SUMMARY REPORT - AID-FOR-TRADE WEBINAR

SUPPORTING COVID-19 RESPONSE AND RECOVERY

Chaired by Ambassador Mohammad Qurban Haqjo

27 May 2020 - 15:00-17:00

1. In his opening remarks, **H.E. Mr. Mohammad Qurban Haqjo, Ambassador and Permanent Representative of the Islamic Republic of Afghanistan to the WTO**, stated that the webinar would complement the exchange of views on COVID-19 at the Committee on Trade and Development (CTD). He recalled that the World Health Organization had declared COVID-19 a Public Health Emergency of International Concern on 30 January 2020. Four months later, the world was still in the dark about how long the pandemic would last and how it would be brought under control.

2. Public health concerns were compounded by economic and trade ones too, with uncertainty persisting regarding the depth and duration of the economic downturn. WTO Director-General Roberto Azevedo had described the economic crisis as possibly the worst in a lifetime. World Bank Group (WBG) President David Malpass had suggested that the pandemic could push as many as 60 million people into extreme poverty – erasing much of the recent progress made in poverty alleviation. Many of the statements made at the CTD had referenced problems due to collapse in export demand, and consequent balance of payments and public debt pressure.

3. The webinar would contribute to the COVID-19 discussion by focussing on the measures being taken to support recovery from it. Representatives of key international financial institutions joining the webinar would present their institutional response to COVID-19. He welcomed online participants and panellists from the African Development Bank (AfDB), the Asian Development Bank (AsDB), the Inter-American Development Banks (IaDB), the International Monetary Fund (IMF), the Organisation for Economic Co-Operation and Development (OECD) and the WBG.

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4. **Brad McDonald, Deputy Chief, External Policy Division, Strategy, Policy and Review Department, IMF** described the IMF's Emergency Response to COVID-19. First, he explained how the Fund functioned as well as its role, which included facilitating the expansion of balanced growth and international trade, thereby contributing to higher levels of employment and income. The IMF worked to foster financial stability and inclusive growth through three areas of operations: surveillance, lending and capacity development.

5. The COVID-19 pandemic had upset the social and economic order with historic speed and scale. The strength and duration of the impact remained uncertain, and depended on: (i) the epidemiology of the virus; (ii) effectiveness of containment measures; and (iii) the development of therapeutics and vaccines. Although policymakers were providing unprecedented support to households, firms, and financial markets, much uncertainty remained about the economic landscape as the world emerged from the lockdown.

6. The IMF's World Economic Outlook anticipated the worst economic impact since the Great Depression, with a sharply negative contraction in global gross domestic product (GDP) predicted in 2020 of -3%. In 2021, a partial rebound was projected with growth of nearly +6 percent. Still, these projections assumed that: (i) the pandemic would fade in late 2020, and (ii) policy actions would prevent widespread bankruptcy, prolonged job loss, and system-wide financial strains. For 2020-21, the cumulative loss to global GDP was estimated at USD 9 trillion - a figure greater than that of the economies of Germany and Japan combined. Estimates would be regularly revisited and updated.

7. These forecasts were starkly different from projections the IMF had made in January 2020: i.e. some 8 percentage points lower for advanced economics and 5 for low-income developing countries. Global trade volumes had been hit hard: looking at cargo ship movements, it was possible to see a very abrupt decline in February and a gathering recovery in March. Exports had then fallen again in April as demand had dropped off.

8. The IMF had sought to respond to the crisis with unprecedented speed. Over 100 Members had requested emergency financing. The IMF expected demand for emergency financing to reach about USD 100 billion. Emergency financing did not require a full-fledged economic programme. Requirements consisted in: (i) debt sustainability; (ii) urgent balance of payments issues; and (iii) pursuing appropriate policies. In addition, financing came with no forward looking conditionalities.

9. Streamlined procedures were making financing available within a few weeks. However, where a country's debt sustainability was in question, this could take longer. Staff conducted virtual missions to assess qualification requirements and prepare documentation for the IMF's Executive Board. The Board had moved in record time to approve emergency financing to 59 countries, totalling about USD 22 billion (as of 20 May). Other requests were at various stages of consideration. Because of the magnitude of the impact, the IMF had recently doubled the maximum amount of emergency financing available to any single country.

10. The IMF had also responded by providing debt relief for Members through two significant initiatives. First, grants for debt relief under the Catastrophe Containment and Relief Trust (CCRT). These allowed the IMF to provide grants to the poorest and most vulnerable countries hit by natural or public health disasters. Eligible countries were low-income countries with a per capita income below USD 1175 (or USD 2350 in the case of small states). The CCRT could provide USD 500 million in grant-based relief. On 13 April 2020, the IMF Executive Board had approved immediate debt service relief for 25 countries over six months. The IMF had also launched a fund-raising effort to allow the CCRT to provide debt service relief for 2 years. This would require a commitment of USD 1.4 billion.

11. Second, recognizing the heavy burden the crisis was placing on low-income countries, the IMF Managing Director and WBG President had called on official bilateral creditors to suspend debt service payments from the poorest countries. On 15 April, the G20 had agreed the "Debt Service Suspension Initiative" (DSSI). Under the DSSI, bilateral official creditors would suspend debt servicing for the 71 poorest countries (IDA-eligible countries + Angola) should they request such suspension. Fully tapped, the DSSI would amount to USD 11 billion in 2020 (including USD 6 billion in Sub-Saharan Africa).

12. The representative of the IMF also added that the Institute for International Finance (IIF) had also responded as it offered private sector creditors to forego debt payments until the end of 2020. Should private creditors participate on the same terms, this would amount to USD 7 billion in relief in 2020.

13. **Matthias Helble, Economist, Economic Research and Regional Cooperation Department, AsDB** provided a regional perspective from Asia. The latest AsDB estimates of the COVID-19 impact ranged between USD 5.8 trillion and USD 8.8 trillion (6.4% to 9.7% of global GDP, at 2018 GDP level and prices). Exports had deteriorated across Asia and bottlenecks emerged in supply chains. AsDB expected a contraction of between -6.4 to 9.7% depending on the length of the lockdown measures. AsDB's GDP impact assessment also estimated that contraction ranging from -4.6 to -7.2% for the whole of Asia, and from -7.5 to -11.2% in China alone. Government stimulus measures would soften the COVID-19 impact by 30% to 40%, from USD 4.1 trillion to USD 5.4 trillion (equivalent to 4.5% to 5.9% of global GDP).

14. AsDB's COVID-19 assistance package to its developing member countries amounted to USD 20 billion (i.e. USD 18.2 billion for sovereign operations and USD 1.8 billion for the private sector). AsDB was using a COVID-19 Pandemic Response Option (CPRO) under the existing Counter-Cyclical Support Facility to support fiscal stimulus. About USD 2.5 billion had been provided in concessional and grant resources.

15. The AsDB response aimed at addressing three main areas: (i) emergency lending and budget support that was flexible and helped mitigate the balance of payments crisis together with other international financial institutions; (ii) providing assistance for the most-hit sectors in order to restore and strengthen resilience as well as provide support for economic recovery; and, (iii) providing support for the most vulnerable groups.

16. AsDB's Trade Finance Programme (TFP) had been expanded. The Programme reduced market gaps for trade finance by: (i) providing guarantees and loans to banks in support of trade; and (ii) delivering knowledge products, services, and solutions. As a response to the COVID-19 pandemic it had: (i) increased the aggregate TFP limit from USD 1.35 billion to USD 2.15 billion; (ii) enabled TFP to support transactions of more products; and (iii) enabled TFP to use local currency for loans and guarantees issued under the programme.

17. He recommended policymakers to refrain from protectionist measures and avoid long-term government involvement in the private sector. He noted that governments were engaged in a balancing act which pursued the following objectives: (i) safeguarding public health interests, while preserving open-trade regime. (e.g. discussions on restricting the movement of health care workers); (ii) keeping the private sector afloat, while ensuring that competition was not distorted, (e.g. temporary relief from electric bill payment for Small and Medium Enterprises (SMEs)); and (iii) increasing resilience, while keeping costly duplication of supply chains to the minimum. He commented that phasing out support programmes would be hard.

18. Looking forward, he concluded that existing trade tensions could be further exacerbated by economic and trade impact of COVID-19. Transparent and predictable trade regimes were more important than ever. Countries had to move away from unilateral action. More regional cooperation was needed when moving to a "new normal" (e.g. in preparing for future public health emergencies). Creating more resilient supply chains should not lead to protectionism, but be based on regional efforts including the private sector.

19. **Pierre Sauvé, Senior Trade Specialist, Macroeconomics, Trade and Investment Global Practice, WBG** highlighted the speed and magnitude of the shock caused by COVID-19. This revealed signs of vulnerability. As this was first and foremost a health crisis, response should first help countries address the health impacts of the pandemic. COVID-19 impacted most those with weaker immune systems, poor access to healthcare, those who lived and worked in densely populated environments and/or suffered from low social protection. This was compounded by situations in which countries had more or less fiscal space to address the crisis. The COVID-19 had exposed the limits of markets as the poorest suffered from a lack of access to medical protection and equipment. Governments had had to step in to address the market failure.

20. The Bank's USD 160 billion fund would address COVID-19 consequences over the next 15 months. Emergency packages were ready for over 100 countries. The Bank intervened in the areas of supporting health systems, providing debt relief, supporting to the private sector and promoting recovery.

21. He further recalled that developing countries depended on imports of critical COVID-19 products. Trade restrictions hampered crisis mitigation and slowed down recovery. With regards to exports of medical supplies and medicines: 65 jurisdictions had executed a total of 156 export controls since the beginning of 2020. It was important that export restrictions did not disrupt supplies of COVID-19 products to developing countries and lead to price increases. Import protection taxes would hamper the already stretched healthcare systems of developing countries. Import duties on COVID-19 personal protective equipment exceeded 11% in LDCs, averaged 8% in other developing countries and sat below 4% in developed countries.

22. Some restrictions had been enacted on food exports though not widespread. As of 8 May 2020, 27 countries had implemented a total of 38 food export controls since the pandemic outbreak. Uncooperative trade policy could have significant impact on food security.

23. Trade policy could play a role in pandemic mitigation and recovery by: (i) facilitating access to essential medical goods and supplies; (ii) supporting consumption of essential items and limiting impacts on the poor; (iii) supporting exporters to maintain jobs and foreign exchange earnings;

(iv) shielding the economy from COVID-19 downturn; and (v) streamlining regulatory and border procedures to facilitate access to COVID-19 related medical goods and essential food products.

24. Trade policy *"don'ts"* included: (i) limiting 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; (ii) undermining consumption of essential goods or restricting exports by arbitrarily closing borders (instead, states should work with neighbours to implement containment measures, including distancing, while allowing commerce to flow as much as possible) and; (iii) imposing trade restrictions to protect domestic industries adversely affected by falling demand (there were other measures of support for temporarily affected sectors that could be more effective in maintaining output and less damaging to the economy and to the poor).

25. Collective solutions and international cooperation were key to tackling a pandemic that was indifferent to borders. An open, rules-based, world trading system was essential to the stability, predictability and smooth-functioning of the global economy. The representative of the World Bank opined that its importance should be reaffirmed at a time when the system was subject to acute pressure.

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26. On the issue of resilience, the representative of the World Bank argued that resilience would be built if diverse sources of supply were developed so as to avoid relying on a small number of suppliers for essential equipment. Another solution was stockpiling them. However, this was of little importance if we were not able to stop the pandemic. Hence, developing a vaccine was key. The representative of the AsDB also suggested that Global Value Chains could be more diverse in suppliers, and here, regional economic integration systems had a role to play. On the possible impact of the crisis on SMEs, the representative of the Work Bank said that his Bank was engaged in studies to better understand it. Two clear negative impacts on SMEs were lower demand and less availability of trade finance The representative of the IMF said that a conversation had begun with regards to debt sustainability. Discussion was also held about the relevance of using data to mitigate the impacts of COVID-19 as it had been done in some regions of the world and in other contexts.

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27. **Michael Roberts, Head, Aid-for-Trade Unit, WTO Secretariat, presented on behalf of Jean-Guy Afrika, Principal Trade Expert, AfDB** and outlined the AfDB Group's Response to COVID-19. The AfDB had been established in 1964, counted 84 member countries, had an authorized capital of USD 207 billion. The African Development Fund (ADF) had provided concessional financing since 1972, was financed by participants and donors, possessed USD 41 billion in capital and focused on Africa's lowest income countries. On 26 March 2020, the AfDB had mobilised USD 3 billion to fight COVID-19 through a social bond with a three-year maturity.

28. The impact of the COVID-19 pandemic on Africa was of an unprecedented scale. The economic effects of the crisis had been felt through multiple channels, including reduced trade, financial flows, tourism and declining prices of oil and gas and other commodities. A prolonged global slowdown, combined with prolonged lockdowns, could plunge Africa into its first economic recession in 25 years and threaten the jobs or incomes of 150 million Africans—one-third of the continent's workforce.

29. The Bank's response to the COVID-19 pandemic built on the experience gathered during the recent Ebola epidemic. AfDB was among the first development partners to approve an emergency operation in response to the Ebola epidemic in April 2014. The Bank had built up relevant experience from a range of emergency operations for natural disasters and disease epidemics.

30. The AfDB's comparative advantage was in providing budget support. To combat the crisis, the Bank had deployed a UA 7.4 billion envelope (USD 10 billion) COVID-19 Rapid Response Facility (CRF) which provided flexible support for sovereign and non-sovereign operations. The envelope included: USD 5.5 billion for sovereign operations in AfDB countries; USD 3.1 billion for sovereign and regional operations in ADF countries; and USD 1.5 billion for non-sovereign operations (private sector) in all African countries.

31. For sovereign operations, the CRF would, as a matter of priority, provide fast-track budget support to ensure that regional member countries (RMCs) were able to fund emergency response measures. This was an efficient approach, with the flexibility to allow RMCs to apply for the support that best meets their needs and gave due consideration to the growing risk of debt distress in many African countries. The operations were aimed at sustaining growth; strengthening economic and financial governance; supporting policy and institutional reforms; mitigating the adverse impact of shocks; and contributing to the recovery, state building and arrears clearance in fragile states.

32. Non-sovereign operations involved the private sector. USD 1.35 billion would be administrated to existing private sector clients through: (i) deferral of debt service payments (up to USD 675 million to support the anticipated request from private sector clients for limited deferral of their loan obligations to the Bank); (ii) emergency liquidity facility (up to USD 405 million to assist clients facing short-term liquidity challenges caused by COVID-19); and (iii) trade finance and guarantees facility (up to USD 270 million to assist clients to access trade finance and guarantees during this difficult and challenging time).

33. COVID-19 was causing major disruption in production and global supply chains. In 2018, 15% of Africa's total exports had gone to other African countries. This, however, did not include informal trade, which was particularly vulnerable to the pandemic. Informal cross border frequently-included agricultural products (e.g. maize, rice) were often traded, making it important for food security. Restrictions on trade and movement of people had important socio-economic ramifications.

34. The African Continental Free Trade Area (AfCFTA) was expected to start on 1 July 2020, but had been pushed back to 1 January 2021. Negotiations on services, tariff concessions and rules of origin had begun. However now all meetings and negotiations had been suspended as a result of COVID-related travel restrictions. The AfDB would continue its planned support to the CFTA and was restructuring a recently approved USD 5 million AfDB Institutional Support Project that supported the establishment of the Secretariat and the AfCFTA negotiations.

35. The COVID-19 crisis would likely persist for some time, and there was a risk of a resurgence in infections. The AfDB was seeking to help African countries find smart approaches to reopen economies in a calibrated way that brought key industries back into operation and helped people move while ensuring safe ways of working. Looking further ahead, the Bank believed that the crisis potentially contained the seeds of a large-scale reimagination of Africa's economic structures, service-delivery systems and social contract. Trends such as digitization, market consolidation and regional cooperation were accelerating and creating new opportunities to boost local manufacturing, formalize small businesses and upgrade urban infrastructure.

36. **Monica Madday, Consultant, Trade and Investment Division, Integration Trade Sector, IADB** gave an overview of IADB's response to COVID-19 that was built on four pillars. In the short term it consisted in support to: (i) trade facilitation, customs and logistics and (ii) attraction and retention of investments; in the longer term they consisted in (iii) export development and internationalization of business and (iv) integration of trade negotiations. She then shared concrete activities and measures that included policy dialogue to share and exchange feedback from customs, lessons learnt, support to e-commerce, traceability, online payments and trade facilitation work with the private sector.

37. Measures to facilitate trade included the establishment of a Single Window, and more immediately they consisted in helping countries with social measures, good hygiene practices, the identification of critical processes, food and industrial supply, and secure conditions at airports. In the medium and long run, help would be provided with national emergencies and natural disaster events, with non-intrusive controls at borders and customs modernization. Measures supported by IADB to attract investment included: business support and promotion, relocation prevention, identification of opportunities to integrate into value chains. IADB was working on a strategy focusing on the diaspora and private-public partnerships. As part of business internationalization, the IADB had created the "Connect America" platform. The Bank also provided trade policy recommendations that highlighted the importance of market openness for economic recovery.

38. **Frans Lammersen, Principal Administrator, Development Co-Operation Directorate, OECD,** gave a presentation on "Tracking Coronavirus (COVID-19) Support" focused on Aid-for-Trade

flows in the context of COVID-19. He began his presentation with figures on financing for development figures which, in 2018, OECD estimated at some USD 900 billion. This total consisted of remittances (USD 529 billion), official development assistance (ODA) (USD 166 billion), foreign direct investment (USD 94 billion), private grants (USD 42 billion) and other official flows (OOF) (USD 25 billion). In lowest-income countries, ODA represented 65% of financing for development flows.

39. Total Aid for Trade disbursed amounted to USD 451 billion since 2006 with most of it going to the categories of transport and storage (29%), energy generation and supply (23%) agriculture and forestry (21%), banking and financial services (11%) and other (20%). In terms of geographical distribution, Oceania received USD 371 million in Aid-for-Trade financing since 2006, Latin America and the Caribbean USD 35 billion, Europe USD 42 billion, Africa USD 163 billion and Asia USD 170 billion. With USD 67 per inhabitant, Oceania was the largest recipient per capita in 2018, followed by Europe (USD 20), Africa (USD 14), Asia (USD 6) and the Americas (USD 5). With 46% of overall disbursements, lower middle-income countries had received the largest share of cumulative disbursements, followed by least developed countries (32%), upper middle-income countries (24%) and low-income countries (3%).

40. Aid-for-Trade commitments for 2018 were close to USD 60 billion and up 140% since 2006, jumping by one-third after the 2008 crisis. The share of Aid for Trade as a percentage of ODA had grown from 32% in 2006 to 38.7% in 2018. Other official flows had quadrupled from approximately USD 25 billion to USD 71 billion in 2018. OOF had also doubled from 2008 to 2009, following the financial crisis. Trade-related private finance mobilized amounted to USD 32.5 billion and mostly went to energy banking and financial services, both amounting to approximately USD 12 billion respectively on average over 2017-18.

41. The OECD representative then discussed the possible impact of COVID-19 on future ODA levels. In the case of a prolonged outbreak, the USD 153 billion of 2019 could drop to USD 138 billion in 2010 before bouncing back to USD 142 billion (if ODA flows tracked GDP at their current ratio). A shorter lockdown would see ODA fall to USD 143 billion and rebounding to USD 149 billion in 2021.

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42. The audience asked panellists how they thought countries should seek to rebuild their economies in view of a solid sustainable recovery. The representative from IADB recommended first focusing on trade facilitation and reducing trade costs. The OECD and AsDB indicated research efforts were ongoing to shed light on the question. This included the impact of COVID-19 on fragile groups such as Micro, Small and Medium Enterprises.

43. In his closing remarks, **Ambassador Mohammad Qurban Haqjo** said he had found the webinar extremely informative. It was clear that action was being taken to promote response and recovery from COVID-19. One important question was the nature of that recovery and how COVID-19 could be a catalyst for change. This theme was a question that Members would return to frequently in the CTD Aid for Trade i.e. what change would the pandemic catalyse.

44. From discussions held at the webinar, it was clear that the existing Work Programme for 2020-21 remained relevant. "Empowering connected, sustainable trade" was a theme that spoke to many of the issues addressed. It was also clear that the existing Work Programme would be influenced by the ongoing uncertainty caused by the pandemic.

45. The first impact of that uncertainty was in relation to the timing of the biennial Work Programme. Several months had been lost to the lockdown. As such one option was to extend the biennial Work Programme into 2022. The second option was in terms of the focus which would need to reflect COVID-19, perhaps in some additional elements to the Work Programme. The Chairperson asked the Secretariat to reach out to Members in order to get their views on these two points. He committed to reporting back at the CTD Aid-for-Trade formal meeting tentatively planned in mid-July 2020.

To access the full recording of the webinar, accompanying presentations and more information on Aid for Trade, visit www.wto.org/aidfortrade and www.aid4trade.org.