

# IMPACT OF COVID-19 ON INTERNATIONAL TRADE

## INTRODUCTION

COVID-19 is a crisis that has taken the entire world by surprise. The virus is growing at a rapid pace and has reached every corner of the world, placing the medical industry at the frontline to fight this deadly virus. The human loss due to the virus continues to increase and is affecting those countries the most that have a weaker healthcare system. This problem has been regarded as a pandemic by the World Health Organization due to the combination of various factors of the virus. As of today, there are over a million cases globally with almost 60,000 registered deaths. The numbers have been on a continuous rise and are expected to keep growing in the near future.<sup>1</sup>

The countries which were badly hit by the virus initially have appeared to stabilize in terms of the situation. China is now going back to normal whereas countries like the United States of America and India are still badly affected by corona virus. This emergency is eventually going to lead to an uneven balance of political and social factors across the world due to how differently every country has been hit by the virus.<sup>2</sup> As far as international trade is concerned, it has been predicted that 2020 would see a recession. This crisis will not just harm countries on national levels but will also create a lot of chaos on regional and international levels.

The virus is a major threat to the economy for the simple reason that it is impossible to determine the scale of future infection and what the other wave of cases will get for us. It is hard to determine for how long the lockdown will continue. The virus is affecting different countries and each country is recovering at its own pace. Hence, the recovery will lead to an uneven balance of trade. In such a situation, trade can only continue if relations between countries are based on a mutual cooperation and goodwill. Exporting countries should make sure that they do not impose trade restrictions and imports should not pose health issues to the people. The trade cycle is now subject

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<sup>1</sup> What You Need to Know About the Impact of COVID-19 on International Trade (2020). Available at: <https://www.stepto.com/en/news-publications/what-you-need-to-know-about-the-impact-of-covid-19-on-international-trade.html> (Accessed: 17 July 2020).

<sup>2</sup> COVID-19 and the future of world trade | VOX, CEPR Policy Portal (2020). Available at: <https://voxeu.org/content/covid-19-and-future-world-trade> (Accessed: 17 July 2020).

to so many fluctuations and tariff restrictions. The damage caused by corona virus is nothing like the other crisis the world has seen. During the financial crisis of 2009, banks were still functioning. However, now there is shortage of capital and funds and trade tensions have increased tremendously between different countries. Even before the virus, trade conditions were in jeopardy. It has already been predicted by the World Trade Organization that every nation will suffer a decline in exports and imports in double digits.

## **RESPONSE OF ASIA IN RELATION TO TRADE**

World economies are collapsing due to COVID-19. In Asia, the leaders took the matters in their hand and swiftly tried to get a hold of the situation. More money was spent on medical conditions and medical equipment to fight the virus. The reserve banks took actions to increase liquidity in the respective countries. Asia was the first to be hit with the virus and hence the economy of Asian countries has taken a massive blow right from the beginning. The sudden stop in activities and work has frozen the firms and households. People are losing their jobs and unemployment is causing a frenzy in the country.<sup>3</sup>

All the countries have been under red alert ever since the virus broke out from South East Asia. Strict lockdown rules have been imposed. Absolutely every service in the countries has been stopped. Tourism has taken a massive hit as everything has been shut, from transportation to malls and theatres, nothing is functioning. The situation in this part of the world needs to be dealt with smartly because if the economy of developing countries falls, this could be a major drawback on a national and international level.

## **IMMEDIATE CONSEQUENCES OF COVID-19**

The impact of the pandemic has greatly been seen on the international tourism, air travel and shipping. Financial transactions have certainly taken a hit amongst other things that COVID-19

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<sup>3</sup> Trade set to plunge as COVID-19 pandemic upends global economy (2020). Available at: [https://www.wto.org/english/news\\_e/pres20\\_e/pr855\\_e.htm](https://www.wto.org/english/news_e/pres20_e/pr855_e.htm) (Accessed: 17 July 2020).

has impacted. <sup>4</sup>According to the recent United Nations Conference on Trade and Development (UNCTAD) assessment, the COVID-19 outbreak will cause global foreign direct investments to shrink by 5–15% in 2020. Demand and supply of trade has been majorly affected due to the simple reason that people are afraid to make transactions. The demand side has taken a hit majorly because of the fact that consumers are not willing to spend any money on anything due to the uncertainty of finances. This same fall in demand is expected in the year 2020. Many countries have taken economic decisions to preserve their own stock. Export restrictions on medical facilities and food supplies can be seen due to the pandemic. This is creating a shortage in the global market. <sup>5</sup>

As reported, a number of countries have suspended trade controls for their own benefit. For example, Canada has temporarily eliminated tariffs for specific categories of products if they are imported by hospital sites or public health agencies and first response organizations. These decisions are vastly taken keeping in mind the situation and needs of the domestic market. Rivals like the USA and China have also coordinated for the benefit of their respective markets. China has granted temporary exclusions for certain US goods (eg reagents or disinfectants) from its counter-duties.

The United Kingdom and European Union trade discussions have been on a hold too at the moment. According to their agreement, the transition period for UK ends on 31st December, 2020. However, it feels like due to the ongoing pandemic, no deal may be reached by then.

## **FUTURE IMPACTS OF COVID-19**

International trade functions on the theory of comparative advantage. The theory of comparative advantage allows specialization of goods for maximization of total output and improvement. Providers in regions of the world who specialize in producing one kind of product may cause a disturbance in the international trade which may cause the supply chain to break down. This can have a massive impact on companies and households. The major example of this is China who is

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<sup>4</sup> COVID-19 And its Impact on International Trade (2020). Available at: <http://southasiajournal.net/covid-19-and-its-impact-on-international-trade/> (Accessed: 17 July 2020).

<sup>5</sup> The Impact of COVID-19 (and the Global Response) on International Trade | Perspectives | Reed Smith LLP (2020). Available at: <https://www.reedsmith.com/en/perspectives/2020/06/the-impact-of-covid-19-and-the-global-response-on-international-trade> (Accessed: 17 July 2020).

a global supplier of pharmaceutical ingredients for medications. In a pandemic situation, production facilities are not operational and the domestic market may need the stock for their own people. Hence, the distribution of these ingredients may get affected severely.<sup>6</sup>

The response will be seen more evidently in these times with countries asking their manufacturers to concentrate heavily on the domestic market. The governments of various countries may see this as an opportunity to limit reliance on one country only for a specific good. Private companies can shorten and diversify their supply chain which allow them to smoothen their operations for future use. The future of the world could change massively due to the outbreak of this virus. The new changes in the world will warrant stricter rules in regards to immigrations, trade and technology amongst other things. Immigration rules have been made strict for many countries. The European Union which normally is very open to trade has taken an assertive stance to impose anti-dumping duties more forcefully. Showcase of technology supremacy of various countries has always been a foundation of trade war. The impact of COVID-19 will see a radical change of trade relations between countries.



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## **ANALYSIS OF ACTION BY COUNTRIES**

Transparency is essential for maintaining international core trade foundations and to keep trade flowing. Countries must honor their trade relations and must cooperate and notify the World Trade Organization from time to time. Priority in times like these is to make sure that the supply chain is functioning and there is no hindrance in the same. Due to COVID-19 there have been numerous cancellations which are linked to travel and trade. Lockdown has impacted the availability of labour. The additional safety and precaution that needs to be taken keeping in mind the virus is costing people a lot of money. Mobility has been affected by the pandemic which in turn has affected the ability to transfer essential products across borders. All these issues are costing countries time and money and hence it is essential for governments across the world to come together and coordinate action keeping in mind the private sector. In this context, some multilateral

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<sup>6</sup> COVID-19 And its Impact on International Trade (2020). Available at: <http://southasiajournal.net/covid-19-and-its-impact-on-international-trade/> (Accessed: 17 July 2020).

institutions have already been marginalized. The WTO may serve here as a perfect example with its partially paralyzed dispute settlement system. In regards to the series of recent migration crises, immigration rules have also been strengthened in many countries.

The immediate concern should be facilitation of medical facilities and supplies across borders as that will help tackle the problem of COVID-19. Ensuring global supply of these goods is of primary importance at this point. When China was the worst affected by the deadly virus in January, it had stopped exporting masks and started importing masks from other countries. The demand for masks per day had increased ten times more than China's mask production due to which China had to increase its production of masks. Hence, keeping in mind the current situation, trade barriers need to be removed and certification of goods needs to be provided at the earliest. There needs to be enhanced trade facilitation so that goods keep moving and so that they reach countries which have need for the same.<sup>7</sup>

## CONCLUSION

The world is in the midst of a pandemic. The economy is going to see a massive hit and the recovery cost is going to be a burden for the countries. However, there are ways to recover from such a recession. For the time being the main point of focus needs to be to tackle the virus. Structural changes will be seen due to the pandemic. The impacts may look serious but can be dealt with in the future if states cooperate. We should expect a paradigm shift in trade relations in this year.

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<sup>7</sup> Quiles, Pablo. 2020. "Legal And Policy Implications Of COVID-19-Related Export Restrictions | International Economics". International Economics. <https://www.tradeeconomics.com/legal-and-policy-implications-of-covid-19-related-export-restrictions/>.