

EFFECT OF COVID-19 ON WORLD TRADE

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ABSTRACT

The aim of this paper is to produce a preliminary and broad-based understanding of likely trade implications of the pandemic. Beginning with an assessment on likely implications for trade between China and therefore the remainder of the globe, the focus of this report is on the pandemic's massive consequences for trade and development. The paper concludes that the pandemic is probably going to not only introduce new patterns of world trade but also affect trade relations and globalization, making some economies winners and a few losers.

Introduction

At present time world is facing from the coronavirus disease called Covid-19. The primary case of the Covid-19 was reported within the December, 2019 within the Wuhan city of China which is an important trade port of China. Being the import hub of China, the virus spread very fast across the world. The outbreak of the disease led to a 'de-globalization' process which forced countries to lock-down borders, shutting down businesses and production, and preventing normal flow of goods, capital, and humans, at least temporarily and banning the import and export activities.

Even before covid -19 trade has been considered responsible for various diseases including tuberculosis, HIV, and malaria spreading to new regions. China being the major distributor of the raw materials across the world which affected the manufacturing activities and the fast spread of the disease across the world.

Worldwide merchandise trade flows decreased by 7% in 2020. India is a developing country because of the Covid-19 spread faster and the cases reported increases rapidly. The India government decided to lockdown the country which affected the manufacturing activities and the supply chains and slowed down economy of the country.

The globalization of COVID-19 pandemic is on its course to supply a sequence of economic impacts worldwide through distortions in global trade catapulting a global health crisis into a global economic shock that has hit the most vulnerable the hardest. While the pandemic may be

far from over, it has become clear that transforming global approaches to trade and development cannot be avoided when deciding a sustainable course of recovery from the pandemic. The globalization of production and trade shocks in relevancy China generate substantial threat to world trade. The evolving shape of world trade, is shaped based on the interest and how businesses view future economic conditions.

Analysis Of Data Case Studies

- The world merchandise trade is set to crash between 13 and 32% recovery is expected in 2021 dependent on how well the outbreak is controlled and how effective are the policies to control the disease and recover trade.
- Almost all countries will experience over 10% decline in trade volumes with Asia and North America hit hardest.
- Service trade is expected to be most directly hit by COVID-19 through transport and travel restrictions.
- Sectors with complex value chains will experience a steeper decline particularly electronics and automotive products.
- Merchandise trade volume already fell by 0.1% in 2019, weighed down by trade tensions and slowing economic growth. The dollar value of world merchandise exports in 2019 fell by 3% to US\$ 18.89 trillion.
- The value of commercial services exports rose 2% to US\$ 6.03 trillion in 2019.

Outlook of Trade in 2020 - 2021

The economic shock of the COVID-19 pandemic inevitably invites comparisons to the world financial crisis of 2008-09.

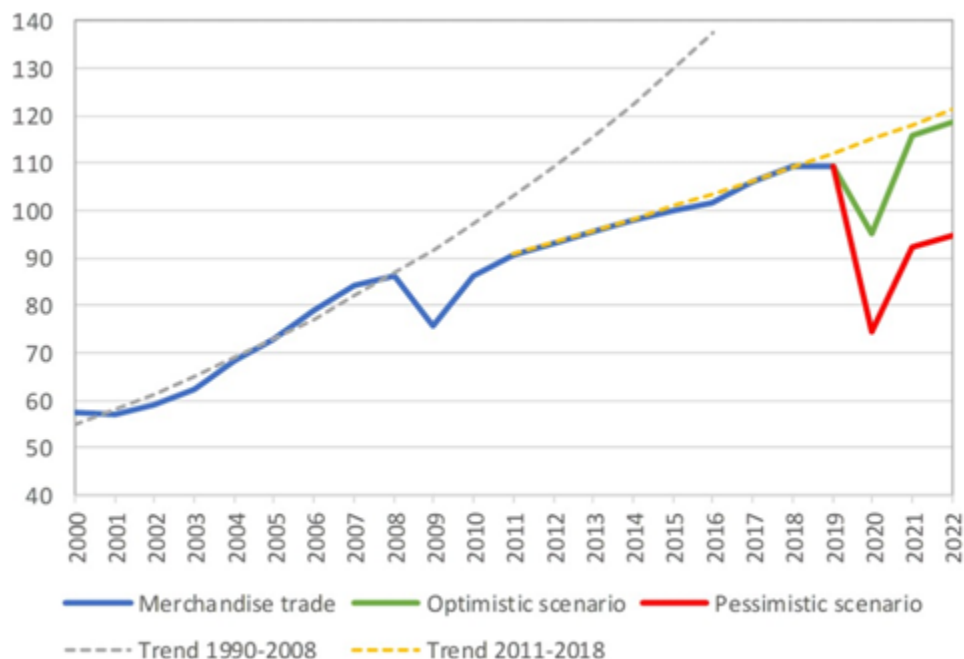
Both of these crises are alike in a few aspects but completely different in others. As in 2008-09, governments have again intervened with monetary and monetary policy to counter the downturn and supply temporary income support to businesses and households. But restrictions on movement and social distancing to slow the spread of the disease mean that labour supply, transport and travel are today directly affected in ways they weren't during the financial crisis. Whole sectors of national economies are pack up, including hotels, restaurants, non-essential retail trade, tourism and significant shares of producing. Under these circumstances, forecasting requires strong assumptions about the progress of the disease and a greater reliance on estimated instead of reported data.

Future trade performance as summarized in the chart below is thus best understood in terms of two distinct scenarios a comparatively optimistic scenario, with a pointy come by trade followed by a recovery starting within the half of 2020, and a more pessimistic scenario with a steeper initial decline and a more prolonged and incomplete recovery.

These should be viewed as explorations of various possible trajectories for the crisis instead of specific predictions of future developments. Actual outcomes could easily be outside of this range, either on the upside or the downside.

Under the optimistic scenario, the recovery rate will be strong enough to bring trade near its pre-pandemic trend, represented by the dotted yellow line in Chart 1, while the pessimistic scenario only envisages a partial recovery. Given the extent of uncertainties, it's worth emphasizing that the initial trajectory doesn't necessarily determine the following recovery. For instance, one could see a pointy decline in 2020 trade volumes along the lines of the pessimistic scenario, but an equally dramatic rebound, bringing trade much closer to the road of the optimistic scenario by 2021 or 2022.

Chart 1 - World merchandise trade volume, 2000-2022 Index, 2015=100

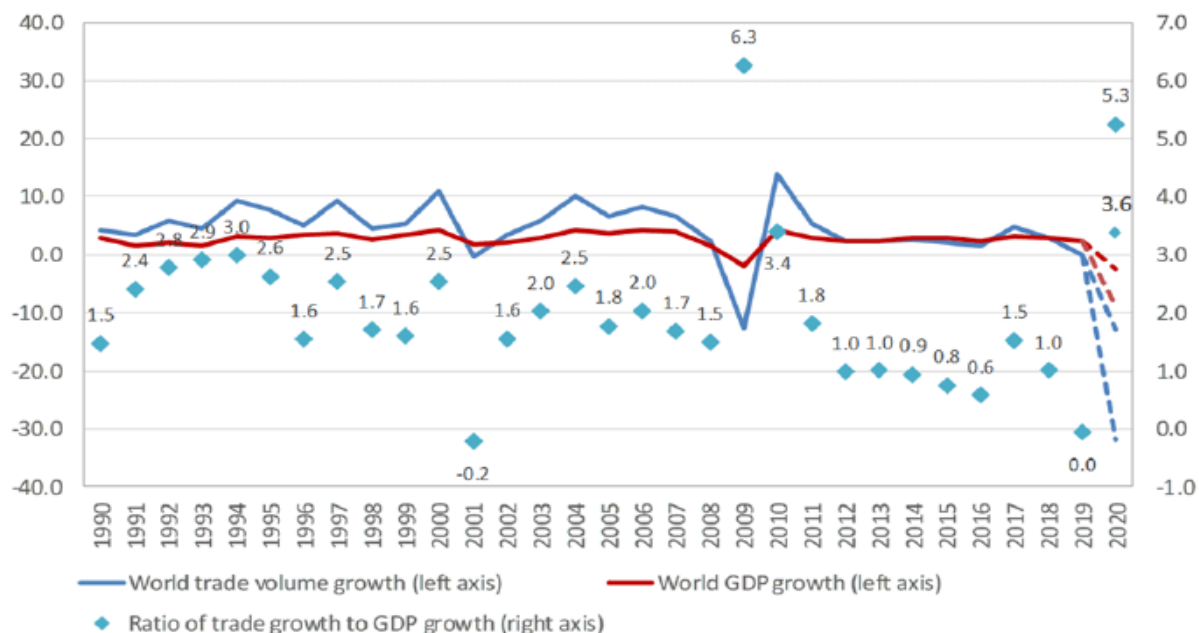


(World trade organisation news - https://www.wto.org/english/news_e/pres20_e/pr855_e.htm)

Trade never returned to its previous trend After the financial crisis of 2008-09, represented by the dotted grey line within the same chart. a powerful rebound is more likely if businesses and consumers view the pandemic as a brief, one-time shock. during this case, spending on investment goods and durables could resume at near previous levels once the crisis abates. On the opposite hand, if the outbreak is prolonged and/or recurring uncertainty becomes pervasive, households and business are likely to spend more cautiously.

Under both scenarios, all regions will suffer double-digit declines in exports and imports, apart from “Other regions” (which is comprised of Africa, Near East and Commonwealth of Independent States (CIS) including associate and former member States). This relatively small estimated decline in exports stems from the actual fact that countries from these regions rely heavily on exports of energy products, demand that is comparatively unaffected by fluctuating prices. If the pandemic is brought in restraint and trade starts to expand again, most regions could record double-digit rebounds in 2021 of around 21% within the optimistic scenario and 24% within the pessimistic scenario. The extent of uncertainty is extremely high, and it's well within the realm of possibilities that for both 2020 and 2021 the outcomes may be above or below these outcomes.

Chart 2 - Ratio of world merchandise trade growth to world GDP growth, 1990-2020.
% Change and ratio



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Value chain disruption was already a problem when COVID 19 was mostly confined to China. It remains a salient factor now that the disease has become more widespread. Trade is perhaps visiting fall more steeply in sectors characterized by complex value chain linkages, particularly in electronics and automotive products. per the OECD interchange Value Added (TiVa) database, the share of foreign value added in electronics exports was around 10% for the u. s., 25% for China, quite 30% for Korea, greater than 40% for Singapore and over 50% for Mexico, Malaysia and Vietnam. Imports of key production inputs are likely to be interrupted by social distancing, which caused factories to temporarily last China and which is now happening in Europe and North America. However, it is also useful to recall that complex supply chain disruption can occur as a result of localized disasters such hurricanes, tsunamis, and other economic disruptions. Managing supply chain disruption could also be a challenge for both global and native enterprises and requires a risk-versus-economic efficiency calculation on the part of each company.

Services trade is additionally the component of world trade most directly littered with COVID-19 through the imposition of transport and travel restrictions and so the closure of the various retail and hospitality establishments. Services don't seem to be included within the WTO's merchandise trade forecast, but most change goods would be impossible without them (e.g., transport). Unlike goods, there are not any inventories of services to be drawn down today and restocked at a later stage. As a result, declines in services trade during the pandemic could even be lost forever. Services are also interconnected, with air transport enabling an ecosystem of other cultural, sporting and recreational activities. However, some services may just like the crisis. this will be true of information technology services, demand that has boomed as companies try to enable employees to work from home and people socialise remotely.

The impact of the COVID-19 outbreak on international trade isn't yet visible in most trade data but some timely and leading indicators may already yield clues about the extent of the slowdown and also the way it compares to earlier crises. Indices of recent export orders derived from Purchasing Managers' Indices (PMIs) are particularly useful during this regard. The JP Morgan global PMI for March showed export orders in manufacturing sinking to 43.3 relative to a baseline value of fifty, and new services export business dropping to 35.5, suggesting a severe downturn.

According to WTO estimates, world merchandise interchange 2020 is about to plummet by 13% (optimistic case) to 32% (worst case) thanks to the COVID-19 pandemic, a magnitude much larger than the world Financial Crisis (2007-08).

Volume growth within the early 2020. China, being the initial epicentre of the outbreak and therefore the world's manufacturing hub, remains liable for most of the shocks. During the last

twenty years China has become crucial to the worldwide economy, as the country occupies 60% of world supply and demand (GDP), 65% of world manufacturing, and 41% of world manufacturing exports.

As of today, about 20 percent of world trade manufacturing intermediate products originates in China (up from 4 percent in 2002). The disruption in China's supply is deemed to substantially affect producers within the ROW, as measures countries put in situ to contain COVID-19 (i.e., restrictions to economic activities and movement of people) hinders the supply of critical parts from Chinese producers, and so affecting their own output. Estimated that a 2% reduction in Chinese exports will have overwhelming exports effect across selected 34 economies.

Conclusion

Covid – 19 is an extraordinary challenge of the 21st century not just to world health but to the worldwide economy.

Governments of all country are pressing for a response many countries have established both trade restrictions and import liberalizing measures with relevance medical supplies. Fortunately, in terms of numbers, the liberalizing trade measures have exceeded those restricting it.

The WTO has also alerted members to the consequences of the pandemic and also the responses to that, by issuing a Trade Forecast. because of the direct effects of the pandemic, depressing both supply and demand, also on a far lesser extent trade measures. Keeping trade open within the face of the pandemic has been the topic of trade initiatives led by Singapore, New Zealand, Canada and Switzerland.

The seriousness and assertiveness with which reform efforts are undertaken will be key in determining whether the world trade will start growing again.

The evolving shape of world trade, including global supply chains, are shaped primarily by a how businesses view future economic conditions. there'll be some limited on-shoring to the extent that government policies are available to support this reflow from an era of globalization. But government budgets will have already got been strained by fiscal measures to fight the pandemic. the provision of funds to support on- shoring is probably going to be limited to targeted efforts, primarily perhaps for medical supplies. And even there, government stockpiles (with domestic sources preferred) are also preferred to direct industrial support.

The products effected and duration of the support is also limited. On-shoring is probably going also to be plagued by tax measures designed to revive government finances.

Supply chains will be stricken by some likely diversification among foreign suppliers. But again, this can be limited by economic viability. Businesses can plan for contingencies but within the end must preserve revenues and profits.

Outside of supporting the assembly and stockpiling of medical supplies and vaccines, technology and economic process are going to be much greater factors determining trading patterns than government policies, including the utilization of regional trade agreements. In an extreme emergency, even membership in a very union didn't prevent some individual national actions which were at odds with the best of one market. Furthermore, a de-globalization pattern may emerge, where countries may focus on producing essential goods more domestically in an effort to reduce dependence on other countries in case of an emergency. All considered, a new world order of international trade is imminent in the post-pandemic world.

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