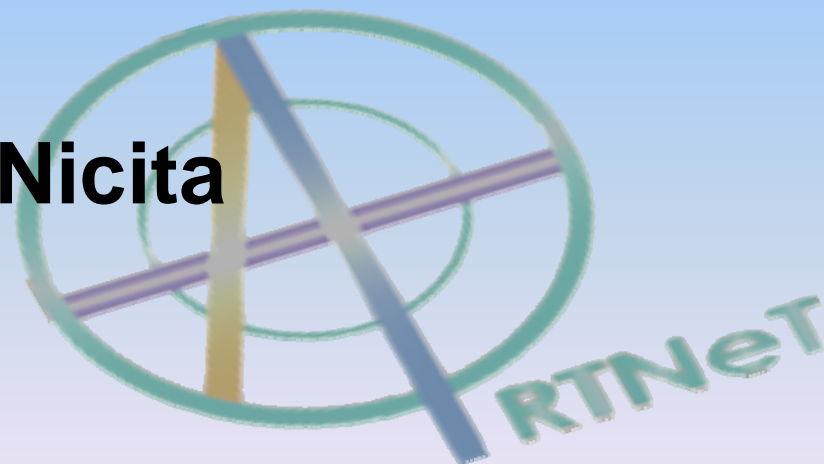


Trade-led Growth in Times of Crisis
Asia-Pacific Trade Economists' Conference
2-3 November 2009, Bangkok

Session 12

New and Traditional Trade Flows and the Economic Crisis

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Asia-Pacific Research and Training Network on Trade

www.artnetontrade.org

Regional Seminar on
Trade Led Growth in Times of Crisis
ARTNeT

New and Traditional Trade Flows and the Economic Crisis

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2-3 November, 2009
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Motivation

- Fast Increase International trade before the crisis
 - From 1990 trade has increased 5-fold to reach about 15 trillion USD in 2008
 - Most of it has been at the intensive margin
- In term of economic development, it makes a difference whether export increases at the extensive or intensive margin
 - In general, countries that have been able to expand into export of new products have performed better
- If crisis has a relatively higher negative impact on new export flows, it could make more difficult to diversify and it could imply stronger repercussion for economic growth

The question we ask is...

Effect on the crisis on trade flows has been pervasive, but maybe some type of trade more affected than others

Is export performance in time of economic crisis different between new and traditional trade flows?

Why new exports may behave differently?

- Maybe they were filling marginal demand (least efficient) (+)
- Not proven reliability, more risky suppliers (+)
- New entrants, adopt newer varieties, technologies (-)
- Have large fixed cost or enjoy government support (-)
- Crisis may represent a change / opportunity (?)

More specifically: 3 questions

- Is the probability of new trade flow to survive the crisis any better than that of traditional trade flows?
- Is the crisis affecting the length of trade flows? Is this effect different between new and traditional flows?
- What is the impact of the crisis on the value of new vs traditional trade flows?

What we do not examine...

- We do not try to understand the reasons behind why NEW flows may be more affected by the crisis.
- We do not examine the importance of other determinants such as geography, trade costs, trade policy...

Data

- US imports monthly data
- From January 2007 to June 2009
- From USITC DataWeb database
- At HS-6 digit, about 5000 different products
- Covers 110 trading partners
- We exclude oil
- We exclude small products
 - (less than 10 million imported in 2007+2008)
- Dataset size: almost 5 million observations

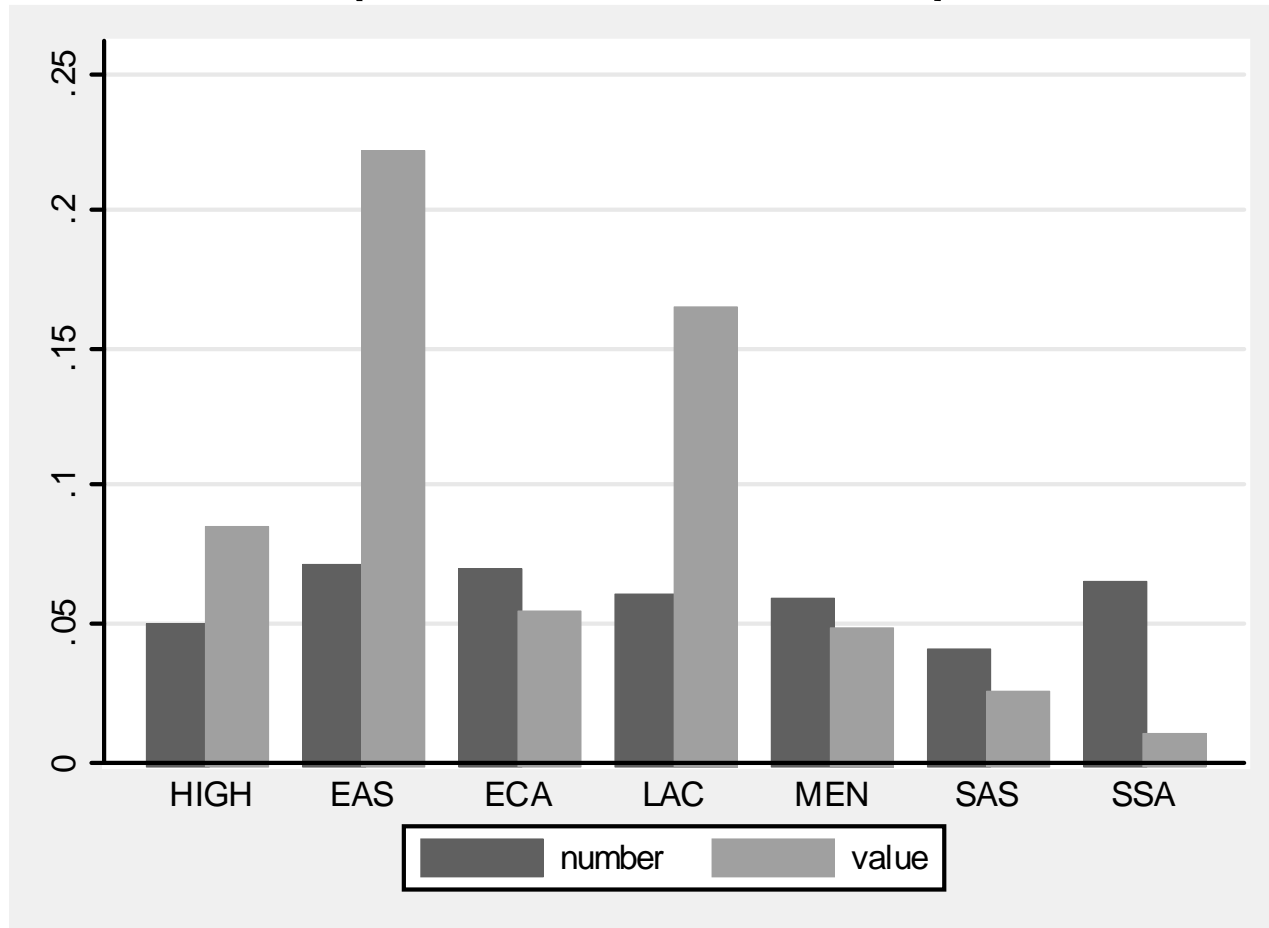
Definition of new trade flows

- NEW = Bilateral Trade flows at the product level (hs6 digits) that did exist in 2006 or 2007, but did not exist before 2006.
- About 6 % of the total number of US bilateral trade flows are NEW
- About 13 % of US imports in value is in NEW trade flows.

But these numbers vary considerably across partners...

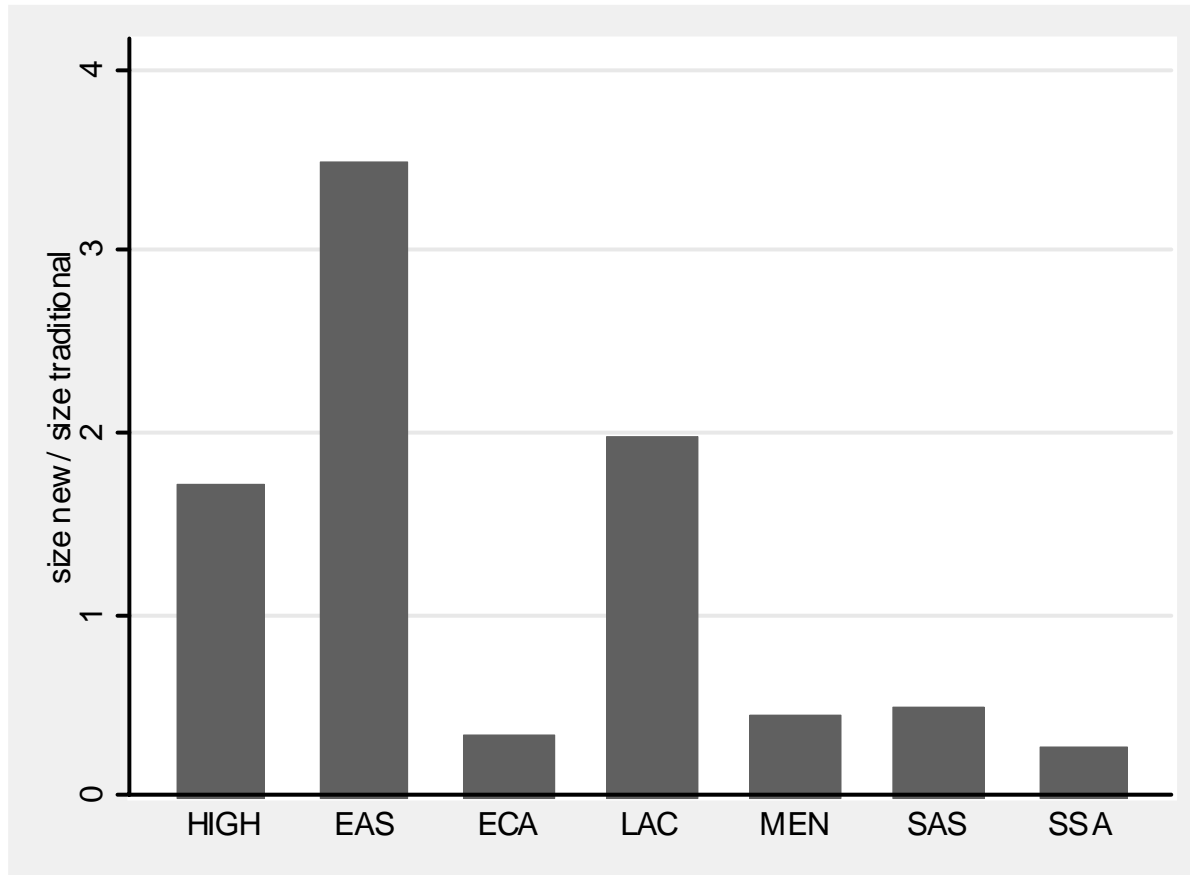
New Trade Flows - 2008

(% over total)



Relative importance of NEW flow

Average size new/Average size traditional

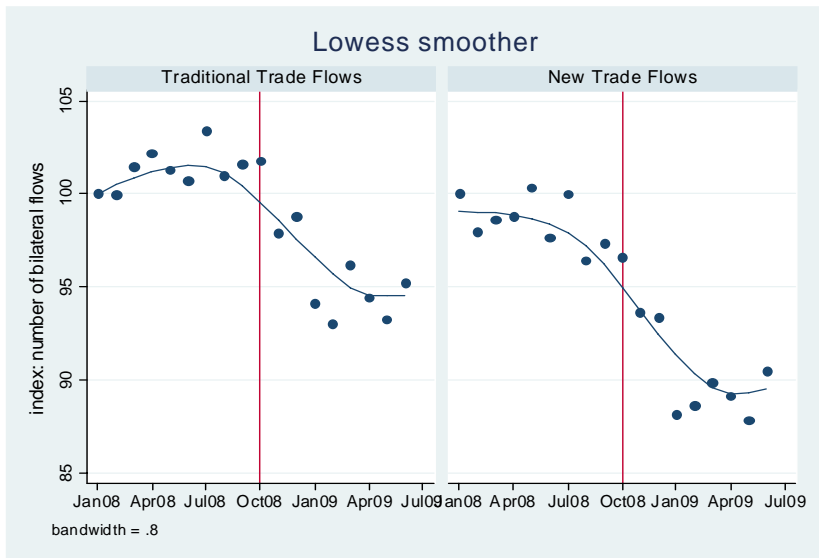


NEW trade flows grow more than traditional flows for the most dynamic economies

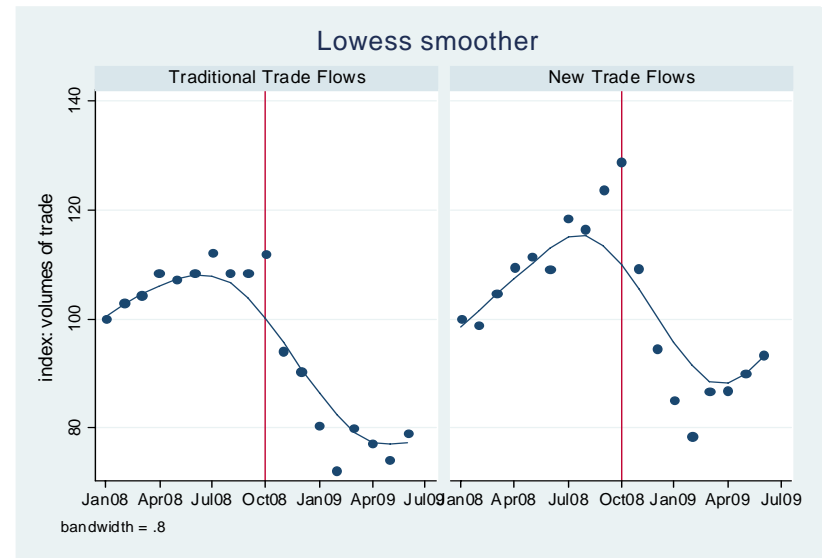
Crisis on trade flows

(index: Jan 2008 = 100)

NUMBER of FLOWS



TRADE VALUE of FLOWS



- New flows appears to decrease more substantially in number than traditional flows
- Overall reduction of new and traditional flows during the crisis (October 2008) both with regard to their numbers and volumes

Descriptive Results

- The descriptive results do not take into account product, period and country characteristics.
- We ultimately are interested in the within product differences, meaning whether traditional and new flows behave in a similar fashion once controlled for demand shocks at the product level, country level and period level.

Econometrics

1. Probabilistic Econometric Model

- Whether the occurrence of exporting is different during the crisis.

2. Survival Analysis

- Whether new flows behave differently in terms of spell duration than traditional flows and whether this has changed during the crisis?

3. Standard Panel Estimation

- Whether there is any difference in the effect on trade volumes of new flows vs traditional flows?

Probabilistic Econometric Model

Conditional fixed effect Logit Model:

	<i>Specification 1</i>	<i>Specification 2</i>
New Flow	0.05 (1.32)	-0.66*** (-10.64)
Export 2007 (in log)		0.39*** (166.64)
Number of observations	152,200	152,200
LR chi2	30,469	88,402
Fixed Effect by:		
Product (HS6)	Yes	Yes
Country	Yes	Yes
Time	Yes	Yes

Robust z statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Duration Analysis – Semiparametric Cox Model

Semiparametric Cox Model:

	<i>Specification 1</i>	<i>Specification 2</i>	<i>Specification 3</i>
Crisis	1.299*** (23.36)	1.634*** (42.51)	1.633*** (43.23)
New Flow	1.041 (1.53)	1.310*** (9.29)	1.308*** (9.23)
Crisis*New	0.962 (-1.23)	0.994 (-0.19)	
Export 2007 (in log)		0.682*** (-95.04)	0.682*** (-95.03)
Number of observations	501,761	463,938	463,938
Wald chi2	553.9	9,142.5	9,131.1
Stratified by			
Exporting Countries	Yes	Yes	Yes
Product HS-4	Yes	Yes	Yes
Year	Yes	Yes	Yes

Robust z statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Std. Err. adjusted for 4137 clusters in hs-6 digit

Standard Panel Estimation

Panel Estimation:

	<i>Specification 1</i>	<i>Specification 2</i>	<i>Specification 3</i>
Crisis	-0.24*** (-21.67)	-0.24*** (-21.67)	-0.22*** (-19.69)
New flow		0.65*** (5.06)	0.77*** (6.03)
Crisis*New			-0.39*** (-12.22)
Number of observations	4,756,470	4,756,470	4,756,470
F	193	187	188
Fixed Effect by:			
Product (HS6)	Yes	Yes	Yes
Country	Yes	Yes	Yes
Time	Yes	Yes	Yes

Robust t statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Std. Err. adjusted for 4396 clusters in hs6

Conclusions

- New trade flows have lower probability of surviving the fall in demand. No difference in the effect of crisis on duration. Relatively higher negative effect on trade volumes of NEW flows
- This implies that the economic crisis may be producing delays on the international product cycle with traditional and larger exporters holding ground in a relatively better way than new entrants. As export growth in the extensive margin is correlated to economic growth, this may have repercussions for the development perspective of smaller, newly emerging economies. More difficult to enter markets
- The result also hint to that there may be other determinants that may be more important explaining the effect of the crisis on different trade flows. Larger exporters hold relatively better.