Emerging protectionism
comments

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Sharp contraction of world trade

- -26% in 2008Q4, -32% in 2009Q1 (source: OECD)
- Oil-price effect: -50% between August 2008 and March 2009; 10% of world trade
- Still, large fall in trade compared to GDP (-7.8% in 2008Q4 and -8.3% in 2009Q1 for OECD countries)
- Emerging protectionism? Credit constraints? Fragmentation of supply chains? Composition effects?

Supply chains and composition effects?

- For a given fragmentation of supply chains, a 1% fall in output should lead to a 1% fall in imports (Barbie world, O'Rourke 2009).
- Except if:
  - changes in relative prices
  - most traded (capital goods) or fragmented (electronics) sectors more heavily affected by the crisis
- MIRAGE simulations:
  - using the same aggregators (market exchange rates), the volume of world trade would fall by 2.4% in 2009, compared to 2.5% for world GDP
- Goods and services equally affected (although services are less traded than goods)

Emerging protectionism?

World export growth, 2007-2012
at constant GDP price

	2007	*2008*	*2009*	*2010*	*2011*	*2012*
Reference scenario	6.0	7.2	-8.9	2.1	4.1	4.4
Prolonged trend in globalisation	6.0	7.2	-6.8	4.5	6.7	7.1
Oil price endogenous	6.0	7.2	-2.8	1.6	4.4	4.9

Note: Annual percentage change.

Source: MIRAGE simulations.

Credit constraints?

- Little direct evidence (Auboin, 2009)
- But how do you explain the short-run divergence between trade and GDP?
  - not by supply chains
  - not by composition effects
  - not by protectionism
- Good news
  - unless rising unemployment triggers new protectionist measures, trade should come back to the same trend as GDP
  - recent trade figures point to this direction

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Involvement of the WTO in exchange-rate issues

- IMF experience not encouraging
- Flexible exchange rates should do the job
    - provided the dollar is no longer the single international currency
- Hence the international monetary system should be fixed
    - not by the WTO