



The impact of the Covid-19 pandemic on global and EU trade

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1. INTRODUCTION

This note outlines the results of an in-house analysis carried out during the month of May by DG TRADE that updates the April estimates of trade effects generated by the reduction in economic activity following the COVID19 outbreak. The increasing spread of the virus has forced governments across the world to implement lockdown measures, which shut down businesses temporarily and restricted travel and the movement of people. These measures will lead to sharp contractions in output levels, household spending, investment and international trade. Since the beginning of the year, various institutions have released estimates on the impact of the COVID19 pandemic on global growth, including projections on trade for 2020. The analysis outlined in this note is an attempt at predicting the impact of the COVID19 outbreak on trade flows, with focus on the EU.

In early April, the WTO secretariat also simulated the potential economic effects of the COVID19 pandemic on international trade, using a different methodological approach.¹ They forecast that world merchandise trade could fall by between 13% and 32% in 2020, depending on assumptions about the length and severity of the COVID19 crisis. EU27 exports were estimated to fall by between 12%-33%, while imports to decrease by between 10%-25%. These results were released sometime before the IMF, OECD and DG ECFIN released their latest updates of 2020 GDP forecasts.

2. METHODOLOGY

This revised analysis closely follows the methodology used for our April trade forecasts. It estimates the impact on trade flows using predicted COVID19-related GDP shocks for 2020. It then uses the computable general equilibrium (CGE) models MIRAGE² and GTAP³ to estimate the effect that the changes in these macroeconomic forecasts will have on trade. The reduction in trade flows associated with the slowdown in the economic activity is interpreted as the impact of the COVID19 outbreak on trade. It is important to underline that these estimates are subject to a *high degree of uncertainty* given by the many unknown variables, including recovery time of this unprecedented crisis. No assumption has been made as regards the shape of economic recovery in 2021 and the following years.

Since the outbreak of the epidemic in China, various institutions have forecasted the impact of the COVID19 on GDP, but the situation is volatile and many forecasts have quickly become outdated. For this update, we have used the set of consistent and comparable GDP forecasts issued by the IMF on 14th April.

¹ WTO (2020) Trade set to plunge as COVID-19 pandemic upends global economy, Press/855Press Release, 08 April 2020. Available at: https://www.wto.org/english/news_e/pres20_e/pr855_e.htm

² Used for numerous in-house analyses feeding into external studies.

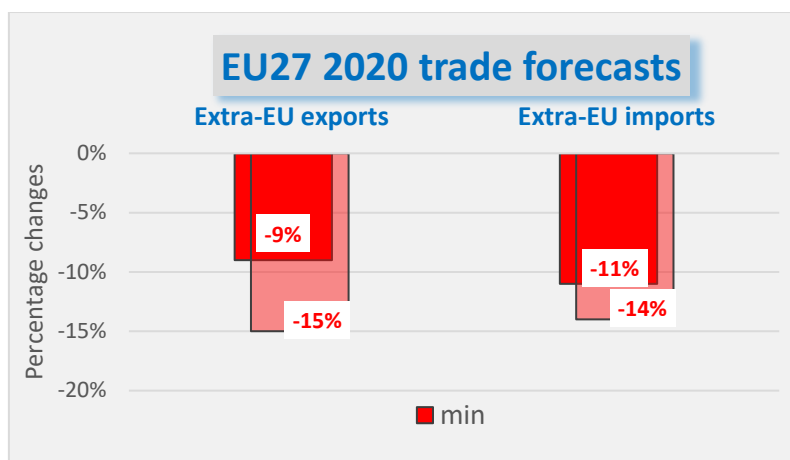
³ Global Trade Analysis Project.

The latest IMF report⁴ assumes: i) the spread of the virus would be contained in the second half of 2020; ii) widespread lockdown measures would be gradually relaxed; iii) effective targeted economic measures would be put in place to support households and businesses. The report highlights the significant uncertainty associated with these estimates, as several factors are difficult to predict, for example how the pandemic will evolve, efficacy of containment measures, implications on global financial markets, shifts in spending patterns, among others.

Based on these assumptions the IMF outlook predicts that the Euro Area would be considerably affected by the crisis, with GDP falling by 7.5%. For the US it foresees a contraction of 5.9%, while China's GDP is anticipated to grow by just 1%. Estimates for the US and the Euro Area, are 8.8 and 7.9 percentage points below earlier forecasts⁵. For the world as a whole, GDP growth is forecasted to be -3%, i.e. 6.3 percentage points lower than the previous pre-COVID19 IMF forecasts.

3. RESULTS

The in-house analysis performed by DG TRADE's Chief Economist team estimates a **decrease in global trade** for 2020 between **10%-16%**⁶. For the EU27, the predicted reduction is expected to be between **9%-15%** for **extra-EU27 exports** and **11%-14%** for **extra-EU imports** (goods and services combined). In absolute terms, using the latest available statistics, this amounts to a reduction in extra-EU27 **exports** between **282-470 billion EUR** and a decrease in extra-EU27 **imports** between **313-398 billion EUR** (goods and services combined).



Exports of primary sectors (other than energy) and services trade⁷ turn out to be less affected than manufacturing sectors, although most of which see export contractions by 15%. In particular, transport equipment and electrical machinery exports turn out to be the most affected sectors.

⁴ IMF, World Economic Outlook (2020).The Great Lockdown. 14th April 2020.
<https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020>

⁵ January IMF World Economic Output Update.
<https://www.imf.org/en/Publications/WEO/Issues/2020/01/20/weo-update-january2020>

⁶ Compared to pre-COVID expectations for 2020, the reduction in world trade could be as much as 19%, while the decline could reach 16% for extra-EU-27 trade.

⁷ It is important to note that the severity of the COVID19 crisis on services trade is most likely underestimated in our results, as most CGE models have a limited coverage of trade in services and several important modes of supply (notably mode 3) are only partly covered.