

The European Union's Trade and COVID-19

Dugiel, Wanda; Mikołajek-Gocejna, Magdalena

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*Wanda Dugiel**
*Magdalena Mikołajek-Gocejna***

The European Union's Trade and COVID-19

Abstract

The article analyzes the course of the unprecedented economic crisis in the last century caused by the outbreak of the COVID-19 pandemic around the world. The COVID-19 pandemic affects all spheres of economic life, causing a huge collapse in international trade, a collapse in industrial production, and a reduction in the inflow of services and foreign investments. The aim of the article is to analyze the causes and the counteraction of the European Union's breakdown in international trade turnover in 2020. The analysis uses a qualitative and quantitative method consisting in a review of international trade figures, statistics from Eurostat, World Trade Organization, IMF, and World Bank. The analysis examines the depth of the collapse of international trade, the most important entities in trade, including the European Union. The results of the economic analysis allow understanding the activities of the European Union institutions in the field of counteracting the negative effects of the collapse of international trade in the world and in the European Union.

Keywords: European Union, International Trade, COVID-19, Economic Crisis

Introduction

The scale of the negative effects of the COVID-19 pandemic results from the specificity of the virus infection, the stoppage of production activities in many countries, and the weakening of the operation of a number of transport services enabling the movement of goods on an international

* **Wanda Dugiel** – SGH – Warsaw School of Economics, e-mail: wdugie@sgh.waw.pl, ORCID: 0000-0003-1369-3523.

** **Magdalena Mikołajek-Gocejna** – SGH – Warsaw School of Economics, e-mail: mmikoll@sgh.waw.pl, ORCID: 0000-0002-8979-2491.

scale. The COVID-19 pandemic may lead to profound changes in the global economy, consisting in a reformulation of the geographical structure of international trade.

The aim of the article is to analyze the causes and the counteraction of the European Union to the collapse of international trade turnover in 2020. In the first part, the problem of the economic downturn in 2020 in the European Union and in the world economy was identified. The following sections of the article examine the most important problems to be solved on a global scale, i.e. trade in medical products and economic policy measures, including trade, necessary to include in the package counteracting the economic effects of the COVID-19 pandemic.

The Collapse of the Economic Situation and International Trade in 2020

The COVID-19 pandemic has severely affected the economic situation in the world economy and the level of GDP in developed countries, largely responsible for shaping demand and supply on the world market. The hallmarks of a pandemic that distinguish it from an epidemic are the spread of the disease over a “large area”, the negative impacts covering a large population, and the “transgression of international boundaries”.¹ The World Health Organization announced on March 12, 2020, the outbreak of the COVID-19 pandemic and a huge increase in the number of infected with the virus worldwide.² The effect of the COVID-19 pandemic in 2020 is the collapse of international trade turnover, the collapse of industrial production, a decline in consumption and investment in many countries around the world, including the European Union. The deterioration in macroeconomic indicators was related to production downtime in response to the need to close factories to maintain social distancing and prevent the spread of the COVID-19 virus.

The beginning of the COVID-19 pandemic in Italy in February 2020, and the emergence of infections in all EU Member States, was associated with the adoption of pessimistic forecasts of the European Commission as early as March 2020 regarding the decline in the real GDP level of the European Union even below zero reaching negative values.³

¹ J.M. Last, *A Dictionary of Epidemiology, fourth edition*, A Handbook sponsored by the I.E.A., Oxford University Press, New York 2001, p. 131.

² <https://www.euro.who.int/en/health-topics/health-emergencies/coronavirus-covid-19/news/news/2020/3/who-announces-covid-19-outbreak-a-pandemic> (access 24.10.2020).

³ European Commission, Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the Eu-

The further spread of the COVID-19 disease caused a reduction in both production and demand in the EU member states. The negative effects of the COVID-19 pandemic on the supply and demand sides were also associated with the global economic downturn. In the United States, there has been a decline in real GDP since the beginning of 2020. In the EU-27, in the first quarter of 2020, real GDP fell by 3.3% compared to the previous period, and 11.4% in the second quarter (Figure 1), in the United States by 1.3% and 9%, respectively. In China, where the spread of COVID-19 has been declining, there were positive signs of economic recovery in the second quarter of 2020, real GDP, compared to the previous period, increased by 11.7% in the second quarter of 2020. During the first wave of the COVID-19 pandemic, the greatest falls in GDP in the second quarter of 2020 (compared to the previous quarter) in the European Union Member States occurred both in the North and in the South of the European Union, including both richer countries and those that have been suffering from economic problems in recent years. The largest declines in real GDP occurred in Spain (18.5%), Portugal (14.1%), France (13.8%), Italy (12.4), Belgium (12.2), Austria (10.7%), and the entire euro area (12.1%).⁴

The economic downturn caused by the COVID-19 pandemic led to the negative effects on GDP per capita worldwide, and the emergence of the risk of increasing the scale of poverty, in particular in developing countries, reducing the possibilities of import demand from developed countries, including the European Union. Further pessimistic forecasts and the prospect of a further decline in GDP in the following quarters of 2020 and 2021 are associated with the second wave of the pandemic in the world in October 2020, both in the United States, in the Member States of the European Union, Australia, India, and developing countries, which points to economic difficulties also in 2021.⁵

The difficult economic situation and faster GDP growth in 2021 may be improved by the possible development of a vaccine against COVID-19 in the future. The countermeasures of the European Union institutions and the governments of the Member States required decisive steps in economic policy, as the contemporary COVID-19 pandemic of an international scale is impacting macroeconomic indicators and welfare levels more strongly

ropean Investment Bank and the Eurogroup, Coordinated economic response to the COVID-19 Outbreak, Brussels, 13.3.2020 COM(2020) 112 final, p. 2.

⁴ Eurostat, Newsrelease, 121/2020 – 31 July 2020, 121/2020 – 31 July 2020, <https://ec.europa.eu/eurostat/documents/2995521/11156775/2-31072020-BP-EN.pdf/cbe7522c-ebfa-ef08-be60-b1c9d1bd385b> (access 24.10.2020).

⁵ The Economist, *The peril and the promise*, tom 437, October 10, 2020.

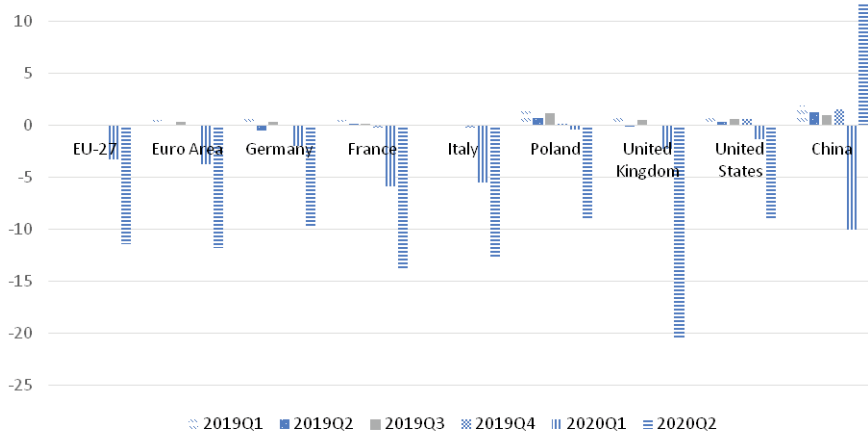


Figure 1. Changes in real GDP in the European Union, the euro area, and in selected EU Member States (Quarterly Growth Rates of real GDP, change over previous quarter, in %)

Source: Based on OECD, <https://stats.oecd.org/index.aspx?queryid=350> (access 24.10.2020).

than previous pandemics in human history.⁶ The wide scale of COVID-19 cases in European countries translates into pessimistic forecasts of economic recovery in 2021, which may occur at a slow pace.

The social distancing due to COVID-19 led to a huge drop in production in many countries, according to the World Bank, the recession in the world economy was forecast as the worst since the end of World War II.⁷ In the European Union in 2020, the decrease in the level of industrial production in April 2020 amounted to 17.1% (Figure 2). The largest drop in production occurred in the automotive industry, in the manufacture of leather goods and clothing. After the first wave of the COVID-19 pandemic, there was a slight economic recovery in mid-2020. In August 2020, compared to July 2020, industrial production increased in selected Member States, the largest increase in production during this period was in Portugal by 10%, Italy by 7.7%, Hungary and Slovakia by 6.7%, in several countries industrial production decreased, including Ireland (13.4%), Estonia (2.1%), and Luxembourg (1.2%).⁸

⁶ V. Arthi, J. Parman, *Disease, Downturns, and Wellbeing: Economic History and the Long-Run Impacts of COVID-19*, NBER Working Paper Series, Working Paper 27805, Cambridge, September 2020.

⁷ World Bank Group, *Global Economic Prospects*, June 2020.

⁸ Eurostat. Newsrelease, euroindicators, 151/2020 – 14.10.2020.

Compared to August 2019, in August 2020 the collapse of industrial production occurred in several Luxembourg countries: -15.8%, in Germany: -11.2%, in France: -7.3%. On the other hand, in the European Union, the situation improved compared to April 2020, industrial production in the EU-27 increased by 4.9%.

The reduction in economic activity due to the pandemic has led to a decline in trade in goods and services, leading to a decline in welfare. Unemployment has risen enormously in many countries as a result of the obligation to maintain social distancing and declining demand.

The decrease in trade turnover results from many factors related to the slowdown in the supply of products related to border controls, unavailability of raw materials, final components for production, and restrictions in the functioning of transport.

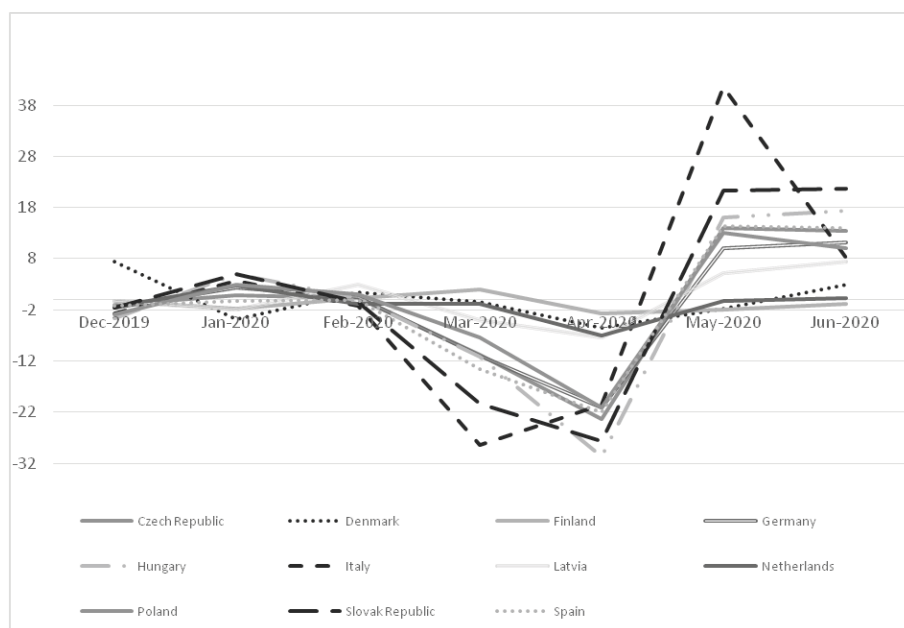


Figure 2. Industrial production EU's member countries (Growth in the same period of the previous year), in %

Source: Own study based on OECD data.

According to the forecasts of the World Trade Organization, the reduction in international trade turnover in 2020 will amount to 9.2%.⁹ These data also confirm the analyses of the International Monetary Fund

⁹ https://www.wto.org/english/news_e/pres20_e/pr862_e.htm (access 24.10.2020).

(Figure 3). During the first wave of the COVID-19 pandemic, in the second quarter of 2020, according to WTO data, there was the largest short-term decline in international trade by more than 14%.¹⁰

As the slowdown in international trade was mainly related to supply constraints in many countries, the second quarter of 2020 was followed by a brief economic recovery and an increase in international trade turnover. A decline in international trade turnover by 32% in 2020 in line with the World Trade Organization pessimistic forecast would have negative consequences for the level of production and employment.¹¹ In terms of trade patterns from the beginning of 2020, it appears that this scenario may become unlikely, although the second strong wave of the COVID-19 pandemic from early October 2020 has again affected the most important players in international trade. Transport restrictions led to a 30% decline in international service flows in the second quarter of 2020, affecting both developed and developing countries.¹² There has been a dramatic decline in travel services, which have been a large component of GDP in many countries, especially in the Caribbean and South America.

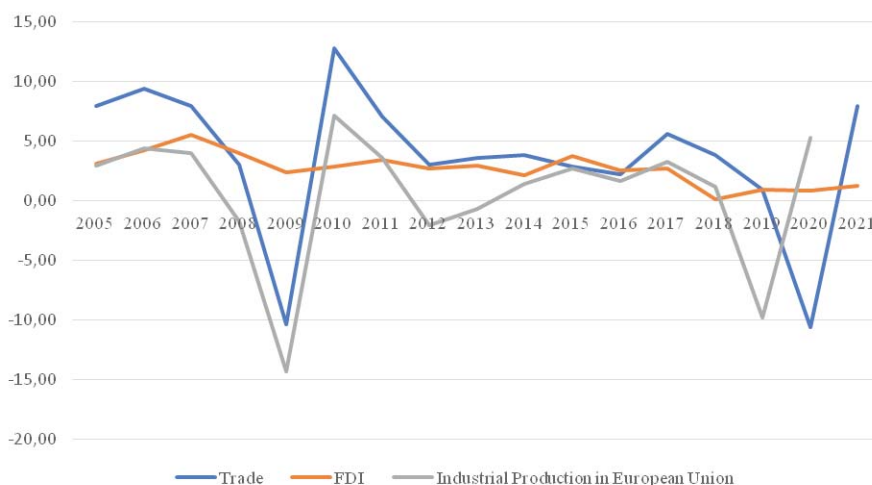


Figure 3. International trade growth in %, changes in international trade turnover in the years 2005–2021, in %

Source: Own study based on IMF data. Data on industrial production come from: [https://ec.europa.eu/eurostat/statistics-explained/index.php/Industrial_production_\(volume\)_index_overview#General_overview](https://ec.europa.eu/eurostat/statistics-explained/index.php/Industrial_production_(volume)_index_overview#General_overview).

¹⁰ Ibidem.

¹¹ World Trade Organization, Annual Report 2020, Geneva 2020, p. 6.

¹² https://www.wto.org/english/news_e/news20_e/serv_22oct20_e.htm (access 24.10.2020).

Data on industrial production in 2020 for the period February–October 2020 come from the Eurostat website: https://ec.europa.eu/eurostat/statistics-explained/index.php/Impact_of_Covid-19_crisis_on_industrial_production (access 24.10.2020).

With the first wave of the COVID-19 pandemic, the European Commission decided that the economic recession would be the worst in the history of the European Union.¹³ The demand and supply shock to the economy of the European Union affected all Member States in a symmetrical manner, which means quick and decisive actions in monetary and fiscal policy in accordance with the economic situation in a given country.

In the commodity structure of European Union exports, the largest decrease in trade was recorded for machinery and vehicles (17.6%) in the period from January to August 2020 compared to this period from 2019, and for energy (38.8%) in the same period (Figure 4).¹⁴ During the pandemic, there was no decrease in the exports of food products from the European Union, which means the possibility of supplying the European market and guaranteeing food security.

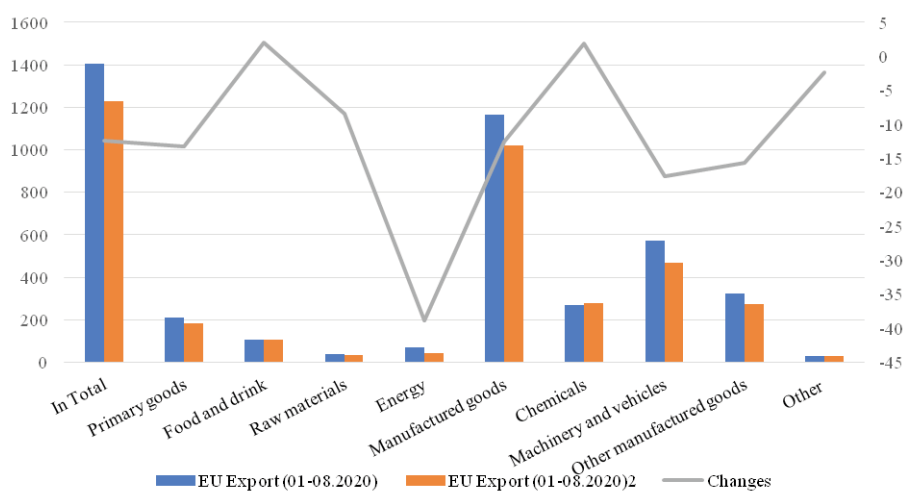


Figure 4. Exports from the European Union for the most important products in January-August 2020 in relation to this period from the previous period, in billion euro, changes in export turnover in% (right axis)

Source: Own study based on data: Eurostat.: Newsrelease, euroindicators, 153/2020 – 16 October 2020.

¹³ European Economic Forecast, Spring 2020, p. 1.

¹⁴ Eurostat. Newsrelease, euroindicators, 153/2020 – 16.10.2020.

On the import side, in the first eight months of 2020, there was a decrease in imports to the European Union, which amounted to 13.4%. The decrease in imports was mainly related to energy (38.3%), machinery and vehicles (11%) (Figure 5). The decrease in imports was mainly caused by weakening consumer demand, difficulties in transport, supply problems in the component supplier countries.

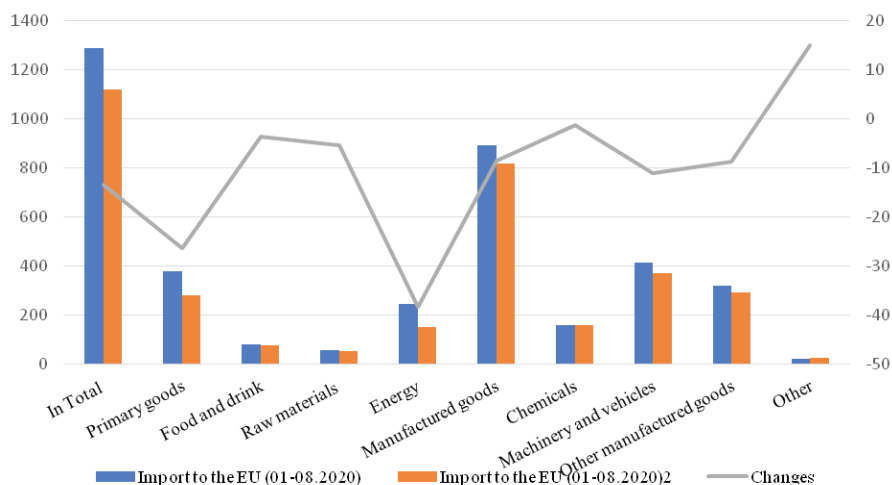


Figure 5. Import to the European Union for the most important products in January-August 2020 in relation to this period from the previous period, in billion euro, changes in export turnover in% (right axis)

Source: Own elaboration based on data: Eurostat. Newsrelease, euroindicators, 153/2020 – 16 October 2020.

The largest decrease in trade turnover was recorded in the case of exports with important trading partners, with the United States, the decrease was 10.7%, with Great Britain 19.4%, and with India 24.5%. A slight decrease in exports was recorded in the case of exports to China (1.1%) (Figure 6). The production of final goods in China through global value chains is limited due to difficulties in supplying parts from the United States and the European Union.¹⁵

¹⁵ Y. Wolfmayr, *COVID-19-Pandemie und internationaler Handel: Abschätzung der Entwicklung der österreichischen Warenexporte im Jahr 2020*, Österreichisches Institut für Wirtschaftsforschung Begutachtung: Josef Baumgartner Wissenschaftliche Assistenz: Irene Langer, WIFO Research Briefs 6/2020, Mai 2020.

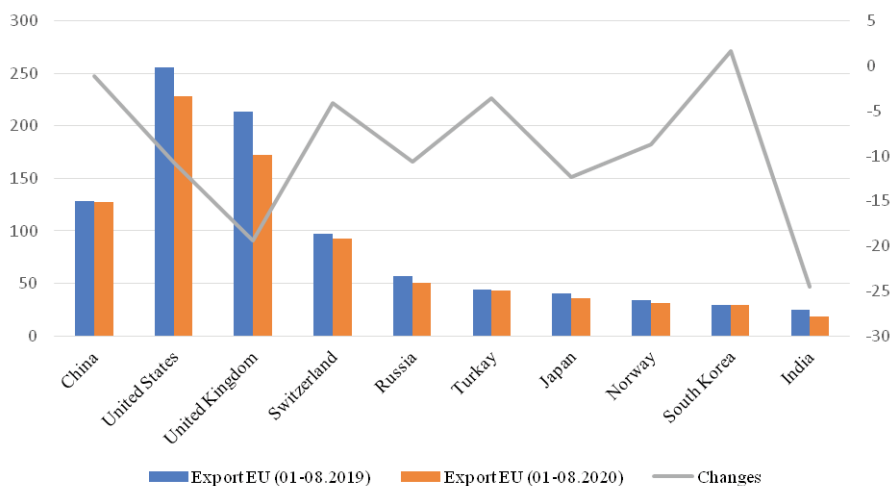


Figure 6. Export from the European Union to the most important trading partners, in billion euro, changes in % (right axis)

Source: Own study based on data from: Eurostat. Newsrelease, euroindicators, 153/2020 – 16 October 2020.

The COVID-19 pandemic negatively affected the imports of goods from countries such as: Russia (-35.7%), Norway (-23.8%), India (-19.9%), Great Britain (-16.1 %) (Figure 7). In the case of the European Union's trade relations with China, there has been no reduction in supplies to the EU, despite the decline in the trade turnover of Chinese companies participating in global value chains, exporting components and parts for assembly.¹⁶ Production capacity in China was reduced due to the decline in imports of semi-finished products, in particular in the electronics and electrical industries.¹⁷

The COVID-19 pandemic broke out at a difficult time for the global economy, of the deteriorating trade relations between the United States and China, which influenced the adoption by the European Union of a strategy for economic cooperation with China. Mutual trade and investment flow involves the development of a cooperation strategy not only due to the effects of COVID-19 and the disruption of the global supply chain, but also due to the existence of state-owned enterprises in China.

¹⁶ S. Chowdhry, G. Felbermayr, V. Stamer, *The COVID-19 trade contraction: A view from global shipping, the EU and China*, Kiel Policy Brief, No. Special Corona-Update 4, Kiel Institute for the World Economy (IfW), Kiel 2020.

¹⁷ G. Holger, S. Mösle *Globale Wertschöpfungsketten in Zeiten von (und nach) COVID-19*, „ifo Schnelldienst“, no. 5/2020 73, Nr 5. Jahrgang 13.05.2020.

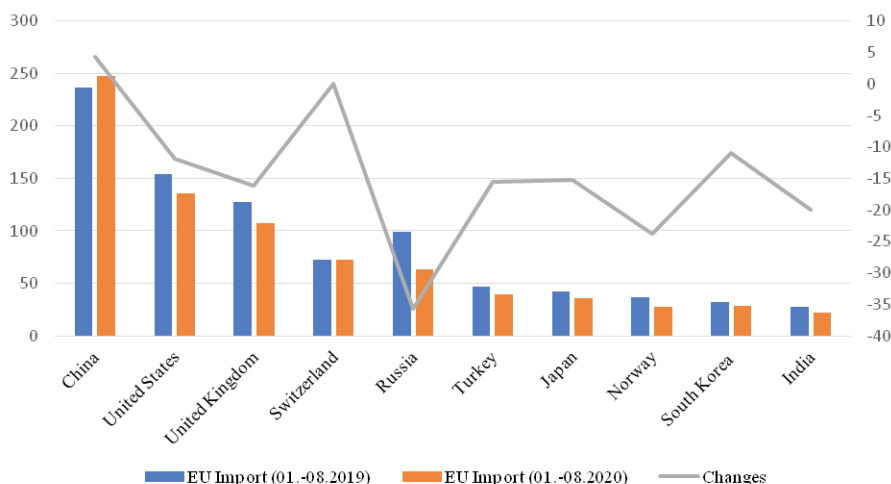


Figure 7. Import of the European Union in the period from January to August 2020, in billion euro, changes in % (right axis)

Source: Own study based on data from: Eurostat. Newsrelease, euroindicators, 153/2020 – 16 October 2020.

International Trade in Medical Products: Position of the European Union

During the COVID-19 pandemic, due to its impact on the health care system and importance for economic development, access to medical products is extremely important. Limiting the use of trade barriers and not introducing further restrictions on trade flows allows countries to meet the demand for medical products. The position of the G20 countries contains only vague statements regarding the reduction of trade distortions,¹⁸ a commitment to accept trade facilitation.

The share of medical products in total global imports amounted to 6% in 2019, and the share of these products in total global exports was similar (6% in 2019).¹⁹ Three countries remained the largest importers of medical products: the United States, Germany, and China. The share of medical products in the total trade in the European Union in 2019 was less than 10%.²⁰

¹⁸ Statement Extraordinary G20 Leaders’ Summit Statement on COVID-19.

¹⁹ World Trade Organization, Trade in Medical Goods in the Context of Tackling COVID-19, 3.04.2020.

²⁰ I. Hallak, *European Parliament, EU imports and exports of medical equipment*, EPRS | European Parliamentary Research Service, October 2020.

The most important and largest exporters in the world were Germany, the United States, and Switzerland.

Earlier obligations of states in the World Trade Organization under The 1994 Pharmaceutical Tariff Elimination Agreement (the Pharma Agreement) created an opportunity for trade in medical products without customs duties. Countries that make up the Pharma Agreement, such as the United States, the European Union, Japan, Canada, Macau, Norway, Switzerland have a relatively smaller share in world trade (approx. 66%). The average duty on medical supplies is less than 5%, which is not a significant barrier to the flow of drugs and products needed to counteract COVID-19.

It is not the first time in the history of the crisis in the world economy that international organizations and heads of state emphasize the importance of open trade. The introduction of new trade barriers would not be conducive to economic recovery once the second wave of the COVID-19 pandemic has been dealt with.²¹

WTO regulations in the form of TRIPS (Trade Related Aspects of Intellectual Property Rights) and the patent protection adopted in this agreement may arouse controversy in the future about the availability of a possibly invented vaccine against COVID-19 and the price of pharmaceuticals.²²

Discussions on the problems of the high level of pharmaceutical prices for developing countries intensified after 1995, since the entry into force of the TRIPS provisions in international trade, also in the context of the level of pharmaceutical prices.²³

The subject of patents also appeared in the postulates announced by South Africa and the African Union countries for universal access to the vaccine against COVID-19, which should not be subject to patent protection. The invented vaccine in the future should serve societies on the basis of access to global public good.²⁴

²¹ On the importance of openness in international trade, see: A. Nau, *World trade in 2020: The show must go on! COVID-19 pandemic, trade wars and deadlock at the WTO: Rules-based trade is under pressure and the EU must take the lead*, "IW-Policy Paper", no. 9/2020, Institut der deutschen Wirtschaft (IW), Köln 2020.

²² On the issue of the importance of intellectual property protection in the pharmaceutical industry, see: M. Kyle, A. McGahan, *Investments in Pharmaceuticals before and after TRIPS*, NBER Working Paper Series, Working Paper 15468, Cambridge October 2009.

²³ T. Hafner, D. Popp, *China and India as Suppliers of Affordable Medicines to Developing Countries*, NBER Working Paper Series, Working Paper 17249, Cambridge, MA 02138 July 2011.

²⁴ D. Pilling, A. Jack, *People's vaccine' for coronavirus must be free, leaders urge*, "Financial Times", London, 14.05.2020.

Developing countries are pointing to economic problems and low-income levels which prevent prices of patentable products from being kept high for consumers. The problem of exemption from patent protection for pharmaceuticals has emerged on a large global scale in connection with the pandemics of AIDS, malaria, and tuberculosis.

Until the outbreak of the COVID-19 pandemic, the world trade system in the form of WTO regulations was at a static point, and WTO member states were hardly prepared for the occurrence of pandemic phenomena. Hitherto experiences with counteracting pandemics at the WTO forum concerned mainly African regions and developing countries.

The COVID-19 pandemic turned out to be a huge surprise for the Member States of the European Union, but also for the supranational EU institutions themselves. In response to the increase in the infected with COVID-19 and the demand for medical equipment, the European Commission introduced restrictions on the export of medical products on March 15, 2020 (Regulation 2020/402).²⁵ In the regulation, the European Commission introduced restrictions on the export of protective equipment, which included the following products: protective glasses and helmets, covers, mouth and nose protection equipment, protective clothing, gloves.

In the absence of self-sufficiency in the production of the European Union, the import of oxygen therapy equipment, COVID-19 test kits (COVID-19 Test kits-Instruments and apparatus used in Diagnostic Test), protective garments (Figure 8).

The COVID-19 pandemic has demonstrated the enormous importance of trade in overcoming the spread of the virus.²⁶ Due to shortages of medical products, many countries increased their trade turnover on the import side. Some countries have introduced export restrictions.

The most important issue during the COVID-19 pandemic for the world economy was monitoring related to the failure to introduce market access restrictions that lead to trade distortion. During the first wave of the COVID-19 pandemic, some countries introduced a number of restrictions. Since the spread of the COVID-19 pandemic in February 2020, for the first three months, the G20 countries have imposed – according to WTO data – almost thirty restrictions on the flow of international trade, in particular on personal protective equipment PPE (gloves, masks, drugs used to defeat the virus).

²⁵ Ch.P. Bown, *EU limits on medical gear exports put poor countries and Europeans at risk*, Peterson Institute for International Economics, 19.03.2020.

²⁶ The Economist, *Special Report the World Economy*, 10.10.2020.

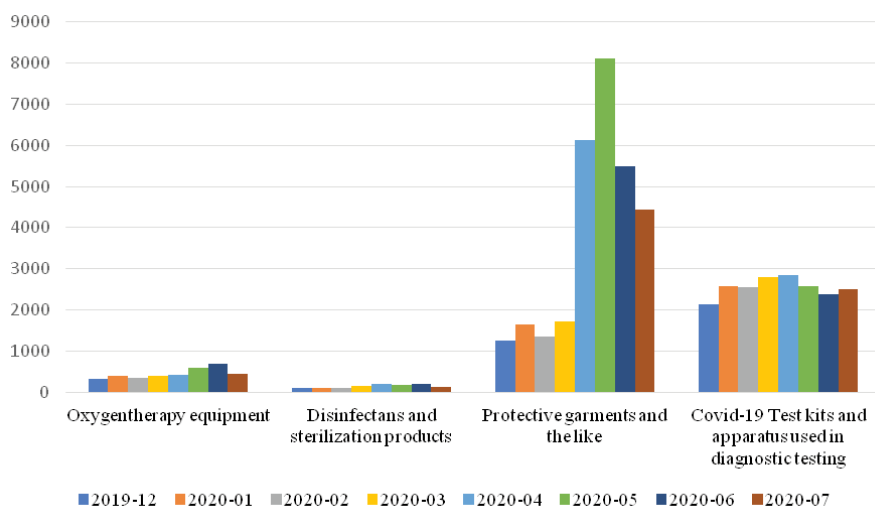


Figure 8. Import European Union-27 of medical supplies (in million euro)

Source: Own study based on: EU trade since 2015 of COVID-19 medical supplies; <https://appsso.eurostat.ec.europa.eu/>

The European Union restricts the export of personal protective equipment (allowed only for personal purposes, including face masks).²⁷ Countries mainly used trade policy tools to protect their exports by introducing export licenses, quotas, or export bans.²⁸

Crisis situations in the global economy are also related to the actions of states regarding the maintenance of food security, i.e. for rice, vegetables, cereals, soybeans, seeds, and sunflower seeds.²⁹

Actions of the European Union and the Member States in the Field of Improving International Trade Turnover

Mitigating the negative impact of the spread of the COVID-19 pandemic on the economic situation and global trade was related to the actions of many governments. In the European Commission Communication enti-

²⁷ World Trade Organization, Notification Pursuant to the Decision on Notification Procedures for Quantitative Restrictions (G/L/59/REV.1), European Union, G/MA/QR/N/EU/4/Add.1, 8.04.2020.

²⁸ World Trade Organization, Report on G20 Trade Measures (Mid-October 2019 To Mid-May 2020), Geneva, 29.07.2020.

²⁹ Ibidem.

tled “Europe’s moment: Repair and Prepare for the Next Generation”³⁰ The European Union has proposed a comprehensive “Next Generation” package, financed by raising the EU budget’s own resources ceiling to 2% of EU gross national income. In addition, the European Commission has proposed reforming the EU budget for 2021-2027 in order to finance economic policy tools implemented under the “Next Generation” package. The European Union has adopted a special tool called “Recovery and Resilience Facility” with a budget of EUR 560 billion for grants and loans.

The quick reactions of the European Union institutions proved to be of decisive importance for counteracting the negative economic effects of the COVID-19 pandemic and limiting the turnover of international trade. On July 21, 2020, the European Council adopted the Reconstruction Plan³¹ On July 21, 2020, the European Council adopted the Reconstruction Plan and the Next Generation package, which is to include financial resources under the Multiannual Financial Framework. The Next Generation package concerns the activities of the European Union with regard to counteracting the negative effects of the COVID-19 pandemic. The European Council decided to earmark EUR 750 billion for aid for the affected regions. The Next Generation package included the Facility for Reconstruction and Improvement of Immunity (RRF). Financial resources available for the period 2021–2022 as the Facility for Reconstruction and Resilience (70% under the Instrument for Country Subsidies). Until the end of 2023, the states will be able to use 30% of the funds from this Instrument for loans. The funds under the package will be financed while deepening the common debt.³²

In the period of the COVID-19 pandemic, similarly to the 2008–2009 crisis, both the course of the crisis and the effects on groups of European Union countries may appear.³³ The effect of the economic downturn is a pessimistic forecast of the unemployment level, which may even reach 10%.³⁴ In some EU countries, where tourist services play a significant role

³⁰ European Commission, Communication From The Commission to the European Parliament, The European Council, The Council, The European Economic and Social Committee and the Committee of the Regions Europe’s moment: Repair and Prepare for the Next Generation, Brussels, 27.5.2020 COM(2020) 456 final.

³¹ https://ec.europa.eu/info/live-work-travel-eu/health/coronavirus-response/recovery-plan-europe_pl (access 24.10.2020).

³² M. Buti, *A tale of two crises: Lessons from the financial crisis to prevent the Great Fragmentation*, VoxEU.org, 13 July 2020.

³³ Ch.M. Schmidt, *Globale Klimapolitik: Welchen Beitrag sollten Deutschland und Europa leisten*, „ifo Schnelldienst“, no. 6/2020 73. Jahrgang 10.07.2020.

³⁴ European Commission, Communication From The Commission to the European Parliament, The European Council, The Council, The European Economic and

in shaping GDP, the economic weakness may be particularly visible: in Italy, Greece, Croatia and Spain.³⁵

Conclusions

Overcoming the threats to the European Union economy resulting from the collapse of international trade will depend on the development of a vaccine against the COVID-19 virus and aid packages from the European Union institutions. The largest collapse of international trade after World War II, characterized by a decline in exports, and thus employment and consumption, confirms the need for a very decisive action in the field of aid packages and social responsibility for mitigating the spread of the COVID-19 virus.

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³⁵ M. Verwey, S. Langedijk, R. Kuenzel, *Next Generation EU: A recovery plan for Europe*, VoxEU.org, 09 June 2020.

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