Note

COVID-19 impacts on Trade and Development in South and Southeast Asian countries

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Summary

This note aims to provide information on the impacts of the COVID-19 pandemic on Trade and Development in South and Southeast Asian countries. Since 2020, multiple sectors have been affected by the disruption in global value chains. The note indicates two major sectors of South and Southeast Asian countries that suffered from great loss amidst the crisis: garment exports and tourism revenues. On top of that, it denotes MSMEs and Women as the most vulnerable groups that should be targeted by recovery measures. Finally, the note summarises ongoing discussions at the WTO related to sustainable trade recovery from COVID-19 pandemic.

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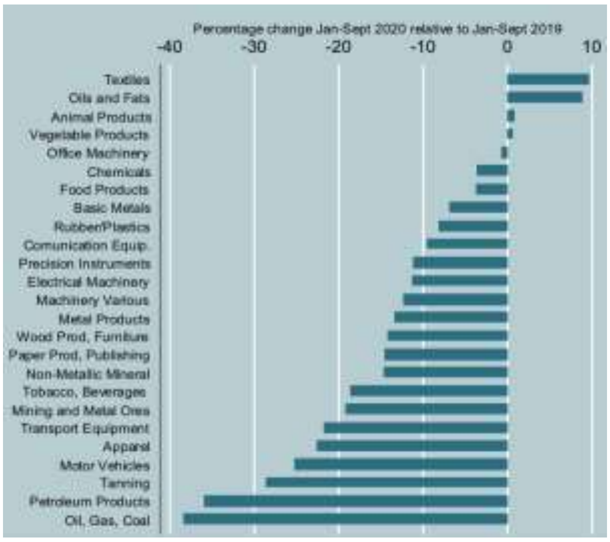
Introduction

It is now widely acknowledged that COVID-19 has affected people's existence in many ways. Since the outbreak of the disease in 2019, millions of people have lost their life, job, or business.[1] The consequences are substantial. An estimated additional 130 million persons are expected to be living in extreme poverty if the crisis persists.[2] In addition to those social impacts, the pandemic has had significant effects on the economy, particularly on trade and development.

The United Nations Conference on Trade and Development (UNCTAD) predicted that gross domestic products (GDPs) would decrease on average by 4.3 per cent in 2020.[3] This could be partly explained by the decline in global merchandise trade. The international merchandise trade values and volumes both began to fell in the first quarter of 2020, as the first repercussions of the pandemic arose.[4] Then, during the second quarter, international trade dropped sharply, with global merchandise trade falling by more than 20 per cent relative to the same quarter of 2019.[5] In the third quarter, trade trends were still negative even though better than the preceding period.[6]

It should be denoted that inequalities between sectors arose during COVID-19. For example, the industry of energy and the one of automotive have been struck the most with a respective drop of 35 and 25 per cent in value.[7] Inversely, other sectors such as textiles benefited in some instances from the pandemic thanks to their usage for the production of protective equipment.[8] Detailed precisions on other sectors can be found in the following table.

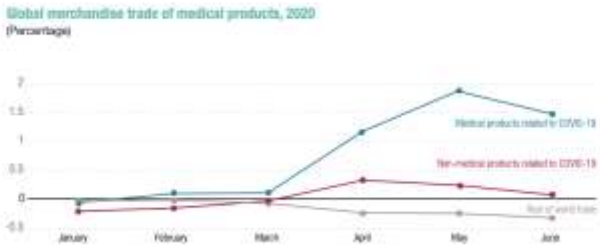
Figure 1: Sectoral Trade



Source: UNCTAD estimates based on national statistics.[9]

Indeed, trade in medical products has been increasing during the pandemic whether or not the product was related to COVID-19.[10] This can be observed in the following graph computed by the UNCTAD secretariat.

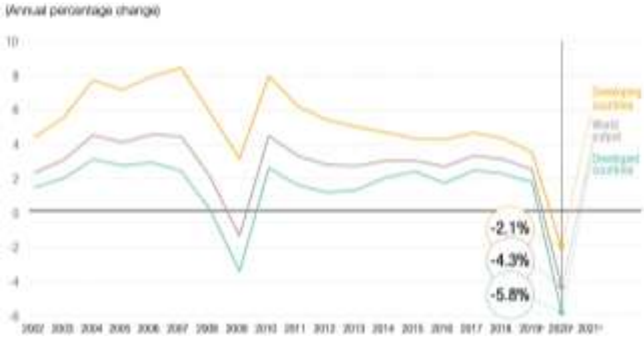
Figure 2: Trade in medical products



Source: UNCTAD secretariat calculations, based on the national statistics of China and the European Union.[11]

It is worth noting that, as shown in the following graph, UNCTAD expected the economic growth in developed economies to be the most affected by the crisis.

Figure 3: Trends in global economic growth



Source: UNCTAD (2020), calculations for country aggregates are based on GDP at constant 2015 dollars (a forecast).[12]

This was confirmed in 2021 when UNCTAD published the *Key Statistics and Trends in International Trade 2020*.[13] The results showed that trade among developing countries (South-South) has been slightly more resilient than overall trade. Developing countries' exports declined by about 17 per cent in the second quarter of 2020 and only 5 per cent in the third quarter. In comparison, developed countries' exports lost 24 per cent in Q2 against 9 per cent in Q3. Looking at the numbers, UNCTAD observed that the lower drop in developing countries' trade could largely be due to trade resilience of East Asian countries. Although those countries were also strongly affected by the crisis, they performed overall better. In the third quarter, exports of East Asian countries even turned positive. However, as depicted in the following table, other developing countries did not benefit from the same advantage.

Figure 4: Imports and Exports trends, by region

	Q1 2020		Q2 2020		Q3 20
	Exports	Imports	Exports	Imports	Exports
East Asia	-8	-1	-6	-12	4
Transition Economies	-13	-3	-29	-20	-27
Latin America	-4	-6	-27	-31	-9
West Asia & North Africa	-9	-2	-42	-25	-25
South Asia	-16	-10	-40	-48	-12
Sub-Saharan Africa	6	1	-28	-24	-5

Source: UNCTAD (2020), calculations based on national statistics, changes are year-over-year, Q3 statistics are preliminary.[14]

A close look at COVID-19 effects on trade and development of selected South & Southeast Asian countries

Bangladesh

As for most countries, the COVID-19 pandemic hit Bangladesh's economy strongly in 2020. Due to a fall in the industrial sector and a lower private investment, the GDP growth shrank to 2 per cent in the 2020 fiscal year (FY) compared to 8.1 per cent in the preceding fiscal year.[15]

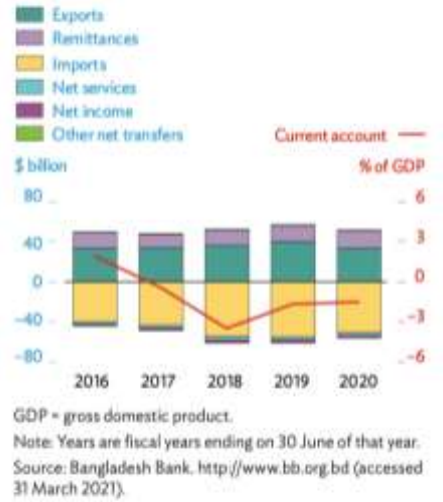
The country's economy was strongly affected, especially in garment's exports representing approximately 84 per cent of Bangladesh's total exports value.[16] In addition to containment measures restricting the production, the garment industry suffered from shipments' cancellations in the last quarter of the year. Cancellations amounted to US$ 3.18 billion in April with exports 81 per cent lower than the preceding year.[17] In addition to the loss in exports, 72.1 per cent of buyers refused to pay for raw materials already purchased by the supplier, weakening even more the sector's financial stability.[18]

It should also be denoted that women appear to have higher job and income losses than men, as they are over-represented in the ready-made garment (RMG) industry.[19] Altogether, the industry growth was cut by half during 2020 and amounted to 6.5 per cent.[20]

Imports were similarly hurt by the decrease of the domestic demand and the global value chain shortage and fell by 8.6 per cent to US$50.7 billion.[21] Bangladesh imports about 40 per cent of the capital machinery and spare parts for textile and garment industries from China.[22] With Wuhan, the centre of the pandemic, being in China, the value chain got strongly disrupted. The sharp reduction in garment inputs imports closed most industries during April and May 2020. [23]

The current account deficit shrank in 2020 to 1.5 per cent of the GDP.[24] It was made possible due to a significant growth of remittances incentivized by the Government through cash and relaxation of requirements.[25] The trade deficit widened slightly to US$17.9 billion as both exports and imports were affected in the same way.[26]

Figure 4: Current account components of Bangladesh



Source: ADB(2021).[27]

Micro, Small, and Medium Enterprises (MSMEs) were strongly affected by the COVID-19 pandemic. In order to cushion the impact of COVID-19 on them, the Bangladesh Bank issued in April 2020 a guideline for the stimulus of Tk 200 billion (~USD 2.38 billion).[28] Loans and investment facilities have been provided to boost production. The Bangladesh Bank also plans to focus on MSMEs for the following years as it will give a total of TK 600 billion (~USD 7 billion) financing to the latter.[29] The survival of those firms is necessary as they are one of the major employers in the country's economy.[30]

The representation of women in MSMEs is still low for Bangladesh. According to a survey conducted amidst COVID-19, only 17 per cent of MSMEs in the sample were female-owned.[31] Nevertheless, the Bangladesh Bank did not forget women in their refinancing programme as 15 per cent of all funds for the MSMEs sector has been allocated for women entrepreneurs.[32] Workers and employers of export-oriented industries will also benefit from the Bangladesh Bank, which issued instructions on opening mobile financial service (MFS) accounts to provide salaries and allowances from the stimulus package.[33]

The Asian Development Bank (ADB) predicted growth in GDP of 6.8 per cent in FY2021 fostered by a stimulus package and the recovery in global trade.[34] Growth in agriculture (3.5 per cent), industry (9.9 per cent), and services (5.6 per cent) are expected thanks to subsidies, increase in trade, and bank credit.[35] However, in January 2021, the President of the Bangladesh Garment Manufacturers and Exporters Association announced that the current downward trend in RMG was likely to continue until April 2021.[36] For now, the level of exports and revenues is admittedly higher than in 2020 but still lower than in 2019.[37] In FY2022, GDP is foreseen to be growing even stronger to 7.2 per cent as both exports and imports will lift up with the global recovery.[38] ADB believes that growth in the industry will reach 10.8 per cent thanks to the continued strong global demand for low-end garments produced in Bangladesh for the sake of fast fashion.[39] Finally, they forecast the trade deficit to narrow even further as the recovery in exports will exceed imports.[40] To conclude, it should be denoted that The Economist ranked Bangladesh as the ninth strongest financial economy in the wake of the COVID-19 fallout among 66 developing countries.[41]

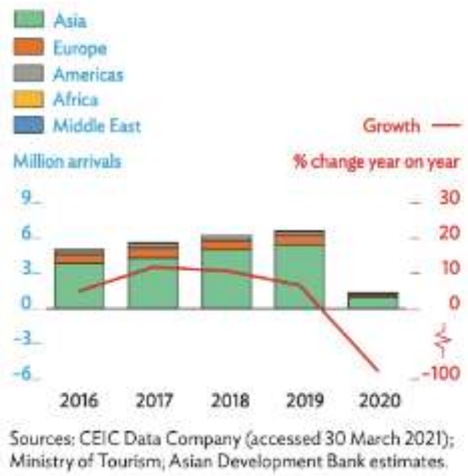
Cambodia

Unlike a majority of countries, Cambodia did not encounter large-scale outbreaks of the COVID-19 cases in 2020.[42] Still, the economy, due to the almost complete interruption in tourism and the decline in garment industries, contracted by a significant 3.1 per cent.[43] The industrial output decreased by 1.2 per cent in FY2020 as the garment industry tottered.[44] Many buyers from US and EU markets cancelled orders with Cambodian factories, representing a loss of 28 to 46 per cent of their export market, respectively.[45] In addition, in March 2020, the prime minister of Cambodia announced the suspension of operations of several garment and textile factories affected by the shortage of raw materials coming from China.[46] This decision was accompanied by three calls: first for owners to adhere to the Labour Law in place, second to urge microfinance institutions and banks to delay the collection of payment of interest for the affected workers, and third to encourage the electricity supplier to delay the collection of payment of utility fees for affected garment workers.[47] These calls aimed at supporting the estimated 390'000 persons who lost their jobs in Cambodia in 2020.[48] The ADB predicts that the pandemic threatens to push an additional 1.3 million people into poverty.[49] Finally, although the garment industry bounced back in the second half of the year, the full-year exports were down by 9.9 per cent.[50]

Based on the semi-annual report from the National Bank of Cambodia, the trade deficit dropped by 20 per cent in the first half of 2020.[51] Due to a 5.4 per cent decrease in merchandise imports and a 16.5 per cent increase in merchandise exports, the current account deficit narrowed.[52] Private gold sales mainly drove the surge in exports.[53] Excluding those sales, merchandise exports would have declined by 1.1 per cent.[54]

In addition to the garment industry, Cambodia mainly suffered from the loss in the tourism industry during the pandemic like the majority of Asian countries.[55]

Figure 5: Tourist arrivals in the World



Source: ADB(2021).[56]

The Government of Cambodia stopped issuing tourist visas in March 2020[57] and implemented a mandatory quarantining for arrivals in April[58]. This initiative led to a decline of 80.2 per cent in international arrivals, which triggered a 36 per cent decline in hotel and restaurant output.[59] The Government set tax reliefs and subsidies[60] for tourism firms and garments sector which helped to cushion the impact of the pandemic.[61]

Cambodia's smaller businesses are also suffering from the COVID-19 pandemic. The Independent Democracy of Informal Economy Association (IDIEA) stated in March 2020: "We don't have an official report of assessment on economic impact yet, but based on what our members throughout the country are telling us, their incomes have slowly declined since the outbreak of COVID-19. We estimate a decline of around 70 per cent".[62] The Government intended to reserve part of the $2 billion stimulus package for MSMEs.[63] However, the stimulus package will only be given to businesses that are legally registered and formally verified. Therefore, it is likely that 95 per cent of MSMEs that run informal businesses will never benefit from the package.

Finally, the ADB forecasts a 4 per cent growth of GDP this year, followed by a 5.5 per cent growth in 2022.[64] The economic recovery in major trading partners will sustain the demand for exports, especially in industrial production which is expected to grow by 7.1 per cent in 2021 and 7 per cent in 2022.[65] The services output is less likely to recover this year as travel restrictions will remain in place for most of 2021.[66] Nevertheless, both goods and services exports are forecast to decline by 1.4 per cent in 2021 and then grow strongly by 12.8 per cent in 2022 when the global economy is fully recovered.[67] In contrast, imports are expected to increase by 5.5 per cent in 2021 and 10.3 per cent in 2022.[68]

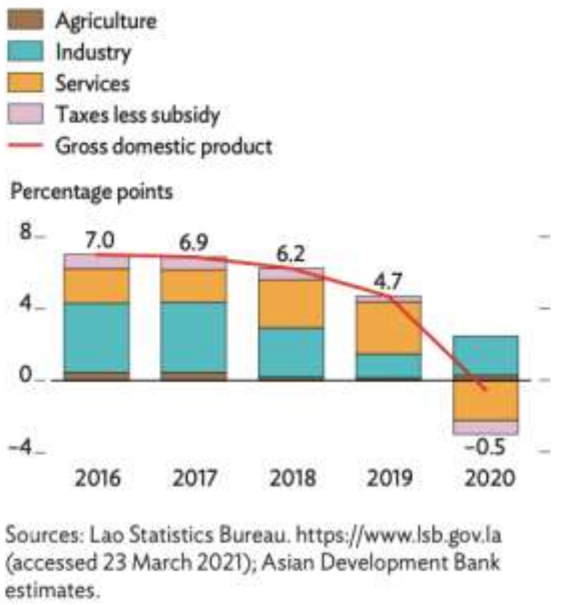
Lao PDR

After two decades of robust growth, the COVID-19 pandemic triggered the first recession in Lao in 2020.[69] The real GDP fell from a 4.7 per cent growth in FY2019 to a 0.5 contraction in FY2020.[70]

Services, which amount to 43.6 per cent of the GDP, were most harshly hit because of travel restrictions, forcing travellers to postpone their trips.[71] Visitors' arrivals dropped by 81.5 per cent, reducing tourism revenue by more than $500 million[72] and contracting the services sector by 5.5 per cent in FY2020.[73] The President of the National Institute for Economic Research in Lao PDR, Dr. Leeber Leebouapa, stated that tourism was the most affected by the pandemic in Lao PDR, followed by the industry and trade.[74] Since China is the second-largest trading partner and biggest foreign investor in Lao PDR, the shutdown of its economy at the beginning of 2020 affected imports and exports of Lao PDR strongly.[75] Over the nine first months of 2020, imports dropped by 10.2 per cent while exports fell by 0.5 per cent.[76] With remittances declining as well, the current account deficit is expected to increase to 11.3 per cent of the GDP.[77]

On the other hand, the industry and agriculture sectors both grew sharply this last year.[78] Strong growth in electricity production fueled the sector to grow from 3.7 per cent in FY2019 to 6.2 per cent in FY2020.[79] However, even though the electricity exports remained strong, the slowed domestic demand narrowed the current account deficit from US$2.3 billion in FY2019 to US$1.4 in FY2020.[80] Contributions of the different sectors to growth can be found in detail in the figure hereunder.

Figure 6: Supply-side contributions to growth



Source: ADB(2021).[81]

To counter the crisis, the Laotian Government announced in 2020 the reduction and deferral in payment of taxes, customs, and other administrative fees during the coronavirus outbreak.[82] In February 2021, the Lao Social Security Organization (LSSO) announced that one-time cash transfers totalling US$ 1.8 million would be given to up to 17'000 garment workers affected by the COVID-19 pandemic in Lao PDR.[83] Indeed, such an initiative was necessary as one-third of workers in the construction and manufacturing sectors had lost their job by July 2020.[84]

On top of sectoral impacts, the pandemic also had horizontal consequences, affecting all sectors. MSMEs were particularly affected by lockdown decisions and disruptions of the global demand. 61.1 per cent of MSMEs surveyed by the ADB in Lao PDR reported a suspension of operations a month after the virus outbreak.[85] In April, the country observed a sharp increase in MSMEs reporting no revenues for their last month.[86] Moreover, a survey conducted by the International Trade Centre (ITC) on women-led companies showed that the latter were more at risk of ending their business operations.[87] However, according to the ADB, Lao PDR did not implement any specific relief programme targeting MSMEs except a new electricity tariff.[88]

The ADB forecasts the real GDP to grow by 4 per cent in 2021 and 4.5 per cent in 2022, thanks to the sustained power generation that will trigger industry growth.[89] On the other hand, the services' growth will be moderate and will rise only by 1.9 per cent in 2021.[90] Finally, the current account deficit is projected to grow in 2021 and 2022 due to high imports bills and imports of raw material. However, the growth will be partially counterbalanced by exports of electricity, minerals, and agricultural products.[91]

Nepal

In Nepal, the GDP contracted by 1.9 per cent in FY2020.[92] One of the only sectors to expand during this period was agriculture which grew by 2.2 per cent despite a pest infestation and floods in July 2019.[93] Industry and services did not have the same chance and suffered from contraction in their growth, respectively of 7.4 and 3.6 per cent.[94]

In FY2020, exports were driven down to 2.7 per cent of GDP due to multiple factors.[95] First, the demand for Nepali goods declined following the disruption of global demand.[96] Second, like other South and Southeast Asian countries, travel restrictions led to the shutdown of tourist arrivals which strongly impacted Nepal's economy.[97] Nepal had planned to launch a campaign to attract two million visitors in 2020.[98] However, due to the COVID-19 pandemic, the tourist arrival rate declined from 70 to 10 per cent.[99] The tourism sector has a substantial importance in Nepal as it contributes 8 per cent of its economy.[100] With the cancellation of all expeditions, especially of the Everest ascents, around 13'000 guides lost their jobs.[101] However, contrary to the global tourism industry, tourism in Nepal is predominantly a male-dominated sector which creates an unusual situation where men are more affected by the crisis than women, at least in this sector.[102] Altogether, the foreign currency loss from the decline in tourist inflows is expected to be $185 million in 2020.[103]

Big industries were not the only ones to be affected by the pandemic. In Nepal, informal businesses represent around 50 per cent of enterprises and are the primary source of income for most of the labour force.[104] They are especially present in the tourism sector and are facing the sharpest financial difficulties amidst COVID-19.[105] 30 per cent of the workforce in travel agencies is vulnerable to minor and short-term problems.[106] They are therefore prone to be disproportionately affected by the crisis.

With the most inflow of raw materials coming from China being interrupted, merchandise imports dropped by 18.9 per cent, which supported the improvement of the current account deficit.[107] Furthermore, manufacturing operations had to stop, with only 4 per cent of factories being fully operational in mid-July.[108] Nepal had to wait until December 2020 to see 54 per cent of its industries being fully functional again.[109] It finally allowed the production to rise from 29 per cent of capacity to 50 per cent.[110] Eventually, lower outmigration and weak economic activity in migrant-receiving countries triggered a 3.4 per cent decline in remittances.[111]

According to the ADB, the GDP is expected to rebound to 3.1 per cent growth during FY2021.[112] The industrial sector is expected to grow by 2.5 per thanks to a strong investment in finance, through lending and refinancing of existing loans.[113] The tourism sector will take time to recover as arrivals in FY2021 have been few.[114] However, within-country tourism has picked up, yielding the opportunity for Nepal to enhance its own tourism industry.[115] Finally, the trade deficit narrowed slightly in the first 8 months of FY2021 due to lower oil imports.[116] The current account deficit is forecasted to widen from 0.9 per cent of GDP in FY2020, to 2.5 per cent of GDP in FY2021.[117]

Pakistan

The COVID-19 pandemic caused a downturn in Pakistan's economy, already aggravated by currency depreciation and fiscal tightening.[118] As a consequence, the real GDP contracted by 0.4 per cent in FY2020.[119] Agriculture drove growth thanks to good rainfall and improved access to subsidies in 2020.[120] However, both the industrial and services sector shrank by 2.6 and 0.6 per cent respectively.[121]

Due to a drop in domestic demand and lower oil prices, imports declined by 18.2 per cent in FY2020.[122] Exports also suffered from lower global demand and shrank by 7.2 per cent despite the strong rupee depreciation, subsidised electricity for export industries, and higher refunds of sales taxes.[123] The drop in exports could be explained partly by a sharp reduction in cotton shipments due to heavy monsoon rains and locust attacks. The decrease in textile production also supported the decline in exports.[124] Still, not every sector was hit badly by the pandemic. Some even expanded in 2020: among those knitwear, bedwear, leather, medical instruments, chemicals, insurance, telecommunication, and computer services can be cited.[125] In the second half of 2020, trade in goods rebounded, bringing hope for 2021.[126] However, it was not the case for trade in services which still plummeted. The increase in demand for telecommunication, computer, and information services did not suffice in overcoming the decline in tourism and transport sectors.[127]

The policy challenge in Pakistan is to target MSMEs in the recovery from the COVID-19 pandemic. Indeed, MSMEs are estimated at 3.3 million in Pakistan and engage approximately 40 million households in entrepreneurial activities.[128] As they provide at least 30 per cent of GDP and produce a significant percentage of exports, MSMEs are an important pillar of the economy in Pakistan.[129] Their lower contribution to GDP compared to other developing countries reflects their low value-added in a challenging environment.[130] During the pandemic, MSMEs have been particularly vulnerable to insolvency. While they were unable to maintain payrolls, their operations were disrupted. Two business pulse surveys were conducted on firms in Pakistan: one administered over June-July 2020 and one over January 2021.[131] 602 firms were tracked over time, including firms of all sizes, namely micro, small, medium, and large enterprises. During the first wave of the survey, the lockdown had been lifted, and most restrictions eased. Still, less than a third of firms were operational at that time. This indicates the severity of the crisis, besmirching the functioning of enterprises, even after the first wave of the pandemic. Smaller firms were found to be more impacted by the COVID-19 with 10 per cent of micro-sized firms closing down permanently because of the crisis. Businesses reported that they saw their sales decrease by on average 44 per cent during the first wave. But while sales have rebounded recently, they remain below the pre-crisis level. The impact of the pandemic is not limited to the short-term, it is likely to affect the economy in the longer run.

Gender-disaggregated data for women working in MSMEs in Pakistan are very limited. The ITC conducted a survey on the competitiveness of rural MSMEs in Sindth, Pakistan but despite efforts made, none of the respondent companies were owned or led by women.[132] Still, the World Bank Group reported in an article that according to a recent analysis, Pakistan's women-owned MSMEs were usually smaller than their men-owned counterparts and were 8 per cent more likely to loose their entire revenue during the COVID-19 pandemic.[133]

Therefore, Pakistan must target MSMEs and especially women-owned MSMEs in its recovery plan. 11.5 per cent of micro-sized firms reported having received support from the Government, compared to 23.8 per cent of medium-sized and large firms.

As a forecast, the ADB expected the GDP to grow by 2 per cent in 2021.[134] At the beginning of the year, industry and services already showed signs of slow recovery thanks to fiscal incentives and subsidies.[135] The Government of Pakistan also launched the Roshan Digital Accounts initiative in September 2020 to help Pakistanis abroad make online bank payments and transfers.[136] Thanks to this programme, remittances averaged US$2.4 billion per month from July 2020 to January 2021.[137] The current account deficit is therefore expected to narrow slightly with the support from those remittances.[138]

Sri Lanka

Due to the suspension of tourist arrivals, an island-wide curfew, and rigorous tracing, Sri Lanka performed relatively well in the first months of 2020 to contain the COVID-19 outbreak.[139] However, it did not suffice. As Sri Lanka's economy had already been weakened by shocks[140] before the pandemic, the GDP contracted by 3.6 per cent in FY2020.[141]

The shrinkage mainly came from the construction sector (13.2 per cent decrease) where workers could not be physically present.[142] Textile and tea both suffered from low demand in Europe and United States, hindering their export potential.[143] In February 2020, usually the busiest travel period during the Chinese new year, Sri Lanka saw its tourist arrival from China decrease by 92.6 per cent.[144] In addition, the closure of airports between April and December strongly impacted the monetary inflow from tourism.[145] With import restrictions and reduced domestic demand, imports contracted by more than US$3.9 billion in 2020.[146] As exports decreased by US$1.9 billion, the trade deficit narrowed by 14.9 per cent.[147] Remittances grew by 5.8 per cent, leading the current account deficit to shrink to 0.9 per cent of GDP.[148]

The World Bank estimates employment to have declined by 1.1 per cent in industry and 0.8 per cent in services.[149] It also observes that job losses primarily occur in the lower-middle income group, worsening an already fragile poverty state.[150] Over 500'000 persons are expected to have fallen into poverty in 2020, which represents an increase of 11.7 per cent.[151] Livelihood support, as well as multiple programmes, have been implemented by the Sri-Lankan Government. These measures aimed at helping the absorption of the labour market shock and softening the impact on poverty.[152]

MSMEs make up a large part of Sri Lanka's economy. There are over one million MSMEs and they account for approximately 75 per cent of all businesses.[153] The International Finance Corporation (IFC) studied women-owned MSMEs in Sri Lanka and the impact of the COVID-19 on the latter. They found that women own around 25 per cent of all MSMEs which tend to be smaller on average.[154] Also, women-owned MSMEs were least likely to have taken a loan from a formal financial institution and more likely to have borrowed from friends or family.[155] Regarding digital technologies, Women-owned Small and Medium Enterprises (WSMEs) were less likely to try a new digital business channel. Only a quarter of WSME reported doing so compared to one-third of MSMEs.[156] Targeting women-owned MSMEs should therefore be a priority for the Government as they face different constraints and realities.

For the years to come, the ADB forecasts a GDP growth of 4.1 per cent in 2021, and then a slow down of a 3.6 per cent growth in 2022.[157] Exports and imports will rise as the demand recovers both internally and externally.[158] Finally, services are predicted to grow by 4.2 per cent thanks to a gradual recovery in tourism.[159] The World Travel and Tourism Council estimated that travel and tourism brought 11 per cent of employment in 2019 and 10.6 per cent of GDP.[160] Tourist arrivals are therefore expected to drive up the services sector as long as the Government invests in tourism in order to make it safe for tourists to travel to Sri Lanka in this complicated health situation.[161]

Vietnam

In Vietnam, the economy grew in 2020 despite the COVID-19 pandemic. It achieved one of last year's highest growth in GDP in the world with its 2.9 per cent growth.[162] Still, this GDP growth rate was one of Vietnam's lowest in a decade.[163] Swift introduction of containment measures, combined with aggressive contact tracing, targeted testing, and isolation of suspected COVID-19 cases, helped the infections and death rates be kept notably low during the first wave of the coronavirus outbreak.[164]

Growth was maintained thanks to agriculture and industry, which were preserved amidst the pandemic.[165] Net exports of goods and services contributed 0.3 points to growth.[166] Exports suffered from a decline in lower-value manufactured goods such as textiles or agricultural products.[167] However, it was largely compensated by an increase in higher-value manufacturing goods. Higher-tech electronics commodities performed particularly well thanks to the surge in demand caused by the rise in teleworking.[168] Furthermore, exports grew by 4.4 per cent, notably thanks to multilateral and bilateral trade agreements.[169] Trade diversion also plays a role in the resiliency of Vietnam's exports. Indeed, China exports an important quantity of goods such as mobile phones, spare parts, and textiles to Vietnam, which then exports these goods to the US.[170]

During the pandemic, imports increased by 3.6 per cent, with China as a main source of imports.[171] Even though China restricted its exports of raw material at the beginning of 2020, Vietnam relied on high stocks in order to keep its factories running after the lockdown.[172] Similar to other South-East Asian (SEA) countries, Vietnam saw its garment commands from the US and EU being cancelled. Still, it took the initiative to produce face masks instead to keep garment manufacturers running.[173]

Nevertheless, the services sector took a big hit from the drop in international tourist arrivals. It fell by 2.3 per cent despite a strong recovery in the last quarter of 2020 in the health and e-commerce sectors.[174] Tourism is likely to rebound thanks to the recovery of Asian countries quickly, accounting for a majority of Vietnam's international tourists.[175]

The UNESCAP surveyed Vietnam's MSMEs and found out that more than 80 per cent of them reported that the impact of COVID-19 on their businesses was either bad or very bad.[176] The study also focused on women-led MSMEs and observed that the general impact of COVID-19 was not significantly different from the sample. On the one side, women-led MSMEs faced more business disruptions, but on the other side, they seemed to have avoided strong delayed payments and sharp shortages in working capital. The strong resilience of women-owned MSMEs could come from their more conservative business strategies and their greater flexibility in times of crisis.[177] However, when it comes to revenues, women-led MSMEs faced a more severe decline than men-led MSMEs. The double of women-owned MSMEs compared to male-owned MSMEs reported a 75 per cent or more decline in revenues in Q1 of 2020. It shows that those gender disparities have to be addressed specifically in the support programme by the Government.

The ADB forecasts a growth in GDP by 6.7 per cent in 2021 and 7 per cent in 2022.[178] Industry, export-oriented manufacturing, increased investment were all factors that helped Viet Nam to shield its economy amidst the pandemic.[179] The industry is expected to expand by 9.5 per cent in 2021.[180] Services are also predicted to rebound by 6 per cent this year thanks to a digital transformation.[181] Trade is likely to remain robust in 2021 thanks to the solid economic recoveries in China and the US, Vietnam's two major trading partners, and thanks to the 15 major free trade agreements signed by Vietnam.[182] The first quarter of 2021 showed a strong trade surplus with exports surging by 34.4 per cent to China and 32.8 per cent to the US.[183] Merchandise exports are forecasted to rise by 8 per cent this year and the next.[184]

Ways forward: WTO to support a sustainable and inclusive crisis' recovery

There exist multiple ways for delegates from South and Southeast Asian countries to get involved in trade-related debates revolving around the recovery from the COVID-19 pandemic. At the WTO, several committees and informal working groups discuss trade-related measures to shape the future multilateral trade framework. The presence of developing countries in those discussions could ensure that their specific trade impacts of COVID-19 will be mitigated in a development-friendly manner.

As part of the 365 trade-related measures notified to the WTO during the COVID-19 pandemic, only one quarter were trade-restrictive.[185] Most of them could be comprised in four categories: streamlining certification measures, ensuring that medical goods are safe, making food available, and addressing COVID-19 risks from international trade in live animals.[186]

1. Discussions on trade restrictions under the Agreement on Agriculture

In order to secure a fast recovery all around the world, it is necessary to keep the supply chains of essential goods, such as medical equipment or food, flowing.[187] Most developing countries cannot produce domestically and at a low cost, all the necessary goods for their own country.[188] Therefore, they rely on other countries' production to import their necessities. Amidst the COVID-19 pandemic, supply chains were disrupted, and, fearing of shortage of essential goods, some countries implemented trade-restrictive measures to guarantee their own supply.[189]

Those trade-restrictive measures were mostly composed of quantitative restrictions, reduced market access, or export restrictions.[190] Whether imposed on food or medical goods, restrictions are a problematic issue. On the one hand, they allow countries to protect their population in shorter term.[191] However, on the other end, they end up damaging other countries' economy and livelihoods which do not have sufficient production and trade capacities.[192] Restrictions may also undermine the confidence in global markets by diverting supplies from the world market.[193]

At the WTO, members are currently discussing export restriction exemption for the World Food Programme (WFP) as part of discussions on agriculture.[194] Developing countries expressed hope that it could be achieved by building on negotiations in December 2020.[195] At the last meeting, the facilitator on export restrictions summarised discussions revolving around a joint paper written by Japan on how to improve transparency on export restrictions.[196] He also urged proponents of the WFP initiative and other members to intensify direct talks to find a compromise language to overcome the current impasse.

2. Discussions on barriers to trade under the Technical Barriers to Trade (TBT) Agreement

159 notifications to the WTO on COVID-19 trade-related measures related to the Technical Barriers to Trade (TBT) Agreement (more than one-third of total notifications).[197] This agreement ensures that regulations, standards, testing, and certifications are useful and do not create unnecessary obstacles to trade.[198]

Most measures aimed at easing conformity assessment of Personal Protective Equipment (PPE) and other medical products to accelerate access and increase supply.[199] The TBT Committee works as a house for members to share information and discuss concerns about regulation and implementation of technical standards.[200] Their last meeting, in February, covered discussions on several proposals on issues of conformity assessment procedures, transparency, and other lessons learnt from the COVID-19 pandemic.[201] The goal was to develop a set of recommendations on how to improve the implementation of the Agreement, especially amidst the crisis, where members faced difficulty to meet testing and certification requirements due to limitations imposed by the pandemic.

3. Discussions on standards under the Sanitary and Phytosanitary Measure (SPS) Agreement

Almost one-quarter of trade-related notifications to the WTO amidst the COVID-19 pandemic, included concerns about the Sanitary and Phytosanitary Measure (SPS) Agreement.[202] This Agreement includes provisions on control, inspection, and approval procedures on food, animals, and plants for health safety reasons.[203] Half of the notifications were temporary and among the remaining half, 93 per cent were trade-facilitating measures.[204] Those measures mainly facilitated trade through the use of electronic certificates for plant and animal products.

During its last meeting, the Committee on SPS Measures discussed a possible declaration for the next ministerial conference (MC12) to be held in late 2021.[205] They addressed different issues: the lack of transparency, the lack of equivalence, and special treatment for developing countries. Furthermore, SPS issues specific to the COVID-19 situation were considered. Members called for a strengthened adherence to support international trade while ensuring human, animal, and plant life or health, which is especially relevant during COVID-19. Their next meeting is planned for the 15th and 16th of July.

4. Discussions on trade facilitation in the Committee on Trade Facilitation

The COVID-19 pandemic was at the centre of discussions at the last Committee on Trade Facilitation meeting, held on the 26th and 27th of January.[206] Members shared their experiences of both the public and private sectors in facilitating trade for medical products and equipment. The EU proposed that the WTO Secretariat prepare a document composed of COVID-19 responses from members and observers provided to the Committee to identify key difficulties and challenges encountered by members and businesses when importing or exporting goods during the crisis. The date of the next Committee meeting is 22th and 23th of June 2021.

5. Discussions on access to vaccines on Trade-Related Aspects of Intellectual Property Rights Agreement

As demonstrated by the points raised above, the WTO has mainly tried to facilitate access to medicines and medical equipment during COVID-19. Nevertheless, access to the technologies enabling the creation of medicines is much more difficult to establish. Medicines such as vaccines are, indeed, protected by the intellectual property (IP) system.[207]

The COVID-19 pandemic was an unprecedented global challenge in developing new vaccines and treatment and granting access to these medicines for all. A vigorous debate, therefore, sparked within and beyond the WTO on how to make this possible.[208] Finding a solution is essential to guarantee a strong recovery in all parts of the world. The WTO provides access to many resources and information as part of the TRIPS Council.[209] The TRIPS Council is responsible for administering and monitoring the operation of the TRIPS Agreement.[210] They conduct regular meetings and special sessions where their primary role is to act as a forum for members to discuss critical issues . On top of exchanged information and experiences relating to IP measures taken during COVID-19, some informative notes on the relationship between the TRIPS Agreement and COVID-19 have been communicated to the TRIPS Council.

On the 2nd October 2020, India and South Africa proposed to implement a waiver from certain provisions of the TRIPS Agreement for the prevention, containment and treatment of COVID-19.[211] Indeed, they fear that beyond patents, other intellectual property rights may also pose a barrier for the development and manufacturing of pharmaceutical products. The proposal has since been co-sponsored by Kenya, Eswatini, Mozambique, Pakistan, Bolivia, Venezuela, Mongolia, Zimbabwe, Egypt, the African Group, the Least Developed Countries (LDC) Groups as well as Maldives, Fiji and Namibia, for a total of 60 WTO members. A number of delegation still remains unconvinced about the necessity for a waiver as some members argue that a waiver may be counterproductive and underdmine ongoing collaborative efforts.[212]

On the 25th May 2021, the proponents advanced a revised decision text with a specification that the proposed waivers was limited in scope to COVID-19 prevention, treatment and containment.

6. Discussions on how to foster digital transformation

Another essential element, for the recovery from the COVID-19 crisis, is digital transformation.[213] Digitalisation has been a key solution for many countries to keep their economy flowing amidst the pandemic. However, the digital divide between developed and developing countries still remains a concern.

The WTO partly addresses this matter as part of its Information Technology Agreement (ITA).[214] More specifically, a WTO workshop to examine how trade in information and communications technology (ICT) helped to combat COVID-19 will be held on the 16th of September in Geneva.[215] The workshop will also allow government officials to meet the private sector and representatives of the IT industry on trade and will present how the Agreement is used as a development tool.

In addition, the Joint Statement Initiative (JSI) on E-commerce also addresses the topic of digital trade facilitation and logistics. WTO Members participating in e-commerce JSI negotiations announced on the 20th of April the finalisation of a "clean" negotiating text on the issue of e-signature and authentification. The text will be part of the outcome of the e-commerce initiative to be delivered by MC12.

7. Discussions on how to target vulnerable groups

Finally, for the recovery to be effective, vulnerable groups should be targeted by the implemented policies. As shown previously, MSMEs and women were amongst the most affected in South and Southeast Asia. To ensure their full recovery, they should benefit from special treatment.

Informal Working Groups (IWG) are working at the multilateral level to identify and address obstacles faced by those two exposed groups. The Informal Working Group on MSMEs consists of 91 WTO members, and is open to all. In a declaration, the IWG noted the severe impact of the COVID-19 pandemic on MSMEs.[216] It reiterated the importance of addressing the trade-related aspects of MSMEs' access to finance and cross-border payments in helping MSMEs face the trade-related challenges resulting from the pandemic.[217] Finally, at their last meeting held on the 4th of May, members discussed the potential delivery by the time of the next Ministerial Conference and the implementation of the package of declarations and decisions adopted in December 2020.

The Informal Working Group on Trade and Gender that started functioning in September 2020 seek to intensify efforts to increase women's participation in global commerce .[218] Their last document, submitted in April 2021 by the Co-Chairs of the IWG, namely Botswana, El Salvador and Iceland on a proposal framework to deliver a ministerial outcome on trade and gender for MC12, mentioned the detrimental impact of the COVID-19 pandemic on women and reassessed the role of the IWG in mitigating these effects on women.[219] Their next step will be to draft a declaration on trade and gender for the twelfth Ministerial Conference.

Conclusion

In conclusion, even though the recorded number of deaths by the pandemic has been low in South and Southeast Asian countries covered by this note[220], the economy was not spared, and countries suffered substantial losses in different sectors. First, the textile and garment industry, strongly represented in this region, experienced a major drop in the inputs of production due to the extent of the coronavirus in China.[221] Then, the lockdown of factories, coupled with the cancellation of orders from developed countries, expedited the decline of the sector. Bangladesh, Cambodia, and Vietnam were the most affected by this shock on textile and garment production.

Another crucial sector for South and Southeast Asian countries is tourism. As one would suspect, this sector was widely hurt by the travel restrictions implemented as an effort to contain the spread of the pandemic.[222] Cambodia, Nepal, and Sri Lanka are the most dependent on international tourism receipts, which account for approximately 25 per cent of their exports.[223] Therefore, the drop in tourist arrivals strongly hampered their economy as well as the survival of enterprises in this sector.

Some specific groups of the population have also been more vulnerable to the crisis. Women, for example, are more likely to work in the service sector, are overrepresented in the tourism industry, and in the garment sector.[224] Overall, they are more likely to have seen their activity being stopped due to the crisis.[225] It has been observed in Bangladesh and Vietnam specifically. One exception though is Nepal. Indeed, in Nepal's tourism sector, guides are majoritarily men and, therefore, men suffered more than women from the travel restrictions.[226]

Finally, MSMEs are also more vulnerable to the crisis due to their small means and informality.[227] In Pakistan and Sri Lanka, MSMEs engage a significant part of the population and contribute to an essential share to the GDP. Their loss in sales as a result of the pandemic, therefore, impacted the informal economy, and thus jobs and poverty heavily.

The recovery from the COVID-19 pandemic will require numerous measures and trade is one of the crucial avenues to allow for a sustainable and inclusive recovery. The WTO already included COVID-19 recovery into many of its discussions and workplans. This subject is currently discussed under several WTO Bodies, for example, the Committee on Agriculture, the Committee on TBT , the Committee on SPS, the Council on TRIPS, the Committee on Trade Facilitation to name some, as well as in several Informal Working Groups.

Overall, the WTO provides multiple opportunities to build a more resilient trade economy for the future, and developing countries' delegates from South and Southeast Asian countries should consider active participation to advance air their needs and seek fair and transparent solutions.

CUTS International, Geneva

CUTS International, Geneva is a non-profit NGO that catalyses the pro-trade, pro-equity voices of the Global South in international trade and development debates in Geneva. We and our sister CUTS organizations in India, Kenya, Zambia, Vietnam, Ghana, and Washington have made our footprints in the realm of economic governance across the developing world.

This Note is authored by Cyann Staub, under the supervision of Leslie Sajous and Rashid S Kaukab. CUTS Notes are to inform, educate and provoke debate on specific issues. Readers are encouraged to quote or reproduce material from this paper for their own use, provided due acknowledgement of the source is made.

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