

## TRADE IN SERVICES IN THE CONTEXT OF COVID-19

### INFORMATION NOTE<sup>1</sup>

#### KEY POINTS:

- **Services sectors have been heavily affected by the COVID-19 pandemic. Tourism, transport and distribution services, for example, have suffered as a result of mobility restrictions and social distancing measures imposed for public health reasons.**
- **Given the role of services in providing inputs for other economic activities, including connecting supply chains and facilitating trade in goods, disruptions in services supply are having a broad economic and trade impact.**
- **The type and extent of effects on trade in services vary by sector and mode of supply. Trade in services that involves proximity between suppliers and consumers has been severely impeded. GATS mode 2 (i.e., supply in the context of the movement of consumers abroad) and mode 4 (involving the temporary movement of natural persons) have been largely paralysed.**
- **The crisis is leading to a greater focus on online supply in sectors such as retail, health, education, telecommunications and audiovisual services. Suppliers are accelerating efforts to expand their online operations and consumers are adopting new habits that may contribute to a long-term shift towards online services. In the future, increased supply of services through digital networks could increase trade through mode 1 (cross-border supply).**
- **The increased use of online services during the COVID-19 pandemic has accentuated technology and connectivity disparities, as online classes are not feasible for students without computers, and telework is not an option for employees without broadband. Operators in developed and developing countries suspended data limits and boosted data capacity during the pandemic, and many governments issued additional wireless spectrum to further increase capacity.**
- **Overall, the crisis is further underscoring the importance of services that enable online supply, such as telecommunications and computer services, as well as the broader infrastructural role of financial, transport, distribution and logistics services in facilitating merchandise trade and economic growth. Services sectors, and the creation of conditions conducive to trade in services, will be key to the recovery from the economic slowdown.**

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<sup>1</sup> This document has been prepared under the WTO Secretariat's own responsibility and is without prejudice to the positions of members or to their rights and obligations under the WTO.

## 1. INTRODUCTION

This document aims to provide information on the early impact of the COVID-19 pandemic on trade in services in different sectors and modes of supply.

Services sectors have been heavily affected by the COVID-19 outbreak. Given the sector's role in providing inputs for other economic activities, including facilitating supply chains and trade in goods, disruptions in services supply are having a broad economic and trade impact. Services now generate more than two-thirds of economic output, attract over two-thirds of foreign direct investment, provide most jobs globally and account for over 40 per cent of world trade.<sup>2</sup> Furthermore, since services account for most of women's employment globally and a large share of micro, small and medium-sized enterprise (MSME) activity, the disruption in services supply also impacts social and economic inclusiveness.

Drops in demand and supply have strongly impacted services trade, though the type and extent of the impact varies by sector and mode of supply. Services that rely on physical proximity between suppliers and consumers have been most impacted by mobility restrictions and social distancing measures imposed for public health reasons. While direct contact can sometimes be substituted by remote supply, but this is not necessarily the case in all services sectors or countries. Sectors such as distribution (especially retailing services), tourism and passenger transport have been heavily affected. Mobility-related measures have created significant disruptions in air, maritime and land transportation, with severe repercussions on goods trade and supply chains.

As a result, trade in certain modes of supply has experienced severe downturns. Supply under mode 2 (consumption abroad), which is particularly relevant for tourism, has been paralysed. Travel restrictions have also severely limited mode 4, which involves the temporary movement of natural persons across borders. The pandemic is also negatively affecting the supply of services through mode 3 (commercial presence), both due to its impact on existing operations in foreign markets and its influence on decisions concerning the set-up of new establishments.<sup>3</sup>

The decline in merchandise trade resulting from the economic slowdown is contributing to a decrease in related services trade, such as the international maritime transport of freight. Furthermore, mobility restrictions on people are also affecting cross-border freight transport services, and thereby trade in goods. For example, strict restrictions on maritime crew disembarkation and substitution have led to shipping disruptions, with significant repercussions on goods trade and the viability of supply chains.

The crisis is focusing greater attention on online supply in sectors such as retail, health, education, telecommunications and audiovisual services, accelerating companies' efforts to expand online operations, and creating new consumer behaviours that are likely to contribute to a profound and long-term shift towards online services. In the future, the increased supply of services through digital networks can be expected to strongly impact trade, leading to increased supply through mode 1 (services supplied from one country to another).

It seems likely that trade statistics for 2020 and beyond will show not only a substantial drop in services trade, but also, over the medium term, an intensification and acceleration of the trends that led to a change in the structure of cross-border trade in services over the last decade.<sup>4</sup> In relative terms, services trade has shifted away from the "traditional" categories of transport and travel-related services toward telecommunications, computer and information services, business services, financial services and audiovisual services.

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<sup>2</sup> WTO (2019), [World Trade Report 2019: The Future of Services Trade](#), Geneva: WTO. Trade in services is defined in the General Agreement on Trade in Services (GATS) as comprising four modes of supply: 1 – cross-border supply; 2 – consumption abroad; 3 – commercial presence; and 4 – movement of natural persons.

<sup>3</sup> The United Nations Conference on Trade and Development (UNCTAD) [projects](#) that the COVID-19 pandemic could bring global foreign direct investment flows to their lowest levels since the 2008-09 financial crisis.

<sup>4</sup> The WTO Services Trade Barometer released on [11 March 2020](#) does not yet fully capture the economic impact of COVID-19, but nevertheless highlights a weakening of cross-border trade in services in the first quarter of 2020, with the largest declines found in passenger air travel and container shipping.

While mobility-related measures and policies to ensure “social distancing” have had a strong overall impact on services sectors and services trade, governments have also adopted measures related to specific services sectors and modes of supply in response to the crisis.<sup>5</sup> Many of these measures appear to be trade-facilitating. These include: measures to ensure that more telecommunications capacity is made available to operators; measures facilitating access for the population to internet and mobile data and to online education and health services; measures to provide – and in certain instances reintroduce – flexibility for suppliers of transport services and facilitate the continued supply of cross-border transport of freight; and more lenient requirements imposed on banks (such as in terms of liquidity and capital requirements) to ensure that they are well positioned to continue to provide credit.<sup>6</sup>

Overall, the crisis has underscored the importance of services that enable online supply, such as telecommunications and computer services, as well as the broader infrastructural role of transport, financial, distribution and logistics services in facilitating trade and economic growth. Capacities for online supply are increasing resilience in coping with the crisis by facilitating telework and tele-education. At the same time, the pandemic is also bringing to the forefront digital disparities and related policy challenges with respect to services for online supply. The creation of conditions conducive to trade in services under different modes of supply will be key to the recovery from the economic slowdown.

## **2. COVID-19 AND TRADE IN SERVICES IN SELECTED SECTORS**

### **Tourism and travel-related services**

The global tourism and travel sector, which includes services such as hotels, restaurants, tour operators and travel agencies, has arguably been the hardest hit by the crisis so far, given that mobility restrictions and border closures halted the movement of tourists abroad. The sector largely relies on mode 2 trade. Domestic travel restrictions and “work-from-home” requirements continue to further impact the sector by limiting domestic tourism activities, which are relevant to supplies through commercial presence (mode 3).

In March 2020, the Organisation for Economic Co-operation and Development (OECD) stated that preliminary estimates pointed to a 45 per cent decline in international tourism in 2020. This could rise to 70 per cent if recovery cannot begin until September.<sup>7</sup> The World Tourism Organization (UNWTO) estimated on 27 March 2020 that international tourist arrivals could decline by 20 to 30 per cent in 2020. This could translate into a loss of US\$ 300 to US\$ 450 billion in international tourism receipts (exports) – almost one-third of the US\$ 1.5 trillion generated globally in 2019 and equivalent to between five and seven years' lost growth.<sup>8</sup> The World Travel & Tourism Council (WTTC) estimated on 26 March 2020 that the number of travel and tourism jobs at immediate risk could reach 100 million.<sup>9</sup> In May, the UNWTO stated that current scenarios pointed to a potential decline of 58 to 78 per cent in international tourist arrivals for the year, depending on containment measures and the duration of travel restrictions, with 100 to 120 million direct tourism jobs at risk.<sup>10</sup>

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<sup>5</sup> The WTO website provides [information on measures](#) undertaken by members in the context of the COVID-19 pandemic.

<sup>6</sup> The extent to which these measures will be maintained after the crisis remains to be seen. In addition, services sectors have been targeted by various general support measures adopted by governments in response to the crisis.

<sup>7</sup> <http://www.oecd.org/about/Secretary-General/extraordinary-g20-tourism-ministerial-virtual-meeting-april-2020.htm>

<sup>8</sup> See <https://www.unwto.org/news/international-tourism-arrivals-could-fall-in-2020>.

<sup>9</sup> <https://wtcc.org/Portals/0/Documents/WTTC%20Coronavirus%20Brief%20External%2026.05.pdf?ver=2020-05-26-124919-680>

<sup>10</sup> <https://www.unwto.org/impact-assessment-of-the-covid-19-outbreak-on-international-tourism> and [https://webunwto.s3.eu-west-1.amazonaws.com/s3fs-public/2020-05/Barometer\\_May2020\\_full.pdf](https://webunwto.s3.eu-west-1.amazonaws.com/s3fs-public/2020-05/Barometer_May2020_full.pdf)

The sector's decline has broad economic consequences given its overall economic importance for many countries and regions. According to the WTTC, direct, indirect and induced tourism impact in 2019 contributed US\$ 8.9 trillion to global GDP (10.3 per cent) and 330 million jobs (1 in 10).<sup>11</sup> For some economies, in particular smaller ones, tourism accounts not only for the largest share of total exports, but also for a significant share of GDP (e.g. 67 per cent for Seychelles, 62 per cent for St Kitts and Nevis, and 48 per cent for Vanuatu).<sup>12</sup> According to [balance-of-payments statistics](#), travel represented 25 per cent of world commercial services exports in 2018, and accounted for 32 per cent of services exports of developing countries, and 50 per cent in the case of least-developed countries (LDCs).

### **Response to the crisis**

On 1 April 2020, UNWTO released a set of recommendations calling for strong, urgent support to help the global tourism sector recover from COVID-19 and "grow back better".<sup>13</sup> So far, the measures taken by governments have been social, economic and financial, spanning job-support schemes for employees of the sector, policies to encourage their upskilling and reskilling, and tax deferrals and various other forms of financial support for tourism operators.

### **Distribution services**

Distribution services<sup>14</sup> have been heavily affected by the COVID-19 pandemic, as social distancing measures in several countries have involved the closure of shops considered non-essential (typically excluding grocery stores and pharmacies). Naturally, this has significantly impacted supply through mode 3 (commercial presence), which is significant in this sector.

For example, in January/February 2020, at the peak of the outbreak in China, data published by the National Bureau of Statistics (NBS) found that retail trade in China had declined by 20.5 per cent compared to the previous year.<sup>15</sup> Even though sales in physical stores increased significantly from mid-March in China as restrictions were eased, consumers remained cautious and sales in physical stores did not recover to their pre-crisis levels. Similar trends may be expected in other economies, with variations depending on the impact of the pandemic and social distancing policies adopted. In the United Kingdom, for instance, total retail sales declined by 18 per cent in April, as many stores closed during lockdown.<sup>16</sup> In different economies, a substantial number of retailers have filed for bankruptcy or closed stores.<sup>17</sup> While it is too soon to assess the impact of the crisis across all regions, [estimates](#) suggest that in Africa, it is in the retail/wholesale sector that jobs could be most adversely impacted.

### **Online sales**

The closure of many retailers of non-essential goods and other efforts to ensure social distancing have led to increased online sales by wholesalers and retailers, particularly of healthcare and household products, including groceries. Facing reduced visitors, several brick-and-mortar outlets are therefore also shifting to or expanding their online presence and their delivery and pickup services.

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<sup>11</sup> <https://wtcc.org/Research/Economic-Impact>.

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<https://knoema.com/search?query=tourism+as+%25+of+GDP&pageIndex=&scope=&term=&correct=&source=Header>

<sup>13</sup> <https://www.unwto.org/news/unwto-launches-a-call-for-action-for-tourisms-covid-19-mitigation-and-recovery>. For details see: [https://webunwto.s3.eu-west-1.amazonaws.com/s3fs-public/2020-04/COVID19\\_Recommendations\\_English\\_1.pdf](https://webunwto.s3.eu-west-1.amazonaws.com/s3fs-public/2020-04/COVID19_Recommendations_English_1.pdf). See also: <https://www.unwto.org/calling-on-innovators-and-entrepreneurs-to-accelerate-tourism-recovery>.

<sup>14</sup> Distribution services include commission agents' services, wholesale trade services, retailing services and franchising.

<sup>15</sup> This is consistent with [analysis](#) from the International Monetary Fund (IMF).

<sup>16</sup> Online sales as a proportion of total retail sales jumped to a record 30.7 per cent. See <https://www.bbc.com/news/business-52766856>.

<sup>17</sup> <https://www.forbes.com/sites/pamdanziger/2020/04/03/retail-companies-on-death-watch-is-growing-fast-as-covid-19-puts-non-essential-retailers-on-life-support/#3d1ff74725ea>

In China in early 2020, [online sales](#) of certain products that traditionally had limited online penetration, such as various daily essential products, increased between 50 per cent and 150 per cent compared to the previous year. However, reduced household spending as a result of the economic slowdown and uncertainty are negatively impacting sales of non-essential goods, both through online platforms and in physical stores. Online sales of discretionary products (e.g., alcohol) remained at similar levels, while sales of non-essential products declined.

In the United States, online retail sales during the first quarter of 2020 were up 14.5 per cent from the previous year. Online sales increased significantly from mid-March, with some studies suggesting an increase of approximately 50 per cent in April compared to early March.<sup>18</sup> In [Saudi Arabia](#), local online retailer BinDawood communicated in late March that its average sales on a 10-day basis had increased by 200 per cent, while in Indonesia in April, online mall Blibli reported increases in sales of a number of household products, including groceries.<sup>19</sup>

The COVID-19 pandemic will likely accelerate the ongoing move toward the sale of consumer goods through online channels, as consumers are forming new habits and retailers, including more traditional brick-and-mortar suppliers, are stepping up efforts to expand their online operations. Nevertheless, online retailers are facing various challenges, including inventory shortages and supply chain difficulties, which are causing delays in deliveries and disrupting cross-border e-commerce.<sup>20</sup> The impact on the distribution sector, including its online segment, may differ across economies as a result of different approaches to lockdown policies as well as different levels of e-commerce development.

### **Telecommunications, ICT and audiovisual services**

With more people currently participating in both remote work and schooling, and more heavily dependent on the internet for entertainment and social contact, the demand for information and communication technology (ICT) services and related infrastructure has been unprecedented and unanticipated.

In March 2020, Facebook reported that in countries hard hit by the pandemic, use of its online messaging service was up more than 50 per cent, and voice and video traffic doubled.<sup>21</sup> In Italy, Facebook saw a 70 per cent surge in overall usage and a 1,000 per cent increase in time spent on group calls, yet reported reduced global advertising revenue.<sup>22</sup> [Spain's Telefonica](#) saw an increase in IP network traffic and mobile use of 40 per cent and 50 per cent, respectively. [Thailand](#) reported growth of 828 per cent and 215 per cent in the number of users of Zoom and Skype, respectively. In China, Tencent saw increased use of its social network, games, fintech and business services in the first quarter of 2020, with advertising up in some segments, yet it also warned of slower advertising growth to come.<sup>23</sup> And Vodacom Group recorded a 40 per cent rise in data traffic in South Africa during the lockdown.<sup>24</sup>

Some of the trade implications for the ICT sector may be positive as global usage increases dramatically and inspires sharper recognition of the importance of access to technology and

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<sup>18</sup> <https://www.digitalcommerce360.com/2020/05/20/ecommerce-during-coronavirus-pandemic-in-charts/> As a result, on 17 March, Amazon announced it was adding 100,000 new full-time and part-time positions across the United States to keep up with surging online shopping resulting from the COVID-19 outbreak. On 13 April, it said it would hire 75,000 more (<https://edition.cnn.com/2020/03/16/tech/amazon-shipping-coronavirus/index.html>). The crisis is also causing a surge in online sales of groceries, which only amounted to 4 per cent of total grocery sales in 2019 in the United States. A survey conducted in March revealed that 41 per cent of consumers were buying groceries online for the first time (<https://edition.cnn.com/2020/03/19/business/grocery-shopping-online-coronavirus/index.html>).

<sup>19</sup> [https://oxfordbusinessgroup.com/news/e-commerce-provides-economic-boost-indonesia-shoppers-migrate-online-during-covid-19-pandemic?utm\\_source=feed&utm\\_medium=rss&utm\\_campaign=eus\\_all\\_all](https://oxfordbusinessgroup.com/news/e-commerce-provides-economic-boost-indonesia-shoppers-migrate-online-during-covid-19-pandemic?utm_source=feed&utm_medium=rss&utm_campaign=eus_all_all)

<sup>20</sup> For example, see <http://www.globaltimes.cn/content/1183349.shtml>

<sup>21</sup> <https://about.fb.com/news/2020/03/keeping-our-apps-stable-during-covid-19/>

<sup>22</sup> [https://www.mobileworldlive.com/apps/news-apps/facebook-ad-revenue-falls-victim-to-covid-19/?ID=a6q1r000001RURgAAO&JobID=411117&utm\\_source=sfmc&utm\\_medium=email&utm\\_campaign=MWL\\_20200325&utm\\_content=https%3A%2F%2Fwww.mobileworldlive.com%2Fapps%2Fnews-apps%2Ffacebook-ad-revenue-falls-victim-to-covid-19%2F](https://www.mobileworldlive.com/apps/news-apps/facebook-ad-revenue-falls-victim-to-covid-19/?ID=a6q1r000001RURgAAO&JobID=411117&utm_source=sfmc&utm_medium=email&utm_campaign=MWL_20200325&utm_content=https%3A%2F%2Fwww.mobileworldlive.com%2Fapps%2Fnews-apps%2Ffacebook-ad-revenue-falls-victim-to-covid-19%2F)

<sup>23</sup> <https://www.mobileworldlive.com/asia/asia-news/gaming-surge-drives-tencent-growth/>

<sup>24</sup> <https://www.mobileworldlive.com/featured-content/top-three/vodacom-data-traffic-surges-during-lockdown/>

connectivity for all. In both developed and developing economies, operators suspended data limits and boosted capacity in response to the pandemic at no additional cost, and many governments temporarily issued additional wireless spectrum to operators to further increase network capacity.<sup>25</sup> However, a significant number of auctions of 5G spectrum have been postponed. Consequences in the short term may include: restrictions on mobility, causing roaming revenue to plunge, possibly by up to US\$ 25 billion over the next nine months;<sup>26</sup> mobile handset production and shipments being heavily impacted (40 million fewer smartphones were shipped in February than a year ago)<sup>27</sup>; and the possible slowing of 5G mobile deployment due to postponed spectrum auctions. MTN Group, a South African operator that supplies telecommunications services across Africa, has reported that it is implementing cost-cutting across its operations in anticipation of economic slowdown caused by the pandemic.<sup>28</sup> If the market for ICT services cannot overcome these challenges, and connectivity is not addressed, the ability to bridge technology gaps and achieve sustained revenue in the sector could be muted.

However, if supportive policies are maintained, the situation may offer stimulus to the sector as a result of new habits (e.g. more teleworking), and it may showcase how critical the internet and broadband data transmission are to economic growth and development. It could lead to stronger resolve by governments to complete the rollout of broadband services (e.g. fibre optic and 5G mobile networks) and global connectivity projects (e.g. satellite and undersea cable systems).

Social distancing measures adopted by governments have boosted demand for audiovisual content, for both entertainment and information purposes. For example, according to [some estimates](#), online media streaming in the United States increased by 85 per cent in the first three weeks of March, compared to the same period in 2019. Since, in many countries, a large proportion of the audiovisual content consumed is foreign, the increase in demand is associated with greater trade in the sector. However, the measures taken to respond to the crisis are also resulting in interruptions in the production of new films, series and other content.

In the longer term, increased online buying and other activities may translate into higher earnings. With the easing of lockdown measures, telecommunications and ICT companies are now beginning to reopen their walk-in customer outlets. However, suppliers cannot yet gauge whether these increases will become permanent. Meanwhile, the crisis poses difficulties for suppliers relying on advertising revenue; the global advertising market is expected to decline significantly in 2020 as companies reduce spending as a result of the pandemic and subsequent economic slowdown.<sup>29</sup>

### ***Information technology and business service outsourcing***

The global revenue of business process and information technology (IT) outsourcing amounted to around US\$ 92.5 billion in 2019 (some estimates are far higher), with the Americas, Southern Europe and India among the top generators of revenue. These regions provide back-office operations, including call centres, for corporations ranging from banks to manufacturers to pharmaceutical firms. Suppliers have had to provide equipment to staff to work from home, and upgrade their networks to accommodate the increase in remote working.

The trade impact in this industry may be double-edged. The pandemic presents challenges not only for outsourcing firms, but also for their customers. Some companies have flagged an intention

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<sup>25</sup> [https://www.fiercetelecom.com/telecom/telstra-adds-2-500-temporary-jobs-to-its-workforce-to-help-coronavirus-fall-out?mkt\\_tok=eyJpIjoiTnpNMU4yVTBOekEyT1dJeSIsInQiOiJpVnBvVDkwdE5tZHZ6UUZrNTZzOWFZN0RTcVdPMXVOc0prWFR2VFlicjR0Wk81NTMrd2F0V21tczFzdlwvSHdFSThSYUpFWW4xRWsrN3dwNUhZVVwvZUtNMzAzZcWVXVld0MkV5ZndnRDY4UjFDWmpcl3pWQ0xsQWZQZHZkxTVZZdmxBMSj9&mrkid=788730](https://www.fiercetelecom.com/telecom/telstra-adds-2-500-temporary-jobs-to-its-workforce-to-help-coronavirus-fall-out?mkt_tok=eyJpIjoiTnpNMU4yVTBOekEyT1dJeSIsInQiOiJpVnBvVDkwdE5tZHZ6UUZrNTZzOWFZN0RTcVdPMXVOc0prWFR2VFlicjR0Wk81NTMrd2F0V21tczFzdlwvSHdFSThSYUpFWW4xRWsrN3dwNUhZVVwvZUtNMzAzZcWVXVld0MkV5ZndnRDY4UjFDWmpcl3pWQ0xsQWZQZHZkxTVZZdmxBMSj9&mrkid=788730)

<sup>26</sup> <https://www.mobileworldlive.com/featured-content/home-banner/operators-face-25b-roaming-hit-report/>

<sup>27</sup> <https://www.abiresearch.com/press/covid-19-pandemic-impact-production-smartphones-will-fall-much-30-first-half-2020/>

<sup>28</sup> <https://www.mobileworldlive.com/money/news-money/mtn-prepares-for-virus-hit-with-cost-focus/>

<sup>29</sup> <https://www.omdia.com/resources/product-content/global-advertising-market-set-for-tough-2020-as-covid-19-impact-hits-global-economy> and <https://www.digitalcommerce360.com/2020/04/30/facebook-signals-online-advertising-to-take-a-big-hit/>



to reduce their dependence on outsourcing, which could have long-term trade implications for outsourcing firms.<sup>30</sup>

### **Air, land and maritime transport services**

Mobility-related measures and border restrictions imposed by governments for public health considerations have hit trade in transport services particularly hard, and this, in turn, has impacted international merchandise trade.

Strict restrictions on maritime crew disembarkation and substitution have led to shipping disruptions. In addition, the grounding of most of the world's passenger aircraft fleet, which normally also transports almost half of all air cargo shipments, has created significant bottlenecks in air cargo transportation. Furthermore, the reintroduction of border controls has engendered significant congestion and delays for cross-border freight transport, with severe repercussions on goods trade and on the viability of supply chains, which were already severely weakened by factory closures because of the pandemic.

In a second-phase response to the crisis, several governments have revised some of their travel and border measures, for example to ensure the movement of "essential" foreign services workers, including transport workers.

### **Air transport services**

The pandemic has had a dramatic effect on the air transport service sector. In May, the International Civil Aviation Organization (ICAO) estimated that, for the entire year 2020, world air passenger traffic could drop by as much as two-thirds from what had been initially forecast, leading airline revenues to fall potentially by as much as US\$ 244 to US\$ 420 billion. Europe and the Asia-Pacific region would be hardest-hit in terms of international capacity and revenue impacts, followed by North America. Similarly, ICAO expects the most substantial reduction in passenger numbers to be in Europe, especially during its peak summer travel season, while the sharpest drop in domestic passenger traffic is forecast for the Asia-Pacific region, followed by North America.<sup>31</sup>

Airports Council International (ACI), the airport industry body, forecast in May that flight cancellations and airport closures would result in a decline of more than 4.6 billion passengers globally for 2020, and airport revenue losses for the year would exceed US\$ 45 billion.<sup>32</sup> In addition, as around 35 per cent of global trade (by value) travels by air, the collapse in passenger flights has had a significant impact on air cargo capacity. The latest available figures (from April 2020) from the International Air Transport Association (IATA) reveal that belly capacity for international air cargo shrank by 43.7 per cent in March 2020 compared to the previous year.<sup>33</sup> Although this was partially offset by a 6.2 per cent increase in capacity through expanded use of freighter aircraft, including the use of idle passenger aircraft for all-cargo operations, there is at present insufficient capacity to meet the remaining demand for air freight transport, even though the latter has also declined.<sup>34</sup> As a result, air freight rates have increased significantly – by an estimated 20 to 30 per cent across the Asia-Pacific region, and by as much as 50 per cent for some routes. Transit times have also nearly doubled, as shipments need to wait their turn.<sup>35</sup>

Governments have responded in various ways to the aviation situation. For example, several regulators have suspended "use it or lose it" slot requirements that oblige airlines to continue operating slots for a minimum share of the time in order to keep their entitlements for the

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<sup>30</sup> For example, see "Virgin Media to Recruit 500 Call-Centre Staff in UK", Financial Times, 25 March 2020.

<sup>31</sup> <https://www.icao.int/sustainability/Documents/COVID-19/ICAO%20COVID%202020%2005%2025%20Economic%20Impact.pdf>

<sup>32</sup> <https://aci.aero/news/2020/05/05/predicted-global-impact-of-covid-19-on-airport-industry-escalates/>

<sup>33</sup> See <https://go.updates.iata.org/webmail/123902/1142448399/72a3a9b684836680e5223fada07076a577d47f56b9de5c849b06dd66c7de445a>

<sup>34</sup> See, for example, <https://www.wired.com/story/airlines-use-empty-passenger-jets-ease-cargo-crunch/>

<sup>35</sup> Financial Times, "Passenger planes are the new ships", 14 April 2020.

following travel season. Regulatory requirements have also been eased in other areas in order to provide flexibility to airlines and flight crews during the crisis. Numerous governments have also announced support measures in favour of the air transport sector, such as reductions in airport, air navigation and other charges and broader financial support measures, including loan guarantees, long-term loans and acquisition of equity stakes in airlines.

Efforts have also been undertaken at the international level. For instance, on 6 March 2020, ICAO and the World Health Organization issued a [joint statement](#) providing updated advice regarding COVID-19 and civil aviation, noting the importance of States adhering to their respective standards relating to the prevention of the spread of communicable diseases and reaffirming their commitment to foster greater international cooperation to contain the virus and to protect the health of travellers. On 26 May, ICAO joined the International Labour Organization and the International Maritime Organization in issuing a new joint call on governments to ensure “key worker” designations for the millions of skilled personnel maintaining essential global air and sea trade capacities.<sup>36</sup> ICAO has also been working closely with governments and industry partners to provide guidance to aviation authorities, airlines and airports, and advice to individuals, on appropriate measures that will protect the health of travellers and reduce the risk of transmission.

### **Maritime transport services**

With lockdown and quarantine measures implemented in most countries since the outbreak of COVID-19, the shipping industry too is under increased pressure. Both container ship calls and their cumulative capacity plunged from January to March 2020. At the same time, the ratio of missed port calls (i.e. scheduled vessel calls that do not occur) has risen sharply. For instance, port operators in China [reported](#) that volume for container shipping decreased by between 20 and 40 per cent between 20 January and 10 February 2020 compared to the same period in 2019. Global container trade volumes declined by 8.6 per cent in February 2020 compared to the same month of 2019.<sup>37</sup> In February 2020, 46 per cent of scheduled departures on the major route from Asia to Northern Europe had been cancelled,<sup>38</sup> and the port of Los Angeles, the largest US container port, announced that cargo volumes had fallen by approximately 25 per cent compared to the prior year.<sup>39</sup> The slowdown in port calls is occurring worldwide. Shipping companies have been reducing scheduled capacity, and the proportion of idle container ship tonnage is greater now than during the global financial crisis of 2008. This translates into higher costs for shipping and problems for supply chains. There is also a shortage of workers at the ports to move containers, and a shortage of truck drivers to move goods, due to lockdown and quarantine.

The shipping industry has been particularly affected by [global port measures](#) implemented since the outbreak. From February, major ports across the world adopted a 14-day quarantine period for vessels arriving from, or transiting through, affected countries. Many ports have ceased calls for passenger ships. While cargo vessels may still call and operate at most ports, they are subject to enhanced maritime health declarations and screening requirements. In addition, strict restrictions have been imposed on crew disembarkation, shore leave and substitution, affecting around 100,000 seafarers per month.

In view of increased port restrictions, on 13 February 2020, the International Maritime Organization (IMO) and the WHO issued a Joint Statement on the Response to the COVID-19 outbreak ([IMO Circular Letter No. 4204/Add.2](#)).<sup>40</sup> On 27 March, the IMO circulated to its member states a preliminary list of recommendations for governments and relevant national authorities on the facilitation of maritime trade during the COVID-19 pandemic ([IMO Circular Letter No. 4204/Add.6](#)), proposed by a broad cross-section of global industry associations representing the

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<sup>36</sup> <https://www.icao.int/Newsroom/Pages/FR/ICAO-ILO-and-IMO-issue-joint-call-to-world-governments-on-need-for-key-worker-designations-for-essential-air-and-sea.aspx>

<sup>37</sup> <https://www.itf-oecd.org/sites/default/files/global-container-shipping-covid-19.pdf>

<sup>38</sup> "Coronavirus impact raises red flags at European ports", *Journal of Commerce*, 19 February 2020.

<sup>39</sup> "Port of Los Angeles Sees Coronavirus Impact Sharply Reducing Imports", *Wall Street Journal*, 25 February 2020.

<sup>40</sup> While recognising the need to prevent the introduction or spread of the disease, the Joint Statement notes that unnecessary interference with maritime traffic should be minimized. It also highlights the importance of avoiding causing unnecessary restrictions or delay on port entry of ships, persons and merchandise. See also the *Operational Considerations for Managing COVID-19 Cases/Outbreak on Board Ships* IMO ([IMO Circular Letter No. 4204/Add.3](#)).



maritime transportation sector. The purpose of this list is to assist governments in avoiding the introduction of obstacles to ship and port operations, including the movement of seafarers and marine personnel when implementing policies and measures to address COVID-19. Recommendations cover measures to provide ship access to berths in ports, facilitate crew changes and port operation and ensure public health.<sup>41</sup>

### **Land transport services**

The COVID-19 pandemic has seriously disrupted land transport worldwide. Most countries have suspended or largely reduced cross-border passenger transport services. While borders remain open for freight transportation, drivers are subject to border controls for quarantine purposes, which has led to a slowdown of logistics flows.

For example, in order to combat the pandemic, European countries in the Schengen area have temporarily reintroduced border controls since mid-March 2020. Most road and rail cross-border passenger transport has been suspended since then. While the reintroduction of border controls does not apply to cross-border freight transport, it has nevertheless resulted in [considerable disruption](#). In order to mitigate disruption and facilitate freight transport, most EU member states have adopted relief measures, including the suspension of weekend traffic bans for heavy vehicles, as well as a temporary and limited relaxation of the enforcement of driving and rest times for the drivers of vehicles transporting goods.<sup>42</sup> Another example concerns the border between Saudi Arabia and Kuwait, where authorities in Kuwait, in view of long queues of trucks at the border, have allowed customs clearance to be done at the border rather than inland. This has significantly eased the traffic and the queues are gradually diminishing.

### **Health Services**

#### **Telemedicine**

Telemedicine is not new, but the current crisis could have a major impact on the prospects for expanding the supply of online health services, with possible implications for trade. The COVID-19 crisis stimulated a surge in the use of telemedicine services. In China, for example, it substantially accelerated the growth of online medical platforms, with some experiencing three-digit growth rates between December 2019 and January 2020. The number of users of online medical platforms in Asian economies (e.g. Australia, Indonesia, Singapore) [has grown rapidly](#) in the past few months. Some providers are also expanding their activities to enable patients to benefit from services, e.g. second opinions, sourced abroad. The use of telemedicine has also increased in Europe and North America, where the COVID-19 outbreak prompted calls for making more extensive use of telemedicine. Some jurisdictions have reviewed laws and regulations to facilitate such services, mainly on a provisional basis.<sup>43</sup>

Easing access to telemedicine services, even on a provisional basis, could help to slow the spread of COVID-19 in affected economies, as well as assist in the sharing of knowledge and experiences in detection of the virus, monitoring and response.<sup>44</sup> However, international telemedicine remains a challenge given the wide regulatory diversity and differing national capabilities. For instance,

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<sup>41</sup> On 6 May 2020, the IMO issued guidelines aimed at ensuring a safe shipboard interface between ship and shore-based personnel through the implementation of practical, risk-based measures to address COVID-19 risks (IMO Circular Letter No. 4204/Add.16 – <https://www.register-iri.com/wp-content/uploads/CL.4204-Add.16.pdf>).

<sup>42</sup> On 16 March 2020, the European Commission issued guidelines for border measures to protect health and keep goods and essential services available. The guidelines set out principles for an integrated approach to an effective border management to protect health while preserving the integrity of the internal market. [https://ec.europa.eu/home-affairs/sites/homeaffairs/files/what-we-do/policies/european-agenda-migration/20200316\\_covid-19-guidelines-for-border-management.pdf](https://ec.europa.eu/home-affairs/sites/homeaffairs/files/what-we-do/policies/european-agenda-migration/20200316_covid-19-guidelines-for-border-management.pdf)

<sup>43</sup> See for example <https://www.service-public.fr/particuliers/actualites/A13924> and [https://ahpcsa.co.za/wp-content/uploads/2020/03/GUIDELINES\\_TELEHEALTH-TELEMEDICINE\\_1\\_24Mar2020.pdf](https://ahpcsa.co.za/wp-content/uploads/2020/03/GUIDELINES_TELEHEALTH-TELEMEDICINE_1_24Mar2020.pdf)

<sup>44</sup> See [http://www.euro.who.int/\\_data/assets/pdf\\_file/0003/436350/strengthening-health-system-response-COVID-19.pdf?ua=1](http://www.euro.who.int/_data/assets/pdf_file/0003/436350/strengthening-health-system-response-COVID-19.pdf?ua=1) and <http://www.oecd.org/coronavirus/policy-responses/beyond-containment-health-systems-responses-to-covid-19-in-the-oecd-6ab740c0/> and <https://www.who.int/news-room/detail/20-04-2020-itu-who-joint-statement-unleashing-information-technology-to-defeat-covid-19>

these services often face geographic regulations, such as requiring the health professional to reside in the jurisdiction of the patient. Also, a pre-existing relationship between the patient and the health professional is typically a precondition for telemedicine services. International cooperation at the governmental level, in particular among health, IT and telecommunications policy-makers and companies is needed to address the challenges of a reliable and sustained increased cross-border supply of services related to telemedicine.

### ***Facilitating entry of medical personnel***

In a second-phase response to the crisis, several governments have revised some of their travel and border measures to ensure that the cross-border movement of essential foreign health workers was not unduly burdened. Some WTO members created special-entry avenues for health and social care workers, with particular entry visas and extended visa validities.<sup>45</sup> The need for additional health workers increased substantially in the past months, and in some cases, foreign workers moved to different health systems specifically to support the COVID-19 response.

### **Financial services**

The pandemic and its impact on the global economy has brought to the fore the key role of the financial services sector in supporting all other economic activities by stabilizing markets and ensuring the flow of credit and payments.

Central banks and financial regulators around the world have proactively intervened, showing commitment to using all possible measures with a view to stabilizing markets, ensuring the flow of credit to households and firms as well as the continuity of payments, and facilitating the ability of financial institutions (in particular banks) to absorb losses in an orderly manner.

That intervention has included both coordinated action by central banks to ensure the availability of liquidity in US dollars for international transactions,<sup>46</sup> as well as a range of monetary and regulatory measures by governments to alleviate the economic and financial stability impact in their jurisdictions.

Monetary authorities have been active and creative with different monetary instruments, including the lowering of key/base interest rates, quantitative easing, and the reduction of reserve requirements. Macroprudential measures have also been very varied and have included the reduction of counter-cyclical capital buffers, the easing of liquidity positions, the easing of loan-loss provisions, forbearance for non-performing loans, and relaxation of caps on banks' foreign currency forward positions.

### ***Specific regulatory measures***

Regulatory authorities in various jurisdictions (e.g. Brazil, Hong Kong (China), India, the Republic of Korea, Mexico, Singapore and South Africa) have loosened requirements regarding liquidity and capital requirements, to ensure that banks are well-positioned to continue providing credit. Bans on the short-selling of selected stocks have been imposed by certain jurisdictions with a view to stabilizing capital markets.

Some authorities have eased loan-loss provision to allow banks to extend loan maturities for firms and households (e.g. Brazil, Turkey) or allowed for forbearance of non-performing loans (e.g. China). Some authorities have relaxed the cap on foreign currency forward positions (e.g. the Republic of Korea).

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<sup>45</sup> For example <https://www.gov.uk/government/news/nhs-frontline-workers-visas-extended-so-they-can-focus-on-fighting-coronavirus>

<sup>46</sup> On 15 March 2020, the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the US Federal Reserve and the Swiss National Bank announced a coordinated action to enhance the provision of liquidity via the standing US dollar liquidity swap line arrangements in order to ensure the supply of credit to households and businesses in those regions. See [https://www.snb.ch/en/mmr/reference/pre\\_20200315/source/pre\\_20200315.en.pdf](https://www.snb.ch/en/mmr/reference/pre_20200315/source/pre_20200315.en.pdf)

## ***E-payment measures***

Companies offering e-payments began to react early on as pandemic-related measures began to be applied. Many central banks lifted restrictions and requirements applied to e-payment systems. This was seen particularly in Africa, where mobile payments are common. Ghana, for example, adopted new policies related to mobile money transactions for a period of three months, so that smaller withdrawals are not charged, and transaction limits and balance levels were increased.<sup>47</sup>

## **Education services**

The closure of schools and higher education institutions in response to the pandemic has had significant social and economic consequences; UNESCO estimated that during the peak of the crisis, school and university closures in 190 countries had impacted over 90 per cent of the world's student population.<sup>48</sup> These closures have also affected the provision of education services worldwide, causing the demand for online learning to skyrocket.

Governments and private providers of educational services are facing the pressing need to develop and rapidly implement technical solutions to provide online education, including developing online materials and teaching skills. The sudden spread of distance learning is also bringing old and new regulatory challenges to the forefront, such as those related to the accreditation of digital learning providers and material, ensuring access to online education, and rules on the collection, management and use of data, especially personal data of children and young people.

The pandemic will also have a significant economic impact on the higher education sector, including as a result of a potential decline in the number of students. It has been estimated that, in some countries, enrollments for the next academic year could drop by 15 per cent, including a 25 per cent decline in the number of international students.

As systems massively move to e-learning, the digital divide in relation to connectivity, access to devices and skill levels is taking on even more significance. Looking forward, the current crisis is likely to have a significant and lasting impact on the provision of education and, thereby, on international trade in educational services, notably by increasing the demand and supply of online education.

## ***Response to the crisis***

Countries are coping with similar challenges, and different forms of online education and educational resources are being mobilized. Effective responses can be strengthened by leveraging the experience of governments and private providers for facilitating the supply of educational services during the outbreak. Responses are primarily coming from governments, but private suppliers are also playing a role. Public-private partnerships are growing in many jurisdictions, with, for example, national telecommunications providers allowing access to broadband free of charge for educational purposes, and large digital platforms expanding their offer of digital tools for education.<sup>49</sup>

## **3. CONCLUSION**

Social distancing measures taken as a result of the pandemic are underscoring the importance of services, such as telecommunications and computer services, that enable online supply and telework, and the relevance of the policy environment for these sectors, including in the trade

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<sup>47</sup> <https://www.mobileworldlive.com/featured-content/money-home-banner/african-nations-back-mobile-money-in-virus-battle/>

<sup>48</sup> For up-to-date information on the number of students and countries affected by the COVID-19 crisis, please refer to: <https://en.unesco.org/covid19/educationresponse>

<sup>49</sup> A wide range of private contributors have also stepped forward to provide free WiFi and devices for students and social support for teachers and schools. For those without access to digital resources, countries are using public television or radio to provide courses for students, as well as training to teachers. Examples of countries delivering learning content through a mix of distance learning and television include Argentina, Croatia, China, France, the Republic of Korea, Malaysia, Mauritius, Peru, Senegal, Spain, Sri Lanka and Thailand.

policy realm. The increasing importance of online supply may also further increase interest in adapting regulatory frameworks to better accommodate services supplied remotely, including from abroad. The crisis has also highlighted the infrastructural role of transport services in facilitating international merchandise trade and tourism.

In view of the sector's contribution to global output and employment, as well as its increasing weight in international trade and investment, the impact of the economic slowdown on services sectors will be felt widely. At the same time, services sectors have been key in increasing resilience and coping with the crisis, especially with regard to infrastructural services such as finance, telecommunications, distribution, transport and logistics. Online supply capabilities have facilitated telework and tele-education.

Because of their impact on economy-wide productivity and trade performance, services trade and services policies, which have become critical to development strategies, will be key to recovery from the economic slowdown. This underscores the importance of providing fresh impetus to services trade.