

## **International trade after the corona-crisis- Business as Usual or Systemic Change?**

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The current corona pandemic is shaping our reality like no other event in the last decades. Parts of public life are currently at a standstill, the international exchange of goods and services has been severely affected, and only a few people are currently moving internationally in a world once perceived as borderless. The economic impact of the corona pandemic is considerable. This is already a given. Broken supply chains, the shortage of medical supplies, but also the fast global spread of the virus itself, make many people associate the pandemic with globalization. Therefore, it is not surprising that globalization and international trade have come once again under heavy criticism in public opinion.

The WTO Secretariat forecasts that global trade in goods could fall by 13% to 32% in 2020, depending on assumptions about the length and severity of the pandemic. This development will have massive consequences worldwide. The global economic and financial crisis of 2007/08 had already revealed that no country today is immune from the effects of a global shock.

Most national economies are integrated into global value chains and supply networks, which account for two-thirds of world trade. The corona-pandemic and the measures against it have affected these value-chains significantly. They will continue to do so for a long time. International value chains have generated a lot of wealth and jobs globally. When we see the focus of some national responses on national production and “re-shoring” as a way to reduce risk, this important fact seems to be forgotten. It is also true, however, that globalization, based on brutal cost reduction and efficiency, is a practice that should be criticized and changed. It has led to dramatic consequences and dependencies, which this pandemic made evident once again. But these ideas challenges are not completely new: progressive trade policy with a focus on the potential negative impact of globalization and strengthening sustainability and workers' rights has been questioning this form of globalization for years. It is high time to think about further steps that are needed in trade policy in order to shape global processes in such a way that they become more stable, sustainable and that they improve the quality of life of all citizens.

### **1) New trends in global trade before the corona pandemic**

Even before the outbreak of the corona pandemic there were clear signs of changes in global trade. The United States had initiated a process of uncertainty with its strong domestic political strategy of "America First" and the associated "decoupling" and redirection of investments and production processes. Further frictions and uncertainties have become evident as a result of the US' clashes with its geopolitical rival China, but also as a result of the US' aggressive approach towards the European Union. This has made clear how vulnerable global and networked value chains are under the current political conditions.

The digitalization of production processes is changing the existing, traditional division of labour and thus putting supply chains into question. Digital technologies and proximity to the customer are becoming increasingly important. Big Data and 3D printers are making

production much more flexible, enabling new regional and local possibilities. The flow of goods can be re-structured and re-organized.

In practice, this means a greater emphasis on in-house competence and a return of value added to OEMs (Original Equipment Manufacturers) in industrialized countries. For example, some of the central components of the Tesla Model 3 are produced in-house and not supplied by system suppliers. This independent development of hardware and software solutions by Tesla shows that in certain cases, value chains that have been maintained over decades can become superfluous. Perhaps even the ability to innovate is affected by the traditional division of labour in the value chains.

Many companies have started to change their supply chains and production sites from a pure cost consideration to include sustainability considerations (CO<sub>2</sub>-emissions, circular economy, workers' rights). The amount of CO<sub>2</sub> emissions then plays a greater role in production decisions than a few cents of labour cost advantage. It is clear that the consequences of climate change will continue to put a strain on supply chains.

## **2) Corona pandemic continues to change trade and globalization**

The fragility of value chains in the production of goods has become even more apparent in many countries in the wake of lock-down measures. In addition to the global supply chain structure, risk has increased considerably because companies have also deliberately reduced the number of their suppliers in the past, so that today they only have a single supplier for certain parts and systems. China and also Hubei Province play a special role in this. Over a third of all industrial products produced worldwide today come from Chinese factories. More than 50,000 companies worldwide have a system supplier (Tier 1) in the Hubei region, according to a study by management consultants Dun & Bradstreet. The province generates 4.5% of China's GDP. Certain sectors of European industry are particularly hard hit, as they are dependent on Chinese imports of intermediate products, such as textiles (46.2%), electrical appliances (46.1%) and electronic products (39.7%). Non-Chinese companies in particular use China as a supplier location; according to data from China, 40% of exports from China come from non-Chinese companies.

Many observers considered this dependency as a major cause of the current supply shock. Very quickly after the beginning of the pandemic, a political discussion started to emerge about ways to make value chains resistant to crises or shocks and the need to reshore "systemically relevant" products and services. According to Bruno Lemaire, Minister of Economy of France, global supply relationships, especially in the health care and automotive industries, need to be rethought. He believes that France and Europe can no longer afford to be dependent on China for 80 to 85 percent of its pharmaceutical ingredients. He goes on to state that France will review all of its industrial supply chains in order to re-locate business in the most strategic areas in order to become more sovereign and independent.

It would make sense to investigate which (preliminary) products would be particularly affected and which would be classified as "systemically relevant". Further protectionist measures could lead to a further segmentation of trade relations and trade conflicts.

## Outlook

Most likely, companies will accelerate the realignment of their supply chains and production processes, at least for certain products, in order to make their value chains more robust. Value chains could be shortened. Companies are also likely to further diversify their supply structures, especially by creating second sources and reducing just-in-time structures, and instead building up larger storage capacities again. Economic actors will come under increasing pressure to prove that they have crisis-resistant value chains. Against this background, a globalization strategy that has been rather common up to now, namely to relocate everything to where production is most efficient, will most certainly decline. Greater reshoring to the EU through further use of digitalization appears possible. However, the positive effects on the labour market are difficult to predict, as additional pressure for more automatization could also mean that there is no positive effect.

Even though there are now frequent calls for the rapid relocation of production back to Europe, it must be clear that this will result in significant cost increases for producers and consumers. The greater robustness of value chains is certainly gaining in importance, which will make products more expensive. The production of masks is an example that is often used. Before the corona pandemic, these were available for approx. 0.5 €, but now the German company Trigema offers them for 12 € if ten masks are purchased and for 6 € if 1000 masks are purchased. Another German company, Eterna, offers masks for 3,90 €, their production takes place in the Czech Republic. The changed cost structure due to the will to move towards more robust value chains, will have economic and employment policy consequences in the EU.

The supply side of the production of goods will probably recover quickly for the most part with a slight delay in demand. Some sectors may not be able to react quickly: The European steel sector, for example, fears that it will not be able to increase supply quickly enough to meet a sudden increase in demand. This additional demand could then be met by imports, as there is still large overcapacity globally. In the worst case, this could trigger a second shock in this sector.

However, there are also sectors that have rather positive prospects, such as renewable energy and biotechnology.

“Trade in services” is perhaps the component of trade most directly affected by the Corona pandemic, with transport and travel restrictions imposed, many retail and catering businesses closed and no tourism and leisure activities. Certainly, more border controls, travel restrictions or other restrictions will remain, at least for a longer period of time. This will put a longer-term strain on passenger transport, especially tourism. Most trade in goods is not possible without the enabling role of trade in services (e.g. transport). In practice, this means that the services sector also loses out if trade in goods is lost. In contrast to goods, there are no stocks of services today that can or must be drawn upon at a later date; part of the demand simply disappears. As a result, declines in trade in services can be lost forever. Services are often linked to other (support) services. Therefore, a negative impact on one sector can easily trigger a snowball effect on other sectors. Nevertheless, some services, such as information technology services, may benefit strongly from the crisis. The corona pandemic is certainly a driving force for digitization.

Foreign direct investment (FDI) is likely to collapse worldwide this year as a result of the corona pandemic. FDI includes direct investment, cross-border mergers and acquisitions, intra-company loans and investment in start-up projects abroad. In a new forecast, the Secretariat of

the UN Conference on Trade and Development (UNCTAD) in Geneva expects a decline of 30 to 40 percent compared to 2019. This would be the largest decline in 20 years. "It will take a long time for global foreign direct investment and global value chains to recover from the current crisis," says UNCTAD Director for Investment and Enterprise, James Zhan.

There is also a clear movement of capital from emerging and developing countries. 83.3 billion dollars were withdrawn from the emerging markets in March 2020, according to the banking association Institute of International Finance (IIF). Capital flight was thus stronger than in the most tense times of the global financial crisis of 2008.

A completely open question is how the corona pandemic will change consumption patterns and consumer behaviour. Global trade is not only suffering from broken value chains, but also from a serious demand shock.

This cautious outlook on the developments caused by the corona pandemic suggests two possible losers of the pandemic:

#### Potential loser number 1: China

Chinese sources report that Chinese economic growth shrank by 6.8% in the first quarter of 2020 compared to the same period last year. This is partly due to the pandemic lockdown, but the economic situation in China had already changed significantly in 2019. In March 2020, China's exports fell by 6.6% year-on-year, and by as much as 17.2% in January and February. These figures mean considerable domestic political consequences, but also a slowdown in global economic development; in 2019 China's share of global growth was over 40%. In addition to the discussion about geopolitical dependency and vulnerability due to a single Chinese supplier in the value chain, this economic situation is certainly another reason to consider relocating production from China. This development is gaining momentum in politics and among companies. It can be assumed that China will become significantly less attractive as a production location. However, diversification and the associated development and certification of new suppliers will require time and investment. Moreover, a complete decoupling from China seems unlikely due to the current presence of important technology clusters in China. European companies such as car manufacturers producing for the Chinese domestic market will certainly maintain a strong presence in China due to the huge and still growing market and certain location advantages. Nevertheless, it is likely that there will be significant losses due to relocation of production in China and that trade will shrink accordingly. Although China will emerge from the Corona crisis sooner, the international production chains have become structurally unbalanced. It is highly questionable that there will be a huge economic stimulus package from the Chinese government to strengthen domestic demand while at the same times stabilizing the global economy, as was the case in 2008/9.

In order to counteract its own negative image, the Chinese government has already taken effective measures in the media and publicity during the crisis. There is large-scale Chinese support for European countries, in some cases even from private companies like Huawei. This can have the aim of presenting the EU as incapable of action and lacking solidarity on the one hand, and China as a reliable partner in the crisis on the other. It should not be forgotten that the Chinese government received support from the EU at the beginning of the crisis and accepted it with the explicit request not to make these deliveries public in order not to damage the image of its own crisis management.

China is in a defensive position, but China is an important actor in the global village. In this respect, the current China policy of US administration and the lack of joint international action

towards China to overcome the corona pandemic make the economic and political situation even more uncertain.

#### Potential loser number 2: Developing countries

A decoupling of value chains or relocation of production has direct consequences for suppliers and their employees in less developed countries. In the face of the corona pandemic, textile companies are turning to exactly what their supply chains are designed for: outsourcing costs and economic risk and shifting responsibility for it. The corona pandemic caused a demand shock and led to the loss of suppliers from China. Retail chains like H&M lost half of their value in one month. One example is the textile industry in Bangladesh, the second largest textile exporter worldwide, which also supplies many European customers. Leading textile companies have suspended or cancelled orders worth 1.6 billion dollars from Bangladesh alone within a week and have stopped making payments. Contracts with suppliers were suddenly terminated without any compensation. About 60% of all factories have been closed, tens of thousands of workers have been laid off. With this reaction, the apparel sector is once again a classic example of the dynamics of traditional global supply chains. Many small and medium-sized enterprises in developing countries - which, by the way, do not have the financial resources of rich countries to support the companies with support packages - are in dire straits and struggling to survive. Large groups of people with precarious jobs will fall back into poverty in countries classified as "middle income" countries, and women will be hit hardest. Small island developing states, whose economies depend largely on tourism, run the risk of economic collapse.

Many investors are withdrawing their money from the global South. As a result, the local currencies are devaluating: most recently in South Africa, Mexico and Indonesia. In addition, rating agencies have lowered the creditworthiness of several countries, including South Africa, Mexico and Nigeria. As a result, the risk premiums for the bonds of many nations are shooting up. It will become more expensive for governments to obtain new money at all in order to repay old debts, let alone to finance investments to strengthen their own economic development and overcome the corona pandemic.

The demand shock has severely affected international companies and foreign direct investment. Less investment means less growth potential and fewer opportunities to overcome poverty. Foreign investment in developing and emerging countries is expected to fall by 16% (UNCTAD). The lack of direct investment will lead in the short term to serious disruptions and possibly to permanent damage to global value chains and supply networks in less developed countries. In addition, the loss of export revenues is expected to cost Africa alone more than USD 500 billion. Added to this is the collapse of oil prices. Oil accounts for around 27 percent of Africa's total export revenues. For a continent that imports 90 percent of its medicines and medical equipment, disruptions in supply have a direct impact on the procurement of health resources.

In a first reaction, IMF head Georgieva and World Bank President David Malpass have succeeded in getting the 20 leading industrial nations (G20) to agree to a debt moratorium. The poorest 77 nations will not be released from their debt, but will be granted 12 months of deferred interest payments and repayments for a total of 14 billion dollars. Compared to the rescue packages that EU or US states have announced for their own economies, this G20 decision is rather modest.

### **3) Trade policy measures during the Corona pandemic**

To counter the corona pandemic, countries around the world have adopted short-term trade policy measures. These are mainly characterized by the attempt to develop resilience and resistance. However, despite the global nature of the pandemic, there is a lack of international governance. In many places, national measures were taken quickly. Often without examining whether it would be better to take global/regional rather than unilateral measures. As of 2 April 2020, the International Trade Centre had registered export restrictions in 60 countries, not only for essential pandemic goods such as protective equipment, but increasingly also for agricultural products. There is apparently an almost insurmountable impulse to act nationally first, in many cases with little effect. The example of the introduction of export bans on protective clothing and precursors by individual EU member states has brought the production of urgently needed products in the EU to a partial standstill and cut off individual EU partner countries that had no production or resources of their own from such important products. The USA also restricts the export of ventilators, while India has restricted the export of basic materials for medicines - including those required for the production of painkillers or antibiotics. In addition, restrictions on trade in food are increasingly being introduced, especially in Asia, although neighboring countries urgently need them. It is of course obvious that countries are tempted to react to restrictions imposed by other countries by imposing counter restrictions, thus creating an escalation.

There are also examples of the very spontaneous attempt to shift value chains through government action. The dependence of Japanese companies on China as their production base also led to an intensive discussion in Japan. The result was to shift the production of products with high added value back to Japan and to distribute the production of other goods throughout South East Asia. Japan very quickly earmarked 2.2 billion US dollars of its record economic stimulus package to help its manufacturers relocate production from China. 220 billion yen for companies that are moving production back to Japan and 23.5 billion yen for those that want to move production to other countries.

#### The EU has also taken short-term trade measures

Shortly after the outbreak of the crisis in Europe, the EU Commission issued an implementing regulation on export licenses for personal protective equipment for export to third countries in order to overcome national export bans of some EU member states, including Germany and France. These countries abandoned their unilateral measures after the adoption of the EU instrument. On the one hand, a total export ban by individual EU countries could be avoided and on the other hand, the sell-out of these goods to financially much stronger players could be countered. In view of the close relations with important partners in the EU's neighbourhood, the EP Trade Committee (INTA) has called for an extension of the exemption from the licensing requirement to the countries of the Western Balkans. INTA has also called for the measure to be implemented transparently and with the least bureaucratic effort. It is crucial that the measure takes into account the importance of international cooperation and solidarity and ensures that the measure does not negatively affect the economically weakest countries in the world. The EU Commission has taken up these suggestions and amended the regulation.

As a contribution to the fight against coronavirus, the Commission has also decided on a temporary exemption from customs duties and VAT on imports of medical devices and protective equipment from third countries. The measure concerns masks and protective equipment as well as test kits, respiratory equipment and other medical equipment. It will apply for a period of 6 months.

The EU Commission has also been active in the public procurement sector. The new voluntary joint procurement agreement with Member States (plus the United Kingdom and Norway) allows for the joint purchase of personal protective equipment, medical ventilators and test kits. The Commission has also published guidelines on options and flexibilities under EU public procurement rules. These guidelines focus in particular on procurement in urgent cases, so that purchases can be made within a few days or even hours if necessary and procurement without prior publication of tender notices is possible.

The EU Commission has decided on a far-reaching, temporary relaxation of state aid law in all areas with a great deal of flexibility, measures that seemed inconceivable a few weeks ago. These measures have a clear impact on trade policy. They include, for example, export credits. Due to the outbreak of the corona pandemic and the associated uncertainties, worldwide insurance capacities for short-term export credits are not sufficient. The European Commission has further expanded the possibility for state insurers to insure short-term export credits. Following an amendment, state insurers can in principle insure all short-term export credit risks for all countries without the member state concerned having to provide specific proof.

As developments in recent weeks have shown, the reintroduction of EU border controls throughout the EU and various measures affecting the normal operation of industry and services are having a serious impact on trade flows. The EU Commission has been particularly concerned about the continuous flow of goods through green lanes in the EU. Indeed, borders no longer represent a major bottleneck for goods.

At the end of March, the European Commission published guidelines for coordinating the EU approach to investment screening. The directive aims to protect critical EU assets and technologies from possible hostile takeovers and investments by non-EU companies. In the health sector in particular, there could now be an increased risk of attempts to acquire capacity in the health sector or related sectors such as research institutions through foreign direct investment. The Commission calls on Member States to make full use of the existing directive and calls on those Member States that do not yet have these screening mechanisms to put them in place.

On 7 April 2020, the Commission presented as its global response to the corona pandemic the Team Europe approach with a volume of over €20 billion. It coordinates contributions from all EU institutions, EU Member States and financial institutions, the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). It is not additional, fresh money but rather about supporting partner countries' efforts to combat the Corona pandemic. EU action will focus on addressing the immediate health crisis and the resulting humanitarian needs, strengthening partner countries' health, water and sanitation systems and their research and preparedness capacities to cope with the pandemic, and mitigating the socio-economic impact.

All EU actions so far fit within the WTO framework. To ensure transparency, the EU has made formal WTO notifications - under the Trade Facilitation and SPS Agreements as well as the Decision on Notification of Quantitative Restrictions.

Significantly, in this WTO context, the EU succeeded in convincing 15 other WTO members to establish a provisional dispute settlement mechanism in the second instance, after the US blocked the replacement of the Appellate Body, the actual second instance. The agreement stipulates that there will be no imposition of sanctions on the partners involved during a procedure. The United States, whose government continues to pursue a destructive WTO policy, is not part of this arrangement.

#### **4) Trade policy needs in Europe**

In the face of global change, measures must be developed now to shape future trade. It seems clear that the consequences of the Corona pandemic will lead to a longer-term change in the role of the state, the role of the EU in globalization. For the development of trade policy measures, it makes sense to keep four principles in mind.

1. The best way to maintain economic, social and political stability will be in a multilateral system. It is therefore important to respect the rules of the WTO and, of course, to modernize them in order to adapt them to the requirements of these times. Unlimited subsidies for the relocation of production are not in line with the GATT agreements and Article 3 of the WTO Agreement on Subsidies and Countervailing Measures. As the WTO jurisprudence has shown, WTO rules are quite clear in this respect.

b) Values- based trade policy should always have the interest of the partners in mind, especially those of the less developed countries. This is particularly important given the current trend of nationalistic, selfish reflexes and brutal economic power structures.

c) Even if the lockdown means less CO2 emissions, the climate crisis did not disappear with the corona pandemic. If there are no coordinated measures, there will be more shocks for trade and value chains. In this respect, the greening of trade policy must also be very high on the agenda of post-corona recovery trade policy

d) In all trade policy measures, it must also be clear who ultimately benefits from the measures.

In the review of the 2008/2009 crisis management it became clear that rescue operations benefited large companies more than ordinary people. In 2017, the OECD pointed out that this exacerbated existing trends towards greater inequality of wealth and income. It will be crucial to ensure that the trade policy measures now being tackled are targeted at the public interest and do not only benefit a few companies. Only in this way will further public acceptance of continued open trade be possible.

#### **Concrete policy recommendations:**

##### 1. Removing trade barriers and creating transparency

Even after the Corona pandemic, global trade will exist and will have to exist. The task now is to dismantle existing and short-term trade restrictions, initially of course for urgently needed medical products. Bilateral agreements play a major role here. But the WTO rulebook also provides a framework for this. Improving the partners' obligation to notify the WTO of trade-relevant measures is an outstanding task in order to identify protectionist measures. This information base is crucial for developing reactions and international cooperation on this issue. The transparency work of the EU Commission in this area must further be strengthened. This is the only way to reveal how far-reaching the consequences of shortsighted export bans or other restrictions can be. In order to achieve even greater transparency and to become more robust in the face of certain restrictions, digital solutions (block chain) could play a greater role.

##### 2. Making value chains fair and robust

In rebuilding more resilient supply chains, companies need to ensure that labour rights are guaranteed throughout the supply chain, that there is job stability to allow proper planning and that orders are paid on time. Outsourcing economic risks at any price is not compatible with global responsibility. There is a clear need for a level playing field. And the level playing field



in the internal market also calls for a uniform EU approach. We need a binding supply chain law that ensures the sustainability and crisis resistance of the value creation process. It should oblige companies to carefully examine their human rights´ and environmental risks and their susceptibility to crises and to take appropriate measures to prevent and mitigate such risks. Unfair trading practices must also become easier to control and eliminate.

### 3. Supporting resilience in value chains

If, due to a variety of factors, companies want to change or shorten their global supply chains, it is obvious that some EU Member States could play a special role in the production of goods in the future and thus generate employment. But the Eastern and Southern Partnership countries could also benefit. Here it is important to actively shape the process of rapprochement and to dismantle barriers to trade. Better safety nets need to ensure that the risks and mistakes of the old model of value chains are not repeated.

For the EU it is crucial to gain a better understanding of the strengths and weaknesses of the most important supply chains. Only on this basis can trade and investment policy environment be designed to best support resilience. Limited reshoring by EU rules could be achieved by means of a list of strategic goods for which European production is required. Alternatively, requirements could be imposed on companies to source, double-source from several countries for an intermediate product, develop strategic confirming or upstream agreements with companies to allow rapid changeover of assembly lines in times of crisis. However, here too, there must be complete clarity about the criteria and, for example, public health care must be defined at European level. Under no circumstances must this lead to protectionist behaviour which, on the one hand, would not be WTO-compliant and, on the other hand, would directly conflict with our overall economic export interests. It is also important to organize infrastructures to reduce vulnerabilities, such as the digital infrastructure or a set of short-term trade facilitation measures.

### 4. Reforming state aid law sustainably

Currently, European state aid law has been completely relaxed and made more flexible. There will be an intensive discussion on the future shape of this. The measures taken must be carefully examined to ensure that they do not lead to unfair competition and distortions in the global world. It must also be possible to give a clear answer to the question of who benefits from aid. It seems clear that aid will play a special role in the context of the green deal. This would ultimately be welcome if the process were to be accompanied by a request for a green subsidies waiver at the WTO. In terms of greening trade policy, this could place a strong emphasis on environmentally friendly products, renewable energy and related services.

### 5. Expanding export promotion

After the corona pandemic, the economic situation of small and medium-sized enterprises in particular is extremely tense and certain types of financing do not seem possible. In addition, there are also limitations on the possible demand side and a significant increase in the risk assessment of exports. We must therefore strengthen export insurance, export guarantees and export credits by the EU and the Member States. However, clear sustainability criteria must also be introduced here. The transformation process should also be clearly reflected in export promotion.

## 6. Prevent trade in counterfeit products

While the world has been fighting the Corona pandemic, criminals have used the crisis as a business opportunity and have been involved in counterfeiting medical supplies from unknown sources, especially online. The World Customs Organization has registered a record number of customs seizures of medical supplies such as hand sanitizers and facemasks in countries like Germany, Belgium, the United Kingdom and the United States. Millions of public funds used to buy these products have been lost. The problem of trade in counterfeit goods is unfortunately not limited to medical products. Research by European consumer organizations, which tested 250 products bought in online marketplaces, showed that 66% of these products did not meet European safety standards. The EU has several instruments at its disposal to combat the trade in counterfeit and unsafe products. As many of these goods are bought on online platforms, the EU should first increase the liability of online platforms, inter alia in relation to the planned law on digital services. At the same time, EU product safety rules should be revised to increase the responsibility of online sellers and international manufacturers. The EU must also ensure that consumer protection is clearly prioritised in the WTO negotiations on e-commerce and in the negotiations on bilateral agreements. Thirdly, the EU should step up its market surveillance and customs enforcement efforts. International customs cooperation and engagement with other trading partners (US) and the OECD are crucial to increase the effectiveness of customs controls and to ensure that unsafe and counterfeit products do not reach European consumers.

## 7. Using public procurement for fair products

The European Commission has made use of options and flexibilities offered by the existing EU procurement rules in emergencies and has also notified the WTO. The public procurement provisions in trade agreements generally require open, transparent and non-discriminatory treatment of suppliers from third countries. In addition, they offer foreign bidders the opportunity to participate in public tenders with exceptions above a certain value. Recent EU trade agreements also require governments to provide for a timely, effective, transparent and non-administrative or judicial review procedure through which a supplier can challenge a procurement process. One outcome of the corona pandemic must be to develop the current derogations further to maintain a degree of flexibility and to provide even better ways of defining fair requirements for procurement. On the other hand, it is important that all countries ensure maximum transparency with regard to changes in their public procurement systems and that the objective of open, transparent and non-discriminatory public procurement processes remains on the agenda within the WTO and in the context of other trade agreements. Products and services for public procurement markets should be able to compete on equal and fair terms.

## 8. Keeping an eye on services

Even in this first "lockdown" phase of the crisis, but even more so when restrictions are gradually lifted, it is important to maintain the resilience of global services supply chains. Not only because they account for a significant share of our economy (European services exports account for 26% of total exports to countries outside the EU and the services sector accounts for 73% of the euro area economy), but also because several service sectors can be considered "essential services" during the pandemic. Some examples of these essential services are cargo flights, essential medical services (including maintenance and repair services), banking, insurance, electronic payment services and ICT services. Information and Communication Technology (ICT) services are essential and must remain available to keep essential supply chains functioning and to enable "digital" options to help governments, businesses and citizens

to overcome the challenges of "lockdown" and "social distancing". Some ICT services, such as e-health, e-education, teleworking, connectivity and online research services are particularly critical. It is therefore crucial that countries cooperate multilaterally to avoid that global supply of these essential basic services is further limited by an uncoordinated patchwork of country barriers. On the contrary, governments should work together to ensure support for the resilience of services.

On the other side of the coin, and in a longer-term perspective, it is important to note that both the crisis and its recovery depend heavily on the availability of strong public services available to all, not least in public health and education. In the medium and long term, increased public health expenditure and investment in public health are crucial to revert the existing trend of underinvestment. Trade disciplines on services and investment should in no way hinder the protection of services of general interest. Trade liberalization commitments should continue to exclude public services as they should not be subject to a commercial logic. European public service trade unions and associations of public undertakings have launched a reflection process on the impact of the Corona pandemic on the future of European public services and the European response to the crisis in general. It is important that this reflection process includes a reflection on trade rules, as they are part of the wider policy framework in which public services are regulated and financed.

#### 9. Sharpening of investment screening criteria

The crisis has weakened many companies to such an extent that they could now more easily become targets for foreign takeovers. Even though direct investment is currently falling sharply, there is increased interest in European companies, especially from Chinese state investors. Under the existing Investment Screening Regulation, EU Member States and the Commission can already give an opinion on planned FDI in another Member State. This opinion may lead to a ban on investment by the EU Member State or otherwise to the adoption of "mitigating measures", which may include certain supply obligations such as meeting vital public health needs. As with other trade-related measures, a balanced approach and consideration is needed to ensure that countries are able to protect strategic sectors such as health while remaining open to foreign direct investment. Investment screening should not lead to nationalist investment controls and discriminatory treatment of foreign investors. When conducting investment screening, the criteria for screening (e.g. protection of health or public security) should be clear and defined at European level. It must not leave room for protectionist behaviour towards foreign investors.

#### 10. Making intellectual property rights responsible

Intellectual property rights will play a very important role in the recovery from the corona pandemic, especially in developing countries. In many countries, there is an urgent need for personal protective equipment for healthcare professionals, for safe and reliable testing of potential COVID-19 patients, and for research, testing and introduction of a vaccine. In Italy, some physicians have 3D printed spare parts for oxygen equipment, violating the patent on the equipment. In the short term, governments should acquire exclusive rights for critical medical products. As for urgently needed medicines, we must ensure that they can be massively replicated. For example, compulsory licensing, the process whereby a government agency uses a patented invention without the consent of the patent holder, should be made possible without excessive administrative burden. Thirdly, we must ensure that the rules on data exclusivity can be relaxed, as they can significantly delay the introduction of generics. The TRIPS Agreement of the WTO has many flexibilities that allow governments to make health-promoting decisions,

see also the "Declaration on TRIPS and Public Health" and par.6 for the compulsory commercial license. However, the TRIPS-plus provisions in recent bilateral trade agreements and international and national intellectual property policies may hinder several of these flexibilities. For example, the German Patent Court has so far only admitted compulsory licences in three cases, one of them relating to HIV drugs. Lawyers have argued that there are many legal hurdles in German patent law for compulsory licensing to be a useful and flexible mechanism.

The most far-reaching agreement in this respect is the TPP, which includes the extension of patent protection beyond 20 years, provisions on data and market exclusivity, the extension of the data protection obligation to biologics and increased TRIPS enforcement. It is important that we take a fresh look at the EU's bilateral agreements and the international policy on intellectual property rights, particularly with regard to developing countries, so that both developed and developing countries can make the necessary pro-health choices

#### 11. Improve market conditions for less developed countries

With the Corona pandemic, the EU has suspended customs duties and VAT on certain medical products. This measure should be the basis for a more far-reaching model of duty and VAT exemption. There is no doubt that the competitive situation of many less developed countries will deteriorate after the corona pandemic. The EU should consider a clear model of duty exemption. All LDCs already have duty-free market access under EBA. An extension to all sub-Saharan African countries or to Group 77 without China should be considered. However, a restriction for CO2 harmful products is conceivable.

#### 12. Encourage investment in less developed countries and reduce debt

Equal and balanced trade relations with less developed countries can only exist if they are also able to represent demand and supply. In this respect, we must strengthen investment activity on fair conditions. At present, direct investment has fallen sharply and the willingness to take risks for investment in less developed countries is limited. The EIB must be mobilised for investment, particularly in Africa. The EU should also organize risk hedging to encourage private investment. The World Bank and the International Monetary Fund have achieved a suspension of debt repayments for the poorest countries. But that is not enough. Even the OECD wants to consider a massively strengthened initiative for highly indebted poor countries (HIPC). At present, only a few countries are in the pre-decision phase of the debt relief programme for highly indebted poor countries. Much more needs to be added here. Lenders must now come together to tackle this together and reduce debt The EU should take the initiative here.

#### 13. Facilitate money flows

Many people in less developed countries benefit from remittances sent by migrant workers and family members from industrialized countries. In times of crisis, these funds can be a lifeline At present, 7% of the amount sent is usually charged as a fee. The EU should advocate for no transfer fees in this context.

## 14. Proactively shaping the WTO

There is no question that the EU should become even more proactively involved in the further development of the WTO. In recent years, there has already been a stronger commitment, which has also brought some success. In addition to the fields already mentioned above, the Environmental Goods Agreement should be mentioned here once again. This instrument would be an important building block for overcoming the symptoms of the crisis and supporting transformation.

It is quite clear that we live in a global village. Tackling global challenges will only be effective through international cooperation. Unilateral measures, going it alone will ultimately harm everyone in the networked global village. One result of the 2008/2009 crisis was the G20's promise not to take protectionist measures and to maintain the rule-based trading system. However, the necessary steps remained very limited. In view of today's challenges, the need for a fair, rule-based multilateral trading system has increased significantly.

The Corona Pandemic will not end globalization. We have the opportunity to make it better and fairer.

Bernd Lange, 28.04.2020



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