TRADE POLICY OF THE EUROPEAN UNION AND THE UNITED STATES OF AMERICA UNDER THE COVID-19 PANDEMIC

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Abstract. The pandemic of COVID-19 has influenced all sectors of social life, including the global economy and trade relations. The year of 2020 was marked with significant changes in internal and foreign economic policy of almost all nations. The purpose of the paper is to study the measures taken by the EU and the USA as the world’s leading economies to regulate their foreign trade in the global crisis caused by the COVID-19 pandemic. The tasks of the study are to show the influence of the crisis on changes of global trade policy in front of the threat to national security. Methodology. The study is based on the results of statistical analysis of data provided the WTO and the UNCTAD. The authors show an analytical assessment of the foreign trade indicators of the EU and the USA. Methods of comparison and generalization were used to formulate conclusions on regulatory trends in foreign trade of the US and the EU. Results allowed identifying specific features and changes in the regulation of foreign trade of the EU and the US, assessing the impact of the pandemic on their foreign trade. It was found that both mentioned players of the world economy have actively introduced both deterrent and liberalization measures during 2020, which were aimed at providing the domestic market with scarce COVID-related goods. The study shows the transition from export restricting to import liberalizing measures in foreign trade policies from the start of pandemic to the late 2020. Practical implications. Understanding and predicting the possible actions of partners (the US and the EU in this case) in the field of foreign trade regulation is an important practical aspect, which has to be taken into account when developing Ukraine’s foreign trade policy. Value/originality. The study of foreign trade policy of the world’s leading countries allows us to understand the behavior of governments of the countries that are largely dependent on participation in international trade in their development, to draw conclusions about the most common instruments of foreign trade policy in the time of humanitarian and economic crises.

Key words: pandemic, crisis, foreign trade, foreign trade regulation, liberalization, protectionism, export, import.

JEL Classification: F13, F14, F52

1. Introduction

The global crisis caused by the pandemic of the unexplored virus has significantly affected the economies of almost all countries, affecting all spheres of public life, including international trade. The first signs of the trade downturn were already evident in January, with most of the major economies recording negative trends. Still, the sharpest drop in international trade occurred in the second quarter of 2020, with global merchandise trade falling by more than 20 per cent relative to the same quarter of 2019 (UNCTAD, 2021).

In the current context of a real threat to the health and security of nations, governments around the world make decisions aimed primarily at solving two main tasks: the first – ensuring the health of nations, and the second – maintaining the stability of the national economy and minimizing economic losses.

The study of measures in the field of foreign trade aimed at ensuring these objectives is the purpose of this study. To achieve this goal, the following tasks have been identified: to analyze the general changes in the foreign trade policy of states in a pandemic with an emphasis on COVID-related goods; to study the peculiarities of the foreign trade policy of developed countries in modern conditions, in particular the EU and the USA; to assess the effectiveness of the implemented measures in the overcoming of the...
consequences of the pandemic and the impact of their introduction on trade and economic relations with partners.

2. General characteristics of changes in the regulation of foreign trade under the COVID-19 pandemic

The general functions of foreign trade regulation include adjusting the conditions of access to domestic markets for foreign goods (either to protect domestic production or fill the domestic market with scarce goods, or both), and the realization of export opportunities of domestic producers and their advantages in the world market. However, the role of foreign trade policy during the coronavirus crisis, according to experts of the World Trade Organization, should be aimed primarily at facilitating access to critical medical products and raw materials for their manufacture, preventing restrictions on access to such goods to poor countries; supporting exporters to maintain jobs and foreign exchange earnings; simplification of regulatory and customs procedures to facilitate access to COVID-related goods and food (World Bank Group, 2020). At the same time, the application of export taxation or banning the export of medical goods in order to "keep" them in the domestic market is considered as undesirable.

Changes in trade policy were among the first steps taken by the governments in the first months of the pandemic, as most of them have activated their interference in export-import activities. Thus, in May 2020, three months after the beginning of the pandemic, the WTO reported the introduction of restrictions on the export of medical goods by 85 countries (World Bank Group, 2020). The foreign trade policy of almost all countries has undergone two key changes: the abolition or reduction of restrictions on food imports and the growth of restrictions on exports of medical goods.

The depth and dynamics of the application of measures depends on the severity of the situation in the medical sphere of the country and the state of the internal market of a particular product (shortage or surplus), the country’s dependence on export earnings and commitments, i.e. involvement in various trade agreements. It is obvious and predicted that the active application of bans on the export of protective medical goods has significantly affected their price. Thus, according to the WTO data, the global price of masks and protective clothing increased by 22% and 20%, respectively (Evenett et al., 2020).

As for the direction and combinations of measures, there are cases of applying either export restrictions or import supporting, but for the most part countries are using both combining them. In particular, in 2020 the most used measures were: restrictions, bans or additional control measures on the export of medical devices (overalls, masks), vaccines and components for their manufacture; reduction of duties or temporary exclusion from the restriction of imports of the above goods, accelerated licensing procedures; physical ban on imports of industrial goods not related to the protection of public health (clothing, cosmetics) that are not critical to the domestic market; restricting food exports and tightening sanitary control procedures.

Generalization of the data provided by Evenett et al., (2020) makes it possible to conclude: 1) during 2020, especially in the first half of it, the states applied various combinations of measures somewhat chaotically and unsystematically. However, by the end of the year, it became clear that most governments were inclined to take measures to liberalize trade in health-related goods and foods; 2) as for the trade in medical goods and food as the main sectors covered by new measures – 32 percent in the total number of measures were those that promote trade in medical goods and 32 percent were restricting it, 16 percent concerned food trade bans and 19 percent liberalized trade in foods; 3) regulatory measures covered about $ 200 billion medical goods and $ 81 billion food; 4) quantitatively, measures to liberalize imports exceed measures that restrict exports; 5) in the regional context, the countries of South Asia were the most active in application of measures aimed at facilitating food trade, and the most of the measures promoting the import of medical goods were introduced by the countries of East Asia and the Pacific region; 6) Western Europe, the Balkans and Central Asia are the regions with the most active application of export bans.

In some high-income countries, and in those in which pharmaceutical concerns-developers of vaccines against COVID-19 have succeeded in this direction, the phenomenon of “vaccine nationalism” appeared. Vaccine nationalism occurs when governments sign agreements with pharmaceutical manufacturers to supply their own populations with vaccines ahead of them becoming available for other countries (Khan, 2021). Countries contracted to purchase vaccines from different developers even before the tests were completed, thus booking several doses of vaccines from different manufacturers for each of their citizen. So, rich countries with just 16 percent of the world’s population have bought up 60 percent of the world’s vaccine supply. Many of these countries aim to vaccinate 70 percent of their adult population by midyear in pursuit of herd immunity (Kretchmer, 2021). Further, governments seek to conclude priority bilateral agreements with developers of effective vaccines to ensure that their citizens have priority access to vaccines, thus preventing the world’s
least developed countries from vaccinating citizens and, in effect, preventing COVAX collaboration to ensure equal access to vaccines to the rest of the world. The World Health Organization, the World Forum and other international institutions and some experts emphasize the harmfulness of this approach and warn that the economic losses from the vaccine isolation of underdeveloped countries will primarily affect developed countries. According to the data (International Chamber of Commerce, 2021) if advanced economies continue to prioritize vaccination of their susceptible populations without ensuring equitable vaccination for developing economies, the total cost to the world varies between US$ 1.5–9.2 trillion.

Although the World Trade Organization monitors and records both measures regulating the export of vaccines and other instruments affecting cross-border flows of pandemic-related goods and publishes the list COVID-related measures on its website (World Trade Organization, 2021) the organization has taken a position to criticize unfair practices. It does not affect their application directly and does not take any action to eliminate them, nor does it oblige its members to notify the implementation of such measures.

3. The US trade and foreign trade policy in the pandemic

Shifts in international trade are reflected in US foreign trade performance. The government's active policy of promoting the import and export of medical supplies, together with rising world prices for this group of goods, could not but affect the US trade balance. Some studies (Leibovici, Santacreu, 2020) point to the fact that, that usually in times of crisis and depression, imports decline faster than exports, which in turn causes a reduction in the trade balance (growth in trade deficit). Thus under the Great Depression in US exports fell by 24.6 percent and imports by 34.3 percent. In the first part of 2020 exports of U.S. goods dropped by almost 25 percent, while imports of goods dropped by about 17 percent, so that by June 2020, the U.S. trade deficit in goods had increased to $50.7 billion (by 20 percent). The share of medical goods in US imports was only 0.7 percent at the beginning of the pandemic, while the trade deficit in the medical goods sector was 0.34 billion dollars out of 42 billion total deficit, which is less than 1 percent.

As of June 2020, imports of medical goods to the United States more than tripled to 5.42 billion, the share of medical goods in imports increased from 0.7 percent in January to 2.5 percent, the trade deficit in medical goods increased to 3.9 billion (by 1049 percent). Given that the gap between US exports and imports between January and June increased by 8.66 billion (from 42.04 to 50.7 billion dollars), and the increase in the deficit in trade in medical goods was 3.9 billion, it is obvious that the US trade deficit by more than 40 percent was formed by the trade deficit in medical goods (Leibovici, Santacreu, 2020).

Along with the increase in imports of medical goods, sales of US expert products like fuel, cars, and clothing have decreased significantly, reflecting the global trend. According to UNCTAD, in 2020 world energy exports decreased by 35 percent, car exports – by 26 percent.

The "economic nationalism" in trade regulation has been justified by the threat to national security and was reflected in the actions of the American government. First President Trump and later President Biden have applied Defense Production Act for stimulation of internal PPE (personal protective equipment) production and provision of vaccines for citizens. This Act was adopted in 1950 by President Truman and allows the US government to apply special measures to support domestic producers in the face of threats to national security (and this definition includes both external military threat and internal threats – terrorist acts, natural disasters, etc.). The Act authorizes the President to require companies to prioritize government contracts and orders seen as necessary for the national defense, with the goal of ensuring that the private sector is producing enough goods needed to meet a war effort or other national emergency. It also authorizes the president to use loans, direct purchases and other incentives to increase production of critical goods and essential materials (Selsky, 2021). If these measures have a temporary effect, they will help to address the issue of internal shortages of goods. However, the duration of their action will cause a high-degree influence on global competition as may be used as a measure of protectionism for artificial support of non-viable industries.

The impact of the pandemic on the US-China trade relations is of greatest interest. In January 2020, the parties have signed the so-called Phase One Deal Agreement, under which they agreed on significant reduction of tariffs in mutual trade, decided to restore mutual obligations, in particular in the field of technology transfer and intellectual property relations (Wong, Chipman, 2020). According to the agreement, the United States and China decided to expand trade, under which China undertook to increase purchases of agricultural and energy products from the United States. However, during 2020, experts raised two questions – whether China will be able to continue to meet its obligations in the crisis and whether it will not use force majeure circumstances to review the agreement, and whether the United States can supply the right amount of products in the current conditions (Emerson et al., 2020). Given that none of the countries has yet expressed its claims, it is clear that apparently the
trade conflict between the United States and China in a pandemic has become latent.

Both sides have adopted a number of easing of existing restrictions. In particular, China has granted temporary tariff exemptions for medical devices provided by the US government or manufactured by certain US state-owned enterprises that were previously imposed in response to additional duties applied by the United States. The United States has also adopted a number of exemptions from trade restrictions imposed on China, most of them – only for medical goods (plastic and rubber medical devices, plastic medical utensils, protective clothing, shoes and face masks). However, the US government has rejected China’s requests for deeper concessions on the abolition of tariffs, so the trade dispute is far from being resolved.

The multibillion-dollar customs revenue from taxing Chinese imports is another reason to keep the US government from revising the restrictions. According to the US Treasury, tax revenues increased by 73 percent, to a total of $33.9 billion in the first half of 2019 compared to the same period in 2018 (and after 10 months of customs duties on China in action) (CNBS, 2019).

During the year of the health crisis, only those sectors directly related to the protection of the population from the viral threat underwent changes in mutual trade between the United States and China, and mutual concessions did not significantly change the tense of trade relations. Since the Phase One Agreement in force, China’s average tariff on US goods has fallen slightly from 21.2 to 20.7 percent, and the level of tariff protection for the US economy from Chinese exports has not changed at all (19.3 percent). At the same time, China’s average import tariff relative to other countries is 6 percent, while the US average tariff relative to other countries is 3 percent (Bown, 2021). Summarizing the data of the WTO report on measures introduced by the United States in 2020 (data do not take into account measures related to vaccines export), show that most of them relate to the promotion of imports of COVID-related goods through the abolition or reduction of duties, deferred payment of duties, export control over COVID-related export.

4. Foreign trade policy of the European Union under the COVID-19 pandemic

Foreign trade is an important factor of the European Union’s prosperity and determines Europe’s leading position in the international arena. The EU conducts about 15% of world trade in goods and is the world’s largest exporter of industrial goods, of high-quality and high-tech products (Eurostat, 2020).

The common trade policy of the 27 member states allows the EU to remain a leading player in the world, adhering to the principles of transparency, proportionality, openness and unity. For example, tariffs on imports of EU industrial goods are among the lowest in the world. Imports from many suppliers of industrial products to the EU enter the bloc at reduced rates under the terms of bilateral agreements or other import duty suspensions, like the Generalised Scheme of Preferences. At the same time, in response to tariff restrictions on the part of the world’s major trading players, the EU’s foreign trade is characterized by a fairly high degree of non-tariff barriers to trade, such as technical barriers to trade or sanitary and phytosanitary measures (European Commission, 2021).

Nevertheless, the first months of the COVID-19 crisis revealed the most vulnerable points in the EU’s foreign trade policy, so that the main principles of it have been severely criticized. The crisis was noticeable not only in extra-EU trade, but also in the internal markets of the EU with a reduction in domestic production, weakening of strategic industries and break of established supply chains. In the spring of 2020, there was a shortage of COVID-related goods, primarily masks, medicines and medical equipment, on the EU internal market. This was due to the rapid growth in demand for this group of goods, export restrictions of third countries and insufficient production capacity in this area, but also the internal ban on Member States to export COVID-related goods to other members of the Union (Hervé, 2021).

The statistical data on the trade in COVID-19 related products between the first semester of 2019 and the first semester of 2020 show that the growth rates for imports were highest for protective garments (+187 percent), sterilization products (+ 73 percent) and oxygen equipment (+28 percent). In exports, the growth rates were the highest for sterilization products (+24 percent), diagnostic testing equipment and medical consumables (+13 percent both) (Eurostat, 2021).

According to Eurostat, the United States, China and Switzerland were the EU’s main trading partners for COVID-19 related products. The United States was the main partner for exports, China – the leading importer. Thus, imports of these groups of goods from China increased from EUR 1.5 billion in May, 2019 to EUR 8.5 billion in May, 2020. This was primarily due to growing European demand for protective garments from China. Exports to the United States for these groups of goods increased from EUR 4 billion in March 2019 to EUR 8 billion in March 2020. The medical consumables and diagnostic testing equipment were the main commodity items of exports to the United States.

The EU’s foreign trade, like the foreign economic sphere of most countries, has undergone significant changes in 2020. According to Eurostat, the annual
decline in exports of goods was -9.4 percent and -11.6 percent in imports. The COVID-19 pandemic hit trade hardest between March and April with exports falling from EUR 176 billion to EUR 125 billion and imports falling from EUR 148 billion to EUR 125 billion (Eurostat, 2021).

Nevertheless, the foreign trade balance of EU goods in 2020 was in surplus and amounted to EUR 217 billion, which is EUR 26 billion more than in 2019. At the same time, there was a sharp decrease in exports and imports compared to 2019 for the following main product groups: machinery & vehicles (-12 percent), other manufactured products (-10 percent) and in particular energy (-40 percent). At the same time, changes in the EU’s foreign trade did not affect trade in chemicals, food & drink, raw materials (there was only a few percent drop in imports of these items) (Eurostat, 2021).

In these circumstances, the EU called on member states to make careful use of existing instruments of influence in foreign trade policy, in particular those relating foreign investment in health infrastructure or essential supplies. For instance, the European Union encouraged international exchange where it might contribute to its public health interests. This was reflected in the Commission’s decision to suspend customs duties and VAT on masks, protective equipment, test kits and medical devices at the beginning of April (Hervé, 2021).

The vaccine trade is the most delicate aspect of regulation. The European Union has been accused of “vaccine nationalism” because of the intent of blocking vaccine exports to Britain. The European Commission has added new criteria for obtaining a permit to export vaccines – the principles of reciprocity and proportionality. This will take into account the stock of medicines in the importing country, the existence of export restrictions on vaccines or raw materials for their production in this country, the degree of vaccination of the population and the epidemiological situation in general. At the same time, the EU will not stop exporting vaccines, especially to underdeveloped countries, while remaining the world’s largest exporter of vaccines (Chalmers, Abnett, 2021).

In general, the EU applied the following measures regulating the its foreign trade under the pandemic (World Trade Organization, 2021):

1. Export restrictions – primarily concerns temporary restrictions of exports of COVID-19 related products (like face masks and medical protective equipment) to destinations outside the EU, increase in export bans on medicines within the internal market by the state-members and export authorisation of COVID-19 vaccines, both for internal market, and for participating countries.
2. Import liberalizing measures – relief from import duties and VAT exemption for goods needed to combat the effects of the COVID-19, implementation of “green lane” border crossings for land (road and rail), sea and air transport to protect health and ensure the availability of goods and essential services, flexibilities provided by the existing EU public procurement framework in emergency situations, measures supporting the essential transport flows, simplifications of customs provisions relating to the customs decision-making process, customs procedures and customs formalities, measures on the optimal and rational supply of medicines, reduced import rate of COVID-19 in vitro diagnostic medical devices and services closely linked to those devices, an exemption of VAT for COVID-19 vaccines.

With regard to foreign trade cooperation, the EU demonstrates a balanced approach and selection of the optimal form of mutual trade with major partners, based on the principles of solidarity and mutual support. Thus, in December 2020, the EU signed a new investment agreement with China, which last year became the Union’s main trading partner, displacing the United States. The EU leaders also talk about the possibility of revival of a transatlantic free trade due to closer cooperation with the United States.

In turn, the establishment of mutually beneficial trade relations with the United Kingdom remains one of the main strategic tasks in the EU trade policy. The signing of the trade and cooperation agreement with the United Kingdom in December 2020 demonstrated the Union’s flexibility and willingness to compromise on relations with countries that are not members of the common market (Hervé, 2021).

In 2020 the EU took measures aimed primarily at filling the domestic market with strategically necessary COVID-related goods. In February, 2021 the European Commission suggested a new strategy of trade policy, which includes tougher tools to protect the internal market EU in response to unfair trade practices by the EU’s main trading partners (primarily the US and China). At the same time, the European Community strives to preserve the strategic autonomy and integrity of the single internal market, basing on the openness of foreign trade principle. At the same time, the EU will monitor major trading players around the world for transparency and fairness and will work to revive the WTO as the main platform for resolving disputes in international trade.

5. Conclusions

The case of the modern pandemic is unprecedented from the point of view of the application of instruments of foreign trade regulation. The priority of foreign trade policy in 2020 was to provide the domestic market with critical goods – medical equipment, pharmaceuticals and raw materials for their production. The threat to national security has forced governments
to take tough decisions, especially in regulating trade in medical goods and vaccines. Trade conflicts between countries, aggravation of relations between members of integration groups, even competition between regions and administrative units of countries have become widespread. The vaccination nationalism appeared as a new case of interfering national governments into foreign trade. As a study of measures undertaken by governments at the start of pandemic show, most economies applied strict restrictions of COVID-related export combined with some liberalization of imports. Later active measures to curb the export of goods have been replaced by the liberalization of trade in these goods as a necessary step in ensuring access to critical COVID-related goods in a pandemic crisis.

The US government has applied Defense Production Act for stimulation of internal PPE combined with temporary tariff reductions for medical exports, including those from China. However, neither the ease of trade restrictions related to China, nor the so-called Phase One Deal Agreement between the USA and China have sufficiently changed the “close-to-trade war” relations between the parties.

As to the trade measures applied by the European Union, a wide range of non-tariff measures were undertaken to fill the lack of COVID-related goods, which proves the status of the union a as trade partner which uses non-tariff (especially technical) instruments for regulating the foreign trade in a broad scale.

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