Regardless of when the top-line numbers fully recover, however, the global trade landscape will still look dramatically different as companies shift their focus from fighting the pandemic to winning the post-COVD-19 future. As it destabilizes economies, intensifies geopolitical frictions, and exposes the risks of current global manufacturing and supply networks, the pandemic is also likely to redraw the map of world trade.

To visualize these shifts, we have prepared two maps depicting major trade corridors. One shows the actual change in trade volumes from 2015 through 2019; the other projects changes from 2019 through 2023 under our baseline economic scenario. (See Exhibits 1 and 2.)

Among the sharpest shifts:

- Two-way trade between the US and China in 2023 will have shrunk by around 15%, or about $128 billion, from 2019 levels. Trade between the US and the EU will continue to grow, but at a sharply lower rate than the $135 billion surge from 2015 through 2019.

- EU trade with China will have declined by about $30 billion from 2019 through 2023, after growing by $124 billion in the previous four-year period. EU trade with India and South America will flatten.

- Southeast Asia will continue to be one of the strongest gainers, increasing two-way trade by around $22 billion with the EU, $26 billion with the US, and $41 billion with China by the end of 2023, but still at a slower pace than the earlier four-year period.

Companies will be compelled to revise their mix of products and the design of their global supply chains—and governments their trade and economic policies—to adapt to these and other shifts. This will be particularly true in segments such as medical equipment, biopharmaceutical products, semiconductors, and consumer electronics, which are particularly exposed to geopolitical and macro-economic pressures.
Exhibit 1 - Global Trade Generally Enjoyed Booming Growth in 2015–2019

Change in volume of traded goods in major corridors from 2015 through 2019 ($billions)

~$18 trillion
Global trade 2019

Legend
Width of arrow represents change in trade flows 2019 vs 2015 ($billions)
<–3% =–3% to ~3% >3%
Color of arrow represents percentage change in 2019 vs 2015

Source: UN Contrade; OECD; World Economic Forum; IHS; TradeAlert; BCG analysis.

Note: Corridors represent ~30% of global trade. Not included are: intra EU = ~20%; intra NAFTA = ~8%; China (including Hong Kong) = 4%; intra Southeast Asia = 3%; rest of world = ~35%.

Exhibit 2 - Even If Trade Recovers by 2023, Expect Flows Between Blocs to Shift Dramatically

Change in volume of goods traded in major corridors from 2019 through 2023 under baseline scenario ($billions)

~$18 trillion
Global trade 2023F

Legend
Width of arrow represents change in trade flows 2019–2023F
<–3% =–3% to ~3% >3%
Color of arrow represents percentage change from 2019–2023F
Biggest losers
Biggest winners
Star represents biggest % volume changes by 2023F compared with 2015–2019

Source: BCG Trade Finance Model 2020; UN Contrade; OECD; World Economic Forum; IHS; TradeAlert; BCG analysis.

Note: Baseline scenario assumes a U-shaped global economic recovery by 2023. Corridors in the map above represent ~32% of global trade. Intra EU = ~20%; intra NAFTA = ~8%; China (including Hong Kong) = 4%; intra Southeast Asia = 3%, rest of world = ~32%.
Companies will have to revise their mix of products and global supply chains—and governments their trade and economic policies.
Other Ways COVID-19 Is Transforming Trade

The future of trade is also being redefined in other ways. For example, as part of its European Green Deal strategy to slash greenhouse gas emissions, the European Commission is considering pressing ahead with a proposal to impose a carbon tax on imports. This tax could redefine global competitiveness in a range of industries.

The pandemic is adding greater urgency to efforts to restructure global supply chains as companies seek to make their manufacturing and procurement networks more resilient to shock. It is exacerbating the deteriorating US-China trade relationship, putting more than $500 billion in annual two-way trade at risk, especially in industries in both economies that will have a hard time replacing lost revenue and sources of critical components and materials. A potential decoupling of the US and Chinese technology sectors—which could make devices and IT systems in both markets no longer interoperable—might have even greater repercussions. These topics will be explored more deeply in upcoming Boston Consulting Group publications.

Companies should start acting now to adapt to the emerging new reality of the post-COVID-19 era, such as by reassessing their global manufacturing and supplier footprints and their approach to inventory, as many of the changes are structural and are likely to be long-lasting.

Forces That Are Redefining the Future of Trade

The realignment of the world trade order was already underway before COVID-19 hit in early 2020. For much of the post–World War II era, global trade had been a driver of global economic growth, expanding three times faster than global GDP from 1950 through 2008 in an era that saw fairly steady reductions in tariffs and new multilateral free-trade pacts. In the 2010s, however, trade growth flattened relative to global GDP growth as new and deeper multilateral trade deals stalled, the UK voted to leave the EU, and the US renegotiated existing trade treaties and relationships.

Tariff wars involving the US and major trade partners, particularly China, contributed to a significant shift in US import sources. US imports from China declined in nearly all major industry categories in 2019—most dramatically in energy products, semiconductors, machinery, and packaged foods—but rose in most sectors in trade with the EU, Japan/South Korea, India, Southeast Asia, and Turkey. The full effect of the US tariff hikes, moreover, was only partially felt in 2019. The COVID-19 crisis has been a further blow to trade. In addition to suffering from falling demand as nations sank into recession, trade was constrained by actions taken to control the virus, such as lockdowns of factories and controls on incoming shipments at ports, as well as by export bans on certain medical and agri-food products imposed by several governments and customs unions.

Going forward, global trade dynamics and the choices companies make regarding their supply chains will be significantly shaped in the following ways by the macroeconomic environment and geopolitical frictions, which will in turn influence supply chain tradeoffs.

The Macroeconomic Environment

The lower trade flows through 2023 predicted in our models can be attributed largely to decreased demand for traded goods as a result of deep recessions and structural economic damage. Low demand will, in turn, affect prices, particularly for commodities.

Trade volumes will be heavily influenced by whether economic recovery is shaped like a V, U, or L. Our projection that global trade will return to the 2019 level of $18 trillion in 2023 assumes that the global recovery path will resemble a U—after a steep decline, economic activity will remain low through at least 2020 and then rebound, presumably when some combination of mass testing, viable treatments, and an effective vaccine is available. If recovery is rapid, resembling more of a V, trade could return to its 2018 level sooner than 2023. Under a slow, L-shaped recovery, international trade growth will remain relatively flat for several years. The shape and speed of recovery in specific countries will vary, depending largely on their progress in containing the pandemic.

Geopolitical Friction

The COVID-19 crisis has already accelerated the trend toward nationalist policies and managed trade. In addition to worsening the US-China relationship, the pandemic is prompting some governments and customs unions to place further controls on trade in medical and agricultural goods.

By mid-April 2020, more than 80 countries had imposed export bans on medical devices and personal protective equipment needed to fight the spread of COVID-19. The Eurasian Economic Union, which includes Russia, banned certain agricultural staples, as did nations such as Vietnam and Cambodia.

Governments are also likely to put greater emphasis on domestic production to reduce the risk of future supply shocks, particularly of medical supplies and equipment. Germany has expressed interest in localizing more supply chains, for example, and South Korea is exploring measures to encourage reshoring of manufacturing.
Governments are likely to put greater emphasis on domestic production to reduce the risk of future supply shocks.
Supply Chain Tradeoffs

For many companies, severe supply disruptions for everything from auto parts and consumer electronics to protective equipment during the pandemic have underscored the risks of concentrating too much production and sourcing in a handful of distant low-cost locations and overreliance on just-in-time inventory management. Rising tariffs, restrictions on market access, and other manifestations of geopolitical frictions will also require companies to alter their supply chains.

In our conversations with manufacturers across a range of sectors, executives are reporting a greater focus on supply-chain resilience. They are adopting more regional, “multilocal” sourcing and manufacturing footprints and are willing to maintain higher “safety stocks” in inventory—even if these moves entail somewhat higher costs. Companies are also more willing to put production in locations that are closer to customers—and are finding they can offset higher labor costs by adopting advanced Industry 4.0 manufacturing systems.

Companies should be thinking proactively about redesigning their supply chains to make them more resilient to future shocks. The types of change will vary by industrial sector and each company’s needs and strategic objectives, a topic we will explore in more depth in an upcoming publication.

The paths of the COVID-19 pandemic and the recovery of the global economy remain impossible to predict. But it is becoming increasingly clear that, by intensifying geopolitical and economic forces already at work, the pandemic’s disruptive impact on international trade will leave a lasting mark. Rather than waiting for a return to the status quo, companies should act now to make their manufacturing networks and supply chains more resilient. Companies should take a fresh, holistic view of the markets and trade relationships that are likely to drive growth and secure competitive advantage in the post-COVID-19 world.
The COVID-19 crisis has accelerated the trend toward nationalist policies and managed trade.
About the Authors

Ben Aylor is a managing director and senior partner in the Washington, DC, office of Boston Consulting Group and a core member of the firm’s Operations and Health Care practices. You may contact him by email at aylor.ben@bcg.com.

Megan DeFauw is a managing director and partner in the firm’s Dallas office and is a lead member of the firm’s Healthcare and Operations practices. She focuses on biopharma and medtech manufacturing and supply chains. You may contact her by email at defauw.megan@bcg.com.

Marc Gilbert is a managing director and senior partner in BCG’s Montreal office and leads the firm’s work in geopolitics and trade. You may contact him by email at gilbert.marc@bcg.com.

Iacob Koch-Weser is a knowledge expert in the firm’s Boston office. He manages a team analyzing geopolitics and its impact on trade for the firm’s Global Advantage practice. You may contact him by email at koch-weser.iacob@bcg.com.

Claudio Knizek is a partner and managing director in the firm’s Washington, DC, office and a global coleader of the manufacturing topic. You may contact him by email at knizek.claudio@bcg.com.

Nikolaus Lang is a senior partner and managing director in the firm’s Munich office. He leads BCG’s Global Advantage practice. You may contact him by email at lang.nikolaus@bcg.com.

Michael McAdoo is a partner and director in BCG’s Montreal office and has worked as an executive and advisor in international trade and investment. You may contact him by email at mcadoo.michael@bcg.com.

Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and capture their greatest opportunities. BCG was the pioneer in business strategy when it was founded in 1963. Today, we help clients with total transformation—inspiring complex change, enabling organizations to grow, building competitive advantage, and driving bottom-line impact.

To succeed, organizations must blend digital and human capabilities. Our diverse, global teams bring deep industry and functional expertise and a range of perspectives to spark change. BCG delivers solutions through leading-edge management consulting along with technology and design, corporate and digital ventures—and business purpose. We work in a uniquely collaborative model across the firm and throughout all levels of the client organization, generating results that allow our clients to thrive.

© Boston Consulting Group 2020. All rights reserved. 7/20 Rev. 10/20

For information or permission to reprint, please contact BCG at permissions@bcg.com. To find the latest BCG content and register to receive e-alerts on this topic or others, please visit bcg.com. Follow Boston Consulting Group on Facebook and Twitter.