World Economic Vulnerability Monitor

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Global Vulnerability to Trade Shocks

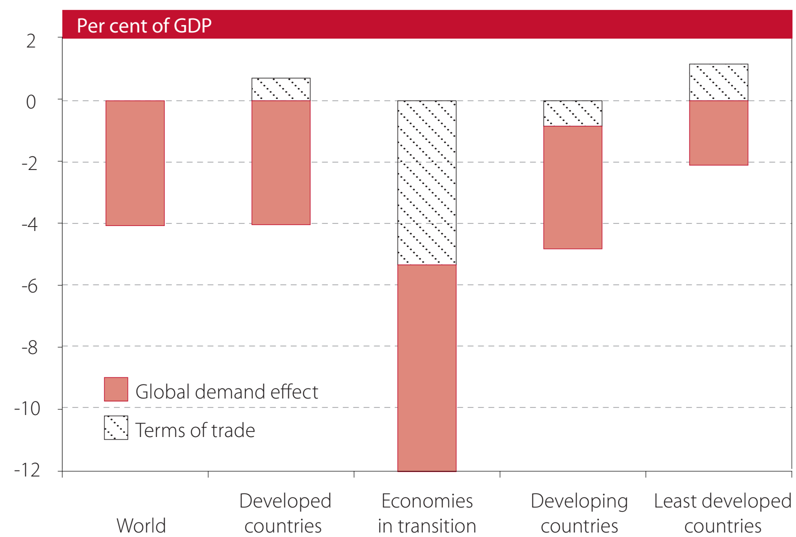
Impact of global trade shock on countries depends on export patterns

This briefing assesses the size of the trade shock for each country, measured through the drop in export volume caused by the sharp contraction in global demand and the change in the country's terms of trade (i.e. the change in the country's average export price relative to that of imports).[1] By these trends, not all regions and countries are affected in the same way. The global picture is summarized in figure 1 and figure 2, where the projected trade shocks are presented as a proportion of GDP. At the country level, the degree of export specialization matters. As illustrated in figure 3, the countries most severely hit are those with a strong concentration of exports in the energy sector as they experience strong reversals of previous years' favorable terms of trade. Manufacture exporters are also heavily affected, but they face predominantly negative demand effects. Exporters of minerals are less drastically impacted, with both demand and price effects being meaningful but of lesser importance than for the previous groups. Finally, countries with some degree of export diversification as well as agricultural exporters seem to fare better under the current crisis.

The economies in transition and Western Asia as a group are expected to be hit hardest by the decline in global trade in 2009 with trade shocks to the tune of 12 per cent and 10 per cent of their respective combined GDPs. Notably, most of these countries are oil exporters and most of the adverse shock is accounted for by the expected 35 per cent drop in the average price of crude oil in 2009 (compared with the 2008 average).

Developing countries as a whole are estimated to suffer a loss of about 5 per cent of GDP as a result of a drop in demand for their exports and the terms-of-trade effect. In dollar terms, this is about $820 billion with the largest shocks being felt in absolute terms by China ($140 billion), Saudi Arabia ($115 billion) and Mexico ($45 billion). China and Mexico have mainly suffered from the sharp drop in the world demand for manufactures. As a proportion of domestic income, the largest adverse shocks among developing countries are ex-

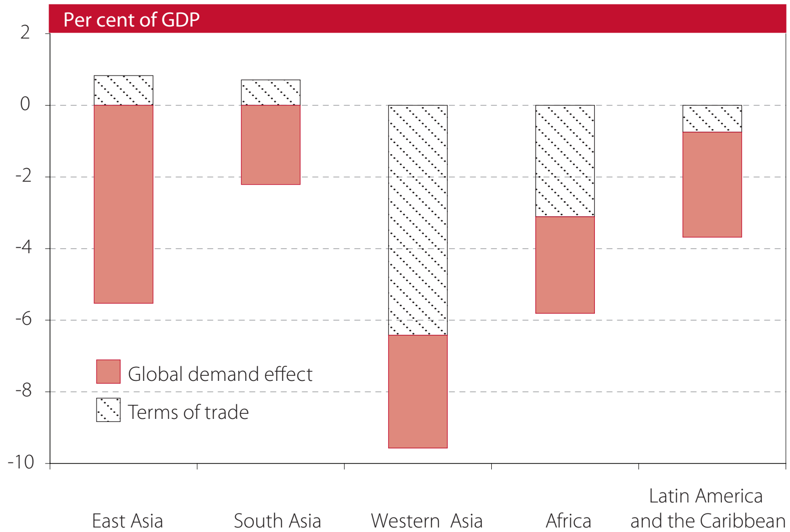
Figure 1: Projected trade shocks in major country groups in 2009



1 See forthcoming "Accounting for Trade Shocks—A Methodological Note", at www.un.org /esa/policy/index.html

The World Economic Vulnerability Monitor is prepared by UN/DESA. It measures the impact of the global crisis on economic vulnerability based on the "Integrated Monitoring and Analytical System for Crisis Response", developed as part of CEB's Joint Crisis Initiatives.
Contact: Rob Vos, Director, e-mail: vos@un.org • http://www.un.org/esa/policy/index.html

Figure 2: Projected trade shocks in developing regions in 2009



perienced by some of Asia's newly industrialized economies as well as by several energy- and mineral-exporting countries, with some of them suffering losses of well over 20 per cent of their GDP (such as in Bahrain, Brunei Darussalam, Gabon, Iraq and Papua New Guinea).

Notably, the least developed countries are, on average, hurt to a much lesser degree. Their aggregate trade shock is estimated to cost about $3 billion in 2009 or about 0.9 per cent of their combined GDP. It should be noted, however, that unlike most other country groups, the LDCs as a group had already suffered a negative trade shock in 2008, while also running persistent trade deficits. Further, the impact on these economies dif-

Figure 3: Most severely affected countries grouped by sector of export specialization
(Trade shocks as per cent of GDP)

fers greatly: most oil and mineral exporters suffer strong adverse shocks (including countries such as Mauritania, Yemen and Zambia), while net food and energy importers even register some possible mild trade gains from falling import prices (such as Gambia, Sao Tome et Principe and Tanzania). Although LDCs have possibly not been hit as hard for the year on average, they face the key problem of the adverse impact of highly volatile export and import prices on their fragile economies.

The developed countries, in which the crisis originated, will suffer strong negative trade shocks in 2009 amounting to 3.2 per cent of their combined GDP or almost $1.3 trillion. In dollar terms, Germany (about $200 billion) and Japan (about $150 billion) are hardest hit, almost entirely on account of the collapse in global demand for manufactures. In both countries the shocks are somewhat softened by the price drop of imported food and energy. The adverse trade shock for the United States is estimated at about $40 billion. In relative terms, the strongest trade shocks (more than 10 per cent of their GDP) among developed countries are felt by the countries in Central and Eastern Europe (Slovakia, Czech Republic, Belarus, Hungary and the Baltic States), as a consequence of the decline in the demand for their manufactured exports.

The trade shocks will affect growth and employment in every case though clearly not to the same degree since the nature of the shock varies. At this point in the crisis, many of the countries that are considered the most vulnerable (the LDCs) do not appear to be the hardest hit through the estimated trade shocks. Yet, as will be assessed in subsequent briefings, other factors need to be considered as well, including existing cushions to mitigate the impact of the crisis (such as availability of international reserves).

Regions exhibit different price and demand effects

The United States is estimated to experience a negative trade shock of approximately $40 billion in 2009. However, the contraction in the import bill due to the recession and the lower energy prices will outpace the fall in export revenues. On the assumptions of a 35 per cent fall in oil prices and no disruptions in domestic supply, energy imports will decline by a total of $250 billion in 2009. In addition, the lower import demand for consumer goods and capital goods may cut the import bill by another $100 billion. Conversely, Canada will suffer a more severe shock since the recession in the United States will cut the net export volume of manufactured goods, and the fall in commodity and oil prices will adversely affect export revenues.

The European Union will suffer a negative trade shock of about $700 billion, mostly owing to the fall in demand for manufacturing exports. By contrast, a fall in import volume demand of a similar magnitude, together with more favorable terms of trade, will result in a small gain in the trade balance of about $30 billion in 2009. However, Germany will likely experience a drop in its trade balance equivalent to 1.9 per cent of GDP, almost entirely accounted for by the shrinking volume of manufacturing exports.

The new EU members are expected to register a negative trade shock of more than $100 billion. The gain in terms of trade will not compensate for the projected fall in exports of at least 25 per cent owing to the decline in demand from Western Europe. On the import side, depressed domestic demand, the credit contraction and the strong import content of exports will lead to an even sharper decline of imports at a rate of at least 30 per cent. The net effect on the trade balances may even be positive, most noticeably in the Baltic States.

The trade shock for Japan in 2009 is projected to amount to about $150 billion. In late 2008 and early 2009, Japan's exports plummeted at an annual pace of more than 50 per cent, and its trade balance turned from a large long-term surplus to a deficit. A slump in the global demand for autos, information technology and machinery has been the key factor. Exports and imports have somewhat recovered since the second quarter of 2009, partly reflecting the moderating pace of inventory adjustment in the global economy, as well as the slow recovery of demand from Asian emerging economies.

In the CIS, the losses resulting from the global trade shock are expected to exceed $250 billion due primarily to lower export prices and despite lower import costs of $50 billion. Export losses will exceed $180 billion in the Russian

Federation alone, driven mainly by lower oil prices. However, exports of manufactures and agriculture will also decrease significantly, leading to a significant contraction of the current account surplus. Decreases in exports are also forecast to affect Ukraine and Kazakhstan, the second- and third-largest economies of the CIS. In Kazakhstan, the current account will swing into deficit, while in Ukraine the current account deficit is expected to be halved owing to an improvement in the total terms of trade and lower import demand.

South-eastern Europe will experience a negative trade shock of approximately $2 billion, mainly due to the negative impact of the recession in the EU on export demand. While export revenues will decline by at least 20 per cent, trade balances are generally projected to improve as imports may contract by more than 30 per cent.

The negative trade shock for Africa as a whole is estimated to be approximately $80 billion, owing half to a decline of its terms of trade and half to a decline of export volumes. However, net energy-importing countries are clearly facing a favorable trade shock. In particular, many least-developed countries, which entered the economic crisis in an unfavorable situation owing to high energy and food prices, will face an improvement in their terms of trade which will partially alleviate the decline in export demand. Other energy-importing countries, like Ghana and Kenya, will likely experience a positive shock of about 8 per cent of GDP. Meanwhile, South Africa's fall in the volume of exports is likely to be greater than a favorable price effect, resulting in a negative trade shock of 1.5 per cent of GDP.

East Asia is expected to experience an aggregate negative trade shock of almost $350 billion (4.7 per cent of aggregate GDP) in 2009, following the sharp contraction of trade in manufactured goods earlier in the year. The trade shocks are most severe in Hong Kong Special Administrative Region of China, Malaysia, Papua New Guinea and Singapore, ranging from 14 per cent to 27 per cent of GDP. In Papua New Guinea, which is one of the poorest countries in the region, the strong decline in export earnings is the result of a fall in the demand and price of copper as well as a much lower average oil price. The impact of the trade shock on the larger economies of China, Indonesia, the Philippines and the Republic of Korea has been much smaller, with the expected losses ranging from 1 per cent to 5 per cent of GDP.

With the exception of the Islamic Republic of Iran, the South Asian economies are less impacted by the global trade shock than most other world regions. The region as a whole is projected to experience a negative trade shock of the magnitude of $2.5 billion, or 1.4 per cent of aggregate GDP, as the negative demand effect outweighs the benefits from improved terms-of-trade. The combined effect is expected to be positive for India, Pakistan and Sri Lanka, partly owing to lower crude oil prices. The shock will be only slightly negative for Bangladesh. Garment shipments, which account for approximately 80 per cent of Bangladesh's total export earnings, have continued to grow strongly since the onset of the global financial crisis, helped by low prices that undercut rivals in the region.

Western Asia will see a negative trade shock of the magnitude of $200 billion, driven mainly by a fall in export prices. Looking at individual countries, the region offers a picture of stark contrasts. In line with the regional trend, oil exporters such as Saudi Arabia are forecast to experience a pronounced contraction in their trade surpluses due to lower oil prices and, albeit to a smaller extent, lower oil export volumes. By contrast, more manufacturing-oriented economies such as Turkey are expected to see a shrinking trade deficit in 2009, with falling imports outpacing the drop in exports.

In Latin America and the Caribbean, the estimated trade shock will be around $125 billion in 2009, which represents 3.7 per cent of the regional GDP. This loss is mainly due to a drop in export volume, particularly for countries such as Mexico that are directly linked to the United States economy. In the Central American economies, more favorable changes in the terms of trade are projected to result in a positive trade shock. Meanwhile, for Brazil, the slight positive terms of trade shock will not be sufficient to offset the decline in export demand. In turn, the negative impact of the terms of trade shock will be felt most in the oil-exporting countries of the Bolivarian Republic of Venezuela and Ecuador.■