



COVID-19 and International Trade: Issues and actions



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Introduction



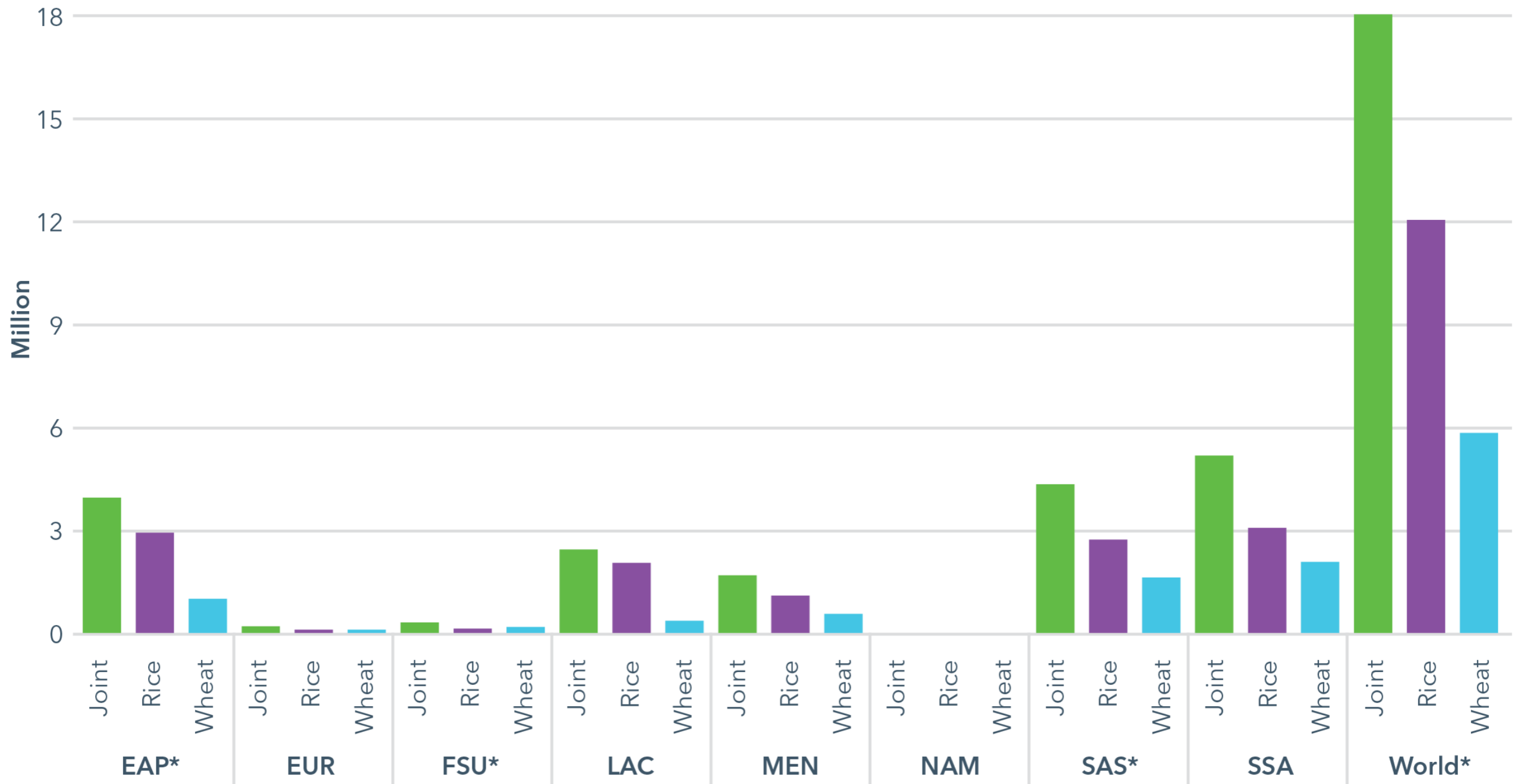
In an unprecedented global health crisis, trade is essential to save lives and livelihoods; and international co-operation is needed to keep trade flowing. In the midst of significant uncertainty,

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

- ◆ COVID-19 is a humanitarian crisis on a global scale.
- ◆ In the March 2020 OECD Interim Economic Outlook, the downside scenario saw global growth halved to 1.5%. That was optimistic. The most recent estimates in the June 10 OECD Economic Outlook suggest an unprecedented collapse in the first half of 2020 – an almost 13% decline in global GDP (Figure 1).
- ◆ Yet notwithstanding these efforts, most major economies now look set to enter recession, and more serious scenarios cannot be discounted.



Figure- 1 Modeled increase in population at risk of hunger in 2020 of export ban scenarios (WHEAT, RICE, JOINT) compared to the reference scenario (millions)



Note: EAP*-East Asia and Pacific; EUR-Europe; FSU*-Former Soviet Union; LAC-Latin America and the Caribbean; MEN-Middle East and North Africa; NAM-North America; SAS*-South Asia; SSA-Africa South of the Sahara

*Excluding countries where trade restrictions are implemented

UNCERTAIN TRADE

Gems & Jewellery, lifestyle exports to get impacted

US delays carpet export orders by a month

Steel, ferro alloys get higher queries from West Asia

GLOBAL, DOMESTIC TRADE SHOWS GET POSTPONED

TRAVEL BANS, CLOSING BORDERS TO DISRUPT TRADE

\$265

billion Exports In Apr-Jan, a 1.93% decline YoY

\$331

billion Exports In FY19

BCCL

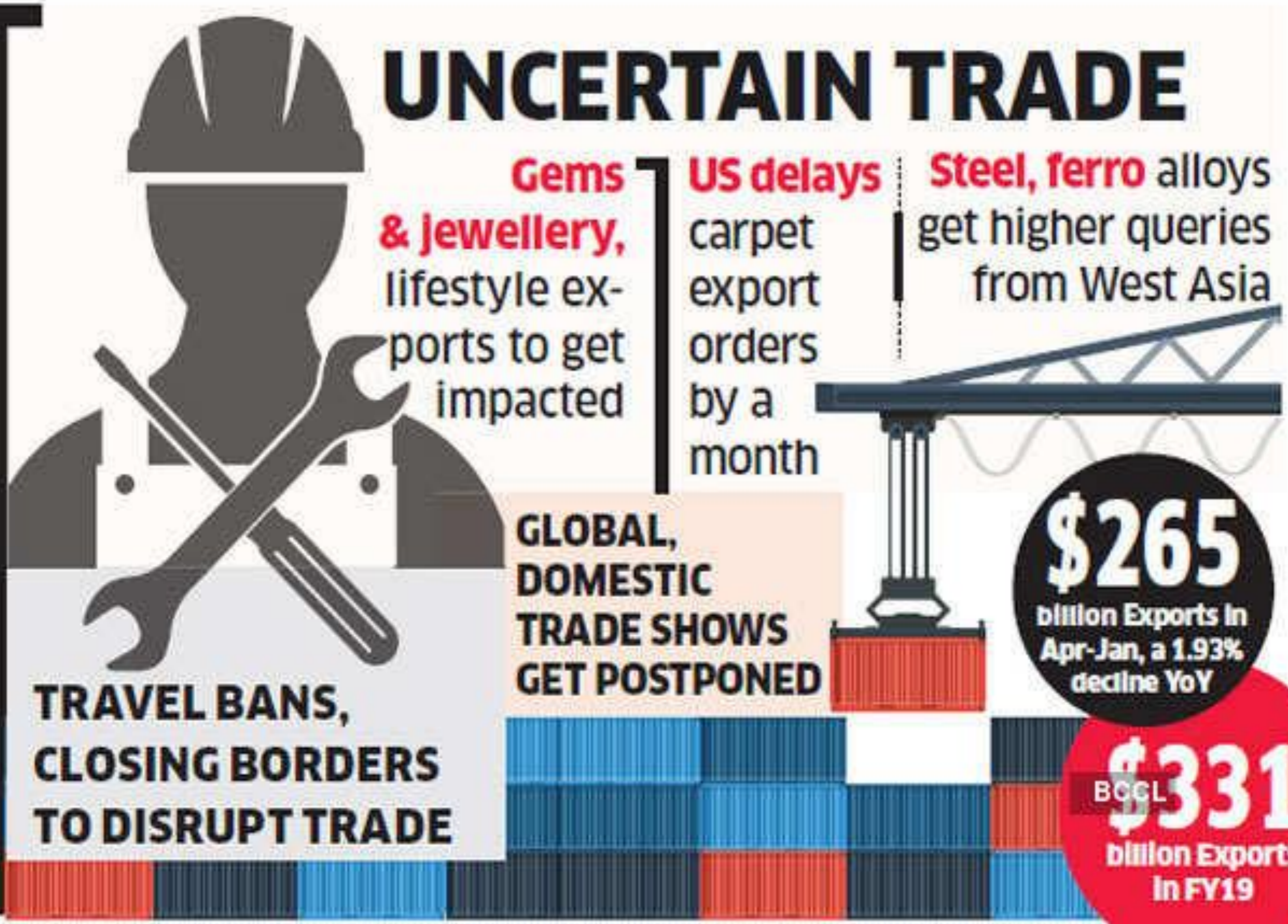


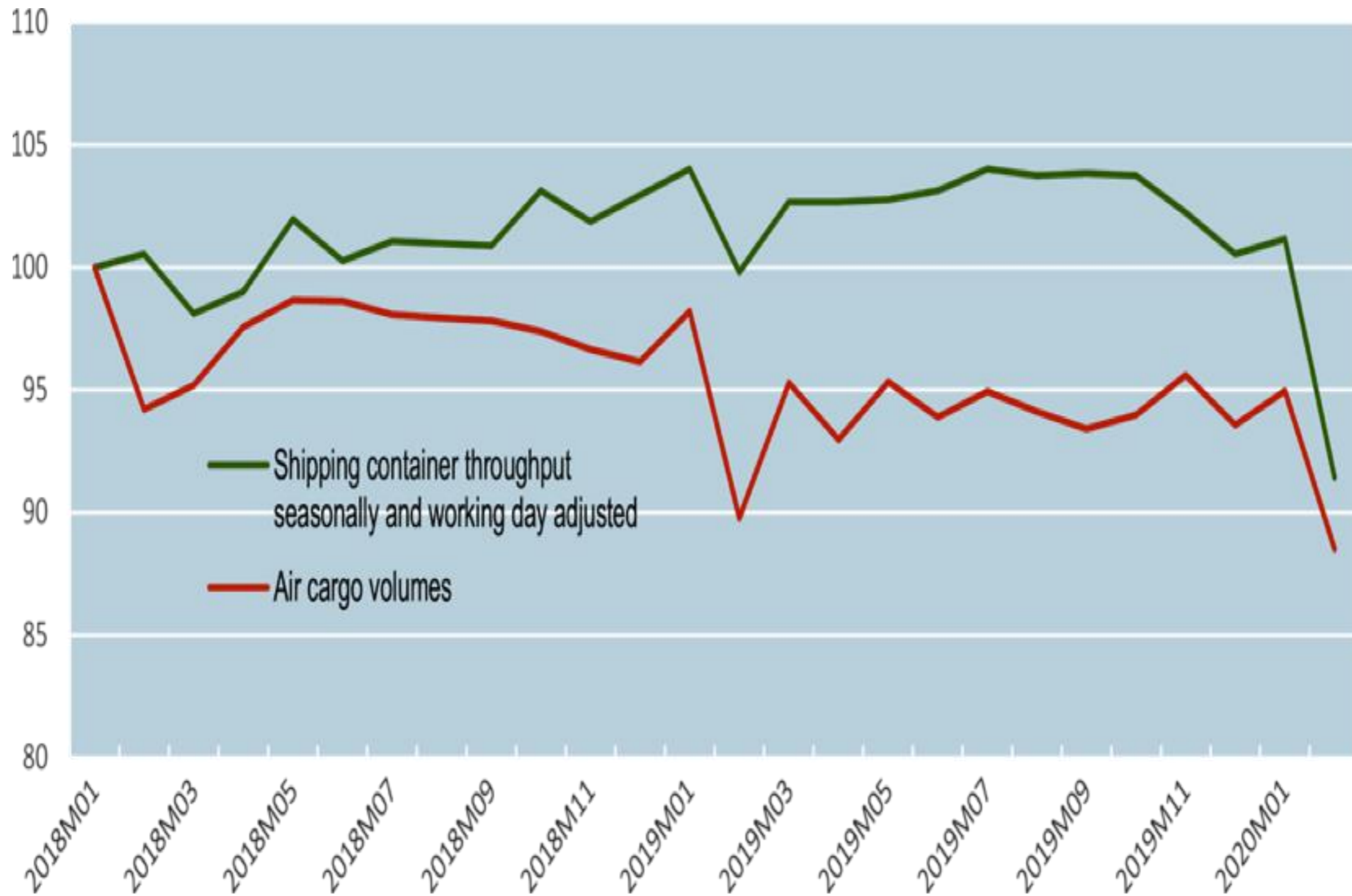
Figure 2. An unprecedented output collapse is occurring in the first half of 2020

Projected change in GDP at constant prices between 2019Q4 and 2020Q2 (%)



Note: Data for China refer to the change in output between 2019Q4 and 2020Q1.
Source: OECD Economic Outlook 107 database.

Figure 3. 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).

Challenge of COVID-19

- ◆ 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.

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.

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).

Building on our annual Monitoring and Evaluation of Agricultural Policies we are tracking and assessing the impact of country measures in relation to agri-food 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.

Second, keep global supply chains going, especially for essentials

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.
- 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.

Third, avoid making things worse

- To avoid export restrictions on essential goods, such as medical equipment and, especially, food products. Currently, more than 60 countries have restricted exports of essential goods and increasingly agriculture and food products.
- 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.
- specific food supply chains to be severely disrupted, including from lack of seasonal workers for planting or harvesting key crops, logistics constraints, and additional SPS and technical measures.

**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.

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.
- 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.

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.
- ❑ 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.

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.

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 agri-food 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.

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.

References

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Thank You
For Watching &
Listening