# THE GLOBAL TRADE CONTRACTION: HOW MUCH IS 2008-09 LIKE 1929-33?

Michael J. Ferrantino (Michael.Ferrantino@usitc.gov)

**The decline in trade in the current recession has provoked comparisons to the decline in trade in the first wave of the Great Depression. Between 1929 and 1933, global exports declined by 64 percent in value, while U.S. exports declined by 66 percent. This decline has been attributed to three factors:**

- The *decline in demand* due to the loss in real GDP (27 percent drop in the United States).
- *Deflation* leading to reduced prices of exports (37 percent price decrease for U.S. exports). The prevalence of *specific and compound tariffs* in the 1930s, combined with deflation, led to higher ad valorem tariffs. (click here)
- Increased *protection*, including the Smoot-Hawley tariff of 1930, and subsequent retaliation. (click here)

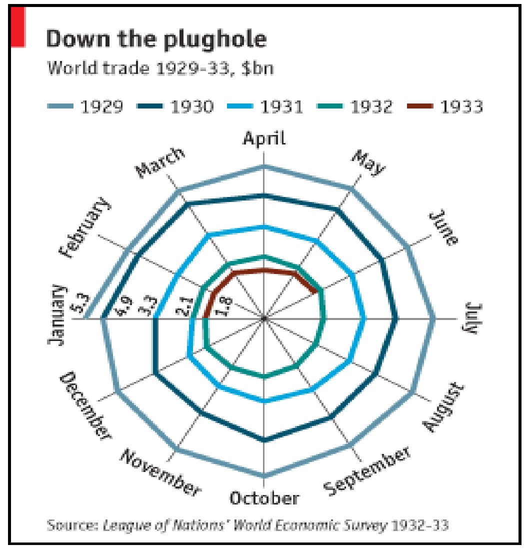
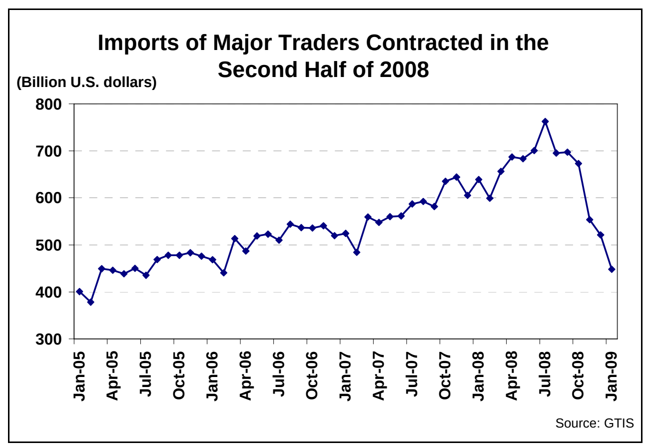



Figure as recreated by The Economist. (click here)

**All three of these factors are in operation during the current contraction in international trade. Moreover, trade is now more important than in the Great Depression. The share of exports in U.S. GDP has nearly doubled since 1929.**

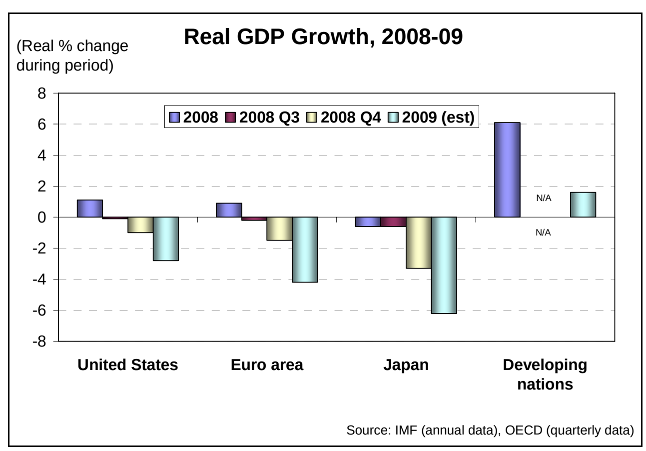



**From July 2008-January 2009, global merchandise trade fell sharply in value.**

- Imports for selected major traders[1] fell by 36 percent, while exports fell by 35 percent. The value of global trade has fallen to the level of 2005.
- Much of the value decline is due to declining prices of oil and other goods.

**Demand has declined at different rates in different countries, causing unequal declines in import demand.**

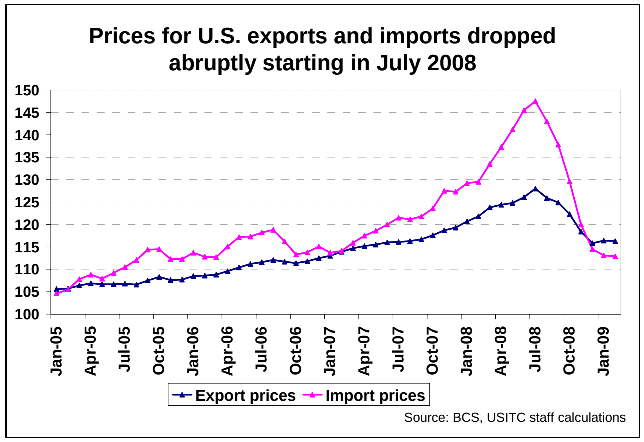
- The recession has been deeper in developed U.S. trading partners. GDP in developing countries as a group is still growing, but more slowly.
- In 2008Q4, real GDP fell at an annual rate of 3.3 percent in Japan, 1.5 percent in the euro area, and 1.0 percent in the United States.
- In 2009, GDP in the advanced economies is projected to decline by 3.8 percent. Growth in developing economies is expected to slow to 1.6 percent from 6.1 percent in 2008.
- The recession is spreading to Central and Eastern Europe, Russia, and Mexico. (click here)




[1] Brazil, Canada, China, EU27 external trade, Hong Kong, Japan, South Korea, Thailand, United States. These economies were chosen based on timeliness of data.

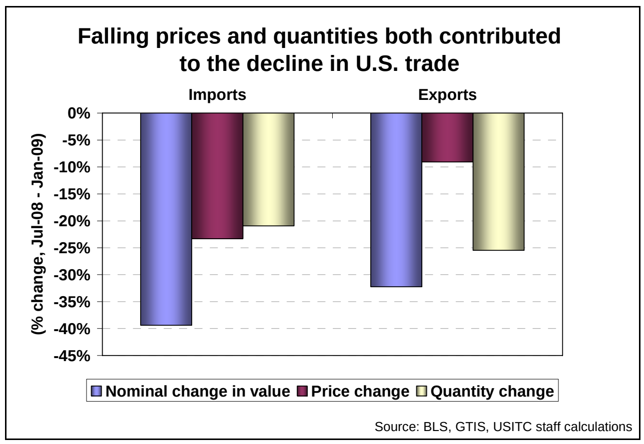
**Deflation in the prices of traded goods has been substantial.**

- U.S. import prices, which are strongly influenced by oil prices, fell by 23.5 percent from July 2008-February 2009, after rising by 30.2 percent from October 2006-July 2008.
- U.S. export prices fell by 9.1 percent from July 2008-February 2009, but have leveled off since December.
- Prices of oil and other commodities have increased modestly in 2009 (click here). This may lead to future increases in *nominal* trade, if not real trade.
- Price shocks have redistributed income between countries. Exporters of food and fuel experienced terms-of-trade gains in the years preceding mid-2008, while importers of food and fuel benefit from price changes in the current recession.



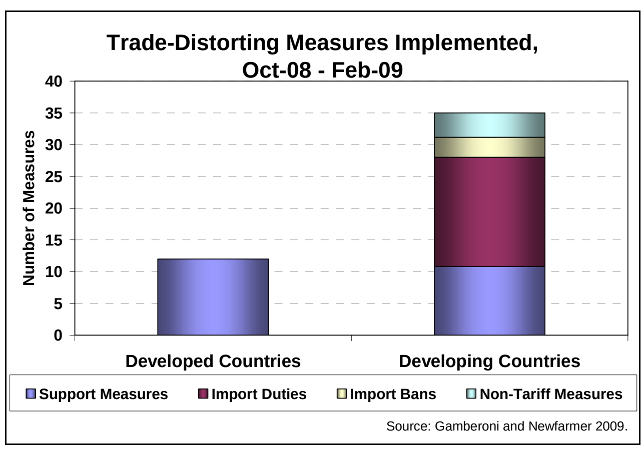

**Deflation and recession have contributed to the contraction of trade values in different ways.**

- Falling demand (reflected in traded quantities) and falling prices affect both U.S. imports and U.S. exports
- The fall in the value of U.S. imports has been heavily inflenced by the declining prices of oil and other commodities
- Declining demand in U.S. trading partners has been more important for exports, as reflected in declining real quantities.




**Countries have imposed new potentially trade-distorting measures, though not yet to the degree observed in the 1930s.**

- At least 47 such measures have been implemented from October 2008-February 2009, according to the World Bank.
- These include new non-automatic licensing in Argentina, duty increases in Ecuador, limitation of import channels in Indonesia, import bans in China and India, and duties on imports of used cars in Russia. (click here)
- Developed-country measures have focused on industrial support measures, such as those to automakers.
- After a period of slowdown, global initiations of antidumping cases increased in the second half of 2008. (click here)

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