlying perspective.
- All countries affected but impact <u>varied</u>, depending on transmission mechanisms (combination of real & financial)
- <u>Trade:</u> key factors prices/volumes, type of product, terms of trade, openness, product and market concentration.
- Low-income countries are more <u>integrated financially</u> than is often thought. Portfolio flows, international bank lending and FDI. Domestic baking systems not leveraged, but still affected.

Lessons from ODI's GFC work (2)
Resilience to GFC

- Openness increases exposure to a crisis, but this may not always its increase vulnerability by becoming more resilient
- Diversification (products and destinations) and good macroeconomic management important for crisis-resilient growth.
- This requires good institutions in managing finances; flexible and responsive institutions important for dealing effectively with crises.
- The policy responses in many LICs studies were positive - most continued reforms and put in place macro economic responses
- This crisis has increased the importance of links between emerging markets and low-income countries.

Donor responses to crisis

- Global crises require globally co-ordinated solutions; G-20 was important: new liquidity (50bn to LICs) ,e.g. IMF, IFC/Trade Finance.
- Shifts in bilateral vs. multilateral funding? Important to make case.
- Social spending vs. productive capacity? Too little debate about relative growth impact.
- IMF:
  - Quick responses (though most liquidity to non-LICs)
- WB:
  - Frontloading IDA (and increases in IBRD)
  - IFC and Trade Finance
  - Some perceive responses as slow
- Overall, coherent (BWI) crisis architecture is lacking

Conclusion:
New context for Aid for Trade

- WTO / Aid for Trade still relevant, e.g. AfT and policy coherence / binding growth constraint – N/S corridor; TFF; need for local co-ordination
- **New context**: Aid for Trade and global compact to promote crisis-resilient growth
  - Country level:
    - AfT and fiscal stimulus (infrastructure, US 31 bn annual gap, “us” and “them”)
    - AfT and adjustment (open & exposed countries, e.g. wrt fiscal revenues)
    - AfT and diversification/competitiveness (incl. regional and sectoral)
    - AfT and knowledge/institutions (monitoring, taking action,industrial policy)
    - AfT and X-cutting working with private sector (e.g. IFC)
  - Globally:
    - Global imbalances and export-led models by LICs,
    - Effects of global financial regulation on capital flows to LICs
    - Emergence of BRICs and efficient global allocation of capital to LICs
- Monitoring and evaluation of AfT activities (in times of scarce resources).