



RUSSIAN FOREIGN
TRADE ACADEMY

Impact of coronavirus on trade and investment

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The shocks in the global economy

1. Decline in aggregate supply due to quarantine measures

- ✓ business suspension
- ✓ violation of the supply chain of intermediate and final goods between countries and on national markets
- ✓ reduced labor mobility

2. Decline in aggregate demand

- ✓ reduced demand for services, durable goods
- ✓ reduction in international trade

3. The growth of uncertainty due to the spread of coronavirus

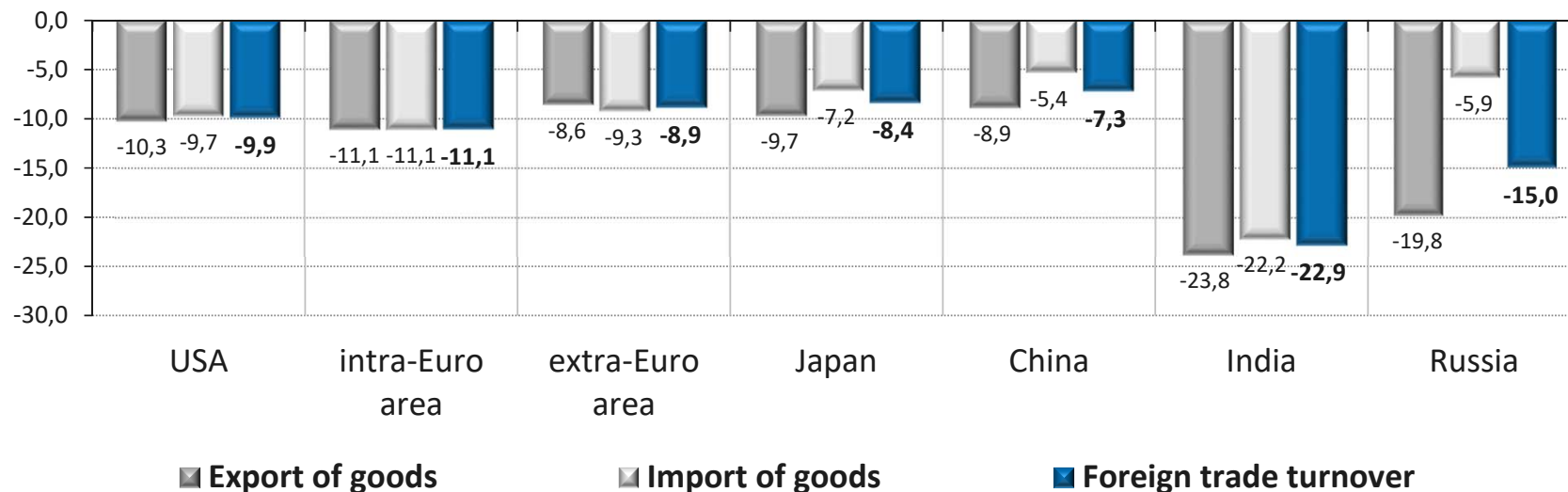
4. The fall in prices at first for commodities, and then for other investment goods

5. Capital flight from risky assets (strengthening of the US dollar relative to other currencies)



Foreign trade developments in early 2020

Merchandise trade dynamics of the leading countries at the Jan-Apr of 2020, % Y-to-Y

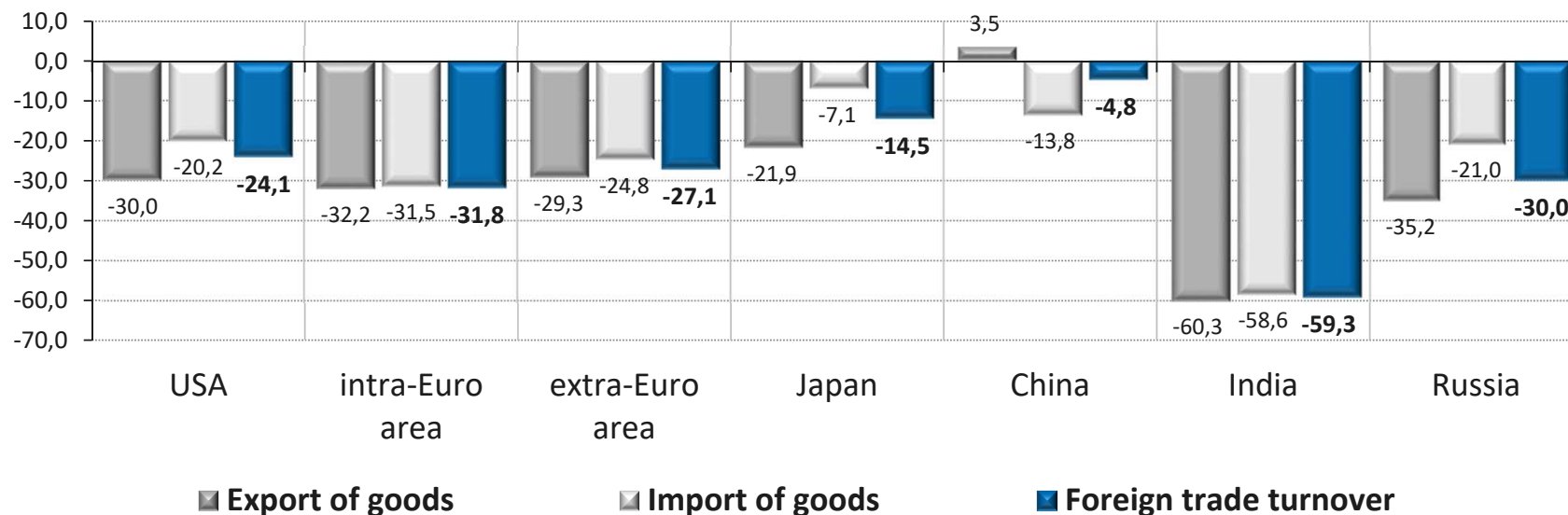


Period	Exports, \$ mln			Imports, \$ mln			Turnover, \$ mln		
	Total	Goods	Services	Total	Goods	Services	Total	Goods	Services
Jan-Apr 2019	843 498	555 484	288 014	1 037 938	844 928	193 010	1 881 436	1 400 412	481 024
Jan-Apr 2020	763 664	498 475	265 188	932 127	762 644	169 482	1 695 791	1 261 119	434 670
Growth rate (2020/2019), %	-9,5	-10,3	-7,9	-10,2	-9,7	-12,2	-9,9	-9,9	-9,6

U.S. International Trade in Goods and Services in January-April 2020

Foreign trade developments in April 2020

Merchandise trade dynamics of the leading countries in April 2020, % Y-to-Y



Period	Exports, \$ mln			Imports, \$ mln			Turnover, \$ mln		
	Total	Goods	Services	Total	Goods	Services	Total	Goods	Services
April 2019	209 288	136 436	72 852	258 491	209 748	48 743	467 779	346 184	121 595
April 2020	151 281	95 515	55 766	200 690	167 353	33 337	351 971	262 868	89 103
Growth rate (2020/2019), %	-27,7	-30,0	-23,5	-22,4	-20,2	-31,6	-24,8	-24,1	-26,7

U.S. International Trade in Goods and Services in April 2020

International trade: current situation and development scenarios in the context of COVID-19

The **optimistic scenario** is the development of the crisis according to the V-shaped scenario (a sharp decline is followed by a quick recovery) under conditions when a pandemic will last 3 months.

A **pessimistic scenario** is the development of a crisis according to the L-shaped scenario (prolonged recession) under conditions when a pandemic will last more than 1 year.

Region	Growth rate in (%)		Forecasts (%)			
	2018	2019	Optimistic scenario		Pessimistic scenario	
			2020	2021	2020	2021
World merchandise trade	2,9	-0,1	-12,9	21,3	-31,9	24
Exports						
North America	3,8	1	-17,1	23,7	-40,9	19,3
South and Central America	0,1	-2,2	-12,9	18,6	-31,3	14,3
Europe	2	0,1	-12,2	20,5	-32,8	22,7
Asia	3,7	0,9	-13,5	24,9	-36,2	36,1
RoW	0,7	-2,9	-8,0	8,6	-8,0	9,3
Import						
North America	5,2	-0,4	-14,5	27,3	-33,8	29,5
South and Central America	5,3	-2,1	-22,2	23,2	-43,8	19,5
Europe	1,5	0,5	-10,3	19,9	-28,9	24,5
Asia	4,9	-0,6	-11,8	23,1	-31,5	25,1
RoW	0,3	1,5	-10,0	13,6	-22,6	18
Real GDP	2,9	2,3	-2,5	7,4	-8,8	5,9
North America	2,8	2,2	-3,3	7,2	-9,0	5,1
South and Central America	0,6	0,1	-4,3	6,5	-11,0	4,8
Europe	2,1	1,3	-3,5	6,6	-10,8	5,4
Asia	4,2	3,9	-0,7	8,7	-7,1	7,4
RoW	2,1	1,7	-1,5	6	-6,7	5,2

Sources: WTO Data (<http://data.wto.org/en>); WTO Press Release, 8 April 2020 (https://www.wto.org/english/news_e/pres20_e/pr855_e.htm).



COVID-19 and the global contraction in FDI

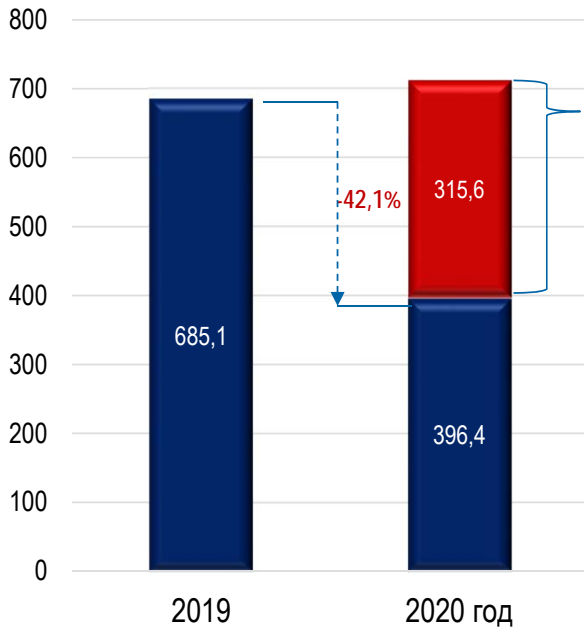
- According to the UNCTAD Global Investment Trend Monitor Special Issue on the impact of the pandemic (early March 2020), under different COVID-19 spreading scenarios, global FDI inflows can be reduced by 5-15% during 2020-2021
- A reanalysis of the impact of COVID-19 on global FDI flows, conducted by UNCTAD at the end of March 2020, showed that the negative effects will be worse than expected
- Updated economic impact estimates and earnings revisions of the largest multinational enterprises (MNEs) suggest that the downward pressure on FDI could be -30% to -40%

Earnings revisions and capital expenditures of the global top 5000 listed MNEs

Economic sector	Number of companies with earnings revisions	Average earnings revision (%)		Share of capital expenditures in 2019 (%)
		by March 4th, 2020	by March 23rd, 2020	
Basic Materials	483	-13	-20	8
Consumer Cyclical	810	-16	-24	16
Airlines	56	-42	-116	2
Hotels, Restaurants & Leisure	125	21	-41	2
Consumer Non-Cyclical	447	-4	-8	6
Energy	289	-13	-208	20
Healthcare	216	0	-2	3
Industrials	910	-9	-20	14
Automobiles & Auto Parts	169	-44	-47	9
Technology	412	-3	-7	11
Telecommunications Services	125	1	-4	11
Utilities	220	-5	-9	10
Grand Total	3912	-9	-30	100

The Impact of COVID-19 on Tourism industry

Forecasts on the development of the global tourism industry and major tourism countries



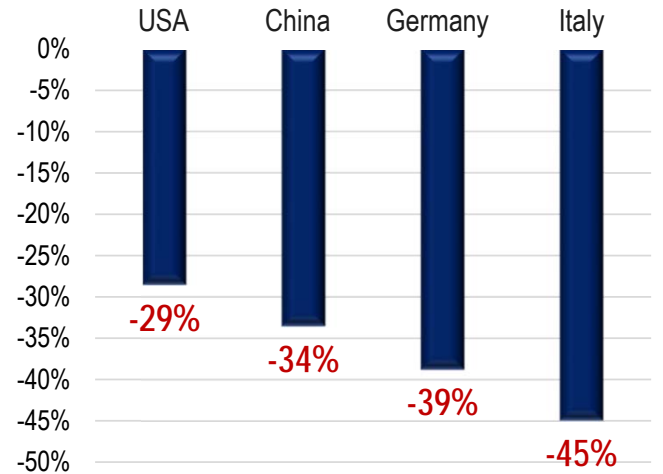
Part of the revenue that may be lost in 2020 due to COVID-19

- The following regions will lose the most: Europe - revenue decline of 41.4% (\$ 94 bn); Asia - a drop of 33.4% (\$ 85.7 bn) and; North America - a decrease of 28.9% (\$ 60.2 bn)
- *WTTC: Up to 120 mln jobs in the tourism industry can be lost worldwide (in Russia - 1.1 mln, according to Rostourism estimates - 1.6 mln or 64% of the total number). The largest losses are predicted for China (25.6 mln).*
- *UNWTO: Already in the first quarter of 2020, exports of tourist services decreased by 80%. UNWTO estimates that revenues from tourism services exports could drop between \$910 bn and \$1,200 bn.*
- According to UNWTO calculations, this year arrivals of foreign tourists may decrease by 58% compared to 2019.

Total tourism industry revenues * (US \$ bn) for 2019 and forecast for 2020

*includes the following categories: cruises, hotels, tours, vacation rentals

Who's gonna get hurt the most?



Projected changes in tourism industry revenue* for selected countries in 2020 compared to 2019

*includes the following categories: cruises, hotels, tours, vacation rentals

According to Rostourism estimates, the total amount of revenue lost by the Russian tourism industry will amount to about \$21 bn over six months.

Sources: Statista Mobility Market Outlook - COVID-19, WTTC, UNWTO, Rostourism

The state of Trade Wars at the beginning of 2020

Forced Technology Transfer

Only China and the U.S. are directly involved

Mutual restrictions cover almost all bilateral exports of both countries

- The US has imposed an additional duty of \$378 billion on Chinese imports.
- China has imposed additional duties on \$187 billion in American imports.

Steel and aluminium

Key producers are involved, including Russia, China, India, Korea and the EU

Imports of steel and aluminium to the US market continue to be subject to additional import duty rates of 25 p.p. and 10 p.p. respectively.

- Full exception: Australia, Canada, Mexico, South Africa (for individual companies);
- Exceptions only for steel supplies within the quota: Korea, Argentina, Brazil.

In response, disputes have been initiated within the framework of WTO, balancing measures and safeguards have been introduced. Russia used all the above instruments.

Changes in GDP of Major Countries, Changes in US and Chinese Exports and Imports

Sources: RANEP/RFPA calculations



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Region	GDP, \$ bn			
	Metals	IP-1	IP-2	Total changes
China	-1,1 (-0,01%)	-16,5 (-0,13%)	-30,7 (-0,25%)	-48,3 (-0,40%)
USA	-34,7 (-0,19%)	-3,0 (-0,02%)	-7,9 (-0,04%)	-45,6 (-0,23%)
Russia	-0,5 (-0,04%)	+0,1 (+0,01%)	+0,6 (+0,04%)	+0,2 (+0,01%)
Rest of the world	-6,9 (-0,02%)	+4,4 (+0,01%)	+17,4 (+0,04%)	+14,9 (+0,03%)
World	-43,4 (-0,02%)	-15,0 (-0,02%)	-20,6 (-0,03%)	-79,0 (-0,12%)

The state of Trade Wars at the beginning of 2020

Forced Technology Transfer

January 15 - The U.S. and China sign Phase One Trade Agreement

February 14 - The agreement comes into force, the U.S. cuts previously introduced additional tariffs on \$120 bn. of Chinese imports from 15% to 7.5%. China is reducing additional tariffs on \$75 bn. of American imports.

February 17 - In order to stimulate the fulfillment of obligations on purchasing of American goods, China reduces previously introduced additional tariffs for 700 items from the USA. As of February 28, the list was extended.

March 10, 17 and 31 - USTR has exempted personal protective equipment and other medical products originating from China from additional tariffs. The reason is COVID-19.

May 12 - China announces lifting of previously introduced additional tariffs on 79 American goods, including various ores and concentrates. Validity period of the measure - from 19 May 2020 to 18 May 2021.

May 12 - A bill has been introduced in the Senate of the US Congress that will allow sanctions against China for refusing to cooperate in identifying the causes of the pandemic. Donald Trump also banned U.S. federal pension funds from investing in Chinese stocks

Steel and aluminium

January 24 - U.S. extends the scope of additional tariffs on steel and aluminum derivatives (import volumes of these goods amount to \$2 bn).

March 13 - Turkey requested consultations with the European Union on the safeguards introduced by the EU with regard to the import of certain steel products.

March 19 - EU requests consultations with the US on measures introduced in January

April 2 - Turkey submitted a similar request, stating that the new measure is an extension of the special safeguard, which the U.S. introduced back on March 23, 2018. India has made a similar request.

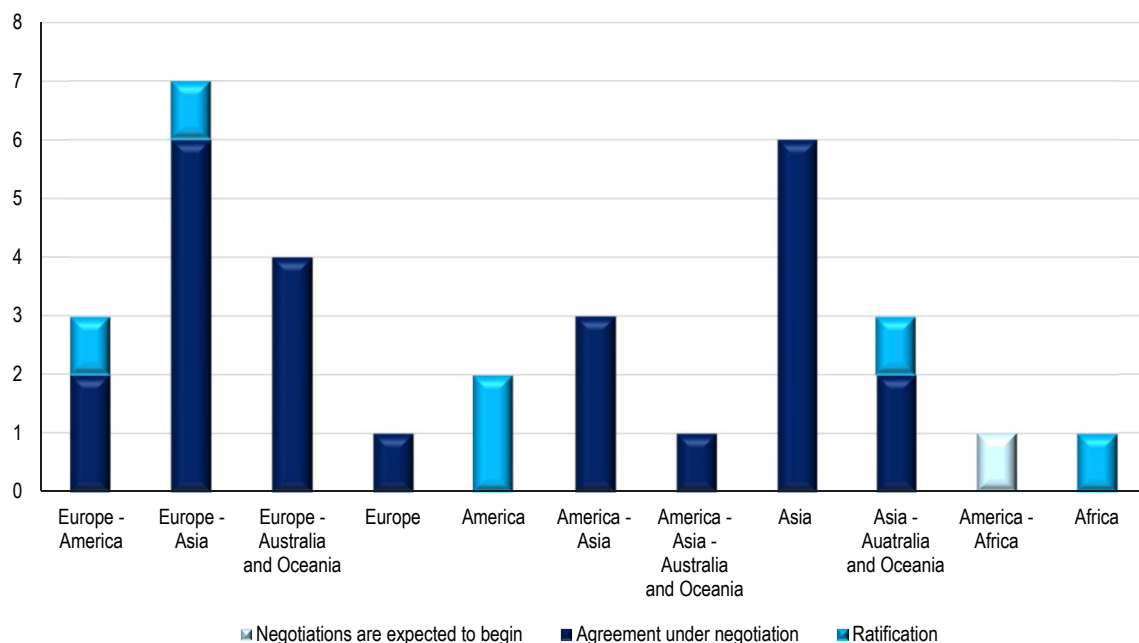
April 7 - Steel Association Eurofer calls on the European Commission to reduce EU steel import quotas by 75% for 6 months due to the pandemic.

May 30 - EU introduced a notification on proposed adjustments to the special safeguard measure regarding steel imports from third countries. The reason for the adjustments is the impact of the COVID-19 pandemic.

Regional economic integration and COVID-19

Number of developing free trade agreements in 2020 by geographical directions and status of implementation

- There are currently 32 trade agreements in the world that are being developed



What was the impact of the COVID-19?

- There was a slowdown in the negotiation process for all trade agreements;
- Full implementation of the African Continental Free Trade Area Agreement (54 signatories) was delayed due to the pandemic.
- Negotiations on a free trade agreement between the EU and the UK were temporarily suspended due to the pandemic and resumed in late April via videoconference; A similar format was used for negotiations on other trade agreements, RCEP and a bilateral agreement on economic partnership between Russia and Korea.

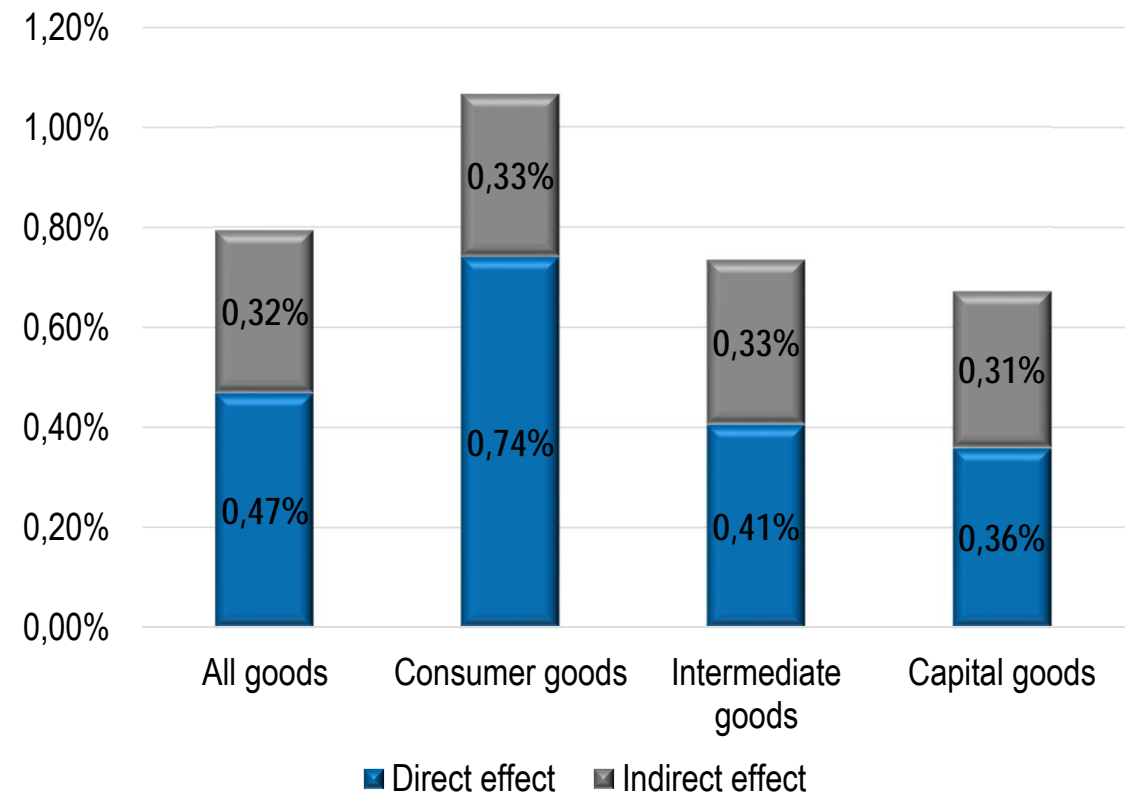
What changes could happen to REI when the pandemic ends?

- Inclusion of regulatory provisions and commitments to ensure supply chain sustainability, including consultation mechanisms;
- Enhancement of the environmental aspect of trade agreements;
- Switching part of the negotiation process to a video conference format.

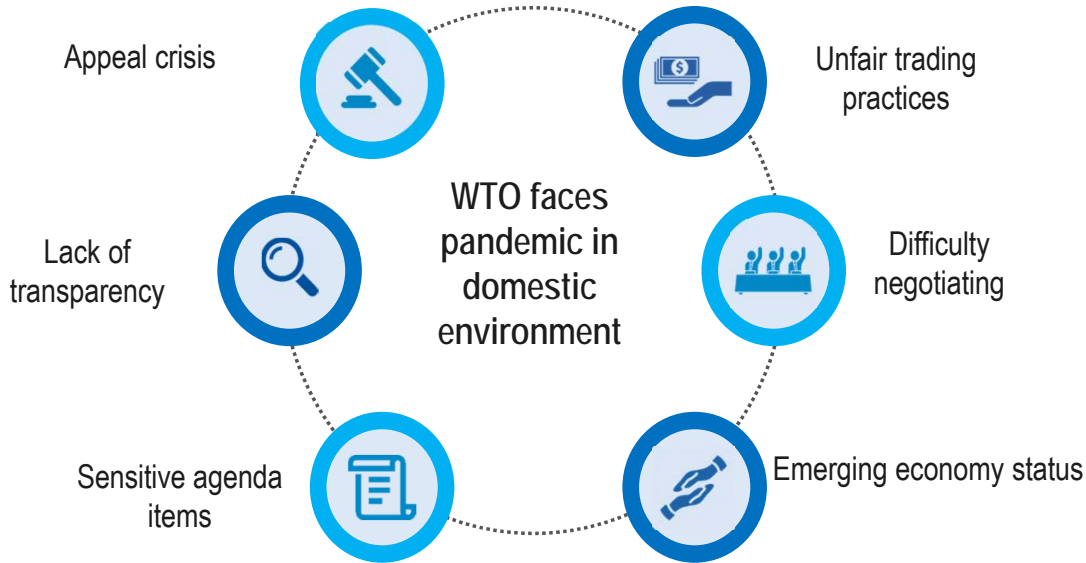
The impact of COVID-19 on cargo transportation

- Border crossing times for trucks increased significantly in March 2020. (+25% on average); there are occasional queues at individual border crossing points, and border crossing time at these points can be up to **4 hours or more**
- The European Commission recommended that Member States make border crossing by trucks as easy as possible by limiting driver checks to **15 minutes**
- Optimistic estimate of the total losses of Russian consumers in the period from March to August 2020 is **\$270 million**. Most of these losses (~170 million USD) are due to reinforced controls within the EU
- At the stage of intensive economic recovery and increase of cargo flows at the borders and, as a result, estimation of losses can be increased **by several times**

Ad valorem equivalent of an increase in transportation time by 1 hour when imported to Russia by road (in % of the cost of transported goods)



WTO in a pandemic



WTO work in a pandemic

- ❖ Face-to-face meetings postponed indefinitely
- ❖ MS12 in Nur-Sultan was postponed to June 2021
- ❖ Partial implementation of current work (including online meetings of a number of working bodies, ODP does not hold meetings)

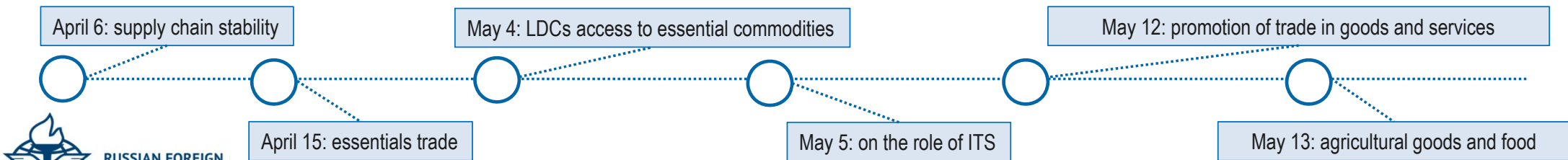
- ❖ WTO members send notifications of introduced trade policy measures (limiting or aimed at stimulating trade)
- ❖ There is an exchange of views and development of recommendations in the field of trade policy in a pandemic, statements of WTO members are published

The WTO Secretariat conducts::

- ❖ Additional monitoring (in addition to collecting notifications) of trade policy measures in a pandemic in relation to goods and services
- ❖ Analysis of trade trends and pandemic effects for trade (8.04 published annual Trade Outlook)

Statements by WTO Members Groups on the Pandemic

Statements by G20, ASEAN, APEC Members



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Russia joined the statements of the APEC and G20 economies, the statement of a number of WTO members on SMEs (data on the EC website)¹²

Foreign trade of Russia in early 2020

Russia's imports of goods from non-CIS countries in April 2020

Product group	Imports value in April 2019 \$ bn	Imports value in April 2020 \$ bn	Growth rate, Y-to-Y
TOTAL	18,6	14,9	-19,8%
Food products and agricultural raw materials	2,2	1,9	-12,3%
Chemical products	3,8	3,3	-13,1%
Textiles and shoes	0,9	0,8	-11,3%
Engineering (machinery) products	9,4	7,2	-23,9%

-14,1%
due to the currency devaluation

-5,7%
due to a fall in demand

Sources: Bank of Russia (http://www.cbr.ru/statistics/macro_itm/svs/); Federal Customs Service (<http://customs.ru/folder/503>).

Source: RFTA/IEP estimations.



Foreign trade of Russia at the beginning of 2020

Deteriorating terms of trade: ruble devaluation at the same time as export prices for basic goods of Russian export (not only oil) go down

	Price in March 2020, \$ / ton	March 2019 price, \$ / ton	Price change
Oil products	415	479	-13%
Natural gas (\$ / thousand cubic meters)	125	202	-38%
Black metals	401	453	-12%
Coal	65	86	-24%
Wheat and Meslin	193	229	-16%
Fertilizers	204	255	-20%
LNG (\$ / m3)	153	196	-22%
Aluminum	1600	1739	-8%
Fresh and frozen fish	1660	1725	-4%
Copper	5341	6207	-14%
Iron ore	65	90	-28%
Rubber	1479	1671	-11%
Ammonia	223	277	-20%
Timber	71	76	-7%
Cellulose	410	543	-25%
Nickel	11829	13102	-10%
Methanol	195	260	-25%

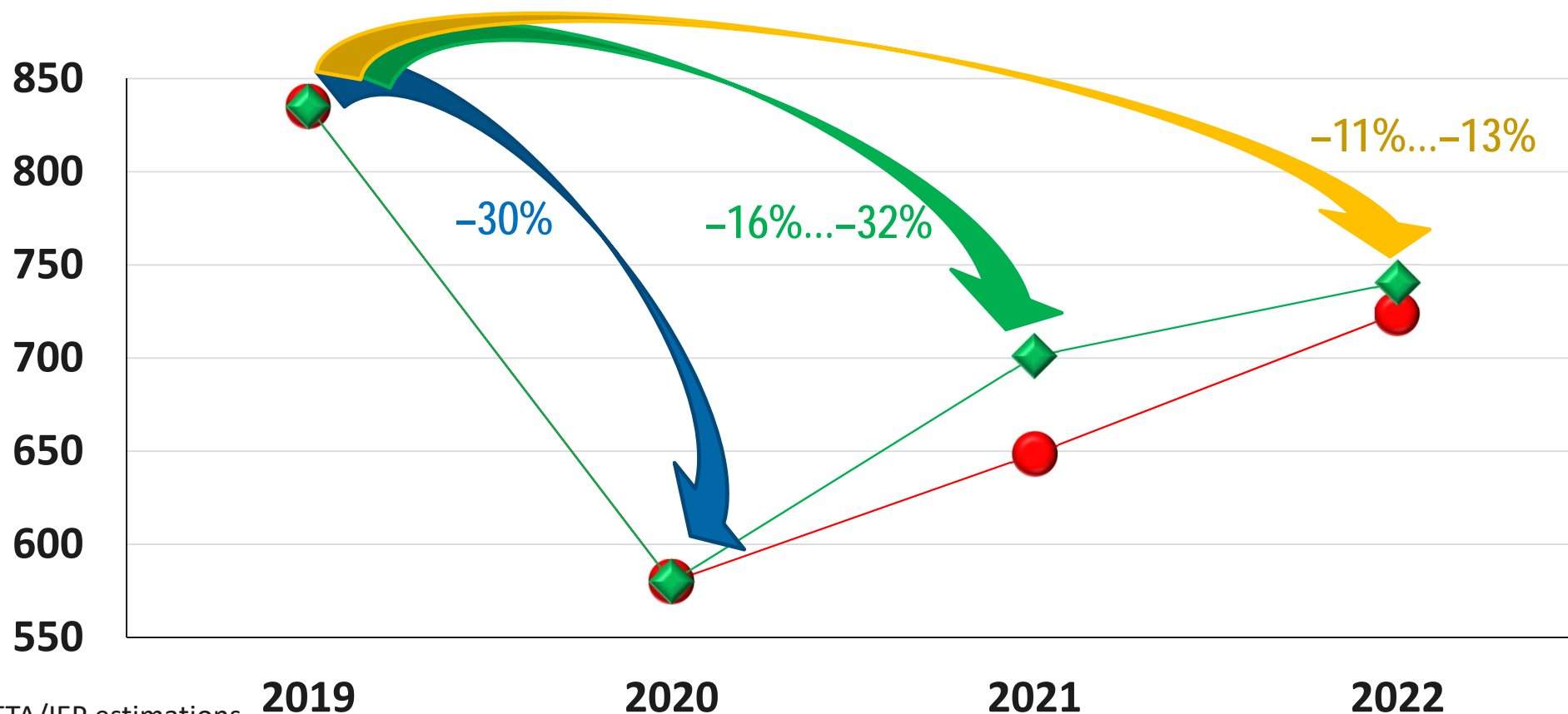
Russian Foreign Trade: Short-Term Forecast

Billion US \$	2019	2020	2021		2022	
			1	2	1	2
Trade Commodity Balance	164	51	89	105	128	119
Hydrocarbon export	238	111	131	161	175	176
Non-hydrocarbon exports	181	149	169	169	179	179
Import of goods	254	208	212	226	226	236
Balance of trade in services	-36	-14	-28	-30	-32	-33
Service Export	63	49	54	57	56	58
Service Import	99	63	82	88	88	92
Balance of trade in goods and services	128	37	60	74	97	85
Current account	65	-18	6	17	40	26

Source: RFTA calculations

* According to forecasts of the Bank of Russia, the current account in 2020 will amount to \$ 35 billion

Russian foreign trade: short-run forecast



Source: RFTA/IEP estimations.

- Goods and services trade turnover (\$ bln), scenario 1
- ◆ Goods and services trade turnover (\$ bln), scenario 2

GVCs and COVID-19 pandemic

China is a significant player in GVCs: according to IMF data it supplies **7% of intermediate value added** in global production. Coronavirus outbreak in China became the first stage of GVCs disruptions due to government's containment measures.

Epidemic and restrictions in China



COVID-19 pandemic – containment policies are undertaken worldwide.

- The most sensitive industries to the vulnerability in China's exports (McKinsey): **computers, electronics, optical and electric equipment, other machines and equipment, motor vehicles**
- According to UNCTAD: **the EU, the USA, Japan, the Republic of Korea** are economies with the most substantial estimated losses due to the reduction in China's exports (**Russia** is ranked 20th).

- **Disruption of GVCs worldwide** (not only those dependent on China's production and exports). Production and supply chains in **Germany, UK, Spain, Italy, USA and other economies** also faced the negative effects of COVID-19 measures
- Critical issues for **medical goods and food products** supply chains
- **Negative effects of GVCs disruptions are more significant in case of low level of geographical diversification of supply chains**
- **GVCs sustainability crisis** => additional incentive to review existing GVCs functioning and business strategies

Today:

The review of production strategies in the way to decrease the dependence on China, **diversification of production and marketing strategies** (*Tablei (China), Japan, India, Vietnam undertake government programs to return production facilities of national companies back from China to their domestic territory or shift production to another country*)

Prospects:

COVID-19 pandemic generates additional impulse to the development of fundamental trends – **reshoring, digitalization of GVCs in terms of production, infrastructure and, in particular, of services trade**



**THANK YOU FOR THE
ATTENTION!**