

Chapter 5

Trade Developments following the COVID-19 Outbreak

August 2021

This chapter should be cited as

Study team (2021), 'Trade Developments following the COVID-19 Outbreak', in Prakash, A., A.G. Herrero, and D.M. Turégano (eds.), *UK-ASEAN Trade: Strengthening the Supply Chain Linkages*. ERIA Research Project Report FY2021 No. 11, Jakarta: ERIA, pp.63-70.

Chapter 5

Trade Developments following the COVID-19 Outbreak

This chapter maps the developments in international trade in the Association of Southeast Asian Nations (ASEAN) and the United Kingdom (UK) following the coronavirus disease (COVID-19) outbreak in 2020 and compares it with the performance of the European Union (EU) and the global economy during the same period. It provides an overall characterisation and, when possible, disaggregation by type of product for the main trading partners. It focuses on identifying the breaks in trade trends described in the previous two chapters.

Overview

While COVID-19 led to a sharp reduction in global trade, a rebound has been taking place in ASEAN – especially for its exports – driven by China’s fast economic recovery.

As demand from China is the main reason for the resilience of ASEAN exports, the relevance of the UK (and also the EU) as a trading partner may have decreased further, even if only temporarily. In other words, COVID-19 has made the UK’s efforts to increase integration with ASEAN even more difficult – both for goods and services. In fact, lockdowns and quarantine rules have severely affected a good part of the UK’s exports of services, including to ASEAN (from business services to education or tourism). The same is true for ASEAN’s exports of services, in particular tourism.

The UK’s bilateral deficit with ASEAN has been shrinking, which is also the general trend for the EU. On the other hand, the deficit with China has increased even more in 2020 – both for the UK and the EU.

In this context, the UK needs to move fast in taking UK services to ASEAN, especially digital services, at a time of increasing strategic competition between the United States (US) and China. In fact, such competition may offer an advantage for middle – and autonomous – powers, such as the UK, especially as regards digital infrastructure and standards.

Box 5.1: Data Description and Definitions

Trade flows in volume terms are sourced from the CPB Netherlands Bureau for Economic Analysis (2021) World Trade Monitor, which provides seasonally adjusted export and import flows at a monthly frequency for the world; country aggregations (advanced and emerging economies, as well as regions within these groups); and the main global economies considered individually (euro area, the United States (US), Japan, and China).

Data for the Association of Southeast Asian Nations (ASEAN) as an aggregate in volume terms and by individual Member States in nominal US dollars are based on data from the World Trade Organization (2021).

The product and geographical composition of trade flows at a monthly frequency for European Union (EU) member countries correspond to data collected by Eurostat (2021), and the equivalent for the UK is sourced from the Office for National Statistics (2021). Sectoral data for EU countries correspond to the Broad Economic Categories (BEC) classification and for the UK to the Standard International Trade Classification (SITC).

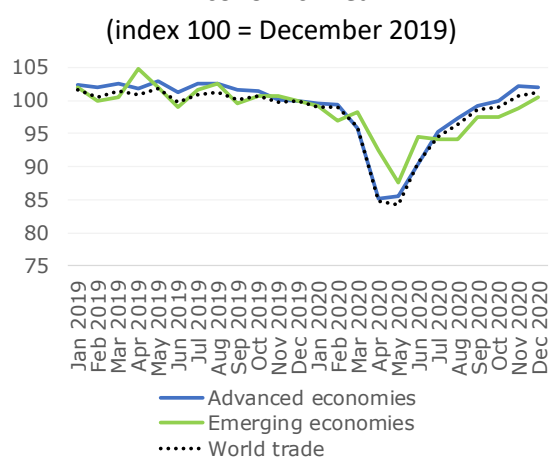
Source: Authors.

Global characterisation

Driven by value chain disruptions, supply shortages, mobility restrictions, and population lockdowns (Baldwin and Freeman, 2020), world trade collapsed by 15% in volume terms between February and April 2020 following the COVID-19 outbreak, and previous levels were only recovered in the last quarter of 2020 (Figures 5.1 and 5.2).

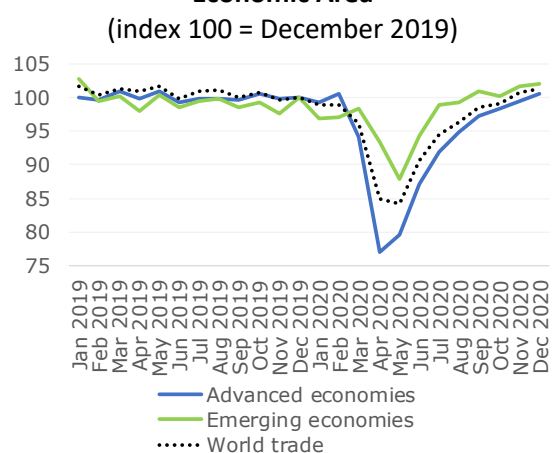
The fall in trade flows was more intense for advanced economies than for emerging economies, reflecting the overall largest impact of the aforementioned driving factors. Value chain disruptions seem to have played a more relevant role for advanced economies, given the much more negative developments on their export side (Figure 5.2).

Figure 5.1: World Trade and Imports by Economic Area



Note: Based on seasonally adjusted volume.
Source: CPB Netherlands Bureau for Economic Policy Analysis (2021).

Figure 5.2: World Trade and Exports by Economic Area



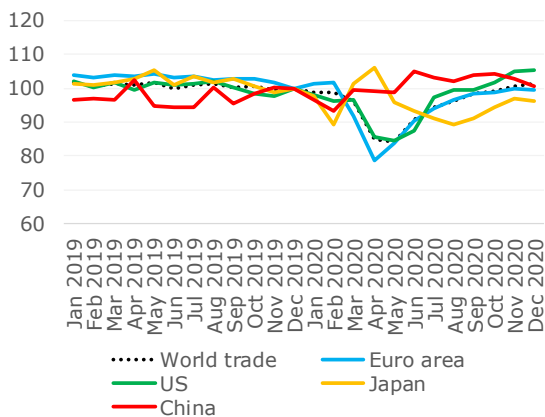
Note: Based on seasonally adjusted volume.
Source: CPB Netherlands Bureau for Economic Policy Analysis (2021).

Within the group of advanced economies, the impact of the COVID-19 outbreak was larger and followed a similar bust–recovery pattern in the euro area and the US (Figures 5.3 and 5.4).

In contrast, imports by Japan jumped in March and April 2020, likely because of supply security reasons, while remaining below pre-outbreak levels during the rest of the year due to weak domestic demand. Exports had a quicker recovery, benefiting from Asian growth.

Finally, trade flows in China declined early in 2020 as a result of factory shutdowns but did not experience a severe downturn afterwards. Exports recovered more strongly, and in December 2020 were almost 10% above the same period of the previous year.

Figure 5.3: World Trade and Imports by Country (index 100 = December 2019)

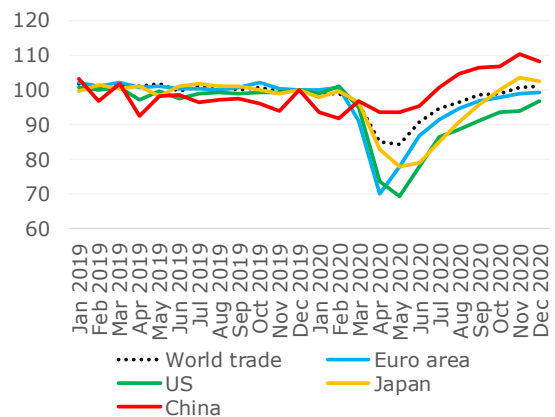


US = United States.

Note: Based on seasonally adjusted volume.

Source: CPB Netherlands Bureau for Economic Policy Analysis (2021).

Figure 5.4: World Trade and Exports by Country (index 100 = December 2019)



US = United States.

Note: Based on seasonally adjusted volume.

Source: CPB Netherlands Bureau for Economic Policy Analysis (2021).

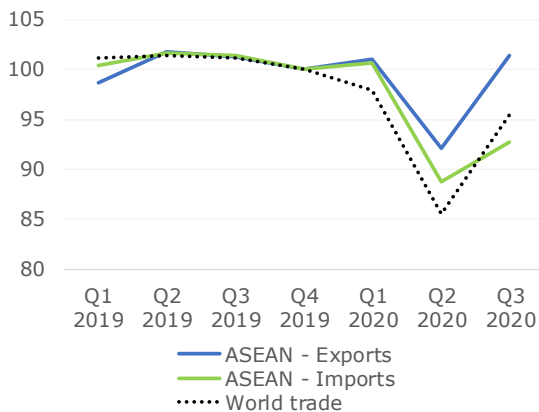
Developments in ASEAN

ASEAN trade flows declined less than in the rest of the world following the COVID-19 outbreak (Figure 5.5), benefiting from stronger integration with China, which, as mentioned in the previous section, was more resilient to the pandemic crisis than advanced economies.

The softer fall in ASEAN trade was particularly visible in the case for exports, which already reached pre-outbreak levels in the third quarter of 2020, while imports had a milder recovery from a more pronounced decline.

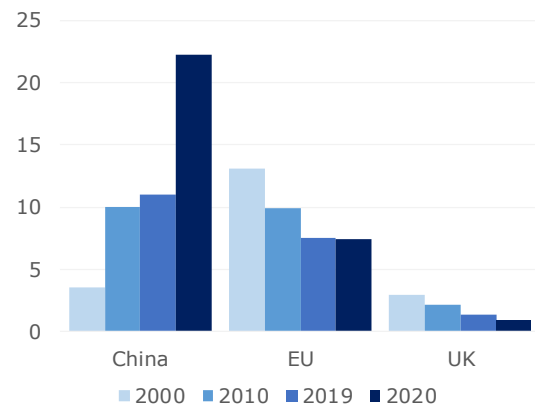
By trading partner (Figure 5.6), ASEAN flows with China continued to increase significantly, in contrast with the decline observed for both exports and imports with the EU and the UK (both developed economies), showing stronger integration within the Asian region.

Figure 5.5: World Trade and ASEAN Exports/Imports
(index 100 = December 2019)



ASEAN = Association of Southeast Asian Nations, Q = quarter.
Note: Based on seasonally adjusted volume.
Source: World Trade Organization (2021).

Figure 5.6: Share of ASEAN Exports by Trading Partner (%)

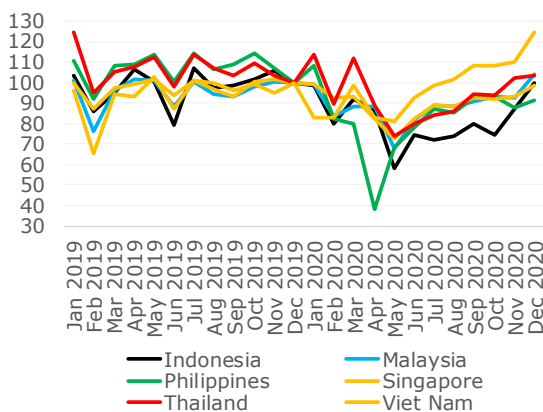


ASEAN = Association of Southeast Asian Nations, EU = European Union, UK = United Kingdom.
Note: 2020 data for ASEAN exclude Brunei Darussalam, Cambodia, the Lao PDR, and Myanmar.
Sources: China's Ministry of Commerce, Eurostat (2021), and Office for National Statistics (2021).

At the country level within ASEAN, the largest decline in trade from February to April 2020 was observed for the Philippines – a fall of around 50% on both the import and export sides (Figures 5.7 and 5.8). In contrast, the most resilient performance took place in Viet Nam, where disruption from February to April 2020 was milder and the recovery was much stronger, as both export and import flows were 25% above pre-outbreak levels in December 2020.

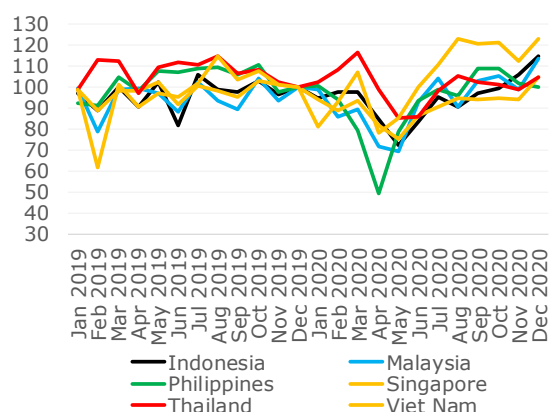
The rest of the ASEAN Member States for which data are available (Indonesia, Malaysia, Singapore, and Thailand) show a similar pattern, recording an initial fall of around 25% and recovering previous levels by the end of 2020.

Figure 5.7: Imports by ASEAN Member State
(index 100 = December 2019)



Note: Based on the seasonally adjusted value (\$).
Source: World Trade Organization (2021).

Figure 5.8: Exports by ASEAN Member State
(index 100 = December 2019)



Note: Based on the seasonally adjusted value (\$).
Source: World Trade Organization (2021).

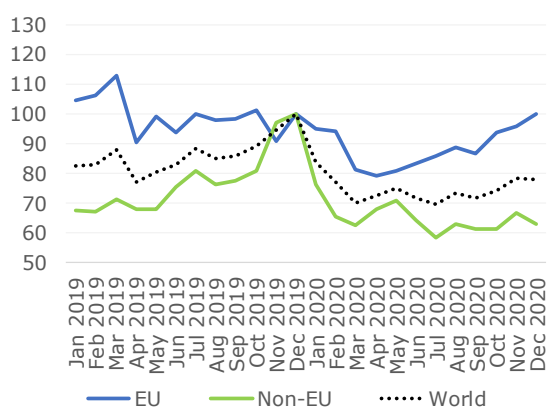
Developments in the UK compared with the EU

UK exports started to decline in January 2020, when Brexit entered into force. This was exacerbated by the COVID-19 outbreak, bringing the decline to 30% in the first quarter of 2020 (Figure 5.9).

By trading partner, the decline in exports to the EU extended the negative trend observed in 2019, although the collapse due to COVID-19 was larger for exports to the aggregate of non-EU countries (almost 40% vs. 20%). More interestingly, in the second half of 2020, exports to the EU recovered strongly while remaining well below pre-outbreak levels during 2020 for exports to non-EU markets.

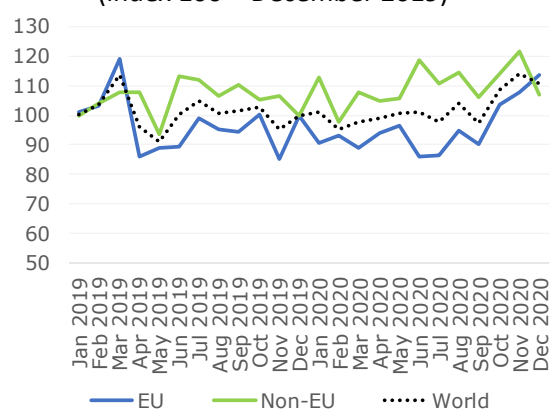
When looking into types of products, exports of semi-manufactures (chemicals, metals, and other intermediate goods) were more resilient than other products to these shocks, and even showed a higher volume in December 2020 than 1 year before (Figure 5.10). In addition, exports of semi-manufactures show a similar evolution by trading partner in contrast with total exports.

Figure 5.9: UK Total Exports by Destination
(index 100 = December 2019)



EU = European Union, UK = United Kingdom.
Notes: Based on seasonally adjusted volume. World is the sum of EU and non-EU countries.
Source: Office for National Statistics (2021).

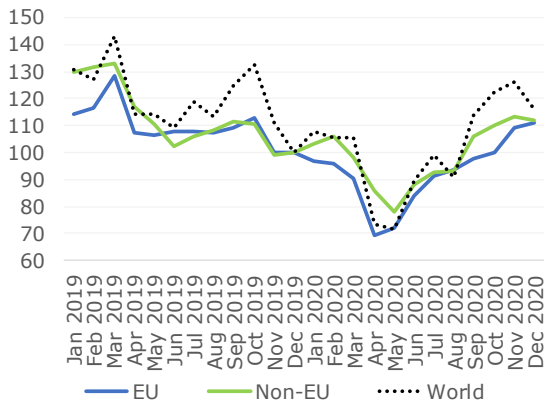
Figure 5.10: UK Exports of Semi-Manufactured Goods by Destination
(index 100 = December 2019)



EU = European Union, UK = United Kingdom.
Notes: Based on seasonally adjusted volume. World is the sum of EU and non-EU countries.
Source: Office for National Statistics (2021).

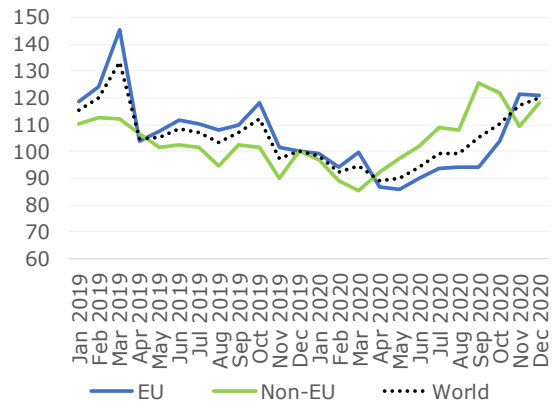
Some relevant features are found when comparing the performance of exports and imports. On the one hand, total imports, for which the COVID-19 outbreak deepened the negative trend shown in 2019, strongly increased in the second half of 2020 along with the progressive recovery of UK domestic demand. On the other hand, the pattern for imports seems more homogeneous both by origin and type of product (Figures 5.11 and 5.12).

Figure 5.11: UK Total Imports by Origin
(index 100 = December 2019)



EU = European Union, UK = United Kingdom.
Notes: Based on seasonally adjusted volume. World is the sum of EU and non-EU countries.
Source: Office for National Statistics (2021).

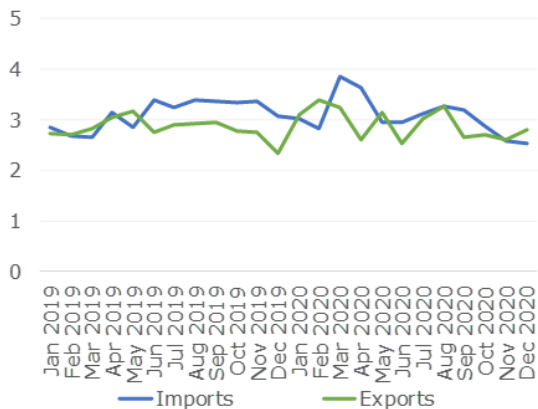
Figure 5.12: UK imports of Semi-Manufactured Goods by Origin
(index 100 = December 2019)



EU = European Union, UK = United Kingdom.
Notes: Based on seasonally adjusted volume. World is the sum of EU and non-EU countries.
Source: Office for National Statistics (2021).

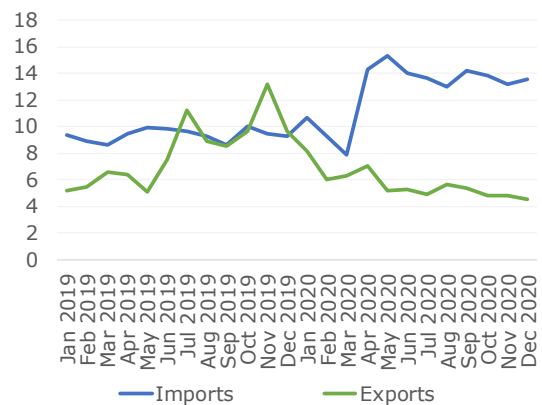
On a bilateral basis, the share of UK trade with ASEAN has remained relatively stable over the last 2 years (Figure 5.13), at around 3% of both total UK exports and imports. On the other hand, the weight of China as an export destination declined considerably in 2020 (to the benefit of the EU share – Figure 5.14 compared with Figure 5.9). In contrast, the opposite happened with imports just after the COVID-19 outbreak, jumping to 12%–15% of total UK imports and increasing the bilateral import dependence.

Figure 5.13: UK Exports/Imports to/from ASEAN as a Share of Total UK Exports/Imports (%)



ASEAN = Association of Southeast Asian Nations, UK = United Kingdom.
Note: Based on seasonally adjusted value terms (\$).
Source: Office for National Statistics (2021).

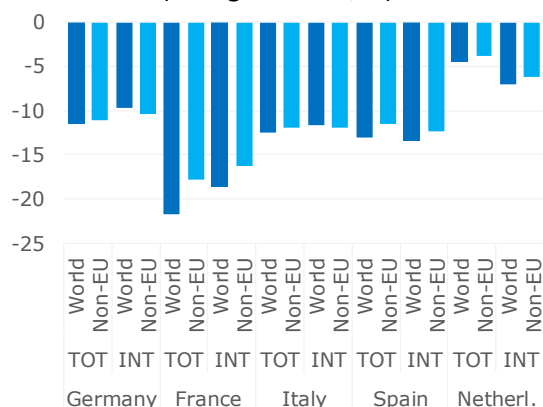
Figure 5.14: UK Exports/Imports to/from China as a Share of Total UK Exports/Imports (%)



UK = United Kingdom.
Note: Based on seasonally adjusted value terms (\$).
Source: Office for National Statistics (2021).

When comparing the trade developments of the UK with those in the EU during the COVID-19 outbreak, trade also declined significantly in 2020 for the largest EU economies (Figures 5.15 and 5.16). That was particularly the case of France (15%–20%), followed by Italy and Spain (10%) and Germany (5%–10%), while the softest contraction was observed for the Netherlands in both exports and imports. The geographical composition of trading partners seems to have played a role in this heterogeneous picture.

Figure 5.15: Exports of EU Countries, by Type of Product and Destination
(change in 2020, %)

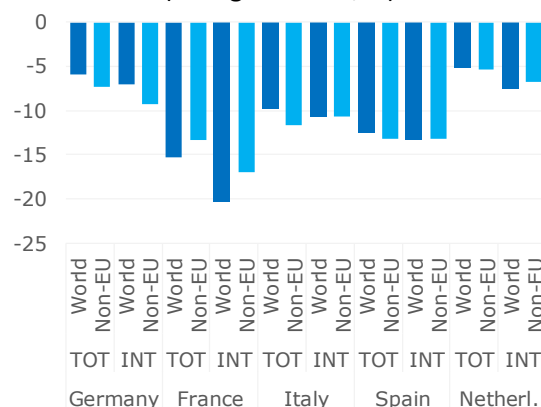


EU = European Union, TOT = total exports, INT = exports of intermediate goods, non-EU = exports to non-EU countries.

Note: Based on seasonally adjusted volume terms.

Source: Eurostat (2021).

Figure 5.16: Imports of EU Countries, by Type of Product and Origin
(change in 2020, %)



EU = European Union, TOT = total exports, INT = exports of intermediate goods, non-EU = exports to non-EU countries.

Note: Based on seasonally adjusted volume terms.

Source: Eurostat (2021).

Strikingly, but in line with the observation for the UK, the decline in exports was larger than for imports. In addition, we observe that while the contraction in exports was larger for total products than intermediates, the fall in intermediate imports was larger than for the aggregate. These developments, although still unclear, could have an interpretation from the value chain perspective.

References

- Baldwin, R. and R. Freeman (2020), 'Supply Chain Contagion Waves: Thinking Ahead on Manufacturing 'Contagion and Reinfection' from the COVID Concussion', VoxEU.org. <https://voxeu.org/article/covid-concussion-and-supply-chain-contagion-waves> (accessed 15 June 2021).
- CPB Netherlands Bureau for Economic Policy Analysis (2021), World Trade Monitor database. <https://www.cpb.nl/en/worldtrademonitor> (accessed 15 March 2021).
- Eurostat (2021), International Trade in Goods. <https://ec.europa.eu/eurostat/web/main/data/database> (accessed 15 March 2021).
- Office for National Statistics (2021), UK Trade Time Series. <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/tradingoodsmretsallbopeu2013timeseriespreadsheet> (accessed 15 March 2021).
- World Trade Organization (2021), WTO data portal, International Trade Statistics. <https://data.wto.org/> (accessed 15 March 2021).