



# International Trade and the Global Pandemic:

## Impacts of COVID-19 on Washington's Trade Economy

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## Confronting Unprecedented Challenges

The Covid-19 pandemic represents an unprecedented disruption of our global economy. Efforts to contain the virus such as quarantines, Stay-at-Home orders and social distancing have resulted in a significant decrease in economic activity and consumer spending. This global scale back of production and consumption has upended international trade flows with impacts on international, national, regional and local economies.

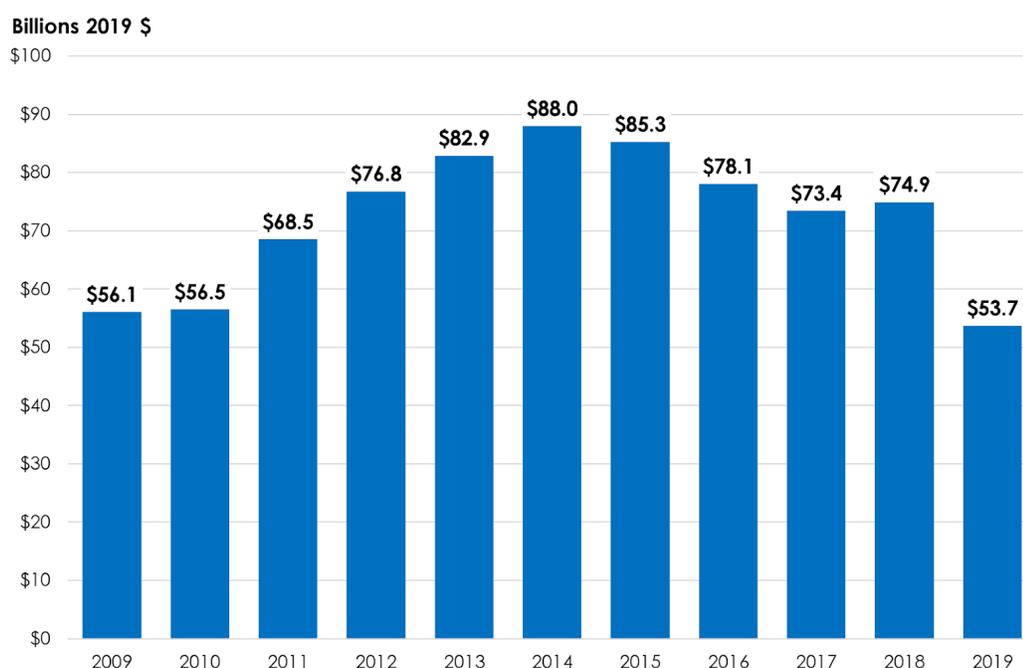
## Overview of Washington State Trade Economy

International trade is essential to Washington state's economy. An estimated 40% of all jobs in the state are tied to trade, either directly in the import and export of goods and services or through supply chain transactions and household expenditures that support commerce throughout the state. Though best known for apples and airplanes, trade in Washington is diverse and encompasses importers, exporters, manufacturers, software developers, ranchers, farmers, architects, retailers, ports and logistics, and supply chain managers.

Each year, Washington state exporters send billions of dollars' worth of goods -- from high-tech products to agricultural commodities to food and beverages --to markets throughout the world. Washington is also a major services exporter, primarily in software, legal, other technical and professional services, and in tourism with foreign visitors spending on hotel rooms, restaurants, retail, and other tourism-related expenses.

Washington state exports grew throughout the past decade. Exports reached a high in 2014 and maintained that level before declining last year. In 2019, Washington exported \$53.7 billion in goods originating in the state (**Exhibit 1**). This was down from \$74.9 billion in 2018 (adjusted to 2019 dollars). Notable exports from Washington state in 2019 include wheat (\$2.5 billion), potato products (\$883.4 million), ultrasound equipment (\$820.0 million), and fresh apples (\$732.7 million).

### Exhibit 1. Washington State Goods Exports, 2009-2019, 2019 Dollars



Sources: U.S. Census Bureau, 2020; Community Attributes Inc., 2020.

Note: exports have been adjusted to remove products primarily consolidated but not produced in Washington state, e.g., soybeans.

## Impacts of Ongoing Trade Conflicts with China on Washington State

Ongoing trade issues between the U.S. and China have impacted the economies of both countries. As one of the most trade-reliant states in the union and one of the largest exporters to China, Washington has been particularly hard-hit by the two-way escalation of tariffs and non-tariff barriers. By early December 2019, the U.S. had tariffs on \$360 billion worth of Chinese goods while China had imposed new tariffs on up to 58% of U.S. exports. In China, the average tariff on U.S. goods is 20%, compared to 6.7% for imports from other countries.

In 2019, the export of Washington products subject to China's retaliatory tariffs declined by 23%. Many products throughout the state were impacted, including ultrasound equipment (-16%), wheat (-21%), and certain types of cut lumber (-54%). Agriculture and food exports and all other goods dropped by approximately one-third over the same period.

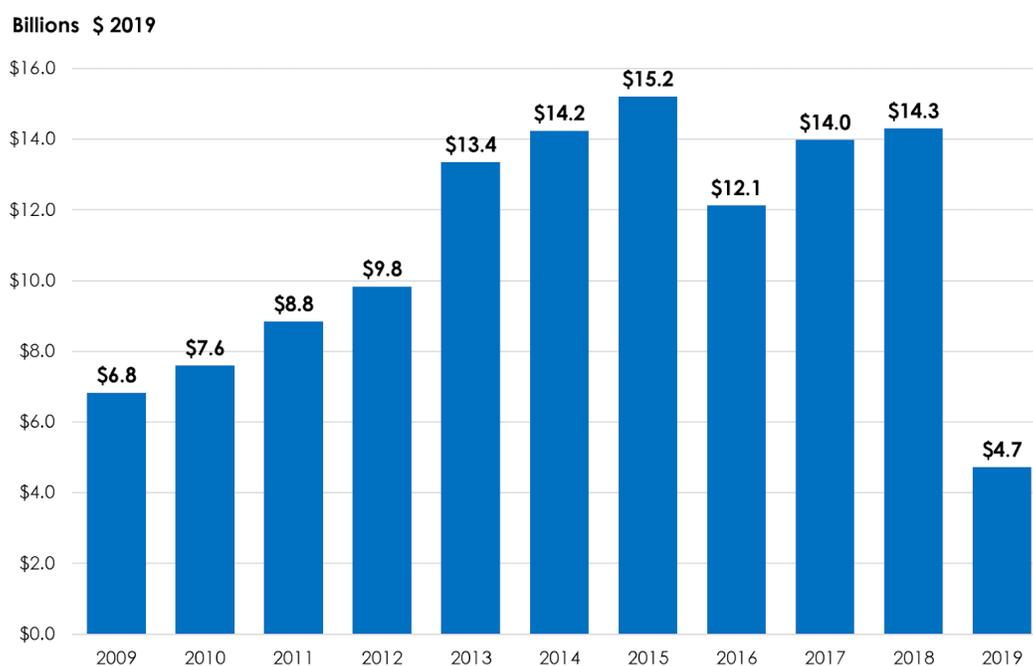
The January 2020 Phase I trade deal provided a pause in further escalations in tariff rates on both sides.<sup>1</sup> Among the many provisions of the deal, China has committed to greater transparency in its handling of intellectual property infringement and trade secrets theft, prohibitions on forced technology transfer, reduction in non-tariff barriers to agriculture and food products, and opening of financial markets. The deal's largest and most controversial provision is China's commitment to dramatically increase its purchasing of U.S. goods and services, to \$200 billion above 2017 levels

by 2021 over a two-years. This increase would represent a 70% year-over-year increase in 2020 and a 21% year-over-year increase in 2021.

The advent of Covid-19, however, has deeply complicated these trade commitments.<sup>2</sup> The Phase I deal includes language that permits the delay in implementation in the event of a natural disaster "or other unforeseeable events outside the control of the Parties." China's trade with the U.S. suffered first from a supply shock, as Chinese factories were temporarily shuttered (affecting mostly U.S. imports, as well as U.S. exports to China processing facilities) and is now suffering from a demand shock from softened household consumption in the U.S.

Just as important, the Phase I deal does not explicitly remove existing tariffs or reel back recent tariff increases since 2018. It simply puts a temporary halt on further tariff rate escalations. However, to encourage increased purchase of various U.S. goods, the Chinese government will need to remove these tariff increases or increase quotas for U.S. products. A large share of these purchases will be made by the Chinese government either directly or through state-owned enterprises. The Covid-19 virus will make the fulfillment of these trade purchasing commitments much more challenging to implement, due in large part to the first quarter contraction in the Chinese economy (6.8%) and disruptions to shipping and logistics.<sup>3</sup>

### Exhibit 2. Washington State Goods Exports to China



Sources: U.S. Census Bureau, 2020; Community Attributes Inc., 2020.

Note: exports have been adjusted to remove products primarily consolidated but not produced in Washington state, e.g., soybeans.

## Current Impacts of COVID-19 on Trade

### Growth Impacts on Largest Trade Partners

The full impact of Covid-19 on trade flows will take several more months to evaluate. However, early evidence is already showing how the virus is exacting a pernicious economic cost on the global economy and Washington's leading trade partners. The global economy will experience a 3.0% contraction, based on International Monetary Fund (IMF) projections.

Among the ten largest export markets for Washington state merchandise and commodities in 2019, all but one—China—are now projected to experience an annual contraction in output, according to the latest IMF World Economic Outlook, released April 14, 2020. Even China, the main driver of global growth over the past twenty years, will see its 2020 growth shrink from an earlier projected 5.8% down to 1.2%. The largest downward adjustments in growth include Germany (8.2 percentage point reduction), the United Kingdom (8.0 ppt), and Canada (8.0 ppt).

#### Exhibit 3. International Monetary Fund Forecast Adjustments for Washington's Largest Goods Export Markets

Country	WA Exports 2019 (mils \$)	IMF Oct. 2019 Forecast for 2020	IMF April 2020 Forecast for 2020	Change
Canada	\$8,255	1.8%	-6.2%	-8.0%
Japan	\$6,905	0.5%	-5.2%	-5.6%
China	\$4,725	5.8%	1.2%	-4.6%
Korea, South	\$2,388	2.2%	-1.2%	-3.4%
Mexico	\$2,366	1.3%	-6.6%	-7.9%
Qatar	\$2,200	2.8%	-4.3%	-7.1%
United Kingdom	\$1,851	1.4%	-6.5%	-8.0%
Germany	\$1,737	1.2%	-7.0%	-8.2%
Taiwan	\$1,604	1.9%	-4.0%	-6.0%
Turkey	\$1,418	3.0%	-5.0%	-8.0%
<i>Rest of the world</i>	<i>\$20,278</i>			
<b>World</b>	<b>\$53,727</b>	<b>3.6%</b>	<b>-3.0%</b>	<b>-6.6%</b>

Sources: U.S. Census Bureau, 2020; International Monetary Fund World Economic Outlook Database, October 2019 and April 2020; Community Attributes Inc., 2020.

Export figures have been adjusted for pass-throughs.

The latest forecast from the World Trade Organization (WTO) predicts that global trade in goods will drop between 13% and 32% in 2020 as a result of the Covid-19. For context, the WTO estimates that trade volume in 2019 decreased by 0.1% due to slowing economic growth and trade tensions between the world's largest economies. In this economic crisis, unlike the 2008 Recession, economic recovery is largely contingent on the public health response. The WTO expects a recovery in 2021, but only if the virus can be contained and governments can reopen economies in a safe manner.<sup>4</sup>

## International Supply Chains

The global spread of Covid-19, along with necessary virus mitigation policies, have had a negative impact on Washington state trade. With the start of the pandemic in late December, many Washington state companies that depend on China's supply chains have been impacted. The January and February closure of factories in China, from automobile parts to advanced machined goods and seafood processing, had an adverse ripple effect on companies in Washington, such as delayed product deliveries and the risk of *force majeure* and cancellation of orders. Reduced economic activity overseas has also resulted in more blank sailings, i.e., canceled vessel arrivals at a port, and less cargo flowing through Washington ports. This means less work for various businesses and independent contractors throughout the global logistics system, such as longshoremen, owner-operator truckers (many of whom operate under thin margins), warehousing, and intermodal operations.

As Washington's leading trade partners struggle, a pattern of increased unemployment and a looming recession will depress consumer spending, resulting in less trade. Another worrying global trend is nationwide bans on food exports, which could disrupt supply chains for businesses and increase prices and shortages for consumers. Thus far, the U.S. has not banned food exports but several other countries, including Russia, Vietnam, India, and Egypt, have limited specific foods.<sup>5</sup>

For certain consumer products, supply chains are being stressed beyond capacity by hoarding and stockpiling rather than failures in the supply chain. The market for toilet paper has become emblematic of this type of consumer behavior. These changing levels of demand present difficult problems for manufacturers of these products. Using toilet paper as an example, consumer demand has skyrocketed while demand from businesses, restaurants, and other bulk purchasers has collapsed. Manufacturers of toilet paper now face simultaneous over- and underproduction of different product lines that are not easily substitutable. Bulk toilet paper rolls do not fit in consumer's bathrooms, just as restaurant-sized wheels of cheese or kegs of beer do not fit in household kitchens.

The dairy industry is an important Washington state exporter that is particularly susceptible to this type of supply chain disruption. Unlike durable manufactured goods or many other food products, milk will perish quickly. In addition, farmers cannot stop their cows from continuing to produce milk. Farmers will be hit hard by lack of the demand from shuttered restaurants and other bulk consumers of milk products, which accounts for about half of all food sales in the U.S.<sup>6</sup>

## Flights, Cruises, and Cargo

Pandemic-related travel restrictions have hit the Port of Seattle especially hard. Air travel and cruises, two of the Port's leading businesses, have both experienced massive decreases in demand. Airlines had already begun to scale back departures from Sea-Tac Airport in early March, primarily for flights to China or elsewhere in Asia. At that time, Alaska Airlines planned a 3% reduction in capacity networkwide. One month later, Alaska announced it would reduce capacity by 80% for April and May due to lack of demand. On April 2, 2020, Alaska flew 297 flights and carried 4,600 passengers. On the same date in 2019, the airline flew 780 flights and 99,500 passengers, equaling

38% less flights and 95% fewer passengers. The average number of passengers per flight dropped from 128 to 15.<sup>7</sup> American, Delta, United, and Southwest have also cut flights.<sup>8</sup>

In addition to the jobs and income supported by airlines, from pilots and airport employees to the manufacturers who build airplanes and aerospace components, passenger air travel is also an important asset for international trade. Certain commodities, like Washington state cherries, travel by plane due to their high-value and perishability. Some of this cargo is flown on dedicated cargo planes, but the remainder is carried by “belly freight” in the hold of passenger airplanes. Fewer passenger flights raised the cost of airfreight, squeezing the margins of Washington exporters or preventing them from exporting at all. In the case of perishable commodities like cherries, whose season begins in June, delays can mean the permanent loss of product or market. Many of these commodities were already hard-hit by the U.S.-China trade war; the sudden advent of Covid-19 has only further aggravated this situation.

The cruise industry has seen even larger reductions. Seattle-based Seabourne Cruise Line canceled two cruises to Singapore in February.<sup>9</sup> Later, Seattle’s first two sailings of the season, port-of-calls by California based cruises scheduled for April, were also canceled.<sup>10</sup> Port-of-calls, while generating less economic impact than a home-port cruise, are still important sources of revenue for the cruise industry.

The largest blow to Washington’s cruise lines so far is the loss of the 2020 Alaska cruise season, which is currently paused indefinitely (the earliest beginning to the season will be July and could be pushed back further). The cruise season, from spring to fall, generates \$900 million in economic impacts statewide and supports 5,500 jobs.<sup>11</sup> The international spread of Covid-19 also impacts these domestic cruises. Canada’s decision to suspend cruise traffic until July 1 was a driving factor for delaying the start of the cruise season. Suspending cruises until July 1 could reduce the number of cruise sailing by 90, or 40% of the entire season.<sup>12</sup>

### **Agriculture Impact: Potatoes Example**

The “Stay Home, Stay Safe” orders have had a huge blow to the foodservice industry in the U.S., impacting a wide variety of Washington state agriculture products. Potato farmers have been disproportionately affected because 90 percent of all frozen potato products like French fries occur in restaurants and other foodservice establishments. Some processors have cut 14 percent, others have cut 50 percent, some growers have been cut by 100 percent. Moreover, the current market is saturated. There are more than 30 billion pounds of potatoes currently in storage. Potato processors are having a difficult time utilizing those potatoes because of a lack of demand and no space for storage once made into French fries. Cold storage is limited because the supply of potato products has backed up and filled freezers due to the loss of foodservice sales. This situation of oversupply will continue for over a year as the new crop of potatoes will enter a market that is still trying to sell the old.

## Longer-Term Impacts on Trade

The advent of the Covid-19 virus may have lasting impacts on how economies function, consumers spend disposable income, work is done, and supply chains operate. The impacts of the virus can be looked at as both an **accelerant of change**, and as an agent of **transformative change**.

In the first, the virus and associated mitigation and containment strategies may serve as an **accelerant of change**, forcing the rapid growth in trends already underway, albeit at a previously much more gradual pace. These include much more intensive household adoption of online retail as a primary or leading source of consumption, which may place greater stress on fulfillment centers and create new jobs in global trade and logistics for the sourcing of these goods. The virus has also added fuel to the calls for U.S. firms to diversify supply chains away from China, either through re-shoring or near-shoring production. The demand for personal protection equipment and certain pharmaceuticals during the current crisis, the production of which is heavily concentrated in China, has further intensified this broader position within the U.S. government and some businesses. More broadly, calls for a “decoupling” of the U.S.-China economic relationship have gained greater traction as tensions have continued to mount between the two countries, including accusations and vitriolic rhetoric over the source, and the resultant economic costs of the virus.

The virus may also act as an agent of **transformative change**, forcing previously unanticipated alterations on how businesses operate, and households consume, both potentially impacting trade. Businesses may fundamentally re-evaluate the need for employee travel, which could result in reduced business travel, leading to reduced revenues for airlines, reduced flights, and reduced air freight capacity. Consumers, still reeling from the effects of the virus and fears of contraction, even after the availability of treatments and possibly a vaccine, may on the margins reduce their overseas air travel, which would adversely affect Washington’s thriving tourism industry.

## Responding to the Crisis: Recommendations on Trade Actions

The current pandemic crisis has invoked comparisons to past national mobilization efforts, or what has been referred to as a “wartime” posture to confront Covid-19. Social distancing measures have not been implemented uniformly, either in timing or degree, amplifying uncertainty over the course of the virus and lasting economic costs. Countries and regions that seemed to have greater success containing the virus, such as China, South Korea, and Taiwan, are beginning to reopen their economies, though there is the very real risk of a second or even third wave of infections, either domestically and/or through the importation of cases from abroad (China has seen the vast majority of new cases in April from foreigners entering China or Chinese nationals returning home from abroad).

Trade wars and impasses with our largest trade partners, if not quickly resolved, will only aggravate the dramatic and sudden contractions in economic activity caused by the coronavirus. Now, more than ever, the U.S. needs to import vast volumes of medical equipment and supplies from abroad and find ways to stimulate the U.S. economy. The following immediate and near-immediate recommendations include perspectives from both the Organization for Economic

Cooperation and Development (OECD)<sup>13</sup> and the Washington Council on International Trade (WCIT):

## Tariffs

One source of economic stimulus is suspending tariffs on goods and services and avoiding the imposition of new tariffs. Companies facing urgent liquidity issues will benefit from deferring their duty payments and will be in a stronger position when the economy restarts.

## Medical Supplies and equipment

Facilitating the flow of critical medical supplies and equipment is especially important in battling this pandemic. This can, in part, be supported by avoiding and exacerbating demand pressures through unilateral decisions, including export restrictions on medical equipment, pharmaceuticals, and other products and components that are directly or indirectly vital in fighting COVID-19. These decisions can disrupt production, prevent life-saving goods from moving where they are needed the most, and erode trust in the international trade and investment system (OECD).

This also includes suspending tariffs for medical products, parts and components that are directly or indirectly vital in fighting COVID-19 –including medical equipment and hospital supplies, personal protective equipment, testing kits, etc. at least for the duration needed to offset the supply shortages.

Further, trade facilitation for products, parts, and components that directly or indirectly are vital in fighting COVID-19 should be expedited.

Finally, “Buy America” orders for health-related goods in the U.S. that would inhibit the manufacture and distribution of critical medicines and medical supply chain necessities during this national public health emergency should be avoided.

## Critical Agriculture Products

The U.S. Department of Agriculture (USDA) could consider ways to take immediate action to purchase over-supply agriculture products that would divert these products to USDA feeding programs or livestock feeding operations.

## Additional Federal Actions to Support U.S. Exporters

As the economy slows significantly, the federal government can play a constructive role in expanding international trade and investment opportunities, promoting market access for domestic products abroad, and eliminating disincentives that impede the global competitiveness of U.S. businesses and farmers. Measures to help achieve these objectives include:

- Immediately freeze/halt any and all plans for further escalation of tariffs. Suspend all trade war tariffs (mutually) and reconsider only when a recovery is underway.
- Temporarily or permanently repeal tariffs where the repeal could help hourly workers better afford many staple household products. Approximately 70% of the U.S. economy is driven by consumption. Many of these goods were either

produced abroad or rely on imported components or ingredients. Lowering tariffs will help, on the margins, to lower the cost of these goods.

- Reject efforts related to “Buy America” executive orders, to give businesses time to implement necessary changes and shift sophisticated global supply chains to meet the immediate domestic demand for medical supplies.
- Eliminate any barriers to trade related to medical devices and equipment.

## Endnotes

1. Office of the United States Trade Representative, *Economic and Trade Agreement Between the United States and the People's Republic of China: Fact Sheet*, January 15, 2020. [Link](#) to article.
2. For further discussion on this, see: Kennedy, Scott, "China's Poor Purchasing Performance: How Should the United States Respond?" *Center for Strategic and International Studies (CSIS)*. May 8, 2020. [Link](#) to article.
3. Robert Delaney. *South China Morning Post*. April 15, 2020. [Link](#) to article.
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