

INTERNATIONAL JOURNAL OF LAW MANAGEMENT & HUMANITIES

[ISSN 2581-5369]

Volume 3 | Issue 3

2020

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COVID-19 and Its Impact on International Trade

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“It is unavoidable that the novel coronavirus epidemic will have a considerable impact on the economy and society”

– China’s President Xi Jinping, televised address, February 23, 2020

ABSTRACT

In this paper, an attempt has been made to understand and analyse the damage done by the Covid- 19 pandemic on the international trade and the consequences which continues to follow. Wuhan Municipal Health Commission, China, reported a new virus on 31st December 2019 which was causing cluster of pneumonia cases detected among the people living within the premises of the city of Wuhan, Hubei Province of China which was subsequently identified as a novel coronavirus later termed as SARS-CoV2 or in a more general term COVID-19 pandemic. This paper discusses about how the virus has outreached almost all nations creating a havoc and a mass death toll raging among the human population living thousands of miles apart separated from borders created by both the sea and the land and later discuss as to how it now poses a major global crisis to all the economies of the world irrespective of their size and the thriving economic power they possess. The ghost of this event looms large. This paper provides a thorough and an impact analysis of the way COVID-19 threatens the life of millions around the globe and how it will endanger their livelihood in the near future if this health crisis reaches a state where it will have an enormous impact on the world economy, trade, consequently on jobs of people and their well-being. It concludes with a conclusion and preventive measures which can be taken by the countries across the globe to fight the incoming global economic crisis.

I. IMPACT ON THE GLOBAL ECONOMY

“The spread of the new coronavirus is a public health crisis that could pose a serious risk to the macro economy through the halt in production activities, interruptions of people’s movement and cut-off of supply chains”- Japanese Finance Minister Taro Aso. G20 gathering

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in Riyadh, Saudi Arabia, February 24, 2020.³

The pandemic has stopped the global economy creating enormous shocks to supply and demand and the outcome projects that the trade will fall steeply in every region of the world and across all sectors of the economy. World exports are heavily concentrated. Russia, the European Union, the United States, Canada & Ukraine together are likely to account for 75% of all wheat exports in 2019-2020. Similarly, the rice market is equally concentrated and nearly a quarter is exported from India alone⁴. It therefore matters a great deal what measures governments of these countries take to address the pandemic. It is imperative that these measures do not adversely affect trade in agriculture and agri-food products which would ultimately have negative impacts on the food security, nutrition and health of members & their populations⁵. So, it is necessary to ensure, production and trade in essential items such as medical supplies and food continue to flow freely to their intended destinations.⁶

Importance of Trade - No country is self-sufficient and no matter how powerful or advanced it may be. Trade is what allows for the efficient production and supply of basic goods and services, medical supplies and equipment, food and energy that we all need⁷.

- i) **During COVID-19**- Governments across the globe must lay foundations for strong recovery through proper fiscal, monetary and trade policy, and this is positive. Coordinating efforts and transparency is also a critical part and would increase our collective recession fighting power. Keeping trade channels open to the international market and investments flowing will be critical to keep shelves plentiful and prices affordable and once the medical crisis begins to recede, trade will allow countries to help each other bringing faster and stronger recovery for us all and mitigating the inevitable global economic downturn.

³ UNCTAD, TRADE AND DEVELOPMENT REPORT UPDATE, Global trade impact of the coronavirus (COVID-19) epidemic, (4th arch 2020), (<https://unctad.org/en/PublicationsLibrary/ditcinf2020d1.pdf>).

⁴ Trade for Development news by EIF- COVID-19: Trade restrictions are worst possible response to safeguard food security- Published by the International Food Policy Research Institute (IFPRI), (27th March 2020), (<https://trade4devnews.enhancedif.org/en/op-ed/covid-19-trade-restrictions-are-worst-possible-response-safeguard-food-security>).

⁵ WTO, General Council Committee on Agriculture, RESPONDING TO THE COVID-19 PANDEMIC WITH OPEN AND PREDICTABLE TRADE IN AGRICULTURAL AND FOOD PRODUCTS, (22nd April 2020), (https://trade.ec.europa.eu/doclib/docs/2020/april/tradoc_158718.pdf).

⁶ WTO- Response to the COVID-19 Pandemic: Ensuring the Free Flow of Trade in Essential Goods for Combating the Covid-19 Pandemic- Communication from New Zealand & Singapore, (15th April, 2020), (<https://www.beehive.govt.nz/sites/default/files/2020-04/FINAL%20TEXT%20Declaration%20on%20Trade%20in%20Essential%20Goods.pdf>).

⁷ WTO, COVID-19 and World Trade, Video message by Director-General Roberto Azevêdo, (25th March 2020), (https://www.wto.org/english/news_e/news20_e/dgra_25mar20_e.htm).

ii) **New Trade Measures-** New measures are being taken by governments every day in response to COVID-19. If the different actors engaged in supply chains are not aware of these requirements, they can struggle to adapt to new conditions such as new procedures and regulations affecting exports and imports, newly introduced export restrictions, tariffs, taxes and regulations, and new custom rules and transportation regulations. Without this information, essential equipment like COVID-19 relevant medical goods can be blocked at the border, and critical inputs can be stopped in transit⁸.

iii) **Suspension of Taxes on imported medical Supplies-** World imports of medical products totaled \$1011 billion in 2019 and together with exports, trade in these medical products amounted about \$2 trillion and accounted for 5% of the total of merchandise trade in 2019.⁹ Governments should suspend taxes on all imported medical supplies, including medical equipment such as masks, respirators and protective suits as well as medicines, disinfectants and soaps. Doing so will reduce the number of people showing up at doctor's office or at hospitals with COVID-19 in the first place, taking some of the pressure off stretched on national healthcare systems. Trade policies can play a positive role in tackling the current pandemic-unfortunately, in too many countries it is not yet doing so.¹⁰

iv) **Trade Restrictions-**

1. **China-** With the outspread of COVID-19 pandemic across the globe and shutting down of China's borders and quarantine measures has caused initial shortage of products and parts from affected companies around the world.

i. **Companies facing trouble-**

- Companies like Apple faced production delays from its manufacturing partner Foxconn in China.
- Similarly, some Car Makers including Honda Nissan and Hyundai temporarily closed factories and reduced production because they couldn't get parts.

ii. **Impact on the LDC's-**

⁸WTO, Transparency- Why it matters at times of crisis, (7th April 2020), (https://www.wto.org/english/tratop_e/covid19_e/transparency_report_e.pdf)

⁹WTO, Trade in medical goods in the context of tackling COVID-19, (3rd April 2020), (https://www.wto.org/english/news_e/news20_e/rese_03apr20_e.pdf).

¹⁰Trade for Development news by EIF- On tariffs, soap and tackling COVID-19, (18th March 2020), (<https://trade4devnews.enhancedif.org/en/op-ed/tariffs-soap-and-tackling-covid-19>).

- **Bangladesh-** Global demand for clothing has plummeted, and Bangladesh, the World's second largest producer after China, is feeling the impact. CNN reports that garment orders worth \$ 3 billion are being cancelled or suspended, and that some factories are shifting production to personal protective equipment (PPE) for domestic use and for export. As China being the major development partner of Bangladesh, it would impact heavily on Bangladesh's economy.¹¹
 - **Myanmar-** COVID-19 is affecting Myanmar, even with few cases of the virus reported there. The land border is closed with China as are imports and the New York Times writes of factories shuttered due to reduced global demand for items like garments, shoes and bags. A suspension of Chinese imports is threatening the livelihoods of the roughly one in five people in Myanmar who work in the bag, shoe and garment industries. In addition, factory owners, most of whom are Chinese citizens, are using the chaotic situation to shunt unionized workers aside. Nearly all raw materials for Myanmar textiles industry come from China, and after closing of the border, later even if the pipeline opens up again, manufacturers expect a slowdown in global demand.¹²
2. **Africa-** The New Times- Rwanda's Leading Daily Trading with the African Continental Free Trade Area is set to begin on 1st July 2020, just over 2 months from now. However, COVID-19 could slow the projected boost of 52% down a bit. Africa Development Bank (AfDB) analysis entitled "Impact of the Coronavirus on the African Economy". Before the onset of the pandemic, AfDB had projected the continent-wide GDP growth to reach 3.4% this year. But GDP will now shrink in the negative to between – 0.8 & - 1.1 % in 2020. Exports and imports are projected to drop at least 35% from 2019 levels, incurring loss in the value of trade of around \$ 270 billion.¹³

Trade is a significant conduit for this negative impact through three transmission channels-

¹¹Trade for Development news by EIF- What are the least developed countries doing in response to COVID-19, by Deanna Ramsay, (21st April 2020), (<https://trade4devnews.enhancedif.org/en/news/what-are-least-developed-countries-doing-response-covid-19>).

¹² Id.

¹³ Id.

- i) **Compressed demand**- Africa's most important trading partners, including the EU, China, US and India, are undergoing simultaneous crises and will reduce imports from Africa.
 - ii) **Falling Prices**- Prices have already fallen precipitously for many of the commodity exports on which Africa remains dependent like oil will be putting pressure on foreign exchange, government revenues and domestic demand.
 - iii) **Disrupted supply chains**- 51% of Africa's exports goes to countries highly impacted by Covid-19, while 53% of its imports originate from such highly impacted countries.¹⁴
3. **India**- The pharmaceutical industry, bracing for disruption to global production since February, reported fears of drug shortages as India faced lockdown since 24th March 2020. Importantly India supplies nearly half of the generic drugs for countries such as the US.¹⁵
 4. **Egypt**- Egypt's recent economic success will be hampered by the significant reduction in tourism, payments received from Suez Canal, and remittances from Egyptians working abroad because of the slowdown in the global economy due to the COVID-19 virus.¹⁶
 5. **Other Countries**-
 - i) Car Manufacturers, such as Volkswagen and Ferrari, suspended production in Europe.
 - ii) Tourist destinations like Paris, Madrid, Venice and Rome are deserted.
 - iii) Trade fairs and events are cancelled globally.
 - iv) Simultaneously more and more countries are now imposing export restrictions on the export of medical supplies and equipment.
- **The Global Community's Responsibility**- The Least Developed countries are ill prepared to respond to a deadly influenza pandemic or to any similar global situation

¹⁴ Id.

¹⁵ World Economic Forum- The economic effects of COVID-19 around the world, written by Rosomond Hut, Senior writer, Formative Content, (30th April 2020), (<https://www.weforum.org/agenda/2020/02/coronavirus-economic-effects-global-economy-trade-travel/>).

¹⁶IFPRI Middle East and North Africa, Regional Program Policy Note 04, COVID-19 and the Egyptian economy, Estimating the impacts of expected reductions in tourism, Suez Canal revenues, and remittances, Clemens Breisinger, AblaAbdelatif, Mariam Raouf, and Manfred Wiebelt, (March 2020), (<http://ebrary.ifpri.org/utils/getfile/collection/p15738coll2/id/133663/filename/133874.pdf>).

threatening not only the public health but also the economy. So, the Global community must help LDC's expand PPE and technology for frontline workers, ensure an uninterrupted supply of essential medicines and equitable access to vaccines and medications.¹⁷

- i) A Joint Ministerial Statement by Australia, Brunei Darussalam, Canada, Chile, Lao People's Democratic Republic, the Republic of the union of Myanmar, Nauru, New Zealand, Singapore and Uruguay affirming commitment to ensuring supply chain connectivity amidst the COVID-19 situation which will be in mutual interest.¹⁸

II. WTO- ACTION PLAN

According to WTO **Director General Roberto Azevêdo** "Covid-19 has stopped the Global economy creating enormous shocks to supply and demand. We project that trade will fall steeply in every region of the world and across all sectors of the economy" and it could get worse if the pandemic isn't brought under control and governments fail to coordinate policy responses. Most importantly all of this will depend upon the duration of the pandemic, its economic impact and the effectiveness of the response measures adopted.¹⁹

1. **WTO Annual Trade Report-** Trade in 2020 will fall steeply in every region of the world running across all sectors.

There are 2 plausible scenarios-

- i) **In an optimistic scenario-** Global merchandise trade falling steeply by 13% in comparison to 2019. If no proper response taken 32% or more fall can be predicted in global merchandise. Credit market stresses are affecting the availability of trade finance and a strong rebound is more likely if policy makers show businesses and households reason to believe that the pandemic was a temporary one-time economic shock and such rebound to their pre-pandemic trajectory as early as 2021 if proper policy measures are taken regardless of how the initial steep fall is.

¹⁷Trade for Development news by EIF- Coronavirus is coming for the world's poor. Here are six ways to help. By Duncan Maru, Sabitri Sapkota. (15th April 2020), (<https://trade4devnews.enhancedif.org/en/oped/coronavirus-coming-worlds-poor-here-are-six-ways-help>).

¹⁸ NEW ZEALAND FOREIGN AFFAIRS AND TRADE, Joint Ministerial statement affirming commitment to ensuring supply chain connectivity amidst the COVID-19 situation, (14th April 2020), (<https://www.mfat.govt.nz/en/media-and-resources/ministry-statements-and-speeches/joint-ministerial-statement-affirming-commitment-to-ensuring-supply-chain-connectivity-amidst-the-covid-19-situation/>).

¹⁹Supra note 6.

- ii) **Other Scenario-** There is also a possibility in which trade volumes post recovery will remain well below the pre COVID deadline. It is worth remembering that even the first Covid 19 case was ever registered; we were not making the most of the trades potential to drive growth.²⁰

The forecast issued by the WTO on 8th April 2020 confirms that global merchandise trade was falling at a significant pace in the final quarter of 2019. It may well be the deepest economic recession or downturn of our lifetime. We need to make the most of the potential drivers of sustainable growth to reverse this situation and most importantly the Governments to take steps for a strong and socially inclusive recovery.²¹

2. **WTO Task Force-** WTO has formed a task force under an economist, Bob Koopman to coordinate the efforts and work collaboratively with other International Organization and other WTO members. According to Bob Koopman trade is going to be very important in terms of allowing countries to access supplies where they're available. Trade is what allows for the efficient production and supply of basic goods and services, medical supplies and equipment, food and energy that we all need²². Trade costs if not removed it can slow the recovery in a relatively effective and efficient manner. Countries whose economic structure is essentially dependent upon or heavily concentrated into services particularly retail services, non-tradable services and tradable services like transport and tourism are also important drivers and will be most negatively affected.
3. **Dedicated Web Page²³-** WTO has set up a dedicated web page containing trade related information linked to the pandemic where one can find information including news and projections for trade in goods and services. It provides-
- i) Members notifications of COVID-19 related trade measures.
 - ii) Updates on WTO activities.

III. WORLD HEALTH ORGANIZATION & WORLD ECONOMIC FORUM- (COVID ACTION PLATFORM)

To tackle the influenza pandemic demands global community's collaborative response which

²⁰ Id.

²¹ Id.

²² Id.

²³ WTO, (https://www.wto.org/english/tratop_e/covid19_e/covid19_e.htm)

involves governments, international organizations and the business community. This multi stakeholder cooperation is at the Centre of the World Economic Forum's mission as the international organization for Public-Private Cooperation. In this context, the new COVID Action Platform will focus on three priorities:

- i) Galvanize the global business community for collective action.
- ii) Protect people's livelihoods and facilitate business continuity.
- iii) Mobilize cooperation and business support for the COVID-19 response.²⁴

IV. TRADE POLICY IN RESPONSE TO COVID-19

In times of global crisis trade in both goods and services will play a key role in overcoming the pandemic and limiting its impact in the following ways²⁵:

- By providing access to essential medical goods and services to help contain the pandemic and treat those affected.
- Ensuring access to food throughout the world.
- Providing farmers with necessary inputs for the next harvest.
- By supporting jobs and maintaining economic activity in the face of a global recession.

Trade policies will therefore be an essential instrument in the management of the crisis. Trade policy reforms, such as tariff reductions, can contribute:

- to reduce the cost and improve the availability of COVID-19 goods & services.
- to reduce tax and administrative burdens on importers and exporters.
- to reduce the cost of food and other products heavily consumed by the poor and contributing to the macro-economic measures introduced to limit the negative economic and social impact of the COVID-19 related downturn.
- to support the eventual economic recovery and build resilience to future crises.

Governments with industries producing COVID-19 medical goods or food staples can further contribute by committing to refrain from limiting exports through bans or taxes. If export restrictions must be used, then they should be targeted, proportionate, transparent,

²⁴World Economic Forum, COVID ACTION PLATFORM, (http://www3.weforum.org/docs/WEF_COVID_Action_Platform_1P_2020.pdf).

²⁵ World Bank Group, Trade and COVID-19 Guidance Note- Do's & Don'ts of Trade policy in response to COVID-19, (15th April 2020), (<http://documents.worldbank.org/curated/en/509521585605825305/pdf/Do-s-and-Don-ts-of-Trade-Policy-in-the-Response-to-COVID-19.pdf>).

and temporary.²⁶

Measures to streamline trade procedures and facilitate trade at borders can contribute to the response to the crisis by expediting the movement, release, and clearance of goods, including goods in transit, and enabling exchange of services. Reforms can be designed to reduce the need for close contact between traders, transporters and border officials so as to protect stakeholders and limit the spread of the virus, while maintaining essential assessments to ensure revenue, health & security. Interventions to sustain and enhance the efficiency of logistics operations may also be critical in avoiding substantial disruption networks and hence to regional and global value chains.²⁷

V. 10-POINT ACTION PLAN TO SUPPORT THE LOGISTICS OF INTERNATIONAL TRADE-

The UNCTAD has come up with a 10-point action plan to support the logistics of international trade-

1. Ensure uninterrupted shipping.
2. Maintain ports open.
3. Protect international trade of critical goods and speed up customs clearance and trade facilitation.
4. Facilitate cross-border transport
5. Ensure the right of transit
6. Safeguard transparency and up-to-date information
7. Go paperless
8. Address early on legal implications for commercial parties
9. Protect shippers and transport service providers alike
10. Prioritize technical assistance.²⁸

VI. CONCLUSION-

A global challenge is standing right in front of us and it will be the respective government of different nations working collaboratively who will decide with regard to dealing in imports

²⁶ Id.

²⁷ Id.

²⁸ UNCTAD, No. 79, COVID-19: A 10-POINT ACTION PLAN TO STRENGTHEN INTERNATIONAL TRADE AND TRANSPORT FACILITATION IN TIMES OF PANDEMIC, (April 2020) (https://unctad.org/en/PublicationsLibrary/presspb2020d3_en.pdf).

and exports of medical supplies as well as certain essential items such as food supplies including agro foods with corona affected countries. In doing so the government must also take necessary steps for providing relief consignments to the least developed countries who will feel the worst impact of rising prices and trade restrictions putting pressure on their already struggling economy. While engaging in trade with other countries during the pandemic the government must ensure protection and take necessary measures and must aim and drive all its efforts towards preventing the further international spread of the virus and facilitation of international trade especially when the stakes are high and the Least Developed countries are the most vulnerable during such crisis. It will be crucial to engage in cross-border and transit trade flowing, along with ships and airways moving while making it a priority to undertake all the necessary measures to prevent further spread.
