

Unpacking the resiliency of global trade, yet again

Going by past experiences and historic ruptures, there is hope for global trade recovery in the post-COVID-19 world



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In the last year, the devastating impact of COVID-19 pandemic has shrunk the world economy by 4.4% and global trade by 5.3%; job losses have been estimated to be to the tune of 75 million. Around the world, countries have responded to pandemic-induced shortages with protectionist reactions and nationalist aspirations with the potential to disrupting complex cross-border supply chains. The blame game on trade openness and trade agreements for widening trade deficits, income inequalities and growing unemployment are all but natural domestic reactions. These trends make projections for the post-COVID-19 world even more dismal and depressing.

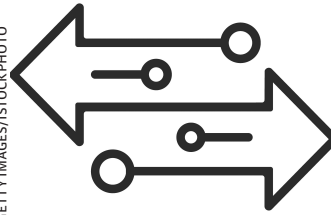
Past trends

Going by past experiences, historic ruptures often generate and accelerate new global links that lay foundations for institutional changes, seeking enduring cooperation among nations. The Second World War created sustaining multilateral institutions; besides the United Nations, the Bretton Woods Institutions such as

World Bank and International Monetary Fund (IMF) and International Trade Organisation (ITO) were created to help rebuild the shattered post-war economy. The General Agreement on Tariffs and Trade (GATT) was negotiated in 1947 as a means to reducing barriers to international trade. The oil shocks of the 1970s led to the establishment of the International Energy Agency (IEA) in 1974 to manage oil supply disruptions and went on to create awareness on the need for global energy security. The financial crisis of 2008 led to the G20 Leaders Summit, an elevation from the G20 Finance Ministers forum in 1999, in a bid to take cooperation beyond the G7 in a global quest to control inflation due to fiscal expansion. These developments had a consequential impact on global trade, with dramatic surges in volumes; from a mere \$60.80 billion in 1950 to \$2,049 billion in 1980; \$6,452 billion in 2000; \$19,014 billion in 2019 (Source: wto.org).

Future prospects

The patterns above leave much hope for optimism for global trade in the post-COVID-19 crisis in the collective belief that international trade is vital for development and prosperity, while competition is central to generating competence. Stimulus packages and forced savings in several countries in the last year have created financial buffers. Global supply chains that have



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remained dormant for long are expected to be resilient to help revive manufacturing with lower production costs, induce investments and promote technology transfers.

In a post COVID-19 world, members of the World Trade Organization are expected to stitch trade facilitating rules that may impinge on national sovereign policy space with a collective resolve to discipline errant nations that are known to dumping goods and erecting trade barriers through multilateral rules. Mutually beneficial trade arrangements that seek deeper economic integration will be entered into at the bilateral and regional levels to create win-win situations for all stakeholders, including consumers, who tend to benefit from lowered barriers and harmonised standards.

Countries that harness technology are expected to dominate international trade in future with a transformational impact on the global economy. Just as the steam engine in the 19th century and computing power in the 20th century, data will be the main driver of economic growth in the 21st

century. Businesses will aim to harness data for innovation to remain ahead of the curve in a post-COVID-19 world. However, increasing use of data and automation will make nations vulnerable to job losses. Rapid growth in e-commerce and the virtual world will demand entirely new skills from the workforce. Therefore, economic policies are likely to focus on stronger safety nets for workers; income protection, skill training, health care and educational support for families.

India's outlook

India's challenges during the COVID-19 pandemic have been no different from those faced by other countries: its GDP contracted by 7.3% according to the National Statistical Office; and about 10 million jobs were lost according to the Centre for Monitoring Indian Economy Pvt. Ltd; trade remained subdued at \$493 billion (goods at \$290 billion and services at \$203 billion). The projections of the International Monetary Fund for India's economic growth ahead are positive and in line with the general trends world-wide, assuming that the widespread vaccination might limit the COVID-19 agony. Unleashing trade potential is expected to have a ripple effect on the economy. Merchandise exports for the second quarter of 2021 from April-June at \$95 billion (+6%), is indeed encouraging, but would need to remain focussed on

value added products, beyond the traditional exports basket comprising refined petroleum products, pharma, gems and jewellery, textiles and garments, engineering items, rice, oil meals and marine products (Source: DGC&S).

Building an ecosystem that incentivises value-added manufacturing and technology-induced finished products should form a part of our long-term strategy. Plug and play manufacturing units under Production Linked Incentive Scheme (PLI) schemes, if carefully nurtured, could lead the industry on that path. Beyond the timely stimulus packages for micro, small and medium enterprises (MSMEs), supporting them with cheaper input costs, including raw material and intermediate goods would help sustain them with job creation at the local level. Developing a synergistic relationship between the big industry and MSMEs is at the core of a successful Atmanirbhar Bharat; the former should be encouraged to move into technology space and finished products, while the latter feeds them with locally made inputs at competitive prices. Skills upgradation to global standards should form a part of India's strategy in a post-COVID-19 world.

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