



COVID-19 AND INTERNATIONAL TRADE: ISSUES AND ACTIONS

In an unprecedented global health crisis, trade is essential to save lives and livelihoods; and international co-operation is needed to keep trade flowing. In the midst of significant uncertainty, there are four things we can do: 1) boost confidence in trade and global markets by improving transparency about trade-related policy actions and intentions; 2) keep supply chains flowing, especially for essentials such as health supplies and food; 3) avoid making things worse, through unnecessary export restrictions and other trade barriers; and 4) even in the midst of the crisis, think beyond the immediate. Government support today needs to be delivered in a way that ensures it serves the public interest, not vested interests, and avoids becoming tomorrow's market distortions. OECD is working with other IOs to support governments through timely and objective evidence and analysis to inform policy choices

In a challenging and uncertain situation, trade is essential to save lives – and livelihoods

COVID-19 is a humanitarian crisis on a global scale. The virus continues to spread throughout the globe, placing health systems under unprecedented stress in the battle to save lives. The human scale of this tragedy is set to worsen as the virus spreads to lower income countries with weaker healthcare systems.

In the March 2020 *OECD Interim Economic Outlook*, the downside scenario saw global growth halved to 1.5%. That was optimistic. We now estimate that for each month that the necessary containment measures continue, the drop in output is equivalent to a decline in annual GDP growth of up to 2 percentage points

(Figure 1). Moreover, the costs to the global economy from support packages, through central banks and fiscal actions, are very significant and likely to have long-lasting and complex effects on management of sovereign and corporate debt. Yet notwithstanding these efforts, most major economies now look set to enter recession, and more serious scenarios cannot be discounted.

A further challenge is the uncertainty about COVID-19, including in terms of the scale and pace of infection; how long and widespread shutdown measures will prove necessary; the prospects for treatments to better manage symptoms, allowing health services to focus only on the most serious cases; and the risk of “second wave” infections as the virus moves around the globe. The virus is proceeding in waves, with countries succumbing – and set to recover – at different times. What is clear is that the virus and its aftermath looks likely to be with us for some time.

Against this background, there is a clear need to keep trade flowing, both to ensure the supply of essential products and to send a signal of confidence for the global economy. Trade is essential to save both lives and livelihoods.

But keeping trade flowing requires co-operation and trust – for example, that the market will supply essentials, that countries will not impose export restrictions, and that imports do not pose health risks. This is a particular challenge at a time of trade tensions, where the international trading system was already subject to an increased number of new restrictions and distortions, from tariff increases among major traders, to significant government support in key sectors. Efforts at dialogue to manage and prevent tensions through ongoing negotiations are now complicated by mobility restrictions. But in the context of the severe economic strain from COVID-19, it is more important than ever to avoid escalation of the current trade tensions.

Figure 1. COVID-19 is set to have a major impact on economic activity

The potential initial impact on activity of partial or complete shutdowns on activity in OECD and non-OECD G20 economies

Percentage of GDP at constant prices



Note: The sectoral data are on an ISIC rev. 4 basis in all countries apart from Korea and Brazil, where national data are used. Real estate services excluding imputed rent are assumed to be 40% of total real estate services in countries in which separate data are not available.

Source: OECD Annual National Accounts; OECD Trade in Value-Added database; Statistics Korea; Brazilian Institute of Geography and Statistics; and OECD calculations.

Despite considerable uncertainty, there are four actions that can be taken now

First, boost confidence in trade and global markets by improving transparency

A strong, shared, transparent information base is critical in underpinning sound national policy responses and the international co-operation to keep trade flowing. It will be critical that countries honour their commitments to notify trade-related measures taken in response to COVID-19 to the World Trade Organisation (WTO). The OECD is sharing information on trade-related country actions on COVID-19 with WTO colleagues, and assessing the likely impact of these actions to help support policy makers dealing with the crisis.

Building on our annual *Monitoring and Evaluation of Agricultural Policies* we are tracking and assessing the impact of country measures in relation to agrifood production and trade in response to COVID-19. We are bringing this information to AMIS (Agricultural Market Information System), where we work with other international organisations and governments to ensure accurate, up-to-date information on market developments and country policies in critical commodities for the global food system.¹

Second, keep global supply chains going, especially for essentials

An important priority is keeping the key supply chains for essential goods for the crisis – including medical supplies, food products and ICT goods and services – open and functioning. However, we are starting to see a number of challenges to keeping these supply chains going related to the business of trade. For example

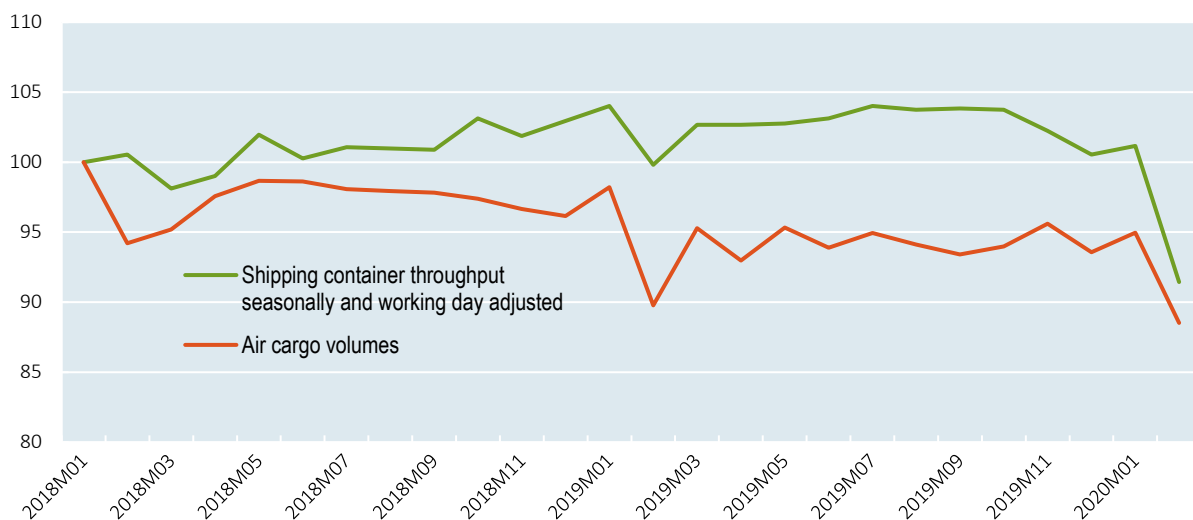
- Cancellation of passenger flights linked to travel bans has limited the availability of air cargo (Figure 2) while urgent shipping of essential goods has increased demand, resulting in increases in the price of *air cargo* (compared to October 2019 air freight costs are up by about 30% between the People's Republic of China (hereafter “China”) and North America and by over 60% on some important Europe-North America routes) (Curran, 2020^[1]) Delivery times have also increased. This matters for some time-sensitive medical supplies, but also for some high value food trade.
- Important *shipping ports* reported year-on-year drops in cargo between 10% and 20% in February (Baschuk, 2020^[2]). Over 50 countries have changed port protocols, ranging from port closure and quarantine measures to additional documentation requirements and examination. That said, some countries have also set up “green lanes” at ports of entry and border crossings, to accelerate the processing of cargo shipments.
- At the time the virus struck, large numbers of *shipping containers* were in Chinese ports, and restrictions on their movement have led to a shortage that has seen the price of containers rise (in some cases considerably), with flow-on effects for the price of cargo, including food products.
- Lockdowns are also impacting the *availability of labour to unload ships at ports* (notably in countries where this is less automated) or raised costs due to increased protective measures for workers.
- More generally, all supply chains are being affected by the need to ensure *additional health and safety measures for all participants in the supply chain* (which affect costs and time).
- Limits on mobility of people and lockdowns are affecting a *variety of trade processes*, from physical inspections of goods for SPS, to testing and certification for TBT, to changing how anti-dumping investigations are conducted.

¹ Further information on AMIS is available at www.amis-outlook.org.

All of these are adding to the time and costs of international trade on products that matter. They will require co-ordinated action amongst governments – and with the private sector – to find solutions to the logistical constraints affecting the ability to get essential products where they are needed most.

An immediate issue is facilitating **medical supplies** necessary to tackle COVID-19, many of which are produced across a number of countries and for which trade is the means of ensuring global supply. For example, at the onset of the crisis, China was the main manufacturer of **surgical masks**, accounting for about one-half of world capacity. Yet in January, this was not enough to meet demand; China stopped exporting masks and imported 56 million masks in the first week of January; masks were also donated to China by some countries. In the midst of the crisis, Chinese demand was estimated at 240 million masks per day (more than ten times its manufacturing capacity). China increased production from around 20 million masks per day to around 116 million per day at the end of February and is now exporting masks to other countries.²

Figure 2. Sea and air cargo are dropping sharply



Source: OECD, drawing on data from Innovative Solutions in Maritime Logistics (www.isl.org/en/containerindex) and International Air Transport Association (www.iata.org).

Keeping the trade in essential medical supplies flowing means removing barriers such as **tariffs** on medical goods essential for combatting COVID-19 (e.g. several countries maintain tariffs of up to 10% on COVID test kits) (Evenett, 2020^[3]) as a number of countries have already done. It means **expediting certification** procedures to allow new products to be traded as soon as possible and ensuring that technical requirements are science-based and do not unnecessarily restrict trade. Finally, it means **enhanced trade facilitation** to keep goods moving as quickly as possible – including identifying key actions needed to ensure smooth customs procedures with limited human intervention (see below).

There are particular issues with keeping **food supply chains** flowing. In addition to the impacts of reduced air and sea cargo possibilities, are additional challenges related to the risk of **food loss and waste** through delays to handling difficulties, and the sudden collapse in demand from restaurants and hotels. There is also a need to ensure that food supply flows to quarantined areas, and that **appropriate biosecurity arrangements** are in place, requiring changes to how food is produced, consumed and distributed – while

² OECD Policy Brief on the value chain for surgical masks (forthcoming).

also ensuring that COVID-19 related sanitary and phytosanitary (SPS) requirements remain science based and not unnecessarily restrictive. While at present global food markets remain well-balanced and cereal stocks are high (AMIS, 2020^[4]), it will be important to continue to closely monitor developments, given accumulating risks such as the lack of seasonal labour for planting and harvesting crops.

In the short term, there are some practical things we can do to keep trade flowing and to increase how trade can support the fight against COVID-19, including:

- *Speeding up border checks for medical products and food* and minimising the need for physical interaction between Customs and other border officials and traders at borders, by digitising processes to the extent possible. Also important will be efforts to expedite standard formalities to leave room for any necessary additional COVID-19 controls. Efforts to boost international co-operation on risk management will also be important in tackling the virus and facilitating movement of goods, as will continued assistance for lower income countries.
- *Making it cheaper and easier for people to stay connected to jobs, markets – and each other –* by: reducing tariffs on information and communication technology goods and measures affecting access to digitally enabled services; temporarily increasing *de minimis* thresholds to cut delays in cross-border e-commerce; and keeping trade moving without physical contact through enacting regulations to enable e-payments, e-signatures and e-contracts.
- *Helping medical researchers co-operate on COVID-19 through enabling data flows.* Access to detailed health information is critical to finding a cure for COVID-19. Yet health data are often subject to strict localisation requirements and cross-border data flow restrictions. Governments could enable processing and cross-border transfer of sensitive data to monitor epidemics, and promote the use of restricted access and secure sandboxes to pool health data on COVID-19.

Third, avoid making things worse

There are many unavoidable costs in the current pandemic; all the more reason to avoid actions that add to costs for traders and consumers. Chief among these is the need to ***avoid export restrictions on essential goods, such as medical equipment and, especially, food products***. Currently, more than 60 countries³ have restricted exports of essential goods and increasingly agriculture and food products.

The lesson of the food price crisis of 2007-08 is that export restrictions are a recipe for self-inflicted harm, undermining food security for everyone. Experience has shown that export restrictions temporarily lower domestic prices and raise availability, but they also discourage domestic production and so any benefit tends to be short-lived. Critically, by diverting supplies from world markets, they put upward pressure on international prices, which harms other countries – in particular those most dependent on international markets for food. Export restrictions risk undermining confidence in international markets and can precipitate hoarding and panic buying, further accentuating problems in import-dependent countries. Ultimately, nobody benefits.

There is currently no supply problem in global agriculture and food markets; indeed, at present, stocks are strong and prices look set to stay low. However, if governments engage in export restrictions or if individuals, firms or countries engage in panic buying or hoarding there is a risk of creating an avoidable problem now.

While there is not an immediate threat to global supplies of basic foodstuffs, there is the potential for specific food supply chains to be severely disrupted, including from lack of seasonal workers for planting

³ International Trade Center, Market Access Map, <https://macmap.org/en/covid19> (accessed 2 April 2020).

or harvesting key crops, logistics constraints, and additional SPS and technical measures. Vigilance will be required to ensure that crisis- or policy-induced risk factors do not cause disruptions in supply, in particular if the containment measures related to COVID-19 are long-lived.

The global market situation for medical supplies is very different; there is a critical need to **increase the overall global supply of essential medical supplies** for combatting COVID-19 such as ventilators and masks. Governments need to invest urgently in boosting production capacity, including in co-operation with the private sector, for local, regional and global markets.

Some governments are taking measures designed to ensure supply for their own population that have the effect of limiting supply for others. Export restrictions often take the form of special licensing requirements or outright bans on the export of certain products. Other measures include guaranteed purchase or requisitioning of goods. These are difficult issues. While governments rightly are concerned to protect their own populations, the effect on other countries – and thus on global efforts to contain the virus and prevent damaging second- or third-wave recurrences – can be severe.

Some countries are not able to produce their own medical supplies in sufficient quantities – or cost effectively. This is especially the case as the virus starts to take hold in lower income countries, where the priority for limited health budgets should not be building domestic manufacturing capacity. For these countries – as has been the case for others that have experienced the virus to date – trade is essential.

Indeed, areas already isolated due to the virus would have been worse off if they had to rely on the local economy to guarantee supplies of medical equipment, food and other necessities and even those countries with production capacity in medical equipment have struggled to meet demand. In the height of COVID-19 outbreaks, even countries with significant manufacturing capacity may not be able to fully utilise it due to labour shortages, or mobility restrictions. Moreover, even domestic manufacture of equipment can rely on imported inputs; the danger of beggar-thy-neighbour policies is that you are also your neighbour's neighbour.

But if countries are to avoid these policies, they need to be sure that global markets will indeed supply the needed goods. Transparency and global dialogue and co-operation are essential in building the confidence in global supply. If export restrictions on medical supplies cannot be avoided entirely in the current political context, agreements to place strict conditions on their temporary use are vital.

More broadly, to maintain confidence in global markets and co-operation, there is a need to **avoid further escalation in ongoing trade tensions**. With firms rocked by the collapse in demand and the ongoing uncertainty regarding the duration and severity of COVID-19 and associated containment measures, now is also not the time to impose further costs, including through unnecessary policy uncertainty. Imposing additional costs on firms and consumers through tariffs not only causes hardship for those already suffering from lost income due to the crisis, but also risks increasing the size of the government assistance needed to support those same firms and consumers. A positive step in boosting confidence and reducing burdens would be for **governments to commit not to impose new tariffs or trade restrictive measures**.

While trade was one of the first victims of the global economic crisis in 2008, new trade restricting measures affected only about 1% of world imports. At that time, G20 leaders committed to refrain from protectionist measures and to uphold the rules-based trading system, and WTO trade rules created some certainty for businesses and stabilised the system by placing a ceiling on tariff measures. While there are some differences, as well as similarities, in the current crisis (see Box), the uncertain economic environment going into today's crisis **increases the need for a commitment to rules-based trade**.

Lessons from the Global Economic Crisis?

As policy makers confront the significant challenge of COVID-19, many are asking whether there are lessons from the experience of the global economic crisis, and to what extent the crises may be similar. Some examples of the similarities and differences are below.

Differences

- Not just about confidence effects, economic activity is being shut down.
- Widespread across many sectors, simultaneously and sometimes instantaneously
- Requires large government investments – especially in the health sector, but also in social protection given widespread job losses
- Mobility restrictions limit some of the automatic stabilisers/offsetting actions (informal work, share economy) and impose additional costs
- Particular issues with medical equipment and biosecurity for food.
- More services-driven, given the limitations on physical contact and widespread closure of key service sectors (tourism, travel and entertainment).
- This crisis is having a disproportionate impact on MSMEs.
- Greater disruption to production leading to pressure on supply chains.

Similarities

- This crisis is coming in waves, as knock-on effects from problems in one sector or country rebound and create new problems in other sectors (e.g. between the financial sector and the real economy) or countries. Second- and third-order effects of policy actions can be unpredictable but important.
- This will also be an employment crisis, with significant implications for supporting workers in mass unemployment
- The crisis is having staggered effects globally, with Africa likely again to be last to experience (but also least equipped).
- Governments are facing the challenge of having to act rapidly and at a large scale across a wide range of policy areas.
- Governments have to think immediate term, and longer term at the same time.

Fourth, look beyond the immediate: Policy actions now could have a long life

While countries are necessarily focused on ensuring the health and economic security of their people today, the OECD can play a particularly important role in looking ahead and, in light of past and current experiences, contribute to helping governments ensure a recovery that is robust, widespread, and sustainable. Some key issues, and areas of OECD work, are highlighted below.

How government support is designed matters

Governments are – necessarily and rightly – providing huge amounts of support to prevent the COVID-19 crisis from destroying livelihoods, businesses and production capacity. But once the waters ebb, governments will need to take a careful look at the measures in place to ensure that they have not become sources of unfair competition and distortions in the global economy. While this is tomorrow's problem, the way such support is designed now will affect the shape of the global economy to come, and whether that economy benefits – and is seen to benefit – everyone.

Support granted today will have an important impact on the global level playing field. OECD work on a range of sectors, most recently on industrial sectors such as aluminium and semiconductors, shows that high levels of government support are having important effects on production levels and global competition. This work has highlighted new trends towards non-transparent and significant government support provided through the financial system in the form of below-market loans and government equity. Given that these tools will be important and widely used in the crisis – equity positions in particular can be an effective way for governments to support ailing firms in the short term – how governments approach this support, and its unwinding (or not) will be critical to the future shape of competition in the global economy. There will be a need to consider carefully which sectors the state needs to be involved in for longer, and where it should exit as soon as possible. The current crisis may well result in a longer-lasting change in the role of the state in the economy – which will also have implications for the development of any new trade rules to address government support. Given that experience across a range of sectors, from agriculture to fossil fuels, suggests that any form of support, once given, can be hard to remove, there is significant potential for a wide range of support to persist and exacerbate concerns about unfair competition in the global economy.

How support is provided will also have important implications for the distribution of the gains from interconnected markets at the national level. A significant concern from the last crisis was that bailouts benefitted large corporations more than ordinary people. This exacerbated existing trends towards greater inequality of wealth, income and – most importantly – of opportunity within countries around the world (OECD, 2017^[5]). It will be critical to ensure that support given now is – and is seen to be – targeted at the public interest, rather than vested interests, and at public welfare, rather than corporate welfare.

These elements are mutually reinforcing. The scale of public investments needed during and after the crisis – from health systems and social protection, to access to education and digital networks – underscores the need for support to firms and sectors to be as efficient as possible to maximise available public resources. Well-designed support will also be less market-distorting and give rise to fewer concerns about the impact on international competition. Fairness – in both the national-level distribution of benefits and in global competition – is essential for maintaining public support for trade and the open markets needed to get through and emerge from the crisis.

Even now, as governments are in crisis mode, there is a need to pay attention to the design of essential support. There is a wealth of experience on minimising the competitive distortions from support on which to draw, including in relation to government-invested firms. Some **key principles** include that support granted is:

- transparent – including with regard to the terms of any support through the financial system;
- non-discriminatory amongst similarly affected firms and targeted at those experiencing the most disruption, while avoiding rescue for those who would have failed absent the pandemic;
- time bound, and reviewed regularly to ensure that it is hitting its target and remains necessary; and
- targeted at consumers, leaving them for to decide how to spend any support, rather than tied to consumption of specific input and final goods and services.

Ongoing OECD work on the government support and market-distortions will include a focus on providing insights to help inform governments' choices on the design of support in the crisis.

Firms and governments will need to re-think resilience in global supply chains

There is a live debate over the impacts of COVID-19 on the structure of global production and global supply chains. For some, COVID-19 argues for supply chains to be re-nationalised, or at least shortened, to reduce risks from global exposure. From this perspective, firms may need to re-think sourcing decisions, resulting in re-ordering of global production, with potentially far-reaching implications especially for developing countries. Equally, it is argued that governments will need to reconsider the list of strategic goods for which there is a requirement for domestic production, or impose new sourcing constraints on businesses. Government procurement practices may also be revisited.

Yet there is a danger of making quick assumptions about what is necessary to ensure resilience. Internationally, diversified production is often a source of resilience and adjustment for firms in an adverse environment, while experience in the agrifood sector has shown that self-sufficiency of supply is not the same as security of supply. There will also be a need for both firms and governments to think again about how best to ensure the resilience of supply chains. This will require a better understanding of the strengths and vulnerabilities of key supply chains in the current crisis and looking again at resilience toolkits in light of this. For firm strategies, this can mean re-examining, for example, the structure of businesses globally including in relation to redundancy capacity and inventory stocks. For governments there will be a need to consider the trade and investment policy environment that can best support resilience; for example, the availability of digital infrastructure to reduce productivity hits in pandemics or improvements to trade facilitation practices to minimise scope for disruptions related to face-to-face processes. Governments may also need to consider special arrangements for specific supply chains for strategic goods such as medical equipment; however, this should not necessarily be equated with re-shoring of production. For face masks, for example, it would be very costly for each country to develop a production capacity matching the current crisis demand and encompassing the whole value chain; an alternative, effective and more cost-efficient solution may involve development of strategic stocks or upstream agreements with companies enabling rapid conversion of assembly lines during crises.

The OECD will be supporting governments in their consideration of these issues through investigation of the consequence of COVID-19 on sourcing decisions of firms and the resilience and vulnerabilities of particular global supply chains, including by drawing on the insights gained from the OECD Trade in Value-Added (TiVA) database.

Doing more on trade and health to be ready for the next time

The current crisis offers an opportunity to develop readiness for future pandemics. In addition to national measures to ensure supply, there may be scope for an international agreement to provide greater predictability and certainty on availability of key supplies in international markets and build confidence that trade will keep flowing to support the management of future pandemics.

A possible agreement among countries could include elements such as:

- ***Ensuring transparency:*** AMIS, created in the wake of the food price crisis of 2007-8 for governments to share information on markets, policies and stocks for key commodities has underscored the value of timely information and transparency in preventing crises induced by panic buying, hoarding or export restrictions. Ensuring transparency in relation to trade-related measures related to medical supplies, such as through sharing information with the WTO, can play an important role in maintaining confidence in global supply.
- ***Cutting tariffs on essential medical products*** – countries could explore a WTO, including plurilateral, initiative to remove tariffs on a to-be-agreed list of essential medical supplies (similar to the agreement reached on Information Technology products).
- ***Disciplines on export restrictions*** – this could range from agreement to prohibit export bans for certain kinds of goods, or to codify strict conditions on their use, building on the current G20 agreement that states that: “emergency measures designed to tackle COVID-19, if deemed necessary, must be targeted, proportionate, transparent and temporary, and that they do not create unnecessary barriers to trade or disruption to global supply chains, and are consistent with WTO rules”⁴.
- ***Upfront investments in co-operative solutions*** – the creation of stockpiles of essential medical supplies could include co-operative arrangements for creation of such stockpiles, including on a regional basis.
- ***Addressing the needs of the most vulnerable countries*** – measures, for example in relation to export restrictions and creation of regional stockpiles, could include specific exemptions or assistance to address the needs of the poorest countries.

Analysis by the OECD and other international organisations on trade-related issues and impacts in the context of the current pandemic could help inform possible discussions among governments on a trade and health initiative.

Decisions on trade matter now, but also for ensuring that trade can help support recovery

With COVID-19 hitting countries at different times and rates, access to global demand via open markets and continued trade will be important for supporting and sustaining economic recovery.

There is thus a need to consider how to keep trade flowing in the current crisis and to ensure it can help underpin global recovery. This means both actions and decisions today and with an eye to the future.

OECD analysis will help inform governments as they consider the priorities for action, both nationally and – critically – as they act together to build a more sustainable, inclusive and resilient global economy.

⁴ See G20 Trade and Investment Ministerial Statement, dated Monday, 30 March 2020, paragraph 5, <http://www.g20.utoronto.ca/2020/2020-g20-trade-0330.html>.

Forthcoming Policy Briefs

This is the first in a series of Policy Briefs on trade issues related to COVID-19. Look out for other Policy Briefs in this series that will look more deeply into specific issues. Forthcoming Briefs include:

- Trade facilitation
- Government support
- Global Value Chains for essential goods
- Services trade

A framework paper, *COVID-19 and Food and Agriculture: Issues and Actions*, is being prepared, along with in-depth Policy Briefs on specific sectors and issues.

Other Policy Briefs on wider issues are available on [oecd.org/coronavirus](https://www.oecd.org/coronavirus)

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