

The coronavirus threat to already declining world trade

World trade declined 0.4% in 2019 and the coronavirus poses a major threat to growth this year



Cars waiting for shipment: The coronavirus has forced the closure of Hyundai factories in South Korea

If 2019 proved to be a tough year for world trade given the effects of the trade war, the spread of the coronavirus threatens to suppress it still further. We were only expecting growth of 0.5% for the year [back in January](#) before the scale of the outbreak was known. According to the latest figures from the Dutch Bureau for Economic Policy Analysis, 2019 world trade levels were, on average, 0.4% lower than in 2018. Clearly, Covid-19 is likely to slash world trade in this first quarter. The overall impact for 2020 will depend on the rebound once the virus is under control.

South Korean factories have followed those in China which have closed in an effort to contain the virus. Factory shutdowns have led to a significant decline in shipping movements. According to Alphaliner, 46% of the scheduled shipping lines between Asia and northern Europe have been cancelled. This will not only weigh on 1Q trade growth but will also disrupt it in the second quarter since most of these ships were due to arrive in the course of March and April in western Europe. Cancelled flights may also have a significant impact on world trade, notably on time-sensitive goods. It's worth noting, however, that it's mostly high-value goods which are shipped by air so in volume terms this may not be too significant. In terms of value, however, air freight represents a third of world trade.

Disrupted flows may cause a shock in European and American supply chains

Fewer incoming goods from China and South Korea will have knock-on effects. Disrupted flows of essential items may cause a shock in European and American supply chains. In addition, less incoming goods from Asia will also mean fewer intra-European re-exports from the coastal regions to inland European countries. It's been reported that some Dutch online retailers are raising prices and suspending advertisements in anticipation of cancelled deliveries from China.

All in all, we're not expecting trade to grow in 2020 given the capacity constraints in production and transport which could limit any rebound from the second quarter onwards.