

COVID-19 AND GLOBAL VALUE CHAINS: WHAT HAVE WE LEARNED?

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AGENDA

1. COVID-19 and shock to supply chains
2. Initial responses to COVID-19
3. What does the evidence show?
4. The tragedy of vaccine nationalism
5. Policy implications and the way forward
6. Final comment

COVID-19 SHOCK TO SUPPLY CHAINS



- Forced reduction in **production** as a result of containment measures
- Steep increase in **demand** of critical medical supplies
 - In March 2020, the WHO estimated that to meet rising global demand, manufacturing would need to increase by 40%
- Severe maritime, air and land **transportation disruptions**
- Unprecedented **business uncertainty**



How to provide timely and affordable access to PPE, respiratory support and monitoring equipment, diagnostic tests and medicines?

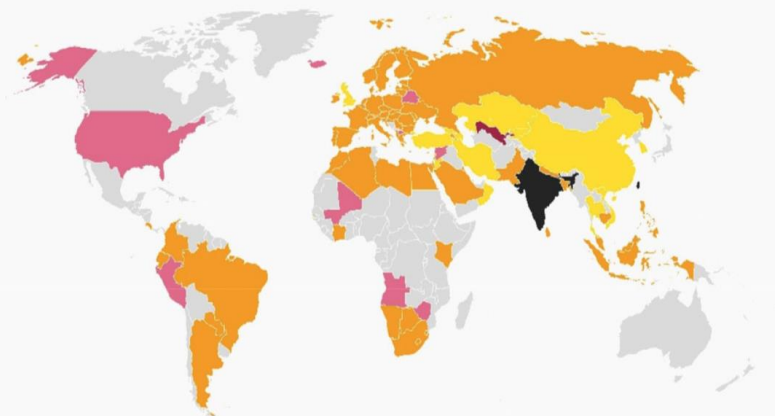
INITIAL REACTIONS TO COVID-19



- Governments rushed to **curb exports** of key medical products (and some on food)
 - Notable exceptions: Canada, Japan, Mexico, New Zealand
- But also to **facilitate trade**

Exports of medical supplies & medicines: 91 jurisdictions are reported executing a total of 202 export controls since the beginning of 2020

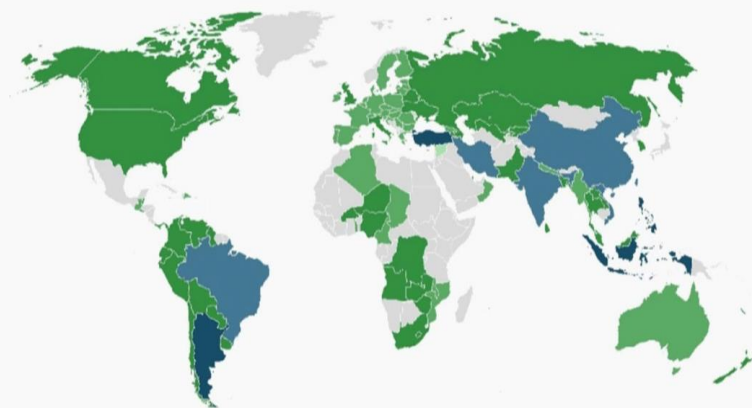
Updated on 04 September 2020



Source: Global Trade Alert-World Bank-European University Institute monitoring initiative.
Data and methodology note available at <https://www.globaltradealert.org/reports/54>

Imports of medical supplies & medicines: 105 jurisdictions are reported executing a total of 228 import policy reforms since the beginning of 2020

Updated on 04 September 2020



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INITIAL REACTIONS TO COVID-19



- Concerns of overdependence (on China) and initiatives to **reshore production**

Steep Drop in Trade Flows Shows Pitfalls of Cross-Border Supply Chains

Largest decline since financial crisis comes as multinationals strain to bridge new gaps in production

Business

Japan Starts Paying Firms to Cut Reliance on Chinese Factories

Bloomberg News

Pompeo Says S. Korea, Other Allies Joining US against China

The U.S. has recently pressed its allies to join the so-called Economic Prosperity Network, an anti-China economic bloc. Share. Print. List.

BUSINESS NEWS SEPTEMBER 18, 2020 / 2:26 AM / UPDATED 12 HOURS AGO

EU must diversify trade ties, develop own value chains: Germany's Altmaier

Supply Lines

Colombia Seeks to Lure Companies in China Decoupling Move

Japan, India and Australia aim to steer supply chains around China

Three nations call on Asian neighbors to join 'free and fair' initiative

IS lawmakers push to reclaim medical supply chains from China

Fears of shortages amid coronavirus amplify pressure on companies to reshore operations

TOP STORY

White House Officials in Puerto Rico for 'Industry Capabilities Tour'

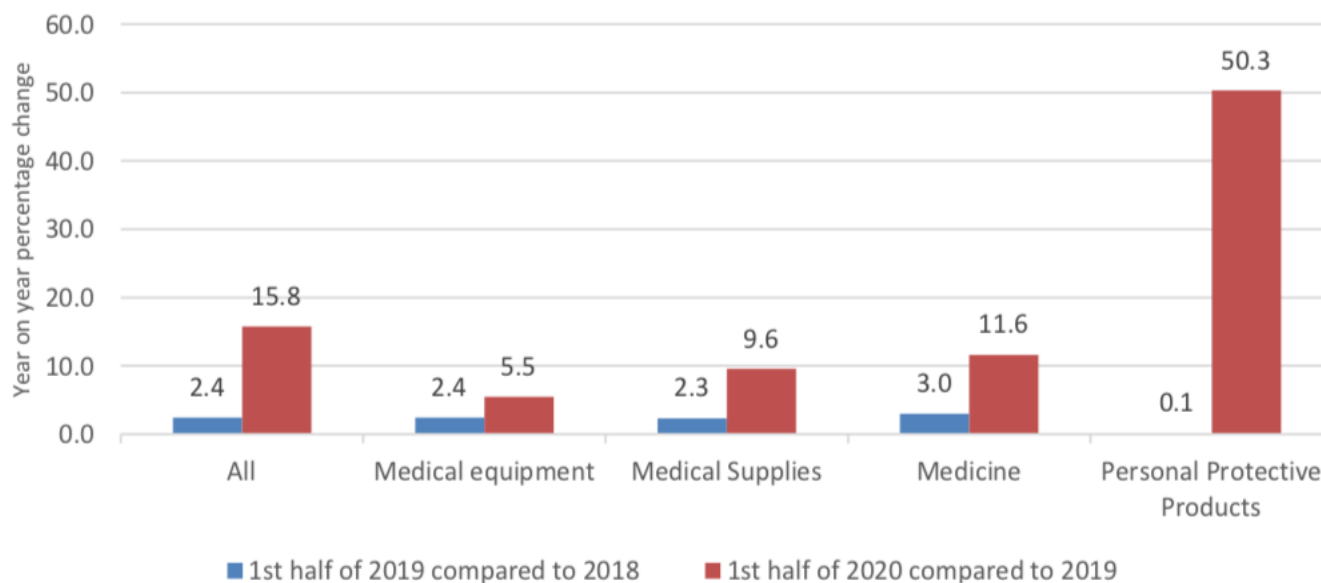
Focus on pharma and medical device manufacturing

WHAT DOES THE EVIDENCE SHOW?



- **Trade in medical goods grew by 15.8% in the first half of 2020, reaching US\$1,139 bn in value**
 - Specific products remain subject to periodic shortages, with sourcing a challenge for some developing countries

Chart 1: Percentage change of trade in medical goods in the first half of 2019 and the first half of 2020 compared to the same period of previous year





WHAT DOES THE EVIDENCE SHOW?

- **Total trade in Covid-19-critical products increased 29%** in the first semester of 2020 relative to the first semester of 2019
 - Total imports of **face protection products increased 90%** in the same period
- **China's share in world exports of Covid-19-critical products more than doubled** in the same period, from 12% to 29%
- The **US remained the top importer**, followed by Germany and China

Chart 3: Comparison of share of exports of COVID-19-critical goods in the first half of 2019 and the first half of 2020 (percentage share of world trade)

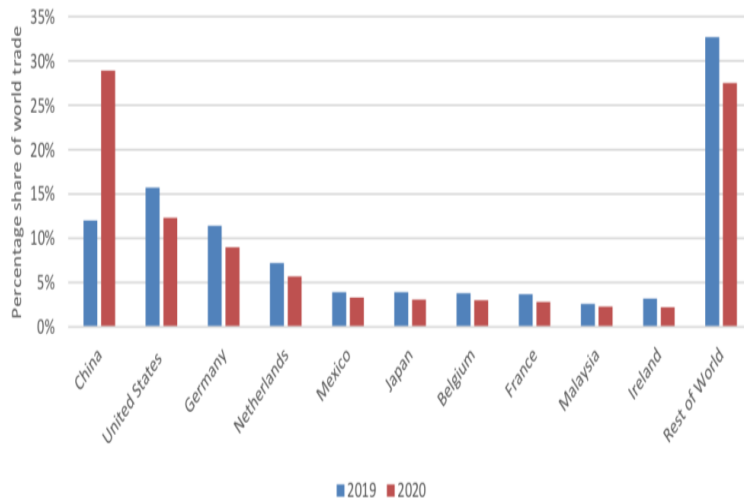
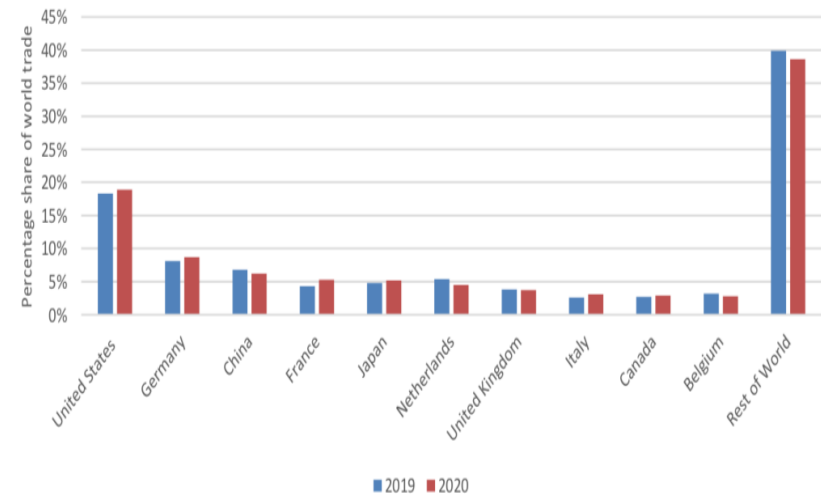


Chart 4: Comparison of share of imports of COVID-19-critical goods in the first half of 2019 and the first half of 2020 (percentage share of world trade)



Source: WTO, 2020.



WHAT DOES THE EVIDENCE SHOW?

- The top 3 importers are also the top suppliers and markets of Covid-19-critical products for each other

Table 3: Bilateral trade statistics on COVID-19-critical products for the first half of the year

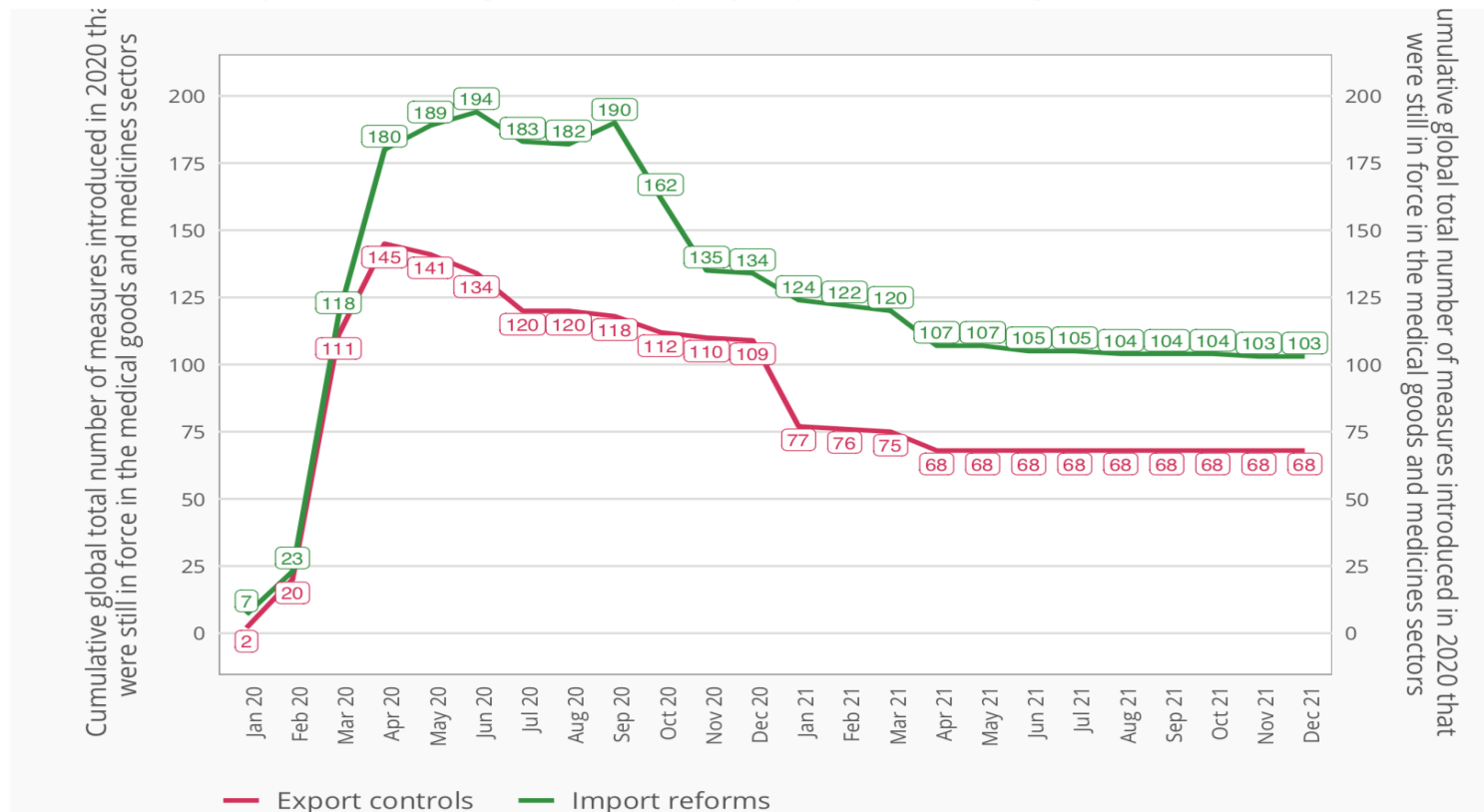
Importer	Partner	Value of imports from partner (US\$ million)		Partner's share of total COVID-19-critical goods (%)		Growth rate (%)
		2019	2020	2019	2020	2020/19
1. United States	1. China	6,057	14,714	22.6	40.7	142.9
	2. Mexico	4,977	5,247	18.6	14.5	5.4
	3. Germany	2,235	2,044	8.3	5.7	-8.5
2. Germany	1. China	1,026	5,553	8.6	33.1	441.4
	2. Netherlands	1,625	1,746	13.6	10.4	7.4
	3. United States	1,072	1,253	9.0	7.5	16.8
3. China	1. United States	2,183	2,339	21.9	19.8	7.1
	2. Japan	1,805	2,126	18.1	18.0	17.8
	3. Germany	1,303	1,348	13.1	11.4	3.5



WHAT DOES THE EVIDENCE SHOW?

- Some 100 of the import reforms and export controls on medical goods and medicines **have no announced phase-out date**

A partial unwinding of the trade policy response in medical goods and medicines





WHAT DOES THE EVIDENCE SHOW?

- Preliminary analysis suggests that **export bans increased internal prices of critical medical goods by 12.9%**
 - PPEs such as face masks and protective clothing experienced increases in prices of 22.2% and 20%, respectively

Table 6: EXPORT SUPPLY AND PRICE EFFECTS OF EXPORT BANS

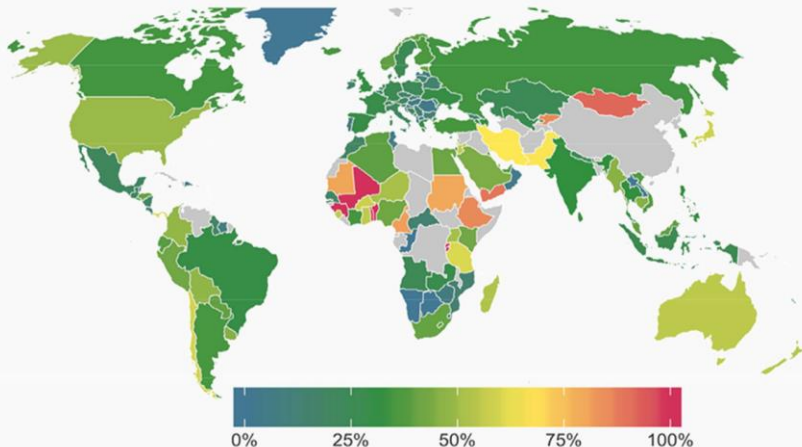
Product	Affected Trade Share	Change in prices (Trade weighted)
Medical Products	8.1%	3.3%
Critical Products	7.4%	12.9%
<i>Case Management</i>	1.8%	0.7%
<i>Diagnostics</i>	7.1%	1.4%
<i>Hygiene</i>	1.0%	0.1%
<i>Personal Protection Equipment</i>	40.0%	17.7%
Non-Critical Products	8.3%	1.4%
<i>Anti-epidemic goods</i>	0.9%	0.7%
<i>Food preparations</i>	0.5%	0.3%
<i>Manufacturing of Masks</i>	0.8%	1.2%
<i>Medical Equipment</i>	0.5%	0.7%
<i>Medical Supplies</i>	7.4%	2.4%
<i>Medicines</i>	14.4%	1.1%

WHAT DOES THE EVIDENCE SHOW?



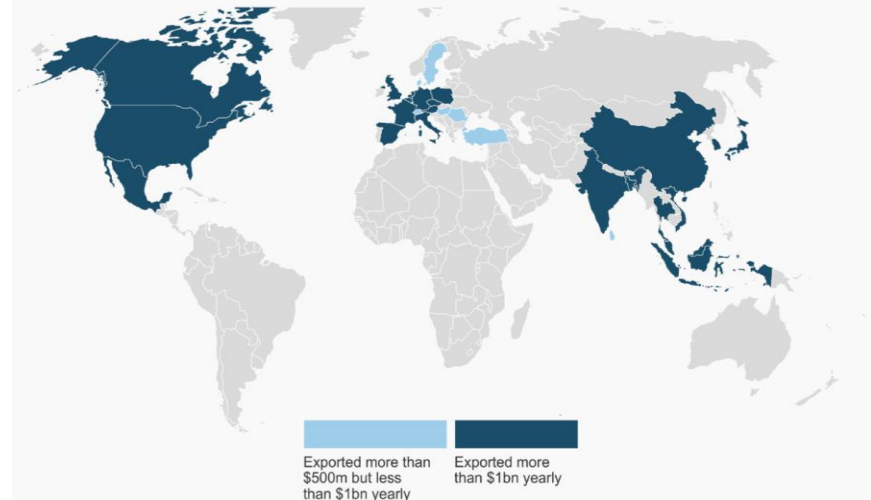
- Outside of Africa, **only a few nations source over 75% of their PPE from China**
 - No country in the Americas or Europe sources more than half of their PPE imports from China
- **Alternative suppliers of PPE are spread** across East Asia, North America, and Western Europe and Turkey

Average share of each nation's PPE imports that came from China from 2015 to 2018



Source: Global Trade Alert.
Prepared by the Global Trade Alert Team, University of St. Gallen.

Consistent exporters of more than \$500m of PPE per annum, 2015 to 2018



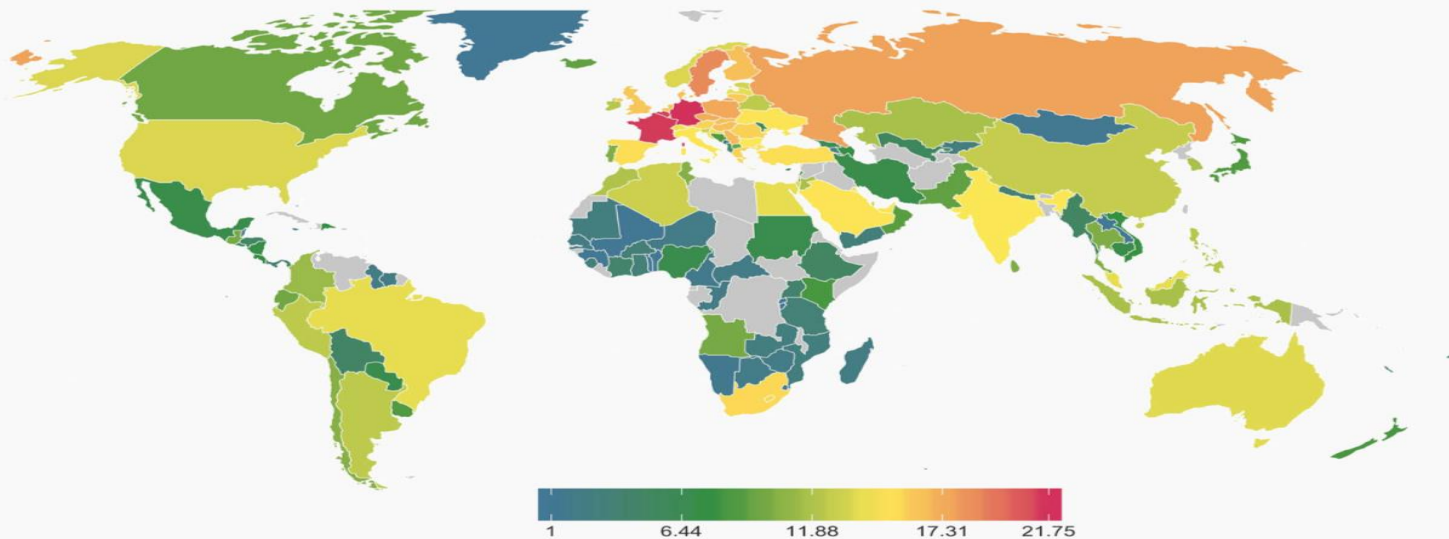
Source: Global Trade Alert.
Prepared by the Global Trade Alert Team, University of St. Gallen.



WHAT DOES THE EVIDENCE SHOW?

- **No G20 has fewer than six suppliers supplying more than 1% of their imported needs** (in addition to domestic suppliers)
 - France and Germany have an unusually large number of foreign suppliers that deliver more than 1% of their PPE imports

Average number of PPE suppliers that provided for more than 1% of total imports from 2015 to 2018



Source: Global Trade Alert.
Prepared by the Global Trade Alert Team, University of St. Gallen.

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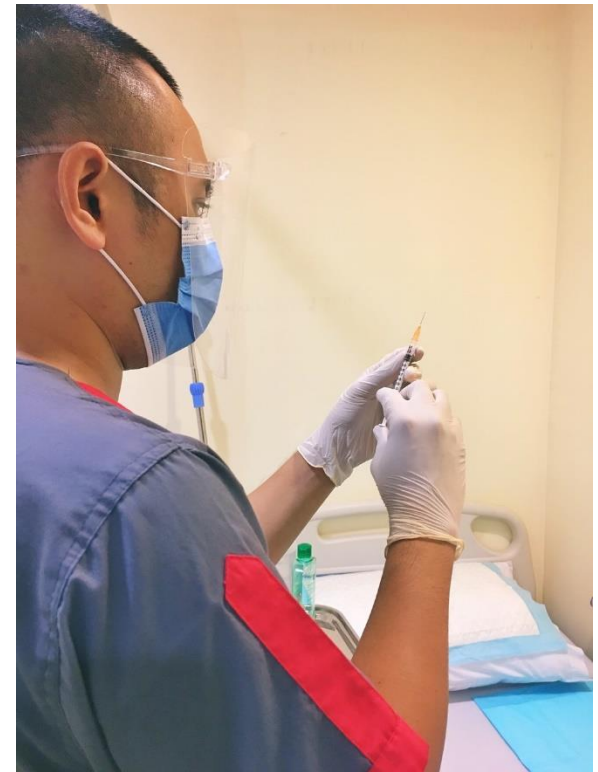


- Global value chains have allowed countries to retain **access to diversified sources of medical equipment** and thereby strengthen their response capacity
- There is **no rationale for governments to push for de-globalization -or reshoring**
 - Trying to lessen dependence on global value chains would put the world's population at risk by reducing access to essential supplies or by making them significantly more expensive



THE TRAGEDY OF VACCINE NATIONALISM

- Risk of countries bidding against one another, driving up the **prices**
- Supplies of proven vaccines will be limited initially even in some rich countries, but the greatest suffering will be in **poorer countries**
- Lack of protection in poor countries will **extend the pandemic**, increase its death toll, and imperil fragile health-care systems and economies
- Countries without access to the initial stock will search for any form of leverage they can find, including **blocking exports** of critical vaccine components
 - Breakdown of supply chains for raw ingredients, syringes, and vials
- Desperate governments may also strike short-term deals for vaccines with adverse consequences for their long-term economic, diplomatic, and strategic **interests**



POLICY IMPLICATIONS AND THE WAY FORWARD



- As cross-border supply chains are critical to protect the health and lives of people across the world, **governments need to facilitate the operation of these supply chains**
 - On the side of **importing countries** this implies:
 - Eliminating tariffs
 - Facilitating trade by establishing “green lanes” and expediting inspections and release of goods
 - Expanding access to technical standards and expediting conformity assessment procedures
 - But if **exporting countries** implement measures to curb exports, then importing countries -that is, the rest of the world- will be at risk.
 - These practices hurt not only importers but also exporters as they raise prices, discourage investment and invite retaliation.
 - Export restrictions provide a false sense of security; in reality, they are a lose-lose proposition.

POLICY IMPLICATIONS AND THE WAY FORWARD



- **Global cooperation on trade should be strengthened, including through the following actions at the WTO:**
 - Build a shared understanding of the **role of trade in helping fight the pandemic**
 - **Enhance transparency and strengthened monitoring**, with greater use of automated intelligence and machine reading in the collection of data and the analytical support from international organizations
 - Engage in negotiations to achieve a **trade and health agreement**
 - Removal of duties, taxes and other charges on essential supplies
 - Limited resort to and use of export restrictions. A standstill and rollback of current export bans is to be considered.
 - Expedited customs procedures and border clearance to facilitate the movement of these products
 - Enhanced regulatory approval and cooperation on standards for traded goods
 - Liberalization of logistics, distribution and transport services
 - Improved access to critical medical services and movement of essential personnel
 - Expedited and open procurement procedures
 - The tragedy of **vaccine nationalism must be avoided at all costs**, with equal distribution guaranteed across countries. The WTO should support the World Health Organization, the World Intellectual Property Organization, and multi-stakeholder initiatives for the vaccines to reach all, when ready.
 - Advance institutional reform to **improve the functioning of the WTO**

FINAL COMMENT



"The black swan event is not the pandemic (large firms have risk management plans), but rather the lack of global cooperation among governments"

John Denton, International Chamber of Commerce



THANK YOU