

International Trade Committee Inquiry: The COVID-19 Pandemic and International Trade

Evidence submitted by Ian Clarke, CEO Excalibur Global Managed Services Ltd and Professor Erika Szyszczak, Fellow of UKTPO, University of Sussex

1. *What impact will the global COVID-19 pandemic have on UK businesses trading internationally, in the short-, medium- and long-term?*

- a) COVID-19, a particularly virulent virus that has a high morbidity and mortality rate in humans, has no direct impact on global trade. The spread of the virus has prompted unprecedented, but necessary, reactions from governments and regional trading blocs, such as the EU, in an attempt to contain the virus and avoid overwhelming national healthcare systems. The most common reaction has been to impose lock-downs, closing businesses and preventing cross-border movement of goods and people. To ameliorate the consequences of these responses governments have used various forms of subsidies to maintain wages and ensure capital flows in business.¹ In addition there has been some relaxation of the antitrust/competition rules² and, for urgent healthcare products, the adaptation of procurement schemes.³
- b) These political, social and economic reactions by governments are the major disruptors to global economies and trade, and not the virus itself. COVID-19 is a new global pandemic which has not been experienced in modern times. Currently we do not know, or understand,

¹ A measure of the variety of forms of subsidies and different sectors affected in the EU can be found at : State aid Rules and corona virus, https://ec.europa.eu/competition/state_aid/what_is_new/covid_19.html

² In the UK, for example, the competition rules were relaxed to allow supermarkets to co-operate to ensure supplies. <https://www.rpc.co.uk/perspectives/retail-therapy/covid-19-help-for-supermarkets-and-other-retailers-with-competition-law/>

The European Commission, the EFTA Surveillance Authority and the National Competition Authorities (European Competition Network) issued a *joint statement on the application of the antitrust rules during the current coronavirus crisis*. In the US, in contrast, the DOJ insisted that antitrust laws remained in place but were flexible enough to allow for beneficial, pro-competitive collaborations and exchanges of information between competitors, and the needs of responding to a health crisis or other public emergencies.

³ Guidance published by UK Cabinet Office, *Procurement Policy Note – Responding to COVID-19* (PPN 01/20, 18 March 2020), available at:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/873521/PPN_01-20 - Responding to COVID19.v5_1_.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/873521/PPN_01-20_-_Responding_to_COVID19.v5_1_.pdf);

See also: Communication from the Commission Guidance from the European Commission on using the public procurement framework in the emergency situation related to the COVID-19 crisis 2020/C 108 I/01, C/2020/2078, *OJ C 108I*, 1.4.2020, p. 1–5, available at:

<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.CI.2020.108.01.0001.01.ENG> and EU *Joint Procurement Agreement for the procurement of medical countermeasures* (JPA), available at: https://ec.europa.eu/health/sites/health/files/preparedness_response/docs/jpa_agreement_medicalcountermeasures_en.pdf

the dynamics of how the widespread effects of the disease interact with economic and social behaviour. We also do not know the consequences for global trade governance, which, even before the pandemic broke, was in a fragile state.

- c) Once we appreciate that it is the *reactions* of national governments (and regional trade blocs) to the virus that impacts on UK international trade, it becomes easier to predict the short, medium and long-term outlook for UK businesses. There are currently a number of *unknowns* that will influence future UK and global trading environment, these include:
- i. **Timescales for freeing up current trading restrictions and opening up national borders.** Governments have responded in different ways and at different times to close down production of goods as well as trade borders. It is unlikely that national governments will lift restrictions simultaneously and therefore international trade will continue to see varying levels of disruption in the short to medium term.⁴
 - ii. **The commercial viability of UK companies due to the impact of global COVID-19 restrictions.** Some companies will not survive the economic fallout from the national and international trading restrictions. Certain sectors are particularly sensitive to disruption, such as aviation, tourism, non-food consumer goods, manufacturing and food processing. In fact, any company that relies on global supply chains, or exports goods or is involved in global tourism for its business activities will have experienced a significant loss in revenue as a result of the restrictions. Some countries will be stronger when international trade picks up and this creates risks that businesses will be vulnerable to hostile take-overs.
 - iii. Despite the efforts of government to support companies, merely by the nature of the business it is probable that a proportion of these companies that are not financially robust will cease trading, resulting in further disruption to trading dynamics, especially in the composition of, and the competition within, these markets, and across sectors.⁵
 - iv. Businesses will need to adjust to these circumstances. Some will be weakened and may not have the capacity to adjust to new trading situations. Additionally companies may have to adjust to any new trade agreement with the EU. A trade agreement that created a high friction trade relationship in 2021 would be an additional burden. Thus, the extent of the fragility of surviving businesses, especially SME, is an unknown.
 - v. **The extent of the lack or erosion of public trust in established state institutions** is a factor identified by Acemoglu (2020).⁶ This has many facets. The availability of social

⁴ See: Beatrice Rios, "Commission to call for a coordinated EU exit from COVID-19 lockdown", EURACTIVE, 14 April 2020. Available at: <https://www.euractiv.com/section/coronavirus/news/commission-to-call-for-a-coordinated-eu-exit-from-covid-19-lockdown/1454688/>

⁵ Or, be at risk of a take-over. The UK government could use merger control regulation to stave off foreign takeovers and also consider the use of share ownership in sensitive sectors. The EU Competition Commissioner has advised that Member States should consider buying stakes in companies at risk of takeover from Chinese takeovers. This could be in the form of golden shares, where the State has a veto of certain policy choices of a company: Javier Espinoza, "Vestager urges stake building to block Chinese takeovers" FT, 12 April 2020, available at: <https://www.ft.com/content/e14f24c7-e47a-4c22-8cf3-f629da62b0a7>. However, a return to nationalisation, or government shares in EU businesses, would drastically alter the effects of years of liberalisation of markets in the EU.

⁶ "Unknowns, Challenges and Opportunities in the Time of Covid-19", presentation by Daron Acemoglu

- media to voice dissent and criticism of governments' handling of the COVID-19 pandemic has also revealed a weakness and lack of faith in the established reporting of news.
- vi. Criticism of the slow response, and questioning of the government response (delays, lack of testing, lack of ventilators and PPE) the COVID-19 crisis has brought to the surface various aspects of inequality in society. This is manifested in the criticism of the perceived or real capture of politics by banks and business elites, the response to the 2008 global financial crisis, resulting in lengthy austerity measures and a general under-investment in the social/welfare safety net and public health systems.
 - vii. Acemoglu also identifies other factors that have led to a lack of trust in current state institutions, for example, the weakening of the technocratic, autonomous civil service as a political strategy in countries such as Italy, the US, the UK, and Turkey. We do not know if these factors will result in changes to the established institutions in the future or whether elites will be able maintain the previous status quo.
 - viii. **Nationalist politics, potential for armed conflict and international trading tensions.** There is an increasing level of nationalist political rhetoric that is likely to impact on global trading policies. A blame culture is already beginning to surface at a political level within major trading nations. For example, some influential politicians in the USA and the UK are using the COVID-19 crisis as an opportunity to promote the introduction of a new type of political and economic relationship with China.⁷
 - ix. This rhetoric is not only levelled at China, there are increasing tensions between EU Member States as they initially turned in on themselves, adopting a default position of national sovereignty over EU solidarity. This led to the closing of borders and a natural instinct to look inwardly at managing the crisis. There has been a steady move back to a mutually supportive position across the EU, but tension still exists between Member States, especially in disagreements of how a solidarity approach can be developed for the countries most affected by the pandemic.
 - x. Additionally the attitude of the developed states towards the developing world may have longer term consequences as new trade deals for the supply of goods and services emerge.
 - xi. The different impacts of the COVID-19 virus on the EU Member States has resulted in disagreements on how the EU should respond to the economic implications. These tensions will undoubtedly lead to changes in established political and trading relationships and suggests that there will be continued disruption, leading to permanent change, to some important trade mechanisms in the short and medium term.
 - xii. The UN has raised concerns⁸ that the crisis could lead to growing social unrest and violence as economic instability and political tensions lead to an erosion of trust in

MIT, April 9, 2020. Available at: <https://economics.mit.edu/files/19370>

⁷ One example is the EU attempt to regulate investment by state owned bodies, especially Chinese enterprises: Javier Espinoza, "Vestager urges stake building to block Chinese takeovers", Financial Times, 12 April 2020. Available at: <https://www.ft.com/content/e14f24c7-e47a-4c22-8cf3-f629da62b0a7>
In the UK, preparations for leaving the EU allowed amendments to the regulation of mergers in the public interest, which would allow a review of impending foreign ownership in sensitive economic areas.

⁸ United Nations Secretary-General Antonio Guterres speech to the U.N. Security Council on 9 April 2020 warning that the COVID-19 pandemic is threatening international peace and security - "potentially leading to an increase in social unrest and violence that would greatly undermine our ability to fight the

national governments. Some populist politicians are already using the COVID-19 crisis to either postpone elections or manipulate local or constitutional law to cement their hold on power.⁹ Many would see this as the establishment of an undemocratic powerbase leading to greater levels of protectionism and disruption of trade and commerce.

- xiii. In the EU, a scenario could be the use of the Article 7 TEU process to suspend a Member State.
- xiv. In the wider world the resultant political and trade tensions could escalate to openly hostile political cross border relationships and eventually armed conflict in certain parts of the world, further impacting on UK and global trade.
- xv. **Supply chain security.** Many western economies are reliant on extended and just in time supply chains in China and other developing countries. It is not yet known what the impact of COVID-19 will be in terms of human lives in these countries or on their ability to quickly re-establish their manufacturing base. Many in-country manufactures deploy large workforces in producing goods¹⁰ as this is often a cheaper alternative than purchasing expensive machinery. In a worst-case scenario, COVID-19 could have a significant impact on the size of the skill and labour pool which in turn could extend supply chains delivery times and increase prices.
- xvi. Acemoglu and Tahbaz-Salehi (2020)¹¹ argue that amplification of shocks in the short or the medium run due to failures in the supply chain can far exceed direct impacts and multiplier effects working through sectoral prices. We do not know if this will be an issue in the current crisis, but there is a need for governments to address *how to deal with the situation*. For example, identifying what necessary interventions in **critical parts of the supply chain** may be sufficient to ease the strain.
- xvii. The EC President, Ursula von der Leyen, has called for the shortening of global supply chains. The COVID-19 pandemic has exposed the risks of being dependent upon single supplies. One solution put forward is to strengthen the circular economy through the European Green Deal Action Plans which began in 2015.¹²
- xviii. **COVID-19 reinfection and secondary infection outbreaks.** It is recognized by most medical experts that, until a reliable vaccine is found, there will be secondary outbreaks of the COVID-19 virus. These may require governments to impose another

disease.”

⁹ For example, the Hungarian parliament voting on 30 March 2020 to allow the government of Prime Minister Viktor Orbán to rule by decree without a set time limit. Also, on 6 April 2020, the Sejm of the Republic of Poland passed a bill which requires voting for the presidential election to be carried out by postal voting only.

¹⁰ For example, the textile trade in India and Pakistan and low outsourced manufacturing and assembly lines across Asia.

¹¹ The full paper is forthcoming in 2020 and is referred to in the presentation: “Unknowns, Challenges and Opportunities in the Time of Covid-19”, presentation by Daron Acemoglu MIT, April 9, 2020. Available at: <https://economics.mit.edu/files/19370>

¹² COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS Closing the loop - An EU action plan for the Circular Economy, COM/2015/0614 final. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52015DC0614>

round of restrictions in order to control the outbreak. From the lessons learnt from the primary spread of the COVID-19 virus it is likely that governments will impose lock-downs quickly to inhibit the spread across a whole country. Thus an element of internal diversification in the location of factories may be necessary in big supply countries such as China. For example, if a province such as Wuhan, is closed down, can supplies still be obtained, or created quickly, in other provinces? This factor should be addressed since the possibility of re-infection will continue to disrupt or extend trade restrictions into the immediate to medium term until a reliable vaccine becomes widely available.

- xix. **Consumer confidence and disposable income.** The COVID-19 lockdown restrictions have had a major economic impact on businesses. This, in turn, has a financial impact on citizens. The wealthy middle class, with a reasonable level of disposable income, are a fundamental driver of economic growth. It is difficult to predict how consumer behaviour will change in the long term. In the short term consumers have had time to reflect on life-styles, the impact of consumerism on the fragile ecosystems and, where goods are in short supply, the realisation that not all goods and services are essential. The idea of “shop local” resonates in many European towns and cities. What we do know, however, is that the lockdown has both significantly restricted the ability to spend and reduced household incomes. Unemployment is likely to rise and most consumers, whilst welcoming the government’s £360 billion COVID-19 financial support package, know that this will need to be repaid through a mixture of tax rises and austerity measures over several years. An aspect of the shortage of international supplies has been a move to buy local, to innovate, and adapt technology (including a greater recognition of the right to repair movement and the green economy).
- xx. As one of the main contributors to wealth in the economy, any loss of consumer confidence or reductions in disposable income will have a negative impact on the UK economy. Demand for goods, works and services will reduce, which will have a knock-on effect to business, their supply chains and the levels of related trade. Similar consumer confidence and spending issues will be mirrored in the other major economies affected by COVID-19 and this will further weaken international trade. The net result is pressure on corporate profitability and government tax incomes.

2. How effectively has the Government responded, both in the UK and in overseas posts, to the short-term negative impact of the pandemic on UK businesses trading internationally? What further steps could be taken to mitigate this impact?

- a) The speed at which the COVID-19 spread across the globe left little time for the UK and other governments to effectively mitigate the negative impact on international trade. The Treasury’s financial and other government business support is significant and welcome, providing some reassurance to businesses struggling to survive.
- b) However, the COVID-19 crisis is not a Black Swan event¹³ so some criticism can be levelled at government. It was recognised as far back as 2015 that a pandemic such as COVID-19 was a likely, if not easily predictable, event. The WHO published its own Policy and Practice paper¹⁴ in June 2017 in which it discusses the economic and social risks of a global pandemic.

¹³ Black Swan Events/Theory is a metaphor that describes an event that comes as a surprise, has a major effect, and is often inappropriately rationalised after the fact with the benefit of hindsight.

- c) Globally governments chose not to prepare for such a catastrophic possibility and are paying the price for that decision. However, this request for Evidence is not looking back so we will not discuss this further, other than to say COVID-19 is unlikely to be a one-off event so governments should prepare accordingly for similar global pandemics.

3. *What medium- and long-term negative impacts could arise from the pandemic for UK businesses trading internationally? What steps could the Government take to mitigate these impacts?*

- a) The immediate negative impact of the pandemic for UK businesses have been discussed in the first question above. In our opinion, the government should continue to invest in the DIT's trade activities abroad and in particular, work with any developing country that has been significantly impacted by COVID-19 to the detriment of their supply chain capabilities.
- b) They should also work with UK businesses to learn from the COVID-19 crisis and explore innovative solutions to the problems encountered, including formal Healthcare Public Private Partnerships¹⁵. We would strongly recommend that any solutions have a global bias and that the UK take the lead on engaging collaboratively with other national governments so that mitigation against any future pandemic or 'Black Swan' event is deployed at a global level.
- c) In particular we would suggest that multinational Public Private Partnerships, designed to support a robust and agile global trading environment during any crisis, would build a strong, balanced and mutually beneficial trading relationship for all parties. We recognise that this would not be an easy task and there are significant political, commercial and legal barriers to establishing an organisation to deliver such a programme. However, our experience suggests that there is a willingness to collaborate globally (especially within procurement functions), particularly when the collaboration activity is de-politicised. The lack of preparation for the global economic impact of the COVID-19 pandemic, indicates that there should be investment in exploring the potential for such a collaborative programme.

4. *What steps can UK businesses take to mitigate the negative impacts of the pandemic on international trade?*

See 3 above.

5. *How best can the UK Government facilitate trade in essential goods during the pandemic?*

- a) The COVID-19 crisis has highlighted problems with the sourcing and supply of vital Personal Protection Equipment (PPE) and Ventilators. The need to provide sufficient numbers of good, and appropriate quality, equipment for use by front line medical staff has been a major problem for national governments. A new issue has emerged relating to the especially virulent nature of the virus and the contagion in care homes where elderly and vulnerable residents need protection in a situation not envisaged previously. This has led to supply chain pressures. And, more importantly, competition between national governments and between local states and federal government, in a limited supply market. Furthermore, some national governments and the EU have placed export restriction on shipping the

¹⁴ Pandemic risk: how large are the expected losses? Submitted: 29 June 2017 – Revised version received: 15 October 2017 – Accepted: 21 November 2017 – Published online: 05 December 2018.

¹⁵ Potential partnerships include dormant partnerships that are mobilised when emergency response criteria are met (PPE in the current crisis for example) or longer-term proactive partnerships where proactive and longer-term strategic work is required.

equipment overseas and a significant international grey market trading in these items is adding to the sourcing problems.

- b) PPE is one example of essential goods that are required for the successful functioning of the UK in any pandemic of similar crisis. As a minimum the government should establish a list of essential goods works and services needed in any crisis and should mandate that public procurement teams are required to have at least two sources of supply to assure availability. Where ever possible, the primary supplier should be established within UK national borders or if that is not possible, the supplier should be a reputable organisation established in a stable economic entity.
- c) The UK government should also collaborate with other national governments, the UN and the WHO to establish an international protocol/agency to manage vital supply chain requirements during any future global pandemic. This would provide some mitigation to the sourcing problems identified in the COVID-19 crisis.

6. How should the Department for International Trade work with the rest of central government, as well as devolved, local and regional government, to deliver a coordinated response to the pandemic?

- a) The DIT will provide a vital trade link between the rest of central government and the devolved, local and regional governments in any future pandemic or Black Swan event. This would be a particularly important if collaborative relationships or crucial supply chain arrangements as described in 3 and 5 above were put in place.
- b) The DIT should also have its remit extended to establish an early warning mechanism that identifies potential global, regional or other national trade threats that could impact on the UK's economy. Criticism has been levelled that the UK government was slow to respond to the COVID-19 crisis. The DIT, being the UK's trade authority, should have had early sight of the extent of the problems and subsequent Chinese's government response to managing the initial outbreak of the virus, so should have been in a position to properly brief Ministers.
- c) Whilst it is not possible for us to comment on what communication did exist, we still feel a fundamental role of the DIT is to gather trade related intelligence and undertake risk assessment to identify threats that could have a negative impact in the UK.

7. How can the UK Government engage with countries at the World Trade Organization and bilateral trading partners – including those with which the UK has a significant trading relationship or one facilitating trade in priority goods – to promote international cooperation and a coordinated global response to the pandemic?

See 5 above

8. How might the pandemic impact global trade patterns and international supply chains in the long-term?

See 1 above

About the Authors

Ian Clarke is CEO at Excalibur Global Managed Services Limited. He has over 40 years of experience in the national and international procurement sector. <https://www.linkedin.com/in/ian-clarke-ma-ll-m-0296658/?originalSubdomain=uk>

Written submission from Prof. Erika Szyszczak & Mr Ian Clarke (CVT0009)

Professor Erika Szyszczak has 40 years of experience as a University academic specialising in EU law, especially competition law, and is a Fellow of UKTPO.

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