

Understanding Covid-19 Response Dynamics: Impact on Globalisation and International Trade

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This Policy Brief was prepared after a Virtual Discussion on Understanding Covid-19 Response Dynamics: Impact on Globalisation and International Trade, 2020. The link to the discussion is available at: https://www.youtube.com/watch?v=SMBJ_z7qjr4&t=7s

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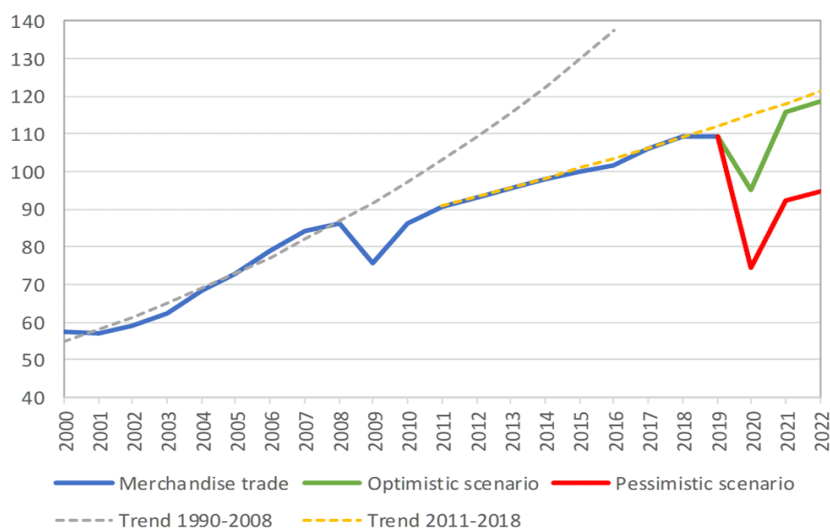
Executive Summary

The novel coronavirus pandemic is a humanitarian crisis, massively affecting almost every country around the world. Nations around the world have adopted international travel bans, enforced strict lockdowns and announced special economic packages for global recovery. Moreover, an emerging trend of de-globalisation has also emerged in the wake of Covid-19 which poses a serious threat to globalization and International trade, ironical to the spread of Coronavirus. The global markets witnessed an economic shock leading to the fastest economic slowdown affecting global trade, foreign direct investment, global tourism and much more. While the present scenario is pessimistic to say the least, it is not wise to write an obituary for globalization. While many countries are now looking inward, a collective, immediate and interconnected response by countries should help us contain this threat and chart a roadmap for global economic recovery.

Problem Statement

Over the past few years, the world has been witnessing a protectionism sentiment which has been amplified due to the spread of COVID-19 pandemic. The pandemic has prompted a new wave of deceleration in investment amid rising trade tensions that can cause the largest and fastest decline in international flows in the modern history. According to the economists at the World Trade Organization (WTO), the global trade is expected to fall by between 13% and 32% in 2020 as the COVID-19 pandemic disrupts the cross-border economic activities and the life around the world. The novel coronavirus has presented a challenge to the following sectors, affecting globalization massively:

- International trade volume

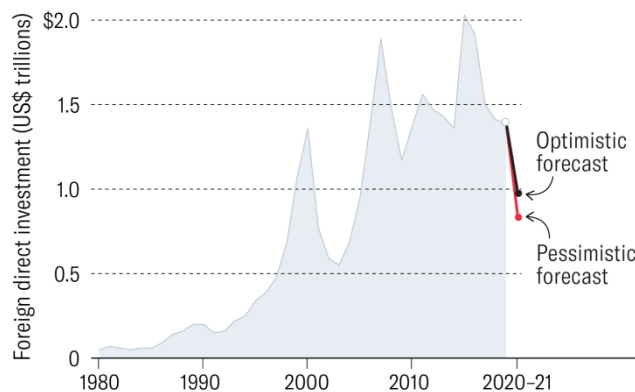


Data Source: WTO Press Release 2020

Trade was already slowing down before the virus attack due to trade tensions and economic slowdown. The merchandise trade fall (forecasted to be between 13%-32%) due to COVID-19 would be a tremendously painful drop especially in the context of today's larger and more complex world economy.

Moreover, the increasing role of China in the last two decades in global trade has been adversely affected due to the pandemic. China's rising importance in the global economy is because of its status as a manufacturer and exporter of consumer products. The economies of emerging and developing countries which rely heavily on Chinese markets will be distressed as the global economy contracts further due to global trade halted being halted by the pandemic.

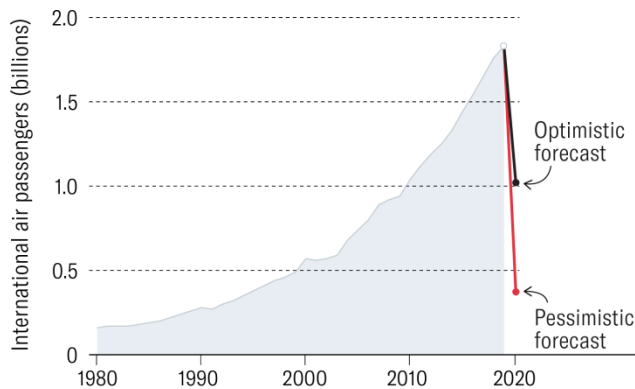
- Foreign Direct Investment (FDI)



Data Source: Steven A Altman (Harvard Business Review)

FDI flows are expected to fall by 30%-40% even under the most optimistic scenario of the successful public health and economic policy measures by governments across the world, that can result in recession. The impact will be severe for the developing countries, including the primary and manufacturing sectors as they account for a larger share of their FDI than developed economies. FDI could remain low if public health measures and economic support policies are not effective.

- International Travel



Data Source: Steven A Altman (Harvard Business Review)

The pandemic has brought a devastating collapse to the global tourism industry which accounts for 10% of the global GDP. By late April 2020, almost every country had imposed restrictions on international travel and almost 50% of the countries had closed their borders to foreign visitors. Due to the collapse of tourism, many economies are badly affected especially the small and medium enterprises in developing countries (African nations) who are heavily dependent on international tourism.

Policy Alternatives

By mid-April, almost every country around the world-imposed lockdown, sealed the state borders, announced curfews and advised social distancing in order to minimize human interactions domestically and internationally.

United States of America and India's joint strategy in combating the virus:

- US and India collaborated in the areas of diagnostics and therapeutics to combat COVID-19. Under the bilateral collaboration, the National Institute of Allergy and Infectious Disease in the US shared important reagents with the Translational Health Science and Technology Institute in Gurgaon to develop medications for COVID.

- US Centers for Disease Control and Prevention (CDC) has helped India in implementing a surveillance system in 35 hospitals and 22 states for healthcare associated infections. In Mumbai, CDC helped the municipality and local partners to launch an Airborne Infection control unit to reduce healthcare associated transmission.
- A large number of American companies like Google, IBM and Uber are providing free digital education platforms, donating face masks, boosting up ventilator production and converting shipping containers into ICU.
- India has exported 50 million tablets of hydroxychloroquine to help US fight COVID-19.

Being influenced by the India-US collaborative strategy to combat the pandemic, many international organizations took initiatives to collaborate on a global space to tackle coronavirus.

- G20, the world's top 20 economies, including India, met to enhance cooperation and coordination to contain COVID-19 pandemic, protect people, mitigate the economic impact and to maintain economic stability. They decided to work closely with the World Health Organization (WHO) to monitor the outbreak, share information and to encourage preventive measures.
- The South Asian Association for Regional Cooperation (SAARC) countries also united and responded proactively to the challenge. India pledged \$10million towards COVID-19 emergency fund. Nepal, Afghanistan, Maldives, Bhutan, Sri Lanka and Pakistan also contributed for the same.

The Covid- 19 pandemic has drastically changed the landscape of geopolitics, something that will find direct reflection in the immediate trade policy of many nations across the world. Most countries are witnessing the spread of economic nationalism, thriving on disdain towards China

- the biggest global trading partner of the day. China's concentration of skilled manufacturing and information technology prowess has enabled it to gain a firm grip over the reins of global value chains. There are hardly any countries that do not have Chinese inputs in their manufactured output for exports or domestic sale.

A global narrative shaming China for lack of data sharing leading to the rapid spread of the virus is strongly peddled by the Americas, and expounded by the latest Chinese friction with India, Taiwan and Hong Kong. This concerted global narrative, if shared and furthered by all, could see a phased movement of manufacturing contracts out from China to other Asian countries like Taiwan and India, renowned for our comparative advantage of cheap labour.

The pandemic has starkly exposed the veil of globalization, as countries fought for medical supplies at the cost of one another by putting up upfront bans of medical exports. India, for the most part, has maintained its generous nature in sending knowledgeable medical teams to help small countries fight the virus and export of medicines for the same. Given our wide manufacturing base, this is a perfect opportunity to gain International favour by producing protective equipment by the millions and exporting the same.

The Indian stock markets have lived up to their erratic image in the months since lockdown, climbing up instead of skidding down, implying a simmering cauldron of capital waiting to find disposal in the country. This majorly boosts the economic package announced by the Indian government which if well implemented, could yield multiplied income generation soon enough and quench the purchasing power of the lowest quartiles. The idealism of the market has to be replaced with realism in the face of unprecedented uncertainty. The 'Atmanirbhar Bharat' package is geared more to building medium term growth potential and attracting FDI, as a result may fall short of mitigating the immediate business crises – but the tradeoff can be well expected to pay off in the long run.

The coronavirus pandemic has also given rise to a general trend of De-globalisation. The roots can be traced back to Brexit, US-China trade war, US withdrawing from the North American Free Trade Agreement (NAFTA) and by Trump's idea of 'Making America great again'. Since the outbreak of COVID-19, governments around the world are focusing more on local manufacturing of goods than importing goods. India's initiative of Atmanirbhar Bharat and Japan's efforts to shift its manufacturing back to Japan than China are visible signs of countries taking measures towards self-reliance.

Policy Recommendations

The contraction of world trade after the onset of Covid-19 pandemic is expected to be at par or well exceed the situation after the Great Depression of 1929 – making it an unrehearsed phenomenon. When the whole world is sunk by the virus, exporting your way out of the consequent economic crises ceases to be an option. Quick cash handouts may be easy to maintain political simmers but are not a sustainable option. The only option for countries, advanced or least developed, is to build capacity. Import substitution seems to be the new mantra with economists and policy makers exploiting all possible backward and forward linkages that were not accorded enough attention till now. Manufacturing being the building blocks of the economy will undoubtedly need the hardest push to revive national economies, and in that process policy makers will be forced to confront the bottlenecks of the sector that were glossed over earlier. Service exports may also likely take a hit, especially if the service is not a unique comparative advantage – these interests need to be fruitfully redirected in flagship government schemes like 'Make in India' and 'Skill India'. The inflow of FDI and FII depends on our ability as a nation in building back the economy on remodeled lines, the vacuum created by the flows being partially fulfilled by parking of savings in safe avenues like government bonds.

The call for Atmanirbharta is a much needed one, and synonymous with the general protectionist instincts overtaking governments worldwide. Estimates of expected recovery in 2021 are highly uncertain as the outcomes depend heavily on the duration of the outbreak and the effectiveness of policy responses.

Collaborative efforts should be made by the countries to tackle the pandemic with necessary precautions. Initiatives taken immediately will lay the foundation for a strong, sustained and socially inclusive recovery. Following are the ways we could effectively address this issue:

1. Trade plays an important part and thus it is important to keep the supply chains going especially through the essential goods for crisis like medical supplies, grocery and food products etc. Keeping the markets open and strengthening rather than weakening Global Value Chains will benefit economies.
2. Amidst the pandemic, unnecessary trade restrictions should be avoided especially on essential commodities like medical equipment and food. The global supply of medicines should increase in order to combat COVID-19.
3. Governments should collaborate with global growth partners for infrastructural benefits.
4. The ongoing shift towards digitalization should be encouraged. Cross border e-commerce and Digital trade expands export opportunities especially for smaller companies.
5. Self-reliance is good but most importantly if the countries work together, recovery could be much faster than going solo all the way. It is thus important to build a strong international cooperation network for a global economic response.

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