A Study of Global Trade War and Its Impact on Indian Economy

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Abstract

Introduction
1. In an era of globalization, international trade is inevitable. When we walk into a supermarket and find South American bananas, Malaysian rubber products, Brazilian coffee, we simply experience the impact of global trade. Global trade allows all countries around the world to publicise their markets and to supply goods and services that otherwise would not have been open to the domestic economy. As all goods and services are available at relatively cheaper prices in the international market, therefore domestic market becomes more competitive. People have got choices for competitive products. Therefore, the difference in the prices of goods of the foreign economy and domestic economy results in international trade.

2. Why nations trade with each other? Not a single nation alone can generate all the goods and services for its households in today’s world of limitless desires. There is an unequal distribution of factors of production over the countries of the world. Countries of the world differ from each other in terms of natural resources, technology, entrepreneurial and managerial skills which determine the ability of the country concerned, at the lowest cost of production, to manufacture goods and services. For example, South Korea can manufacture cars or microelectronic products effectively in comparison with any other nation in the world, similarly Malaysia could produce rubber and palm oil more efficiently. The ability to manufacture these products, such as electronics or rubber, is much greater than their ability to consume these goods within the country so that they can sell these goods at comparatively cheaper prices to other countries around the world. Similarly, India and Brazil can import certain products from South Korea and Malaysia at lower prices and can in exchange, import Brazilian coffee or Indian textiles at a lower price. Therefore, generally trade benefits all the countries of the world provided it is free trade. If one country has a belief in free trade and the other beliefs in the opposite, only the previous one will end practicing free trade and suffering in the end. Economists say that trade conflicts safeguard economic interests and are advantageous to the local market, but critics claim that they ultimately hurt local companies, consumers, and the economy in long run. Protectionist policies always harm the concept of globalization. According to the World Commission on the social dimension of globalization (2004). “Globalisation should benefit all the countries and should raise the welfare of all people throughout the world”. Advocates of protectionist view put arguments in favour of restrictions of the trade like the expansion of the home market, keeping money at home, countering foreign low wages, defence or national security arguments, protection of infant industry, anti-dumping arguments, and balance of payment arguments. Trade restrictions are of two types; tariff barriers and non-tariff barriers. The tariff barrier is the most common barrier to trade. It is the tax or duties that one country imposes on exported or imported goods. There are various types of tariff barriers in international trade.
If the tariff is imposed based on the physical weight of some goods, imported or exported, called a specific tariff.

- If a tariff is imposed on the value of some goods, imported or exported is called “Ad Valorem tariff”.
- If different rates of the tariff are imposed on different countries called discriminatory tariffs.
- If the same rates of a tariff are imposed on different countries, called non-discriminatory tariff”.
- If the main purpose of imposing a tariff is to produce revenue, called a revenue tariff.
- And the most commonly used tariff is the Protective tariff. if the tariff is imposed mainly to protect domestic industries from foreign competitions are called the protective tariff

3. Followers of the protectionist policy argue that tariff imposition has two impacts; revenue increases after the imposition of tariff and home production increases which is called protective effect but if other countries retaliate in the same manner, the trade war is inevitable. A situation of trade war erupts when one nation or economy strike back against another economy by imposing trade barriers. The application of trade restrictions is not a new concept in international trade. If we study the background of the global trade war, we find that countries frequently used trade restrictions in global trade. The situation was aggravated after the second world war. Most of the countries were intentionally devaluing their currency to increase their export and minimise imports. This was also the reason for the currency war between countries.

4. We can divide the world trade in the pre-Bretton Woods and post Bretton Woods period. An efficient international monetary system is very essential for the smooth functioning and expansion of international trade. From the early 19th century until the first world war, the era was regarded as a period of internationalism. Most of the major industrialised nations of the world started participating in world trade. After the second world war and the hectic slump and currency war that followed it all the countries of the world wished to return to normalcy. Two causes were responsible for this wish:

- Reconstruction of the economies ravaged by the war.
- To end the currency war.

As far as the second cause is concerned many countries or the trading partners of the world started devaluing its currency to improve the conditions of their BOP. This resulted in a trade war between nations. Therefore, in Bretton Woods, New Hampshire, USA, members of 44 countries met to discuss these problems and to find realistic solutions for them. This conference proposed the establishment of:

- The International Monetary Fund (IMF), to help member countries to meet their BOP deficit problem.
- IBRD, to reconstruct and develop economies of member countries.
- An International Trade Organisation (ITO), to solve the problem of international trade and proper liberalisation of it.

5. However, the proposal for the International Trade Organisation did not materialise and the General Agreement on Tariff and Trade (GATT) was formed. The GATT was established in 1948 with a big and important objective of “free trade” and “no trade war”. Its main purpose was to remove trade restrictions which sooner or later converts into a trade war. The first seven rounds of GATT were focussed on the removal of trade barriers only. Despite these discussions in several rounds of GATT, it couldn’t provide a useful forum for discussion on international trade issues.
6. The 8th round of GATT is called Uruguay Round which started in 1986. Member countries negotiated in the areas of Tariffs, Non-Tariff Measures, Tropical Production, Natural resource-based products, Agriculture, GATT articles, Safeguards, Multilateral trade negotiation agreement, Subsidies, Disputes Settlement, Trade-Related Intellectual Property Rights (TRIPPS), Trade-Related Investments measures (TRIMS), Functioning of GATT system (FOGS). Despite serious discussion on these issues’ agreement could not be reached and member countries kept on using trade and non-trade barriers on each other.

7. COVID-19 pandemic, which started in March 2020, has adversely affected global trade. As per WTO statistics, a 3% fall in the volume of merchandise (export and import) trade is seen in the first quarter of 2020. Lockdown in many economies of the world aggravated the problem and declines are historically large. Strict social distancing and majors and restrictions on travel and transport adversely affected the service sector of the world economy which is the main contributor to gross domestic product (GDP) of many countries. Therefore, the economic recovery from the COVID situation is highly uncertain. This situation might give a boost to the global trade war which will be the endeavour during the research to be found out and a description of the same has been covered in Chapter 3. The research has tried to reveal how the pandemic has crippled the world economy and aggravating the pre-existing problem of the trade war. The recent trade war between China and the USA is an apt example.

Recent Examples of Trade War

8. Since the year 2018 world has been witnessing trade conflict which was earlier currency conflict between the USA and its economic partners mainly the EU and China. But in this conflict US’s all-weather friend Canada and Mexico were also hit. However, retaliation by other countries has been very limited. In March 2018, the United States announced the imposition of additional tariffs under Section 232 on imports of steel (25%) and aluminium (10%) from China to the United States. This might harm the Chinese economy as China is the major contributor of crude and finished steel in the world.

9. In the same month, the US President announced his strategy to endorse restrictions against China over its Intellectual Property Rights (IPR) policies which were severely affecting its stakeholders. In this sanction, the US raised tariffs by 24 to 25% on selected Chinese products which were valued to the tune of approximately $50 billion. By adopting the policy of quid pro quo China on 01 April responded with 25% tariffs on $50 billion in US exports on various American products, like agriculture, pork, and cars. On 3rd April 2018, the US administration released a list of 1,333 goods equivalent to $50 billion in trade, which it said would enforce a 25% tariff.

10. These Chinese products mainly belong to the category of important sectors like robotics, rail and shipping, information technology, health care, and medicine, and high-technology. China retaliated and published a list of 106 products on which 25% tariffs were imposed and its value was worth $50 billion in trade. Thus, quid pro quo tactics kept ongoing between China and the US. The US plans to tax $50 billion worth of Chinese imports was replied with threats by China to impose tariffs on American products worth $50 billion. China announced to hit back with additional taxes on American chemicals, automobiles, and other products. Interestingly all these 106 American products are produced in those regions of the US where President Trump enjoys great support of his people. Earlier this year both countries signed the first phase of the trade agreement to reduce trade pressures between
them, which last year weakened global growth and scaled-down business investment around the world. But due to the blame game over the pandemic, progress has been derailed.

11. Apart from the above, the subsidy has been one of the major causes of dispute amongst countries of the world. According to the WTO agreement on agriculture, developed economies had to reduce their subsidies by 21% in six years and developing countries by 12% in 10 years. Recently restriction on Indian agriculture produce by US, EU, Canada, Brazil, and Japan has been imposed in August 2020. They have questioned that India is not following the WTO peace clause for surpassing the limit on support or, subsidy it can render to its peasants. In the platform of WTO, the ceiling for subsidy is 10% of the value of the produce. India provided the WTO with details that the value of its rice production in 2018 was $43.6 billion and subsidies were worth just $5 billion. Subsidies have therefore remained a major bone of contention between the various countries of the world, but there is one peace arrangement in the WTO that protects the WTO members’ food procurement program for developing countries from taking action in the event of a violation of the subsidy cap. It will also be a litmus test to observe if in circumstances like the ongoing pandemic, WTO members grant food security pre-eminence to emerging economies or whether developed nations are pursuing market entree.

Globalisation has reached a few obstructions in recent times, following decades of surges in world trade, worldwide tourism, and global cooperation, as some of the development achieved in the past has been undone by the re-emergence of patriotism and protectionism. The COVID-19 pandemic is predicted to trigger an unprecedented deterioration in global trade after trade growth decelerated dramatically in 2019, owing in huge part to trade conflict between the United States and China. As per the forecasts of the WTO, merchandise business is going to plunge between 12.98% and 31.88% this year, depending on how easily the coronavirus is controlled and trade will return to pre-crisis levels. According to the WTO Director-General, Roberto Azevêdo, the swift and robust rebound is only possible through the focus on free trade. Global markets have to be kept open and predictable, in addition to promoting a more desirable business climate.

12. Though before the onset of the pandemic, the Indian economy was not affected much by the ongoing trade conflict between the USA and China because of the combined effect of the pandemic and trade war India’s GDP shrunk by 23.9% in the first quarter of FY 2020-21. In the first quarter, the worst-hit industry was construction, which contracted by 50 percent. The hotel industry contracted by 47%, production by 39.3%, and mining by 23.3%. Agriculture, which posted a 3.4 percent rise, was the only industry that managed to survive the recession. The economy is believed to have suffered the most during the June quarter as a result of the nationwide lockdown.

13. In January 2019, as the trade war was raging, India also placed anti-dumping duties on more than 99 Chinese goods to protect its domestic markets, such as anti-dumping duties on chemicals, petrochemicals, fabrics, yarn, pharmaceutical equipment, rubber, and steel products. As a follower of protectionist policy Indian government also imposes anti-dumping duty on imports of steel products, an alloy of aluminium. The total value of duty imposed was $13.07 per ton to $ 173.1 per ton, which is a big amount. China, Vietnam, South Korea for five years in June 2020. India needs to take some major steps and reforms to bounce back its economy back on track.

14. Review of Literature…

1. To complete the research number of books, literatures in the forms of articles, journals, independent views of various economists have been reviewed and referred.
Books… Various books reviewed and which have contributed in the course of the research include the following:

A. Trade War Are Class War: How Rising Inequality Distorts the Global Economy and Threatens International Peace by Mathew C. Klein and Michael Pettis published by Yale University Press, May 19, 2020. The roots of today’s trade wars are traced by Klein and Pettis to decisions taken over the past thirty years by policymakers and business leaders in China, Europe, and the United States. The authors include a coherent narrative in this book that demonstrates how the growing injustice of class wars is a challenge to the global economy and international peace, and what the ways ahead are.

B. Has China Won by Kishore Mahbubani published by PublicAffairs, March 2020. The author of this book aims to provide an insight into the trade war between the USA and China. He also claims that China is not as is claimed, an expansionist country. By extending its trade, diplomacy and military might in the region, it secures its national interest. But his view appears to be skewed toward the Chinese target.

C. Superpower Showdown: How the Battle between Trump and Xi Threaten a New Cold War by Bob Davis and Lingling Wei published by HarperCollins, June 9, 2020. As told by two Wall Street Journal reporters, one based in Washington, D.C., the other in Beijing, who had more access to the decision-makers in the White House and China’s Zhongnanhai leadership compound than anyone else, this is the inside story of the US-China trade war, how ties between these superpowers unravelled, darkening prospects for global peace and prosperity. Over the seven years, they have collaborated on writing for the Wall Street Journal, Davis and Wei have conducted hundreds of interviews with government and business officials in both nations. They explain how we have reached this turning point and look at where we might be going, evaluating U.S.-China ties.

D. COVID-19 Challenges for the Indian Economy: Trade and Foreign Policy Effects by EEPCINDIA and AIC, 2020. A study entitled ‘COVID-19: Challenges for the Indian Economy – Trade and Foreign Policy Consequences’ was developed by the ASEAN-India Centre(AIC) Research and Information System for Developing Countries(RIS) in collaboration with the Engineering Export Promotion Council (EEPC), it presents freshly written 40 primary comments on India’s trade and foreign policy challenges raised by this crisis and the way forward by Indian professors, economists, and practitioners.

E. Global Economic Effects of COVID-19 by Congressional Research Service August 2020 by James K. Jackson, Martin A. Weiss, and Rebecca M. Nelson. It’s a Congressional Research paper published to analyse the effects of the pandemic on the world economy particularly, the USA. It’s a crystal gazing done by two seasoned economists and gives an excellent perspective of ongoing trade and its likely directions post COVID-19. Research is full of authentic data, facts and Pictures gathered from governmental and non-governmental sources.

F. Trade is Not a Four-Letter Word: How Six Everyday Products make the case for Trade, January 2014 by Fred Hochberg published by Simon and Schuster. Fred P. Hochberg breaks down colourful and convincing real-world examples through the prism of six traditional American items to reject the common myths and misunderstandings surrounding trade. Mr. Hochberg illustrates the story of America’s most unexpected business partnerships by using six commonly consumed American products; the taco salad, the minivan, the banana, the iPhone, the college degree, and the HBO series Game of Thrones – thus sharing the fundamentals of trade that everybody should know. (g) Indian Economy by Dutta and Sundhram published by S. Chand, New Delhi, 66th Revised Edition. This book
analyses structure of the Indian Economy, national income, study of human and natural resources in the context of economic development, pattern of foreign trade of India, broad cross-section of the Indian economy. Chapter 6 of this book deals with foreign trade in India and its balance of payment position which is significant for my study.

G. International Economics by Francis Cherunilam published by Tata McGraw Hill Publishing Company Limited, New Delhi, Third Edition. The author is a professor at the School of Management Studies at Cochin University of Science and Technology. This book deals with the conflicting national interest, international economic relations, and solutions of conflicting interests. Chapter 3 of this book shows the picture of international trade. Chapter 9th and 10th clear the picture of free trade versus protection and different types of trade barriers.

International Economics by H.G. Mannur published by Vikas Publishing House Private Limited, Second Revised Edition. The author of this book, H.G. Mannur paid his gratitude to the school of social sciences of the university of science in Penang Malaysia, which provided him a great opportunity to learn about the International economics of Malaysia related to the world. This book is dealing with the International economy of Malaysia which is the highest foreign trade-dependent economy. Chapter 1 explains why do nations trade with each other. Chapter 7 of this book deals with obstacles to trade and trade restrictions.


Articles.

Several articles on the subject relating to the global trade, trade conflict and its effects on world have been written by many noted columnists and authors. Apart from that in last 10 months number of organisations and research bodies also carried out the analysis and likely effects of the COVID-19 pandemic on the world trade and ongoing trade conflict. Articles from publications such as ‘The Economics Times’, ‘Business Today’, ‘The Hindu’, ‘National Council of Applied Economic Research’, ‘BBC Economic Research’, ‘Economic Research and Statistics Division (ERSD)’, ‘Investopedia’ and ‘Business Insider’ form a part of the literature review for the research. In addition to the articles and journals by various writers certain data were also taken from the governmental and non-governmental reports like United Nations Conference on Trade and Development(UNCTAD), WTO Press releases and Economic Survey of India.

The existing literature provides great insight into the reasons of trade between the countries, trade conflict and its catalyst and how an unforeseen event like the pandemic brings the entire world to a standstill where even largest and strongest have no solution. There are number of literature and research available which brings out many scenarios where the current trade conflict can go. Besides, a large number of research papers have also been written about the likely recovery of the world trade in various different scenarios. Study of some of has definitely given an insightful perspective on the subject. There is, however a void in the research writings on the subject from Indian government’s concerned ministry like Ministry of Finance, Ministry of Trade and Commerce and Ministry of Agriculture. The Economic Survey of India was the only document where authentic data could have been found but that too was almost six to eight months old. The updated analytical facts and data from the ministry’s sites will go a long way in helping a researcher for his work. A critical study of books and articles mentioned above has assisted in the research to address the issues identified.
15. **Statement of Problem.**
The research seeks to investigate:
(a) How the current global trade war (GTW) has impacted the nations having a considerable share in world trade?
(b) How has the Global Trade War (GTW) impacted the Indian economy?
(c) What are the effects of the COVID-19 pandemic on the Global Trade War?
(d) What are the likely effects of the COVID-19 pandemic on the Indian economy?

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(d) What are the likely effects of the COVID-19 pandemic on the Indian economy?

17. **Objectives of the Study.**
The specific objectives of the study are as under:
(c) To study the reasons and effects of the global trade war on nations having a major share in world trade.
(d) To study the effects of COVID-19 pandemic and GTW on international trade with specific emphasis on the Indian economy.

18. **Hypothesis**
The research is intended to deliberate and validate the following hypothesis:
(e) Global Trade War has severely impacted nations from having a major share in world trade.
(f) India has not been affected much by the Global Trade War.

2. (c) COVID-19 pandemic is going to aggravate the Global Trade War.
(f) Indian economy will be adversely affected by the ongoing pandemic.

19. **The relevance of the Study...**
This study will contribute to academia with an in-depth insight into the existent trend of international trade and trade war. The present study will evaluate the effect of COVID-19 on international trade and its role in aggravating trade war. Besides, this study will also endeavour to furnish both analysis and suggestions towards:
(a) Trend of global trade and reasons behind trade war.
(b) Likely direction of international trade post-COVID-19.
(c) Its impact on the Indian economy and recommendations for future economic policies.

20. **Research Methodology**
Owing to the current and contemporary nature of the topic, research was based on the primary and secondary method of data collection wherein the number of books, open-source articles, internet blogs, periodicals, and research papers were referred and perused. Apart from the same reports and analysis of both governmental and non-governmental agencies, which were available in the open domain, were also accessed during the research. To support the arguments, an online public opinion, based on close-ended questionnaire, was be taken through Google forms. The survey questionnaire was analysed based on responses using Likert Scale. Non-random convenient sampling was used for selection of participants. A total of 114 respondents took part in the survey.

21. **Organisation of the Research**
22. Research has been completed under five chapters. Headings of the chapters and their broad contents have been covered in succeeding paragraphs.

Chapter 1: Introduction and Research Methodology. In this chapter background of global trade, particularly after World War II, the role of WTO for free and fair trade amongst member nations along with research methodology have been covered in detail.

Chapter 2: Background of Global Trade War and Situation up to the onset of the COVID-19 pandemics. In this chapter issues like background of trade war, currency war and current state of global trade amidst ongoing trade conflict between the USA and China has been covered in detail. Apart from the same it has also been brought out in this chapter that which are the countries and which all products and services have been severely affected. All the affected nations are adopting their own policies to deal with the current situation of COVID-19 and ripples of trade dispute. Same have also been brought forward in this chapter.

Chapter 3: Likely Directions of Global Trade War post-COVID-19 pandemics. COVID-19 pandemic has added a new dimension to the way nations were doing trade with each other, particularly in the light of disruption in production, supply chain, unpredicted market, and labour issues. Apart from that, it has severely affected the ongoing global trade war. The revival of the economy is incumbent on medical success in finding the vaccine for the disease. In this chapter likely direction of the trade war has been discussed in details. Apart from the foregoing, long and short term effects of the pandemic on global trade have also been covered in this chapter.

Chapter 4: Impact of Global Trade War and COVID-19 pandemics on the Indian Economy. The Indian economy was not affected much by the global trade war but since the onset of a pandemic, the combined effect of COVID-19 and trade war has started affecting the Indian economy. Apart from the same in this chapter impact on export and import capability of India during pandemic times have also been covered in detail. Recent development at Galwan valley in Eastern Ladakh which includes the steps taken by India and its likely implications on the trade between India and China has also been covered in this chapter. In the end an analysis of the Online survey with the help of Google form has been covered to check the hypothesis.

Chapter 5: Way Ahead for the Indian Economy, Recommendations and Conclusion. In continuation of the previous chapter, this chapter contains the state of global trade in the current times along with certain recommendations which can be followed to have a fair world trade. During COVID-19 pandemic the Indian government has taken large number of fiscal measures to control to the damage and bring the economy back on track and same have been covered in great details in this chapter. Apart from that actions which Indian government should take to minimise the impact of trade dispute between other nations have also been recommended. In last way ahead for the Indian economy has been recommended.

Keywords: Global Trade War, Indian Economy, COVID 19 Effects

CHAPTER 1
INTRODUCTION AND RESEARCH METHODOLOGY

*Economic history clearly shows that trade wars not only hurt global growth, but they are also unwinnable.*

- Christine Lagarde

1.1 Introduction

In an era of globalization, international trade is inevitable. When we walk into a supermarket and find South American bananas, Malaysian rubber products, Brazilian coffee, we simply experience the impact of global trade. Global trade allows all countries around the world to publicise their markets and to supply
goods and services that otherwise would not have been open to the domestic economy. As all goods and services are available at relatively cheaper prices in the international market, therefore domestic market becomes more competitive. People have got choices for competitive products. Therefore, the difference in the prices of goods of the foreign economy and domestic economy results in international trade.

Picture – 1: Domestic & Foreign price comparison before International trade

As it is evident from the above diagram that PH, which is the price of a product in the domestic country, is higher than PF which is the price of the same product in a foreign country. Trade takes place because of this price differential. Countries try to wipe out this price gap through imports.

Picture – 2: Domestic & Foreign price comparison after International trade

This is the fundamental explanation of why nations trade with each other. Not a single nation alone can generate all the goods and services for its households in today’s world of limitless desires. There is an unequal distribution of factors of production over the countries of the world. Countries of the world differ from each other in terms of natural resources, technology, entrepreneurial and managerial skills which

1 Mannur H.G. University of Papua New guinea Port Moresby, page 160, Obstacle to Trade and Trade Restriction UBS Publishers & Distributors Ltd New Delhi.
2 Mannur H.G., University of Papua New Guinea Port Moresby, page 161, Obstacle to Trade and Trade Restriction UBS Publishers & Distributors Ltd New Delhi.
determine the ability of the country concerned, at the lowest cost of production, to manufacture goods and services. For example, South Korea can manufacture cars or microelectronic products effectively in comparison with any other nation in the world, similarly Malaysia could produce rubber and palm oil more efficiently. The ability to manufacture these products, such as electronics or rubber, is much greater than their ability to consume these goods within the country so that they can sell these goods at comparatively cheaper prices to other countries around the world. Similarly, India and Brazil can import certain products from South Korea and Malaysia at lower prices and can in exchange, import Brazilian coffee or Indian textiles at a lower price. Therefore, generally trade benefits all the countries of the world provided it is free trade. If one country has a belief in free trade and the other believes in the opposite, only the previous one will end practicing free trade and suffering in the end. Economists say that trade conflicts safeguard economic interests and are advantageous to the local market, but critics claim that they ultimately hurt local companies, consumers, and the economy in long run. Protectionist policies always harm the concept of globalization. According to the World Commission on the social dimension of globalization (2004), “Globalisation should benefit all the countries and should raise the welfare of all people throughout the world”

Advocates of protectionist view put arguments in favour of restrictions of the trade like the expansion of the home market, keeping money at home, counteracting foreign low wages, defence or national security arguments, protection of infant industry, anti-dumping arguments, and balance of payment arguments. Trade restrictions are of two types; tariff barriers and non-tariff barriers. The tariff barrier is the most common barrier to trade. It is the tax or duties that one country imposes on exported or imported goods. There are various types of tariff barriers in international trade. If the tariff is imposed based on the physical weight of some goods, imported or exported, called a specific tariff.
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Followers of the protectionist policy argue that tariff imposition has two impacts; revenue increases after the imposition of tariff and home production increases which is called protective effect but if other countries retaliate in the same manner, the trade war is inevitable. A situation of trade war erupts when one nation or economy strike back against another economy by imposing trade barriers. The application of trade restrictions is not a new concept in international trade. If we study the background of the global trade war, we find that countries frequently used trade restrictions in global trade. The situation was aggravated after the second world war. Most of the countries were intentionally devaluing their currency to increase their export and minimise imports. This was also the reason for the currency war between countries.

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4 ibid.
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- An International Trade Organisation (ITO), to solve the problem of international trade and proper liberalisation of it.

However, the proposal for the International Trade Organisation did not materialise and the General Agreement on Tariff and Trade (GATT) was formed. The GATT was established in 1948 with a big and important objective of “free trade” and “no trade war”\(^7\). Its main purpose was to remove trade restrictions which sooner or later converts into a trade war. The first seven rounds of GATT were focussed on the removal of trade barriers only. Despite these discussions in several rounds of GATT, it couldn’t provide a useful forum for discussion on international trade issues.

The 8\(^{th}\) round of GATT is called Uruguay Round which started in 1986\(^8\). Member countries negotiated in the areas of Tariffs, Non-Tariff Measures, Tropical Production, Natural resource-based products, Agriculture, GATT articles, Safeguards, Multilateral trade negotiation agreement, Subsidies, Disputes Settlement, Trade-Related Intellectual Property Rights (TRIPPS), Trade-Related Investments measures (TRIMS), Functioning of GATT system (FOGS).

Despite serious discussion on these issues’ agreement could not be reached and member countries kept on using trade and non-trade barriers on each other.

### 1.2 International Trade during COVID-19

COVID-19 pandemic, which started in March 2020, has adversely affected global trade. As per WTO statistics, a 3% fall in the volume of merchandise (export and import) trade is seen in the first quarter of 2020.

![Picture – 3: State of Merchandise Trade by Volume\(^9\)](https://www.wto.org/trade/stat)
Lockdown in many economies of the world aggravated the problem and declines are historically large. Strict social distancing and majors and restrictions on travel and transport adversely affected the service sector of the world economy which is the main contributor to gross domestic product (GDP) of many countries. Therefore, the economic recovery from the COVID situation is highly uncertain. This situation might give a boost to the global trade war which will be the endeavour during the research to be found out and a description of the same has been covered in Chapter 3. The research has tried to reveal how the pandemic has crippled the world economy and aggravating the pre-existing problem of the trade war. The recent trade war between China and the USA is an apt example.

1.3 Recent Examples of Trade War

Since the year 2018 world has been witnessing trade conflict which was earlier currency conflict between the USA and its economic partners mainly the EU and China. But in this conflict US’s all-weather friend Canada and Mexico were also hit. However, retaliation by other countries has been very limited. In March 2018, the United States announced the imposition of additional tariffs under Section 232 on imports of steel (25%) and aluminium (10%) from China to the United States. This might harm the Chinese economy as China is the major contributor of crude and finished steel in the world.

![Crude Steel Production Market Share](image4.png)

**Picture – 4: Market Share of Crude Steel Production**

![Finished Steel Product by Market Share](image5.png)

**Picture – 5: Market Share of Finished Steel Product**

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10 Carvalho, Azevedo, Emerging countries and effects of Trade war between US and China, May 13, 2019.
In the same month, the US President announced his strategy to endorse restrictions against China over its Intellectual Property Rights (IPR) policies which were severely affecting its stakeholders. In this sanction, the US raised tariffs by 24 to 25% on selected Chinese products which were valued to the tune of approximately $50 billion\(^{11}\). By adopting the policy of quid pro quo China on 01 April responded with 25% tariffs on $50 billion in US exports on various American products, like agriculture, pork, and cars. On 3\(^{rd}\) April 2018, the US administration released a list of 1,333 goods equivalent to $50 billion in trade, which it said would enforce a 25% tariff\(^{12}\).

These Chinese products mainly belong to the category of important sectors like robotics, rail and shipping, information technology, health care, and medicine, and high-technology. China retaliated and published a list of 106 products on which 25% tariffs were imposed and its value was worth $50 billion in trade\(^{13}\). Thus, quid pro quo tactics kept ongoing between China and the US. The US plans to tax $50 billion worth of Chinese imports was replied with threats by China to impose tariffs on American products worth $50 billion\(^{14}\). China announced to hit back with additional taxes on American chemicals, automobiles, and other products. Interestingly all these 106 American products are produced in those regions of the US where President Trump enjoys great support of his people. Earlier this year both countries signed the first phase of the trade agreement to reduce trade pressures between them, which last year weakened global growth and scaled-down business investment around the world. But due to the blame game over the pandemic, progress has been derailed.

Apart from the above, the subsidy has been one of the major causes of dispute amongst countries of the world. According to the WTO agreement on agriculture, developed economies had to reduce their subsidies by 21% in six years and developing countries by 12% in 10 years. Recently restriction on Indian agriculture produce by US, EU, Canada, Brazil, and Japan has been imposed in August 2020\(^{15}\).

They have questioned that India is not following the WTO peace clause for surpassing the limit on support or, subsidy it can render to its peasants. In the platform of WTO, the ceiling for subsidy is 10% of the value of the produce. India provided the WTO with details that the value of its rice production in 2018 was $43.6 billion and subsidies were worth just $5 billion\(^{16}\). Subsidies have therefore remained a major bone of contention between the various countries of the world, but there is one peace arrangement in the WTO that protects the WTO members’ food procurement program for developing countries from taking action in the event of a violation of the subsidy cap. It will also be a litmus test to observe if in circumstances like the ongoing pandemic, WTO members grant food security pre-eminence to emerging economies or whether developed nations are pursuing market entree.

Globalisation has reached a few obstructions in recent times, following decades of surges in world trade, worldwide tourism, and global cooperation, as some of the development achieved in the past has been undone by the re-emergence of patriotism and protectionism. The COVID-19 pandemic is predicted to trigger an unprecedented deterioration in global trade after trade growth decelerated dramatically in 2019, owing in huge part to trade conflict between the United States and China. As per the forecasts of the WTO, merchandise business is going to plunge between 12.98% and 31.88% this year, depending on how easily

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\(^{12}\) ibid

\(^{13}\) Carvalho, Azevedo, Emerging countries and effects of Trade war between US and China, May 13, 2019.

\(^{14}\) ibid.

\(^{15}\) Kiritika Suneja - Economics Times Bureau, July 30, 2020

\(^{16}\) ibid.
the coronavirus is controlled and trade will return to pre-crisis levels. According to the WTO Director-General, Roberto Azevêdo, the swift and robust rebound is only possible through the focus on free trade\textsuperscript{17}. Global markets have to be kept open and predictable, in addition to promoting a more desirable business climate.

Though before the onset of the pandemic, the Indian economy was not affected much by the ongoing trade conflict between the USA and China because of the combined effect of the pandemic and trade war India’s GDP shrunk by 23.9\% in the first quarter of FY 2020-21. In the first quarter, the worst-hit industry was construction, which contracted by 50 percent. The hotel industry contracted by 47\%, production by 39.3\%, and mining by 23.3\%.\textsuperscript{18} Agriculture, which posted a 3.4 percent rise, was the only industry that managed to survive the recession. The economy is believed to have suffered the most during the June quarter as a result of the nationwide lockdown.

In January 2019, as the trade war was raging, India also placed anti-dumping duties on more than 99 Chinese goods to protect its domestic markets, such as anti-dumping duties on chemicals, petrochemicals, fabrics, yarn, pharmaceutical equipment, rubber, and steel products. As a follower of protectionist policy Indian government also imposes anti-dumping duty on imports of steel products, an alloy of aluminium. The total value of duty imposed was $13.07 per ton to $173.1 per ton, which is a big amount. China, Vietnam, South Korea for five years in June 2020\textsuperscript{19}. India needs to take some major steps and reforms to bounce back its economy back on track. The 4\textsuperscript{th} and 5\textsuperscript{th} chapters of the research impact of global trade war and pandemic with areas of concern for the Indian economy have been explained in detail.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{gdp_growth.png}
\caption{GDP Growth of Major Economies as in June 2020\textsuperscript{20}}
\end{figure}

\textsuperscript{17} Carvalho, Azevedo, Emerging countries and effects of Trade war between US and China, May 13, 2019.
\textsuperscript{19} ibid.
1.4 Review of Literature
To complete the research number of books, literatures in the forms of articles, journals, independent views of various economists have been reviewed and referred.

Books. Various books reviewed and which have contributed in the course of the research include the following:

(a) *Trade War Are Class War: How Rising Inequality Distorts the Global Economy and Threatens International Peace* by Mathew C. Klein and Michael Pettis published by Yale University Press, May 19, 2020. The roots of today’s trade wars are traced by Klein and Pettis to decisions taken over the past thirty years by policymakers and business leaders in China, Europe, and the United States. The authors include a coherent narrative in this book that demonstrates how the growing injustice of class wars is a challenge to the global economy and international peace, and what the ways ahead are.

(b) *Has China Won* by Kishore Mahbubani published by PublicAffairs, March 2020. The author of this book aims to provide an insight into the trade war between the USA and China. He also claims that China is not as is claimed, an expansionist country. By extending its trade, diplomacy and military might in the region, it secures its national interest. But his view appears to be skewed toward the Chinese target.

(c) *Superpower Showdown: How the Battle between Trump and Xi Threaten a New Cold War* by Bob Davis and Lingling Wei published by HarperCollins, June 9, 2020. As told by two Wall Street Journal reporters, one based in Washington, D.C., the other in Beijing, who had more access to the decision-makers in the White House and China’s Zhongnanhai leadership compound than anyone else, this is the inside story of the US-China trade war, how ties between these superpowers unravelled, darkening prospects for global peace and prosperity. Over the seven years, they have collaborated on writing for the Wall Street Journal, Davis and Wei have conducted hundreds of interviews with government and business officials in both nations. They explain how we have reached this turning point and look at where we might be going, evaluating U.S.-China ties.

(d) *COVID-19 Challenges for the Indian Economy: Trade and Foreign Policy Effects* by EEPCINDIA and AIC, 2020. A study entitled ‘COVID-19: Challenges for the Indian Economy – Trade and Foreign Policy Consequences’ was developed by the ASEAN-India Centre(AIC) Research and Information System for Developing Countries(RIS) in collaboration with the Engineering Export Promotion Council (EEPC), it presents freshly written 40 primary comments on India’s trade and foreign policy challenges raised by this crisis and the way forward by Indian professors, economists, and practitioners.

(e) *Global Economic Effects of COVID-19* by Congressional Research Service August 2020 by James K. Jackson, Martin A. Weiss, and Rebecca M. Nelson. It’s a Congressional Research paper published to analyse the effects of the pandemic on the world economy particularly, the USA. It’s a crystal gazing done by two seasoned economists and gives an excellent perspective of ongoing trade and its likely directions post COVID-19. Research is full of authentic data, facts and Pictures gathered from governmental and non-governmental sources.

(f) *Trade is Not a Four-Letter Word: How Six Everyday Products make the case for Trade, January 2014* by Fred Hochberg published by Simon and Schuster. Fred P. Hochberg breaks down colourful and convincing real-world examples through the prism of six traditional American items to reject the common myths and misunderstandings surrounding trade. Mr. Hochberg illustrates the
story of America’s most unexpected business partnerships by using six commonly consumed American products; the taco salad, the minivan, the banana, the iPhone, the college degree, and the HBO series Game of Thrones – thus sharing the fundamentals of trade that everybody should know.

(g) *Indian Economy by Dutta and Sundhram published by S. Chand, New Delhi, 66th Revised Edition.* This book analyses structure of the Indian Economy, national income, study of human and natural resources in the context of economic development, pattern of foreign trade of India, broad cross-section of the Indian economy. Chapter 6 of this book deals with foreign trade in India and its balance of payment position which is significant for my study.

(h) *International Economics by Francis Cherunilam published by Tata McGraw Hill Publishing Company Limited, New Delhi, Third Edition.* The author is a professor at the School of Management Studies at Cochin University of Science and Technology. This book deals with the conflicting national interest, international economic relations, and solutions of conflicting interests. Chapter 3 of this book shows the picture of international trade. Chapter 9th and 10th clear the picture of free trade versus protection and different types of trade barriers.

(i) *International Economics by H.G. Mannur published by Vikas Publishing House Private Limited, Second Revised Edition.* The author of this book, H.G. Mannur paid his gratitude to the school of social sciences of the university of science in Penang Malaysia, which provided him a great opportunity to learn about the International economics of Malaysia related to the world. This book is dealing with the International economy of Malaysia which is the highest foreign trade-dependent economy. Chapter 1 explains why do nations trade with each other. Chapter 7 of this book deals with obstacles to trade and trade restrictions.


**Articles.**

Several articles on the subject relating to the global trade, trade conflict and its effects on world have been written by many noted columnists and authors. Apart from that in last 10 months number of organisations and research bodies also carried out the analysis and likely effects of the COVID-19 pandemic on the world trade and ongoing trade conflict. Articles from publications such as ‘The Economics Times’, ‘Business Today’, ‘The Hindu’, ‘National Council of Applied Economic Research’, ‘BBC Economic Research’, ‘Economic Research and Statistics Division (ERSD)’, ‘Investopedia’ and ‘Business Insider’ form a part of the literature review for the research. In addition to the articles and journals by various writers certain data were also taken from the governmental and non-governmental reports like United Nations Conference on Trade and Development (UNCTAD), WTO Press releases and Economic Survey of India.

The existing literature provides great insight into the reasons of trade between the countries, trade conflict and its catalyst and how an unforeseen event like the pandemic brings the entire world to a standstill where even largest and strongest have no solution. There are number of literature and research available which brings out many scenarios where the current trade conflict can go. Besides, a large number of research papers have also been written about the likely recovery of the world trade in various different scenarios. Study of some of has definitely given an insightful perspective on the subject. There is, however a void in the research writings on the subject from Indian government’s concerned ministry like Ministry of
Finance, Ministry of Trade and Commerce and Ministry of Agriculture. The Economic Survey of India was the only document where authentic data could have been found but that too was almost six to eight months old. The updated analytical facts and data from the ministry’s sites will go a long way in helping a researcher for his work. A critical study of books and articles mentioned above has assisted in the research to address the issues identified.

1.5 Statement of Problem.
The research seeks to investigate:
(a) How the current global trade war (GTW) has impacted the nations having a considerable share in world trade?
(b) How has the Global Trade War (GTW) impacted the Indian economy?
(c) What are the effects of the COVID-19 pandemic on the Global Trade War?
(d) What are the likely effects of the COVID-19 pandemic on the Indian economy?

1.6 Objectives of the Study.
The specific objectives of the study are as under:
(a) To study the reasons and effects of the global trade war on nations having a major share in world trade.
(b) To study the effects of COVID-19 pandemic and GTW on international trade with specific emphasis on the Indian economy.

1.7 Hypothesis
The research is intended to deliberate and validate the following hypothesis:
(a) Global Trade War has severely impacted nations from having a major share in world trade.
(b) India has not been affected much by the Global Trade War.
(c) COVID-19 pandemic is going to aggravate the Global Trade War.
(d) Indian economy will be adversely affected by the ongoing pandemic.

1.8 The relevance of the Study
This study will contribute to academia with an in-depth insight into the existent trend of international trade and trade war. The present study will evaluate the effect of COVID-19 on international trade and its role in aggravating trade war. Besides, this study will also endeavour to furnish both analysis and suggestions towards:
(a) Trend of global trade and reasons behind trade war.
(b) Likely direction of international trade post-COVID-19.
(c) Its impact on the Indian economy and recommendations for future economic policies.

1.9 Research Methodology
Owing to the current and contemporary nature of the topic, research was based on the primary and secondary method of data collection wherein the number of books, open-source articles, internet blogs, periodicals, and research papers were referred and perused. Apart from the same reports and analysis of both governmental and non-governmental agencies, which were available in the open domain, were also accessed during the research. To support the arguments, an online public opinion, based on close-ended
questionnaire, was be taken through Google forms. The survey questionnaire was analysed based on responses using Likert Scale. Non-random convenient sampling was used for selection of participants. A total of 114 respondents took part in the survey.

1.10 Organisation of the Dissertation

Research has been completed under five chapters. Headings of the chapters and their broad contents have been covered in succeeding paragraphs.

(a) Chapter 1: Introduction and Research Methodology. In this chapter background of global trade, particularly after World War II, the role of WTO for free and fair trade amongst member nations along with research methodology have been covered in detail.

(b) Chapter 2: Background of Global Trade War and Situation up to the onset of the COVID-19 pandemics. In this chapter issues like background of trade war, currency war and current state of global trade amidst ongoing trade conflict between the USA and China has been covered in detail. Apart from the same it has also been brought out in this chapter that which are the countries and which all products and services have been severely affected. All the affected nations are adopting their own policies to deal with the current situation of COVID-19 and ripples of trade dispute. Same have also been brought forward in this chapter.

(c) Chapter 3: Likely Directions of Global Trade War post-COVID-19 pandemics. COVID-19 pandemic has added a new dimension to the way nations were doing trade with each other, particularly in the light of disruption in production, supply chain, unpredicted market, and labour issues. Apart from that, it has severely affected the ongoing global trade war. The revival of the economy is incumbent on medical success in finding the vaccine for the disease. In this chapter likely direction of the trade war has been discussed in details. Apart from the foregoing, long and short term effects of the pandemic on global trade have also been covered in this chapter.

(d) Chapter 4: Impact of Global Trade War and COVID-19 pandemics on the Indian Economy. The Indian economy was not affected much by the global trade war but since the onset of a pandemic, the combined effect of COVID-19 and trade war has started affecting the Indian economy. Apart from the same in this chapter impact on export and import capability of India during pandemic times have also been covered in detail. Recent development at Galwan valley in Eastern Ladakh which includes the steps taken by India and its likely implications on the trade between India and China has also been covered in this chapter. In the end an analysis of the Online survey with the help of Google form has been covered to check the hypothesis.

(e) Chapter 5: Way Ahead for the Indian Economy, Recommendations and Conclusion. In continuation of the previous chapter, this chapter contains the state of global trade in the current times along with certain recommendations which can be followed to have a fair world trade. During COVID-19 pandemic the Indian government has taken large number of fiscal measures to control to the damage and bring the economy back on track and same have been covered in great details in this chapter. Apart from that actions which Indian government should take to minimise the impact of trade dispute between other nations have also been recommended. In last way ahead for the Indian economy has been recommended.

CHAPTER 2
BACKGROUND OF GLOBAL TRADE WAR AND SITUATION UPTO ONSET OF COVID-19 PANDEMICS

2.1 Definition of Trade War

A trade war is an outcome of retaliation by one economy against other economies by adopting barriers of the trade like tariff and quota to fulfil its protectionist agenda in the domestic market. In other words, a trade war is a perception of one economy against other economies, which is a competitor, that it has adopted unfair means of doing the trade like currency devaluation, cheap labour, unrealistic subsidy or, manipulation of the market. Generally, countries adopt protectionist policies when domestic industries, trade unions, and the local populace puts pressure on the government to reduce import by taxation or imposing exorbitant tariffs on the import. Apart from that domestic industry lobbyists and trade unions try and project free trade as an evil to the domestic industries. Protectionism promotes trade wars and governments use protectionist policies to restrict the negative impact of international trade. It is perceived that the protectionist approach of the government will defend domestic industries and jobs from foreign economies. Apart from that countries also use the protectionist approach to take care of its trade shortfall which is the result of import and export disparities wherein the former is more than the latter. Economists also explain tariffs as a tax levied by a government on imported goods from other countries that incurs revenue. Pictorial representation of the same is as under:

From the above diagram, we see that PF-PH is the price difference between domestic and foreign economies. Due to which the domestic economy imports cheap goods from other markets at price PF. After levying the PF-PT amount of tariff, goods become costlier than before. Area ‘abcd’ is the revenue earned by the domestic economy.

In the global economy, trade war, in a long run, is very damaging and not beneficial to either of the countries. The aftermaths of the trade war are long-lasting and irreversible. Besides, a trade war once started in a particular sector, can affect other sectors within no time. Similarly, in the era of globalization,

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23 Mannur H.G., University of Papua New Guinea Port Moresby, page 161, Obstacle to Trade and Trade Restriction UBS Publishers & Distributors Ltd New Delhi.
the trade war amongst nations of any region can spill over to other economies of the world, who are not even part of the initial conflict. Apart from tariffs, protectionist policies are implemented by imposing restrictions on the import, listing out separate and unique commodity standards, and implementing state-supported aids for domestic production to dampen outsourcing.

2.2 Currency War

Currency war precedes Trade war. A currency war is a phenomenon wherein countries deliberately devaluate the value of their local currency to boost their economy. In a foreign exchange market currency devaluation is a common practice but its effects get more prominent when several countries get engaged in the devaluation of domestic currency simultaneously. A currency war is also known as ‘competitive devaluation’\(^{24}\). A country with a huge deficit in the balance of payment (which is a systematic record of export and import of a country) may devaluate its currency to stimulate its exports and discourage imports to correct the deficit problem, be it covertly or overtly. Therefore, another nation follows the suit and devalues its currency. This is the crux of competitive devaluation.

![EFFECTS OF DEVALUATION ON EXORTS](image)

**Picture – 8: Effects of Devaluation on the Exports\(^{25}\)**

From the diagram, we see that when a country intentionally devaluates its currency from P1 to P2 export increases from OX1 to OX2. In the age of dynamic exchange rates value of the currency is determined by the number of external and internal factors, and the nation’s central bank plans and implements currency devaluation through domestic economic policies like reducing or, increasing interest rates. Earlier currency wars were not complex as it is today, because those periods were the era of fixed exchange rates wherein nations could devaluate their currency by deliberately reducing the benchmark to which their currency was fixed.

Strong currency doesn’t need to be always in the best interest of the nation because, in a global market, weak domestic currency makes the country’s export more competitive, and at the same time imports expensive. Higher exports give a boost to economic growth and overpriced imports manifest into a similar effect because customers look for local products as an alternative to imported goods. This process leads

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\(^{25}\) ibid
to a lower current account deficit, higher employment, and faster growth in Gross Domestic Product (GDP).

In September 2010, the former Brazilian Finance Minister forewarned that the international currency war amongst various countries has already begun. Since then more than twenty countries have reduced their rates of interest and taken steps to ease their fiscal policy. Therefore, it won’t be wrong to say that the currency war had already begun well before the current trade war between the USA and China. In retaliation to the US’s tariff on its import, China also levied a higher tariff on import of US goods, apart from that China devalued its currency to give a boost to its GDP; this tit for tat game has escalated the currency war into a trade war.

In September 2010 when the Brazilian Minister cautioned about the currency war, his indications were towards the increasing disorder in international exchange markets which was initiated by the dollar easing program of the American Federal Reserve. China had also started the suppression of its currency yuan. Other Asian economies also followed the suit and started taking action to stop the appreciation of their currency. Since 2011, the US dollar has shot up in comparison with all major currencies of the world. Presently the trade-driven Dollar Index is at its prime in the last one and half decades.

So far, without too many difficulties, the US economy survived the effects of the sturdier dollar, although one important problem is the fears of the considerable number of American corporations who have warned about the adverse impact on their earnings due to the stronger dollar. Over the years, the US has normally followed a strong dollar policy, with changing degrees of achievement. However, the US situation is unique because of the magnitude of its economy and the global reserve currency of the world is the US dollar. The strong dollar enhances the effectiveness of the US as a destination for investment in foreign direct investment (FDI) and foreign portfolio investment (FPI). It is well known that the US is also a prime destination in both categories. Owing to its giant consumer market, which is by far the largest in the world, the US is also less dependent on exports for economic growth than most other nations. The dollar is growing mainly because the US is the only developed country that after being the first one to implement Quantitative Easing (QE), is about to unwind its monetary stimulus program. This lead-time has allowed the US economy to react positively to the successive rounds of Federal Reserve-run QE programs.

Currency devaluation is not the panacea for all economic problems. One such case is Brazil. Since 2011, the Brazilian currency has dropped 48 percent, but the sharp devaluation of the currency has not been able to offset other problems, such as dropping crude oil and commodity prices and a rising corruption scandal. There are a large number of negative impacts of the currency devaluation which are as under:

- Devaluation of currency can, in the long run, reduce productivity, as imports of capital equipment and machinery become too costly for local businesses. Productivity would likely to suffer if currency devaluation is not followed by significant structural reforms.
- The degree of currency devaluation may be larger than expected, which could ultimately lead to increased inflation and capital outflows.

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- Currency war could lead to greater protectionism and erection of trade barriers which would eventually obstruct global trade.
- Competitive devaluation would lead to the rise in the volatility of currencies, which in turn will result in higher hedging costs for companies. It will further discourage foreign investment.

It does not seem like the world is really in the middle of a currency war, considering some evidence that might indicate the contrary. The latest rounds of easy money policies by different countries around the world represent efforts to overcome the problems of a low-growth, deflationary economy rather than trying to steal the domestic currency from the market by unexpectedly devaluing it.\[31\]

### 2.3 Advantages and Disadvantages of Trade War

Pros and Cons of the trade war are a matter of perception and discussion. Supporters of protectionism argue if protectionist policies are well implemented, they are bound to give good dividends. Apart from that by discouraging imports, a country allows domestic producers and manufacturers and raises employment opportunities. Besides, it also reduces the trade deficit of that country. Protectionist supporters also argue that tariffs and trade wars are also an efficient way to deal with a nation that conducts unethical and immoral trade.

Critics of protectionism say that in long run it is going to hurt the domestic market, slow down economic growth, and interdependence of nations on each other. It also creates a situation wherein consumers have very little choice in the marketplace. A country may face shortages of those imported products which cannot be produced by a domestic manufacturer. A country cannot produce all raw material for production, therefore, its disadvantageous to the manufacturer, if they have to pay more for the raw material as the profit margin on raw margin, is very less. This is one of the primary reasons for price shoot-up and inflation.

![Picture – 9: Advantages and Disadvantages of Trade War](image)

2.4 Brief History: Trade War

The history of trade wars goes back to the period when nations started trading with each other. Trade wars have escalated to full conflict between countries which is evident from the first, second, and fourth Anglo-Dutch wars. Sole reasons for these conflicts were trade disagreement between the British and the Dutch for control over the seas and trade routes, differences on the legitimacy and conduct of Dutch trade with Britain’s enemies.

During the 17th century, colonial powers started fighting with each other for the exclusive trading rights of overseas colonies. In the history of the trade war, the British empire had a documented history of fighting trade battle for a long time. The first Opium War (1839-42) fought between the British and the Chinese Emperor Cheap was because of the illegal trafficking of opium by the British East India Company into China. Indian produced opium was exported to China by the British at a high cost which was declared illegal by the Chinese emperor as it was affecting its domestic market. There were attempts made to settle down the conflict which eventually failed. The Chinese emperor also tried his military power and confiscated the drugs but he could not prevail upon the might of the British navy. It also contributed to the loss of Hong Kong by China during the Second Opium War between 1856-1860, in which Britain, along with France, pressured the Chinese Emperor to abolish import duties on all foreign goods and open up all of China to foreign merchants. Both Opium wars considerably weakened Qing dynasties which subsequently led to the modernization of China.

During the great recession of 1930, to protect the interest of American farmers from European agricultural produces, the USA imposed the Smoot-Hawley Tariff Act. Under this act hefty import duties, up to 40% was levied on products coming from European countries. In a tit for tat response, other countries also retaliated and imposed higher tariffs against the USA and other countries which resulted in the decline of global trade worldwide. Because of these protectionist policies, the USA entered into a great depression. President Roosevelt eventually introduced several measures to eliminate barriers to trade, such as the reciprocal trade arrangement act, but the damage was long-lasting and permanent.

In the early 1960s, in Europe, the demands of American chickens were on the rise because it was cheaper in comparison with the local market. In reciprocation, France and Germany levied heavy tariffs on American chickens. The USA retaliated by imposing heavy tariffs on other products like French brandy and Volkswagen buses. Besides, the U.S. went on to warn NATO troops cut from Europe. Although France and Germany did not come under US pressure, the ultimate sufferers were essentially customers from both sides of the Atlantic zone.

During the mid-1980s, the USA lodged complaints against the discrimination of its citrus product in the European market which was not taken seriously by European countries. Therefore, as a retaliatory measure, the Regan administration raised tariffs on Pasta from Europe. As tit for tat Europe raised tariffs on American walnuts and lemons. The issue was resolved when both sides signed agreements to end the citrus and pasta dispute in 1986 and 1987 respectively.

The US companies are the biggest exporters of Latin American bananas to the colonies of the European Union in Africa and the Caribbean as most of the banana farms in Latin America are owned by them. In 1993, in an attempt to restrict its import EU imposed heavy tariffs on those companies. In response to that,

34 Ibid.
the USA lodged eight separate complaints in World Trade Organisation (WTO). The issue was finally resolved by signing the mutual agreement after several rounds of talks between the EU and 10 countries of Latin America between 2009 to 2012. This ended 20 years long Banana war between the EU and Latin American countries.³⁶.

2.5 The current state of the Global Trade War
A most recent example of the trade war is the dispute of economic interest between the world’s two most developed economies; the USA and China. In 2016, during his campaign for the presidential seat, Donald Trump was a sharp critique of several trade agreements which the USA was party to. He promised to get them removed or amended in the American interest. Besides, he also planned to return industrial jobs to the United States that were outsourced to countries such as India and China. After his election, he strongly propagated the ‘America First’ policy and followed the path of protectionism. Even WTO could not prevail upon the US and in turn, Mr. Trump threatened to pull out of the international trade body of more than 164 nations.³⁷.

In January 2018, US President Donal Trump, who is a strong propagator of the protectionist approach and ‘America First’ policy started imposing tariffs on steel, aluminum, solar panels, washing machines, and several other consumables to cover its huge trade deficit with China.

³⁶ ibid.
³⁷ www.wto.org/english/thewto
This increase in tariff on steel, in particular, might put an adverse impact on the Chinese economy because China is the largest producer of crude steel and finished steel in the world. Same being explained by a graphic representation below:

![Crude Steel Production Market Share](image1)

**Picture-12: Crude Steel Production Market Share**

![Finished Steel Production Market Share](image2)

**Picture-13: Finished Steel Production Market Share**

Apart from China, these new duties severely impacted goods from the EU nations, Mexico, and Canada. By imposing several new tariffs on American steel and other products, these countries retaliated. Out of these countries’ China was the worst affected economy wherein its import of approximately $200 billion was badly impacted. During the beginning of January 2018, the US threatened China to levy additional tariffs because of alleged intellectual property (IP) theft and illegal trade practice. Tariffs on $500 billion...

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40 Global Trade War and its Impact on Trade and Growth, IJITEE referred on September 2, 20.
43 Investopedia, James Chen, May 5, 2020, article referred on 22 August 2020
worth of Chinese goods were levied by the US during that period. The Chinese also retaliated by imposing 25% extra tariffs on over 100 American products. The Year 2018 witnessed tit for tat approach by both countries wherein they kept on threatening each other with additional tariffs and releasing the list of tariffs of a large number of products. In September, Americans imposed 10% tariffs and China also responded by levying an additional tax on a host of American products. American duties impacted the Chinese economy by hurting manufacturers and subsequent slowdown. By December 2018, both nations agreed to give a halt to the imposition of new taxes. By mid-2019, China and the USA agreed on a trade agreement. In May 2019, Chinese officials refused to bring any changes to their company subsidy law and asked Americans to completely remove the imposed tariffs. As a retaliatory measure, on May 5, 2019, the US president increased tariffs from 10% to 25% on Chinese imports worth $200 billion. This move reduced the US trade deficit with China to its lowest level since 2014, but the effect was temporary. After the US action, China stopped all farm products from the US market. For the first time in the last one-decade Yuan got weakened to seven per dollar. By now both countries realized that this tit for tat approach was self-destructive. Therefore, on 15 January 2020, both countries signed a trade deal. But the COVID-19 pandemic has put a complete halt to the implementation of the first phase of commitments. On the contrary, the pandemic has added fuel to the ongoing trade war between two economic giants which is also going to affect other developing or developed nations who are economically dependent on either of the countries.

2.6 Impact of Trade War on World Economy

In the global economy trade tensions and disruptions have occupied the center stage and it has also become the biggest impediment in free global trade. It has intensified the shortcomings in world demand and economic growth. Apart from that, it has impacted the geopolitics, global economies, and business worldwide. Although tariff wars between the US and China since May 2018 have become the face of current trade wars, the trade tension started appearing well before that when the US in early 2018 started imposing higher tariffs and restrictions on its major trading partners on a large number of imported products.

As we know that the US and China because of their size of economies, accounts for 40% of global GDP because of which trade tension between these two economic giants has a major impact on other economies of the world. This dispute also includes the conflict between the US and other economies like the European Union, Canada, Mexico, and India. Japan and South Korea are also not spared and they too are involved in the trade conflict. Because of globalization and the interdependence of international trade, the aftermaths of conflicts can be felt globally. Trade war has led to a shift in global trade dynamics wherein nations are changing trading partners, supply chains being realigned, nations changing their trading policies more frequently and governments’ intervention to support affected sectors are on the rise.

The current trade war, which was initiated by the US, is pulling down the global growth wherein it is adversely affecting the financial market and commodities. Apart from the same it has deterred investments and hurting the confidence of economies. Other than trade conflicts and tariff wars, issues that are responsible for global trade weakness, are slowdown in global demand, economic and political uncertainty.

2.7 **US Tariff Hike and Import Restrictions**

In 2018, the US hiked tariffs and unilaterally imposed import restrictions on a large number of merchandise goods which were followed by retaliatory tariff hikes by its trading partners. Tariffs imposed by China and the US on each other are primarily on manufactured goods which contained some agricultural products, energy goods, consumer goods, capital goods, and intermediaries’ products. Following are the goods and products affected, countries impacted because of the tariff/retaliatory tariff imposed by the US and China on each other\(^{46}\):-

<table>
<thead>
<tr>
<th>US Tariffs &amp; Import Restrictions</th>
<th>Countries Affected</th>
<th>Retaliatory Tariff</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Aluminum: 10%.</td>
<td>All countries excluding Argentina, Australia, Canada Brazil, Mexico, and South Korea.</td>
<td>European Union: Goods of value worth $2.8 bn. India: Goods valued $200 mn</td>
</tr>
<tr>
<td>• Steel: 25%.</td>
<td>China.</td>
<td>China retaliated with: 25%: goods valued at $100 bn. 50% goods valued $75 bn.</td>
</tr>
<tr>
<td>US Tariff on China:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 25% goods valued $250 bn.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 15% goods valued $300 bn.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**2.8 Effects of Trade Wars on Global Trade**

Global trade comprises of commercial services trade and merchandise trade. Just at the beginning of current tariff wars in 2018, world trade grew at a slower pace which carried forward to the year 2019\(^{47}\). The following bar chart sums up the pattern of growth over 9 years:

![Global Trade Chart](image)

*Picture-14: Global Trade in Merchandise and Services\(^{48}\)*

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\(^{46}\) WTO, Care Ratings dated October 2019, referred on September 1, 2020
\(^{47}\) Ibid.
Global trade (worth $2.5 trillion), grew by 9.4% in 2018, which was 0.5% lower than 2017 (9.9%). In the first half of 2019, the value of global merchandise trade and services trade was lower than the year 2018.

2.9 State of Merchandise Trade

Merchandise Trade dominates global trade with a share of more than 75%. In 2018 there has been an increase in goods trade in terms of ‘value’ but there has been a decline in the ‘volume’ of the goods which were traded. In the year 2018, in terms of ‘volume’, the world merchandise trade growth rate was at 3% and it was lower than the previous year by 1.6% but regardless of the decline in ‘volume’ trade, ‘value’ terms of global merchandise trade shot up 10% to $19.7 trillion. It happened because of the higher prices of energy products. By the second quarter of 2019, the growth of merchandise trade in terms of volume and value has been low. Growth in the volume of global trade was at 0.6% which was an all-time low in comparison with the same period in the last two years (average growth rate of 4%). As far as growth in value terms was concerned it shrunk by almost 3% during the same period wherein the average growth rate of the last 2 years was at 11%. As a result of trade tension, the protectionist approach of the US government, and restrictions imposed by various economies, global trade growth got further weakened towards the last quarter of 2018. The phenomenon has been described by the following bar chart:

![Bar Chart: Merchandise Trade Growth (%)](chart.png)

2.10 State of Commercial Services Trade

Global trade in commercial services comprises of travel, transport, logistics, management, consultation service, IT, and communication. It forms 20% of global trade. In 2018, commercial trade rose by 7.5%, which was 7.1% in the year 2017. In the last quarter of 2019, there were trade contractions in commercial services in countries like France, United Kingdom, China, Germany, Japan, and Italy. The USA, which leads the trade in commercial services was also affected severely wherein it fell by half in comparison with the year 2018. Production and trade of goods are interlinked with services, therefore, if tariffs are

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49 ibid.
50 ibid.
51 WTO, Care Ratings dated October 2019, referred on September 1, 2020
52 WTO, Care Ratings dated October 2019, referred on September 1, 2020
levied on goods it has major implications on trade in services too. Interruption in production and disruption on goods trade adversely affects other sectors associated with goods like logistics, transport, distribution, sales and marketing, business, and financial services. Disruption in the supply chain associated with trades in goods also impacts a large variety of connected services. The service sector which is not related to the goods on which additional tariffs have been levied like education and tourism also gets severely affected. Adverse effect on merchandise trade and world trade in commercial services also impacts investments into the sector$^{53}$.

![Country wise Growth in Trade in Commercial Services](image)

**Picture-16: Country wise Growth in Commercial Services$^{54}$**

### 2.11 Most affected Economies & Countries

The decline in the growth of merchandise trade has been almost similar all across the world economies. Globally, export and import have got weakened wherein, baring certain regions and economies, the decline has been sharp. In the case of Asia and Europe, the decline in merchandise trade, both in terms of volume and value, has been prominent. Both Asia and Europe account for 70% of the world trade$^{55}$ Among the key regions, North America witnessed the highest growth in the volume of traded goods. The fall in the value of traded goods was also the lowest in the region. In terms of value, all the main regions experienced a contraction in their exports in the first half of 2019, while all other regions experienced a decline in imports, with the exception of North America$^{56}$.

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$^{53}$ ibid.

$^{54}$ WTO, Care Ratings dated September 2019, referred on 22 August 2020

$^{55}$ Investopedia, James Chen, May 5, 2020, article referred on 22 August 2020

$^{56}$ WTO, Care Ratings dated October 2019, referred on September 1, 2020
In terms of volume, all main regions reported a substantial decrease in exports in the first half of 2019, compared to the same timeframe in the previous two years. For imports, Asia and South & Central America, both reported a decline, while other main regions experienced positive but restricted growth.

The study of the value of merchandise trade in the top 15 exporting and importing countries and India (ranks 19th for export and 10th for imports), which accounts for more than 60% of world merchandise trade, shows that:

- All other leading exporters, except Mexico and India, faced a contraction in their goods traded in 2019.

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57 WTO, Care Ratings dated September 2019, referred on 22 August 2020
58 WTO, Care Ratings dated October 2019, referred on September 1, 2020
59 WTO, Care Ratings dated September 2019, referred on 22 August 2020
60 WTO, Care Ratings dated October 2019, referred on September 1, 2020
Asian countries such as Hong Kong, South Korea, Japan, Singapore, Russia, and European countries like Germany were the worst affected in the second quarter of 2019, with exports contracting by 6 to 9 percent from the previous year.

In the second quarter of 2019, the United States of America and China have also reported a contraction in exports.

In the case of Imports

- In 2019, all the leading importers experienced a contraction in imports.
- Of the 15 countries only India and the United States reported limited but positive growth in imports in the second quarter of 2019, all other countries registered a decrease in import growth in the second quarter\(^6^2\).
- Spain, Hong Kong, and the United Kingdom have experienced the sharpest decline in import growth wherein, their imports contracted by 7% in the second quarter of 2019 compared to the previous year.

\(^6^1\) WTO, Care Ratings dated October 2019, referred on September 1, 2020
\(^6^2\) ibid.
\(^6^3\) WTO, Care Ratings dated October 2019, referred on September 1, 2020
2.12 How the countries are handling the trade disruption
Countries are resorting to different majors to minimize the damage caused by trade disputes to their economies. Nations entered into bilateral trade and multilateral trade agreements. They were also looking for new and alternative export markets seeking to raise domestic demand by offering incentives for tax and tariffs to draw international investments. Some of the specific measures adopted by various economies are as under:

- Recently, the European Union has concluded two trade deals; the EU-Vietnam Free Trade Agreement and the EU-Mercosur Association Agreement. There are more such deals in the pipeline.
- China cut duties on goods coming from those countries that were competing with America.
- Thailand has introduced a relocation package that provides tax incentives and concessions in-laws to draw international firms.
- The central banks of Indonesia, the Philippines, and India lowered the cost of funds by drastic cuts in rates of interest.
- Indian government relaxed the limit of foreign direct investment.

2.13 India and the Global Trade amidst Trade War
In the last 10 years, India’s rank in world trade rose from 16th to 11th position. In 2018, the country’s share of global trade, however, remains poor at 2.4%. India’s share of world merchandise exports is 1.6%, and imports remain at 2.6%\(^64\).

![Picture-21: India’s share in World Exports\(^65\)](image)

India became part of the ongoing trade wars when the US revoked preferential trade status (under a standardized scheme of preference that did not charge duties on different imports) for India in June 2019 and levied tariffs on over $5 billion of Indian imports. That prompted India to impose retaliatory tariffs. Trade-in 2019 presents a mixed picture for India wherein, imports contracted and exports rose marginally. India’s exports are mainly driven by world demand. Indian exports are reflecting the slowdown in global demand. India’s export growth at 1.4% ($219 billion) in the first eight months of 2019 was significantly below 11.8% growth a year ago during the same period\(^66\). Despite the rapid decline, India’s cumulative export output in 2019 was prominent as the country witnessed positive growth, whereas most economies

\(^{64}\) Economic Survey of India 2018-19.


\(^{66}\) ibid.
saw their exports getting stagnated. That could be seen as the rising role India plays in the global value chain. In the first eight months of 2019, the country’s import growth contracted by 3% (to $331 billion)\textsuperscript{67}.

\begin{figure}[h]
\centering
\includegraphics[width=0.8\textwidth]{share_of_key_exporters_2019_india.png}
\caption{SHARE OF KEY EXPORTERS (IN VALUE TERMS) 2019: INDIA}
\end{figure}

\begin{figure}[h]
\centering
\includegraphics[width=0.8\textwidth]{share_of_key_importers_2019_india.png}
\caption{SHARE OF KEY IMPORTERS (IN VALUE TERMS) 2019: INDIA}
\end{figure}

The US is India’s largest single export market, while China is India’s largest import market. Indian exports are dominated by items such as engineering goods, vehicles (including auto components) gems and jewellery, chemical and petroleum products, and those items which are higher up in the value chain are dependent on external demand. India ranks among the top 10 agricultural product exporters\textsuperscript{70}.

\begin{flushright}
\textsuperscript{67} WTO, Care Ratings dated October 2019, referred on September 1, 2020
\textsuperscript{68} Economic Survey of India 2018-19.
\textsuperscript{69} Economic Survey of India 2018-19.
\end{flushright}
In the first eight months of 2019, Indian exports to nine of its top 15 exporting economies contracted. The moderation in the exports was registered by 5 countries compared to the corresponding period of the previous year. In 2019, only exports to Singapore and Saudi Arabia grew higher than in the previous year.

Exports of commodities from India, such as engineering products, leather, and textiles to Germany contracted by 3%. These three commodities constitute nearly 50 percent of India’s total exports to Germany.

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71 ibid.
72 ibid.
73 Economic Survey of India 2018-19
74 ibid.
• The major contraction in exports to Vietnam can be attributed to contraction lower demand for meat, marine products, and textile products. These goods constitute almost 40 percent of the country’s exports to India.

2.14 India’s Ranking in World Bank Ease of Doing Business
As per the ease of doing business report published by the World Bank, India jumped 14 places to be 63rd amongst 190 nations in October 2019.75

![Figure 5: India’s ranking in World Bank Ease of Doing Business Reports](source: World Bank)

**Picture-26 : India’s Ranking in Ease of Doing Business**76

![Picture-27: India’s Ranking in Ease of Doing Business in last two years](source: World Bank)

**Picture-27: India’s Ranking in Ease of Doing Business in last two years**77

2.15 Has India been benefitted from the changing dynamics of world trade?
The trade conflict between the USA and China is supposed to present an opportunity for India as an alternate destination for setting up production units. But till now no shift or relocation has taken place.

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75 www.wto.org/english/thewto_e/whatis_e/tif_e/fact2
The decline in export growth in the last quarter of the year 2019 suggests the same. The relocation of production units has been to countries like Vietnam, the Philippines, Taiwan, and Thailand. India has not been able to make its tax structure competitive even after cutting the tax rates from 30% to 25.17% that too excluding surcharges. Apart from that other impediments are poor infrastructures like energy shortage, lack of transport infrastructure, lengthy and complicated rules and regulations, high costs of logistics and transactions, procedural and documentation bottlenecks. India can get benefitted from the ongoing trade war.

To conclude, this chapter covered the background of global trade war, currency war and various reasons for the economies for adopting protectionist policies. Countries adopt protectionist policies in the form of tariffs, import quotas, product standard and subsidies. Apart from the same countries adopt protectionist polies to promote domestic producers, and thereby boost the domestic production of goods and services. The Nations across the world adopt method of currency devaluation as well to increase their export but generally it ends in competitive devaluation. The competitive devaluation occurs frequently when currencies of two countries have managed exchanged rate regimes rather than floating exchange rate. The recent example of competitive devaluation is of the US-China trade war. At page 26 of this chapter critical evaluation of trade war has been done with its brief history from 17th century till recent trade conflict between the USA and China which commenced since March 2016. Most recently, in December 2020, the US treasury labelled many countries as currency manipulators. It alleged that in June 2020 Switzerland and Vietnam had entered heavily in currency market to correct their adverse BOP (Balance of Payment). The USA also blamed India and Singapore to have interfered in the foreign exchange market in a continued uneven way. Most of the nations of the world including India, China, Japan, South Korea, Germany, Italy, Singapore and Malaysia are in the monitoring list of the US treasury. In the end a detail analysis of Indian trade with rest of the world has also been covered which includes its exports and imports with various economies of the world. Effect of trade war on Indian economy and likely benefits it can accrue with the trade conflict between the US and China have also been covered in detail. The next chapter of the dissertation will be covering the effects of COVID-19 pandemic on the world trade and how its has aggravated the ongoing trade war in the world.

CHAPTER 3
LIKElY DIRECTION OF GLOBAL TRADE WAR POST COVID-19 PANDEMIC

3.1 Pandemic and the World
The current pandemic is rapidly transforming the world and because of the same countries are adopting social distancing measures. In the absence of a vaccine or viable medical treatment, various nations are turning towards means other than medical treatments to stop the fatal spread. Based on the recommendations of the epidemiologists most countries ultimately adopted one of the types of social distancing – clampdown. Almost all the nations are on the same page in admitting the fact that the fast spread of the infection along with a large number of patients require some serious medical treatment which justifies these tough measures. Otherwise, countries will face the risk of having the requirement of the hospital facility, which will be much more than available. The policy of clampdown incites several changes in the Organisation of society. Social life and travel of people will become almost minimum because of staying inside and work from home culture. Nations are imposing limitations on foreign travel,
introducing border controls and restrictions on exports of items related to food, medicines, and essential medical equipment.

The lockdowns have huge and severe effects on world trade. Whole segments of the trade like, cafeterias, hotels, retail shops, and specific services are closed down. Travel has been severely affected and people have postponed the purchase of commodities, and durables because of the non-viability of shopping and unclear future. University, Colleges, and schools’ shutdowns, sickness, and social distancing compelled all to stay inside at home and started the new normal of working from home. It ultimately led to a fall in labour supply. International trade cost is rising because of restrictions imposed by the countries on border crossing and supply of cargo. Apart from that, controls on individual travel are raising the business costs of commodities and personal services. Firms that are functioning with multifaceted value chains are also facing problems in organizing their production because of the factory shutdowns in one part of the supply chain, pandemic, and shutdowns. Governments across the world have introduced a large number of fiscal and monetary policies. They have raised the costs of medical treatment and giving financial support to employees of the affected sectors. Besides, it is also rendering liquidity support to affected companies and actively intervening in its domestic economy to prevent downside.

Pandemic and ongoing Global Trade War have severely affected the economies in many ways whose effects are profound and will be severe and serious. In this chapter, it will be endeavoured to envisage the likely directions of global trade and fresh contours of the global trade war.

### 3.2 Pandemic and the Current Global Trade

Forecasting, the effect of the pandemic on the economics of the world is complex as it has many interrelated factors. As of now, it is not certain that till when countries will be living with shutdowns, social distancing reduced manpower, and work from home culture. Apart from that, it is also not clear that what will be the exit strategy and how will it look like. Presently, the world doesn’t have a viable medical treatment for the disease, and as per predictions, the discovery and production of a vaccine are likely to take a minimum of one year to a year and a half. What would be the effect of the weather? Will it bring relief? Will countries open up by adopting limited social distancing after some months? And will nations succeed to manage their policies such that restraints to international travel and restrictions on transport can be minimized? The answer to these open questions will have a direct and solid impact on the trade and economics of the world.

In the year 2020, the world economy is going to see a global recession for sure, which will have a severe impact on some countries or regions. As per JP Morgan Research, the USA will witness a GDP contraction between –10% and –25%, and the EU economies will suffer between –15% and –22%.79

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Till the second quarter of the year 2020, the state of GDP contraction of big economies has been illustrated below. Except for China, all major economies of the world, including India have contracted into negative pictures.

The speed and degree of probable recovery are still anybody’s guess. The situation can lead to a political crisis in many regions of the world because the fate of the current governments will ultimately be decided by electoral support. In this regard, for example, some specialists are concerned about the fate of the European integration project. Because as per them the European institutions have failed to live up to the expectations during the crisis.

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3.3 Economic Recovery Scenario

Economists predict the duration and shape of recovery by a geometric graph generally known as V, U, W, or L shape graph. In a “V” shaped recovery, the economy recovers quickly and immediately with no long-term effects. A “U” shaped recovery, indicates minor short-term growth and will have more substantial effects in the medium term. The “W” shape recovery means numerous waves of limited recoveries and setbacks which will impose a delay in final recovery. The “L” shape denotes a severe recession that will have long-term effects on the whole economy coupled with poor GDP growth. It will also lead to a long-term return recovery to the pre-crisis period.

![Economic recovery scenarios](image)

**Picture-30: Economic Recovery Scenario by Arthur D. Little**

3.4 Prediction of World Trade Organisation (WTO)

On the future of global trade, Roberto Azevêdo, Director-General of WTO, on 08 April 2020 predicted big changes in the world trade of goods and services. As per him following are most likely:

(a) World merchandise trade will plummet by nearly 13% and 32% and expected recovery will depend on the effectiveness of the policy responses.

(b) WTO forecasted a 9.2% decline in the volume of world trade in 2020 and 7.2% in 2021.

(c) Trade in services will be directly affected and steeper fall in trade in goods particularly electronics and automotive products.

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The above chart indicates the state of world merchandise volume and its recovery scenario as suggested by WTO. We can notice in this chart that the downward trend in merchandise trade and a V shape recovery chances according to the WTO but when we see the original chart of economic recovery presented by A.D. Little, we come to know that economy recovers within two to three months in a V shape model. But the V shape recovery model suggested by WTO doesn’t match with the current trend as more than three months have already elapsed.

WTO added that pandemic will have the worst impact on households and businesses. Therefore, the immediate goal of the government worldwide is to start planning to fight the pandemic. Further WTO advised that all the countries of the world need to work together to bring back faster recovery because individually and separately it is difficult to handle the current situation. Trade was already showing a downturn in the fourth quarter of 2019 before the pandemic. Pandemic will aggravate the tensions and economic growth will slow down.

3.5 How would the trade look like in 2020 and 2021?

The financial shock of the pandemic has started the trend of comparisons of the present conditions with the global recession of 2008-09. These emergencies are comparative in certain regards but exceptionally diverse in others. Governments have once again intervened with the financial and monetary arrangement to tackle the recession and give transitory payback to businesses and households. But the major difference between both the situations is the lockdowns and social distancing. It is severely affecting the availability of labour, transport of cargo, and personnel. National economies have come down on its knee. Sectors that have been affected are tourism, hotels, retail trades, and manufacturing. Under the prevailing conditions, crystal gazing requires solid predictions about the further spread of the pandemic and a more dependency on predicted data vis a vis reported Pictures.

The future of expected trade has been briefed by the help of above chart. It describes two clear scenarios. Firstly, a positive scenario, with a steep fall in business which is trailed by a resurgence which is expected to start in the latter half of the current year. Secondly, a negative scenario, with a sharper decline in the early part of the year and a more protracted and inconclusive recovery during the latter part. Instead of making specific assumptions of future scenarios, it would be prudent to see this development as investigations of various possible scenarios for the crisis. In the end, one may come across outcomes that are outside of the upside or the downside trends.

Under an optimistic scenario, trade is likely to be back to its pre-COVID trend because of a strong recovery. The same has been indicated by the dotted yellow line in the graph of the chart above. On the other hand, in a pessimistic scenario, only partial recovery is envisaged. In the case of uncertainties, the early course does not essentially govern the successive retrieval. One could observe a sharp deterioration in the current year’s trade volumes with the lines of the negative trend, but a correspondingly dramatic bounce back, taking trade much nearer to the line of the positive trend by the year 2021 or 202285. Subsequent to the economic crisis of the year 2008-09, the trade couldn’t return to its earlier trend which has been represented by a dotted grey line in the graph. Strong bounce back is more probable if industries and customers consider the epidemic as a momentary, single-time shock. In this scenario, expenditure on ventures and consumer durables would resume and reach the previous level once the crisis is over. Instead, if the epidemic gets protracted and periodic ambiguity becomes inescapable then houses and industries are expected to spend more. In both scenarios, all regions of the world would suffer a downtrend in imports and exports. But regions like Africa, Middle East countries and nations of the Commonwealth will not be affected much. This comparatively small predictable downfall in exports comes from the circumstance that economies from these areas depend deeply on exports of energy goods whose demands are unaffected by changing prices. If the effect of the epidemic is controlled and commerce and business start to increase again then most of the economies record a double-digit bounce back in 2021 which will be around 20% in the positive scenario and 23% in the negative scenario86.

86 ibid.
3.6 Merchandise trade growth vis a vis World GDP growth (1990-2020)

Two other issues that differentiate the ongoing recession from the last monetary recession are the importance of value chains and services in trade. Value chain disturbance has always been an issue even when the pandemic was only restricted to China. The disease is more widespread which is a salient factor now. Trade is expected to drop more sharply in areas characterised by intricate value chain connections like products of electronics and automotive sectors. As per report of OECD, the part of international value-added in electronics exports was about 10 percent for the United States, 25 percent for China, more than 30 percent for Korea, more than 40 percent for Singapore, and more than 50 percent for Mexico, Malaysia, and Vietnam.\(^88\) The social distancing, which triggered factories to temporarily close in China and which also took place in Europe and North America, is likely to disrupt imports of key production inputs. It is also important to note that disruptions in the supply chain can happen as an outcome of localised calamities like hurricanes, tsunamis, or, other economic disruptions. For global and local businesses, managing supply chain disruption is a challenge and involves a risk-versus-economic productivity assessment on the part of each company. Because of the burden of transport and travel limitations and the shutdown of many retail and hospitality institutions, trade in services is the worst-hit portion of world trade. Though services do not form part of WTO’s merchandise trade prediction, trade in goods won’t be feasible without them like, transport. There are no lists of amenities to be drawn down today and re-stocked at a future date, unlike goods. Consequently, decreases in trade in services might be lost forever during the epidemic. Trade-in services are integrated with air transport which enables the ecosystem of other recreational activities like culture and sports. Yet, some services are likely to be benefitted from the crisis as well. It is applicable for information technology facilities, whose demand has increased as all the companies are allowing their employees to work from home.

In most of the trade statistics, the effect of the pandemic outbreak on international trade is still not clear, but some timely and leading indicators are providing clues as to the scale of the slowdown and how it compares to previous crises. Especially useful in this respect are indices of new export orders derived from Purchasing Managers’ Indices (PMIs). For March, the JP Morgan global PMI showed that export orders for manufacturing decreased to 43.3 compared to a baseline value of 50, and export business for new services decreased to 35.5, showing a significant downturn\(^89\).

3.7 Trade Expansions in the Year 2019

In 2019, global merchandise trade stalled under the weight of continued trade disputes, with trade declining towards the end of the year. This has been explained in the chart below, which shows seasonally-adjusted quarterly merchandise trade volumes as measured by the average of exports and imports. In the fourth quarter trade decreased by 1.0 percent year on year and by 1.2 percent compared to the third quarter of 2019. The latter is equal to an annualised 4.6 percent decline\textsuperscript{91}.

\begin{center}
\includegraphics[width=\textwidth]{chart.png}
\end{center}

\textbf{Picture – 34: World merchandise exports and imports, 2015-2019}\textsuperscript{92}

The Chart shows seasonally adjusted quarterly export and import volumes of merchandise by region. In the second half of 2019, South America and other regions registered significant decreases in exports, while Europe, North America, and Asia witnessed either marginal growth or mild decreases. Throughout 2019, import volumes for South America witnessed a sharp decrease, with Europe, North America, and Asia all finishing the year lower. Imports for other regions alone continued to grow with year-on-year growth of between 1.9 percent and 4.9 percent in 2019 for each quarter\textsuperscript{93}.

\textsuperscript{91} Economic Research and Statistics Division, World Trade Organization (WTO), July 2020.
Since services are not subject to tariffs in the manner as commodities are, after recording strong increases in the previous two years, world trade in commercial services still declined significantly in value terms in 2019. This is illustrated in Chart 6, which shows growth in the dollar value of services exports by major categories. With a 3 percent rise in 2019, the “Other commercial services” segment reported the fastest growth, followed by travel and goods-related services at 1 percent. As a result of trade frictions between major economies, a 0.5 percent decrease in the value of transport services could have reflected weakness in trade in goods.

Picture – 35: Region wise Merchandise exports and imports, 2015-2019


Picture – 36: State of Service Sectors during 2015-2019

3.8 Likely Penalties of Pandemic on World Trade
Some view the COVID-19 pandemic as an imminent threat to liberal society. There are some early signs that current autocratic trends might intensify in the future. One of the possible casualties of the current pandemic is foreign trade as well. Likely near and future impacts of the pandemic on global trade have been covered in succeeding paragraphs.

3.9 Short-Term Effects of the Pandemic
The epidemic has triggered severe damage to world trade by disrupting the demand and supply aspects of the world economy. Countries have adopted the stringent shutdowns of non–core industrial facilities, and many companies have either taken such steps voluntarily (for example, due to a shortage of labours) or have reduced production consequent to disruptions in the supply chains. However, in the foreign service market, the impact of the COVID-19 pandemic is most apparent. International tourism, passenger air transport, and container shipping are the key victims. Global financial transfers, as well as information and communication infrastructure facilities, have also been significantly reduced. As per the assessment of the United Nations Conference on Trade and Development (UNCTAD), in the year 2020, foreign direct investment is going to reduce by 5-15 percent.\(^\text{96}\) As customers around the world are reluctant to spend their money, apart from that the demand has also been affected severely. This phenomenon can be related to a widespread fear of income loss and increased uncertainty. It is hard to predict the amount and nature of this decline.

In recent months, there has also been a substantial rise in the alternative to COVID-19 related trade policy initiatives by the Governments. Particularly, several countries have agreed to set up export restrictions on certain medical goods, like ventilators, medicines, personal protective equipment. They have also put regulations like temporary export prohibitions and introducing licensing and authorization criteria. Some states concerned with the security of their food supplies have imposed export limitations on certain agricultural products, and these actions have raised concerns regarding possible food scarcities in the worldwide market during the latter part of the year 2020. According to the World Trade Organisation(WTO), the Food and Agriculture Organisation, the World Health Organisation(WHO) uncertainty about the supply of food, can spark a wave of export constraints, causing a worldwide market shortage. In this respect, these organisations urged states to guarantee that their domestic and international policies do not affect the food supply chain adversely.

However, it would be naïve to think that the current pandemic has only started the series of trade limitations as the scenario is much more complicated. Many countries have done away with some trade restrictions. Argentina put off its anti-dumping levies on imports of medical equipment and medicine from China. Canada also removed duties on certain categories of medical items if it has been imported by hospitals, public health agencies, and testing locations. It had been done to ensure that adequate supplies (either by increasing imports or decreasing exports) to domestic markets are available. The USA and China, the two competitors, both eliminated some trade constraints during these days, albeit briefly. Particularly, the USA excluded a wide range of protective gear (PPE) and medical equipment from additional tariffs levied under its Section 301.\(^\text{97}\) At the same time, China has also done the same on the products like reagents or disinfectants which were being imported from the USA.

\(^{97}\) https://www.dlapiper.com/en/uk/insights/publications/2020/05
As countries are presently dealing with the emergency, the pandemic has also slowed down the development of numerous foreign trade initiatives across the globe. A good example of the same is the latest treaty between the USA, Canada, and Mexico. It is expected to substitute the original NAFTA. The US-China Phase I trade deal which was signed in January 2020, had set prerequisites for ending the trade war between the two nations, could face similar problems. According to the agreement, China had to undertake the purchase of additional US products and services, and the US had to reduce trade tariffs from some of the Chinese goods. These tariffs were levied between 2017 and 2019. It could be anybody’s guess whether, during the time of the global economic crisis, China and the USA will be able to keep the promises made to each other.

The future of BREXIT and trade relations between the UK and the European Union (EU) have also been jeopardised. As per the withdrawal treaty, the changeover period for the UK terminates on 31 December 2020 and if no deal arrives, the joint trade deal will be administered by the WTO guidelines. For a post-pandemic world, that seems to be a disagreeable and unpopular option. Therefore, the postponement of the time limit is inevitable.

3.10 Long-Term Effects of the Pandemic

The world economy is built on the expertise of labour around the world. In line with the comparative advantage principle, which lays the basis for the current system of foreign trade of goods and services, such specialisation makes it possible to increase overall production and boost welfare. However, the COVID-19 pandemic has shown that the system’s clear benefits come with costs. Many economists have noted, “single-source providers, or regions of the world that specialise in one specific product, may create unexpected vulnerability in times of crisis, triggering supply chains to break down”. These disturbances can have considerable impacts, both on individual businesses and global delivery networks. For example, China is a major global source of active pharmaceutical ingredients for several major drugs. It accounted for 95% of US ibuprofen imports, 91% of hydrocortisone, 40-45% of penicillin, and 40 percent of heparin in 2018. This is especially problematic in times of crisis when manufacturing companies are still not fully operational, while home market demand may require countries to redirect part of their exports. This also extends to other markets, even if the impact of future disturbances is not so drastic. This newly defined risk will potentially lead to dramatic changes in existing supply chains. In recent years, the early signs of such a move have been evident with the Trump Administration pushing American companies (although for varying reasons) to transfer their manufacturing back to the United States, or at best outside China. These attempts have only been partially effective, but a more strenuous response could be sparked by the current outbreak and with new governmental policies under Mr. Biden. Interestingly, both private firms and government bodies might now be interested in implementing such changes. Shortening and diversifying supply chains may, from the point of view of private companies, be a rational strategy that enables them to ensure smoother operations, and reduces the possibility of supply shortages. This could be a way for governments to reduce over-reliance on one country especially in emergencies) and as a result, help them to better prepared for future emergencies. It seems that this approach will be followed even by the new government of the USA under the leadership of Mr. Joe Biden. Regulatory measures

100 https://www.thepharmaletter.com/article/coronavirus
101 ibid.
aimed at decreasing chain management vulnerabilities have received bipartisan support in the American Congress in the past.

Some commentators suggest, drawing on historical references, that the pandemic’s implications would be much more far-reaching. They predict a significant and irreversible transformation of the globalisation process as a result. As expected, to emerge, the modern world will be marked by tighter immigration laws, new trade and investment barriers, and technological decoupling, with a central position reserved for states rather than international organisations. The possibility of this event has been strengthened by recent developments. It appears that there’s already been a significant restructuring of the global economy and international order for some while. It should be noted, in this context, that some intergovernmental organisations have already been undermined. With its partially paralysed dispute resolution mechanism, the WTO is a perfect example of such dilution. Immigration laws have also been tightened in several countries in response to the series of recent migration crises. Over the last couple of years, world trade restrictions are on the rise, but they’re not limited to trade cooperation between the US and China. Traditionally very friendly to foreign trade, the European Union has taken a more assertive approach in its commitment to enforce its anti-dumping tariffs, redistributive measures, and trade sanctions more aggressively, as well as in its willingness to conduct investment screening. In terms of rivalry for global technological dominance, technological decoupling – seen by both China and the United States – was an important part of their trade war. One of the components of this mechanism also appears to be a series of recent market actions by the European Commission against American technology companies. It remains an open question whether this would lead to the revival of national identities or rather to a classification of the world focused on regional trade blocs around local hegemons competing against each other in the global game of power. Although some of the short-term implications for global trade of the COVID-19 pandemic are significant, they do not seem to be impossible to manage. From this viewpoint, one would assume that international trade will return to business as normal once the pandemic disappears (or becomes manageable). However, the future effects of the pandemic could be more profound in a different phase than originally expected, resulting in systemic changes in the mechanism of the world economy. The COVID-19 epidemic may escalate current tendencies for states to turn inwards and strive more actively for political and economic supremacy in the world, although the seeds of such a process were sown some time ago. Whether this occurs or not would largely depend on the duration and magnitude of the pandemic. The larger the effect, the higher the probability of a sea change in the global economy and governance.

3.11 Likely Directions and Future of Global Trade War

Expected Rise in Dumping. When a product is exported to other country at a value lesser than the cost of that product in domestic market it gives rise to the demand of the product but because of the inability of the local producers to meet the demand at that ‘lesser cost’ then the product is imported and dump in the local market. It destroys the domestic industries. And after sometimes governments adopt protectionist policies to bail out local producers which gives rise to trade conflict.
It’s a known fact that before the pandemic also China was the major contributor in dumping cases all over the world. Therefore, we can expect some increase in the problem of dumping cases from China. Though many countries like India are taking measures for self-reliance in the era of globalisation we have to import to export, therefore, the expected rise in dumping cases can aggravate the trade war.

**Digital Trade War.** COVID-19 has accelerated digital adoptions which means digital that the digital economy is highly benefited by COOVID-19. Virtual means have become a very common mode of communication. People are ordering goods of the basic needs online to avoid contact. The giant e-tailers (online retailers) like Alibaba of China, Amazon of the USA, Tesco Plc of UK were already widespread and struggling for their existence. this pandemic will aggravate this problem and might open up the digital trade war between big e-tailers. As per the study, in the USA 20% of the retail supply chain all over the world is exposed to China. As per the update of Business Today (16 October 2020), the Indian Government found a lot of Chinese e-commerce vendors like Club factory and Shin manipulate the market. They used the “gift route” to export orders to avoid paying customs duty. One FIR was also lodged against the Chinese e-tailer Club Factory for selling fake products in India. Ministry of Electronics and Information Technology (MEITY) in August 2020 banned 47 Chinese apps also.

We can expect retaliatory measures from China also. The US economy also banned most of the digital companies in China. During the pandemic, these restrictions on trade applications are increasing by every passing day, especially in China. This can lead to a new type of digital trade war of goods and services in the future.

**The problem of devaluation.** It is a well-known fact that history repeats itself. After the second world war, many countries of the world were frequently doing de-valuation of the currency to increase their export and minimize the current account deficit of their balance of payment. The same thing can happen during the COVID-19 period as well. To minimise this probability of currency war which will end in trade war IMF head has suggested one more Breton Woods Conference on the line of the previous one.

**Foreign Exchange Restriction and Managed Floating.** Countries of the world can adopt frequently managed to float to increase their trade as global trade is highly affected by the external value of the currency. To maintain the external value of currency central banks can adopt foreign exchange restrictions.

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104 ibid.
and managed to float as a part of managed floating central banks of different countries can sell their reserves in the foreign exchange market to maintain external values of their currency. This can highly hit the US economy as the dollar is a vehicle currency, universally accepted by most countries. We can see the impact of managed floating with an example of India because recently India was doing it. The same has been illustrated by the following pictures.

![Graph](image)

**Picture – 38 & 39: Relation of Supply and Demand**

**Protectionism and De-globalisation.** As per noted economists, Baldwin and Evenett, the COVID-19 epidemic is driving the global economy from global economic integration to withdrawal. Decision-makers and corporate leaders are now debating whether they have expanded global supply chains too far. They are also wondering whether they can minimise their economic interdependence in an atmosphere where alliances are unstable and international cooperation is absent. New rationales for protectionism,

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particularly for medical gear and food, and a focus on domestic procurement, being provided by national security and public health concerns. There are several different elements of globalisation: cross-border trade flows, investments, data, ideas, and technology, not to mention people, including employees, visitors, and students. As per the analysis of PIIE, globalisation is in retreat for the first time since World War II. Global trade is a fair indicator of economic integration, calculated by the ratio of world exports to world GDP. The graph below shows five phases of modern globalisation.  


**Picture – 40: Phases of Globalisation**

Therefore, to secure their domestic trade interest, it is most likely that various countries will adopt a protectionism policy which will further accelerate the process of de-globalization, though partially. 

**De-coupling of Trade.** While COVID-19 can be seen as an unexpected 2020 black swan, everyone could be assured it’ll have a significant effect on the economy, politics, policy, and globalisation of the world. The effect of the coronavirus is also reflected in the way individuals think. People are currently whispering about countries being too closely related to the age of globalisation and blaming globalisation for the outbreak of COVID-19. They think that countries should reduce their connectivity with each other and improve their border controls. Considering the current situation, this is understandable, but such an attitude could drive the world in the direction of de-globalization.

Such a trend does not lead to a global political crisis, but it may cause countries to decouple. Many countries have closed their borders already. COVID-19 has somewhat exacerbated divergences between China and the West, so a post-COVID-19 possibility is to decouple between China and the US and other Western countries. If the scenario continues to evolve in this course, the unwinding of many more countries will take place. To forecast China’s post-epidemic relations with the US and the West, we also need to look at the epidemic in these countries more, and we need to take other factors into account, such as policies of the new US government towards China.

**Effect on Oil Market and Other Commodities.** As per World Bank, though metals and agricultural commodities have recovered from the pandemic’s setbacks and they are poised to make

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108 ibid

moderate progress in 2021, fuel prices are likely to stabilise below pre-pandemic period by next year, despite some recovery.

It is projected that oil prices in 2021 will average $45 per barrel, up from an approximate $42 per barrel in 2020. As tourism and travel will be at a very slow pace because of health issues, demand is expected to grow only slowly, and as trade activities expected to rebound to pre-pandemic levels only by the year 2022. Stock restriction is expected to be gradually loosened up. Energy prices, which include natural gas and coal, are projected to recover significantly in year 2021, following a significant decrease in year 2020, a revision from April’s prediction. A return of the second wave, which will result in further lockdowns and lower usage and delays in the production and delivery of vaccines, could lead to lower energy prices than expected.

Metal prices, backed by the ongoing recovery in the global economy and continued stimulus from China, are expected to post moderate increases in 2021 after dropping in 2020. A prolonged period of slow global growth will result in lower-than-expected prices. Agriculture prices are projected to rise marginally in 2021, following an expected 3% increase in 2020 following some deficiencies in the production of edible oil. In many emerging markets and developed economies, concerns about food insecurity remain important. These issues are prompted by hits on global recession sales, bottlenecks in local food availability, and border constraints that have limited the supply of labour. Inflation in food prices in many nations has spiked.

To conclude, there is no denial to the fact that COVID-19 is the one of the most severe pandemics which mankind have come across. It brought the entire world to standstill and the worst affected sectors in all this are health and trade. The world trade, because of severe lockdowns, social distancing and high mortality rate has come on its knees. The world GDP has recorded worst ever contraction between -10% to -25% which includes all big economies of the world. Economists all across the globe and the WTO have been discussing about the possible scenarios of economic recoveries. As per D. Arthur Little, a noted economic analyst, different economy will have different recovery scenario. As per him China is likely to have “V” shape recovery wherein the US and the EU are likely to register “U” shape recovery. And countries which are likely to see multiple wave the pandemic might register “W” shape recovery. There would be some countries which will also go for “L” shape recovery because of poor economic state and inability to handle multiple waves. This chapter also covered the short term and long-term effects of the pandemic on the world trade. In the end of the chapter likely directions of the Global Trade War has been covered wherein issues of excessive dumping, technology and digital war, manipulation of exchange rates, protectionism, de-globalisation and possibility of de-coupling in the global trade have been discussed. Next chapter of the dissertation covers the combined effect of global trade war and the pandemic on the Indian Economy.

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111 ibid.
CHAPTER 4
IMPACT OF GLOBAL TRADE WAR AND COVID-19 PANDEMICS ON THE INDIAN ECONOMY

4.1 Background
In January 2018, the stock market all around the world reported a major downfall and it went into shock when the US administration announced the tariff rise against China and other countries. The impact was also felt by India though, not much. Many felt that the Indian economy would not be affected adversely. On the contrary, it was an opportunity for India as an alternate destination for major production houses. But, over some time it has been confirmed that effects are mixed and India could not be benefitted much from the ongoing trade war between the USA and China. In the subsequent paragraphs, we would see the positive and negative impact of the trade war on India.

IMPACT OF GLOBAL TRADE WAR ON INDIAN ECONOMY

4.2 Share of Indian Economy in the World Trade
The five-year period between 2014-15 to 2018-19 had witnessed a decline in the exports of Indian merchandise products at an average of 4.5 percent per annum\(^{112}\). The concerned ministry of the Indian Government, in August 2018, formulated a road map to double Indian exports by the year 2025\(^{113}\). In the years 2018 and 2019, Indian exports were recorded at $538.64 billion and $536.56 billion respectively (a decline of (0.395%)\(^{114}\)). Therefore, the strategy of the Indian Government is to boost its export to $1000 billion. To achieve this target the underlying growth rate should be above 9 percent which at the moment has dwindled to -23.8 percent because of the aftermaths of the ongoing pandemic\(^{115}\). Otherwise, the Indian economy had expanded by 3.1 percent up to March 2020, and at the onset of the pandemic, it was recorded at 4.2 percent. The Indian economy grew at 6.1 percent in the financial year 2019\(^{116}\). In overall exports, the share of merchandise exports and services exports constitutes to 63 percent and 37 percent respectively. If it is assumed that these proportions remain unchanged, then doubling the merchandise exports means it has to rise from $309 billion to $618 billion and similarly service exports will have to rise from $195 billion to $390 billion\(^{117}\). The present economic health of India, because of the pandemic, has put a brake on the strategy to achieve the goal by 2025.

Export growth of the country depends on various global and domestic factors. Domestic factors encompass issues like allocation and use of productive resources and supportive policies of the government. On the other hand, global factors include global demand, global trading regime, and the exchange rate. The effects of these factors have always been witnessed by the world economies. The latest shock to the liberal trade has come from the ongoing trade war between the USA and China which can be attributed to the protectionist policies adopted by the Trump administration in the year 2018 which was manifested by the imposition of tariffs and counter-tariffs by both nations. The impact of the global trade war between countries like the USA, China, Canada, Mexico, Japan, and other developing economies like Brazil and Australia has been covered in detail in Chapter 2 of this research. In this particular chapter, the implications

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\(^{113}\) ibid.

\(^{114}\) www.marcotrent.net, referred on 19 November 2020


\(^{116}\) ibid

of the trade war in detail have been analysed. But before that, how much does Indian economy matter to world trade, will be covered.

4.3 Indian Economy and the World Trade

As per the chief economist of International Monetary Funds (IMF), Gita Gopinath, the global GDP for the years 2019 and 2020 has come down by 0.1 percent and it has been predicted to be dragged by 0.2 percent in the year 2021. As per the IMF report, India’s projected growth for the year 2020 has been predicted to be at 5.8 percent which 1.2 percent lower than 2019. Besides, it also reported that India’s slow growth during the period could be because of the loss of faith of the investors during pandemic times. Only China, Japan, and Brazil have the projected rates which are higher than the previous year. The same has been explained by the following Picture:

![Picture – 41: GDP Comparison for the Years 2019 & 2020](image)

As per the IMF report, India is the third-largest contributor to global trade. In the year 2018, the USA, China, and India contributed 56.9 percent to global growth. If past contributions are compared then it emerges that in the 1970s the USA, Japan, France, UK, and Germany together contributed 46.4 percent to the global growth. But despite the huge contribution to global growth, India’s share in global GDP remains very small at 1.1 percent. Here is the performance of various countries since the 1970s:

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121 ibid.
Notwithstanding the above, India is the 7th largest economy of the world and the third-fastest growth engine to the world GDP. Therefore, its slowdown has always been a matter of concern for global trade. Because of the foregoing, it is important to make a note of the fact that any fallout of the global trade war will have an impact on the Indian economy. As per the Economic Survey of India 2019, the major contributor to the Indian economic growth has been the service sector, which constitutes 55.39 percent of India’s Gross Value Added (GVA) at the current price in FY 2020. Because of which the Indian economy will not be affected much by the trade war between the USA and China.

4.4 Indian Trade with China and the US
Apart from the above to analyse the effects of the trade war on the Indian economy, it is important to know India’s trade with the USA and China. The US is India’s biggest export destination and the second major import country, having a total merchandise exchange of $66 billion (Apr-Feb 2017-18). China which purchased approximately $70 billion of products from India in the first 11 months of the year 2018 remains India’s largest import partner by far. However, during this time, China’s interest in Indian products was less than $12 billion. If the US and China impose the tariff barriers, as expected, worldwide trade could shrink, affecting India’s current export upswing. India’s exports grew at a healthy 10% growth rate during 2017-18 with a minor decline of 0.39 percent during 2018-19, as a result of stronger global trade flows, the highest in six years.

In April 2018 the IMF had forecasted that global trade volumes will rise at a good rate of 5.1 percent in 2018 and 4.7 percent in 2019. Apart from the same at the beginning of 2020, it predicted that global trade will rise by 7.2 percent in 2020. But because of the pandemic and protectionist policies of the major economies are going to threaten the pace of the global growth and severely affect trade trust, which could curb India’s export expansion as well. The US and China are likely to consider third-party suppliers for

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124 ibid.
125 ibid.
126 ibid.
their import needs. India may be on the list of potential sources for both of them, as a leading trading country. During the Strategic Economic Dialogue in Beijing in April 2018, India offered to sell soya beans and sugar to China, which till now being done by the USA.

4.5 Indian Export of Tariff-Impacted Merchandise

Of the affected US imports from China, machines of various equipment, electrical equipment, and mechanical appliances account for $34.2 billion\(^{128}\). Colour television, motor vehicles, and printer components are the three major items. In the US list, the imported value of approximately 800 items is less than $1 million and approximately 100 items were at zero value. This in itself raises concerns about the US administration’s plan to slap import duties of 25 percent on these Chinese goods\(^{129}\).

Looking at over $500 million worth of US imports from China, India’s exports of these products to the US in 2016 be very small. Just 4 of the 15 products had more than 100 thousand dollars, in total, and no product had a value of more than 300 thousand dollars\(^{130}\). US demand for these products from India is therefore unlikely to increase significantly in the short term.

The highest category is $27.6 billion in transportation materials for imported goods from the US for which retaliatory tariffs are set, followed by $13.7 billion in vegetable products and $3.5 billion in plastics and rubber\(^{131}\). Exports to China from India are null or negligible. Cotton and vehicle parts are the only exceptions. It is therefore doubtful that China will consider India a possible substitute source for its US imports of these products in the immediate future.

4.6 Consequences of Trade War on India

Implications of Trade. The above analysis tells that India will not be witnessing a great amount of diversion of trade from the ongoing trade war between the US and China. It will happen because of certain reasons. Firstly, because of higher trade tariffs, it is likely that 15 percent of the bilateral trade will suffer\(^{132}\). Besides, the first two rounds of spill over effect on the global trade from inferior mutual trade would not be favourable to the Indian exports, which was just coming on track before the onset of COVID-19. China is a major player in global value chains, and its imports from supply partners will be impacted by the loss of US markets for some goods, which in turn will have an effect on exporting countries’ economies down the chain.

Secondly, for the United States and China, in India’s export profile, the high-value foreign goods on which duties are recommended by both nations are not relevant. In certain situations, India lacks production capacity, such as electrical equipment and machinery. China’s import barriers to Indian goods have made it difficult for India to enter its market.

Thirdly, Keeping the US stance in view, there is an inherent risk of barriers in trade on its imports from the Indian market. As per the USTR Special 301 Study on Intellectual Property Rights implementation, India is on the priority watch list. The US has also kept the Indian foreign exchange policy under strict scrutiny. The rules on H1B visas have been made stricter, therefore very few Indians are applying for them. The US administration and then president Trump also raised reservations about high tariffs for some


\(^{129}\) ibid.

\(^{130}\) ibid.


US goods in India. The US also announced a review of the General System of Preferences allowing zero tariffs on imports of certain goods from India, affecting $5.6 billion in key labour-intensive items such as textiles and gems and jewellery exported from India to the US\textsuperscript{133}. These are part of the larger feelings and initiatives of US protectionist trade that, depending on domestic reaction and global retaliation, could intensify. There has been resistance on the Chinese side as well to address the trade problems of India. At the trade conference in March 2018, China continued to air its rhetoric for bilateral trade imbalances without a substantial action plan.

**Implications on Foreign Direct Investment (FDI).** The trade war between China and the USA is likely to impact FDI diversion from these two countries to India. Because of the unfavourable US scrutiny of Chinese investment and Chinese restrictions on foreign investments, China’s FDI into the US market dropped substantially in the year 2018 and 2019.

India’s technology sector has the potential to lure Chinese investment in its favour in case of its decoupling from the US market. Besides, the trend of the US FDI into the Indian market has also not been very encouraging over the last five years because of its perceived difficulties in doing business in India. The Indian government has been assuring the US of addressing these challenges in various forums. But, collective investments by the US in the Indian market lag behind at 6\textsuperscript{th} position (over $22 billion) in the last 20 years\textsuperscript{134} in comparison to its external FDI of $298 billion in the year 2016 alone.

**Implications on Technology.** Because of the contentious issue of IPR and its technological development, India would need to be careful about its role in developing Industry 4.0 technologies, which includes several emerging technologies such as robotics, artificial intelligence (AI), and additive manufacturing. As per NASSCOM 2017, India has emerged as one of the top three nations in the development of technology-led start-ups entrepreneurship formations. Besides, it is a leading destination for multinational corporations founded by global innovation centres. In terms of English language competence and cultural relations, it compares well with China, creating less concern about data protection and IPR loss. India will always be a reliable technology partner for future ventures as long as it abides by the strong IPR rule and remains committed to encouraging non-resident patent requests\textsuperscript{135}.


\textsuperscript{134} Department of Industrial Policy and Promotion, 2017, referred on 30 November 2020.

4.7 Indo-China Trade post-Galwan Incidence

After the incidence of Galwan on 15th June 2020, there has been rhetoric in the country to reduce imports from China to hurt him economically. Although the government has not announced any such policy in public by banning various Chinese mobile applications, issues of custom clearances and fresh impetus of the government on the ‘Make in India’ initiative is the writing on the wall. As per many economic experts, in the long run, India is not likely to be benefitted from a trade war with China because China’s exports to the Indian market are only 3 percent, and this small percentage accounts for 15 percent of total Indian imports\(^{136}\). As per them because of the sanctions our producers will be affected severely. China could also impose restrictions on Indian exports as a retaliatory measure. Before the onset of COVID-19, our growth rate was only 4.2 percent in comparison with 7 percent during the previous year\(^{137}\). Indian economy is slowly recovering from the onslaught of the pandemic and any trade confrontation with China at this juncture will hurt its exports and production capability. The only reason for this is the lack of capability. At this juncture, the country should not mix up two issues; trade and security. India has a disputed border with China for a long. It should deal with these issues separately and follow the principle of strategic patience. Chinese actions in the Eastern Ladakh are part of its overall hegemonic and expansionist agenda which needs to be dealt with diplomacy and firm security measures. Whether it is China, the USA, or India, trade benefits all. Therefore, in today’s world of interdependence and globalisation, there is no place for protectionism. However, in succeeding paragraphs will cover the quantum of Indian trade with China and what are the pros and cons of the protectionist policy of India against China.

**Trade.** In the world, China is India’s largest trading partner. India has the highest trade deficit with China as well which means that India imports more than China exports. In less than a decade, this deficit has doubled. Which all products China trade with India? Organic chemicals and raw materials such as iron ore, slag, cotton, natural pearls, etc are India’s main exports. India imports finished products that overshadow its raw material-based exports, such as machinery, power-related equipment, telecoms, organic chemicals, and fertilisers.

Investment. FDI between India and China has not kept speed with trade, but with its smartphones and applications. Through, venture investments in start-ups, China has entered the Indian market and entered the online ecosystem. Approximately $4 billion has been poured into the start-ups in India by Chinese technology investors. The Chinese video app, TikTok, had more than 200 million subscribers it has already taken over India’s YouTube\textsuperscript{139}. The US’s Facebook, Amazon, and Google are facing stiff challenges in the Indian market by its rivals like Alibaba, Tencent, and ByteDance. With an estimated 72 percent share, Chinese gadgets and mobiles made by Oppo and Xiaomi hold a major share in the Indian market, leaving Samsung and Apple behind\textsuperscript{140}.

4.8 Implications on Indian Market and Trade
The proactive and bold stance by the Indian government to take on China head on has both positive and negative implications on its trade and market. Both of them being covered in succeeding paragraphs.

4.9 Positive Impacts/Pros
India could become self-dependent because of a trade war. It is a well-known fact that it has been paying a very high cost for imports. It shows that there is an urgent need of developing its production to fight external factors because of imports. India can fill the void which has been created in Chinese and the US market because of the trade war. Initially, due to the cost disadvantage, India was unable to export many products to the USA, but India has the edge after the tariff increase. There are several other goods where Indian market has been competitive but lacking in production capabilities, like electrical parts and switches. This is a chance to facilitate production to compete the global demand that will subsequently improve the jobs and infrastructure of India. Many US exports to China match with India’s exports, like tobacco, grape chemicals, etc. In addition to the differential cost, the substantial demand permits India to acquire a large chunk in the Chinese market. For start-ups in India, this could be a great opportunity to exploit the opportunity and develop goods and amenities to make India more self-reliant. As a result of this escalation, main infrastructure items allotted to Chinese companies may also come to Indian companies. There are certain sectors which will be benefitted by this step, they are, as under\textsuperscript{141}:

A. **Automobiles.** Due to the diversified nature and global operations of their company, TATA motors, MotheersonSumi and Bharat Forge would not be affected much. Multiple increases in anti-dumping duties have already been seen in the tyre industry, benefiting tyre companies.

B. **Consumer Durables.** Due to low exposure to China, Havells and Crompton Greaves would not be affected much. In the case of high tariff hikes, the Voltas would be the most affected company.

C. **Pharmaceuticals.** For key starting materials, the dependency on China is 60 to 70\%\textsuperscript{142}. Cipla and Sun pharma will be less affected in the event of any import duties or import curbs as they are completely integrated and have significant exposure to the branded company.

D. **Telecommunications** In the case of a tariff hike and import curbs on telecom equipment network providers, Vodafone and Bharti Airtel would be the most affected. Due to its limited exposure to the Chinese market, Reliance Jio would be the least affected.

\textsuperscript{140} ibid.
E. Chemical and Agro Chemicals. Rallis, Dhanuka, Sumitomo India and Insecticide India would be the most impacted companies and PI industries, UPL, Coromandel and Bayer India would be the least impacted companies because of limited exposure to Chinese market.

F. e-Commerce. As its investor companies, Zomato and Policy Bazar, have exposure to investments from China, Info Edge would be affected. There are significant investments from China in Indian tech and e-commerce start-ups such as Paytm, Snapdeal, Swiggy, Ola, Big Basket and Byju143.

4.10 Negative Impacts/Cons

India is dependent heavily on imports. Many analysts argue that the tariff war would affect only limited export-focused nations that end up losing in this tariff war. India is a rapid growth economy and, by ignoring the trade war, multinational corporations would like to be part of this development. But India must pay massive price cuts to attract global businesses in order to maintain competition in such difficult times. The local Indian manufacturer is not sufficiently equipped to meet domestic demand. As investors were critical of the Indian economy, the rupee got weakened by the trade war. The stock market was also seriously affected by it. Besides this because of the weakening of the rupee, imports are growing more costly. All of these factors make it hard for India to retain competitiveness by reducing costs. India was also in addition to this a direct target of the trade war144. For unfair trade practises, the USA blamed India. Due to the sanctions applied, the export of steel from India has dropped. In many sectors in India, Chinese goods constitute of vital segment of the supply chain for companies. With the onslaught of the pandemic, economy is struggling to bounce back and at this juncture any organisational and supply-chain threats could be escalated by any possible escalation between the two nations. India can try and find alternative solutions to Chinese goods, but making such a move would be hard and expensive. Sectors which are likely to be adversely affected are as under:

A. Pharmaceuticals. India procures from China 70% of the active pharmaceutical ingredients or APIs being used drugs and a disturbance will adversely affect the industry145.

B. Consumer Durables. India is heavily dependent on China for components for consumer durables.

C. Automobiles. China is a main supplier of engine sub-components, electronics, tyres, etc.

D. Telecom. In India and even globally, China caters for the majority of smartphone demand. Therefore, any delays will lead to a rise in the price of smartphones and a delay in the introduction of emerging technology like 5G146.

E. Power. For India, major portion of import of solar panels takes place from China.

F. Chemical and Agrochemical Products. A big quantity of raw materials from China is imported by the Indian agrochemical industry.

4.11 Impact of Covid-19 on Indian Economy

India was already experiencing a slowdown before the pandemic. Even before the pandemic, India’s growth had been on decline since FY 2018-19. In January 2020 alone, long before India’s lockdown or reaction to the pandemic, the IMF lowered India’s GDP projections for 2019 and also lowered the 2020 GDP forecast. The demonetisation of Indian banknotes in 2016 and the enactment of GST (Goods and


146 ibid.
Service Tax) in 2017 contributed to serious economic disruptions. On top of this, there have been several banking crises, such as the Infrastructure Leasing & Financial Services crisis and government scheme failures such as ‘Make in India’. There was also a major revenue crunch for both the rural and urban sectors in the year prior to the lockdown.

With the advent of COVID-19, the world economy is poised to experience a sharp dual recession. As several international bodies have already forecasted, the global economic growth could be -3 per cent in 2020, which is a fall of around 6 percentage points from the baseline estimate of positive 3 per cent growth with no pandemic\textsuperscript{147}. These growth outlook swings are unprecedented, and this is because of the health scare with and related deaths and illnesses and the lockdown of a large part of the global economy. Added to this the pandemic in the developed economy seems to be more serious. While the 2021 predictions indicate a sharp turnaround, the trends suggest that this will need to be experienced by the world for a longer duration than expected\textsuperscript{148}.

Before the onset of the pandemic Indian economy was already in the grips of slowdown phase with a little hope of recovery. With the COVID-19, however these expectations are not only dented but turned down, turning out to be much deeper. There are different estimates that suggest a sharper slowdown. Some forecasts also indicate a negative progress, which hasn’t been heard in the last five decades. The instability in the economy has increased in several ways with the lockdown and with rising infections. The form of the recovery; V or U or W, is also being discussed. But an elongated U form could see the most probabilistic recovery.

The effect of pandemic on Indian trade and economy has primarily been disruptive. Indian growth in fiscal year 2021 which was predicted by the World Bank and various rating agencies was the lowest in last thirst years since its economic liberalisation in the 1990s. Following the announcement of the economic package in mid-May, however, India’s GDP estimates have been further downgraded to negative Pictures, indicating a deep recession. On 26 May, Credit Rating Information Services of India Limited (CRISIL) announced that this would probably be India’s greatest depression after independence\textsuperscript{149}. From 6.7 percent on 15 March to 26 percent on 19 April, unemployment increased within a month. An estimated 140 million people lost their jobs during the lockdown\textsuperscript{150}. More than 45 percent of households across the country reported a decrease in revenue compared to the previous year.

The Indian economy lost over 32,000 crores every day during the first 21 days of the full lockdown, which was announced following the coronavirus epidemic. In India, less than a fifth of the $2.7 trillion economic movement was in operation under complete lockdown. Up to 54% of companies in the country are expected to be significantly affected\textsuperscript{151}.

Supply chains were put under stress with the lockdown constraints in place; initially, there was a lack of consistency in streamlining what an “essential” is and what is not. The most risky and vulnerable areas were the daily wage labourers and employees from informal sectors. A large number of farmers who used to grow perishables around the country also faced uncertainty. Various companies cut wages and laid off staff, like service sectors (hotels and airlines).


\textsuperscript{148} ibid.


\textsuperscript{150} Vyas, Mahesh dated 21 April 2020 “Unemployment rate touches 26%” Centre for Monitoring Indian Economy. referred on 02 December 2020

\textsuperscript{151} “Lockdown relaxation - more than half of India's economy may reopen from Monday”. Business Insider dated 18 April 2020. Referred on 02 December 2020.
Operations were temporarily suspended or substantially reduced by major Indian companies such as L&T, UltraTech Cement, BHEL, Aditya Birla Group, Bharat Forge and Tata Motors. As funding had dropped, young start-ups were severely affected. The country’s fast-moving retailers dramatically reduced operations and begun to focus on basic needs. The financial markets of India reported their worst losses in history fourth week of March 2020. On 25 March, however, SENSEX and NIFTY recorded their highest gains in 12 years, adding to a 4.8 lakh crore value\(^\text{152}\).

The Government of India announced range of measures to tackle the crisis, spanning from food security and additional national healthcare funds to sector-related benefits and relaxation of the filing deadline. A host of socioeconomic relief measures were also declared on 26 March 2020 for the disadvantaged, amounting more than 170,000 crores\(^\text{153}\). The Reserve Bank of India declared a series of steps to make 374,000 crores available to the country’s financial system. Present government released additional money to the states on 03 April 2020 to combat the coronavirus, totalling 28,379 crores\(^\text{154}\). India had been given funding to fight the pandemic by the Asian Development Bank and the World Bank.

On 14 April 2020, the lockdown was extended by the government until 03 May 20. Country witnessed guidelines for the calibrated opening of the economy amidst relaxed lockdown. Some more measures were announced by the RBI to tackle aftermaths of pandemic on the economy. Besides, it also announced special financial package for NHB, SIDBI and NABARD of worth Rs 50,000 crores\(^\text{155}\). By taking one of the major policy steps the Indian government made some minor changes in its foreign direct investment (FDI) policies so that domestic companies could be protected. The Department of Military Affairs put on hold all capital procurements for the current financial year.

The Indian government announced a comprehensive economic package worth 20 lakh crore which was 10% of its GDP, with a focus to make India a self-reliant economy\(^\text{156}\). Apart from that number of measures in the economic plan like free package of food grains were also announced by the government. with these steps by 02 July Indian economy started showing some signs of recovery. On 24 July, the ministry of finance announced that the economy is displaying indications of improvement at a quicker speed than expected and predicted to see a V-shaped recovery. In July, the government adopted the 2020 National Education Policy, which aims to strengthen the economy. The government broadcasted two additional economic packages on 12 October and 12 November which amounted to Rs 29.87 lakh crore which was 15% of national GDP\(^\text{157}\).

4.12 India’s Action plan for Recovery

On 12 May 20 the Prime Minister said that the coronavirus crisis should be seen as an opportunity, emphasising local goods and economic self-reliance, the Atmanirbhar Bharat through the Atmanirbhar Bharat Abhiyan.

**Economic Package**

The economic plan as announced by the government comprised of a combination of transformations, the

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\(^{154}\) ibid.


\(^{156}\) ibid.

\(^{157}\) ibid.
infrastructure development, financial support to the firm under stress and direct cash flow to the economy. The collateral-free loans offered by the government were intended to resume business activities and safeguard the jobs. Land reforms at the state level that were not referred to in the economic package are also part of the overall changes.

But in spite of all the reforms and economic packages it was not able to address the short-term issues like loss of jobs, unemployment, adverse effects of unorganised sectors. Therefore, as per some economic experts it will further pull down the economy because most of the packages announced are related to supply which has been severely disrupted. The government declared one more package for economy boost on 12 October 2020. This plan was released with the forthcoming festive season in mind. The plan provided central government incentives. People spent more on consumer durables and much higher capital investment for both the centre and the states during the festive season.

![Atmanirbhar Bharat Package Breakup (In Rs Crore.)](image)

### Change in FDI Policy

India modified its foreign direct investment (FDI) policy in April to curb unlawful merger and acquisition of Indian companies due to current pandemic. There is concern that China could take advantage of the situation with the fall in global share prices, leading to hostile takeovers. Though this new FDI policy does not restrict markets, the rules mean that all FDIs from countries which share a land border with India will now be scrutinised by the concerned ministry.

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159 https://www.jatinverma.org/new-fdi-rules-for-curbing-opportunistic-takeovers
Exports and imports
In September 2020, Indian exports was recorded at 5.27% growth and imports dropped by 19.6%\(^{160}\). Overall trade deficit was recorded at -75.06%.

Energy
In April 2020, fuel demand in India fell almost 46 percent compared to the last year\(^ {161}\). Its fuel requirement and consumption recorded the lowest since year 2007 but sale of cooking gas increased by 12 percent. In April, a study from the International Energy Agency predicted that India’s annual fuel consumption will

\(^{160}\) https://www.itln.in/indian-merchandise-export
decline by 5.6 percent in 2020 and demand for diesel will be dropped by 6 percent. But by mid of June 2020 the fuel demand of India rose by 85% and touched the mark where it was before the lockdown\textsuperscript{162}.

**Agriculture**

During the first two weeks of May it was found that 10 percent of the Indian farmers could not harvest their crop in the past month and 60 percent of those who did harvest reported a crop loss and most of them are uncertain about the next season\textsuperscript{163}. As far as tea plantation is concerned the first crop could not be harvested due to logistics problems because of the lockdowns. There was no awareness of the effect of this on the second flush. In March 2020 tea exports dropped by 33 percent in comparison with previous year\textsuperscript{164}. Small farmers were severely affected because of disrupted supply chains which resulted in food waste.

**Manufacturing**

Major Indian companies such as L&T, Tata Motors, Bharat Forge, UltraTech Cement, Grasim Industries and Aditya Birla Group’s apparel and retail branch temporarily or substantially reduced their operations in a number of nationwide manufacturing facilities and factories. Manufacturing firms in India suspended their majority of operations until further notice. Almost all two-wheeler and four-wheeler firms stopped production. Except for factories supplying essentials, Hindustan Dabur India, Unilever, ITC closed down their production facilities. Following the 21-day lockout orders, Foxconn and Wistron Corp, iPhone manufacturers, halted manufacturing\textsuperscript{165}.

**Stock markets**

The worst losses in history were announced by the stock markets in India in 23 March 2020. SENSEX fell 4000 points (13\%) and NSE NIFTY dropped 1145 points (13 percent)\textsuperscript{166}. However, SENSEX posted its largest gains in 11 years on 25 March, when government announced a full three weeks lock-down, adding a value to investors of about 4.6 lakh crore. In the first week of April, India’s stock markets grew sharply once again following a powerful Wall Street trends that the pandemic may have just peaked in the US\textsuperscript{167}.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{state_of_indian_sensex.png}
\caption{State of Indian SENSEX between January 20 and May 20}
\end{figure}

\textsuperscript{162} ibid.
\textsuperscript{163} Economics Times, 06 June 20. Accessed on 03 December 2020.
E-commerce
In the third week of Amazon decided to concentrate on essential items and announced to stop sell of non-essential goods in India. In Italy and France, Amazon adopted the same approach. On 25 March, on its e-commerce website, Flipkart briefly postponed some of its services and would only sell and distribute essentials. Restricted services were also operated by BigBasket and Grofers, faced disruptions due to the lockdown. To make it easier for them to keep the supply chain open, the local police started issuing curfew passes to delivery officers. “essentials”.

Defence
All capital acquisitions were delayed by the Department of Military Affairs, until the coronavirus pandemic receded. At the beginning of the 2020-21 no new major defence agreements will be made. Although the delivery of strategic missile systems has been kept out of this decision. Even delivery of 36 Rafale jets was also not postponed. The government declared a raise in the FDI ceiling from 49 percent to 74 percent for defence, commercialisation of Indian ordnance output and a list for the ban of select defence imports during the statement of the stimulus package

Economic Recovery
Experts in May-June had predicted that by end of year 2020 India could look forward to a V-shaped recovery which is supposed to be the best of all the recoveries. Some of the foreign agency also predicted of W-shaped recovery of the Indian economy. In As per the Economic Times, Indian recovery is likely to be the combination of U-shaped and L-shaped recovery. As per the CRISIL if things pan out as planned by the Indian government the it should expect a V- recovery if the virus is contained, otherwise it will end up as a U-recovery.

In the second week of May, companies began preparations to resume operations. Some organisations have opened offices with a maximum permissible intensity of one third, while others took a cautious approach of as little as 5 to 6 percent. Businesses were reopening and planning to reopen at the beginning of June. A report by Elara Security & Co. showed that with India emerging from a complete lockdown, states like Karnataka, Punjab, Kerala and Tamil Nadu are contributing 27 percent to the India’s GDP. People going to work, work from home and resumptions of production ensured unemployment levels were back to pre-lockdown levels by the middle of June. By June end, online e-sales reached pre lockdown period. In July first week, a study by The Times of India announced that a number of economic indicators, such as the index of the purchasing managers of factories, the movement of goods, the collection of GSTs, the use of electricity and the transport of rail freight, showed significant improvements compared to the previous months.

To conclude, it can be said that the pandemic coupled with global trade war has really hit the Indian economy hard as never before. The GDP growth of the country was on a constant decline since last quarter of financial year (FY) 2016-17 and recorded at 3.1% in the last quarter of FY 2019-20. With the pandemic adding fuels to fire, Indian economy contracted by -23.9% by the end of September 2020 (first quarter of the FY 2020-21). In this chapter, details of Indian share in the world trade has been covered. Apart from

169 ibid.
171 ibid.
the same, sectors which have been severely hit and sectors which are going to play a vital role in boosting the domestic production and services have also been discussed in length. India as a separate economy was not affected much by the ongoing trade war between the US and China because of limited stakes in those products on which both economic giants had levied additional tariffs. But subsequently, because of the pandemic and Indo-China relation the situation got worsen. But, there has also been some positive implications of the trade tension and the pandemic on the Indian economy. Indian government’s impetus to the ‘Atmanirbhar Bharat’ is one of the many steps taken up the country. As per prediction of the WTO and noted economists India is likely to record a ‘U’ shape recovery by last quarter of FY 2020-21. In this chapter analysis of certain questions related to the statement of the problem of the dissertation has also been done through online google form forwarded to more than 100 respondents. Next chapter of the dissertation covers the way ahead and post pandemic recommendations for the Indian economy.

4.13 GENERAL PERCEPTION – A SURVEY
A survey of the perception regarding the reasons of global trade war, its effect on the world trade, effect of the COVID-19 pandemic of the trade, state of Indian economy before and after pandemic and combined effects of the pandemic and trade conflict on the Indian economy was carried out online using Google Forms through the link https://docs.google.com/forms/d/1fQ0aCZiBcBLtWo2NyYF5CX3-DnOTraNixYqZjF_ZyEw. The survey sought to find the answers to the foregoing questions. The various questions were given for the response as per Likert scale. The survey questionnaire was analysed based on responses using Likert Scale. Non-random convenient sampling was used for selection of participants. A total of 114 respondents took part in the survey.

The various questions with the responses and analysis being covered in the subsequent paragraphs.

In response to the statement that only major economies of the world are affected by the trade war, 79.8% respondent disagreed and strongly disagreed wherein only 16.7% agreed with the statement. Therefore, it can be said that trade war affects all but quantum and severity of the effects depend on the volume and value of export and import of those countries.

In order to defend and protect domestic industries from global competition nations adopt protectionist policy. On this issue 77.2% respondents agreed and strongly agreed that protectionist policies initiate trade war wherein only 11.4% were in disagreement. Therefore, it is an established fact that in long run protectionist policy doesn’t benefit any nation.

83.3% of the respondents agreed with the statement that China is indulged in unethical trade practices wherein 12.2% do not agree with the statement. This was one the reasons of levying additional tariffs on more than 150 items by the USA on Chinese export which eventually started the trade conflict.
83.3% respondents agreed that the USA is responsible for adopting protectionist policies to protect its domestic industries and market. And 6.2% felt that the USA is not adopting a protectionist approach to safeguard its domestic producers wherein 12.3% were neutral on this view.

81.6% respondents were in agreement of the view that domestic industries face stiff competitions because of globalisation and to minimise the competition and give benefits to local producers governments get indulge into protectionist practices. 11.4 of the respondents were not in agreement of the statement.

Till the onset of the pandemic India was not affected much by the trade war. On this statement 47.4% of the respondent were in the agreement, wherein, 41.3% said that India was already in the grip of trade war even before COVID-19 struck the country.
79.9% of the respondents overwhelmingly agreed that isolationist and protectionist policies are not good for the global trade as countries are economically interdependent on each other. Only 9.7% of the respondents were in disagreement which was a very small count.

On the issue of severity of COVID-19 on the global trade, 92.9% respondents were in the agreement, wherein only 5.3% said that it has not affected the global trade.
Indian economy has also not been spared by the pandemic. On this issue 55.3% respondents were in agreement wherein 22.8% viewed that it has not been affected by the pandemic. Besides, 22.8% were not sure about the either.

79.8% of the respondents considered the decision of lockdown was correct to contain the spread of the infection, wherein, 11.4% considered it to be an incorrect step. 12% of the respondents were not sure about the decision of the government.

72% of the respondents overwhelmingly agreed that China could survive the blow of the pandemic and record a positive growth because of its robust economic infrastructure and ability to stop the spread of the pandemic. 17.3% disagreed with the statement and 11.4% were not very sure about the statement.
86% of the respondents of the view that the WTO and the UNO could not handle the trade conflict between the countries well wherein 6.2% were of the opinion that these supranational organisations have done their job well. 11% of the respondents were neutral on this issue.

72.8% of the respondents were very optimistic about the bounce back of the Indian economy because of its robust service sector, domestic market and strong agricultural base. However, 16.6% were of the contrary view and 11.4% were neutral on this issue.
On the issue of steps taken the Indian government to bail out the economy, 45.7% of the respondents were in the agreement wherein 37.3% were in disagreement with the statement. 22.8% respondents were neutral on this issue. Overall, it was a mix response where respondents were divided on the steps taken by the government to handle the pandemic.

On the issue of readiness of the Indian economy to take on the crisis, 74.6% of the respondents were of the opinion that the government was not geared up wherein 11.4% were of the contrary view. Besides, 17% were not sure about the same.
On the issue of perceived de-globalisation of the world, 65.8% respondents were of the view that selective protectionist policies by certain economies are one of the reasons for the same wherein 20.1% were in disagreement and 14.9% were neutral on the issue.

In order to revive its economy and safeguard its domestic industries, Indian government has also started adopting protectionist policy. On this issue 75.4% respondents were in the agreement wherein 11.2% were of the view that this was not the case and 18% were not sure about the same.
70.2% of the respondents viewed that protectionist policies safeguard national interest and give advantages to the domestic industries wherein 10.5% opined that it doesn’t help the domestic market and national interest.

CHAPTER 5
WAY AHEAD FOR THE INDIAN ECONOMY, RECOMMENDATIONS AND CONCLUSION

5.1 Background
The history of the "trade war" is as old as the world of trade and commerce. Therefore, to imagine an ideal situation where there wouldn't be a trade conflict between states is wishful thinking, which is never going to happen. Today's geopolitics is dictated by the trade interest. All alliances, whether bilateral, regional, or, international are dynamic and ever-shifting for a number of reasons mainly includes national aspirations, domestic policies, and politics. But to strike a balance between the domestic economy and world economy, nations should come together under one umbrella to accommodate each other's interests. The supranational organisations like World Trade Organisation (WTO), International Monetary Fund (IMF), United Nations Conference on Trade and Development (UNCTAD), World Bank (WB), and World Economic Forum (WEF) should take a lead in these directions. Therefore, trade competitions or conflicts of economic interest should not aggravate into a full-fledged trade war.

Today, in an interconnected and interdependent world where technology is driving the driving world affairs, no economy can prosper by adopting an absolute protectionist policy. Who is driving the world today; Geopolitics or, trade? This is a long and never-ending debate. The government and political dispensations of the states across the world spread the nationalist fervour and protectionist agendas for their short-term goals. It is an established and acknowledged fact that protectionist policies that escalate the trade war give rise to the domestic economy but severely affect international trade. It may look like a very lucrative policy in the short term because it gives a competitive advantage to the domestic industries and producers because of the lower prices of the products in the domestic market. These prices will always be lower than the price of imported products after additional tariffs are imposed. Because of the lower prices, demand goes up in the local market. It leads to a boom in the domestic business and more jobs. But in a long run, this policy leads to a quid pro quo situation wherein the foreign economy also levies the additional tariffs on other products being exported by the protectionist state leading to a trade war or,
conflict of economic interest. This situation is not good for the economic growth of the world and it leads to worldwide depression and inflation. Therefore, a trade war is always detrimental to development and economic growth and it never produces any winner.

Of late, the trade war between the US and China also engulfed countries like Russia, Mexico, Canada, and the European Union. Apart from that, the heat of the same was also felt by countries which were exporting or, importing those products on which additional tariffs have been levied by either of the countries. Although till now retaliation by other countries has been limited in case of prolonged conflict other economies are likely to jump on the bandwagon.

To handle the trade between nations international trade rules and regulations are made. In today's world, international trade rules are made by the WTO. Its main tasks are dispute settlement and act as a catalyst for free and fair trade since its inception. The WTO has done a commendable job but of late its reputation is under the scanner because it failed to stop the trade conflict between the USA and China. Apart from the same, it has also failed to produce amicable solutions to the problems like the recent trade war, theft of intellectual property rights, subsidy on agricultural products. Therefore, it is imperative to give more teeth to the WTO so that major economic powers like the USA, Russia, and China are not able to leverage its rules and protocols to their undue advantage.

The Year 2020 has been a year of global recession because of the ongoing COVID-19 pandemic. Every economy of the world, bigger or, smaller, is suffering from low growth because of prolonged lockdowns, little production, low demands, and disrupted supply chains. Since the outbreak of the pandemic, the focus of every country in the world was to control and contain the virus spread. Slowly and gradually the world economy is getting back on track but its aftershocks have long-term effects. Even strong and resilient economies like Russia, The USA, and China are struggling to achieve a "U" shape recovery in case the "V" shape is not achieved. The effects of the trade war and the pandemic together on the global economy have been discussed in detail in Chapter III of the dissertation. Apart from the same, the likely direction of global trade has also been covered in detail in the same chapter. In nutshell, the likely truce between the USA and China doesn't seem to be on the horizon in near future. But at the same time, there is some hope of consolidation and reconciliation between these countries because of the new US government in the White House. Its success or failure is a matter of future developments which only time will tell.

The latest developments because of the pandemic across the world have been the loss of jobs, shutdowns, and low production. These developments have led to countries adopting protectionist and policies giving rise to preferences to the domestic industries and putting a cap on imports affecting exports of other countries which will eventually lead to trade conflict. Amidst all these international developments, in November 2020, India too decided to stay out of the Regional Comprehensive Economic Partnership (RCEP)\textsuperscript{174}. Though India has been giving a huger trade deficit with China as one of the major reasons to stay out of the deal but there are other political and diplomatic reasons for this decision which have been covered in Chapter 4 of the dissertation. As far as the effect of the trade war on the Indian economy is concerned till the onset of the pandemic it was not very substantial because it imports more and exports less to both the countries and any tariff hike which is out of proportion will severely affect its economy. COVID-19 pandemic has further pushed the Indian growth towards the negative side of the development graph. The trade conflict between the USA and China also offered substantial opportunities to India as both of them were looking for a third producer for their import necessities but because of lack of capability

in terms of infrastructures and policies, India is not in a position to leverage the advantage. Apart from the same recent Indo-China relation post-Galwan incidence and India opting out of the RCEP deal seem to have given rise to the speculations of upcoming trade tension between India and China. The "Make in India" and "Atmanirbhar Bharat" are the indicators of the country's resolve to slowly decouple with China and other economies. In this Chapter certain recommendations to have free and fair trade amongst nations of the world have also been put across. Besides, necessary measures, which the Indian government should adopt to accelerate the growth and put the economy back on track at the earliest will also be analysed.

5.2 Recommendations for Fair World Trade

The trade war between countries can only be stopped if the economies of the world start believing in fair trade practice. Though it is very difficult to have a situation where nations are not having a conflict of economic interest but same is desirable to prevent future trade tensions. Following are recommended to have free and fair trade amongst nations of the world:

A. Avoid excessive Protectionist Policies. Protectionism in trade is a strategy that protects home manufacturing from unreasonable global competition. Tariffs, subsidies, quotas, and currency manipulation are the four principal weapons\(^\text{175}\). It is a preventive strategy driven by politics. It succeeds in the near term. But in the long-term, it is very detrimental. This makes the state and its sectors less successful in foreign trade. Imposing additional tariffs on imports is the most popular protectionist tactic. That increases the cost of imported goods immediately. When compared with local products, they become less affordable. For countries with a lot of imports, such as the United States and China, this approach works best. To help them survive in the international market, states often subsidise domestic industries. Tax incentives come as part of direct contributions or government subsidies. Agricultural subsidies are by far the most widely used. This allows the cost of local products and services to be lowered by producers\(^\text{176}\). Even when delivered abroad, this helps make the goods cheaper. At times it works better than tariffs. It is best practice for those countries which depend on exports. A third approach is to enforce limits on products that are imported. This process is more successful than the first two. It can't import more products, no matter how cheap a foreign state determines the price by subsidies. The manipulation of currencies is a deliberate effort by a nation to lower its exchange rate. This manipulation of the currency will make its goods cheaper and profitable. This strategy will lead to retribution and currency war. In global trade, protectionism is harmful to every economy. In the longer term, Trump's "America First" economic strategy could damage the U.S. economy. Retaliatory tariffs have been generated by the imposition of tariffs on imports from China, Canada, the EU, Mexico, and India\(^\text{177}\). For Export markets and the labour force, a tariff war with all these massive economies results in severe implications. Yet global customers will be the instant losers. They are going to be forced to pay inflated rates. Inflation across the globe could be created by exorbitant prices. Therefore, protectionist policies should be adopted up to a limit and governing bodies like the WTO and the UNCTAD should strictly monitor the same.

B. Strict Check on Currency Manipulation. Manipulation of currencies relates to acts adopted by states to modify the value of their currency compared to the dollar to achieve some beneficial aim. The usual


\(^{176}\) ibid.

argument is that states are manipulating their currencies to allow their exports more competitive on
the global market and, in effect, to make imports more costly. On the global trade front, states often
like their currency to be weak as it makes them more profitable. A weaker currency makes exports
from a state more competitive as, on the foreign market, they are cheaper. A weak Rupee, for instance,
renders Indian exports less costly for foreign buyers. Second, a nation may use a cheaper currency by
raising exports to minimize its trade deficit. Lastly, a weakened currency relieves pressure on the fiscal
outstanding debt of a nation. But it is an unethical trade practice that should not be practiced by the
states.

C. Role the WTO. There is an urgent need of empowering the WTO. The WTO is committed to
enhancing its member nations’ free and fair trade, but its involvement has always been contentious.
Issues like most favoured nation status, rules of the WTO favouring developed economies,
diversification, failure to reduce tariffs on agriculture, undemocratic rules, environmental issues, and
ignorance of cultural and social factors while making the rules are some of the controversial factors
about the role of the WTO. Therefore, to avoid future trade conflict between nations all nations,
collectively, need to empower the WTO by giving it more legal power. Besides, it should have a
balanced representation of all member countries having developing and developed economies.

D. Amicable Solutions of Trade Dispute. All trade disputes between the nations need to be resolved
amicably under a bilateral dispute settlement mechanism, failing which the WTO or, the UNCTAD
should intervene at the correct time before the dispute is spread to other regions and countries.

E. Each Economy to get a Fair Deal. Each economy of the world, developing or developed should get
a fair deal in the trade. It has been the precedence that developed economies pull the ladder away from
the weaker nation, which they have used to come up. Issues like environment, carbon emission,
protectionism, and currency manipulation are some of the examples.

F. Opportunity to Voice Concern in the WTO. Presently the WTO has 164 members which include
both developed and developing economies. Although the WTO never discriminates between the
developed and developing economies and does not have a separate definition of the same at the time
it has been accused of not hearing the voice of developing and underdeveloped nations. All members
should be given equal opportunity to raise the concern which can only be achieved by proportionate
representation and change in certain rules and protocols.

G. Subsidies and Welfare Measures by Developing Economies. This is one of the protectionist
measures by which nations give a boost to their domestic economy. Agriculture and farm sectors are
the primary beneficiaries of these policies. At times developing and agriculture-dependent nations
go exorbitantly high in giving subsidies to their farmers which in turn makes the imported products
costly in the local market. Therefore, the WTO needs to regulate the subsidies and other welfare
measures adopted by the states. Though being completely a state subject, consensus on this issue is
difficult to arrive but a formalised regulation is certainly needed.

H. Trade without Discrimination. Though trade will always be driven by geopolitics and bilateral and
regional alliances nations should treat other economies equally under the most favoured nation (MFN)

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policy. Apart from that states should equally treat foreigners and local businessmen in the domestic market.

I. **Predictability of Trade.** To have fair trade there is a requirement of predictability in the dealings through binding and transparency between the nations. Frequent change of policies and shifting of goals brings distrust and lead to a conflict of interest.

J. **Promote Fair Competition.** Fair competition can only be promoted by transparency and accountability. It should be regulated by the WTO and the UNCTAD. By giving undue favour to the domestic producers over foreign vendors, nations initiate unfair competitions which lead to trade conflict.

K. **Embrace International Standards.** To give an equal playing field and introduce transparency domestics industries should be encouraged to adopt an international standard. It will give a bigger market to the local products and foreign products too will get an equal opportunity.

L. **Form Regional Trade Bloc.** To give voice to the developing economies and have a proportionate representation in international forum countries should go for the formation of regional trade blocs to get a strong voice.

5.3 **Majors to Minimise the Impact of Trade War in India**

- As far as globalisation, liberalisation, and privatisation are concerned India should take a selective approach. It should not be completely left to the bureaucracy or the political dispensation of the country alone to make the correct choices, but it should be the collective responsibility of academicians, businessmen, bureaucracy, and politicians.
- Even in the sense of the economic growth model, there should be no question as to the strong position that the Government has to play. It is important to improve and make the judicial framework, the regulatory framework, and the controlling functions of the Government efficient.
- The foreign direct investment must only be allowed and promoted in all those areas that would make a significant contribution to the generation of revenue, the development of jobs, and net income generation. The provisions that the right of multinational companies to invest must become a lawful entitlement without any State interference as proposed in the current Multilateral Agreement on Investment (MAI).\(^{182}\)
- Without the substantial globalisation of the rest of the economy, the strategy of globalising the stock system may have significant ramifications of unsustainable short-term debt, resulting in Mexican-type volatility and complex emergencies. There are also several indicators of unstable financial markets volatility, which need to be controlled by the implementation of effective guidelines in the financial markets.
- It is still not the correct time to bring about complete Indian currency conversion, as most of the required criteria for effective total convertibility have not yet been met.
- India should aim to boost infrastructure, enhance technology and improve human resource development in areas such as education, and health for all, which are the social potential of the economy so that country can be benefitted from the highly competitive global market.
- As the latest studies of industrial organisations have shown, the structure of industrial organisations must be focused on the principles of mixing competition, innovation, and cooperation amongst...

industrial zones and cooperative societies to promote the optimal utilisation of scarce information and
knowledge capital. Recent experiences of versatile models of industrial organisations that incorporate
competitiveness with collaboration have debunked the general argument that competition alone
encourages productivity in resource utilisation and distribution of resources.

▪ On multiple global economic concerns, India must take a leading role in building awareness among
like countries across the world to improve developing countries' leverage positions on current
negotiating issues. The Singapore WTO conference, for example, agreed to set up a steering committee
to identify the consequences of the bilateral and multilateral investment agreement. The developing
economies will have to prepare themselves to address their stance on this issue. Similarly, problems
related to social clauses and labour conditions will soon become a big concern for WTO negotiations.
To build cohesion, India must take steps to facilitate academic discussions and conferences at the
governmental level.

▪ Liberalization would inevitably entail democratic reform in the economy and the judicial process. This
kind of economic reforms would entail major efforts both at the level of the national govt and at the
levels of the state and local governments to overhaul bureaucracy. The picture of India on the global
stage would be very bad if bureaucratic processes were not organised and delayed. Of late there is a
substantial decrease in bureaucratic controls and licenses.

▪ India is better positioned to continue to function in a mixed economy in which the public, private and
cooperative sectors exist side by side. The current reform and revenue activity of the public sector is
not justified because privatisation is just a way of increasing productivity in the use of resources and
distribution of resources.

▪ Privatisation must not on its own be sought as a goal. Indeed, several private sector entities still suffer
from communicable disease and, as a result, privatisation in itself cannot be considered a virtue of an
effective production system. Instead of seeing the problem as an ideological question, the
shortcomings of corporate management in both the public and private sectors need to be approached
in an analytical way.

▪ India must not abandon its ambitions to preserve and reinforce the rational self-reliance model of
making its own choices to serve its economic interests in the best possible way, without refusing itself
the benefits of opportunities and advantages.

▪ Improve agricultural productivity through the technological innovations and the change from low-
value to high-value practices such as horticulture, dairy, poultry, livestock, forestry and fisheries. To
boost crop frequency, facilitate infrastructure at the doorsteps of the farmers.

▪ As per NITI Aayog, India's unemployment rate is between 5 to 8 percent.

5.4 Steps Taken by the Government of India to boost Economy during COVID-19
To revive the economy, the Indian Government in May 2020 came up with an economic package known
as Aatma Nirbhar Bharat Abhiyan under which it announced the approximately Rs 6 lakh crore package,
which included Rs 3 lakh crore of small company collateral-free credit and a Rs 30,000 crore lifeline to

non-bank and housing finance companies (NBFCs) as part of steps to help the economy tide over coronavirus lockdown disruptions\(^{184}\). Some of the steps are as under: -

- **Provision of Emergency Working Capital Facility.** To provide some relief to the business and micro, small and medium enterprises (MSMEs), the government released a capital flow of an amount equivalent to 20 percent of the outstanding debt as of 29 February 2020\(^{185}\). It was provided in the form of a term loan at minimum interest at the concessional rate. This facility was made available to those enterprises whose turnover was up to Rs 100 crore and were having an outstanding of Rs 25 crore\(^{186}\). Apart from that government exempted those enterprises from producing any guarantee or collateral.

- **Subordinate Debt for Stressed MSMEs.** The government of India also provided Rs 20,000 crore of subordinate loan to two lakh MSMEs that were under stress or the category of non-performing assets (NPAs)\(^{187}\). Besides, the government also assisted them with Rs 400 crore under credit guarantee trust for micro and small enterprises. Under this provision, banks were instructed to provide subordinate loan to the promoters of such enterprises as well.

- **Equity infusion through MSME Fund of Funds.** The government created a Fund of Funds with a pool of Rs 10,000 crore to provide capital funding support to MSMEs\(^{188}\). It will be run by the funds of a mother and a few daughters’ funds. The Fund of Funds is projected to be able to mobilise equity of around Rs 50,000 crores with leverage of 1:4 at the level of the daughter funds.

- **The new definition of MSME.** The MSME definition will be updated by raising the threshold for investment. An additional turnover criterion will also be implemented\(^{189}\). It would also remove the difference between the manufacturing sector and the service sector.

- **Additional Measures for MSMEs.** To serve as a substitute for exhibitions and conferences, e-market connectivity for MSMEs will be advertised. Government MSME receipts and Central Public Sector Enterprises (CPSEs) will be published within 45 days\(^{190}\).

- **Rulings for Global tenders.** The Government’s General Financial Rules (GFR) would be modified to prohibit international bidding inquiries for services and goods with a value of less than Rs 200 crores for procurement.

- **Employee Provident Fund (EPF) Support.** The policy was implemented as a provision of the PMGKP, in which the Indian government pays 12% of the payment to the EPF on account of both the employer and employees. The same was postponed by an additional three months for June, July, and August 2020. The total benefits earned were approximately Rs 2500 crores for 72.25 lakh jobs\(^{191}\).

- **Reduction in EPF contribution.** For all establishments covered by EPFO, the statutory PF contribution of both employer and employee was reduced to 10 percent from 12 percent for three months (May to July)\(^{192}\). It provided liquidity of about Rs 2250 Crore per month to the Indian economy.

- **Special Liquidity Scheme for NBFC/HFC/MFIs.** The government introduced the Special Liquidity Scheme of Rs 30,000 crore supplied by RBI. The expenditure will be made in the asset debt

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\(^{185}\) ibid.

\(^{186}\) ibid.

\(^{187}\) ibid.


\(^{189}\) ibid.

\(^{190}\) ibid.


paper of NBFCs, HFCs, and MFIs in main and secondary trading activity. The Government of India will guarantee this 100 percent.[193]

- **Partial credit guarantee Scheme 2.0** The scheme of partial credit guarantees is being revamped and will now be extended to cover debts from Non-Banking Financial Companies, Housing Finance Companies, and other microfinance institutions (MFIs). The Government will give a 20 percent first loss sovereign guarantee to Public Sector Banks.

- **Grant to Electricity Distribution Companies of India (DISCOM).** The Power Finance Company and the Rural Electrification Corporation would inject capital in equal size lump sums in the distribution companies of India (DISCOM) to the amount of Rs 90000 crores. DISCOM will be using this sum to pay its dues to the firms of Distribution and Generation.[194] Furthermore, Central Public Sector Enterprises (CPSEs) and power generation companies will award DISCOMS a refund on the condition that the same is passed on to the final customers as an allowance in respect of their fixed fees.

- **Relief to Contractors** An extension of up to 6 months will be given to all central agencies, such as Railways, the Ministry of Road Transport and Highways, and Central Public Works Department (CPWD), for the fulfilment of contract agreements, including Engineering, Procurement and Construction (EPC) and concession deals.[195]

- **Respite to Real Estate Projects** State governments was instructed under the Real Estate Regulatory Authority (RERA) to enforce the Mandatory Arbitration clause. The date of registration and fulfilment of all registered ventures shall be extended by up to six months and can, depending on the situation of the State, be further expanded by another 3 months. Different regulatory implementation agreements under RERA may also be applied at the same time.[196]

### 5.5 Way Ahead and Recommended Policy Choices for India

In current times, India will be no exception because of the pandemic and slow growth, with many projections indicating an increase in unemployment to an alarmingly high level, together with a poor growth rate of less than 2% in the year 2020.[197] The government has given large economic packages to allocate revenue to the weaker segments of the society, along with matching market line initiatives to improve liquidity. These are, however, short-term economic initiatives aimed at holding demand relatively high, along with an opportunity for the MSME sector to continue investing. While these are necessary measures in the correct direction, such initiatives cannot be expected to endure forever with the use of government expenditure. To sustain development, one needs a long-term plan. The economic reality that has arisen in recent times must be taken over by long-term policies. The global supply chains are seriously disrupted because the root of the crisis originated from China. The world's major exporting nations have sent indications that they want to expand global supply chain procurement. To attract investors to India, there'll be stiff competition, but it will give our troubled MSME sector a wonderful opportunity to get a position in the global value chains. The year 2021 seems to be positive for international trade, looking at the significant monetary assistance provided to most of the large manufacturing economies. To take advantage of such an advantage, indeed, it is necessary to recognise sectors in which our MSMEs may

[193] ibid.
play a key role. The engineering sector will be the main beneficiary because automotive, electrical, electronics, tools and machinery, biochemical products and drugs, agriculture processing, clothing, food and fruit processing, and leather will be some of the industries that may attempt to locate their component suppliers and ingredients production to India. For all this, creative long-term tax waiver policies on the price of sub-contracts awarded to the MSME sector must be planned by the government. The benefit of the participation of small and medium-sized enterprises (SMSEs) in the development of simultaneous employment in related services such as transport, sales, repair, telecommunications, travel and hospitality, investment, etc, without facing difficult labour regulations. Another significant strategy is to invest heavily in infrastructure, such as electricity, highways, airports, water, etc., likely in a PPP mode, to allow the private enterprise to get some control of infrastructure for long-term stability. Moreover, given the rivalry from countries in Southeast Asia and Eastern Europe, vigorous lobbying by MSME partnerships in partnership with Indian missions abroad can never be underestimated.

In the last nine months, several steps have been announced by the Reserve Bank of India (RBI) to achieve timely credit availability. This is a welcome step, but more is required, particularly from the government. If market profitability goes down, liquidity doesn't help. When production is halted, forward as well as backward links of the liquidity are broken which severely affects payments. However, employees are being paid which will not be easy for many SMSEs. This is quite well understood that the GST system has put a certain strain on the business, involving a need for greater cash flow, which also raises manufacturing costs. If a system change can be followed up eventually, the government can offer two cuts as an interim step. First, with no additional charge, the government can permit deferred depositing of GST. Second, only a portion of the GST dues must be deposited and the balance amount can be adjusted against credit inputs. Based on the nature of its value chain in the industry, how much of the GST payments may be kept by enterprises which vary from industry to industry and may be determined by the government. The government can provide preferential treatment to the export-oriented sectors. Trade and public health need to go hand in hand for some time. Though we need to learn from other nations, we have great scope for learning from within Based on the nature of its value chain in the industry, how much of the GST payments may be kept by enterprises which vary from industry to industry and may be determined by the government. Here, too, preferential treatment can be provided to export-oriented sectors. Economic management and public health leaders need to go hand in hand for the next few months. Though we need to learn from other countries, we have tremendous scope for learning from our states within India. The way States handled the situation in the management of the Corona crisis is noteworthy. The handling of the economy also requires a similar strategy. For the whole nation and for all times to come, plans and strategies cannot be set by the Central government alone. They need to work in tandem. States also have to be encouraged, whether by enabling them to undertake fiscal expansion or by agreeing on the degree of constraints they would like to enforce in various areas or the restrictions that may be permitted. They need to be supported by the centre in the areas like information and technology, logistics and material, and finance. The Centre needs to be more serious about exports because failure to rapidly revive them can have significant long-term implications on the economy.

The most critical issue in current times is where to make this public investment. The helplessness of the healthcare system has already been exposed by the pandemic. Presently, expenditure on the health sector accounts for less than 2 percent of our GDP and should be increased to 3 to 4 percent of the GDP. To

address the current burden of the pandemic, at least an additional 2 percent of the budget must be made to improve the public health infrastructure, and this challenge could also re-occur in the future. It is important to properly meet the demands of hospitals, healthcare facilities, dispensaries, particularly the scarcity of physicians, paramedics, and healthcare workers with sufficient salaries. In addition to the provision of adequate medical items, new equipment, and protective gear should be given. The second sector which is most worthy of the grant is public sector education. A minimum of 2 percent of the country's GDP must be added to existing expenditure in this field. The revival of jobs in the country must be another focus area. The data shows that the country's unemployment rate has jumped from 6.1% of the population to more than 23%. The unorganised segment of the economy has accounted for much of the job losses. Victims of job losses in this sector need urgent shelter and food and employment after normalisation. Programs such as MGNREGA must be augmented and taken up in urban clusters of the marginalized, as well as in rural areas. MSMEs need to be resurrected by financial infusion. In both cases, the state government can play a crucial role. To save any major firms from collapse, the central government must act quickly. Their efforts are key to the recovery of MSMEs. Businesses do not need to be offered a free package, but subsidy lending can be granted. The same thing can also be applied to the agricultural sectors. In the COVID-19 era, these steps have the potential to boost the economy.

During current times, the main issue is what India can do to minimise the chaos and put economic operations back into order. Probable solutions will not be simple because the issues are manifold. We need to discuss both the production and consumption sides of an issue. Before implementing certain measures, through collaborative cultivation and a very well community distribution network, the Indian government needs to ensure the availability of essentials so that the majority of people, both skilled and non–skilled, can stay healthy and safe to contribute to the domestic production process in the following days. The already-declared plan of economic austerity is a positive step. Therefore, once the pandemic's ruthlessness dies down, two sectors that need immediate attention are; trade and health. Now, it is clear that, at least in the upcoming months, import demand will not be very motivating, suggesting some form of self-reliant economy. Unfortunately, when the world has already gone a long way into economic interdependence and globalisation, this is not feasible these days. This often undermines the fundamental premise of the case for a competitive cost advantage. Hence, those nations where Indian goods are rated high and India has friendly ties must be addressed. The USA, and some other European countries, are such a destination. Some other valid reason for such an opportunity is the US-China trade war, which has gone bad to worst during the pandemic. It should be leveraged by India. The recent proposal to reverse the embargo on the export of hydroxychloroquine to other countries is a bold move ahead. Also, in the recent past, India has not joined the RCEP (Regional Comprehensive Economic Partnership) in anticipation of becoming one of the big global leaders. Therefore, we must not let go of this prospect. There is often an advantage for a first mover. It should be fitting for India. As private companies will not find the climate very attractive to operate in, capital spending must be the highest concern at this cusp for such an opportunity. The intensity of the service industry, which does not entail the actual movement of workers, is yet another promising aspect of the Indian economy. This nature of the trade-in services often provides a feel-good element in a particular destination, as the explanation for job market disruption is not evident when a great amount of people moves globally. Besides, India deals in services with some nations located in different geographic locations, enabling them to work continuously without raising the problem of jobs. Hence, in such tough times, digital trade in goods and services is yet another area of interest. At the same time, the government should be very vigilant about the country's primary health facilities. Since it goes without saying who is
supposed to replace human resources is the lingering issue that comes to the fore? Should we anticipate artificial intelligence or robotics to take command? Will a computerised program in such a mechanised environment be able to tackle emergencies? Is it important to be empathetic, caring, and culturally acceptable? What happens to the wellbeing of metals, pleasure, social capital, etc.? However, another massive challenge that scientists will be subjected to at the end is to assess the consistency of all Corona survivors' health status and job performance. Economies will never exist for healthy people. Health has a long-term, sustained effect on human resources and productivity in general. Therefore, the risk of a performance shock in the second phase must not be excluded. And, if the globe-wide lockout is the only way to curb the ruthlessness of Coronavirus, it will guide us again into an age-old debate of liberalisation versus protectionist policies, concerning the usefulness of a self-reliant economy that we cannot accept again due to the specialised nature of modern manufacturing units and labour division.

5.6 Future Areas of Research
The dissertation has tried to answer a few questions about the global trade war and its effect post and before the COVID-19 pandemic with emphasis on the state of the Indian economy. Apart from the same objectives of the study was to study the reasons and effects of the global trade war (GTW) on nations having a major share in world trade and to study the effects of COVID-19 pandemic and GTW on international trade with specific emphasis on the Indian economy. The trade war can never be restricted between two economies and it always affects the other economies of the region and the world. The quantum and severity depend on the volume and value of the trade. Indian economy, which is one of the largest in the world and which also has a major share in the Asian sub-continent cannot keep itself away from the conflict. Questions that would open further areas of the research are listed below:

a. Is the trade war between the USA and China falls in the apt definition of Global Trade War or, it is just a trade conflict between two competitors?
b. Why the supranational organisations like the WTO and UNCTAD have failed to address the issue of trade conflicts, particularly in the cases of bigger economies like the USA, China, and the EU? Though, they are called watchdogs of international trade.
c. What measures should be taken to avoid minor trade disputes which usually converts into a trade war?
d. What concrete steps should the Indian government take to convert the opportunity into advantages because of trade conflicts and de-coupling in the region?
e. India has been giving many subsidies in the form of waiver of loans and grant of agricultural loans at low rates. In the light of the above fact, is India a protectionist policy-driven economy wherein it indulges in the practice of giving subsidies and loan waiver to its unorganised sectors who are major contributors to its GDP?
f. The recent initiatives of the government of India like "Atmanirbhar Bharat", Make in India, and de-coupling with the Chinese economy is bold steps towards self-reliance. Are these steps going to antagonise the Chinese and India is moving towards a direct trade conflict with China?

5.7 Validating the Hypothesis
Based on the inferential analysis of primary and secondary sources including surveys, it is concluded that the research idea, objectives, design of the research, and the overall project have been worth the efforts. Lastly, the hypotheses that 'Global Trade War has severely impacted nations that have the major share in world trade and COVID-19 pandemic has aggravated the Trade War. India was marginally affected by
the global trade war before the onset of COVID-19 pandemic but it has been adversely affected by the ongoing pandemic' are hereby validated.

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