The Great Trade Collapse (?)
24 April 2020, 16:30 - 17:30
WEBINAR

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The Great Trade Collapse?

Bob Koopman
Chief Economist, WTO and
Adjunct Professor, the Graduate Institute
April 24, 2020

Most of the material in this presentation is taken from the WTO’s Trade Forecast of April 8, 2020 (found here https://www.wto.org/english/news_e/pres20_e/pr855_e.htm) and particularly the background document on methodology (found here https://www.wto.org/english/news_e/pres20_e/methodpr855_e.pdf) and authored by Eddy Bekkers, Alexander Keck, Robert Koopman and Coleman Nee.
WTO EXPECTS SIGNIFICANT DECLINE IN GLOBAL TRADE FOR 2020 AND POTENTIAL FOR SLOW RECOVERY IN 2021

Chart 1 - World merchandise trade volume, 2000-2022
Index, 2015=100

Source: WTO Secretariat.
Table 5 Change in real GDP (yearly per cent change for 2020 and 2021 relative to benchmark without pandemic)

<table>
<thead>
<tr>
<th>Real GDP</th>
<th>V-shaped</th>
<th></th>
<th>U-shaped</th>
<th></th>
<th>L-shaped</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2020</td>
<td>2021</td>
<td>2020</td>
<td>2021</td>
<td>2020</td>
<td>2021</td>
</tr>
<tr>
<td>ASEAN</td>
<td>-6.1</td>
<td>4.6</td>
<td>-12.2</td>
<td>9.7</td>
<td>-14.7</td>
<td>3.3</td>
</tr>
<tr>
<td>Australia New Zealand</td>
<td>-5.2</td>
<td>4.7</td>
<td>-9.3</td>
<td>8.8</td>
<td>-11.2</td>
<td>3.1</td>
</tr>
<tr>
<td>Brazil</td>
<td>-4.8</td>
<td>4.5</td>
<td>-9.4</td>
<td>9.2</td>
<td>-11.6</td>
<td>3.3</td>
</tr>
<tr>
<td>Canada</td>
<td>-4.8</td>
<td>4.0</td>
<td>-8.8</td>
<td>7.5</td>
<td>-10.7</td>
<td>2.6</td>
</tr>
<tr>
<td>China</td>
<td>-4.0</td>
<td>3.5</td>
<td>-7.9</td>
<td>7.2</td>
<td>-9.9</td>
<td>2.5</td>
</tr>
<tr>
<td>European Union 28</td>
<td>-5.2</td>
<td>4.1</td>
<td>-10.1</td>
<td>8.4</td>
<td>-12.1</td>
<td>2.9</td>
</tr>
<tr>
<td>India</td>
<td>-5.4</td>
<td>4.6</td>
<td>-11.1</td>
<td>9.9</td>
<td>-13.4</td>
<td>3.2</td>
</tr>
<tr>
<td>Japan</td>
<td>-4.4</td>
<td>3.9</td>
<td>-8.1</td>
<td>7.4</td>
<td>-9.5</td>
<td>2.4</td>
</tr>
<tr>
<td>Latin America</td>
<td>-5.3</td>
<td>4.8</td>
<td>-9.8</td>
<td>9.1</td>
<td>-11.8</td>
<td>3.2</td>
</tr>
<tr>
<td>Mexico</td>
<td>-6.6</td>
<td>5.3</td>
<td>-12.8</td>
<td>10.4</td>
<td>-14.5</td>
<td>3.2</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>-4.1</td>
<td>3.4</td>
<td>-8.1</td>
<td>7.2</td>
<td>-10.2</td>
<td>2.9</td>
</tr>
<tr>
<td>Newly industrialized countries</td>
<td>-6.2</td>
<td>5.2</td>
<td>-12.6</td>
<td>11.2</td>
<td>-14.8</td>
<td>3.8</td>
</tr>
<tr>
<td>Other Asian countries</td>
<td>-5.8</td>
<td>5.1</td>
<td>-11.4</td>
<td>10.3</td>
<td>-13.4</td>
<td>3.2</td>
</tr>
<tr>
<td>Rest of World</td>
<td>-4.1</td>
<td>2.8</td>
<td>-6.0</td>
<td>3.7</td>
<td>-6.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>-4.1</td>
<td>3.4</td>
<td>-7.4</td>
<td>6.2</td>
<td>-9.3</td>
<td>2.3</td>
</tr>
<tr>
<td>United States</td>
<td>-5.0</td>
<td>4.8</td>
<td>-8.8</td>
<td>8.6</td>
<td>-10.8</td>
<td>2.9</td>
</tr>
<tr>
<td><strong>Global</strong></td>
<td><strong>-4.8</strong></td>
<td><strong>4.2</strong></td>
<td><strong>-9.2</strong></td>
<td><strong>8.1</strong></td>
<td><strong>-11.1</strong></td>
<td><strong>2.8</strong></td>
</tr>
</tbody>
</table>

Note: The numbers in this table deviate from the numbers in the press release (WTO, 2020). This table presents the per cent deviation of GDP from the baseline, whereas the press release contains the projected growth rate in 2020 relative to 2019.
Trade and Growth Relationship Has Changed Overtime: But for understandable reasons.

Recent relationship between trade and economic growth, 1990-2020 (% change and ratio)

Sources: WTO Secretariat for merchandise trade volume, consensus estimates for real GDP at market exchange rates.
### Table 1: Economic shocks under the three scenarios

<table>
<thead>
<tr>
<th>Scenario</th>
<th>V-shaped (optimistic)</th>
<th>U-shaped (mildly optimistic)</th>
<th>L-shaped (pessimistic)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Labour supply</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Morbidity and mortality</td>
<td>1% and 2%</td>
<td>2% and 2%</td>
<td>4% and 2%</td>
</tr>
<tr>
<td>Working from home</td>
<td>3 months</td>
<td>6 months</td>
<td>1 year</td>
</tr>
<tr>
<td>School closures</td>
<td>3 months</td>
<td>3 months</td>
<td>3 months</td>
</tr>
<tr>
<td><strong>Sectoral demand and supply</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tourism and recreation</td>
<td>3 months -80%: -20%</td>
<td>6 months -80%: -40%</td>
<td>Year 2020: 3 months -80% and 6 months -40%: -40%</td>
</tr>
<tr>
<td>Retail</td>
<td>3 months -20%: -5%</td>
<td>6 months -20%: -10%</td>
<td>Year 2020: 9 months -20%: -15%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Full recovery in 2020:0%</td>
<td>6 months -80% with half of the loss recovered after: -20%</td>
<td>3 months -80% and 6 months -40%: -40%</td>
</tr>
<tr>
<td><strong>Trade costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Higher costs air cargo</td>
<td>6 months 70% increase price air cargo</td>
<td>12 months 70% increase price air cargo</td>
<td>18 months 70% increase price air cargo</td>
</tr>
<tr>
<td>Goods in transit</td>
<td>6 months 3 day extra: 1.2%</td>
<td>12 months 3 day extra: 2.4%</td>
<td>18 months 3 day extra: 2.4% in 2020</td>
</tr>
<tr>
<td>Services transport costs</td>
<td>6 months 22.5% extra multiplied by share not digitally delivered</td>
<td>Idem for 12 months</td>
<td>Idem for 18 years</td>
</tr>
<tr>
<td>Transport costs specialized equipment</td>
<td>6 months 22.5% extra for specialized equipment, proxied by share transported by air</td>
<td>Idem for 12 months</td>
<td>Idem for 18 months</td>
</tr>
</tbody>
</table>
Global average tariff around 8%, so trade cost increase equal to about 40% tariff hike in global average
Table 9 Contribution of different shocks to the projected per cent change in real GDP and real exports in 2020

<table>
<thead>
<tr>
<th></th>
<th>Labour supply</th>
<th>Trade costs</th>
<th>Air cargo</th>
<th>Sectoral shifts</th>
</tr>
</thead>
<tbody>
<tr>
<td>V-shaped</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>42%</td>
<td>20%</td>
<td>1%</td>
<td>38%</td>
</tr>
<tr>
<td>Trade</td>
<td>21%</td>
<td>34%</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>U-shaped</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>30%</td>
<td>20%</td>
<td>0%</td>
<td>50%</td>
</tr>
<tr>
<td>Trade</td>
<td>14%</td>
<td>32%</td>
<td>10%</td>
<td>44%</td>
</tr>
<tr>
<td>L-shaped</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>31%</td>
<td>16%</td>
<td>0%</td>
<td>52%</td>
</tr>
<tr>
<td>Trade</td>
<td>13%</td>
<td>24%</td>
<td>7%</td>
<td>55%</td>
</tr>
</tbody>
</table>
MITIGATING RISKS OF FUTURE PANDEMICS/CRISSES?

• Firms, Households, and Governments will need to evaluate risk vs. efficiency trade-offs:
  
  • Risks for firms – inventories (from “just in time” to larger inventories for critical parts), supply chains (diversification), production (automation and digitization). It’s a risk vs. efficiency calculation for them.

  • Governments – how to manage for demand spikes above average supply? Build and manage emergency stockpiles in ways that taxpayers/citizens can afford/accept = role for trade, flexible domestic production and/or international “insurance” agreements. Tracking and tracing. Uncertainty as to requirements of next pandemic/crisis (climate?) Again, risk vs. efficiency trade off.

  • Households – remote work, privacy, ability to social distance and earn income, get critical services (education, health care, etc), and access/purchase necessary products while isolated.
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SIMON EVENETT
Professor, International Trade and Economic Development, University of St. Gallen
What trade distortions as trade slumps?
Lessons from the Global Financial Crisis

CTEI Webinar, Geneva, 24 April 2020
Composition of trade distortions this year differs significantly from 2009 and 2010
2009 crisis response: Not the 1930s response. More than a third of world trade affected

- Import tariff increases: 0.9%
- Subsidies to import competing firms: 7.2%
- Export measures: 28.8%
- All trade distortions: 36.4%
Any new protectionism will add to a significant installed base of trade distortions.
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ANABEL GONZALEZ
Nonresident senior fellow, Peterson Institute for International Economics
THE GREAT TRADE COLLAPSE
Trade policies to fight, recover and rebuild

Anabel González
CTEI, 24 April 2020
ESTIMATED IMPACT OF COVID-19 ON GROWTH

Latest World Economic Outlook growth projections

(percent change)

Source: IMF, World Economic Outlook, April 2020.

Note: Order of bars for each group indicates (left to right): 2019, 2020 projections, and 2021 projections.
ESTIMATED IMPACT OF COVID-19 ON TRADE

World merchandise trade volume, 2000-2022
Index, 2015=100

Trade volume change 2019-2020 (%)

-13% Optimistic scenario

-32% Pessimistic scenario
ESTIMATED IMPACT OF COVID-19 ON FDI

Downward pressure of -30 to -40% expected during 2020-2021

Source: UNCTAD, 2020
ESTIMATED IMPACT OF COVID-19 ON POVERTY

49 million people will be pushed into extreme poverty

Source: PovcalNet • The global poverty rate is measured as the share of the world’s population living on less than $1.90 per day.

WHAT ROLE FOR TRADE POLICY TO HELP FIGHT COVID-19?

POLICY OUTCOME: Improved timely access to sufficient and affordable critical supplies

80 countries have imposed export restrictions. Way to go?

- Export restrictions hurt people in importing countries
- But they also hurt exporting countries:
  - Increase prices
  - Discourage investment
  - Invite retaliation
- Past experience: 2007-08 food export restrictions increased prices and volatility
WHAT ROLE FOR TRADE POLICY TO HELP FIGHT COVID-19?

<table>
<thead>
<tr>
<th>Trade policy objectives</th>
<th>Trade policy instruments &amp; actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Reduce time and cost to trade</td>
<td>• Reduce/eliminate <strong>tariffs</strong> on health and hygiene products</td>
</tr>
<tr>
<td>• Reduce trade policy uncertainty</td>
<td>• Expedite <strong>customs</strong> inspection and release of goods (green lanes)</td>
</tr>
<tr>
<td>• Reduce time and cost to entry into market</td>
<td>• Expand access to <strong>technical standards</strong> and expedite conformity assessment procedures</td>
</tr>
<tr>
<td>• Incentivize capacity expansion and increased production</td>
<td>• Promote <strong>investment</strong>, including through subsidies and other arrangements</td>
</tr>
<tr>
<td>• Facilitate cross-border movement of critical services and digital knowledge</td>
<td>• Refrain from <strong>”Buy National”</strong> policies</td>
</tr>
<tr>
<td></td>
<td>• Allow temporary <strong>movement</strong> of health professionals</td>
</tr>
<tr>
<td></td>
<td>• Share knowledge via e-health and foster other <strong>digital</strong> interactions</td>
</tr>
<tr>
<td></td>
<td>• Ensure <strong>intellectual property</strong> regimes allow access to new technologies, vaccines and drugs for all</td>
</tr>
</tbody>
</table>

**POLICY OUTCOME:** Improved timely access to sufficient and affordable critical supplies
WHAT ROLE FOR TRADE POLICY TO HELP RECOVER?

- Keep **supply chains** moving
- … and **trade lanes** open
- Keep **trade finance** flowing
- Enable **FDI** expansion
- Support **MSMEs** in trade
WHAT ROLE FOR TRADE POLICY TO HELP REBUILD THE FUTURE?

Areas where new/revised disciplines will become even more pressing:

• Digital trade
• Subsidies
• Stockpiling
THE IMPERATIVE OF GLOBAL TRADE COOPERATION

WHY?
• Avoid politically appealing but self-defeating trade policies
• Facilitate reversal of damaging measures
• Enhance trade frameworks for managing crisis
• Address dramatic changes brought about by COVID-19 (and old problems)

HOW?
• If global cooperation is impossible, willing countries should step up
  – New Zealand-Singapore open plurilateral initiative to ensure free flow of essential goods
  – Joint statement on open and predictable trade in agri-food products

WHAT?
• Standstill and rollback of current export bans and restrictions on new measures
• Agreement on health-related products (tariffs, non-tariff barriers, market entry)
• Common framework on cross-border moment of health professionals
• Collective understanding on access to new vaccines and drugs

WHERE?
• WTO is the natural forum … but things need to change
  – Starting with increased transparency and improved operating practices

WHEN?
• COVID-19 does not allow for the waste of time
International collaboration on trade has unraveled to the detriment of prosperity. Now is the chance to seize on the crisis to sow the seeds for renewed global trade cooperation.
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THE GREATER TRADE COLLAPSE?
LEARNINGS FROM THE 2008-09 COLLAPSE

Richard Baldwin
Graduate Institute, Geneva
Outline of talk

1. The 2008-2009 “Great Trade Collapse”

2. Why this one is different

3. Supply-chain contagion & re-contagion waves
The Great Trade Collapse: Historical perspective

Quarter on Quarter Growth, World Imports Volume, 1965 Q1 to 2019 Q3

Sudden & synchronised (Lehman Bros 2008 Q3)
All goods sectors were hit
Commodities were hit harder (price v volume)
This time is different
As in 2008-09 mostly demand side
New elements:
1. Supply & demand
2. Hit all the biggest traders/manuf within 2 months
3. Manufacturing more integrated

Recession: unavoidable public health measure (in rich nations)
Keeping the lights on: Economic medicine for a medical shock, Baldwin 13 March 2020
1. new cases \(= \beta I \frac{S}{N}\)
2. new recoveries \(= \gamma I\)
3. Top of infections when ‘new cases’ = ‘new recoveries’
   \[
   \frac{S}{N} = \frac{\gamma}{\beta} \equiv \frac{1}{R_0}
   \]
4. \(R_0\) from 2 to 3?
This a WAY far from over
Illustration of medical and supply-chain contagion and reinfection
1. Higher ‘exposure’ to imported inputs
2. Asynchronous supply shocks

End – thanks for listening