

## Trade – Global

# Global Trade Monitor – January 2021

Global trade will rebound in 2021 but trade flows will remain uneven and under threat from a resurgence of coronavirus cases. Trade negotiations will be a key focus for the 2021 policy agenda across governments. Advances in the digital economy and supply-chain considerations will continue to drive shifts in business strategies and to have credit implications.

## SECTOR IN-DEPTH

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6 JANUARY 2021

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Key messages

# Summary

## Global trade will rebound in 2021 but coronavirus risks are high

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- » The contraction in global trade in 2020 will be less than previously expected, at 9.2% by World Trade Organization (WTO) estimates. WTO expects a global trade rebound of 7.2% in 2021
- » But a resurgence of virus infections and new closures and restrictions remain a risk to global trade and manufacturing activity. Risks to the recovery remain high

## Trade negotiations will resume across the globe

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- » Following trade tensions and coronavirus-related disruptions in 2020, countries will re-focus on trade issues in 2021 to strengthen the economic recovery
- » The incoming US administration will revisit tariffs and trade agreements, but will tackle domestic challenges first
- » The post-Brexit trade deal outlines the basic relationship between the UK and the EU, reducing uncertainty

## Coronavirus is likely to alter strategic sector supply chains

3

- » Government initiatives will continue to support shifts toward domestic production of critical goods such as pharmaceuticals, food and technology by using supportive, as well as punitive measures, such as tariffs and nontariff barriers
- » Companies' strategies to strengthen supply chains will balance cost considerations with revenue assurance. Digital flows will continue to rise as more consumption and work shift online

# Key trade hotspots

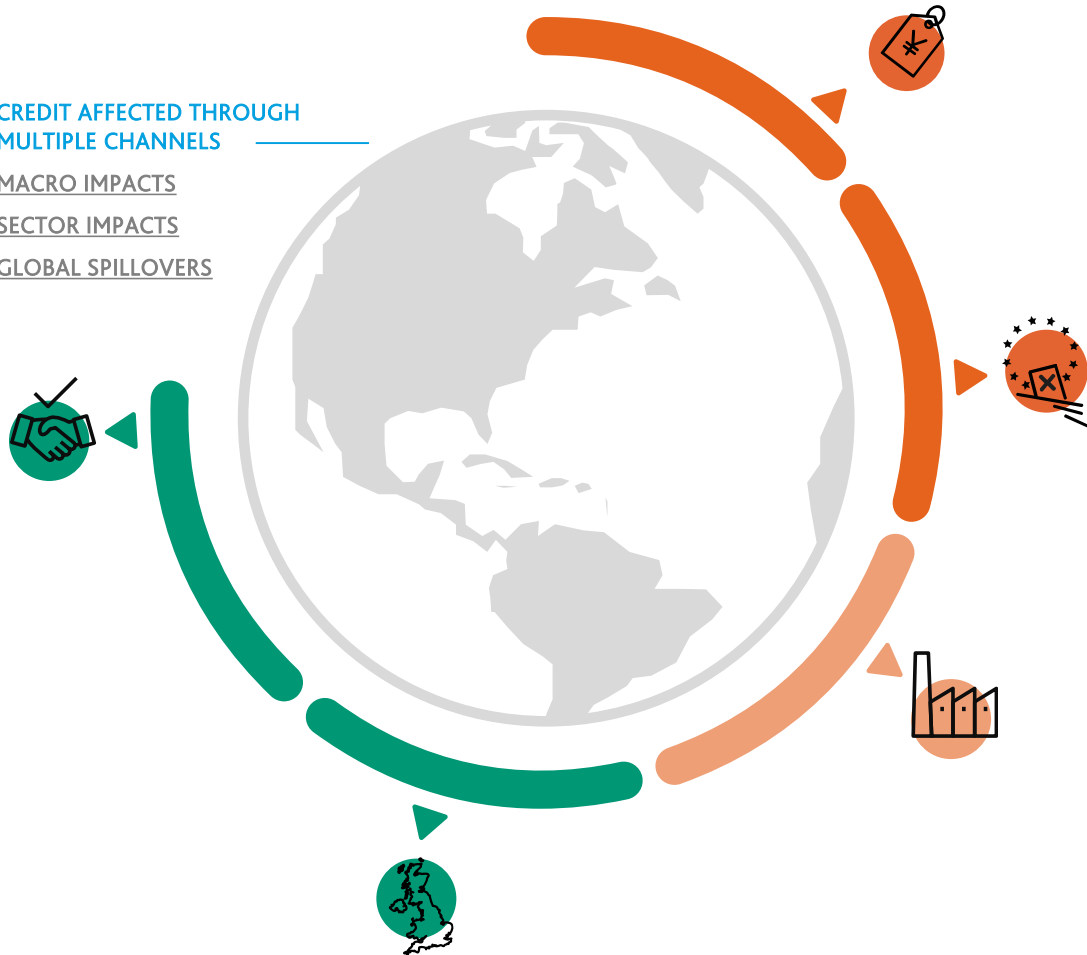
## Challenges and opportunities

CREDIT AFFECTED THROUGH  
MULTIPLE CHANNELS

MACRO IMPACTS

SECTOR IMPACTS

GLOBAL SPILLOVERS



### Prolonged US-China and Australia-China disputes



- » The phase-one US-China trade deal is likely to be revisited in 2021
- » Tensions on sensitive technologies and investment are likely to continue
- » Australia-China dispute has escalated, with China imposing tariffs on a range of Australian products, including beef, barley, coal and wine

### US-EU trade and digital tax negotiations



- » A deepening of the US-EU dispute and failure to reach an agreement could trigger a spiral of trade actions
- » Big Tech will remain a source of disagreement between the US and the EU

### US steel and aluminum tariffs



- » The UK announced it will roll over retaliatory tariffs from January 1, 2021 after the end of its transition period with the EU
- » The US removed tariffs on certain aluminum products from Canada. In response, Canada suspended plans for retaliatory tariffs

### EU-UK trade negotiations and Brexit



- » Following Brexit negotiations, the EU and the UK agreed the basic outline of their future trade relationship
- » The agreement removes the threat of the immediate imposition of tariffs and quotas on goods exports between the two regions. It also covers areas such as air travel and security, and lays the legal foundation for possible future EU-UK agreements covering other issues

### US-Mexico-Canada Agreement (USMCA)



- » The USMCA entered into force on July 1, 2020
- » The US Trade Representative launched USMCA consultations with Canada on December 9, 2020 over dairy quotas, the first enforcement action under the agreement

# Coronavirus fallout hinders trade negotiations

Trade risks ■ Increased ■ Decreased ■ Unchanged

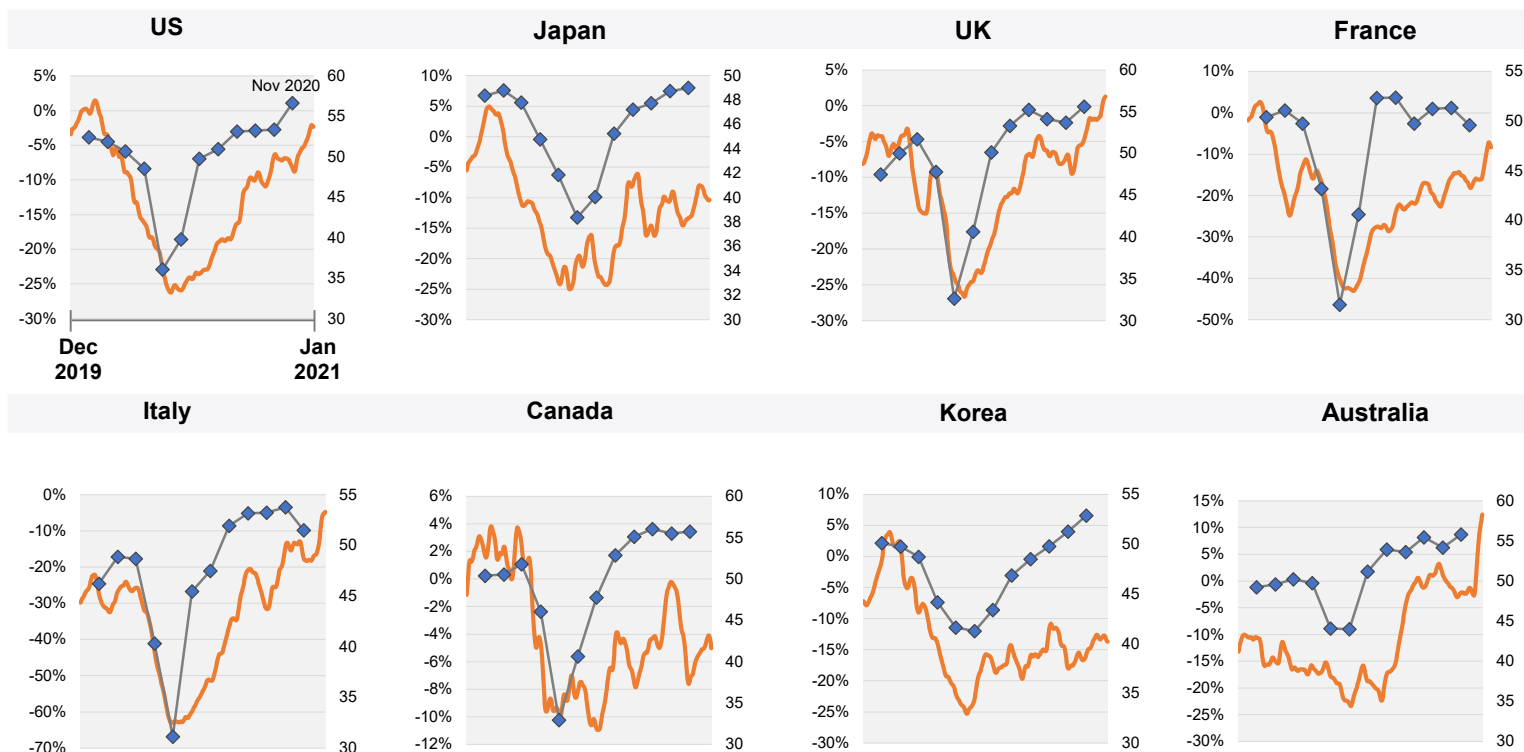
Trade risks	Trade actions	Current and future developments
US-China	Tensions over the coronavirus pandemic, additional US restrictions on Chinese companies and the new Hong Kong security law have strained the US-China relationship, raising the risk of a breakdown of trade negotiations.	While the phase-one trade deal is likely to remain in place through the first half of 2021 and new tariffs are unlikely, restrictions on sensitive technology and investments are likely to increase.
US-EU	The EU imposed retaliatory tariffs on US products in response to a large dispute over civil aircraft. The US announced retaliatory tariffs on French products in response to a digital tax on US tech companies.	A deepening of the US-EU dispute and failure to reach an agreement could trigger a spiral of trade actions.
US-UK	The UK's exit from the EU on January 31, 2020 complicated US-UK trade negotiations.	A US-UK trade deal now seems more difficult to achieve in the near term.
US-trade partners	The US has accused Vietnam and Switzerland of currency manipulation (identified as export subsidy by the US administration) and unfair trade practices.	The US might impose retaliatory measures, including tariffs on imports from these countries. Ten other economies — China, Japan, Korea, Germany, Italy, Singapore, Malaysia, Thailand, Taiwan, and India were added to a watchlist.
COVID-19 IP WAIVER	In 2021, WTO members will continue to discuss India's and South Africa's proposal for a temporary halt of Trade Related Aspects of the Intellectual Property Rights (TRIPS) Agreement. However, lack of consensus persists.	The proposal would facilitate technology transfers so that manufacturers globally could produce COVID-19 medical products, including vaccines, quickly and affordably.
EU-UK	On December 24, the EU and the UK reached a post-Brexit trade agreement.	Any additional agreements between the EU and the UK would likely improve credit conditions for domestic issuers in the UK compared with our current expectations.
EU-China	The EU and China signed a Comprehensive Agreement on Investment in principle. The deal still has to be ratified by both sides and is expected to take effect in early 2022.	The agreement is set to guarantee an expanded access to EU investors in China, as well as commit China to rules on state-owned enterprises and transparency in subsidies.
RCEP	On November 15, 2020, members of the Association of Southeast Asian Nations (ASEAN), Australia, China, Japan, Korea and New Zealand signed the Regional Comprehensive Economic Partnership (RCEP), creating the largest free trade block.	RCEP signatories' total GDP is \$26.2 trillion (30% of global economic output), and cross-border trade is worth \$10.4 trillion (28% of global trade). However, some large importers such as India pulled out of the agreement.
AfCFTA	The launch of the African Continental Free Trade Area (AfCFTA), that was delayed due to coronavirus-related obstacles, is set for January 2021, with initial focus on easing trade for small and medium-sized enterprises.	The UN has estimated that the AfCFTA will cover a market of more than 1.2 billion people and up to \$3 trillion in combined GDP, with the potential of increasing intra-African trade by over 50%.
USMCA	USMCA came into force on July 1, 2020. On December 9, 2020 USTR launched a consultation with Canada about dairy quotas under the agreement.	If the issue is not resolved via consultations, the establishment of a dispute settlement proceedings may begin. This will be the first test of the dispute settlement mechanism established under the USMCA.

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Trade watch

# Ongoing trade recovery vulnerable to setbacks

**QuantCube International Trade Index - YoY % change** (daily, index = 100 on 6 July 2012)\*  
**PMI (monthly) – RHS** (> 50 = expansion)



\* The QuantCube International Trade Index tracks the evolution of official external trade numbers in real time (importations + exportations) by analyzing shipping data from ports located all over the world and taking into account the characteristics of the ships. Latest QuantCube data as of January 4, 2021.

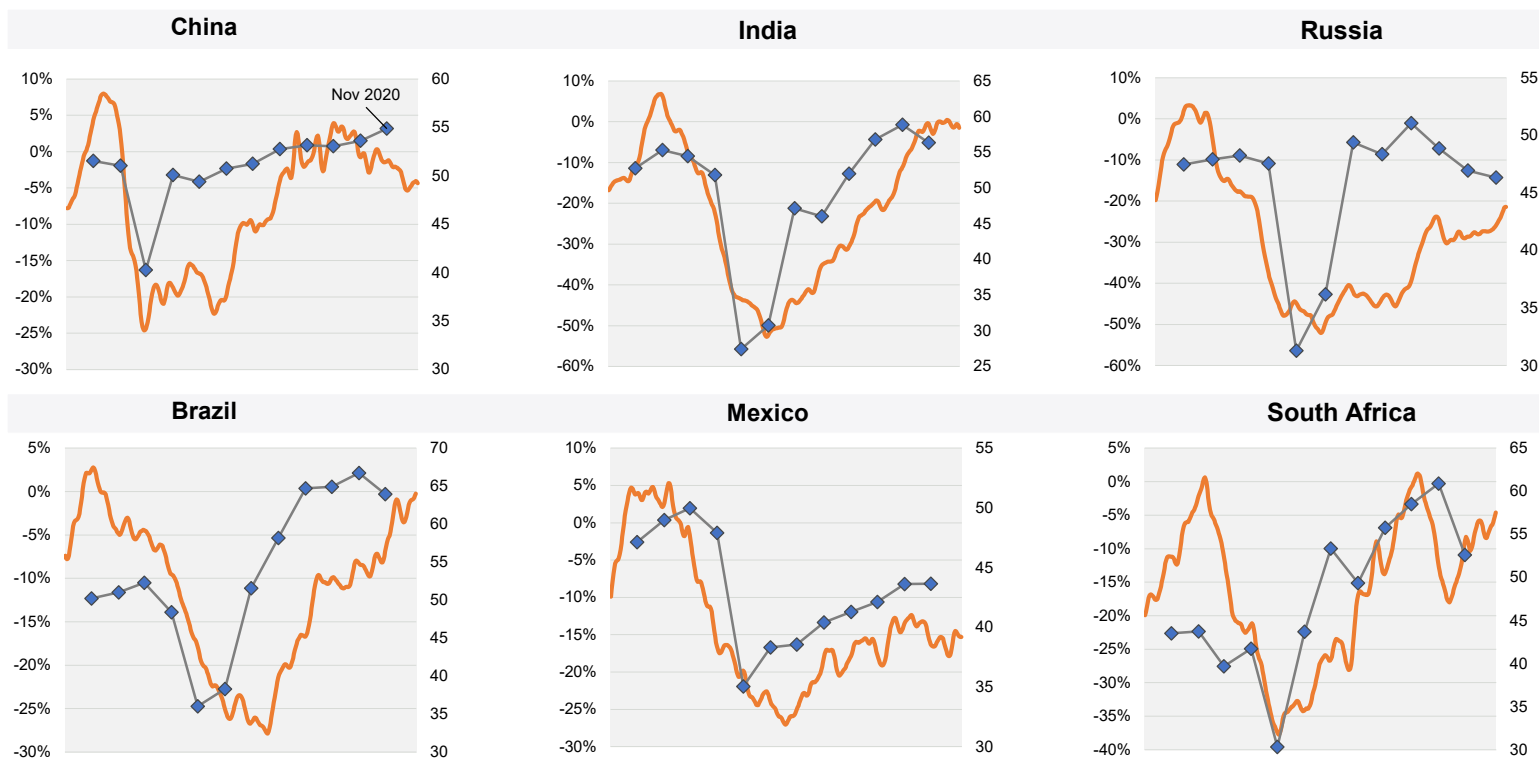
Sources: QuantCube, IHS Markit and Moody's Investors Service.

## Key Takeaways

- » High frequency alternative data point to an ongoing recovery in trade flows
- » The US, UK, France, Australia and Italy are experiencing a rebound of economic activity, following an earlier slowdown due to targeted lockdowns to counteract the second wave of infections
- » The data suggest that the impact of the renewed restrictions was more muted than the worst shock in Q2 2020, and developed countries have resumed a slow and bumpy recovery over 2021
- » Nevertheless, the risk of setbacks lingers as infections continue to resurge

# Trade activity moderates across emerging markets

**QuantCube International Trade Index - YoY % change** (daily, index = 100 on 6 July 2012)\*  
**PMI (monthly) – RHS** (> 50 = expansion)



\* The QuantCube International Trade Index tracks the evolution of official external trade numbers in real time (importations + exportations) by analyzing shipping data from ports located all over the world and taking into account the characteristics of the ships. Latest QuantCube data as of January 4, 2021.

Sources: QuantCube, IHS Markit, South African Bureau of Economic Research and Moody's Investors Service

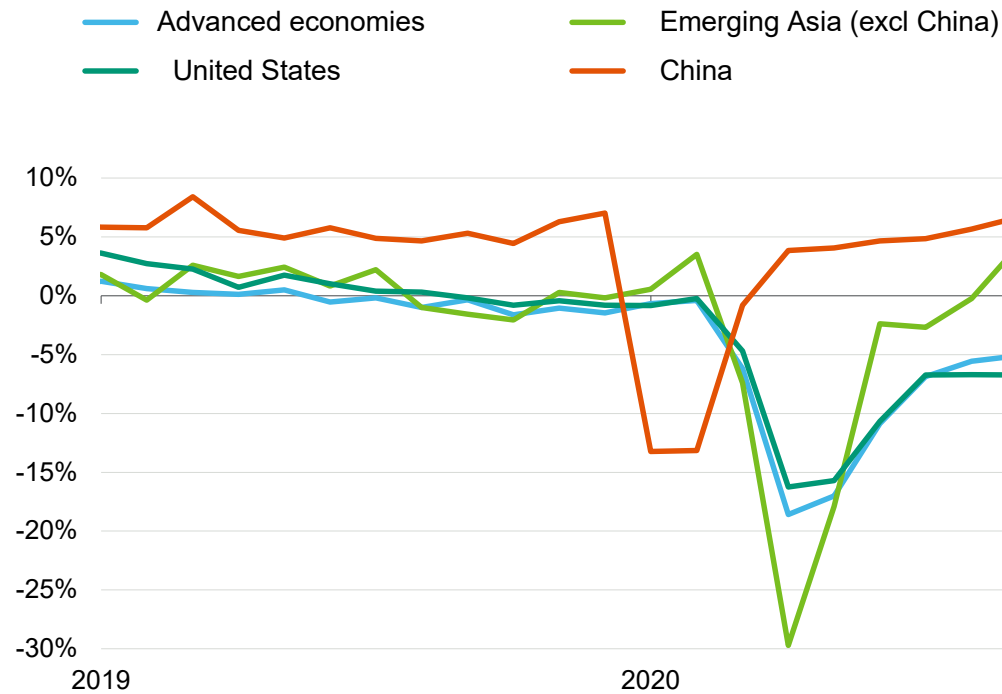
## Key Takeaways

- » High frequency alternative trade indices suggest an ongoing but uneven recovery in activity across emerging markets
- » As the second wave of infections spreads in emerging markets, we expect trade activity to moderate early in 2021
- » Overall, a pick-up in activity and stronger demand across developed countries has supported improvement in emerging markets activity
- » Nevertheless, as emerging markets battle the second wave of infections, risks to economic recovery persist

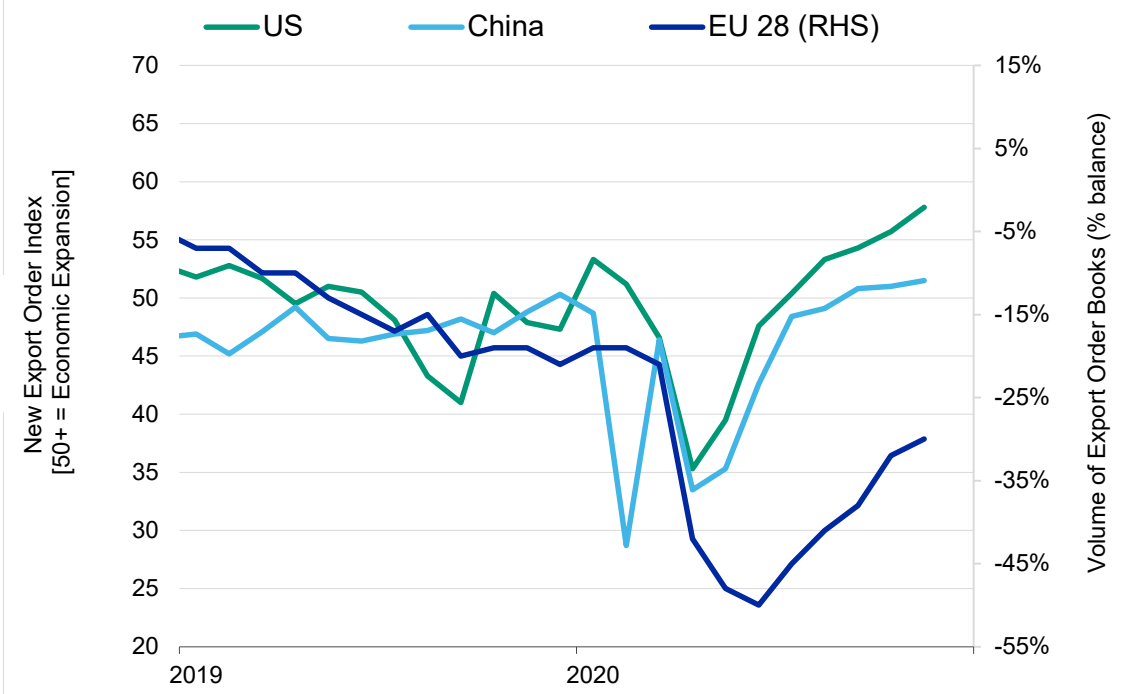
# China drives improvements in industrial production

- » Traditional industrial production data show a sharp rebound across Asian emerging markets, driven by stronger demand in the US, the EU and China and strong supply-chain linkages in Asia
- » Recovery in new export orders is continuing in the US, while steadying in China and the euro area

Industrial production excluding construction (YoY growth rate in %)



New export orders

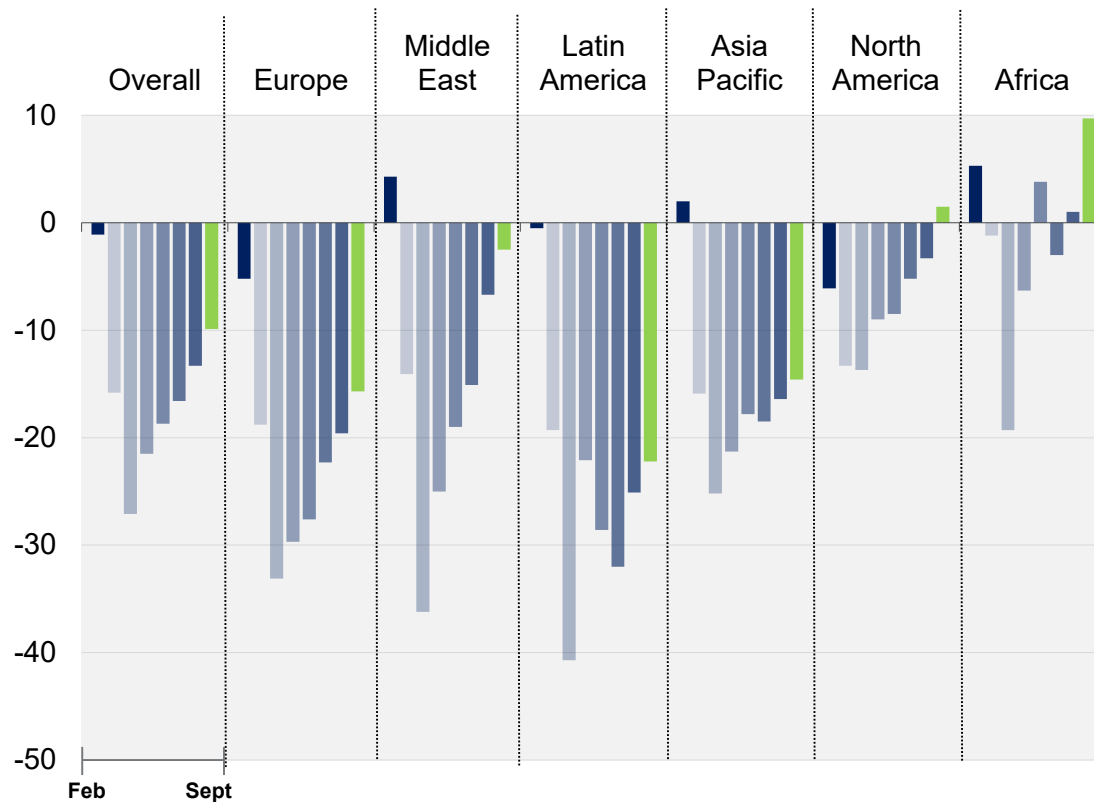


Latest available industrial production data is for September 2020. Latest available data on new export orders is for November 2020. Sources: CPB World Trade Monitor and Haver Analytics

# Rebound in international sea and cargo volumes gathers pace

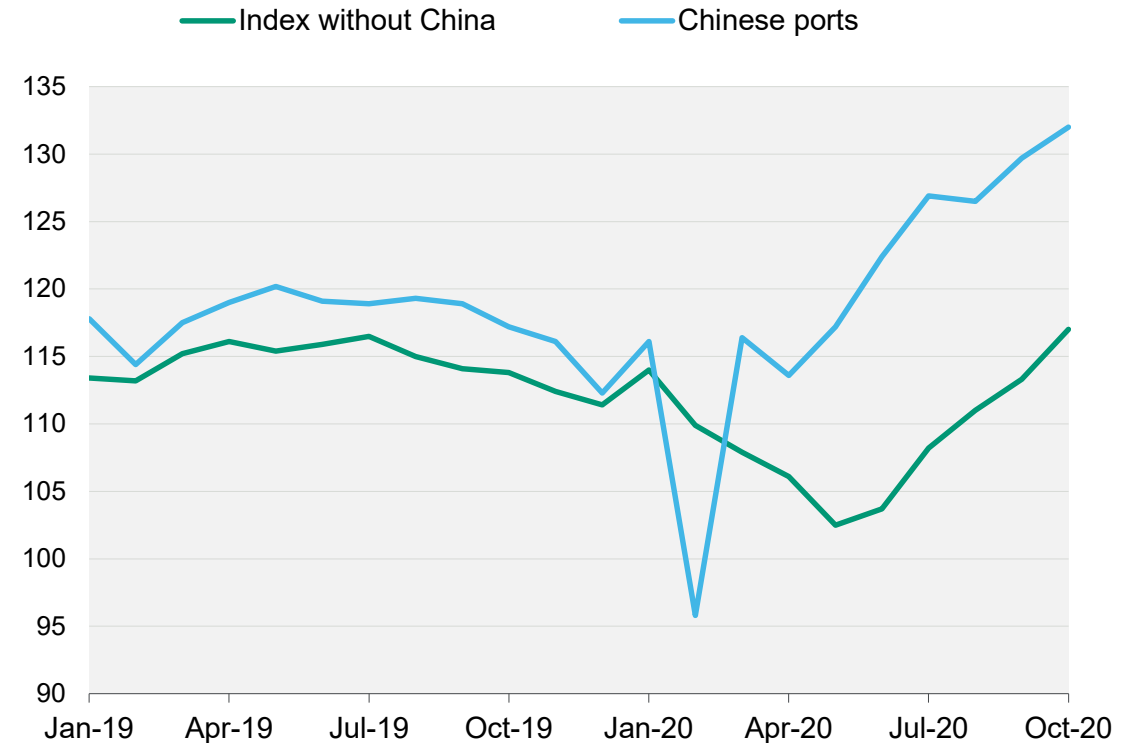
- » Sea cargo flows experienced a sharp rebound overall, with Chinese ports activity surpassing 2019 levels
- » Air cargo continued to improve in September, with North American airlines cargo activity turning positive for the first time in 2020

International cargo volume  
(International cargo tonne kilometers (CTKs) – YoY % change)



Sources: Innovative Solutions in Maritime Logistics, International Air Transport Association and OECD

Container throughput index  
(2015 = 100)



# 3

## US-China relationship remains contentious



PROLONGED US-CHINA  
TRADE DISPUTE

# Biden policy agenda will shape future US trade relationship

Incoming US administration's policy objectives will tackle domestic challenges first, including the still-weak economy and fragile recovery

- » US President-elect Joe Biden has adopted a similar tone to that of the current administration with regard to China, which suggests that friction around issues of trade, technology, security and human rights will continue under his administration
- » Biden has proposed tax incentives to encourage onshoring of manufacturing capacity, particularly in key strategic sectors. However, Biden also favors more active engagement with traditional allies and a reassertion of US leadership in multilateral institutions to facilitate international cooperation on key global issues such as climate change

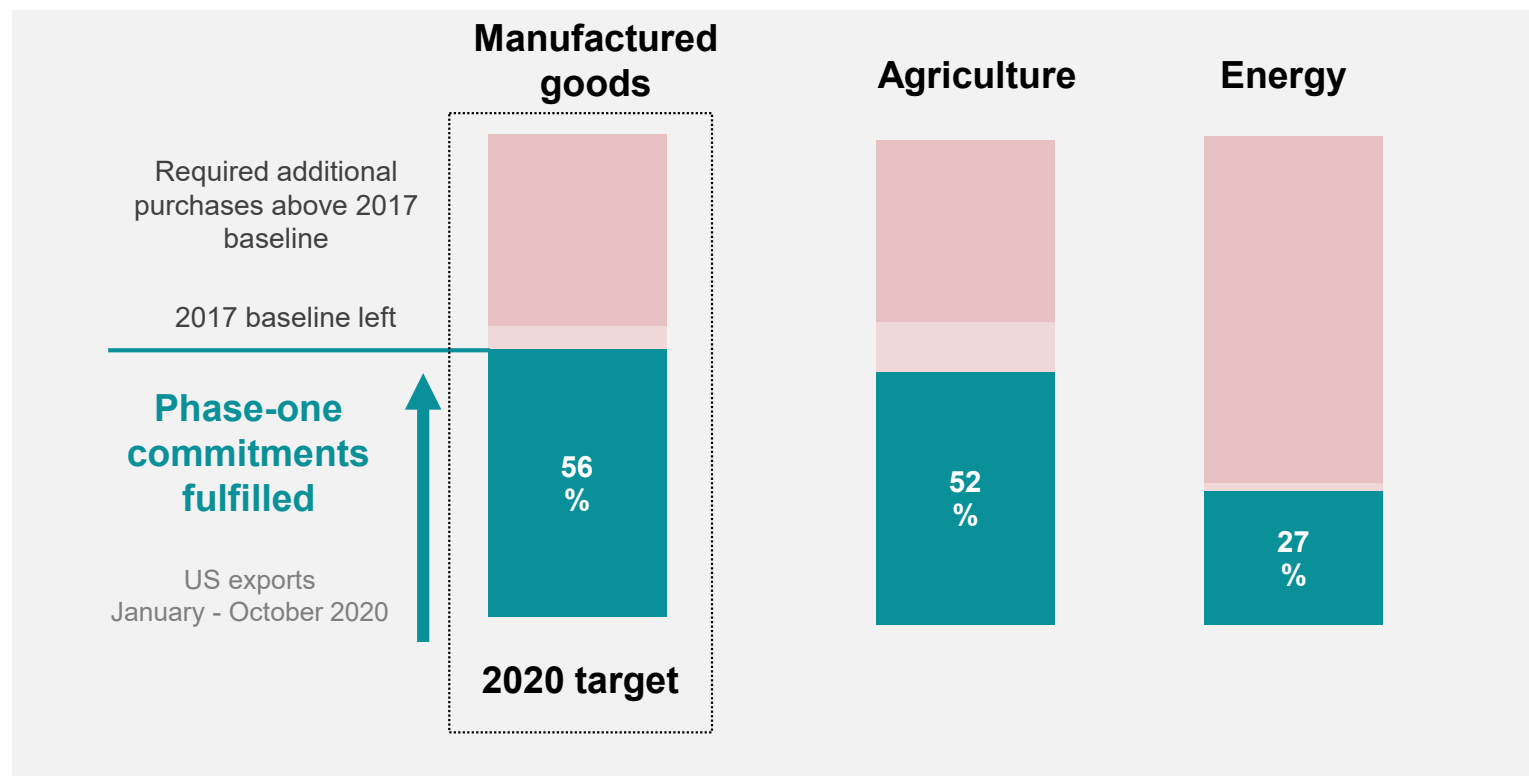
Governments will face policy challenges, with future of fiscal support and geopolitical and trade tensions a top focus



See [Credit Conditions – US: Biden policy agenda will shape credit environment for wide range of sectors](#), November 2020 and [Credit Conditions – Global: 2021 Outlook – Slow economic recovery and uneven pandemic effects will shape credit environment](#), November 2020  
Source: Moody's Investors Service

# 2020 phase-one commitments unlikely to be fulfilled

US exports to China (% of 2020 target under the phase-one agreement)



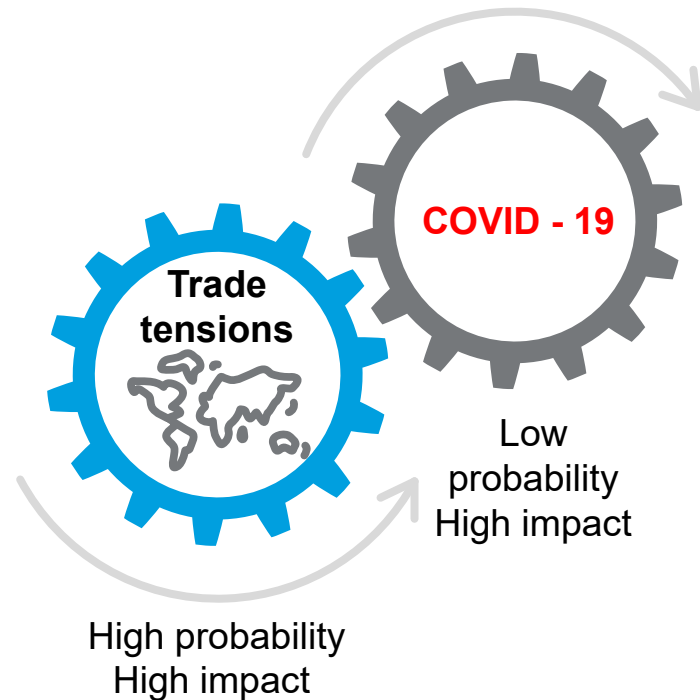
Sources: US Trade Representative, Peterson Institute for International Economics and Moody's Investors Service

## Key Takeaways

- » As of October 2020, China had met only 56% of its full-year target for purchases of US manufacturing goods, 52% of its target for US agriculture purchases and 27% of its target for US energy purchases.
- » We do not expect the policies of the incoming Biden administration to differ materially from the current administration's with regard to China trade issues. China's own policies will likely add to the rift, in our view.
- » As a result, decoupling of the Chinese and US economies is likely in the areas of trade, technology and investment.
- » The Biden administration is likely to revisit the US-China trade relationship but only after it tackles the domestic recovery.

# Trade tensions and the coronavirus will accelerate changes in some global supply chains

A broad-based reversal of global supply chains is unlikely because of cost and revenue considerations. However, government moves to reshore the production of critical medical, food and technology goods will persist and some firms are adopting a "China plus one" strategy to diversify supply chains and minimize disruption risks



Source: Moody's Investors Service

## Channels of disruption

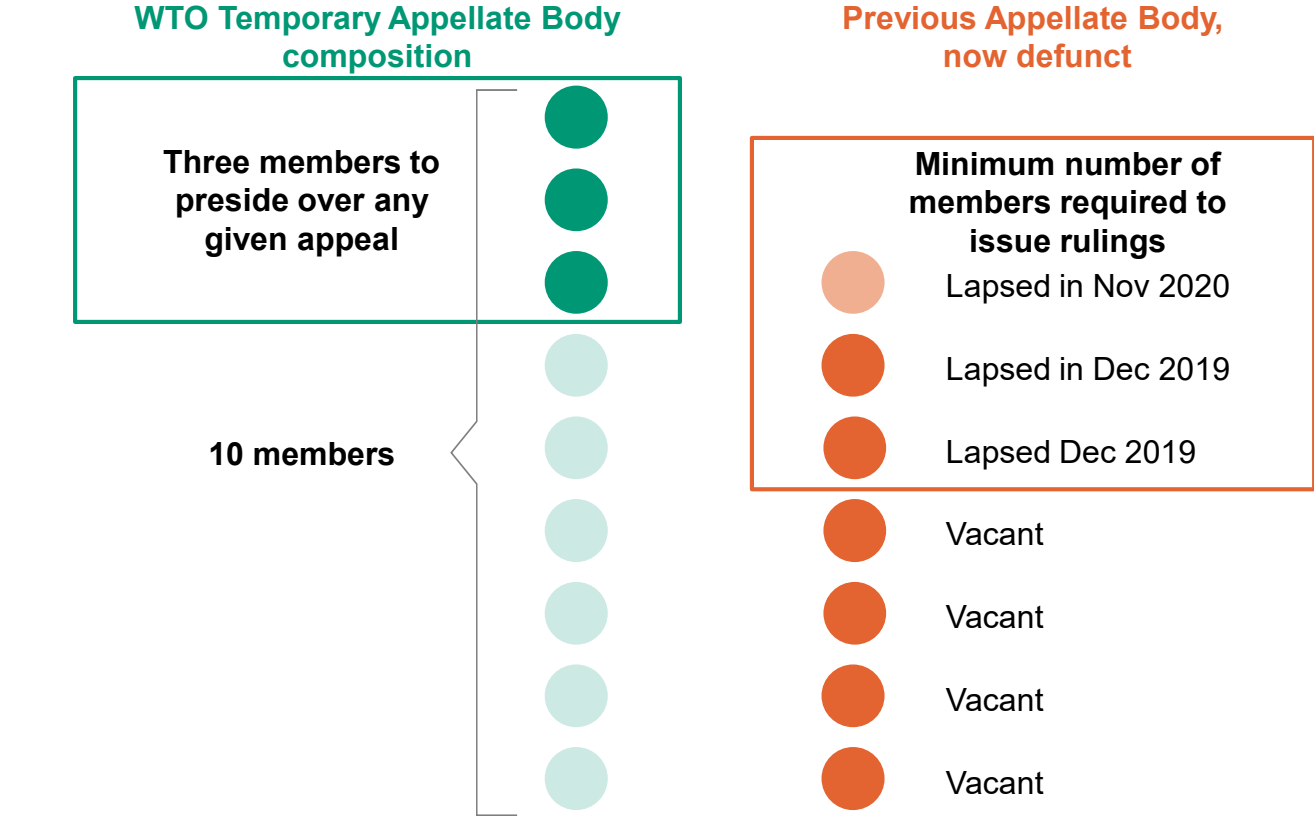
- Factory shutdowns
- Shipment delays
- Shortages of intermediate inputs
- Labor supply effects on production (sick employees)
- Unexpected increase in demand for critical goods

## Potential shifts in company strategies

- Diversification of supplier base
- Reshoring or nearshoring
- Shortening of supply chains
- Automation
- Production agility

# Decision on a new WTO director-general postponed

- » In May 2020, the EU set up a WTO interim appeal-arbitration arrangement, aimed at resolving the Appellate Body impasse.
- » The 2017-20 WTO Director-General Roberto Azevêdo announced that he will leave the post in August 2020, a year before the expiration of his mandate, triggering a campaign to appoint a replacement.
- » Negotiations to find an interim replacement were contentious and complicated by the coronavirus, and WTO members did not agree on a replacement in 2020.
- » The final selection was postponed for 2021, with the Nigerian and Korean candidates remaining in the race for the seventh WTO Director-General.



Sources: Moody's Investors Service, Peterson Institute for International Economics, United Nations Conference on Trade and Development, and the European Commission

# 4

## US-EU trade relations deteriorate

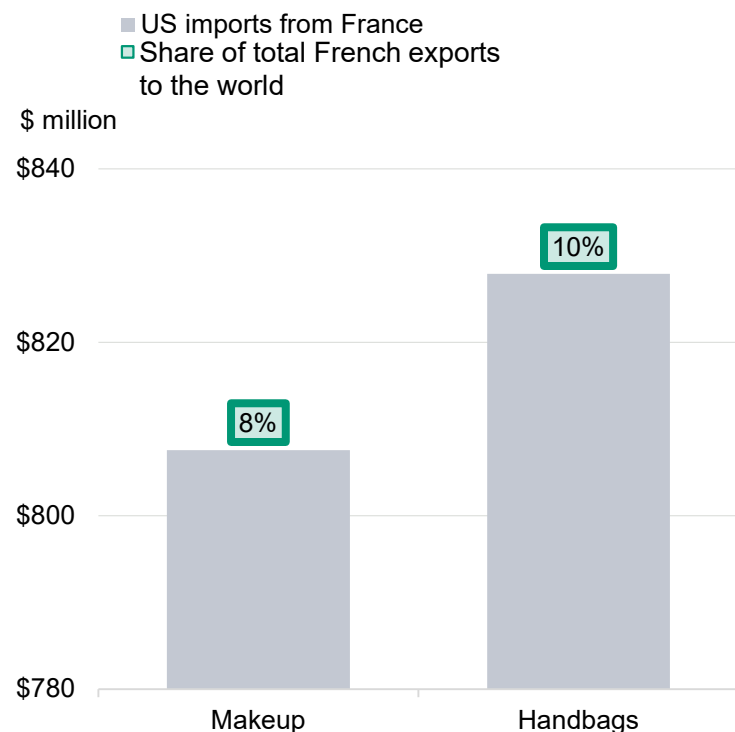


US-EU NEGOTIATIONS

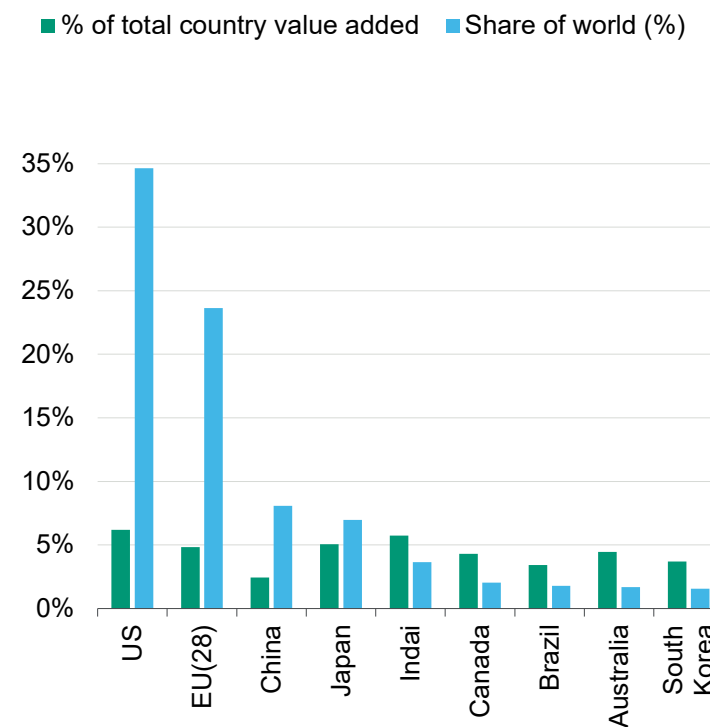
# Digital tax dispute: France resumes digital tax, US retaliates with tariffs on French products

25% US tariffs will affect more than \$1.3 billion of French exports to the US

French exports affected by US tariffs



Information and communication value added (per country)



Imports aggregated at HS-6 level. Information and communication value added data as of 2015  
Sources: UN Conference on Trade and Development, Tax Foundation, US Trade Representative and Moody's Investors Service

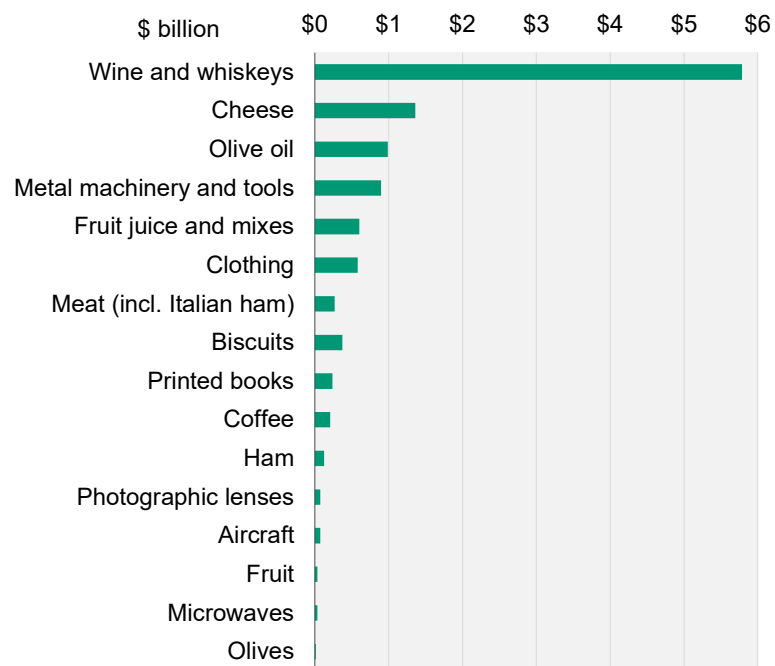
## Key Takeaways

- » France is resuming the collection of the Digital Services Tax (DST) on Big Tech companies like Amazon and Facebook. In response, US announced it will impose retaliatory tariffs on French Champagne, cheese, handbags and other goods on January 6, 2021.
- » The French government agreed to suspend the tax earlier in 2020 during ongoing negotiations on digital tax among nearly 140 countries, led by the Organization for Economic Cooperation and Development (OECD). But the Trump administration pulled out of the negotiations and on July 1, 2020 announced upcoming additional duties of 25% on French products in response to the DST. The USTR also initiated a broader Section 301 investigation into DST potentially proposed by other EU countries.
- » The EU has reiterated that the digital tax remains high on its agenda and indicated it will release a new proposal in early 2021 in the event that the OECD negotiations stall.
- » The French government expressed hopes that the digital tax negotiations would resume with the incoming US administration in 2021. We expect the new US administration to take a more constructive approach to US-EU relations and could rejoin the OECD negotiations.

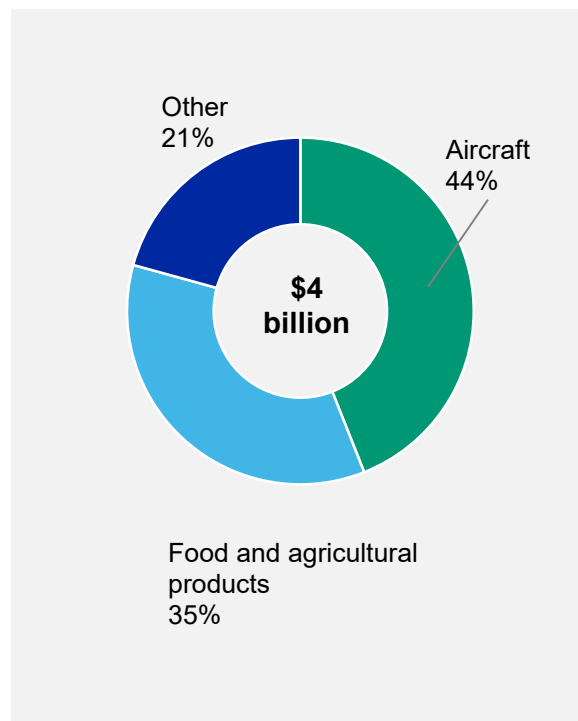
# Civil aircraft dispute: Escalation of the dispute leads to additional tariff measures

EU retaliates by imposing tariffs on US products, US expands the scope of its initial tariffs on EU goods

EU (28) exports, affected by initial US retaliatory tariffs



US imports, affected by EU retaliatory tariffs



## Key Takeaways

- » The US imposed duties on roughly \$7.5 billion of European exports including civil aircraft, wine, cheese and whiskey.
- » The EU retaliated on November 10, 2020 by imposing 25% tariffs on aircraft and 15% on alcohol, tobacco, vegetables, tractors, casino tables and other items.
- » In response to retaliatory EU tariffs, the US expanded the scope of its initial tariffs on EU products under the same categories. The restrictive measures will commence on January 12, 2021.
- » The UK announced it will suspend retaliatory tariffs against the US as part of the long-running Airbus-Boeing dispute on January 1, 2021. However, the US and the EU contested the UK's authority to impose tariffs on the US after Brexit under the WTO ruling since the EU was the sole claimant. In contrast, the USTR announced that the US can continue to impose tariffs on the UK under the civil aircraft dispute since it challenged France, Germany, Spain, and the UK individually.

Sources: United Nations Conference on Trade and Development, United States Trade Representative and Moody's Investors Service

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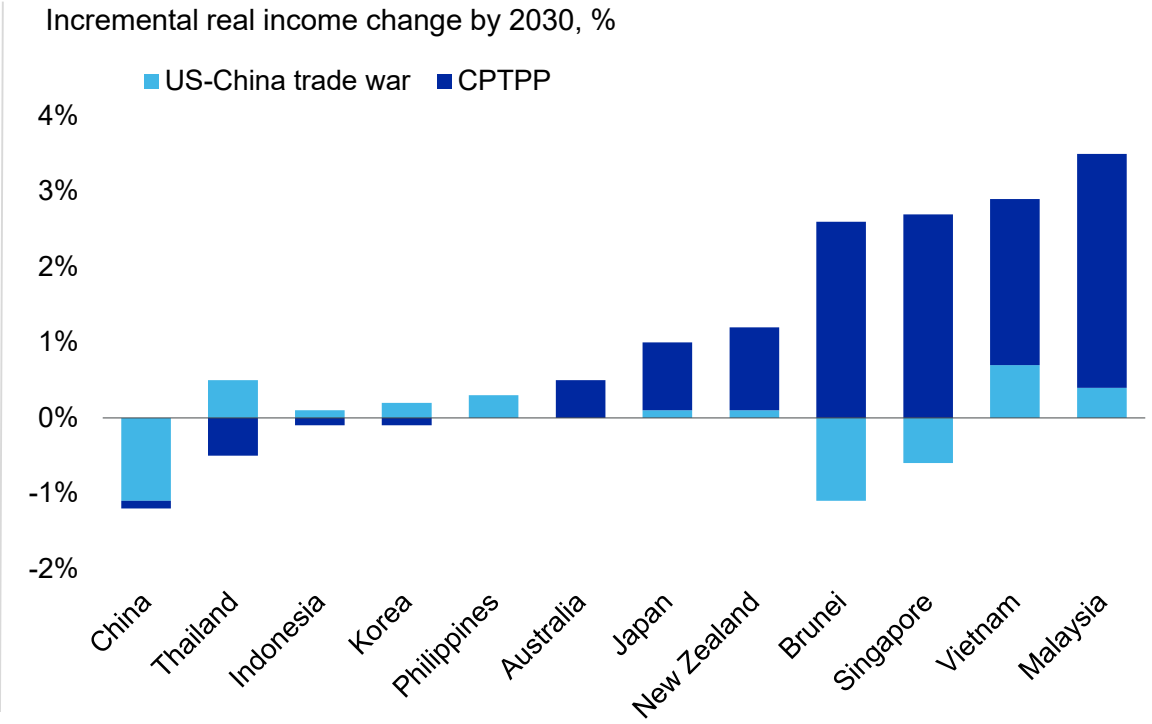
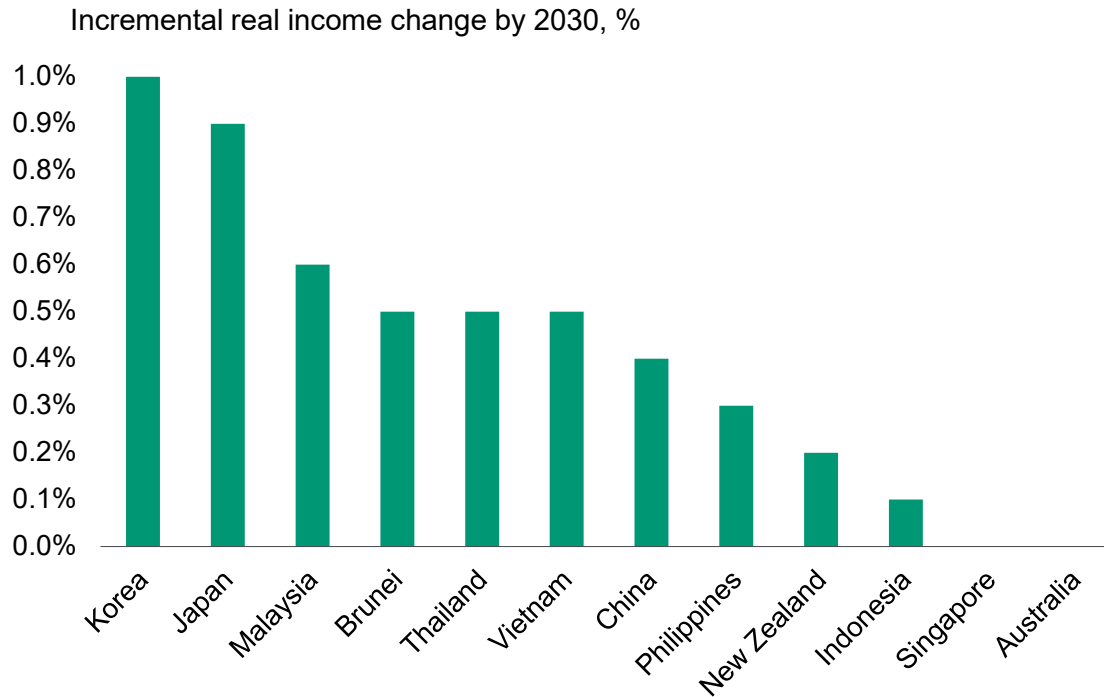
RCEP deepens intra-Asia  
linkages

# Regional trade agreement to deepen intra-Asia trade linkages, support export-focused economies

However, despite RCEP the Australia-China dispute has escalated, with China imposing tariffs on a range of Australian products, and the economic benefits of RCEP will be limited by the existence of non-tariff barriers

RCEP will deliver economic benefits to Asia's most trade-oriented economies ...

... complementing CPTPP gains and partially offsetting trade war losses



See [Sovereigns – Asia Pacific: Regional trade agreement to deepen intra-Asia trade linkages, support export-focused, a credit positive](#), November 2020  
Sources: Peterson Institute for International Economics estimate and Moody's Investors Service

# Moody's related publications

## Outlook

- » [Global Macro Outlook 2020-21 \(November 2020 Update\): Nascent economic rebound takes hold globally but recovery will remain fragile](#), November, 2020
- » [Credit Conditions – Global: 2021 Outlook – Slow economic recovery and uneven pandemic effects will shape credit environment](#), November 2020

## Sector research

- » [Brexit – United Kingdom: Post-Brexit trade agreement is credit positive for UK domestic issuers](#), December 2020
- » [Macroeconomics – Global: Coronavirus and the Economy: Alternative Data Monitor \(Slides\)](#), December 2020
- » [Credit Conditions – US: Biden policy agenda will shape credit environment for wide range of sectors](#), November 2020
- » [Macroeconomics – Global : FAQ on COVID-19 vaccine development and implications for the global economy](#), November 2020
- » [Sovereigns – Asia Pacific: Regional trade agreement to deepen intra-Asia trade linkages, support export-focused, a credit positive](#), November 2020
- » [Trade – Global: COVID-19 will accelerate supply chain shifts in a more fragmented trade system](#), August 2020
- » [Coronavirus – US: Virus surge and expiration of federal relief](#), July 2020
- » [Regulation – Europe: Digital tax likely will have limited impact on digital media and retail companies, while supporting sovereign revenue](#), July 2020

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