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THE IMPACT OF THE GLOBAL FINANCIAL CRISIS ON WORLD TRADE

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Review paper

Abstract: Modern economic and financial crisis has caused a significant reduction in trade flows, for the first time since the Second World War, so it is often referred to as the trade crisis. Despite many benefits and disadvantages of liberalization as key features of modern age, the current crisis has led to a reassessment of these positions affecting the introduction of protectionist measures and the strengthening of regional ties and alliances. The question that arises is how the future trade flows will look like and whether regional integration will prevail over multilateral and liberalized trading system. The financial crisis quickly became the economic crisis that hit all sectors. The first visible effects of the crisis were reflected in a sharp fall in trade flows, and conditioned drop in demand, which led to a fall in production and employment. The first reactions of numerous countries were protectionist measures in order to protect national interests. This again aroused debate between proponents of liberalism and protectionism, where the effects and the origins of the crisis favored the latter. Economic decision makers, faced with the pressing economic problems, tried to mitigate them (at least in the short-term) turning more to regional partners, and less to the world market.

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1. Introduction

The process of globalization meant, among other things, significant liberalization of trade and capital flows that marked the end of the last century. The economic achievements of globalization meant high rates of growth in both developed and less developed countries, followed by substantial trade and capital flows. However, since 2000, the financial crisis started to appear, first fragmentary, then at the global level. The first crisis occurred in the US financial market, and very quickly spread to the EU, and then to the rest of the world. The second crisis, of completely different background, hit the most developed markets in the world which made its effects and destructiveness even greater. At the beginning of the crisis no one could imagine its severity, extent and duration. The global economy recovered slowly in 2012, and all expectations are that the trend will continue in 2013. Recovery is reflected in the moderate growth rates for the most affected economies in 2010 and 2011, which resulted in the gradual intensification of trade flows in the world.

Thus, the collapse of world trade since the end of 2008 was caused by the financial crisis, but the very unbalanced international trade also contributed to the creation of global imbalances. Many experts believe that these very imbalances are the fundamental cause of the global economic crisis. This fact is often overlooked because of many other explanations connected to the area of financial markets. The extent of these imbalances and how they expanded during the first decade of the century will be presented in this paper. One should keep in mind that the global imbalances are usually defined as the sum of the absolute values of the imbalance (surplus/deficit) in the current accounts of individual countries. It should be considered that these huge imbalances were exercised within the WTO, which gives them specific weight.

Moreover, this paper will point out the importance of the trade imbalance for the outbreak of the global crisis, and the reverse effect. It will also point out the huge distortions in world trade. It is necessary to explain the causes of the crisis in terms of global trade imbalances. We will attempt to analyze disruptions in the WTO and point out some unresolved questions arising from the interdependence of long-term trade imbalance and economic instability that has engulfed the whole world. First of all, the paper will point out the importance of membership in the WTO, which Serbia should join soon.

Membership in the WTO is of capital importance for the economic system of the country, but it also has a political dimension because it provides (WTO Report, 2013):

- Preferential market entry to 159 countries that is "reserved" for members only (most-favored-nation clause)
- stability of economic conditions in the country, which cannot be subsequently changed with changes in the internal political situation;

- protection from illegal economic policies of other countries within the organization (the WTO dispute)
- transparency and monitoring of foreign trade regime of members;
- involvement in the process of gradual reduction of tariffs and non-tariff barriers;
- more foreign investors, because the internal system is stable and predictable;
- WTO membership is a prerequisite for membership in the European Union.

The European Union is a unique entity of international trade, because its institutions create and execute foreign policies of member states. The EU is still the world's most important trader, dominating the export of goods and services, which means that developed countries remain a leader in international trade. The EU has a difficult task to shape its foreign trade strategy today facing a noticeable divergence of global economic power in favor of countries with rapid economic development. Namely, the Asian countries, after the regional crisis (late twentieth century), are changing patterns of economic development: reducing current account deficits and eventually turning into surpluses, keeping their currencies underestimated in order to stimulate export, relying less on foreign capital and using high savings for investment abroad - in real, and in financial sectors.

Such a strategy also suited the developed countries, especially the United States. However, it seems that suddenly everything changed. Too many years of reckless borrowing by firms and citizens, in situation of low domestic savings, caused the inflow of foreign capital. [1] An imbalance in the capital flows caused an imbalance in trade flows. It became obvious that the compatibility of the economic policies of the two groups of countries (in terms of capital flow from East to West) does not mean the step towards equilibrium in international economic relations, since financial intermediaries have been creating new trends in the international movement of capital. This caused huge financial crisis, followed by the collapse of real economic and trade flows.

Global trade imbalance is one of the causes of the current economic crisis. Large deficit and dependence of Western countries (especially the US) on capital from Asian countries, initiated the creation of a large number of innovative financial instruments that led the world into financial and economic crisis. After the outbreak of the crisis, international trade recorded a huge decline, whereby trade fell faster than production, decline in human capital and durable consumer products trade was above average, and international supply chains were disrupted. Future challenges are related to possible protectionism and the wrong approach to solving global imbalances.

[1] Mini recession in the United States at the beginning of this century, caused by the stock exchange "balloon" and the consequential collapse of software company, has provoked an expansive monetary policy of Fed and low interest rates. Along with low inflation, the policy of cheap money has lasted too long. The basic interest rate of the central banks of the developed countries remained below 2%.

2. The Impact of the Global Crisis on Trade Flows

The global financial crisis so far has produced a number of serious social consequences that are difficult to mitigate. Undoubtedly, the global economic crisis has dramatically affected the volume of trade in the world. However, it should be noted that many experts had pointed to possible (destructive) impact of global imbalances on economic stability well before the outbreak of the current crisis (Obstfeld and Rogoff, 2000). The connection between the global financial crisis and collapse in world trade was analyzed by many economists. These analyses include a multitude of causal links in real financial flows that are incorporated in the intermediary dynamic general equilibrium model with six sectors of production and trade. Some analyses included the 15 most developed economies and regions. From these analyses can be seen that some connections are direct and obvious, while others are indirect and complex (McKibbin and Stoeckel, 2009). It is understandable that during the global economic crisis the fear of decrease in employment and income is increasing all over the world.

The global financial crisis left behind high unemployment rates, and its negative impact was also expressed in global trade flows. A consequence of reduced demand for goods and services on the largest and since recently most lucrative markets was the decrease in volume and dynamics of total international trade. This is indicated in the table below:

Table 1 World Export (Growth Rate of Exports) for the 2000-2010 Period (in %)

	2000-10	2007	2008	2009	2010
World export	3,0	6,5	2,0	-12,0	-13,0
Agricultural products	3,0	5,5	2,0	-3,0	-4,0
Fuels and mining	2,0	3,5	0,5	-4,5	-5,5
Industrial products	3,5	8,0	2,5	-15,5	-16,5
World production	1,5	0,5	1,0	-5,5	-6,5
World GDP	2,0	3,5	1,5	-2,5	-3,5

Source: International trade statistics, WTO, 2011.

The decline in world production of 6% in 2010 was followed by a decline in exports by 13% and imports by 14%, with the negative trends primarily and most importantly in the export of industrial products (-16.5%). The phenomenon of contemporary global financial crisis prompted strong decline in trade in most developed countries, while the situation in less developed countries was much better. This is indicated by the following table.

A significant decline in world trade was recorded in 2010, and the downward trend continued in 2011, particularly in the American continent and Europe. The smallest trade decline was recorded in Asia, because of activities of China, whose exports in 2010 declined by 11%, which was the smallest decline in export in that year, while import registered growth of 3%. Thus, China became the world's biggest exporter in that year, overtaking Germany and the United States. The main feature of trade flows in 2011 was the dominance of regional trade, so the volume of trade within the region was more important than the volume of trade between the regions. 72% of its trade was within Europe, more than 50% of Asia's export was within it and 48% of North America's export was within that region (World Trade Report, WTO, 2012). Statistical data show that the decline in trade within region during the global financial crisis was smaller than the drop in trade between the regions.

Table 2 Trade by Regions (% Annual Change)

Export		Region	Import	
2000-10	2010	World	2005-10	2010
3	-13	North America	3	-14
2	-18	South/Central America	1	-17
1	-8	EU (27)	6	-18
2	-15	Commonwealth	6	-18
4	-5	Asia	11	-26
8	-11	China	6	-8
17	-11	India	15	3
12	-3	World	13	-3

Source: International trade statistics, WTO, 2011.

Among many negative effects caused by the global financial crisis (reduction in world GDP, increase in unemployment, reduce in volume and especially the value of world trade in goods and services, the substantial decrease in foreign direct investments and loans, debt crisis in a series of countries, reduced inflow of foreign currency remittances), protectionism, practiced by a growing number of countries, stands out. Global trade flows are affected by the so-called debt crisis as well. A dozen of extremely highly indebted countries had enormous difficulties. Even more countries will become highly indebted due to reduced export revenues, the relatively high external debt and the high amount of liabilities related to these debts.

Undeniably, the global financial crisis has affected the global trade flows and vice versa, trade imbalances can be considered an important factor that contributes to the deepening of the crisis. We want to point to the annual current account deficits of the most developed countries[2]. For example, the United

[2] The U.S. annual current account deficit (as an indicator of greater national consuption than production) increased in almost all the years following World War II, but accelerated in the 21st

States have become dependent on Asian central and commercial banks, since missing funds for the excessive consumption were arriving mainly from Japan and China in the form of purchases of U.S. securities. Many experts considered (e.g., Claessens et al., 2010) what would happen if, for any reason, sources of Asian capital used to finance excessive "twin" U.S. deficits (fiscal and balance of payments deficit) dry up. The analysis indicated in which way a new balance between macroeconomic aggregates would form, the size and dynamics of the reduction of consumption and how much this would be socially viable.

Would "wild" exchange rates pave the way for the implementation of new protectionist economic policy (Claessens, et al, 2010, p.34.)? This certainly indicates the creation of new economic and political map of the world in the near future. Disrupted trade flows and trade crisis conditioned the occurrence of (neo) protectionism. Present protectionism is an attempt to stop the negative trends and reverse them. It should be noted that protectionism is certainly not among the main causes of the collapse in trade, but it is its companion and an essential attribute. However, there is a danger that, if escalated, it could become a generator of negative trends in world trade and a barrier for recovery. On the other hand, global trade imbalances were an important factor in the outbreak of the economic crisis in 2008, followed by a decline in world income and trade in 2009 and 2010, which despite the recovery certainly will not be able to recover in the next few years. In fact, in 2011, the asymmetry in the recovery of world trade flows was visible: some developing countries have almost returned to pre-crisis levels, but with the inflow of capital and rising inflation, while others experienced a slower recovery than expected.

This applies particularly to the developed Western countries. There, the unemployment rate remains high, and the financial problems of some European Union countries (Iceland, Greece, Spain, Italy) and the Euro zone crisis have amplified the already high risk aversion, whether it is trade or financial.

An important feature of the current global crisis is much greater decline in trade than in production and gross domestic product. This is true for the world as a whole, and also for each country in the WTO. Changes in trade relative to GDP changes rapidly increased in the long period of crisis. The international competitiveness of a country is its ability to achieve economic policy goals, especially growth in income and employment without increase in borrowing and without incurring balance of payments deficit (Petrovic and Jovic, 2012, p. 74). Thus defined, the competitive position of many countries dropped to a lower level, i.e. decreased under the influence of the crisis and business risks.

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century and reached the highest historical level in 2006 (800 bln dollars or 6% of the gross domestic product). How big it was is indicated by the fact that the U.S. "sucked" three-quarters of current account surpluses of all countries.

Table 3 Global Imbalances as % of World Gross Domestic Product

Year	World	G – 20
2000	3,7	2,6
2001	3,1	2,2
2002	3,5	2,5
2003	3,8	2,6
2004	4,4	3,1
2005	5,2	3,6
2006	5,9	3,9
2007	5,7	3,7
2008	5,5	3,4
2009	3,9	2,4
2010	3,8	2,4

Source: IMF Word Economics Outlook Database, April 2012.

G7 at their summits have pointed to the growing risk of global trade imbalances in developed countries since 2003. China and Japan were expected to refrain from buying the U.S. dollar and the strengthening of their currencies (period known as the “currency war”). On the other hand, the U.S. was required to increase domestic savings and European countries to encourage competitiveness. All these proposals were going in favor of preserving the existing balance and prevent upcoming global economic crisis (Obstfeld and Rogoff, 2000). Many analysts point out that debt and the "bubble" in the real estate market were not caused by global imbalances, but believe that the imbalances played a key role in shaping the conditions for the outbreak of the crisis. This means that the turbulences in the financial markets were "the trigger" in the troubled global economic and trade relations.

Some analysts believe that "external imbalances reflect, and even predict, internal imbalances" (Bini-Smghi, 2008). In countries with considerable surplus such as China, S. Korea, Taiwan, Saudi Arabia and the United Arab Emirates, the decline in exports was not accompanied by equally large decrease in imports. Conversely, in countries with large deficits, such as the US and Spain, the decline in import was much higher than the decrease in export.

General global financial and economic crisis mostly hit trade in equipment and investment goods (machinery, transport equipment, household items, electronics, and components). It was found that change in demand for durable goods during the crisis period was four to six times higher than change in demand for current consumption product (Bems, 2010). Such a thing happened in the last crisis with even more pronounced asymmetry in changes in demand: the demand for durable goods in the United States and the European Union fell by more than 30% and 20% respectively, while the demand for consumer goods and services fell only by 1% and 3% in 2011(IMF, 2013).

3. Crisis of the World Trade Organization

World Trade Organization is the only international organization dealing with the rules of trade between nations. This organization is based on the WTO agreements, signed and ratified by the parliaments of most of the countries that participate in international trade. The goal is to help producers of goods and services, exporters and importers in the business. The World Trade Organization is based and operates on three main principles:

1) the principle of most favored nation;
2) the principle of national treatment;
3) the principle of transparency.

These basic principles can also be accompanied by the principle of trade liberalization and the principle of promoting competition. The liberalization of international trade and the establishment of a sound commercial competition in all member states, and also globally, is the main goal of the WTO, and for this to be achieved in practice, WTO agreements have a number of instruments that regulate this area (Zubic-Petrovic, et al., 2005, p.4). For example, the Agreement on Subsidies and Countervailing Measures considers that subsidy exists when there is a financial contribution to the production and foreign trade companies by the government or some governmental authority in the territory of a member state, which may take the form of:

1) direct transfer of funds (grants);
2) fiscal incentives and the provision of loans or loan guarantees by the state-owned banks;
3) assumption of debt, providing goods or services and procurement of goods;
4) reimbursement of duties paid on imports of raw materials incorporated;
5) directives to other private bodies to carry out the transfer of financial resources, assume the debts or provide goods to the recipient.

World Trade Organization is fighting against illegal subsidies, considering them an obstacle to international trade, through countervailing duties that are also regulated in the Agreement on Subsidies and Countervailing Measures. Not all subsidies are prohibited by this Agreement, meaning that anti-subsidy proceedings will not be initiated and countervailing duties imposed for all subsidized goods.

Agricultural subsidies are regulated by the Agreement on Agriculture, and the agricultural products cannot be subject to anti-subsidy investigation. In addition, the Agreement defines the allowed subsidies which include all kinds of assistance for research activities conducted by firms or high scientific institutions, as well as costs associated with the research staff, the cost of instruments, the help for underdeveloped regions and the help to protect the environment.

For example, export subsidies and subsidies that depend on the use of domestic rather than imported inputs are in the Agreement prohibited and sanctioned by compensatory duties.

The WTO prohibits following subsidies (Rapajic, 2013, p.135):

1) subsidies which are considered to be "specific",
2) subsidies dependent on the export success,
3) subsidies which depend on the use of domestic instead of imported inputs,
4) subsidies that cause "serious damage" to the other member states

Table 4 Number of Anti-Subsidy Investigations and Number of Compensatory Measures Imposed Against Exporting Countries (1995-2011)

Exporter	Number of anti-subsidy investigations	Number of imposed compensatory measures
India	53	31
China	52	34
South Korea	18	8
Indonesia	14	8
Italy	13	9
USA	13	7
Thailand	12	3
EU	12	11
Canada	8	3
France	7	6
Other	77	47
Total	279	167

Source: Cauntervalling Intitutions: By Exporting Cauntry, 01/01/1995-31/12/2011, (http://www.wto.org/english/tratop_e/scm_e/CV_IntiatiosByExpCty.pdf)

With the global financial crisis the trade flows within the WTO are changing. It is observed that subsidies are often used in a number of WTO member states for penetration into foreign markets, especially India, China, and South Korea. In addition to developing countries, export subsidies are also present in developed countries like the European Union, the United States and Canada. In the observed period 279 investigations were initiated, and 167 compensatory measures for imports of products from countries that apply export subsidies were introduced.

Prohibited subsidies are mostly used in the metal products sector, chemical sector, the sector of rubber and plastic. It is noted that in addition to the primary sector, which has traditionally been subject to state support, the sector of machinery and electrical equipment is also supported by subsidies (Rapajic, 2013, p.138).

Table 5 Number of Introduced Compensatory Measures Against WTO Members by Sector (2007-2011) and Total (1995-2011)

Sector	2007	2008	2009	2010	2011	1995/ 2011
Livestock				1		5
Vegetable products					1	9
Animal and vegetable fats and oils				1		5
Packaged foods, soft drinks, alcoholic beverages, vinegar, tobacco	1					13
Mineral products			1		1	6
Chemical industry products		1	2	2		10
Plastic and Rubber and articles thereof		2	1	4		14
Leather and leather products					1	3
Paper and paper products		1		2	1	6
Textile		1		1		8
Footwear, feathers, artificial flowers				1		1
Stone, glass, plastics and metals	1	4	3	7	4	7
Machinery		2	2			10
Vehicles, aircrafts and vessels		2	2			1
Total	2	11	9	19	9	167

Source: Cauntervalling Measures: By Sector 01/01/1995-31/12/2011., http://www.wto.org/english/tratop_e/scm_e/CV_MesuresByExpCty pdf.

The long-term financial crisis has affected the functioning of global organizations including the World Trade Organization. Countries that have very high export coefficients, such as Hong Kong, Singapore, Ireland, Belgium, the Netherlands, Slovakia, Hungary and others were hit the most. In addition, the crisis hit hard the countries that export oil, non-ferrous metals, ferrous metallurgy products, natural rubber, especially if their export ratios are very high. Of course, the crisis also hit very hard the countries with very high share of the income from the export of services in foreign exchange earnings, as is the case with Egypt, Greece, Panama, Croatia, Cyprus, Cuba and others (Rapaic, 2013, p.135).

In the case of global financial crisis, WTO treat subsidies differently in developing countries and the least developed countries. The least developed member states and those states that have GDP per capita less than $ 1,000 are allowed to use import subsidies. When it comes to subsidies which depend on the use of domestic rather than imported inputs their use is limited for the period of eight years from the time of accession to the WTO for the least developed countries, and five years for developing countries. However, the revived protectionism, particularly in the past five years, removes many countries away from the goals of the World Trade Organization.

4. Challenges of (Neo)Protectionism

Statistics for the period from late 2008 to the end of 2011 indicate that protectionism in the WTO is also becoming stronger. During this period, nearly 1400 trade measures were introduced in the world, including around 900 discriminatory measures, where two-thirds refer to the G20 countries. The range of applied measures is wide, from classical anti-dumping, to preferential treatment of domestic firms that are covered by state aid programs, and various discriminatory procedures and hidden protectionism in the form of fiscal incentives and exemptions (Hoekman and Wilson, 2012).

Within WTO countries, stronger protection during the global crisis is justified by the expected positive effects on employment, income and trade balance.

However, such a policy has possible positive results in the short term. Higher customs tariffs and other measures leading to lower import, at the same time result in decline in export, employment and income in other countries. The result is a decline in their demand, including demand for imported products from countries that have increased customs. All of these effects are enhanced further if other countries respond to increased protectionism increasing their protectionist measures, which is a logical reaction. On the other hand, similar effects are produced by direct assistance or subsidies to domestic sector, to which are particularly prone developed WTO members. It has already been stated that subsidized domestic production also results in slower development of export sectors and in price increase in import substituted sectors.

In such a situation, it is very likely that the other countries will react with “an arsenal of measures”. The net effect is a negative result already familiar from the theory and practice, and strategic trade policy thus has very difficult tasks. Measures and the effects of growing protectionism can be quantified and evaluated. The result is a decline in the volume of world trade and world income. Customs increase that results in a $1 increase in budget income leads to reduction of world exports and world income by 2.16 and 0.73 dollars, respectively. Neither do the estimated effects by stimulations seem convincing. For example, $1 of stimulus can increase national GDP by $0.64 and trade by $0.08, but the effects on other countries are undefined or negative, especially if they react using the same or similar measures.

Protectionist measures are relatively easy to introduce, but very difficult to abolish. Some experts suggest that fifty years were needed to reach the current level of liberalisation, and we risk getting everything annulled at short notice (Krueger, 2010). This fact sets challenging task for the creators of economic and trade policy, especially since they are under the constant pressure to implement measures aimed at short-term benefits, despite some negative effects in long term. The absence of progress on the multilateral level in recent years also shrinks optimism when it comes to recent changes, resulting from global imbalances in global trade flows. [3]

5. EU and WTO

In the terms of global financial crisis, many experts believe that the European Union obstructs global negotiations. Having spent four years in a deep financial crisis, plagued by record unemployment rate (at the end of 2012 more than 26 mil people) and poor economic growth, the European Union observes its future role in world trade in "the distorted mirror". On the one hand, the EU is still the world's largest exporter and importer, the leading foreign investor and beneficiary of foreign investment. Almost 20 per cent of world exports, despite the crisis, originate from the territory of the EU despite some trade barriers. On the other hand, the EU for years already does not have a solution for boosting its own economic growth, while its leading economic partners (U.S., China, Japan, India, Russia, Brazil, etc.) mostly have positive economic growth rates.

However, despite the crisis that has engulfed the whole EU (especially those countries in the euro zone), it continues to foster foreign trade ambitions. Thus, in March 2013 the European Council concluded: "In 2015, 90 percent of economic growth, and with it the global demand for goods and services will be generated outside of the EU, and it is necessary to use all available means to provide access to those markets to the EU. Offers for future jobs in the EU market and favorable individual trade agreements should be double linked. They should be linked to the specific creation of local markets, with clear

[3] For example, the relation between the dollar and the yuan, which has contributed to the imbalance deepening, is still an open issue.

announcements that talks or current trade status would be interrupted if the foreign market does not open enough for European business. However, a number of analysts from the rest of the world believe that the EU is slipping into protectionism.

In fact, competitors and partners of the EU in order to qualify their products (e.g. corn, genetically modified food, ceramics, parts for airplanes, cosmetics, intellectual property, wine, tires, etc.) for the largest integrated market in the world must pass an exhausting procedure checks. But the key markets where the EU could by trade revitalize economic growth and encourage new jobs, have recently substantially multiplied trade barriers. On the other hand, in almost all countries, there are still uncertainties and fear of investing and refrain from spending, especially for durable goods..

6. The Necessity of Decision-Making Reform in the WTO

The global economic crisis has imposed the need for reform of the system of decision-making in the WTO because of the disrupted trade flows, mainly among members of the organization. In fact at this moment the World Trade Organization decisions are made by consensus of all members. This practice was inherited from the GATT, as well as the mechanism for establishing a consensus which is known as 'the Green Room'. In practice, all decisions are agreed between 25 and 30 of the most influential and active members of the WTO, which form the green room. There are present almost all developed countries, one or two countries in transition and the rest are developing countries. Any draft decision is first discussed and agreed upon within the green room and only then discussed with other members of the WTO. Within the green room developed countries have a key role according to their economic and bargaining power. This method of establishing consensus is not transparent and discourages the participation of developing countries. Most of them are put in a position to be merely informed of the draft decision at the beginning and the agreed upon decision at the end. Moreover, most of the developing countries and the least developed countries are totally excluded from the process of decision making.

Shortcomings in the way of establishing consensus caused a number of complaints of WTO members, who have felt excluded from the decision-making process. Therefore, the scientific and expert publicity got involved in the discussion of the concerns and proposals for reform of the WTO. Existing practice of decision making by consensus often discriminates developing countries, because they are exposed to economic and political pressures that affect their negotiating position. In addition, due to the limited available resources they are not able to cope with a large number of meetings that are often held at the same time (Markovic, 2009, pp.119-135). The global economic crisis has further complicated the position of the developing countries and the least developed countries, which are also constantly violated by the behavior of the Secretariat of the World Trade Organization, which often does not hold a neutral position and its actions are in accordance with the interests of the developed countries. At the meetings of the Ministerial Conference it is often the case that that there is no previously obtained consent of all members for the distributed documents.

However, it happens that the opinions of individual members are ignored. Besides that, documents are often not available in all languages, and often there is not enough time to discuss them. However, main drawback is considered to be the mechanism of the green room which prevents many members from actively participating in the decision-making process. Almost all of the reform proposals for the WTO decision-making process assume that it is necessary to create a formal or informal advisory body which would make proposals to the General Council. It would consists of representatives of as many as possible member countries, based on clear and objective criteria, such as participation in world trade and fair geographical representation (Scott and Watal, 2000).

In this way the disadvantages of the current methods of achieving consensus in the green room would be avoided. Members of the green room are self-chosen based on their interest in a particular topic, and not based on objective criteria. In addition, African countries do not have representatives in the green room. Many of them due to the low economic power have no permanent mission to the WTO in Geneva, because they are unable to finance them. In addition, common to all proposals for the reform of decision-making in the WTO is that decision making process must take into account the views of all member states, in particular developing countries. Developing countries should not be subject to economic and political pressure during negotiations. Susceptibility to pressure, which is present in bilateral contacts with developed countries, also undermines the ability of developing countries to achieve their trade and economic interests. If and when the reform of decision-making in the WTO will be conducted depends primarily on the will of the most influential members - developed countries. Slowly, some developing countries, such as China, India and Brazil, begin to impose their attitudes, but not to the extent that they could encourage such a large-scale change (The Memorandum on the Need to Improve Internal Transparency and Participation in the WTO). The entry of Russia into the WTO will surely upset the current balance of power, but the question is when it will happen. The crucial factor may be the impact of the current economic crisis, which affects the trade flows among member countries.

7. Neutralizing the Negative Effects of the Crisis

Global economy remains in a severe recession caused by the financial crisis and acute loss of business confidence. However, trade cooperation is one of the preconditions for economic prosperity in the modern world. In order to neutralize the negative effects of the collapse of world trade, some basic features of the collapse of world trade should be considered. Synchronized decline in export and import of almost all countries in the world is a basic characteristic of world trade by 2011. A decrease in exports and imports was also present in all WTO member countries (for which it provides comparative data) from third quarter of 2008 to the mid-2010. In all EU countries the decline was over 20%, and in lot of them even over 30% in that period. The most countries reported a decline in total trade of one-fifth to one-quarter, in the long run.

Most countries reacted to the reduction of global demand and the resulting decline in exports by reducing imports, so the rate of decline in exports and imports were approximately the same. The share of trade in GDP is higher if the country is involved in global supply networks, i.e. if products that are the subject of its exchange pass through a number of processing stages in the chain and are closer to the final product. Elasticity of export is important and it depends on the macroeconomic variables. Specifically, assuming a dominant share of export in the growth of the gross national product and unchanged technology, export growth rate exceeds the growth rate of gross national products in a reciprocal extent to which the added value of the export involved in the formation of gross national product. These are non-tradable, capital and durable goods. This means that despite the impact of the net and the gross principle of trade and GDP calculation, higher decline of world export than GDP can be explained also by the fact that in a number of countries participation of products that cannot be subject to trade increased (a large part of the sector of services), and that the recession reduced total demand more seriously damaged tradable sectors.

The result is a greater decline in export (of tradable goods for which demand is more reduced) and a more moderate decline in GDP because it also includes services and consumer goods for which demand was less reduced (Eaton et al., 2010). Hence, many experts have analyzed the difference between the production and trade of durable goods and consumer goods. The various changes in demand of these two product groups are the key reason for the greater reduction in trade than GDP in most countries (McKibbin and Stoeckel, 2009). International trade was diversely affected by recovery, in terms of these product groups: the value of trade in consumer goods in the first quarter of 2011 approached pre-crisis trend, but trade in capital and durable goods lagged behind.

Strengthening of vertical integration and expansion of international supply chains (as one of the most visible results of globalization) to some extent offset the negative effects of the crisis. An increasing part of the production and trade is done in the following way: the raw materials and parts from one country are completed in another, often even in a third country and eventually spent in a fourth. Thus, parts and components cross the border several times, which has an important consequence on the value of trade: their value is recorded every time as export and import, until the final product reaches the consumers. [4] This means that in developed international supply chains, reducing demand during the global crisis has less impact on GDP than on the volume of trade.

It can be concluded that one of the reasons for larger decline in trade than GDP is the existence of international supply chains. In fact, it is enough to reduce supply in only one segment of supply chains so that it affects the decrease in supply of all the other links in the chain. The result will be a reduction in GDP but not to the same extent as multiplied effects have on reduction in trade. It is, therefore, necessary to consider the reasons for more modest than expected decline in international supply chains. The two most important reasons are (Altomonte and Ottaviano, 2009): (1) establishing a chain involves some irreversible costs, and because of that the companies in the chain rather adjust (through a joint reduction of the total supply), than break the chain (2) the relations of the parties within the chain are usually regulated by long-term arrangements that are not easy to cancel, as they are often achieved within the multinational corporations that are willing, in order to maintain the whole chain, to help the weaker participants.

However, when it comes to exports, on the one side, there is the decline in aggregate import demand and reduced export potential of local economies and the increasing cost of credits for exporters, and, on the other side, are factors that mitigated the negative tendencies or even changed their influence. For example, one of these factors is redirecting the flow of goods and services (from domestic to export markets). The second one relates to the increase of price value, if there is a depreciation of the national currency, and if the export structure is such that the elasticity of foreign import demand is high enough. In addition, import was affected indirectly by the anti-crisis measures.

Monetary and fiscal relaxation stimulated domestic demand, but unfortunately often selectively - for domestic products. One part of the demand, at least partially, recovered the lost imports. Opposite effect was achieved by induced measures of protectionism in various forms.

[4] Value of total trade accumulates every time when components cross the border, and GDP increases only to the extent of added value.

8. Conclusion

The global financial crisis had a large influence on the global trade flows, especially in the WTO because of the range of disorders compared to the dynamic and controlled flows that have had an upward trend before the crisis. The effects of the crisis on global trade flows can be divided into two groups. The first group consists of the effects directly caused by the crisis itself. The second group consists of the indirect effects caused by the measures taken to overcome the crisis. The most obvious impact of the global financial crisis is reflected in a general loss of confidence, growth of business pessimism and abstention of investments, especially long-term and capital ones. In such a business environment, banks tighten credit conditions, and governments borrow less and less each other's capital.

Consequently, investment and demand decrease, trends in international financial markets are changing and even drying up. This has negative impact on trade flows (which are also diverted) as well, because the costs increase and their volume decrease. Changes in import and export, together with the capital flows changes, caused (with the huge changes of the exchange rate) the change in trade balance and balance of payments.

However, in modern conditions, trade development is not autarchic and the global economic and financial crisis send the message that it is more easy to overcome the crisis through the integration, exchange and partnership, and increase of trade volume can undoubtedly be one of the most efficient ways out.

Although the EU is the most important player in international trade, its competitiveness in some less technologically intensive sectors has been exposed to competition from developing countries. Although the EU is the world's trading force, it protects much of the corporate sector from foreign competition.[5] The main instruments used for this purpose are non-tariff barriers and it is known that EU uses these measures in significant amount. Anti-dumping measures stand out and their use during the global economic crisis is growing.

Disrupted world trade flows caused the different behavior of the WTO in achieving its stated aims. The revival of the world economy promptly requires different measures of macroeconomic regulation, both at the level of national economies, and at multilateral level within the WTO, which will restore the original principles. Global and simultaneous balancing is necessary, but the complete elimination of imbalances should not be in the first line, because at this time it would be neither desirable nor possible.

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[5] For example, since the establishment of the EEC in 1957, the EU has the Common Agricultural Policy (CAP) and an important part of it is the protection of domestic agriculture from foreign competition.

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UTICAJ GLOBALNE FINANSIJSKE KRIZE NA SVETSKU TRGOVINU

Abstrakt: Savremena ekonomska i finansijska kriza uticala je značajno na smanjenje trgovinskih tokova prvi put posle Drugog svetskog rata, tako da je mnogi nazivaju trgovinskom krizom. I pored brojnih koristi i nedostataka liberalizacije kao ključnog savremenih obeležja, postojeća kriza dovela je do preispitivanja ovih stavova utičući na uvođenje mera protekcionizma i na jačanje brojnih regionalnih veza i saveza. Pitanje koje se nameće je kako će izgledati trgovinski tokovi u budućnosti i da li će regionalne integracije imati prevagu nad multilateralnim i liberalizovanim trgovinskim sistemom. Finansijska kriza je, vrlo brzo, postala ekonomska kriza koja je pogodila sve sektore. Prvi vidljivi efekti krize manifestovali su se u snažnom padu trgovinskih tokova, uslovljenim padom tražnje, što je dovelo do pada proizvodnje i zaposlenosti. Prve reakcije mnogih država bile su mere protekcionizma, kako bi se zaštitili nacionalni interesi. Ovo je ponovo aktuelizovalo debatu pobornika liberalizma i protekcionizma, gde su efekti i nastanak krize išli u prilog ovih drugih. Donosioci ekonomskih odluka suočeni su sa gorućim ekonomskim problemima, pokušavali su da ih ublaže (makar na kratak rok) okrećući se regionalnim partnerima, a manje prema svetskom tržištu.

Ključne reči: finansijska kriza, trovinski tokovi, globalizacija, regionalizacija, STO.