

# Global Restructuring and Growth in the Aftermath of the Crisis

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# ***Question that doesn't need answering: What caused the crisis?***

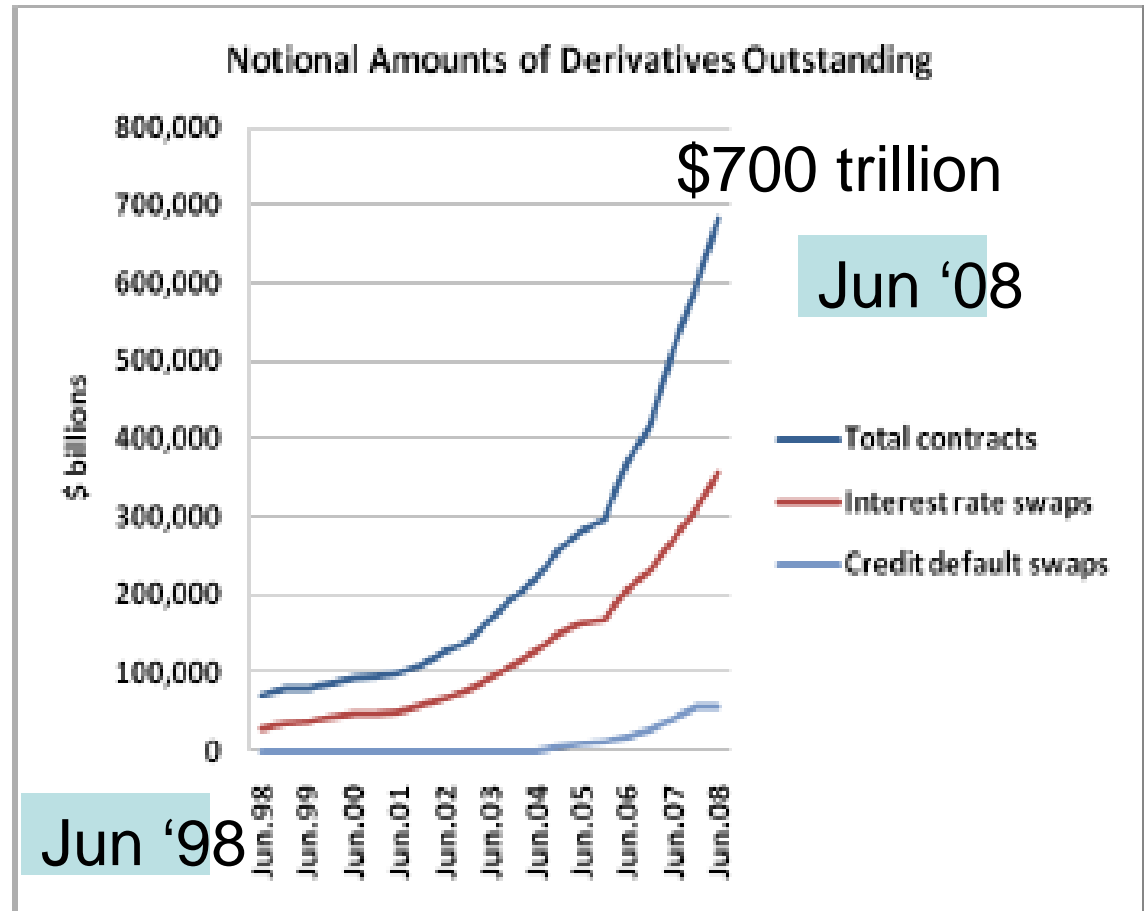
- Trigger: Financial bubble
  - Details mostly unimportant.
- Mania & crash: 800 years of crises (Reinhart and Rogoff 2009).

# The real question

- How did the world financial system get so fragile and interconnected?
- How could \$1 trillion loss in US housing assets destabilise global economy & cause “Sudden Financial Arrest” (Cabellero 2009, Pollak Lecture at IMF)?

# Three sources of fragility

1. The assets involved were opaque:  
Unregulated,  
Untraded,  
Un-standardised,  
Un-transparent.



Source: BIS (2008a).

# Overnight bank funding

2. Fundamental nature of banking shifted.
  - Banks were intermediaries; now hedge funds.
  - Short term credit markets, not depositors.
  - Credit markets globalised (Mendoza and Quadrini 2009).

# The great leveraging

## 3. Under-pricing of risk;

Consumers, investors and lenders came to believe that the world was a very safe place

- Global imbalances may have contributed (Calvo 2009, Obstfeld & Rogoff, 2009)

# A very odd crisis: Aug07 – Sep08

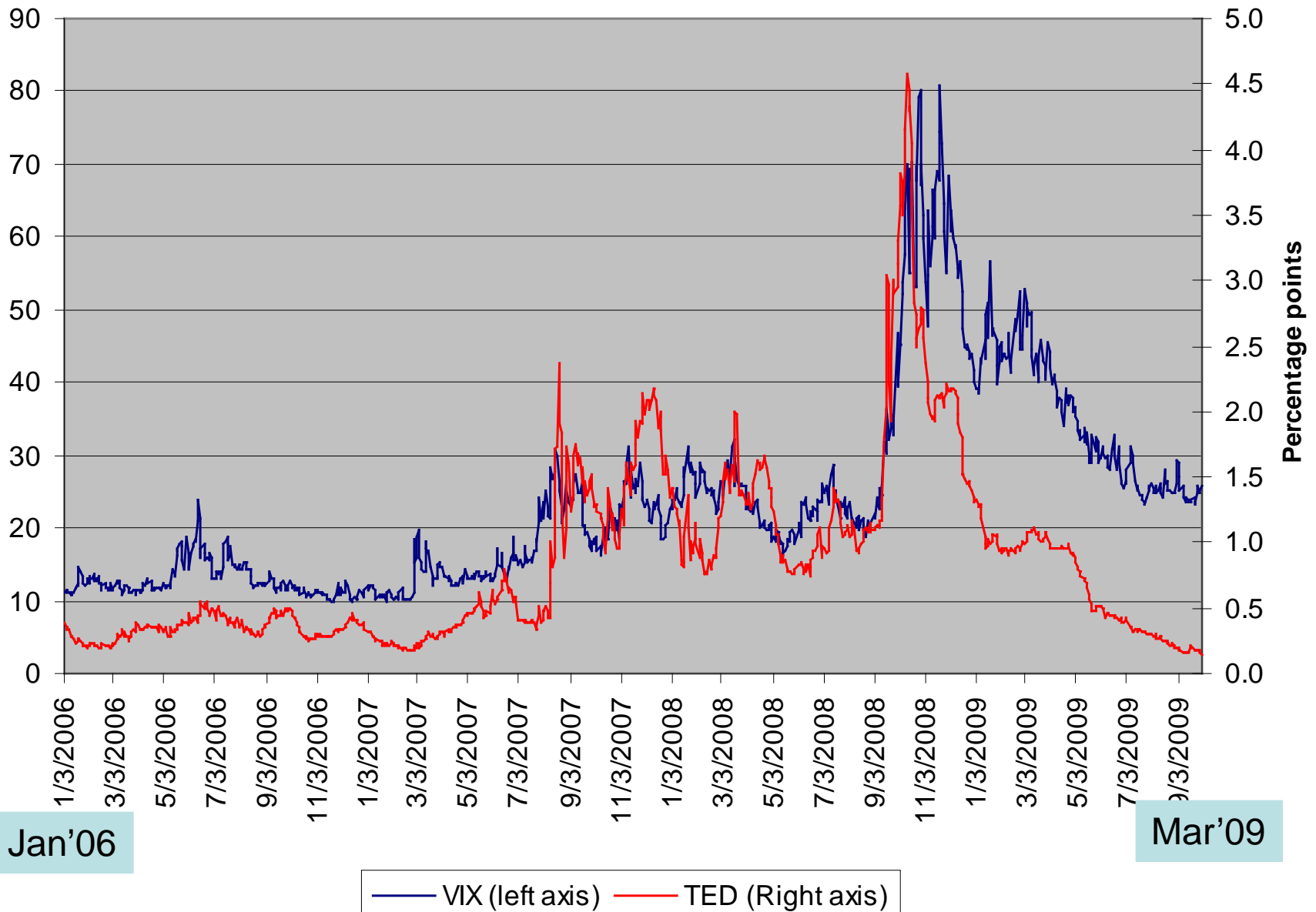
- ***“Subprime crisis” struck in August 2007.***
- Aug 2007 - Sept 2008.
  - Hidden leveraging came back on bank balance sheets
  - Capital adequacy ratios into fire-alarm territory.

# Lehman: 15 September 2008

- 10 days & half dozen “impossible events”.
  - Unsteady and ill-explained actions by US government.
- Result: Global fear of the unknown  $\Rightarrow$  “let’s wait”.
  - Knightian Uncertainty.



# Indicators of Fear Factor



# ***“Landmine” crisis → “Cluster bomb” crisis***

- Aug’07 – Sep’08: “landmine crisis”
- Sep’08: “Cluster Bomb” crisis”;
- Oct’08 & Nov’08: Govts wake up; engaged all tools.

# Macro shock

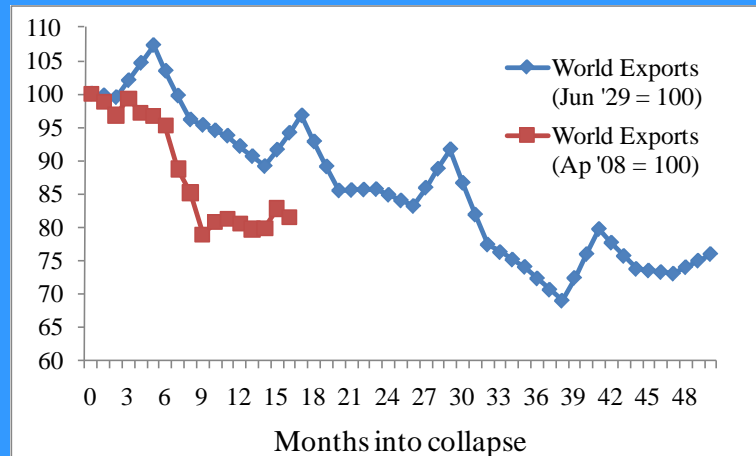
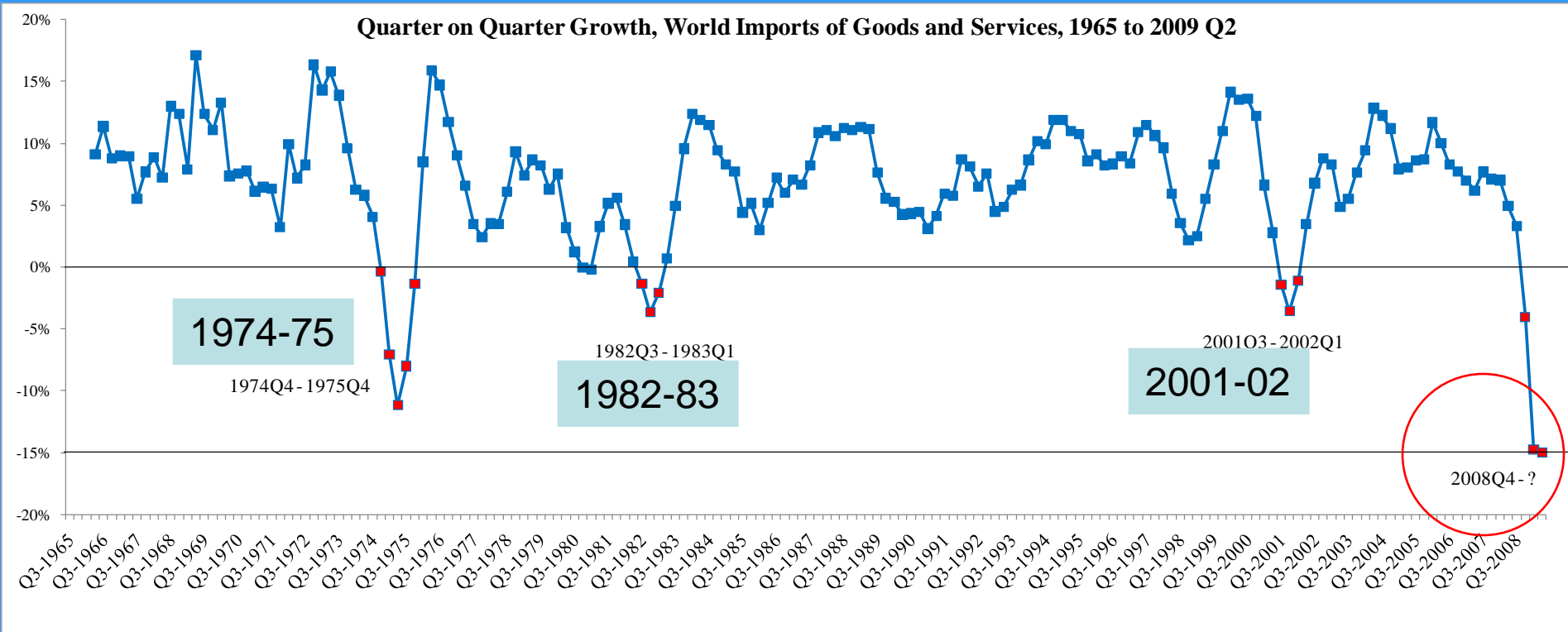
- Sudden, synchronized and severe collapse of demand & tightening of credit.
- No evidence of standard transmission (Rose and Spiegel 2009)

# The great trade collapse

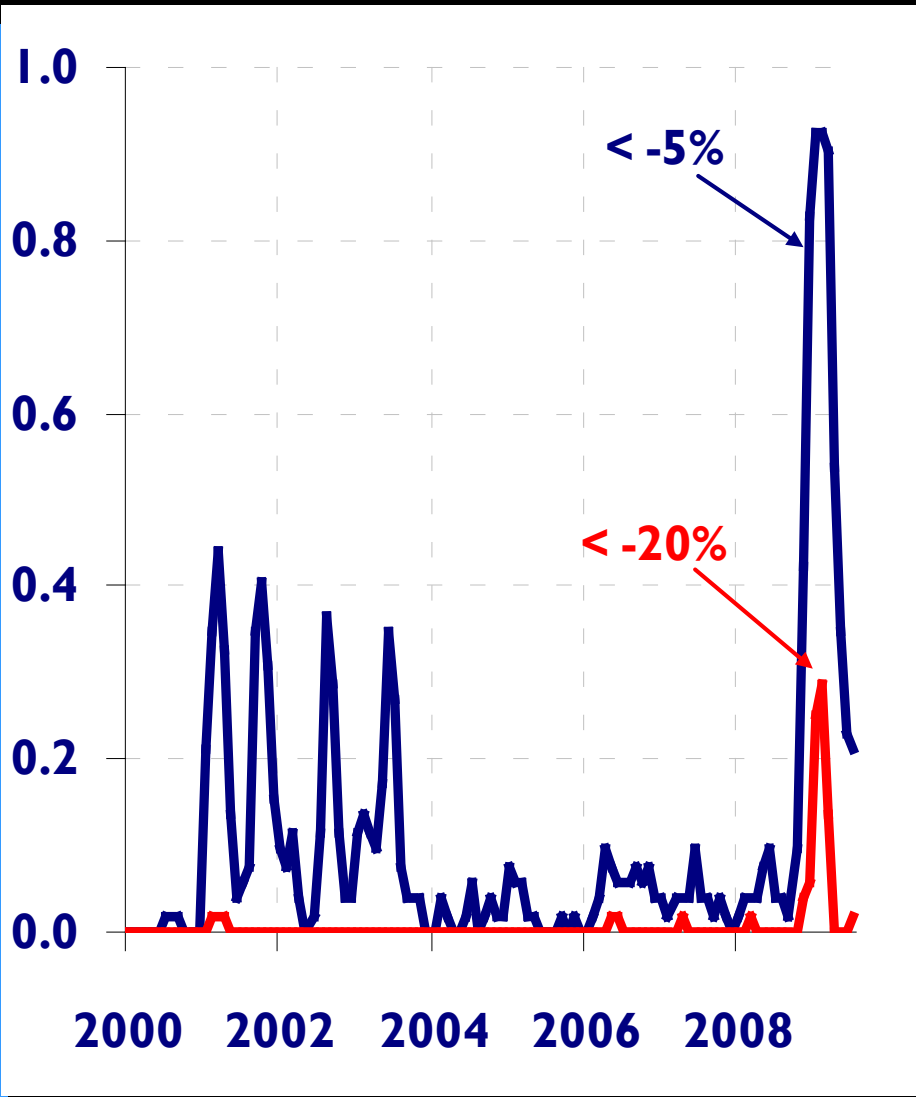
- Sudden, Severe & Synchronised



# Severe: Largest postwar trade collapse



# Synchronized



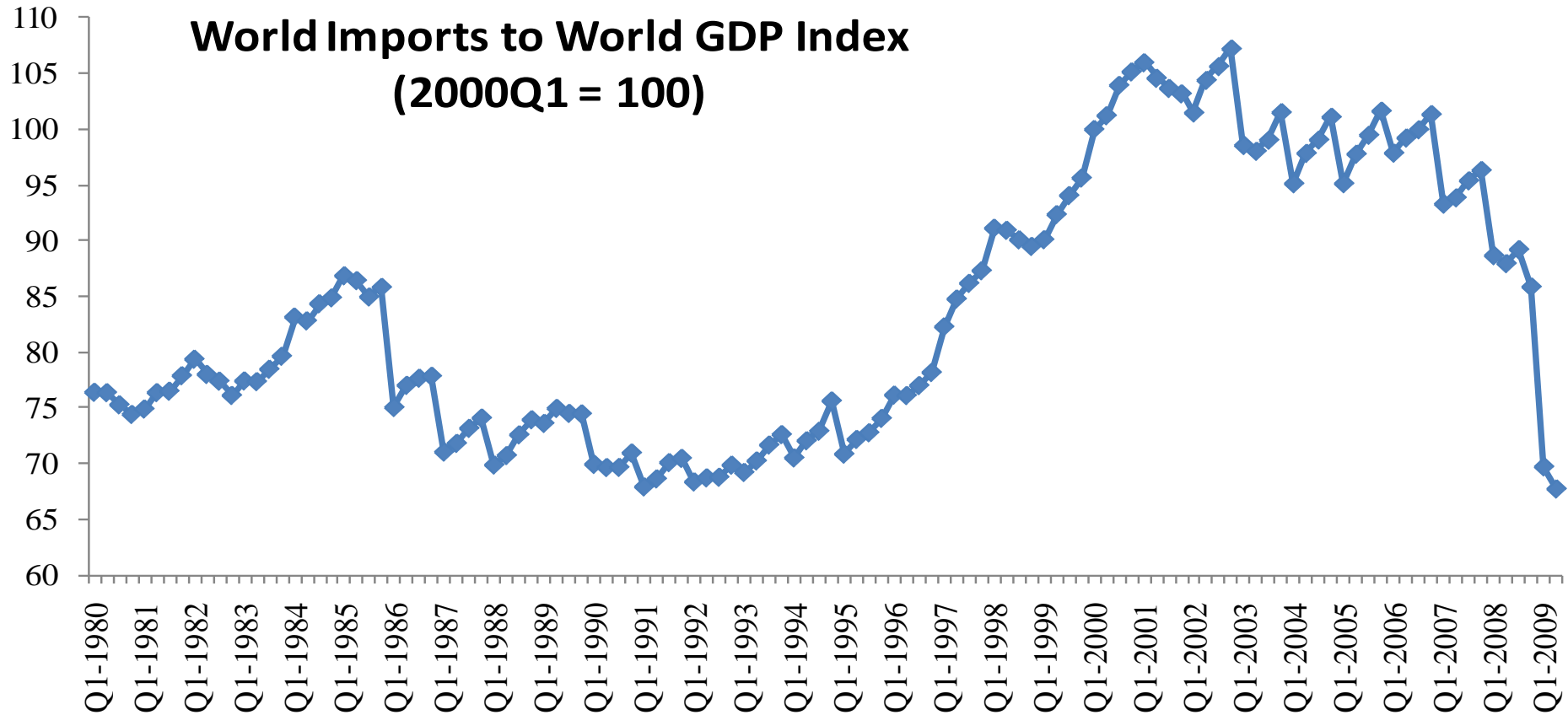
Fraction of economies reporting negative merchandise export growth  
(based on 3-mma value series)

Source: CPB, ECB staff calculations.

Note: Last observation refers to July 2009.

# Why so big?

**World Imports to World GDP Index  
(2000Q1 = 100)**

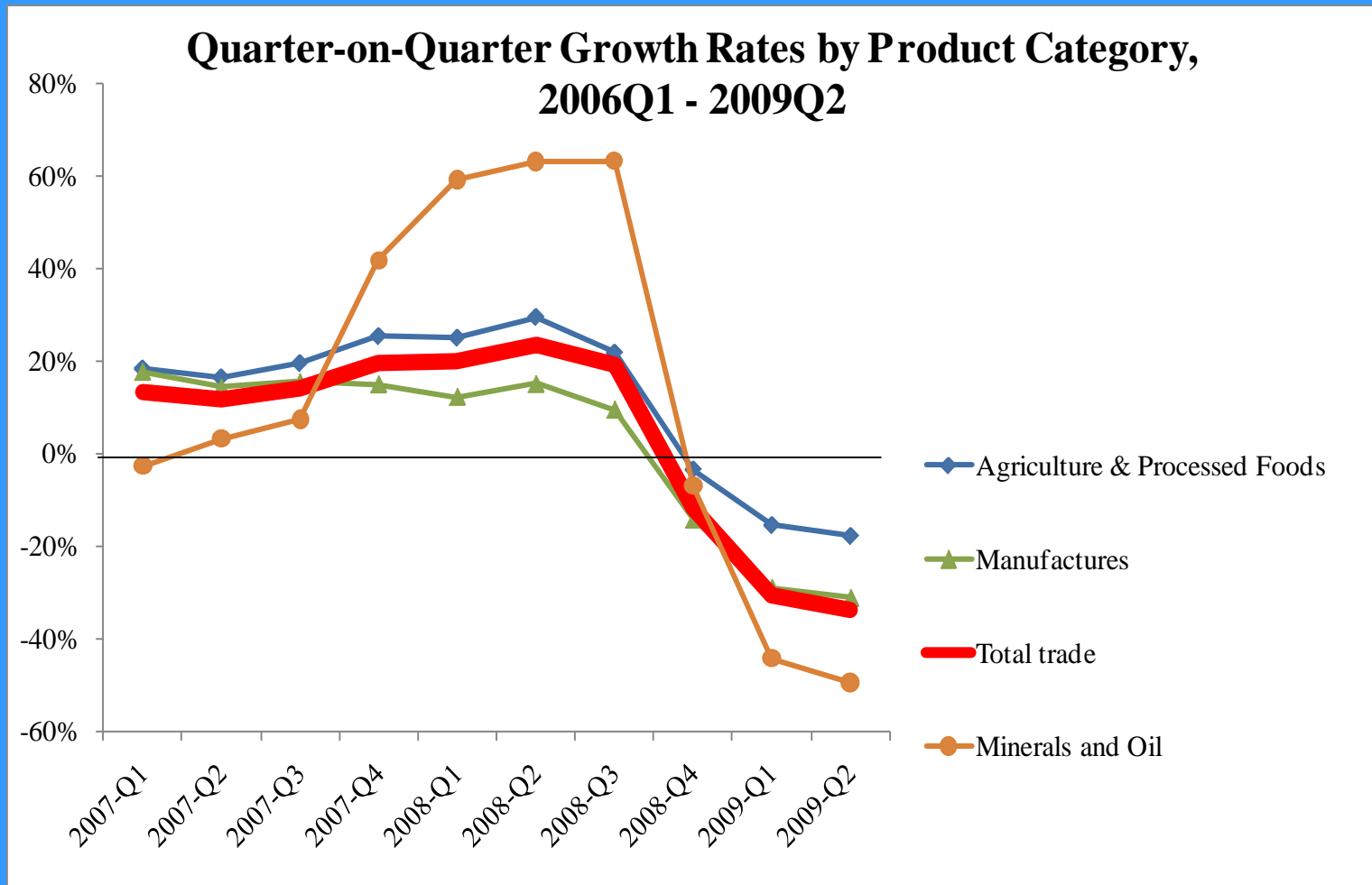


– New VoxEU.org Ebook: “The great trade collapse: causes, consequences and prospects” 27Nov09

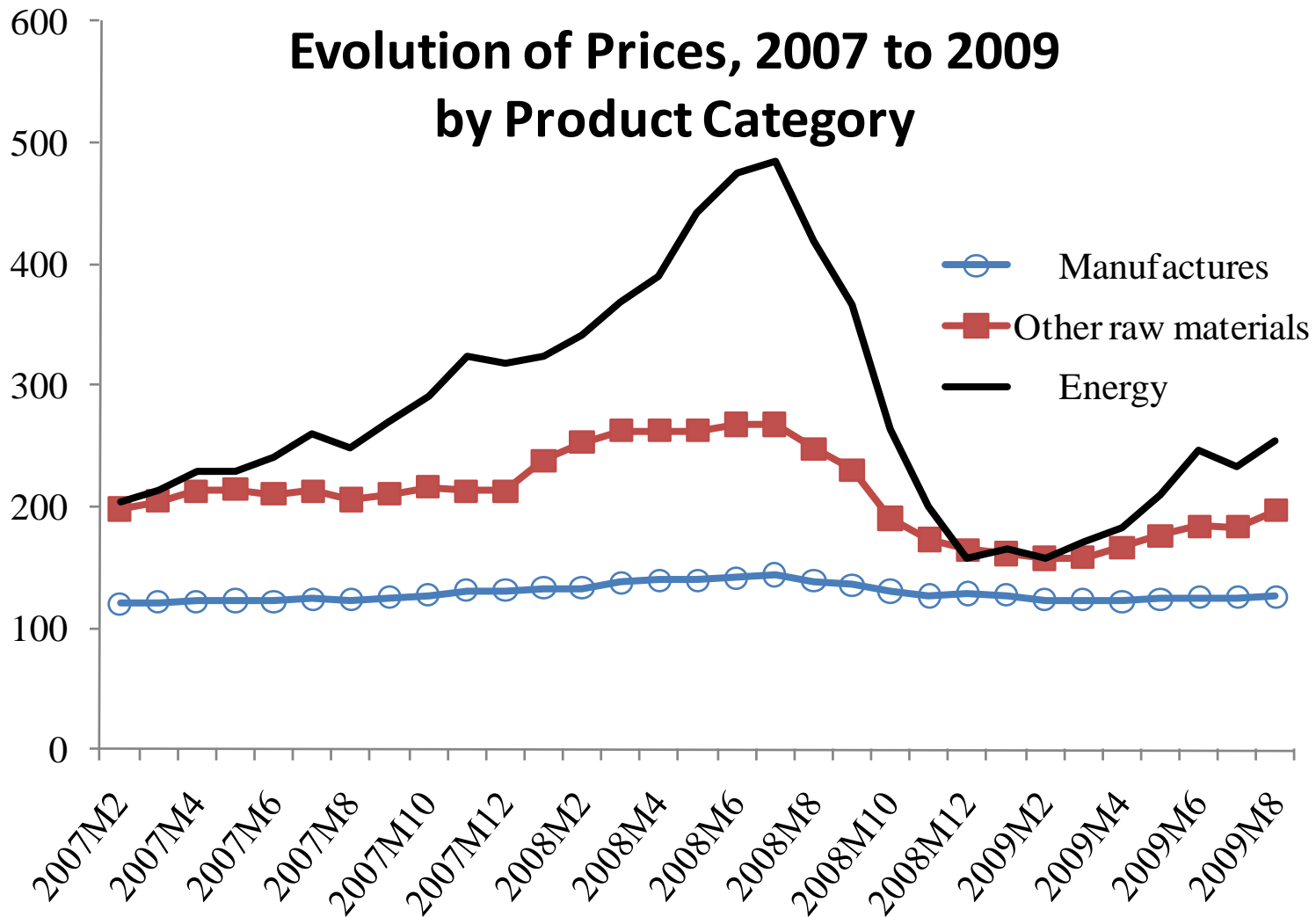


# Causes

- Demand-side & Supply-side Factors.
  - Distinguish commodities & manufactures



# Commodities (price); Manufactures (quant)



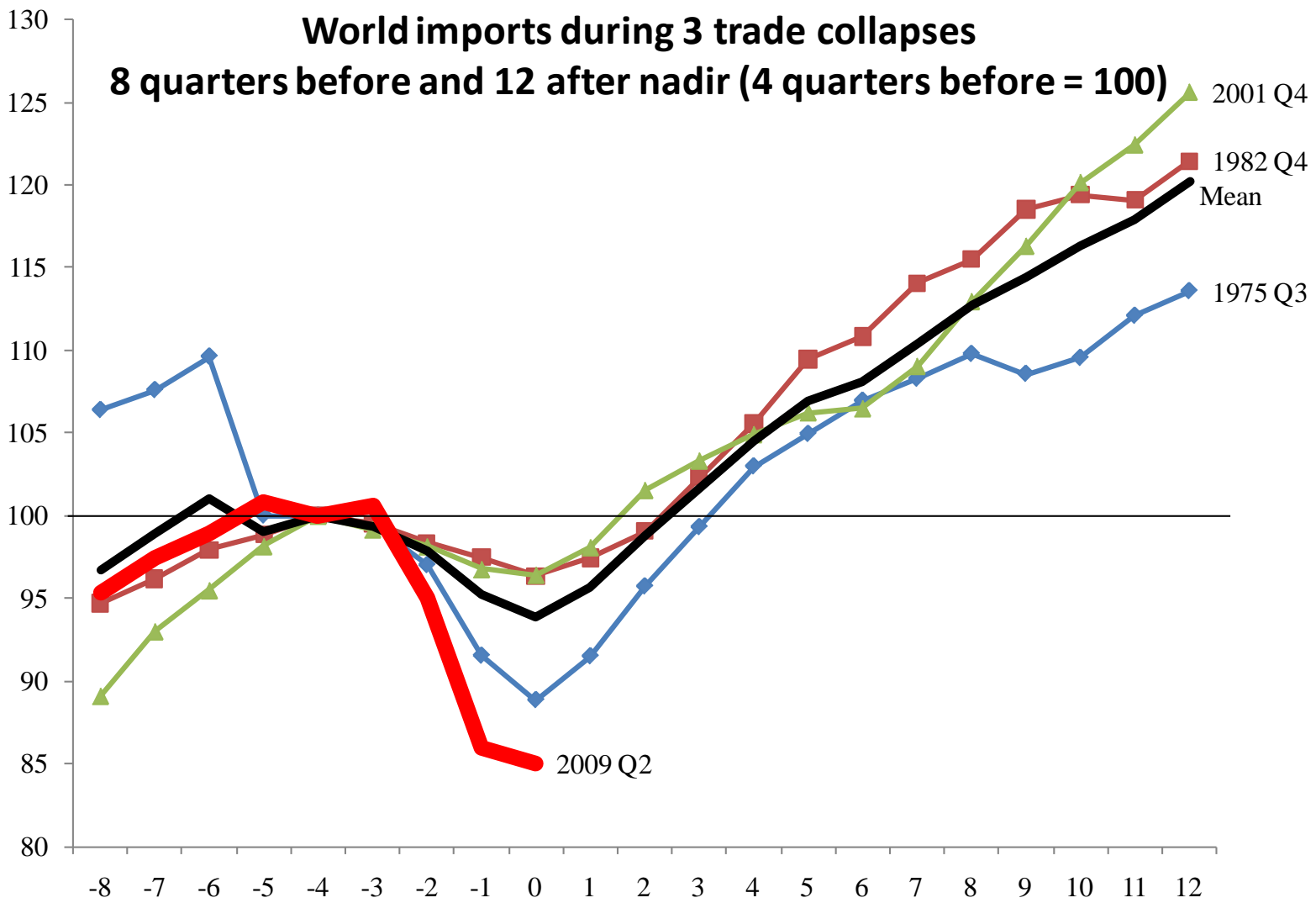
# Demand explanation

- Amplifying factors:
  - Composition effect.
    - Fear factor hit “postpone-ables”; trade in goods is heavily concentrated in “postpone-ables”.
  - Synchronicity effect.
    - Almost every nation’s imports & exports fell from 2008Q3 to 2009Q1.
    - Supply chains? (di Giovanni & Levchenko 2009).
    - Globalised fear factor?

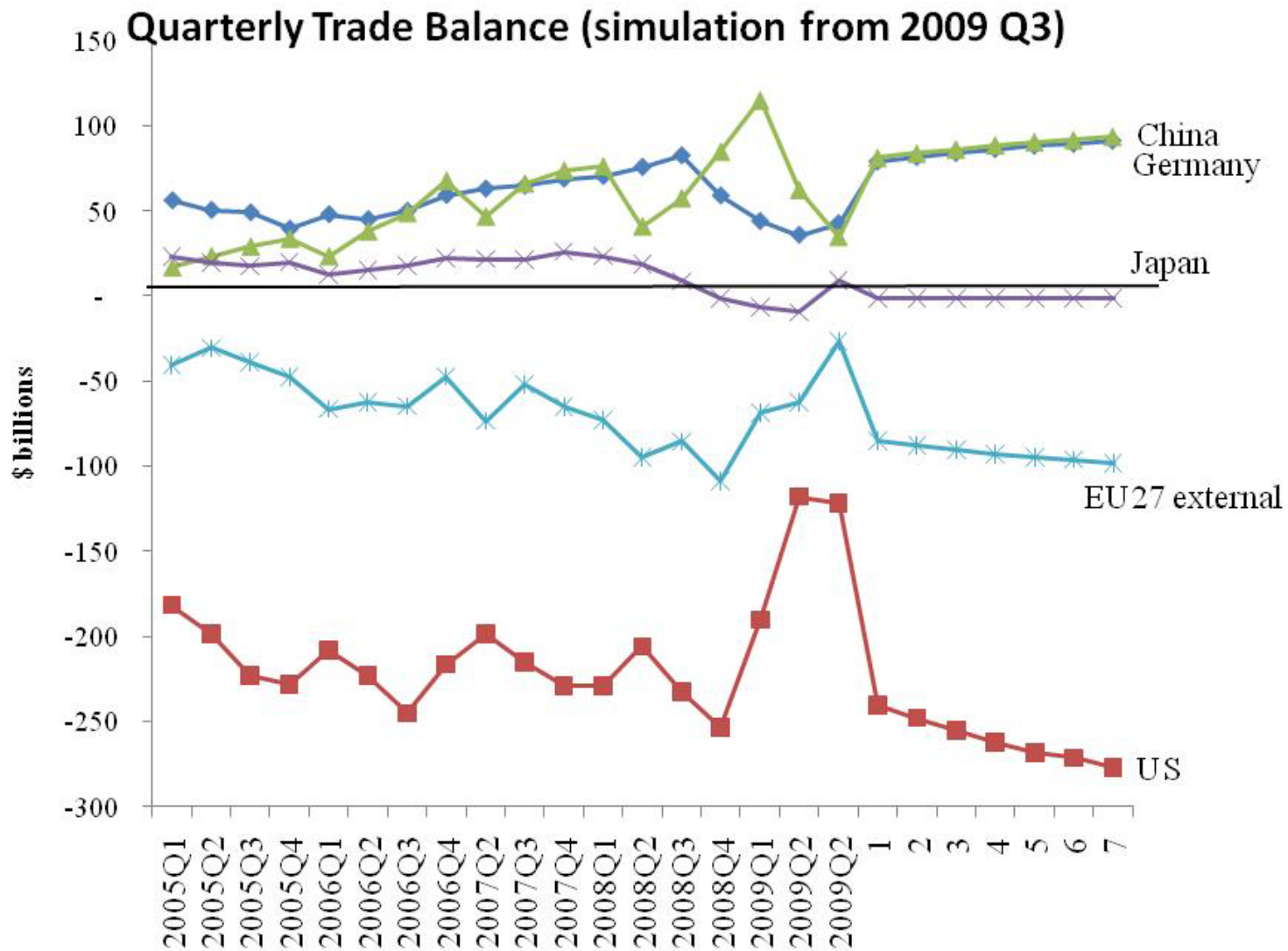
# Supply explanation

- Credit collapse
  - Trade credit finance (Amiti & Weinstein 2009 for Asia crisis of 1997).
  - General biz credit (Iavacone & Zvacka 2009).
- Protection
  - Not yet, Global Trade Alert (Evenett 2009).
- Disruption of supply chains (various residuals).

# Looking forward



# Global imbalances will return



# Research questions

- Macro: Many.
- Trade:
  - Role of supply chains,
    - Transmission & reaction to shocks, role of corporate structure, “trade as a package”
  - Role of trade credit financial,
  - Credit more generally.

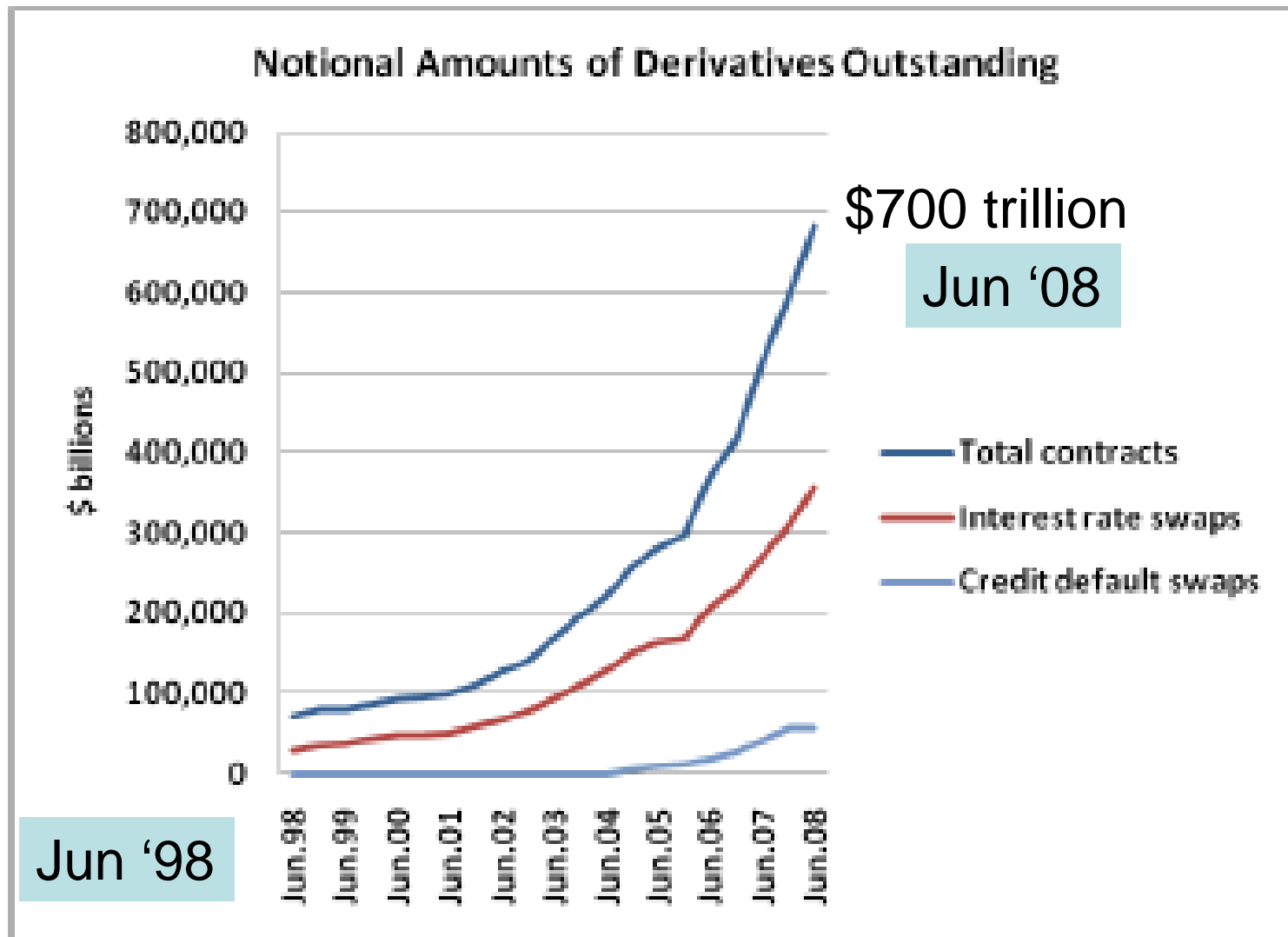
# END

- Thank you for listening.
- All the research pieces I've mentioned have Vox columns:
  - <http://www.VoxEU.org>

“Research-based policy analysis and commentary from leading economists”

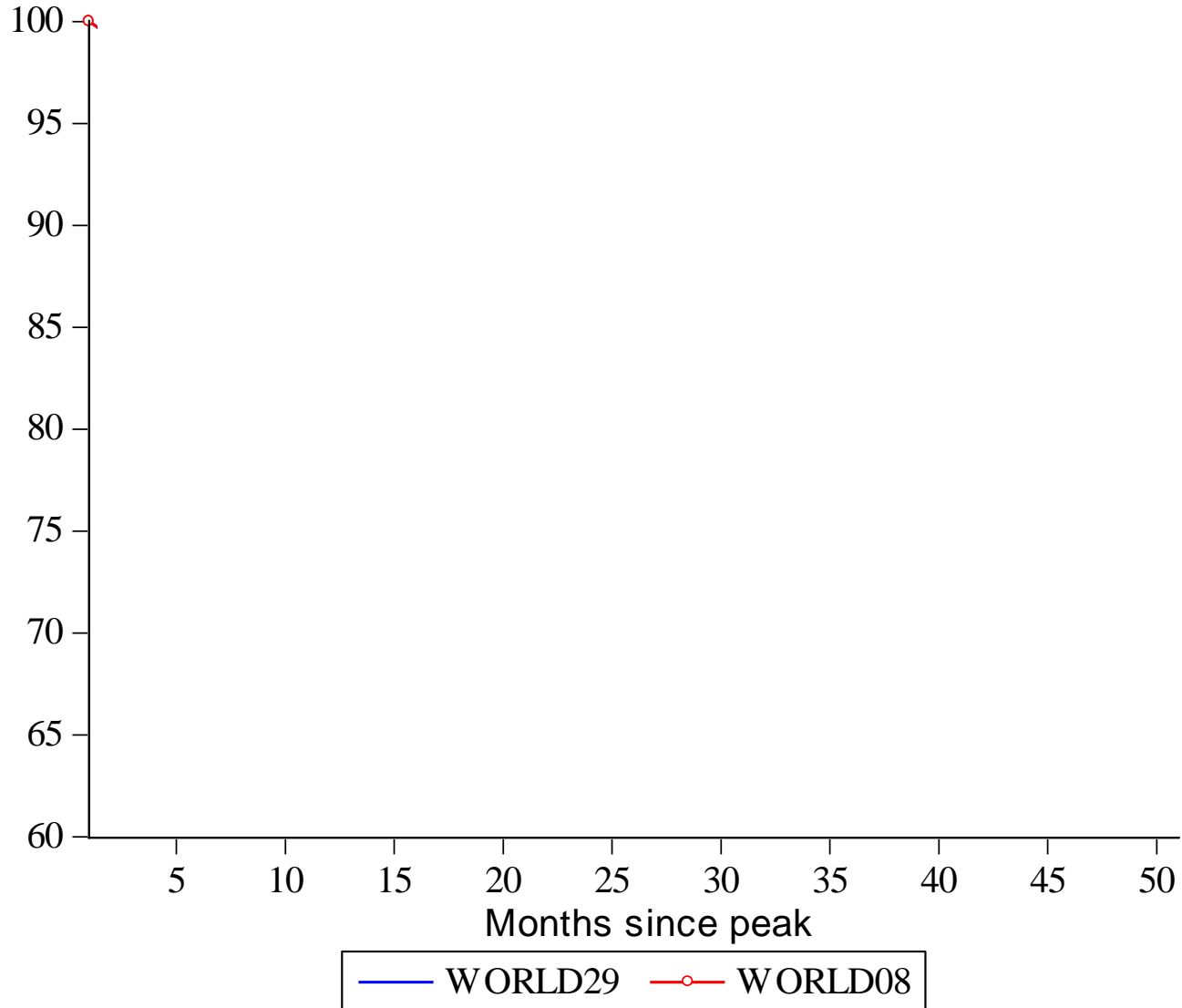


# Huge shadow bank sector



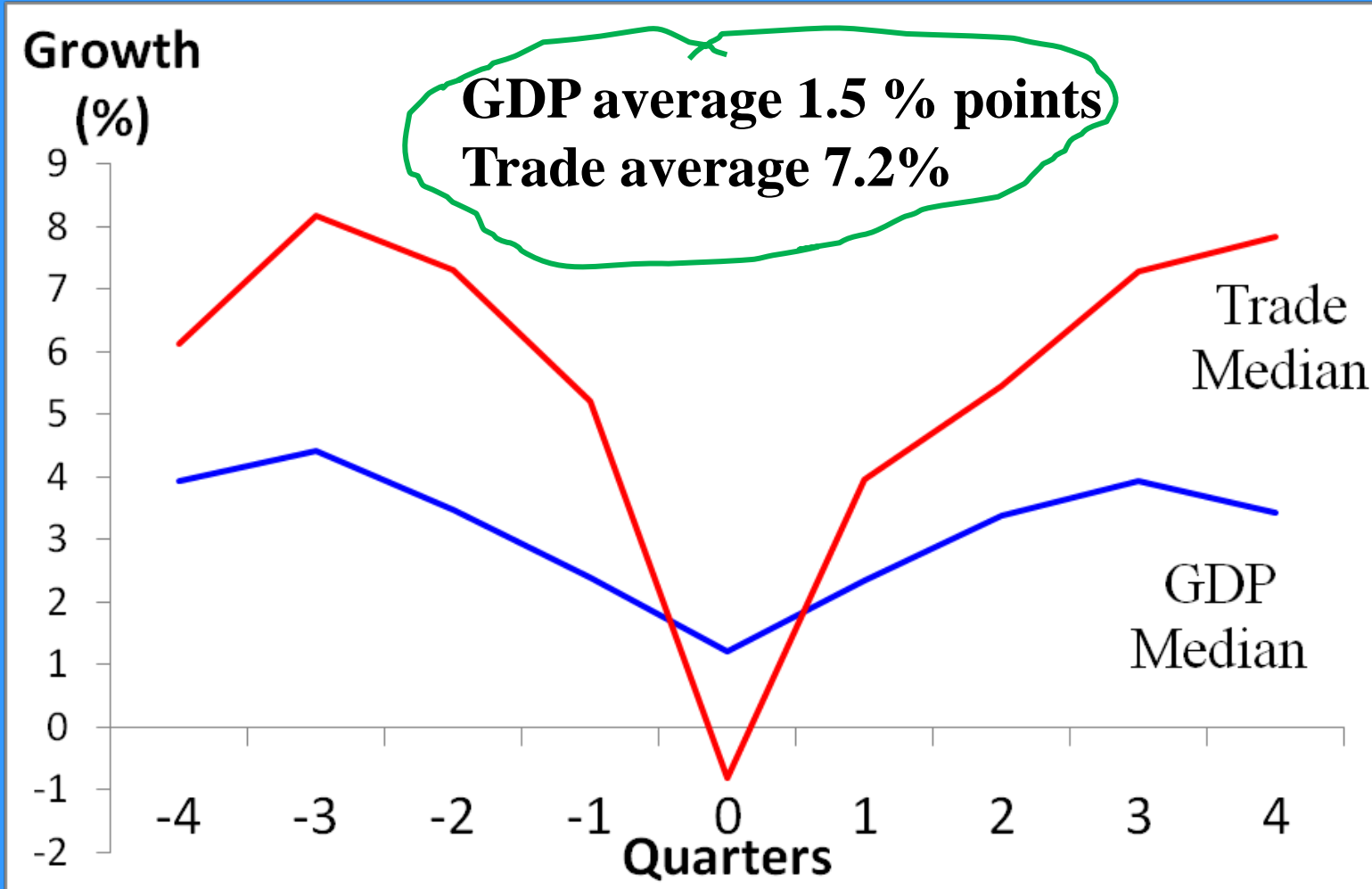
Source: BIS (2008a).

# Global industrial production

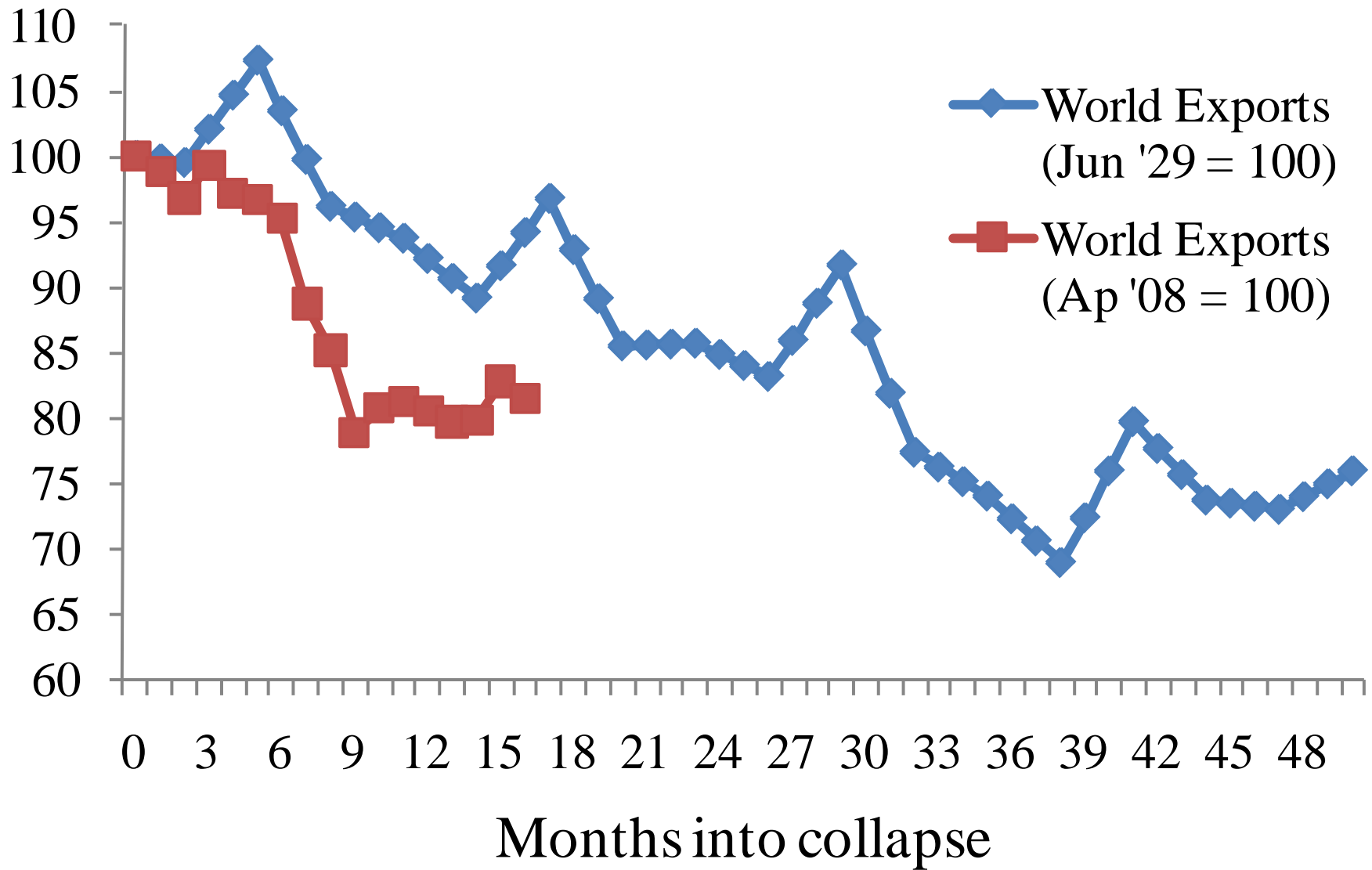


# Biz as usual?

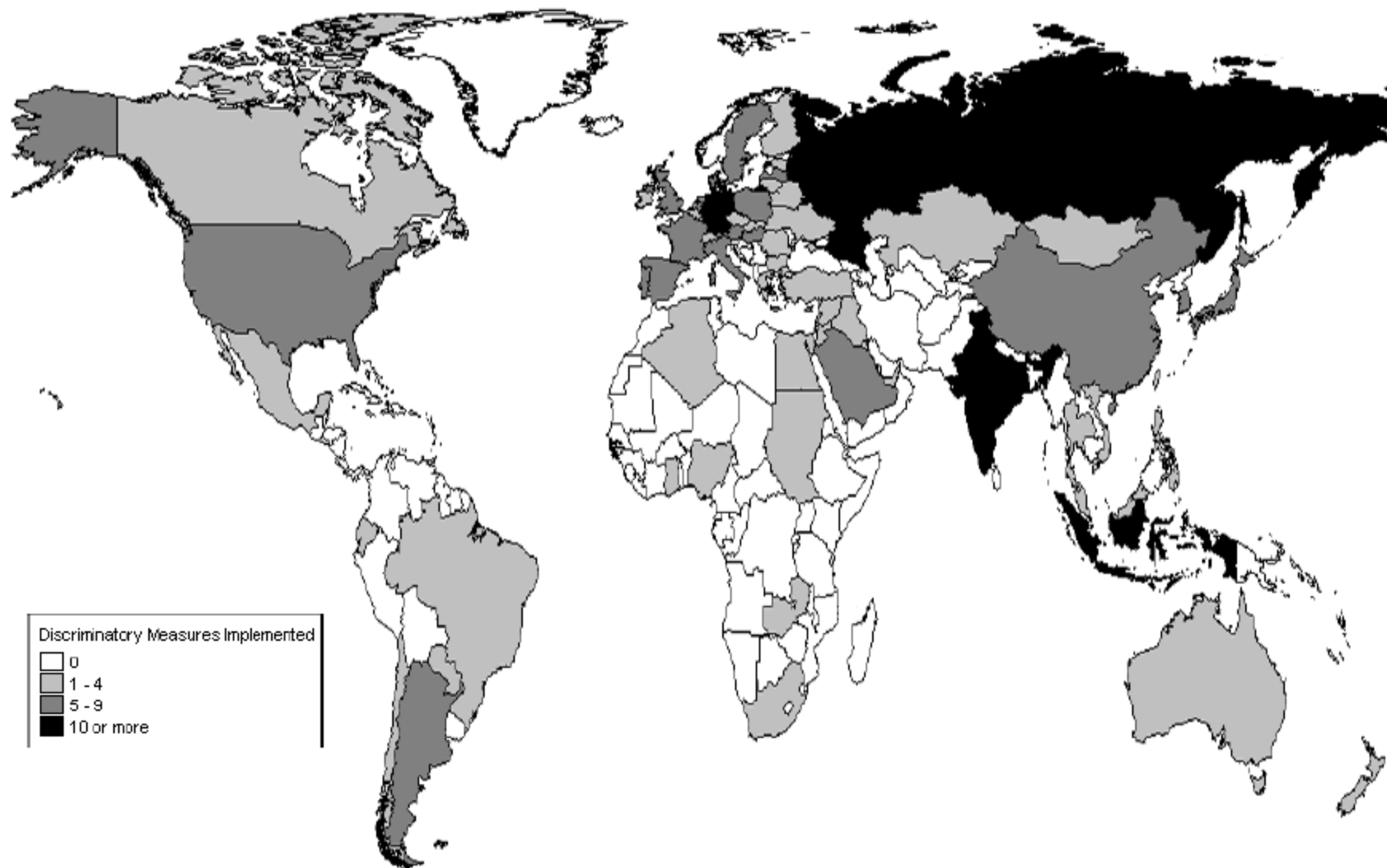
## Trade & GDP in global downturns (1975, 1982, 1991, 2001)



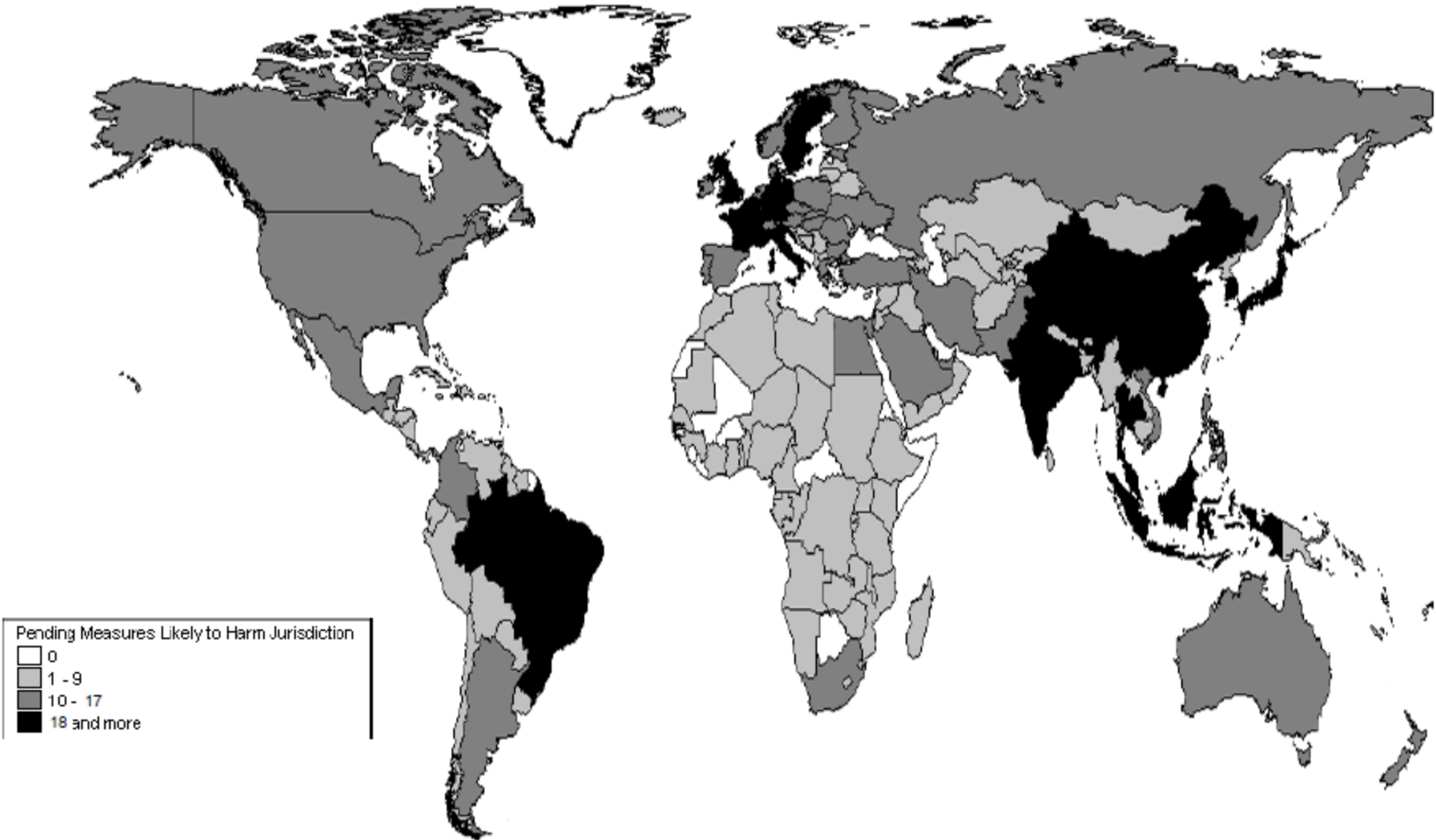
# Trade: 1930s & Now



Map 1.1 Number of discriminatory measures implemented since the first G20 crisis related summit, ignoring measures in the pipeline

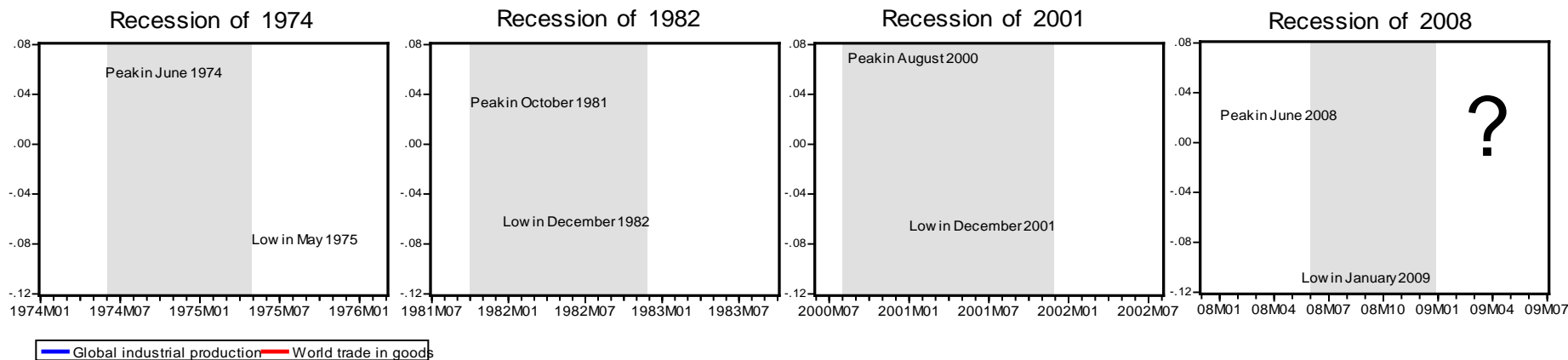


Map 1.2 Number of pending discriminatory measures likely to harm a jurisdiction



# The TRADE CYCLICAL REACTION

What are we talking about? Comparison of Four Global Recession episodes 1970-2009  
Monthly series of world trade and industrial production since 1970; gaps with respect long run trends.



Note:

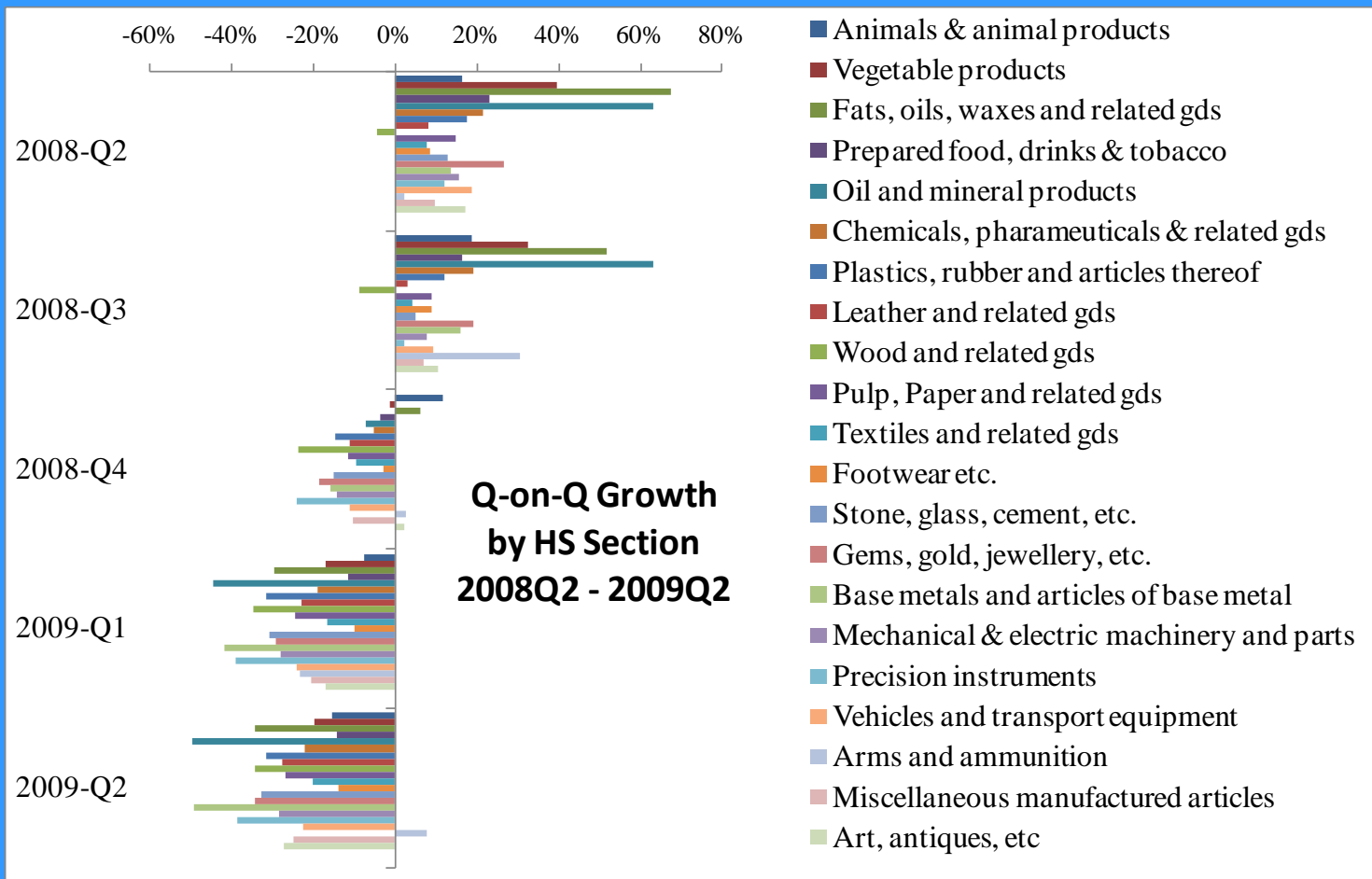
1. Up to 1991M12, OECD data only.
  2. Gaps are percentage deviations from long run trends obtained by applying the HP filter.
- Source: CPB, OECD and our calculations.

Focus on four GLOBAL recessions (we apply on IP the IMF identification criteria).

- Trade **was relatively more resilient** up to 2008M10, but since then followed by a very strong and quick drop.
- Trade dynamics seems to be delayed wrt production in fall 2008.
- Open to different interpretations: speed of transmission?
- Sectoral composition might have played a big role.
- Timing of international deliveries might also have affected trade.

# Causes

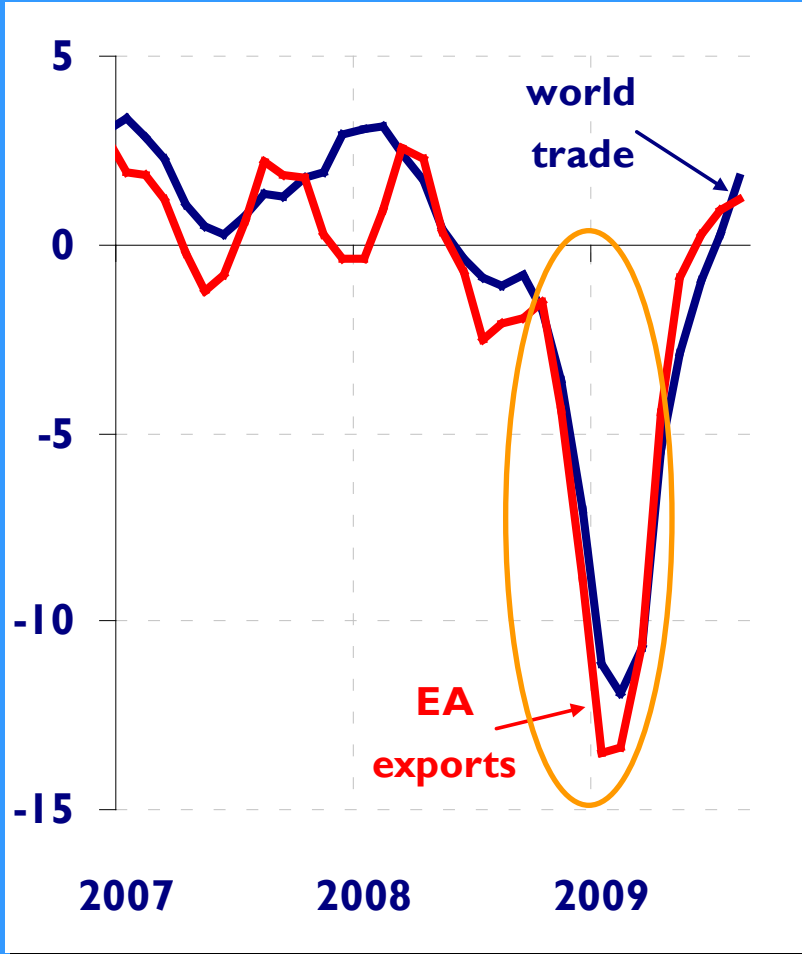
- Demand-side & Supply-side Factors.
  - Distinguish commodities & manufactures





# The contraction in world trade has been sharp, severe and highly synchronised.

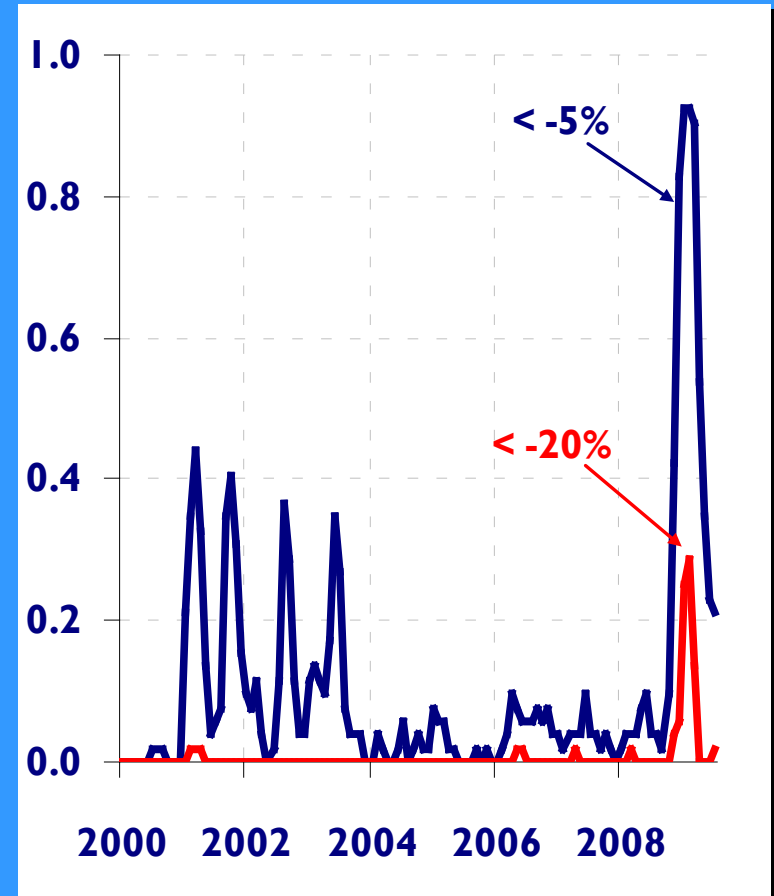
World trade and euro area exports of goods (3m-3m % change; monthly data)



Source: CPB.

Note: Latest observation refers to August 2009.

Fraction of economies reporting negative merchandise export growth (based on 3-mma value series)

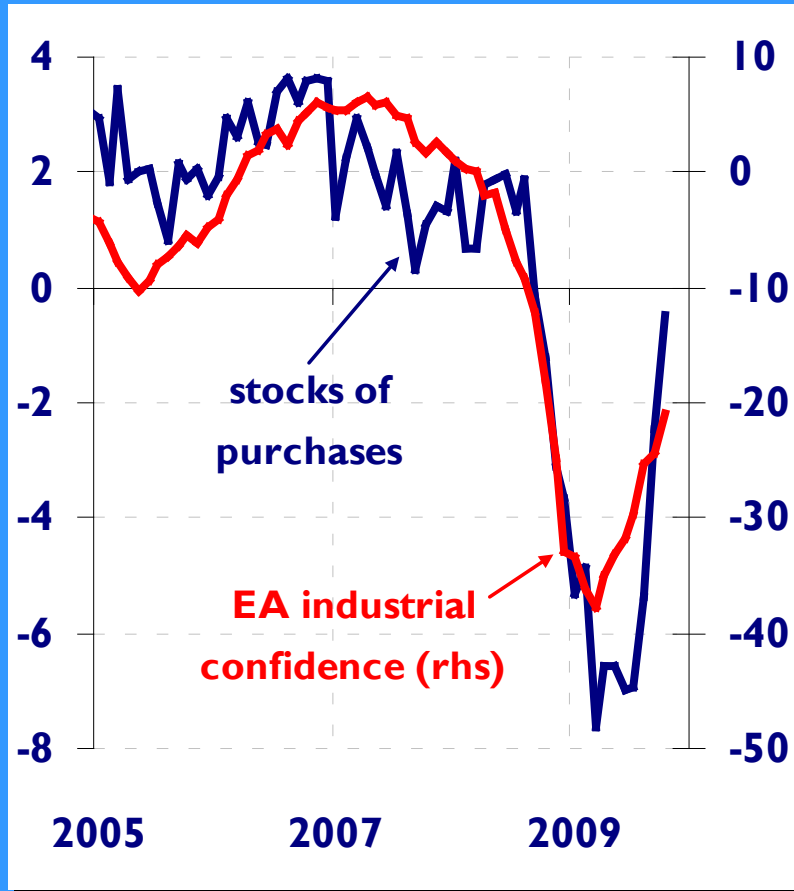


Source: CPB, ECB staff calculations.

Note: Last observation refers to July 2009.

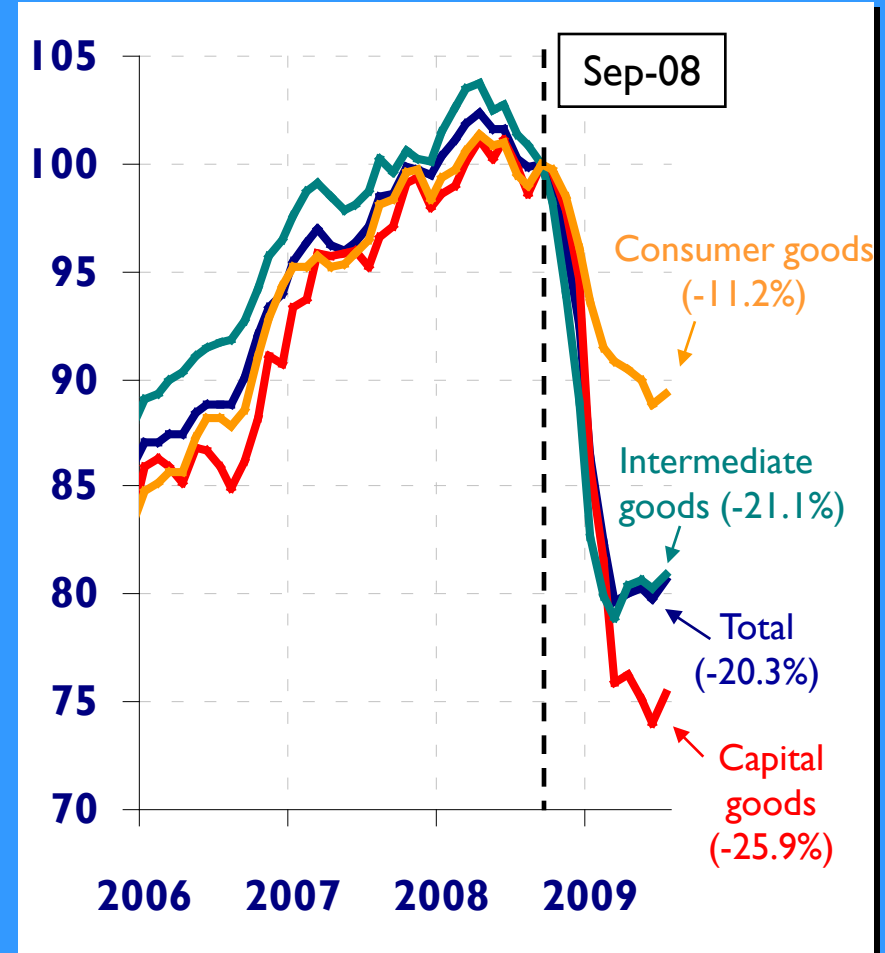
# (3) Intermediate and capital goods slumped amid sharp destocking and a global confidence shock

Global PMI Stocks of Purchases and euro area industrial confidence  
(lhs: mean-adjusted diffusion index; rhs: percentage balance)



Source: European Commission, Markit.  
Note: Last observation refers to October 2009.

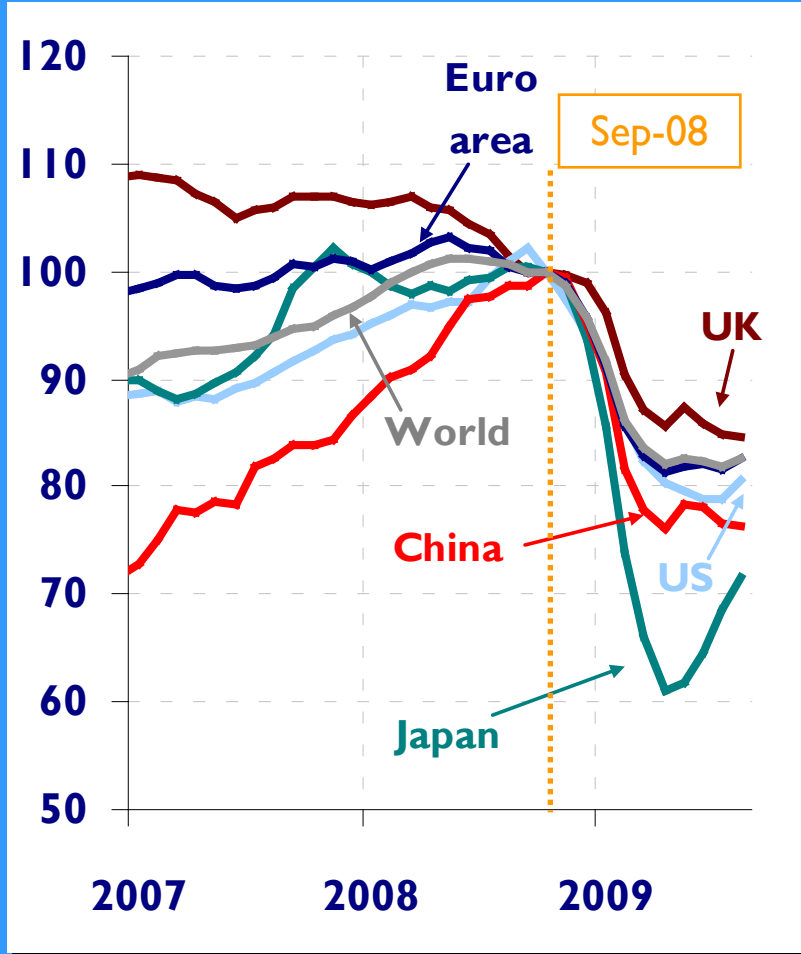
Extra-euro area exports of goods  
(volume indices: Q3 2008 = 100; SA; 3mma)



Source: Eurostat.  
Note: Latest observation refers to July 2009.

# Increasing signs of stabilisation in world trade and a strong rebound in Chinese imports...

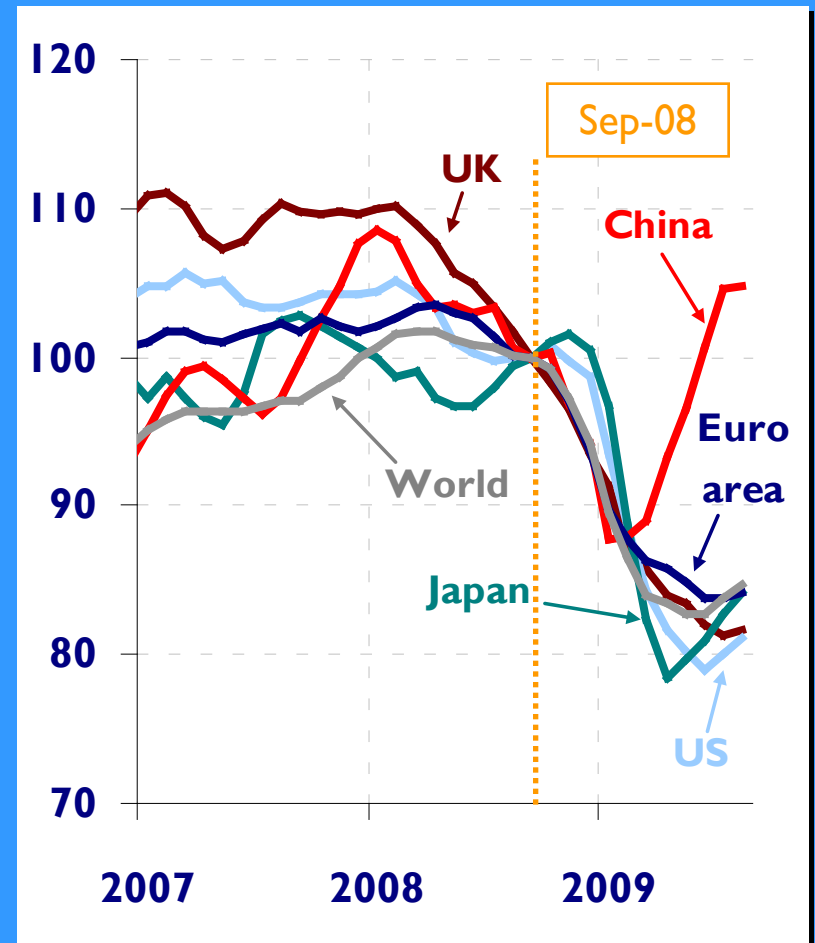
Exports of goods of major economies  
(volume indices: Sep-08=100; SA; 3mma)



Source: CPB.

Note: Last observation refers to August 2009.

Imports of goods of major economies  
(volume indices: Sep-08=100; SA; 3mma)

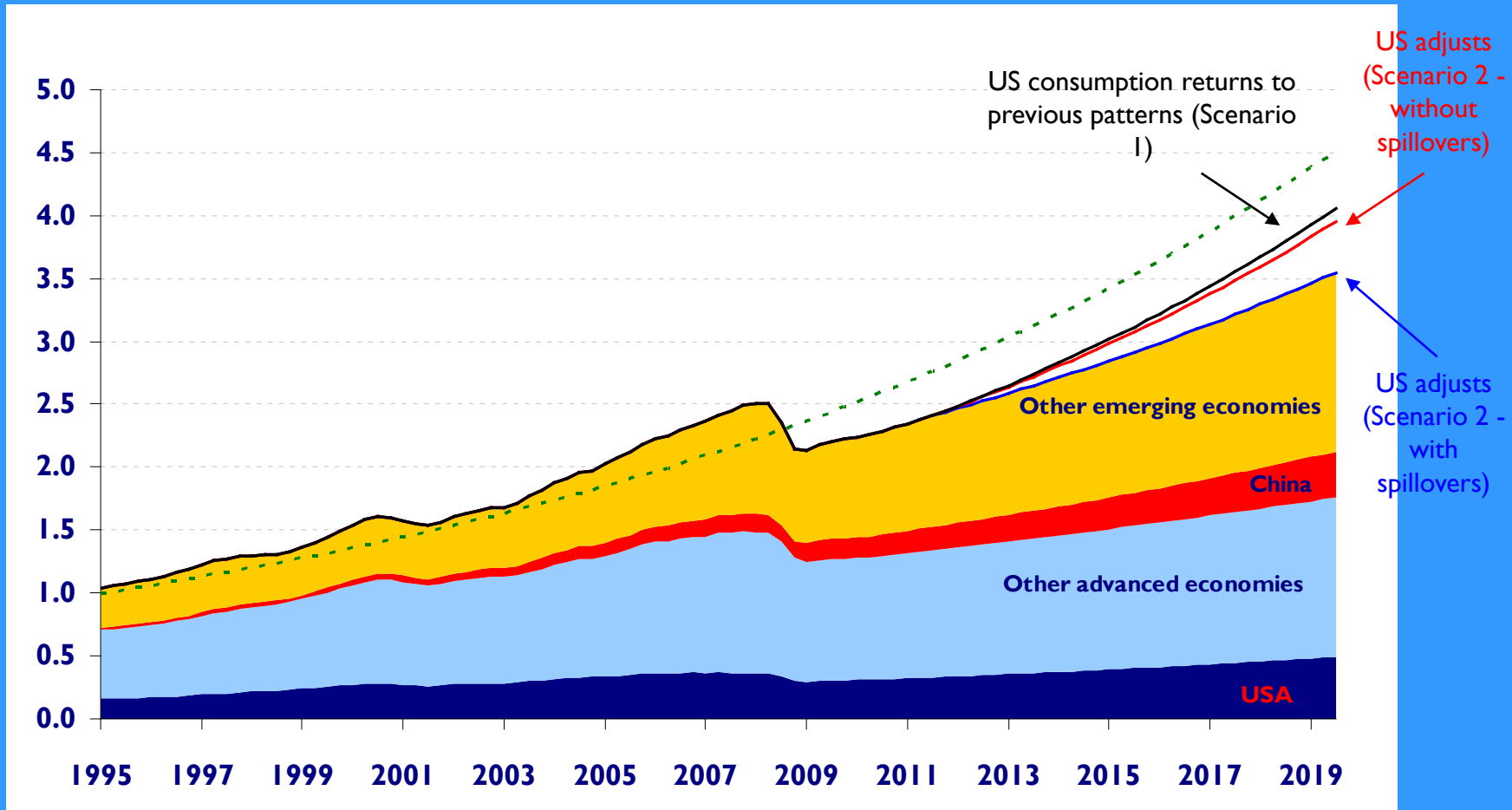


Source: CPB.

Note: Last observation refers to August 2009.

# Longer-term prospects: Strong indirect spillovers from the adjustment in US consumption to world trade

World trade by regions  
(1994Q4=1)



Source: ECB staff calculations

# Knightian uncertainty

- Financial crisis strikes Europe;
  - UK, F, D, S, CH, B all start doing “impossible” things.
- “Impossible” things + institutions with trillions of dollars un-transparent, unregulated, un-traded and un-standardized assets.
  - Fear of global financial meltdown.
- “Fear of the unknown”; lenders, borrowers, investors & consumers around the world.

# Losses from Mortgage assets, Total Loss of Market Value and Multiplier.

