Trade Finance and the Great Trade Collapse

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Abstract

Economic models that do not incorporate financial frictions only explain about 70 to 80 percent of the decline in world trade that occurred in the 2008-2009 crisis. We review evidence that shows financial factors also contributed to the great trade collapse and uncover two new stylized facts in support of it. First, we show that the prices of manufactured exports rose relative to domestic prices during the crisis. Second, we show that US seaborne exports and imports, which are likely to be more sensitive to trade finance problems, saw their prices rise relative to goods shipped by air or land.

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F14 Country and Industry Studies of Trade

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G01 Financial Crises