GLOBAL TRADE: COVID-19 LOSSES EQUIVALENT TO A RETURN TO 1994 TARIFFS

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- **Global trade could remain below 90% of its pre-crisis level even after lockdowns are lifted** and only recover gradually in H2 2020.
- **We estimate that lockdowns and the uncoordinated deconfinement could cost merchandise trade USD2.4tn, the same as if all countries hiked their tariffs to 17%,** i.e. close to levels last seen in 1994.
- **Computer and electronics, metals and mining, transportation, electrical equipment and textiles are most at risk** of continued supply chain disruption during deconfinement. In terms of countries, companies operating in China, the U.S., Germany, France, Ireland, Belgium, Luxembourg and the Netherlands are most at risk.
- **Watch out for old-school protectionism,** which could (i) recreate 2019 uncertainty and harm the investment recovery as U.S.-China tensions flare up; (ii) wipe out USD30bn of trade in Covid-19 related equipment and act as a crisis amplifier for emerging and developing countries

All countries should have lifted generalized lockdowns by this June. Yet, after a 22.5% shock in value terms, trade could remain below 90% of its pre-crisis level even after lockdowns are lifted. However, we still expect trade of goods to rebound in the second half of the year, following the manufacturing sector recovery. We use the R0, projected end of lockdowns in all countries and the share of each country in merchandise trade to understand at what pace the "lid" on international merchandise trade would be lifted. Figure 1 below shows the share of global trade restored (as a % of pre-crisis trade) in the course of the next months. We see that the end of the lockdowns (which should be announced until end of June in most countries) does not mean an immediate return to normality. Indeed, some countries will continue regional lockdowns, and only gradually open all sectors of their economies, while bars and restaurants would operate at a very low capacity for a few additional months. We expect merchandise trade to recover in H2 2020 and through 2021, pushing the overall growth next year at +10% in volume and +15% in value terms.

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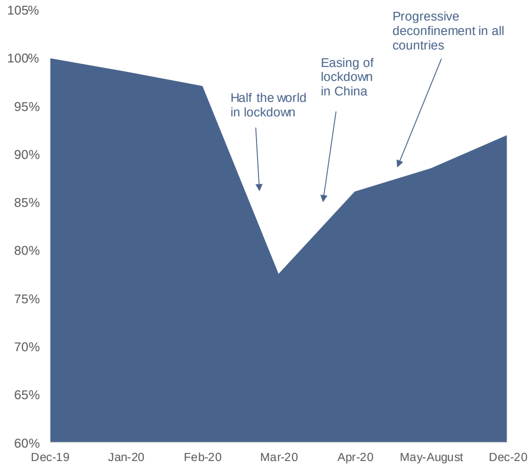
Figure 1: Global merchandise trade in 2020 as a share of 2019 level: impact of lockdowns and gradual uncoordinated deconfinement

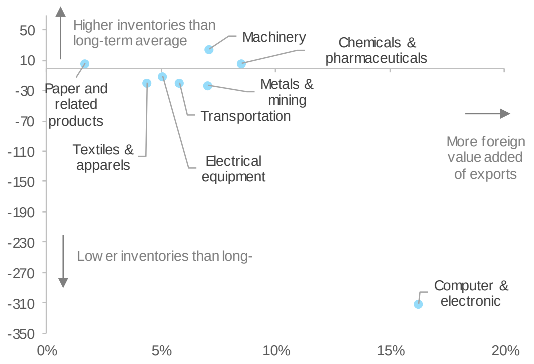


Sources: Various, Euler Hermes, Allianz Research

We estimate that lockdowns and the uncoordinated deconfinement could cost merchandise trade USD2.4tn, the same as if all countries hiked their tariffs to 17%, i.e. close to levels last seen in 1994. Even after the lifting of lockdowns, differentiated deconfinement rules on the movement of goods, services and people could create uncertainty, information assymetry and a regulatory burden on companies, which should prevent global trade from returning to normal. From the goods perspective, such uncoordinated deconfinement would subtract a total of USD1.5tn from global cross-border flows of goods until the end of 2020. This is the equivalent of imposing a worldwide tariff hike of +7pps (to around 13% average tariff) on global merchandise trade. Taking together the impact of lockdowns and the gradual uncoordinated reopening, we see the Covid-19 crisis and its consequence wiping out USD2.4tn of merchandise trade (and USD1.1tn of services trade). In total, the added damage of lockdowns and their exits would be the equivalent to a +11pps sudden hike in the world average tariff to around 17%, a level last seen in 1994.

Despite the U-shaped recovery, some specific sectors are at risk of seeing inflationary pressures as they are more sensitive to supply-chain disruptions (high foreign value added of exports) and their inventories stand below or close to the long-term average. Several "input prices" PMI subcomponents have soared during the past few months due to the longer delivery times and several logistic difficulties due to generalized lockdowns affecting more than half of global GDP. Looking at sectors, computer and electronics, followed by metals and mining, transportation, eletrical equipment and textiles, are most at risk of continued disruption during deconfinement, given ther dependency on foreign inputs as well as the level of stocks. In terms of countries, companies operating in China, the U.S., Germany, France, Ireland and Benelux could be most at risk of inflationary pressures and supply-chain disruptions as their export dependency on foreign inputs is higher compared to peers and their level of inventories below or close to the long-term average.

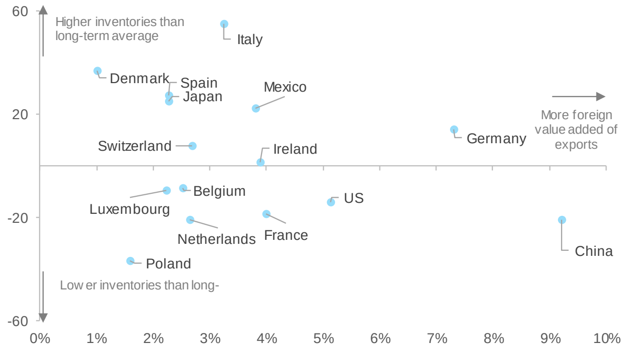
Figure 2: Global supply-chain integration and level of inventories by sector



Sources: Bloomberg, OECD TiVA, Euler Hermes, Allianz Research

(Listed companies for specific sectors, when data available, last point is an average H2 2019 and H1 2020)

Figure 3: Global supply-chain integration and level of inventories by country



Sources: Bloomberg, OECD TiVA, Euler Hermes, Allianz Research

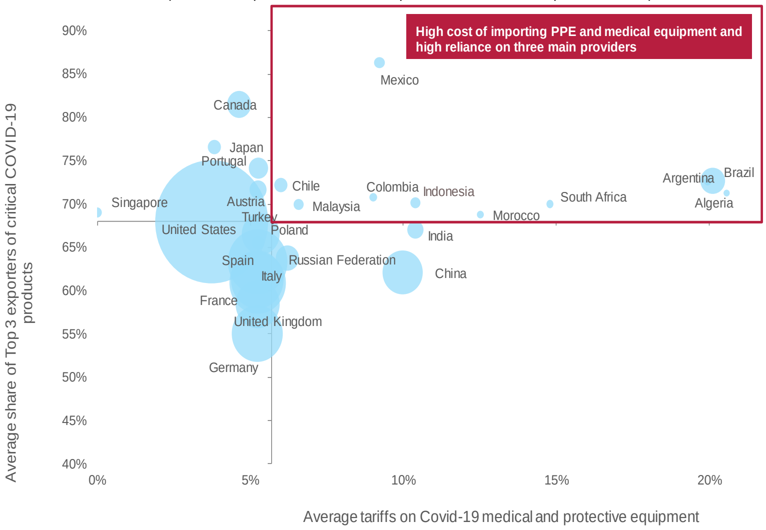
(Listed companies for specific sectors, when data available, last point is an average H2 2019 and H1 2020)

Lastly, watch out for a comeback of a pre-Covid risk: old-school protectionism, which could (i) recreate 2019 uncertainty and harm the investment recovery as U.S.-China tensions flare up and (ii) wipe out USD30bn of trade in Covid-19 related equipment, hence acting as a crisis amplifier for emerging and developing countries. The U.S. has officially stepped up its accusations against China after secretary of state Mike Pompeo reiterated previous claims linking the Covid-19 outbreak to a laboratory in Wuhan, China. This could lead the U.S. to question the Phase 1 deal, whose terms are even more challenging now that energy prices have plummetted. We estimate that China could have to buy an additonal +20% of energy products this year to comply by the deal and an additional +3.6% of agrifood products; this while growing at +1.8% this year, which is three time less than forecasted when the deal was signed. In addition, the WTO is expected to pave the way for Europe to increase tariffs in relation to the Airbus / Boeing case by the end of June.

Lockdowns and deconfinement have also come with increased protectionist measures on Covid-19 related products. The data show a record high level of new export restrictions on medical, pharma supplies and protective equipment (Covid-19 related products). In total, above 80 new protectionist measures were implemented on these products in 2020 around the world, a record high and 2.5 times as much as during 2019 as a whole. We estimate export bans could reduce trade in Covid-19 products by USD30bn in 2020.

This targeted protectionism could be an amplifier of the sanitary crisis for emerging and developing countries. Indeed, as shown in Figure 4, Brazil, Argentina and Algeria, followed by South Africa, Morocco, Indonesia, Colombia, Malaysia, Mexico and Chile, are countries whose imports of Covid-19 related products are heavily concentratred on three main partners, and where import tariffs on such products are higher relative to the rest of the world.

Figure 4: Average import tariffs on Covid-19 related products and import concentration (% of imports from top three trade partners)



Source: World Bank, Euler Hermes, Allianz Research

These assessments are, as always, subject to the disclaimer provided below.