

CONTINUING INTERNATIONAL TRADE LIBERALIZATION IN THE FINANCIAL CRISIS CONTEXT

Berinde Mihai

University of Oradea, Economic Sciences Department

Abstract: *This research paper is based on an assessment of the effects of the recent financial crisis on the international trade and the way states and international organizations acted in this context. The importance of this research topic consists in identifying the way the international trade liberalization process has been affected by the financial crisis and the way anti-crisis measures deviated from the basic rules agreed under the aegis of WTO/GATT.*

The intended purpose of the paper is to conduct a substantive assessment of undertaken actions by the various states aimed to mitigate crisis impact on anti-dumping investigations and measures. Precisely, it was assayed whether the international financial crisis has been an opportunity for WTO member states to plainly intervene in the economy and give up the commitments they made in the context of multilateral commercial negotiations. Considering the international, regional and national effects of the crisis the topic has been copiously elaborated on by economics literature. A number of anti-crisis measures were presented encouraging massive intervention in the economy, as well as actions, particularly of International Organizations according to which measures could be taken without deviating from globally agreed mechanisms and principles. In order to be able to find out which of these two options prevailed in actions undertaken by the states the types of international, regional or national anti-crisis measures were selected. Positions voiced by the World Trade Organization, United Nations Conference on Trade and Development (UNCTAD), European Union are rendered.

To answer the question about the way it has been responded in order to mitigate crisis effects, adopted anti-crisis measures were inventoried and their deviation from international rules was assessed.

One of the indicators used in the assessment of anti-crisis measures is the progress of the anti-dumping investigations and measures notified to WTO in the past 9 years for which data were available (2003-2009). The relevance of this period lies in the fact that it includes 5 pre-crisis years and 2 years when it was strongly evident.

It was found that the number of anti-crisis investigations and measures has not seen significant increases during the crisis period. Moreover, it has been found that states have shown a certain amount of flexibility in construing application of certain international principles rather than relinquishing them.

It is thereby demonstrated that the international trade liberalization process continues without major disruptions by the financial crisis. This gives confidence to states and business environment with respect to predictability of international trade developments.

The paper has significant added value brought about by both literature processing and interpretation and the author's experience in international trade negotiations. The very election of the indicator pertaining to anti-dumping investigations and measures was based on the fact that changing trade defence mechanisms into protectionist mechanisms often stands for prevailing immediate crisis resolution.

Keywords: *financial crisis, anti-dumping investigations and measures, trade liberalization, state aid, preferential trade systems*

JEL Classification codes: *F13, F15*

I. Introduction

The topic of this paper is directly related to the financial crisis effects on international trade liberalization. It aims to identify the way anti-crisis measures affected international trade negotiations in view of trade liberalization, successful performance of preferential trade systems, as well as negotiation and implementation of regional integration agreements.

Trade liberalization has seen various approaches. In many instances it has been regarded as detrimental to economic development, protectionist theories attempting to maintain the need to increase borderline protection by various tariff, non-tariff or para-tariff measures resulting in reduced cooperation and isolation of protected economies. In these circumstances, international trade liberalization has been accepted as a solution to encourage economic development.

Right after the Second World War, international trade liberalization panned out and the General Agreement on Tariffs and Trade (GATT) was negotiated in order to serve as a general framework for the liberalization process.

At the time, the matter of creating the World Trade Organization was brought up for discussion as a third pillar of the world economy along with the International Monetary Fund and the International Bank for Reconstruction and Development. Failure to fully understand the liberalization process as well as the absence from negotiations of some important states did not enable creation of this organization. Participating countries did not forsake the idea of creating such an organization and eventually, it was established under the Marrakech Agreement signed upon the finalization of multilateral trade negotiations within Uruguay Round. On this occasion, multilateral agreements were also renegotiated and complemented which allow member states to intervene in parallel with the liberalization process, by trade defence measures, based on well established

internationally agreed rules (agreements concerning anti-dumping measures, compensatory taxes, safeguard measures, and restrictive measures by reason of major imbalances in the balance of payments).

Hence, it ensues that the liberalization process cannot and should not be seen as being apt to exclude its regulation. These are two processes going ahead together and ensure beneficial effects for economic development. International trade liberalization deepened via the multilateral negotiation rounds amongst which Uruguay Round has been the most complex and important.

Another means of trade liberalization consists in the international application of customs preference systems apt to increase commercial competitiveness of products coming from developing countries in the world market. Thus, the General Preference System (GSP) was defined which provides facilities for developing countries in their relations with developed countries. Likewise, developing countries defined the General System of Trade Preferences (GSTP) and the Protocol of 16 (P-16) which should enable trade liberalization among these countries. Aware of the need to deepen the liberalization process, GATT contracting parties accepting defining in article XXIV of GATT the possibility to negotiate regional integration agreements and requirements they have to meet in order to be internationally recognized. These agreements proliferated over the past decades, while contributing significantly in trade liberalization.

During the period when the financial crisis worsened, a number of protectionist theories emerged aimed at resorting to trade defence measures more frequently. There were other theories which maintained giving up during this period any trade defence measures that might adversely affect international trade. Practice has demonstrated that effects of the financial crisis cannot be stopped by measures which deviate from multilaterally negotiated rules.

II. Literature review

Albeit the crisis was active only three years ago, economics literature attached major importance to this phenomenon given its implications on world economy. In this context papers published under the aegis of OECD, IMF, World Bank and European Commission are relevant. Moreover, the way anti-dumping investigations and measures in international trade were or were not encouraged by the crisis occurrence is tackled in various papers and periodical reports published by WTO/GATT.

Once the crisis has settled into, its effects were analyzed by all international and regional organizations, and by each individual state, as well.

Thus, at international level the three organizations that form the world economy pillars approached the crisis from various perspectives, i.e.

- World Trade Organization (WTO) and UNCTAD focused their efforts on inventorying all anti-crisis measures adopted in the various countries and on assessing crisis impact on the international trade.

- International Monetary Fund (IMF) and World Bank were more interested in the effects of the financial crisis and measures which might be taken in the banking sector in order to straighten out the situation.

At regional level, several „actors” (EU, EFTA, MERCOSUR) were involved in adopting measures seen as required and timely in addressing the problems created by the crisis.

At the same time, states got greater freedom to act, within their competencies, for the adoption of measures which should support national economies. Due to such increased freedom, the risk inherently arised that states invoke the crisis so as to adopt measures that wouldn't have been allowed in normal circumstances due to their categorization as prohibited protectionist measures.

It becomes increasingly obvious that one cannot consider addressing the crisis if

globalization and regionalization elements in the world economy are ignored. An individual solution cannot exist in the context of crisis extension at international level.

III. Research methodology

Research started from the assessment of the way the financial crisis affected the economic sector resulting in: direct investments reduction due to lower profit rates in the circumstances of higher credit costs, shrunk international market due to high commercial credit costs, reduced trade financing possibilities required to guarantee export credits and for measures apt to ensure promotion of exports; potential increased trade defence measures.

The reason of this approach is determined by the wish to find positive responses which, by the various anti-crisis measures, the states gave to the need to mitigate their impact on their economies.

The specific element of the research in this paper consists in assessing the profile of the number of anti-dumping investigations and measures notified by WTO/GATT member states. Thus, a period of 5 pre-crisis years (2003 – 2007) and 2 years of active crisis (2008 – 2009) have been considered. In the absence of final data for the full year 2010, first quarter data have been projected over the whole year so that a complete picture of the crisis effects on trade defence measures should exist.

The relevance of this assessment consists in the fact that it provides a clear picture of the way states acted in the crisis period and of whether they turned anti-dumping measures from the trade defence category into excessive protection ones.

IV. Research results

Based on the two research aspects described in the previous chapter, key results are given below. Hence, in the context of anti-crisis measures the European Union has not deviated from international principles, acting in such a manner that:

a) funds allocated by states for banks and companies should be treated as state aid whom the applicable rules in this area should be applied. However, flexibility is accepted in applying such rules (reduction of state aid authorization period from 90 days to 24 hours; time limited state aids granted by reason of economic crisis, correct sizing of state aids and their periodical monitoring followed by stoppage when crisis factors are no longer active; granted state aids should not deviate from community principles and should be associated with restructuring and viability processes, as well as technology modernization programs).

b) export subsidizing measures should not represent deviations from principles set out within WTO;

c) import surtax introduction or higher customs duties should be linked with WTO accepted circumstances.

It can easily be noticed that these measures do not stand for a deviation from international rules and do not encourage primary protectionism by plain administrative interventions in the economy.

Furthermore, the World Trade Organization sent out several messages concerning anti-crisis measures, such as:

a) the need to inventory all commercial character measures adopted by contracting parties and candidate states;

b) substantiation of anti-crisis measures in consideration of mechanisms and legal instruments agreed multilaterally;

c) avoid that adopted anti-crisis measures should represent more or less disguised forms of increasing protectionism.

These messages are based on the fact that trade liberalization is not the root of problems created by the current crisis but rather a solution for them.

Data processed by the author with respect to anti-dumping investigations and measures revealed the followings:

A. Anti-dumping investigations opened by GATT Contracting Parties:

a) The average annual number of anti-dumping investigations in 2003-2009 is in the range of over 200 cases. Although data are available only for 2010 first quarter, by way of projections one can assume that there will be no significant deviations for this year either. Thence, it has been found that no major changes existed at the level of investigations during the active crisis years against pre-crisis years;

b) Main countries which opened most anti-dumping investigations during the active crisis period were: India (86), Argentina (47), USA (36), EU (34), China (31), Turkey and Pakistan (29);

c) Among countries undergoing anti-dumping investigations in 2008 and 2009 the followings stand out: China (153), USA (22), Thailand (21), Brazil (14) and EU (10);

Sectors undergoing anti-dumping investigations during 2008-2009 were: metals and metal articles (110); petrochemicals (81); textiles and textile articles (59); resins, plastics and rubber materials (52); electrical machinery and equipment (37)

B. With respect to actually adopted anti-dumping measures:

a) The average annual number of adopted measures during 2004-2009 ranges between 138-159 cases.

b) By projecting data available for 6 months in 2010 the number of adopted measures will not be significantly different for 2010;

c) Main countries which adopted anti-dumping measures during 2008-2009 were: India (61), USA (38), Brazil (27), EU (24), Argentina (21), Turkey (20);

d) Among countries undergoing anti-dumping measures during 2009-2009 are: China (108), South Korea (15), Thailand (14), Indonesia (13), USA (12) and India (10);

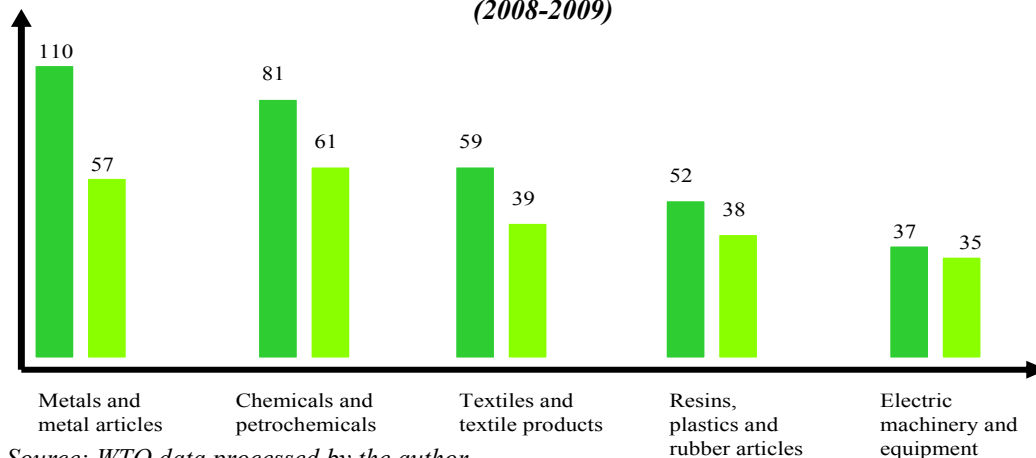
e) Key product groups covered by anti-dumping measures during 2008-2009 were: Chemicals and petrochemicals (61), metals and metal articles (57), textiles and textile products (39), resins, plastics and rubber articles (38), electric machinery and equipment (35).

It is most obvious that during the crisis period we do not see any upsurge in anti-dumping investigations and adopted measures. It was therefore preferred to continue trade liberalization and avoid primary protectionism involving relinquishment of

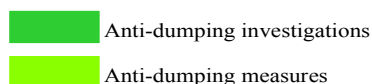
rules required for the normal development of the liberalization process.

Below is a diagram of the key groups of goods undergoing anti-dumping investigations and measures adopted during 2008-2009:

Diagram 1. Profile of anti-dumping investigations and measures by groups of products (2008-2009)



Source: WTO data processed by the author



From the diagram above it results that key sectors exposed to both anti-dumping investigations and measures are the same, while the crisis did not have any role in stimulating such measures in other areas than the ones considered as sensitive.

V. Conclusions

Since international trade was no root of the financial crisis but rather a solution to mitigate its impact on world economy, this paper highlights the following factual aspects:

- trade liberalization in observance of requirements set out in GATT/WTO has not been essentially affected by the crisis. Thus, Uruguay Round resulted objectives have not been jeopardized or abandoned, customs preference systems have not undergone

changes and neither have they been relinquished, while internationally negotiated regional integration agreements continued to exist and operate in normal conditions;

- the international financial crisis has not determined the European Union and the other Contracting Parties to give up their own rules in the matter of state aid but rather a more flexible attitude was noted which resulted in reduced authorization aid request examination periods which were sufficiently important during this period, particularly to the benefit of the banking system. Moreover, objectives and aid granting requirements have not seen any changes determined by the crisis;

- multilaterally set out rules in the matter of anti-dumping investigations and measures