

Members Discuss the Relationship between Trade & Exchange Rates

Two days of intensive discussions on the relationship between exchange rates and trade have not led to any clear solutions for minimizing the impact of exchange rate volatility and trade misalignment.

The two-day workshop organized by the WTO was long coveted by Brazil whose industrial sectors have been hit hard by currency fluctuations the past few years. Brazilian Ambassador, Roberto Azevedo, said his country was looking for an honest discussion on currency misalignments, their origins and how the WTO can help correct their impact on the trade-related aspects of exchange rates fluctuations.

What is at stake here was not so much exchange rate volatility (up and down movements of currency) but rather misalignments – which are described as “sustained deviations of nominal exchange rates from their equilibrium value.”

Brazil wants to know what causes these “sustained deviations,” whether it is Members’ fiscal policies (e.g. the U.S. and its quantitative easing policy or China’s alleged currency manipulation). If there is recognition that this creates problems, is the WTO well equipped to deal with this issue? And if not, what can be done?

“What we want is something that minimizes the impact of misalignment to avoid a wave of protectionism,” Azevedo said. What instruments/mechanisms does the WTO have to tackle this issue or can existing instruments be updated to counter this problem, he asked.

The issue is certainly a complex one as Members recognized that exchange rates are part of the WTO external environment and could be seen as an irritant in trading relations. However, the organization cannot solve the causes of currency misalignments – a role which suits better the International Monetary Fund (IMF) – WTO Director General, Pascal Lamy, said. Brazil, meanwhile, tried to demonstrate that its manufacturing sectors have recorded huge trade deficits due to exchange rates which have eroded border protections.

Josué Gomes Da Silva, CEO of Coteminas, believes that exchange rate misalignments are at the heart of Brazil’s industrial sector problems. He claimed that, since the beginning of the crisis (2009), Brazil’s manufacturing sectors have suffered from a very strong and negative impact from imports, especially in 2011, due mainly to depreciated currencies whereas the Brazilian Real has remained overvalued. “In 2011, the deficit in manufactured goods reached US\$ 92.5 billion” whereas “in 2006 (...) trade in manufactured goods posted a surplus of US\$ 5.1 billion.”

Some of the sectors with the most significant increase in import penetration – such as chemicals, electronics and machinery – are the same as those pushed by the U.S. in the NAMA (non-agricultural market access) sectorals discussion. Brazil was the 5th largest producer of machinery and equipments in the 80’s, a ranking that has dropped to 14th place in 2008 due to import penetration as high as 40%.

In electronics, this number is more than 60% and the Brazilian chemical industry, once ranked 7th in the world (2010), has recorded a trade deficit of US\$ 26 billion in 2011. No wonder Brazil was firmly opposed to the basket approach in sectorals.

Others, such as Bank of Canada Deputy Governor, John Murray, also discussed the policy challenges involved with exchange rate misalignments, which they said are problematic for policy makers since they undermined perceived level of protection negotiated at the WTO but claimed that trade policy measures were not an appropriate response to non-trade policy concerns. A similar view was also shared by members of the panel representing international institutions (IMF, World Bank, Organisation for Economic Co-operation and Development (OECD), United Nations Conference on Trade and Development (UNCTAD) and the WTO).

The U.S., who has been battling China over its alleged currency manipulation, was rather calm, officials said. Both Ambassador Punke and Deputy Assistant Secretary of the Treasury Mark Sobel released a statement stressing that a “strong IMF and WTO collaboration” was important for the global economic and trading system.

“This seminar reminds us of the importance of exchange rates in the global trading system. Real exchange rates that are aligned with fundamentals are a necessary foundation for the global trading system,” Punke said.

“A strong consensus now exists on the importance of promoting market-determined exchange rate systems, enhancing flexibility to reflect underlying economic fundamentals, avoiding persistent exchange rate misalignments and refraining from competitive currency devaluation,” Sobel added.

Should short systemic trade policy responses be developed around this problem, the session with academics asked? The question however, was never answered by the WTO since, as Lamy pointed out; trade is not at the root of the problem. “We need to make sure that the WTO system does not crumble under the weight of excessive expectations,” he said, reminding Members “that trade measures cannot correct policy imbalances elsewhere, and be an answer to non-trade policy concerns.”

Exchange rates and their relationship with trade is very complicated, hence should be carefully managed, said outgoing Working Group on Trade, Debt and Finance Chair, and Hong Kong’s permanent representative to the WTO, Martin Glass. However, this is only the beginning of the conversation and discussions should continue in the future under the WGTDF new chair, Egyptian ambassador to the WTO, Hisham Badr.

BRICS Countries Reject Plurilaterals

Gathering in Delhi on March 28th, trade ministers from the BRICS countries (Brazil, Russia, India, China and South Africa) reiterated their opposition to plurilateral negotiations in services or “any plurilateral initiatives that go against the fundamental principles of transparency, inclusiveness and multilateralism,” they said in a statement released after their meeting.

The group wants the negotiations to continue based on progress achieved so far and expressed their willingness to “explore outcome in specific areas where progress is possible, while preserving the centrality of development in the Doha mandate and within the overall framework of the single undertaking.”

Now that they are all members of the WTO, the 5 emerging countries intend to better harmonize their efforts to influence the outcome of the Doha Round. They said they will collectively coordinate their position at the G-20 summit in Mexico and the UNCTAD XIII in Doha on April 21st to break the impasse in the negotiations and agree on a “fair and equitable outcome.”

The April 21–26 UNCTAD XIII meeting in Doha will be a first test of this newfound collaboration between the 5 emerging countries. In effect, sources say there is a growing feud between BRICS members and developed countries (EU, U.S., Japan) whereby the latter wants a differentiation to be applied to developing countries, but the BRICS – with the support of countries like Malaysia and Singapore – refuse to drop their “developing” tag as they run the risk of losing many commercial advantages.

Established in 1964, UNCTAD aims to promote “the development-friendly integration of developing countries into the world economy.” However, its “technical assistance tailored to the specific requirements of developing countries” is currently being questioned. In a report prepared by the UN – which is to be discussed at the Doha Conference – critics question UNCTAD’s management saying it lacks vision and adequate strategy to successfully reach its goals.

Upcoming Events

- UNCTAD XIII, April 21–26, Doha (Qatar)
- G-20 Trade Ministers, April 2012, Mexico
- Trade Facilitation Negotiating Group, April 16–18 and July 9–12, 2012
- WTO General Council, May 1-2, July 25-26, October 3-4, December 19-20, 2012
- TPP Negotiations Tentative May 8-18, 2012 Dallas (U.S.)
- OECD Forum, May 22-24, 2012, Paris (France)
- APEC Ministers Responsible for Trade, June 4-5, 2012, Kazan, (Russia)
- G-20 Summit, June 18-19, 2012, Los Cabos, Baja California Sur (México)
- APEC Leaders Summit, September 2–9, 2012, Vladivostok, (Russia)
- Regular Agriculture Committee, September 20-21, November 14-15, 2012
- WTO Public Forum, September 24–26, 2012

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