



Trade Policy and the Economic Crisis

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Current Economic Situation



From 'weak and fragile', to a 'timid' recovery...

GDP growth is resuming, though both firms and households remain cautious; continued low inflation

Global trade is beginning to grow again, but is still well below earlier levels; trade in services has shown most resilience

High levels of government debt and rising unemployment warrant increasing attention

Recent trends in output and trade

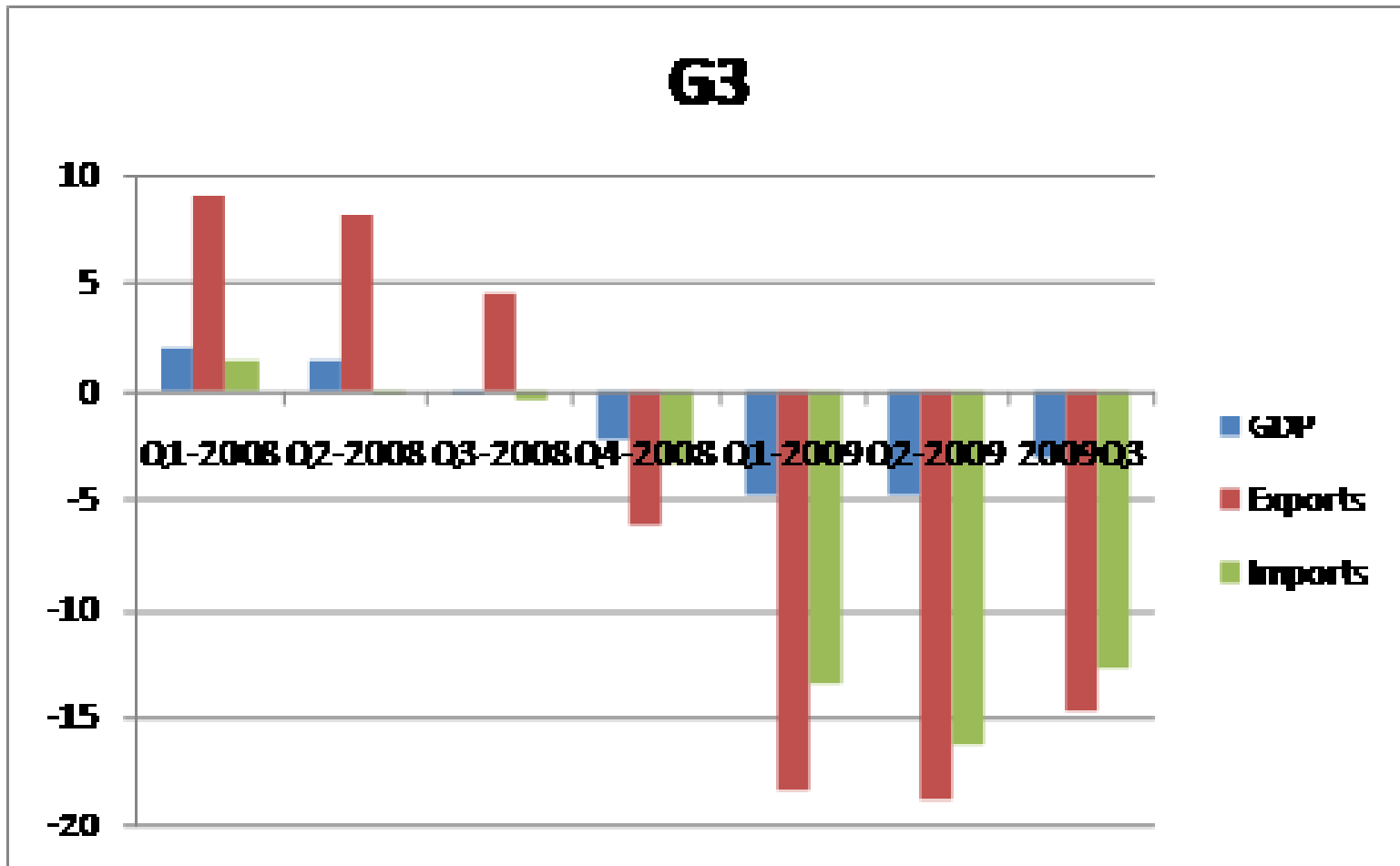
Y-o-y percentage change in volumes of GDP, exports and imports of goods and services, OECD area



Source: OECD National Accounts Database, year-on-year change in volume estimates, fixed PPPs, OECD reference year, annual levels, seasonally adjusted

USA, Germany & Japan (G3)

Y-o-y percentage change in volumes of GDP, exports and imports of goods and services



Source: OECD National Accounts Database, year-on-year change in volume estimates, fixed PPPs, annual levels, seasonally adjusted

Why did trade “collapse”?

- Largely a consequence of falling demand
- Global supply chains added to spread and synchronisation
- The trade intensity of the sectors most affected by the overall tight credit environment (i.e. capital goods)
- Short term trade finance availability and cost
- Little or no impact from protectionist measures

Policy Responses to the Economic Crisis

Direct trade instruments

- Governments have been relatively restrained in the introduction of trade restricting measures
- Measures are concentrated in sectors already subject to high barriers (textiles, steel, agriculture)
- There is an increase in non-tariff measures and in resort to trade remedies (anti-dumping and countervail)
- Targeted countries follow past patterns
- There are also trade opening measures with developing and emerging economies more active

Policy Responses to the Economic Crisis

Fiscal stimulus measures

- Support to financial services dominates...
- ...but support to other sectors (automobiles and appliances) and for consumption measures is also significant
- Discrimination against foreign firms or workers is only rarely observed...
- ...with the important exception of government procurement
- Potential impacts on trade are high because of the very large scale of some stimulus packages, their impact on competition, and the risk of retaliation

What are the apparent impacts?

- Measures that restrict trade or increase trade costs are negative for trade, by definition
- Relatively small share of global trade affected thus far (1%)
- To date, efforts to ensure trade finance remains available appear largely successful
- Measures that explicitly discriminate against foreign firms or workers are also unambiguously negative for trade
- Assessment of measures responding to “systemic” or “market” failures will depend on the manner and speed of exit

What are the apparent impacts?

- The actual impact is an empirical question and depends on economy size, structure, specific design features. Generally...
 - demand side stimulus and generic measures (such as consumption or labour market supports) perform better than supply side measures
 - sector specific support can shore up output & employment in the short term, but can also distort competition, delay needed adjustment, and have an anti-trade bias (timely exit is key)
 - 'buy domestic' provisions in government programmes distort trade, and can dilute the intended domestic impact

What should governments do next?

- Remove trade-restricting policies
- Remove discriminatory provisions of current stimulus measures
- Conclude WTO negotiations (avoid back-sliding & reduce uncertainty)
- Monitor trade finance support with a view to timely exit
- Design exit strategies and be ready to implement them
 - sector specific support should end as soon as possible
 - continued monitoring of the financial sector is required, and support should end as soon as conditions normalise
 - international coordination remains essential

What will the OECD Trade Committee do next?

- **Deepen analysis of the impact of trade policy, trade finance, sector specific support, and government procurement measures**
- **Establish a hierarchy of most distorting measures and identify positive policy options, to inform future policy choices and exit strategies**
- **Undertake further analysis of government procurement disciplines, measures to support green growth (protectionism), and support to financial services**
- **Communicate results widely**