Trade in the Time of COVID-19

Introductory course: The Economics of COVID-19 in Developing East Asia and the Pacific
November 2021
Roadmap of the Presentation

• Understanding the short-term trade impact of COVID-19
• Anticipating the longer-term trade impact of COVID-19
• Designing trade policy in the COVID-19 era
Short Term Impact
Fact 1: Trade collapse

Trade contracted less relative to GDP because of the COVID-19 shock than during the Global Financial Crisis.

Source: Global Economic Monitor
Fact 2: Recovery

China and the EAP have led the recovery in goods exports

Change in the value of exports during the pandemic

Percent

China
EAP exc. China
World exc. EAP

Source: EAP Update
Fact 3: Lagging Services

Services exports remain below pre-pandemic levels for most countries

Source: EAP Update
COVID-19 mobility restrictions affected trade patterns

Exports declined where and when work mobility was restricted

Imports declined where and when retail mobility was restricted

Long Run Impact
All countries participate, but in different ways.
COVID-19 did not affect firms’ immediate location choices

- Cost of relocation = F
- Per unit cost saving = c
- Expected output = Q

A firm will relocate if: F < cQ

COVID did not affect F and c, but Q ↓

Therefore, COVID’s immediate effect was to make relocation less likely!
However, “dependence aversion” could increase due to COVID-19

Possible responses:
- Reshore
- Relocate
- Diversify
- Increase inventories

Source: Baldwin and Freeman 2021.
Measures to reduce dependence on China could shift trade towards other EAP countries.
Some evidence already of value chain shifts from China to EAP countries

[Graph showing trends in China's share in EAP intermediate imports, EAP's share in US final goods imports, and China's share in US final goods imports from 2018m1 to 2021m7.]

Source: Author’s calculations based on customs trade data from China, European Union, Japan and the U.S.
What do we learn from past shocks?

Relocation in products on which dependence on Japan was high after the 2011 Tōhoku earthquake

Change in Japan’s share of imports of electronic components

Source: Freund, Mattoo, Mulabdic, Ruta (2020).
Relocation to countries with more trade friendly conditions

Source: Freund et al. (2020)
Note: The figures plot each country’s mean and median market share in country-products in which Japan had an average market share greater than 15 percent (right panel “High Share”) calculated over the 2004-2010 period.
Policy
Trade policy: An evolving response to covid-19

- China-US trade tensions preceded COVID-19

- Initial response to COVID-19: export controls

- Longer term: policies to change location choices - subsidies, tariffs, restrictive regulation
Export restrictions can cause buyers to permanently shift away from restrictive exporters

Dynamic bilateral trade effect of Temporary Export Restrictions

Percent, change

What is the optimal response to reshoring policies?

Real income change under reshoring by leading economies, by all countries, and in the GVC-friendly scenario in 2030 (deviations from the L-shape COVID recovery, percent)

Persistent barriers especially in services are an impediment to GVC participation.

Source: Borchert et al (2019)
Conclusion

• COVID19 had large short-run trade and trade policy effects
• Long-run effects will depend on trade policy and cooperation
• In general, own trade-promoting policies are welfare-improving
References


Appendix
The implications of recent supply chain delays

The impact of delivery delays on manufacturing production, consumption and employment

Source: Alessandria et. al. (2021, forthcoming)
Services trade is being durably changed by the COVID shock

Source: Mattoo and Taglioni (2020)
Exports and imports recovered when mobility restrictions were relaxed

Exports recovered when work mobility was allowed

Imports recovered when retail mobility was allowed