

Economics Homework

Sample

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Table of Contents

Introduction	3
Importance of Free Trade on Global Economy.....	3
Coronavirus and Free Trade.....	3
Government Support	7
Conclusion.....	8
References.....	9

Introduction

The Coronavirus pandemic has affected economic activity in the whole world to a great extent. The world as a whole sees the effects of this pandemic in terms of a slow down in revenues, loss of business, and high unemployment. Economies have had to go into lockdown to curb or slow down the spread of this contagious virus, which is why many economies today are suffering to sustain themselves. This research paper will shed light on the effect that the Coronavirus is having on free trade in the global economy by discussing the different impacts that this is causing.

Importance of Free Trade on Global Economy

Free trade is the name given to the import and export of goods in the global economy without any trade barriers or tariffs. The benefits of free trade are lower prices for consumers, higher commodities, economies of scale, and a more excellent choice of goods for consumers. On the whole, free trade is what keeps the global economy working in a very healthy way, giving way to regional economic integration and building shared approaches to business (The benefits of free trade agreements 2017). It also contributes to the economic growth of countries that are less developed. Free trade also leads to economies becoming better in terms of job creation.

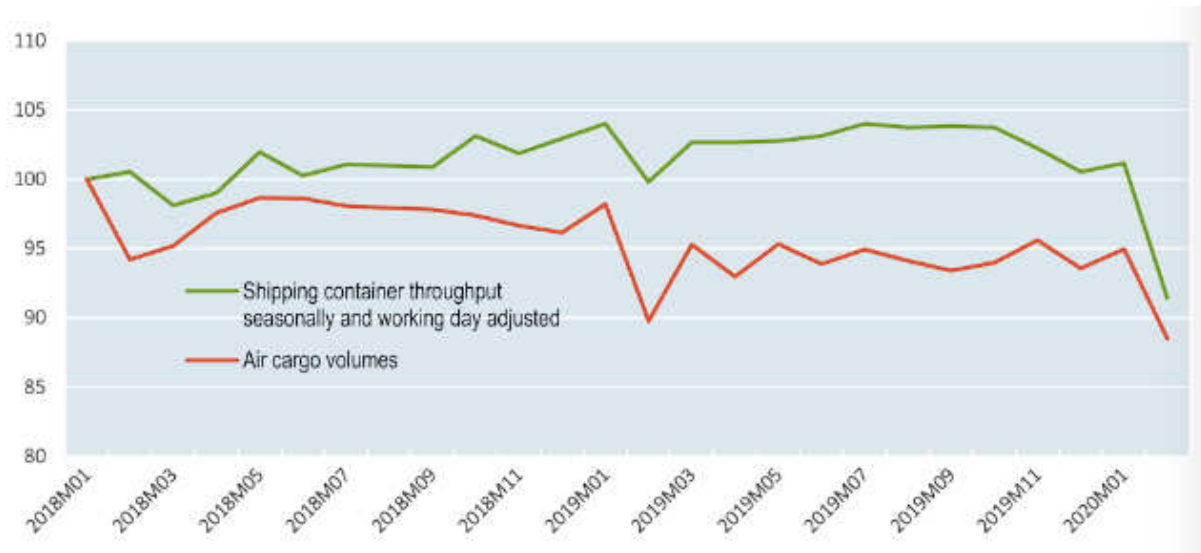
Coronavirus and Free Trade

Free trade has been greatly impacted due to Coronavirus. The virus has greatly restricted the movement of people and goods in the whole world (Global trade impact of the coronavirus epidemic 2020). Travel bans have led to air cargo being limited, which has led to the shipping of some essential goods all over the world, not happening. This has also led to the price of air

cargo rising by approximately 30% in Northern America and 60% in other parts of the world. Delivery times have also gone up indefinitely. For goods that are highly trade-sensitive, this does matter greatly, for example, medical supplies. In addition to that, essential shipping ports across the world have seen year on year drops in cargo. Around 50 countries of the world have also changed their port protocols, which have led to some ports closing down as well. Quarantine measures have led to some ports also requiring excessive documentation and examination. In some places in the world, the restriction of free trade has also led to a shortage of certain goods. Some shipping containers are stuck at the Chinese ports, which has led to huge fluctuations in the prices of those goods (Richter 2020).

Furthermore, the lockdowns have also led to there being less availability of labor, which means there unloading at ports has become quite an issue. Especially in the countries where this process is not automated, this is a more significant issue. At ports that are still working, it now costs much higher to work at ports due to the safety measures that have to be taken to protect workers (Horn 2020). On the whole, supply chains are also being significantly affected to ensure that the right kind of health and safety measures are taken, affecting costs and time. Due to economies being in lockdown, many trade processes have been affected. There are a lot of hurdles being faced in terms of physical inspection of goods. All of these factors have added greatly to the time and costs of international trade on products. This definitely requires the government and the private sector to take action to overcome the hurdles collectively.

Figure 1: Sharp drop in the sea and air cargo



“Source: OECD, drawing on data from Innovative Solutions in Maritime Logistics and International Air Transport Association”

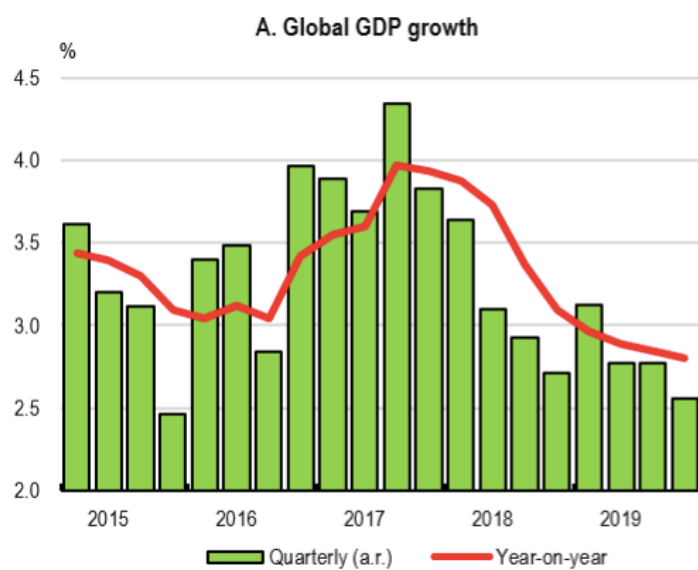
The figure above shows how air and sea cargo has seen a drastic drop since the beginning of the year 2020 since the entire world is suffering in terms of the effect of the Coronavirus.

Economies have had to lockdown, which has resulted in problems in terms of the movement of goods from one place to another. It is because of this that free trade is suffering greatly.

The primary issue is in terms of medical supplies. The pandemic has led to there being a high demand for pharmaceutical supplies like surgical masks. China is the main manufacturer of surgical masks that accounts for over one half of the world's capacity. Yet, the demand had increased to such a great extent that the current capacity is not enough to suffice. But due to

the restriction of free trade and movement of goods from one place to another, the entire world is suffering (Mingardi 2020).

Figure 2: Global GDP growth



“Source: OECD Interim Economic Assessment”

Global GDP growth has greatly lost momentum, as can be seen in the graph above.

COVID-19 came about by the end of the year 2019, and from the graph, it can be seen that because free trade got compromised, the GDP growth in the whole world saw a sharp decline (Coronavirus: The world economy at risk 2020).

Government Support

Governments are playing a huge part in preventing this virus from destroying the livelihoods of many. However, governments worldwide need to focus greatly on how they can put the right measures in place to ensure that they have not become sources of unfair competition in the global economy. Governments need to have policies to support global supply chains to help shorten them so that the risks from global exposure can be minimized. Firms might need to rethink their sourcing decisions, which can result in the reordering of global production. Governments of developing countries need to fully evaluate their production abilities for goods that they consider strategic because it is yet to be seen how long the effects of this virus will be seen. For the next few years, there might be restrictions on free trade, but for economies to continue working, countries must work towards producing other goods that they never did before. Steps need to be taken to ensure that economies survive, even at the bare minimum. Firms and governments need to collectively think about how they can secure the resilience of supply chains (COVID-19 and International Trade: Issues and Actions, 2020). This will require an in-depth understanding of the strength and shortcomings of supply chains in the current crisis. Serious re-examining is needed to study the business structure globally so that they understand the dynamics of redundant capacity and inventory stocks. Governments need to consider trade and investment policies so that they can support resilience. There might be special arrangements that governments will have to make so that the movement of strategic goods from country to country does not slow down at all. Governments need to fully understand how trade greatly matters in the modern-day and age in terms of recovery of the global economy from the economic impacts of this pandemic. Continued trade support is needed for economic recovery. Trade needs to flow free to work towards global recovery. Actions and decisions that need to be taken have to consider the fact

that the actions taken today will determine what happens in the future in terms of trade (Laker 2020).

Conclusion

On the whole, it can be said that the entire world is suffering from this pandemic, and the economic effects are disastrous. Free trade has been greatly affected due to the restrictions on the movement of goods between countries. It is yet to be seen that for how long the effects last, what is essential is to understand that governments need to take the right kinds of steps to work on the efficiency of supply chains. Trade facilitation is needed so that free trade across the whole world can work better. The decisions taken today will affect what happens in the future. It will take some time before the economic impacts of this crisis can be alleviated. But with the right kind of support from the government and private sector, it is hoped that the global economy will work head towards recovery soon.

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