

INTERNATIONAL JOURNAL OF INTEGRATED LAW REVIEW

Volume 1 | Issue 1

2020

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COVID-19 and Its Impact on International Trade

ANUNITI PANDEY¹

“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

¹ Author is a student at Amity Law School, Amity University Rajasthan, India

in Riyadh, Saudi Arabia, February 24, 2020.²

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 alone³. 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 populations⁴. 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.⁵

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 need⁶.

- 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.

² 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>).

³ 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>).

⁴ 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).

⁵ 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>).

⁶ 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 transit⁷.

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 2019.⁸ 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.⁹

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-**

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

⁸WTO, 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).

⁹Trade 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.¹⁰
 - **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.¹¹
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.¹²

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

¹⁰Trade 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>).

¹¹ Id.

¹² 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.¹³
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.¹⁴
 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.¹⁵
 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

¹³ Id.

¹⁴ 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/>).

¹⁵IFPRI 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.¹⁶

- 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.¹⁷

II. WTO- ACTION PLAN

Covid-19 has prevented the global economy from producing massive supply and demand shocks, according to WTO Director General Roberto Azevêdo. "We plan that trade will decline sharply in all regions of the world and in all sectors of the economy," and if the pandemic is not kept under control and policymakers struggle to coordinate policy responses, things may get worse. Above all, all of this will depend on the duration of the pandemic, its economic impact and the effectiveness of the reaction measures taken.¹⁸

1. **WTO Annual Trade Report-** In 2020, trade will decline significantly in all regions of the world, across all industries.

There are 2 plausible scenarios-

- i) **In an optimistic scenario-** Compared to 2019, the global merchandise rate dropped sharply by 13 per cent. In global merchandise, if no effective answer is taken, a 32 percent or more decrease can be expected. The availability of trade finance is influenced by credit market pressures and a quick recovery is more likely if policymakers demonstrate cause for businesses and households to assume that the pandemic was a transient one-time economic shot and such a recovery to their pre-pandemic trajectory as early as 2021 if appropriate policy action is taken regardless of how steep the initial fall is.

¹⁶Trade 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>).

¹⁷ 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/>).

¹⁸Supra note 6.

- ii) **Other Scenario-** There is also a risk that post-recovery trade rates would remain far below the pre-COVID deadline. It should be remembered that even the first case of Covid 19 was ever registered; we did not make the most of the potential trades to drive growth.¹⁹

The WTO forecast released on 8 April 2020 indicates that, in the final quarter of 2019, global merchandise trade dropped at a substantial rate. It could well be our lifetime's deepest economic crisis or decline. In order to reverse this situation, we need to make the most of the potential drivers of sustainable growth and, most importantly, we need policymakers to take steps towards a quick and socially inclusive recovery.²⁰

2. **WTO Task Force-** Under an economist, Bob Koopman, the WTO has formed a task force to organise activities and work collaboratively with other members of the International Organization and other WTO members. Trade would be very significant in terms of helping countries to access supplies where they are available, according to Bob Koopman. Trade is what enables essential products and services, medical supplies and equipment, food and energy that we all need to be generated and distributed efficiently²¹. Trade costs will delay recovery in a reasonably effective and efficient way if they are not eliminated. Countries whose economic structure is fundamentally dependent on or heavily focused on services , particularly retail services, non-tradable services and tradable services such as transport and tourism, are also important drivers and will be most adversely affected.
3. **Dedicated Web Page**²²- The WTO has created a dedicated web page containing trade-related pandemic-related information, where information, including news and forecasts for trade in goods and services, can be found. It offers-
 - (i) Updates to members concerning trade initiatives relevant to COVID-19.
 - (ii) WTO Tasks Alerts.

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

Tackling the influenza pandemic needs the coordinated response of the global community, which includes governments , international organisations and the business community. As an international body for public-private cooperation, this multi-stakeholder cooperation is at the

¹⁹ Id.

²⁰ Id.

²¹ Id.

²² WTO, (https://www.wto.org/english/tratop_e/covid19_e/covid19_e.htm)

heart of the World Economic Forum's mission. The new COVID Action Platform will concentrate on three goals in this context:

- i) Galvanize the culture of global business for concerted action.
- ii) Secure the livelihoods of people and promote the continuity of industry.
- iii) Mobilize cooperation and business support for the response to COVID-19.²³

IV. TRADE POLICY IN RESPONSE TO COVID-19

Trade in both goods and services in times of global crisis will play a key role in resolving the pandemic and limiting its effects in the following ways²⁴:

- To help control the pandemic and treat those affected by ensuring access to critical medical products and services.
- Ensuring world-wide access to food.
- Providing farmers with the inputs required for the next harvest.
- In the midst of a global recession, by supporting employment and sustaining economic growth.

Therefore, trade policies would be an important instrument in handling the crisis. Trade policy reforms, such as reducing tariffs, can lead to:

- To minimise costs and increase the supply of goods & services from COVID-19.
- Reducing the tax and regulatory burden on importers and exporters.
- Reducing the cost of food and other highly consumed goods by the poor and adding to the macro-economic steps adopted to minimise the negative economic and social effects of the downturn associated with COVID-19.
- Supporting an inevitable economic recovery and building resilience for future crises.

Governments with industries manufacturing medicinal products or food staples for COVID-19 will further contribute by pledging to refrain from restricting exports by prohibitions or taxes. If it is necessary to apply export restrictions, they should be targeted, proportionate, transparent, and temporary.²⁵

²³World Economic Forum, COVID ACTION PLATFORM, (http://www3.weforum.org/docs/WEF_COVID_Action_Platform_1P_2020.pdf).

²⁴ 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>).

²⁵ Id.

Measures to streamline trade practises and promote border trade will contribute to crisis response by speeding up the movement, release and clearance of goods, including goods in transit, and by allowing services to be exchanged. In order to protect stakeholders and restrict the spread of the virus, changes can be designed to reduce the need for close interaction between traders, transporters and border officials, while retaining critical evaluations to ensure revenue, health & safety. In order to avoid major disruption networks and, thus, regional and global value chains, measures to maintain and increase the efficiency of logistics operations may also be crucial.²⁶

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 shipping without delay.
2. Maintaining free ports.
3. Protecting vital commodities from foreign trade and accelerating customs clearance and trade facilitation.
4. Facilitate transboundary transportation
5. Safeguard the freedom to transit
6. Protect integrity and up-to - date data
7. Go without paper
8. Fix the legal consequences for commercial parties at an early stage
9. Safeguard all shippers and transport service providers
10. Making technical assistance a priority.²⁷

VI. CONCLUSION-

Right in front of us is a global challenge and it will be the respective government of various states working collaboratively who will decide on coping with imports and exports of medical supplies as well as some important products such as food supplies with corona affected countries, including agro foods with countries affected by corona. In doing so, the government must also take the requisite measures to provide the least developed countries with relief shipments, which would experience the worst impact of rising prices and trade

²⁶ Id.

²⁷UNCTAD, 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).

restrictions placing pressure on their already struggling economies. While engaging in trade with other countries during the pandemic, the government must ensure that the required steps are secured and taken, and must target and drive all its efforts to prevent the further international spread of the virus and encourage international trade, especially when the stakes are high and the Least Developed Countries are the most vulnerable during the pandemic. Participation in cross-border and transit trade flows, along with the movement of ships and airways, would be critical, thus giving priority to taking all the steps possible to prevent further spread.
