



Resiliency of Global Trade

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This article is based on **Unpacking the resiliency of global trade, yet again** which was published in The Hindu on 11/08/2021. It talks about the global supply chain which has suffered due to the pandemic and ways forward to strengthen it.

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 disrupt complex cross-border supply chains.

There are unavoidable declines in trade and output will have painful consequences for households and businesses, on top of the human suffering caused by the disease itself.

Going by experiences, historic ruptures often generate and accelerate new global links that lay foundations for institutional changes, seeking enduring cooperation among nations.

Building Back Better Global Economy

- 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 reduce 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 USD 60.80 billion in 1950 to USD 19,014 billion in 2019.
- 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.

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 USD 493 billion (goods at USD 290 billion and services at USD 203 billion).
- The projections of the IMF 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.
- India would need to remain focussed on value added products, beyond the traditional exports basket comprising refined petroleum products, pharma, gems and jewelry, textiles and garments, engineering items, rice, oil meals and marine products.

Issues With Global Trade Supply Chain

- **Disruption of Global Value Chain:** Covid-19 crisis is having devastating repercussions for corporations and businesses that have benefited from economic interdependence supported by cross-border supply chains.
China is the world's largest production base, and lies at the heart of many supply chains. Since the outbreak of this coronavirus, many companies that had come to depend on China were hard hit.
- **Halting of WTO talks:** This may indicate worse days ahead for the WTO, as trade rules have worked best when the global economy is booming and isn't facing a crisis.
- **Problem Faced by Emerging and Developing Economies:** The **United Nations Conference on Trade and Development** held that emerging and developing economies, which rely on export-led growth, will now be severely impacted as the global economy contracts and the world opts protectionism policies.
The **least developed countries** whose economies are driven by the sale of raw materials will also face hard consequences.

Way Forward

- **Stimulus Packages in Countries:** Global supply chains that have remained dormant for long can be made resilient by stimulus packages and forced savings. Such interventions are expected to help revive manufacturing with lower production costs, induce investments and promote technology transfers.

- **Start Negotiations Under WTO:** In a post Covid-19 world, members of the World Trade Organization should promote trade facilitating rules.
Mutually beneficial trade arrangements that seek deeper economic integration should 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.
- **Harness Technology:** 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.
 - Rapid growth in **e-commerce** and the virtual world will demand entirely new skills from the workforce. Therefore, economic policies should focus on stronger safety nets for workers; income protection, skill training, health care and educational support for families.
- **Focus on Restarting Manufacturing:** Building an ecosystem that incentivises value-added manufacturing and technology-induced finished products should form a part of long-term strategy for emerging economies like India.
- **Inclusive Approach:** Addressing the needs of the most vulnerable countries – measures, for example in relation to export restrictions and creation of regional stockpiles, could include specific exemptions or assistance to address the needs of the poorest countries.
- **Favourable Business Environment:** Keeping markets open and predictable, as well as fostering a more generally favourable business environment, will be critical to spur the renewed investment. And if countries work together, much faster recovery is possible than if each country acts alone.

Conclusion

The immediate goal is to bring the pandemic under control and mitigate the economic damage to people, companies and countries. But policymakers must start planning for the aftermath of the pandemic.

But a rapid, vigorous rebound is possible. Decisions taken now will determine the future shape of the recovery and global growth prospects.

We need to lay the foundations for a strong, sustained and socially inclusive recovery. Trade will be an important ingredient along with fiscal and monetary policy.

Drishti Mains Question

The devastating impact of Covid-19 pandemic has shrunk the world economy and global trade. In this context policy decisions taken at the international level will determine the shape of global growth and trade prospects. Discuss.