

## **Impact of COVID-19 on global trade and Indian scenario**

**Vasundhara Mahajan<sup>1</sup>, Rishabh Arora<sup>2</sup>**

<sup>1,2</sup> B.COM LLB (H) 5<sup>TH</sup> Year, Amity Law School, Amity University, Noida, Uttar Pradesh, India

### **Abstract**

It is not the strongest of the species that survives, nor the most intelligent, but the ones most responsive to change – Charles Darwin.

COVID 19 has magnanimous crisis globally. The virus is being spread widely hampering the economy of various countries. There are predictions that global trade will be declined to third due to the recession cause by the COVID 19. With the advent of spreading virus, trade is essential to sustain livelihood and lives and international co-operation is necessary to maintain the inflow and outflow of the trade. The widespread of virus lead to closure of various financial markets, events and businesses, corporate offices and encouraged social distancing.

Due to the increase in the number of isolation days, international travel restrictions and monetary policy decisions have grievously affected the level of business activities and the opening, closing, far and wide stock price of major stock market indicator. The restrictions imposed in the intramural movement and spending on higher fiscal policy in economic activities had a positive impact, though there was huge climb in the increase for number of coronavirus counts but did not had much effect in the magnitude of business activities.

The paper seeks to highlight the impact of COVID 19 on world trade leading to underutilization of labour and capital, drop in travel services, an increase in international trade costs. The challenges, trade is essential to sustain a livelihood through the transparency in trade and global markets, continuing global supply chains, avoidance of making things worse, underpinning national policies, Government not to impose new tariffs or trade restrictive measures. The paper sheds light towards the scenario before, during and future predictions of market the post pandemic. The problems and challenges faced during the pandemic.

**Keywords:** global trade, impact of Covid-19, trade scenario India, stock market

### **Introduction**

As we are surrounded by a pandemic walking among us, human life is changing at a good pace. Life will not be same once this pandemic known as “Covid-19” is over. The impact of such pandemic on international trade market will lead to its downfall with time and it will be hard for it to pick up pace. The impact of a virus has disrupted life’s around the world leading to lockdown of countries with no other option. There is no cure for such a virus yet, the trade market is shut down or working at a lesser capacity following safety measures and social distancing, International trade have come to a halt. Such pandemic was long predicted to happen but still the world was not prepared for it. Now all global trade has come to a halt and work is shifted to online. People are working from their homes, all international import-export is nil. Only dealing in essential goods is allowed.

This brings a huge impact in way we dealt with global trade as it restrains businesses from dealing in goods. Even manufacturing process is working at less than half its capacity and major manufacturing allowed is for essential goods only. This changes the course of global trade in near future as there will be a need to implement new ways to bring change for global trade with most work being done through the online process with minimal personal interaction or human touch.

As per World Trade Organization, the global trade will fall below the global financial crisis in 2008-09 With estimated recovery to be expected in 2021 which is uncertain. the

outcomes depend mostly on the time world needs to recover from the ongoing pandemic and effective changes in the policies for trade

Trade is an essential part to sustain livelihood without trade practices an economy cannot stand itself. Transparency in trade and global markets is major part to keep trade flowing by international cooperation of nations which underpins the national policies to create universal policies which decrease the chance of confusion and dispute among nations.

As continuance of global trade have become a problem due to the current pandemic which affect the airlines and the increase in demand for essential items lead to rise in the prices of air cargo while there are many restrictions imposed on the shipping containers and international trade. The availability of labor is also affected as most laborer’s were migrant workers which have left for their hometown away from ports and major cities with lack of work in the early period of the lockdown.

There is an urgent need to update the health and safety measures for individuals’ part of the supply chain for the global trade, as Covid-19 is highly contagious, there is need for strict measures to be followed, where staff needs to be trained and use all safety precautions while working.

While there is a need to revive the global trade market for economy to survive and people to get employed and work, we shall at all cost avoid making things worse by removing all the restrictions. The global trade shall be revived slowly by taking all the precautionary measures strictly and training all the individual’s part of the global trade market for

following safety measures. While avoiding restrictions on import-export of essential goods such as medical equipment and food products to reduce the burden by not imposing any tariffs or trade restrictive measures on such essential items.

**Scenario of global trade before COVID-19 Pandemic**

India has investments in diversified sectors as a source of income for an export hub. Where India has slowly decreased its reliance on other countries while promoting make in India. The dependence on other countries for raw materials or manufacturing materials cripples the country and increase its dependence towards the other countries. India has worked towards decreasing that reliance.

India reported total retail exports decreased by 1.7% in January 2020 – the sixth consecutive month of export fall. In terms of volume, in January 2020 retail exports valued at USD 25.9 billion. Exports of oil products declined for eight consecutive months and surged by 2.9% in January 2020. Non-POL revenues, on the other hand, reported negative 2.3% growth in January 2020 compared to negative 1.4% growth in the previous month as reported by FICCI.

The share of India’s Networked products in national exports is lowest as projected by FICCI in its report, refer to Figure 1 below.

The outlook for 2020 was given at 2.7% by the World Trade Organization last year in the month of October which have substantially changed in the month of February 2020 due to the Coronavirus which hit the world as a pandemic.

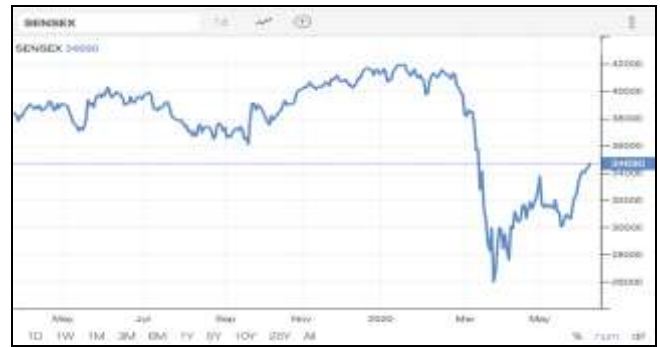


Fig 2: Sensex graph for export trade.

A reasonably close analysis divulges that although India exported to over two hundred plus (200+) locations in 2019, a handful of them focused in trade. Indeed, India's top 10 export markets make up almost 50% of all country-born exports. An unruly breakdown of India's US\$ 324 billion international trade in 2019 reveals an engrossment of non-essential and luxury goods, representation given in figure 3 below. An compelling point to recall is that India's non-essential exports of goods still encompass an outspread range of HSN codes sixty-one (61) compared with essential goods twenty-three (23) and luxury goods fourteen (14).

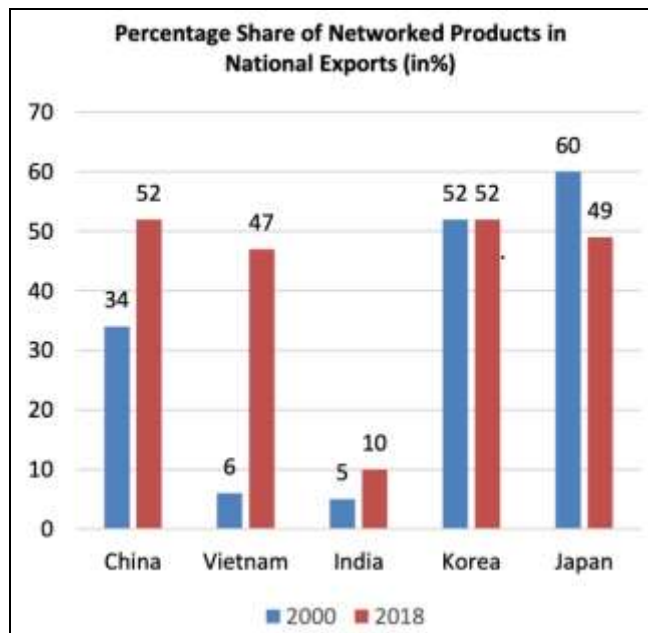


Fig 1: Share of NP as reported by FICCI.

The Indian global trade was going through a steady growth before the pandemic till mid-January according to the Sensex data which can be seen in figure 2 below. Where total merchandise exports declined 1.7% which was fall in export for the sixth continuous month and total merchandise imports declined by 0.8% in January 2020 compared to January 2019.

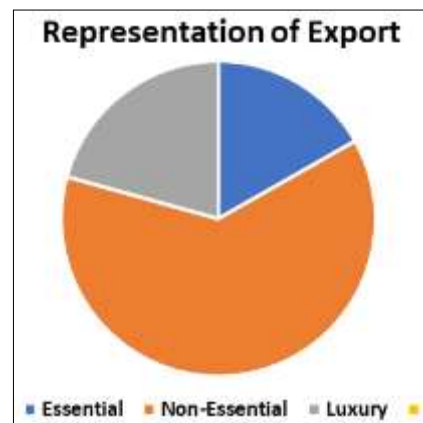


Fig 3: India's export in 2019 (US \$324 Billion).

**Scenario of global trade during COVID-19 Pandemic**

According to the UN report, the country is figured to be the topmost affected 15 economies due to slowdown of the manufacturing units in China. The aftermath effect of the coronavirus epidemic on trade for India is estimated to be around \$348 million.

The evaluation done by United Nations Conference on Trade and Development (UNCTAD), the downturn of the production units in China because of COVID has worse effect on international trade and roughly about \$50 billion downfall of global value chains in exports.

In India, the trade effected will be influenced more in the automobile sector \$34 million, textiles and apparel of \$64 million, leather products \$13 million, wood products and furniture \$15 million, electrical machinery \$12 million, chemicals sector at 129 million dollars, metals and metal products at \$27 million [1].

According to the World Trade Organisation, In Figure 4, India is accountable for less than 2% of global commodities exports in 2019, which is relatively insignificant in inter-country trading. However, eminently a tenth of India's economic output comes from exports of goods which includes 7% from services. Exacerbating Indian traders, China has already restored its factories where the problem

originated in December 2019. China is the worldwide large-scale exporter accountable for over 16% global merchandise exports. UNCTAD reported that, 2% decline in China's output has contagion effect throughout the global economy, thus evolving into drop off Dollar 50 billion across countries.

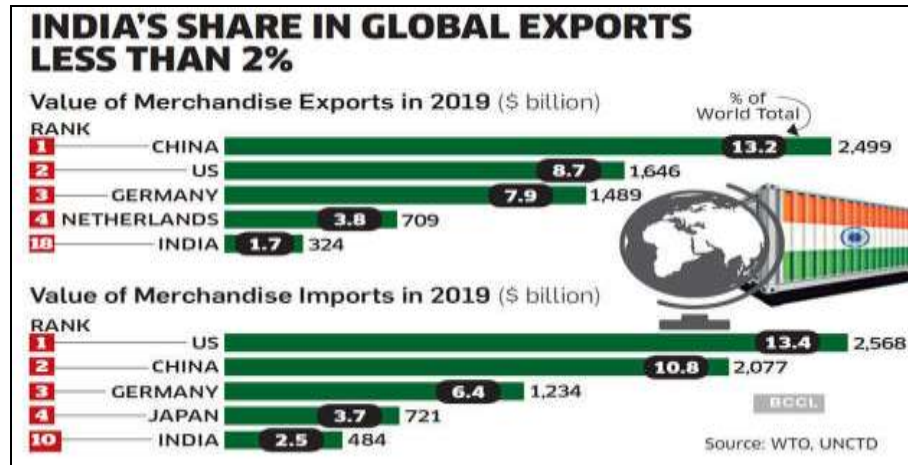


Fig 4: Value of Merchandise Exports and Merchandise Imports.

However, there are unparalleled outflows of both direct and portfolio investment from several developing economies. The latest UNCTAD projections predicted that the price trend on Foreign Direct Investment flows could range from 30% to 40% in 2020-2021. In India, data from NSDL reveal a huge withdrawal of ₹ one lakh crore by foreign investors in March 2020.

Countries which relied on entertainment, hospitality and tourism sectors were hit hard and fall short on recovery due to interference in these sectors, Whereas India has a diversified export hub compared to some of the other countries which will help in better recovery than those reliant countries.

The crisis resulting from the coronavirus pandemic marked the importance of self-reliance in critical areas, which were already underlying of globalization and hyperbolized on competitive cost. Globalization has pushed multinational companies to outpost their production to avail the benefit from lower prices and/or higher productiveness in other nations. Although this is advantageous from a growth point of view, it renders the home economy weak and reliant on other countries for resources that could see increased demand in times of crisis. For example, the US's strong dependence on China and India for medicinal goods affected US drug supply at this time and did result in scarcity of same because of the coronavirus outbreak which lead in shutting down of Chinese drug outlets.

Micro, small and medium enterprises (MSME) exporters are affected more during lockdown due to COVID-19 pandemic as the sector accounts about 25 percent to the country's Gross Domestic Product from the service activities and from the manufacturing output of India 33 percent. According to trade experts, this sector contributes over 45 percent in the country's total outbound shipments. The immense impact on

MSME exporters has been determined by the World Trade Organisation, that the world trade is expected to downswing between 13 percent and 32 percent in 2020 across the globe [2].

If India's lockdown lasts for a longer time, some multinational companies may shift to other countries like South Korea, Vietnam, where normal industrial production could be resumed.

#### Lost in Transit

The repercussion of coronavirus pandemic is that the nations are adopting protective measures. Countries in particular dealing with exports of manufacturing goods with well orthodox export markets, are more likely attacked through such an environment. Country like India, which is dependent on intermediary and agrarian exports, always jumps upon to tap newer opportunities in the market, are likely going to face this competition.

As India is already in lockdown and which has a large chunk of personnel, specially engaged MSMEs are in the middle of nowhere, this is another major issue. Even if the demand comes back in the export markets from medium to long run then also exporters will not be in the position to serve them. And with competitors in the market who are willing to grab this opportunity, India is at the stage where some export markets may disappear permanently.

#### Comforting Prospect

While the world is surrounded by the pandemic, it might fling some greater opportunities for India. There are several manufacturing units which are deciding to shift its base from China. Indian chemical producers went through previous reports, there was a time when these manufacturing units did not even looked up working with India as a source.

To hold such opportunities, certain alterations are required in the policy front. For the survival, retaining stability and resuming growth from medium to long term for India's export sector, the administrative authorities need to scrunch up and master plan economic assistance by making certain policies.

**Stock Market**

The stock market started to plunge down rapidly. In figure 4 provided below from Sensex data it can be seen that stock market started to fall mid-February and rapid fall after the lockdown announcement.

In the first four months of 2020 the global trade fell 3% in value point as compared with the previous year with estimated quarter-on-quarter drop of 26.9% as reported on money control in India. Commodity prices have been decreasing expeditiously. The UNCTAD Free Market Commodity Price Index lost 1.2% over the past in January, 8.5% in February and 20.4% in March. Fuels was the main driver of this progression, with prices falling by 33.2% in March, while food and agricultural raw materials, ores and metals, minerals, prices fall by lower than 4%. The dropping of beyond 20% in one month is unprecedented in the history of the Free market commodity price index. In 2008, between July to December, the mean total-on-month drop was 18.6% following the onset of the global financial crisis. The downfall in length and overall intensity in price of commodities and world trade are still unknown [3].

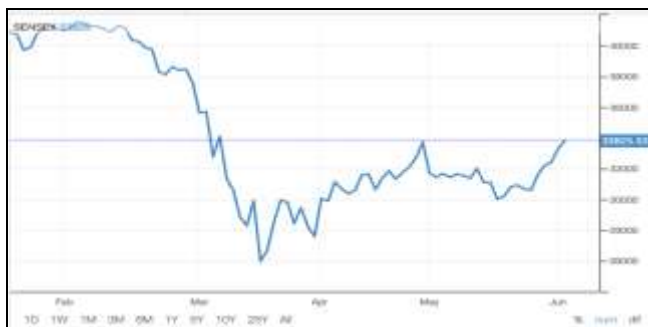


Fig 5: Sensex graph for export trade.

**Scenario of global trade after COVID pandemic**

The COVID-19 pandemic is a declension point in history to bring about a change in post- WTO global trade policies. The same scenario was scene in the year 1995 when a rule base global trading system was established by WTO. Economists are collating this lockdown with the Great Depression 1930's and Financial crisis 2008-09. The influence and effect of COVID-19 on trade and economy is clearly visible. The supply chain disruptions is already hampering the production networks, whether it is national or international level.

Global Organisation are working hard to ease down the impact of the pandemic on world's economy. The instructions and advice has been given by the World Bank for the Dos and don'ts of trade policy in retaliation to COVID-19. It has encouraged governments across the globe to relieve down the restrictions imposed on trade in the field of medical supplies, detach the need for applications and licenses. It further provides support to exporters for the continuation of foreign exchange earnings, reduction in unemployment and in contribution to macroeconomic policy efforts to provide shield to economy after the pandemic.

**Pandemic's effect on Globalisation**

Economic globalisation composes of various components such as data flows, capital flows, data flows and more. There are certain components that are to be decomposed for analysing the effect on economic globalization due to COVID-19 on long term basis.

Regional Value Chain (RVC), Global Value Chain (GVC) and Local value chain (LVC) participation. The higher the contribution in intra-regional, regional value chains, higher the degree of regional economic combination. Similarly, when the degree of participation in inter-regional global value chains is more, the degree of economic consolidation into the global economy is more [4].

The effect on economic globalization and participation in inter-regional and intra-regional value chains can be understood by the three scenarios given below:

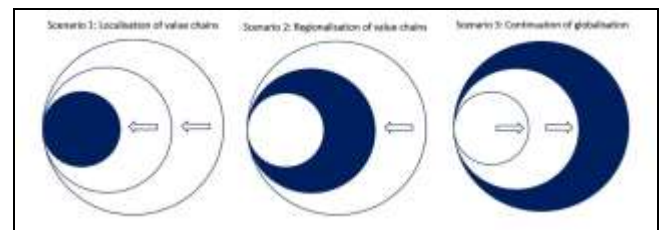


Fig 6: Effect of Pandemic on Globalization.

**Scenario 1: Localisation of value chains**

Replacement from globalisation to localisation. Due to pandemic, the central governments adopted isolationism policies and compelled companies to reposition manufacturing facilities to avoid dependency on international suppliers, as this will lead to fall in the global value chains. The inter-regional and intra-regional value chains will decrease in the participating companies.

**Scenario 2: Regionalisation of value chains**

Regionalisation alternatively of globalisation. The inter-regional value chains will have more influence of pandemic than intra-regional value chains which will have less impact of pandemic. The coronavirus outburst will lead to regionalisation and not to the end of economic globalisation.

**Scenario 3: Continuation of globalisation**

When the economic slowdown be terminated and financial markets have revived from the coronavirus outbreak, economic globalisation will be recovered. Economic globalization will come back at the position before the pandemic once the participation in inter and intra global value chains is recovered.

**Trade in 2020 and 2021**

In 2019, trade had already started declining before the coronavirus affected, overburdened by trade tensions and slackening economic growth. World merchandise trade recorded a little decrease for year of less than a percent which is -0.1% in volume terms which later in the previous year arose by 2.9%. However, in 2019, the dollar value of merchandise exports was knock down by 3% to US dollar 18.89 trillion. In 2019, the world commercial services expanded in exports from 2% to Us dollar 6.03 trillion in dollar terms. The speed of expansion in 2018 was slower, when the service trade was expanded by 9% [5].

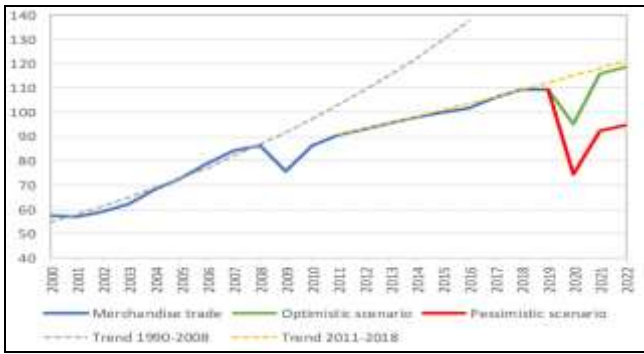


Fig 7: Trade scenario in 2020 and 2021. Source: WTO Secretariat.

The global trade is turned down more in comparison to 2019 and which is expected to contemplate more in this year. In the report of WTO, the international trade will drop down by 12.9% or 31.9% in the end of this year. The widespread of coronavirus smacks to economic activity has lead the way for many institutions to gash their foresee for the global economy.

According to reports of International Monetary Fund, reduction of 3% expected by this year in the global economy. Countries like China and India anticipates to grow in 2020, as reported by IMF [6].

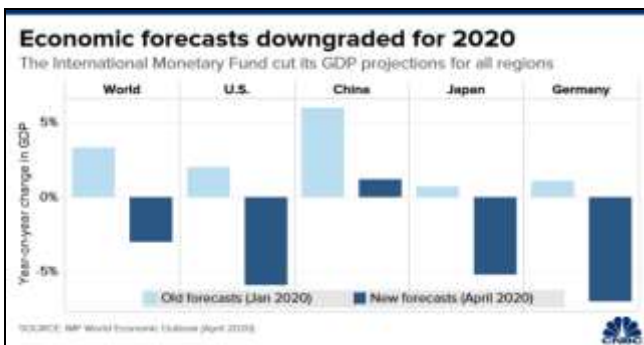


Fig 8: IMF World Economic Outlook (April 2020).

Due to the pandemic it is estimated that around nine trillion dollars is the accumulative loss to global GDP in the year 2020 and 2021, which is greater than the economies of Japan and Germany.

**COVID-19 pandemic not the end of an era, but a modification**

The economies will now have less dependency on China. Frangible supply chains are not arraignment of globalisation, but companies are reliable on single source of supply. It is easy to say for companies that it is trouble free, on their own and at the bidding of their governments, to change their supply chain and shift to domestic or regional production. Proceeding in automation and labour-saving manufacturing mechanization would make it less complicated; pursued trade war with China would strength it along.

Economic integration should come about, but it will keep on shifting from global to regional level and bilateral level. Global multilateral trade talks have vanished since the Uruguay Round in 1993. South Korea and Japan have separate trade agreements with European Union, African countries are concluding with continent wide trade zone and Trans Pacific Partnership militates after Washington pull back. China’s Belt and Road Initiative is making regional

and bilateral connections and not global ones. The political discourse in United States and many other countries are more emphasised on globalization’s losers and to provide shield to workers from the economic loss. The major concern is that the most favoured remedy is ‘protectionism’ which is making situations worse. The baffling mystery remains that how workers can be protected without eroding globalizations economic benefits, as well as sustaining a higher standard of living.

The coronavirus pandemic spots the deadline of post-cold war era. The fascination of dealing with greater international integration is dispersed. It is absurdity to replace globalization by protectionism and isolationism. The nature of globalization’s next stage- in the coming years, questions will be raised in political debates for the selective pattern of the cross-boundary engagement and interconnection after pandemic.

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