

**"The impacts of the financial and Economic Crisis on sustainable development,
particularly their social implications"**

Harsha Vardhana Singh, DDG, WTO

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The financial and economic crisis has had adverse effects far worse than anticipated earlier. World Bank released its latest assessment and has estimated that global output would fall by 2.9% in 2009, down from the previous estimate of 1.7% decline. The OECD Economic Outlook released last week gives for many developed countries a similar picture of a greater decline in their GDP than estimated earlier. For international trade too, we have a similar situation. The WTO Director General, Mr. Pascal Lamy announced ~~last Thursday~~ that the forecast for decline in global trade is now 10% instead of the 9% estimated earlier by WTO.

The forecasts of last week show expectations of slightly higher than expected growth for 2010, but the recovery is expected to be weak. The financial and economic crisis has had a negative social implications, as is evident from the developments in various MDGs. For instance, the number of persons hungry or with malnutrition rose above 1 billion. Even for Asia and the Pacific region, Asian Development Bank has estimated that the crisis has added 80 million more vulnerable persons in 2009 and for next year this would be 130 million more persons in comparison to a situation without the crisis. In some important parts of the world economy, the level of GDP would be same as in 2006. For these, we would have effectively not had any progress for past 3 years.

The crisis has shown us very clearly that for sustainable development and dealing with social implications, various nations need to work together. This is true for most of our major concerns. What began as a financial crisis has generated or added to a number of other major concerns related to poverty, hunger and malnutrition, health, jobs, commodity prices, environment, and social tensions. There are multiples inter-linkages, and no one country can alone deal with these problems. Steps can be taken to improve the situation or we could begin a sequence of retaliatory policies which will benefit none, and hurt all of us. The short term responses we have from nations will determine not just the possibilities during the crisis but also when and how we will emerge out of the crisis.

There is a need to take domestic policy measures including safety nets, improved regulatory mechanism, capacity building, provision of finance for productive activities including international trade, and promoting a policy environment which allows greater economic and social growth. Emphasis is also given to use this opportunity to strengthen "green growth". These steps need to be taken in a complimentary and cohesive manner. In this context, the importance of international trade needs to be emphasised. As Secretary General Mr. Ban Ki Moon said in his opening speech at the WTO's Aid for Trade Review on 6th July, "Trade has long had tremendous potential as an engine of sustained economic growth and development. Today trade can and must be part of our efforts to stimulate recovery."

This means that nations must curb protectionist measures, because, as we remember from the experience in 1930, such measures lead to domino effects of closing markets and strengthening a crisis. Fortunately leaders today are more aware of these effects. At the same time, there are strong domestic pressures to take isolationist measures. And these pressure will become even stronger with time because we have not yet felt the total onslaught

of the social adverse effects. Moreover, even when economic growth resumes, the employment effect will take place with a lag. Thus we need to be specially careful.

Policy makers today face stakeholders that are extremely sensitive to news of trade barriers imposed elsewhere. Under a crisis situation, international trade policy is one of the very few areas of common global interest where people are focusing virtually on a daily basis on trade policy measures. These include both the domestic population seeking intervention and other countries which would be affected by such intervention. Therefore, there is an immediate scope for action and retaliatory reaction. We are passing through a difficult time both because of the global financial crisis and the fact that the governments are under increasing social pressures to adopt isolationist and protectionist policies.

Furthermore, with multiple areas of global concern and overlapping groups of countries which need to address them, there is a special need to be very careful because actions taken in the area of international trade have major implications which go far beyond the area of only trade. It is important that we are not caught by surprise about these various links and possible repercussions, and thus are able to avoid the unanticipated situation which has led us to an intensified global financial crisis.

The WTO Director General's initiative on Monitoring trade policies taken. This helps Members to monitor and peer review each other's policies. The evidence in the WTO DG's monitoring report shows that though the number of protectionist measures being taken by various nations have increased, we do not see widespread or large scale use of protectionist measures. This appears to be the picture both at the general level as well as for trade remedy measures. An important reason for this is the WTO disciplines that are given emphasis by its

153 Members. It is noteworthy that at present we even have a number of countries taking trade opening or trade facilitating measures. However, the number of additional protectionist measures are double the number of market opening measures.

Trade Finance is another key issue.

The speed of recovery from the crisis will depend crucially on the policies that are implemented during the crisis period and beyond. We need steps which do not make the situation worse. Otherwise, we will face a double negative. One, these measures will have an adverse effect during the crisis phase. Two, they will result in extending the period of the crisis, and the forecasts that we have today for recovery in 2010 will also need to be revised downwards. Therefore, both the path and the duration of the crisis depend on the policies that are followed in the near future.

While the insurance policy inherent in the WTO disciplines have helped us to prevent greater adverse situation we need to work towards improving this even more. That will come through the conclusion of the Doha Round of trade negotiations. It is with this in mind that the UN Conference on the World Financial and Economic Crisis and its Impact on Development in late 26th June said that: We therefore reiterate our call for an early, ambitious, successful and balanced conclusion to the Doha Round that increases market access, generates increased trade flows and places the needs of developing countries at its centre.