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Summary

The present recession is not only one of the worst the world has experienced in many years, but also made its appearance in many countries almost simultaneously. The paper postulates that such a phenomenon may be linked to the considerable increase in the degree of openness in many countries and the narrow trade and financial linkages that this entails. In other words, once trade decreases in one major global actor, the loss of exports diffuses fast into the global economy and has strong multiplying effects. In the present case, while the financial crisis has worsened the situation, it is not the main culprit.

Introduction

Since 1960, the share of exports and imports² has considerably increased in all countries. Even in an economy always regarded as «very closed», i.e. the United States of America, exports, which were only 5.2% of GDP in 1960, had jumped to 11 % by 2000 and reached their record level of 12.7% in 2008, just before the present recession. Similarly, imports jumped from 4.4% of GDP in 1960 to 14.9% in 2000 and 17.3% in 2008. Even in a very open economy like Belgium, the share of exports was 35.9% in 1960 and reached 85.8 % in 2008.³ In the same way, in all the large members of the European Union these shares at least doubled over the same period. Finally, in more recent times, the so-called emergent countries also increased their trade shares considerably.

All this means that any export shock is likely to have a greater impact on GDP growth than ever before and to diffuse more once major countries contract their final demand. The current recession, according to the ECRI⁴ is, to date, the most simultaneous in many countries and, as a result, export demand has crumbled and is in fact much larger than the fall in industrial production and GDP.

In this paper, we will in section 1 present the evolution of trade openness and in section 2 we will analyse the present recession in more detail. Section 3 will deal with financial linkages and will be followed by our conclusions.

¹ The author is retired from the European Commission and presently Research Director in ECOMOD.

² In this note, the terms « exports » and « imports » are used for total exports (and imports) of goods and services, national accounts definition.

³ Imports at the same time were respectively at 36.3 and 84.9% GDP in 1960 and 2008.

⁴ Available at www.businesscycle.com

1. The long term evolution of trade shares in GDP

Tables 1, 2 and 3 present the evolution of trade shares for the major OECD economies from 1960 to 2008. These are presented as the share of exports in GDP (tab. 1), as the share of imports in GDP (tab. 2) and finally the share of the average of exports and imports in GDP (tab. 3). In order to keep the table to a reasonable size only figures at five years intervals are presented.

Table 1. Share of total Exports of goods and services in GDP, 1960-2008 in % (Xgs/GDP)

Country	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005	2006	2007	2008
Belgium	35.9	39.9	48.2	50.1	54.6	68.0	67.1	65.4	78.2	80.2	82.3	83.4	85.8
Denmark	32.6	29.6	28.0	30.2	33.2	37.4	37.2	37.6	46.6	49.0	52.0	52.3	54.9
Germany	na	na	na	na	na	na	na	24.0	33.4	41.1	45.4	46.9	47.3
W. Germany	19.2	18.2	21.4	24.2	26.3	32.4	32.3	na	na	na	na	na	na
Ireland	29.3	32.1	34.0	39.3	45.6	55.4	56.3	76.3	96.3	81.8	79.8	80.9	83.5
Greece	11.8	9.1	9.4	16.8	22.9	19.1	17.5	17.1	24.9	22.4	22.6	22.7	23.2
Spain	8.3	8.1	12.3	12.6	14.7	21.4	16.1	22.4	29.0	25.7	26.3	26.9	26.5
France	14.6	13.3	15.7	18.6	21.0	23.4	21.2	22.8	28.6	26.1	26.7	26.5	26.4
Italy	12.5	14.3	15.8	19.5	21.0	22.0	19.2	25.7	27.1	25.9	27.7	29.0	28.8
Luxemburg	89.0	82.9	91.3	95.0	90.9	111.6	101.5	106.4	150.0	155.8	168.9	177.2	172.8
Netherlands	47.8	42.9	44.8	49.1	52.3	62.1	56.5	59.4	70.1	69.6	72.8	74.8	76.8
Austria	22.2	22.9	28.4	29.1	32.8	36.2	37.1	34.9	46.4	54.2	56.8	59.7	59.4
Portugal	16.4	19.1	19.7	16.2	22.6	31.2	30.7	28.6	29.8	28.5	32.0	32.8	33.0
Finland	21.3	19.2	24.3	22.4	31.1	28.4	22.5	36.4	43.5	41.8	45.2	45.7	47.0
Sweden	22.9	21.7	24.0	28.1	29.7	35.8	30.5	39.8	46.6	18.7	51.5	52.6	54.2
UK	19.8	18.4	22.2	25.4	27.1	28.8	24.0	28.2	27.6	26.4	28.5	26.6	29.2
USA	5.2	5.2	5.8	8.5	10.1	7.2	9.6	11.0	11.0	10.4	11.0	11.8	12.7
Japan	10.6	10.4	10.7	12.6	13.5	14.2	10.4	9.1	11.0	14.3	16.1	17.6	17.4
Canada	17.0	18.6	22.3	22.4	28.1	28.3	25.8	37.3	45.6	37.8	36.0	34.7	35.1
Korea	na	na	12.9	25.4	30.3	30.2	26.4	27.2	38.6	39.3	39.7	41.9	52.9
Australia	12.7	12.9	12.9	13.7	15.1	15.3	16.2	19.2	22.7	20.3	20.6	20.7	25.0
New Zealand	21.6	20.9	22.2	23.4	29.4	29.5	26.8	29.0	35.5	27.9	29.1	28.5	31.8

Source: Database AMECO of DG ECFIN European Commission, March 2010

Table 2. Share of total Imports of goods and services in GDP, 1960-2008 in % (Xgs/GDP)

Country	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005	2006	2007	2008
Belgium	36.7	40.1	46.0	49.9	57.9	67.1	65.4	61.5	75.3	76.2	78.5	79.6	84.9
Denmark	34.7	31.9	31.7	31.9	34.8	37.7	32.6	33.5	40.5	44.1	48.9	50.2	52.6
Germany	na	na	na	na	na	na	na	23.5	33.0	35.8	39.7	39.9	41.0
W. Germany	16.6	17.9	19.2	21.8	27.0	29.0	26.7	na	na	na	na	na	na
Ireland	34.9	41.0	42.1	45.6	58.9	54.5	52.0	64.7	84.8	70.0	69.9	70.7	73.2
Greece	16.8	19.7	17.6	24.3	29.0	27.8	29.1	26.0	38.4	31.6	33.2	33.8	33.5
Spain	6.9	13.0	13.2	16.2	16.8	19.5	19.4	22.4	32.2	31.0	32.7	33.7	32.4
France	12.4	12.3	15.5	18.0	23.0	24.3	22.6	21.6	27.7	26.9	28.0	28.4	28.9
Italy	12.9	12.1	15.5	19.4	23.7	22.4	19.0	21.9	26.1	26.0	28.6	29.2	29.3
Luxemburg	69.3	75.1	71.2	82.8	83.8	97.2	88.2	85.2	129.0	130.3	137.5	143.8	140.3
Netherlands	45.5	43.1	45.9	45.4	52.4	57.9	52.6	53.7	64.5	61.1	65.1	66.1	68.4
Austria	23.5	24.1	28.2	29.3	36.1	36.2	36.9	35.8	44.7	50.2	52.0	53.9	53.6
Portugal	20.7	24.3	26.3	25.3	36.2	35.8	38.9	35.0	40.6	37.4	39.2	40.3	42.5
Finland	22.3	21.1	25.8	28.5	32.5	27.7	23.9	28.8	33.9	37.4	40.2	40.7	43.1
Sweden	22.9	22.1	24.0	27.6	30.9	33.6	29.8	32.9	40.3	41.0	43.3	44.9	46.8
UK	21.2	19.3	21.4	26.9	24.7	27.3	26.1	28.4	29.5	29.8	31.6	29.8	31.7
USA	4.4	4.5	5.4	7.6	10.6	10.0	10.9	12.3	14.9	16.1	16.8	16.9	17.7
Japan	10.1	9.0	9.4	12.6	14.4	10.8	9.4	7.7	9.5	12.9	14.9	15.9	17.3
Canada	18.3	18.7	19.8	24.2	26.2	26.0	25.7	34.1	39.8	34.1	33.6	32.7	33.5
Korea	na	na	22.6	33.6	37.9	29.7	27.5	28.4	35.7	36.6	38.3	40.4	54.1
Australia	15.5	15.1	13.2	13.7	17.1	18.5	16.4	19.6	22.4	21.8	21.8	22.5	25.3
New Zealand	23.8	23.1	25.3	30.6	30.6	32.5	26.6	28.2	33.8	30.2	30.6	29.4	33.4

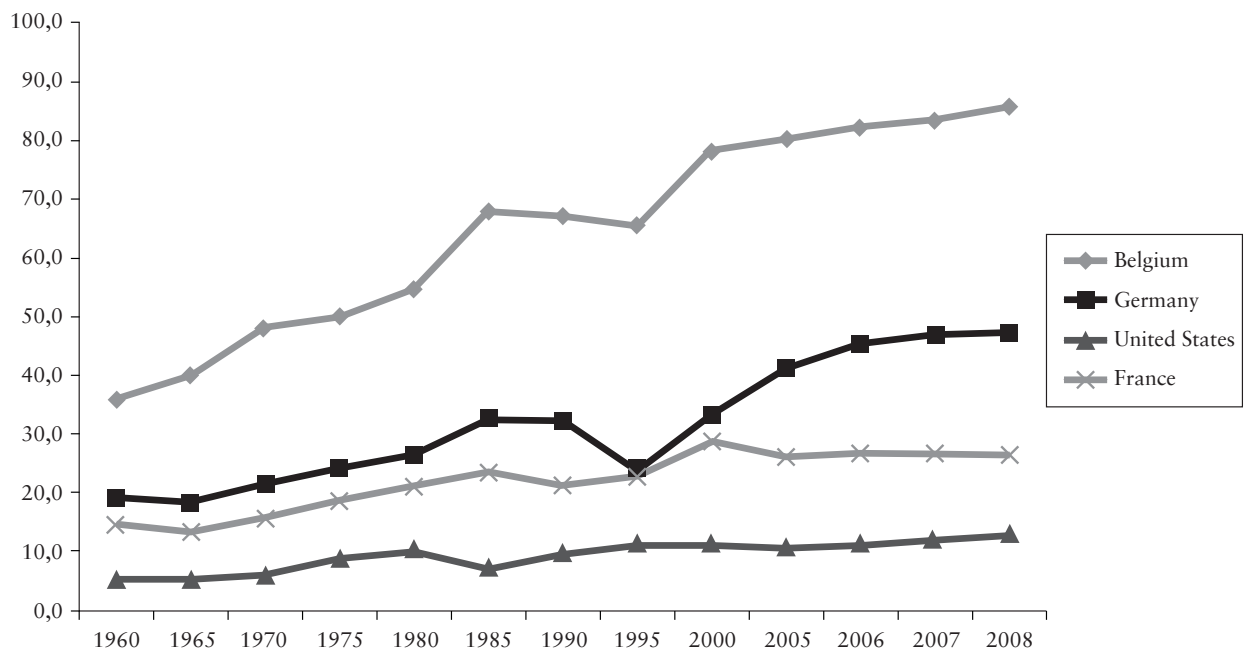
Source: Database AMECO of DG ECFIN European Commission, March 2010

Table 3. Average share of total Exports and Imports of goods and services in GDP 1960-2008, in % $((X_{gs}+M_{gs})/2)/GDP$

Country	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005	2006	2007	2008
Belgium	36.3	40.0	47.1	50.0	56.2	67.6	66.3	63.5	76.8	78.2	80.4	81.5	85.3
Denmark	33.6	30.7	29.9	31.0	34.0	37.6	34.9	35.5	43.5	46.5	50.5	51.2	53.7
Germany	na	na	na	na	na	na	na	237	33.2	38.5	42.5	43.4	44.1
W. Germany	17.9	18.0	20.3	23.0	26.6	30.7	29.5	na	na	na	na	na	an
Ireland	32.1	36.5	38.0	42.5	52.2	54.9	54.4	70.5	91.6	75.9	74.9	75.8	78.3
Greece	14.3	14.4	13.5	20.5	26.0	23.5	23.3	21.6	31.6	27.0	27.9	28.3	28.3
Spain	7.6	10.6	12.8	14.4	15.7	20.5	17.8	22.4	30.6	28.3	29.5	30.3	29.5
France	13.5	12.8	15.6	18.3	22.0	23.9	21.9	22.2	28.1	26.5	27.4	27.4	27.7
Italy	12.7	13.2	15.7	19.5	22.4	22.2	19.1	23.8	26.6	26.0	28.1	29.1	29.1
Luxemburg	79.2	79.0	81.2	88.9	87.4	104.4	94.9	95.8	139.5	143.1	153.2	160.5	156.5
Netherlands	46.6	43.0	45.4	47.2	52.4	60.0	54.5	56.5	67.3	65.4	69.0	70.5	72.6
Austria	22.8	23.5	28.3	29.2	34.5	36.2	37.0	35.3	45.5	52.2	54.4	56.8	56.5
Portugal	18.6	21.7	23.0	20.7	29.4	33.5	34.8	31.8	35.2	33.0	35.1	36.5	37.7
Finland	21.8	20.1	25.1	25.4	31.8	28.0	23.2	32.6	38.7	39.6	42.7	43.2	45.0
Sweden	22.9	21.9	24.0	27.9	30.3	34.7	30.2	36.4	43.4	44.9	47.4	48.7	50.5
UK	20.5	18.8	21.8	26.1	25.9	28.1	25.0	28.3	28.6	28.1	30.1	28.2	30.4
USA	4.8	4.8	5.6	8.1	10.4	8.6	10.3	11.6	13.0	13.2	13.9	14.4	15.2
Japan	10.4	9.7	10.0	12.6	14.0	12.5	9.9	8.4	10.3	13.6	15.5	16.8	17.4
Canada	17.7	18.7	21.0	23.0	27.2	27.1	25.7	35.7	42.7	35.9	34.8	33.7	34.3
Korea	na	na	17.7	29.5	34.1	30.0	27.0	27.8	37.1	37.9	39.0	41.2	53.5
Australia	14.1	14.0	13.0	13.7	16.1	16.9	16.3	19.4	22.5	21.0	21.2	21.6	25.1
New Zealand	22.7	22.0	23.7	27.0	30.0	31.0	26.7	28.6	34.7	29.1	29.8	29.0	32.6

Source: Database AMECO of DG ECFIN European Commission, March 2010

Graph 1. Share of total Exports for selected countries.



Thus, all countries registered considerable increases in their trade shares, and the same is true for countries not presented in these tables. For instance, in Asia, exports as a % of GDP grew between 1993 and 2008 in Taiwan from about 40% to 70%, Korea from about 20% to 64%, China from about 12% to 34% and India from about 10% to 22%.

This means of course that any export shock, whatever its cause, will be transmitted to GDP in a much stronger way in the 21st century than in the 20th, with stronger consequences for income and employment in the whole economy.

2. The present recession: 2009, 2010 ...?

Is the present recession different from former ones? Leaving aside the financial crisis as an aggravating factor but not the cause, the present recession is, to date, the most simultaneous one.

The ECRI maintains for twenty-one countries⁵ a database of peaks and troughs in business cycles based on a set of indicators of output, employment, sales and incomes. This approach is more sophisticated than the current simplistic definition of “two quarters of negative GDP growth”.

In fact, the ECRI defines recession as a “vicious circle”, in which a fall in some measure of economic activity sets off a cascading decline in other coincident measures of economic activity. The domino effect of, say, a fall in sales inducing a fall in output, employment and income, which in turn generates further falls in the same indicators is what marks the start of a recessionary downturn

In this context, the severity of a recession is measured by three factors:

Its *diffusion*, i.e. how many countries were in recession at the same time?

Its *depth*, i.e. the amplitude of the fall in many indicators, industries and region(s) of a country

Its *duration* i.e. the number of months before a recovery is clearly visible and durable

2.1. Diffusion:

The diffusion of a recession can be observed via three kinds of observation:

The clustering of the start of recession dates

The proportion of economies in expansion

The co-movement of coincident indices

Compared to the last recession at the beginning of this century, the clustering is clear. In the last recession, major countries fell into recession in the months between August 2000 and January 2003, whereas now they are all clustered between December 2007 and July 2008.

The proportion of countries in expansion in the twenty-one countries tracked fell to 30% in January 1975, but only to 55% in January 1991 and 70% between January 2001 and January 2004. At present, this proportion fell from 100% in January 2007 to 50% in January 2008 and 20% in January 2009.

Finally the co-movement of coincident indicators is measured by the proportion of the coincident indexes that were higher than they had been three months previously.

For the G7 countries, the index fell from 100 at the end of 2007 to 0 in the late summer of 2008, meaning that all G7 countries were simultaneously in recession. For the 21 countries, the movement was \pm the same, but the fall in 2008 was not steep, reaching 10 in March 2008 from 100 in 2006 and 80 in 2007.

Thus, according to all indicators, the present recession is the most simultaneous to date.

⁵ USA, Canada, Mexico, Brazil, Germany, France, UK, Italy, Spain, Switzerland, Sweden, Austria, Japan, China, India, Korea, Taiwan, Australia, New Zealand, South Africa, Jordan

2.2. Depth

Table 4 gives the rates of growth of real GDP for the period 1992-2010 according to the latest forecast of the European Commission. As may be seen, the fall in 2008-2009 was much larger in most countries than in any of the previous twenty years.

Table 4. Rate of growth of real GDP (in 2000 prices) 1992-2010 (1)

Country	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10(f)
Belgium	1.5	-1.0	3.2	2.4	1.4	3.7	1.9	3.5	3.7	0.8	1.4	0.8	3.2	1.8	2.8	2.9	1.0	-2.9	0.6
Denmark	2.0	-0.1	5.5	3.1	2.8	3.2	2.2	2.6	3.5	0.7	0.5	0.4	2.3	2.4	3.3	1.6	-1.2	-4.5	1.5
Germany	2.2	-0.8	2.7	1.9	1.0	1.8	2.0	2.0	3.2	1.2	0.0	-0.2	1.0	0.8	3.2	2.5	1.3	-5.0	1.2
Ireland	3.3	2.7	5.8	9.8	8.1	11.5	8.4	10.7	9.4	5.7	6.5	4.4	4.6	6.2	5.4	6.0	-3.0	-7.5	-1.4
Greece	0.7	-1.6	2.0	2.1	2.4	3.6	3.4	3.4	4.5	4.2	3.4	5.9	4.6	2.2	4.5	4.5	2.0	-1.1	-0.3
Spain	0.9	-1.0	2.4	2.8	2.4	3.9	4.5	4.7	5.0	3.6	2.7	3.1	3.3	3.6	4.0	3.6	0.9	-3.7	-0.8
France	1.4	-0.9	2.2	2.1	1.1	2.2	3.5	3.3	3.9	1.9	1.0	1.1	2.5	1.9	2.2	2.3	0.4	-2.2	1.2
Italy	0.8	-0.9	2.2	2.8	1.1	1.9	1.4	1.5	3.7	1.8	0.5	0.0	1.5	0.7	2.0	1.6	-1.0	-4.7	0.7
Luxembourg	1.8	4.2	3.8	1.4	1.5	5.9	6.5	8.4	8.4	2.5	4.1	1.5	4.4	5.4	5.6	6.5	0.0	-3.6	1.1
Netherlands	1.7	1.3	3.0	3.1	3.4	4.3	3.9	4.7	3.9	1.9	0.1	0.3	2.2	2.0	3.4	3.6	2.0	-4.5	0.3
Austria	1.9	0.4	2.2	2.5	2.2	2.1	3.6	3.3	3.7	0.5	1.6	0.8	2.5	2.5	3.5	3.5	2.0	-3.7	1.1
Portugal	3.1	-0.7	1.5	2.3	3.6	4.2	4.9	3.8	3.9	2.0	0.8	-0.8	1.5	0.9	1.4	1.9	0.0	-2.9	0.3
Finland	-3.7	-0.9	3.6	3.9	3.7	6.2	5.2	3.9	5.1	2.7	1.6	1.8	3.7	2.8	4.9	4.2	1.0	-6.9	0.9
Sweden	-1.2	-2.1	3.9	4.0	1.5	2.5	3.8	4.6	4.4	1.1	2.4	1.9	4.1	3.3	4.2	2.6	-0.2	-4.6	1.4
UK	0.1	2.2	4.3	3.1	2.9	3.3	3.6	3.5	3.9	2.5	2.1	2.8	3.0	2.2	2.9	2.6	0.5	-4.6	0.9
USA	3.4	2.9	4.	2.5	3.8	4.5	4.4	4.9	4.2	1.1	1.8	2.5	3.6	3.1	2.7	2.1	0.4	-2.5	2.2
Japan	0.8	0.2	0.9	1.9	2.6	1.6	-2.0	-0.1	2.9	0.2	0.3	1.4	2.7	1.9	2.0	2.3	-0.7	-5.9	1.1
Canada	0.9	2.3	4.8	2.8	1.6	4.2	4.1	5.5	5.2	1.8	2.9	1.9	3.1	2.9	3.1	2.7	0.4	-2.6	2.1
Korea	5.9	6.1	8.5	9.2	7.0	4.7	-6.9	9.5	8.5	4.0	7.2	2.8	4.6	4.0	5.2	5.1	2.2	-1.3	2.1
Australia	3.7	4.1	4.3	4.1	3.9	4.5	5.2	4.0	1.9	3.8	3.2	4.0	2.8	3.0	3.3	3.7	3.0	1.0	2.7
New Zealand	1.1	6.4	5.3	4.2	3.5	1.7	0.5	5.3	2.4	3.6	4.9	4.3	3.8	3.0	1.8	3.1	-1.0	-0.3	2.1

Source: Database AMECO of DG ECFIN European Commission, March 2010

(f) forecast

(1) 1992 was chosen as starting date in order to have figures for unified Germany

2.3. Duration

In terms of duration, the recession started between December 2007 and July 2008 and is still going on in April 2010, making it the longest of the post-war period.

Thus, we may say that the recession is the most severe registered in half a century.

This seems to be mostly caused by the bullwhip effect of the fall in domestic demand on exports as shown in table 5 below:

Table 5. Rate of growth of real Exports (in 2000 prices) 1992-2010 (1)

Countries	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10f
Belgium	3.7	-0.4	8.3	5.0	3.7	10.0	4.8	4.5	13.6	11	2.7	0.8	6.6	4.6	5.0	4.5	1.5	-15.7	1.4
Denmark	0.5	1.0	8.4	3.1	4.2	4.9	4.1	11.6	12.7	3.1	4.1	-1.0	2.8	8.0	9.1	2.2	2.2	-10.3	2.1
Germany	-8	-4.9	8.0	6.3	6.0	11.7	8.0	5.9	13.5	6.4	4.3	2.5	10.3	7.7	13.0	7.5	2.9	-15.4	2.6
Ireland	13.9	9.7	15.1	20.0	12.6	17.6	23.1	15.6	20.2	8.6	5.2	0.6	7.5	5.2	5.1	8.6	-1.0	-3.4	1.2
Greece	10.0	-2.6	7.4	3.0	3.5	20.0	5.2	18.1	14.1	0.0	-8.4	2.9	17.4	2.4	5.3	5.8	4.0	-11.8	2.7
Spain	7.5	7.8	16.7	9.4	10.3	15.0	8.0	7.5	10.2	4.2	2.0	3.7	4.2	2.5	6.7	6.6	-1.0	-13.0	1.3
France	5.8	0.2	8.1	8.4	3.7	12.9	8.2	4.6	12.4	2.5	1.5	-1.0	4.0	3.1	4.8	2.6	-0.2	-10.9	2.8
Italy	6.8	8.7	9.6	12.4	1.5	5.1	2.5	-0.4	11.9	2.6	-2.9	-2.0	4.9	1.01	6.2	4.6	-3.7	-20.2	1.6
Luxemburg	2.7	4.8	7.7	4.6	2.3	11.4	11.2	14.2	12.6	4.5	2.1	6.8	11.1	4.5	13.3	8.8	1.5	-10.0	1.8
Netherlands	2.9	4.0	8.7	9.2	14.4	10.9	6.8	8.7	13.5	1.9	0.9	1.5	7.9	6.0	7.3	6.7	2.7	-10.8	1.9
Austria	1.3	-2.4	5.7	7.2	4.6	11.8	8.3	6.1	13.4	6.2	3.9	1.5	10.1	7.4	7.5	9.4	0.8	-13.7	2.1
Finland	9.5	16.4	13.6	8.5	5.9	14.0	9.2	11.3	17.2	2.1	2.8	-1.7	8.6	7.0	11.8	8.1	7.3	-25.3	4.6
Sweden	2.0	8.3	13.5	11.3	4.1	13.6	8.7	7.1	11.5	0.8	1.3	4.0	11.0	6.6	8.9	5.8	1.8	-14.4	1.9
UK	4.2	4.5	9.2	9.4	8.8	8.1	3.1	3.7	9.1	3.0	1.0	1.8	5.0	7.9	11.3	-2.8	1.0	-11.5	1.8
USA	6.9	3.3	8.7	10.1	8.3	11.9	2.3	4.4	8.6	-5.6	-2.0	1.6	9.5	6.7	9.0	8.7	5.4	-10.9	7.7
Japan	4.4	0.4	3.9	4.2	5.9	11.1	-2.7	1.9	12.7	-6.9	7.5	9.2	13.9	7.0	9.7	8.4	1.8	-26.6	7.9
Canada	7.2	10.8	12.7	8.5	5.6	8.3	9.1	10.7	8.9	-3.0	1.2	-2.3	5.0	1.8	0.6	1.0	-4.4	-14.8	5.0
Korea	12.2	12.2	16.3	24.4	12.2	21.6	12.7	14.6	19.1	-3.4	12.1	14.5	19.7	7.8	11.4	12.6	5.7	-13.4	8.2
Australia	6.9	10.0	5.1	10.0	11.0	4.2	2.2	8.5	7.6	-1.0	-0.4	32.1	3.1	2.2	3.8	4.5	6.6	2.4	5.0
New Zealand	3.2	6.9	8.5	2.3	4.7	3.9	2.9	7.4	6.3	3.0	7.8	0.9	4.6	0.0	3.1	2.9	-0.7	-0.5	3.3

Source: Database AMECO of DG ECFIN European Commission, March 2010

(f) forecast

(1) 1992 was chosen as starting date in order to have figures for unified Germany

The comparison of GDP drops in table 4 and the real exports flow in table 5 go a long way in explaining the severity of the recession, especially when we recall the large increase in the degree of openness: Practically all industrialized countries registered double digit negative rates in 2009 and indeed the share of exports in GDP fell everywhere by significant amounts, as shown in table 6. Thus, a fall in domestic demand caused a greater switch in demand growth for imported products, which increased the severity of the recession in exporting countries.

This of course is also a blessing in disguise since it reduces slightly the vulnerability of these economies to a reduction in demand from the others...

Table 6. Share of total Exports of goods and services in GDP, 2008-2010 in %

Country	2008	2009	2010 (f)
Belgium	85.8	72.4	72.7
Denmark	54.9	47.5	48.6
Germany	47.3	40.7	41.2
Ireland	83.5	90.3	93.0
Greece	23.2	20.3	20.9
Spain	26.5	23.6	24.3
France	26.4	22.9	23.3
Italy	28.8	23.5	23.8
Luxemburg	172.8	154.6	157.6
Netherlands	76.8	67.7	68.5
Austria	59.4	51.3	51.8
Finland	52.6	35.3	36.3
Sweden	54.2	50.4	49.0
UK	29.2	27.3	27.6
USA	12.7	10.8	11.5
Japan	17.4	12.1	13.0
Canada	35.1	28.6	29.4
Korea	52.9	52.0	51.7
Australia	25.0	21.0	22.2
New Zealand	31.8	28.7	29.2

Source: Database AMECO of DG ECFIN European Commission, March 2010

(f) forecast

4. The impact of financial linkages.

Although the recession started BEFORE the financial turmoil, the latter undoubtedly contributed to the severity of the former.

The US financial crisis, triggered by the deep fall in the value of subprime mortgages and their titularisation, diffused throughout the world and, due to the freedom of capital movements, these corrupted financial instruments were diffused among investors who did not fully understand what they really represented.

In fact, in the fourth quarter of 2008, foreign investors owned almost nine times the amount of US market credit instruments as they did in 1990.

The strength of the financial linkages may be measured by correlation⁶ between the various stock exchanges in the world and the S&P500 in the US as presented in table 7 below.⁷

Table 7. Correlation between stock prices, 1987-2001 and 2002-2008

Markets	1987-2001	2002-2008
S&P500 vs. FTSE (UK)	0.97	0.99
S&P500 vs. CDAX (Germany)	0.94	0.97
S&P500 vs. Hang-Seng (Hong-Kong)	0.85	0.88
S&P 500 vs. SENSEX (India)	0.66	0.86

Source: Financial Times and Wall Street Journal, various issues.

It is, therefore, not surprising that the free fall of the US stock prices caused dramatic changes throughout the world.

5. Conclusion.

The present circumstances have at least put an end to ridiculous claims stating that the business cycle is dead. The fact that a recession does not need a bank failure and the bursting of a house market bubble to start puts a clear end to that nonsense. However, the present situation contains one new element: Greater dependence of countries on what happens elsewhere.

Thus, once a major source of foreign demand enters into recession, it reverberates more quickly throughout the rest of the world. Given that globalization is here to stay, we will have to adapt to a world where recession will become more simultaneous. Yet, what is true for one situation is of course also true for its reverse: What makes recession more simultaneous will also make recoveries faster.

Let us hope that once the banking system is restored under improved control, foreign trade will once again be a major engine of growth in the world.

⁶ See, e.g. Josef E. Stiglitz « Freefall », published by W.W. Norton, New-York, 2010.

⁷ Of course, correlation should not be confused with causality, and may even be spurious, but given other indicators, it is significant in the present circumstances



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