

# The role of trade in recovering from the COVID-19 crisis

Max Mendez-Parra

20 April 2020

## Key messages

- Trade lies at the core of the global current economic crisis; it will be also the cornerstone of the global recovery.
- The use of protectionist measures will put the recovery at risk and must be avoided.
- There is a need to rethink the operation of value chains during the recovery to prepare them for crises in the future.
- Stimuli provided by developed countries will contribute to the global recovery if they are adopted fairly.
- The government share in the economy is rising. Flexibilised procurement rules will contribute to the recovery.
- Developing countries will need more and better-targeted support to maintain and restart their productive capabilities.

## Introduction

Management of the COVID-19 pandemic is generating an unprecedented economic crisis. The depth of the crisis remains to be seen but it is by far one of the sharpest ever recorded. All countries are simultaneously being affected, with no one country able to provide any countercyclical demand.

Trade has plummeted, a result of the fall in economic activity, travel bans and lockdowns. The WTO forecasts a fall in global trade of between 13% and 32% in 2020. The [fall in commodity prices](#) paints a very dramatic picture of the effect on exports from developing countries; where export of [services are also likely to be impacted](#)

Many countries are exacerbating the situation created by fall in trade by [restricting exports of certain items \(medical supplies, protective equipment, drugs\)](#) with the aim of supporting local efforts to address the pandemic. In this context, countries are adopting controversial and, in some cases, unsuitable measures to address the emergency. Such responses may be ineffective, inefficient and damaging to other countries' responses.

Trade has seen among the biggest adverse effects of the crisis – and it will also be the cornerstone of the global recovery. Trade networks and value chains will ensure that the effects of stimulus packages and of the increase in demand generated by the lift of lockdowns will spill over to many. In this sense, smooth and free trade will be a necessary condition for a quick global economic recovery.

## Remove tariffs and other restrictions

Eliminating tariffs and minimising the impact of current restrictions should be a priority to secure essential medical supplies and food products. This not only will

reduce the cost of acquisition of these products but also should speed up the process of procurement.

During the recovery, countries should refrain from using tariffs and restrictions to create protected spaces for local industries to recover. The recovery will depend not only on domestic actions but also on the efforts adopted by other countries. Keeping trade free will secure the operation of all channels for mutual benefit.

Moreover, while the crisis has generated supply-side issues, these have been the consequence of local lockdowns rather than trade-specific issues. [Even countries that rely less on foreign value chains for the supply of food products have found problems with their own local value chains as a result of their own lockdowns.](#)

Governments should refrain from increasing tariffs and introduce new trade barriers. Export bans should be lifted immediately.

## Measures to make trade safe should not become new barriers

It is essential that trade operators are protected and remain safe. Moreover, trade in goods and services should not come to be a channel for the propagation of the pandemic. Nevertheless, these protective measures should not represent new trade barriers.

In this regard, measures adopted should be based on scientific and medical evidence but also avoid the multiplication of unnecessary controls.

Moreover, clear and unambiguous information should be available to all stakeholders on the measures in place to maximise transparency and to prevent delays and unnecessary costs. This approach should go beyond trade in goods and services and extend to passengers once travel is restored.

Countries should communicate and, if possible, harmonise the health and safety requirements on goods, services and passengers. Ideally, goods and passengers cleared at origin on health grounds should not be stopped.

## The operation of value chains needs a rethink

Retailers normally rely on a just-in-time approach and on the cost-minimising effect of value chains to operate without stocks. This has presented an issue during the crisis, especially in necessities.

While production can still rely on value chains, it will be necessary to create stocks, as part of these chains, that enable the maintenance of a supply of necessities in cases of disruption to production and trade.

A context of low interest rates should facilitate the building of these stocks. It could boost the recovery by increasing import demand. However, it will be necessary to create capacity to manage these stocks.

Countries should identify goods to be stored and work with retailers and wholesalers to require the build-up and the management of these.

## Make stimuli fair

Monetary and fiscal stimuli to support people and firms are the right answer for this crisis. However, some stimuli could be unfair and could damage the recovery efforts made by other countries.

Although sectors such as shipping and airlines have been severely hit, government responses should aim to provide direct support to all affected firms regardless of the sector. Even under this approach, support should not take the form of a subsidy to incentivise production and damage opportunities for other countries' firms. Bankruptcy protection, fast capital write-off and increased liquidity can be considered.

In this sense, income support to people laid off or to firms to maintain their staff should be preferred to targeted support (e.g. direct subsidies) to specific sectors. In fact, should trade channels remain open, income support for everyone affected by the crisis would contribute to the recovery of other countries as well.

Countries should design their stimulus packages in compliance with the relevant provisions in the WTO Goods and Agriculture Agreements. Countries should also refrain from providing targeted support in sectors/products where poor countries have important productive capacity.

## Rely more on e-commerce

E-commerce is a powerful weapon in the pandemic response. In many cases, consumers are relying on delivery to procure essential goods. However, many

issues are having an impact on the potential for an even greater contribution of e-commerce during the crisis and the recovery.

Delivery of products relies on traditional logistics. This is limiting the expansion of e-commerce. In poor countries, postal services are underdeveloped and essential elements such as address systems are not in place. In developed countries, the crisis has revealed serious delivery capacity issues that are impossible to address in the short run.

The shutdown of retailers in developed countries has been catastrophic for firms in developing countries producing garments, toys and other light manufacturing products. There is still much work to do to enable B2C operations from developing countries. E-commerce should provide an alternative for exporters to help them commercialise their products.

Countries should eliminate import duties and raise VAT thresholds on small consignments. There is an opportunity here to work with online retailers in reducing their listing fees.

## Flexibilise government procurement rules

Governments are playing a key role in managing the emergency and will be instrumental during the recovery. Their participation in the economy is going to rise and, consequently, their own operations (e.g. purchases) will have an important economic effect.

Opening tendering processes for the acquisition of goods and services to foreign firms will contribute to accelerating the recovery as well as increasing the value for money of government operations.

Countries should accede to the WTO Government Procurement Agreement with the aim of increasing transparency in these processes and maximising their impact.

## More and more targeted Aid for Trade

Most countries in the world cannot afford the provision of financial stimulus and intervention packages. The productivity and competitiveness of firms in these countries are likely to be affected, and additional efforts will be required to help them return to pre-crisis levels.

In this sense, the provision of aid to productive development to speed up recovery must be considered. This could be achieved by increasing support to countries but also by, temporarily, reducing aid in sectors and activities with no immediate impact on the recovery effort.

Countries should aim to increase their Aid for Trade budgets and focus all aid, temporarily, on health care, development of productive capacity and trade facilitation.