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**Successful trade and development strategies for mitigating  
the impact of the global economic and financial crisis****Note by the UNCTAD secretariat***Executive summary*

The unprecedented global economic crisis necessitates fundamental reorientation in prevailing development models, rather than continuing with “business as usual”. As countries implement strategies to mitigate the crisis and restore growth, there is reconsideration of globalization as a driving force for growth and development. Ensuring strong recovery requires not only short-term actions but also deliberate policy interventions at national and international levels to foster profound structural changes in production, consumption and trade patterns and proactive industrial, agricultural and services policies of a developmental State. Strengthened aid, investment and technology flows, as well as greater coherence and development orientation in global governance in trade, financial and monetary policies are important for an enabling international framework. Harnessing trade in making concrete contributions to national development objectives and the Millennium Development Goals (MDGs) must build on lessons learnt and fresh approaches, tailored to specific country conditions.

## Introduction

1. The food, energy and financial crisis and its progression into a global economic crisis in 2008, with deep impact on the real economy, introduced a global recession and slump in international trade in 2009, reversing progress towards the MDGs. Recently, positive signs have emerged with recovery in economic growth and trade. Such optimism is however tempered by the severity and depth of the crisis in many countries and the fact that the root causes of the systemic crisis have not yet been effectively addressed. High unemployment, high levels of debt (often exceeding gross domestic product (GDP)), weak expenditures by households, reduced lending by banks, higher capital costs lowering output and growth, waning impact of stimulus packages, weakness of the financial sector and its regulatory and institutional frameworks, and the continued existence of global imbalances can all potentially impair the nascent recovery. The profound economic hardship has brought forth a “developmental crisis”. The world faces the task of ensuring that the recovery is sustained and re-orienting development models towards more equitable, people-centred and sustainable policies.

### I. The crisis, international trade and development

#### A. Trade dynamism and wealth creation

2. The last decade was characterized by trade dynamism and enhanced participation of developing countries, realizing robust growth and important progress towards the MDGs, though poverty and lack of access to essential services (health, water, education and housing) remained widespread. This is reflected in developing countries’ strong share of international trade in GDP, rising from 35 per cent in 2000 to 42 per cent in 2008 and from 23 to 29 per cent for LDCs. Developed countries’ share rose from 22 to 28 per cent.<sup>1</sup>

3. Merchandise exports expanded annually between 2000 and 2008, averaging 17.1 per cent for developing countries, 23.2 per cent for least developed countries (LDCs), 11.2 per cent for developed countries and 13.6 per cent for global exports. Consequently, developing countries’ share of global exports rose from 31.2 to 38.7 per cent (developed countries’ share declined from 65.7 to 56.6 per cent). LDCs, for the first time in decades, saw their aggregate share exceeding 1 per cent in 2008 but remain marginalized. Commodity prices reached historic peaks by mid-2008, especially for metals, minerals and crude oil. Many developing countries, however, experienced persistent current account deficits. Between 2000 and 2007, LDCs’ total merchandise trade balance reached a negative peak of \$18.2 billion in 2003 and then declined to \$2.7 billion in 2007.

4. World services exports from 2000 to 2008 grew at an average annual rate of 13.5 per cent. Developing countries’ exports expanded at a faster pace at 15.6 per cent than developed countries (12.6 per cent), resulting in their increased share in world exports in services from 22.8 to 25.9 per cent. LDCs’ share remained stagnant at 0.5 per cent.

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<sup>1</sup> Data in this section is from UNCTAD’s GlobStat database.

## **B. The crisis – economic and trade performance**

### **1. Global recession, regulatory failure and poverty impact**

5. The global economy experienced a deep recession in 2009. World GDP growth slowed to 1.9 per cent in 2008 and declined by 2.2 per cent in 2009.<sup>2</sup> All regions experienced a deceleration in GDP growth with developing countries' falling from 5.4 per cent in 2008 to 1.9 per cent in 2009, and LDCs' from 7.2 to 3.3 per cent. Global trade slumped, commodity prices dropped sharply and financial flows declined. Governments faced falling revenues and rising public debts, with significant indebtedness in the European Union (EU) and the United States. For 2010, preliminary forecasts suggests a recovery in global GDP growth of 2.4 per cent with stronger performances by developing countries (5.3 per cent) and weak recovery by developed countries (1.3 per cent). The global recession may not turn into a prolonged depression (although possible in some developed countries), but the green shoots remain fragile.

6. The failure of major financial institutions in the United States and Europe and attempts to salvage them led to a loss of confidence in markets. Capital fled from higher-risk assets and markets as participants reduced their exposure to risk and deleveraged their portfolios, including cross-border positions in emerging markets. Many countries relying heavily on external finance suffered capital outflows, sometimes requiring recapitalization through International Monetary Fund (IMF) balance-of-payments support. Given the systemic risks to financial stability, Governments in advanced economies bailed out their large banks and financial institutions. Governments realized that markets alone cannot self-regulate and started improving regulatory and institutional frameworks for the financial sector.

7. A “developmental crisis” manifested in increasing unemployment, rising urban and rural poverty with falling personal incomes, and limited access to basic food, energy and essential services. The International Labour Organization projects global unemployment reaching 212 million in 2009 following an unprecedented increase of 34 million compared to 2007. The high unemployment rates would continue in 2010. The share of the working poor in developing countries increased to 64 per cent in 2009, up from 59 per cent in 2007, and between 47 million and 84 million more people remained poor or fell into extreme poverty.<sup>3</sup> The poverty gap within and between countries increased. Development policies must be mindful that jobless economic growth is not sustainable.

### **2. Trade slump and weak recovery**

8. The shrinking in global demand paired with waning trade finance caused a sharp contraction of international trade whose growth, by the end of 2008, turned negative. The data for the third quarter of 2009, although still negative relative to the same month of 2008, suggest that international trade has bottomed out and some rebound is underway. On average, global trade increased about one third compared to the bottom reached in early 2009. Nevertheless, world trade is still expected to contract in 2009 by 10 to 15 per cent relative to 2008.

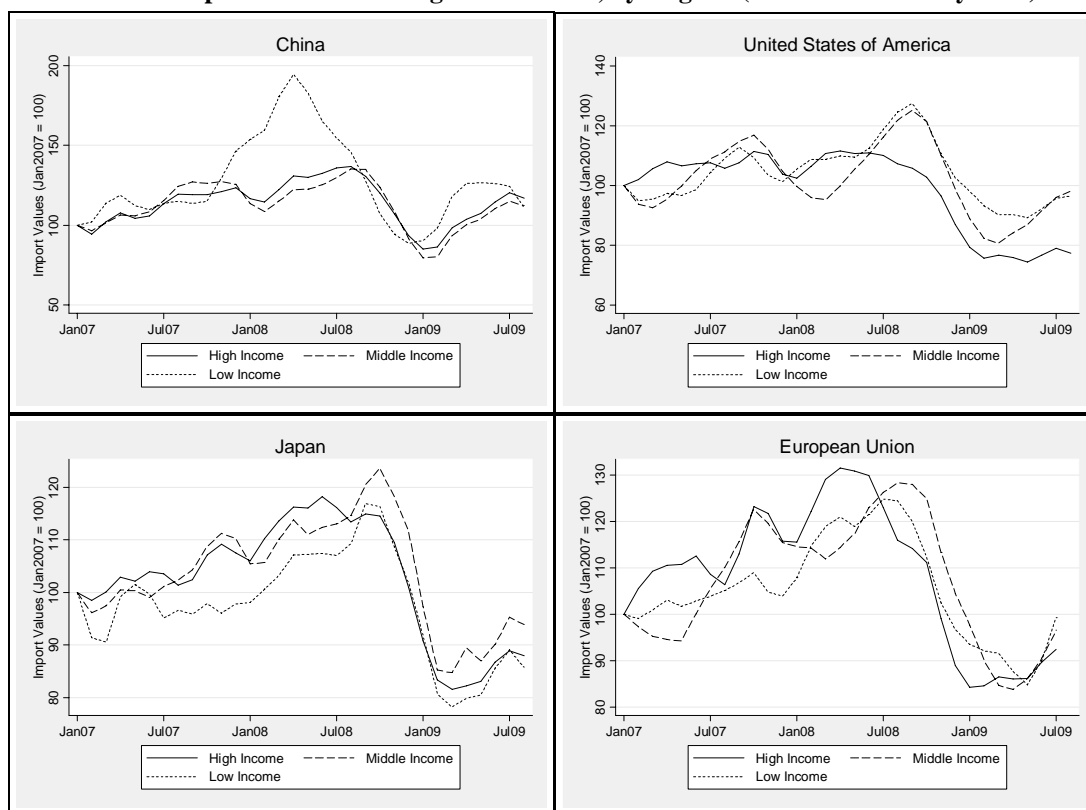
9. Figure 1 illustrates the performance of non-oil imports for four major markets: China, the EU, Japan and the United States. As about half of international trade is bound to them, variation in their imports has major repercussions for all countries. The crisis caused similar declines in all four economies with drops in imports of about 40 per cent for China

<sup>2</sup> DESA (2010). World Economic Situation and Prospects 2010 (WESP 2010).

<sup>3</sup> *Ibid.*

and the EU, and about 30 per cent for Japan and the United States. The rebound in the third quarter of 2009 was different among them. China's imports strongly rebounded to levels observed in the late 2007. More muted was the rebound in Japanese, United States and EU imports, where import values are still substantially lower than those of 2007.

Figure 1  
Non-oil imports of the four largest economies, by origin – (indexed to January 2007)

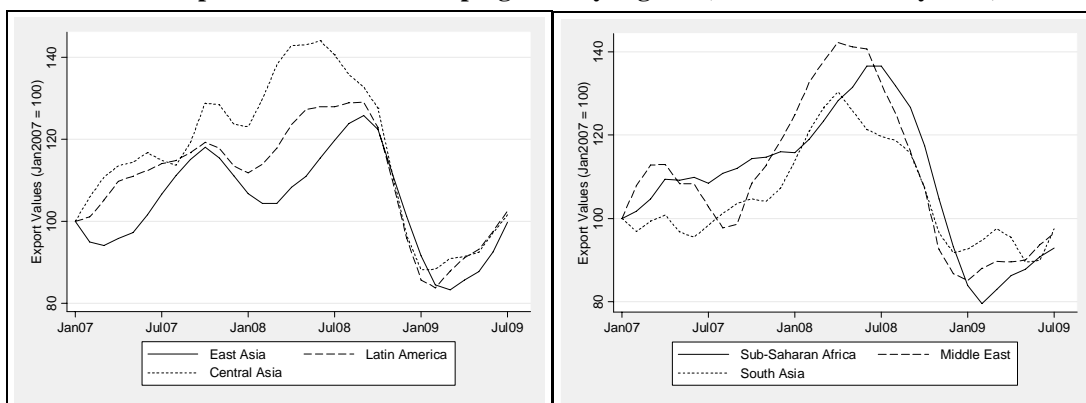


Source: National Statistics data and UNCTAD calculations.

10. Developing countries are recovering faster, although there are significant inter-country differences. Figures 2a and 2b report aggregate exports for six developing country regions to the four largest economies. The export patterns of East and Central Asia and Latin America saw a sharp drop, followed by an equally sharp rebound in the third quarter of 2009. The rebound was weak for sub-Saharan Africa, the Middle East and South Asia. LDCs' exports rebounded and grew by 9 per cent from April to July 2009, outpacing the world average of 5 per cent during the same period.<sup>4</sup>

<sup>4</sup> WTO (2009). *The Impact of the Financial Crisis on Least-Developed Countries*.

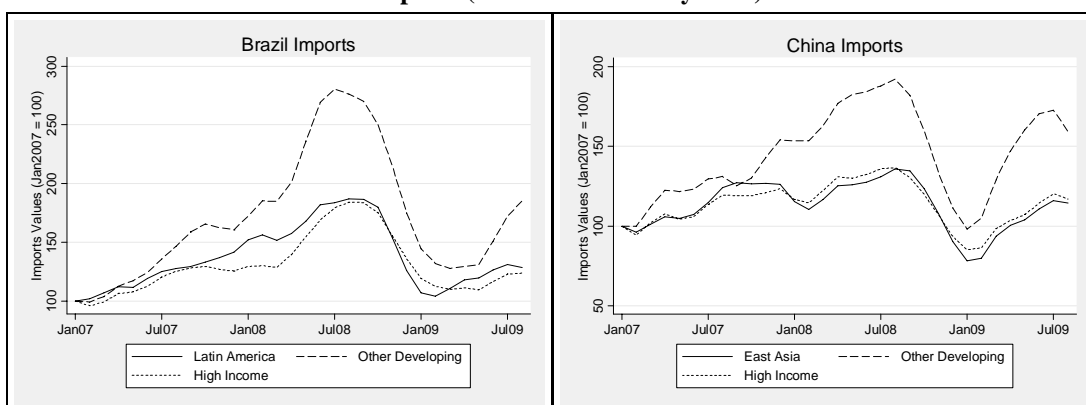
Figures 2a and 2b  
**Non-oil exports of selected developing country regions (indexed to January 2007)**



Source: National Statistics data and UNCTAD calculations.

11. Data on South–South trade is scarce but some indications are provided by Brazil and China (figure 3). While extraregional trade increased the most before the crisis, its decline at end of 2008 and first quarter of 2009 was also the most severe. Extraregional imports fell by about 50 per cent in a few months, but appear to have strongly rebounded, especially China’s imports. Intraregional trade shows a different pattern, similar to that of trade with high income countries due most likely to higher interconnection of regional markets and a different product composition.

Figure 3  
**Brazil and China non-oil imports (indexed to January 2007)**



Source: National statistics data and UNCTAD calculations.

### 3. Product and commodity sector performances

12. The decline in international trade involved all economic sectors. Similarly, the recovery seems widespread with most sectors showing resurgences. For example, United States imports showed some recovery in 2009, although in most sectors United States imports are still below those of historical trends. Recovery is lagging in metals and minerals, and in most of agricultural trade. China’s exports statistics indicate a stronger rebound in virtually all economic sectors. They are at levels similar to those observed in 2007, although lower to those of 2008.

13. Commodities prices trend upwards between January and October 2009, with UNCTAD’s non-oil commodity price index rising by 20 per cent, led by the minerals, ores and metals group. There is some re-emergence of speculative position on some

commodities that could increase price volatility. Price dynamics were divergent amongst commodity groups. Some sectors, such as sugar and coffee, have benefited from increased demand, whereas others, such as cotton, were hit hard. The future dynamics of prices remain uncertain pending a robust and self-sustaining economic recovery.<sup>5</sup>

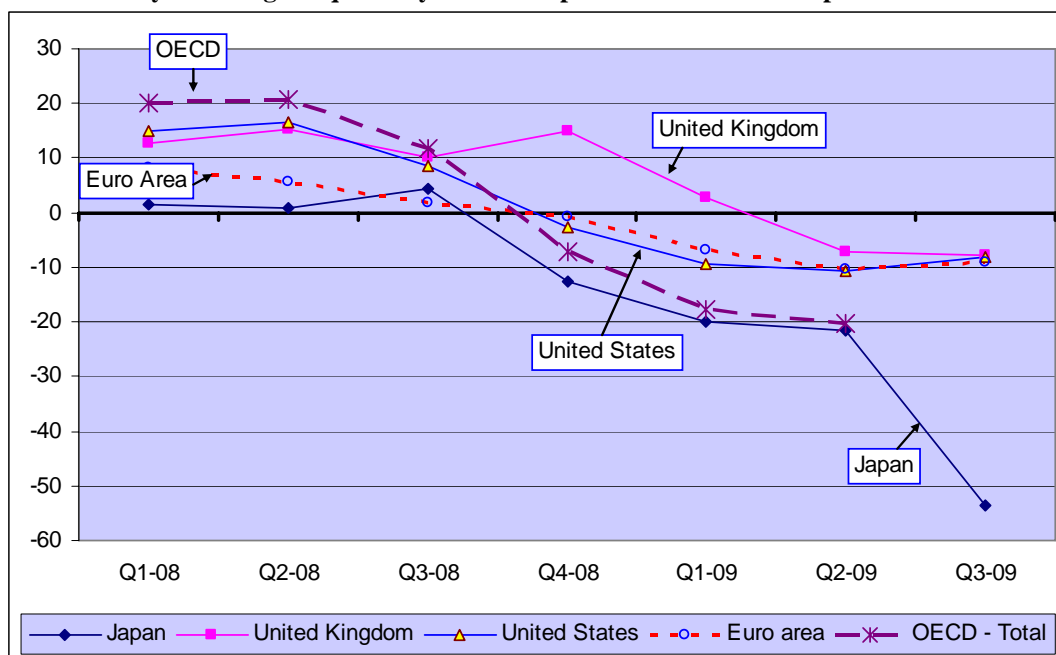
14. The volatility of terms of trade renders macroeconomic management difficult and enhances economic insecurity, mitigating growth prospects of both net importers and exporters of food, energy and minerals.

#### 4. Services sector performances

15. The crisis affected the services sector with adverse implications for countries dependent on services exports. Demand contracted more in income-sensitive services – including tourism and travel, financial services, construction, retail and services related to merchandise trade, including transport – than in energy, health, education, telecommunications and some business and professional services which are regarded as necessities. Global year-on-year services exports were up sharply, rising by 12 per cent in 2008 to \$3.9 trillion, with a 10.6 per cent rise achieved by developed countries, and 13.5 per cent rise by developing countries. Growth in services exports became negative from the fourth quarter of 2008 onwards and stabilized in the second and third quarters of 2009 (figure 4). It is premature to discern a sustained rebound in services trade as the level of exports remain at a level 10–30 per cent lower than that registered in 2008.

Figure 4

Year-on-year change in quarterly services exports of selected developed countries



Source: OECD, Key Short-Term Economic Indicators.

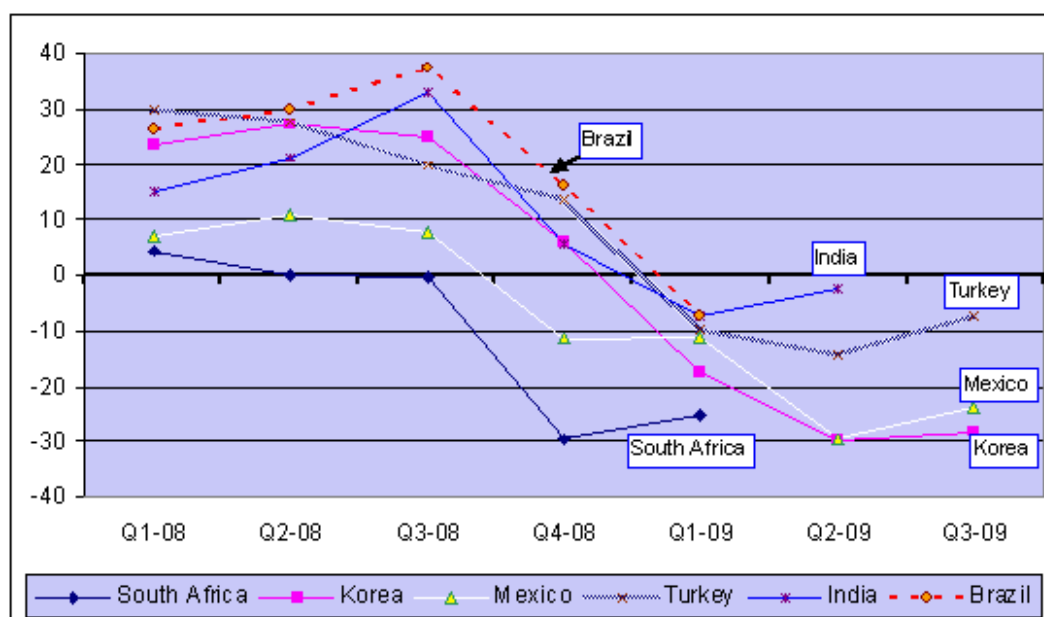
16. Selected developing countries experienced significant contraction of services exports, with a variation greater than developed economies (figure 5). Many experienced a negative growth of 10-25 per cent in the first quarter of 2009 and further deteriorated in the

<sup>5</sup> Recent developments in key commodity markets: trends and challenges (TD/B/C.I/MEM.2/7).

second quarter. The third quarter points to signs of stabilization although at a significantly lower level than that registered in 2008.

Figure 5

**Year-on-year change in quarterly services exports of selected developing countries**



Source: OECD, Key Short-Term Economic Indicators.

Note: "Korea" refers to the Republic of Korea.

17. The contraction in services trade is mirrored at sectoral levels. Financial services' export growth decelerated from 32 per cent in 2007 to 1 per cent in 2008. Argentina and Japan's financial services exports were hit severely (-14 and -12 percents respectively) in 2008, whereas the United States, the United Kingdom and Spain observed a softer decline of 2 per cent. Significant declines among major exporters were also observed in South Africa (-8 per cent) and Canada (-3 per cent). Further decline was observed for the United States during the first three quarters of 2009 (-11 per cent).<sup>6</sup>

18. International tourist arrivals expanded to 922 million in 2008 with tourism receipts rising to \$944 billion. From mid-2008 to mid-2009, Africa excepted, all regions recorded declines, especially Europe and the Middle East. In many destinations, domestic tourism has been insufficient to compensate for the falling international demand. International arrivals in 2009 fell to 880 million, down 4 per cent from 2008. Tourism returned to growth in the last quarter of 2009 and is expected to endure, with 4 per cent annual growth in international arrivals projected through 2020, when it should reach 1.6 billion – nearly 70 per cent above current levels.<sup>7</sup> This recovery was partly due to stimulus measures many countries have implemented.

19. The downturn in merchandise trade led to decline in demand for transport. Port traffic in the world's largest container ports, Singapore and Shanghai, decreased by 13.5 and 11 per cent respectively between 2008 and 2009. Global fleets however were still growing throughout 2009, as vessels ordered earlier were delivered. In early 2010, 12 per cent of global container carrying capacity was idle, anchored at harbours. Consequently, the

<sup>6</sup> United States Bureau of Economic Analysis

<sup>7</sup> World Tourism Organization (2009) (A/18/8).

actual fleet deployment significantly decreased during 2009, reducing shipping connectivity internationally and trade flows. The reduction in fleet deployment was less drastic on major South–South routes, reflecting the robustness of South–South trade. In the air freight market, revenues in 2009 are estimated to be 27 per cent lower than in 2008. Since mid-2009, international air freight volumes started to recover. The Middle East and Asia Pacific witnessed the strongest recovery in the air cargo markets.

20. Remittances slowed since the last quarter of 2008. The World Bank forecasts remittances to developing countries to be about \$317 billion in 2009, i.e. 6.1 per cent less than the \$338 billion registered in 2008. The economic crisis, exchange rate fluctuations and possibly new immigration policies by some destination countries tightening the inflow of foreign labour force, is impacting remittances. Remittances to developing countries are expected to have modest increase of 1.4 per cent in 2010, and 3.9 per cent in 2011. With this sluggish pace of recovery, remittance flows are unlikely to reach the 2008 level even by 2011.

## **5. FDI performance**

21. Global FDI flows dropped by 14 per cent in 2008, and fell further by 39 per cent in 2009 to over \$1 trillion. FDI flows to developed countries declined by 40 per cent, and FDI flows to developing and transition economies, which rose in 2008, declined by 35 per cent and 39 per cent respectively. The economic recovery and improved corporate profitability mean that FDI flows may rebound in 2010. Investments from emerging economies offer new potential.

## **6. ODA flows**

22. Official development assistance (ODA) flows reached their highest value of \$120 billion in 2008, and as a share of gross national income (GNI) decreased from 0.33 per cent, its peak in 2005, to 0.3 per cent in 2008.<sup>8</sup> This compares with the ODA target of 0.7 per cent of GNI by 2015 (and at least 0.5 per cent of GNI by 2010).<sup>9</sup> The crisis could lead to reduced ODA flows, including aid for trade, despite international commitments including by the G-20 Summit in April 2009.

## **7. Global trade imbalances and currency misalignment**

23. One effect of the crisis has been the reduction in global imbalances (see figure 6) and currency misalignments. A key concern is whether these imbalances will grow again when economies recover. The imbalances arose in part due to policy stances of major economies, with many trade surplus countries pursuing macroeconomic policies in pre-crisis years to encourage exports, and deficit countries having low interest rates and savings that favour consumption. In the absence of policies and actions to address global macroeconomic and trade imbalances, the incipient recovery will rest on a fragile ground and create protectionist pressure upon Governments.

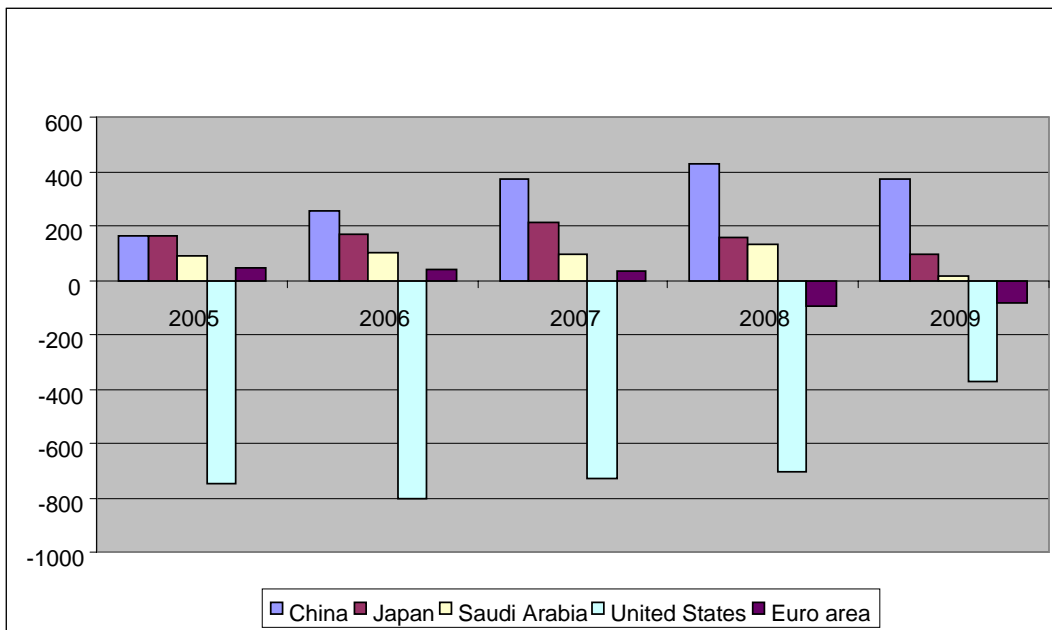
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<sup>8</sup> OECD online database.

<sup>9</sup> G-20 London Summit Communiqué, 2 April 2009.



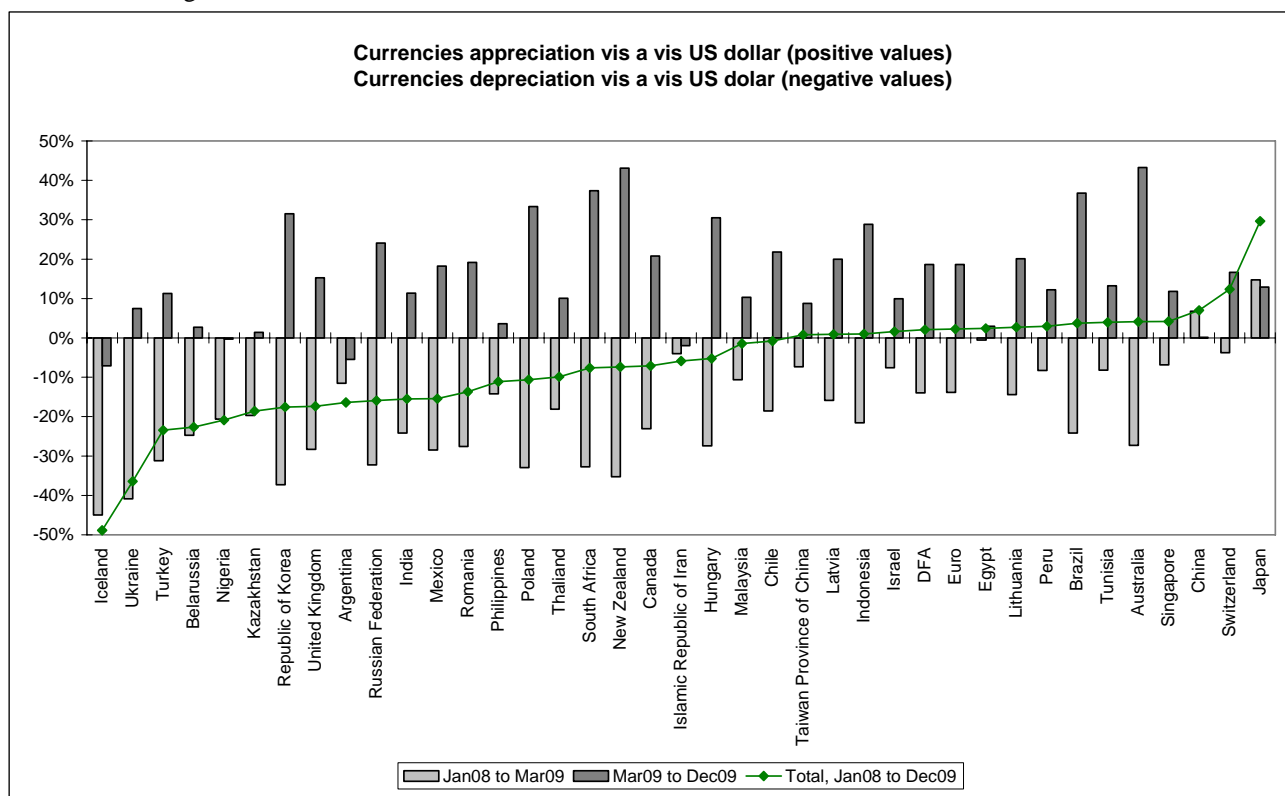
Figure 6  
**Current account balances, 2005 to 2009 (billions of dollars)**



Source: IMF World Economic Outlook.

24. The economic crisis strongly impacted currency markets (figure 7). Some countries saw their currency depreciate *vis-à-vis* the United States dollar and the euro. Australia, Hungary, Indonesia, New Zealand, Poland, the Russian Federation and the Republic of Korea had their currency depreciated by 25 per cent or more. This created some tensions in specific regions. As the effects of currency depreciation are similar to that of an export subsidy or import tax, there were fears that some countries were trying to soften the effect of the crisis by resorting to competitive devaluation.

Figure 7



Source: UNCTAD calculations.

25. Recent data suggests that competitive devaluation appears not to have taken hold. In the second half of 2009, most of the depreciation *vis-à-vis* the dollar has been reversed. As of December 2009, misalignment among the various currencies has abated. The experience underlines the need for finding a solution for achieving a stable pattern of exchange rates, including through coordination among major economies.

## 8. Near-term prospects for global trade

26. The trade slumps of the last 60 years, many preceded by crises in financial sector, were followed by rapid recoveries. Looking forward, as demand slowly resumes, international trade is forecasted to rebound. Indeed, a recovery has occurred, with some countries experiencing a V-shaped rebound, and volumes of trade similar to those of early 2008. The rebound is a result of the mitigation measures and an inventory-bounce (re-stocking) by industries and to a lesser extent to a recovery of consumer demand and investment spending. The key issue is whether the rebound will be long-lasting or short-lived. Much will depend on the content, impact and duration of coping and sustainable development strategies. Given the current pace of recovery, global trade is projected to grow by 5.4 per cent in 2010.<sup>10</sup> Most countries will reach a pre-crisis level of trade in 2010 with international trade reaching about \$13 trillion-14 trillion and growing further in 2011.

<sup>10</sup> WESP 2010.

## II. Crisis-mitigating strategies and economic stimulus

27. Proactive measures to salvage affected sectors and build economic resilience were substantial in scope and coverage. These can radically change the international landscape for production, consumption, trade and development. They encompassed at national and regional levels (a) immediate and targeted interventions, including stimulus packages, to rescue the financial sector and support distressed sectors (e.g. automotive sector), save jobs, and provide relief to exporters; and (b) medium-to-long-term strategies targeting increased public expenditure in social and economic infrastructure to boost domestic demand, create jobs, build human capital, strengthen productive capacity including through incentives and innovation, improve competitiveness, implement structural change, enhance energy/material/resource efficiency, change the energy mix for climate change mitigation, and diversify export basket and markets. Internationally, strengthening development aid, technology and investment flows; and improving global governance and coherence in trade, financial and monetary policies are necessary.

28. Countries such as China (box 1), Mauritius, South Africa and the Republic of Korea combined efforts to rescue the financial and economic sectors with comprehensive and deeper structural reforms. The utilization of any measure depends on the policy space and fiscal and institutional capacities of governments with major economies better endowed to undertake significant reforms.

### **Box 1. China comprehensive recovery measures**

China's fiscal stimulus and other measures mitigated the impact of the crisis on its economy, and accelerated economic restructuring to grow on the basis of synergized development of agriculture, manufacture and services, and reorienting its growth model towards a more balanced, sustainable and environmentally friendly one. The domestic demand-focused measures include a fiscal stimulus sub-package totalling RMB 4 trillion to be invested in 2009–2010, and other actions such as immediate consumption-inducing measures, reform and adjustment of taxation, reduction and exemption of fees and charges, industrial restructuring, support to small and medium-sized enterprises (SMEs) and employment assistance. Seven areas (figure 8) were identified as “bottlenecks” in development, “stumbling blocks” hindering consumer spending and critical areas for sustainable and ecological development (reducing environmental impact, technology and innovation and industrial restructuring). Substantial investments have been mobilized to address these new growth points. China has recovered sooner with a V-shape economic performance.

29. In African countries, LDCs and small and vulnerable economies, the scope for active crisis mitigation is limited given small and shrinking development finance, and high public debt levels. Structural reforms in LDCs to reduce vulnerabilities and enhance development remain important including through refocusing policy attention on developing productive capacities with higher value addition, and physical infrastructure, building an enabling and developmental State, and ensuring effective multilateral support.<sup>11</sup> Such issues deserve consideration in the Fourth United Nations Conference on LDCs in 2011.

<sup>11</sup> UNCTAD (2009). *Least Developed Countries Report 2009: The State and Development Governance* (United Nations publication, Sales No. E.09.II.D.9).

## A. Crisis mitigation and structural reforms

### 1. Trade financing

30. The limited and unaffordable access to trade finance reduced international trade. The World Bank estimates that 85–90 per cent of the fall in world trade since 2008 is due to falling international demand and 10–15 per cent to reduced trade finance. The IMF estimates the trade finance “gap” at \$100 billion–\$300 billion.

31. Interventions by governments and international financial institutions (IFIs) were crucial for capital injection, liquidity increase and risk mitigation support. IFIs injected substantial capital into global trade. In addition to its global trade finance facilitation programme, the International Finance Corporation introduced a new global trade liquidity programme to provide liquidity and risk mitigation supporting trade finance. The World Bank promotes policies for easing access to affordable trade finance in developing countries. The April 2009 G-20 Summit pledged \$250 billion trade finance and Governments enhanced their export credit insurance and guarantees.

32. The African Development Bank introduced a trade finance programme. The Organization for Petroleum and Economic Cooperation Fund for International Development introduced trade finance tools to alleviate difficulties in accessing credit. The Inter-American Development Bank created a \$6 billion emergency liquidity facility for commercial banks, and increased the size of its trade finance facilitation programme. Afrexim Bank negotiated a \$100 million trade and project finance line of credit from the Export–Import Bank of China to finance trade.

33. South–South cooperative initiatives can ease access to trade finance, reduce trade costs and spur investment. For instance, the Global Network of Exim Banks and Development Finance Institutions leverages synergies between export–import banks and development finance institutions to address trade financing needs in South–South trade.

### 2. Stimulus/bailout packages

34. Several governments provided bailout packages, relief measures and fiscal stimulus packages that varied considerably in size. The packages of the United States and China are \$787 billion (5 per cent of GDP) and \$585 billion (13 per cent of GDP) respectively, while that of Bangladesh is around \$500 million (0.6 per cent of GDP). There are intraregional variations: in the EU, it ranged from 2.64 per cent of GDP (Germany) to 0.2 per cent (Italy) and in Latin American, from 0.3 per cent of GDP (Brazil) to 2.2 per cent (Chile). The total global stimulus packages are estimated at \$2.6 trillion, with an additional \$20 trillion publicly guaranteed funding for salvaging the financial sector.<sup>12</sup> The average size of these packages in developed, developing and transition economies relative to their respective GDPs was around 3.7, 4.7 and 5.8 per cent, respectively.<sup>13</sup>

35. A major aspect of public sector interventions was the financial sector. Many countries recapitalized their banks. In advanced G-20 countries, the average outlay is about 3.2 per cent of GDP, with variation across countries (from 4.6 per cent in the United States to none for Australia and Spain). Governments and some central banks provided substantial direct loans and purchased illiquid assets from financial institutions. Amounts involved averaged 5.8 per cent of GDP in developed countries and 0.3 per cent in developing countries. Japan, Norway and United Kingdom financial rescue packages accounted for

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<sup>12</sup> WESP 2010.

<sup>13</sup> UNCTAD (2009). *Trade and Development Report 2009*. (United Nations publication, Sales No. E.09.II.D.16).

over 10 per cent of GDP. In emerging economies, financial sector support was limited. Developing countries need to strengthen their domestic financial services sectors and markets, and develop regional cooperative mechanisms to contribute to financial and monetary stability.

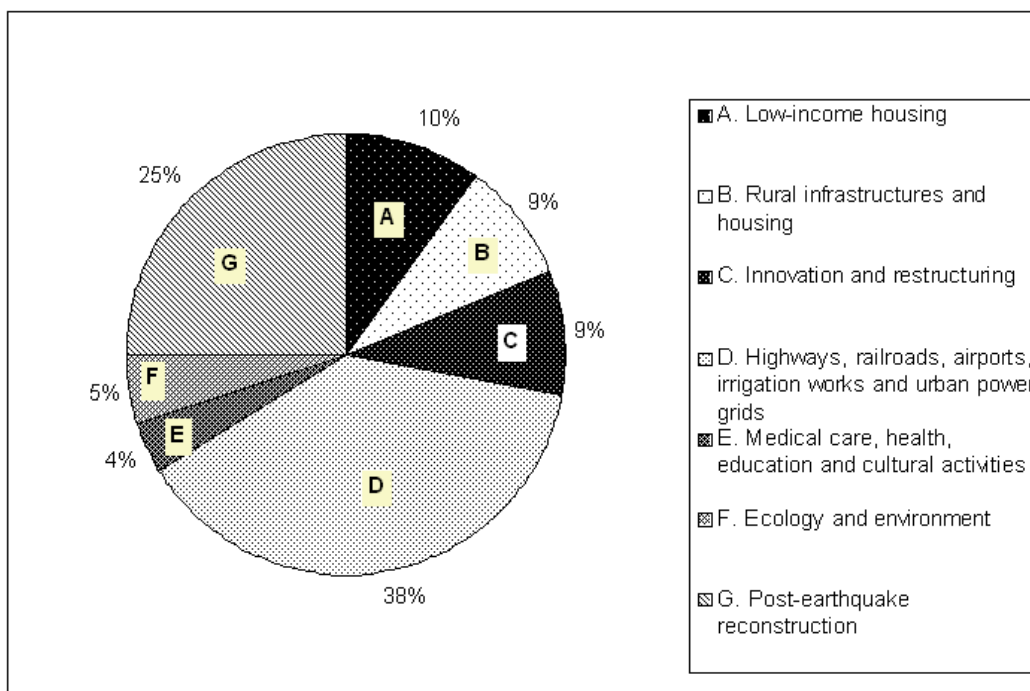
36. Stimulus packages involved both revenue and spending measures. Within the EU, Austria, Finland and the United Kingdom focused on revenue-side measures such as tax cuts, while Government spending predominated in Norway, Netherlands and Spain.

37. In Africa, a few countries – such as Mauritius and South Africa – adopted comprehensive measures to protect jobs, expedite infrastructure development and promote environmentally friendly development. In Latin America, countries such as Brazil included tax cuts for manufacturers of cars, home appliances and construction materials to boost consumption and jobs, as well as lowered interest rates. Mexico, Chile and Peru increased infrastructure spending. The Caribbean countries emphasized reviving declining tourism revenue and remittances.

38. In Asia, countries stressed expenditure measures such as (a) social support, infrastructure development, scientific and technological innovation, and increased investment in environmental measures (China, for example, in figure 8); (b) job creation; (c) cash subsidies to exporters and expenditures on agriculture, the power sector and social security (Bangladesh); and (d) investment for strategic industries, infrastructure, education and training (Malaysia). In the Pacific, ensuring access to social services food and energy received attention, as well as strengthening regional cooperation and integration, was emphasized.

Figure 8

#### China stimulus package



39. Long-term investments in public infrastructure, closing investment gaps by advancing already planned projects, and supporting private investments create jobs, build connectivity and enhance access to international markets. This is particularly important for landlocked, transit and island developing countries. Transport investment will remove

capacity restrictions and allow trade to expand, while reducing environmental impact and improving adaptation to climate change. Several initiatives embrace clean development imperatives, such as China's support to auto companies for developing energy-saving automobiles or promoting the use of renewable energies.

40. South Africa, in its 2009 budget, launched a comprehensive strategy and one of the largest-ever expansion of the public sector, worth over 140.87 billion South African rand (\$18.17 billion). It covers (a) public transport, roads and rail networks; (b) electricity demand management, with tax incentives for investment in energy efficient technologies; (c) schools, clinics and other provincial infrastructure projects; (d) bulk water systems; (e) low-income housing projects; (f) industrial development and small enterprise programmes; (g) production subsidies for a new automotive production and development programme; (h) rural development and small farmer support; and (i) institution-building for consumer protection, competition and enhanced testing capacity of the Bureau of Standards.

### **3. Regulatory and institutional reforms**

41. The crisis exemplified the importance of regulatory and institutional frameworks. The financial market boom preceding the crisis was not matched by adequate national and global market regulations. The regulatory failure in the deregulated environment became manifest with regard to the control of product safety for complex and high-risk financial products, consumer protection, management of risks and leverage, regulation of non-traditional financial institutions, credit-rating agencies, assessment of systemic risk, capital adequacy regulation, moral hazard and incentive structure for compensation systems. Sound national regulations and institutional frameworks adapted to individual countries' conditions and capacities, and international regulatory cooperation, are essential in preventing future crises. An overhaul of national and international financial sector regulations is now on the policy agenda. Various reform options aim at a more stable financial sector that can provide long-term financing to productive sectors. Many also seek greater social efficiency and equitable markets through regulation.<sup>14</sup>

### **4. Strengthening and diversifying production and improving competitiveness**

42. Countries adopted measures to promote the long-term competitiveness of industries including human capital development. Many sought to identify and produce competitively new products, and new markets. For example, Rwanda is reviewing its trade policy to focus on improving supply capacities, especially in pro-poor sectors such as services and specific commodities (including fine and specialty coffee, and silk), with UNCTAD support.

43. With UNCTAD's support, some developing countries – such as Uganda (box 2), Kyrgyzstan and Nepal – implemented services sector policy reviews to enhance services contribution to development.

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<sup>14</sup> TD/C.1/MEM/3/5.

### **Box 2. Services development in Uganda**

The Uganda national services policy review revealed the potential of services sectors, particularly professional, insurance and construction services, to improve national productivity, increase remittance flows, and enhance knowledge and exposure to new technologies. To realize their potential, increases in domestic demand and production capacity are needed, as are increased exports, particularly through the movement of natural persons for temporary work abroad. The review outlined an action plan to enhance national performance in services: (a) strengthening national training institutions, particularly in the construction and insurance services sectors, so that more Ugandans can be employed in the growing national workforce of these sectors; (b) introducing a Construction Guarantee Fund to assist contractors and consultants obtain bid securities, performance bonds and advance payment guarantees; (c) introducing private sector micro-insurance via existing micro-credit marketing channels to reach the rural poor where health insurance coverage; (d) negotiating mutual recognition of academic and professional qualifications for accountants, lawyers and engineers, to enhance professional services exports in the East African Community; (e) increasing exports of professional services to markets further afield through promotional activities; (f) encouraging foreign firms – which currently service 85 per cent of the national construction market – to work through joint ventures with national firms to ensure a genuine transfer of technology and to increase the capacity and market share of the domestic firms.

*Source:* UNCTAD 2009.

44. Mauritius' financial envelop of about 9.3 billion Mauritian rupees (\$321 million) representing 3.4 per cent of GDP, to mitigate the crisis comprises the stimulus package, remuneration for civil servants on recommendations of the Pay Research Bureau, and for contingencies. The package focuses investment in airport expansion and modernization and creates six funds to realize the "Maurice Ile Durable" vision, build food security, boost education and knowledge, improve local infrastructure, implement social housing commitments, and strengthen the competitiveness of domestic oriented industries and SMEs.

45. Bangladesh launched measures to dampen declining remittances. These include (a) rehabilitation and skill development training for the returnee expatriate workers who lost jobs; (b) a diplomatic initiative to prevent retrenchment of workers and to explore new labour markets abroad; and (c) a strengthened National Skill Development Council to build a critical mass of skilled workforce to match the requirement of international labour markets.

46. The Republic of Korea recovered from the crisis more quickly than other countries reflecting its comprehensive strategy, with a stimulus package amounting to \$38.1 billion, representing 4 per cent of the (box 3). The Organization for Economic Cooperation and Development (OECD) projected its economic growth to be the highest among OECD members at 2.2 per cent in 2009 and 3.5 per cent in 2010.

**Box 3. Republic of Korea's recovery strategy**

The Republic of Korea is one of the few OECD countries where output has already surpassed its pre-crisis level. Applying lessons learnt from its experience with the Asian financial crisis of 1997, the country improved financial soundness (debt ratio and fiscal balance) and competitiveness of export-oriented industries. The Government maintained a surplus in the consolidated fiscal balance and kept its debt ratio in the 30 per cent range, which allows for active fiscal policies. A package was launched composed of (a) liquidity and credit support measures; (b) lowered interest rates, and funds to inject liquidity into the market; and (c) encouraging SMEs to do their business continuously through a SME liquidity provision programme, tax incentives and export insurance. The bulk of the stimulus package gives attention to low-carbon development strategies, including renewable energies, energy-efficient buildings, low carbon vehicles, rails and water and waste management. To boost domestic demand, the Government expanded public spending amounting up to 6.9 per cent of GDP and made personal and corporate income tax cuts. It introduced supplementary budget to create jobs and support the underprivileged class. Corporations have diversified export markets and export basket and enhanced their technology competitiveness. Depreciation in the won of over 30 per cent increased the Republic of Korea's competitiveness in world trade.

47. A key aspect of these strategies involves proactive industrial, agricultural and services policies, reversing the trend of minimal Government intervention, and focusing on job creation, greater retention of value addition, forward and backward linkages, technology diffusion and capital formation, and fostering environmental sustainability. Such shift to active Government policies requires greater fiscal and policy space.

**5. Multilateral and regional arrangements**

48. Developing countries' role in the international trading system has considerably strengthened. They account for a greater proportion of international trade with several of them acting as engines for global trade, and comprising the majority of World Trade Organization (WTO) members. They have also entered in many regional and bilateral trade agreements, some of which include deep trade and investment liberalization. With such transformation, the multilateral trading system (MTS) needs adaptation to prioritize the trade agenda of developing countries, and provide them with flexibility to experiment with trade measures in promoting trade, economic growth and development. This is particularly applicable to policy tools that have been used for industrial and agricultural development. A key issue is the policy space remaining to allow pro-development support for particular sectors, firms and technologies.

49. The conclusion of the WTO Doha round with meaningful development content, including through early harvest, would strengthen the economic recovery. The seventh WTO Ministerial Conference reached consensus on concluding negotiations in 2010. The development deliverables can include (a) improved market access in agriculture and industrial products of interest to developing countries, and accelerated elimination of export subsidies in agriculture; (b) accelerated implementation of duty-free, quota-free market access for LDCs with simpler, more transparent rules of origin; (c) ambitious cut in cotton domestic support; (d) commercially meaningful market access in services modes 4 and 1, and implementation of LDCs special modalities; and (e) enhanced support to trade facilitation capacity-building.

50. The prolonged Doha negotiations signal that the MTS needs reassessment. Stabilizing the system after negotiating rounds requires sufficient time allocated for



implementation, reviews and build-up of capacities, particularly in developing countries, avoiding non-implementation risks and disputes, and assessing the impact on development. A bold course correction may be needed. The lack of balance between a rules-based MTS and the weak global architecture for the financial system needs addressing.

51. Bilateral/regional free trade agreements have proliferated, with about 266 operational agreements. While these agreements improve market access conditions and development assistance for weaker partners, they divert attention away from multilateralism. Some North–South agreements may have a chilling effect on South–South arrangements and limit policy space for active national policies. It is important to promote multilateralism and ensure coherence with it of plurilateral and regional arrangements. Cooperative mechanisms constitute useful avenues to build economic relations.

52. Improvement of trade preferences such as the General System of Preferences, for example by including services, helps generate additional export earnings and promote industrial development. Product coverage of preferential schemes can be expanded, particularly towards LDCs, in realizing duty-free and quota-free market access. Presently, complex and intricate preferential rules of origin on products of particular export interest such as apparel products, processed food and fish products, could be made simpler, more realistic and transparent, allow regional and possibly global cumulation and be tailored to the productive capacities of beneficiaries.

53. Signs of economic nationalism and potential protectionism emerged as pressure mounted to save crisis-hit industries and jobs. Thus, arresting protectionism is a major concern. A joint report by OECD/WTO/UNCTAD noted policy slippage since the crisis, including (a) raising tariffs and introducing non-tariff measures to protect domestic production in certain sectors such as steel and automotive; (b) the re-introduction of agricultural export subsidies; and (c) elements in the stimulus packages favouring domestic goods and services at the expense of imports such as state aids, other subsidies and “buy/lend/invest/hire local” conditions. These could have implications for future production locations and competitiveness. The typology of measures implemented shows that this occurs principally within WTO rules.<sup>15</sup> Besides bailouts and some financial services measures, trade defence measures within the WTO framework represent the bulk of measures that countries implemented or are about to implement, and a third are tariff increases within the WTO binding commitments.

## 6. South–South trade

54. South–South trade constitutes a vibrant avenue for future trade growth. The share of South–South trade in goods in total exports of the South rose from 38 per cent in 2000 to 48 per cent in 2008, indicating that soon half of South’s total exports will flow to other developing countries. Consolidating and strengthening South–South cooperation at the interregional, regional and bilateral levels widens markets and augments domestic demand, especially for LDCs and small economies, and fosters production networks.

55. The Global System of Trade Preferences among Developing Countries (GSTP) is an important tool. On 2 December 2009, Minister of countries participating in the third (São Paulo) round of GSTP negotiations agreed to modalities for liberalizing merchandise trade: (a) an across-the-board linear cut of at least 20 per cent on dutiable tariff lines, to be combined with request-and-offer and/or sectoral negotiations on a voluntary basis; and (b) commitments on at least 70 per cent of their dutiable tariff lines. There are 43 GSTP

<sup>15</sup> [www.globaltradealert.org](http://www.globaltradealert.org).

participants, with 22 participating in the third round. Intra-GSTP exports were about \$600 billion in 2007, representing 24.1 per cent of the group's total exports.

## **B. Impact of measures taken**

56. Assessing impact of counter-cyclical and expansion policies is difficult due to the unavailability of counterfactuals. Nonetheless, the review above and several studies indicate that mitigating measures helped contain the crisis and its contagion, and propelled a quick rebound. The resilience in demand in some major markets and export composition also played a role. Commodity prices recovered in early 2009. The financial sector also recovered, but remains vulnerable in view of outstanding loans.

57. Many countries with economies in transition adopted mitigating measures, but their impact was blunted by the worsening external environment, including significant reduction in export prices and capital withdrawal. Some countries, especially the Russian Federation and Ukraine, experienced significant output contraction during 2009. A return to positive growth remains contingent on external economic environment and investor confidence. This notwithstanding, the Central Asian countries are expected to have positive growth rates in 2009.

58. Continuing with crisis-coping measures to build robustness in the recovery and bringing a larger number of developing countries into the growth circle are important. As recovery evolves, the issue of removing the stimulus packages becomes prominent. This should be discussed with concerned stakeholders regarding timing and sequencing of the withdrawal, the most important criteria being the sustainability in recovery. An abrupt exit strategy should be avoided. Countries increased budget deficits to finance the stimulus and these may become unsustainable if prolonged. Developing countries need to manage prudently public financing to avoid deepening of public debt and possibly impacting private investment. In developed countries, the average public debt-to-GDP ratio is expected to exceed 100 per cent in 2010 and possibly increase thereafter. The level of external indebtedness of the United States reached about \$13.67 trillion in 2009 (94.5 per cent of GDP).<sup>16</sup> Also, there is apprehension that continued monetary expansion creates inflationary pressures and real estate and asset bubbles, setting the conditions for another recession.<sup>17</sup> A balance needs to be struck between maintaining recovery measures while ensuring fiscal discipline.

## **III. Sustained and sustainable growth and development**

59. The crisis is a wake-up call for deeper structural reforms in production, consumption and trade towards socially, economically, and environmentally sustainable models that create jobs and alleviate poverty. A revival of trade is a necessary but not a sufficient condition. Governments have a key role in this process. China and the Republic of Korea provide good examples of such a strategy. Reforms have to be calibrated and sequenced to suit local conditions, reflecting differences in size and complexities and sophistication of economies and available national and international support.

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<sup>16</sup> Bureau of economic analysis initial estimates of 29 January 2010.

<sup>17</sup> See World Bank, *Global Economic Prospects: Crisis, Finance and Growth 2010*.

## A. Learning from development approaches

60. Lessons can be drawn from past responses to development problems, while taking into account current challenges from globalization. The import substitution strategy and industrial development based on national champions dominated development discourse during the 1960s. The focus was on developing countries becoming self-reliant as the periphery-centre relationship with developed countries was considered intrinsically anti-development, relegating them to specializing in commodities trade which suffered from declining terms of trade.

61. The 1970s championed the New International Economic Order, emphasizing a development paradigm in which developing countries would be assisted in their effective integration into the international economy with international support measures and special treatment, and stronger state involvement. The late 1970s and 1980s was the “lost decade” for development, owing to the oil crises, followed by the Latin American debt crisis, and rise of the Washington Consensus favouring economic efficiency and market forces with privatization, liberalization and outward orientation, including through structural adjustment programmes.

62. The Asian financial crisis of the late 1990s called in question the leading development theory of the time. The food, energy and financial and economic crises of 2008–2009 showed that globalization, liberalization and deregulation in trade and finance can also have detrimental impacts without adequate and effective regulatory and governance frameworks at national and international levels. Well-functioning market mechanisms need to be balanced with developmental and enabling States with policy space in providing supportive policies for development, acting as agents of structural change and pulling all other actors together in a holistic manner. Heterogeneity of policy approaches, such as those implemented by East Asian economies, has been successful in promoting development. Countries will have to develop their own best-fit policy frameworks.

63. New thinking on policy reform and product development has been suggested by academics such as Rodrik, Hidalgo and Hausmann.<sup>18</sup> For example, each country, depending on its comparative and competitive advantages, needs to undertake a diagnostic of its development challenges and experiment with strategies on a continuous basis to address specific constraints. In strengthening and diversifying production, especially into sophisticated and high value outputs, local availability of highly specific inputs for producing a product or combination of capabilities is important. Governments have a key role to play, especially in less sophisticated economies, to support the private sector in capability-building to produce higher value products.

## B. Promoting better sustainable development

64. The crisis offers an opportunity to steer the global economy towards cleaner growth and sustainable development. A balance is needed between the requirements to maintain growth to eradicate poverty while taking measures to reduce carbon emissions and environmental impact. Economic stimulus packages can kick-start the transition, as has been done in some countries. Four areas of sustainable, “green” growth sources are (a) enhancing energy efficiency (often in combination with or resulting from material and resource efficiency); (b) mainstreaming sustainable agriculture, including organic

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<sup>18</sup> Hidalgo C (2009). The Dynamics of Economic Complexity and the Product Space over a 42 year period; and Hausmann R, Hwang J and Rodrik D (2007). *Journal of Economic Growth*.

agriculture; (c) harnessing the use of off-grid renewable energy technologies especially for sustainable rural development,<sup>19</sup> and (d) developing a sustainable services sector.

65. Large improvements in enhancing energy efficiency can be achieved at negative net costs. The medium-term benefits of energy efficiency investments outweigh the costs, as there are many leapfrogging opportunities for countries that are using either non-existent or old-fashioned energy-based equipment. Although most of the energy efficiency opportunities are in the rapidly industrializing developing countries, it is estimated that almost 30 per cent of the energy efficiency potential can be exploited in other developing countries. Energy efficiency contributes to reducing greenhouse gas emissions, air pollution and dependence on fossil fuel imports. Energy efficiency also enable countries to provide their populations with greater access to energy while reducing the need for new investments in energy infrastructure, and enhance competitiveness and savings in consumer spending on energy. Energy efficiency programmes targeted at poor households can contribute to alleviating energy poverty. Investment in energy efficiency provides opportunities for employment and exports, and help countries to position themselves in the future, when low-carbon growth becomes an important factor of competitiveness and sustainable development.

66. Harnessing renewable energy technologies (RETs) addresses energy poverty, especially access to electricity in rural areas as it generates general welfare improvement. Electrification based on RETs does not deplete the earth's natural resources and does not create added waste products; diversifies national energy mixes thereby improving energy security; and comprises concrete climate change mitigation action. Renewable energy-based rural electrification projects may unleash the productive – and hence income-generating – capacity of rural communities. Renewable energy sources offer employment opportunities, such as setting up local firms for the installation, maintenance, repair and recycling of RET products and systems. The experience gained generates knowledge, entrepreneurial expertise and manufacturing capacity in renewable-energy-related industries, which opens opportunities for international trade and cooperation.

67. Biofuels, part of renewable energies, plays a role in future energy mix. However, this will be influenced by (a) access to appropriate technology and know-how; (b) well-targeted energy diversification strategies and regulatory requirements regarding inclusion of biofuels in fuel mix; and (c) the impact on food production and prices.

68. Agriculture faces unprecedented challenges and opportunities. The challenges are the need to secure food supply for a rapidly growing population, while minimizing the adverse impacts on the environment. Opportunities relate to new management options, opened up by alternative production methods, technological developments and changing consumer preferences. A transition towards productive and ecologically sustainable agriculture is crucial. Sustainable agriculture brings multiple benefits to producers, including soil fertility, productivity, energy efficiency, occupational safety and market access opportunities. In addition, certified organic produce often yields price premiums. Exporting to consumers willing to pay more for such produce generates significant income for organic farmers in developing countries. Global markets for such produce have been growing at rates of over 15 per cent per annum over the past two decades. Between 2002 and 2007, global certified organic sales doubled to reach \$46 billion, and are expected to increase further to \$67 billion by 2012. Even in the current economic crisis, demand for organic products continues to grow.

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<sup>19</sup> UNCTAD (2010). *Trade and Environment Review 2009/2010*. (United Nations publication, Sales No. E.09.II.D.21).

69. Opportunities have also emerged for developing countries in sustainable production and trade in other biodiversity-based products such as sustainable aquaculture, sustainable forestry, non-timber forest products derived-sectors, and sustainable tourism. Some countries have established partnerships with national and regional organizations to enhance their capabilities to produce value added products and services derived from biodiversity.

70. The services economy is the new frontier for the expansion of trade, productivity and competitiveness, providing jobs and universal access to essential services. Services sector development provides the backbone of an integrated and effective economy. Vibrant infrastructural services such as financial services, telecommunications, transport and energy can catalyse economic diversification and enhance domestic supply capacity. For example, viable transport services facilitate increased frequency of such services, resulting in lower freight costs and improved connectivity. Several developing countries have been successful in reaping sizable developmental benefits from services trade by exploiting areas such as movement of natural persons, outsourcing of information and communications technology-enabled business services, construction, and tourism. A notable example is India's services sector, which was one of the main drivers of India's resilience. During 2008–2009, the services sector grew at a rate of 9.3 per cent even as agriculture and industry recorded a steep decline. Growth in India's services sector is due to growth in domestic demand and exports (22 per cent), with three key services –retail/wholesale trade, software services and banking services. Positively integrating developing countries, especially LDCs, into the global services economy and increasing their participation in services production and trade is essential.

71. Creative industries (e.g. visual and performing arts, audio visuals, publishing and print media, and design) have important potential for dynamic trade growth. Over the period 2000–2005, trade in creative goods and services increased annually by 8.7 per cent, reaching \$424.4 billion. Fiji, Mozambique, Senegal, Trinidad and Tobago and Zambia are developing their creative industries, with UNCTAD's assistance.

72. Sustainable development also requires addressing the impact of climate change. Response measures to climate change in transportation, energy, electricity generation, agriculture and forestry have trade implications that should be addressed. Tendencies towards environmental protectionism should be avoided. The challenge is to ensure that structural transformation takes place while minimizing the carbon-intensity in economic activity, and that more trade does not necessarily mean increased emissions.

### **C. Competition and competitiveness**

73. The crisis poses a potential dilemma regarding competitiveness and competition. The stimulus packages may negatively modify conditions of competition and competitiveness for developing countries. Governments face increasing pressures to protect failing firms, especially national ones, including through exemptions from the application of competition law and policy. These may foster the emergence of large market players. A severe crisis may warrant under special conditions exemptions from competition laws. However, the return of competition, particularly internally, is essential as a viable development strategy. The Sixth United Nations Conference to Review All Aspects of the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices in November 2010 provides an occasion to examine the impact of the economic crisis.

## IV. Conclusion

74. The global crisis marks a turning point in growth and development paradigm. There is opportunity for a reorientation towards qualitatively and structurally different economic growth models which are more equitable and economically, socially and environmentally sustainable. Key aspects of green growth strategies include energy efficiency, renewable energy, and sustainable agriculture and services sectors. The global challenge is to ensure that the recovery is sustained including through proactive and comprehensive strategies which create decent jobs and alleviates poverty.

75. Recovery in industrialized countries has been weak, signalling that the major source of global demand can no longer be expected to continue to provide the stimulus needed to sustain high growth in the rest of the world. New sources of external demand have to be found in emerging economies such as China, which are leading the recovery process and becoming net providers of capital to developed and other developing countries. New ways are required to strike a balance between external demand and domestic demand sources of growth. For many developing countries, growth will increasingly be fuelled by national, regional and South-South markets. The export-led growth remains a key strategy for developing countries with small markets. Diversifying markets and keeping them open is crucial.

76. The role of the enabling and developmental State in fostering people-centred economic growth has been underlined by the crisis. The State needs to be endowed with the requisite policy, backed up with complementary regulatory, institutional and financial capacities, including support from the international community. In strengthening and diversifying production, the State plays a key role in building local availability of highly specific inputs and compatibilities for producing a product.

77. Multilateralism and global coherence between the trading, financing and monetary systems constitute architectural enabling ingredients. The emerging framework for global economic governance should take developing countries' role and concerns into account. Strengthened international coordination and cooperation are important to address global macroeconomic imbalances. Without profound reform of the international financial and monetary system, sustainable restructuring, welfare and efficiency gains in the real economy will be difficult to realize.

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**Successful trade and development strategies for mitigating  
the impact of the global economic and financial crisis**

**Corrigendum**

**Figure 7**

*For DFA read CFA.*

**Paragraph 32, second sentence**

*For The Organization for Petroleum and Economic Cooperation Fund read The Organization for Petroleum Exporting Countries' Fund.*

**Box 2, third sentence, item (c)**

*At the end of the item, add is urgently needed.*

**Paragraph 76, last sentence**

*For compatibilities read capabilities.*

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