

## **RESHAPING GLOBAL TRADE POLICY DUE TO COVID-19 PANDEMIC: ANALYSIS OF TRADE FLOWS IN POST COVID-19 SCENARIO.**

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### **Abstract**

The COVID-19 pandemic has created an economic imbalance in the world. As the health crisis unfolds, international trade is witnessing a sharp decline. As the COVID 19 pandemic disrupts regular economic activity and life worldwide, world trade is expected to fall by between 13% and 32% in 2020. As the crisis unfolds, the importance of global trade flow has increased to maintain the economies and provide the essential goods and services to the places most affected by the pandemic. It is essential that along with the looming health crisis, the nations should try to minimize the economic impact of the pandemic and pandemic induced lockdown. Economic uncertainty can further worsen the current situation as countries may be forced to deal with the hostile economic circumstances and the health crisis.

Nevertheless, the economic effects of the COVID pandemic cannot be avoided, and it is bound to have a long-lasting impact on the global trade flows and relations between trading economies. This article lays down some of the factors and long-lasting changes that the global trading regime faces or will face in the future. These factors become necessary to adjust the expectations and act or enact trading policy accordingly. Understanding the disruptions in trade flows will enable better coordination, a predictable rule-based governance system, and better delivery of the essential goods and services required to deal with the COVID-19 pandemic.

- I. Introduction**
- II. COVID-19 challenges to cross border trade.**
- III. Conclusion**

### **I. Introduction**

The COVID-19 pandemic will possibly be known as that point that changed the international trade nature in the post-World Trade Organization (WTO) trade policy environment. The last time this historic moment happened was in 1995 when the WTO framework created a predictable rule-based trading governance system.

The WTO Appellate body is going through its crisis as in December 2019, which is around the same time when COVID 19 pandemic was being understood. It lost its ability to rule on new

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disputes.<sup>1</sup> As the procedures to fill the vacancies through new nominations have been stopped by the US's refusal to consider any new names.

The effect of COVID-19 on trade and economy is evident. The demand has been reduced on a large scale and has almost collapsed the trade flows. Large scale disruptions of supply chains are also occurring, hindering the trade flows regionally and globally. The pandemic lockdown has been compared to the previous economic crises, such as the Great Depression of the 1930s and the financial crisis of 2008-09. The WTO predicts a fall in world trade by 13% to 32% in 2020. The international institutions that govern world trade are trying to make trade flows more predictable under current circumstances. The World Bank has encouraged governments worldwide to reduce the restrictions for trade-in essential medical goods and food by removing the need for applications and licenses.<sup>2</sup> It also pushes countries to support exporters in maintaining jobs and foreign exchange capital and make macroeconomic policy efforts to protect the economy from the downturn caused due to the pandemic.<sup>3</sup>

It is important to note that even before the pandemic, the global economy was going through turbulent times with rampant trade distortions and the global policy becoming more inward and conservative. In recent times, the global trade policy, even before the pandemic-induced lockdown has been arbitrary, and the presence of barriers has increased. These were in the form of imposition of punitive import duties, withdrawal of Generalized System of Preferences benefits, and renegotiation of free trade agreements by a few countries.<sup>4</sup> Developing countries like India, too, showed the signs of inward-looking trade policy. These signs include India's hesitation in signing on to the Regional Comprehensive Economic Partnership (RCEP) Agreement without the inclusion of specific measures to protect its interests<sup>5</sup>. With such global unpredictability and

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<sup>1</sup>Who Will Lead the WTO and Help It Avoid Collapse?, *available at*: [https://www.washingtonpost.com/business/who-will-lead-the-wto-and-help-it-avoid-collapse/2020/09/18/76329824-f9d7-11ea-85f7-5941188a98cd\\_story.html](https://www.washingtonpost.com/business/who-will-lead-the-wto-and-help-it-avoid-collapse/2020/09/18/76329824-f9d7-11ea-85f7-5941188a98cd_story.html) (last visited on September 19, 2020).

<sup>2</sup> *Ibid.*

<sup>3</sup> *Ibid.*

<sup>4</sup>International Trade in Post-COVID-19 Scenario, *available at*: <https://diplomatist.com/2020/07/10/international-trade-in-post-covid-19-scenario/> (last visited on September 19, 2020).

<sup>5</sup> *Ibid.*

potential changes, it becomes difficult for parties indulging in trade to conduct and plan a global exchange of goods and services.

Some trade experts expect the trade policy to become even more conservative after the pandemic induced lockdown eases as the countries will focus their efforts on rebooting affected industries and protecting their supply chains to ensure essential supplies and fulfillment of demand in the economy. Ensuring the availability of essential goods and services will be a priority for many countries to fulfill by protecting their critical domestic economy and supply chains.

The conservative approach will possibly be reflected in countries' national trade policy in several ways, such as an increase in import tariff and covert or overt non-tariff barriers like licensing procedures, import and export quotas, and maintenance of their strategic reserves. Countries may also look to defend their existing domestic industries through increased recourse to trade remedial measures, such as anti-dumping duties, anti-subsidy duties, and safeguard duties. This conservative approach would be necessary for the domestic industries, not inherently efficient, to retain their profitability. It will be interesting to see how the world will deal with me-first trade policies, especially with the WTO not to enforce its own rules.

A few months into the pandemic, the World Trade Organization (WTO) released its predictions for world trade in 2020, declaring that it anticipates a fall in trade volume between 13% and 32%. The prediction of the economic effect speaks volumes about international trade and the uncertainty surrounding the future. They reflect the profound and multi-layered economic impacts on the trade economy due to pandemic induced lockdown measures and disruption of supply chains. Although these measures should be transitory and it might be argued that their impact will be temporary. Moreover, it is also anticipated that it will bring significant economic relief to the global trade once these measures are removed. Nevertheless, the author believes that this crisis will have a lasting impact on the global trading environment. It will affect a rule-based predictable trading system, needing a reconsideration of trading rules and policies worldwide.

## II. COVID-19 challenges to cross border trade.

The measures imposed by the economies might be short term, but the effect of the pandemic on the cross border global trade. Few reasons why the pandemic might change the trading scenario permanently are:

### A. Effect of COVID-19 on macroeconomic conditions and competition among economies.

Even if experts can predict a looming economic crisis, nobody can predict the scale of the insolvencies and buyouts. Such effects will be far from homogenous as it will depend on the internal and external policies that will affect the trade flows and personnel, credit, and supply chain issues. The economic impact will alter significantly competitive positions, and given the nature of international trade, many of these changes might be long-lasting.

The macroeconomic situations will also possibly be affected by the lasting alterations. Economic conditions refer to the state of the economy in a country. These situations change over the period and go through business and trading cycles as the economy contracts or expands.<sup>6</sup> Economic factors that influence the aggregate economy's state are the employment levels, gross domestic product (GDP), and deflation or inflation.<sup>7</sup> Based on the previous situations enabled by earlier economic crisis' it can be inferred that the macroeconomic effects last for many decades affecting the economies in the many ways resulting in decreased rates of returns and increased risks.

It has been seen in the trends that the balance of goods and services imported and exported has taken a hit, and generally, imports have risen to fulfill the demand created by the disruption in supply chains. A situation like these gives rise to firms' demanding protection from surging import competition. While provisions exist within the WTO framework to provide short-term relief in

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<sup>6</sup>Macroeconomics, *available at*: <https://www.investopedia.com/terms/m/macroeconomics.asp> (last visited on September 19, 2020).

<sup>7</sup>Macroeconomic Conditions, *available at*: <http://www.businessdictionary.com/definition/macroeconomic-conditions.html> (last visited on September 19, 2020).

specific cases through safeguard measures, the risk is that it will result in escalating tariffs and retaliatory measures.<sup>8</sup>

## **B. Increase in international tensions because of a pandemic.**

The pandemic has widespread effects and causes confusion.<sup>9</sup> As per WTO report released in April 2020, 80 countries had announced export embargos or limits as a result of the pandemic<sup>10</sup>. These prohibitions mostly concerned with health-related goods and services, while some also were related to the food products even though there was no short supply of such products in the market. Such measures can be very problematic for trading partners and can create trade barriers for international markets.<sup>11</sup> Accordingly, they will indeed create tensions between trading partners, which may result in a long-lasting impact.

This situation is aggravated by the increasing tensions between the US and China. The trade war-related tension has continued in the backdrop of the pandemic. Moreover, the pandemic will probably increase the chances of any resolution as countries might blame China as the place of origin of the virus for their economic woes. Lack of mutual cooperation among economies and mutual understanding in this situation might lead to international tensions spiraling out of control resulting in a lack of adherence to accepted trading principles.

## **C. Effect of COVID-19 Pandemic on Supply Chains.**

### **i. Need to ensure that Global Supply Chains keep going.**

Certain goods and services during this pandemic have come out as essential. Therefore, it has become imperative for markets to support the supply chains for these goods and services and ensure these commodities' supply. These essential goods and services include medical goods, food-related products, and technology-related goods and services. To ensure this coordinated action is

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<sup>8</sup> How the COVID-19 Pandemic Is Reshaping the Trade Landscape and What to Do About It, *available at*: <https://www.intereconomics.eu/contents/year/2020/number/3/article/how-the-covid-19-pandemic-is-reshaping-the-trade-landscape-and-what-to-do-about-it.html> (last visited on September 20, 2020).

<sup>9</sup> R. Baldwin and S. Evenett (eds.), *COVID-19 and Trade Policy: Why Turning Inward Won't Work* 31-48 (CEPR Press., 2020).

<sup>10</sup> WTO, "Export Prohibitions and Restrictions, Information note" (April 2020).

<sup>11</sup> Headey, D., "Rethinking the global food crisis: The role of trade shocks", 36(2) *Food Policy* 136-146(2011).

required between economies and government and also among the private sector to find solutions to the logistical restrictions affecting the flow of essential products where they are needed most.<sup>12</sup>

The instantaneous matter of concern is enabling medical supplies essential to tackle COVID-19. These medical supplies are produced across the world in various economic jurisdictions; therefore, concerted efforts among the government become essential to make trade more predictable and ensure the global supply of health products. "For example, at the onset of the crisis, China was the main manufacturer of surgical masks, accounting for about one-half of world capacity. Nevertheless, in January, this was not enough to meet demand; China stopped exporting masks and imported 56 million masks in the first week of January; masks were also donated to China by some countries."<sup>13</sup> Thus, an immediate problem is enabling medical supplies to challenge COVID-19 across various supply chains, guaranteeing global supply.

## **ii. Need to re-think resilience in global supply chains.**

In a world dealing with a COVID-19 pandemic, guaranteeing the supply of goods and services through supply chain robustness is very important for governments and companies. "Supply chain robustness refers to the ability to maintain operations during a crisis, which can be achieved both by increasing inventories and increasing supplier diversification."<sup>14</sup>

There is a big issue of this global pandemic's impact on the global supply chains and manufacturing hubs' connection with the markets. There is an obvious argument by many to internalize these supply chains or shorten them to lessen global interference. If this perspective is held, then manufacturing and supplying firms will need to reassess their needs and orders all over again. This will disrupt current global value chains resulting in global impact with potentially long-term impact on markets, especially developing and least developed countries.<sup>15</sup>

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<sup>12</sup>COVID-19 and International Trade: Issues and Actions, *available at*: [https://read.oecd-ilibrary.org/view/?ref=128\\_128542-3ijg8kfswh&title=COVID-19-and-international-trade-issues-and-actions](https://read.oecd-ilibrary.org/view/?ref=128_128542-3ijg8kfswh&title=COVID-19-and-international-trade-issues-and-actions) (last visited on September 19, 2020).

<sup>13</sup> *Ibid.*

<sup>14</sup>Covid-19 may accelerate shift in global trade relations, supply chains: Moody's, *available at*: <https://economictimes.indiatimes.com/news/economy/foreign-trade/covid-19-may-accelerate-shift-in-global-trade-relations-supply-chains-moodys/articleshow/77483487.cms?from=mdr> (last visited on September 19, 2020).

<sup>15</sup> *Ibid.*

Months after the coronavirus's onset, which causes COVID-19, signs indicate that many global leaders will continue to move toward nationalist and protectionist sentiments that will further compound supply chain fragmentation. Disruptions to global supply chains had first come from the unintended consequences of the virus impacting production in source countries such as China. Moreover, this was compounded by matters such as shipping delays, cross-border trade interruptions, and, in the case of our food supply, businesses' inability to bring in seasonal migrant labor to complete production processes. The global pandemic has revealed the vulnerabilities of economic globalization and global business activities that we took for granted for decades. Interdependencies, principles of comparative advantage, economic efficiencies, offshoring production, and transportation and communication breakthroughs had put our collective faith in the smooth functioning of global supply chains

The COVID-19 pandemic is a calamity of considerable magnitude, which will leave an impact not only on health policy but also in an economic sense. It will make global businesses and their decisions safer and conservative, keeping in mind the uncertainties. Thus, this pandemic will impact natural behaviors, too, and not only the independent nations' economic policies.<sup>16</sup> There is a possibility that this pandemic will rise "risk aversion among several decision-makers for a long time."<sup>17</sup> This effect may result in a re-examination of how business is taking place among trading partners currently. This scenario has produced questions regarding the vulnerabilities of global supply chains and their future.

Moreover, in various cases, there have been calls to reallocate the production in order to future proof the supply chains and avoid any economic uncertainty. *"The capacity to maintain production during a crisis is referred to in the management literature as robustness, while resilience refers to the capacity to return quickly to normal operations after a crisis. Moreover, on both accounts, the vulnerability of Global Supply Chains is questionable compared to the alternative, less international, and less complex strategies, either in this crisis or in previous ones."*<sup>18</sup>

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<sup>16</sup> Malmendier, U. and S. Nagel, "Depression Babies: Do Macroeconomic Experiences Affect Risk Taking?" 126(1) *QJE* 373-416 (2011).

<sup>17</sup> *Ibid.*

<sup>18</sup> R. Baldwin and S. Evenett (eds.), *COVID-19 and Trade Policy: Why Turning Inward Won't Work* 117-130 (CEPR Press., 2020).

The most important questions raised by the COVID-19 pandemic regarding global supply chain vulnerabilities may not be related to future robustness or resilience, but concerning autonomy and control of supply chains. Many health products related to supply chains about API(Active Pharmaceutical Ingredients), testing ingredients, and protective masks are situated in China. In this regard, the question of autonomy provided by the domestic nation to its market arises. To analyze these problems, the trading partners have to keep in mind the supply chains' ability to deliver during crises and issues like trade disputes, nature of the domestic government, and risks of disruptions. With rising international pressures, such factors may be seen as weaknesses among trading partners and might increasingly discourage economies from relying on these global value chains. Many enterprises and economies are already hedging their risks and spreading their dependence across the jurisdictions to lessen the risk. Diversified or more internal and local based suppliers may become part of the supply chains in the post COVID-19 scenario, giving more control to the trading parties.

#### **D. Changing internal infrastructures of the economies.**

The pandemic is likely to change the priority of economies towards their internal infrastructure. The COVID-19 pandemic has put light on two areas significant for strategic importance, i.e., health and digital infrastructure. Keeping in mind the extraordinary situation observed about the procurement of testing ingredients, APIs, and face protective gear, their importance is self-explanatory. That is why these have become essential items being traded in the international market today.

It is essential to note the role of digital infrastructure too. It has become essential in the COVID-19 pandemic to spread the information, curtail the misinformation, and communicate to the places not within reach through traditional communication methods. It is strategically important and has shown to enable the economies to function partially while physical movement in the economy is stopped.

"This experiment will probably have lasting impacts on habits, norms, and organizations, accelerating the increasing relevance of telepresence, a change with powerful disruptive potential."<sup>19</sup>

The governments may change their policies to prove their economies from any health crises or economic impact based on such crises. The changes that are being made today will have a long-lasting impact and will be continued in the future.

#### **E. Impact on Rule-based Multilateral Trading System.**

The multilateral trading system's two main principles that keep its rule-based and predictable systems are transparency and foreseeability. Protecting these two principles will be the priority of significant trading economies to maintain a multilateral coordinated trading framework. Failure of any of these principles may result in the spiraling down of economic relations and trading partnerships. Therefore, multilateral trading system must maintain its predictability and tackle the crisis induced by the COVID-19 pandemic.

With the paralyzed appellate body, WTO is already going through a challenge. The adjudicating mechanism must be reinstated, especially during a troubled time. It is also essential that the disputing economy put aside their trade disputes and enable a predictable trading framework to help all the trading partners come out of this economic crisis.

#### **F. Allowing flexibility in the current trading framework.**

Given the intense pressure on economies that the crisis has put them into, it might be essential to allow certain flexibilities to these economies. The current rules might not be acceptable or enforceable by many struggling economies who are also dealing with the health crisis. Therefore these economies may be allowed to use certain exceptions that already exist in WTO agreements and enact such policies that might digress from the strong trading rules to protect the sovereignty and public health.

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<sup>19</sup> Baldwin, R., *The Globotics Upheaval: Globalisation, Robotics and the Future of Work* (Oxford University Press, United Kingdom, 2019).

Due to this crisis, most of the public policies in most countries are guided by the need to respond to the citizens' health and protect their economy. While the country's defense and food-related policies are already treated as exceptions, digital and health-related infrastructure may not have such privilege. Thus, trading partners must leave some scope to enable health-related public policies as an exception to the global trading principles.<sup>20</sup> This proposed principle is consistent with GATT Article XX i.e. General exceptions which states that among other things that "*nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures: ... (b) Necessary to protect human, animal or plant life or health*".

The conditions of application of these general exceptions are stringent, making their use difficult in practice. The predictability and usability of these provisions could be significantly enhanced by coordinating the interpretation of what policies are authorized. An agreement explicitly focusing on the limited scope of products concerned could even be sought to go beyond such interpretation, particularly in the case of health products.<sup>21</sup>

### **G. Impact on international trade relations.**

It has been seen that economic relations are guiding the political aspiration of the countries. Numerous times the economic disputes have caused political differences among the countries. Keeping in mind the COVID-19 pandemic, the resulting economic differences and health crisis might result in disorder in international trade relations resulting in a disorderly trade framework. The international rules-based trade framework has a vital role in maintaining predictability and consistency, but the current crisis makes it hard for trading partners to maintain those relations. Therefore, there should be a concerted effort to discuss trade discipline while considering the difficult circumstances many economies have found themselves. Preserving international trade relations might become an essential part of any forthcoming trade negotiations.

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<sup>20</sup>COVID-19 and International Trade: Issues and Actions, *available at*: [https://read.oecd-ilibrary.org/view/?ref=128\\_128542-3ijg8kfswh&title=COVID-19-and-international-trade-issues-and-actions](https://read.oecd-ilibrary.org/view/?ref=128_128542-3ijg8kfswh&title=COVID-19-and-international-trade-issues-and-actions) (last visited on September 19, 2020).

<sup>21</sup> *Ibid.*

## H. Effects of COVID on Health Policy.

The coronavirus pandemic has established the importance of a strong link between a healthy economy and the right Healthcare policy. While the instability grows every day and the COVID-19 pandemic is causing more casualties, the vaccine is still not available. The Healthcare sector is playing an important role not only in helping the citizens to tackle this virus but also on a global scale, trying to research and come up with research that might save lives.

The importance of essential items such as API, masks, testing kits, and ventilators has become very high. The response to the pandemic that is lockdown has caused shocks to the economies of various Nations who might take a long time to come out of this. Developing and least developed countries are on the receiving end of both health crises and economic shock.<sup>22</sup> These countries like a requisite medical capability and a strong economy to back their Healthcare infrastructure in this crisis. On the other hand, ongoing social differences, population poverty, etc. are adding up on the troubles.<sup>23</sup>

If any vaccine is made at all, it is essential that developing and least developing countries have access to such medication. Global trade and the existing scenario main keep such economies out of the reach of a new vaccine.<sup>24</sup> Therefore, it is the responsibility of trading partners and global trade regimes to recognize this inequality among countries and within the country and develop such a policy to tackle the COVID-19 pandemic.<sup>25</sup>

It is seen that when it comes to Healthcare issues, the current WTO and trips agreement framework falls short. Therefore, member countries must analyze these principles, especially relating to

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<sup>22</sup>The Pandemic Stress Test, *available at*: <https://www.project-syndicate.org/commentary/covid19-economic-weaknesses-by-raghuram-rajn-2020-03> (last visited on September 19, 2020).

<sup>23</sup>The Devastating Consequences of Coronavirus Lockdowns in Poor Countries, *available at*: <https://www.vox.com/future-perfect/2020/4/18/21212688/coronavirus-lockdowns-developing-world> (last visited on September 19, 2020).

<sup>24</sup> Developing Nations Face Poverty Due to Coronavirus Lockdown but Easing Restrictions could Pose Bigger Risk, *available at*: <https://time.com/5823220/developing-countries-lockdown-risk-outbreak/> (last visited on September 20, 2020).

<sup>25</sup> *Ibid.*

technology transfer and allow exceptions so that there are no barriers to the inflow of essential health care items, vaccine, or any critical information used to tackle the COVID-19 pandemic.<sup>26</sup>

### III. Conclusion

There is a threat that the second wave of the virus might return and many economies might be forced to enter into economic log down again, thereby affecting the economies on the large scale. It is important that the second wave is handled in a better way than the original one. Also, COVID-19 pandemic has highlighted the negative effects of globalization. The international trade flows which are the biggest outcome of globalization has failed to cope up with this health crisis. Although nobody could have predicted the covid-19 pandemic and its implications the situation has given a chance to rectify mistakes and make changes in the current framework. Governments and businesses around the world will focus on future risk management more than before. It also gives the opportunity to trading partners to include health issues in the trading agreements and trade policies as a health crisis can no longer be avoided as a non-trade issue. It is being predicted that economies would shift to more Technology centric approach which might create new barriers that might be needed to solve.

From here close coordination between the trading economies is very important. Now that we have witnessed the scale of the problem it is important that supply chains globally and trade ecosystem is used to provide essential health-related goods and services where needed. Along with exchanged and rational approach to keep the trade flows going as its engines the growth and employment globally.

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<sup>26</sup>COVID-19 and Emerging Fault Lines in Intellectual Property Regime, *available at*: <https://ijiel.in/blog/f/covid-19-and-emerging-fault-lines-in-intellectual-property-regime> (last visited on September 19, 2020).