

Cross-Border Trade and Finance: Emerging Protectionism

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New Delhi, September 15, 2009

Crisis in Russia

- Russian economy was hit through two major channels
 - Oil/metals prices: should cost 9-10% of GDP growth in 2009 vs. 2008
 - Financial squeeze: another 2-3%

So $6\% - 9-10\% - 2-3\% = -5\%$ or -7% GDP growth in 2009 is “normal”

- Russia was ill-prepared for fighting the crisis
 - High inflation
 - High inequality
 - Corrupt and inefficient bureaucracy
- Very adequate response in 2008
 - Massive injection of liquidity
 - No nationalization
- Less adequate measures in 2009: lack of leadership, taxes, etc.
- Mistakes
 - Delayed and slow depreciation
 - Protectionist measures

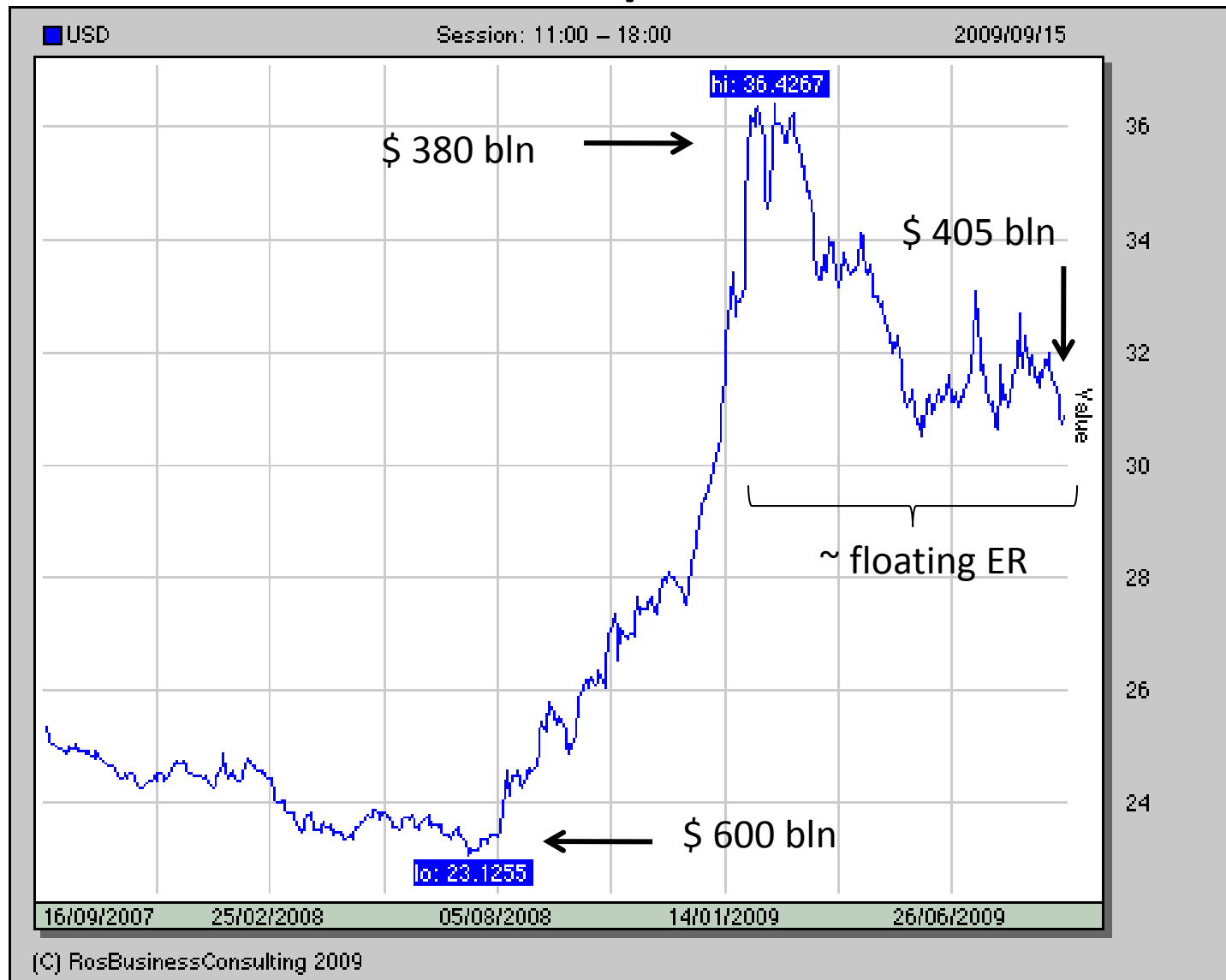
GTA : extent of implemented protection

Implementing Trading Partner	Measures in database	(Green) Measures in database	(Amber) Measures in database	(Red) Measures in database	#of tariff lines affected by red	# of sectors affected by red	# of trading partners affected by red
G8	137	16	54	67	572	51	174
G20	293	34	138	121	926	58	206
LDCs	5	1	3	1	1	1	1
EU27	78	3	14	61	167	34	143
India	43	4	29	10	210	14	141
USA	36	2	27	7	124	19	120
Russia	31	9	2	20	258	19	117
Germany	28	2	11	15	15	21	116
China	23	2	13	8	329	23	164
Spain	21	1	11	9	41	13	108
UK	21	1	11	9	131	5	123
Argentina	20	0	13	7	73	18	53
Italy	19	1	9	9	18	8	93

GTA: extent of protection effect

Affected Trading Partner	Measures in database	(Green) Measures in database	(Amber) Measures in database	(Red) Measures in database	# of implemented measures	# of jurisdictions imposing Red
China	226	21	105	100	144	57
Germany	152	18	50	84	119	30
USA	143	19	38	86	122	49
France	133	15	39	79	106	30
Japan	132	18	36	78	107	46
Italy	128	15	43	70	102	25
UK	127	16	38	73	103	30
Belgium	122	11	33	78	98	28
South Korea	119	16	39	64	94	44

Russia: exchange rate management – decline in protection



Recent development: some unpleasant developments

- Central Bank last Friday:
 - free floating ER (prime-minister does not support)
 - reserves will be diversified into more currencies (2-3)
- Prime minister on Monday:
 - Exchange rate policy will be used not to allow currency appreciation



Very low credibility, monetary policy is very ineffective

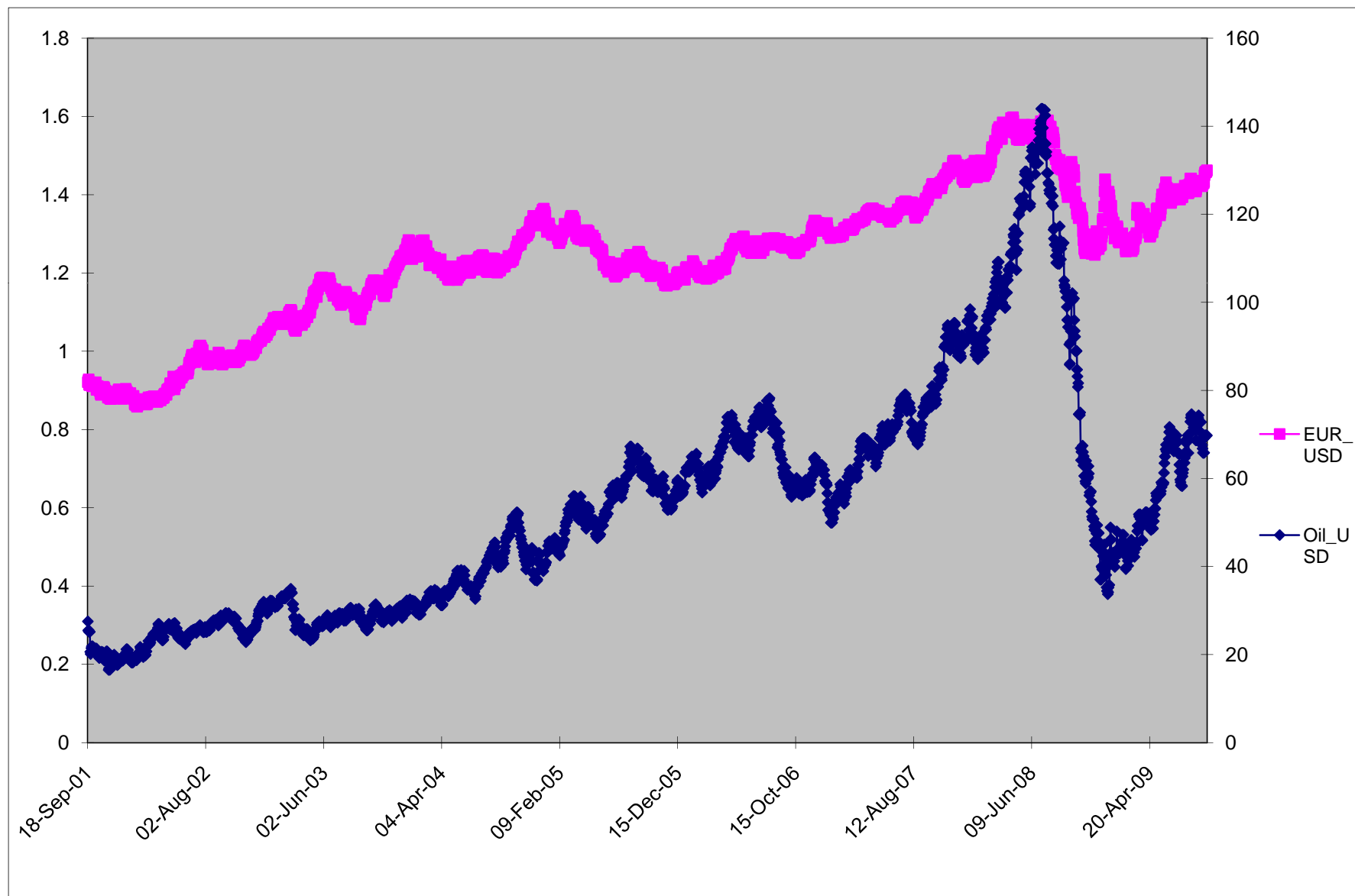
Oil-exporting economies and global imbalances

- Blanchard, Milesi-Feretti (2009) - oil countries savings as one of the important factor behind imbalances.

Questions:

- To what extent the fact that oil is traded solely in US dollars contributes to global imbalances?
- The role of exchange rates in oil price dynamics:
 - Before 2000: US dollar and many smaller
 - After 2000: US dollar, Euro and many smaller currencies

EUR/US exchange rate and oil price



Question to think about:

- What effect RMB appreciation will have on oil price?