

## **Covid-19: Trade policy choices for developing countries during and after the pandemic**

*Ranja Sengupta*

Countries across the world are reeling from the pandemic triggered by the rapid spread of the novel coronavirus.

There are impacts in terms of continuously increasing infections and deaths coupled with testing, containment and treatment constraints. The few countries that are able to manage the first wave of infections are anticipating new waves as long as effective vaccines and treatments remain elusive.

There are also massive economic impacts that this pandemic and any effort to address it (such as “lockdowns”) have brought on. The damage is felt across both developed and developing countries, partially due to lack of capacities as well as lack of timely and appropriate decision-making. The full extent has yet to unfold.

Trade remains a critical part of this scenario since the movement of goods and people across national borders, especially dictated by the current global trade framework, has contributed much to the spread of Covid-19. But trade also matters for the policy choices to deal with the crisis. The solutions mooted by key institutions and countries in terms of trade policy choices under these circumstances thus require careful analysis.

This Briefing Paper focuses on a few of these proposed solutions, particularly those concerning export restrictions and tariff cuts.

### **A. Do more deals mean better deals?**

There seems to be an opportunistic or even a desperate attempt by some countries to put forward the signing of trade agreements as a panacea for all real-life problems. We see this in the case of some Free Trade Agreements (FTAs), but it has been more pronounced in the case of the World Trade Organisation (WTO).

The WTO Secretariat and some developed-country Members have been trying to continue negotiations in several areas, including on fisheries subsidies and agriculture, through emails, virtual meetings and online technologies.

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**Third World Network (TWN)** is an independent non-profit international research and advocacy organisation involved in bringing about a greater articulation of the needs, aspirations and rights of the peoples in the South and in promoting just, equitable and ecological development.

**Address:** 131 Jalan Macalister, 10400 Penang, MALAYSIA  
**Email:** [twn@twnetwork.org](mailto:twn@twnetwork.org)

**Tel:** 60-4-2266728/2266159

**Fax:** 60-4-2264505

**Website:** [www.twn.my](http://www.twn.my)

Some plurilateral negotiations, such as those on e-commerce, investment facilitation and domestic regulation in services, are also apparently being strongly pushed forward. The rationale for earnestly continuing these negotiations when all countries are being ravaged by the virus is unclear.

Given the urgent domestic situation in most countries and the digital divide that the poorer countries face, these negotiations run several risks. First, such processes are non-inclusive and opaque, and second, these are biased in favour of those who lead and can participate effectively through virtual means. As a result, the outcomes may be defective and often biased against developing countries and least developed countries (LDCs). (See TWN Briefing Paper on “International negotiations by virtual means in the time of the Covid-19 pandemic”.<sup>1</sup>)

These processes seemed to have slowed down a little between April-May, given the clear reluctance of several developing countries to participate especially in decision-making through virtual means. What direction these negotiations will take given the 14 May announcement of the impending departure of the WTO Director-General Roberto Azevedo also remains to be seen. However, some of the plurilateral negotiations still seem to be moving ahead. And the fisheries subsidies negotiations are scheduled to restart by the middle of June at the insistence of the Chair, Ambassador Santiago Wills.

## **B. Developed-country solutions**

Already, the policy prescriptions being advanced by the Organisation for Economic Cooperation and Development (OECD) and certain rich countries, as well as the Group of 20 (G20) major economies, are worrying. Some developing countries also seem to have been brought on board. The WTO has seen a plethora of declarations and statements being circulated, while the OECD and the G20 have come up with their own policy recommendations and statements. This section analyses some of these positions from a developing-country perspective.<sup>2</sup>

### *The OECD*

In a policy brief titled “Covid-19 and International Trade: Issues and Actions”<sup>3</sup> released on 10 April, the OECD suggests a higher use of trade facilitation through the WTO’s Trade Facilitation Agreement (TFA) and of e-commerce, to resolve the crisis.

However, these are sensitive issues for developing countries and LDCs. For example, higher use of e-commerce should not necessitate higher engagement in e-commerce negotiations that are riddled with many regulatory and financial problems for developing countries.

However, two other recommendations have an important bearing for this period in terms of their immediacy. The OECD brief proposes a global agreement on medical and other essential products that includes removal of all tariffs, coupled with either a complete ban on export restrictions or a condition that such measures will be “targeted, proportionate, transparent and temporary”.

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<sup>1</sup> [https://twn.my/title2/briefing\\_papers/twn/Virtual%20negotiations.pdf](https://twn.my/title2/briefing_papers/twn/Virtual%20negotiations.pdf)

<sup>2</sup> In addition to the documents discussed here, there have been statements highlighting the importance of micro, small and medium-sized enterprises (MSMEs), supply chain connectivity and the multilateral trading system, in relation to the Covid-19 crisis. In addition, there are statements from the LDC Group (discussed in the context of export restrictions in this paper), APEC and ASEAN.

<sup>3</sup> [https://read.oecd-ilibrary.org/view/?ref=128\\_128542-3ijg8kfswh&title=Covid-19-and-international-trade-issues-and-actions](https://read.oecd-ilibrary.org/view/?ref=128_128542-3ijg8kfswh&title=Covid-19-and-international-trade-issues-and-actions)

### *The New Zealand-Singapore declaration*

The above ideas are reflected in the “Declaration on Trade in Essential Goods for Combating the Covid-19 Pandemic” launched on 15 April by New Zealand and Singapore. This was circulated to all WTO Members on 16 April as a communiqué (G/C/W/777)<sup>4</sup> and as an invitation for others to join. The declaration pins down a commitment to “eliminate all customs duties and all other duties and charges of any kind” and not to “apply export prohibitions or restrictions” on a number of products listed under an Annex I, including so-called essential processed food items and medical products.

An additional Annex II covers an extensive list of food products. The participating countries are expected to “endeavour” not to apply export restrictions on these. They are also to enter into arrangements with one or more of the other participants for tariff removal on Annex II products.

The participants will also “intensify consultations with a view to removing non-tariff barriers” and “expedite and facilitate the flow and transit of all products listed in Annex I and Annex II” through the WTO Trade Facilitation Agreement.

Interestingly, as a South Centre (2020) paper<sup>5</sup> points out, 92 of the 126 products listed under Annex I do not come under the World Customs Organisation (WCO)-World Health Organisation (WHO) list of Covid-19 medical supplies and priority medicines.<sup>6</sup> In addition, developed countries seem to be the top exporters of Annex I products, with New Zealand being a top exporter of several products under Annex II. Notwithstanding the bias in the product list, the policy recommendations on export restrictions and tariff cuts are discussed below.

### *Ministerial statement on action plans to facilitate the flow of goods and services as well as the essential movement of people*

In a statement circulated at the request of South Korea, dated 12 May, titled “Joint ministerial statement on action plans to facilitate the flow of goods and services as well as the essential movement of people”,<sup>7</sup> Australia, Canada, New Zealand, South Korea and Singapore have pledged and urged others to “refrain from the introduction of export prohibitions or restrictions, tariffs and non-tariff barriers on essential goods, including food, pharmaceuticals, and critical medical supplies”. If they do apply these measures, the measures should be “targeted, proportionate, transparent, temporary and consistent with WTO rules”. This is along similar lines as the New Zealand-Singapore declaration and the OECD recommendations on export restrictions.

However, in a bold contrast from most statements and recommendations doing the rounds, this ministerial statement also recommends “facilitating the essential movement of people”. It suggests that signatories, without undermining efforts to control the spread of the virus, “facilitate the resumption of essential cross-border travel, with mutual assurance of health standards”, and “establish guidelines to allow, on an exceptional basis, essential cross-border travel for purposes such as maintaining global supply chains, including essential business travel, in accordance with national laws and regulations...”.

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<sup>4</sup> [https://docs.wto.org/dol2fe/Pages/FE\\_Search/FE\\_S\\_S009-DP.aspx?language=E&CatalogueIdList=263100,263117,263116,263118,263099,263094,263097,263092,263115,263107&CurrentCatalogueIdIndex=1&FullTextHash=371857150&HasEnglishRecord=True&HasFrenchRecord=False&HasSpanishRecord=False](https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S009-DP.aspx?language=E&CatalogueIdList=263100,263117,263116,263118,263099,263094,263097,263092,263115,263107&CurrentCatalogueIdIndex=1&FullTextHash=371857150&HasEnglishRecord=True&HasFrenchRecord=False&HasSpanishRecord=False)

<sup>5</sup> <https://www.southcentre.int/policy-brief-77-may-2020/>

<sup>6</sup> [http://www.wcoomd.org/-/media/wco/public/global/pdf/topics/nomenclature/covid\\_19/prioritization-medicines-list-during-covid\\_19-\\_v9\\_wco\\_en.pdf?la=en](http://www.wcoomd.org/-/media/wco/public/global/pdf/topics/nomenclature/covid_19/prioritization-medicines-list-during-covid_19-_v9_wco_en.pdf?la=en)

<sup>7</sup> <https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/WT/GC/214.pdf>

As expected, this statement has not found too many takers. Except for a G20 Trade Ministers' statement (see below), most of the other statements put forward have been rather silent on the subject of the movement of people. However, the language in the 12 May statement does not refer very clearly to Mode 4, in terms of movement of professionals, in which developing countries may have an interest and a specific stake. Instead, the recommendations refer to general movement of people related to trade and production requirements.

### *Statement on agricultural and food products*

A joint statement was circulated by Canada entitled “Responding to the Covid-19 pandemic with open and predictable trade in agricultural and food products”, dated 22 April with revisions on 13 May and 29 May.<sup>8</sup> Twenty-nine signatories, including Canada, the United States, the European Union, the United Kingdom and Australia,<sup>9</sup> mainly commit to banning or limiting export restriction measures on agricultural and food products during the pandemic. The language is along G20 lines and promises “to ensure that supply chains remain open and connected...” and “to exercise restraint in establishing domestic food stocks of agricultural products that are traditionally exported...”.

Most importantly, there is a commitment “not to impose agriculture export restrictions and refrain from implementing unjustified trade barriers on agriculture and agri-food products and key agricultural production inputs”.

Moreover, the statement says, “emergency measures related to agriculture and agri-food products designed to tackle Covid-19 must be targeted, proportionate, transparent, and temporary, and not create unnecessary barriers to trade or disruption to global supply chains for agriculture and agri-food products”.

This statement is in contrast to the New Zealand-Singapore declaration, the 12 May ministerial statement and the OECD recommendation in that it is limited to agricultural and food products and excludes medical products. More importantly, it does not explicitly mention tariff cuts. However, “emergency measures” could, in principle, include a change in tariff policy.

### *The G20 statements*

In a statement from the G20 summit on Covid-19 dated 26 March,<sup>10</sup> the leaders promise to “work to ensure the flow of vital medical supplies, critical agricultural products, and other goods and services across borders, and work to resolve disruptions to the global supply chains”. They promise also to “facilitate international trade and coordinate responses in ways that avoid unnecessary interference with international traffic and trade”. But the most concrete decision seems to involve export and other restrictions and says, “emergency measures aimed at protecting health will be targeted, proportionate, transparent, and temporary”.

In a further articulation, a list of short-term and long-term collective actions was laid out by G20 Trade Ministers,<sup>11</sup> through a Ministerial meeting held on 14 May. It suggests that export restrictions on vital medical supplies and equipment and other essential goods and services, if deemed necessary, should be “targeted, proportionate, transparent, temporary, reflect our interest in protecting the most vulnerable...” (Paragraph 1.1.1).

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<sup>8</sup> <https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=Q:/WT/GC/208R2.pdf>

<sup>9</sup> Australia; Brazil; Canada; Chile; Colombia; Costa Rica; Ecuador; European Union; Georgia; Hong Kong, China; Japan; Republic of Korea; Malawi; Malaysia; Mexico; New Zealand; Nicaragua; Paraguay; Peru; Qatar; Kingdom of Saudi Arabia; Singapore; Switzerland; the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu; Ukraine; United Arab Emirates; United Kingdom; United States; and Uruguay

<sup>10</sup> [https://g20.org/en/media/Documents/G20\\_Trade%20&%20Investment\\_Ministerial\\_Statement\\_EN.pdf](https://g20.org/en/media/Documents/G20_Trade%20&%20Investment_Ministerial_Statement_EN.pdf)

<sup>11</sup> <http://www.g20.utoronto.ca/2020/2020-g20-trade-0514.html>

**Table 1: Some recommendations of different developed country-led groups on trade policy during the Covid-19 outbreak**

	<b>OECD</b>	<b>New Zealand-Singapore</b>	<b>Ministerial Statement on Flow of Goods and Services and Essential Movement of People</b>	<b>Agricultural and Food Products Statement</b>	<b>G20 (Leaders' Statement and Trade Ministers' Statement)</b>
<b>Date Launched</b>	10 April 2020	15 April 2020	12 May 2020	22 April, revised 13 and 29 May 2020	26 March/14 May 2020
<b>Ban Export Restrictions (XR) or Restrict with Conditions</b>	<ul style="list-style-type: none"> <li>• Ban XR on medical products</li> <li>• Preferably ban XR on agricultural and food products</li> </ul>	<ul style="list-style-type: none"> <li>• Ban XR on medical products under Annex I</li> <li>• Ban XR on agricultural and food products under Annex I</li> <li>• If possible, ban or restrict export restrictions on some agricultural and food products under Annex II</li> </ul>	<ul style="list-style-type: none"> <li>• Ban XR on medical products including pharmaceuticals</li> <li>• Ban XR on food products</li> <li>• If XR is implemented, to follow conditions</li> </ul>	<ul style="list-style-type: none"> <li>• XR on only agricultural and food products to be banned or to be limited with conditions</li> </ul>	<ul style="list-style-type: none"> <li>• To limit XR and impose conditions for medical products</li> <li>• Preferably ban XR on agricultural and food products, but recognises domestic food security and national requirements</li> </ul>
<b>Import Tariff Reduction/ Elimination</b>	<ul style="list-style-type: none"> <li>• On medical products</li> <li>• Preferably on agricultural and food products</li> </ul>	<ul style="list-style-type: none"> <li>• On medical products under Annex I</li> <li>• On agricultural and food products under Annex I</li> <li>• Preferably on agricultural and food products under Annex II on a bilateral or plurilateral basis</li> </ul>	<ul style="list-style-type: none"> <li>• Ban introduction of tariffs (and non-tariff barriers) on medical products including pharmaceuticals</li> <li>• Same on food products</li> </ul>	<ul style="list-style-type: none"> <li>• No explicit mention (unless under “emergency measures”)</li> </ul>	<ul style="list-style-type: none"> <li>• No explicit mention but suggests members should keep markets “open” (Paragraph 2.1.4)</li> </ul>
<b>E-commerce</b>	To engage in e-commerce negotiations at the WTO in order to use e-commerce to solve Covid-19 problems	Yes	NA	No	Promotes e-commerce plurilateral, e-transmissions, WTO work programme on e-commerce
<b>Trade Facilitation (including logistics)</b>	To use the WTO's TFA to ease trade	Expedite flow and transit of all products	Yes	No	Yes
<b>Global Supply Chains</b>	Yes	No	Ease cross-border travel for global supply chains	No	Yes
<b>Movement of People</b>	No	No	Yes	No	Yes

Source: Compiled by the author based on the relevant documents (see References for documents).

On agricultural products, it suggests refraining from introducing export restrictions altogether and avoiding stockpiling. However, the statement recognises domestic needs and adds “without prejudice to domestic food security, consistent with national requirements” (Paragraph 1.1.2).

It goes on to describe how to facilitate trade, increase transparency, support micro, small and medium-sized enterprises (MSMEs) and so on. Among its long-term objectives, Paragraph 2.1.4 ends with a pledge to keep “markets open”. This is a more explicit, even though slightly obscure, recommendation towards possible removal of import tariffs though it is not as clearly articulated as by the OECD, the 12 May ministerial statement or the New Zealand-Singapore declaration.

Paragraph 1.2.7 (under trade facilitation) says the G20 Trade Ministers “encourage our Governments to facilitate the resumption of essential cross-border travel, in accordance with national laws and regulations, while safeguarding public health...”. This echoes the language in the 12 May ministerial statement above on movement of people. As explained earlier, however, this does not exactly refer to the Mode 4 movement of professionals and is not of specific interest to developing countries.

Paragraph 2.1.6 reaffirms the importance of the interface between trade and the digital economy, and notes the ongoing discussions under the Joint Statement Initiative on Electronic Commerce and the Moratorium on Customs Duties on Electronic Transmissions, and reaffirms the need to reinvigorate the Work Program on Electronic Commerce at the WTO. As mentioned above, this does not recognise the sensitivities of developing countries in the WTO, including even some G20 members. It seems to be advancing the consistent developed-country agenda towards a multilateral – or, in lieu of that, a plurilateral – agreement on e-commerce under the WTO, which has been resisted by many developing countries.

### **C. A closer look at two recurrent recommendations**

#### ***Export restrictions: What is acceptable and what is not***

The attempt to eliminate export restrictions on medical products as well as food products is expected and will be echoed in many trade circles. However, it is clear that many countries will attempt to restrict export of essential products to ensure domestic supply in a crisis, even if it means denying other countries. As of 14 May, around 82 measures related to export restrictions on medical and agricultural products (see WTO website<sup>12</sup>) have been imposed in relation to Covid-19.

The WTO rules generally ban export restrictions (though not export taxes). Article XI:1 of the 1994 General Agreement on Tariffs and Trade (GATT) stipulates general elimination of quantitative restrictions on exports, but allows quotas, import or export licences or other measures. Further, Article XI:2(a) states that export prohibitions or restrictions temporarily applied to prevent or relieve critical shortages of foodstuffs or other products essential to the exporting Member are allowed.

The “general exceptions” of Article XX of GATT 1994 also allow export-restricting measures, subject to certain conditions, in order to allow Members to pursue certain legitimate policy objectives.<sup>13</sup>

There is no easy solution to this complex dilemma. Countries imposing export restrictions must try to increase production at the earliest possible, so restrictions can be eased. In the very short run, with widespread, often sudden, lockdowns, this may not always be possible. However, even in a situation of export restrictions, there should at least be continued supply to the poorest countries, which do not have the capacity to produce these essential items.

<sup>12</sup> [https://www.to.org/english/tratop\\_e/covid19\\_e/trade\\_related\\_goods\\_measure\\_e.htm](https://www.to.org/english/tratop_e/covid19_e/trade_related_goods_measure_e.htm)

<sup>13</sup> These measures must not be applied in a manner that amounts to arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade.



As seen in the case of India's hydroxychloroquine export ban, the most powerful countries do not hesitate to flex their muscles to secure access to the restricted products, including through threats of retaliation. (Case-by-case export approval was subsequently allowed once the domestic needs were assured.) The scramble for N95 masks also showed how the highest bidders could corner limited global supplies of crucial medical products, leaving poorer countries without essential supplies.

In fact, in a statement entitled "Securing LDCs Emergency Access to Essential Medical and Food Products to Combat the Covid-19 Pandemic"<sup>14</sup> dated 4 May, the LDC Group in the WTO came out with an appeal to non-LDC Members. They asked them not to impose export prohibitions or restrictions with respect to certain medical products listed in an Annex I as identified by the WHO and WCO and also to basic food products, when such products are requested or purchased by LDCs for their domestic use or are exported for humanitarian purposes (Paragraph 7.a). It is to be noted again that the New Zealand-Singapore proposal does not cover most of these WHO-WCO products that the LDCs want covered.

Secondly, the LDCs asked non-LDC Members to be consistent with their WTO obligations under the Trade Facilitation Agreement, to expedite and facilitate the flow and transit and departure of all products listed in the Annex and foodstuffs through their respective seaports and airports to reach LDCs for their domestic use.

Interestingly, neither the New Zealand-Singapore declaration (which does not specify any conditions) nor the G20 statement, the 12 May ministerial statement or the 29 May statement on food products (all of which advocate conditions on export restrictions if these have to be imposed) explicitly mention Special and Differential Treatment for developing countries, nor preferential treatment for the poorest countries.

The G20 Trade Ministers' statement does mention that any emergency measure including export restrictions must "reflect our interest in protecting the most vulnerable", but it does not per se recognise the needs of poorer countries. However, the OECD does suggest "addressing the needs of the most vulnerable countries". Addressing the needs of the poorest and most vulnerable countries should have been an obvious and the topmost agenda for all statements and declarations on export restrictions.

It is also worth noting that many of the signatory countries of the 29 May statement on agricultural and food products are large agricultural producers and exporters, often with relatively small populations, which may be less likely to face supply shortages and may have less need to apply export restrictions. Further, some are large subsidisers such as the US, the EU, the UK, Canada, and Switzerland (see Box 1) and therefore tend to be over-producers of food and agricultural products especially compared with domestic demand needs. Again, they are less likely to see a domestic shortage in these supplies. More may be at stake for developing countries such as India, Indonesia, the Philippines, Kenya and others, which are large consumers themselves and have large domestic populations to support. The choices are more difficult for them. As expected, we do not see many such countries signing on to this statement.

### **Box 1: The anomaly of agricultural subsidies**

- In 2013, total domestic agricultural subsidies (including subsidies under the Green Box category) of the US stood at 146.8 billion USD, and those of the EU at 130.4 billion USD approximately.
- Subsidies in the OECD countries increased from 350 billion USD to 400 billion USD between 1996-2011.
- During 2013-15, the EU gave 12,384 USD, Japan 14,136 USD, and the US 68,910 USD of domestic subsidies annually *per farmer*.
- In comparison, China gave 348 USD, India 228 USD, Brazil 468 USD and Indonesia 73 USD annually per farmer over the same period (South Centre 2017<sup>15</sup>).
- Moreover, many developed countries have enjoyed extra AMS (Aggregate Measurement of Support) entitlements above their *de minimis* entitlements (5% of value of production or VOP). For example, the US is entitled to 19 billion USD, Japan 37.5 billion USD and the EU 95 billion USD. This is much higher than the *de minimis* entitlements of developing countries (10% of VOP).

<sup>14</sup> <https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=Q:/WT/GC/211.pdf>

<sup>15</sup> [https://www.southcentre.int/wp-content/uploads/2017/01/AN\\_TDP\\_2017\\_1\\_The-WTO%E2%80%99s-Agriculture-Domestic-Supports-Negotiations\\_EN.pdf](https://www.southcentre.int/wp-content/uploads/2017/01/AN_TDP_2017_1_The-WTO%E2%80%99s-Agriculture-Domestic-Supports-Negotiations_EN.pdf)

## *The curious recommendation of tariff removals*

A WTO report on “Trade in Medical Goods in the Context of Tackling Covid 19”,<sup>16</sup> released 3 April, highlights high tariffs related to, for example, soap (average tariff 17%, high 65%), protective supplies (average tariff 11.5%, high 27%) and masks (high tariff rate at 55%).

The New Zealand-Singapore declaration, the 12 May ministerial statement as well as the OECD proposal all suggest total tariff removal on medical and, if possible, food products, to help resolve the crisis. The G20 Trade Ministers’ statement also hints towards tariff elimination. Interestingly, the 29 May statement on agricultural and food products does not mention disciplines on tariffs. This is probably aimed at getting on board some of the large countries such as the US, the EU member states and others which impose quite high import tariffs on some specific agricultural products.

According to the free-trade mantra, import duties distort demand, which in turn prevents the most efficient producer from supplying at the lowest price to the consumer. In reality though, while using import duties, countries need to balance two needs: to protect domestic production and livelihoods, and to meet domestic demand.

During the crisis, there is already excess demand, and any country that needs to import these (maybe cheaper) products to fight the pandemic will autonomously remove or reduce duties to encourage imports. A look at the WTO’s list of import measures<sup>17</sup> as of 14 May reveals that, out of 77 measures, most are related to a temporary elimination of import duties (along with easing of quotas, licensing and other requirements), while only one is related to raising import duties.

Autonomous reduction of tariffs can ensure policy flexibility to increase duties later, if countries so need. So the world is already seeing a reduction in these tariffs on a need basis rather than any tendency to raise tariffs, at least in the immediate term. Therefore, it is not clear why countries need to be forced to eliminate duties through such commitments as proposed by the above statements.

The purpose seems to be a forced commitment to liberalise trade in these products in the longer run, which would undermine the objective of protecting domestic production and supply, as well as livelihoods. Most of these statements appear to be open-ended and do not specify a particular period for which this commitment should be in place. While this may be understandable given the uncertainty over the duration of this pandemic and its after-effects, it implies that countries would liberalise these sectors, including all kinds of agricultural products, for an unknown period of time.

Tariff cuts will generally impact more on developing countries, whose tariff levels on average are much higher than those of developed countries, especially on agricultural products, which are extremely sensitive. Are developing countries thus being asked to now cut this protection for their farmers and producers, and expose them to foreign competition indefinitely?

The demand to cut tariffs on agricultural products is even more surprising given the history of agricultural trade negotiations at the WTO. Even when countries have pledged to eliminate agricultural export subsidies, the trade-distorting impact continues through domestic subsidies. For decades, developed countries such as the US, the EU, Japan, Canada, Switzerland and others have continued to give large domestic subsidies (especially on per-farmer and per-land-use bases) in excess of their *de minimis* limits (see Box 1). A substantial part of such subsidies has also been masked as non-trade-distorting subsidies or the Green Box. These support programmes have been held to be “export subsidies” by the WTO’s Appellate Body in disputes against the US, the EU and Canada.

<sup>16</sup> [https://www.wto.org/english/news\\_e/news20\\_e/rese\\_03apr20\\_e.pdf](https://www.wto.org/english/news_e/news20_e/rese_03apr20_e.pdf)

<sup>17</sup> [https://www.wto.org/english/tratop\\_e/covid19\\_e/trade\\_related\\_goods\\_measure\\_e.htm](https://www.wto.org/english/tratop_e/covid19_e/trade_related_goods_measure_e.htm)



In fact, large subsidy differentials exist between developed and most developing countries (see Box 1) on total and per-farmer bases. However, there is continuous pressure on developing countries to cut their subsidies and/or allow subsidies only under stringent conditionalities including severe transparency and notification requirements under a Peace Clause granted at the WTO's Bali Ministerial Conference of 2013 (Sengupta 2017<sup>18</sup>).

For many developing countries, tariffs have been the only protection against such large subsidy differentials. Cutting tariffs now will give the large subsidisers unimpeded access to developing-country agricultural markets. This has long been the fear among developing countries since even the pre-WTO period, and nothing has changed in that regard in order to justify tariff cuts in the medium to longer terms.

### *Tariffs and self-reliance after Covid-19*

Countries that have domestic production, perhaps infant industries, both in medical products as well as in food, will want to maintain import duties in order to develop these sectors further. In the aftermath of Covid-19, many countries will also urgently need to restart and strengthen domestic production capacities to ensure some extent of self-sufficiency in such essential goods. As is well established by now, such a policy would be unviable for developing countries without applying both subsidies and tariffs.

Many countries around the globe are already thinking in these terms, including the US, which is already a large producer and exporter of both medical products and food.

In a statement on 4 June, US Trade Representative Robert Lighthizer advocated a post-pandemic industrial policy for the US and specifically mentioned increased tariffs and subsidies as key instruments to restore supply chains so that “all the things that we need” to handle crises are made in the US. “We need a policy – be it subsidies or tariffs or whatever it takes – we have to have an industrial policy so we never find ourselves in this position again where we’re not independent on ... material that’s really, really important to the country,” Lighthizer said.<sup>19</sup>

Indian Prime Minister Narendra Modi has also underlined a policy of self-reliance (or *atmanirbharta* in Hindi) backed by a mantra of “be vocal about local”.<sup>20</sup>

Many other developed countries, some with well-developed medical industries such as Germany, have hinted as much. When even the US and several other developed countries are talking about tariff increases, it is unfair to expect developing countries to cut their tariffs. With tariff cuts, developing countries and LDCs will be even less able than richer countries to pursue an effective policy of self-reliance and support domestic production.

Many small and medium-sized enterprises, small-scale farmers and workers involved in these enterprises in developing countries and LDCs are already reeling from the impacts of the human, health and economic crisis posed by Covid-19. Any tariff removal commitment would mean their governments cannot protect them from foreign competition, even to maintain domestic supply in such difficult times.

Furthermore, such import competition may lead to a decline in the absolute volume of production in domestic industries in developing countries in the medium or longer term. This can create more global shortages and further increase concentration of supply in global markets. The abovementioned WTO report of 3 April shows that the global medical goods market is already heavily concentrated. Germany, the US and Switzerland supply 35% of medical products, while China, Germany and the US export 40% of personal protective products. Singapore, the US, the Netherlands and China export more than half the world's respirators and ventilators (WTO 2020a).

<sup>18</sup> [https://twn.my/title2/briefing\\_papers/No95.pdf](https://twn.my/title2/briefing_papers/No95.pdf)

<sup>19</sup> <https://www.araujoibarra.com/en/related-articles/representante-comercial-de-ee-uu-pide-una-politica-industrial-estadounidense-tras-el-fin-de-la-pandemia-de-coronavirus/>

<sup>20</sup> <https://timesofindia.indiatimes.com/india/go-vocal-for-local-pm-modi-appeals-people-to-endorse-local-products/articleshow/75701191.cms>

Finally, it is clear that even in the absence of self-reliance, rich countries will still have the ability (even if it is more difficult or expensive) to buy the needed goods in a crisis, which poorer countries will definitely lack. The recent example of buying up of masks and hydroxychloroquine by the US vindicates this apprehension.

**Box 2: Import duties for building a self-reliant economy after Covid-19**

- Import duties are needed to rebuild domestic production in critical segments such as medical products and food.
- Import duties are needed to enable MSMEs and farmers to restore livelihoods after Covid-19.
- Tariff elimination and the resulting import competition can adversely impact domestic production in these segments, thus reducing rather than increasing global production and, therefore, increasing concentration.
- In the absence of self-reliance, rich countries still get access to critical products by paying more, while poor countries cannot ensure access.

**D. A new trade era**

It is clear that Covid-19 is already ushering in an era of deep changes in economic policies worldwide. Trade policy will need to be reshaped in response to, and following, not preceding, the needs of domestic development objectives and macroeconomic policies. In such times, developing countries will need all the tools and policy space at their disposal to effectively implement trade, finance, intellectual property and other policies that best suit their needs.

In this scenario, to attempt to liberalise key sectors in the name of combating the pandemic by espousing the “free market” as the ultimate solution, is to repeat the mistakes of the past. History, and recent history even more so, has clearly shown there is no “free market” nor “free trade”. Those with economic power will dictate, and developing countries and LDCs need to develop at least partial self-reliance in key products. They need to retain and not give away their policy flexibility in order to survive; abstaining from making further commitments in trade deals may be the best option until the world arrives at its new normal.

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**Ranja Sengupta** is a senior researcher with the Third World Network and can be reached at [ranja.sengupta2@gmail.com](mailto:ranja.sengupta2@gmail.com)

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