The COVID-19 Pandemic Case

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Abstract

The on-going COVID-19 pandemic has highlighted the world’s reliance on interconnectedness as well as exposing its underlying vulnerabilities. Countries affected by the pandemic responded. In a national response to curb the spread of the virus by limiting human contact, the pandemic-affected countries imposed strict lockdowns - mandatory geographic quarantines to non-mandatory recommendations to stay at home, bans on events and gatherings, as well as curfews. The application of the lockdown measures was also extended to border closures, travel restrictions, closures of businesses, shutting down of factories and the application of anti-export policies to safeguard essential items for domestic demand at the expense of other countries. These measures although precautionary in principle were taken where public health consideration far outweighed trade policy considerations to address the increased risks associated with COVID-19. This policy brief will use COVID-19 as a crisis case example to illustrate the global trade effect of the measures in disrupting accessibility to essential items (food and medicine products) needed to manage and fight the pandemic. In addressing the effects, this brief will focus on aligning national measures with international standards to strike a balance between control and facilitation through extending the scope of provisions in existing trade agreements and recommending new initiatives based on best practices seen taken during the pandemic. Through new crisis resistance provisions in trade agreements and the adoption of best practices, countries can build back better economic resilience in facilitating the accessibility of essential items efficiently and effectively in a future crisis.

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1 Taisuke Ito, UNCTAD 2020
2 Giovanna Adinolfi 2020, Natural Disasters and Trade Research Study II
Key Message: Access to Essential Items is the Ultimate Priority

According to the International Trade Centre (ITC), 139 economies were reported to have issued a total of 295 trade-related measures as a means to manage to COVID-19 pandemic. The table below shows the type of measures taken for export and imports of goods.

Table 1: Type of trade measures issued

<table>
<thead>
<tr>
<th>Trade measures</th>
<th>Total trade measures</th>
<th>Under investigation</th>
<th>Terminated</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unlikely</td>
<td>Restored</td>
<td>Failed</td>
</tr>
<tr>
<td>Export measures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conformity assessment</td>
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<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Export control</td>
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<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Export prohibition</td>
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<td>88</td>
<td>89</td>
</tr>
<tr>
<td>Export quotas</td>
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<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Licensing or permit requirements to export</td>
<td>2</td>
<td>31</td>
<td>33</td>
</tr>
<tr>
<td>Quarantine requirements</td>
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<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total export measures</td>
<td>5</td>
<td>127</td>
<td>132</td>
</tr>
<tr>
<td>Import measures</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Anti-dumping duty</td>
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<td>3</td>
</tr>
<tr>
<td>Import ban/prohibition/restrictions</td>
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<td>22</td>
</tr>
<tr>
<td>Import quotas</td>
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<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Quarantine requirements</td>
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<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Tariff/import duties elimination</td>
<td>4</td>
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<tr>
<td>Tariff/import duties increase</td>
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<tr>
<td>Tariff/import duties reduction</td>
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<tr>
<td>Trade facilitation</td>
<td>16</td>
<td>2</td>
<td>18</td>
</tr>
<tr>
<td>Total import measures</td>
<td>134</td>
<td>29</td>
<td>163</td>
</tr>
<tr>
<td>Total trade measures</td>
<td>139</td>
<td>156</td>
<td>295</td>
</tr>
</tbody>
</table>

Source: ITC (n.d.).

Trade Restrictive Measures - Exports

According to Table 1, 132 measures were focused on exports - 127 out of 132 were restrictive with 89 in the form of export prohibition. Most of the export prohibitions were targeted mainly for essential items which are categorised in the figure below:

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Figure 1: Countries introducing export prohibitions and restrictions due to COVID-19, by categories of products

The application of export restrictions on these essential items disrupted the global access to these much needed essential items during the crisis. Granting there are provisions to allow countries to put restrictions or bans as stated in the General Agreement on Tariffs and Trade 1994 (GATT)\(^4\), nevertheless, the countries that relied on the import of these items were put in a difficult situation which jeopardised their efforts to manage the pandemic – resulting in serious negative implications for their economy and putting the well-being of their citizens at risk.

Under various World Trade Organisation (WTO) commitments, such as the Agreement on Trade Facilitation, countries are required to notify the WTO of any new export restrictions that they may apply. Unfortunately, not all countries immediately notified on the measures taken\(^5\).

\(^{4}\) - Exception for critical shortages: Article XI bans export prohibitions and restrictions, and obliges member states to eliminate them. However, an exception has been carved out for instituting temporary measures to prevent critical shortages of foodstuffs or other products essential to the member state.

- Measures necessary to protect health: Article XX allows prohibition and restriction when such measures are “necessary to protect human ... life or health.”

- National security: Article XXI enables states to take any action which it considers necessary for the “protection of its essential security interests,” including measures “taken in time of war or other emergency in international relations.”

\(^{5}\) - WTO pursuant to the 2012 “Decision on Notification Procedures for Quantitative Restrictions” (QR Decision), while those relating to foodstuffs should also be notified to the Committee on Agriculture. However, on 23 April 2020, only 13 WTO members (39 if EU member states are counted individually) have notified the introduction of new measures.
The lack of transparency made it impossible to record and quantify the changes made further stressing the efforts of import-reliant countries to plan and hedge against supply shocks.

**Case Examples:** US, India and the UK imposed export restrictions on products such as protective gear, diagnostic test kits and medicines. Kazakhstan suspended exports of wheat flour, buckwheat, sugar, sunflower oil and some vegetables. Vietnam restricted the export of rice.  

**Trade Restrictive Measures - Imports**

In Table 1, 163 measures focused on imports - 134 out of 163 were trade liberalising in the form of tariff/import duties reduction, import ban or prohibitions, and trade facilitation measures. The remaining 29 restrictive import measures were in the form of new certification requirements (SPS and TBT) for imported products. The measures were meant to address imports for public health reasons during the pandemic but its ad-hoc implementation nature required a greater level of compliance to be put in place for physical verification and clearance including special measures for health and sanitary controls at the border. Customs administrations and other government departments started requesting for health or quarantine certificates for the products that have never previously required this type of documentation. In some bulk cargoes, fumigation, health, sanitary, and phytosanitary certificates were added to necessary shipment documents that delayed essential items reaching the intended destination.

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6 World Bank – Bad Practices of the Do's and Don'ts of Trade Policy in the Response to COVID-19
7 - Indonesia (22/4/2020) – SPS measure Requirement for a Certificate of Declaration free from COVID-19 (SARS-Cov-2) and a Certification of Laboratory Analysis that the consignment (live animals) has tested negative for COVID-19 (SARS-Cov-2) from accredited laboratory or authorized laboratory in the importing country for any importation of live animals (pet animals and mammals) from an importing country that is not free from COVID-19 (G/SPS/N/IDN/133).
8 According to the IAPH's World Ports Sustainability Programme (WPSP) barometer where 67 global ports contributed data to WPSP's new COVID-19 (coronavirus) task force and information portal, in May 2020 over 40% of the ports have experienced moderate decrease (minus 5% to 25%) and in some ports even significant decreases (in excess of a 25% drop) in the number of containers and other cargo vessels. About 22% of the ports report delays (6-24 hours) or heavy delays (> 24 hours) in cross-border road transportation.
Consequences of Trade Restrictive Measures

The general outcome was the evident plunge in trade. According to the WTO, World trade is expected to fall by between 13% and 32% in 2020 as the COVID-19 pandemic disrupts normal economic activity and life around the world. In June 2020, the International Monetary Fund further revised downward its global growth projection for 2020 at 4.9%, from 3.0% in April 2020. As a result, there will be a significant increase in unemployment, inequality, social unrest and a compounding effect for the debt burdens of countries, especially for emerging and developing economies. These economies will require external financing to finance rebuilding efforts and provide liquidity relief for their domestic industry suffering from the plunge in global trade. In the long term, resources will be channeled to repay debts rather than invest in sustainable development and public utility projects for the welfare of its citizens as well as limit funding to build resilience against future crisis (i.e. purchasing and stockpiling of essential items).

Despite the precautionary but trade-restrictive measures on export and import to safeguard essential items for domestic demand, the measures impacted the longer-term health and food security protection as countries lose access to essential goods to fight the pandemic, particularly those smaller and import-dependent countries with no domestic production capacity. Moreover, these measures also disrupted the global value chain (GVCs) of worldwide manufacturing, especially for essential items. Over two-thirds of world trade occurs through global value chains (GVCs), in which production crosses at least one border before final assembly. Raw materials and intermediate goods are shipped around the globe multiple times and then assembled in yet another location. The final output is re-exported to final consumers located in both developed and developing markets. Consequently, what this means is that even if Country A, for example, has a stockpile of essential items to meet domestic demand during a crisis, the supplies will only last temporarily as Country A will eventually need to rely on other countries in the global value chain to source for more supplies (or raw materials) of

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9 Plunge in Trade information available at https://www.wto.org/english/news_e/pres20_e/pr855_e.htm
10 According to the World Bank’s recent Global Waves of Debt, total emerging market and developing economies debt since 2010– both public and private – rose from 108.6% of GDP (88% without China) to more than 170% (108% excluding China), totaling US$57 trillion in 2019.
11 World Bank Global Waves of Debt - Debt servicing accounts for the largest share of government spending, and remains the fastest growing expenditure item in sub-Saharan African budgets.
essential items in the longer term. There is also the potential risk that the measures erected during the pandemic might be used as permanent trade barriers.


Another major consequence was the drastic increase in counterfeit goods, especially for essential items. According to Europol\textsuperscript{13}, the number of counterfeit and sub-standard good has increased substantially during the pandemic, particularly online. Counterfeiters use shortages in the supply of essential items to increasingly provide counterfeit alternatives both on and offline entailing sub-standard or counterfeit foods, hygiene items and other everyday goods.

Case Example: Operation Pangea (3\textsuperscript{rd} March – 10 March 2020)\textsuperscript{14} - a global operation to target trafficking counterfeit medicines coordinated by Interpol and supported by Europol involving 90 countries worldwide saw international authorities seized nearly 34 000 counterfeit surgical masks and identified more than 2 000 links to products related to the pandemic. The results of the operation revealed a worrying increase in unauthorised antiviral medications and the antimalarial chloroquine as well as a significant portion of Vitamin C and antibiotics.


\textsuperscript{14}The operation in numbers:
• 121 arrests; €13 million in potentially dangerous pharmaceuticals seized; 326 00 packages inspected; 48 000 packages seized; 4.4 million units of illicit pharmaceuticals seized worldwide; 37 000 unauthorised and counterfeit medical devices seized (mostly surgical masks and self-testing kits for HIV and glucose monitoring); 2 500 links taken down (websites, social media, online marketplaces, adverts); 37 organised crime groups dismantled.
Crisis Resistance Provisions and Initiatives

To build economic resilience to better deal with a future crisis, the scope of existing trade agreements must be extended, unnecessary barriers removed in line with the sustainable development goals (SDGs) and new initiatives based on recent best practices adopted.

1. Expanding the scope in existing Trade Agreements

The WTO Trade Facilitation Agreement (TFA) made it mandatory for members to set up a National Trade Facilitation Committees (NTFCs). The NTFCs are multi-stakeholder coordination bodies between Government entities and the business community to facilitate cross-border trade and logistic policy reforms that can play an important role both during and pre-crisis situations. By extending the scope of the NTFCs to be part of the National Emergency Task Force, a joint coordinated response can be effectively executed during a crisis to enhance border management coordination mechanisms, both at the policy level (i.e. collaboration with the health, transport and trade authorities) and the operational level (ports, airports and border posts). Joint actions could include prioritising a list of essential items for strategic stockpiling and designing special regimes for expedited clearance for essential medical goods and food products as preparation plan to face a crisis.

- **Best Practice of successful NTFCs pre-Pandemic** - The Rwanda Single Window, which was built upon the ASYCUDA system, brought together 17 government agencies and streamlined more than 12 specific services and applications, reducing clearance time from 11 days to one and a half-day and generating 6 M USD savings in 2014, two years after its launch.

- **Best Practice of NTFCs during the Pandemic** – The implementation of an Industry-Government COVID-19 working group in Canada. During the crisis, the Group meets by phone 3 times a week to share the latest information and coordinate a joint approach to address trade-related issues to mitigate the effect of the crisis.

2. Aligning the use of Non-Tariff Measures (NTMs) with the SDGs in Trade Agreements

It is important to ensure the smooth flow and access of essential goods but poorly designed and outdated NTMs can affect trade by restraining trade flows and the margins of trade, and thereby reducing trade efficiency by increasing trade costs\(^\text{16}\) (business compliance costs) and reducing market accessibility\(^\text{17}\). Therefore, it is important to reform NTMs measures that embed burdensome processes/ procedures to get rid of the unnecessary (and “hidden”) barriers to increase effective access to essential items pre (for stockpiling purposes), during (for managing the crisis) and even after (for recovery purposes) a crisis.

The SDGs can act as the global gold standard for an assessment in streamlining and removing burdensome. To streamline NTMs, a proper codification of purpose must be done by building direct linkages to SDGs for the objective of each NTM\(^\text{18}\) and remove NTMs that do not adhere to the SDGs to improve accessibility and market efficiency. Currently, the global average of NTMs addressing the SDGs is 41.5%, calling for the need for new approaches to be taken to review NTM and build linkages to the SDG for the application of an NTM.

\(^{16}\) Average trade costs of NTMs in ASEAN higher than that in the US and EU (Duval, 2019)

\(^{17}\) ITC Survey - NTMs affect trade through various implementation and procedures- time constraints, informal or unusually high payments, lack of transparency, discriminatory behaviour of government officials and a lack of appropriate testing facilities.

\(^{18}\) NTMs that protect human, plant and animal health: SDG2 (zero hunger), SDG 3 (good health and well-being) and SDG 12 (responsible consumption and production) ; NTMs that protect the environment: SDG 6 (clean water and sanitation), SDG 7 (affordable and clean energy), SDG 11 (sustainable cities and communities), SDG 12 SDG 13 (climate action), SDG 14 (life below water) and SDG 15 (life on land); NTMs that protect national security: SDG 16 (peace, justice and strong institutions)
3. Adoption of New Initiatives based on Best Practices

The initiatives based on the best practices taken during the pandemic must be adopted to enhance overall trade preparedness by promoting better trade cooperation and coordination in addressing a future crisis. The Sendai Framework for Disaster Risk Reduction, for example, offers effective risk management initiatives that can be considered to address access issues and delays to essential items, transparency matters, safeguarding local businesses building national supply capacities of essential items and rethinking investment policy approaches.

Facilitating Access to Essential Items

- Reducing to zero import tariffs and VAT exemption on essential items including food and medical supplies.
  - **Best Practice**: China cut VAT on medical services, masks and protective clothing.
- Waiving withholding taxes (advance income taxes) on imports of essential items.
- Committing to refrain from imposing export bans or taxes on essential items and services.

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20 Further Information on the Sendai Framework available at https://www.undrr.org/
- **Best Practice:** *the Ha Noi Plan of Action on Strengthening ASEAN Economic Cooperation and Supply Chain Connectivity in Response to the COVID-19 Pandemic* 22.
  - Removing all bans, quantitative restrictions and taxes on essential items exports.
  - Waiving withholding taxes essential items exports.
  - **Best Practice:** *Government of Myanmar announced that the 2 percent advance income (withholding) tax on exports will be waived until the end of the fiscal year.*
  - Safeguarding supplier-linkage priority by having a digital transparent system to update all stakeholders about the latest information and trade-related measures.
  - **Best Practice:** *The ASEAN Solutions for Investments, Services and Trade (ASSIST), the European Union’s SOLVIT system, or the Agricultural Market Information System (AMIS).*

### Implementing a Hybrid System to Expedite and Simplify the Clearing of Essential Items at Customs/Border Agencies

- Application of e-platforms for International Trade, namely the Single Window and the “Internet + Customs” platform to speed up customs clearance services. The online system can be operational and equipped with a BOT function to provide up-to-date 24/7 information to users (exporters, traders, etc.) about new trade measures relating to standards, product inspections, labelling, licensing and qualifications requirements, etc.
  - **Best Practice:** *Vanuatu’s approach in digitalising customs process* 23.
  - Recognition of certificates or systems of conformity for medical equipment, essential food items and farming inputs from accredited agencies in countries with similar or higher standards.
  - Special counters and green lanes to provide 24/7 clearance at critical ports across the country with Pick-up service upon arrival for the most important essential items like medicine. Prior coordination between Customs, freight depot operators and airlines, among others, to ensure timely unloading, warehousing and tally of the essential supplies.

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22 Further information concerning the Ha Noi Plan of Action is available in the official website of the ASEAN Secretariat at: [https://asean.org/storage/2020/06/Hanoi-POA.pdf](https://asean.org/storage/2020/06/Hanoi-POA.pdf).

- Best Practice: The EU customs plan in response to COVID-19\textsuperscript{24}

Fast Credit Support to ensure Business Survivability

- Providing fast, interest-free access to government guarantee credit and emergency loans facilities with little bureaucracy as possible to support micro, small and medium enterprises affected by a crisis. The process can be done by using an established network like banks and implementing the action in a decentralised way while ensuring compliance at a later stage to avoid backlogs in the deployment of the programme.

- Best Practice: Switzerland COVID-19 Relief Scheme\textsuperscript{25}

Building National Supply Capacities

- Countries need to consider how to build national supply capacities of essential items to be more resilient to any future systemic shocks or crisis. Strategic stockpiling initiatives are important, especially for vaccines and medicines. A good approach is by collaborating with neighboring countries to form a regional partnership or economic blocs to build greater bargaining power when negotiating national stockpiling requirements with foreign manufacturers.

- Best Practice: The EU-COVID 19 Scheme where the EU to coordinate the purchasing of personal protective equipment (PPE), testing kits, ventilators and vaccines by negotiating on behalf of its members to secure reductions in manufacturing costs.\textsuperscript{26}


\textsuperscript{25} The Swiss Federal Department of Finance developed the emergency relief scheme in close cooperation with the banking sector thereby using established networks for crisis situations. 123 Swiss banks are lending credit and loan (COVID-19 Credit up to CHF 500,000, interest free and fully supported by the Government; COVID-19 Plus Credit more than CHF 500,000 with 85% guaranteed by the government and 15% risk bore by lending banks with an interest of 0.5%) to SMEs affected by the crisis. The application and approval process takes around 2 days and a one pager paper work done online is required.

\textsuperscript{26} Provisions for the joint procurement of medical countermeasures are included in Article 5 of Decision 1082/2013/EU
Rethinking Investment Policies

- Crisis affected countries will likely breach their fiscal rule, suspend or abandon them altogether\(^{27}\) for public health measures, income support for households, and liquidity support for SMEs to deal with the large systematic shocks arising from a crisis. As a result, this will lead to an increase in the country’s budget deficit, incurring greater debt and leaving less room for funding sustainable development programmes and financing future crises resilience measures. Therefore, there is a need to rethink investment policies to generate revenue sustainably while protecting business interest.

- The implementation of a Carbon Pricing mechanism is a potential way to generate new forms of revenue collection to reduce budget deficits for governments in affected countries via the Emission Trading System (ETS) or Carbon Tax\(^{28}\). The revenue can be channeled to support new fiscal injections or recovery projects while stimulating investment in clean technology and market innovation, fueling new, low-carbon drivers of economic growth in a post-crisis world.

- **Best Practice: Canada\(^{29}\)**

- Forming a private-partnership insurance scheme between businesses and the Government to ensure a continuous supply of cash flow for businesses, mainly SMEs to cover damages, loss of income and prevent loss of jobs due to a crisis without breaching any international competition and subsidy policies.

- **Best Practice: the Black Swan scheme by Lloyd’s in the United Kingdom can help firms deal with multiple systematic exposures arising from a crisis situation. In developing or least developed countries, a scheme of this nature could be supported by multilateral development banks i.e. International Finance Corporation (IFC), European Bank for Reconstruction and Development (EBRD), Asian Development...**

\(^{27}\) Government of Indonesia has decided to suspend its balance budget target of 3 percent for the next three years.

\(^{28}\) An ETS caps the total level of greenhouse gas emissions and allows those industries with low emissions to sell their extra allowances to larger emitters. By creating supply and demand for emissions allowances, an ETS establishes a market price for greenhouse gas emissions. The cap helps ensure that the required emission reductions will take place to keep the emitters (in aggregate) within their pre-allocated carbon budget. A carbon tax directly sets a price on carbon by defining a tax rate on greenhouse gas emissions or – more commonly – on the carbon content of fossil fuels.

\(^{29}\) Canada passed a carbon tax that will give most Canadians more money, more information available at https://www.theguardian.com/environment/climate-consensus-97-per-cent/2018/oct/26/canada-passed-a-carbon-tax-that-will-give-most-canadians-more-money
Bank (ADB), African Development Bank Group (AfDB), Islamic Trade Finance Corporation (ITFC) and the InterAmerican Development Corporation (IDB Invest).

Conclusion and way forward

The COVID-19 pandemic was and still is a global crisis that has affected developed, developing and least-developed countries. None were spared and the national measures taken to manage the crisis demonstrated that most of the measures were not sustainable with a series of negative consequences. Moving forward, there is a significant need to ensure that global priority is given to the accessibility of essential items as a means to survive, manage and respond to a crisis efficiently and effectively. Trade agreements are important guides to prevent greater error in dealing with a crisis, but they can play a more important role to facilitate effective response by expanding the scope of trade provisions to give better clarity and guidance for countries. Successful initiatives taken by different countries in dealing with the pandemic are also valuable lessons for other countries to adopt in designing resilient responsive measures to build back stronger and better.
References

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8. Europol report 2020 - Criminals take advantage of the high demand in hygiene products driven by the COVID-19 outbreak