

Trade and the crisis

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Crisis primer

- Crises: biz as usual
- Fragility
 - Global imbalances, Globalisation & Fed mistakes
China etc exports hold down prices & provide funding, Fed's loose credit without inflation, "great moderation"; risk underpriced globally; overly risky positions everywhere.
- Interconnectedness
 - Bank funding via credit markets + credit market globalisation
 - Expectations/fear as coordinating factor (opacity)
Financial markets, biz investment, consumer durables (especially manufactures)n

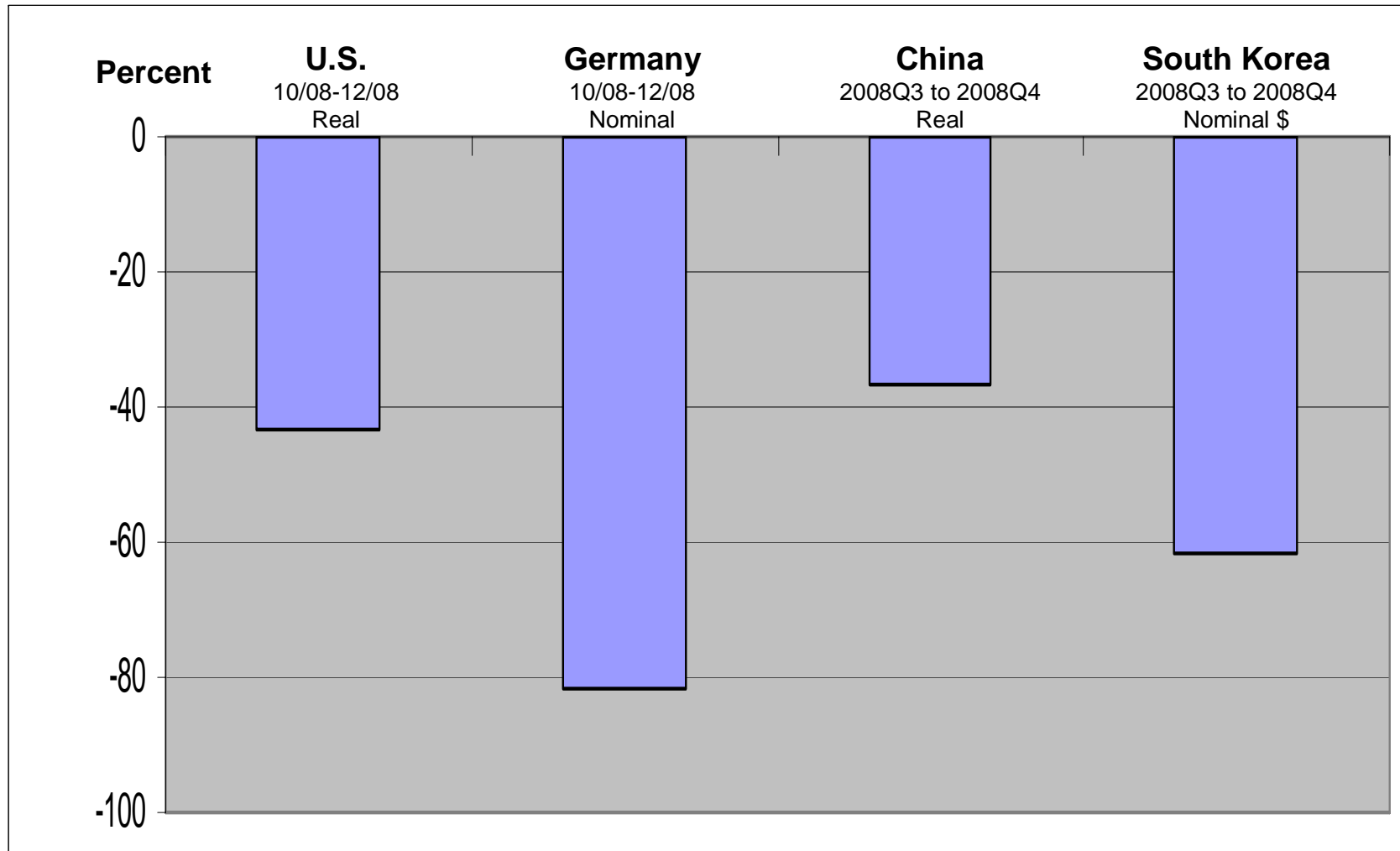
Crisis primer

- Crises hits in August 2008
- Land mine becomes a cluster bomb in Sept 2008
- Panic move away from risky positions.
 - Credit markets freeze (New Century bank run)
- Knightian uncertainty.
 - Banks try to simultaneously deleverage; corporations & individuals try to redress balance sheet.
- Wait & see in 'real' economy =>
 - Recession (especially manufacturing)
 - Collapse of trade.

- IMF: world exports -40% (annualized) in 3 months ending November '08.
- Sudden, severe, and synchronized.
 - Trade and manufacturing
- Particularly acute in manufacturing.

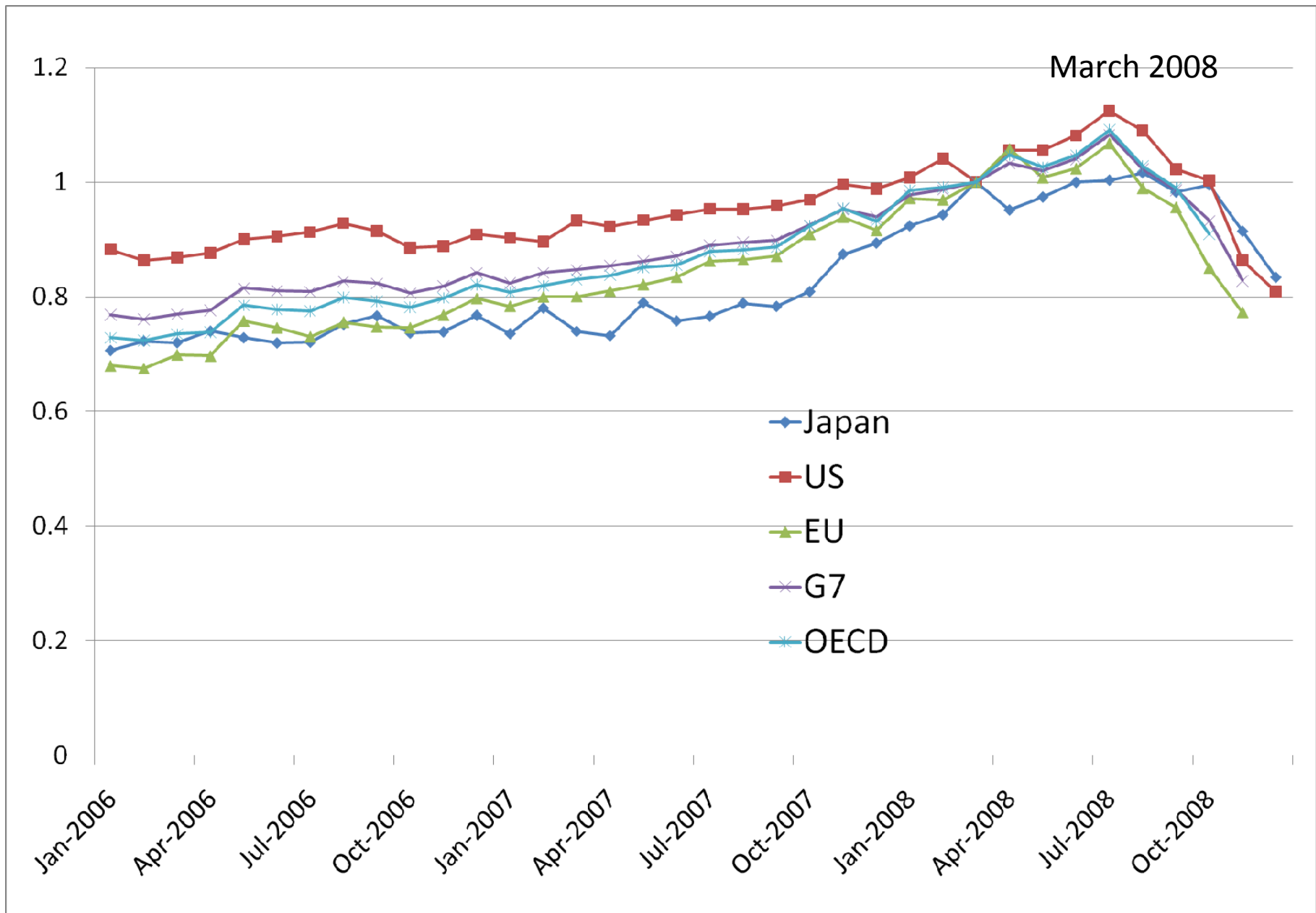
Figure 1: Collapse in Trade

Change in Merchandise Exports (seasonally adjusted at annual rates)

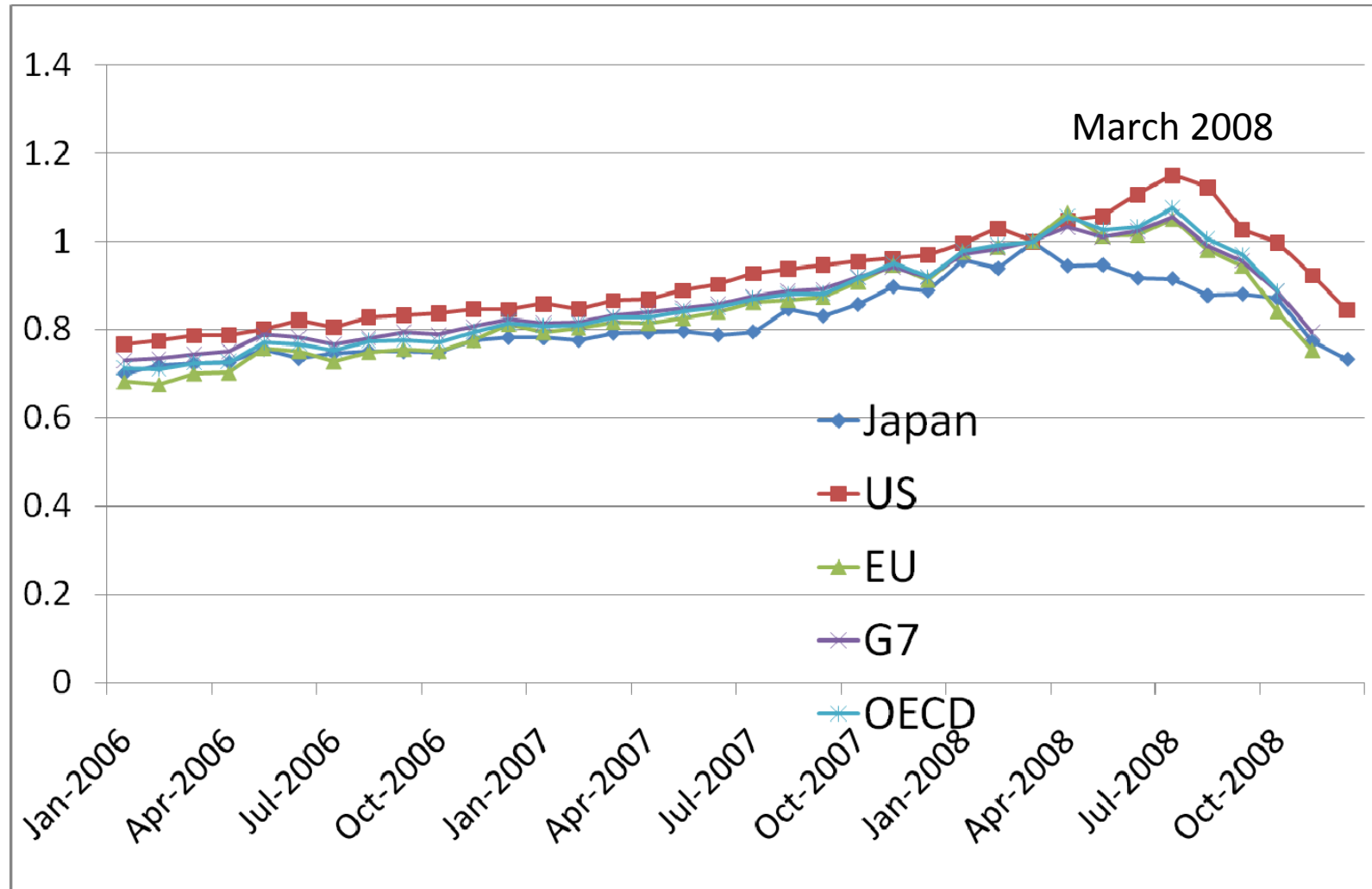


Sources US: BEA; Germany; Statistisches Bundesamt Deutschland; China: Goldman Sachs; South Korea: Goldman Sachs

Imports



Exports



Why trade drops so fast?

- Supply chain logic
 - \$1 final sales = many \$ trade (exports don't equal value added anymore)
- Expectations/fear as a planetary coordinating device.
- Trade credit financing problems.
- Protection (not yet)

Murky Protectionism

- Not classic
 - Unilateral liberalisation & supply chain
 - GATT/WTO worked
- Many murky measures
 - Govt stimulus/bailout programmes
 - ER devaluation
 - AD/CVD
 - Anti-foreign workers, companies, etc.

Protectionist avalanche?

- Protection does not move linearly
- Trade is collapsing, recession/depression is spreading rapidly, social unrest possibilities.
- Nightmare scenarios.

What to do?

- Pledges & Standstills
- Monitoring
- Exit Strategies
- Zedillo's 'tough love'
 - If you want peace, prepare for war.

Africa

- Remittances and ‘protectionism’ inside nations (first fired, last hired).
- Agriculture automatic protection (subsidies, tariffs, production quotas, etc.)
- Commodity prices.
 - Sell the family silver?

What should South Africa do?

- First, “Truth and reconciliation” on the causes
 - Perpetrators & responsibility for use of cluster bomb economics
 - ODA, migrant worker protection
- Second, make sure trade is high up on London Summit agenda
 - Sherpas are from Finance Ministries and CBs (traditional G20)

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