

THE NEW EMERGING INTERNATIONAL ECONOMIC ORDER POST COVID-19 – AN OVERVIEW

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ABSTRACT

It has been more than a year since COVID-19 started spreading all around the world. COVID-19 has disrupted international trade between countries, and global supply chains for both essential and non-essential goods and services. The countries with the most profound impact because of this pandemic were the least developed countries due to their reliance on commodities and tourism and the import of medicals, pharmaceuticals and food products. The outbreak of COVID-19 brought social and economic life to a standstill. One of the major effects of this is the decrease in the economy of various countries. A lot of different sectors, including the tourism sector, aviation sector, transport sector, medical sector and oil sector, to name a few, were affected differently because of this COVID-19 pandemic, which affected the economy very much. The most affected sector was the trade sector between countries. Because of this decrease in the economy, due to the COVID-19 pandemic, a lot of countries have implemented different schemes to overcome this. In this research paper, we will look into such policies that were implemented in India, and their effect in India, finally, in China, which was targeted by most countries and whose economy was affected a lot because of the COVID-19 pandemic.

INTRODUCTION

In India, because of the pandemic, International and internal mobility were restricted, and the revenues generated by travel and tourism, which contributes 9.2% of the GDP, will take a major toll on the GDP growth rate. Aviation revenues came down by USD 1.56 billion. Oil has plummeted to an 18-year low of \$ 22 per barrel in March, and Foreign Portfolio Investors (FPIs) have withdrawn huge amounts from India, about USD 571.4 million. While lower oil prices will shrink the current account deficit, reverse capital flows will expand it. The rupee is continuously depreciating. MSMEs will undergo a severe cash crunch. The crisis witnessed a horrifying mass exodus of such a floating population of migrants on foot, amidst countrywide lockdown. Their worries primarily were loss of job, daily ration, and absence of a social security net. India must rethink on her development paradigm and make it more

inclusive. COVID 19 has also provided some unique opportunities to India. There is an opportunity to participate in global supply chains, multinationals are losing trust in China. To 'Make in India', some reforms are needed, labour reforms being one of them¹. Many countries have tried to keep the trade open in their countries, however, many countries have implemented various policies in their domestic markets, like export bans, restriction on imports and subsidies to import-substituting industries to reduce dependence on imported goods and to improve the self-reliant characteristics of the country. And to improve the trade between the countries certain rules and agreements were made between few countries.

RESEARCH PROBLEM

A lot of different countries have implemented different schemes to overcome the decrease in the economy caused by the COVID-19 pandemic. Each country has taken different measures for this. Some of these policies were taken against China. Are these policies as effective as much as they are meant to be? Do these policies change the position of the countries in any way?

RESEARCH QUESTION

Whether the policies taken by India against China during this COVID-19 pandemic serve their purpose?

HYPOTHESIS

Yes, the policies that were taken by India against China during the COVID-19 pandemic servers their purpose.

IMPACT ON THE ECONOMY

In March 2020, the World Health Organisation announced that they characterised COVID-19, which pointed over to 3 million cases and 207,973 deaths in 213 countries and territories. This is not only a health issue, but it also turned out to be an economic issue globally. These economic impacts were mainly due to reduced productivity, business closures, loss of life, trade disruption and decimation of the tourism industry. The COVID-19 pandemic also had a

¹ Monika Chaudhary, P. R. Sodani, and Shankar Das, *Effect of COVID-19 on Economy in India: Some Reflections for Policy and Programme* JOURNAL OF HEALTH MANAGEMENT (Aug 11. 2020) <https://journals.sagepub.com/doi/10.1177/0972063420935541>

direct impact on the income of people due to premature deaths, reduction in productivity and workplace absenteeism and it has also created a negative supply shock, with manufacturing activities slowing down due to the disruptions in the global supply chains and closures of factories². This is very much evident when we look into the production index of China in February, which declined by more than 54% from the value of its preceding month³. In addition to this, the spending behaviour of the customers also changed greatly, which is mainly due to the decrease in income and household finances. Service industries, like tourism and transportation, has also suffered a great loss due to the decrease in travel. There was also a loss of revenue in the airline industry, for example, there a loss of up to \$ 314 billion solely on the passenger carriage, as per the International Air Transport Association⁴. Global financial markets were also heavily affected by this pandemic. As the number of cases increased in countries like the US, Spain, Italy, France, South Korea, Germany and Iran, the world financial and oil markets witnessed a huge decline. Another factor that is to be considered is the labour market, which will be severe, especially for countries that are dependent on migration. Globally, migrant workers are an important component of the labour markets, in both high and low skilled occupations. Because of the international travel restrictions and quarantine to reduce the spread of COVID-19, this migration flow will be limited, which will hinder global economic growth, and development⁵.

IN INDIA

Due to the COVID-19 pandemic, the Indian capital markets are anticipating a funds flow to western capital markets, because of the rate cuts and fall in the stock market all over the world. As per the NSDL data, Foreign Portfolio Investors (FPIs) have withdrawn a huge amount of ₹247.76 billion from equity markets and ₹140.50 billion from debt markets, from India, in a short span of 13 days at the beginning of the pandemic, that is, from 1 to 13 of March 2020. It was predicted that there would be a lot of volatility in the capital markets in the succeeding six months, because of the rapid flow of capital from one market to another⁶.

² Anton Pak, Oyelola A. Adegboye, Adeshina I. Adekunle, Kazi M. Rahman, Emma S. McBryde and Damon P. Eisen, *Economic Consequences of the COVID-19 Outbreak: The Need for Epidemic Preparedness* FRONTIERS IN PUBLIC HEALTH (May 29, 2020)

<https://www.frontiersin.org/articles/10.3389/fpubh.2020.00241/full>

³ MONIKA CHAUDHARY, P. R. SODANI, AND SHANKAR DAS, *Supra* note 1.

⁴ *Id.*

⁵ ANTON PAK, OYELOLA A. ADEGBOYE, ADESHINA I. ADEKUNLE, KAZI M. RAHMAN, EMMA S. MCBRYDE AND DAMON P. EISEN *Supra* note 2

⁶ MONIKA CHAUDHARY, P. R. SODANI, AND SHANKAR DAS, *Supra* note 1, at 6.

One of the important industries that was very badly affected by the COVID-19 pandemic is the tourism industry. In India, tourism is thriving and it contributes to the Indian economy very much as it accounts for 9.2% of the GDP and has generated US\$247.3 billion in 2018 and it has also created 26.7 million jobs the same year and according to a report, the sector was expected to employ nearly 53 million people, by 2029. But, since international mobility was restricted because of the pandemic, the revenues generated by this sector will take a major toll on the GDP growth rate, which may be a downfall of 0.45% in the growth rate of the GDP. Similarly, the railways sector of India contributed US\$27.13 billion to India's GDP, in 2019 and a 21-day lockdown period would have brought down the revenue by US\$1.56 billion. Similarly, the Indian retail industry and the aviation sector was also hugely affected by the COVID-19 pandemic⁷. The Indian Oil and Gas Industry is also quite significant in the global context and it contributes to 5.2% of the global oil demand. The demand for transport fuels, which amounts for 2/3rd demand in the Oil and Gas sector, because of complete lockdown throughout the country as auto and industrial manufacturing declined and goods and passenger movement fell through. Though the crude prices plunged during this period, the Government increased the excise and special excise duty to make up for the revenue loss and road cess was raised too⁸. This was a historic drop in the demand for oil, which has dropped the crude oil price to US\$22 per barrel in March, which an 18-year low point, while in January, the price was US\$65 per barrel. A fall in crude oil prices may cut India's current account deficit, which was 1.55 of GDP in 2019–2020. But the capital outflows from India may exceed the potential saving in the current account deficit. This might affect the average exchange rate of INR to USD, for India⁹. Another important sector that is to be looked into, is the pharmaceutical industry, which has been on the rise since the start of the COVID-19 pandemic. Globally, India is the largest producer of generic drugs. At the beginning of 2020, the market size of this sector was \$55 billion. Because of the export of Hydroxychloroquine to the world, and especially to the US, UK, Canada and the Middle East, this sector has been surging in India. Recently, because of this pandemic, there has been a rise in the price of raw materials imported from China. Generic drugs are the most affected because of heavy dependence on imports, disturbed supply-chain, and unavailability of labour in the industry, which was brought about by social distancing. On the other hand, the pharmaceutical industry is struggling because of the government-imposed bans on the export of critical drugs,

⁷ Id at 3.

⁸ Sayali Deshpande, *Impact of Covid-19 on the Indian economy*, TIMES OF INDIA (Oct. 04, 2020, 04:49 PM), <https://timesofindia.indiatimes.com/readersblog/midweekread/impact-of-covid-19-on-indian-economy-26770/>

⁹ MONIKA CHAUDHARY, P. R. SODANI, AND SHANKAR DAS, *Supra* note 1, at 6.

equipment, and PPE kits to make sure there are sufficient quantities for the country. The increasing demand for these drugs without the proper availability of the raw materials required is making things harder for this sector. To overcome this, the Government could take few steps like reducing the financial stress on the pharmaceutical companies, addressing the labour shortage issue and tax-relaxation¹⁰.

PREVENTIVE STEPS TAKEN BY INDIA

The Government of India undertakes few steps to tackle the spread of COVID-19. This includes precautionary step, like conducting heavy screenings and quarantining the International travellers, who come to India and conclusively suspending all visas, other than diplomats and employment for the initial period. All the cross-national borders were sealed and the operation of railways was suspended. Furthermore, all schools, malls, gyms, hotels, and places where there are chances for the high crowd were shut. The Government also took informative steps, such as providing information on the virus, its spread, preventions, guidelines, helpline numbers, registered cases, death toll, etc. on the Ministry of Health's official website. The government had also designated 72 centres for the diagnosis and treatment of COVID-19, throughout the country. Steps were also taken to develop a vaccine for the COVID-19¹¹. These were a few steps taken by the Government to battle the spread of the COVID-19 pandemic. The Government has also taken steps against China in this matter, which we will look into a few of such policies now.

POLICIES AGAINST CHINA

The policies taken against China were framed in such a way to affect the economy of China, by restricting their activities in India. These restrictions against the China companies were made in the Road transportation and the Highway sector. In this sector, it was decided that Chinese companies will not be allowed to participate in Indian Highway projects, which includes the joint venture route. Chinese companies were also not allowed to invest in India's Micro Small and Medium Enterprises (MSME) sector¹². The Minister of Micro Small and

¹⁰ SAYALI DESHPANDE, *Supra* note 11.

¹¹ Aishwarya Upadhyay, *Coronavirus: Here Are The Steps Taken Across India To Control The Spread of COVID-19*, ND TV (April. 15, 2020, 04:26 PM), <https://swachhindia.ndtv.com/coronavirus-here-are-the-steps-taken-by-india-to-control-the-spread-of-covid-19-42304/>

¹² HT Correspondent, *India steps up economic offensive against China*, HINDUSTAN TIMES (Jul. 02, 2020, 07:06 AM),

Medium Enterprises (MSME), Nitin Gadkari, talked about this in an interview, said: “for up-gradation of technology, research, consultancy and other works, we will encourage foreign investment and joint ventures in MSMEs, but in case of Chinese we will not entertain them”. The consignment shipping of imports from China was stopped, at the Indian ports. In this, the Minister also said that this is not arbitrary and he urged the concerned departments to expedite clearance of consignments that were booked before two to three months before this situation happened. The Government also decided to tighten the foreign direct investment inflows from neighbouring countries, especially in China, by making the government approval process more rigorous. The Minister also said that the Government had initiated reforms to help MSME to make the country even more self-reliant, which the Minister said, “It is a good step. The imports from China will be discouraged and the country will take large strides towards self-reliance”¹³. The Government was also working to reduce India’s dependence on China and to encourage domestic manufacturing. China accounts for about 14% of India’s import and is also a major supplier for sectors like cell phones, telecom, plastic toys, critical pharma ingredients and power. One of the major steps that the Government is working is to restrict the low-quality Chinese import, and to do that for technical regulations, which includes safety and quality standards, for about 370 products are being formulated to cut the imports of these non-essential items from other countries, like China. These items include chemicals, consumer electronics, telecom goods, rubber articles, industrial machinery, furniture, fertiliser, textiles, steel, heavy machinery, paper, glass, metal articles, pharma and food. The Government is also looking into setup alternate global supply chains other than China. The government recently put import restrictions on tyres, while also making its approval mandatory for foreign investments from countries that share a land border with India to curb "opportunistic takeovers" of domestic firms, following the COVID-19 pandemic, a move which will restrict FDI from China. The commerce ministry has identified 12 sectors, which are, food processing, organic farming, iron, aluminium and copper, agrochemicals, electronics, industrial machinery, furniture, leather and shoes, auto parts, textiles, and coveralls, masks, sanitisers and ventilators, to make India a global supplier and cut import bill¹⁴.

<https://www.hindustantimes.com/india-news/india-steps-up-economic-offensive-against-china/story-4OFo0xbEqJXXxvibNKkvmL.html>

¹³ Id

¹⁴ *Government working on steps to cut import dependence on China, boost manufacturing*, THE ECONOMIC TIMES (Jun. 18, 2020, 09:27 PM),

<https://economictimes.indiatimes.com/news/economy/policy/government-working-on-steps-to-cut-import-dependence-on-china-boost-manufacturing-sources/articleshow/76449657.cms?from=mdr>

Last year, India, US, Israel, Brazil, Australia, Japan and South Korea had a conference regarding the trade post-COVID-19 and they also talked about ways to their dependence on China. It is important to be noted that these are countries that share close trade and commercial links with China. This meeting attended by the then foreign ministers of the seven countries discussed the importance of international cooperation, transparency and accountability in combating the pandemic and in addressing its causes, as the US has talked and maintained that china has suppressed the early information about the coronavirus outbreak when it was first detected in Wuhan and that China has always downplayed its risks. This conference also covered the pandemic responses, global health management, medical cooperation, economic recoveries and travel norms¹⁵. These are a few of the policies that were taken against China during the COVID-19 pandemic. This is not exhaustive and there are a few more of these policies, but these are the main policies and give a gist of the policies, like their reasons, and much more.

CONCLUSION AND SUGGESTION

When we look into whether the policies taken by India serve their purpose, it should be noted that the main purpose of these policies is to affect the economy of China and, especially, to reduce and remove the dependency of India on China. First, when we look into the MSMEs, the policy states that the Chinese were not allowed to invest in them, but it should be noted that, it is not like the Chinese is heavily interested in Indian MSMEs or even in highway projects for that matter. Furthermore, focusing investments in infrastructure only serves to restrict India's growth while providing little strategic benefit. The next policy is that joint ventures with China will not be permitted. Targeting joint ventures, like this could further suppress capital flows into India, which India desperately needs to cope with the pandemic-induced slowdown. Then, to talk about restricting imports is very complicated, as, in this case, it would affect India along with affecting China. The Chinese imports are very crucial to the Indian exports, so, the Government must proceed with caution, because it might harm Indian exporters too. To say if these policies have served their purposes, the word 'no' would be an understatement. These policies were enacted to affect the economy of China, but it doesn't do justice to them, as these policies would be a mere inconvenience and it would not

¹⁵ *US, India and five other nations talk post-covid trade*, THE ECONOMIC TIMES (May. 13, 2020, 12:14AM),<https://economictimes.indiatimes.com/news/economy/foreign-trade/us-india-5-others-talk-post-covid-trade/articleshow/75704374.cms?from=mdr>

affect the country's economy in the long term. Chinese investments have been made in Indian start-ups, like Paytm, Swiggy, Ola and Flipkart, but these do not classify as an MSME. Policy to restrict the import of materials from China would affect the economy of India, more than it does to the economy of China. The plan to attract foreign investors, other than China, is not an easy job to do in the very short term, it might take some time, to attract the said foreign investors. Thus, it can be said that these policies do not exactly perform their purposes.



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