



JULY 2020

Streamlining the value chain in times of COVID-19



Street art in Nairobi / [Stand Up For Human Rights](#) (UN Human Rights Office)

Introduction

The COVID-19 pandemic engulfing the world has caused massive suffering and loss of life. As infection rates in some countries appear to be levelling off and lockdowns are relaxed, the economic impact of the virus is becoming increasingly clear. Substantial GDP declines of 7.5 percent in the Netherlands and 7 percent in Germany are expected.¹ Some two million full-time job equivalents

are estimated to have been lost in Western Europe in Q1 of 2020, a loss projected to rise to eight million by Q2.²

1 IMF, 2020. World Economic Outlook (April 2020), <https://www.imf.org/external/datamapper/datasets/WEO> (accessed 25 May 2020).

2 Global losses are estimated at 130 million and 305 million full-time equivalents in Q1 and Q2 respectively. Of this, 6 million (Q1) and 37 million (Q2) are expected in Africa, 2 million (Q1) and 16 million (Q2) in Latin America and 115 million (Q1) and 175 million (Q2) in Asia and the Pacific. ILO, 2020. *ILO Monitor: COVID-19 and the world of work*. 3rd Edition, https://www.ilo.org/global/topics/coronavirus/impacts-and-responses/WCMS_743146/lang--en/index.htm (accessed 25 May 2020).

Note, however, that this is the impact in 'best case' scenarios in the world's wealthiest economies, featuring functional welfare states and advanced healthcare systems. The impact may be more severe in less well-off states. While many of these countries have relatively young populations (a demographic less affected by COVID-19), healthcare capacity is frequently weaker and contact tracing much more difficult, or not even feasible. Furthermore, shared housing and existing underlying conditions due to poor nutritional standards, working conditions and sanitation are more common, not to mention weaker governance capacity, state legitimacy and welfare arrangements. This leaves many people in these countries at heightened risk, for both the virus and its economic impacts. Meanwhile, donor responses are increasingly constrained as development budgets are brought into line with donors' reduced GDP figures.

As an open trading economy, the Netherlands benefits from global prosperity, limited inequality, stability and respect for the rule of law.³ COVID-19 thus represents a substantial risk to the Netherlands' economy and foreign policy aims.⁴ The aim of this brief is to identify the key risks that the impact of COVID-19 on global value chains poses to the Dutch economy and its foreign policy objectives. It draws on insights from three case studies into the impact of COVID-19 on developing economies and their role in global value chains. These case studies are published in separate Clingendael policy

briefs and focus on Latin America, Indonesia and the Sahel.⁵

Economic risk

As a trading nation, the Netherlands is tightly connected to all corners of the world through a range of value chains. While the Netherlands may have the technical and borrowing capacity to stimulate its economy in an attempt to restart it, recovery of the Dutch economy will, for a significant part, depend on resuming activities across a range of international production sites, recovering international consumer demand and the resumption of international trade. To return to positive growth figures, the Dutch economy thus needs international supply chains to run at previous capacity. While it will take a considerable time for global demand to rebound, the operational constraints imposed by COVID-19 are becoming increasingly visible and are threefold: economic, sustainability and ethical.

From an economic perspective, the COVID-19 crisis has drawn attention to vulnerabilities in global value chains and the interdependency of different economies. The delayed economic effects are not yet clear, but a bullwhip effect caused by sudden demand fluctuations may result in either overproduction or production shortages, influencing also economic recovery in

3 Veen, E. van, 2020. 'Verkleinen mondiale ongelijkheid is van levensbelang voor Nederland', 18 May, <https://www.parool.nl/columns-opinie/verkleinen-mondiale-ongelijkheid-is-van-levensbelang-voor-nederland~bc562cc5/> (accessed 25 May 2020).

4 Adviesraad Internationale Vraagstukken, 2020, 'Briefadvies 34: Nederland en de wereldwijde aanpak van COVID-19', https://www.adviesraadinternationalevraagstukken.nl/binaries/adviesraadinternationalevraagstukken/documenten/publicaties/2020/05/11/nederland-en-de-wereldwijde-aanpak-van-covid-19/Nederland_en_de_wereldwijde_aanpak_van_COVID-19_AIV_briefadvies-34_20200511.pdf (accessed 25 May 2020).

5 See Meester, J. and Ooijens, M., 2020. 'COVID-19 Impact on the value chain – Conceptual paper', 22 June, <https://www.clingendael.org/publication/covid-19-impact-value-chain> (accessed 10 June 2020); Dekker, B., 2020. 'COVID-19 Impact on the Value Chain: Asia', 27 May, <https://www.clingendael.org/publication/impact-covid-19-measures-indonesian-value-chains> (accessed 10 June 2020); Bisson, L. and Hambleton, T., 2020. 'COVID-19 Impact on the Value Chain: West Africa / Sahel', 27 May, <https://www.clingendael.org/publication/covid-19-west-africa-impact-value-chains> (accessed 10 June 2020); Van Teijlingen, K., 2020. 'COVID-19 Impact on the Value Chain: Latin America', 27 May, <https://www.clingendael.org/publication/covid-19-impact-value-chain-latin-america> (accessed 10 June 2020).

the Netherlands.⁶ Disruptions in global value chains might also affect production capacity inside the EU, feeding the debate on the shortening, or even nationalising, of complex supply chains.⁷ Near-shoring and reshoring have become new buzzwords. Nonetheless, the recovery of the Dutch economy will thus be partly dependent on any disruptions outside EU borders and the resilience of various global value chains as a whole.

The European Green Deal took a prominent role in the European-wide debate on what kind of new economy should be stimulated. The European Commission pledged to fund greener transport and cleaner energy,⁸ and while individual governments have already embarked upon sizable stimulus packages, measures focused on sustainable and green recovery are now prevailing. While the ambitious EU green recovery plan will mitigate and handle the COVID-19 crisis in Europe, international effects should not be neglected. The stimulus packages will have a significant impact on climate outcomes far into the future, not only in Europe but also in countries further along the value chain outside of Europe. Therefore, the EU must consider the overall impact of its recovery package.⁹ To this end, Dutch companies, for example, released a joint statement endorsing a strong focus on sustainable global value chains rather than specifically on the sustainability goals of European

companies.¹⁰ Such initiatives will necessarily be European-wide to combine the national stimulus packages with a strong strategy for investments, global trade and sustainable transitions within value chains and avoid leaving the burden on developing economies.

While the economic and sustainability concerns of such choices may be significant, they also imply ethical choices regarding who will bear the brunt of the costs of this crisis. In most developing economies at the base of value chains significant to the Netherlands, subcontracted (often unskilled or low-skilled) workers, informal workers, children and women are among those most affected by the COVID-19 crisis and most vulnerable to labour exploitation during and following the pandemic.¹¹ In Indonesia, for example, workers in mining, garment and palm oil production are pressured to continue business as usual to maintain the country's position in the value chain and limit the economic impact of the crisis. This has led to health risks and concerns about forced labour, and has highlighted a lack of state protection for its own citizens.¹² From an ethical perspective, shielding our own economy and passing most of the burden to the most vulnerable workers and countries in the value chain could worsen working conditions for a significant number of workers, undermining efforts in ethical sourcing and transparency and exacerbating patterns of inequality and marginalisation in a number of countries.¹³ The Dutch Ministry

6 Shih, W., 2020. 'COVID-19 and global supply chains: watch out for bullwhip effects', 21 February, <https://www.forbes.com/sites/willyshih/2020/02/21/covid-19-and-global-supply-chains-watch-out-for-bullwhip-effects/#4a3452e77195> (accessed 21 February 2020).

7 Demertzis, M. and Masllorens, D., 2020. 'The costs of coronavirus in terms of interrupted global value chains', 9 March, <https://www.bruegel.org/2020/03/the-cost-of-coronavirus-in-terms-of-interrupted-global-value-chains/> (accessed 16 June 2020)

8 BBC, 2020. 'UK must prioritise green economic recovery', 8 May 2020, <https://www.bbc.com/news/business-52580291> (accessed 16 June 2020).

9 Zhang, T., 2020. 'Opening Remarks – COVID-19: Opportunities for a Green Recovery', 22 May, <https://www.imf.org/en/News/Articles/2020/05/22/sp052220-opening-remark-zhang> (accessed 16 June 2020).

10 Dutch Sustainable Growth Coalition, 2020. 'Dutch businesses endorse sustainability in COVID-19 recovery', June, <https://www.dsgc.nl/publications/Green%20Recovery%20Business%20statement%20ENG.pdf> (accessed 7 July 2020)

11 Meester, J. and Ooijens, M., 2020. 'COVID-19 Impact on the value chain – Conceptual paper', 22 June, <https://www.clingendael.org/publication/covid-19-impact-value-chain> (accessed 10 June 2020).

12 Dekker, B., 2020. 'COVID-19 Impact on the Value Chain: Asia', 27 May, <https://www.clingendael.org/publication/impact-covid-19-measures-indonesian-value-chains> (accessed 10 June 2020).

13 Meester, J. and Ooijens, M., 2020. 'COVID-19 Impact on the value chain – Conceptual paper', 22 June, <https://www.clingendael.org/publication/covid-19-impact-value-chain> (accessed 10 June 2020).

of Foreign Affairs does, to some extent, recognise the issue and has called for urgent action to support responsible and sustainable trade in the garment industry, for example.¹⁴

The challenge of economic recovery, mitigating delayed effects through the value chain and investing in a 'green' recovery, is further compounded as the economic slowdown is likely to reduce the Netherlands' development budget.¹⁵ Additionally, if countries want to prevent similar value-chain disruptions in the future, it is of paramount importance to strengthen the resilience of global value chains and communities alike.

Foreign policy risk

The COVID-19 crisis and its impact on global value chains cannot be seen as issues separate from the foreign policy interests of the Netherlands. The loss of livelihoods, rising poverty levels and spikes in gender violence and child labour undermine longstanding programming efforts of Dutch development policy and threaten to reverse the development gains of the past decade. COVID-19's impact on a range of value chains are a severe risk to achieving the Sustainable Development Goals (SDGs). For example, disruptions in the food value chains and rising food prices in West Africa – a region already suffering from food insecurity – directly threatens SDG 2 (Zero Hunger).¹⁶ Negative growth rates,

loss of employment, poor working conditions and high risks of infections for informal workers living in squalid conditions and with little to no access to healthcare in West Africa, Latin America and Asia risk setbacks on SDG 8 (Decent work and economic growth).¹⁷ Moreover, the aggravated vulnerability of women and children, through negative coping mechanisms such as child labour and sex work, in addition to lockdowns resulting in increased levels of gender-based violence and more domestic work for women, threatens the achievement of SDG 5 (Gender equality).¹⁸ For example, Ghana and Ivory Coast have seen spikes in child labour in their cocoa sectors – and the Netherlands is the world's largest importer of cocoa from those two countries.¹⁹ Informal workers in the agricultural sector are especially vulnerable, as agricultural work is by nature highly dependent on migrant workers; border closures in West Africa hinders such seasonal migration. A declining gross national product in donor countries will put pressure on aid budgets at a time when the negative effects of the crisis in medium- and low-income countries desperately need to be reduced.

The crisis may also fuel insecurity in a number of already fragile regions in the 'arc of instability', which host several value chains important to the Dutch economy, such as the cocoa value chain. In conflict-

14 Fairwear, 2020. 'Dutch government backs Fair Wear-led partnership for ethical garment industry', 2 June, <https://www.fairwear.org/stories/dutch-government-backs-fair-wear-led-partnership-for-ethical-garment-industry> (accessed 6 July 2020).

15 AIV, 2020. 'Nederland en de wereldwijde aanpak van COVID-19', 11 May, <https://www.adviesraadinternationalevraagstukken.nl/documenten/publicaties/2020/05/11/nederland-en-de-wereldwijde-aanpak-van-covid-19> (accessed 6 July 2020).

16 Bisson, L. and Hambleton, T. 2020. 'COVID-19 Impact on the Value Chain: West Africa / Sahel', 27 May, <https://www.clingendael.org/publication/covid-19-west-africa-impact-value-chains> (accessed 10 June 2020).

17 Dekker, B., 2020. 'COVID-19 Impact on the Value Chain: Asia', 27 May, <https://www.clingendael.org/publication/impact-covid-19-measures-indonesian-value-chains> (accessed 10 June 2020);

Van Teijlingen, K., 2020. 'COVID-19 Impact on the Value Chain: Latin America', 27 May, <https://www.clingendael.org/publication/covid-19-impact-value-chain-latin-america> (accessed 10 June 2020).

18 World Bank, 2020. 'Gender dimensions of the COVID-10 pandemic', <http://documents.worldbank.org/curated/en/618731587147227244/pdf/Gender-Dimensions-of-the-COVID-19-Pandemic.pdf> (accessed 11 June).

19 International Cocoa Initiative, 'The effects of income changes on child labour – A review of evidence from smallholder agriculture', April 2020, <https://cocoainitiative.org/knowledge-centre-post/the-effects-of-income-changes-on-child-labour-a-review-of-evidence-from-smallholder-agriculture/> (accessed 11 June 2020).

afflicted regions, such as the Sahel, the loss of livelihoods and rising inequality could increase the number of dissatisfied people and fuel existing fault lines in society. Jihadist groups have become experts at exploiting grievances around resource governance and complaints of state neglect – especially with international crisis management systems and peacekeeping missions already weakened, stretched or reduced.²⁰

States with authoritarian proclivities in West Africa and Latin America have capitalised on the pandemic. Under the cover of the health response, they have settled political contest, repressed opposition groups and manipulated elections.²¹ It puts these societies on dangerous trajectories. Unless addressed, such dynamics could weaken security, rule of law and legitimate stability in the European Neighbourhood, potentially leaving space for other actors to come in. Finally, the breakdown of formal economies and loss of employment opportunities could fuel international organised crime networks and lead to increased trafficking risks to which migrants are exposed.²²

Conclusion

While COVID-19 may not have structurally changed the global economy, it has highlighted and aggravated existing patterns of inequality and marginalisation. The vulnerability experienced by, in particular, informal and migrant workers who indirectly serve international consumers illustrates the fact that ethical sourcing concerns cannot be seen separately from who in the chain bears the brunt of the costs for COVID-19. While economic recovery is key in the short term, COVID-19 also underlines the importance of addressing structural patterns of inequality as well as investing in resilience against potential future epidemics.

20 Modern Diplomacy, 2020. 'Terrorist groups exploiting COVID-19 in Sahel', 6 June, <https://moderndiplomacy.eu/2020/06/06/terrorist-groups-exploiting-covid-19-in-sahel/> (accessed 11 June 2020)






21 De Bruijne, K. and Bisson, L., 2020. 'States, not Jihadis, exploiting corona crisis in West Africa', 27 May, Clingendael Institute, <https://spectator.clingendael.org/en/publication/states-not-jihadis-exploiting-corona-crisis-west-africa> (accessed 11 June 2020).

22 Wagner, L. and Hoang, T. '[How coronavirus impacts human trafficking](#)', May 2020, Global Initiative Against Transnational Organized Crime.

About the Clingendael Institute

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