

International trade, trade policy and foreign investment: preliminary considerations on the impact of the COVID-19 crisis

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The world is facing a period of great tribulation as a result of the COVID-19 outbreak, and international trade is an obvious target, whether as a result of decreased global demand for goods (and also the likely effects on the price of trade goods, especially commodities) or as a result of supply capacity restrictions in many sectors and countries due to social isolation and lockdown measures. In a globalised world, marked by the significance of global value chains in major industrial sectors, there is considerable interconnection between the productive structures of various countries, whose functioning depends on the free flow of goods (and people) across national borders, which are currently subject to strict control.

This One Pager aims to summarise the findings of Oliveira et al. (2020), which provides a preliminary assessment of the impacts of the current health crisis on international trade in goods and discusses its effects on trade policy and on direct foreign investments, including the issue of global value chains.

This exercise naturally has a rather speculative character—given that the current health emergency has characteristics that have not been seen for the last 100 years, and there is still much uncertainty regarding the duration of the crisis—and limited reach, given that there are no doubt a myriad other elements that merit analysis

Authors estimate a decrease in 20 per cent in global trade in 2020 in the basic scenario, with a 2 per cent degree in global GDP. In the optimistic scenario, the decrease would be of 15 per cent and in the pessimistic scenario, of 25 per cent. In 2021, the scenarios indicate that trade might grow by 4 per cent, 7 per cent or 10 per cent.

The combination of scenarios for 2020 and 2021 resulted in nine possible results for the evolution of global trade. In the best scenario, global trade would suffer a cumulative decrease of 6.5 per cent over the two-year period, and in the worst scenario, of 22 per cent. In most cases, the cumulative decrease would be somewhere between 11 per cent and 20 per cent.

The outbreak of the COVID-19 pandemic comes at a delicate time for trade relations between countries, marked by many kinds of trade disputes—such as the one between the United States and China. These disputes are, in truth, a reflection of structural movements associated with a growing lack of belief in the importance of multilateral institutions and in the benefits of globalisation, especially for important groups of workers and corporations.

It is possible to predict that, once the health crisis is over, the global economy—and Brazil in particular—will face an environment that is more prone to various kinds of restrictions to trade flows and perhaps also to direct foreign investment flows.

Reference:

Oliveira, I. H. Kume, F. Ribeiro, R. Baumann, G. A. Oliveira, L. F. Giesteira, L. F. Tironi and A. P. Alves. 2020. "International trade, trade policy and foreign investment: preliminary considerations on the impact of the COVID-19 crisis". IPC-IG Policy Research Brief No. 68. Brasília: International Policy Centre for Inclusive Growth.

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