



N° 2010 – 07

March

CRISES AND THE COLLAPSE OF WORLD TRADE: THE SHIFT TO LOWER QUALITY

Antoine Berthou & Charlotte Emlinger

NON-TECHNICAL SUMMARY

Much attention has been paid to the collapse of world trade during the last quarter of 2008 and the first quarter of 2009. Between July 2008 and January 2009, the volume of world exports decreased by 24%, while trade prices decreased by 14%. Similar disconnection between values and volumes of World trade was also observed during the crisis in 2001.

This paper shows that contractions of income affect more the imports of high quality varieties, which are sold at higher prices, leading to a decrease in import price indices. Import price indices may indeed decrease because (i) the individual price of each variety is decreasing, (ii) the product mix that is imported is changing, and (iii) importers change the composition of varieties of each product they import. In our analysis, a variety is defined as a product category differentiated by its country of origin. Hence, several countries can export a product category; but, since the goods exported differ in their characteristics, they are usually considered as different varieties of a single product.

We use detailed product level data for European Union 15 (EU15) imports provided by Eurostat on a monthly basis, and confirm that the import price index of the EU15 decreased sharply during the crisis in 2008-2009. 24% of the collapse of the trade price index can be explained by a larger decrease of the demand addressed to high-quality varieties that are sold at a higher price on the European market.

The econometric analysis is performed on historical data for about 200 countries in the World and 5000 product categories over the period 1995-2007. Estimation results confirm that imports of high quality varieties react more to GDP variations than low quality varieties. The larger income elasticity for high-quality varieties contributes to explain the sharp reduction of trade price indices during crises.

J.E.L. Classification: E31, F14, F41

Keywords: Global crisis, income elasticity, quality ladders