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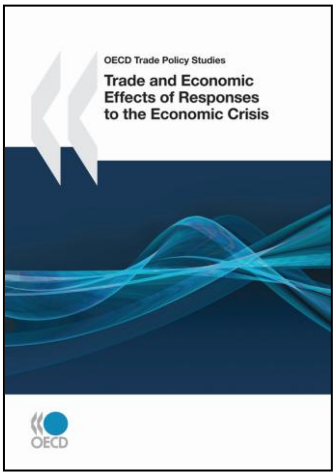

OECD Trade Policy Studies

Trade and Economic Effects of Responses to the Economic Crisis

Summary in English

- The dramatic collapse in world trade in 2009 is, this report shows, mainly due to: the drop in demand for highly traded products; the drying up of trade finance; and the vertically integrated nature of global supply chains. Contrary to expectations, protectionist measures were relatively muted and did not play a significant part. In fact, because of their sheer size, stimulus measures may have had more impact on trade than direct trade policy measures Nevertheless, dollar for dollar, direct trade restricting measures have the most strongly negative impacts on growth and employment: a one dollar increase in tariff revenues results in a USD 2.16 drop in world exports and a USD 0.73 drop in world income.
- The analyses presented here suggest that exit strategies from measures to deal with the crisis will be most effective in boosting growth and jobs if they first roll back measures that discriminate between domestic and foreign firms and those that target specific sectors. General demand stimulus measures and active labour market policies are preferable under current conditions.

EXECUTIVE SUMMARY

This study was undertaken by the OECD's Trade Committee in response to the financial and economic crisis that started in 2008.

The 12.5% fall in global trade in 2009 is explained by several factors: the collapse in demand, the drying up of trade finance, a larger fall in demand for highly traded goods (such as machinery and transport equipment) relative to less traded goods and services, and the vertically integrated nature of global supply chains.

Early resort to protectionist measures has been relatively muted and does not play a significant part in explaining the fall in trade – only about 1% of world imports were affected by new trade restricting measures. The rapid and coordinated G20 response to ensure adequate trade finance was available for viable transactions seems to have been effective.

Given their sheer size, stimulus measures taken to rescue sectors of systemic importance (such as banking) or to preserve jobs (as in the automobile industries) or to stimulate growth (such as consumption tax reductions) or "buy national" measures may be more significant in terms of their potential impact on trade than direct trade policy measures.

But dollar for dollar, direct trade restricting measures have the most strongly negative impacts on both trade and growth: simulations suggest a USD 1 increase in tariff revenues results in a USD 2.16 drop in world exports and a USD 0.73 drop in world income. Simulations also suggest that USD 1 of stimulus spending behind the border can increase a country's own GDP by USD 0.64 on average while world trade could increase by USD 0.08, but the effects on the real GDP of other economies are mixed. These estimated overall impacts depend critically on the nature of the stimulus. Stimulus measures that discriminate between domestic and foreign goods and firms and sector specific measures are clearly less effective. Measures that are most supportive of both trade and growth are non-discriminatory demand stimulus and labour support. Coordination of stimulus measures ensures that benefits are larger and more widely shared.

Open markets and the restoration of a level playing field will be a necessary condition for a sustained recovery; this means addressing policies with both direct and indirect impacts on trade. This report recommends:

• An immediate roll-back of the most trade distorting measures, continued resistance to protectionist pressures, and an ambitious and balanced conclusion of the DDA that will deliver further market opening.

• that governments step back from the exceptional measures taken to support trade finance as conditions normalise.

• Removal of discriminatory provisions from all stimulus measures.

• Restoration of competition policy disciplines and withdrawal from the banking sector when the time is judged right with the international coordination needed to avoid regulatory arbitrage.

• Under current conditions economy-wide demand-side measures to address demand shortfalls and active labour market policies to address unemployment are preferred.

• International coordination of 'exit' from extraordinary measures as economic conditions permit; further attention is required both to address specific needs in less developed countries and persistent global macroeconomic imbalances.

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