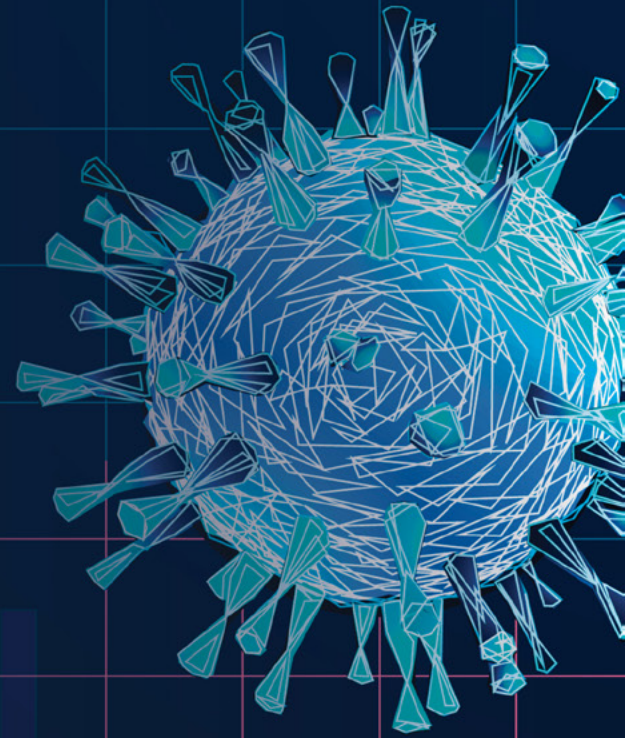




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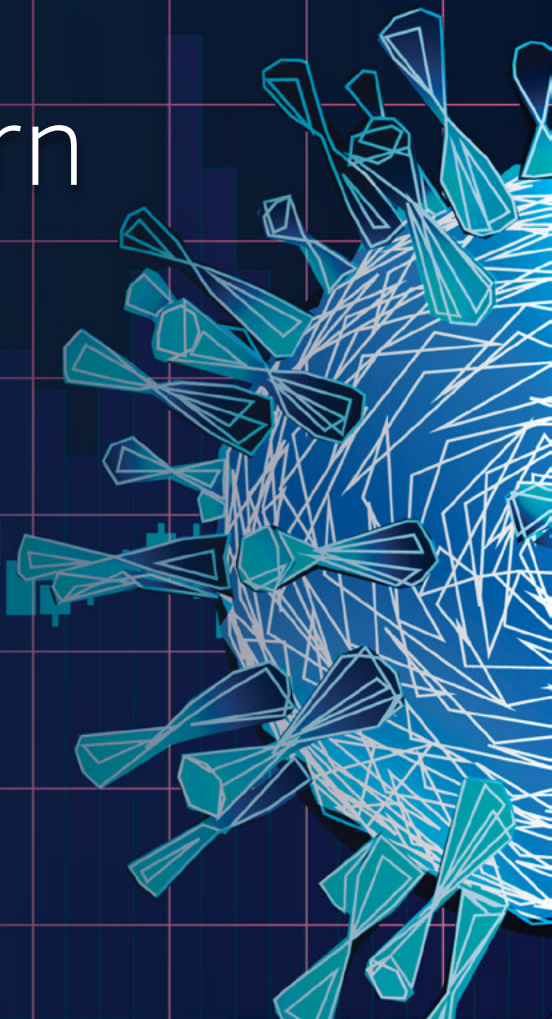
*Creating Markets, Creating Opportunities*



# Taking Action on Trade: From Concern to Support

JANUARY 2021

Sector Economics and Development Impact Department



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IFC—a member of the World Bank Group—is the largest global development institution focused on the private sector in emerging markets. We work in more than 100 countries, using our capital, expertise, and influence to create markets and opportunities in developing countries. In fiscal year 2020, we invested \$22 billion in private companies and financial institutions in developing countries, leveraging the power of the private sector to end extreme poverty and boost shared prosperity. For more information, visit [www.ifc.org](http://www.ifc.org).

## **WRITTEN BY**

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## **ACKNOWLEDGMENTS**

The authors would like to thank the following colleagues for valuable input: Hyung Ahn, Jeffrey Anderson, Zeynep Attar, Murat Ayik, Matthew Benjamin, Zeynep Ersel, Issa Faye, Karla Soledad Lopez Flores, Dan Goldblum, Yasser Mohamed Tawfik Hassan, Jacqueline Irving, Moncef Klouche, Benie Landry Kouakou, Thomas Kerr, Alok Kumar, Inho Lee, Fide Maksut, Ahmed Hanaa Eldin Mohamed, Sephooko Motelle, Lien Nguyen, Aleksey Nikiforovich, Arun Prakash, Henry Pulizzi, Thomas Rehermann, Irina Sarchenko, Makiko Toyoda, Daniel Wanjira, Florian Wicht, Robert Wright.

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# Taking Action on Trade: From Concern to Support

*“Given the role that banks play in supporting people, companies, and economic systems, they are among the most essential conduits of stability and economic activity. Their collective voice regarding the support needed is an important form of market intelligence for institutions that seek to support emerging markets and developing economies during this pandemic.”*

The COVID-19 crisis has put significant stress on trade activities across economies of all sizes and geographies. A contraction in global trade was reported during the first and second quarters of 2020, as discussed in the first publication of IFC's *Trade and COVID-19 Trilogy* ("When Trade Falls: Effects of COVID-19 and Outlook"). In reaction to the pandemic, important measures have been taken by all nations to protect their citizens from the virus, and some of these policies—from border closures to stay-at-home orders—have constrained trade. While COVID-19-related pressures on trade are primarily driven by a decrease of aggregate demand, other factors, such as compressed trade finance availability (discussed in IFC's "Why Trade Finance Matters—Especially Now"), constrain both trade and the benefits it provides. Trade, which is considered to be essential to economic function and growth, is also restricted by supply compression, i.e., the reduction of global output during the pandemic. As the world learns more about the virus, an evaluation of measures taken to contain it, including these measures' overall value and efficacy as well as their consequences, is timely and appropriate.

This note is the third of a "Trade and COVID Trilogy" that compiles trade-related findings from more than 70 "Daily News Summaries," as well as data sources from late March to early December, 2020. It investigates COVID-19-related trade restrictions and discusses their consequences. It also illuminates the importance of trade, especially during the current pandemic, through the voices of global leaders as well as a collective set of emerging market voices gathered by a future IFC publication, "COVID-19 and Other Challenges for Trade Finance in EMDEs: An overview of IFC's Annual Issuing Bank Survey," further details of which will be forthcoming.

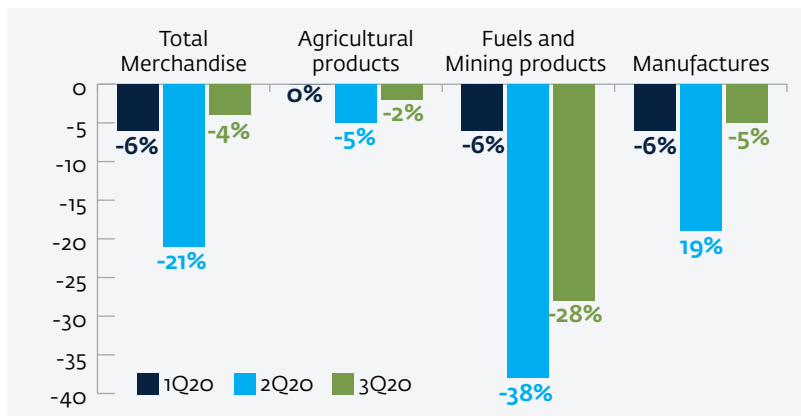
## Key Takeaways

- Across countries, many measures have been taken to contain the spread of COVID-19. In addition to social distancing measures, travel bans, and movement restrictions, many countries have adopted trade restrictions and/or monitoring, either to protect their citizens from shortages or to avoid infection through imported products. The combined effect of the pandemic and protective measures has been a decrease in year-on-year world trade merchandise value in the first half of 2020. In the third quarter, despite a partial recovery in world merchandise trade value, trade had yet to return to its pre-pandemic level.
- Of all new trade restrictions put in place in reaction to the COVID-19 crisis in 2020, approximately 61 percent are still active, and several touch essential products. These products include protective equipment (masks, gloves, and goggles), medicine, medical equipment (ventilators and respirators), COVID-19 test kits, and food, among others.
- In the short term, trade restrictions can exacerbate existing trade contractions and shortages. As a result, some countries have expressed concern about potential shortages of food and medical products. This is especially true as the world's top exporters of medical products have been directly affected by COVID-19, which has disrupted global medical supply chains, especially in import-dependent countries. Trade restrictions can also have structural effects on longer-term economic growth and can slow post-pandemic recovery.
- Consequently, many multilateral development banks and other institutions have called on countries and other stakeholders to continue to support trade, despite current challenges. Many have also pledged to collaborate in order to support a number of stakeholders facing difficulties, including banks, companies, and small and medium enterprises.
- Financial institutions play an important role in supporting trade, particularly in emerging market and developing economies (EMDEs). They can collectively provide on-the-ground market intelligence regarding the effects of COVID-19 on their customers. This note summarizes a small part of their input, adding their unique voices to other information on what is needed most—and most urgently—to support trade. IFC's forthcoming publication "COVID-19 and Other Challenges for Trade Finance in EMDEs: An overview of IFC's Annual Issuing Bank Survey," will identify the most important and urgent needs articulated by EMDE banks.

## Merchandise trade value has recovered partially, but remained below its 2019 level in 3Q20

Global trade collapsed during the first two quarters of 2020, as described in IFC's "When Trade Falls: Effects of COVID-19 and Outlook."<sup>1</sup> Additional data released since that publication indicates a moderate recovery in trade of some products and some countries. However, the value of merchandise trade remains well below 2019 levels. World merchandise trade dropped by 4 percent in 3Q20 (Figure 1), which is less than the 21 percent decrease reported in 2Q20. This partial recovery of world merchandise trade has been driven primarily by the recovery in manufactured goods, as industrial production resumed and lockdown measures ended in major economies over the summer. However, the value of trade in fuels and mining products saw sharp declines in the third quarter due to falling prices, while trade in agricultural products remained resilient due to sustained demand for food during the pandemic. Preliminary estimates also suggest that services trade remains severely depressed.<sup>2</sup>

**Figure 1:** World Merchandise Trade Value Trends (1Q20 to 3Q20)



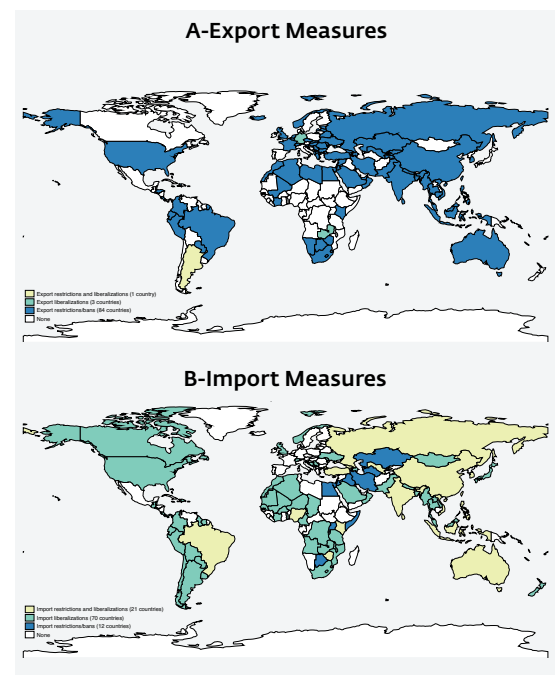
Source: The World Trade Organization data portal.

## Regulatory pandemic responses have expanded over the past 11 months

Because the exact mechanisms of virus transfer were uncertain<sup>i</sup> in the early stages of the pandemic, governments pursued various measures to protect their citizens from COVID-19, and some of these measures ultimately limited trade. Lockdown measures, undertaken to protect workers from infection, reduced production. To protect citizens from cross-border contamination, air travel was banned by many nations, which reduced air freight capacity and limited trade.<sup>3, 4, 5, 6, 7</sup> To prevent shortages of essential products and/or because of the fear of infection via imports, many countries implemented trade restrictions on both exports and imports at the early stage of the pandemic.<sup>8</sup>

The WTO COVID-19 tracker and the International Trade Center (ITC) market access map have registered an increasing number of trade-restrictive measures implemented by countries, as depicted in Figure 2.

**Figure 2:** COVID-19 Temporary Trade Measures (November 25, 2020)

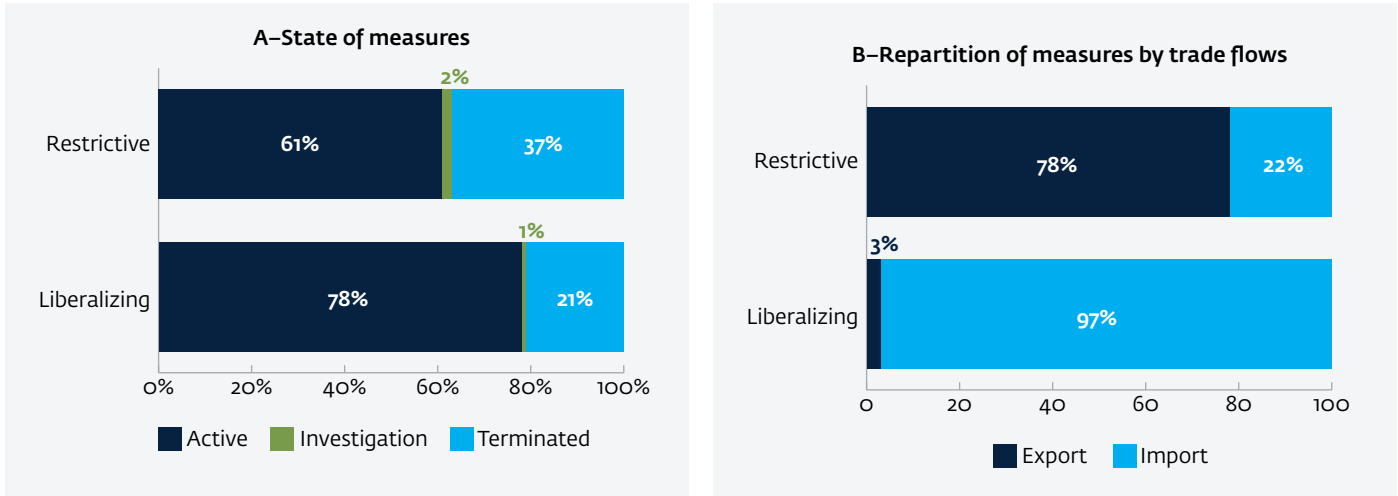


Source: Author calculations based on data from International Trade Center (ITC).

<sup>i</sup> There was an active debate during the early stages of the pandemic about how long the coronavirus could live on surfaces and the possibility that the virus could be transmitted via imported products.



**Figures 3:** Most Trade Measures are Still Active, and Restrictive Measures Affect Exports More

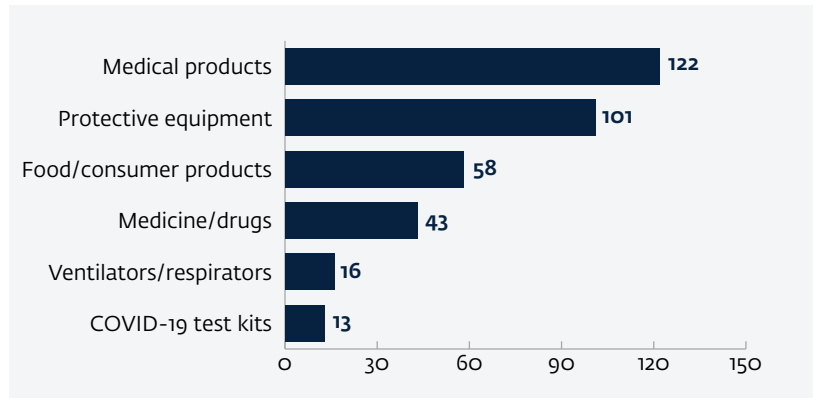


Source: Author calculations based on data from International Trade Center (ITC).

As of November 25, 2020, it has been reported that 97 countries<sup>ii</sup> and territories have established COVID-19 related restrictions on trade of specific goods and services categories (with 85 countries restricting exports).<sup>9, 10</sup>

Among *restrictive* trade measures, some 78 percent affected exports and 22 percent affected imports, while about 61 percent of all restrictive measures are still active (Figure 3). A detailed accounting of restricted products furnished by the ITC indicates that most restrictions affect the export of products that are essential to combat COVID-19, such as protective equipment (face and eye protection devices, protective garments, and sanitizers and disinfectants), medicines, medical equipment (ventilators and respirators), and COVID-19 test kits (Figures 4 and 5). Some countries have also introduced export restrictions on food, as shown in Figure 4. These measures threaten the availability of goods where they are much needed and reduce the capacity of some states to contain the pandemic.

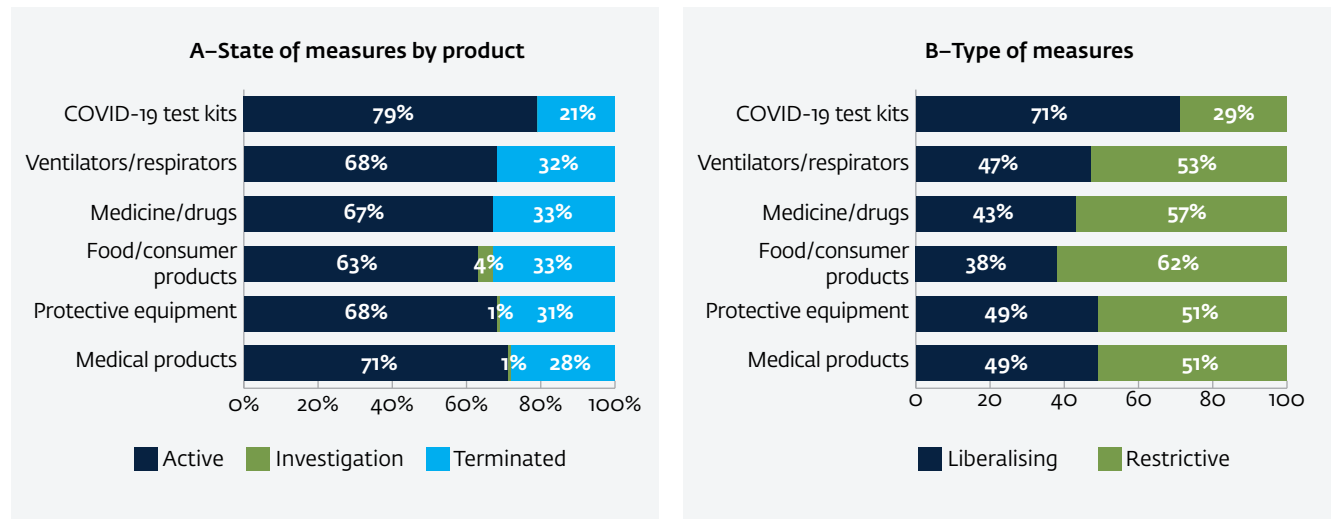
**Figure 4:** Countries Restricting Essential Product Exports



Source: Author calculations based on data from International Trade Center (ITC).

In addition, import restrictions, which increased in the early stages of the pandemic, appear to largely remain in place. As of November 25, 2020, it was reported that some 33 countries have registered import restrictions.<sup>11, 12, 13, 14</sup>

ii Albania; Algeria; Argentina; Armenia; Australia; Azerbaijan; Bahamas; Bahrain; Bangladesh; Belarus; Belgium; Bhutan; Botswana; Brazil; Bulgaria; Cambodia; China; Colombia; Costa Rica; Cyprus; Czech Republic; Côte d'Ivoire; Ecuador; Egypt; El Salvador; Estonia; Eswatini; Fiji; France; Georgia; Gibraltar; Greece; Haiti; Honduras; Hong Kong SAR, China; Hungary; Iceland; India; Indonesia; Iran; Iraq; Israel; Jordan; Kazakhstan; Kenya; Republic of Korea; Kuwait; Kyrgyz Republic; Latvia; Lebanon; Lesotho; Libya; Malaysia; Mali; Mauritius; Republic of Moldova; Morocco; Myanmar; Namibia; Nepal; Netherlands; Nicaragua; Nigeria, North Macedonia; Norway; Oman; Pakistan; Paraguay; Peru; Philippines; Romania; Russia; Saudi Arabia; Serbia; Seychelles; Slovakia; Slovenia; Solomon Islands; Somaliland; South Africa; Sri Lanka; Sudan; Switzerland & Liechtenstein; Syrian Arab Republic; Taiwan, China; Tajikistan; Thailand; Turkey; Turkmenistan; Uganda; Ukraine; United Arab Emirates; United Kingdom; United States; Uzbekistan; Vietnam, Zimbabwe.

**Figure 5:** Trade Measures by products, type of measures and the state of measures

Source: Author calculations based on data from International Trade Center (ITC).

While such restrictions are well-intended, they have resulted in a decrease in trade, with potentially negative consequences.

## Trade restrictions, by further reducing trade, amplify the crisis and slow recovery

Trade is an essential component of economic growth and a key instrument to ensure the availability of critical goods. Hampering trade has immediate negative effects because few, if any, countries produce all the goods and services their populations require. A recent study assessing the importance of global supply chains during the pandemic found that protectionism does not make countries more resilient.<sup>15</sup> In fact, restricting trade can impair immediate resilience, putting lives at risk in the short term (for example, by restricting imports of personal protective equipment and essential medicines and food products). And short-term trade restrictions can quickly become structural, leading to diminished long-term economic growth.

### **Short-run consequences of trade restrictions: foreign exchange and essential product shortages, among others**

Even short-term trade restrictions disrupt supply chains, depress production, and stymie efficient allocation of critical products where they are most needed, especially as supply gaps change over time. The resulting decrease in trade generates immediate consequences.

Trade contraction limits the availability of foreign exchange. Reductions in global trade limit vulnerable countries' capacity to earn foreign exchange, which is needed to support financial sector resilience and to import critical goods.<sup>16</sup> International reserve currencies are necessary for EMDEs to pay for imports and to service external debt, and trade-dependent countries rely on exports as a source of foreign exchange revenue. Thus, when exports decelerate, so does their source of foreign exchange. The current financial and economic turmoil has already triggered sharp currency devaluations in EMDEs, making it more expensive for them to access foreign currency. The same turmoil has compressed exports (including, in some cases, through lower commodity export prices), reducing the capacity of EMDEs to earn foreign currency and potentially boost foreign currency reserves.

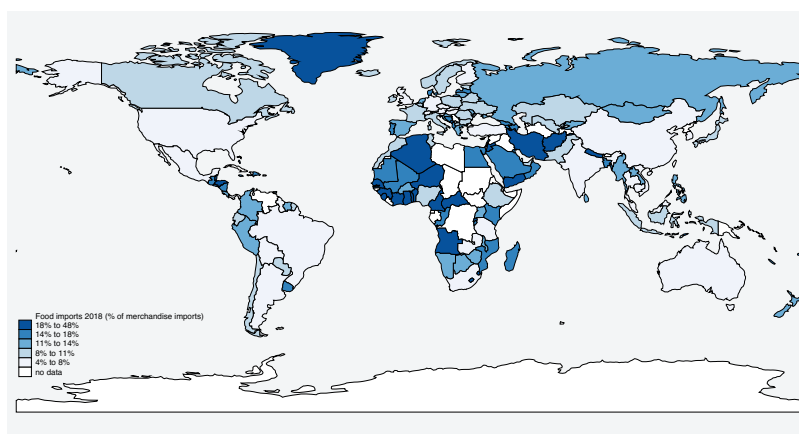


These combined forces have increased the potential for debt service and import procurement challenges in these nations.<sup>17</sup>

The pandemic and measures implemented to contain it can also generate food shortages.<sup>18</sup> Since the start of the pandemic, some countries have reported potential signs of current or future food shortages. For example, Kenya imports more than 72 percent of consumer-oriented agricultural products.<sup>iii</sup> In March, the Agriculture Ministry expressed concerns about diminishing agricultural goods, urging imports to continue despite COVID-19-related constraints such as travel bans and port limitations.<sup>iv, 19, 20</sup> The government had committed at that time to facilitate “importers for conditional importation of two million bags of white maize for food and two million bags of yellow maize for animal feed.”<sup>21</sup> By April 1, 2020, the country had already implemented tariff reductions on imported products, and the value-added tax on all goods was reduced.<sup>22</sup> While this sourcing plan got a favorable response from trade partners (e.g., 88,000 tons of maize was imported from Mexico in July),<sup>23</sup> food shortage risks remain a concern. Pakistan was also facing a hunger crisis because of the pandemic, at the early stages of which, Prime Minister Imran Khan said that, “unless the economy reopens, it will have millions of people facing starvation.”<sup>24</sup> Despite the relaxation of pandemic lockdowns in many countries, the threat of shortages remains, as many countries are facing a second wave of COVID-19 and new confinements. Most EMDEs rely on imports for food. Kenya and Pakistan are just two examples, yet they are representative of many other nations with similar challenges. According to Arif Husain, Chief Economist at the United Nations World Food Programme, “We have hunger going up, we have poverty going up, we have unemployment going up, we have incomes going down, and we have prices going up. All of this put together means that lots and lots of people in this world can no longer afford a decent meal.”<sup>25</sup>

Given the importance of food imports for some EMDEs, trade restrictions put them at significant risk.<sup>26</sup> The food trade acts as a transmission belt, moving food from surplus to deficit regions and distributing food more evenly on a global scale.<sup>27, 28, 29</sup> Thus, as trade slows, the risks of acute hunger and amplified health challenges rise. In 2018, there were at least 34 countries for which food imports represented more than 20 percent of their merchandise imports, as shown in Figure 6. The World Bank Group’s April commodity market outlook raised concerns about potential food shortages and food price spikes.<sup>30</sup> Low-income countries devote 37 percent of their (foreign currency earning) merchandise export revenue to food imports, more than five times the share in developed economies. In addition, six countries<sup>v</sup> make up more than half of total cereals exports, and COVID-19 has hit all six, increasing the risk of a global cereals’ shortage, particularly in vulnerable countries. The World Food Programme projected that the number of people facing acute food insecurity stands to rise to 265 million in 2020, up from 135 million in 2019, as a result of the economic impact of COVID-19.<sup>31</sup>

**Figure 6:** Food dependency represented by food imports (percentage of merchandise imports)



Source: Author calculations based on World Bank (WDI) data.

- iii Mainly from Uganda, Italy, South Africa, France, Egypt, Belgium, and the Netherlands.
- iv The country’s food reserves, including corn, cassava, rice, meats, milk, and vegetables, are sufficient to feed its population of more than 47 million until the end of June, according to the ministry’s food balance sheet.
- v The United States, the Russian Federation, India, Argentina, Australia and Ukraine.

Sufficient food supplies may become unattainable for the world's most vulnerable, as demonstrated during the 2008 crisis. In 2007-2008, some countries responded to the food crisis by imposing export restrictions, which pushed up world market prices of staples, leading other grain exporters to also limit exports in order to insulate their consumers from the initial food price rises. In response, food importing countries lowered import tariffs on food, supporting increased domestic demand that cumulatively kept upward pressure on world prices. As a result, instead of containing price increases, these policy responses only drove world market prices higher.<sup>32</sup> Trade is essential to ensuring that critical goods are shipped to the most remote and poorest regions where they are much needed.

Foodstuffs are not the only products that face potential shortages and trade flow challenges; the availability of medical products has also been affected by the crisis.

Medical supply shortages, which are exacerbated by trade slowdowns, further amplify health risks. Medical supply chains are also affected by the pandemic, reducing the capacity of some countries to contain the virus. The pandemic has brought considerable attention to the trade in medical products, and specifically to trade in products used for prevention, testing, and treatment. During the last three years, the top ten medical products exporters<sup>vi</sup> accounted for almost three-quarters of total medical products exports. In 2019, world imports of medical products exceeded \$1 trillion and accounted for 5 percent of total global merchandise trade. Forty percent of total world exports of protective products<sup>vii</sup> are supplied by three countries, all of which have been significantly affected by COVID-19.<sup>33</sup> As of April, shortages of ventilators, medicines, and other medical products were widely reported, even in advanced economies.<sup>34</sup>

Medical equipment trade restrictions (Figures 3 and 4) have stymied global capacity to efficiently move equipment to where it is most needed as COVID-19 cycles change. To date, nearly 76 countries have restricted exports of medical equipment and protective equipment, harming pandemic containment efforts.<sup>35</sup> Also, significant progress toward effective and safe COVID-19 vaccines (with several approved for use as of early December) raises the important question of the availability of these vaccines to the poorest regions.

***The literature on the effects of trade highlights the necessity to minimize necessary restrictions and maintain trade flows***

While trade restrictions affect lives, particularly among the poorest populations, they can also affect trade in the longer term and limit economic growth. Trade is considered a key driver of economic growth, and no country in the last 50 years has sustained high levels of growth and significantly increased per capita incomes without greatly expanding trade.<sup>36, 37</sup> Trade supports growth and employment, both as a direct source of income with exports and indirectly through imports. Exports provide a direct source of income and liquidity for countries, while imports provide the commodities and capital equipment that are critical to increasing productivity and, eventually, higher living standards. In addition, exports allow companies to increase sales to new markets, develop new products, and increase employment and income.<sup>38, 39</sup> Imports also provide inputs that allow corporations of all sizes to produce higher value-added products.<sup>40, 41, 42</sup> Thus, impeding trade stymies several significant drivers of a country's growth, potentially damaging long-term economic growth as well.<sup>43</sup>

Regulatory restrictions and shuttered economies have affected trade flows, with negative consequences. Even while most such restrictions are short-term, their consequences

vi Germany, the United States, Switzerland, the Netherlands, Belgium, Ireland, China, France, Italy, and the United Kingdom.

vii Protective products include face masks, hand soap, sanitizer, and protective eyewear.

potentially harm long-term growth. Given the importance of international trade and its role in the post-pandemic recovery, many international institutions and governments have publicly announced their support for both trade and trade finance.

## The world recognizes that trade needs to continue

Despite current challenges, many governments and institutions see trade as an important lever for the prevention of an even harsher crisis scenario. Countries have committed to keep supply chains intact and active,<sup>44, 45</sup> calling for continued trading, as detailed below:

- **March 16, 2020:** G7 leaders called for closer cooperation to fight the COVID-19 pandemic and minimize its economic fallout. They agreed to support global trade and investment and do “whatever is necessary to ensure a strong global response through closer co-operation and enhanced co-ordination.”
- **March 30, 2020:** G20 trade chiefs pledged to try to keep supply chains open as the world fights to contain the coronavirus pandemic and limit the economic fallout. “We will continue to work together to deliver a free, fair, non-discriminatory, transparent, predictable and stable trade and investment environment, and to keep our markets open,” the ministers said in a joint statement. “We will explore ways for logistics networks via air, sea and land freight to remain open.”<sup>46</sup>
- **March 31, 2020:** The heads of the World Trade Organization (WTO), the UN Food and Agriculture Organization (FAO), and the World Health Organization (WHO) issued a joint statement calling on governments to minimize the impact of COVID-19-related border restrictions on trade in food. “Now is the time to show solidarity, act responsibly and adhere to our common goal of enhancing food security, food safety and nutrition and improving the general welfare of people around the world... We learned from previous crises that [food trade restrictions] are particularly damaging... We must prevent the repeat of such damaging measures.”<sup>47</sup>
- **March 31, 2020:** WTO and IMF heads highlight the importance of trade during crises. “As our members grapple with their response to the global health and economic crisis, we call for more attention to the role of open trade policies in defeating the virus, restoring jobs, and reinvigorating economic growth... we are concerned by supply disruptions from the growing use of export restrictions and other actions that limit trade of key medical supplies and food.”<sup>48</sup>
- **April 17, 2020:** The World Bank Group urged against the perverse effects of implementing export bans. World Bank President David Malpass warned leaders against hoarding medical and food supplies, and urged them to avoid using shortages as a reason to step up protectionist measures. “It’s important for all those involved in the food supply chain and also the medical supply chain to maintain open markets... on the import side, countries need to allow trade in order to have prosperity or to cushion the blow now from the economic downturn.”<sup>49</sup>
- **April 23, 2020:** In April, major exporters pledged to avoid disruptions of global food supplies. In order to prevent a food crisis, a group of nearly 50 governments<sup>viii</sup> was preparing to sign a pledge to ensure supply chains remain orderly and restraint is exercised with regard to trade restrictions. The group notes that export bans aimed at protecting domestic food supplies could

viii Participants in the agreement include the European Union, Japan, Brazil, Canada, Australia, Mexico, Korea, New Zealand, the United Kingdom, Switzerland, Qatar, Chile, Costa Rica, Colombia, the Philippines, Hong Kong SAR, China, Malawi, Singapore, Ukraine, Paraguay, and Uruguay.

lead to soaring prices and shortages: “There is plenty of food to go around, as long as protectionism doesn’t become more entrenched.”<sup>50, 51</sup>

- **April 24, 2020:** Twenty port authorities in Asia, Europe, the Middle East, and North America signed a declaration committing to stay open amid the coronavirus pandemic. Initiated by Singapore, the declaration calls for ports to boost collaboration so that operations are undisturbed, according to the statement.<sup>52</sup> Members of the Port Authorities Roundtable that signed the declaration include Singapore, Abu Dhabi, Rotterdam, Tokyo, and Los Angeles.<sup>53</sup>
- **May 19, 2020:** Over 70 Business leaders from EMDEs and advanced countries across the world discussed trade policy responses that could help combat the effects of the crisis. They stressed the importance of trade in maintaining an uninterrupted supply of essential goods and services in times of crisis. They called for an effective and rapid implementation of the WTO’s Trade Facilitation Agreement. They stressed the need for any COVID-19-related trade restrictions to be targeted, proportionate, transparent, and temporary.<sup>54</sup> “As the world contends with COVID-19, the role of global trade and importance of global supply chains has never been more heightened. Through a coordinated international effort, unrestricted trade and investment can be part of the solution to this crisis and is critical to help us prepare for a recovery.”
- **June 10, 2020:** The United Nations called on governments to help landlocked developing countries (LLDCs). These 32 nations<sup>ix</sup> lag behind the world average by 20 percent in the UN’s human development index, with one-third of their inhabitants in extreme poverty and 51 percent facing daily food insecurity. The UN urged governments to provide smooth transit and transport for landlocked neighbors, warning that economic and social conditions in many LLDCs, which are often the poorest nations in their regions, are worsening rapidly due to COVID-19 lockdown measures and international restrictions on the movement of goods and people. “The impact of combined lockdown measures, health pandemic and a global recession will likely halt or potentially even reverse LLDCs’ progress towards the Sustainable Development Goals...”
- **July 28, 2020:** At a meeting of the WTO Committee on Agriculture on 28 July, several WTO members<sup>x</sup> pushed for increased transparency on COVID-19 measures in farm trade. Australia and the cosponsors of the proposition invited members to brainstorm on how the Committee can intensify monitoring of members’ COVID-19 agriculture measures and encouraged members to submit additional notifications. They also stressed the need to track these measures in quickly changing times because “through normal notifications, we may wait for years to see those COVID-19 measures.” They agreed that “the trade-restrictive measures imposed in response to the COVID-19 crisis... have led to severe disruptions in global supply chains and exposed many weaknesses and vulnerabilities, sending shock waves in transportation, labor markets and informal sectors.”
- **October 22, 2020:** Development finance institutions pledged to sustain COVID-19 mitigation and work toward recovery. At an extraordinary virtual meeting to

ix These nations include Afghanistan, Armenia, Azerbaijan, Bhutan, Bolivia, Botswana, Burkina-Faso, Burundi, Central African Republic, Chad, Ethiopia, Kazakhstan, Kyrgyz Republic, Lao People’s Republic, Lesotho, Macedonia, Malawi, Mali, Mongolia, Nepal, Niger, Paraguay, Republic of Moldova, Rwanda, South Sudan, Swaziland, Tajikistan, Turkmenistan, Uganda, Uzbekistan, Zambia, and Zimbabwe.

x Mainly Australia, which introduced a room document co-sponsored by Brazil, Canada, New Zealand, and Paraguay.

discuss the impact of their responses to the pandemic and the worsening debt situation, the organizations said that “sustaining their joint efforts would protect livelihoods, especially among vulnerable populations, preserve macroeconomic stability and promote a stronger private sector role after COVID-19.” While the joint effort of the Development Finance Institutions (DFIs)<sup>xi</sup> has seen a COVID-19 response envelope of about \$230 billion, many collaborative efforts are needed. Thus, DFIs have committed to continue to collaborate in their efforts to mitigate the adverse impact of the COVID-19 pandemic and accelerate the recovery of economies and livelihoods.<sup>55</sup>

- November 11, 2020:** The International Chamber of Commerce (ICC) urged G20 countries to protect trade finance “lifelines” as insolvency fears rise. As discussed in IFC’s trade and COVID trilogy second note “Why Trade Finance Matters—Especially Now,”<sup>56</sup> trade finance tends to be sensitive to economic shocks. Thus, the ICC called for “urgent” intervention by G20 governments to increase the availability of trade finance, as concerns grow over widespread insolvencies: “At a minimum, we urge you to commit to a significant scaling of risk guarantee schemes provided by national government agencies and multilateral institutions—ideally coupled with appropriate regulatory interventions to incentivize the provision of trade credit by commercial banks.”

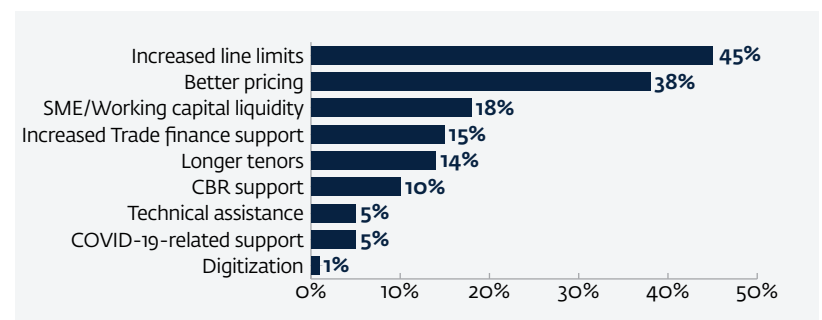
While many institutions and countries have called for a continuance of and support for trade and trade finance, EMDE stakeholders have spoken about what is specifically needed. IFC’s forthcoming publication “COVID-19 and Other Challenges for Trade Finance in EMDEs: An overview of IFC’s Annual Issuing Bank Survey,”<sup>57</sup> conducted in the first half of 2020, provides a line of sight into what is most urgently needed.

## What types of support do banks need from DFIs in order to support trade?

Banks play a critical role in international trade through the provision of trade finance and working capital finance to firms, which supports the movement of goods across borders. Given the role that banks play in supporting people, companies, and economic systems, they are among the most essential conduits of stability and economic activity. Their collective voice regarding the support needed is an important form of market intelligence for institutions that seek to support EMDEs during this pandemic.

During the second and third quarters of 2020, some 163 banks across 64 emerging market and developing economies answered the question, “What do you need the most from [DFIs] in order to support your bank during this crisis and, separately, post-crisis?” Given the enormous challenges faced by banks due to the crisis, the majority of the survey respondents, over 90 percent, said they needed some form of additional support from DFIs. Figure 7 details the key findings.

**Figure 7:** Responses to the question—What do you need the most from IFC and others during and post COVID-19 crisis?



Source: Data from IFC’s GTFP Survey “COVID-19 and Other Challenges for Trade Finance in EMDEs: An overview of IFC’s Annual Issuing Bank Survey.”

xi DFIs represented at the meeting included the Islamic Development Bank (IsDB), Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), Council of Europe Development Bank (CEB), the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB), the Inter-American Development Bank (IDB), International Finance Corporation (IFC), International Monetary Fund (IMF), the New Development Bank (NDB), the World Bank Group, and the African Development Bank.

Among the most notable responses to the survey, 45 percent of respondents mentioned that they need increased, or at least maintained, trade finance line limits in order to support their customers. This was particularly pronounced in South Asia, as well as in the Latin America and the Caribbean region, where almost 60 percent of the banks mentioned this need. For example, one EMDE financial institution noted that “a larger credit line [would be helpful], because most of our credit lines with other banks have been closed until further notice, but they would work with us if IFC is involved.” Other requests for support include better pricing, additional funded or unfunded trade finance support (specific to and beyond the crisis), additional working capital liquidity support, support for transactions with longer tenors, and assistance to maintain/strengthen correspondent banking relationships. According to one EMDE bank, “most corresponding banks have reduced tenor of LC [letters of credit] confirmations. An increased tenor will help accommodate LCs with longer tenors.” Banks also mentioned the need for technical assistance, LC refinancing, and specific SME support, among other requests.

Such assistance, provided by IFC and other development finance institutions, will be critical to helping banks support trade and ensuring the benefits that continued trade can confer during and after the pandemic.

## Conclusion

This note, the third in a comprehensive “Trade and COVID Trilogy,” has compiled more than 70 Daily News Summaries on COVID-19 and Trade, collecting published news from multiple sources as well as data made available between late March and early December, 2020, along with additional context. The COVID-19 pandemic is an unprecedented crisis that has affected most sectors of the world economy, including international trade. The decrease in trade threatens severe consequences for EMDEs because trade drives growth and, in some cases, saves lives by supplying distant areas with essential products. In the case of this pandemic, fears of shortages have ultimately contributed to actual shortages through a deceleration of trade, along with domestic production reductions and increased demand for a few specific products. The decrease of global trade activity can ultimately hinder a longer-term return to each country’s pre-crisis development trajectory. But there is hope embedded in various commitments to support and/or remain open for trade. As governments and institutions call for continued openness to trade, supply chains have a better chance of surviving the crisis, laying the groundwork for an effective recovery.

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JANUARY 2021