

COVID-19, THE GREAT TRADE COLLAPSE AND CANADIAN TRADE POLICY

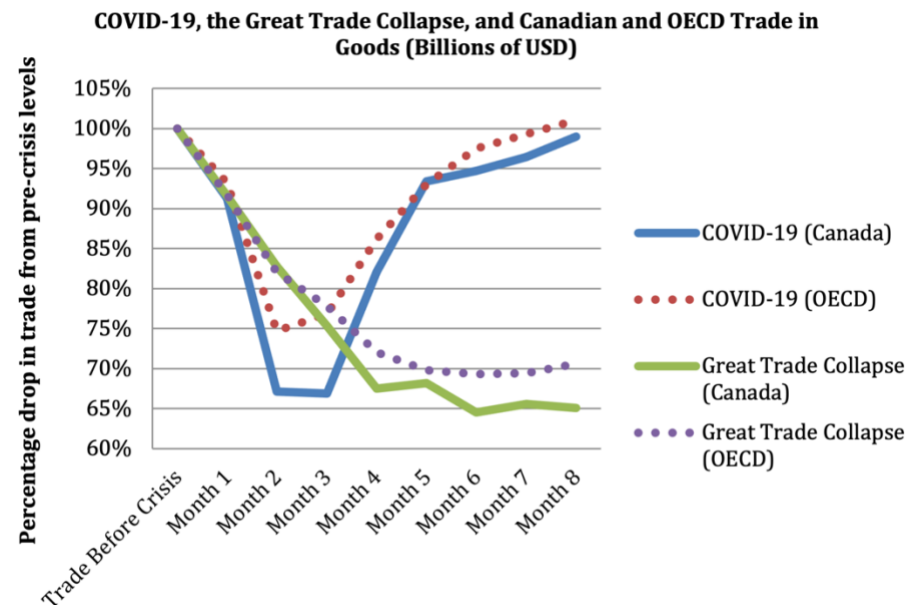
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COVID-19 has had profound implications for international trade. The pandemic led to a marked decline in demand for traded goods, largely due to unemployment and decreased travel. Supplier production operations have been disrupted, various means of trade (including by air) have been hindered, and protectionist measures have been implemented. The WTO initially forecast an overall drop in international trade of between 13 and 32% in 2020 but have revised their forecast to a 9.2% decline in the volume of world merchandise trade for 2020, followed by a forecasted increase of 7.2% in 2021. Although a recovery is expected in 2021, this is uncertain and depends on policy responses and trends in the pandemic. In Canada, with reference to Statistics Canada total Canadian goods trade (exports + imports) from January to November 2020 is almost 12% lower than total trade during the same period in 2019.

Such statistics have led commentators to compare COVID-19 to the Great Trade Collapse of 2008 resulting from a global economic recession. The recession led to a marked drop in demand for traded durable goods and disrupted supply of exports. This led global trade to decline 12 per cent. The Great Trade Collapse resulted in an almost 21% decrease in Canadian trade (from 2008 to 2009). This was “the steepest fall of world trade in recorded history and the deepest fall since the Great Depression” (VoxEU). Has COVID-19 resulted in a drop in Canadian trade comparable to the Great Trade Collapse? Will it prove to do so?

Canadian Trade: COVID-19 vs. the Great Trade Collapse

During the COVID-19 crisis, trade in goods began to drop in Canada in March of 2020. Trade began to drop in Canada in October 2008 due to the Great Trade Collapse. The chart displays monthly percentage drops in trade in comparison with pre-crisis levels of trade in goods during both crises. During COVID-19, trade dropped more rapidly than in 2008, even though both crises resulted in similar drops. Of note, Canadian trade has recovered much more quickly during the COVID-19 pandemic. As of November 2020, Canadian trade in goods is almost at the same level as it was before the pandemic after experiencing a low point of 33% below pre-COVID levels of



trade. The Organisation for Economic Co-Operation and Development (OECD) countries have recovered faster than Canada from the pandemic, but only slightly.

Implications for Canadian Trade Policy

In Canada’s case, it appears COVID-19 has resulted in less dire consequences than those experienced during the Great Trade Collapse. Despite the relatively stronger recovery in Canadian trade, the COVID-19 crisis warrants various policy responses, including acting with trading partners to prevent various forms of protectionism that could worsen the situation. Further, Canada should undertake a comprehensive reevaluation of its trade policy to prepare for future shocks to the global trading system.

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