

International Trade Committee

Oral evidence: The Covid-19 pandemic and international trade, HC 286

Friday 5 June 2020

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Members present: Angus Brendan MacNeil (Chair); Robert Courts; Mark Garnier; Paul Girvan; Sir Mark Hendrick; Mark Menzies; Martin Vickers; Matt Western; Mick Whitley; Craig Williams.

Questions 216 – 238

Witnesses

I: Soumaya Keynes, Trade and Globalisation Editor, The Economist Magazine; Professor Simon J. Evenett, Professor of International Trade and Economic Development, University of St. Gallen; and Marianne Petsinger, Senior Research Fellow, US and the Americas Programme, Royal Institute of International Affairs.

II: Alan Wolff, Deputy Director-General, World Trade Organisation; and Peter Ungphakorn, former Senior Information Officer, World Trade Organisation.



Examination of witnesses

Witnesses: Soumaya Keynes, Professor Evenett, and Marianne Petsinger.

Q216 **Mark Garnier:** Good afternoon to everybody. You would normally be expecting to see Angus MacNeil but, unfortunately, due to technology problems beyond anybody's control, I am stepping in while he gets himself sorted out.

Welcome to this afternoon's session of the International Trade Select Committee's inquiry on the effect of Covid-19 on international trade. I will start with some questions to you, Professor Evenett. Your organisation, Global Trade Alert, of which you are the co-ordinator, has been tracking global trade policy responses to the Covid-19 pandemic. What are the key features that are emerging from your data?

Professor Evenett: This year there have been 579 trade policy changes that we have documented and, not surprisingly, over 330 of them are in the medical goods and medicines sector. Eighty-nine nations have implemented a total of 154 export controls or limits on these goods, and an even larger number of nations, 104, have implemented 179 reforms to the importation of these goods, for example reducing taxes on imported soap. One big development has been in that sector. A second development has been in the food sector where there have been 40 export controls put in place and 57 import reforms. We have been tracking these measures over time, and a growing number of the export controls are being withdrawn, so they have been temporary.

Turning to the impact on the UK's commercial interests, we have documented 49 measures abroad, taken by foreign Governments, that have harmed UK commercial interests. We estimate that a total of \$6 billion of UK exports face trade distortions that were not present at the beginning of this year and that are present today. There have been 75 reforms abroad that have created opportunities for \$3.9 billion of UK exports. You can see the balance is very much towards the negative side. This is likely to get worse as more countries implement trade-distorting subsidies.

To summarise, by now we estimate that 71.6% of the UK's exports face one or more trade distortions that are in force abroad and, over the past 10 years, we estimate that 17.1% of UK exports faced a beneficial trade reform in another country or have benefited from such reforms. You can see the balance over the 10-year period, not just the one-year period, is very much in the wrong direction.

Q217 **Mark Garnier:** Professor, that is an incredibly helpful answer, but there are an awful lot of statistics and data in that and I think it might be quite helpful to the Committee if you were to give it a context. Historically, is this particularly unusual? Is it unprecedented? How would you rate it?

Professor Evenett: The number of trade policy interventions we have seen this year is in line with what we saw last year, but it is important to



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highlight that last year was the most active for trade policy intervention in the last 10 years. We are maintaining the level of intensity that we saw last year. What is different this year is the attention to trade policy changes in the medical goods and medicines sectors, perhaps not surprisingly given the pandemic. Also typically we do not see so much resort to export controls as we have done this year. We tend to see more import tariff increases and subsidies being issued. We may well see more of those towards the end of the year.

When you turn to the UK's interests, as I said at the end of my introduction, there has been a steady build-up over the last 10 years in the share of UK exports facing trade distortions abroad, and this accumulation has reached about 72% of UK exports facing distortions abroad. I would add—and I think this is a critical point for the members of the Committee to consider—that some of the most pervasive trade distortions are not the most salient. The salient trade distortions, such as those associated with the trade war, are important. However, the slow build-up over time of subsidies to import-competing firms and export subsidies given to manufacturers trying to sell goods abroad is where the action is, and this is where British firms are running into trouble.

Q218 **Mark Garnier:** Are you suggesting, just to be clear, that there are some protectionist and other measures going on under the cover of Covid-19 that otherwise would be frowned upon by the WTO?

Professor Evenett: I am indeed. Let me give you one specific example so we can get our heads around this. On 3 June the *Financial Times* reported the CEO of Lufthansa, discussing the bailout he had just received from the German Government, said as follows, "The German Government was focused on how Lufthansa can maintain its position as a German global champion, not just how it can avoid insolvency." I think this is an example of what we will see more of as we go forward for the rest of this year, as economic conditions deteriorate.

Q219 **Mark Garnier:** This is very helpful. You have obviously done a lot of work within your organisation. How do your figures and your conclusions compare with what the World Trade Organisation is coming up with?

Professor Evenett: The World Trade Organisation reported on 23 April this year that it had found that 80 nations had put in place export constraints on medical goods and medicines. You can compare that number with our number. The WTO did not report on the number of export controls, nor has it reported on the liberalisation of imports with respect to medicines, unfortunately. The generalised monitoring database of the WTO has not been updated since 29 July 2019. I think we will have to look forward to its next monitoring report, which is due in the next month or two, to see its current assessment of trade policy dynamics. The WTO secretariat is in some ways limited by the willingness of member Governments to notify them of policy changes, and this may account for the differences in the totals that we find and that they have found.



Q220 **Mark Garnier:** Isn't the WTO behind the curve on this one?

Professor Evenett: I don't think so. I believe that the leadership of the WTO—and you will have a member speaking later—has been very forthright in articulating why open trade is needed at this time. What we are learning from this crisis, as we learn in any crisis, is that the WTO secretariat is a relatively weak international institution when compared with others like the IMF and the World Bank. Governments are in the driving seat at the WTO, as such occasions show.

Q221 **Craig Williams:** I will dig into some of those examples. How far are the countries that are putting in place those measures and emergency measures violating the obligations under the trade agreements and, specifically, what are the likely consequences of those breaches?

Professor Evenett: Let me be clear, with respect to the export controls in the area of either food or medicines, they can be designed in a way that is entirely consistent with WTO obligations. It is unclear that there have been violations there. Of course, one could draw the conclusion that the rules are a little bit too lax, but that is the first observation. The second observation is that as we go forward with greater subsidisation and bailouts, and as we see those fiscal stimulus packages and the like be implemented, we should watch carefully to see whether there have been WTO violations, and that is where I think the action will probably be.

I must say, to date it would be hard to make the case that there has been widespread violation of WTO rules.

Soumaya Keynes: Simon is, of course, exactly right on the carve-outs in the rules for export restrictions on medical supplies and food. The context of that is that those rules were written in the aftermath of the Second World War, when the topic of export controls was front of mind. That is why those holes were written in, and it is probably why they are unlikely to be removed.

When it comes to other things, I think of two buckets in the response to Covid-19. The first, as Simon mentioned, is that of subsidies where we are seeing a huge amount of assistance being given out. To provide a bit more detail on what would count as a WTO violation, subsidies need to be specific, they need to go to a specific sector or industry and, for there to be a problem, they need to have adverse effects. What that means is that the subsidy has to essentially damage your company's interests in exporting either to a foreign market or to a third country. If we think about a subsidising Government, you might worry that the companies they are subsidising will be given an unfair advantage within their own market, which could hurt your firms. That is the kind of instance where you could see an official complaint being made.

The other bucket of Covid-19 responses falls under the category of tax. Obviously there are fairly extreme fiscal measures being taken, and



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Governments are on the hunt for ways to raise revenue. In that circumstance, it can be very tempting to raise revenue on someone else's companies. One example might be digital services taxes. Full disclosure, it is unclear whether digital services taxes fall within the rules of the WTO, the GATS, or whether they fall within bilateral tax treaties, just because we have not had the litigation go through, but if you listen to the Americans they seem fairly sure on whether those digital service taxes are complying with the international rules. If the question is whether there are going to be trade tensions as a result of this, I am pretty sure there will be.

Q222 Craig Williams: Could I dig into your views on the digital taxation side and the WTO GATS, or not GATS, but also what you think we should be looking for as, around the world, we all talk about onshoring and bringing back some production developments? What are those two dimensions?

Soumaya Keynes: Sorry, was the question my view on whether digital services taxes are good, or on what we should be doing on them?

Craig Williams: No, your view about the current WTO arrangements and whether there is that potential gap you were describing.

Soumaya Keynes: We can get very quickly into pretty hardcore legalese. If you listen to Jennifer Hillman, who is a former WTO appellate body member, it is unclear. It is possible that it falls underneath the WTO General Agreement on Trade in Services. Do these digital flows that are being taxed count as trade in a service, or do they count within domestic taxation? Is this closer to a VAT than a tariff? That is the kind of legal question that essentially we will not know the answer to until someone has taken a case and it has been litigated at the WTO. Obviously there are some problems right now with litigating cases at the WTO, so that would happen perhaps within some kind of arbitration. I guess, in the context of the US, they are probably going to decide that they do not like it, wherever it falls.

Onshoring feels like a pertinent question in the context of medical supplies; it seems to be the hot-button area. The lesson to take away from Covid-19, and the experience of many policymakers, is that there was a disconnect between the supply chains that they had control over and the supply chains that they were being blamed for by voters. The quest or desire for onshoring is a desire to reconnect those two. Perhaps if those supply chains were closer to home, we might have more control over them when a crisis struck. I think the better lesson to take away from Covid-19 might be that what you need is a healthy stockpile of equipment and supplies, and then a diverse set of suppliers to maintain the resilience of your supplies. We can have a shutdown at home and there is just as much risk from that as there is from being reliant on imports.

Chair: Thank you. I also thank Mark Garnier for stepping in when my parliamentary computer decided it needed to renew itself, or something



or other, at the vital moment. Incidentally, I have had a message from darkest Wiltshire saying that Mark Garnier is doing a great job. I have never had that message myself from darkest Wiltshire. If we can move on to the sunny uplands of Preston, where Sir Mark Hendrick awaits us.

Q223 Sir Mark Hendrick: I would like to ask Ms Petsinger a question. In March the G20 Trade and Investment Ministers advocated a co-ordinated global response to the pandemic. What would such a response look like, and how much evidence is there that one is taking shape?

Marianne Petsinger: Just taking a step back and looking at what has actually happened, the collective response of the G20 has focused on pledges and declaring a common purpose. The G20 held two extraordinary meetings of Trade and Investment Ministers—virtually, of course—and, as you rightly mentioned, came up with that statement. They have also subsequently issued a statement that outlines specific actions that can be taken in the short and long term. I think overall the statement could have been more ambitious, and the EU trade chief has also said that. Phil Hogan proposed very concrete measures in advance of that first meeting and, in his opinion, the G20 Trade and Investment Ministers' statement did not go far enough.

If you are looking at other fronts, the WTO, for example, has mostly stepped up with transparency, monitoring and information sharing to keep track of the Covid-related measures that have been introduced. I think the WTO would be the natural forum for more collective action but, because the organisation is under pressure on multiple fronts, we have not really seen that. In that absence, it is primarily plurilateral efforts we keep seeing, so a subset of WTO members that have come to the forefront and taken concrete efforts.

One example is Singapore and New Zealand who have recently entered into an open agreement on removing tariffs and not imposing export restrictions, and they have made that open for others to join. That is one concrete step that others can build on. Other initiatives have been led by Canada, for example, on pledging openness when it comes to agricultural trade. In May, 42 WTO members, led by Switzerland, pledged to lift export restrictions that have been introduced to fight Covid-19 as soon as possible. I think it is really telling that the world's three largest economies, the United States, the European Union and China, did not participate in that pledge. The signal to me is that the co-operation and international efforts have been led by medium-sized countries, which I think is quite interesting.

On areas where there is room for co-ordination, again it is the reduction or elimination of tariffs that have been introduced on Covid-19 related products and looking at disciplines and export restrictions—trade facilitation is another area—continuing the work on transparency that has been done, and showing the way forward and a common understanding of what happens with a new vaccine under intellectual property. Perhaps working on an agreement towards facilitating cross-border movement



when it comes to personnel in the medical field, and keeping trade finance open is another critical area where there could be room. Finally, there could be efforts for countries to build strategic reserves and work with partners to foster stockpiles on a more regional basis.

In the long term, I think there is also room to drive forward WTO reform efforts. The current crisis has shown there is a need for international rules and for a rules-based international trading system, with the WTO at its core to function properly, which will also be crucial as we move into the recovery. Another thing the Covid-19 crisis has shown is that with the shift to remote working, and with the focus on online delivery services and e-health, there needs to be a new effort on digital trade and moving forward with the e-commerce plurilateral initiative that has been launched already.

Q224 Sir Mark Hendrick: Thank you very much for that. Professor Evenett, you have advocated an immediate trade bargain to secure supplies of medical goods during the pandemic. Could you tell us a little bit about how that would work? Is there any sign that your idea is being taken up by the international community?

Professor Evenett: This builds on the fact we have seen 179 trade reforms in the area of imported medicines, soap and the like. Of course it makes no sense to tax these items in the middle of a pandemic. It would be great if we could encourage countries to make permanent, or at least extend, those import reforms. They are very reluctant to do that if they cannot be sure of being able to source from abroad because other countries might resort to export controls, which, as I noted earlier, we have seen a lot of too. One way forward would be for the countries that are net exporters of these goods to commit to qualify, to limit, their use of export controls, making sure that, say, half of the contracted exports are exported at a time of emergency. In return, the importing countries would extend their reforms, maybe for up to a five-year period. In this way the exporting nations continue to secure a better market and the importing nations are reassured a little more that they are likely to get their hands on medical supplies when they need it.

The proposal that Professor Alan Winters at Sussex and I put together has been circulated. It was discussed yesterday among ambassadors in Geneva. I have had an informal report of what happened at that meeting, and I believe some Governments will be looking more into this matter. I also understand that the matter is being given serious consideration in London. Essentially what I think people are looking for is some way of making something of this desire to open up markets where we probably should never have been taxing imports in the first place and to have an early harvest where we can lock in some of the reforms that we have seen. Maybe this could be a first step towards a plurilateral agreement among countries on medical supplies and medicines, which the European Union and others have been advocating. Professor Winters and my proposal is very much a first step, an early harvest, towards a more



elaborate agreement that could be negotiated once the goodwill exists at the WTO to try to do so.

Q225 **Sir Mark Hendrick:** Do you see this sort of arrangement as just a question of medical supplies and medicines, or could it be extended to other fields in the future?

Professor Evenett: It could well be extended to other fields in the future. As we noted earlier, the WTO has really weak rules on export curbs, and export curbs are disruptive to supply chains and trade. If the WTO was built to do anything, it was to help reduce uncertainty faced by exporters and importers. A natural extension of this principle to other areas could be a very good idea, but our thought was to start in the place where people are focusing at the moment. Trade policy and medical goods are salient, for obvious reasons, and that is an area where we can make the case publicly that taxing imports of soap and detergent at this time makes no sense.

Q226 **Chair:** How normal are export curbs and the export restrictions that went on in the beginning? Did that frenzy veer away—were they lifted?—or was it a panicked response? If you can be brief, please.

Professor Evenett: I definitely will. There was a frenzy of export controls in March and April, and it has fizzled away. Some of them are now being withdrawn. We see these frenzies from time to time. The last time was with respect to food exports about a decade ago. We have these disruptions from time to time, but we do not really have many permanent long-term export curbs, which is in contrast to many other trade barriers, but when they happen they are really disruptive.

Q227 **Chair:** It is usually import controls that Governments have for protectionist measures. What happened 10 years ago?

Professor Evenett: What happened 10 years ago in the case of food was that, essentially, Governments got together. There was not a formal agreement to get rid of export curbs, but there was an informal understanding that they should be withdrawn as long as there was enough evidence of ample food supplies. That was demonstrated by an international group who essentially documented the availability of food and the like. This persuaded Governments that their populations were not going to starve and, over time, these measures were removed, but they did a lot of damage in the interim, disrupting food markets. That was the real concern.

Q228 **Mick Whitley:** The G20 Trade and Investment Ministers also expressed concern over the impact of the pandemic's economic effects on developing countries. What could be done through trade policy to mitigate that impact, and how far are the G20 nations doing it?

Soumaya Keynes: This builds on the same themes that Marianne and Simon have been discussing. Clearly, when you apply export controls, the most vulnerable countries are developing countries. They are the ones



that are going to find it hardest to build up their capacity to make the most sophisticated medical equipment, so you are leaving them in the lurch. Stage 1 is don't apply export restrictions. Perhaps slightly more realistically, in the short term one thing you can do is try to increase transparency. One of the motivating factors behind some of these export controls was a terror, a fear, that there was not enough.

As Simon said, there was the initiative on food 10 years ago to monitor how much food there was, where it was going and what the stocks were. One idea could be to try to work up a parallel in the area of medical supplies to create the certainty and generate more information about what is where so that Governments don't panic that they are not going to have enough and, therefore, apply these export controls. That is obviously quite specific. Developing countries are facing a horrible combination of shocks to their economy and shocks to export demand. They are suffering because of all the disruption to international logistics. The collapse in passenger numbers has impacted the availability of air freight capacity, so that is an area where Governments could be watching and making sure it is all running smoothly.

More broadly, trying to support the global rules-based trading system is going to disproportionately benefit those smaller, poorer countries that don't thrive in a power-based system. One thing the G20 Ministers could be doing is throwing more of their weight behind the WTO, perhaps trying to fix the dispute settlement system, and clearly they have not managed to do that unanimously yet.

Q229 Mark Menzies: We have heard evidence that some Governments are tightening screening and approval measures regarding foreign direct investment. What scope, if any, is there for Governments to co-ordinate or align policy in this regard?

Soumaya Keynes: There are a lot of differences in FDI screening policies across countries, and the vastness of those differences suggests there is clearly scope to harmonise. Perhaps you want to harmonise the capital thresholds above which you would trigger an investigation, or the scope of those screening policies. The reason you might want to harmonise those is that, obviously, if another country approves an investment that can have a security impact on you and, similarly, if another country denies an investment that can have an economic impact on you. There is this advantage in co-ordinating.

I should also say, though, that this is not something that has been done. Governments don't tend to co-ordinate on these kinds of things. The really obvious way in which you should be co-ordinating is that, if you are worried about risk, you need to be sharing information on risks. Recently there was a discussion at EU level on creating some kind of voluntary information exchange whereby Governments could share information on risks of particular investments in progress. I think that has the most potential for an area of co-ordination.



Marianne Petsinger: I agree. To build on that, recently the European Commission adopted guidelines on FDI screening before the EU's FDI screening regulation enters into force, which is supposed to be in October of this year. For background, this mechanism of co-operation and co-ordination was adopted in March last year, and now the guidelines specifically spell out that we have 14 member states that have FDI screening mechanisms and it urges the remaining 13 member states to set up those effective screening mechanisms themselves.

There are two elements to co-operation. The first is EU-level monitoring of foreign acquisitions and sharing that information with the other member states and the Commission, and then, as Soumaya mentioned, the voluntary exchange of pending FDI screening cases among member states.

We have seen other countries, such as India and Australia, tightening their investment screening as well. There are mostly national concerns driving that, and not necessarily efforts for collaboration. However, in the United States we have CFIUS, the Committee on Foreign Investment in the United States, that over the last year has tightened investment screening and is now taking further steps. UK authorities, and also the European Commission separately, have had fairly open conversations with CFIUS, and that is something to build on going forward.

On international organisations in this field, I think there is much more scope for the OECD to take a role. It does research, it has the data on investment policies and could offer much more specific guidelines on principles for setting up and designing FDI screening mechanisms that are driven by transparency and non-discrimination.

Q230 **Matt Western:** Thinking back to 2008-09 and the parallels between the crisis that faced the international community then and the crisis that faces the international community now, we have had individuals such as former President Obama and Prime Minister Gordon Brown speaking about the need for concerted action. What do you think are the lessons that can be drawn for the current situation from how the international community responded on trade policy to the financial crisis of 2008-09?

Professor Evenett: I think one should make a distinction between what was very high profile and what actually happened on the ground. What was very high profile is the Government said they would not engage in 1930s-style tariff increases—"we have learned the lessons of the past" was the mantra. If you look at the UK's exports in 2009, only 0.5% of them faced a tariff increase that year, so that is the good news. But then when you dig a little deeper you realise that what many Governments were giving their firms in 2009 were not tariff increases; they were giving them subsidies and incentives to help them export abroad. By the time we got to the end of 2009, 35% of UK exports were facing some type of trade distortion in a market abroad, which was not there 14 months earlier when Gordon Brown and President Bush pledged in Washington that the G20 would not engage in protectionism.



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There was a huge expansion in trade with under-the-radar subsidies, and not in the form of tariffs. This has led to a number of people saying the system worked last time. No. I would contend that what happened was that the pressure for protectionism and support was channelled in different directions, not towards tariffs, thank goodness, but towards subsidies and, unfortunately, that subsidy in 2009 was built on subsequently. I tend to take a lot more jaundiced view.

Having said all that, do I wish there was more international co-operation now or at least some sense of restraint? Absolutely, but we should not try to oversell the experience of 2009-10. When you look at the data more carefully—and perhaps I do a bit more of that than I should—you see a different story.

Marianne Petsinger: Also in the lessons learned, starting with the analysis of what is similar and what is different this time around is critical, because one of the key differences is that the 2008-09 crisis was mostly driven by demand, whereas now we have supply and demand shocks. The key difference there is that it is not just about confidence anymore, as in 2008-09, but economic activity is being shut down with all major trading partners within two months. It is quite a different story. As we are most likely heading into the disease coming back in waves, the trade collapse will most likely have wave-like properties as well.

Another key difference is that we are currently seeing a lack of leadership, and we have touched upon it already. Finally, some of the policy lessons. The financial crisis of 2008-09 was the first wave of the global economic crisis and then, in the wake of that, stress tests were introduced for banks. Looking at that as an example, now there could be stress tests for supply chains of companies that provide critical goods and services. Harvard Business School has proposed an interesting methodology that would look at time to recover, time of survival as they term it. Those companies that provide critical goods could perhaps be asked, under those different scenarios, to report their ability to deal with disruptive events, and the Government would require those companies to provide them with an assessment.

Soumaya Keynes: I want to offer a note of optimism on the point that Simon was making. One of the biggest distortions that arose around the time of the financial crisis, or was exacerbated by it, was the Chinese Government's practice of essentially pumping stimulus into its economy, which included encouraging big state-owned enterprises to make lots of steel and aluminium. Those industries were then fairly distorted. One of the results was that they ended up exporting a lot of the excess metal to foreign markets, creating problems elsewhere. My understanding now, though, is that the Chinese Government recognise that was a problem, that the policy had costs, so I am slightly more hopeful that perhaps we will not see quite the same march into those kinds of distortions as we saw last time. Give me five minutes and I will return to my ever-pessimistic outlook.



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There are two other things to say. The policy lesson of the financial crisis, I suppose, is that there was a sort of supply shock in that, basically, there was a huge tightening of credit, and academic studies have managed to find out that that had a non-trivial effect on trade flows. I think about 20% of the decline in trade flows can be associated with the credit crunch.

The other thing is that, to the extent that the rest was a big demand shock, big demand shocks to trade can make the initial numbers look scarier than they really are. What you have with global value chains is that you might not buy the final product, so you might not buy the car, and attached to that car are all the associated trade flows, all the components. When you do not buy that car, the value of the car and the trade flow numbers associated, but so do those of all the components. What that means is that you get this very sharp fall in trade when the shock first hits but then, when things get better, you can get a fairly sharp rebound. As Marianne said, there are massive supply issues right now, so that might call into question the extent to which we see that again, but another semi-optimistic note there.

Q231 Paul Girvan: Thank you very much indeed for what we have heard so far. This is primarily to Simon Evenett. How likely is it that the emergency measures you are tracking will turn into a permanent way forward, and how might that consequence have some impact on that happening in the future?

Professor Evenett: In the area of medical goods and medical supplies, I think we are already beginning to see some of the export controls being removed. This is good news. By the way, in the area of food export controls, more of those have been removed as well. A good many of the emergency measures will be removed. The area to watch for things that last will be the new subsidy schemes that are brought in. Someone will find a catchy phrase for explaining why we should spend lots of Government money restoring growth through bolstering their industry. Ten years ago it was green growth; this time it might be climate-friendly growth. These might be very good things to do from a non-trade point of view, but you will see schemes proposed. They will come into force and they will last for a long time. That is the area to focus on, not on the export controls.

It would be nice to be able to fix the export control issue, and I have talked about how to do that, but the longer-term distortion to the trading system will come in the form of subsidies. Let us not forget that the European Commission has already approved €1.9 trillion of subsidies to the 27 member states, and we are at the beginning of this particular process. This will get a lot more extensive. That is what you should follow, in my recommendation.

Q232 Robert Courts: Soumaya, I draw your attention to the comments made by the EU Trade Commissioner and the Dutch Trade Minister in which they floated some outline proposals for a new plurilateral agreement on



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trade in essential medical goods. What are the advantages and disadvantages of such an arrangement? In any event, how easy would such a thing be to achieve?

Soumaya Keynes: Lower trade restrictions on essential medical supplies get the thumbs up from me—very nice to have. I see a couple of issues. First, I think there is a slight tension between the idea that the world is about to throw open its borders to trade and the more populist impulses to make sure that medical supply chains are brought back home. I don't necessarily agree with the latter impulses, but there is a slight tension that needs to be resolved, which could prove to be a problem when implementing such an idea.

The other issue I have with that proposal is it addresses only half of the problem. The elegance of Simon's proposal is it deals with both the export side and the import side. I have not seen great detail on what they meant, but I could see only import restrictions mentioned in the EU proposal. Of course, the problem for the rest of world is that the EU imposed export restrictions. If your proposal deals with only half of the problem, the rest of the world might say, "That is nice, but it is not what we want from you." Unfortunately, I think that also matches the political reality of making commitments on export restrictions. Given the ugliness of the political economy of exporting medical supplies in the middle of a pandemic, I think politicians are going to be very hesitant before they commit not to do that in future, given there were huge backlashes in various countries—in America, for example—when news got out that they had been exporting supplies to China when it was in the middle of its own disaster.

Finally, briefly on the chances of it getting done in an easy and quick way, count me as very sceptical, as someone who has watched people try to agree things that should be much less controversial in trade.

Marianne Petsinger: I share that assessment essentially. The details are not yet clear, but what we have seen or heard about the proposal is that it focuses on eliminating import tariffs and does not really reference the export restrictions. On the plus side, it could potentially turn into a platform to discuss export restrictions and regulatory barriers. It is, again, a big question of to what extent that might lead and segue into a broader arrangement, which I think would be very welcome.

On the advantages, I think any kind of permanent liberalisation of tariffs on medical equipment would be quite beneficial. However, on the likelihood of that happening, other countries, such as India, have already expressed their reservations about making any temporary tariff suspension permanent. If there is a permanent move to liberalise those tariffs, I think it would provide legal clarity that could potentially encourage investment. It could potentially focus on producing medical supplies that are really needed to fight a global pandemic.



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Another element is that applied tariffs are, on average, low for developed countries, but there are spikes still, so again that would be a potential benefit of the agreement. The disadvantage, or perhaps the sticking point, is that the time to negotiate will be a huge factor. I also do not see a huge appetite in the current environment for advancing plurilateral efforts in a time of protectionism. That could change in the long term, but in the near term I do not see huge appetite for that.

There are also big questions around whether such an agreement would really address the needs of developing countries. Would it address issues of intellectual property rights and the questions that arise when a vaccine is developed? All that has to be sorted out.

Finally, there is potentially room to move that agreement forward, because it could build on agreements that are already in place. Covid-19 relevant products are already covered to some extent by the plurilateral agreement on pharmaceutical products, which was last updated in 2010, and also by the information technology agreement that was expanded in 2015. There are stepping stones that can be built on.

Robert Courts: Thank you very much. That is very helpful and very interesting.

Chair: We will go over to Mark Garnier. I think part of the high praise for his chairing earlier was due to his very smart Harris tweed jacket. At least that is the message being relayed from darkest Wiltshire. If any of you want to trade goods at the moment, Harris tweed jackets should be highly recommended.

Q233 **Mark Garnier:** I think we all agree that you cannot get enough Harris tweed.

Marianne Petsinger, can I ask you a two-part question? It is around this whole idea of what Governments can do to try to force companies to reshore. One of the things to come out of the Covid-19 problem is that we have seen issues about getting hold of medical supplies and all the rest of it. The idea is that if you reshore, onshore or near-shore your supply lines, you can get around a future problem if there is another pandemic. By the way, this not only applies to medical goods and essential goods; it also applies to things like the automotive sector, which Soumaya mentioned earlier, and those quite complex supply chains.

First, what can Governments do? What mechanisms do they have to be able to force this? The second is a more philosophical question about what it means for the concept of free market economies. We are looking for more free market economies. Is this protectionism? The other important point is that, when you look at a developed nation like the UK, the US or whatever, we go back to Adam Smith's *The Wealth of Nations* where you export that very cheap manufacturing base in order to increase the productivity of your own economy. If Governments start forcing this type of onshoring, is it not going to have a profound effect on the development of the maturity of the economy they are doing it to?



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Marianne Petsinger: There are lots of very big and important questions in there. Starting with the tools, because I am focusing on the US economy in my work, using some examples of what has been proposed from the United States might be quite illustrative in providing an answer to your questions.

There is talk about reshoring subsidies, for example. In particular, a proposal to pay 100% of a company's expenses for moving production into the United States has been floated. Tax incentives are another measure that can be introduced, and senior officials in the US Administration—Larry Kudlow, for example—have mentioned cutting the US corporate tax rate in half, so from 21% to 10.5%, for those companies that are moving from outside to inside the United States. The United States could also ask the US International Development Finance Corporation to shift priorities and, instead of focusing on outward investment, help companies in the United States and also help companies from overseas to come into the United States. Finally, I think there is going to be increased effort on procurement policies, so “buy American” policies that we have heard about in the past, and increased requirements for domestic production.

What this means is that we are likely to see much more limited onshoring, so only in certain sectors and only for certain companies. Even though Governments might want to subsidise, for example, they will be under increased pressure from the fiscal measures that have been introduced to fight the pandemic, so there is going to be limited availability of funds to make this happen. It is also very much interlinked with tax measures. While companies might want to get tax cuts in the short term, in the long term Governments might want to raise taxes to restore their public finances. I think that means that any support you are seeing for onshoring will be very much limited to strategic sectors, and the time and duration will be quite limited.

There is a fundamental question about the extent to which it would help to do more manufacturing in the United States, or if other Governments adopt it in their domestic constituencies, because most likely any manufacturing that is brought back would not necessarily lead to the creation of jobs but would be replaced with much more automated processes.

I think that, overall, instead of focusing on Government policies, any process for increased diversification of supply chains, for example, or increased redundancy will be much more driven by market forces than Government intervention. Governments should pursue other policies, such as looking at stockpiling and creating trusted partnerships. The United States have floated the idea of an economic prosperity network, so more of a regionalisation of supply chains or stockpiling that is shared with other close allies. For companies it also makes sense still to have diversified supply chains, to introduce redundancy, but any company that is in China, for example, is not going to rush out of China. For them it is



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not just having a presence in that local market to then export: it is also having a foothold in the local market to get access to domestic consumers.

Even though we are hearing a lot of talk about onshoring right now, I think overall it is going to be limited and the response will be much more driven by market forces.

Q234 Mark Garnier: First, you talk about corporation tax cuts, but is that not state aid by a different name? Secondly, you have mentioned strategic sectors. Can you define what you mean by strategic sectors? Is that economically strategic, like the auto industry, or is it essential, like medical supply? What did you mean by that?

Marianne Petsinger: It is the obvious question: to what extent are those tax incentives essential to state aid? How it is designed will be a critical matter. I think the key emphasis here is on being more competitive and levelling the playing field. Strategic sectors traditionally have been defined as national defence but also energy and transportation. However, given the environment we are in, it is expanded to cover anything that is related to public health and the healthcare sector.

Q235 Martin Vickers: You have already responded to many of the points that were going through my mind, but I think you have indicated that the political rhetoric perhaps will be more towards onshoring, home production and so on. That, of course, will inevitably be more costly if it is brought home to America, western Europe and so on. How do you think the markets will respond to increased prices? The public at large, I suspect, would accept it short term but would want the benefits of the lower costs that come with production in Asia, Africa and so on.

Marianne Petsinger: I think it depends very much on the product that we are talking about. To some extent an increase in prices for pharmaceutical products would, in the current environment, be quite detrimental. Again, it very much depends on what specific area we are talking about. A price increase in the shoes and textiles you are importing from China is perhaps easier to swallow than something that is considered much more essential. Those on lower incomes are primarily the ones who are relying on imported goods, so they would be predominantly hit. That could feed into a broader backlash that we have already seen in regard to trade. The question of equality is a factor here as well.

Q236 Martin Vickers: You have mentioned clothing and shoes, and so on, and we have seen a remarkable reduction in the retail prices of those thanks to production in developing countries. Surely it is an opportunity for some Governments to reestablish more home-based manufacturing to take advantage of a public view that would perhaps accept higher costs at the moment, because they have seen the problems of obtaining essential products during a crisis. Do you think the retail markets would respond to



that?

Marianne Petsinger: Price is certainly one factor. There is also the variety of goods and the quality of goods. Consumer preferences for more locally produced goods also feeds into the big debate about not only making supply chains more resilient but also greening supply chains. There is another element there that needs to be considered. There is a case for not only more local production but also for more regionalisation of supply chains, and I think that is increasingly where we are heading.

Q237 **Chair:** As we are closing in on the end of the first panel, just to wrap it up—we do not have a lot of time, as ever—there is a feeling of this being quite a game-changing period due to the pandemic. The black swan event I predicted, which by definition means it was not a black swan, was the Icelandic volcano affecting aviation. Eyjafjallajökull gave us an indication of that, so my swan was getting quite grey by the end of thinking about it.

With this sort of thing, a lot of people are seeing a lot of change. There has been a lot of talk about maybe altering international trade agreements and limiting investor state dispute settlement provisions—things we have heard about on previous occasions—to allow for performance requirements and local content rules changes, and the building of domestic resilience, as opposed to onshoring or offshoring, against future trade disruption. I am sure your minds have been in and around that area, but how desirable is that shift or that change?

Be brief. It will not be as bad as Question Time, with 20 seconds each, but that is the sort of game.

Professor Evenett: I think it generally will be an undesirable shift. I think what we are seeing is very much gut reactions, reflexive thinking, and we are not seeing evidence-driven policymaking. You may be interested to know that the UK imports 151 different types of medical goods and in only six cases do more than half of the UK's imports come from China. This is a problem that has been grossly exaggerated. I would urge the Committee and the Government in London to explore where there is a serious problem, rather than just allow emotional responses to a really tragic situation to change basically a generation of trade policy.

Chair: Thanks for that piece of data, six of 151 from China.

Marianne Petsinger: Some of the policy measures that have been introduced to fight Covid-19 could potentially be challenged by foreign investors through ISDS, and that has highlighted the need to safeguard sufficient regulatory space to protect public health. I think that will increasingly become a focal point. ISDS has already faced criticism that it was leading on efforts to establish a multilateral investment course. I think there could potentially be movement there.

Looking to the future and making sure that the rules adapt to 21st-century trade, I would reiterate what I said about focusing on digital



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trade, but there also needs to be more focus on rules with regards to subsidies, for example.

Soumaya Keynes: To end on an optimistic note, I hope that one good thing that could come out of this crisis is that businesses, Governments, everyone, are more cognisant of risk and more aware of what we do not know. If this crisis meant that we started gathering data on things that we do not know, that could be really great, so fingers crossed.

Q238 **Chair:** Thank you for that, and thank you to everybody on the panel. I note that Mark Garnier mentioned an economist of the past, Adam Smith, but nobody mentioned the famous John Maynard Keynes and I believe, Soumaya, there is a connection somewhere along the line.

Soumaya Keynes: He was my great great uncle.

Chair: Brilliant. That is a nice Friday afternoon fact to go with the six and 151. Thank you very much, panel 1, and I apologise for my laptop messing me and, more importantly, you about.