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| Responding to Some Readers Queries |

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| Last week I indicated that I would respond to three queries which readers have raised, before turning to evaluate the trade policy proposals of the G20 for resolving the current economic crisis and hopefully establishing a secure platform for the robust resumption of global trade. As might be expected the G20 positions are directly linked to the state of global trade negotiations under the auspices of the World Trade Organisation (WTO). As I was at pains to stress last week, a premature exit from global efforts to contain the negative effects of the economic crisis and a rushed return to “business as usual” could be disastrous, given the bleak projections for global trade this year.   **Services** The first query stems from the fact that while many readers readily recognise global “trade in goods”, they fail to comprehend what trade analysts mean, when they refer to “trade in services”. The reason for this is that trade in goods (merchandise trade) is easily recognised. They encounter this frequently when customs personnel record and process items, at ports of entry and exit in and out of the country. Readers therefore wonder: how and where is this “trade in services” being recorded? I had previously responded to a similar query several years ago in this Sunday column. Let me try again. During global trade negotiations under the Uruguay Round (1986-1993), negotiators adopted the principle that trade in services could take place in four ways only. These are called the Four Modes of Services Supply. Mode 1 refers to cross-border supply. This occurs when services are delivered across a country’s border to consumers abroad, and the suppliers of the service remain in the country originating the supply. Examples of this occur when we purchase American movies online or download music online for a fee. It also happens when we use a foreign airline to travel to another country. Indeed there are literally thousands of ways in which Guyanese routinely buy and sell services abroad, while remaining at home. Mode 2 refers to consumption of services abroad. This occurs when consumers travel from one country to another to purchase a service. The commonest example of this in CARICOM is when persons travel as tourists to holiday abroad. Thus, if a Guyanese travels to Grenada for a two weeks holiday, the expenditure made on this trip is treated as a tourism export of Grenada. Mode 3 refers to instances where services are provided through the establishment of an enterprise in another country in order to supply the service. Examples of these are the offices of foreign airlines, courier services, banks, and other financial institutions located in Guyana. Mode 4 refers to the presence of natural person(s) supplying the service in another country. Examples of this occur when foreign-based doctors come to Guyana to supply medical services to Guyanese patients or when Guyanese teachers go abroad under contract to teach in CARICOM countries and further afield. There is a clear distinction between this and migration. The natural person supplying the service abroad must be doing it on the basis of a contract, which stipulates a definite duration. The total value of “trade in services” for CARICOM countries as a whole exceeds the total value of its trade in goods, although this does not hold true for Guyana. Globally, trade in services (exports) measured along these lines – totalled US $3.7 trillion in 2008, while global export trade in goods totalled approximately $US15.8 trillion. The average rate of growth of global trade in services has been approximately 12 percent during the period 2000-2008. In the last pre-crisis year (2007) it grew by 19 percent.  **Transmission Channels** The second query has been: given such obvious shifts in global trade as 1) the rise of the BRIC countries (Brazil, Russia, India and China) 2) the expansion of South-South trade, and 3) the rapid growth of regional trade agreements (RTAs) among poor countries, what have been the main channels through which the present crisis, originally centred in the US and other G7 countries, have hit the poor countries so devastatingly? In a recent study I did for the United Nations Economic Commission for Latin America and the Caribbean (UNECLAC) I identified ten main channels of transmission to CARICOM economies. Space does not permit a repeat of these here. Briefly however, they covered such channels as the decline in exports, particularly exports of services which are sold mainly to US and European consumers; an accompanying decline in foreign direct investment (FDI) to the Region, as well as overseas development assistance (ODA) from traditional sources; and, the adverse impact on the region’s terms-of-trade, caused by the prices of exports falling faster than those of imports. Additionally, there were other financial and income effects.  For one, the drastic decline in the inflow of remittances as the decline in earnings of the regional Diaspora in North America and Europe was felt, as well as financial contagion caused by the collapse of major regional-based financial institutions (CL Financial Group in Trinidad and Tobago and the Stanford International Group in Antigua-Barbuda). The fact also that the region’s foreign exchange management is based on a fixed parity with the US dollar has made these effects worse. Variations in regional exchange rates did not respond to regional macroeconomic conditions, but to the global market for the United States dollar. What has credit got to do with trade? The third query is based on my insistence that the crisis has three distinct components: 1) economic recession 2) financial crisis, and 3) credit squeeze (crunch). The query is: what effect has the latter two had on trade, apart from the obvious spill-over to the real sector of collapsing financial firms. To be brief, it should be kept in mind that 90 percent of all international trade transactions involve credit! The credit shortage and freeze which accompanied the global crisis has severely impeded access for firms to trade credit and so trade itself. In the coming weeks I shall resume the analysis of trade policy issues as put forward by the G20 and consider the state of global trade negotiations under the WTO Doha Round. |