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Impact of covid-19 on Indian agriculture and sustainable economic development

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Abstract:-

Agricultural trade will be less significantly affected, being insulated by its relatively low income elasticities of demand. However, a drop in the range of 14%–21% in real trade value should be expected. India can be expected to share in this, but, within agricultural exports, cereals will be least affected. This minimum expected impact to cereals stems partly from the risk of wheat export bans by Russia and Kazakhstan, due to increases in wheat prices. Livestock, pulses, and horticulture exporters can be expected to face a larger decline in trade prospects and revenues. These may take the form of more costly inspections, tightened SPS and food safety regulations, and protectionist measures from competing domestic producers.

Key words:- Wheat, Rice, pulses, and horticulture

INTRODUCTION:-

Among the many ways in which COVID-19 has upended the world, and India, are its effects on the economy and trade. This article will focus on some of the issues we see as important in trying to anticipate COVID-19's effect on Indian agricultural trade. We will do this primarily for a short-term period of the balance of 2020.

The trade side of agriculture is remarkably important to India economy. Most sectors of Indian agriculture (except dairy and poultry) rely substantially on trade in selling their output, and all sectors also use imported inputs. In 2019, Indian agri food exports were valued at $64 billion, **1** of which about 40% arose from farm products and 60% from food manufacturing. In fact, India's total agrifood exports account for 11.1% of India's total exports (2017–2019 average), while the sector contributes 2.6% of the country's GDP according to 2015 (the most recent) data (Statistics Canada, 2019). In other words, agriculture "punches above its weight" in Indian trade, with more than 4 times its share of exports relative to its share of GDP. Overall, we export more than half of our agricultural production. In terms of individual crops, we export half our beef, 70% of our soybeans, 70% of our pork, 75% of our wheat, 90% of our canola, and 95% of our pulses (Indian Agri-Food Trade Alliance, **2017).**

The heart of the matter is that, to combat the spread of the virus, most countries have been imposing a policy of social distancing or even civic lock-downs, keeping people at home and restricting gatherings of people beyond some small number. The impact of keeping people from being able to work, meet, travel, and socialize has severely damaged economic activity, especially in the service sector. At this point, there is no clear end date of these lockdowns and the ensuing economic damage, and no region of the globe is being spared.

These effects will be highly negative; a significant worldwide recession sparing very few countries is now widely forecast. These negative effects are clear from many different measures: GDP growth estimates, unemployment insurance claims, electricity loads (highly correlated with GDP), nitrogen dioxide emissions (also correlated with industrial activity), and a widely cited index of manufacturing firms' purchasing managers expectations (PMI) (Bluedorn, Gopinath, & Sandri, **2020**). The most recent IMF forecast for 2020 has estimated *real* world economic growth to be −3.0%, a downgrade of 6.3 percentage points from January 2020. The world GDP growth rate for 2009, the bottom of the financial recession, was −0.1% (IMF, **2020**). World economic growth is important for India trade, but so too is the growth of the United States, EU, and China. The most recent estimates for their 2020 real GDP growth rates are −5.9%, −7.5%, and +1.2%, respectively. All forecasts are couched in cautious terms due to the necessary assumptions about many unknowns.**2** Emerging market and developing countries buy

significant levels of Canadian grain, and they are also not spared by this recession: their collective (including China) estimated real GDP growth is −1% (IMF, **2020**). These countries are being damaged by their own lockdowns and falls in domestic income, as well as falling international commodity prices, reduced migrant remittances, and striking portfolio (foreign investment) outflows.

IMPLICATIONS FOR TRADE:-

All of this background on aggregate economic activity is relevant for looking at international trade, because, among other factors, aggregate growth in trade volumes is positively correlated with growth in GDP. If we wish to anticipate the effects on agricultural trade, it is useful to begin with the effect on aggregate trade first and then adjust it to the characteristics of trade in agriculture and food products. Short of a detailed model of aggregate trade, a back-of-the-envelope approach that is widely used is to use the ratio of the growth in trade to the growth in GDP. We can use this ratio to give us guidance on what to expect in terms of trade changes, given the GDP growth estimates laid out above.In the last decade, this ratio has fallen back to a level of roughly 1, but it is likely more relevant to the current situation to observe what happened to this ratio following the 2008 financial recession. At that time, the ratio of trade growth to GDP growth rose to 6.3 and trade volumes fell by 12%–15% (WTO, **2020**; and Keynes & Bown, **2020**, respectively). That post-2008 experience is very useful at the current time, because, like the COVID-19 crisis, the Financial Crisis of 2008 was a relatively sudden negative event, not so obviously clouded by the decline of global value chains in manufacturing or rising protectionism, both of which have been occurring to reduce the level of trade. But GDP is dropping even more now, so larger trade declines are very likely.

Drawing on their own modeling and data, the WTO (**2020**) published their own forecasts of global trade on April 8, 2020. The substantial uncertainties noted at the outset of this paper led them to consider a wide range of possibilities, forecasting a range of declines from 14% in the optimistic scenario to 33% under the pessimistic scenario, for the full 2020 year. Even the optimistic scenario means the decline in trade with the COVID-19 crisis will be greater than that experienced following the Financial Crisis. And, given how the depths of this COVID-19 recession are now forecast to be greater than at the time of the WTO modeling, one should realistically be prepared for larger trade declines than the WTO's optimistic scenario. Using the mid-point of the WTO range, say roughly 19%, may be a more useful estimate of the decline in total merchandise trade volume.

Beyond these aggregate declines, the WTO (**2020**) results indicate that double-digit declines in trade volumes will affect nearly all regions, "with exports from North America and Asia hit hardest." Two other key points are, "[t]rade will likely fall steeper in sectors with complex value chains, particularly electronics and automotive products," and "[s]ervices trade may be most directly affected by COVID-19 through transport and travel restrictions" . It should be recalled that a 20% decline in merchandise trade volume in 2020 is on top of the 0.1% fall in that trade which occurred in 2019, and, in 2019, services trade had a USD value about one-third that of merchandise trade.

WHAT ABOUT AGRICULTURAL TRADE?

Our focus is on agricultural trade, so we wish to disaggregate these forecasts at least to the food and agriculture sector. Because most foods fall into the category of necessities, this sector will be insulated by its low income elasticities, especially in the higher income developed countries. We can expect smaller declines in the demand for food products and food imports compared to expected declines in total trade flows. With the substantial fall in incomes in most countries, we can expect the demand for food imports from developing countries (whose demand elasticities for food are still relatively high) to decline the most, with more modest declines coming from the rich countries. This pattern is shown in Figure **1**, with income elasticities falling as average country income per capita rises.

IMPACT OF GOVERNMENT POLICIES ON AGRICULTURAL TRADE:-

The discussion of anticipated trade flows has abstracted from a very important element for agricultural and food products, namely the response of governments in terms of trade policy. The big risk, as pointed out by Glauber et al. (**2020**), is that major exporting countries may respond to this crisis by imposing export restrictions. This is well documented for the food price crisis of 2007–2008, when rice and wheat prices were pushed upward by such export bans, especially rice, because the actions of India and Vietnam in March 2008 caused world prices to roughly triple, instead of merely doubling (FAO, **2011**).

At the current time, Kazakhstan has stopped exports of some cereal products (wheat flour), oilseeds, and vegetables. Vietnam stopped issuing new export certificates for rice until the end of March, when it assesses its stocks, and, judging from its past behavior, this will continue. Vietnam did the same in 1992/93 and in 2008, both times to stop increases in the domestic price of rice within the country. India has a history of imposing export restrictions when world prices are rising, even though at this time the country's stocks of rice are at a historic high and crop forecasts for 2020 are high. Russia banned wheat exports in 2010, re-igniting food price increases at that time, and an export quota for wheat is being considered at the present time (Medetsky & Durisin, **2020**). The quota is apparently being considered for barley, corn, and rye, as well as wheat.

These countries argue that they are placing the issue of food security in the foreground of policy decisions, but their actions are classic examples of "beggar-thy-neighbor" policies that force other countries to bear the cost, or at least the risk, of restricted supplies or even create reduced supplies for them. For large countries in these markets, like India, Vietnam, and Russia, their actions do affect world prices.

The distributional effects of adding export restrictions will, like the COVID-19 crisis itself, fall most heavily on the poor in importing countries by reducing trade, raising food prices, and reducing food security in all but the export countries of that commodity.This is especially true for staples like wheat and rice. Even for the exporter country, the supply situation, via high stock levels and good crop forecasts, does not warrant any such trade restrictions. However, export restrictions could actually help India if they raise the prices of products we export. But, aside from the opportunistic shift to protectionism on food through export limits, there are other trade restrictions coming from the various country pandemic responses. There is the more direct impact of public health restrictions on the food trade by way of cross-border movement restricted to "essential" traffic. This includes new transport regulations that have led to trucks queuing at borders, damaging particularly the fruit and vegetable trade, creating congestion, and delaying all trade.. These are familiar from recent trade conflicts with India over lentils and China over canola. Vietnam has also followed this course in the past with pork. All three cases are realistic examples of how Indian agricultural exports could be placed at risk due to trade restrictions on imports that may soon arise.

CONCLUSIONS:-

For the coming year, a deep worldwide recession is widely forecast from all reputable international agencies, even if these forecasts are necessarily filled with uncertainty about the nature of the coronavirus, the public health responses of all countries, and how economies will adjust. From the April IMF *World Economic Outlook* release (**2020**), world real GDP growth is forecast at −3% and US GDP growth at −6%, making 2020 the worst recession since the Great Depression. It will take a heavy toll on international trade more generally, and even on agricultural trade. The WTO-forecasted range of a possible decline in total trade volume is 13%–32% but can be expected to be even more negative in value terms due to falling prices. Agricultural trade will be less significantly affected due to the generally lower income elasticities of demand, but, learning from the 2009 recession, a larger drop, say, in the range of 12%–20% in trade value should be expected. The prospects for India will be best in the cereals category due to the lowest income elasticity. And, if there are more widespread export bans, such as for wheat, the resulting price rise would help the wheat sector. Livestock, pulses, and horticulture will likely face a

larger trade decline due to the large loss of purchasing power in many importer countries. In addition, the threat of added import restrictions via imposition of familiar SPS and food safety regulations is both plausible and potentially significant for those commodities throughout 2020.

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