TOWARD THE "NEW NORMAL" AFTER COVID-19
– A POST-TRANSITION ECONOMY PERSPECTIVE

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Editors

eISBN 978-83-8211-061-6
https://doi.org/10.18559/978-83-8211-061-6

POZNAŃ UNIVERSITY OF ECONOMICS AND BUSINESS

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Poznań 2021

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3. The European Union's Common Commercial Policy and the Covid-19 pandemic: Reactions and challenges

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Abstract

**Purpose:** The general aim of the chapter is to investigate trade measures implemented in the EU in the aftermath of the Covid-19 outbreak and define general potential effects of the current economic turbulences on the future shape of the Common Commercial Policy (CCP).

**Design/methodology/approach:** The chapter is based on literature/EU official documents studies and statistical analysis of the EU’s merchandise trade. It has been structured into three parts. The first one presents recent trends in the EU’s external merchandise trade caused by the pandemic’s economic repercussions. This is followed by a short analysis of temporary trade restrictions implemented by many EU Members States and the EU in response to supply shocks. The third part refers to the potential impact of current trade and economic processes on the post-pandemic trade strategy of the EU.

**Findings:** Although the future shape of global trade system and the pandemic’s impact on the nature of the CCP are subjects of high uncertainty, the conducted analysis offers some general conclusions. The implemented trade restrictions should be limited and made temporary as future trade openness is essential for economic recovery. There is also a general consensus that the EU’s CCP should ensure the necessary resilience to future trade distortions. However, this should not be connected with protectionism and narrowly understood self-sufficiency. Among important factors that reinforce the resilience, we should mention the solutions delivered by new technologies (e.g. automation, AI, three-dimensional printing), fair competition, higher transparency of trade policies, international standards, certification schemes, and stronger multilateral cooperation, including World Trade Organization’s reforms. The renewed trade...
strategy will also be accompanied with global trade and economic tendencies such as the resourcing and regionalization of trade.

**Originality and value:** The chapter is addressed to students, scholars, and policymakers by contributing to the current debate on the post-pandemic shape of global trade relations and the future nature of the EU’s Common Commercial Policy.

**Keywords:** EU, Common Commercial Policy, trade policy, Covid-19, pandemic.

### 3.1. Introduction

The Covid-19 pandemic has triggered unprecedented and multidimensional repercussions for economic systems at both national and global levels. One of the areas mostly affected by the “Covid-19 recession” is international trade. The historic fall of global merchandise trade, the collapse of global supply chains, and trade restrictions implemented by many countries have undermined the international trade system and invited a reflection on the future nature of international trade. With its Common Commercial Policy (CCP) implemented on behalf of all 27 Member States (MS) and its economic and trade potential, the European Union has a key role in reviving distorted international trade links, but also in defining post-Covid-19 international trade environment.

The general aim of the chapter is to investigate trade measures implemented in the EU in the aftermath of the Covid-19 outbreak and define general potential effects of the current economic turbulences on the future shape of the CCP. The chapter consists of three parts. The first one presents recent trends in the EU’s external merchandise trade caused by the pandemic’s economic repercussions. This is followed by a short analysis of temporary trade restrictions implemented by many EU Members States and the EU in response to supply shocks. The third part – especially important in the context of the chapter’s general aim – refers to the potential impact of current trade and economic processes on the post-pandemic trade strategy of the EU.

### 3.2. The EU’s external trade in the era of the Covid-19 pandemic

The measures taken by many countries around the world to contain the Covid-19 pandemic in the first quarter of 2020 resulted in unprecedented changes to global merchandise trade volumes and values. The trend of falling commodity prices started before the pandemic, accelerated in the first quarter of 2020, reaching its
historical fall with fuels being the main driver behind this development (fall of 33.2% in March 2020); in March 2020 the UNCTAD’s Free Market Commodity Price Index lost 20.4%, which was an unprecedented decrease even when compared to falls after the global financial crisis of 2008 (CCSA, 2020). The falls of commodity prices, decreasing demand on selected goods and trade measures introduced by many countries in the first months of 2020 led to a severe drop in world merchandise trade value (in the first quarter of 2020 decreased by 14.3% compared to the previous quarter). The sharpest falls were faced by Europe and North America, where exports declined by 24.5% and 21.8% respectively, while Asia recorded only a 6.1% fall in exports. As of October 2020, the WTO forecasts a decline in the volume of global merchandise trade in 2020 by 9.2% (14.7% for Europe). The projected decrease was partly alleviated by the growth of trade in Covid-19 related products recorded during summer months of 2020. The forecasted recovery in 2021, with the projected rise of 7.2%, will not restore pre-pandemic global trade values by the end of 2021. Moreover, those projections are subjects to a high degree of uncertainty since they do not include influence of the second/next waves of the pandemic and can be tested by the government responses to the situation in the forthcoming months of 2020/2021 (WTO, 2020).

This historical decrease of global trade has been also clearly perceptible from the perspective of the EU’s external trade. The steepest decline in the EU’s trade flows was recorded in the second quarter of 2020, when extra-EU exports and imports recorded falls at the level of ca. 25–30% (Figure 1). In the following months, the situation – similarly to global trends – improved and the falls were not

![Figure 1. Extra-EU-27 exports and imports (monthly change (%) to previous year, January 2019 – September 2020)](image)

Source: (Eurostat, 2020a).
so severe as in the second quarter of 2020. However, the total value of extra-EU trade during the period of January to September 2020 recorded a strong decrease of 11.4% and 12.8% in exports and imports, respectively (Table 1). Regarding changes in the structure of EU’s trade, we see that energy and manufacturing sectors – esp. transport equipment and electrical machinery – are the most affected by declines, while primary goods and chemicals recorded relatively modest disruptions. The decline in EU-27 merchandise trade was recorded with most of the main trade partners; from top EU’s traders only trade with China increased in the first nine months of the 2020. If this trend continues, China will become the most important trade partner of the EU for the first time ever (Figure 2). Let us note that trade distortions and volume volatility recorded during the pandemic have been more severe in the case of extra-EU merchandise trade than internal trade flows; in January to September 2020, the intra-EU trade decreased by 9.9% compared to the same period of 2019 (Eurostat, 2020b).

Table 1. Extra-EU-27 trade by main product sections
(January to September 2019 vs. 2020, bn EUR)

<table>
<thead>
<tr>
<th></th>
<th>Extra-EU EXPORTS</th>
<th>Extra-EU IMPORTS</th>
<th>Trade balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Jan-Sep 2019</td>
<td>Jan-Sep 2020</td>
<td>change (%)</td>
</tr>
<tr>
<td>Total</td>
<td>1 580.4</td>
<td>1 400.6</td>
<td>–11.4</td>
</tr>
<tr>
<td>Primary goods</td>
<td>237.8</td>
<td>206.9</td>
<td>–13.0</td>
</tr>
<tr>
<td>Food &amp; drink</td>
<td>118.7</td>
<td>121.0</td>
<td>1.9</td>
</tr>
<tr>
<td>Raw materials</td>
<td>41.3</td>
<td>38.6</td>
<td>–6.5</td>
</tr>
<tr>
<td>Energy</td>
<td>77.7</td>
<td>47.3</td>
<td>–39.1</td>
</tr>
<tr>
<td>Manufactured goods</td>
<td>1 308.9</td>
<td>1 161.1</td>
<td>–11.3</td>
</tr>
<tr>
<td>Chemicals</td>
<td>304.3</td>
<td>310.2</td>
<td>1.9</td>
</tr>
<tr>
<td>Machinery &amp; vehicles</td>
<td>642.4</td>
<td>539.4</td>
<td>–16.0</td>
</tr>
<tr>
<td>Other manufactured goods</td>
<td>362.2</td>
<td>311.5</td>
<td>–14.0</td>
</tr>
<tr>
<td>Other</td>
<td>33.7</td>
<td>32.6</td>
<td>–3.3</td>
</tr>
</tbody>
</table>

Source: (Eurostat, 2020b).
3.3. Reactions to trade during the Covid-19 pandemic from the EU’s perspective

The first phase of the pandemic revealed weaknesses of the global trade architecture, at that time mostly noticeable in the trade of Covid-related products. The growing challenge of adequate stockpiling, the shortcomings of ‘just-in-time’ production, and high dependence on a limited number of suppliers (or even one) met an unprecedented increase in demand for personal protective equipment, medical devices, and pharmaceuticals. Although the EU is one of the largest producers and a net exporter of medical devices and high-quality medicinal products, the shortage of adequate supply of those products was noticeable in many European countries. The EU depends strongly on the import of medicines, protective equipment, and various basic substances and semi-products used for further processing in the EU. The total value of the pre-pandemic EU’s imports of Covid-19-related products amounted to ca. EUR 127 bn (2019; Cernat, 2020) and the insufficient availability of many of those goods led to export restrictions implemented ad hoc by many countries worldwide, including EU Member States. In consequence, global distortions in supply have triggered strategic questions about the European and global solidarity and the future shape of supply chains for “essential products” (VZBV, 2020).

The individual EU Member States were among first traders – together with some Asian and Arab countries – that launched (February-March 2020) trade...
restrictions regarding the pandemic. Those included mostly export restrictions and requisitions of domestic supplies of essential goods (BDI, 2020). Implemented out of fear of domestic shortages, the measures targeted the medical supplies and medicines associated with the Covid-19 pandemic: e.g. test kits and related apparatus, disinfectants and sterilization products, medical consumables, protective garments, and some medical devices (Pirker, 2020). The restrictions frequently assumed even the drastic form of direct interventions and requisitions of medical products. Export bans implemented by several EU countries were applied both to other EU MSs and non-EU countries (Hoekman, Fiorini, & Yildirim, 2020). As the EU production of personal protective equipment concentrates in the Czech Republic, France, Germany, and Poland, and those countries were at some point restricting export of those products, the EU market faced trade and supply disruptions from both global and EU suppliers (Pirker, 2020). The steps and decisions undertaken by individual MSs might have led not only to further problems with access to critical supplies for other EU partners, higher market volatility, and increase of average prices of products needed in tackling the pandemic but such immediate and autonomous decisions might have also eroded the fundamental rules of the EU’s Single Market and the Common Commercial Policy. In broader political context, such reactions have negative repercussions in trust among European partners and the reputation of the European project (Hoekman et al., 2020).

In the middle of March, the European Commission (EC) joined the action and adopted measures that, on the one hand, addressed intra-EU impediments that resulted from the abovementioned steps of individual Member States and Europeanized an export authorization scheme. On the other hand, the EC answered the growing concern of shortages of medical supplies resulting from export restrictions implemented by traditional suppliers to EU markets. On March 14, 2020, the EC adopted a Regulation that imposed (until April 26) the authorization requirement for export outside the EU (since the March 20 not applied to EFTA) of personal protective equipment, i.e. protective spectacles and visors, face shields, mouth-nose-protection equipment, protective garments, and gloves (EC, 2020). The EU exported those products mostly to the USA, Switzerland, Norway, China, and Russia (Pirker, 2020).

Implemented in the middle of March, export restrictions were not the only trade measures undertaken at the EU level to deal with the pandemic. The EC adopted several legislations and guidelines with the goal to affiliate trade with and within the EU and to ensure the availability of goods and services essential for responding to the Covid-19 pandemic. Those included (EC, 2020c; Deloitte, 2020; DG Taxud, 2020; Pirker, 2020):

- Decision (EU) 2020/491 on relief from import duties and VAT exemption on importation granted for goods needed to combat the effects of the Covid-19 outbreak during 2020;
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- the Covid-19 guidelines on the application of customs provisions relating to the customs decision-making process, customs procedures and customs formalities to ensure a uniform application of the Union’s Customs Code in times of crisis;
- the Covid-19 guidelines on border measures to the EU Member States to ensure the undeteriorated and free circulation of all goods in the Single Market and guarantee the supply chain of all essential products (e.g. the Commission proposed to implement “Green Lanes” for speeding emergency freight transport between Member States, waiver of existing weekend bans, and the facilitation of safe movement for transport workers); in accordance with the guidelines, any restrictions implemented by Member States should be “motivated, transparent, relevant and mode-specific, non-discriminatory and maintain a level playing field in the Single Market” (EC, 2020b);
- Guidelines on Facilitating Air Cargo Operations including operational and organizational procedures to secure transport flows from outside the EU, including medical supplies.

The measures implemented by the EC aimed on the one hand at facilitating trade and transport and increasing the supply of products essential in countering the pandemic. On the other hand, they had a protectionist character to control the supply and stockpiling of those goods and to prevent emerging shortages in this area. The decisions at the EU level were a response to individual steps of EU Member States that could have led to more chaotic and non-transparent trade rules, detrimental for both fundamental rules of the Single Market and the “common character” of the EU’s trade policy. In this context, the EC played a coordinating role in promoting transparency in intra and extra-EU trade in the turbulent times.

3.4. The post-pandemic trade strategy of the EU: Challenges ahead

The pandemic strongly affected social and economic activities in many aspects. Although there remains uncertainty about Covid-19 – including the risk of “next waves” and possible shutdown measures – many expect that the pandemic’s trade and economic aftermath not only affects the economic activity during the pandemic and shortly after it but that it will lead to a redefinition of economic structures and business relations in the long-term perspective. This also applies to the system of international trade and global supply chains, which may induce new approach and strategy of the EU’s Common Commercial Policy.

The general concern aroused as the consequence of worldwide trade restrictions is the threat of growing protectionism in the global trade system and the
accompanying lack of transparency in trade policies. Although some trade measures undertaken during the pandemic may be justified by social or security reasons, in the long-term perspective such trade restrictions may bring unintended adverse economic consequences. Export restrictions make the trade system less efficient and effective, harming trade partners, and leading to potential negative humanitarian and foreign policy consequences. Such measures may result in the instability of the trade system, as the aftermath might include price volatility, the reallocation of production and distribution, retaliatory actions from trade partners, panic buying, hoarding and speculation, or long-term negative effects on the reputation and perception of investment risks influencing allocation decisions. Retaliatory export restrictions may also lead to a limited access for domestic companies to imported inputs, which would in consequence adversely affect the ability of domestic production to expand. Certainly, the current pandemic and some problems with the supply of Covid-related goods, especially at the beginning of the outbreak, will be an incentive to reduce overdependence on the small number of suppliers by providing multiple markets with more diversified and local production for the price of economies of scale (Hoekman et al., 2020).

Trade will be an important engine of recovery after the pandemic, which also applies to EU economies, traditionally open and dependent on international trade. However, this will require addressing many of the mentioned above processes and developments triggered by the outbreak. The experience of the current crisis may lead to redefining some of the EU’s trade policy priorities. The EU’s response must address trends reinforced by the Covid-19 pandemic such as state intervention, the surge of managed trade, state capitalism distortions (China), and the need for structural reform of the multilateral system; including dispute settlement, subsidies, sustainability, and the link between trade and health (Macyra, 2020).

The future EU’s trade policy must also address the nature of global supply chains and their vulnerabilities revealed by the pandemic crisis. In this context most reiterate that the EU should reinforce its resilience to supply shocks and serious shortages in future. This might be developed in multiple ways. The global value chain should be rethought and redefined as today many countries in Eastern Europe or the Mediterranean region have a comparative advantage in products (e.g. machinery, clothing, furniture and car parts) imported mostly from China (Cernat, 2020) following the development of the “China +1 model” in which importers have alternative supply sources from a different country than China. Some alternatives to current trade patters may come also from new technologies. The automation and development of AI may encourage the reshoring of production or help to mitigate supply chain risks. Three-dimensional printing may be a substitute for imported production and, as such, might play a greater role in GVC by providing an alternative to supply chains in crisis. Some incentives that ensure higher transparency
and security for international trade may also come from blockchain technologies, which can be especially helpful for business continuity during lockowns and physical distancing; this may change future trade activities in areas of trade, finance, customs, certification processes, transportation, logistics, and insurance.

### 3.5. Conclusions

The European Union’s CCP – with its legal exclusive competences at the European level – is one of the key policies aimed at restoring economic growth and development after the Covid-19 crisis. For decades, the CCP has emanated from the fundamental philosophy of the European project based about market integration and openness to the world. Although the future of trade and post-Covid-19 global trade system – and, even more broadly, globalization – appear among the main topics in debates on the impact of the current pandemic and crisis, the future nature of the CCP is a subject of high uncertainty.

The first restrictive steps taken by the MSs and strong government interventions through trade were met with the EC’s reply that stressed the implemented trade restrictions should be limited and temporary, and that trade openness is essential for overcoming the pandemic and, subsequently, recovering economic stability. As this might brought some confusion (restrictions vs. openness), especially at the beginning of the Covid-19 outbreak, the general approach at the EU level stresses that the necessary resilience to future trade distortions should not come from protectionism and narrowly understood self-sufficiency. Some alternative solutions come from new technologies, fair competition, higher transparency of trade policies, international standards, certification schemes, and stronger cooperation on the multilateral level, including the WTO reforms. However, this must be confronted with trends highlighted –but not initiated – by the current pandemic such as the reshoring and regionalization of trade. The general and still declared openness of the EU’s trade policy does not preclude the future drift of the CCP from a neoliberal doctrine in the long-term perspective (Orbie & Ville, 2020). The Covid-19 pandemic may be one of the triggers of that shift.

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