

Trade and COVID-19 Guidance Note

Do's and Don'ts of Trade Policy in the Response to COVID-19¹

OVERVIEW

Despite the initial inclination of policy makers to close borders, maintaining trade flows during the COVID-19 pandemic will be crucial. Trade in both goods and services will play a key role in overcoming the pandemic and limiting its impact in the following ways:

- by providing access to essential medical goods (including material inputs for their production) and services to help contain the pandemic and treat those affected,
- ensuring access to food throughout the world,
- providing farmers with necessary inputs (seeds, fertilizers, pesticides, equipment, veterinary products) for the next harvest,
- by supporting jobs and maintaining economic activity in the face of a global recession. Substantial disruption to regional and global value chains will reduce employment and increase poverty.

Trade policies will therefore be an essential instrument in the management of the crisis. Trade policy reforms, such as tariff reductions, can contribute:

- to reducing the cost and improving the availability of COVID-19 goods and services,
- to reducing tax and administrative burdens on importers and exporters,
- to reducing the cost of food and other products heavily consumed by the poor and contributing to the macro-economic measures introduced to limit the negative economic and social impact of the COVID-19 related downturn,
- to supporting the eventual economic recovery and building resilience to future crises.

Governments with industries producing COVID-19 medical goods or food staples can further contribute by committing to refrain from limiting exports through bans or taxes. If export restrictions must be used, then they should be targeted, proportionate, transparent, and temporary.

Measures to streamline trade procedures and facilitate trade at borders can contribute to the response to the crisis by expediting the movement, release, and clearance of goods, including goods in transit, and enabling exchange of services. Reforms can be designed to reduce the need for close contact between traders, transporters and border officials so as to protect stakeholders and limit the spread of the virus, while maintaining essential assessments to ensure revenue, health and security. Interventions to sustain and enhance the efficiency of logistics operations may also be critical in avoiding substantial disruption to distribution networks and hence to regional and global value chains.

THE MAIN DO'S AND DON'TS OF TRADE POLICY RESPONSES

Experience from previous global and food crises provides some guidance for appropriate trade responses during the crisis and those that are likely to undermine effective national and global responses. However, the speed, scale and nature of this crisis are unprecedented which requires thinking outside of the normal box by analysts and exceptionally brave steps from policy-makers. There are however, some positive measures that governments can take to ameliorate the impact of the current crisis.

¹ Trade and COVID-19 Guidance Notes are prepared by the Global Trade and Regional Integration Unit of the World Bank to provide practical measures governments can implement to mitigate the impact of the COVID-19 virus outbreak. Future notes will focus on policy recommendations to leverage trade to mitigate the economic impact of the pandemic and boost the economic recovery. For further information please contact Paul Brenton (Lead Economist for Trade Policy, pbrenton@worldbank.org, +1202 4364299), or Antonio Nucifora (Practice Manager, Global Trade and Regional Integration Unit, anucifora@worldbank.org, +1202 4731402).

POSITIVE RESPONSES THAT WILL LIMIT THE HEALTH AND ECONOMIC IMPACTS AND SHORTEN THE CRISIS

Do facilitate access to essential COVID-19 related medical goods and supplies by

- reducing to zero import tariffs on COVID-19 related medical goods.
- exempting from VAT imports of COVID-19 related medical services and goods
- waiving withholding taxes (advance income taxes) on imports of COVID-19 related good
- committing to refrain from imposing export bans or taxes on COVID-19 medical goods or services.

Do support consumption of essential items and limit negative impacts on the poorest by

- reducing to zero import tariffs on all food products
- waiving withholding taxes on imports of food products for the duration of the crisis. Enhancing nutritional intake of the poor will boost immune systems and contribute to the ability to resist the virus.
- refraining from imposing export bans or taxes on critical food staples

Do support exporters to maintain jobs and foreign exchange earnings by

- removing all bans, quantitative restrictions and taxes on exports
- waiving withholding taxes on exports
- review all export applications, licenses and permits and remove those that not required to maintain market access or to protect health, safety and security.
- reimburse exporters that have lost overseas sales VAT that was paid on inputs in the expectation that it would be refunded on export for the duration of the crisis.

Do contribute to macroeconomic policy efforts to shield the economy from COVID related downturn by

- reducing to zero import tariffs on all goods and streamlining regulations affecting trade in services
- waiving withholding taxes on imports of all goods and services
- Allowing importers to defer VAT payments for an initial period of 12 weeks

Do streamline regulatory and border procedures to facilitate access to COVID-19 related medical goods and essential food products by

- Removing the need for applications, permits, and licenses for products that pose minimal risk to human health, environmental safety or consumer protection; streamlining the procedures for those that are required, utilizing web-based or automated options for requesting and obtaining the documents; prioritizing the issuance and regulatory approval of imports of all covid-19 related medical goods, essential food items and perishables; and suspending fees and charges associated with the issuance of any licenses, permits and certificates required for these products
- Recognizing certificates or systems of conformity for medical equipment, essential food items and farming inputs from accredited agencies in countries with similar or higher standards
- Implementing risk management to allow low-risk critical supplies to quickly pass clearance controls.
- Enhancing border management coordination mechanisms, both at the policy level (such as the National Committee on Trade Facilitation) and at the operational level (ports, airports and border posts); and supporting increased internal and external border agency collaboration. For example, customs and agencies responsible for Sanitary and Phytosanitary (SPS) standards should work together to design special regimes for expedited clearance for essential medical goods, food products and farming inputs
- Improving business continuity through greater use of ICT, flexible working schedules, longer border opening hours, expanded access to telephone and online enquiry points; all of which can increase efficiency and limit the physical presence and interaction of logistics workers and officials at facilities and border crossing points
- Supporting cooperative arrangements among small-scale cross-border traders to organize their supply chains, reducing movement and interaction of people but enabling business continuity, particularly in cases where borders are closed to the movement of people.

Implications for the World Bank: many of these measures would involve a short-term fiscal loss to the government and the Bank can support countries through instruments such as development policy loans (DPLs). Efforts to streamline procedures could be supported through trust funds and other resources for technical assistance. Teams should gear up to provide governments with policy advice on the design of effective trade

measures to support the economic recovery. The Bank should also support collection of high frequency data to monitor impacts on trade flows and prices and work with colleagues in the Bank to track spatial impacts on jobs and poverty.

NEGATIVE RESPONSES THAT WILL EXACERBATE THE SEVERITY AND DURATION OF THE GLOBAL CRISIS

***Do not constrain investment in and access to essential COVID-19 related medical goods and supplies** by imposing export taxes or bans on COVID-19 related medical goods, the materials used to produce them or agricultural products. Indeed, commitments from brave policy makers to keep markets open for these essential products would create greater certainty and help avoid large price swings. Export restrictions, if used, must be targeted, proportionate, transparent, and temporary, and ensure that they do not create unnecessary barriers to trade or disruption to global supply chains, and are consistent with WTO rules.*

***Do not undermine consumption of essential good or constrain job maintaining exports by arbitrarily closing borders to commerce.** Work with neighbors to implement containment measures, including distancing, while allowing commerce to flow as much as possible.*

***Do not impose additional trade restrictions to protect domestic industries that may be adversely affected by falling demand.** There are other measures of support for temporarily affected sectors that will be more effective in maintaining output and less damaging to the economy and to the poor.*

Implications for the World Bank: work with governments to ensure that emergency safety nets can deal with the impacts of any increase in food prices for the poorest. This is a far more effective response than trade restrictions and does not have negative spillovers to other countries. Provide support through lending instruments and technical assistance to assist countries to re-engineer border crossing to allow continued operation together with effective protection of staff and measures that maximize containment efforts.

Box: Examples of Good and Bad Practices

Examples of Good Practices

On March 18 the Government of Myanmar announced that the 2 percent advance income (withholding) tax on exports will be waived until the end of this fiscal year.

On March 22 the Government of Bangladesh removed all tariffs and taxes on a list of COVID-19 related products.

China cut VAT on medical services, masks and protective clothing as well as on catering and accommodation services, sundry personal services (e.g., hairdressing, laundry), and public transport. Indonesia has said it will grant postponements of payments of import VAT for businesses

Thailand has exempted face masks from import VAT and reduced time waiting for VAT refunds to 15 days

Examples of Bad Practices

Bulgaria, France, India, Indonesia, Saudi Arabia, the Republic of Korea, Taiwan, Thailand, Turkey and the United Kingdom have implemented multiple export curbs on medical supplies and medicines associated with the COVID-19 pandemic.

Kazakhstan suspended exports of wheat flour, buckwheat, sugar, sunflower oil and some vegetables until at least April 15.

ANNEX 1: Trade and COVID-19 Guidance Notes:

Trade COVID 19 Guidance Note: Trade Implications and Policy Responses

Trade COVID 19 Guidance Note: Trade in critical covid-19 products (and access to the [Database on COVID-19 trade flows and policies](#)).

Trade COVID 19 Guidance Note: Managing Risk and Facilitating Trade in the COVID-19 Pandemic

Trade COVID 19 Guidance Note: Implications for Logistics and Recommendations for Policy Actions (forthcoming)

Trade COVID 19 Guidance Note: Health Services Trade Reform (forthcoming)