CONSEQUENCES OF COVID-19 ON THE INTERNATIONAL TRADE IN GOODS AND SERVICES: FORECASTS, DEVELOPMENTS, RESTRICTIONS

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Abstract

The Covid-19 pandemic has created an unprecedented situation, driven by the measures taken by national governments to fight the spread of the disease, through which companies have been temporarily shut down, the movement of people and goods has been restricted, and supply chains have been disrupted. Although in the first part of 2020, there has been a reduction in international trade flows due to the decline in economic activity, there has been an increase in imports and exports of agricultural products, food and beverages for final consumption and medical products. The analysis shows that global trade in services has declined less than trade in goods. An additional factor of stress on international trade has been the export bans and restrictions. Declining production in China, the world's largest supplier of intermediate goods, is likely to affect the economies in many countries.

Keywords: Exports, Imports, Prognoses, Non-tariff Barriers, Changes, Effects.

JEL Classification: F01, F14, F17.

1. Introduction

Covid-19 has brought into the world an unprecedented challenge. The situation we are facing is not "normal", caused by economic causes, but is the result of unprecedented measures taken by national governments for medical reasons in order to stop the

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spread of the disease, by which companies have been temporarily closed (production has been stopped), the movement of people and goods has been restricted, and supply chains have been disrupted. These measures are likely to cause a significant slowdown in national economies and the global economy, through contractions in production levels, household spending, investment and international trade (European Commission, 2020a). In March 2020, the sectors most affected were health, tourism and transport, especially air transport (European Commission, 2020a and 2020b).

The longer the restrictions remain in place, the longer the period of economic damage, and the greater the reduction in permanent capacity. (UNCTAD, 2020a).

On the other hand, there has been an unprecedented worldwide demand for medical products to combat the disease. All countries depend on international trade and global value chains to obtain these products. This is a challenge, given the disruptions in international transport.

2. Forecasts of International Institutions Concerning Trade Developments

The European Commission (2020c) conducted an analysis to estimate the impact of the crisis brought about by Covid-19 on trade flows using the forecasts[1] for 2020 concerning Covid-19 shocks to GDP. The impact of Covid-19 on trade is considered to be the reduction of trade flows due to the decline in economic activity. The estimates in the analysis are subject to a high degree of uncertainty, given that the current crisis is an unprecedented situation, with many unknown variables, including the period of time in which the economy will recover.

The analysis carried out by DG TRADE's economists estimates a 9.7% decrease in world trade in 2020. For EU27, the economic contraction projected as a result of Covid-19 results in a 9.2% reduction in the extra -EU27 exports of goods and services and a 8.8% decrease in non-EU27 imports in 2020.

[1] The impact on GDP is obtained from the difference between the estimated GDP projections before and after the Covid-19 outbreak. The MIRAGE1 model of computable general equilibrium was used to estimate the effect that the changes in these macroeconomic forecasts will have on trade.

The General Director of the World Trade Organization (WTO), Roberto Azevedo, said at the press conference from April 8th, 2020, that the pandemic will generate an economic and social crisis, with shocks on the supply and demand (WTO, 2020d).

The WTO has also simulated the potential economic effects of Covid-19 on international trade, using a methodological approach[2] different from that of the European Commission. The WTO has forecast a sharp decline in trade by 2020 in every region of the world and in all economic sectors.

The GDP shocks associated with trade decreases are higher than those used in the European Commission's model. WTO projections estimate that, depending on GDP scenarios, the volume of international trade will fall, in Europe, between 12% and 33% in 2020 (exports by 12% -32%, while imports by 10% -25%), and will increase between 20.5% and 22.7% in 2021. Globally, in 2020, the WTO forecasts a reduction in the volume of international trade by 13% -32%, and an increase of 21% -24% in 2021. Forecasts have been made in conditions of insecurity due to a large number of unknown variables (e.g., the degree of stress of credit markets influences trade financing).

WTO economists estimate a rebound of trade and production to pre-Covid-19 trajectories the earliest in 2021. But there are other scenarios according to which trade volume will not return to pre-Covid19 levels.

According to IMF forecasts released in April 2020, the volume of world trade in goods and services will decrease by 11% in 2020 and will increase by 8.4% in 2021 (IMF, 2020). Imports of advanced economies will be more affected than those of emerging and developing countries (decrease of 11.5% compared to 8.2% in 2020, respectively increase by 7.5% compared to 9.1% in 2021). The same situation exists for exports. Thus, the exports of advanced economies decrease by 12.8%, and those of emerging and developing economies decrease by 9.8% in 2020 and increase by 7.4% compared to 11% in 2021 (IMF, 2020).

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[2] *The WTO approach uses consensual GDP estimates (usually obtained from the IMF, the World Bank and the OECD) for different regions, as inputs to the trade forecast model. Due to the lack of very recent forecasts of GDP, the WTO has generated its own forecasts for world GDP, which are based on three possible scenarios (V-shaped, U-shaped and L-shaped recovery), ranging from -4.8. % to -11%, depending on the assumptions regarding the duration and severity of the COVID-19 crisis.*

The IMF has suggested reducing tariff and non-tariff barriers to international trade and global production chains in order to support economic recovery.

According to the Coordinating Committee for Statistical Activities (CCSA, 2020), in UNCTAD studies (UNCTAD, 2020a and 2020b), the price index of free market commodities indicates that global trade values and prices have been negatively affected in the first quarter of 2020 by the emergence of Covid-19. So UNCTAD's forecasts for global trade values indicate a decrease of 3.0% in the first quarter of 2020 compared to the previous quarter. The biggest impact on world trade of the measures taken to stop Covid-19 would occur in the second quarter of the year, with a quarterly decline of 26.9%.

UNCTAD's price index for free market commodities has fallen by 1.2% in January, by 8.5% in February and by 20.4% in March. Fuels have been the main cause of this development, falling by 33.2% in March, while minerals, ores and metals, food and agricultural raw materials have fallen by less than 4%. A monthly decrease of more than 20% has never occurred before, not even in 2008, at the beginning of the global financial crisis, when the maximum monthly decrease was 18.6%.

It is likely to be a more significant reduction in trade in sectors with complex links of value chains, in particular in the electronic products and transport equipment and electrical machinery sectors.

States that rely heavily on exports of energy products, whose demand is little affected by price fluctuations, will have a relatively small estimated decline in exports (Middle East countries and the Commonwealth of Independent States (CIS), including associations and former Member States).

Imports of key raw materials for production may have been significantly reduced due to social distancing, which has led to the temporary closure of factories in China, Europe, and North America.

Trade in services has been directly affected by Covid-19 due to the transport and travel restrictions and to the closure of many hotels, restaurants, etc. Services are not included in the WTO trade forecasts, but much of the trade in goods would be impossible without them (e.g. transport). Unlike goods, services cannot be stored; trade in services not carried out during the pandemic could be lost forever. Also, services are interconnected, the air transport allowing the achievement of an ecosystem of other cultural, sports and recreational activities. However, some services may benefit from the crisis. This is the case of information technology services, whose demand has increased significantly, as companies try to allow employees to work from home, as well as since people socialize remotely.

3. The Evolution of International Trade in The First Part of 2020

In a globalized economy, the risks to world trade have also increased in recent years. Azevêdo (2020) shows that even before the first case of Covid-19 appeared, the potential of trade to boost economic growth was not fully exploited, so that global trade in goods fell at a significant pace in the last quarter of 2019.

The first effects of Covid-19 were factory closures and supply disruptions in many sectors.

As a result, in March 2020 there was a decrease of 11.9% in world exports of goods and of 12.4% in world imports of goods compared to the same period of the previous year. According to World Bank Group (World Bank, 2020a), the most affected regions by the contraction in trade were the Middle East, North Africa, South Asia, sub-Saharan Africa, and the European Union-27 (12.2% for exports and respectively, 14.2% for imports, per group).

In the case of Romania, in March 2020, exports of goods decreased by 13.1%, and imports by 3.8% compared to the same period of the previous year (NBR, 2020).

On the other hand, in the countries important in world trade (China, EU27, Japan, USA) (as a group) exports of intermediate agricultural goods have increased (by 8.1% on average, annual increase) and imports of intermediate agricultural goods have increased (by 7.1% on average, annual increase). In the case of the same countries, exports of food and beverages for final consumption increased by 2.6% compared to the previous year in March, and imports increased by 11.7% (World Bank, 2020a).

In March 2020, international trade in medical products also boosted, while the trade in transport equipment, goods from the extractive industry and capital goods declined (World Bank, 2020a), reflecting reduced demand and investment. Imports of transport equipment decreased by 10.5% (compared to March 2019), in China, EU 27, Japan and the United States (as a group), and imports of fuel and lubricants (with intermediate level of processing) decreased by 21.9% in March (World Bank, 2020a).

In the case of this group of countries, in March 2020, the most significant contraction occurred for exports of capital goods (12.5%) and less for intermediate goods. Imports fell the most in the case of capital goods (7.4%), and fuels and lubricants, reflecting reductions in oil prices.

Trade in intermediate industrial products remained constant, which shows that the core activities of the global value chains have been relatively resilient. In the case of China, the EU-27, Japan and the United States (as a group), the exports of intermediate industrial products (other than food and beverages, fuel and lubricants and capital intermediate goods) decreased by 3% in March 2020 compared to the previous year, while imports fell by 5.5%.

Global trade in services has declined less than trade in goods. There have been significant decreases in transport services (especially air), travel and tourism, and there have been increases in trade in telecommunications, computer, and information services, which promote the work from distance and online trade.

The study of the World Bank Group (World Bank, 2020b) shows a weak correlation between the number of cases of Covid-19 and the changes in exports and imports in March 2020 (the error coefficient is determined by the differences in reporting and testing standards between countries). It is clear that there has already been a globalization of trade contractions by March. The main determinant of trade contraction is the severity of business, firms' closures, and does not correlate with the severity of the disease, but rather with the way the authorities have introduced quarantine measures and business closures. Variations in imports and exports in an economy depend not only on the severity of Covid-19 in that country, but also on the evolution of the disease in most partner countries, in the context of complex interdependencies between countries.

3.1. Effects on World Trade due to Declining Production in China

In the last two decades, China has become extremely important in the global economy, both due to its status as a producer and exporter of consumer goods, and because it has become the main supplier of intermediate goods to foreign manufacturing companies. At the beginning of the Covid-19 crisis, about 20% of the global trade in intermediate products came from China (up from 4% in 2002).

Therefore, a reduction in China's supply of intermediate goods may affect the production capacity and therefore the exports of any country, depending on the degree of dependency of that country's industries on Chinese suppliers.

In addition, China's share in some sectors of the world trade exceeds 50% (e.g. 59% in 2018, in world trade of telecommunications equipment). Since 2001, when it joined the WTO, China's importance has grown both in world trade and in production chains. The multinationals took advantage of the opportunities offered by China both in terms of production and of demand for the products obtained.

Many companies around the world fear that the measures introduced in order to prevent the spread of Covid-19 could prevent the supply of important parts from Chinese manufacturers, thus affecting their own production.

UNCTAD (2020a) conducted an analysis meant to identify the most exposed economic sectors and countries to a disruption in China's exports of intermediate goods.

The analysis starts from a series of simplifying premises. Thus, it is assumed that supply disruptions occur only in China. Failures that Covid-19 may directly cause in the production of other countries are not taken into account. The results of the analysis should be interpreted as short-term effects, as supply in the rest of the world is assumed to remain constant.

In addition, the impact of the drop in demand in China caused by an economic slowdown (e.g. the impact on third countries of the reduction in imports of goods into China) is not taken into account.

China's current integration into sectoral global value chains shows that the Chinese production is essential for many global value chains worldwide, especially for those related to precision instruments, machinery, automotive equipment, communication equipment, electrical machinery, plastics, office equipment (UNCTAD, 2020a). Any significant disruption in China's supply in these sectors is considered to substantially affect producers in the rest of the world.

The UNCTAD analysis (UNCTAD, 2020a) shows that in the event of a reduction in Chinese production of intermediate goods, the most affected economies will be the European Union (construction equipment, cars and chemicals), the United States (construction equipment, cars and precision instruments), Japan (construction equipment and cars), the Republic of Korea (cars and communication equipment), Taiwan (communications equipment and office equipment) and Vietnam (communication equipment).

Although there are still uncertainties about the impact of Covid-19 on China's productive capacity, the statistics indicate a significant decline in production in China (in February 2020). The decrease measured by the Manufacturing Procurement Index (strongly correlated with exports) implies a reduction of exports by about 2% on an annual basis. In other words, the decrease noticed in February 2020 is equivalent to a 2% reduction in the supply of intermediate goods.

4. Export Restrictions and Bans: Some Positive and Negative Effects

An additional factor of stress in the international trade has been the (temporary) export bans and restrictions that some countries and separate customs territories (including the European Union) have introduced to alleviate critical shortages of medical supplies at national level. These restrictions apply to medical and pharmaceutical materials, medical equipment, food, toilet paper. As global production of medical materials essential in the fight against Covid-19 has increased, trade has become especially important and the optimal functioning of value chains can help prevent increased costs.

Export restrictions affect integrated supply chains, can create bottlenecks in the production of essential goods by blocking production factors in some states, disrupt logistics and distribution chains, which are based on central warehouses, encourage the build-up of stocks in the supply chain and, finally, may reintroduce internal borders.

Export bans and restrictions imposed by large exporters may lead to a short-term decrease in domestic prices for the goods concerned and may increase domestic supply. But in the long run, exporters can be adversely affected. On the one hand, lower domestic prices will reduce the incentive to produce the good domestically, and the higher external price creates an incentive to smuggle abroad, both of which can reduce the domestic supply of the product.

Export bans and restrictions reduce the global supply of the products in question, with negative effects on countries that cannot produce them. Thus, if a country cannot obtain essential goods for certain and predictably through trade, it can start producing those goods at the national level, even at much higher prices. Such a scenario would probably lead to lower supply and higher prices for much-needed goods, with significant long-term effects.

Given the lack of transparency at the multilateral level, economic operators have to deal with a high degree of uncertainty, as it is not known what measures have been taken by which countries. Insufficient information makes it difficult to adapt purchasing decisions efficiently and find new suppliers. This could be especially harmful for those who want to procure materials needed to fight Covid-19.

Improving transparency requires that measures should be published at national level, passed on to the WTO and to other trading partners.

The discontinuities in distribution chains due to trade restrictions or customs delays, food security, problems in the regions affected by Covid-19 and export restrictions of large exporters are sources of risk for rising food prices.

GATT (General Agreement on Tariffs and Trade) (1994) allows the implementation of export restrictions and prohibitions only if they are temporary and if they are not introduced for the purpose of discriminating certain countries.

Also, the article 35 of the Treaty on the Functioning of the European Union (Treaty of Rome of 1957) prohibits national export restrictions. However, Member States may take justified measures on grounds of "protection of health and life of persons" in accordance with Article 36. Such individual measures must comply with the principle of proportionality, namely to be appropriate, necessary and proportionate for achieving the objective pursued, ensuring an adequate supply for those most in need, but at the same time preventing, throughout the EU, the shortage or aggravation of shortages of basic necessity goods, such as personal protection equipment, medical devices or medicines.

The G20 Ministerial Declaration of 30 March 2020 emphasized that “emergency measures designed to combat Covid-19, if deemed necessary, must be targeted, proportionate, transparent and temporary and must not create unnecessary barriers to trade or disrupt the global chains of supply and they should be in line with WTO rules".

5. Conclusions

Covid-19 has influenced everything: the way we live, interact, work, communicate, move and travel, etc., due to the measures taken by the authorities to prevent the spread of the disease. These measures are likely to cause a significant slowdown in the national economies and the global economy, through contractions in production, household spending, investment and international trade.

The analysis shows that the impact of Covid-19 on trade is the reduction in trade flows as a result of declining economic activity. The duration and extent of the downward trend of international trade are still unknown.

An additional element of tension on international trade has been the export bans and restrictions.

The global economy is highly dependent on China, as China has become the world's largest supplier of intermediate products. Therefore, it can be assumed that any disruption in China's production will have repercussions in other parts of the world through regional and global value chains.

Maintaining normal trade flows as much as possible during Covid-19 is important for ensuring access to essential food and medical products and for limiting the negative impact on jobs, living standards and economic activity.

Trade in services may be the component of the world trade the most directly affected by Covid-19 due to the transport and travel restrictions and closed hotels, restaurants, etc., and to the fact that services cannot be stored. On the other hand, some services may benefit from the crisis created (information technology services).

The main determinant of the contraction in trade is the severity of business and companies closures, and it does not correlate with the severity of the disease, but rather with the way in which the authorities have implemented quarantine measures and activities' closing. Changes in imports and exports in an economy depend not only on the severity of Covid-19 in that country, but also on the evolution of the disease in most partner countries, in the context of complex interdependencies between countries.

Governments need to keep in mind that economic imbalances are transmitted to trading partners through trade and global value chains.

Given that this economic crisis has completely different causes from previous crises (banks are not undercapitalized, the economy was functioning well before it was shut down), if the right steps are taken to get the economy back running, a quick and vigorous recovery is possible. The way and the ability of the economy to recover depend on the choices of economic policies implemented by governments.

A strong recovery is more likely if policymakers send signals that the disease was a temporary, single economic shock. On the other hand, if the disease is prolonged and / or uncertainty becomes more widespread, households and economic agents are likely to spend more prudently. In addition, the longer the restrictions remain in place, the longer the period of economic damage, and the larger the reduction in permanent capacity. (UNCTAD, 2020b).

For a speedy and vigorous recovery, fiscal, monetary and trade policy measures must converge. The adoption of protectionist measures could introduce new shocks. Keeping markets open to international trade and investment would probably help economies recover faster.

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