

## COVID-19: An update since our last note

Living in and adapting to a fluid environment seems to be the new normal. This note considers the impact of the pandemic on global trade in more detail. As one of the key drivers of global economic outcomes, trade disruptions also have the ability to weigh on an economic recovery.

### How COVID-19 has impacted global trade

Even before the arrival of the COVID-19 pandemic, global trade volumes were below trend. Escalating tension between the USA and China contributed to the dollar value of global merchandise exports falling by 3% in 2019 to US\$ 18.89 trillion. In April this year, the World Trade Organisation (WTO) had said it expects world trade to fall by between 13% and 32% as a result of the pandemic, but in June they indicated that the worst-case scenario had in all probability been avoided. Merchandise trade volumes had shrunk by 3% year-on-year for the first quarter and the WTO was expecting second quarter merchandise trade volumes to slump by 18.5% year-on-year. A WTO report also showed that from mid-October to mid-May 2020, 60% (93 of the 154) of trade and trade-related measures implemented by G20 countries were related to the COVID-19 pandemic.

### Not all trade was disrupted equally

Data released by the United Nations Conference on Trade and Development (UNCTAD) in June 2020 provides more insights into how the pandemic has affected various trade sectors up to April 2020. UNCTAD data shows an increase in the pace of trade disruption following on the first quarter (i.e. steeper declines in April). While both developed and developing countries saw an acceleration in the rate of slowdown in trade, the data shows that developing economies seem to have experienced sharper drops in trade volumes in April than their developed country counterparts.

### Developed vs developing country trade

	Q1 2020		April 2020	
	Import	Export	Import	Export
Developed countries	↓ 6%	↓ 3%	↓ 10%	↓ 14%
Developing countries	↓ 2%	↓ 7%	↓ 19%	↓ 18%
South-South Trade	↓ 2%		↓ 14%	

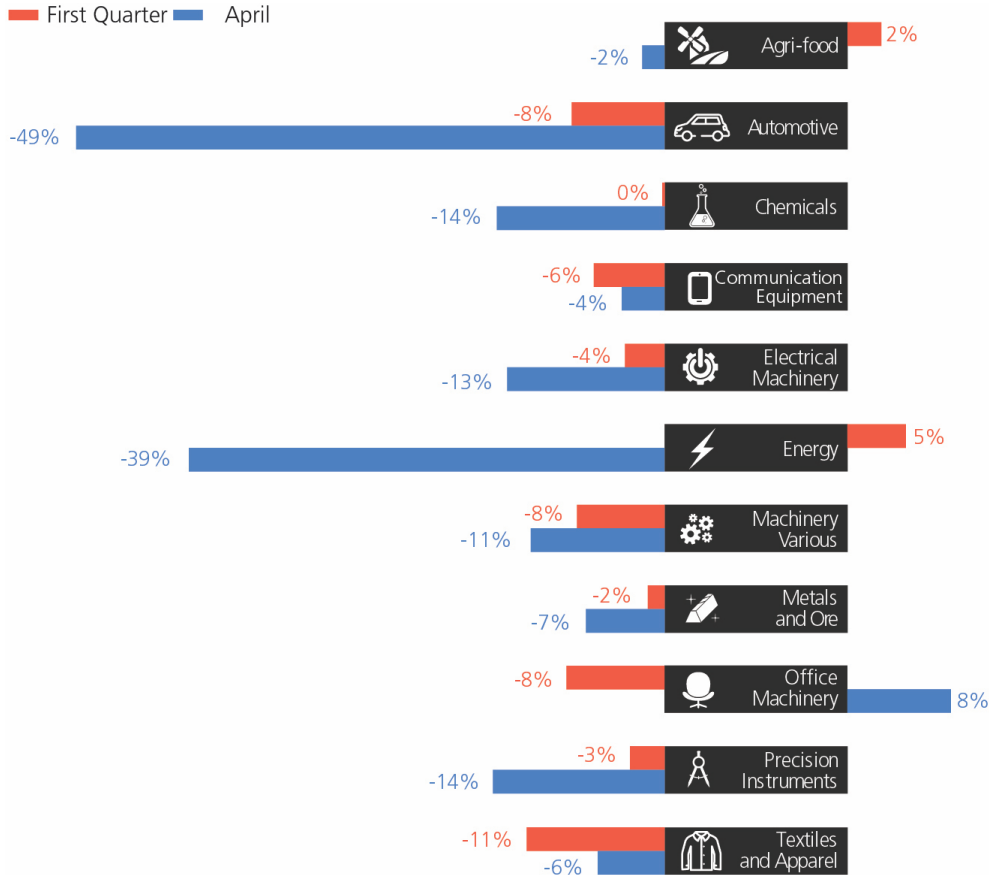
Source: UNCTAD calculations based on national statistics.

Note: Statistics for April are preliminary and based on a limited number of countries. Data excludes intra-EU trade.

The data shows that while the impact on food and agricultural trade has been relatively muted (+2% for the first quarter and -2% for April 2020), other sectors have been more heavily impacted. The automotive industry saw the biggest decline of -49% in April, followed by the energy sector with -39%.

### Trade in medical goods continued – despite trade restrictions

While trade in medical goods declined earlier in the year, it subsequently increased substantially in February and March and almost doubled during April. An earlier UNCTAD report had revealed that many countries had moved to restrict the export of medical goods (e.g. through export licensing requirements), while also easing restrictions on the import of those good (e.g. through the suspension of import taxes). At a country level, Chinese exports of medical goods declined by 15% in January and February, but subsequently increased by 338% in April. The USA saw a 60% increase in medical product imports in April, even as its exports of medical products fell by 20% in the same month.

**Sectoral trade in 2020**
■ First Quarter ■ April


Source: UNCTAD calculations based on national statistics.  
 Note: Percentage changes in world trade are year-over-year. Changes for Q1 are estimated from HS6 digits data of China, European Union and United States, while these for April are estimated only from China and United States data. Data excludes intra-EU trade.

**Global trade remains an area of concern**

The relationship between the WTO and the US has grown increasingly fraught, and WTO Director-General Roberto Azevedo moved to step down at the end of August 2020 - a year earlier than planned. Already in December 2019, the WTO's Appellate Body, which adjudicates trade disputes, had ceased to function as the USA moved to block new appointments to the body.

Concerns are that the ongoing tension between the USA and China could continue to destabilise global trade and weaken the WTO at a time when a concerted global effort is most needed. Many countries have instituted support measures to buoy specific sectors in their domestic economies and protect them from a downturn. If countries do not move to synchronise the abolishment of these COVID-19-related measures in a negotiated manner, then tit-for-tat measures, like tariffs, become more likely. This could introduce further sources of tension into an already strained global trade environment. Others have noted an increase in regional trade agreements that threaten the viability of a global trade order. Regional trade agreements, that extend benefits to states in a specific geographic region, include for example the renewed North America Free Trade Agreement (NAFTA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership in the Pacific Rim. A regional approach benefits the participants of the arrangement, but creates tensions within the WTO. Lastly, trade restrictions and tensions do not apply only to physically traded goods. The USA has moved to restrict access to its markets for Chinese technology companies, including Huawei and TikTok, citing a threat to national security.

Global trade is integral to the world economy, and any measures that hamper trade could impact negatively on global growth. Countries may feel compelled to take steps to protect their domestic industries, but if this is not approached with caution, these measures could have unintended consequences down the line, especially in light of already strained relationships.

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