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Macroeconomic policy questions: international trade and development

International trade and development

Note by the Secretary-General

The Secretary-General has the honour to transmit to the General Assembly the report prepared by the secretariat of the United Nations Conference on Trade and Development.

* [A/75/150](#).



Report prepared by the secretariat of the United Nations Conference on Trade and Development on international trade and development

Summary

In a period already characterized by trade tensions, unilateralism and institutional erosion, the multilateral trading system is being severely tested by the coronavirus disease (COVID-19) pandemic. Sudden stops to economic activity and an unprecedented deterioration in global trade are causing deep recessions in most countries. At worst, without major international support, many developing and least developed countries that are dependent on earnings from commodities and tourism and remittances face sustained economic decline.

It is likely that the pandemic will reverse much of the economic and social progress already made towards the achievement of the Sustainable Development Goals. However, with massive government interventions and the likely significant reform of the multilateral trading system, there is an opportunity to pivot, in an accelerated manner, global trade and national economies onto an adapted path of long-term growth and sustainable development.

The present report responds to the request made by the General Assembly in its resolution [74/201](#).

I. Trade trends

A. Effects of COVID-19 on trade

1. The economic and social disruptions caused by COVID-19 brought about an unprecedented collapse of international trade in the first half of 2020. Before the onset of the pandemic, global trade was expected to increase by 3 per cent in 2020; current estimates indicate a drop of around 20 per cent. This indicates that COVID-19 could represent losses in global trade of about \$6 trillion, roughly 50 per cent larger than the decline in trade registered during the recession of 2008.¹

2. No region has been spared from the decline in international trade. Trade decline in the East Asia region, however, has remained relatively low, especially in relation to the generalized drop in world trade observed in the second quarter of 2020. This suggests not only relatively higher resilience of East Asian economies, but also the importance of international trade for the economies of that region. The second quarter of 2020 also saw international trade fall precipitously in developed countries, with larger declines in the North America region. Among African and Latin American countries, trade has declined significantly, driven by sharply falling commodity prices. Trade among developing countries (South-South trade) also significantly declined in the second quarter of 2020.²

3. International trade is expected to continue to contract in the second half of 2020. The size of the contraction will depend not only on additional economic disruptions brought about by the COVID-19 pandemic, but also on the type and extent of policies that countries adopt to sustain their economies. Government interventions to support domestic economies generally have substantial repercussions on international trade. Trade will decline more sharply if Governments recur to tariffs and other protectionist measures.³

4. Economic disruptions brought about by COVID-19 have affected some sectors much more than others, reflecting sectoral differences related to demand, labour intensity and global value chain operations. COVID-19 is resulting in larger declines in the international trade of goods and services that are relatively more labour-intensive and for which consumers' demand can be postponed. Among the sectors more affected, automotive, textiles and apparel, and various machineries declined by more than 10 per cent in the first half of 2020. On the other hand, the value of international trade in the agrifood sector remained stable. Trade in office machinery dropped sharply in the first quarter of 2020 but rebounded in the second quarter, likely because of increased demand owing to teleworking practices being widely adopted during lockdown periods. Among services, the most affected sector is tourism, with international tourist numbers expected to fall by about 70 per cent in 2020.⁴

5. Another effect of the COVID-19 pandemic has been the increase in demand for medical goods and equipment, such as ventilators, thermometers, hand sanitizers and protective masks and garments. While there was a spike in measures, such as export restrictions, on some medical equipment and food items following the onset of the pandemic, the international trade of such products has greatly increased since. In this regard, international trade is playing a positive role in meeting the demand for COVID-19-related medical products on a global scale.

6. Prior to the onset of the pandemic, the United Nations Conference on Trade and Development (UNCTAD) free market commodity price index for all commodity

¹ United Nations Conference on Trade and Development (UNCTAD), "Global Trade Update" (June 2020).

² Ibid.

³ Ibid.

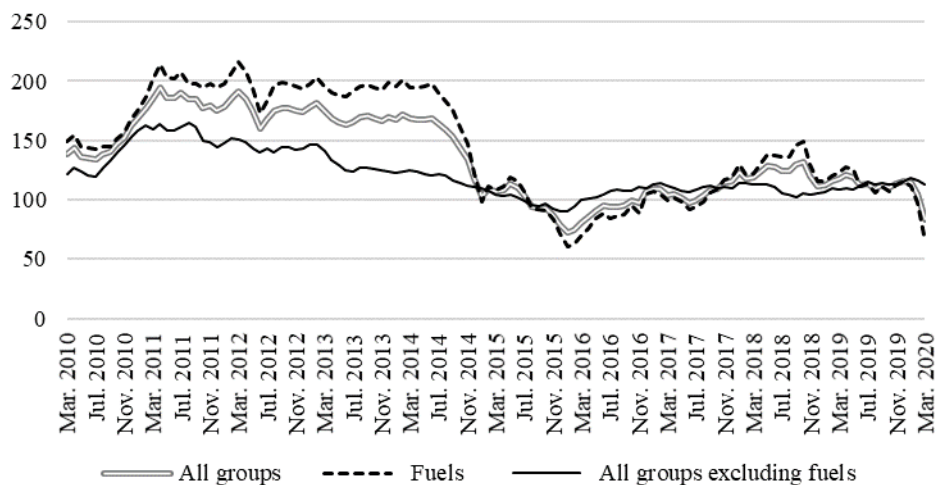
⁴ World Tourism Organization (UNWTO), "International tourist numbers could fall 60–80% in 2020, UNWTO reports", press release, 7 May 2020.

groups had risen by 3.3 per cent in 2019, compared with a 9.7 per cent drop in the previous year. The rise reflected an upward trend in commodity prices for most subgroup indices, in particular precious metals and all food, which rose by 13.9 per cent and 9.6 per cent, respectively. This increase largely offset the downward trend of the fuels subgroup price index. Given the heavy weighting of fuels in the free market commodity price index, it is useful to look at the evolution of the all groups excluding fuels index, which rose by 8.1 per cent in 2019 (see figure I).

7. In the first quarter of 2020, a sharp drop in crude oil prices exerted downward pressure on the fuels index, causing the all groups index to fall by 28 per cent. Crude oil prices declined by almost 50 per cent in the first quarter of 2020, despite an agreement between the Russian Federation and the Organization of the Petroleum Exporting Countries (OPEC) in December 2019 to cut production as a way of propping up prices amid a forecast of weak global demand. The steep fall was largely driven by excess supply, a substantial contraction in demand owing to the COVID-19 pandemic and an ending of restraints on production from the Russian Federation and OPEC producers.⁵

Figure I

United Nations Conference on Trade and Development free market commodity price index: all groups, fuels and all groups excluding fuels (July 2015 = 100)



Source: Calculations by the UNCTAD secretariat based on data from UNCTADstat.

8. The decline in crude oil prices has important implications both for oil-exporting and oil-importing developing countries. Oil exporters have experienced a drastic drop in export revenues, which has exerted fiscal pressure commensurate with the degree of dependence on oil exports, inevitably leading to cuts in spending or investment in social sectors and infrastructure.

9. Commodity price drops also result in higher debt burdens, low investment, deteriorating current accounts and currency depreciation. Conversely, low oil prices may benefit oil-importing countries by reducing the cost of their imports. However, sustained low oil prices may affect prospects for renewable energy development, as consumers may have less incentive to switch from cheap fossil fuels to renewables.

⁵ Tim Gould and Neil Atkinson, "The global oil industry is experiencing a shock like no other in its history", International Energy Agency, 1 April 2020.

10. An early assessment⁶ of the impact of the pandemic on total commodities exports to China indicates that, in comparison with trends of the past three years, total commodities exports to China may fall by up to \$33.1 billion during 2020, compared to a non-pandemic scenario. Although commodities exports to China from commodity-dependent developing countries are also expected to decrease, the estimated impact is weaker: overall, they may fall by between \$2.9 billion and \$7.8 billion during 2020. While exports of crude petroleum and wheat from commodity-dependent developing countries are expected to fall, estimated annual growth rates of exports of fruits and nuts, soya beans, rice and copper outpace those that would prevail in a situation without the COVID-19 crisis.

Trends in transport and trade facilitation

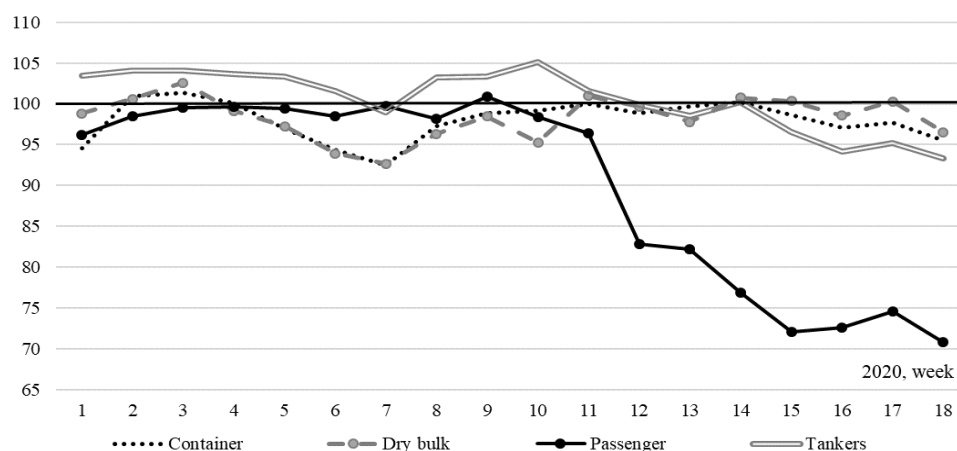
11. International transport and logistics are being heavily impacted by the pandemic. Shipping companies, airlines and road and rail transport providers are seeing demand for their services plummet, especially for passenger transport. Meanwhile, transport workers need to cross borders that may be closed as part of national sanitary response measures. Air crews are grounded, truck drivers stuck at borders and, at the time of reporting, up to 300,000 seafarers a month require international flights to enable the changeover of ships' crews.⁷

12. A total of 80 per cent of global trade volume is seaborne.⁸ Figure II depicts the decline in weekly ship arrivals during the first five months of 2020, compared to the average of the same period in the previous year. All major vessel types recorded fewer port calls. Oil tankers saw the largest decline among the cargo-carrying ships, while passenger ships reduced port calls by almost 30 per cent.

13. Governments and businesses, including ports, are pushing for reforms aimed at keeping trade flowing while protecting border officials, transport workers and the general population.⁹ As well as addressing pandemic-specific issues, most of these reforms will provide long-term trade facilitation and economic benefits.

Figure II

Weekly port calls, 2020, compared to first 18 weeks of 2019, for selected vessel types



Source: UNCTAD, based on data provided by MarineTraffic.

⁶ Marco Fugazza, "Impact of the COVID-19 pandemic on commodities exports to China", UNCTAD Research Paper, No. 44 (April 2020).

⁷ UNCTAD, "Keep ships moving, ports open and trade flowing, urge UN entities", 10 June 2020.

⁸ *Review of Maritime Transport 2017* (United Nations publication, Sales No. E.17.II.D.10), p. (x).

⁹ Mukhisa Kituyi, "Coronavirus: let's keep ships moving, ports open and cross-border trade flowing", 25 March 2020.

14. Trade facilitation and enhanced controls can reinforce each other. Practically all trade facilitation measures in the Agreement on Trade Facilitation of the World Trade Organization (WTO) help to achieve both faster and more transparent trade procedures, and at the same time better protection of public interests. Digitalization measures to facilitate trade while reducing contagion risks include accepting digital copies instead of paper originals, pre-arrival processing and electronic payments. The UNCTAD action plan to strengthen international trade and transport facilitation in times of pandemic articulates a number of good practices in that respect.¹⁰ An essential actor to support the efforts of developing countries in that respect is the UNCTAD Automated System for Customs Data, which allows for the automation of customs processes, the application of risk management and the facilitation of cooperation among agencies and trade partners. The Automated System also issued concrete guidelines to fight the pandemic while facilitating trade.¹¹

15. As Governments have enhanced international cooperation and invested in further trade facilitation reforms during the COVID-19 crisis, the progress achieved should also help to revive international trade in the future.

B. Response of countries

Enhanced consumer protection

16. From the onset of the pandemic, many countries adopted emergency measures to protect consumers from misleading, unfair and abusive practices and to alleviate negative impacts on consumer welfare. In the fight against price gouging and hoarding of essential consumer products, such as face masks, hand sanitizers and basic household products, at least 20 countries¹² reported enforcement and regulation action. Some even set maximum reference prices for basic consumer products¹³ and price caps for personal hygiene and cleaning items.¹⁴

17. Consumer protection agencies undertook enforcement action against scams and false claims, especially against miracle products sold online,¹⁵ for which the cooperation of online platforms played a major role.¹⁶ They also strongly defended the right of consumers to refunds for the cancellation of services.¹⁷ In order to protect vulnerable and disadvantaged consumers, including the newly unemployed, some countries suspended public utility bill payments¹⁸ and cuts for non-payment in sectors including electricity, water, gas and telephony. UNCTAD has issued calls for firmer action to better protect consumers¹⁹ and for airlines to respect consumers' rights.²⁰

¹⁰ UNCTAD, "COVID-19: a 10-point action plan to strengthen international trade and transport facilitation in times of pandemic", Policy Brief, No. 79 (April 2020).

¹¹ UNCTAD, Automated System for Customs Data, "Adapting the use of ASYCUDA World to the COVID-19 situation: guidelines to customs administrations" (Geneva, 2020).

¹² Bolivia (Plurinational State of), Brazil, China, Colombia, France, Greece, India, Italy, Kenya, Nigeria, Paraguay, Russian Federation, South Africa, Spain, Seychelles, Thailand, Turkey, United Kingdom of Great Britain and Northern Ireland, United States of America and Uruguay.

¹³ Argentina.

¹⁴ Argentina, France and Spain.

¹⁵ In Colombia, Italy and the Republic of Korea.

¹⁶ The consumer protection authorities of all European Union member States issued a common position asking online platforms to better identify scams and unfair practices, remove them and prevent copies from reappearing.

¹⁷ See Pamela Coke-Hamilton, "Airlines must respect consumers' rights", UNCTAD, 4 June 2020.

¹⁸ Argentina, Brazil, France, Portugal and Spain.

¹⁹ See UNCTAD, "COVID-19: firmer action needed to better protect consumers", 8 April 2020.

²⁰ Coke-Hamilton, "Airlines must respect consumers' rights".

Competition policy initiatives

18. Competition authorities have adjusted the enforcement of competition laws to serve the greater public interest in response to the disruption in supply chains and markets during the pandemic. Many competition agencies (for example, in Australia, Canada, Germany, the United Kingdom and the United States) temporarily allowed coordination and cooperation agreements between competitors in affected sectors, such as retail and pharmaceuticals. Some countries temporarily exempted certain sectors from antitrust law (for example, health care in South Africa and air transport in Norway). In the European Union and the United States, joint research and development efforts in the pharmaceutical sector towards a vaccine against COVID-19 were exempted from competition rules.²¹

Restrictions on trade

19. While trade-restrictive tendencies have been on the rise since the financial crisis in 2008, countries have resorted to the use of both tariff and non-tariff measures to address existing or anticipated shortages of critical commodities and high public demand. The use of non-tariff measures, especially export restrictions in various forms,²² was particularly prominent. Approximately 80 countries, including major producers, restricted exports of medical supplies as well as some essential food items on a temporary basis.²³

20. Exports of medical equipment were subject to regulatory procedures to ensure that exported protective equipment adhered to national and/or international standards. Such procedures included additional documentary, registration and inspection requirements for manufacturers and exporters of protective equipment. These steps were taken to ensure that quality equipment reached markets, but they also created a further shortage of medical equipment by prolonging production or clearance times.

21. Although article XI of the General Agreement on Tariffs and Trade, on the general elimination of quantitative restrictions, leaves room for the application of export restrictions under special conditions, such restrictions can have serious repercussions. They affect developing countries that are dependent on imports by restricting access to essential goods at affordable prices, impacting on the poorest and the most vulnerable disproportionately.

22. Moreover, export restrictions disrupt global production chains by impeding the flow of raw materials and other intermediate goods. During the pandemic, only a small number of countries notified their measures to WTO, and many actively engaged in reciprocal measures. Enhanced transparency and cooperation will be crucial to strengthen trust in the rules-based international trading system.

23. Many countries also placed restrictions on incoming foreign direct investment in health-related industries, tightening rules and increasing the number of screening measures. The objective of such restrictions was to reduce dependence on foreign companies for critical goods and to safeguard domestic industries vulnerable to takeovers.

24. Many of these export restrictions are now being lifted. However, it is likely that new non-tariff measures will be introduced as Governments support recovery. For example, many countries have already committed themselves to providing subsidies

²¹ For more information, see UNCTAD, “Defending competition in the markets during COVID-19”, 8 April 2020.

²² For example, export bans and non-automatic licensing requirements.

²³ WTO, “Information note on export prohibitions and restrictions”, 23 April 2020.

and easing public procurement procedures in their economic stimulus packages.²⁴ Some COVID-19 responses by countries may strengthen the trade and investment policy environment trend towards rising protectionism.²⁵ This is a trend of which the international community must be mindful so that unilateral measures do not reduce the ability of other countries to fight the pandemic.

C. Potential changes in products traded and trading modalities resulting from COVID-19

Vulnerability of global value chains, relocalization of production and automation

25. Over the past few decades, much of worldwide manufacturing production has been organized in global value chains. The COVID-19 pandemic has severely disrupted manufacturing in many of the global value chain hubs, including China, the European Union and the United States, creating an unprecedented combination of supply and demand shocks.

26. With damages to operations in many cross-border supply chains, the pandemic has some implications for future production networks where the multi-step and multi-country supply chains that currently dominate production may have to adjust to build a more sustainable social and economic system.

27. One of the lasting impacts may be an acceleration towards the automation of production systems. Less complex and more efficient supply chains with new levels of built-in resilience may emerge to counteract business volatility to crises and external shocks. Nike, for example, has been talking for many years about digitizing its supply chain, introducing 1,200 automated machines and reshoring in the United States, which would lead to a reduction in future shipping expenses and import duties.²⁶

28. Increased localization of production for some sectors is likely, particularly pharmaceuticals. Before the pandemic, many countries relied heavily on the trade of active pharmaceutical ingredients to the extent that 80 per cent of global supply of active pharmaceutical ingredients was imported from China and India. In 2019, China alone exported 10.12 million tons of active pharmaceutical ingredients to 189 countries.²⁷

29. However, reform of global supply chains requires caution, owing to sustainability and social implications (for example, unsustainable exploitation of resources, and unemployment owing to automation). The likely trade-offs between resilience against shocks and economic efficiency need to be carefully assessed. Furthermore, a substantive localization or regionalization of supply chains has the risk of reducing opportunities for developing countries in accessing international markets and might impede the socioeconomic development of those countries through export-led strategies. Accordingly, it is fundamental that multilateral approaches to policymaking be strengthened so that countries can find the right balance between globalization and self-reliance.

Risks to food security

30. The effects of COVID-19 on food security cannot be fully appreciated if one simply relies on traditional market indicators, such as production, exports and prices.

²⁴ International Monetary Fund, "Policy responses to COVID-19". Available at www.imf.org/external/index.htm.

²⁵ *World Investment Report 2020: International Production Beyond the Pandemic* (United Nations publication, Sales No. E.20.II.D.23), p. 147.

²⁶ Richard Wilding, "Coronavirus is changing global supply chains in unexpected ways", Brinknews, 19 April 2020.

²⁷ Pharmaletter, "Indian government moves on APIs, as Chinese supplies are returning", 1 April 2020.

Judging by those three indicators, food markets seem to be generally sound. Market conditions for wheat, maize and rice, three cereals accounting for the bulk of the food traded around the world, are considered favourable relative to the previous season.²⁸ Markets are expected to be even better in the 2020/21 season. With regard to prices, the UNCTAD all food commodity price index shows a 5 per cent decline between January and March 2020.

31. However, the above-mentioned indicators do not account for the effects of COVID-19 on incomes of many developing countries and vulnerable groups in developed countries. At the household level, confinement eroded household revenues that rely on incomes from daily work, diminishing capacities to access food. Even in developed countries, long lines of people queuing for food aid in cities such as Geneva²⁹ and New York³⁰ have shocked many.

32. The macroeconomic income shock is probably the most important channel through which COVID-19 will affect food security. The collapse of revenues from tourism in many developing countries and the drastic drop in oil prices are two sources of pressure on food security in those countries. Moreover, depreciation of developing countries' currencies has made food imports more expensive. In Angola, the price of wheat imports declined by 4 per cent in United States dollars but increased by 12 per cent in kwanzas between 2 January and 21 May 2020. In Kenya, the price of 5 per cent broken rice imported from Pakistan increased both in dollars and shillings, by 22 per cent and 29 per cent, respectively. It is also expected that the world's economic recession and, in particular, the economic contraction of China will negatively affect developing countries' commodity exports, deepening food insecurity in countries that are dependent on food imports.

33. Going forward, producing food domestically or relying on shorter regional food value chains should be encouraged. Those steps will not only ensure that food security is not too dependent on volatile international markets, but also will reduce the carbon footprint associated with many current global food value chains.

Changing landscape for services

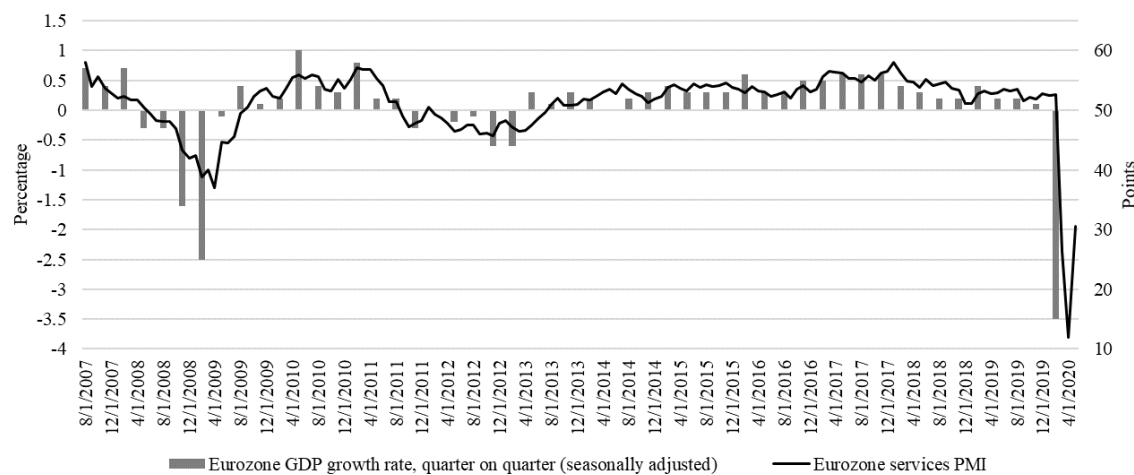
34. The economic impact of the pandemic is unique, since it has massively disrupted services sectors, considered rather resilient during recent crises (for example, the 2008 financial crisis and the 2011–2013 eurozone sovereign debt crisis). For example, in the eurozone, the Purchasing Managers Index indicator in services contracted from above 50 points at the start of 2020 to 28.4 in March (see figure III).

²⁸ Agricultural Market Information System, "Market Monitor", No. 78 (May 2020).

²⁹ Patrick Kingsley, "A mile-long line for free food in Geneva, one of world's richest cities", *New York Times*, 30 May 2020.

³⁰ Jack Healy, "'It's people, people, people' as lines stretch across America", *New York Times*, 12 April 2020.

Figure III
Purchasing Managers Index and gross domestic product in the eurozone



Source: Thomson Reuters.

Abbreviations: GDP, gross domestic product; PMI, Purchasing Managers Index.

35. Almost all countries introduced non-resident entry restrictions, and movements within countries were heavily restricted. Restrictions on flights or on ships entering ports will greatly affect not only trade, but also remittances, by limiting opportunities for migrant workers. Remittances in low- and middle-income countries³¹ were set to surpass foreign direct investment in 2019 to reach \$550 billion, yet in 2020 it appears that both will drop significantly.³² Estimates predict declines of up to 40 per cent for foreign direct investment and 28 per cent for remittances in 2020.^{33, 34} Countries such as the Philippines, which rely on remittances sent from their population providing personal services abroad, will be hit particularly hard. Other countries where remittances represent a high share of gross domestic product (GDP), for example, Kyrgyzstan (35 per cent), Tonga (33 per cent) and Tajikistan (31 per cent), will also be severely impacted.³⁵ For developing countries reliant on foreign direct investment, remittances and tourism, the situation will be heavily compounded.

36. According to the World Tourism Organization (UNWTO), the COVID-19 pandemic will result in a contraction of the tourism sector by between 60 and 80 per cent in 2020.³⁶ Critically, while many economic sectors are expected to recover once restrictive measures are lifted, international tourism will suffer longer-lasting effects owing to reduced consumer confidence and extended restrictions on international movement.

37. Countries that rely heavily on foreign tourism face extreme financial distress. Small island developing States are most vulnerable, since the tourism sector accounts for almost 30 per cent of collective GDP,³⁷ reaching 50 per cent for Maldives, Seychelles, Saint Kitts and Nevis and Grenada. Moreover, access to global capital

³¹ Excluding China.

³² Dilip Ratha, "Remittances on track to become the largest source of external financing in developing countries", World Bank blogs, 8 April 2019.

³³ Organization for Economic Cooperation and Development, "Foreign direct investment flows in the time of COVID-19" (May 2020).

³⁴ World Bank, "World Bank predicts sharpest decline of remittances in recent history", press release, 22 April 2020.

³⁵ Niall McCarthy, "The countries most reliant on remittances [Infographic]", *Forbes*, 26 April 2020.

³⁶ UNWTO, "International tourist numbers could fall 60–80% in 2020".

³⁷ World Travel and Tourism Council, Data Gateway.

markets is increasingly tight, and the average external debt of small island developing States accounts for 72.4 per cent of GDP, reaching up to 200 per cent in Seychelles and the Bahamas. Without international assistance, the economic consequences of the pandemic will be ruinous for many of these States.

38. Although the finance ministers and central bank governors of countries of the Group of 20 have agreed to suspend repayment of official bilateral credit for the world's poorest countries,³⁸ private debt will still need to be repaid. Moreover, many of the tourism-dependent small island developing States are middle-income countries and do not qualify for most existing debt relief programmes. Access to debt moratorium measures should be expanded to those countries.

39. The competitiveness of tourism services needs to rely more on international standards that can be recognized by clients worldwide as attesting to the health and sanitary safety of the services offered. In 2017, the International Organization for Standardization had around 700 standards for services (TD/B/C.I/MEM.4/15, para. 12), confirming the relevance of using standards as a competitiveness tool in services.

40. The international competitiveness of tourism services would benefit from strengthening their backward linkages to the local economy. Identifying competitive place-based touristic features will allow each economy to provide tourism services with a unique value proposition while increasing the opportunities for the local economy to engage in international trade. Costa Rica, for example, has built an association between its tourism services and national ocean and nature-based features.³⁹ This association contributes to viewing environmental protection not only as a part of sustainable development but also as an axis for economic competitiveness through the green and blue economy.

Further emergence of digital technologies

41. The COVID-19 crisis has accelerated the uptake of digital solutions, tools and services, speeding up the transition towards a digitally-led economy. Associated changes in behaviour are likely to have lasting effects when economic activity picks up.

42. Digital technologies have been used as a critical tool in maintaining business and life continuity. Measures to contain the pandemic have seen businesses and governments progressively move their operations and services online to limit physical interaction and contagion. Digitalization has enabled consumers to increasingly shift from physical retail and services provision to e-commerce. It has also allowed services linked to telemedicine, telework and online education to proliferate.

43. Some digital platforms have been thriving as consumers seek entertainment, shopping opportunities and new ways of connecting during the crisis. By contrast, some other digital platforms have been negatively affected by the crisis, especially those related to tourism and mobility.

44. More developing countries are exploring e-commerce and other digital solutions that can help to build local resilience to future shocks. A significant shift to e-commerce can benefit both small and big businesses. In Senegal, for example, businesses have moved online to continue operating, with the Government facilitating and creating an e-commerce platform for easy access to websites of small and medium-sized enterprises selling essential goods.⁴⁰

³⁸ G-20 finance ministers and central bank governors meeting (virtual), communiqué, 15 April 2020.

³⁹ "Ocean governance in Costa Rica: an overview on the legal and institutional framework in ocean affairs" (UNCTAD/DITC/TED/INF/2018/4).

⁴⁰ UNCTAD, "Senegal's e-commerce sector helps country cope with COVID-19", 24 April 2020.

45. Not everyone is sufficiently ready to embrace digitalization, however. The COVID-19 crisis has exposed the imbalance of digital uptake. Inequalities in digital readiness hamper the ability of large parts of the world to take advantage of e-commerce and the digital economy. The rapid growth of digital services would not compensate for the loss of income from in-person services being experienced by many developing countries. Such losses hit women and low-wage, low-skilled workers worldwide the hardest, as in-person services absorb a large share of such workers, many of whom are women.⁴¹ Moreover, the fast-paced shift towards digitalization is likely to strengthen the market positions of a few mega-digital platforms.

46. This acceleration of digitalization implies that greater attention should be given to bridging e-commerce and digital divides, allowing more countries to benefit. Strengthened efforts towards new policies and regulations are needed to ensure a fair distribution of the gains from digital disruptions. As with the coronavirus crisis and other interconnected development challenges, the world will need a coordinated multilateral response to deal with the digitalization challenge.⁴²

II. Challenges faced by and reactions from the multilateral trading system to COVID-19

A. Effects of COVID-19 on the multilateral trading system

47. The pandemic and its economic consequences caught the multilateral trading system largely unprepared. The effectiveness of multilateral trade cooperation was tested when countries advanced unilateral crisis mitigation measures with cross-border spillover effects. Multilateral trade disciplines were rather ineffective in dissuading such moves. The crisis also hit the multilateral trading system in the midst of the systemic impasse caused by continued trade tensions. Beyond fundamental shifts in the way that trade, economic and social activities are conducted, the post-COVID-19 “new normal” will require new orientations and modalities of multilateral trade cooperation to better address public health, security and sustainability imperatives.

48. A series of uncoordinated trade-restrictive and distorting measures (for example, export bans on certain medical equipment and essential goods, general confinement and lockdown measures, and short-term liquidity support and bailout measures) have challenged multilateral trade cooperation.

49. Some of the deepest economic impacts have been felt by developing countries through a series of economic lockdowns, travel restrictions, and transport and trade restrictions. While those measures have rightly taken precedence over trade policy, their consequences on trade have been cataclysmic. The sudden halt in tourist arrivals, for instance, has had deep repercussions for tourism-dependent small island economies. As remittances account for a substantial share of external finance, and even GDP for a number of small countries, these measures have severely affected development finance.

50. The same restrictions have disrupted just-in-time supply management in global value chains and affected developing countries integrated in those chains. Border and port closures and disruption to the transport of air and sea cargoes have delayed essential exports from developing countries to those markets.

51. The emergency short-term liquidity support and bailout measures were granted by Governments not only for individuals and micro-, small and medium-sized enterprises, but also for large firms, such as those in air transport, heavy industry and

⁴¹ United Nations, “Policy brief: the impact of COVID-19 on women” (April 2020).

⁴² “The COVID-19 crisis: accentuating the need to bridge digital divides” (UNCTAD/DTL/INF/2020/1).

the automotive industry, and could have a long-term effect in distorting competition domestically and internationally. Minimizing their trade-distorting and adverse effects on developing countries will be important in the long run.

B. Action the multilateral trading system can take to attenuate the hit on global trade

52. The global pandemic came on the heels of geopolitical challenges that had confronted the rules-based multilateral trading system. Heightened trade tensions among the world's largest economies since 2018 had led to the escalation of tariff levels, which remain high, despite the interim agreements, and continue to affect bilateral and global trade. Significantly, unilateral measures challenged the rules-based nature of the trading system, and continuous tensions and disputes compromised the prospect of multilateral trade cooperation. Disagreement over the WTO dispute settlement procedures has caused a paralysis of its Appellate Body, since the number of appellate judges fell below the quorum in December 2019. This series of events has placed the multilateral trading system in an impasse, giving rise to calls for the reform of WTO to strengthen its relevance and effectiveness.

53. The COVID-19 crisis has caused the postponement of the twelfth Ministerial Conference of WTO, delaying progress in ongoing negotiations, as the event would have constituted a milestone for key ongoing programmes, such as those disciplining harmful fisheries subsidies.

54. Against that backdrop, the global crisis has, first and foremost, reaffirmed the case for multilateral cooperation and for the efforts to enhance institutional viability and countries' engagement. Coordinated actions are critical to keeping global markets open and pre-empting protectionist or nationalist measures. In the current context, upholding global supply was essential as market provisions of vital medical equipment and other essential goods and services became scarce. In May 2020, for instance, trade and investment ministers of countries of the Group of 20 underscored the importance of coordinated actions, both in alleviating the impact of COVID-19 in the short term and in pursuing the necessary reform of WTO and the multilateral trading system in the long term.

55. COVID-19 has also revealed limitations of existing trade disciplines in dealing with a global public health crisis effectively. While public health considerations have long been recognized, especially since the adoption of the Declaration on the TRIPS Agreement and Public Health by the Ministerial Conference of WTO in 2001, the provisions addressed those infectious diseases affecting geographically contained areas, particularly of developing countries, such as HIV/AIDS, malaria and tuberculosis. While measures to protect human life and health generally take precedence over trade regulations,⁴³ no trade agreement has realistically accounted for the eventuality of a pandemic that is truly global in scope, including in developed countries with robust national health systems.

56. Coping with the adverse consequences of export restrictions was widely considered as a priority in the short term. Calls were made to: (a) ensure that export restrictions, where necessary, were targeted, proportionate, transparent and temporary; (b) refrain from introducing export restrictions on agricultural products and avoid unnecessary food stockpiling; and (c) consider exempting humanitarian aid related to COVID-19 from any restrictions on exports of essential medical supplies.⁴⁴ These actions are deemed instrumental for attenuating the supply shortages of essential goods

⁴³ For example, under the General Agreement on Tariffs and Trade, art. XX (j).

⁴⁴ Group of 20 trade and investment ministerial meeting: ministerial statement, annex, 14 May 2020.

and services, along with certain trade facilitation measures on imports, such as standstill commitments and reduction of applied tariffs, fast-track customs procedures and the facilitation of conformity assessments and import and marketing approvals.

57. As the efforts to develop effective COVID-19 diagnostics, therapeutics and vaccines accelerate, greater attention may be given to innovative forms of scientific collaboration and public-private partnerships to develop and make accessible to all requisite vaccines and medicines. A new research and development model may be promoted for Governments and pharmaceutical companies to provide new inventions as a global public good, including by voluntarily pooling licences and patents to allow widespread, low-cost manufacturing of any vaccine when developed, so as to allow equitable access and fair distribution.⁴⁵ Developing countries in need could be assisted in securing access to antiviral vaccines, when available, including in exploring flexibilities with regard to trade-related aspects of intellectual property rights for compulsory licensing for countries without manufacturing capabilities in the pharmaceutical sector.

58. In the long run, reconstructing a multilateral trading system through WTO reform that delivers negotiated outcomes matters for its ability to contribute to post-crisis recovery and longer-term development. Discontent over the limited progress made through multilateral processes in inducing market-opening trade liberalization, rule-making on modern trade issues and market-oriented trade policy reforms abroad was one of the key reasons underlying increased unilateral measures.

59. The process of reform is bound to be a challenging one, as views differ substantially among countries. The standstill, however, will run the risk of continued impasse. The identification of workable solutions addressing the diverse needs and priorities of countries will be key to a reform that will be instrumental for a universal, rules-based, open, non-discriminatory and equitable multilateral trading system (see target 17.10 of the Sustainable Development Goals). The pandemic has made the WTO reform debate even more complex by adding a new public health dimension to trade.

60. One possible area of reform relates to development flexibilities and the principle of special and differential treatment for developing countries. This principle would seek to promote the “graduation” of developing countries by replacing the current practice of self-declaration of developing country status with the use of objective criteria, such as the level of per capita income and the share in world trade. However, some view any selection of indicators or thresholds to be arbitrary and not reflective of the multifaceted nature of development. The COVID-19 crisis also appears to highlight the vulnerabilities of some high-income economies that are heavily dependent on mineral fuels or tourism revenues, and those populous economies with high poverty incidence, which have been deeply hit by the pandemic.

61. Another avenue concerns the use of an open-ended “plurilateral” approach to negotiations, such as the joint statement initiative on electronic commerce being conducted by more than 80 countries representing over 90 per cent of world trade. Proponents view this approach as a new way of doing business and instrumental for strengthening the negotiating function of the multilateral trading system, while others cite distraction from the ongoing multilateral processes on the same subject. In view of the strong growth potential of online services and e-commerce demonstrated during the pandemic, e-commerce will likely attract greater attention in the post-COVID-19 policy debate, along with the need to address the digital divide in developing countries.

62. The area of reform that requires urgent attention is the WTO dispute settlement mechanism, which has been widely regarded as highly successful and has represented

⁴⁵ World Health Organization, World Health Assembly resolution WHA73.1, entitled “COVID-19 response”.

the cornerstone of the rules-based multilateral trading system. However, concerns over the Appellate Body diminishing the rights and obligations of WTO members in such areas as subsidies, anti-dumping and safeguards finally led to blockage.⁴⁶ Pending a permanent solution, a group of countries and a territory have taken the initiative to institute interim arbitration procedures,⁴⁷ which seek to assure appeal procedures in disputes concerning the parties to the arrangements.

C. Disruption to markets and threats to competition

63. An increase in market concentration is expected post-COVID-19. Already dominant firms, especially online platforms, will strengthen their positions. An increase in mergers and acquisitions activity is expected owing to the anticipated increase in the number of smaller firms and start-ups hit by the lockdown measures.

64. Considering the significant economic impact imposed by COVID-19, many Governments all over the world have provided State aid in order to support their industries hit hard by the lockdown measures and to secure employment.⁴⁸ Economic measures have been taken in many countries to support small and medium-sized enterprises that had to close their businesses during the lockdown period. Competition authorities can play a greater role in advocating for pro-competitive measures and policies in order to convince their Governments to strike the right balance between the urgent need to deal with the crisis and the goal of preserving effective competition and a level playing field in the economy in the long run.

65. These market developments will certainly require robust law enforcement by competition authorities. It will be important for competition agencies to intensify efforts, which were significant prior to the pandemic, to deal with anticompetitive practices of dominant firms, particularly in the digital economy as digitalization accelerates. Competition agencies will need international cooperation more now than ever, especially in cases and mergers involving multinational enterprises. The UNCTAD guiding policies and procedures on international cooperation under the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices,⁴⁹ which were discussed and agreed upon by Member States during the eighteenth session of the Intergovernmental Group of Experts on Competition Law and Policy, in 2019, facilitate both dialogue and international cooperation among competition agencies.

III. Impact of trade contraction and side effects on the 2030 Agenda for Sustainable Development and the Sustainable Development Goals

Impacts on the economic dimension

66. The COVID-19 crisis is not only a health crisis, but also a jobs and livelihoods crisis that has put the brakes on progress made towards the Sustainable Development

⁴⁶ See, for instance, United States Trade Representative, *Report on the Appellate Body of the World Trade Organization* (February 2020).

⁴⁷ Parties to the arrangement are Australia, Brazil, Canada, Chile, China, Colombia, Costa Rica, the European Union, Guatemala, Iceland, Mexico, New Zealand, Norway, Pakistan, Singapore, Switzerland, Ukraine, Uruguay and Hong Kong, China.

⁴⁸ See, for example, coronavirus-related State aid decisions provided by the European Union member States, available at https://ec.europa.eu/competition/state_aid/what_is_new/covid_19.html.

⁴⁹ See https://unctad.org/meetings/en/SessionalDocuments/ccpb_comp1_%20Guiding_Policies_Procedures.pdf.

Goals.⁵⁰ Lockdown, confinement and other mitigation measures brought global economic activities to a halt, and the pandemic may result in labour income losses of between \$860 billion and \$3.4 trillion.⁵¹ The crisis hit hardest those engaged in precarious, lower-paid, part-time and informal employment with little or no income security and social protection, and micro-, small and medium-sized enterprises.⁵²

67. Crisis-mitigating measures undertaken by major economies caused economic standstill, which in turn depleted the external earnings of many developing countries in areas such as tourism, remittances and merchandise (primary and manufactured) exports. Economic lockdown, port closures and reductions in international air cargo have been decimating export industries in many developing countries. For instance, with all European florists closed in March and April, the Kenyan horticultural sector was losing \$2.5 million per day.⁵³

68. The absolute fall in export earnings affect the capacity of the least developed countries to achieve the 2030 Agenda for Sustainable Development and the Sustainable Development Goals, explicitly through reductions in producers' and workers' income in least developed countries and implicitly through reductions in their public revenue and development financing capacity. Taxes on international trade (for example, import and export duties and foreign exchange taxes) account for a larger share of total tax revenues in many least developed countries than in developed or other developing countries (for example, over 10 per cent in Burkina Faso, Mali and Vanuatu, and up to 30 per cent in Bangladesh, Lesotho and Solomon Islands).⁵⁴

69. The temporary evaporation of external earnings adversely affects progress in the economic dimension of the 2030 Agenda. For example, target 17.11 of the Sustainable Development Goals aims to significantly increase the exports of developing countries, in particular with a view to doubling the least developed countries' share of global exports by 2020. According to UNCTAD,⁵⁵ even prior to the onset of the pandemic, it was clear that this target would not be met. At time of reporting, it is unknown whether the least developed countries' share of global exports has increased even temporarily, in the context of a 3 per cent fall in global trade in the first quarter of 2020 and a further estimated fall in the second quarter.⁵⁶

Impacts on the social dimension

70. The pandemic has exacerbated inequalities, exposing vulnerable groups in particular to economic and social downturns, threatening to reverse progress made within the social dimension of the sustainable development agenda. Like previous shocks, the COVID-19 pandemic is not gender neutral.

71. Several female-intensive economic sectors have been badly hit by the economic crisis, and recovery may take a long time. The garment sector, for example, has experienced severe disruptions since global demand for clothing has drastically

⁵⁰ United Nations, "UN Framework for the Immediate Socio-economic Response to COVID-19" (April 2020).

⁵¹ International Labour Organization (ILO), "ILO monitor: COVID-19 and the world of work: updated estimates and analysis", 2nd ed. (April 2020).

⁵² United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), "Gender-responsive prevention and management of the COVID-19 pandemic: from emergency response to recovery and resilience", 27 March 2020.

⁵³ Euniah Mbabazi, "Kenya's flower industry suffers lack of freight", *Kenyan Wall Street*, 14 April 2020.

⁵⁴ *The Least Developed Countries Report 2019* (United Nations publication, Sales No. E.20.II.D.2), chap. 4.

⁵⁵ UNCTAD, *SDG Pulse: multilateralism for trade and development* (2020).

⁵⁶ Committee for the Coordination of Statistical Activities, *How COVID-19 is Changing the World: A Statistical Perspective* (May 2020).

diminished. In Bangladesh, where women constitute 80 per cent of the sector's workers, order cancellations have resulted in unpaid salaries and layoffs. During April and May 2020, 18,000 garment workers were dismissed.⁵⁷ This pushes workers, particularly female workers who have limited access to employment alternatives, towards extreme poverty.

72. Likewise, women in tourism represent the bulk of low-skilled and casual workers in the sector, especially in the accommodation and food subsectors, which have been particularly impacted by social distancing measures and global travel restrictions.⁵⁸

73. At the global level, while representing less than 40 per cent of total employment, women make up 57 per cent of those working part-time.⁵⁹ As part-time jobs vanish faster during economic crises, women are more likely than men to be dismissed. Workers with unclear terms of employment have no access to social security benefits, such as paid sick leave and maternity leave, health insurance and unemployment allowances, resulting in exclusion from rescue measures implemented by many countries.⁶⁰ Of the 2 billion workers in informal employment worldwide, more than 740 million are women.⁶¹

74. Globally, businesses run by women are generally smaller and more likely to operate informally than businesses run by men.⁶² One of the hurdles that female entrepreneurs face is limited access to credit. Without open and favourable lines of credit, many female entrepreneurs will be forced to close their businesses.

75. Women hold the role of primary caregivers within the household. Measures related to the closing of schools, kindergartens and day care, and the fact that currently basic health care is often administered within the household, have resulted in an exponential increase in the time women devote to care work. This increase has had an immediate impact on women's ability to keep their jobs or has forced them to switch to part-time employment, thus moving from more stable and protected jobs to lesser ones.⁶³

76. Health emergencies may exacerbate domestic violence. Countries with reporting systems in place indicate a 25 per cent surge in cases of domestic violence against women, and these figures are likely to underrepresent the reality.⁶⁴ Moreover, other forms of violence against women and girls may proliferate during emergencies, for example, violence against female health-care workers or female migrants, as well as xenophobia-related violence. Violence humiliates and diminishes women and greatly affects their capacity to play a role inside and outside the household.

77. The realization of the gender-related aspects of the 2030 Agenda is at risk. Fifty-three (out of 231) Sustainable Development Goal indicators make explicit reference to gender equality and women and girls. Of those, 20 indicators refer to women's economic empowerment and women's ability to participate in and benefit from trade and the economy. Reacting to the pandemic without assessing and responding to its

⁵⁷ Clean Clothes Campaign, "Live-blog: how the Coronavirus affects garment workers in supply chains".

⁵⁸ Simonetta Zarrilli and Nursel Aydiner-Avsar, "COVID-19 puts women working in SIDS tourism industry at risk", UNCTAD, 13 May 2020.

⁵⁹ ILOSTAT database, 2020.

⁶⁰ Isabelle Durant and Pamela Coke-Hamilton, "COVID-19 requires gender-equal responses to save economies", 1 April 2020.

⁶¹ ILO, *Women and Men in the Informal Economy: A Statistical Picture*, 3rd ed. (Geneva, 2018).

⁶² See, for example, Inter-Agency Task Force on Financing for Development, "Gender and trade", issue brief series (Geneva, International Trade Centre, July 2016).

⁶³ United Nations, "Policy brief: the impact of COVID-19 on women".

⁶⁴ Ibid.

distinct impacts on men and women may jeopardize not only the progress achieved so far in closing gender gaps, but also the overall achievement of the 2030 Agenda.

Impacts on the environmental dimension

78. While the pandemic has represented a direct threat to human health and livelihoods, there are observable positive effects from scaled-down economic activity on the level of carbon dioxide emissions and the quality of air, water and soil, as well as for the conservation of species and ecosystems.^{65, 66, 67}

79. 2020 was designated to be a landmark year for climate action. Emissions will decline in the course of the year, but not because of climate or energy policies. The pandemic has dramatically affected production and consumption patterns, foreshadowing measures commensurate with the ambition of the Paris Agreement and raising the possibility of combining the solutions to both crises – COVID-19 and climate change – into a coherent response.

80. “A short resting time for nature” has clearly demonstrated that more effective monitoring and regulation of economic activities on environmental and climate policy grounds are not only necessary but also feasible. However, it is going to be harder for developing economies to pursue sustainable development, especially if global trade collapses. Even highly diversified economies, with cutting-edge technology and strong natural resource bases, will suffer significant declines in real GDP as a result of a possible trade slowdown.⁶⁸ For smaller economies that are unable to reach critical mass in many sectors and often lack natural resources, preserving the economic value of physical and human capital and safeguarding any prospects for renewed employment after the pandemic are going to be fundamental, particularly in the short term.

81. Not all environmental consequences of the pandemic are positive: volumes of unrecyclable waste have risen; significant drops in agricultural and fishery export levels have led to the generation of large quantities of organic waste; maintenance and monitoring of natural ecosystems have been temporarily halted; and tourism activity in natural areas has ceased.

82. For markets embedded in the natural world, outcomes have also declined rapidly. Shocks on both the supply and demand sides, disruptions to transport routes, limited access to and closures of ports and an increasing number of sanitary and other regulatory measures have exposed the fragility of the blue economy. Coastal and marine tourism are operating at less than half of their capacity, nearing full closure in some cases. Other sectors struggle to deliver essential goods, including fish and seafood, and services including maritime transport and logistics. Restricted air travel and cargo services hinder tourism and market access for high-value produce. Coastal zones are suffering heavily from confinement measures as their livelihoods depend on a limited set of marine-based activities. For example, it has been estimated that because of governmental measures to address COVID-19, exports of fish may be reduced by about one third in 2020.⁶⁹

83. The lockdown measures also disrupt the functioning of markets and value chains for biodiversity-based goods and services, with smaller suppliers and sourcing

⁶⁵ Smriti Mallapaty, “The biodiversity leader who is fighting for nature amid a pandemic”, *Nature*, 30 June 2020.

⁶⁶ UN News, “Build back better and preserve biodiversity after COVID-19 pandemic: UN chief”, 22 May 2020.

⁶⁷ Tristram Korten, “With boats stuck in harbor because of COVID-19, will fish bounce back?”, *Smithsonian*, 8 April 2020.

⁶⁸ UNCTAD, “Global Trade Update”.

⁶⁹ UNCTAD, “The COVID-19 pandemic and the blue economy: new challenges and prospects for recovery and resilience” (April 2020).

communities being hit the hardest. Additionally, heightened concerns about biosecurity may lead to restrictions on trade in biodiversity-based products, for example, wildlife trade, which may have negative repercussions for trade in sustainable, legal and traceable goods that are crucially important to livelihoods, particularly as 4.3 billion people depend on biodiversity for their livelihoods.⁷⁰

84. Nevertheless, there may be growing market opportunities for healthy, natural and/or biodiversity-friendly products and services. Moreover, as part of sustainable trade in biodiversity-based products and services, biotrade can play an important role in the recovery of countries and businesses and in building resilience and sustaining the livelihoods of rural and vulnerable populaces.

85. Improved product standards, including those modelled in the context of a circular economy, can benefit sustainable development on a global scale, leaving no one behind. In this respect, development cooperation and the Aid for Trade initiative will have to play an increasingly important role. Well-managed markets for these products generate incentives for halting biodiversity loss and degradation, ensuring that sustainability principles are adopted globally and reducing the risk of the emergence of infectious zoonotic diseases.

IV. Conclusion

86. In a period already characterized by trade tensions, unilateralism and institutional erosion, the multilateral trading system is being severely tested by the COVID-19 pandemic.

87. Sudden stops to economic activity in many sectors and an unprecedented deterioration in global trade are causing deep recessions in most countries. The flows of goods and services have been limited not only by lockdown and safety restrictions imposed on logistics and a lack of resilience in global value chains, but also initially by the imposition of trade restrictions on the grounds of national security on key products, from foodstuffs to pharmaceuticals.

88. Despite Governments putting together huge national rescue packages, which often dwarf those made in response to the 2008 financial crisis, more will need to be done at the international level. Many developing and least developed countries that are dependent on a few sources of income, such as earnings from commodities and tourism and remittances, face economic devastation without continued, significant international support.

89. The economic and social fallout from the pandemic risks reversing most of the progress already made towards the achievement of the Sustainable Development Goals or may compound the lack of progress in some areas. In this regard, the target of doubling the least developed countries' share of global exports by 2020 will not be met. However, with massive government response interventions and likely significant reform of the multilateral trading system, there is an opportunity to tailor these actions to pivot, in an accelerated manner, global trade and national economies onto an adapted path of long-term growth and sustainable development.

⁷⁰ Convention on Biological Diversity secretariat and others, "Biodiversity and the 2030 Agenda for Sustainable development: policy brief" (2016).