



CONFCOMMERCIO
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PRESENTATION BY RICHARD BALDWIN

AT THE FORUM:

**"MARKET LEADERS AND SCENARIOS
FOR THE 21ST CENTURY"**

March 12 and 13, 2010
"Villa d'Este" – Cernobbio (Como)

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GENERALI



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INTESA  **SANPAOLO**

Trade, the crisis and the recovery

Richard Baldwin
Graduate Institute, Geneva
Cernobbio, 12-13 March 2010

Global crisis as two crises

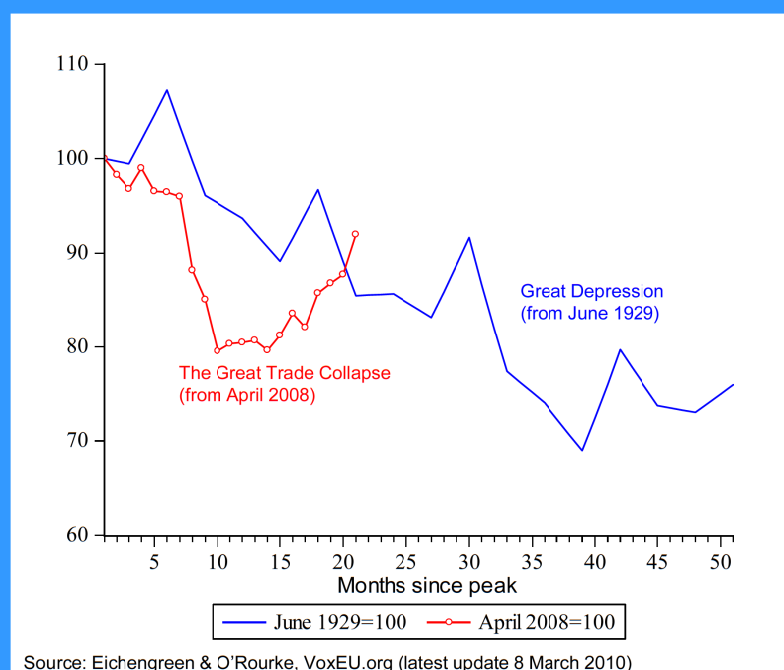
- North Atlantic banking crisis
 - Demand damage & variable supply damage.
- Rest of World
 - Demand shock

Great Trade Collapse

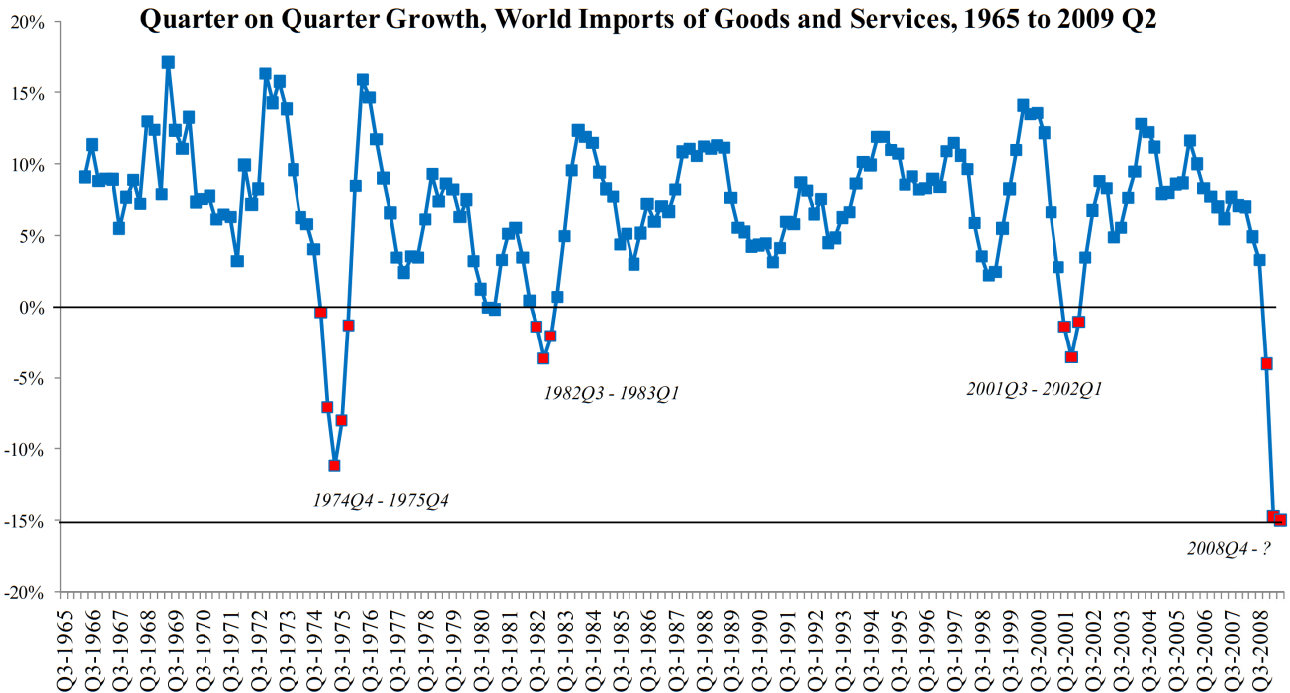
- 2008 Q3 to 2009 Q2 = Great Trade Collapse
- Sudden, Severe, Synchronised
- But rapid recovery

The great trade collapse: 2008Q3 – 2009Q2

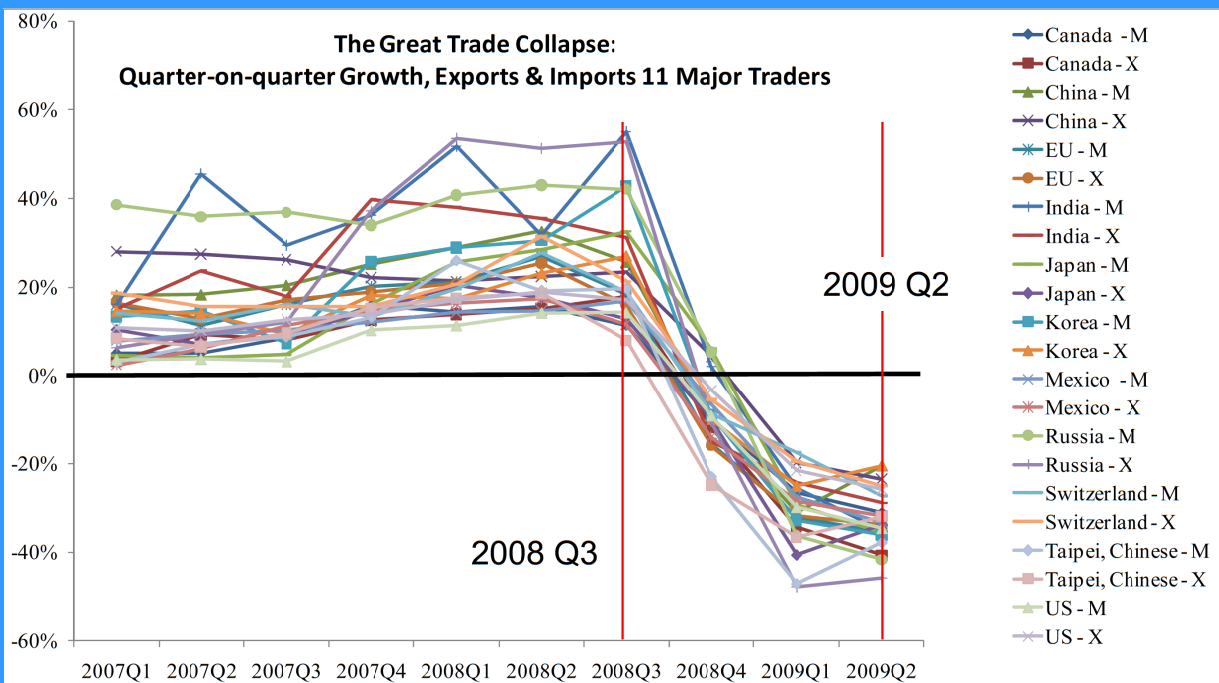
- Steepest trade drop in recorded history.



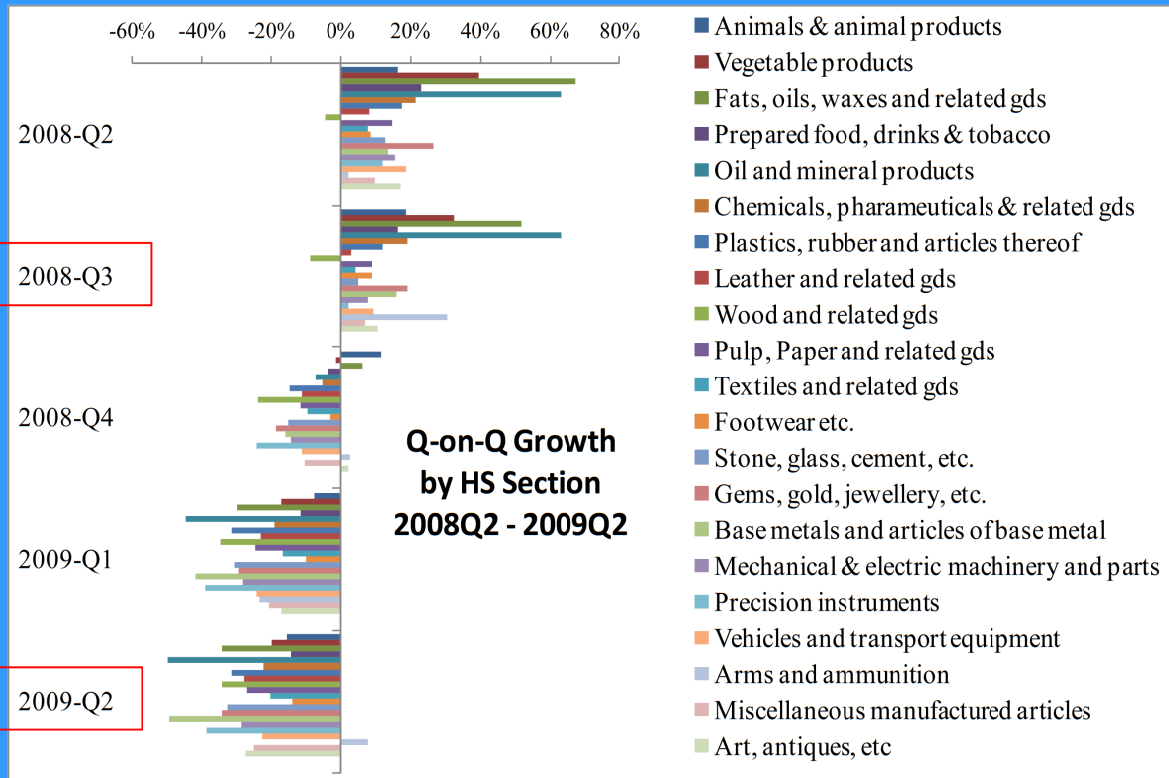
Deepest since WWII



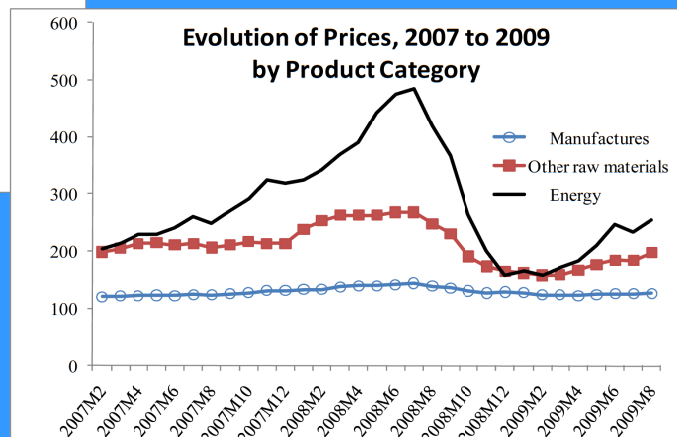
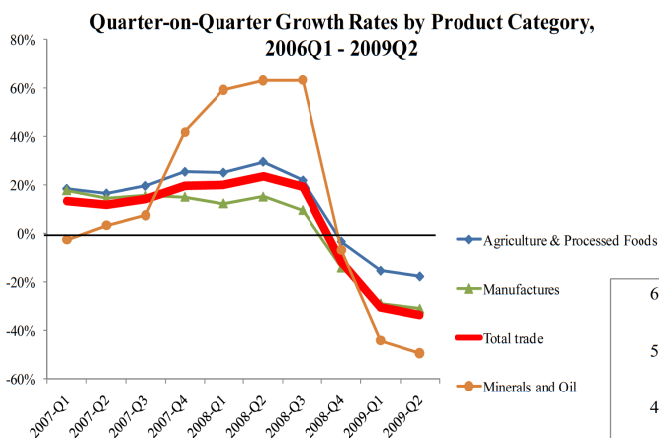
Sudden & Synchronised



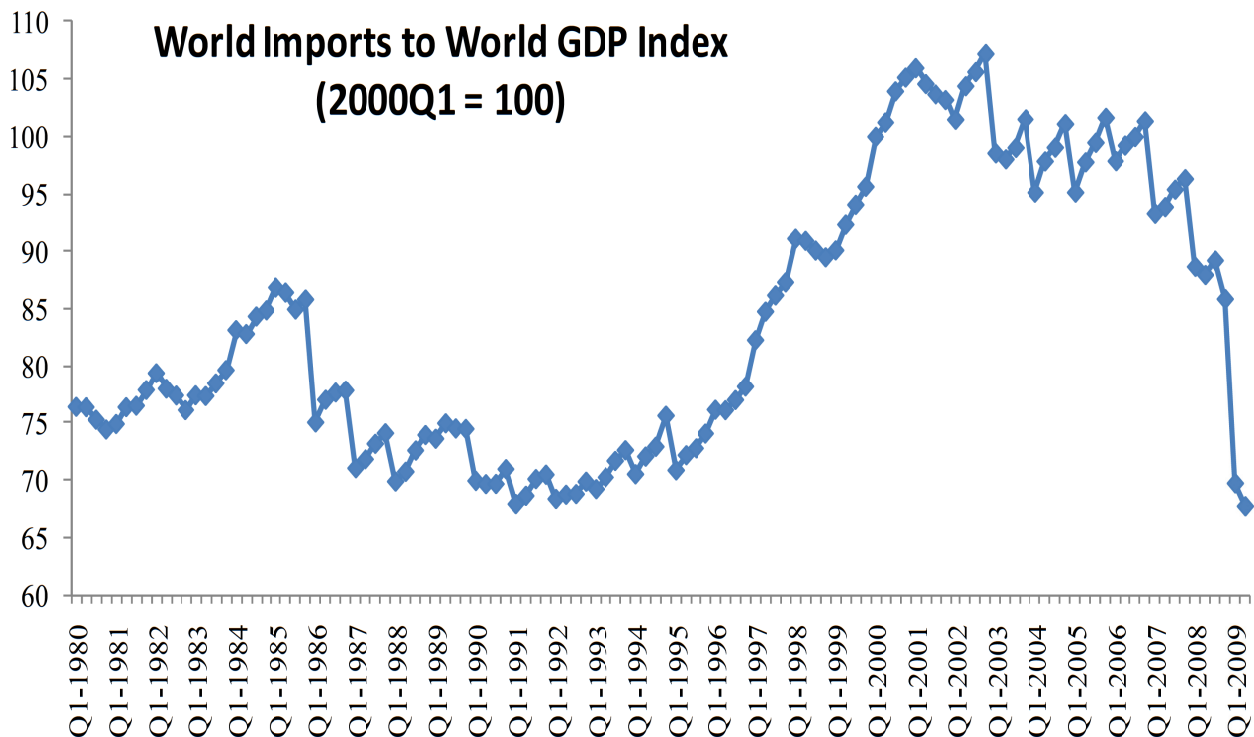
All sectors hit



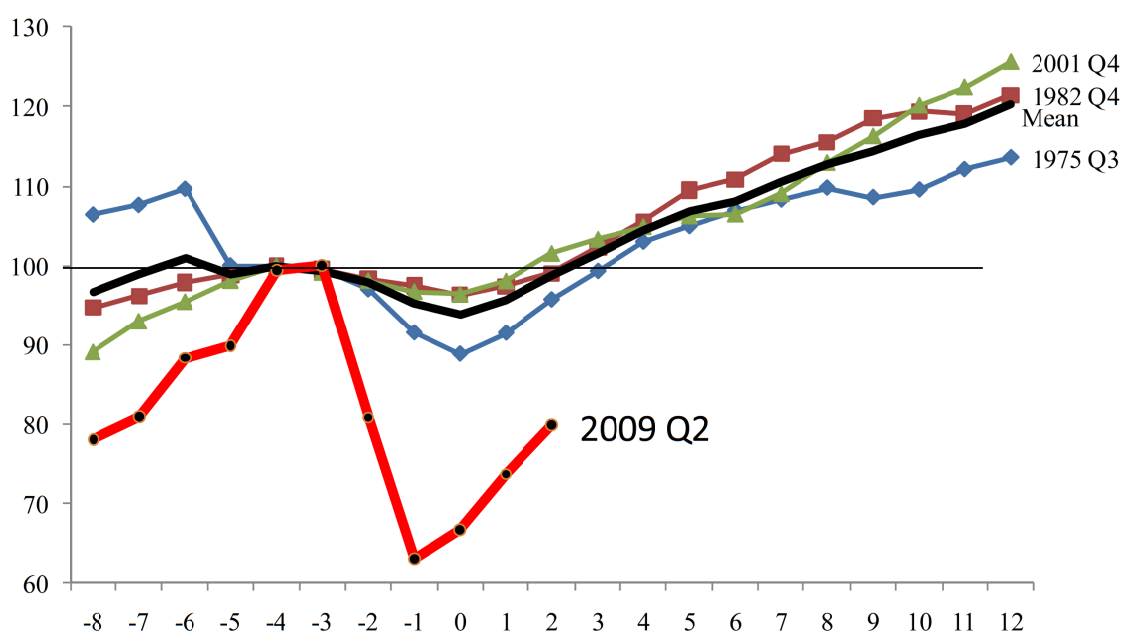
Commodities vs manufactures



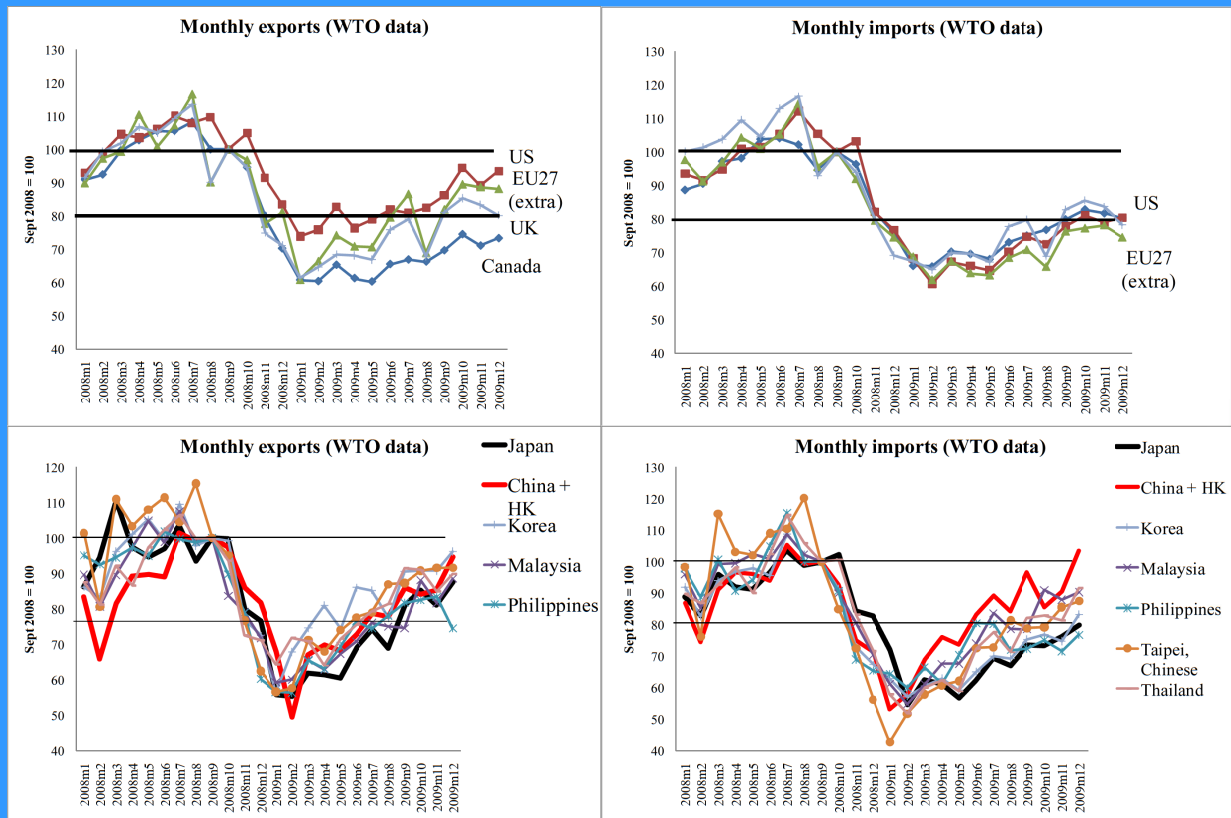
Puzzle: Trade fell MUCH more than GDP



. Historical trade collapses and recoveries



Trade Recovery



Emerging consensus on the causes

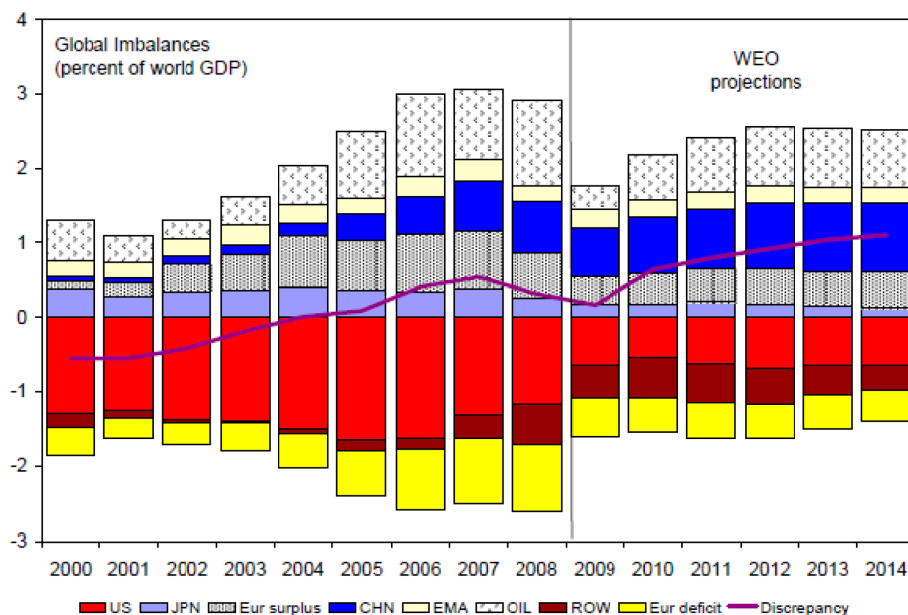
- Supply or demand shock?
- Consensus: Demand amplified by
 - “Compositional effect”
 - “Synchronicity effect”

Possible supply side factors

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

Global imbalances

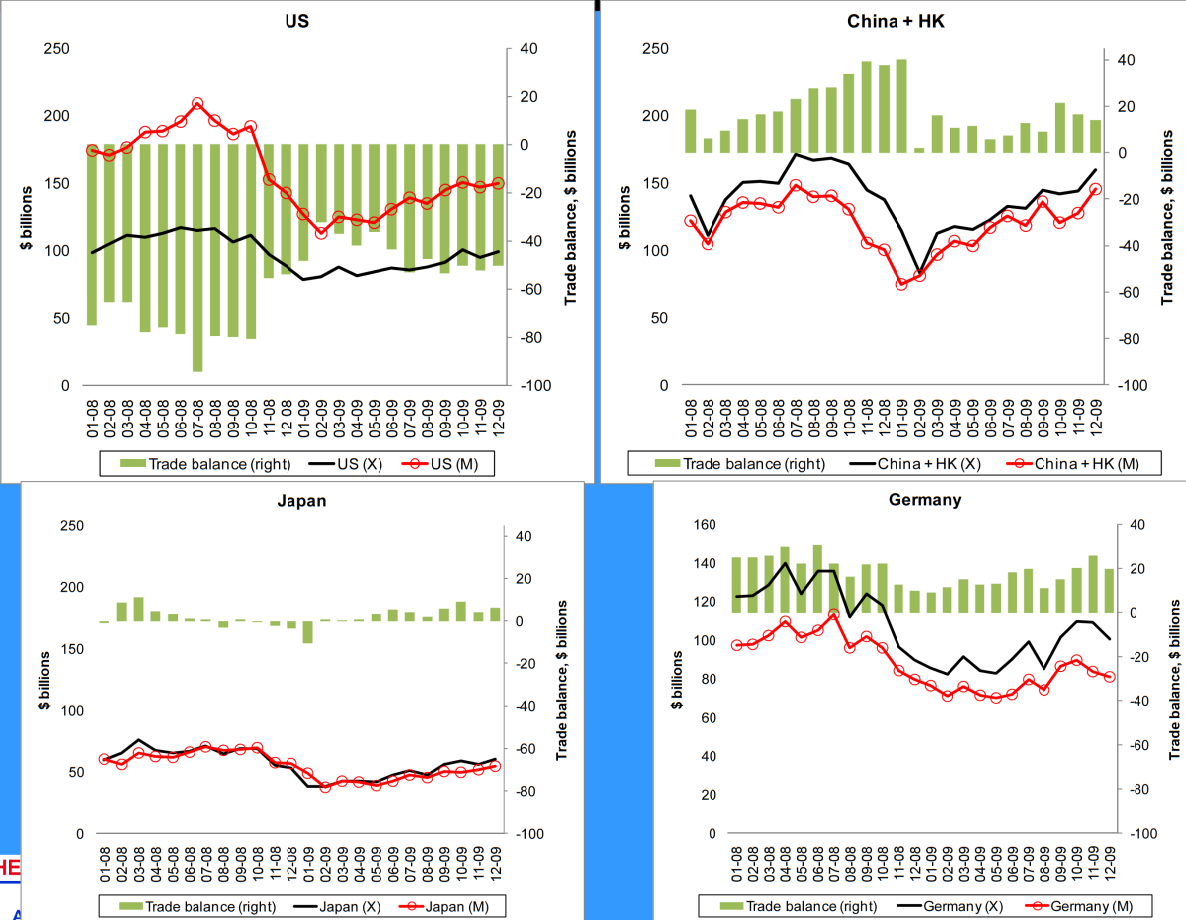
Figure 7. Current account projections (in percent of world GDP)



Source: authors' calculations based on IMF, World Economic Outlook, October 2009.

Olivier Blanchard and Gian Maria Milesi-Ferretti (2009) "Global Imbalances: In Midstream?"

Recent improvements in global imbalances



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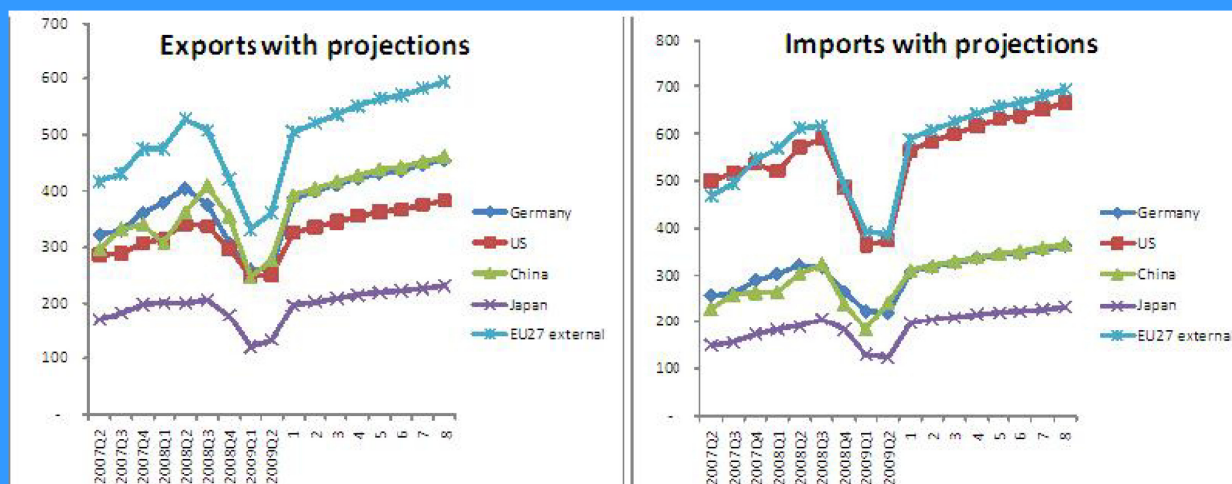
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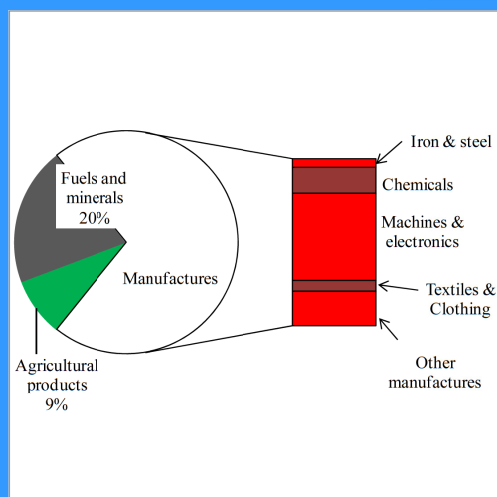
The Ebook "The Great Trade Collapse" free download:

<http://www.voxeu.org/index.php?q=node/4297>



Compositional effect

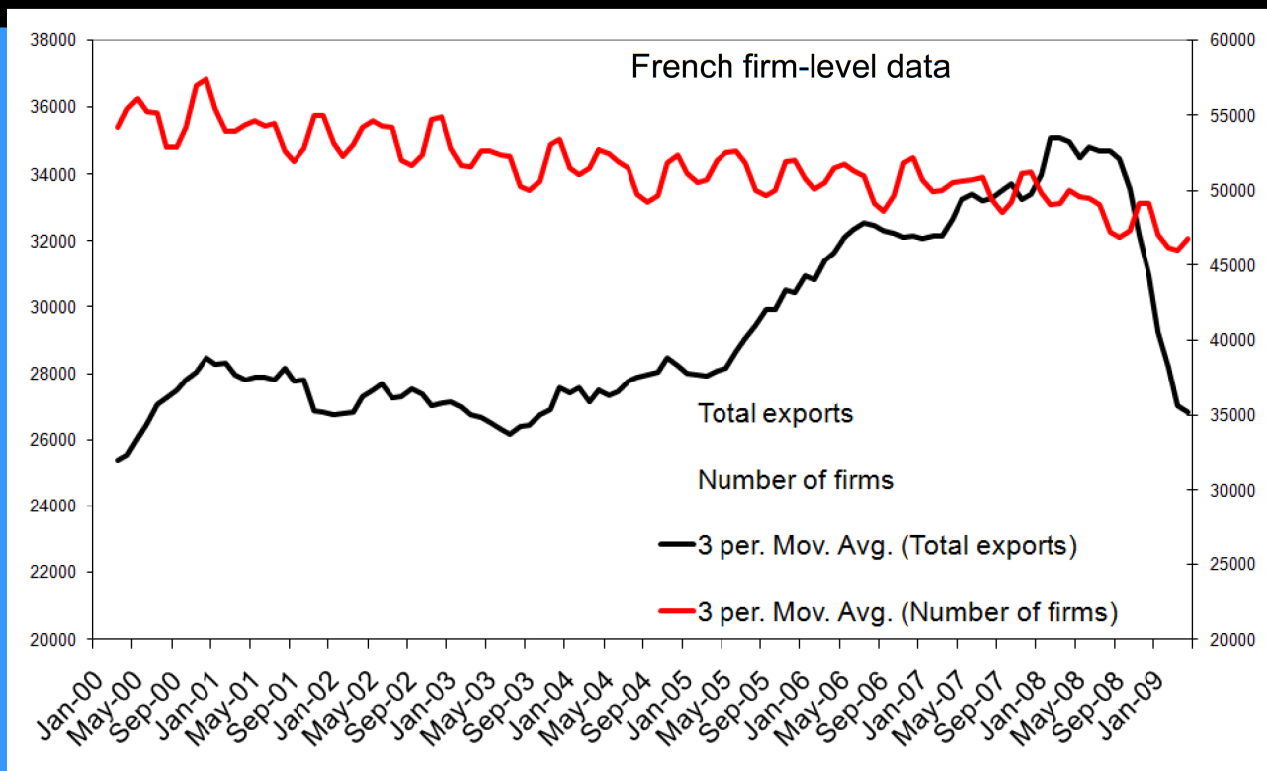
- Same demand shock \Rightarrow bigger trade effect than GDP effect due to different composition of trade & GDP.
- Nature of demand shock:
 - “fear factor” \Rightarrow “postpone-ables” demand plummets.
- Composition: Postpone-ables = 10 to 20% globally of GDP
70% of trade



Synchronicity effect

- Unusual nature of demand shock (fear-factor):
 - 1. Transmitted (a) instantly and (b) globally.
 - 2. International supply chains
 - ⇒ “just in time” trade collapse.

Supply disruptions?



Supply disruptions?

- Evidence from Japan, France, and US:
 - Most adjustment was “intensive margin”
 - i.e. few trade relationships broken, mostly just operated at lower level.
- US firm-level data also showed this for 1997 Asian crisis.

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

- Survey evidence:

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

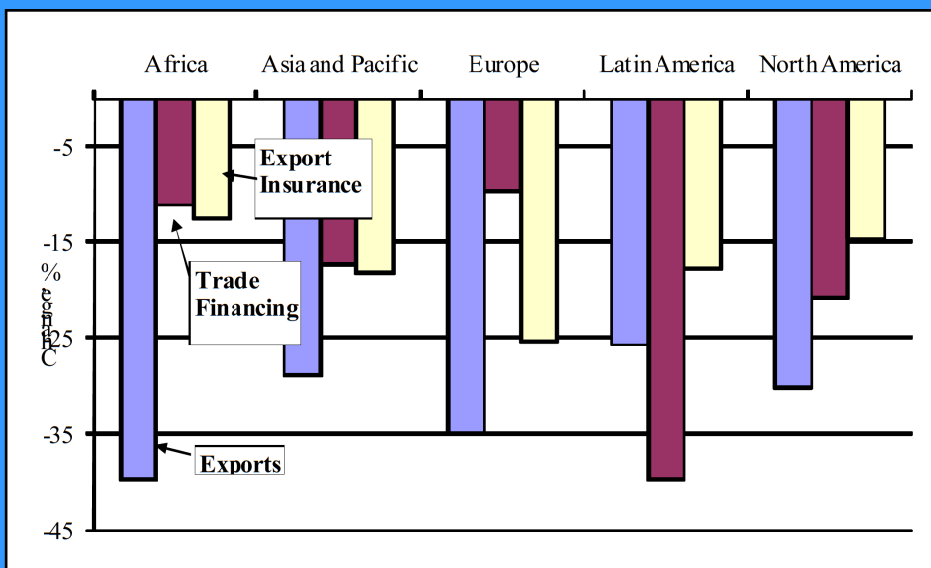
Rank	Exporter Survey	Bank Surveys
1	Lower global demand	Lower global demand
2	Reduced trade financing	Less credit available from own institution
3	Reduced working finance	Less credit available from foreign banks

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

Credit problems

- Scant, but more direct evidence:

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



Protectionism

- So far, not bad.
- GTA shows lots of protection measure.
- But covering less than 5% of world trade.
- Vigilance required:
unemployment + rising trade imbalances = growing protectionist pressure

Simulated trade imbalances: Rapid recovery

