

THE GLOBAL ECONOMIC CRISIS: LESSONS FOR EUROPEAN TRADE POLICY

The new session of the European parliament has commenced in the midst of the economic crisis. The global economy is in a perilous state. Total world production fell in 2008 for the first time since the 1930s. Unemployment is rising and more people are hungry than ever before.

This is a crisis with its roots in the deregulation of financial markets, enabling banks and traders around the world to engage in reckless lending. Underpinning this trend of diminishing financial regulation has been the belief in trade liberalisation - embraced by western governments and institutions such as the World Bank and the International Monetary Fund. Developing countries, many of which are dependent on these institutions, continue to be prescribed these policy solutions.

Despite the global economic crisis, the G20 has re-affirmed its commitment to the World Trade Organisation's (WTO) current round of negotiations which is pushing for more free trade. Meanwhile the European Commission continues to negotiate a series of free trade deals with countries in Latin America, Asia and the Mediterranean under the auspices of its 'Global Europe' strategy, as well as Economic Partnership Agreements with countries in Africa and the Pacific.

These proposed deals are based on the same liberalisation mantra that drove the deregulation of financial markets in the 1980s and 1990s. The World Development Movement believes that there needs to be a fundamental review of the European Commission's pursuit of free trade deals. The lessons from the global crisis need to be learnt, otherwise European trade policy risks exacerbating the effects of the downturn and locking developing countries into the very policies which have been at the root of the crisis, threatening jobs and livelihoods. A new approach to trade is needed to address the failures of current European trade policy.

1. FUELLING HUNGER

Free trade deals aim to increase trade in agricultural goods. While developing countries need access to rich country markets to sell their produce, it can be



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damaging to developing countries if they are fully open to food imports. Imports from the US and Europe are often subsidised, making them comparatively cheaper and therefore undermining the prices that local, poor farmers can get for their produce - threatening their already tight margins. Poor countries are now more dependent upon food imports than in the past, which proved disastrous when food prices rose substantially in 2007-08. And now that more people than ever before are hungry (1.02 billion by the end of 2009), it is vital that governments support local agricultural sectors, rather than opening them up to increased international competition through free trade deals.

2. INCREASING UNEMPLOYMENT

Global unemployment is expected to rise by 50 million during 2009 while a further 200 million workers are expected to join the ranks of people living on less than US\$2 per day. Free trade deals threaten to make this situation worse. The EU's own figures show that the proposed EU-Mediterranean trade deal will lead to the net loss of 3.4 million manufacturing jobs in the Mediterranean region, with 1.5 million in Egypt and 790,000 in Morocco. The proposed EU-Mercosur deal is likely to reduce employment in almost all countries and manufacturing sectors, including textiles, chemicals, and motor vehicles.

3. ELIMINATING VITAL TAX REVENUE

As global unemployment continues to rise, many developing countries lack basic unemployment benefits and only one fifth of the world's population has access to social security schemes. Meanwhile, the 2015 deadline to meet the Millennium Development Goals requires urgent investment in public services such as water and sanitation. Free trade deals reduce or remove trade tariffs and taxes, thus reducing government income which poorer countries cannot easily replace with other sources. A recent report from UNCTAD said poor countries should refrain from further reducing tariffs until other taxes are in place to substantially boost revenue.

4. LOSING POLICY SPACE

According to the Bank of England, the size of the global bank rescue equals 12 per cent of the entire global economy. While such huge sums are available to rich country governments, this is not an option for developing countries that have to rely instead on other policy tools (or 'policy space') to support their economies. Such policy tools include raising import tariffs or export taxes; changing quotas for imports and exports; and favouring domestic companies when awarding government contracts. Free trade deals permanently reduce or eliminate the policy space available to governments to respond to crises.

5. EXACERBATING EXPORT DEPENDENCE

UNCTAD estimates that developing/transition economies will see exports fall by seven to nine per cent in 2009. Economies which are heavily oriented towards exports have suffered from falling demand in the global recession. Exports can help to achieve genuine sustainable development for poor countries. But too many developing countries remain dependent upon the export of raw materials to 'feed' the processing industries of Europe, China and the US. Trade deals lock in this dependence by boosting access for overseas corporations to these resources and by reducing the scope of governments to control and regulate such

What can MEPs do?

- Write to the Trade Commissioner with your concerns about agreeing new free trade deals at a time of global economic crisis.
- Table a question to the Commission asking how European trade policy has been reviewed in the light of, and to learn the lessons from, the global economic crisis.
- Actively participate in the scrutiny of new Commissioners, as well as the Commission's trade strategy and policies.

trade. This threatens the ability of developing countries to develop their own manufacturing base in the long-term and to 'add value' to their own raw materials.

WHAT NEEDS TO HAPPEN

Trade can be part of the solution to creating long-term sustainable development for developing countries. But to become successful trading countries, weaker economies need to have a range of policy tools available to meet their needs. They need to be allowed to support and nurture their producers and industries, at least until they are able to effectively compete with those from more established economies like Europe.

The North American, European and Asian Tiger economies all developed using a full range of policy tools including import tariffs and export quotas and only opened up their markets when their industries were ready to compete. If the European Commission continues to push for more free trade with today's developing countries, we will effectively be saying, 'do as we say, and not as we did'.

The World Development Movement believes there needs to be a comprehensive review of the causes of the global economic crisis. These lessons then need to be applied to Europe's external trade and development strategies, including at the WTO and within the Global Europe framework. MEPs can play a vital role in helping to bring this review about.

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