KEY MESSAGES

» The war is taking a heavy toll on Ukraine’s trade and affecting global trade. Monthly data shows that imports of maize (corn) by China, EU, Japan and the USA declined by 7 percent in March relative to the average in January and February, as purchases from Ukraine dropped by 30 percent. Similarly, their imports of sunflower oil fell by 20 percent, propelled by a 50 percent drop in shipments from Ukraine.

» Global services trade stayed above pre-pandemic levels in March 2022, but the recovery was incomplete and uneven in travel and tourism. Commercial flights rose substantially, but seat capacity remained below pre-pandemic levels; short-term rentals via online platforms increased, but hotel bookings had yet to recover fully.

» Global supply chain capacity stress declined but stayed high amid continued lockdowns in China and congestion on major shipping routes. Shipping activity in the Black Sea remained suspended.

SPECIAL FOCUS

Preparing for future pandemics: lessons from the COVID-19 medical trade interventions
The value of global goods trade (in current U.S. dollars) increased by 17 percent in March from a year earlier, on the back of robust performance in all broad product groups (Figure 1a). As measured by volume in constant U.S. dollars, however, trade in March stagnated on a month-on-month basis and grew by only 2.5 percent from a year earlier. Trade prices, proxied by the gap between trade in current and constant U.S. dollars, increased by 13 percent on a year-on-year basis (Figure 1b).

Global trade performance hides regional variations. In East Asia, trade was disrupted by China’s new lockdown measures to contain the COVID-19 outbreak. China’s import volumes in constant U.S. dollars dropped by 13 percent in March and by 16 percent in April from a year earlier, while exports stagnated in March and declined by 6 percent in April on a year-on-year basis. In Ukraine, Russia, and Belarus, trade was severely hit by the war and related sanctions.

War took a heavy toll on Ukraine’s trade in March and April. Goods exports and imports plummeted by 54 and 67 percent in March from February—much faster than during the COVID-19 crisis—and remained severely depressed in April (Figure 2a). Relative to the previous year, goods exports plunged by 40 percent in March from February and were down 20 percent from a year earlier (Figure 2). By contrast, services imports surged sharply as fleeing civilians boosted demand for transportation. Sanctions hit Russian imports, which dropped by 43 percent in March from the previous month and by 39 percent from a year earlier. Belarus, too, saw exports and imports decline by 20 percent each in March relative to the previous month and year.

The damage to Ukraine’s trade affected its main trading partners. A glimpse of this effect was offered by the monthly trade data by product reported by four major economies: China, Eurostat, Japan, and the USA. These economies’ collective imports of maize (corn) declined by 7 percent in March relative to the average in January and February, as purchases from Ukraine—which account for half of their total imports of corn—dropped by 30 percent over the same period. Similarly, the four economies’ imports of sunflower oil fell by...
20 percent, propelled by a 50 percent drop in shipments from Ukraine, which accounts for 80 percent of the total.

Services Trade

The value of global services trade stayed above pre-pandemic levels in March 2022 and continued to show signs of recovery. Exports rose by 3.8 percent over March 2019, and imports increased 5.5 percent. Relative to March 2021, services exports climbed 11.1 percent, and imports gained 13.9 percent. On a monthly basis, services exports in March 2022 were 4.0 percent higher, and imports were 5.2 percent higher than in February.

Travel and tourism extended their gradual recovery thanks to the continued rollout of COVID-19 vaccines and the easing of restrictions and lockdowns, but they remained the most depressed category of services (Figure 3). International tourist arrivals, for example, were 100% higher in January 2022 than a year earlier but 67 percent lower relative to January 2019.

Similarly, while commercial flights have risen substantially compared with the first months of the COVID-19 pandemic (Figure 4a), seat capacity remained below pre-pandemic levels (Figure 4b). In lodging, occupancy rates overall remained at about half of pre-pandemic rates, but some categories have done better than others (Figure 5a). Hotel bookings in April were 67 percent down from their level in April 2019 (Figure 5b), while short-term rentals via platforms like Airbnb and Vrbo were up 17 percent.

The regional picture has also been mixed. As of January 2022, the Caribbean had experienced the strongest recovery in international tourism arrivals. Asia and the Pacific remained the hardest hit region as many destinations remained closed to international tourism with many COVID-19 restrictions still in place.

Logistics Constraints

An index of global supply chain capacity stress continued to decline for the last two months while remaining high by historical standards (Figure 6a). Ports in China and on the US West and East coasts were major contributors to the stress index amid COVID-19 related lockdowns in China and congestion in U.S. ports due to increasing volume of seaborne cargo arriving to U.S. (Figure 6b). After more than a year of a decline, global trade
carrying capacity is rebounding, in part reflecting a traditional seasonal trend of increasing container traffic in the second half of the calendar year, in part the easing of COVID-related bottlenecks in ports (Figure 6c). Container freight rates have declined by 20 percent on average since the beginning of the year, which could be an early indicator of a weaker demand by shippers. Despite these signs of relaxation, supply chain disruptions remain severe and may take months to subside.

In the Black Sea, most shipping activity remained suspended as Russian forces maintained their blockade of Ukrainian ports and international sanctions constrained Russian trade, especially containerized shipping. Black Sea carrying capacity was down by 55 percent in May 2022 from a year earlier.


**Notes:** 1a: Mirror data are used when data for recent months are missing. Lines depict the average of exports and imports normalized by the average across selected pre-pandemic years. 1: Trade is the average of exports and imports. 3: The global aggregate includes data on services exports and imports. Data include 12 economies that reported in April 2022, which accounted for a total of approximately 37 percent of global services exports and 38 percent of global services imports in 2017 (UNCTAD). 4a. Commercial flights include commercial passenger flights, cargo flights, charter flights, some business jet flights. 6: Ship tracking data for AIS reveals real-time information on trade in motion. The analysis was conducted using a calling event database prepared for the World Bank by MarineTraffic, covering over 7,000 ships calling at over 1,000 ports worldwide. The focus is on container shipping, as opposed to commodity freight in bulk. Container shipping carries manufactured goods and is representative of GVCs. The main indicator is instant (weekly) capacity calling in countries or regions, measured in capacity units of Twenty-Foot Equivalent (TEU) boxes (Atlantic ports of France, Spain, Portugal). The stress index is an estimation of shipping capacity additionally mobilized or stalled at ports when excessive delays are observed over historical port-to-port lead time.

**Online Excel data:** Some of the numbers in the text and additional data corresponding to the merchandise, services, and logistics sections can be found in the online Excel file that accompanies Trade Watch. The file includes data used in the latest issue. Data for previous issues can be shared upon request.

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**Figure 6. Shipping logistics: stress and capacity, globally and by region**

a) Global supply chain capacity stress (Jan 2019 – May 2022)

b) Shipping capacity stress by region: May 2021-May 2022

c) Global trade carrying capacity, through May 23, 2022
During the COVID-19 pandemic, many governments sought to assure domestic availability of vital medical goods by restricting exports or liberalizing imports. These actions constrained global supplies and drove up costs of pharmaceuticals and goods including syringes, oxygen, and personal protective equipment. Our analysis shows that uncooperative trade policies raised average trade costs of medical products by over 60 percent. Rather, governments should deepen cooperation to leverage trade to improve preparedness for future health emergencies.

Measures to limit exports and liberalize imports jumped in the first two quarters of 2020. The number of import reforms rose to 200 by May of that year (Figure 1, panel a). They climbed to a peak of 242 in December 2021 and then gradually subsided to 219 as of January 2022 as some temporary measures expired. The number of export curbs rose to 134 in April 2020 and continued to climb gradually, to 138 in February 2022. Restrictive import measures increased at a slower pace and reached 88 in February 2022.

Similarly, the number of countries implementing trade-policy changes affecting medical goods surged in the first wave of the pandemic (Figure 1, panel b). The number jumped in the early months and then tapered off slowly. Eighty-two countries had eased import restrictions by April 2020, and 72 had imposed export restrictions. As of early 2022, 63 countries were implementing import reforms, and 52 were applying export restrictions. Overall, more than two-thirds of the 195 countries tracked in the COVID-19 Trade Policy database intervened at some point during the pandemic.

Interventions fueled a tit-for-tat spiral that made everyone worse off. Export restrictions reduced global supplies of vital medical goods, while import liberalization boosted demand. The result: shortages grew worse, and costs rose. Some countries responded by adopting trade measures of their own to secure supplies and stabilize prices, creating a “multiplier effect” (Giordani et al. 2017). Competition for scarce medical supplies was intensified by the highly concentrated nature of production among a small number of major economies.

The trade-policy measures covered up to 20 percent of trade in medical goods during the pandemic (Figure 2).1 The value of trade covered by import reforms peaked in the fourth quarter of 2020 at US$137 billion. By the end of 2021 it had fallen to US$105 billion as some temporary measures lapsed. By contrast, export curbs appear to have lasted longer: the value of trade they affected peaked in the third quarter of 2021 at US$103 billion and fell slightly to US$98 billion, by the end of 2021. As of February 2022, the total value of medical goods covered by trade restrictions likely exceeded that covered by trade liberalizing reforms.2

The duration of policy interventions casts doubt on their supposedly temporary nature. Trade agreements include emergency provisions allowing governments to impose temporary restrictions that would otherwise be prohibited. Yet few of the interventions affecting medical

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1 To estimate the share of trade covered by policy measures, each of the recorded policies is assigned to a 6-digit Harmonized System (HS) code. The total amount of exports and imports of a certain code subject to a given measure represents the potential trade that could be covered by the measures. The trade coverage estimates reported here—which are based on recorded 2019 United Nations COMTRADE trade data—understate the total value of trade covered given the significant surge in trade in medical goods since early 2020.

2 When biologics are included in the trade coverage calculations, the estimates relating to import curbs double (now standing at US$202 billion) and exceed the trade covered by import reforms.
goods that were in force as of February 2022, when the pandemic was waning in many regions, were less than 90 days old. Of the liberalizing import reforms enacted since the start of the pandemic, 157 had been in force for more than one year. Among export restrictions, 109 had lasted longer than one year.

Import trade costs for medical goods increased significantly early in the pandemic driven by uncooperative trade policies. In the first four months of 2020, trade policies contributed to average increases of up to 60 percent for medical goods (Figure 3, panel d). By the end of 2021, the impact of these policies on trade costs had declined gradually to less than 10 percent over their pre-pandemic level. The pattern was similar for ventilators (panel c) and products such as textiles used to produce PPEs (panel a). The plunge in the cost of vaccines in the first quarter of 2021 highlights the impact of government efforts to facilitate trade (panel b).

Leveraging trade policy to improve preparedness for a future pandemic

Countries could agree to make emergency tariff reductions permanent. The reductions adopted in response to the pandemic could be used as an opportunity for a tariff liberalization agreement for selected medical goods or even a more overreaching sectoral agreement on all medical goods. Options include revisiting the WTO Pharma Agreement or ITA Expansion and negotiating a new multilateral or plurilateral agreement.

Reducing tariffs on medical goods would lower health-related costs and boost income, with most gains going to low- and middle-income countries. Our simulation scenario assumes that tariffs are lifted completely on pharmaceutical products, equipment and machinery used in health care, and chemicals used by the pharmaceutical sector. It also assumes a 5 percent reduction in import costs for ICT and business services in the health care sector. The long-run income gains globally are US$6.18 billion a year, with US$3.07 billion going to low- and middle-income countries. Health care costs also decline, with low- and middle-income countries reaping the biggest benefits with average reductions of 0.11 percent and 0.15 percent, respectively.

Importers and exporters could strike a bargain to reduce the risk of escalating trade policies during a health emergency. Importers could agree to preserve the lower restrictions implemented during the pandemic in exchange for assurances that their supplies of critical medical goods will not be arbitrarily cut off in an emergency. In return, exporters could limit their rights to introduce temporary export controls in times of crisis in exchange for better market access to the importers’ markets in normal times.

A playbook for trade policy during a health emergency could focus on a number of measures that facilitate trade of critical medical goods and services. Countries could work with partners within the region and beyond to streamline regulatory and border procedures and take other steps to reduce trade costs in medical goods and services. Options include removing the need for applications and permits for products that pose minimal risks to health and environmental safety; prioritizing regulatory approval of essential medical goods; and recognizing certificates of conformity for medical equipment and of qualifications of foreign medical professionals.

References:
Figure 1: Patterns of trade policy intervention affecting medical goods during the COVID-19 pandemic

a. Frequency of policy interventions, by type

b. Number of countries imposing trade

Source: Calculations using the Essential Goods Initiative (EGI) database. Note: The analysis covers 195 economies tracked by the EGI database, across all income groups. Numbers at the end of data lines indicate the total on the closing dates of February 23, 2022 (panel a) and February 7, 2022 (panel b). For more information about the analysis, the methodology, and the underlying data, see World Bank (2022).

Figure 2. Medical goods trade covered by import and export policy measures, January 2020 to January 2022

Source: Calculations using Essential Goods Initiative database. Note: The analysis covers 195 economies tracked by the EGI database, across all income groups. Numbers at the end of data lines indicate the respective totals on the closing date of January 1, 2022. For more information about the analysis, the methodology, and the underlying data, see World Bank (2022).

Figure 3. Impact of COVID-19–related trade policies on trade costs of medical goods imports, by type, January 2020 through December 2021

Source: Egger et al. 2022