

The Great Trade Collapse: A new VoxEU Ebook

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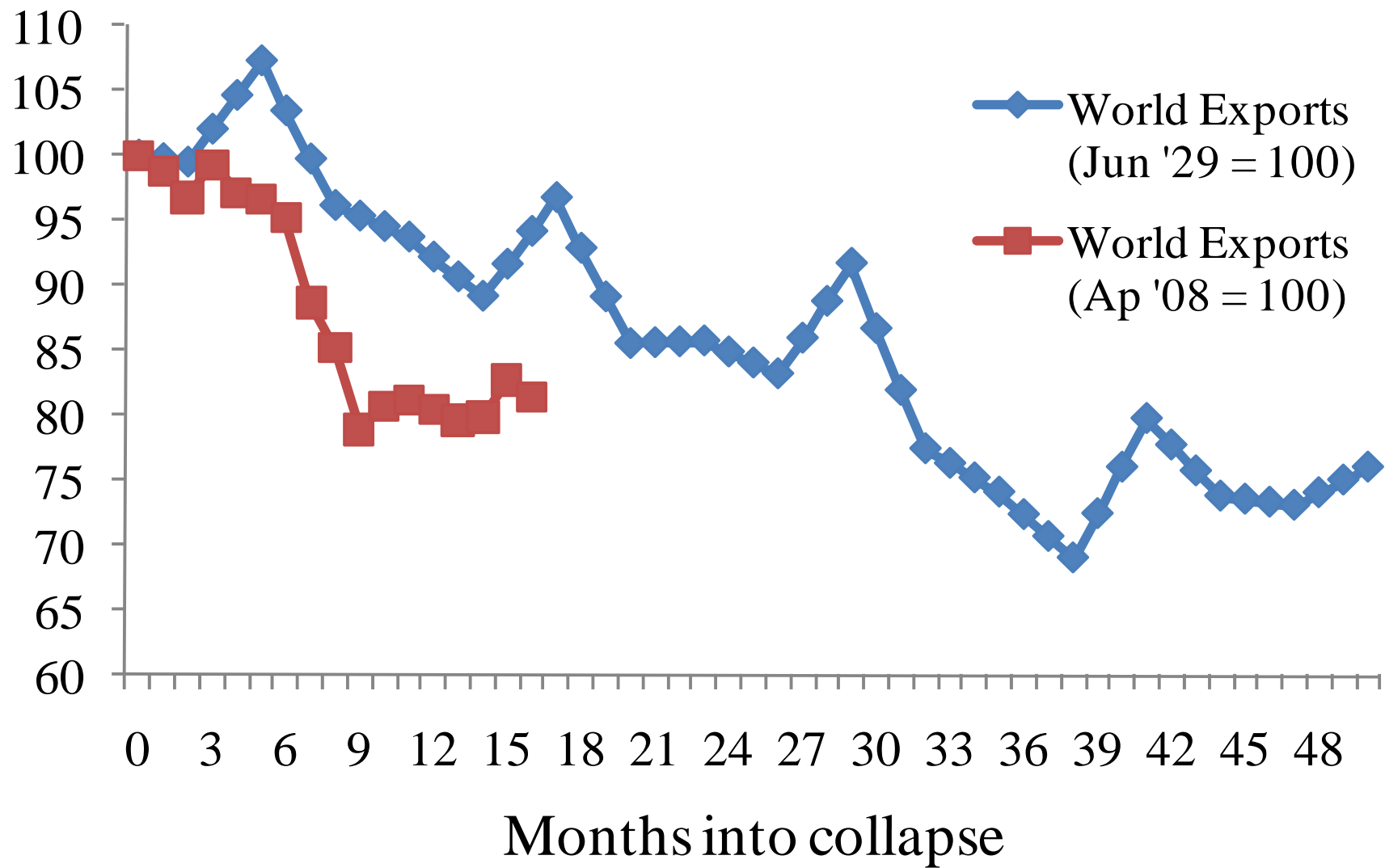
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The great trade collapse

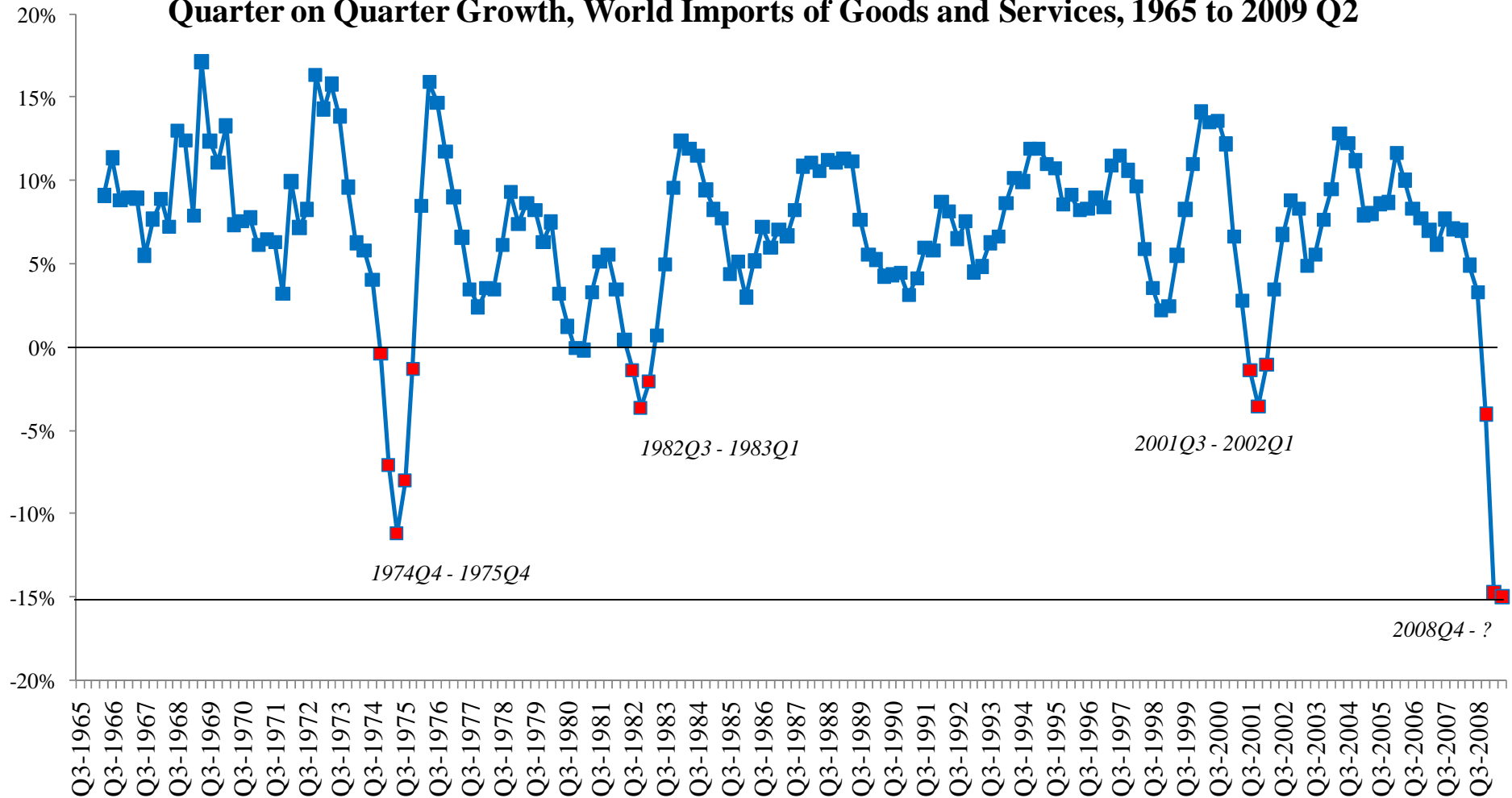
- 2008 third quarter (Q3) to 2009 Q2:
- Steepest trade drop in recorded history.
- Deepest since WWII.

The great trade collapses vs. the Great Depression



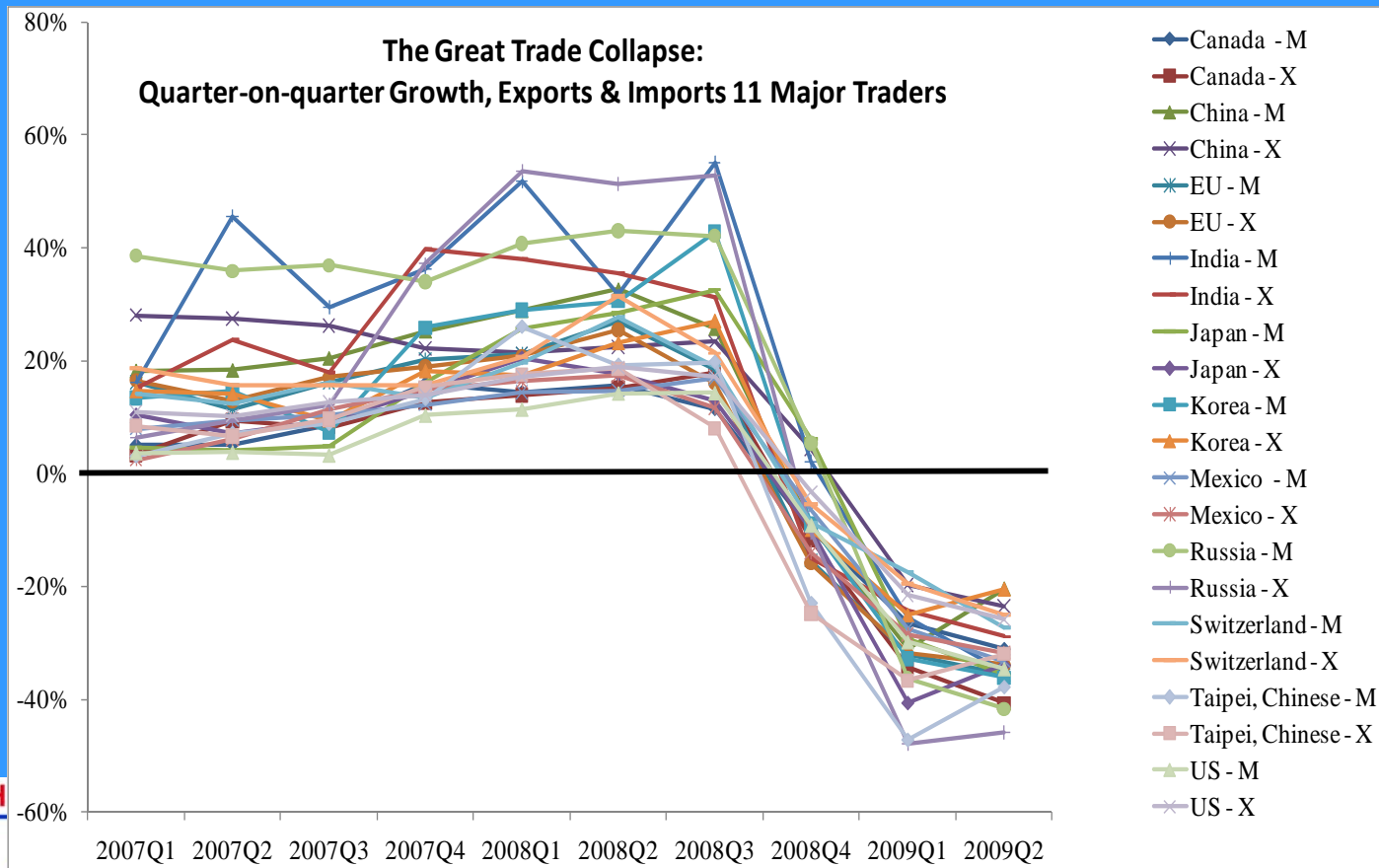
Deepest since WWII

Quarter on Quarter Growth, World Imports of Goods and Services, 1965 to 2009 Q2

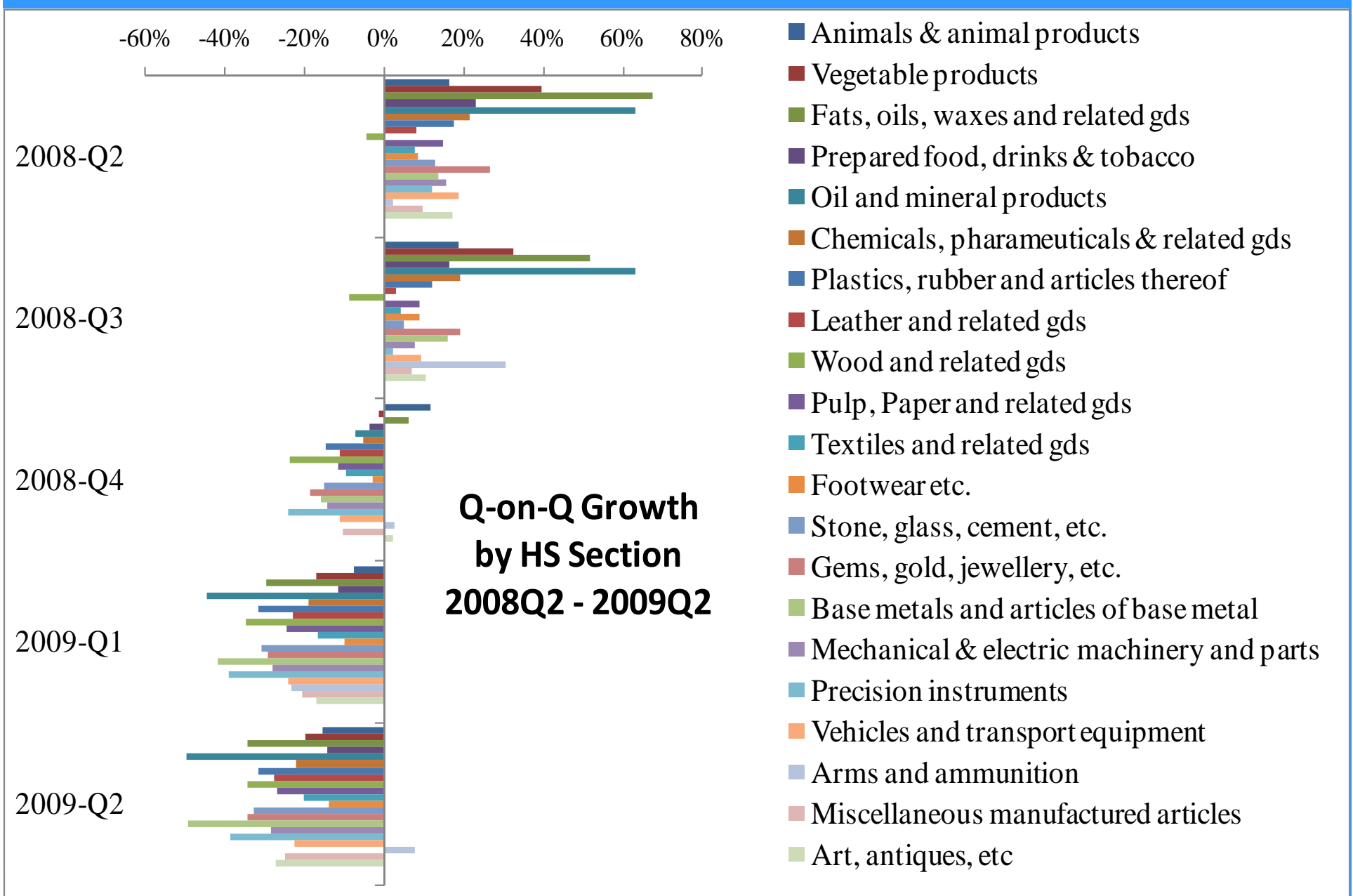


Sudden & Synchronised

- The 7 worst months for trade growth since 1965 have occurred since November 2008.
- All 104 nations in WTO data experiences drops.

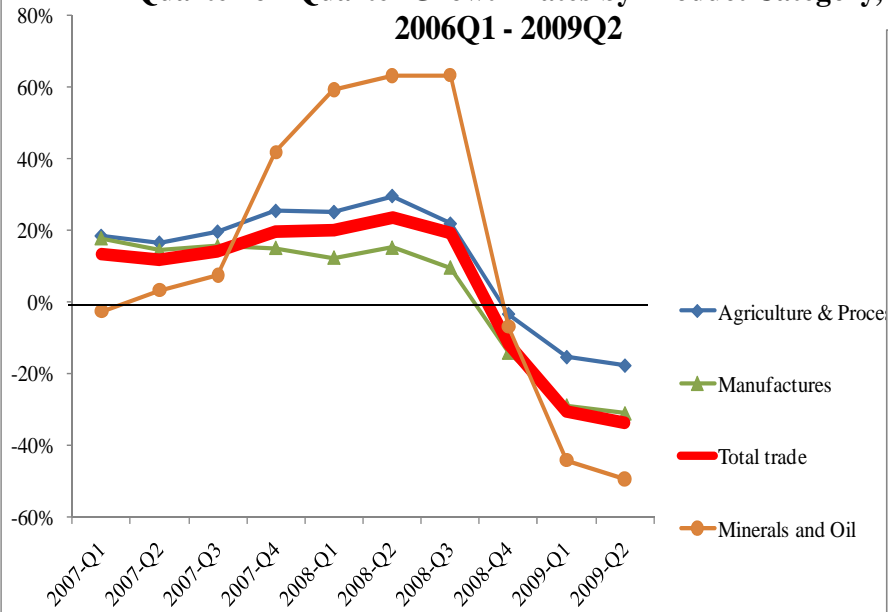


All sectors hit

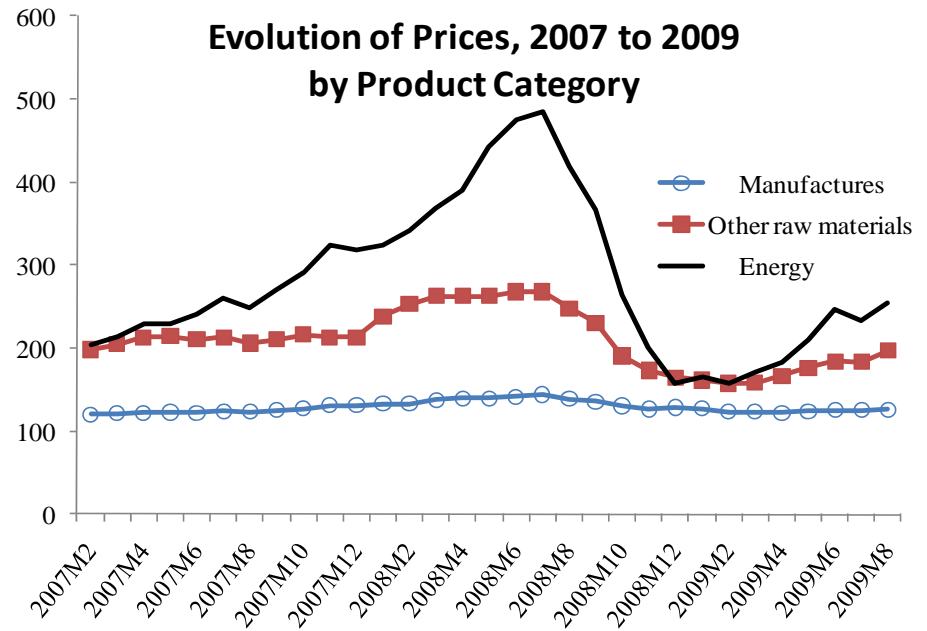


Commodities vs manufactures

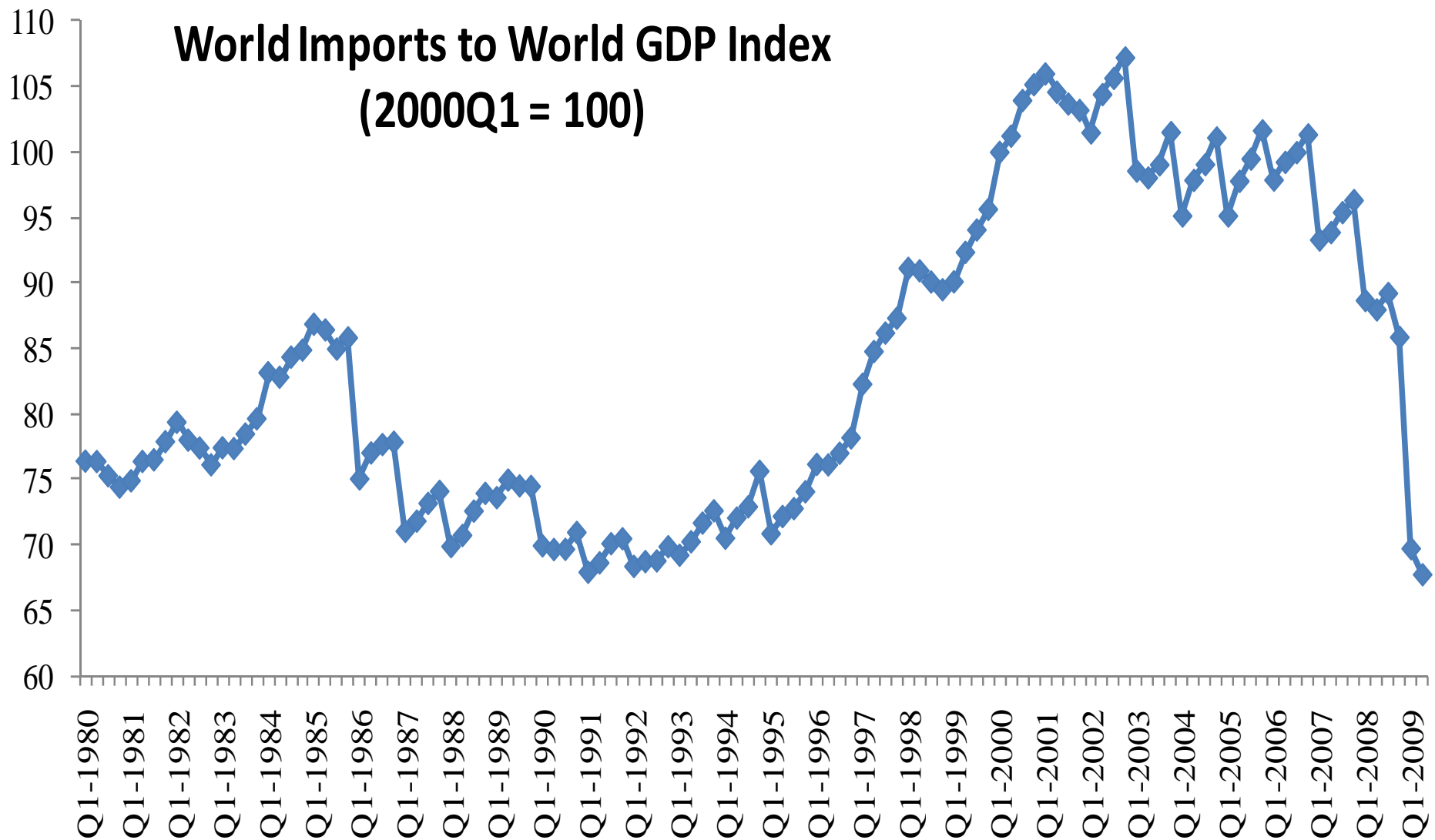
Quarter-on-Quarter Growth Rates by Product Category, 2006Q1 - 2009Q2



Evolution of Prices, 2007 to 2009 by Product Category



Trade fell more than GDP

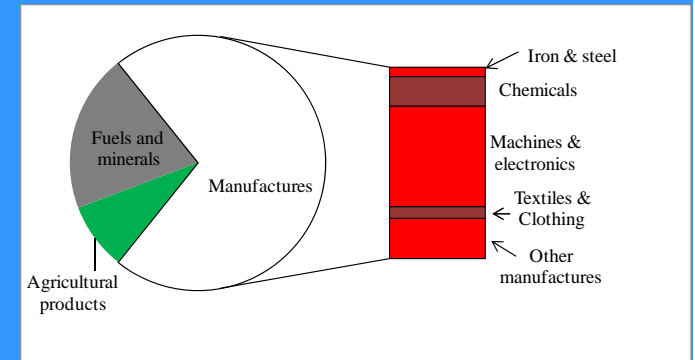


Emerging consensus on the causes

- Supply or demand shock?
- Consensus: Demand amplified by
 - “Compositional effect”
 - “Synchronicity effect”

Compositional effect

- Unusual nature of the demand shock:
 - Lehman-linked “fear factor” produces global “wait and see”;
 - Demand for all “postponeables” plummets.



Postpone-ables =

Small share of GDP (say 10 to 15% globally?)

Big share of trade (over 80%)

Common shock has bigger effect on trade than GDP due to compositional effects.

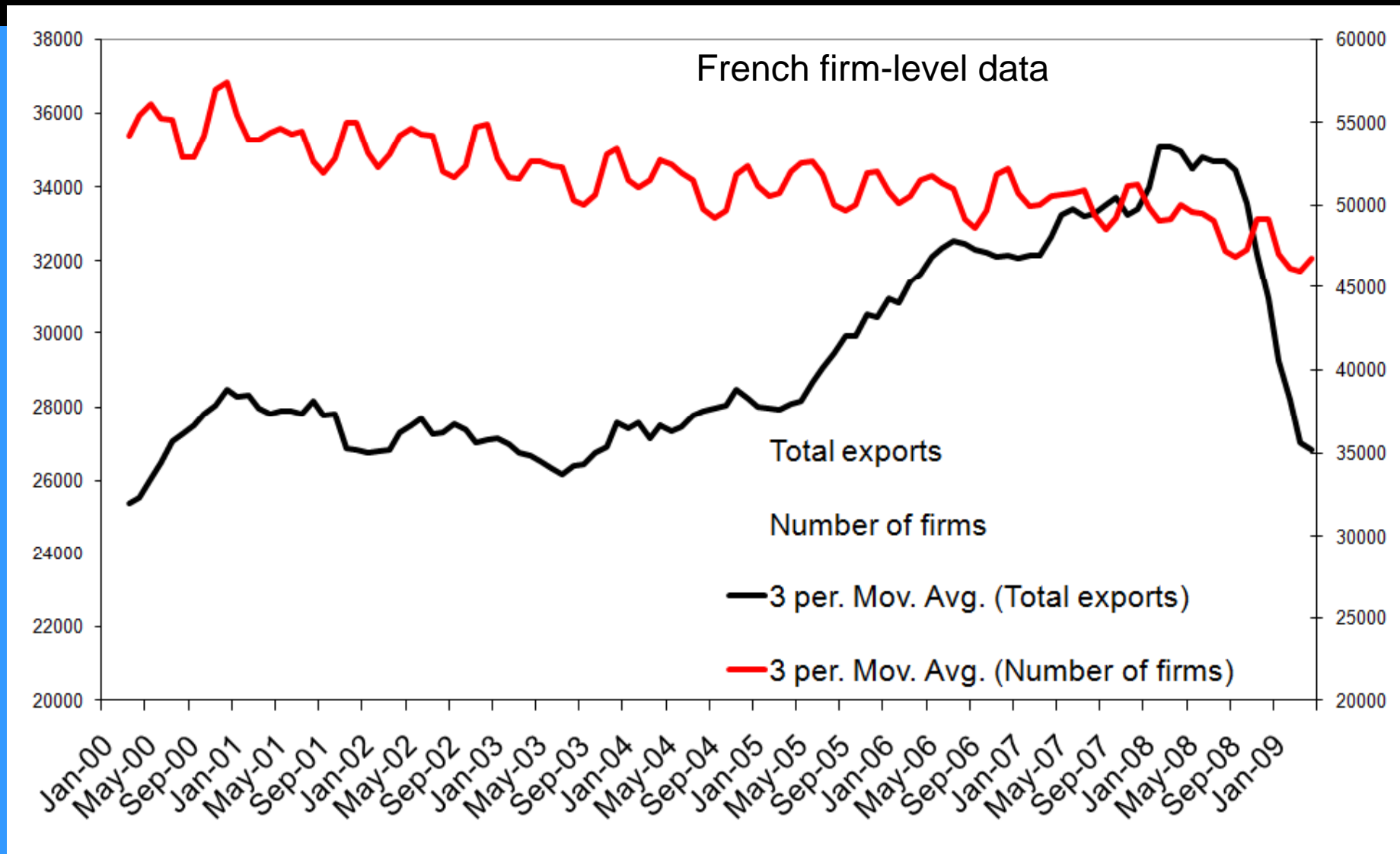
Synchronicity effect

- Unusual nature of the demand shock implies
 - 1. Fear-factor demand shock is transmitted instantly and globally.
 - 2. International supply chains & “just in time” trade collapse.

Supply side factors

- Protectionism.
- Bankruptcy-linked supply chain disruptions.
- Credit problems, especially trade credit.

Supply disruptions



Supply disruptions?

- Evidence from Japan, France, and US:
 - Most adjustment was “intensive margin”
- US firm-level data also showed this for Asian crisis.

Credit problems

- Survey evidence:

Table 7: Trade financing was the number two reason for declining exports.

Rank	Exporter Survey	Bank Surveys
1	Lower global demand	Lower global demand
2	Reduced trade financing	Less credit available from own institution
3	Reduced working finance	Less credit available from foreign banks

Sources: IMF/BAFT (2009a), IMF/BAFT (2009b) and World Bank (2009).

- See Auboin (2009) for details.

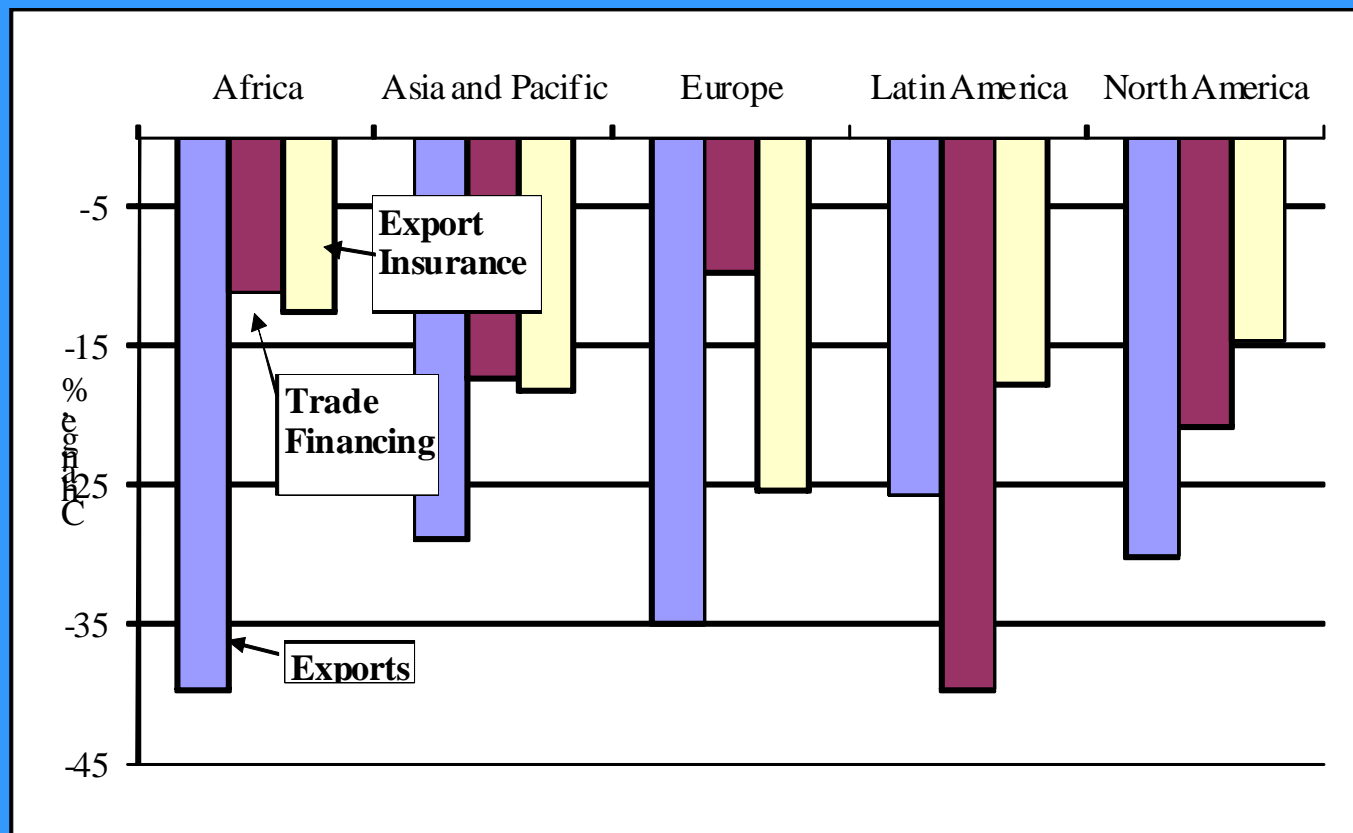
Credit problems

- Direct evidence from Japanese firm-level data for the 1990s Japanese banking crisis.
- Direct evidence for historical banking crisis and general exposure to financing (but not trade credit per se).

Credit problems

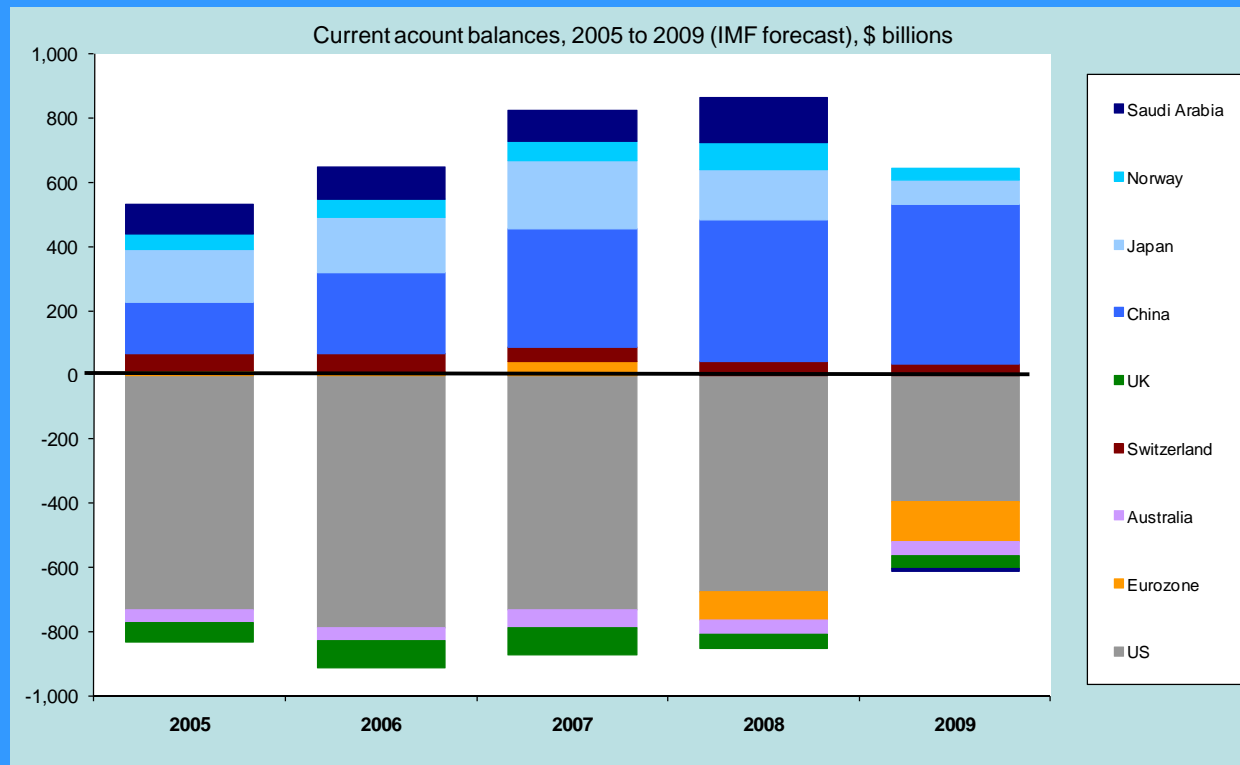
- Scant, but more direct evidence:

Figure 12: Drop in trade financing smaller than drop in exports, 2008:Q2 to 2009:Q2.



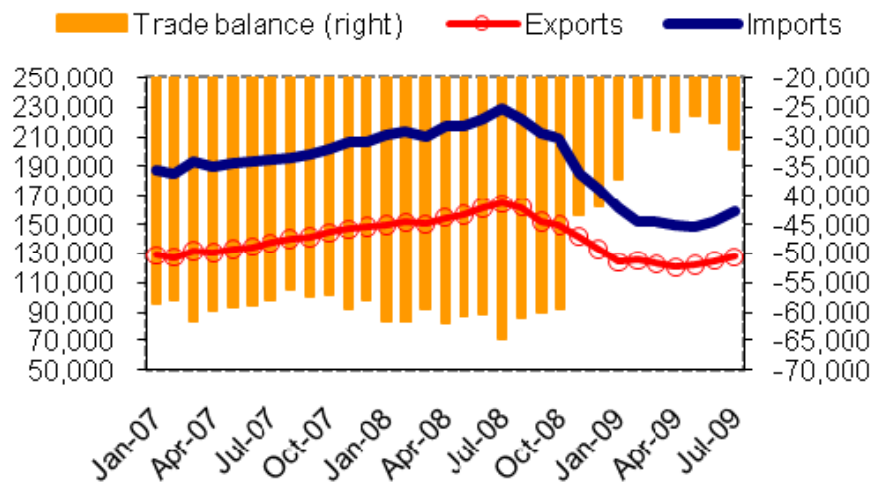
Global imbalances

Recent improvements in global imbalances

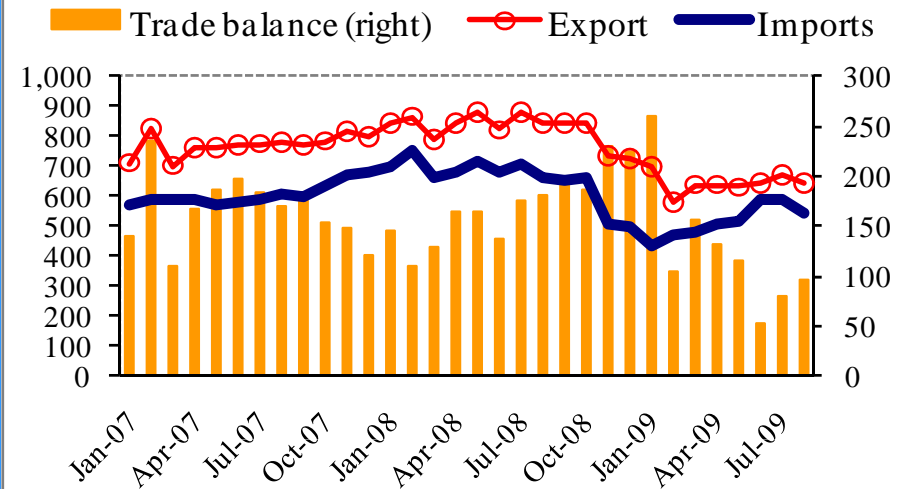


Recent improvements in global imbalances

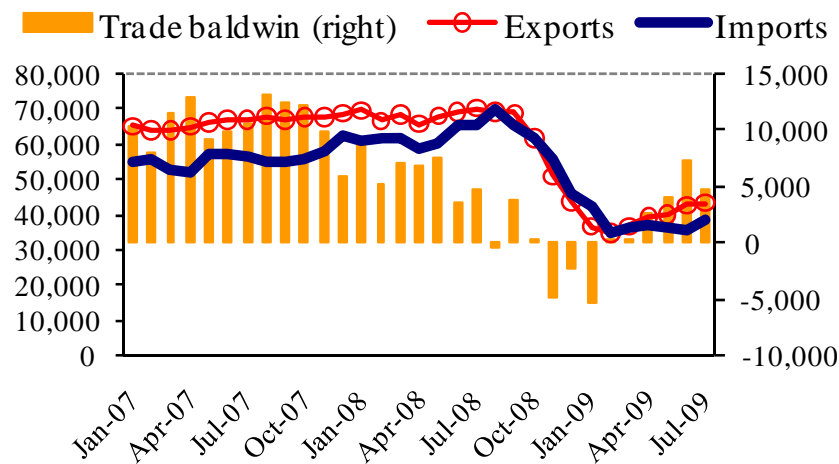
US



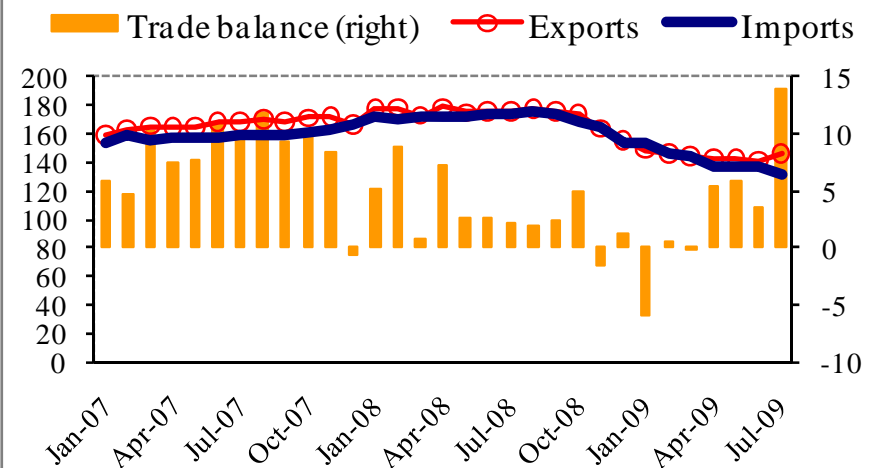
China



Japan

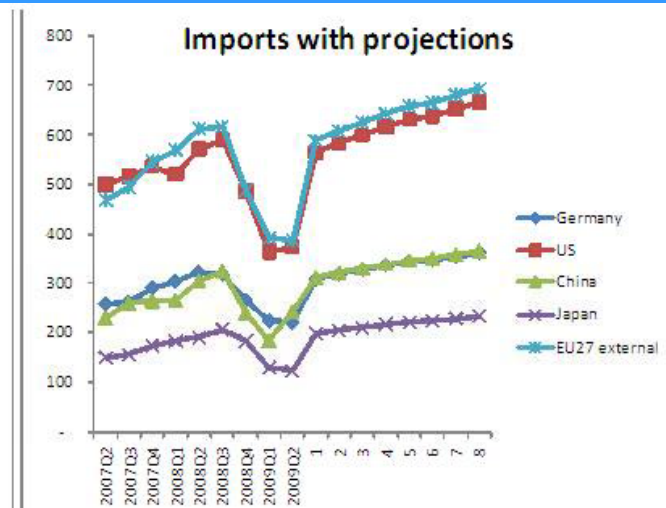
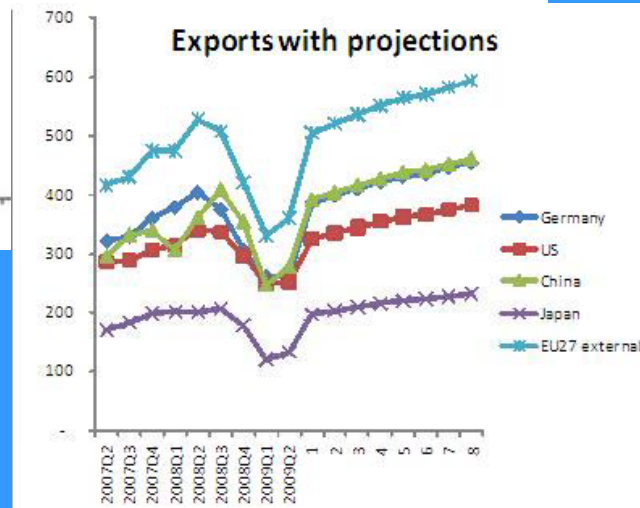
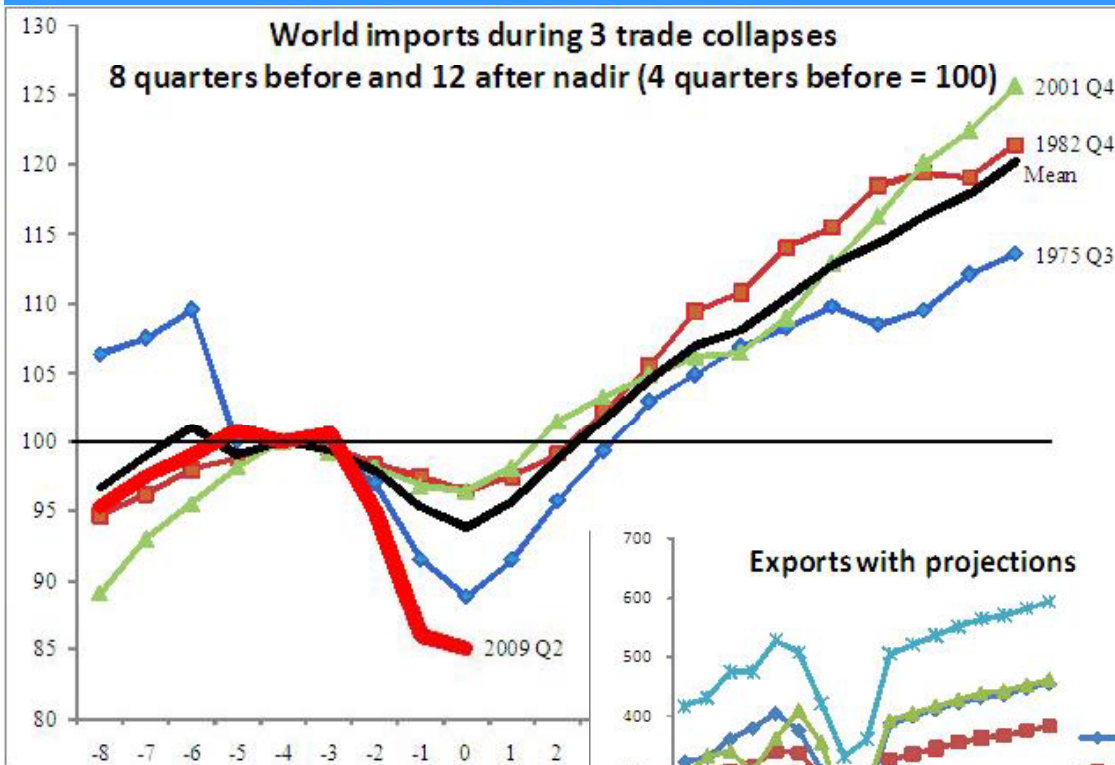


Euro area - 15

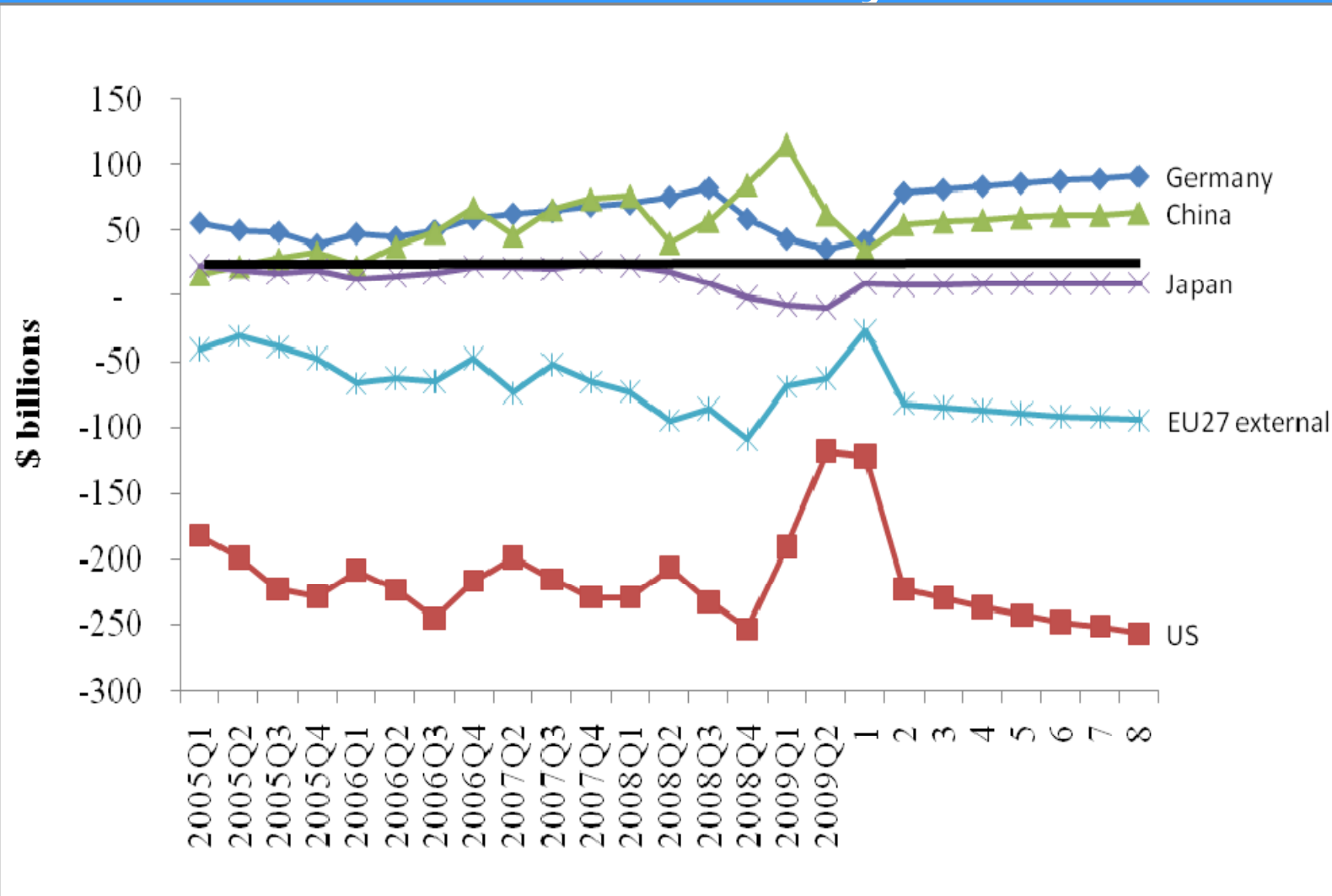


Simulated trade recovery

. Historical trade collapses and recoveries



Simulated trade imbalances: Rapid recovery



END

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