

## Impact of Covid-19 on Indian International Trade: A Roadmap Ahead

### Ms. Sneha Pandit Jadhav

Research Student ,  
Department of Economics  
Dr. Babasaheb Ambedkar  
Marathwada University,  
Aurangabad – 431005  
Email Id: [snehapjadhav90@gmail.com](mailto:snehapjadhav90@gmail.com)

### Mr. Nikhil N. Jogdand

M.Sc. Population Studies  
International Institute for Population Sciences  
Mumbai, Maharashtra.

### Harsha Kailash Jadhav

Student  
Department of Social Work  
Dr. Babasaheb Ambedkar  
Marathwada University,  
Aurangabad – 431005

### Abstract:

The Covid-19 pandemic has made the whole world upside down. It is the sole concern for developing countries to confront challenges. The major contributing factors to GDP growth are consumption, investment and external trade. Many developing countries completely rely on imports to meet their needs. On the other hand, their GDP growth is dependent on exports made by them to other countries. Therefore, import - export or external trade plays a substantial role in the growth of developing countries.

Due to the Covid-19 pandemic, countries across the globe impose lockdown and shut down their borders for any kind of trade activities. This indeed resulted in disruption of supply chains in developing countries like India which eventually affected internal GDP growth of India. As nationwide lockdown was imposed in India, consequently the manufacturing and production closed, adversely affecting the overall Indian economy.

Therefore, there is a need to study the impact of Covid-19 on Indian international trade and suggest some roadmap ahead. The aim of the present paper is to highlight the potential impact of Covid-19 on international trade among India with its neighbouring countries and how they have hit by this pandemic. The study also finds out how India deals with the tariff and other restrictions WTO has enacted on the member countries across the World. The study depicts that trade in India needs to be flourished with certain strong measures viz. fiscal, monetary and trade policies to revive the economy from the expected recession.

**Keywords:** Covid-19, International Trade, External Trade, Import, Export, Tariff, WTO, Supply chain, Economic Growth

### Introduction:

The catastrophic Coronavirus has made the world upside down. The novel coronavirus is known as Covid-19 after named by the World Health Organisation (WHO) in the International Classification of Diseases (ICD). Covid-19 spread rapidly around the globe and infected millions of people in a short course of time. Due to this Covid-19 outbreak, Indian economy has badly affected. Every facet of human life has been adversely impacted. “Worst case scenarios paint a frightening spectre. If we assume 30% - 70% infection rate of the world’s population & a fatality rate of 3%, the result would be nearly 70 - 165 million fatalities” (Zorawar, 2020).

World Health Organisation declared Covid-19 as a public health emergency on 30<sup>th</sup> January

2020, which resulted in a complete lockdown across the world. There are many aspects that hit the worst during the lockdown. The real GDP growth of India is slowed down in the past few years and Covid-19 has created an ample amount of new challenges to the Indian economy. An industrialist, Mr. Rajiv Bajaj said in his speech that, ‘India has flattened the wrong curve that is GDP and not the Covid-19 infection curve during the rigorous lockdown’. (4th June 2020 11:51 AM, The new Indian Express)

One of the very major contributors to the GDP growth of a country is external trade which was affected a lot, as countries across the world had completely closed their borders for trade, aviation, travel, import, and export. This biggest crisis is a challenge in front of the world which puts the global economy in precarious circumstances. “According to the World Trade Organisation (WTO), the world merchandise trade is expected to fall by between

13% & 32%, thereby indicating the world economy is expected to face recession”.

‘The economic impact of Covid-19 on the world economy can be examined from the demand side as well as supply side’ (Raj Rajesh, 2020). The above-mentioned statement clarifies the importance of international trade for the development of each and every country around the world. Demand and supply are the key features of international trade where there is demand from one country, other countries should supply the products to meet up their needs.

International trade is an engine of growth which refers to the exchange of goods and services between the countries. It helps the world economy for achieving prosperity as well as reduction of poverty. It promotes production & consumption, but this unprecedented pandemic holds world economy back across the world. “World trade fell sharply in the first half of the year 2020, as the Covid-19 pandemic upended the global economy” (World Trade Organisation).

In case of India, the nation depends upon imports from other countries in certain essential goods and services. During the worldwide lockdown, global trade was completely stopped and adversely affected. There is a need to take a look at the international trade situation of India during this pandemic and how India can become self-sufficient to reduce its dependency on other countries in the world. Hence, this study tries to depict the overall international trade scenario of India with its neighbouring countries and how it went worst during this current pandemic.

#### **India’s International Trade Scenario with other Nations:**

International trade is one of the prospective victims of the Covid-19 crisis. In context with the theory of comparative advantage, international trade has gained an extraordinary importance which makes available the firm system for the countries to exchange goods and services with one another internationally. But the current pandemic led to shut down cross borders that indeed collapsed the import-export chain everywhere in the world. In case of India, the situation is not so different, it is also adversely hit nation’s trade with its neighbouring countries.

It is sooner to evaluate the actual impact of various actions that are happening on the field. Rather analysing the different scenarios of trade situations, it is an attempt to throw light on the highlights of the activities taking place around the globe. Global pandemic also traumatized the employment and demand for services. Production and consumption declined. It also intensely affected on tourism sector throughout the world.

This pandemic shows the sharp decline in the World GDP fall by 2%, developing countries by 2.5% and industrial countries by 1.8% which is the matter of concern for developing countries like India. Coming out of such dilemma can be assumed to take longer period to revive. Therefore, it is necessary to study the impact of Covid-19 on output and trade in different point of views.

Due to this current pandemic, demand & supply chains are disrupted which resulted in decline in production line as well as in international service sectors. “Lockdown result in the forced closure of production facilities resulting in a shrinkage in supply. Hotels and tourism are the worst affected industries which will have a knock-on effect on allied industries such as processed food, beverages and transport” (Raj Rajesh, 2020)

As far as demand side is concerned, the consumer which plays vital role in demand supply chain has also affected because of the import-export restrictions. On the other hand, people started saving their money during this pandemic as the uncertainty in the future. Spending less resulted in lack of demand which tends to an anxiety about losing income due to jobless status of millions of people throughout the country.

Prior to the Covid-19 crises, the Indian Economy was in declining phase if we look at GDP estimated for the previous year that is 2019. Sooner or later, the Economy is supposed to slide towards recession and the Covid-19 has posed a new challenge in front of the nation subjecting an economy in a worst condition.

If we look at the global trade scenario, approximately 20 percent of the global trade in manufacturing intermediate products take place in China itself. China not only holds the status of manufacturing hub and exporter of consumer goods; it is said to be the crucial supplier of the intermediate

inputs as well for the foreign based manufacturing companies. As of Covid-19 virus originated from Wuhan China, the 20 countries around the world got affected because of China’s slowdown through global value chains. A significant reduction in Chinese supply of intermediate inputs can affect the productive capacity and therefore the export of any country based upon how dependent industries are on Chinese suppliers.

China is the largest exporter for countries around the world accounted for 16 percent global merchandise export. UNCTAD has evaluated in its report that there is 2 percent reduction in its output due to current pandemic.

India is also an export hub as it has investment in various sectors altogether. The assessment done by the UNCTAD, the slowdown in the manufacturing units in China has worsen the international trade and around \$ 50 billion loss happened due to disruption in global value chain in exports. Automobile sector \$ 34 million, textiles & apparel of \$ 64 million, leather products \$ 13 million, furniture and timber commodities \$ 15 million, electrical machinery \$ 12 million, chemical sector at \$ 129 million, metals products at \$ 27 million are affected industries in India during Covid-19 crises. (Mahajan, Arora, June 2020)

China and USA are two major trading partners with India. However, tensions arouse between the borders of India and china giving rise to economic decline as the economic dependency between the two nations.

China contributes 14% of the Imports and 5% of India’s total Exports causing a trade deficit. Majority of Imports are electronic equipment, pharmacy, cell phones, nuclear reactors, articles of iron and steel, heavy machinery, telecom, power, plastic toys and critical pharmacy ingredients, furniture, textiles etc.

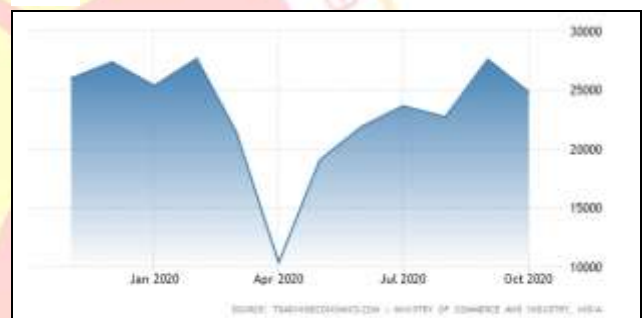
India's total trade with China declined \$16.55 billion in April-June 2020-21 from \$21.42 billion in April-June 2019-20. Recently India’s trade with China and Hong Kong came down to 7% fall. According to commerce and industry minister Piyush Goyal “The Centre has consistently taken steps to balance our trade with China by increasing exports and reducing dependence on imports from China”.

**India’s Import - Export Scenario & Trade Balance:**

The import – export of every nation is said to be a major contributor for the growth of its economic development. In the ruinous situation of Covid-19, the magnitude of merchandise trade of India has fallen down during the first half of the year 2020. Therefore, it is required to take a look at the Indian trade summary.

The estimated exports of merchandise and services combined has sank to lowest in April 2020 (-) 60.28 % showing slight increase in upcoming months of May **-36.47%**, **June 12.42%**, **July-10.21%** and yet again negative change in august-12.66%. The exports first time saw increased in the month of September 5.27%.

**India’s Exports from January 2020 to October 2020:**

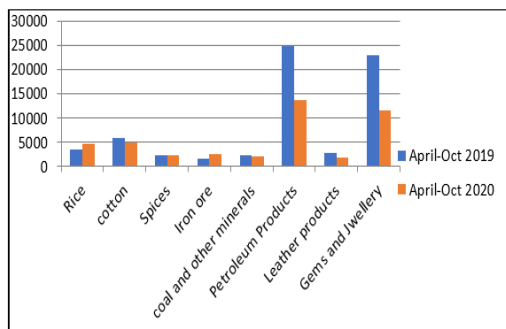


According to the report released on official site of Press information bureau in November 2020, India Again saw negative growth of (-) 14.53% in overall exports. This is how India’s export in merchandise and services has adversely affected during the Covid-19 pandemic.

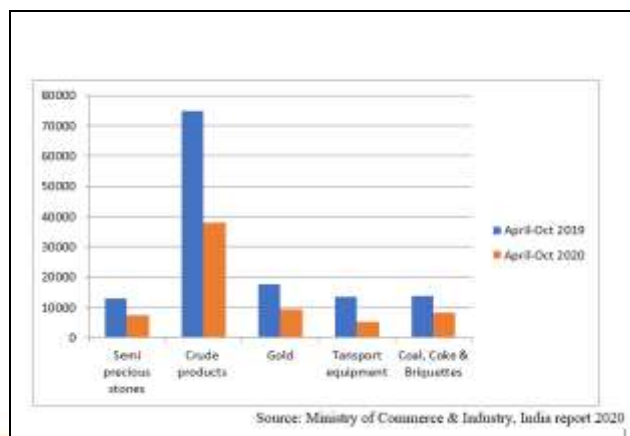
**Exports:**

- Exports in October 2020 were USD 24.89 Billion, as compared to USD 26.23 Billion in October 2019, which shows a negative growth of (-) 5.12per cent.
- The Major commodities which have recorded positive growth during October 2020 compared to October 2019 are Rice (113.62%), Iron ore (74.14%), Spices (21.85%), Coal & other ores, minerals including processed minerals (9.64%).While Major commodities which have shown negative growth during October compared to October 2019 are Petroleum products (-52.04%), Gems & jewellery (-21.27%), Leather & leather products (-16.67%) etc.





Source: Ministry of Commerce & Industry, India report 2020



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- Estimated value of exports between the span of April-October 2020-21 was USD150.14 Billion compared to USD185.40 Billion during the period April-October 2019-20, showing a negative growth of (-) 19.02%.

**Imports:**

- Similarly, imports have faced negative growth since month of April -58.65%, May -51.05%, June -47.59, July -28.40%, August -26.04%, Sep-19.60%.
- Imports of Petroleum and crude products declined to -41.92% in as there was fall in demand during lockdown from April-October 2020-2021.
- The Imports in the month of October 2020 were USD 33.61 Billion, which shows a decline of -11.53% compared to imports of USD 37.99 Billion in October 2019. Estimated value of imports for the span of April-October 2020-21 was USD 182.29 Billion against USD 286.07 Billion during the period April-October 2019-20, giving a negative growth of -36.28%.

**Crude Oil and Non-Oil Imports:**

- If we consider Oil imports in April-October 2020-21, they had a value of USD 37.84 Billion which was 49.50% lower if compared to USD 74.92 Billion over the same period last year.
- Non-oil imports have sunk from USD 28.26 Billion to 27.62 Billion which is 2.24% lower in October 2020 if compared to same month of 2019.
- Non- oil and non-gold imports has recorded negative growth of -30.14% in current year in the period of April-October 2020 Compared with previous year.

**Trade Balance:**

- Trade deficit registered on merchandise was USD 8.71 Billion in the month of October 2020 whereas in the previous year over the same period it was USD 11.75 Billion which means there is a decline of 25.86%.
- According to RBI’s Press Release of 13th November 2020, the estimated trade balance in Services for September 2020 is USD 7.15 Billion. While in October 2020 it is USD 7.19 Billion.
- Combined trade surplus (merchandise and services together) for April- October of current year is estimated at USD 16.52 Billion as against April-October of previous year which has shown the deficit of USD 54.83 Billion.

The volume of the expected fall in India’s trade will reliant to a large extent on the time span it takes for the Covid-19 pandemic to be brought under control and for effective vaccines to be found.

The month of April witnessed great fall in Exports value. However, gradually it started recovering in upcoming months but it still needs improvement in order to revive and flourish the economy further. Looking into the imports it is clearly visible that crude oil, non-oil and mineral imports has been affected to great extent. These commodities have exhibited a negative growth. The trade deficit of merchandise also has shown a significant decline.

China is outfitting towards returning to normal, its companies are getting ready to continue activities soon and so as to meet the worldwide post-pandemic interest. The resumption of action would prompt China having a first-mover preferred

position, and result in a likely hit to Indian MSMEs. These organizations are too little to be in any way ready to retain the credit crunch coming about because of the pandemic and compensate for lost business sectors.

While India has begun to loosen up its lockdown measures in little advances, the positive financial effect of leaving the lockdown may take longer than foreseen.

**Conclusion:**

In the devastating situation of Covid-19 crisis, keeping trade open and promoting feasible environment to the business and giving favourable conditions for achieving sustainable development goals are necessary measures to be taken by the countries across the globe. Policy initiatives regarding trade, fiscal and monetary needs to be strengthened because these are the key factors in order to achieve SDGs for the betterment of the nation.

Trade has been severely disrupted by supply demand shocks. Although, it is a major challenge in front of the policy makers will be to establish the firm foundation for strong and sustainable inclusive economic recovery. Transparency in supply chains needs to be strengthen.

In case of India, national level determination and commitment however is necessary to achieve the goals and maximise the benefits from international trade. All these efforts can, however, be greatly enhanced by concerted actions taken by the government.

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