European Central Bank / CompNet Online Event

The impact of COVID on trade and GVCs

September 22, 2020
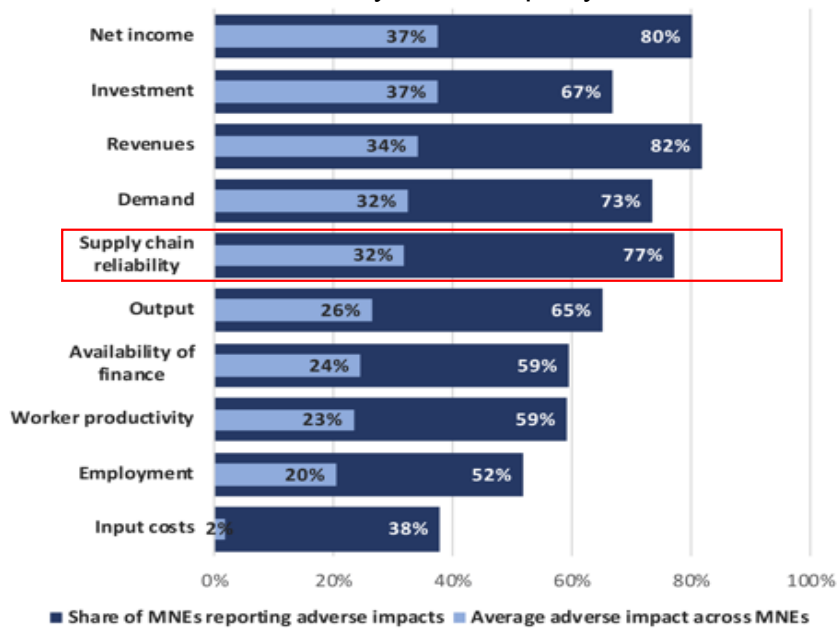
WORLD BANK GROUP
Finance, Competitiveness & Innovation

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How is COVID-19 affecting global value chains?

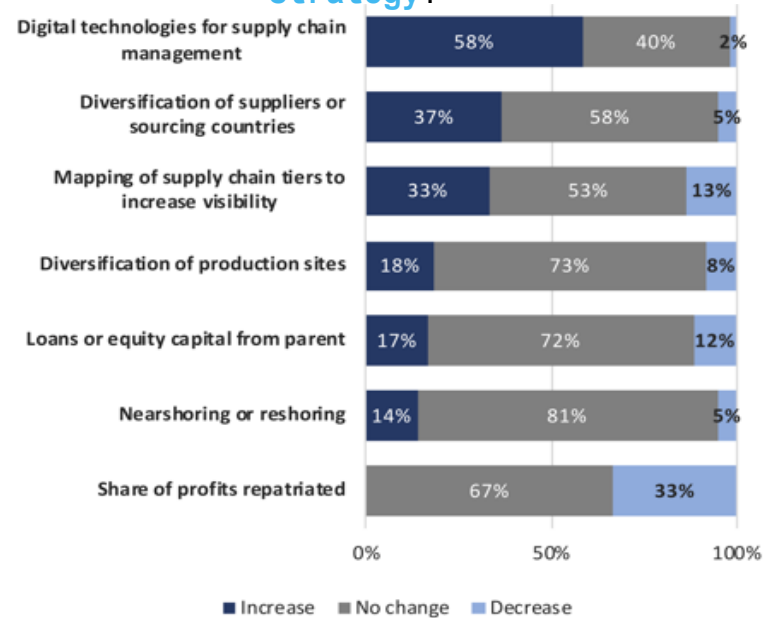**Over the last 3 months (i.e. Apr - Jun 2020),** what has been the impact of COVID-19 on your company?

To counter the effects of COVID-19, how has your company **adjusted its business strategy**?

	37%	80%
Net income		
Investment	37%	67%
Revenues	34%	82%
Demand	32%	73%
Supply chain reliability	32%	77%
Output	26%	65%
Availability of finance	24%	59%
Worker productivity	23%	59%
Employment	20%	52%
Input costs	2%	38%

■ Share of MNEs reporting adverse impacts ■ Average adverse impact across MNEs

Source: Computation based on the July-August 2020 Investor Confidence Pulse Survey.
Note: The reference period of last three months ranges from April to June 2020.

	Increase	No change	Decrease
Digital technologies for supply chain management	58%	40%	2%
Diversification of suppliers or sourcing countries	37%	58%	5%
Mapping of supply chain tiers to increase visibility	33%	53%	13%
Diversification of production sites	18%	73%	8%
Loans or equity capital from parent	17%	72%	12%
Nearshoring or reshoring	14%	81%	5%
Share of profits repatriated		67%	33%

■ Increase ■ No change ■ Decrease

Source: Computation based on the July-August 2020 Investor Confidence Pulse Survey.

# Protectionist measures appeared in critical sectors

Leadership matters!

Export controls proliferated as the crisis spread.

Trade barriers will ultimately reduce overall access to essential health supplies, food and medicines.

- Price distortions
- Input scarcity

Exports of medical supplies & medicines: 90 jurisdictions are reported executing a total of 194 export controls since the beginning of 2020

Updated on 21 August 2020

| January measures | February measures | March measures | April measures | May-Aug measures |
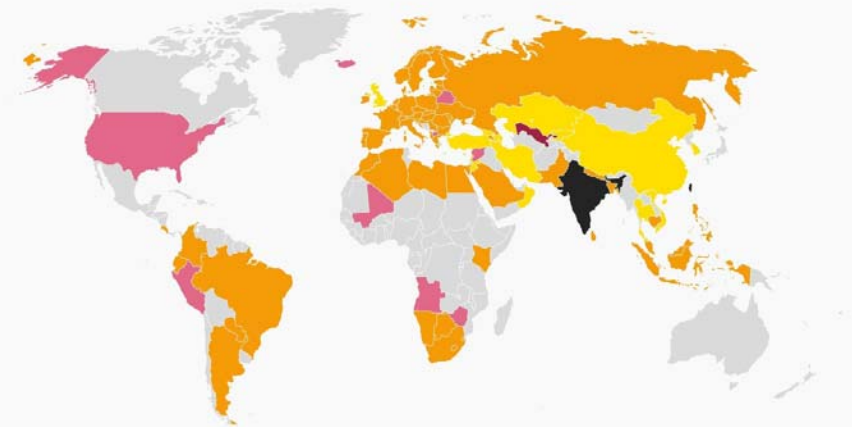
Source: Information collected by the Global Trade Alert team as part of a joint project with the European University Institute and the World Bank. Policy changes identified from official decrees, regulations, and announcements and from media reports. Some policy measures are announced to the press before implementing regulations are published. Information based on media reports is updated when an official state act is located. Date of first relevant policy information by a jurisdiction was used to prepare this map. The information collection methodology as well as the worksheet of information on policy change used to construct the latest version of this map can be downloaded from https://www.globaltradealert.org/reports/54 (Please copy & paste this URL into your browser).

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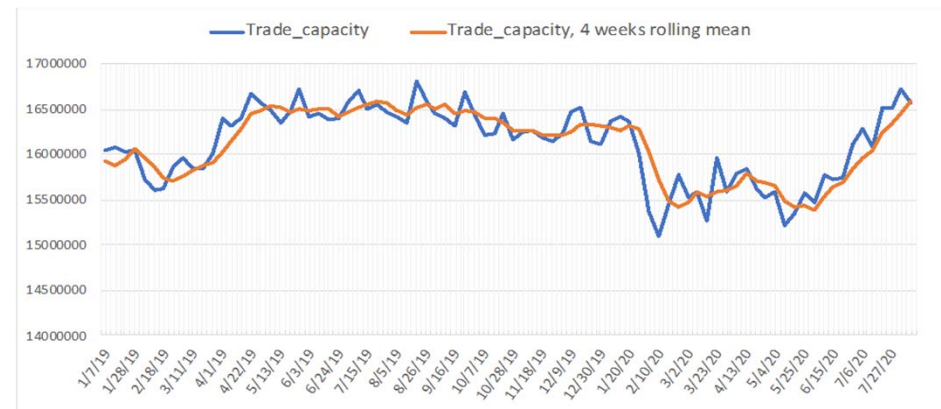
GLOBAL TRADE ALERT

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Trade fell sharply but is rebounding now

Global merchandise trade rebounded sharply in June, making up for steep losses in April and May

Global aggregate monthly exports and imports, YoY percent change
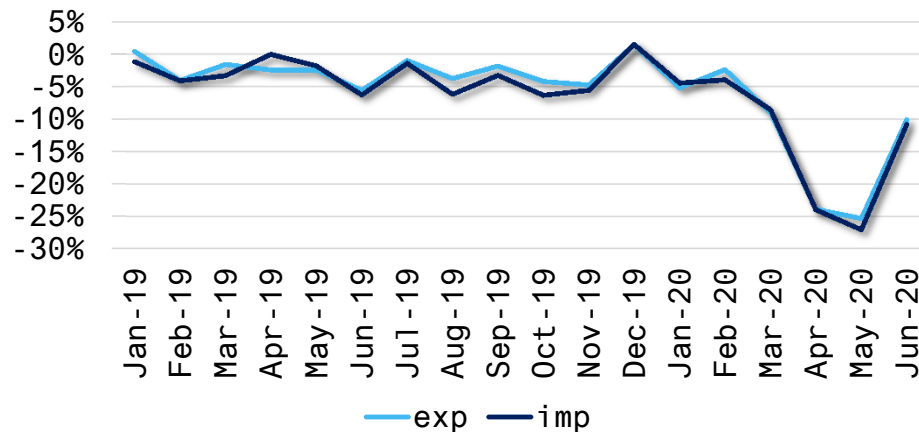
Global shipping container capacity (in TEUs) has trended upward since mid-May, reaching pre-COVID levels by August 16, 2020.

Source: WBG staff calculation based on AIS data provided by MarineTraffic.

The trade shock has been uneven across sectors and regions

YoY growth of China, E.U., Japan and the U.S. imports in Q2 2020, by product

YoY growth of world imports in Q2 2020, by destination
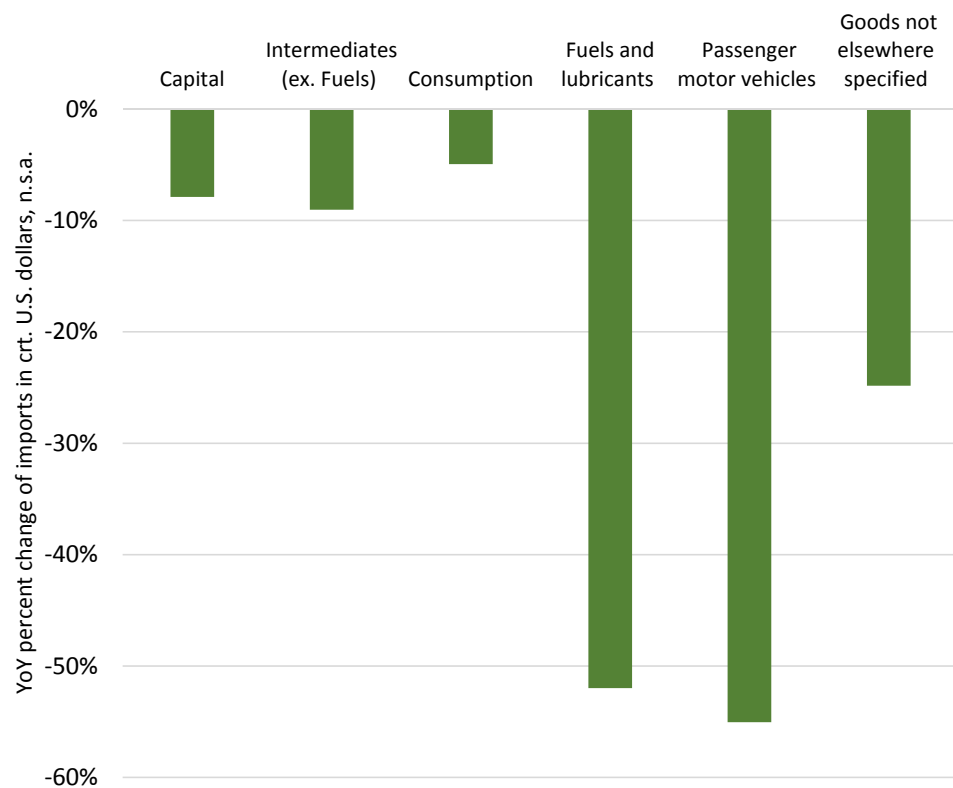
Source: World Bank staff estimates using official data from China, Eurostat, Japan, and the United States. **Note**: Trade flows for EU only include extra-EU trade due to data availability. End use categories are based on UN Broad Economic Categories (Rev 4).
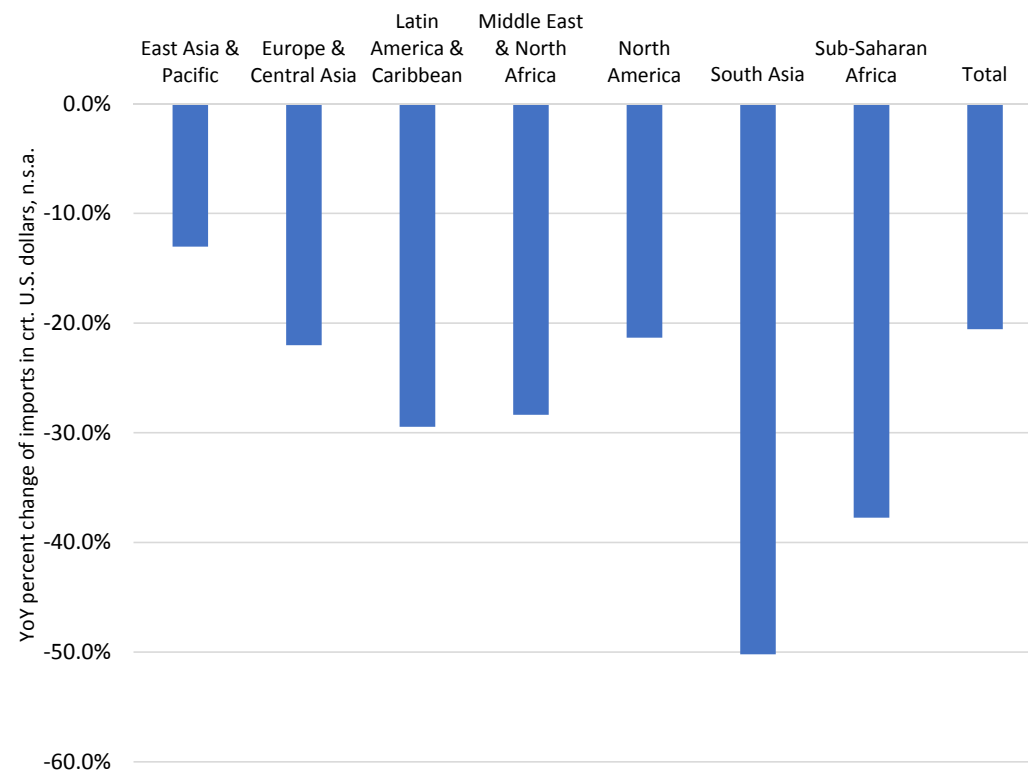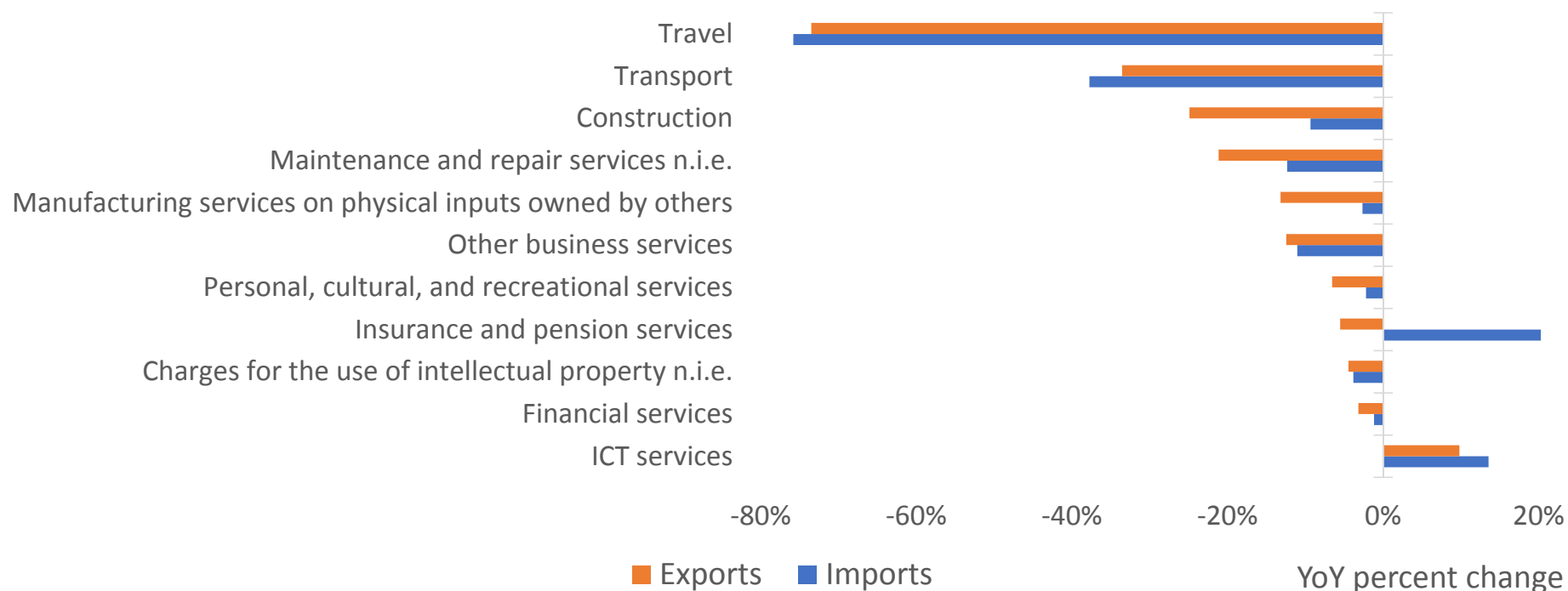
Source: World Bank staff estimates based on data from 85 countries.

Services trade has been hit hard, particularly travel and transport, but IT expanded.

Services trade by sector for China, Germany, Japan, and the U.S., year-on-year change in May


Source: World Bank : COVID-19 Trade Watch #4, July 31, 2020

COVID-19 is unlike any previous crisis for travel and tourism

Arrivals could drop by 58% to 78% depending on pace of normalization. Recovery is likely to take 2-3 years.

International tourist arrivals, 2000-2019 and scenario for 2020 (% change)

Source: World Tourism Organization (UNWTO) (e) Estimate (sc) Scenario-based data
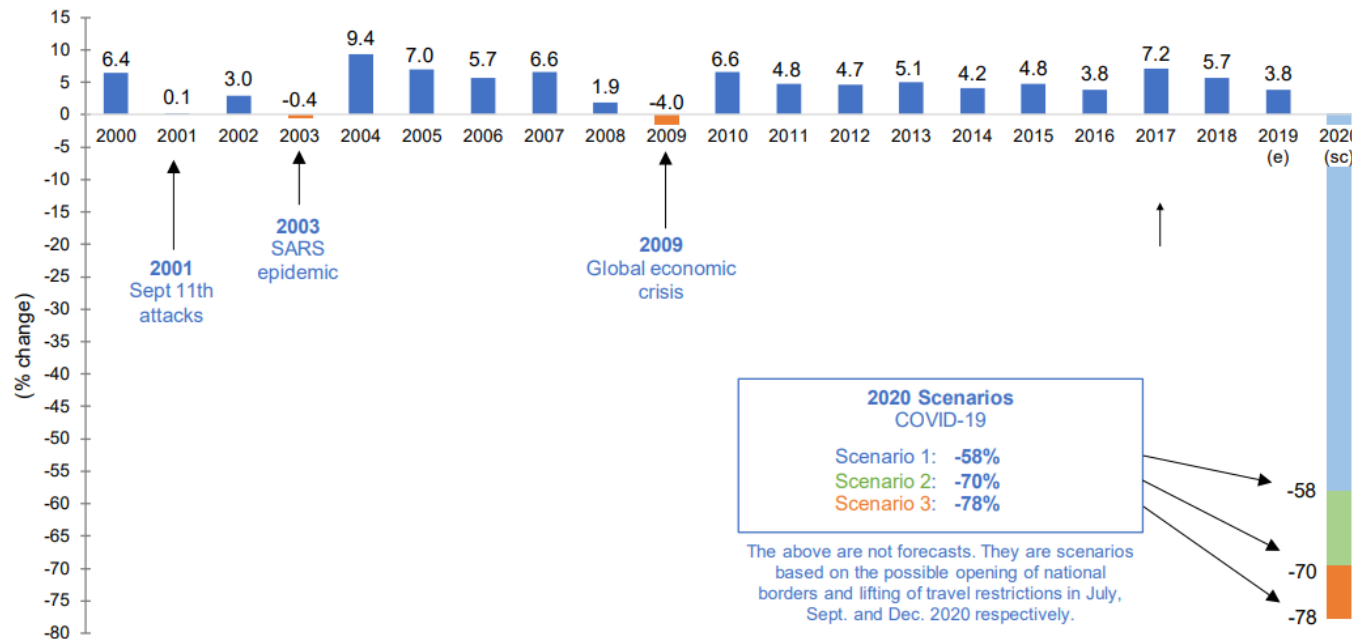
Risks and Opportunities from Reshaping of Supply Chains after COVID

- **Diversification of supplier base to manage risk**
  - Costly because of customization and standards
  - Inefficient if there are scale economies or few suitable suppliers

- **Redundancy/inventories to reduce risk**
  - Costly, just in time means hours in some industries
  - Wasteful with perishables or volatile demand
  - 3D printing offers new solution

- **Government interventions**
  - Desirable if individual firms do not internalize social risks (medical products) or coordination failures
  - Focus on reshoring reduces efficiency without improving resilience
  - Spiral out of control—undermining openness and predictability

Country share of imports from Japan in auto parts (average and median)
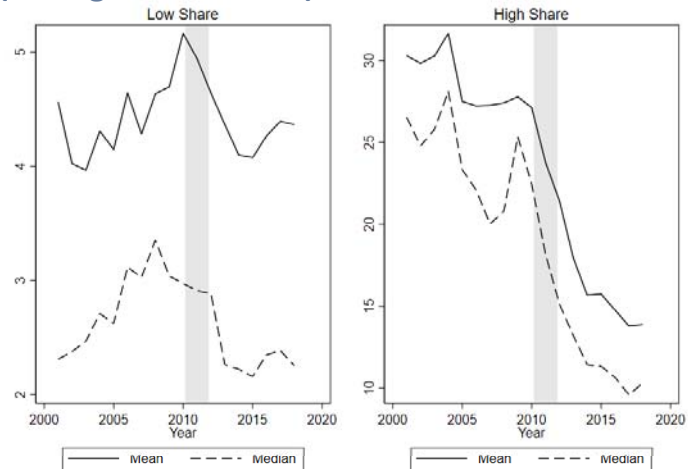
- **Research shows short run supply shortages**

- **Excessive reliance leads importers to switch to other suppliers**

- **New suppliers tend to be:**
  - **Developing countries**
  - **Have comparative advantage**

- **No evidence of reshoring, nearshoring, or diversification**

Thank You