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**STOP** corporate globalization.

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## THE FINANCIAL CRISIS DOES NOT JUSTIFY A WTO DEAL

Many political leaders have been calling for the conclusion of the 'Doha Round' negotiations in the World Trade Organisation (WTO) as a solution to the financial crisis, in order to provide a boost to the world economy and a signal of confidence to multilateralism. They argue that WTO rules prevent "protectionist measures", closing of borders, and beggar-thy-neighbour policies, which led to the economic depression in the 1930s and the consequent wars.

### **Arguing that a Doha deal would prevent the kind of trade barriers that led to the Great Depression of the 1930's is ill-conceived:**

- No countries are currently closing their borders to imports more than allowed under the WTO. Some countries have put up barriers to 'exports' of food in order to prevent hunger.
- The Doha Round draft negotiation text reveals a protectionism for the rich and multinationals - who lobbied for aggressive market access in their interests- and will result in an inequitable and unsustainable 'rules-based system'.
- The existing inequality between the international trade actors and the bail out packages that strengthen the competitiveness of the industrialised countries, means that further liberalisation does not provide the claimed benefits of open trade, as argued in the comparison with the 1930s.
- The argument that "one's protection is another one's lost opportunity" could be turned around by saying "each market opening is one's lost opportunity". The real question is whose opportunity!?

**New WTO rules would mean deregulation at the domestic level in the agricultural, industrial and services sectors, preventing countries from taking required measures to combat the financial and economic crises, as well as the food and environmental crises.** This likely outcome contradicts the argument that the conclusion of the Doha Round will 'strengthen regulation'. For instance, the services talks in financial services during the Doha Round will further deregulate the financial sector and further spread risky financial products, which caused the financial crisis in the first place, while new needed supervision and regulation is not yet in place (see other OWINFS briefings: "End WTO Deregulation of Finance" and "FTAs Contribute to Financial and Other Crises").

### **Finalising the Doha Round, as currently negotiated, would be a disastrous way to deal with the economic, social and environmental problems facing the world today:**

- Now is the wrong time for developing countries to negotiate away flexibilities and policy space which prevents them from regulation and intervention. Certainly at a time that developed countries are massively using state intervention, subsidies and other Keynesian measures to deal with the crisis, developing countries often have only trade barriers to protect themselves.
- No negotiation flexibilities and extra market access concessions are to be expected from Western countries given the financial and economic crises they are facing. Rather, rich countries are pushing for large concessions from developing countries to open up markets for rich country exports as compensation for their economic problems. This contradicts the Doha Round principle that developing countries have to make less concessions, and negates Western countries' responsibility for causing the financial crisis.
- Application of Keynesianism at home while requiring the rest of the world to follow Adam Smith would have very long lasting imbalances among countries. More fragile economies and companies – now also lacking access to credit due to the financial crisis– will not be able to compete under new free trade regimes. They will lose out, as we are already seeing, while jobs and income lost due unfair competition will not be easily be replaced.

The new state interventions in (Western) countries and the combined financial, economic, climate, food, environmental and equity crises call for a systemic restructuring of trade agreements, in addition to restructuring of current international negotiations on new financial regulation and supervision.

# THE FINANCIAL CRISIS SHOWS HOW THE WTO IS ON THE WRONG TRACK

The financial crisis has exposed how the model of free markets, deregulation and ever increasing competition has been very risky and ill conceived. Societies were left unprotected against this crisis-prone model but have to pay the high price. Financial regulators' belief that markets can be left to sort themselves out, and that free markets and uncontrolled innovation should not be interfered with, has been proven to cause a huge financial crisis.

The extreme recklessness of these policies is now widely recognized in the financial sector. However there is still too **little political and public questioning of free markets in trade and the credibility of many of the institutions such as the WTO, which serve to enforce these free market policies.** The WTO was launched during the height of popularity of the "neo-liberal" economic model, aimed at reducing public oversight and regulation of the economy, while re-regulating to enforce rights for especially big corporations. The WTO and free trade agreements (FTAs) legalised a radical deregulation and liberalisation agenda which had been pushed by the rich countries, the IMF and the World Bank.

At a time that many (developed) countries are increasingly using other, more Keynesian, models it **would be wrong for the WTO to continue stopping national and international intervention in markets** The financial crisis has not only exposed the negative consequences of deregulating and liberalising financial markets, but also exposed the problematic model of export orientation, import dependence, unlimited competition and free trade and investment as embodied in the WTO and FTAs:

- Competition unleashed by liberalising and deregulating the financial sector resulted in **un-efficient ever-more-profit strategies** focused on high returns on capital rather than financing the economy. Extreme speculative products were instruments of this competition which contributed to the financial and food crisis, and volatile commodity and oil prices.
- Market opening of the financial sector under GATS and FTAs has shown the many **risks of foreign banks**: failing to serve poor people and the domestic industry, financing unsustainable companies or projects, and withdrawing capital and limiting credit in times of crisis.
- Competition encouraged by liberalisation policies as well as free trade and investment agreements has resulted in **huge and successful lobbying** by the financial industries, exporters and traders for **less regulation** in all countries.
- The lack of international mechanisms to **stabilise exchange rates** might be more damaging than trade barriers to developing countries, e.g. through more expensive imports and less income from exports.
- **Export oriented economies suffer huge job losses** when demand abroad is contracting and the financial crisis leads to less available credit for production and trade;
- **Foreign direct investment is currently declining** or leaving countries that have economic and export policies relying on foreign investment and open capital markets.
- **Remittances by migrant workers are being reduced** as many have lost their jobs.
- **Unemployment is estimated to rise** massively worldwide.
- **The working poor and those living on less than a dollar a day** are estimated to be increasing by 40 million and those on 2 dollars a day by 100 million.
- **Current patterns of unconditioned (export) production, trade and consumption** are damaging the environment, encouraging climate change and having negative social consequences in the agricultural, industrial and services sectors.

The current dysfunction of the financial sector and economies means that current free trade agreements and negotiations will not provide the claimed benefits but rather reinforce the convergence of crises. These WTO and FTAs negotiations need to be stopped ! Alternative trade agreements are needed that help prevent the systemic economic, social and environmental problems of current free trade, free investment, free markets and free capital policies.

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For more information see: <[www.ourworldisnotforsale.org](http://www.ourworldisnotforsale.org)>, <[www.somo.nl/dossiers-en/trade-investment/gats](http://www.somo.nl/dossiers-en/trade-investment/gats)>, or <[www.somo.nl/dossiers-en/sectors/financial/financial](http://www.somo.nl/dossiers-en/sectors/financial/financial)>