

TACKLING CORONAVIRUS

THE TRADE POLICY DIMENSION

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EXECUTIVE SUMMARY

Not every nation produces the medical supplies needed to tackle the Coronavirus. Those that do can still face shortages as health care systems come under pressure. Since it is central to sourcing from abroad, trade policy should face additional scrutiny at times like this.

Since the beginning of 2020 the governments of 24 nations have taken steps to ban or limit the export of medical equipment (such as masks) and medicines and their ingredients. Export bans are proliferating—16 have been imposed since the beginning of this month. Now, beggar-thy-neighbour means sicken-thy-neighbour.

Even though sourcing needs have multiplied, the vast majority of governments maintain import taxes or restrictions on medical supplies. Of the 164 WTO members, only 50 do not tax imported medical devices and 23 levy duties at less than 3% of shipment value. Sensibly, 76 nations do not tax imported medicines. But only 37 WTO members refrain from taxing imports of disinfectant. For soap just nine WTO members permit duty-free imports.

Governments have not aligned their trade and medical policy responses to Coronavirus. For example, according to data reported to the World Trade Organization, the Bahamas and Djibouti charge tax rates on imported

medical devices that exceed 20%. Such is the reach of Indonesia's non-tariff barriers to foreign sourcing that 92% of its medical device imports are implicated—for Russia the percentage is even higher (96%).

Remarkably, 22 WTO members charge tariff rates of 6% or more on imported medicines. Twenty-five governments charge import tariffs of 15% or more on disinfectant. Seventy-nine governments went into the crisis taxing imported soap at rates of 15% or more. A tax on soap is a tax on hygiene and hastens the spread of Coronavirus. These findings and more are summarised in easy-to-read maps and tables at the end of this note.

To date, only one trade restriction on medical equipment, medicines, disinfectant, and soap has been lifted this year. In contrast, in the previous five years, by 9 March an average 2.8 trade restrictions on these goods had been eased.

The incoherence between national trade policies and medical response threatens the lives of people at home and abroad, including those of front-line health professionals. Trade policy should play an integral role, permitting much needed medical supplies to get to where they are needed most. To that end, this note concludes with five trade policy recommendations (see Table 1).

The trade policy dilemma

In our interconnected world, whenever a global crisis occurs governments must decide whether discriminating against foreign suppliers is part of the solution—or whether foreign know-how and resources can be tapped for mutual advantage. Decisions to sacrifice open borders on the altar of some other goal are typically influenced by the steps—real or perceived—taken by other governments. At such times, written and unwritten international rules are tested, with consequences that can last well after the crisis dominated headlines.

That the Coronavirus is now a crisis—medical, societal, and commercial—is no longer in doubt. What remains to be seen is how governments tackle the spread of this virus—and trade policy is quickly implicated. States under pressure may be tempted to ban exports of medical supplies, even if that dulls the incentives of local firms to ramp up production and denies much-needed medicines and the like to neighbouring nations. Alternatively, officials desperate to obtain medicines could scrap import taxes that have protected favoured local firms.

As the [Director-General](#) of the World Health Organization has argued “We can't stop COVID-19 without protecting health workers.” Those workers require gloves, medical masks, respirators, face shields, gowns and the like—and, as the Coronavirus has spread—glaring shortages have arisen. Consequently, the WHO has called on governments to increase production of protective equipment by 40% and to roll-back export restrictions.

Moreover, preventative measures call for the use of sterilising hand rubs, disinfectant, and soaps. And those unfortunate to be infected require medicines. National trade policies influence the terms upon which foreign medical supplies enter domestic commerce, creating the option of addressing shortages by lowering trade barriers. Therefore, the Coronavirus can implicate policies towards imports and exports. What trade policy choices, then, have governments made since? The purpose of this note is to document the trade policy dimension of national policy responses since the beginning of the year.

First, I start by documenting the resort to restrictions on the export of medical supplies undertaken since the beginning of the year. Events are moving fast and this account covers the

period 1 January 2020 to 10 March 2020. Second, I present evidence on the height and extent of barriers to the importation of medical supplies, taken here to be medical equipment, medicines, disinfectant, and soap. Third, I interpret unfolding developments and identify five policy recommendations.

Resort to export restrictions since the beginning of this year

Governments can restrict exports of medical supplies in many ways. Not all of them are as salient as a publicised export ban. For example, a government can decree that all relevant medical equipment supplies produced in a country must be sold to the state, which in turn decides not to make any product available to foreign buyers. Government can also tinker with intellectual property rights legislation effectively frustrating the sale of a medicine abroad. Ministers can threaten local medical suppliers if they ship goods abroad. Lastly, governments may insist that a local supplier ship a maximum percentage of its production abroad or require tedious paperwork to be filled before approval to export is given. All of these means—some more transparent than others—have been deployed by governments since the beginning of the year.

That these export restrictions are biting is now evident. Only last weekend the German authorities stopped delivery of 240,000 masks to a Swiss buyer, prompting the authorities in [Bern](#) to carpet the German Ambassador. For its part, a French requisition order has prevented [Valmy SAS](#) from fulfilling a contract with the British National Health Service to supply millions of masks. Similarly, [North American buyers](#) of Chinese medical suppliers report that orders were not fulfilled once the Coronavirus began to spread.

Sorting through press reports, it possible to identify 24 nations that have imposed either a formal export ban, a *de facto* export ban, or an export limit. Figure 1 reveals the identities of those nations. That no export restrictions have been found in North America, one in South America, and relatively few in Africa suggests that *at this time* distance from China may be a contributing factor.

The pace at which governments are resorting to export restrictions is accelerating. Of the 27 instances of export restrictions imposed by these 24 nations since the beginning of the year, 16 have been implemented in the first ten days of March 2020.

Completeness requires acknowledging that India has [reversed](#) some of its export restrictions on masks in early February, allowing some to be exported to China. Turning over a new leaf this was not—New Delhi followed up later in the month by [banning](#) the export of 26 pharmaceutical ingredients and some of the products made with them, such as paracetamol.¹

Overall, export policy became more restrictive. This has evident consequences for treating infected people abroad and for front-line health professionals, denying them access to critical medical supplies. Export bans also have a pernicious commercial consequence—the risk that they are imposed casts doubt on whether export markets will remain open, diminishing in turn the incentive for medical suppliers to expand capacity. The reality is that not every supplier operates in an economy with a large enough domestic market to support their commercial viability, so export sales play a vital role.

Import restrictions on trade in medical supplies

I turn now to the state of import taxes and other policies in place on the eve of the Coronavirus. My focus will be on medical equipment², medicines³, disinfectant⁴, and soap⁵. To the extent that governments tax the imports of these goods or impede importation through other state means, then trade policy reforms could deliver health benefits.

For each member of the World Trade Organization (WTO), the latest data on the average rate of tariffs (import taxes) was [extracted](#) for these medical supplies and soap. Tariff rates at 3% or lower are generally regarded as nuisance tariffs. Tariff rates above 15% are known as tariff peaks in trade parlance. Not every government keeps its tariff records up-to-date at the WTO, which itself creates uncertainty for exporters that hampers trade. For example, 22 WTO members last reported their import taxes on soap in 2016 and 20 more updated their records last in 2014 or before.

Data on non-tariff restrictions on imports were taken from the [Global Trade Alert](#), an independent trade policy monitoring initiative that (in the interests of transparency) I coordinate. Information on import duties on dumped or subsidised products, duties that follow import surges, import quotas, local content requirements, price regulations for imported goods, “buy local” government procurement policies, and other policies that directly limit imports was col-

1 Just as this note was being finalised, there were press reports that [Taiwan](#) had relaxed its export ban on face masks.

2 Taken here to be the products listed under code [9018](#) of the United Nations (UN) Harmonized System (HS) of products. These products are dental, medical, and surgical equipment.

3 Taken here to be the products listed under HS codes [3003](#) and [3004](#).

4 The HS code for disinfectant is 380894. Given the use of UN COMTRADE data on international trade flows, this is the finest grain classification for disinfectant for which cross-border shipment data is available globally.

5 The HS codes for soap are listed under code [3401](#).

lected.⁶ Only policies in place on 9 March 2020 counted towards the totals presented here. Since it is difficult to compare the height or restrictiveness of these non-tariff barriers, instead I present statistics on the percentages of national imports implicated by non-tariff barriers. Such percentages can be compared across countries.

Medical devices

Figure 2 presents information on the rate of taxation on imported medical devices around the world. Sensibly, 50 WTO members do not charge any taxes on such imports. Another 23 WTO members charge nuisance tariffs that are less than 3%. These two groups of nations are shaded green in Figure 2 and cover North America, Western Europe, Russia and Central Asia, Southern Africa and Australasia. Forty-two mainly developing countries charge average tariffs rates between 5 and 10%. Fifteen nations charge between 10 and 12%. The Bahamas and Djibouti charge import taxes in excess of 20%, eroding the purchasing power of any medical equipment buyer.⁷ Justifications for tariffs of these magnitude seem hard to fathom.

With respect to non-tariff barriers, 10 nations had non-tariff barriers that crimp the import of medical devices (Table 2). All of the 10 were medium- or large-sized emerging markets. The percentages of imports covered varied from 4.65% (for Ukraine) and 14.70% (for Brazil) to 92% (for Indonesia) and 96% (for Russia). Further examination of entries on the Global Trade Alert website and the policy documents associated with these non-tariff barriers suggests that industrial policy considerations have been frequent justifications for these non-tariff import limits.

Medicines

Much of the WTO membership lightly taxes or eschews taxing imports of medicine. Seventy-six governments don't tax imported medicine at all, including many nations from Sub-Saharan Africa, North America, Western Europe, Eastern Europe and Central Asia, and Australasia. In contrast, 22 nations charge import tariffs ranging from 6.0% (Chile) to 14.6% (Nepal) on medicines. As Figure 3 shows, China, India, and much of Latin America charge above-average taxes on medicines, some of which could be life-saving. Whatever the trade-offs made when these tariff rates were set, during this crisis surely that calculus needs to be reassessed?

A range of emerging and higher-income nations have non-tariff policies in place that limit medicine imports (see Table 3). At four, India has the most. Indonesia and Russia have three apiece. Other than China, substantial percentages of medicine imports are implicated by these

non-tariff barriers. Six of these non-tariff barriers relate to import bans or licencing requirements, five to biased state purchasing in favour of local firms, and three to localisation requirements. This highlights the wide range of tools that governments have these days to favour local medicine suppliers.

Disinfectant

Many more nations charge import taxes on disinfectant than on medical supplies. Only 37 WTO members allow the import of disinfectant untaxed (Figure 4). Of these 37 nations, most are developing countries—Hong Kong, Iceland, Norway Singapore, and Switzerland are the only high-income per capita countries in this group. Another five nations, including Mexico, Japan, and the United States, charge nuisance tariffs (less than 3%). In contrast, the European Union levies a 6% import tax on disinfectant and China imposes an average 9% tariff. A total of 25 nations charge import tariffs of 15% or more, duties branded “tariff peaks” at the WTO. It is difficult to discern a public policy rationale for import taxes this high during normal times, let alone when there is a premium on hygiene.

In addition to these moderate to high import taxes, 13 WTO members have non-tariff barriers on disinfectant imports (Table 4). The European Union members listed enforced an anti-dumping order against Chinese suppliers. The three United States’ non-tariff limits were duties on subsidised Chinese imports. China, the Ukraine, and Paraguay imposed import bans or licensing requirements. India imposed an internal tax on foreign supplies and Russia’s non-tariff barrier arose from a public procurement regulation that favoured local firms. The percentages of imported goods implicated varies considerably across the 13 nations.

Soap

Taxing imports of soap is even more common than for disinfectant. Only 9 WTO members allow foreign soap to enter domestic markets duty free (see Figure 5). Remarkably, 79 WTO members charge import tariff rates of 15% or more—and 31 governments levy taxes on import soap of 30% or more. At a time when the frequent washing of hands is recommended by the World Health Organization, policies that increase the cost of soap are particularly difficult to rationalise.

Table 5 reveals that nine WTO members have also erected non-tariff barriers that disincentivise the importation of soap. Indonesia stands out for imposing three such barriers, two of which are import licensing requirements and one involves internal taxes being levied on imported soap.

⁶ To be clear, technical barriers to trade and other health and safety regulations are not included in this analysis. This is not because these policies are unimportant for international trade. Rather, the focus here is on policies that cannot claim to have a health and safety rationale. In other studies conducted recently by the Global Trade Alert team, the amounts of international trade falling under health and safety rules (technical barriers to trade and sanitary and phytosanitary standards to use WTO speak) is substantial. In the context of the Coronavirus, the relevant question is to what extent, if at all, have new health and safety regulations that impede either imports or exports been driven by defensive or protectionist rationales?

⁷ The Bahamas has not reported import tariff data to the WTO since 2012. In principle, it may have cut import tariff rates on medical devices. However, how is a medical supplier to know this, at least when consulting the WTO’s website?

Other than Vietnam, such is the scope of the non-tariff barriers in the other eight nations that three-quarters or more of their soap imports face restrictions.

Just one trade reform this year

An alien landing from Mars might have thought that, in the middle of a major outbreak of a highly contagious virus, that there would be no taxes on imported medical equipment. So what of lowering import barriers on medical supplies in 2020? The alien would be mighty disappointed. Since the start of this year in just one case were import restrictions eased—by [China](#) on medical devices that had been caught up in the trade war with the United States.

Trade policy can make a positive contribution

The calculus affecting trade policy choice shifts during global health crises. For sure, the degree to which governments are willing to sacrifice consumer welfare in favour of favoured producer interests remains. However, there is a particular sting in the tail when the buyers or users in question are health professionals, hospitals, and members of the public desperate to obtain imported medical supplies and soap to help the sick and to reduce the risk of infection.

During times of crisis, the price increases and shortages created by import restrictions limit, and in some cases may deny, citizens access to medical supplies, medicines, and soap. This is not just a matter of **affordability** and **availability**, import restrictions on these products raise questions about the **coherence** of a government's response to the Coronavirus. As the World Health Organization has implied, the effectiveness of government steps to tackle this crisis—such as rushing in medical personnel into affected areas—is compromised by shortages of protective equipment, medicines, disinfectant, soap and the like.

As a matter of urgency, governments must review their policies towards the importation of needed medical supplies. The burden of proof required to sustain import taxes or quotas ought to be particularly high. Import licensing requirements and “buy local” requirements for state agencies should come under scrutiny as well. To reduce the risks faced by foreign suppliers, government commitments to free up imports should be for a minimum of six months, ideally as long as the Coronavirus remains a threat to the health of a nation's population.

Policies towards the export of medical supplies should be put under the spotlight as well. Denying foreign buyers

medical suppliers is not costless. In fact, export restrictions can boomerang on the governments that implement them for at least two reasons. First, recall the purpose of such export limits—to increase the supply available to local hospitals etc. Whatever temporary gain there is in limiting shipments abroad, the loss of future export sales will discourage local firms from ramping up production, which is exactly what the WHO has called for.

Put differently, the fiscal inducements that governments will have to deploy to persuade domestic firms to expand production will have to be larger in the presence of an export ban. What may sound like an expedient policy response to a health crisis actually increases the burden on the public finances at exactly the wrong time.

Second, export bans jeopardise cooperation with other governments. Erosion of trust between trading nations will not be confined to medical supplies and cooperation on health matters. It will spill over into other areas, including trade policy. Moreover, one nation's export ban is a political gift to nationalists and populists in affected trading partners. Calls for protectionist industrial policies result—as demonstrated by the [recent remarks](#) of the Mr. Peter Navarro, the Director of President Trump's Office of Trade and Manufacturing Policy.

Steps must be taken, therefore, to ensure that the suffering and fears associated with the Coronavirus are not hijacked for partisan political advantage or to benefit narrow commercial interests. As this crisis unfolds over time, immediate considerations should not be dominate decision-making—the short or medium term may come faster than some might think.

Proposals for export limits should be tested against alternatives that do not impede foreign purchases. For example, governments afraid that subsidising domestic production will benefit disproportionately foreign buyers should consider setting price floors for medical supplies sold to the government.⁸ Where practical, consumption subsidies should be considered as well. What matters is that global production in critical medical supplies is stimulated and swiftly distributed.⁹

Table 1 summarises the key policy recommendation of this study. These recommendations underline the positive contribution that trade policy can make in tackling the Coronavirus. My point is not that these policy initiatives alone will end the current crisis—but they can play a valuable part of a coherent package of public policy intervention.

⁸ Such minimum prices could apply to a publicly announced limit of government purchases. Local producers would then be assured of guaranteed amount of revenue for supplying the state with critical medical supplies.

⁹ If there are concerns that minimum prices or subsidies cannot be afforded by some developing countries, then the World Bank and International Monetary Fund should stand ready to advance the sums necessary.

Table 1: Recommended Trade Policy Response--Ease the Delivery of Medical Supplies and Soap.

1	For at least six months, scrap import taxes and quotas on all needed imported medical equipment, medicines, disinfectant, and soap.
2	Review all non-tariff barriers affecting imports of relevant medical supplies, excepting those whose sole, demonstrated purpose is to ensure the safety of those supplies.
3	Publicly commit not to implement export bans or limits on relevant medical supplies.
4	Reverse existing export bans on medical supplies needed to tackle the Coronavirus.
5	Strengthen incentives to ramp up domestic production by instituting generous price floors (minimum prices) for medical supplies sold to the state.

MAPS AND TABLES

Figure 1: By various means 24 governments have taken steps to limit exports of medical supplies this year.

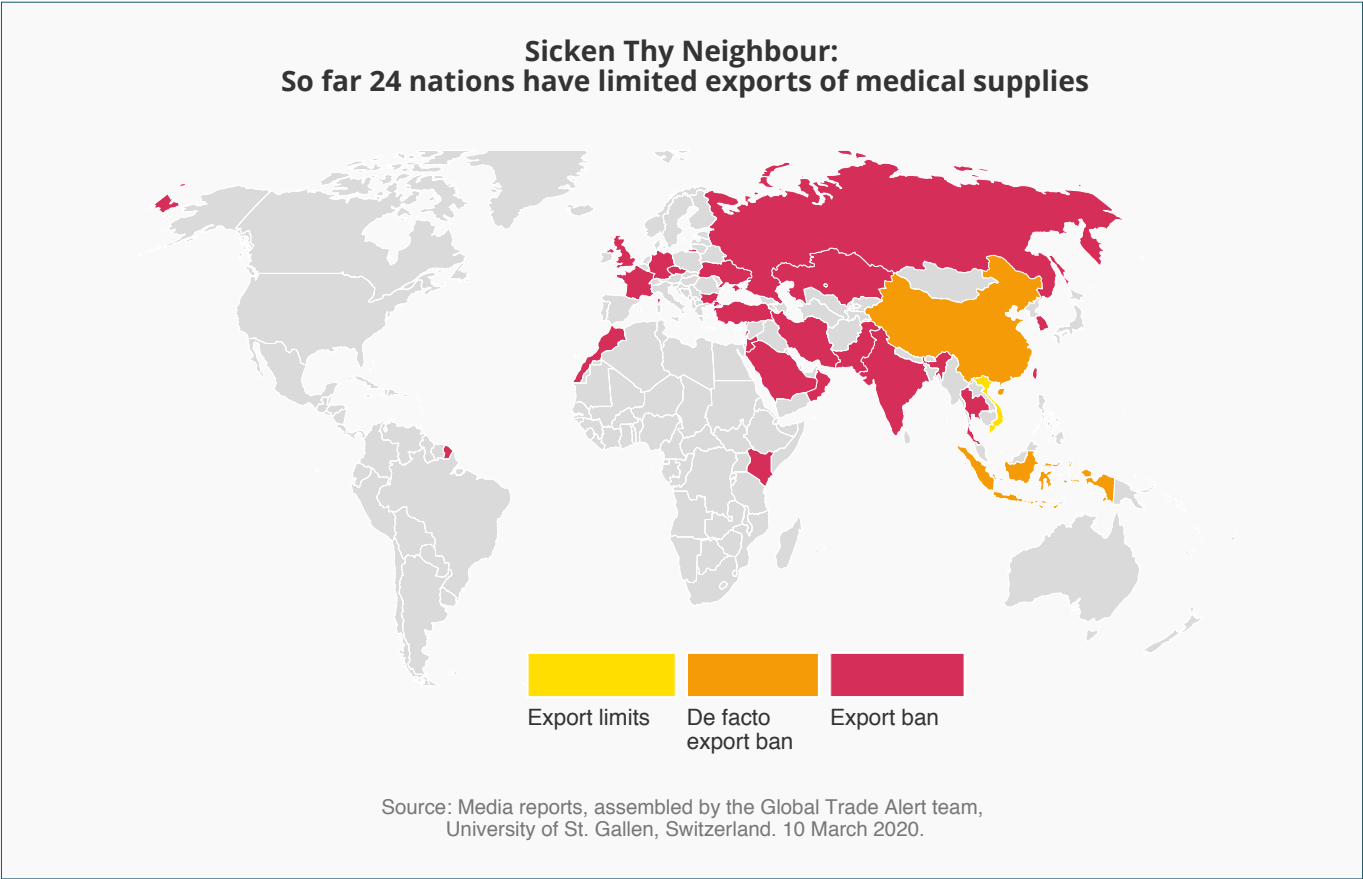


Figure 2: Before the Coronavirus many nations taxed medical equipment imports.

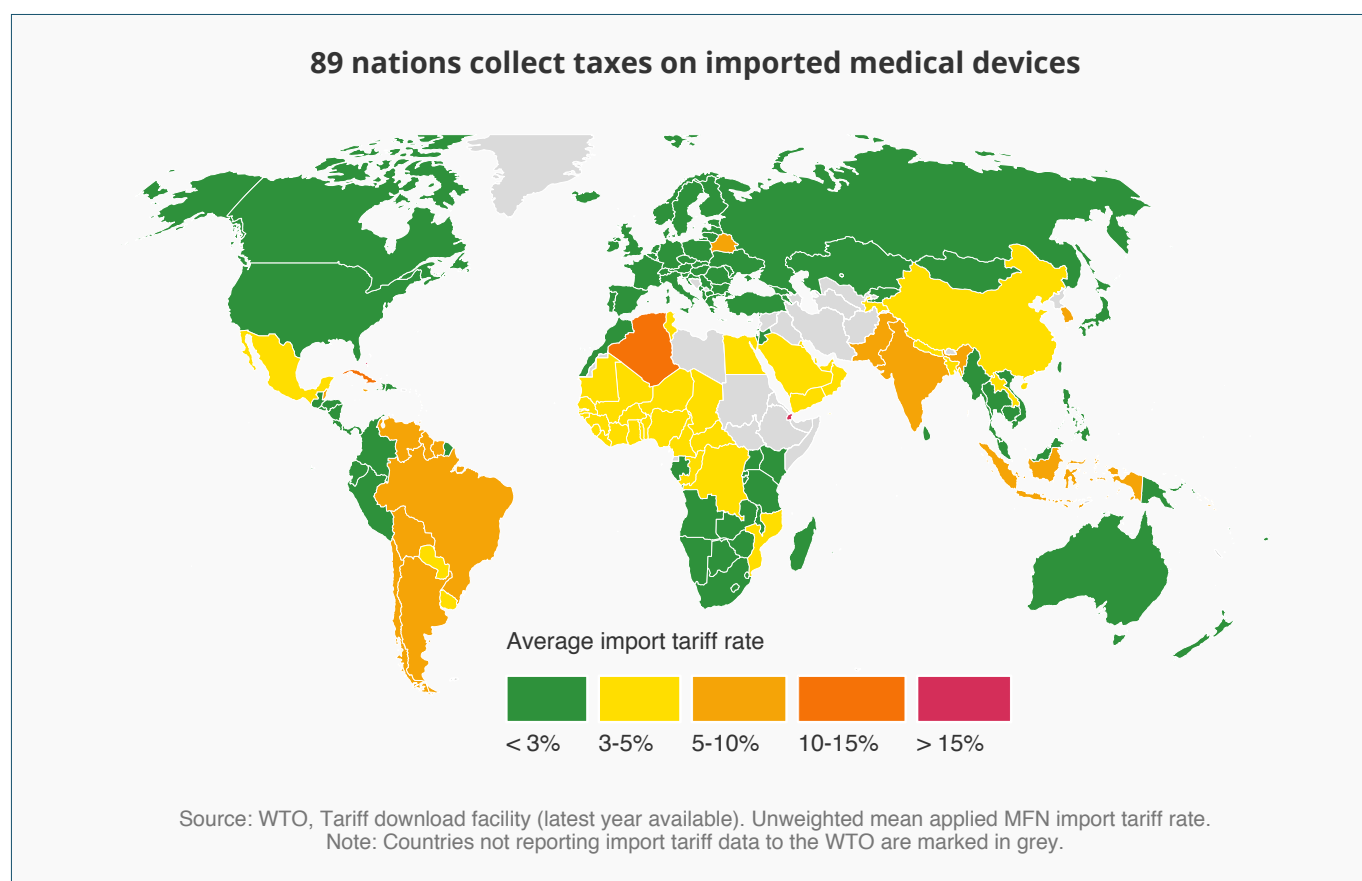


Table 2: Ten nations' non-tariff policies discourage medical equipment imports.

Importing nation	Number of non-tariff policies limiting imports of medical equipment in effect today	Percentage of medical equipment produced abroad that currently face import restrictions other than tariffs
Argentina	2	40.30%
Brazil	2	14.70%
China	3	22.26%
Indonesia	2	92.42%
Kazakhstan	1	71.86%
Malaysia	1	66.42%
Nigeria	2	87.92%
Russia	4	96.29%
Ukraine	1	4.65%
Vietnam	1	84.52%

Source: Global Trade Alert database for policy information and UN COMTRADE import data (at the six-digit level of disaggregation) for import flows of goods in HS code 9018. Only policies that crimp imports directly that were in force on 9 March 2020 count towards this percentage calculation. TBT, SPS, and subsidies to local producers of medical equipment—all of which can limit imports—were not included in the policies used to calculate the percentages reported in this table. Base year weights for imports calculated using 2018 world trade data (the latest available).

Figure 3: Even imported medicines were taxed in dozens of (principally) developing nations before the Coronavirus.

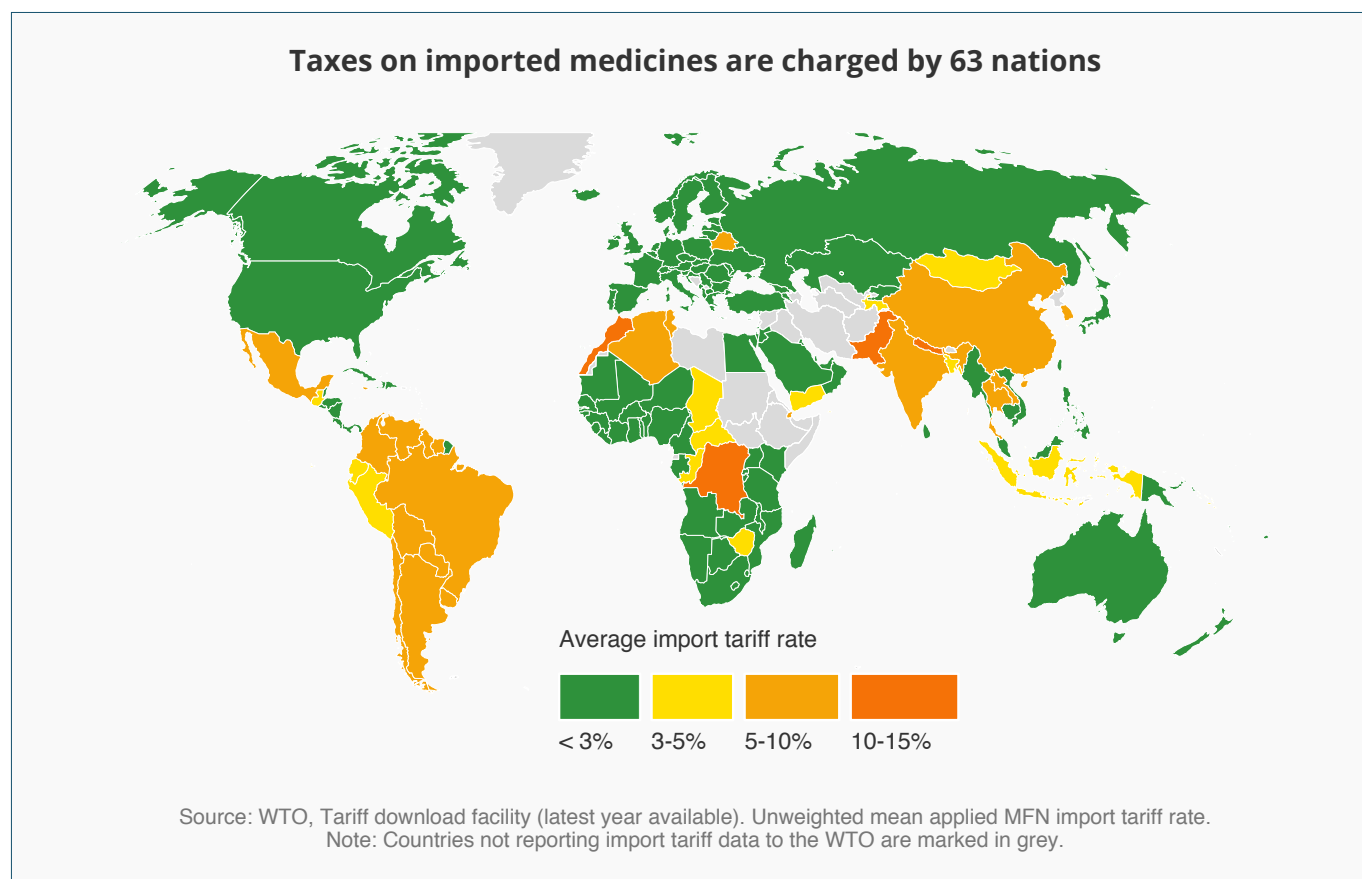


Table 3: Twelve nations' non-tariff policies discourage medicine imports.

Importing nation	Number of non-tariff policies limiting imports of medicine in effect today	Percentage of medicine produced abroad that currently face import restrictions other than tariffs
Algeria	1	72.46%
Argentina	3	99.58%
Brazil	1	98.80%
China	1	2.26%
India	4	95.82%
Indonesia	3	91.53%
Kazakhstan	1	86.41%
Nigeria	2	85.72%
Russia	3	98.31%
South Africa	1	94.88%
USA	1	99.51%
Vietnam	1	88.54%

Source: Global Trade Alert database for policy information and UN COMTRADE import data (at the six-digit level of disaggregation) for import flows of goods in HS codes 3003 and 3004. Only policies that crimp imports directly that were in force on 9 March 2020 count towards this percentage calculation. TBT, SPS, and subsidies to local producers of medicines—all of which can limit imports—were not included in the policies used to calculate the percentages reported in this table. Base year weights for imports calculated using 2018 world trade data (the latest available).

Figure 4: Few nations had zero or nuisance tariffs on imported disinfectant before the Coronavirus.

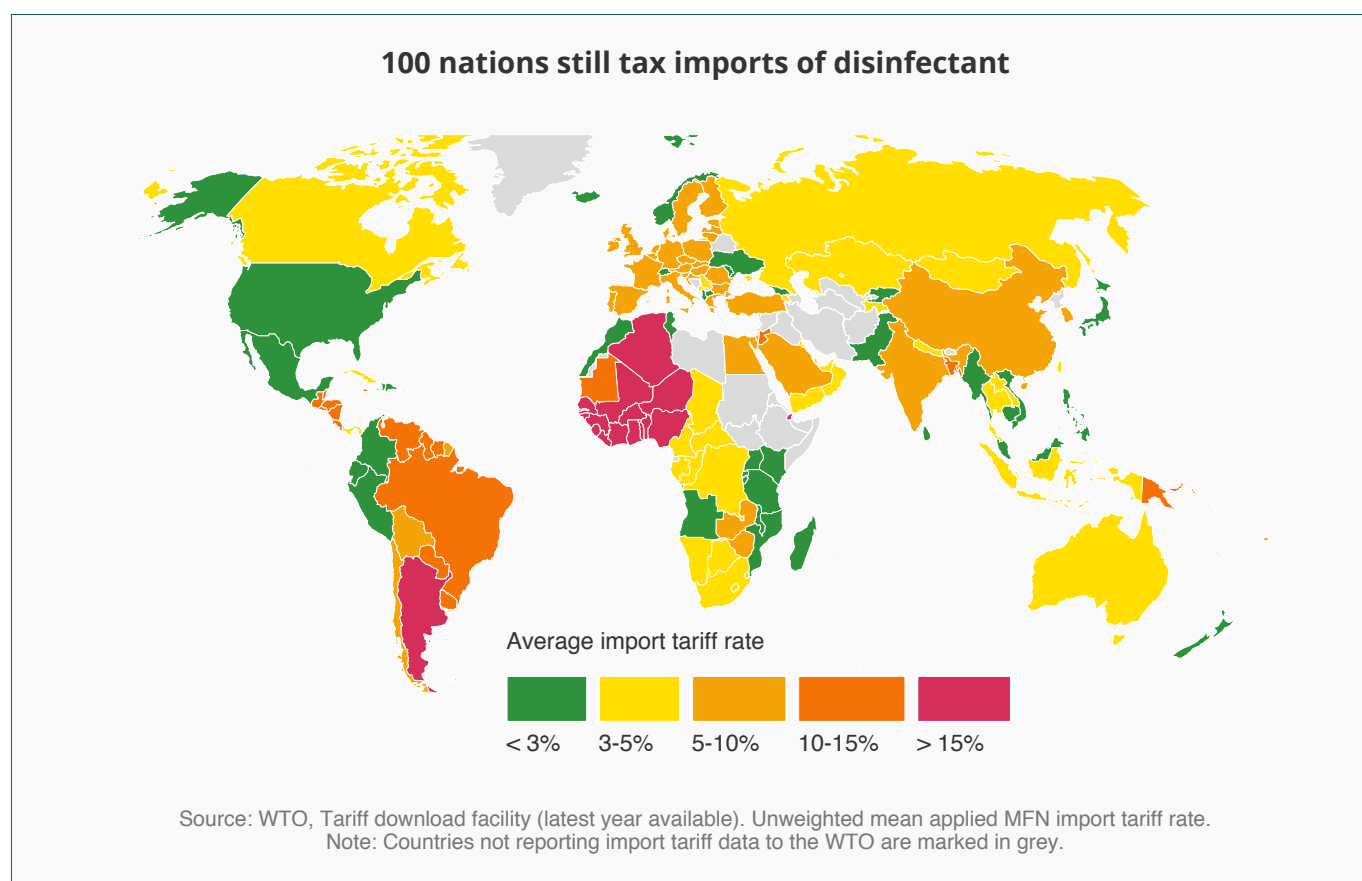


Table 4: Thirteen nations' non-tariff policies discourage disinfectant imports.

Importing nation	Number of non-tariff policies limiting imports of disinfectant in effect today	Percentage of disinfectant produced abroad that currently face import restrictions other than tariffs
Belgium	1	1.90%
China	1	96.55%
France	1	4.90%
Germany	1	2.62%
India	1	100.00%
Kazakhstan	1	100.00%
Paraguay	1	100.00%
Russia	1	95.09%
Spain	1	6.27%
Ukraine	2	87.93%
United Kingdom	1	4.18%
USA	3	5.66%
Vietnam	1	23.06%

Source: Global Trade Alert database for policy information and UN COMTRADE import data (at the six-digit level of disaggregation) for import flows in HS code 380894. Only policies that crimp imports directly that were in force on 9 March 2020 count towards this percentage calculation. TBT, SPS, and subsidies to local producers of disinfectant—all of which can limit imports—were not included in the policies used to calculate the percentages reported in this table. Base year weights for imports calculated using 2018 world trade data (the latest available).

Figure 5: Before the Coronavirus 79 nations charged import tariffs of 15% or more on imported soap.

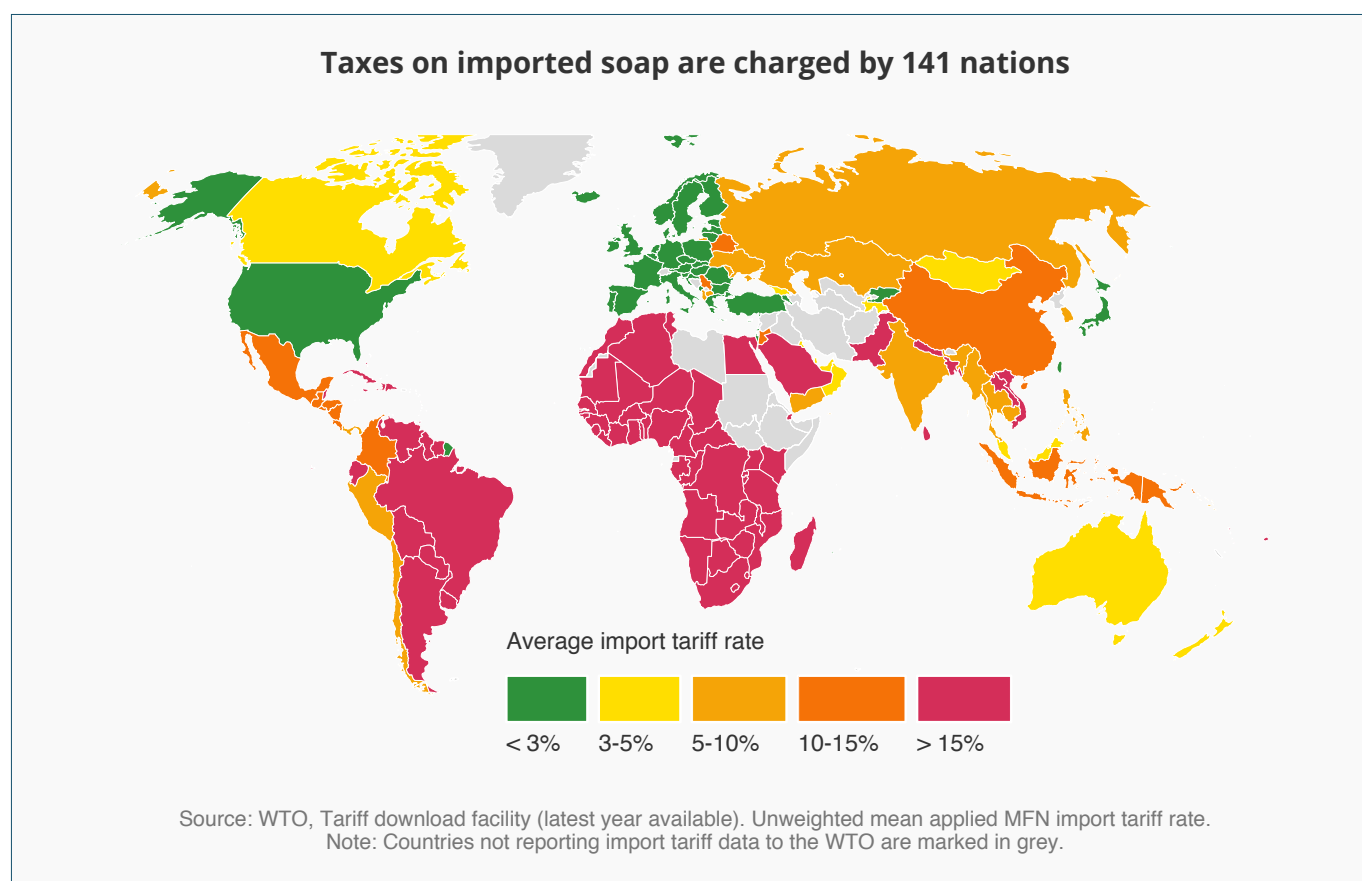


Table 5: Nine nations also have non-tariff policies limiting soap imports.

Importing nation	Number of non-tariff policies limiting imports of soap in effect today	Percentage of soap produced abroad that currently face import restrictions other than tariffs
Argentina	1	87.14%
Brazil	1	77.20%
Egypt	1	73.64%
India	1	99.01%
Indonesia	3	80.74%
Kazakhstan	1	100.00%
Nigeria	1	81.23%
Paraguay	1	74.28%
Vietnam	1	12.32%

Source: Global Trade Alert database for policy information and UN COMTRADE import data (at the six-digit level of disaggregation) for import flows of goods in HS code 3401. Only policies that crimp imports directly that were in force on 9 March 2020 count towards this percentage calculation. TBT, SPS, and subsidies to local producers of medicines—all of which can limit imports—were not included in the policies used to calculate the percentages reported in this table. Base year weights for imports calculated using 2018 world trade data (the latest available).