

AFTERMATH OF A PANDEMIC: RAMIFICATIONS ON GLOBAL TRADE AND ECONOMY

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INTRODUCTION

Seven months ago, when the first case of the Novel Coronavirus was reported in China, none had imagined that the COVID-19 outbreak would bring the world to a standstill. With about $\frac{1}{3}$ of the world under lockdown in the month of April 2020, this virus has proved that no man is invincible. Having probably originated in a live animal market in the sprawling capital of China's Hubei province, Wuhan, this virus was soon classified as a pandemic that has spread like a wildfire to almost every nook and corner of the world. With global infections surpassing 7 million, this catastrophe has already led to an unprecedented loss of lives and also has defaced the global economy. People all across the world face the risk of unemployment. In the United States alone, in the last two weeks in March, almost 10 million people applied for unemployment benefits.¹ Such a sharp and staggering increase has never been seen before.

Interestingly, the world has seen many such pandemics in the past too. The Black Death Pandemic which was essentially a plague is estimated to have wiped out half of Europe dating back to the 14th Century. The HIV AIDS remains a pandemic even today with no cure yet, once contracted. The Asian Flu in 1957, The Spanish Flu in 1918, or the more recent H1N1 Swine Flu in 2009, each one of these left an indelible mark behind. As the world battles to contain the outbreak and find a vaccine anon, it is pertinent to analyse the aftermath of a pandemic on global trade and economy.

The world thrives on economic activity, be it in the agricultural, industrial or, tertiary sectors. Economic activity reflects on the GDP as well as the growth of a nation. A global lockdown caused by a pandemic is bound to apply brakes to the growth of an economy. Every sector of the economy plays a unique role in contributing to the growth and strength of a nation

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¹ John Bluedorn, Gita Gopinath & Damiano Sandri, *An Early View of the Economic Impact of the Pandemic in 5 Charts*, IMF Blog (April 06, 2020), <https://blogs.imf.org/2020/04/06/an-early-view-of-the-economic-impact-of-the-pandemic-in-5-charts/>.

in world politics. The current turbulence worldwide has affected almost every core sector which in turn has impacted its ancillaries.

The Industrial/ Manufacturing Sector stands above all. Any disruptions in this sector are detrimental to other sectors dependent on it such as the Real Estate Sector, the Automobile Sector, the Consumer Goods Sector, the Healthcare Sector, or even the Aviation Sector. Such disruption in industries and businesses is likely to impact the Stock Market which is evident atleast in India with the Sensex and Nifty dropping to record lows. Further, a turmoil in the aviation industry directly affects the travel, tourism, and the hospitality sector. Consequently, any interruption is likely to have a ripple effect on the economy and the strength of a country. It is thus of utmost importance to lay emphasis on the sectors likely to be impacted the most.

- **INDUSTRIAL/MANUFACTURING SECTOR**

In the 21st Century, the manufacturing sector is the heart of the economy. Progress and development in every other area depends directly or indirectly on the manufacturing/industrial sector. The ongoing pandemic has shut down industrial units in different sectors across the globe. In India, even though industries manufacturing essential products are functioning, they have downscaled their production to the vital necessities of life.

In fact, according to the World Economic Forum, Japan's factory activity contracted at the fastest pace in about a decade in March, leading to speculations that the world's third-largest economy is already in recession.²

Industrial players are likely to take the biggest blow due to this global crisis. Enormous losses may lead to mass layoffs leaving abundant labourers jobless. Moreover, the industrial lockdown has ceased interstate as well as cross border trade across the globe which will eventually impact the global economy. According to Capital Economics, the global gross domestic product (GDP) is expected to fall by more than 3% this year.³ Once the lockdown eases, manufacturers will need to get back quickly to full capacity which is indeed going to be a daunting task. Unavailability of labour is bound to have an impact on supply. However, even when workers return, manufacturers may witness a slump in overseas demand for their exports

² Leika Kihara & Daniel Leussink, *Here's how coronavirus has affected Asia's factories*, World Economic Forum Agenda (April 01,2020), <https://www.weforum.org/agenda/2020/04/asias-factory-activity-coronavirus/>.

³ *Ibid.*

because of worsening COVID-19 epidemics in other countries. A previous study explored the link between the 2014 West Africa Ebola outbreak and the United States' exports to that region. The study was focussed on estimating whether epidemic outbreaks in non-adjacent countries could impact unaffected countries through global trade. The results projected that the epidemic, in its peak year in 2014, resulted in a US\$1.08 billion relative reduction in US merchandise exports to Ebola-affected countries.⁴ This proves that global trade will return to normalcy only after the virus is contained all around the globe.

- **CONSTRUCTION/REAL ESTATE SECTOR**

The real estate sector in India was experiencing one of the worst phases even before the outbreak of Coronavirus due to the pre-existing economic slowdown coupled with global tensions. As per the Independent real estate research institute Liases Foras, India's top 30 cities had 1.28 million unsold housing units as of March 2019, a jump of 7 percent from March 2018, when the number was at 1.2 million.⁵ In the current situation, with the lockdown and its aftermath, this number is likely to only rise further.

The lockdown completely stalled construction projects in major parts of the world. The supply chain of raw materials has been completely hampered. For example, the US relies on China for a lot of construction raw material. But with borders sealed, the supply of material has hit an obstacle. This dearth of raw material due to the shutdown of the manufacturing sector, a curb on exports as well as immediate unavailability of labour is expected to delay ongoing projects which will have repercussions on existing time frames. Moreover, even in the months to come it can be assumed that there will be lesser footfalls for new project launches, deferred handovers, and fewer walk-in enquiries for the real estate. Construction financing may dry up for new jobs and owners may table current projects to deal with the uncertainty.⁶

⁴ Deliana Kostova et al, *Long-distance effects of epidemics: Assessing the link between the 2014 West Africa Ebola outbreak and U.S. exports and employment*, Wi. Onl. Lib. (2019).

⁵ Pankaj Upadhyay, *Slump in real estate sector hits Mumbai hard*, India Today Business Story (August 23, 2019, 23:50 IST), <https://www.indiatoday.in/business/story/slump-in-real-estate-sector-hits-mumbai-hard-1590970-2019-08-23>.

⁶ Santosh Wadekar, *The impact of Coronavirus on the Indian real estate and construction industry*, Architecture and Design (March 25, 2020, 12:09 IST), <https://www.architecturaldigest.in/content/coronavirus-impact-indian-real-estate-construction-industry-covid-19-india-economy/>.

The Coronavirus outbreak and its resultant shutdown is also concerning employers about the mental health of their labourers. In an informal Construction Dive survey, 70% of respondents marked “employee anxiety” as their top concern, above material shortages and the prospect of government shutdowns.⁷

The shutdown in the construction sector has massive legal implications. Though the pandemic could be classified as an unforeseeable event, the obligations of contractors and other contractual obligations between parties still need to be analysed. The pertinent question here is the applicability of the Force Majeure clause in this scenario which essentially discharges parties to a contract from performing their obligations under certain circumstances. The answer to this simply depends on the specific wording of the contract and the factual matrix as well as the jurisdiction of the parties.⁸ Even if the event were to qualify under the aforesaid clause, Force Majeure events often result in time relief but not financial relief.⁹ However, it would be in the interests of contractors and project owners to voluntarily review their contracts in light of the current situation.

- **BUSINESS SECTOR (MICRO, SMALL AND MEDIUM ENTERPRISES)**

The MSMEs constitute over 90% of total enterprises in most of the economies and are known to be generating the highest rates of employment growth and account for a major share of exports.¹⁰ Micro, Small and Medium Enterprises play an extremely critical role in a country like India. They help in the industrialization of rural areas, thereby, reducing regional imbalances, assuring a more equitable distribution of national income and wealth. MSMEs work hand in hand along with large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country. MSMEs are more vulnerable than the other sectors and face a greater risk arising out of the elongated lockdown. According to Ravi Venkatesan, Chairman, GAME ‘More than one-fourth of India's 69 million micro,

⁷ Jenn Goodman, *6 ways the coronavirus outbreak will affect construction*, Construction Dive News (March 13, 2020),

<https://www.constructiondive.com/news/6-ways-the-coronavirus-outbreak-will-affect-construction/574042/>.

⁸ Norton Rose Fulbright, *COVID-19 and the construction sector: Issues to consider*, Knowledge Publications (March 2020),

<https://www.nortonrosefulbright.com/en/knowledge/publications/cccb41b/covid-19-and-the-construction-sector-issues-to-consider>.

⁹ *Ibid.*

¹⁰ Subina Syal, *Role of MSMEs in the Growth of Indian Economy*, 4 Global Journal of Sci. and Management Perspective 43, (2015).

small and medium enterprises (MSMEs) may shut shop if the lockdown extends beyond four to eight weeks, as a majority of them will have a cash crunch.’¹¹

An economy simply cannot thrive without its MSMEs. The prevailing situation has drastically halted the flow of money in countries where the lockdown has been imposed. Small enterprises thriving on their daily businesses have been left devastated. With no immediate relief and mounting overheads such as rent, employees’ salaries, they are at the risk of withering away. For the ones that thrive, they might lay off their employees which is only going to render more and more jobless. In India, unemployment claims began to jump nationwide in March, layoffs among small business spiked 1,021% compared to the month before, according to exclusive data compiled by Gusto, based on more than 100,000 small businesses nationwide.¹²

According to the Small Business Administration, small businesses altogether employ roughly 59 million people in the U.S. of which half of them might not be able to survive beyond three months without relief aid.¹³ Only a small number of them have any sort of financial cushion in case of an emergency.

With the United States, UK, India, and other countries announcing financial stimulus packages, it is the need of the hour for others to follow their trail and revive their MSMEs.

- **AVIATION SECTOR**

The aviation industry supports \$2.7 trillion (3.6%) of the world's gross domestic product (GDP).¹⁴ If aviation were a country, it would rank 20th in size by GDP. The global air transport sector supports 65.5 million jobs.¹⁵ However, the airline industry has always been a

¹¹ Ayan Pramanik, *A quarter of MSMEs may shut shop if the lockdown persists*, Economic Times Rise (March 30, 2020, 11:20 IST),

<https://economictimes.indiatimes.com/small-biz/sme-sector/a-quarter-of-msmes-may-shut-shop-if-the-lockdown-persists/articleshow/74880940.cms?from=mdr>.

¹² Jessica Dickler, *Small business layoffs jump 1,000% in March*, CNBC (April 10 2020, 9:01 EDT), <https://www.cnbc.com/2020/04/09/small-business-layoffs-jump-1000percent-in-march.html>.

¹³ *Ibid.*

¹⁴ *Adding Value to the Economy*, Aviation Benefits beyond Borders, (date and year) <https://aviationbenefits.org/economic-growth/adding-value-to-the-economy/>.

¹⁵ *Air transport supports 65.5 million jobs and \$2.7 trillion in economic activity*, IATA (October 02, 2018), <https://www.iata.org/en/pressroom/pr/2018-10-02-01/>.

low profiting industry due to the high fixed and variable costs. Airport Parking as well as handling charges, fuel, labour as well as lease and depreciation cost airlines billions of dollars each year. Every grounded aircraft is believed to have dire consequences on the finances of air carriers.

The aviation industry has taken a massive hit due to the global pandemic resulting in airlines grounding most aircraft. It's hard to see the light at the end of the tunnel for the airline industry right now. The current crisis may lead to airlines retiring their older planes without chalking down any replacements for them. To add to their woes, social distancing norms may reduce the passenger capacity on aircraft. According to Forbes, regional airlines, even if they survive this crisis will cut down on many routes and this will greatly impede airlines' ability to re-deploy their previous capacity.¹⁶

The Indian aviation industry came to a standstill with the 21-day lockdown being imposed. With the DGCA announcing a complete suspension of air traffic, the Mumbai International Airport ATC known to be handling more than 900 departures and take offs everyday has been handling just a dozen aircraft in these rough times. The massive financial crunch in the global aviation industry may lead to airlines laying off employees operating in different segments of this trillion-dollar industry. With operations minimized and even suspended in some countries, their only hope of revival will rely on a comprehensive bailout plan by the different governments.

From the legal perspective, most aircraft lease agreements are governed by English law, with a "hell or high water" clause requiring lessees to make lease payments regardless of whether an aircraft is airborne or parked in the hangar.¹⁷ However, many aviation contracts related to maintenance, handling, and rent of airport facilities are drafted under local laws and are therefore subject to various interpretations of force majeure.¹⁸ Thus, the applicability of this clause will primarily depend on local jurisdiction.

¹⁶ Kunal Shah, *How The Coronavirus Pandemic Will Reshape The US Airline Industry: Network Implications*, Forbes Business (Mar 30, 2020, 05:52 pm EDT), <https://www.forbes.com/sites/kunalshah/2020/03/30/how-the-coronavirus-pandemic-will-reshape-the-us-airline-industry-network-implications/#20c3cd2d32be>

¹⁷ *Regional: COVID-19 as Force Majeure in Aviation Contracts. Comparative Analysis across 10 Jurisdictions*, Kinstellar Insights (March 26, 2020), <https://www.kinstellar.com/insights/detail/1059/regional-covid-19-as-force-majeure-in-aviation-contracts-comparative-analysis-across-10-jurisdictions>

¹⁸ *Ibid.*

- **ENTERTAINMENT SECTOR (SPORTS & MEDIA)**

The global value of the sports industry was estimated to be \$471bn in 2018 – an increase of 45% since 2011 – and before coronavirus stopped play, the trajectory only seemed to be upwards.¹⁹ The ongoing calamity has affected every part of the sporting value chain, from athletes, teams, and leagues, to the media that broadcast and cover games. Dawning with the suspension of multiple cricket series, The Formula 1 Races, and also The English Premier League Matches, COVID-19 has upended the sporting calendar for 2020. Even the Tokyo Olympics, typically one the world's most-watched sporting broadcasts, has been pushed back a year. The cancellation of the IPL, India's cash rich cricket tournament could lead to BCCI suffering a loss of over 3800 Crore Rupees.²⁰ The last such shutdown dates back to World War II when all major sporting events across the globe, including the Olympics in 1940 and 1944, were cancelled.²¹

There are three principal income streams for sports leagues: i) Broadcasting ii) Sponsorship and advertising partnerships and iii) Matchday revenue. The major sports are all reliant on broadcasting income, as demonstrated by revenue data from the biggest leagues over the last five years. As per a study, the global value of sports media rights is around \$50bn – but 60% of that is accounted for by just 10 sports leagues.²² With the lockdown in place, all scheduled events are getting pushed further and also face the risk of cancellation which in turn may result in organisers losing tons of revenue. Broadcasting Companies are to be severely affected as advertisements form a major part of their receipts. With almost all fixtures suspended, the industry is likely to see a 70-80% pullback given that broadcasters will have no new content to show beyond the end of March and will subsist on re-runs.²³ The cancellation

¹⁹ Stefan Hall, *This is how COVID-19 is affecting the world of sports*, World Economic Forum Agenda (April 09, 2020),

<https://www.weforum.org/agenda/2020/04/sports-covid19-coronavirus-exercise-specators-media-coverage/>.

²⁰ Rohan Sen, *With no Covid-19 insurance, BCCI and stakeholders set to lose over Rs 3800 crore if IPL 2020 is cancelled*, India Today Story (April 9, 2020 11:32 IST),

<https://www.indiatoday.in/sports/cricket/story/bcci-stakeholders-set-to-lose-over-rs-3800-crore-if-ipl-2020-is-cancelled-due-to-novel-coronavirus-pandemic-1664997-2020-04-09>.

²¹ Best Media Info Bureau, *Duff & Phelps analyses impact of Covid-19 on the value of IPL ecosystem*, Best Media Info (March 23, 2020),

<https://bestmediainfo.com/2020/03/duff-phelps-analyses-impact-of-covid-19-on-the-value-of-ipl-ecosystem/>.

²² Hall, *supra* note 18.

²³ Lata Jha, *COVID-19 impact: TV industry braces for loss as production stalled*, Live Mint News (March 23, 2020, 10:38 AM IST),

<https://www.livemint.com/news/india/covid-19-impact-tv-industry-braces-for-loss-as-production-stalled-11584938268645.html>.

of sporting events may impact pre-existing advertising contracts since advertisers may not have the desired target audience given the turn of events.

The impact of Covid-19 has been felt in the film industry too. With theatres being shut down in many parts, all releases are being pushed to the future thus impacting cinemas and production houses. Moreover, all ongoing shootings have been temporarily suspended thus delaying future releases too. On the brighter side, on the home front, millions of people are staying home, which will significantly increase revenue for streaming platforms such as Netflix, Amazon, Disney+, Apple TV, and others.²⁴

Even after coming out from the lockdown phase, the sports and entertainment industry might be one of the last to open up completely. As stadiums and theatres are places of mass gatherings, precautions will have to be taken by reducing their seating capacities in order to maintain social distancing in the months to come. Their revenues are set to drop which may directly or indirectly lead to unemployment.

- **TOURISM/HOSPITALITY SECTOR**

The ongoing pandemic has led to a worldwide crisis with its effects on the hospitality industry potentially heavier than those of 9/11, SARS, and the financial crisis in 2008. A research estimated that the SARS alone caused domestic tourism losses up to US\$3.5 billion in China and US\$1.7 billion in Malaysia.²⁵ The tourism and hospitality industry is massive. In fact, in 2017, the direct contribution of travel and tourism sector to India's GDP was over 91 billion U.S. dollars. This was estimated to increase to 98 billion U.S. dollars in 2018 and forecast to be 194 billion U.S. dollars by 2028.²⁶

The tourism sector is based on interaction amongst people. The global lockdown has crippled the movement of people. The tourism sector is facing the brunt which in turn is impacting the hospitality industry. Economies thriving on tourism are witnessing the greatest fall in revenue in probably decades. Hotels, clubs, and restaurants which once used to be packed

²⁴ Tom Dunlap, Dave Wagner & Frank Scavo, *Coronavirus Impact Index by Industry*, Computer Economics (2020), <https://www.computereconomics.com/article.cfm?id=2788>.

²⁵ Marcus Richard, Keogh-Brown & Richard Smith, *The economic impact of SARS: How does the reality match the predictions?* 88 Else. 110 (2008).

²⁶ Madhumitha Jaganmohan, *Direct contribution of travel and tourism to GDP in India from 2012 to 2028*, Statista (Feb 24, 2020), <https://www.statista.com/statistics/313665/direct-contribution-of-travel-and-tourism-to-gdp-in-india/>.

with guests are now witnessing a bleak future. Social distancing is here to stay for at least some period of time. People probably will become more cautious and they may avoid dining out in the upcoming months. Mounting overheads and minimal business during this phase may shut down many restaurants and cafes permanently. The hospitality industry will have to intensively work on sanitization to win the confidence of its customers. The hospitality and tourism sector might take a long while to recover. The World Travel and Tourism Council (WTTC) estimates the crisis to cost the tourism sector at least US\$22 billion, the travel sector is shrinking by up to 25 percent in 2020, resulting in a loss of 50 million jobs.²⁷

UNWTO conducted an assessment of the ongoing crisis taking the SARS scenario of 2003 as a benchmark, factoring in the size and dynamics of global travel and current disruptions, the geographic spread of COVID-19, and made an assessment about the future of tourism. As of today, UNWTO estimates that in 2020 global international tourist arrivals could decline between 20-30%, down from an estimated growth of 3% to 4% forecast in early January 2020.²⁸

However, over the years, this sector has consistently proven its resilience and potential not only to bounce back as a sector but to lead the wider economic and social recovery. This depends on adequate political support and recognition. The governments need recovery measures and incentives to be planned and implemented in coordination with international donor organizations. International dialogue, cooperation, and financial aid is going to be imperative for the revival of this industry.

THE ROLE OF THE HEALTHCARE INDUSTRY

While other industrial sectors have shut down or are working with less than half their workforce, hospitals and medical care centres continue to operate in full swing. Though the pharmaceutical industry has been permitted to operate, they too are facing harsh times due to a shortage of raw material. Disrupted supply chains and scarcity of labour coupled with high demand may lead to soaring prices of primary medication.

With the pandemic having disabled the global economy, the healthcare industry is to play a key role in limiting the spread and ultimately eliminating the virus. Quick and

²⁷ *TOURISM AND COVID-19*, United Nations World Tourism Organisation (April 07,2020), <https://www.unwto.org/tourism-covid-19>.

²⁸ *Ibid.*

widespread testing of Coronavirus is key to containing it as soon as possible. While the lockdown has forced everyone else to stay behind closed doors, healthcare professionals are under immense pressure and stress risking their lives in order to save people around the world. With many countries having started clinical trials, the world yet awaits a vaccine of COVID-19. However, in such times of crisis, sharing ideas internationally will help scientists develop and roll out Covid-19 treatments and vaccines more quickly.

TRANSFORMATION OF THE LEGAL AND EDUCATIONAL SECTOR

The impact of Coronavirus on the legal industry could be unprecedented. With a large number of law firms encouraging its employees to work from home, the legal industry could witness a massive shift to digital technology as against conventional methods. Law Firms could potentially go digital. Due Diligence and client meetings could now be conducted between people situated miles apart. The Coronavirus outbreak has opened a new horizon for transformation, particularly in the legal sector. The courts have already gone digital whereby the judge and the counsel are no more physically present in front of each other. The present disaster has opened a door for a digital as well as a remote system of justice.

The present scenario has also made the concept of distant learning or E-Learning a reality. With schools, colleges, and universities shut, online platforms have made it possible for teachers to conduct online lectures. The need for a physical classroom is being well compensated by a digital one. With online examinations in place, distance is no more a hindrance to the educational sector. Even though the E-Learning model poses some challenges in its budding period, it could lead to a breakthrough in the future of education. The shift towards digital technology due to the impact of COVID-19 is leading to digital growth which may prove to be extremely beneficial.

THE ROAD AHEAD

The International Monetary Fund has reassessed the prospect for growth for 2020 and 2021, declaring that we have entered a recession – as bad as or worse than in 2009.²⁹ The world

²⁹ PTI, *IMF chief Kristalina Georgieva: We have entered recession*, The Economic Times Business (March 28, 2020, 08.54 AM IST), <https://economictimes.indiatimes.com/news/international/business/imf-chief-kristalina-georgieva-we-have-entered-recession/articleshow/74852225.cms>.

needs to respond decisively, innovatively, and unitedly to suppress the spread of the virus and address the socio-economic devastation that COVID-19 is causing in all regions. Trade and international cooperation will be the key ingredients here. The countries need to devise fiscal and monetary policies and ensure enough availability of resources to support workers and households. The provision of health and unemployment insurance needs to be formulated. Businesses have to be supported to prevent bankruptcies and massive job losses. The countries need to work towards the goal of sustainable development and have to become more resilient in the face of pandemics and other global disasters. Recovery will probably take a while but is definitely possible. The rudiments of the economy remain solid even though the fuel line to the engine has been temporarily cut off. Good policy decisions will go a long way in giving businesses, households, and our youth a reason to be confident about the future.

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