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A new take on trade

How can trade help the global economy recover sustainably from the pandemic?

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The COVID-19 pandemic has gravely impacted the global economy.

Countries have sought to contain the spread of coronavirus by limiting the mobility of people, suspending many non-essential activities and implementing social distancing. While these measures have saved countless lives, they have also created the

worst recession since the Great Depression of the 1930s. The global economy is now expected to shrink by about 5 per cent in 2020.

While many countries have now begun to resume economic activity, the potential negative effects of the pandemic are far from over. In the absence of reliable vaccines or better treatments, the risk is that further waves of contagion could derail the economic restart. Given the uncertainty, it is essential that policymakers remain vigilant and

continue to devise policies that protect their economies against worsening conditions. As part of this, trade policies will be essential to create a more resilient global economy.

COVID-19 and international trade

In 2019, global trade stood at about \$25 trillion, with estimates then predicting a 3 per cent rise in 2020. Without a swift recovery in the second half of 2020, the consensus now is that trade will instead plummet by about 20 per cent this year, or

◀ Heavy goods vehicles queue near Ashford, England, en route to continental Europe. It is anticipated that trade between the UK and continental Europe will suffer turbulence when the transition period ends at the end of December 2020 and Brexit comes into full force

by about \$6 trillion. Such a decline would be unprecedented, being significantly larger than the \$4 trillion fall seen during the 2009 recession.

The impacts of COVID-19 on international trade have been many and varied. We have seen falling commodity prices, reduced manufacturing output and disrupted operations in global value chains. Trade in services has been significantly affected. International tourism arrivals are expected to fall by between 60 and 80 per cent in 2020. Remittances have greatly diminished.

At the regional level, the picture is mixed. While East Asia appears to be on a recovery path, concerns remain for other developing regions where COVID-19 is not yet under control. As many borders remain closed and safety controls delay the movement of goods, developing countries that are highly reliant on external markets are being hit particularly hard. Small countries with high levels of external debt and limited resources to sustain their economies are most at risk of a severe economic recession.

Before the pandemic, there was a growing scepticism towards international trade. Yet the COVID-19 emergency has shown the importance of keeping trade open in times of crisis. For example, cross-border trade has been instrumental in meeting the demand for COVID-19-related medical products on a global scale. International trade of items such as personal protective equipment and ventilators more than doubled in just a few months. The pandemic has also driven an increase in e-commerce, linking consumers to producers not only domestically but also across borders.

Trade and economic recovery

The past few years have been characterised by the high-profile trade spat between the United States and China. In such a context, the pandemic adds to global instability by

making the conditions unsuitable to meet the commitments of the two superpowers' 'phase one' trade deal. Coronavirus has the potential to further exacerbate tensions, and to create a more segmented and polarised global economy, with obvious negative repercussions for many countries.

While developed and emerging countries have implemented massive economic packages to support people and businesses, many developing countries are severely fiscally constrained in their recovery efforts, and need a lifeline. Development assistance and a moratorium on debt repayments related to COVID-19 are welcome, but a truly global economic recovery will require international markets that remain open and are made more resilient.

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Yet, during periods of economic downturn, the allure of unilateral measures generally increases. For example, at the onset of the pandemic, several countries imposed export restrictions and stockpiled essential medical goods and basic foodstuffs. But countries would be wise to refrain from adopting 'beggar-thy-neighbour' policies. While trade restrictions may provide short-term relief, often they provoke retaliation, creating supply shortages and price hikes in international markets, with dire consequences for the global economy.

Trade protectionism will also increase imbalances in the recovery process, adding to the risk that the pandemic will exacerbate existing inequalities, creating the real possibility that the least developed countries (LDCs) will fall further behind. To avoid an resurgence of protectionist measures, governments must monitor how responses to COVID-19 affect trading partners. They

must ensure that any such measures are targeted and temporary, and duly address the interests of affected countries, particularly LDCs. Ultimately, keeping exports to developing countries flowing without unwarranted impediments will be crucial to a broad-based recovery.

Trade beyond economic gains

The current world economic crisis can serve as an opportunity for redirecting public policy towards a more inclusive, sustainable and resilient global economy. The metrics of the recovery should not be based solely on economic growth but should also consider the other aspects of development agreed in the Sustainable Development Goals.

This will take a concerted effort, as economic downturns often result in diminished environmental protection. We must avoid a 'race to the bottom', where countries seek to secure competitive advantage by watering down environmental safeguards. Instead, to negate this risk, we must align trade policies more closely with climate objectives and further integrate environmental aspects into the international trade framework. For example, international cooperation could focus more closely on greening the trade infrastructure and expanding transnational environmental standards to drive a more sustainable post-COVID-19 economy.

International trade must be part of any recovery effort aimed at building a more fair and sustainable global economy. Promoting free trade as an end in itself, however, will risk fuelling anti-trade sentiments. Instead, the pandemic calls on us to recognise that international trade can have profound effects on lives and livelihoods, both in positive and negative ways.

Commitment to and implementation of the 2030 Agenda for Sustainable Development and the Addis Ababa Action Agenda on financing for development would help to ensure that inclusive trade growth is an economic foundation for sustainable development. The crisis has yet again underscored the case for continued multilateral trade cooperation and for a robust trading system to contribute to the post-crisis recovery. ●