



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

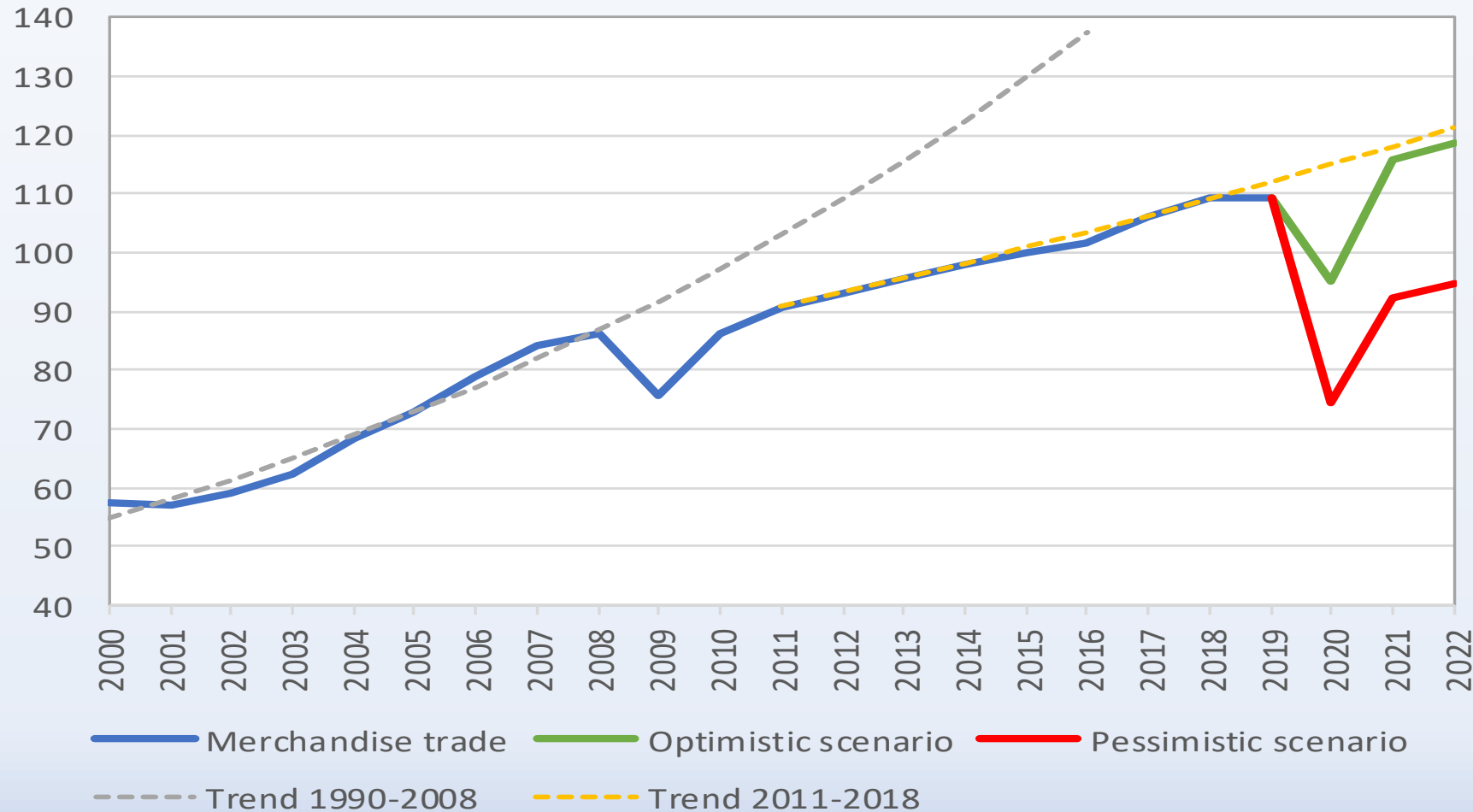
https://www.wto.org/english/news_e/pres20_e/pr855_e.htm) and particularly the background document on methodology (found here https://www.wto.org/english/news_e/pres20_e/methodpr855_e.pdf) and authored by Eddy Bekkers, Alexander Keck, Robert Koopman and Coleman Nee.

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)

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

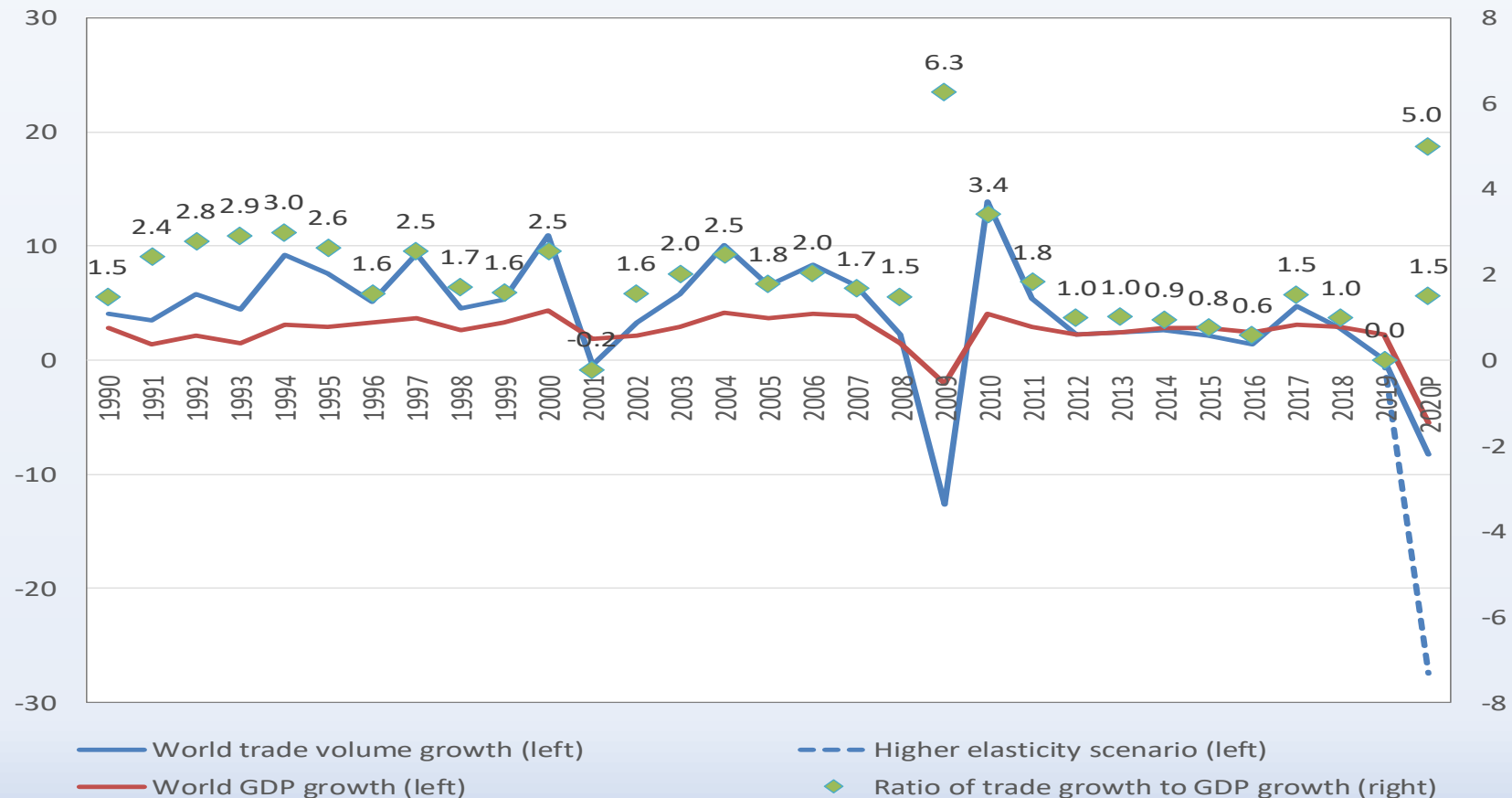
Note: The numbers in this table deviate from the numbers in the press release (WTO, 2020). This table presents the per cent deviation of GDP from the baseline, whereas the press release contains the projected growth rate in 2020 relative to 2019.

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

| | V-shaped (optimistic) | U-shaped (mildly optimistic) | L-shaped (pessimistic) |
|---------------------------------------|---|---|---|
| Labour supply | | | |
| Morbidity and mortality | 1% and 2% | 2% and 2% | 4% and 2% |
| Working from home | 3 months | 6 months | 1 year |
| School closures | 3 months | 3 months | 3 months |
| Sectoral demand and supply | | | |
| Tourism and recreation | 3 months -80%: -20% | 6 months -80%: -40% | Year 2020: 3 months -80% and 6 months -40%: -40% ² |
| Retail | 3 months -20%: -5% | 6 months -20%: -10% | Year 2020: 9 months -20%: -15% |
| Manufacturing | Full recovery in 2020: 0% | 6 months -80% with half of the loss recovered after: -20% | 3 months -80% and 6 months -40%: -40% |
| Trade costs | | | |
| Higher costs air cargo | 6 months 70% increase price air cargo | 12 months 70% increase price air cargo | 18 months 70% increase price air cargo |
| Goods in transit | 6 months 3 day extra: 1.2% | 12 months 3 day extra: 2.4% | 18 months 3 day extra: 2.4% in 2020 |
| Services transport costs | 6 months 22.5% extra multiplied by share not digitally delivered | Idem for 12 months | Idem for 18 years |
| Transport costs specialized equipment | 6 months 22.5% extra for specialized equipment, proxied by share transported by air | Idem for 12 months | Idem for 18 months |

Table 3 Trade weighted average percentage increase in ad valorem trade costs by channel and exporting region (Optimistic Scenario: V-shaped recovery)

| | Services trade costs | Specialized equipment | Border controls | Total |
|--------------------------------|----------------------|-----------------------|-----------------|-------|
| ASEAN | 1.6 | 0.9 | 1.0 | 3.4 |
| Australia New Zealand | 1.4 | 0.3 | 1.0 | 2.7 |
| Brazil | 1.2 | 0.2 | 1.1 | 2.5 |
| Canada | 1.3 | 0.4 | 1.0 | 2.7 |
| China | 0.5 | 1.2 | 1.1 | 2.9 |
| European Union 28 | 2.2 | 0.6 | 0.9 | 3.8 |
| India | 2.8 | 0.3 | 0.9 | 4.0 |
| Japan | 0.9 | 1.4 | 1.1 | 3.4 |
| Latin America | 1.5 | 0.3 | 1.0 | 2.8 |
| Mexico | 0.4 | 0.7 | 1.1 | 2.2 |
| Middle East and North Africa | 1.1 | 0.2 | 1.1 | 2.4 |
| Newly industrialized countries | 1.8 | 1.2 | 1.0 | 4.0 |
| Other Asian countries | 3.4 | 0.1 | 0.7 | 4.2 |
| Rest of World | 1.4 | 0.4 | 1.0 | 2.8 |
| Sub-Saharan Africa | 0.9 | 0.3 | 1.1 | 2.2 |
| United States | 2.4 | 1.3 | 0.9 | 4.6 |
| Global average | 1.7 | 0.7 | 1.0 | 3.4 |

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

| | | Labour supply | Trade costs | Air cargo | Sectoral shifts |
|----------|-------|---------------|-------------|-----------|-----------------|
| V-shaped | GDP | 42% | 20% | 1% | 38% |
| | Trade | 21% | 34% | 20% | 25% |
| U-shaped | GDP | 30% | 20% | 0% | 50% |
| | Trade | 14% | 32% | 10% | 44% |
| L-shaped | GDP | 31% | 16% | 0% | 52% |
| | Trade | 13% | 24% | 7% | 55% |

MITIGATING RISKS OF FUTURE PANDEMICS/CRISES?

- **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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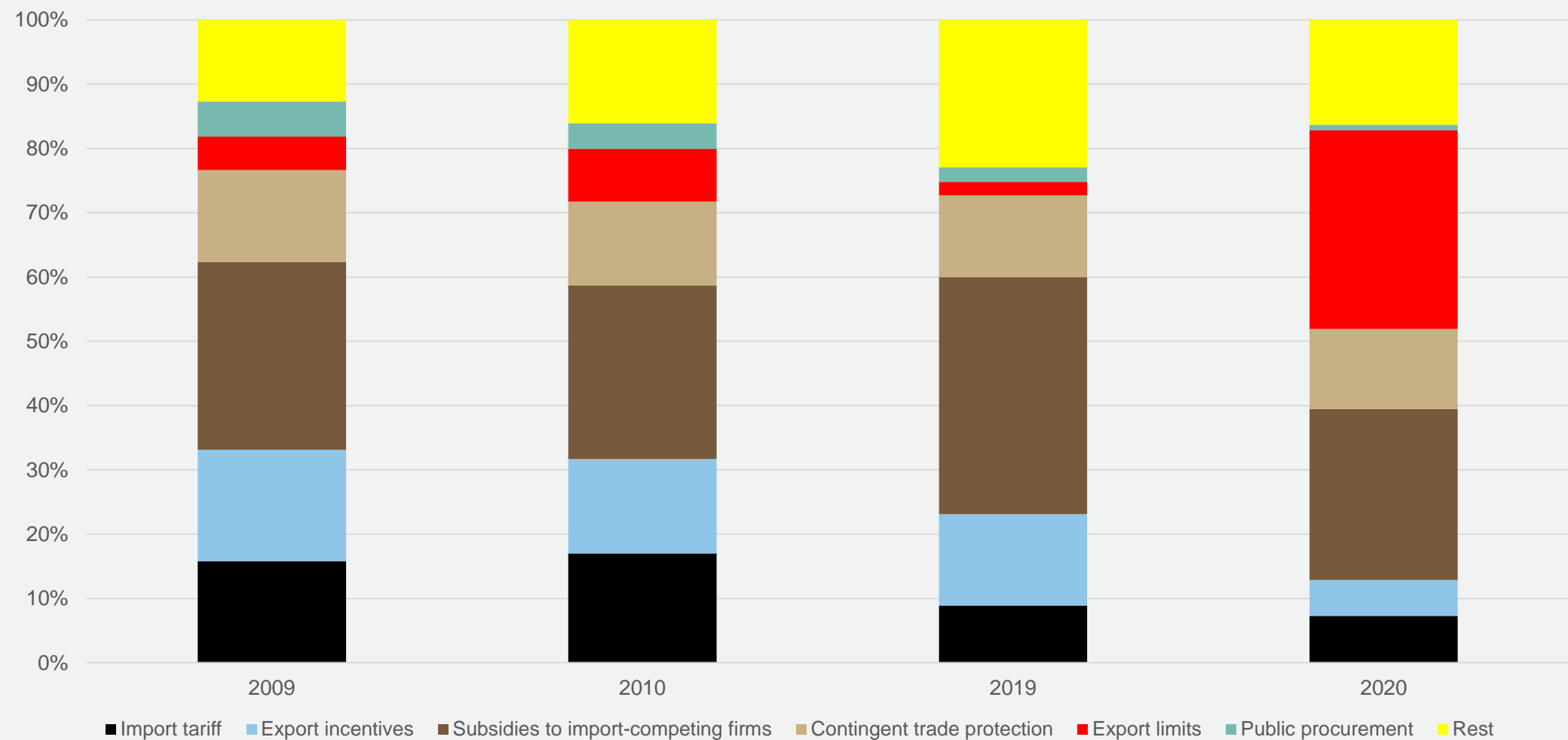


GLOBAL
TRADE
ALERT

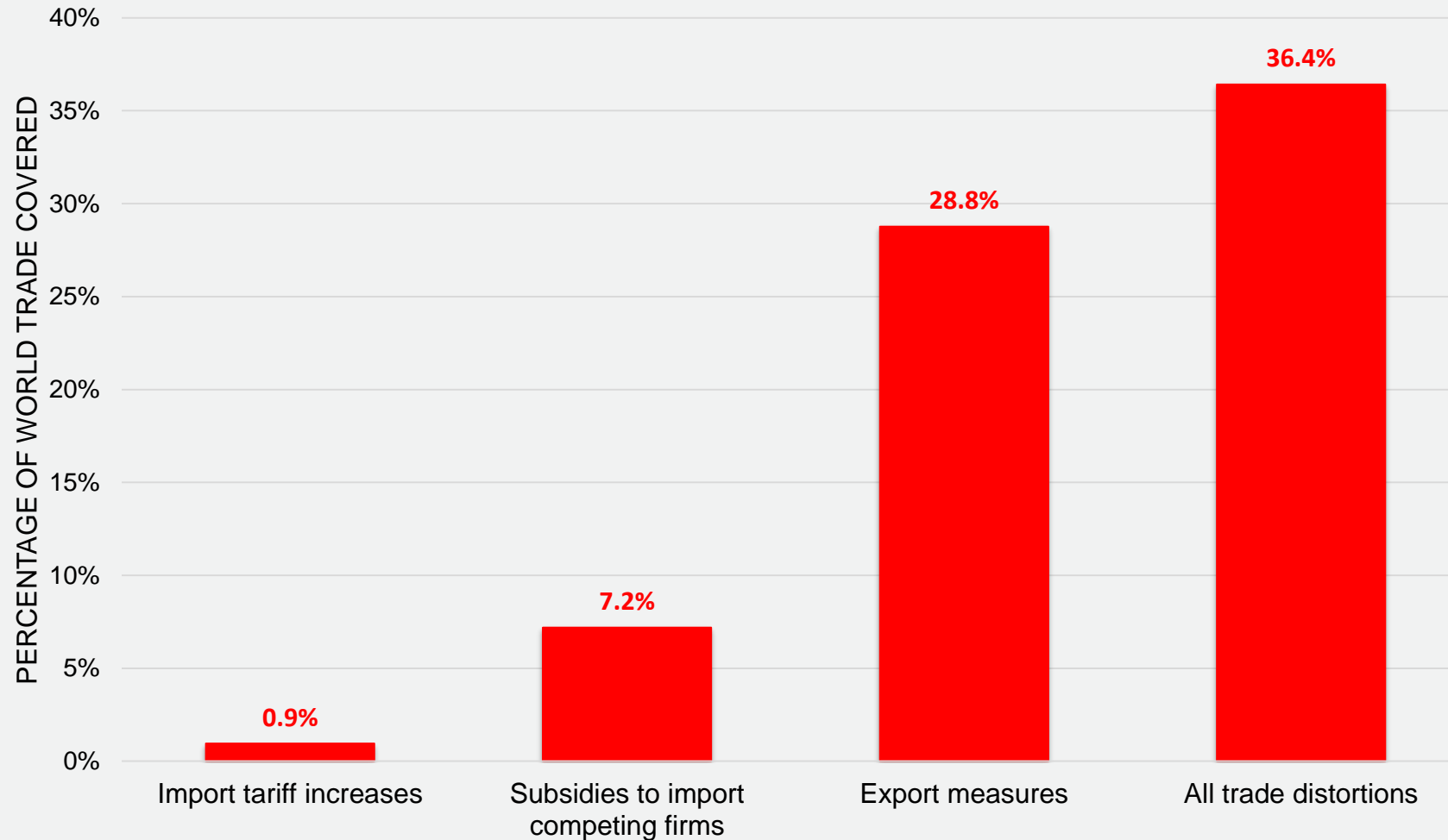
What trade distortions as trade slumps? Lessons from the Global Financial Crisis

CTEI Webinar, Geneva, 24 April 2020

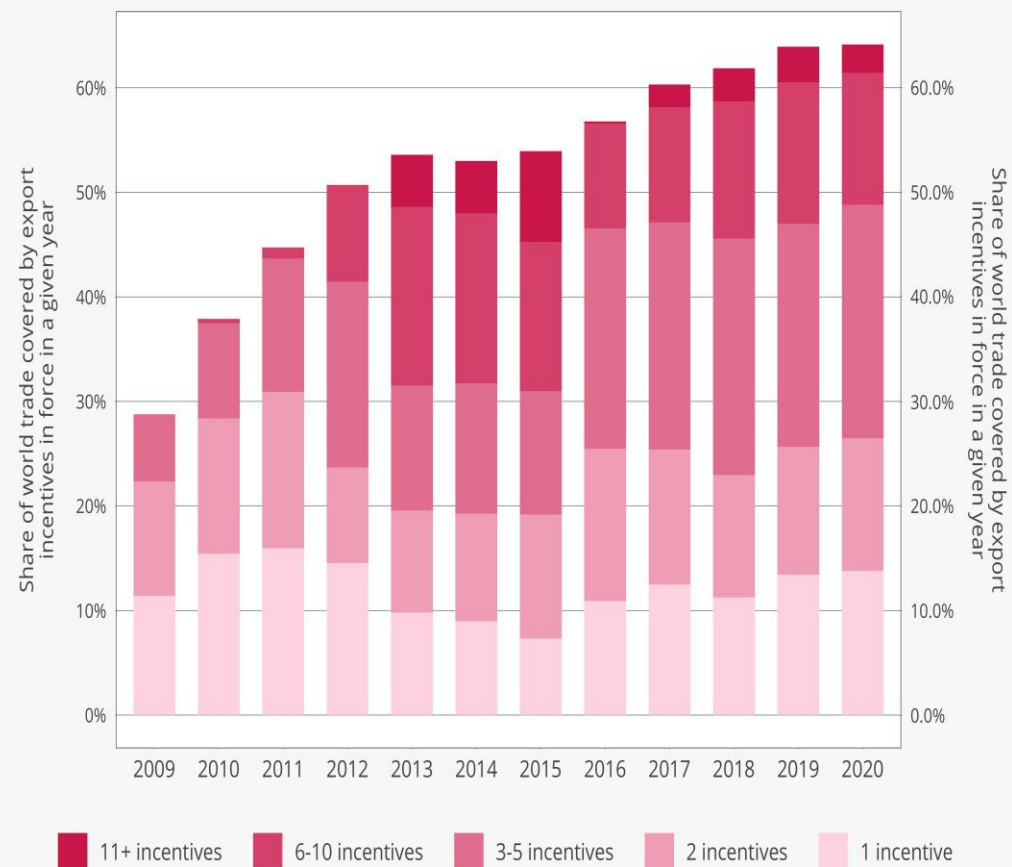
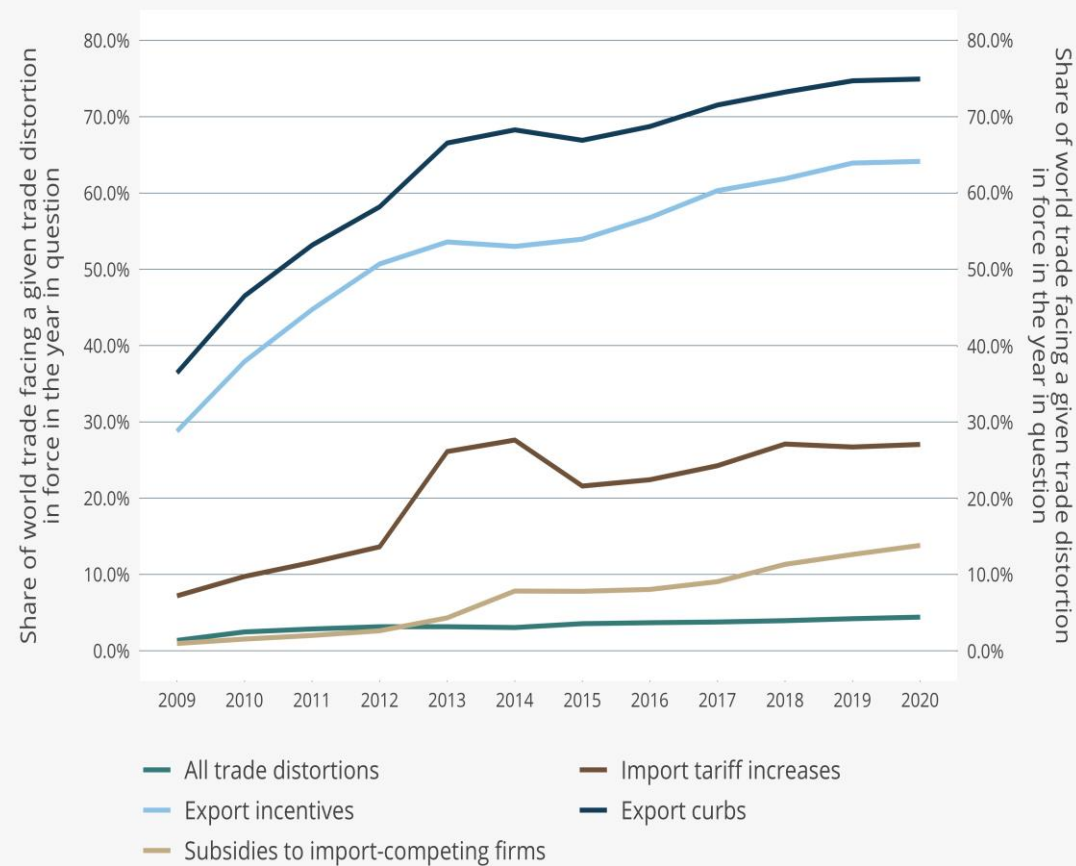
Composition of trade distortions this year differs significantly from 2009 and 2010



2009 crisis response: Not the 1930s response. More than a third of world trade affected



Any new protectionism will add to a significant installed base of trade distortions





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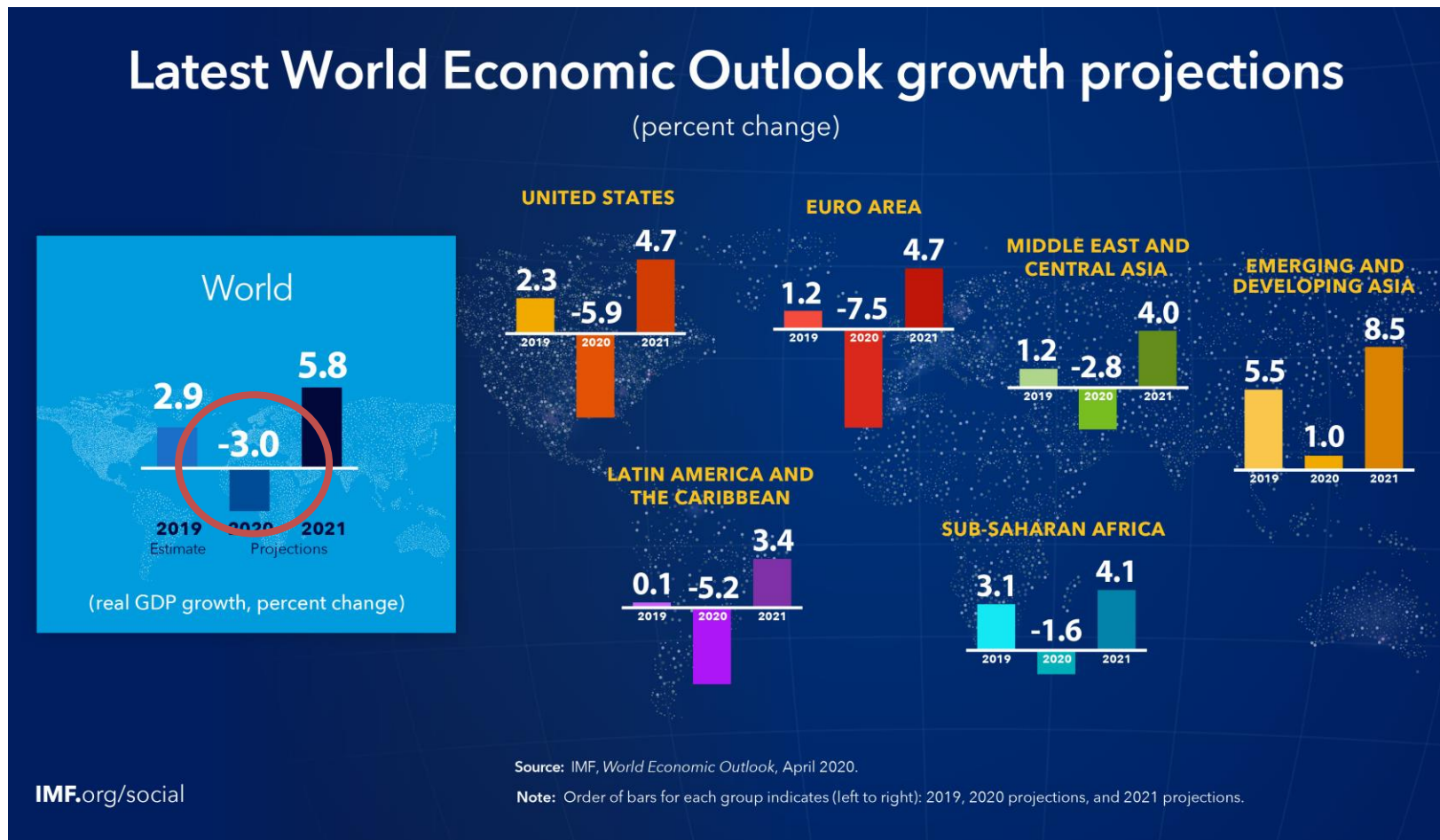
Nonresident senior fellow, Peterson Institute for International Economics

THE GREAT TRADE COLLAPSE

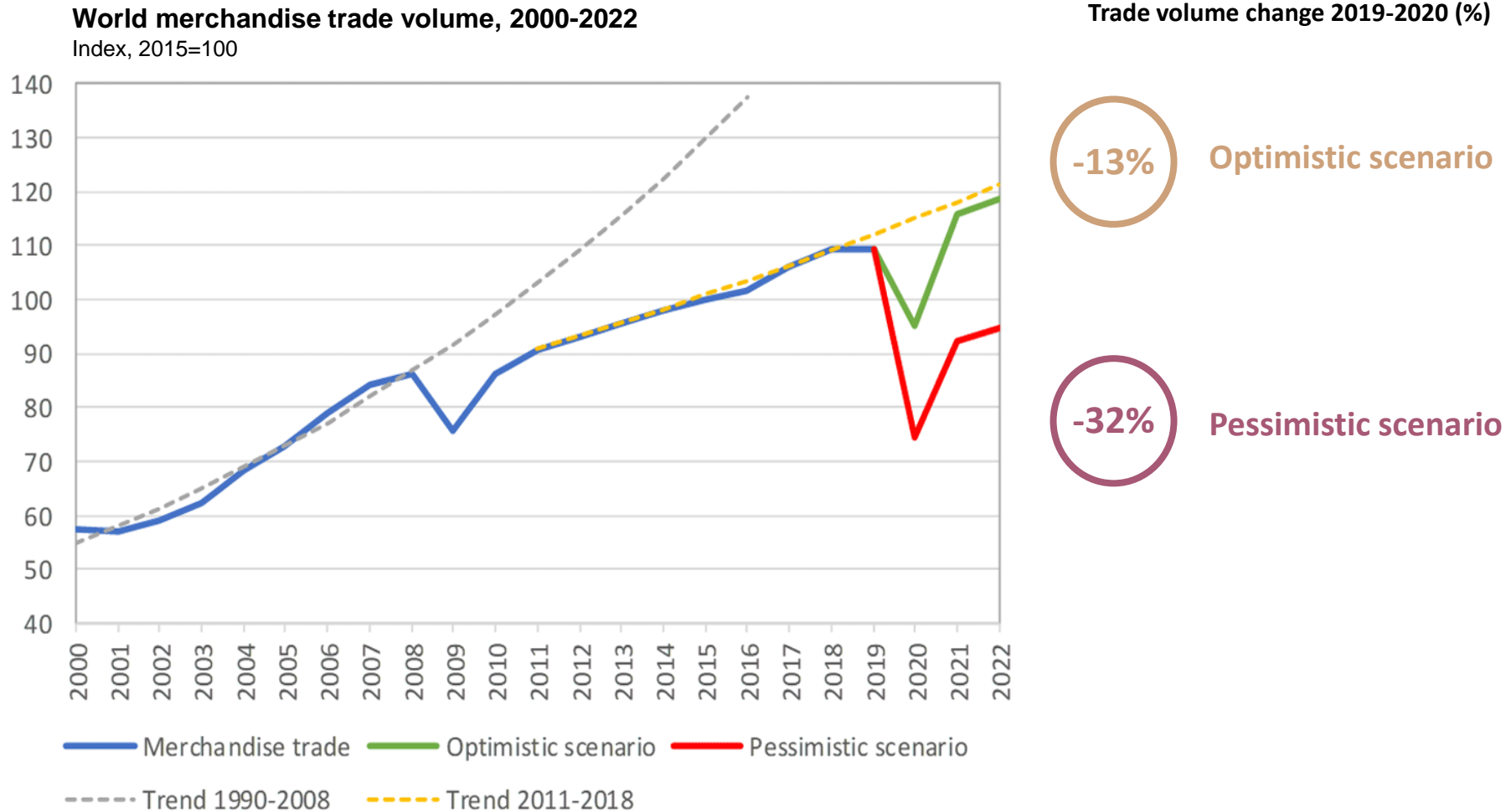
Trade policies to fight, recover and rebuild

Anabel González
CTEI, 24 April 2020

ESTIMATED IMPACT OF COVID-19 ON GROWTH



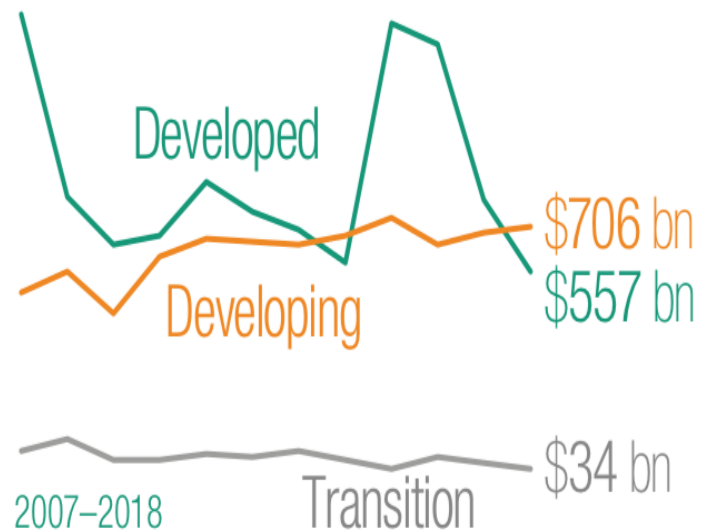
ESTIMATED IMPACT OF COVID-19 ON TRADE



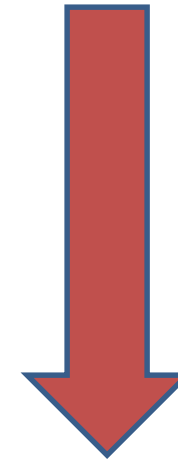
ESTIMATED IMPACT OF COVID-19 ON FDI



FDI downward trend

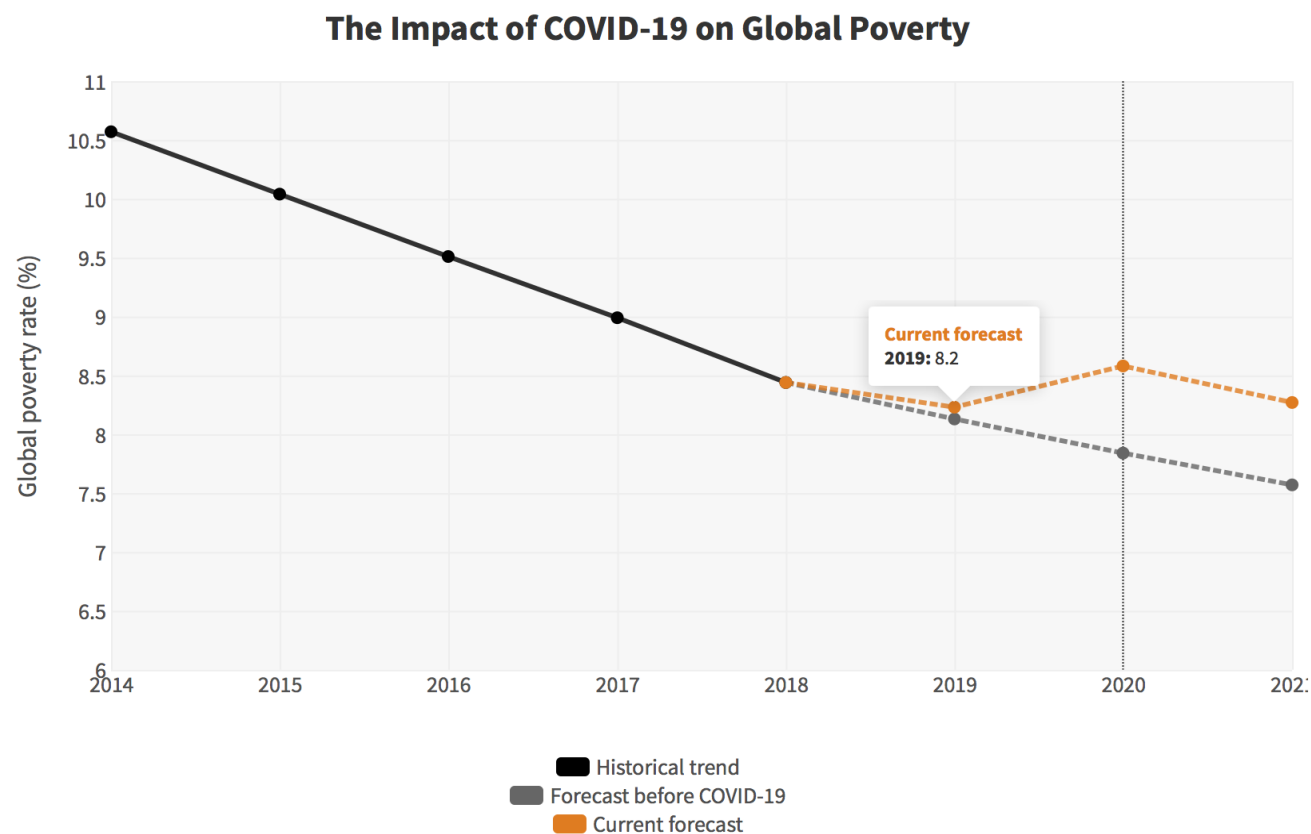


**Downward pressure of -30 to -40%
expected during 2020-2021**



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?



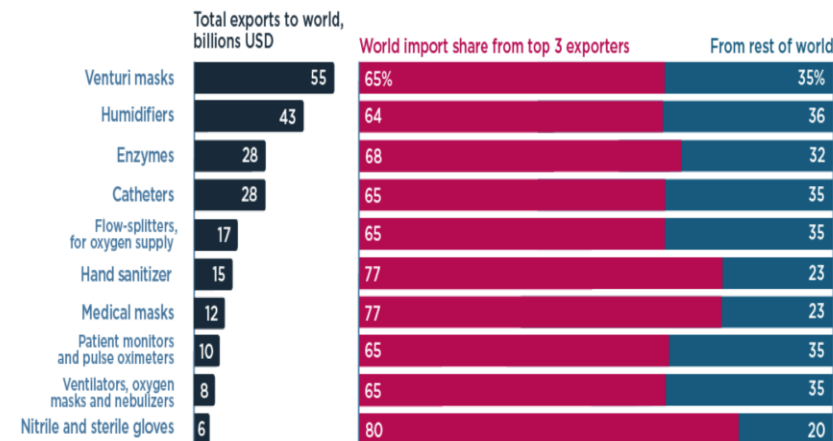
POLICY OUTCOME: Improved timely access to sufficient and affordable critical supplies

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

The world relies on top 3 exporters for critical COVID-19 medical gear

Total exports to world and shares imported from top 3 exporters of COVID-19 medical products



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



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

| Trade policy objectives | Trade policy instruments & actions |
|---|---|
| <ul style="list-style-type: none">• Reduce time and cost to trade• Reduce trade policy uncertainty• Reduce time and cost to entry into market• Incentivize capacity expansion and increased production• Facilitate cross-border movement of critical services and digital knowledge | <ul style="list-style-type: none">• Reduce/eliminate tariffs on health and hygiene products• Expedite customs inspection and release of goods (green lanes)• Expand access to technical standards and expedite conformity assessment procedures• Promote investment, including through subsidies and other arrangements• Refrain from “Buy National” policies• Allow temporary movement of health professionals• Share knowledge via e-health and foster other digital interactions• Ensure intellectual property regimes allow access to new technologies, vaccines and drugs for all |

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 movement 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



FINAL COMMENT

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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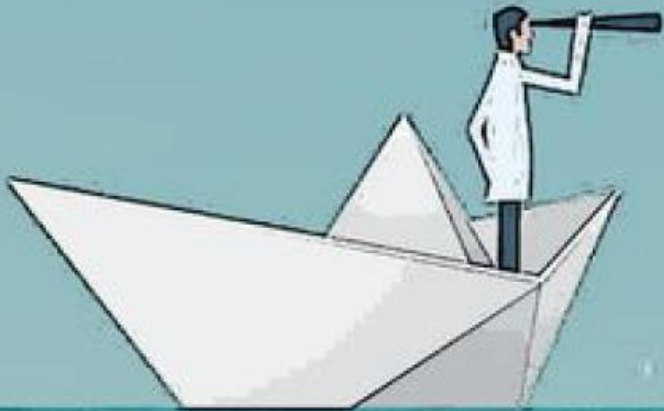
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[RICHARD BALDWIN](#)

Professor, International Economics, Co-Director, Centre of Trade and Economic Integration, The Graduate Institute

THE GREATER TRADE COLLAPSE? LEARNINGS FROM THE 2008-09 COLLAPSE



Richard Baldwin
Graduate Institute, Geneva

Outline of talk

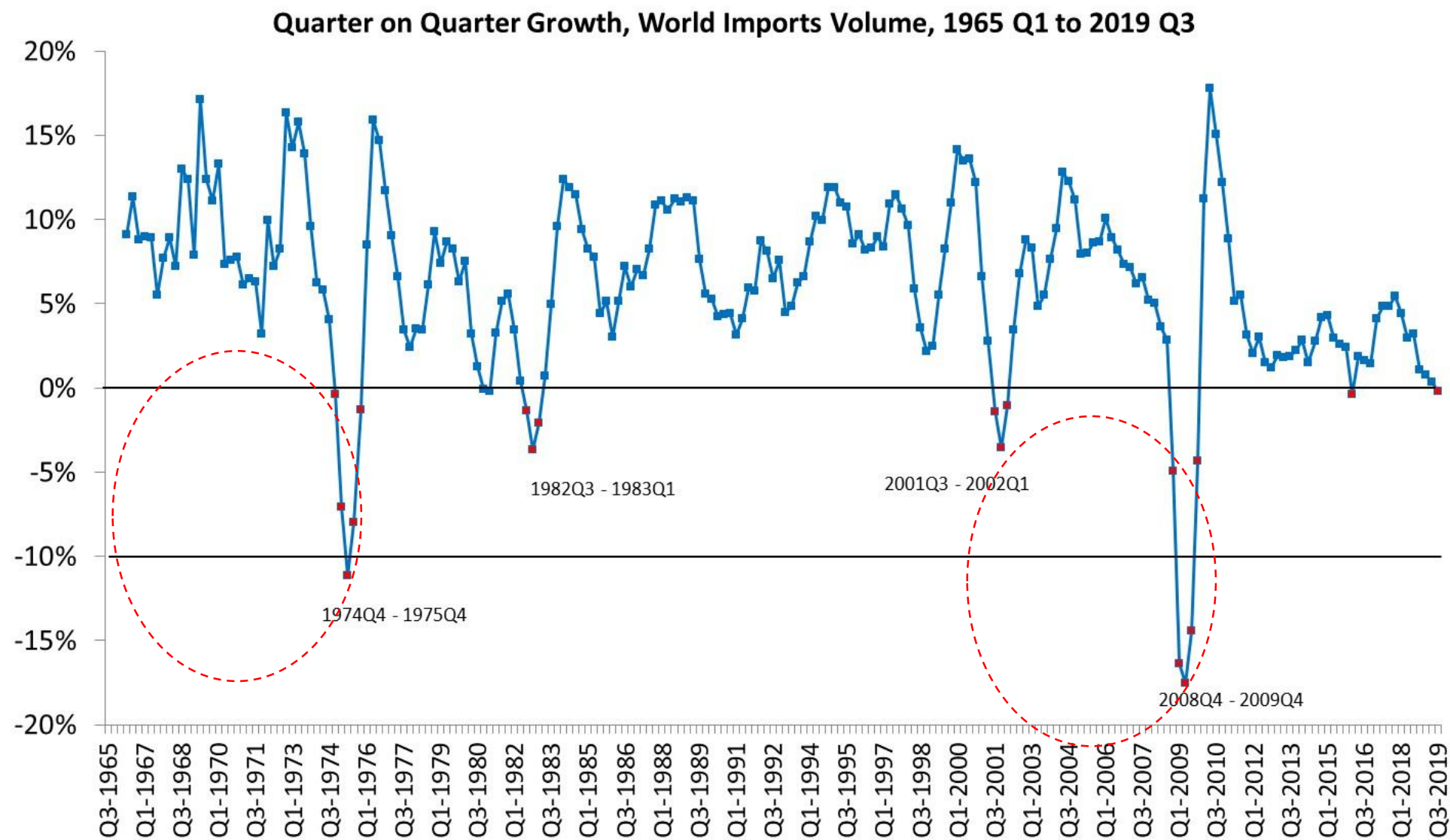
1. The 2008-2009 “Great Trade Collapse”

The Great Trade Collapse: Causes, Consequences and Prospects, A VoxEU.org Publication, 27 November 2009.
<https://voxeu.org/epubs/cepr-reports/great-trade-collapse-causes-consequences-and-prospects>, Baldwin,
Richard (ed.)

2. Why this one is different

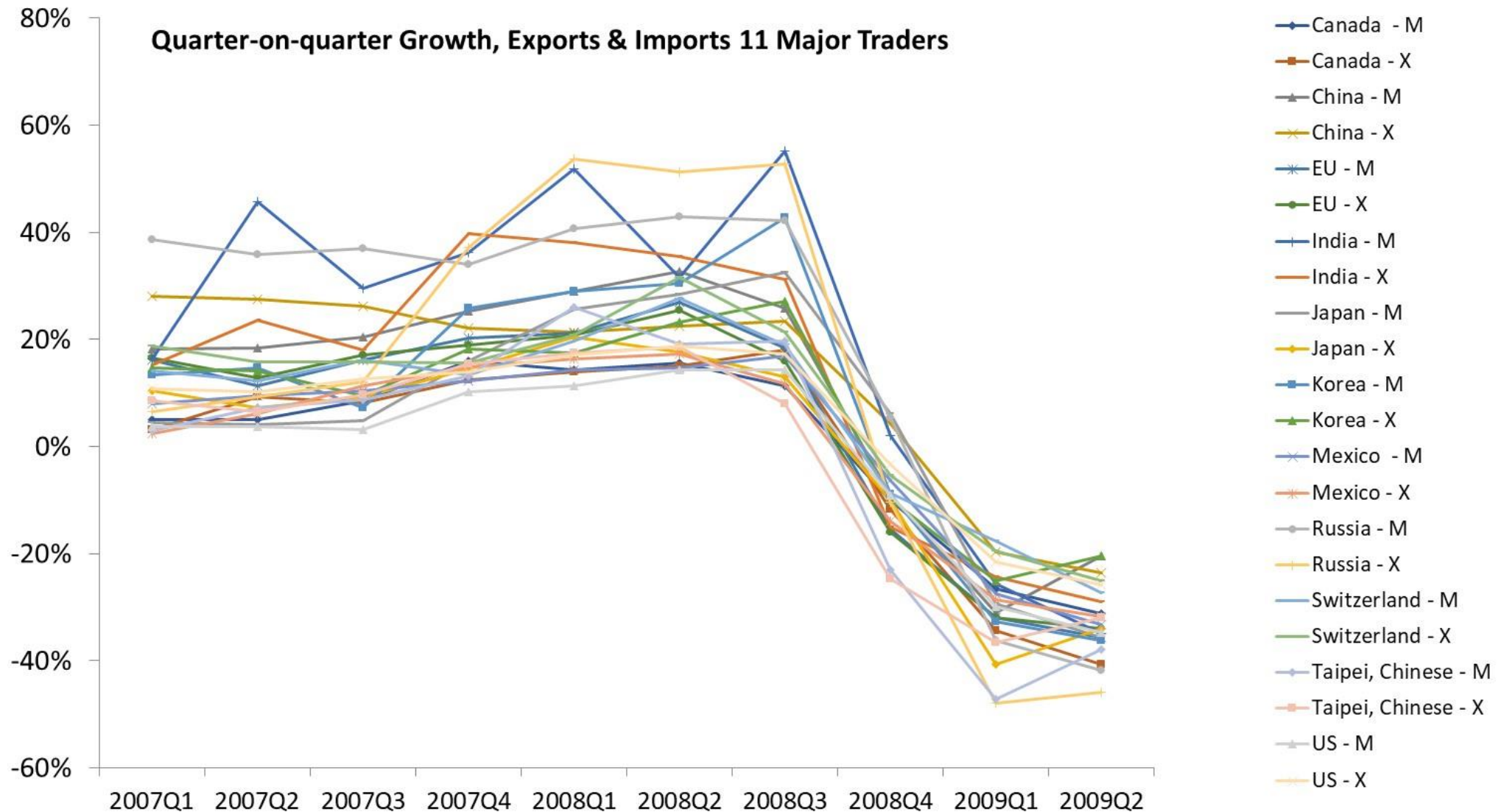
3. Supply-chain contagion & re-contagion waves

The Great Trade Collapse: Historical perspective



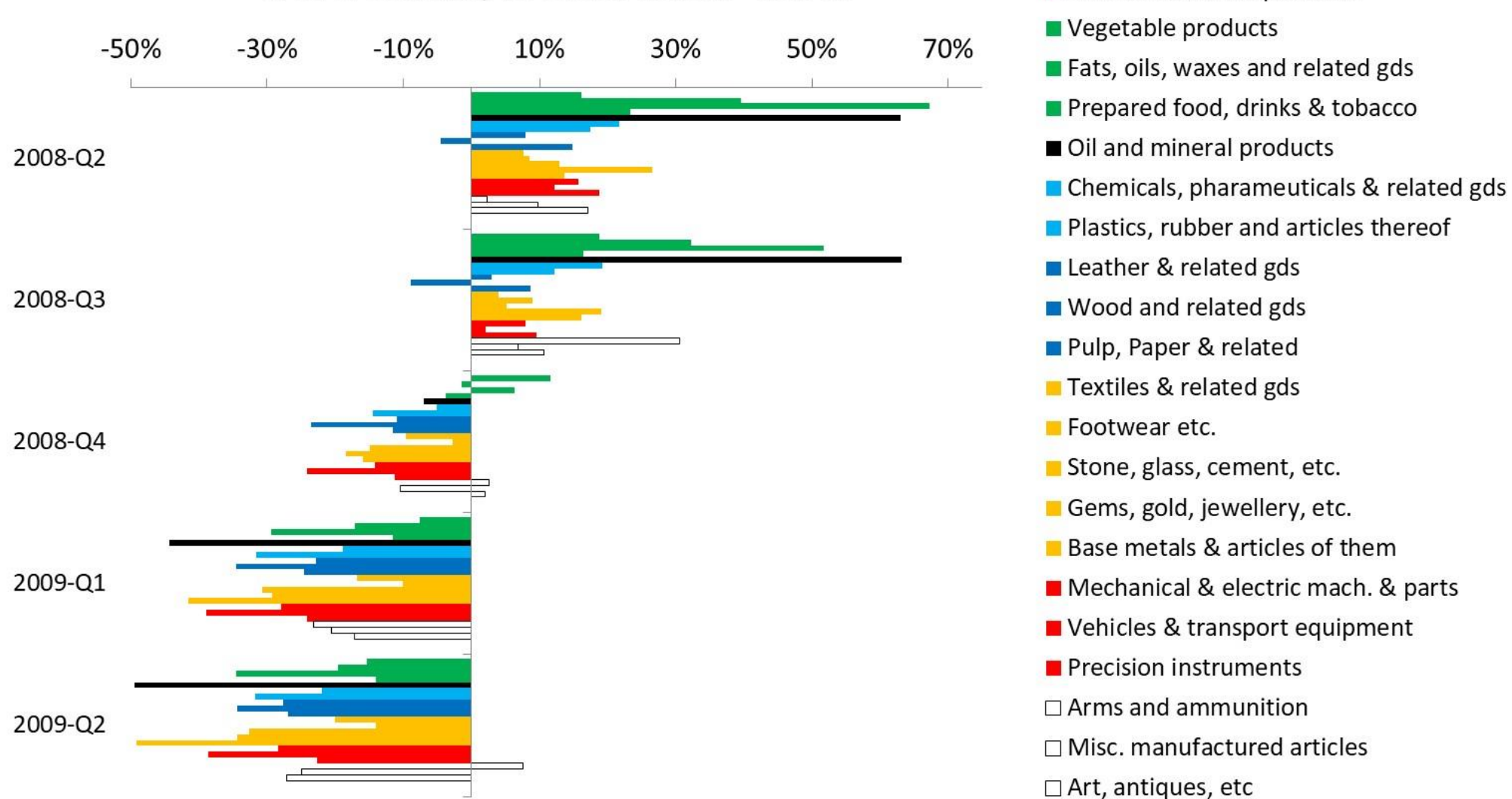
Source: WTO online data, https://www.wto.org/english/res_e/statis_e/short_term_stats_e.htm

Sudden & synchronised (Lehman Bros 2008 Q3)

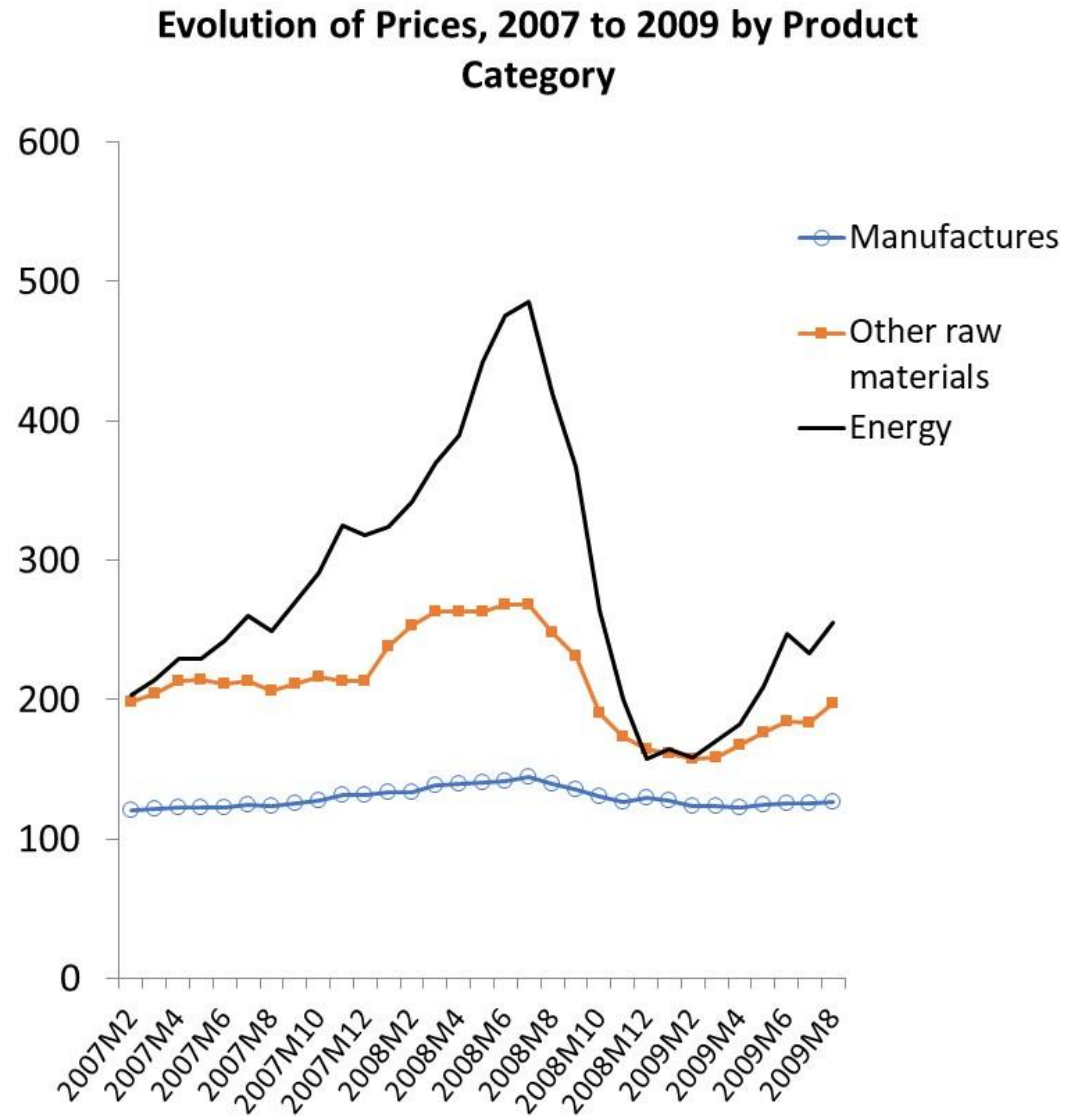
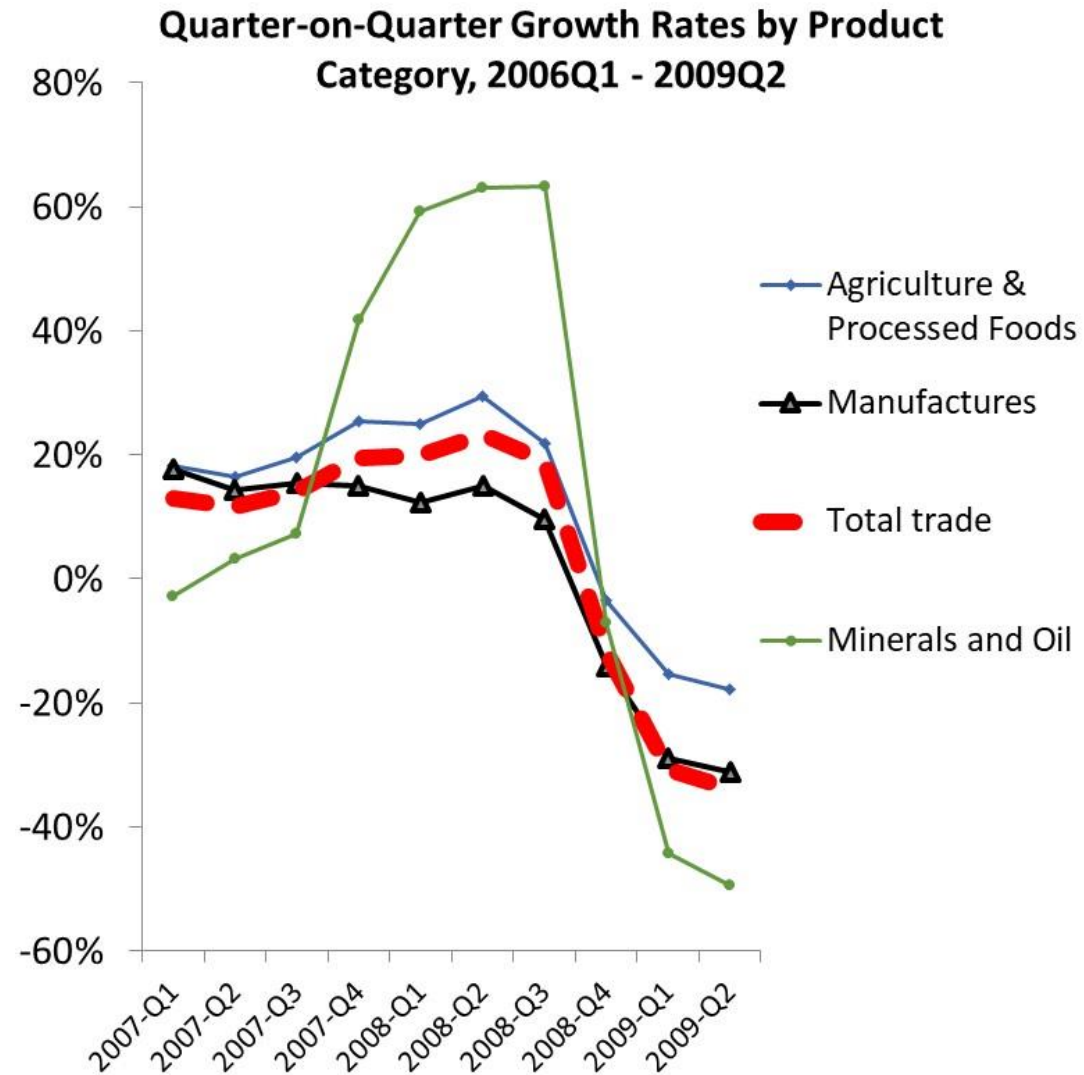


All goods sectors were hit

Q-on-Q Growth by HS Section 2008Q2 - 2009Q2



Commodities were hit harder (price v volume)



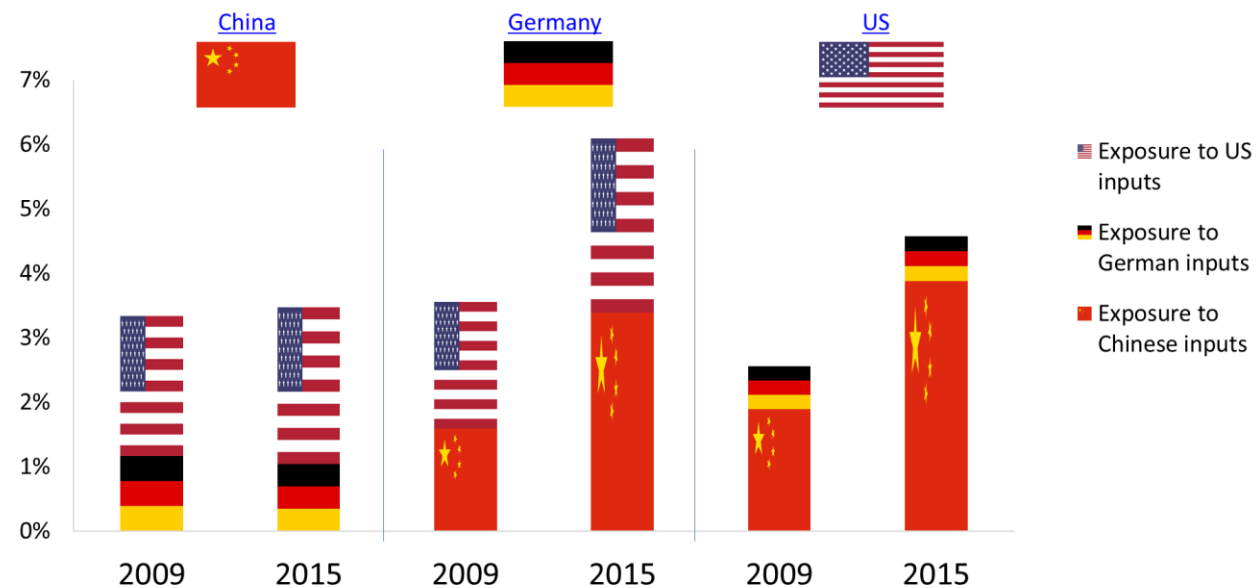
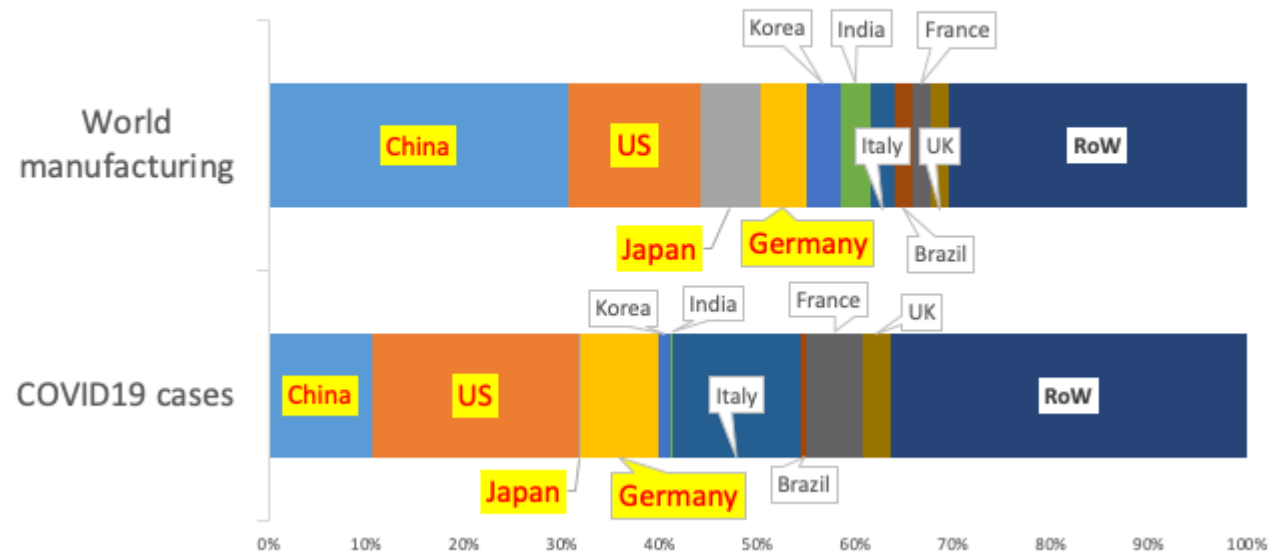
This time is different

As in 2008-09 mostly demand side

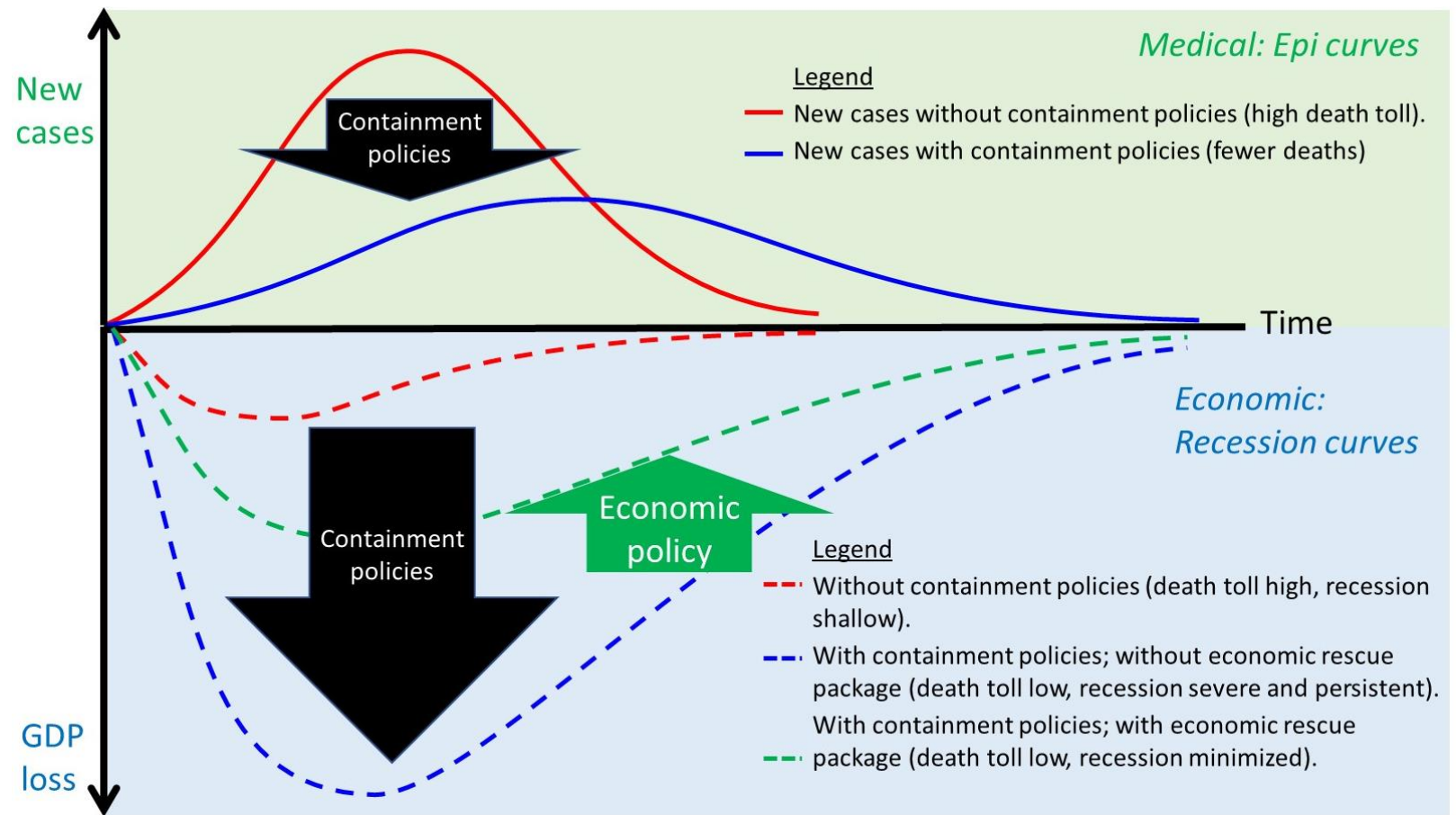
New elements:

1. Supply & demand
2. Hit all the biggest traders/manuf within 2 months
3. Manufacturing more integrated

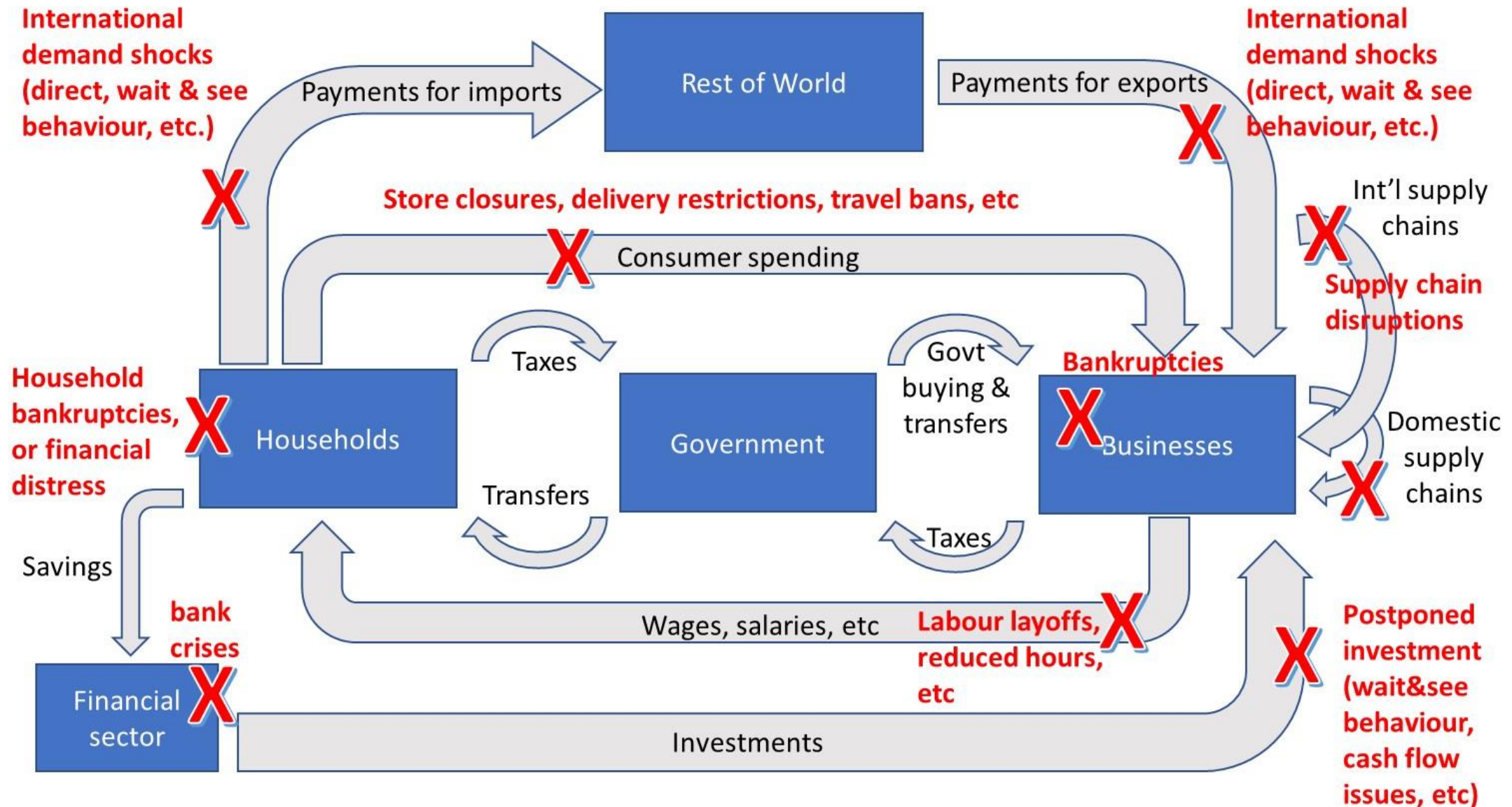
Shares of world manufacturing (2015)
and COVID19 cases (31 Mar 2020)



Recession: unavoidable public health measure (in rich nations)



Containment policies = Unusual recession



This a WAY
far from over

Simple
maths

β =infectious
contacts per
period

1. *new cases* = $\beta I \frac{S}{N}$

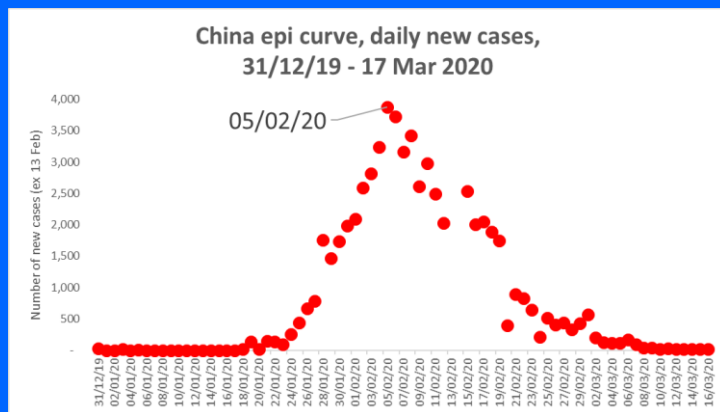
2. *new recoveries* = γI

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



Illustrative dynamics (% of pop)

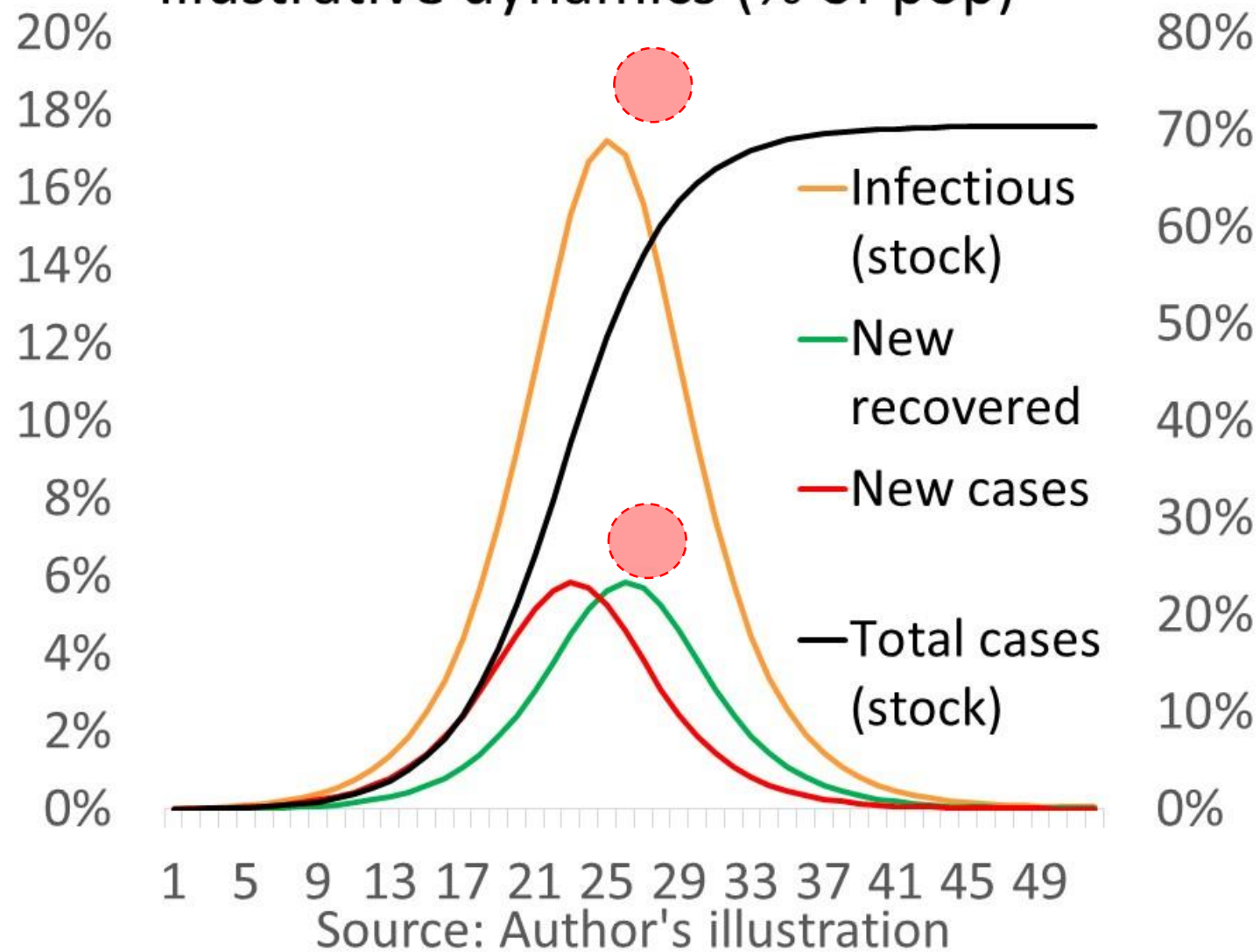
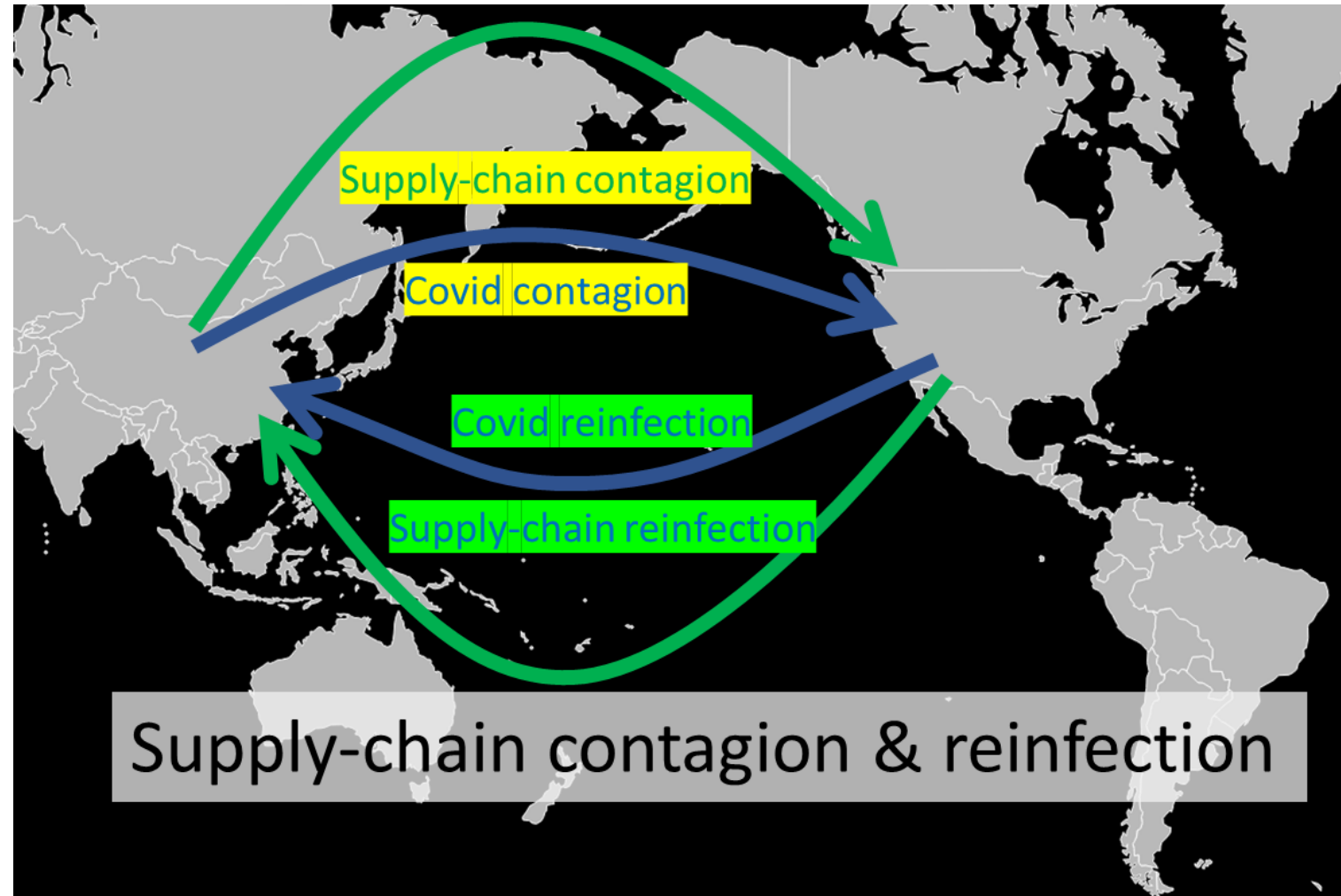


Illustration of medical and supply-chain contagion and reinfection



Difference to 2008-09

1. Higher 'exposure' to imported inputs
2. Asynchronous supply shocks

| Total exposure of the row nation's manufacturing to the column nation's manufactured inputs, 2015 | | | | | | | | | | | | | | | | | | | | | | |
|---|-----|-----------------------|-----|-----|----------------|-----|-----|-----|-----|-----|-----|-----|--------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| | | Factory North America | | | Factory Europe | | | | | | | | Factory Asia | | | | | | | | | |
| | | usa | can | mex | deu | gbr | fra | ita | esp | tur | nld | che | chn | jpn | kor | ind | tw | aus | idn | bra | rus | sau |
| Factory North America | usa | | 1.6 | 1.6 | 1.0 | | | | | | | | 6.5 | 1.2 | 1.0 | | | | | | | |
| | can | 14.1 | | 1.4 | 1.2 | 0.5 | | | | | | | 7.2 | 1.2 | 1.1 | | 0.5 | | | | | |
| | mex | 15.5 | 1.0 | | 1.7 | | | 0.6 | 0.6 | | | | 14.3 | 2.3 | 2.6 | 0.7 | 1.1 | | | 0.6 | | |
| Factory Europe | deu | 1.6 | | | | 1.0 | 2.0 | 1.9 | 1.1 | 0.6 | 1.3 | 1.0 | 4.6 | 0.9 | 0.6 | | | | | | 0.8 | |
| | gbr | 2.6 | 0.5 | | 3.9 | | 1.6 | 1.2 | 1.0 | 0.6 | 1.0 | | 4.8 | 0.6 | 0.6 | 0.6 | | | | | | |
| | fra | 2.4 | | | 5.7 | 1.2 | | 2.3 | 1.9 | | 0.8 | 0.6 | 4.1 | 0.6 | | | | | | 0.5 | | |
| | ita | 1.1 | | | 4.9 | 0.8 | 2.3 | | 1.6 | 0.8 | 0.8 | 0.6 | 4.6 | | 0.7 | 0.6 | | | | | 1.2 | |
| | esp | 1.2 | | | 4.5 | 1.2 | 3.3 | 2.3 | | 0.6 | 0.8 | | 4.6 | 0.6 | 0.6 | 0.6 | | | | | | |
| | tur | 1.1 | | | 2.1 | 0.6 | 0.8 | 1.2 | 0.8 | | | | 5.0 | | 1.3 | 1.0 | | | | | 2.0 | |
| | nld | 1.8 | | | 5.0 | 1.2 | 1.2 | 0.9 | 0.7 | | | | 3.7 | 0.7 | | | | | | | 0.9 | |
| | che | 2.4 | | | 8.2 | 1.6 | 1.9 | 3.1 | 1.1 | 0.6 | 0.7 | | 5.2 | 0.9 | | 0.5 | | | | | | |
| | chn | 1.5 | | | 0.9 | | | | | | | | | 1.9 | 3.0 | | 1.9 | | | | | |
| Factory Asia | jpn | 1.4 | | | 0.7 | | | | | | | | 6.3 | | 1.2 | | 0.6 | | | | | |
| | kor | 2.9 | | | 1.8 | | | 0.5 | | | | | 16.4 | 4.4 | | 0.6 | 1.8 | | | 0.6 | | |
| | ind | 2.1 | | | 0.9 | 0.5 | | | | | | | 7.2 | 0.9 | 1.5 | | 0.5 | | | 0.7 | 0.5 | |
| | tw | 2.7 | | | 1.3 | | | | | | | | 13.8 | 6.4 | 3.4 | 0.6 | | | 0.8 | | 0.6 | |
| | aus | 1.8 | | | 1.0 | | | | | | | | 7.1 | 2.2 | 1.5 | | 0.5 | | | | | |
| | idn | 0.9 | | | 0.5 | | | | | | | | 7.4 | 2.1 | 1.9 | 0.6 | 0.7 | | | | | |
| | bra | 2.2 | | | 1.0 | | | | | | | | 4.6 | 0.5 | 0.6 | 0.6 | | | | | | |
| | rus | 1.0 | | | 1.9 | | 0.6 | 0.8 | | | | | 5.7 | 0.8 | 0.8 | | | | | | | |
| | sau | 1.3 | | | 1.8 | 0.9 | 0.5 | | | | | | 3.8 | 0.6 | 1.0 | 1.0 | | | | | | |

End –
thanks for
listening

