

WILL COVID-19 AFFECT THE COURSE OF GLOBALISATION?

Relevant for: International Relations | Topic: World Trade, WTO and issues involved

The impact of the [COVID-19 pandemic](#) on free trade is yet to be completely understood.

Biswajit Dhar and **Nagesh Kumar** spoke to **Vikas Dhoot** on whether the epidemic would spell an end to open markets as we know it. Edited excerpts:

Biswajit Dhar: I think we are going towards a new normal now. Much of what we saw in terms of global integration of trade and finance would suffer in the short run. If you recall, when the world was hit by economic recession in 2008, trade dipped by almost 10% in 2009 when there was a 3% decline in global GDP. That's roughly the relation between trade and growth. When there's a boom, trade grows much faster than GDP. The World Trade Organization (WTO) has now estimated that in a worst-case scenario, global trade could dip as much as 32%, indicating the kind of dislocation they expect in large economies. It's going to be a very different ball game — the first thing that will happen is countries will try to build themselves up. In India, for instance, we can see the disruption that is taking place — almost 50% of our trade is directly linked with the micro, small and medium enterprises (MSMEs) sector as even large players have sub-contracted to the smaller producers. So it is anyone's guess what the impact is going to be on trade because of the disruption in production. Going forward, most economies, with the exception of China, are going to see a very different kind of dynamic as they will try to build up from where they would be in a few months' time and then think in terms of how to integrate themselves again with other countries. My expectation is that this will be a whole new normal that we haven't seen — after the first round of global integration that we saw in the first decade of the 20th century.

Nagesh Kumar: UNESCAP has released its annual Economic and Social Survey on Wednesday — what we are finding of course, is that the COVID-19 crisis is a challenge never seen before and it is going to be a bigger shock for the world economy than the global financial crisis which was only driven by a demand shock. This entails a demand and supply shock and it is still unfolding. It is now clear that many economies are going to shrink — developed countries as well as many in the Asia Pacific region that are highly dependent on tourism and commodities trading will also shrink. Commodity prices are at their lowest in the last 10 years. For India, however, there is a slight silver lining because of low oil and commodity prices as we are net importers and, also, since the government is not allowing a full pass-through of the lower global prices, it means that there is some fiscal space through commodity price reduction. Still, the disruption in work, especially in MSMEs that are the backbone of manufacturing, trading and services, is very serious. This is a very large shock to the world economy and many things will change after we come out of it.

Nagesh Kumar: The process of globalisation was already in retreat and last year, the term 'slowbalisation' was being used. World trade had never really recovered since the global financial crisis — from a 10% growth, it had been hovering around 1%-2%. Add to that the trade wars and the WTO talks process coming to a grinding halt. Now, with this pandemic, there is another recognition of the vulnerability that global economic interdependence creates. So some countries are facing difficulties in getting medical supplies, some find their manufacturing can't run as value chains are linked with China. Countries will reconfigure their economies to look at import substitution with a greater clarity now, as the perils and pitfalls of overdependence on foreign supplies become clear. Import substitution, that had become a bad word, may be back in currency.

Biswajit Dhar: Over the past week, news has been filtering through that China's manufacturing sector is back, with Wuhan coming back into action. Other countries will remain in a lockdown phase for at least another two months. Nobody is yet talking of the flattening of the curve, and after that happens, it will take some more time for normalcy. So, if the Chinese get this sort of a lead in getting their act together, they are going to consolidate their position in the global economy further. It's very interesting if you look at the two major events that took place in the last 20 years — the 9/11 attacks (which coincided with China joining the WTO) and the 2008-09 global recession. After each of these episodes, China came out stronger and acted with alacrity, did all the pump-priming to stimulate the economy and enhance their global heft... You don't have to go too far to see how India got dependent on China after 2008. So this will be the phase that President Xi Jinping's dream of being the leader of the globalised world could really come true. You don't know how badly it was impacted by the virus. China doesn't really figure in the top of countries that have announced stimulus packages. But we know for sure they will do it — and this factor will determine the response of other countries. Countries are going to be extremely wary of the superpower that China will become and would like to disengage. I have absolutely no doubt that India will disengage. Stimulus packages — be it in the U.S., France, Germany — have an overwhelming emphasis on small businesses, which really were at the heart of their post-war industrialisation strategy, and you will see industrial policy whose flip side will be import substitution. So, globalisation will be defined in a very different way.

Biswajit Dhar: Once you talk of import substitution, you focus more on your domestic skills. The movement of personnel will follow the formula of economic needs, so the U.S. may keep importing skilled personnel from India. But, the kind of unemployment that you will see will require a huge effort on the part of every country to get their workforce to where they were before the crisis. We never got back to a pre-2008 high-growth phase. But even to go back to the pre-COVID period, countries will require a huge effort.

Lockdown displaces lakhs of migrants

Nagesh Kumar: The first priority of every government would be to create jobs for its own people. In a high unemployment scenario, hiring expats won't be in favour. In any case, there had been rising protectionism on this front already.

Nagesh Kumar: We have gone into the impact on social structure and have emphasised the need for governments to push for universal healthcare and social protection. Our experience from the financial crisis is that economies that paid greater attention to social protection were able to recover very quickly. This crisis has exposed the gaps in the health sector and social protection and the stimulus packages should focus on closing these gaps which will also help in achieving sustainable development goals. The first priority will be to create jobs for those rendered jobless. But I think in certain sectors that are highly skill-intensive, and countries are dependent on outsiders for those skills, that will continue.

Biswajit Dhar: There are worse days ahead for the WTO. Trade rules have worked best when the global economy is booming and isn't facing a crisis. The last time serious discussions took place at WTO was in 2008, before the complete repercussions of the crisis hit home, and it was all downhill after that. It's only going to get worse, because if countries need to bring their domestic industries back, they would need space for policy flexibility. And WTO will be redundant there — for instance, on the issue of subsidies for small industries, no country will like the WTO to be telling them what to do or what not to do. The agricultural subsidies issue is going to be junked — on 31st March, India notified the WTO that it has crossed the 10% limit in rice subsidies as a good citizen. But do you think, going forward, the government of India can be

restrained from giving more subsidies for rice or other sectors vital for food security? If the WTO rules are junked, then it's a free-for-all situation. That's the problem. Then you go back to the situation of the 1930s when it was just brute economic strength that will determine things, like the law of the jungle. Unfortunately, the impact on global governance systems hasn't been understood yet. I was greatly disappointed with the G20 leaders' and trade ministers' statements. They should have reflected on global rules being in further jeopardy. If they have to work out flexibilities within the WTO framework, they should do it collectively.

Biswajit Dhar: Countries cede a part of their sovereignty while getting into these trade agreements. In the last quarter of the twentieth century, we saw one driver of governance — market forces-oriented. But now, in major economies, governments have taken centre stage and depending on how long the pandemic drags on, the government will remain in the driver's seat and markets will take a backseat. If governments have to do the heavy-lifting, then they want full force of their sovereign powers. So I would think the project of globalisation is going to settle at a new normal and it will be a very different WTO and trade governance framework, with different kinds of regional and bilateral engagements. India, of course, has already become a reluctant player and had, in a way, started disengaging. Other countries were more tightly knit together through pacts like the ASEAN. The European Union is already in tatters and it will be important to see the role of the European Commission and the European Central Bank in getting a decent stimulus in addition to what individual governments have done. NAFTA is already being rewritten. So going forward, much of the churning is going to get bigger in regional formations. If in three months, we don't get back on track, then I think there will be a substantial rewriting of the rules.

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