

# The crisis and trade

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# The crisis: setting

- The question that doesn't need answering: What caused the crisis?
- The real question: Fragility and interconnectedness
- Three sources of fragility and interconnectedness
  - Bubble assets were unregulated, untraded, unstandardised and un-transparent.
  - Fundamental nature of banking has shifted.
  - The great leveraging, i.e. under-pricing of risk.

# The crisis: denouement

- August 2007: the Subprime Crisis.
- Dance of 1000 veils.
- September 2008: financial crisis becomes an economic crisis.
  - Landmine crisis.
- G7 & G20 meetings, Fall 2008.
- From Nov08 to today: the cluster bomb crisis.
- Global fear of the unknown: deleveraging, postponed investment & consumption.
  - Manufacturing hit hard (durable and capital goods)

# Trade

- Trade's collapse and Murky Protectionism (Baldwin and Evenett 2009).
  - Sudden, synchronized & severe collapse (3 main reasons: supply chain amplification & synchronisation, trade credit, protectionism (not yet important as a cause, rather a consequence)).
- Worries.
  - Nightmare & higher probability scenarios.

# What to do?

- Baldwin and Evenett (2009) Ebook.
- five basic categories:
  - (i) standstill commitments with surveillance,
  - (ii) development of exit strategies to remove any crisis-linked protectionism after the crisis has passed,
  - (iii) getting Doha back on track,
  - (iv) avoiding green protectionism, and
  - (v) aggressive deterrence.