

Indian Economy After COVID-19

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ABSTRACT

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This research article analyzes the multifaceted impact of the COVID-19 pandemic on the Indian economy and examines the subsequent recovery process. Utilizing a secondary research methodology, this study synthesizes findings from academic journals, industry reports, and publications from government and international organizations to assess the pre-pandemic economic context, the immediate shock of the pandemic, policy responses, the nature of the recovery across sectors and regions, and the long-term implications for India's growth trajectory, poverty, and inequality. The analysis reveals an uneven recovery with strengths in agriculture and services contrasting with challenges in manufacturing and persistent issues in employment. The article concludes by highlighting the critical need for structural reforms to ensure sustained and inclusive economic growth.

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INTRODUCTION

1.1. Pre-COVID-19 State of the Indian Economy:

Prior to the unprecedented disruption caused by the COVID-19 pandemic, the Indian economy presented a complex picture of both progress and emerging challenges. While India had established itself as one of the fastest-growing major economies globally, a noticeable slowdown in economic growth had begun to manifest in the years leading up to 2020 ¹. This deceleration was accompanied by concerning trends such as increasing unemployment rates and persistent levels of poverty, indicating underlying vulnerabilities within the economic structure ¹. For instance, industrial output from the eight core sectors had fallen significantly, reaching a 14-year low at the end of 2019 ². Furthermore, small businesses were only beginning to recover from the destabilizing effects of demonetization ². This context is crucial because it suggests that the pandemic did not strike a robust economy but one already facing vulnerabilities, which likely exacerbated the initial shock and shaped the recovery trajectory ¹. The pre-existing deceleration in growth after 2011-2012, which accelerated post-2016-2017, left the Indian economy in a fragile state when the pandemic emerged ¹. Declining private sector investment and subdued rural wage growth further underscored these pre-pandemic economic headwinds ⁴.

1.2. The Onset and Impact of the COVID-19 Pandemic in India:

The arrival of the COVID-19 pandemic in India in March 2020 triggered a series of stringent measures, including nationwide lockdowns, aimed at containing the spread of the virus ¹. These lockdowns, while necessary from a public health perspective given India's population density and modest health infrastructure ⁵, had immediate and devastating economic consequences across all sectors ¹. The Indian economy experienced a significant contraction in GDP, with some projections suggesting a potential 40% decline in 2021 ⁷. Industrial production plummeted, severely impacting the livelihoods of workers and leading to widespread unemployment ⁷. It is estimated that the Indian economy suffered a loss of over ₹32,000 crore daily during the initial 21-day lockdown period, highlighting the sheer magnitude of the economic disruption ². The crisis led to a loss of employment for an estimated 140 million people, with salaries being cut for many others ⁷. This sudden and severe halt to economic activities across all sectors led to an unprecedented economic crisis, affecting not only macroeconomic indicators but also the lives and livelihoods of millions of Indians ¹.

1.3. Research Objectives and Scope:

This research article aims to provide a comprehensive analysis of the Indian economy in the aftermath of the COVID-19 pandemic. The primary objectives are to: (1) examine the initial economic shock and its impact across various sectors; (2) analyze the policy responses undertaken by the government and the Reserve Bank of India; (3) assess the nature and extent of the economic recovery in the post-pandemic period; and (4) discuss the long-term economic implications and emerging challenges for India. The scope of this article encompasses the period from the onset of the pandemic in early 2020 to the present, with a focus on understanding the trajectory of recovery and the structural shifts that have occurred. Key areas of focus include macroeconomic indicators such as GDP growth, inflation, and unemployment; sectoral performance in agriculture, manufacturing, and services; the impact on trade and investment flows; and the broader social implications concerning poverty and inequality.

RESEARCH METHODOLOGY**2.1. Secondary Research Approach:**

This research article employs a secondary research methodology to analyze the impact of the COVID-19 pandemic on the Indian economy. Secondary research involves the synthesis and analysis of existing data and information that has been previously collected and published by others. This approach is particularly suitable for examining a broad and complex topic like the post-COVID-19 economic landscape, as it allows for the integration of diverse perspectives and findings from a wide range of sources ¹⁰.

The research draws upon various types of secondary sources, including academic journals that offer in-depth analysis and empirical evidence on the economic effects of the pandemic ³. Industry reports from organizations like Deloitte and J.P. Morgan provide insights into current economic trends and sectoral performance ¹⁹. Government publications, such as the Economic Survey and reports from the Reserve Bank of India, offer official data and policy perspectives ²². Reports from international organizations like the World Bank and the International Monetary Fund provide comparative analysis and forecasts for the Indian economy within a global context ⁵. Additionally, articles from reputable news agencies and online platforms have been consulted to capture recent developments and expert opinions ³⁰.

2.2. Data Collection and Analysis:

The process of data collection involved identifying and selecting relevant research articles and reports through systematic searches using keywords such as "Indian economy post-COVID-19," "impact of COVID-19 on Indian economy," "Indian economic recovery after pandemic," "sectoral performance Indian economy post-COVID," "employment in India after COVID-19," "fiscal policy India COVID-19 impact," "monetary policy India COVID-19 response," and "Indian trade post-COVID-19" across various academic databases, online repositories, and the websites of relevant organizations ¹. The collected data and insights from these diverse sources were then synthesized and analyzed to identify key trends, patterns, and causal relationships concerning the Indian economy's response to and recovery from the pandemic ¹⁰. Qualitative analysis was primarily employed to interpret the findings, draw conclusions, and develop a comprehensive understanding of the subject matter.

2.3. Limitations of Secondary Research:

While secondary research offers numerous advantages for analyzing a broad topic like the post-COVID-19 Indian economy, it is important to acknowledge certain inherent limitations. These include the potential for biases present in the original sources, as different authors and organizations may have their own perspectives and agendas ¹⁰. Additionally, the data and analysis available in secondary sources may, in some instances, become outdated as the economic situation continues to evolve ¹⁰. To address these limitations, this research has focused on utilizing a variety of reputable sources, including peer-reviewed academic articles and reports from well-established international and governmental organizations, to ensure a balanced and credible analysis ¹⁰. Emphasis has also been placed on incorporating recent publications to capture the most up-to-date information and trends.

THE INITIAL ECONOMIC SHOCK OF COVID-19**3.1. Contraction in GDP and Economic Activity:**

The onset of the COVID-19 pandemic and the subsequent lockdowns in India triggered a period of unprecedented economic turmoil, marked by a sharp contraction in the nation's Gross Domestic Product (GDP) and overall economic activity. During the first quarter of the fiscal year 2020-2021 (April to June 2020), India's GDP experienced a massive decline of 23.9%, reflecting the severe impact of the stringent lockdown measures ⁵⁹. This contraction was the largest ever recorded in India's history for a single quarter, underscoring the drastic halt in economic operations across the country ⁸. When compared to other major economies, India's initial GDP contraction was among the most severe, highlighting the profound impact of the pandemic and the policy responses on its economic output ⁵. The overall fall in economic activity was also evident in high-frequency indicators such as the Nomura India Business Resumption Index, which plummeted from 82.9 on March 22 to a mere 44.7 by April 26, 2020, indicating a drastic reduction in economic operations ⁸. While economic activity did show signs of recovery by September 2020, nearly returning to pre-lockdown levels, the initial shockwave had a significant and lasting impact on the economy ⁸.

3.2. Disruptions to Industrial Production and Supply Chains:

The pandemic-induced lockdowns caused widespread disruptions in industrial production across various sectors of the Indian economy. With the enforcement of a nationwide lockdown starting from March 25, 2020, the production of almost all non-essential goods was discontinued, severely affecting approximately 28 million informal workers in urban areas ⁷. Micro and small enterprises (MSEs) were particularly hard-hit due to broken supply chains, lack of market outlets, and poor demand ¹. The crisis led to a significant loss of employment, estimated at around 15 million, predominantly affecting the industrial sector ¹. The supply networks in crucial industries like pharmaceuticals were disrupted, leading to a scarcity of raw materials and a rise in their prices, as India heavily relies on raw materials from China, the initial epicenter of the outbreak ⁶⁰. Similarly, the food and beverage industry faced challenges in the processing, packaging, and distribution of products due to the closure of restaurants and seating spaces ⁶⁰. The paint and coating manufacturing industry also experienced significant disruption with forced halts in production and challenges in the availability of raw materials ⁶⁰. These widespread disruptions in industrial production and severely strained supply chains, particularly impacting smaller businesses, underscored the vulnerability of the Indian economy to such large-scale shocks ¹.

3.3. Surge in Unemployment Rates:

The COVID-19 pandemic triggered a massive surge in unemployment rates across India, affecting both urban and rural populations. During the first set of lockdowns in April 2020, an estimated 20-25 percent of the labor force became unemployed as most economic activity was halted ²⁴. Unemployment peaked at an unprecedented 24.3 percent in April 2020 ²⁴. The unemployment rate for urban areas increased dramatically from an average of 7% before the lockdown to 27% during the lockdown, while the rural unemployment rate surged from 6% to 23% in March, April, and May 2020 ⁷. Informal workers, migrant laborers, and daily wage earners were disproportionately impacted by these job losses due to the nature of their employment and lack of social safety nets ⁷. It is estimated that around 140 million people lost employment during the lockdown period ⁷. Youth and women also experienced relatively more adverse effects due to the vulnerable and informal nature of their pre-pandemic occupations ²⁴. This massive surge in unemployment, with the most vulnerable segments of the workforce bearing the brunt of job losses, highlighted the severe social and economic consequences of the pandemic ⁷.

3.4. Impact on Trade and Investment Flows:

The initial phase of the COVID-19 pandemic led to a significant decrease in foreign trade for India, primarily due to global lockdowns and severe disruptions in supply chains ¹. The halt in international travel and commerce, coupled with production shutdowns in many countries, severely impacted the import and export of goods and services ⁷. Foreign direct investment (FDI) inflows also experienced a downturn during this initial period as global economic uncertainty increased and investors became more cautious ³⁶. Specific industries that heavily rely on international

travel and movement, such as tourism and hospitality, faced a near-total collapse in activity, leading to massive job losses and revenue declines ⁷. The combined effect of decreased trade and investment flows underscored the interconnectedness of the Indian economy with the global economic system and its vulnerability to worldwide shocks ⁷.

GOVERNMENT AND RESERVE BANK OF INDIA'S POLICY RESPONSES

4.1. Fiscal Stimulus Packages: Analysis of Measures and Effectiveness:

In response to the severe economic fallout from the COVID-19 pandemic, the Indian government announced a series of fiscal stimulus packages aimed at mitigating the impact and fostering recovery ⁵. These measures encompassed a wide range of interventions, including direct cash transfers to vulnerable populations, credit guarantees for businesses, support for Micro, Small, and Medium Enterprises (MSMEs), and increased spending on infrastructure and social safety nets ⁸. The total value of these stimulus packages was substantial, with estimates reaching around ₹20 lakh crore (approximately 10 percent of India's GDP), which included previous government packages and decisions by the Reserve Bank of India ⁸. When compared internationally, India's fiscal response was notable, although the composition leaned more towards credit guarantees and liquidity infusion rather than direct fiscal spending ¹⁴. For instance, a significant portion of the initial packages focused on providing collateral-free loans to MSMEs and extending bank guarantees to facilitate the resumption of work ⁸. Measures also included the "One Nation One Ration Card" scheme to support migrants and an extension of the Operation Greens program to cover all fruits and vegetables ⁸. The "Atmanirbhar Bharat" (Self-Reliant India) initiative was a central theme, aiming to boost domestic manufacturing through policies like Production-Linked Incentive (PLI) schemes ⁵. While these fiscal measures provided some relief and aimed to stimulate economic activity, their effectiveness in providing immediate relief and fostering a broad-based recovery has been a subject of debate ¹⁴. Some analyses suggest that the government's initial response was somewhat hesitant on demand-side interventions, fearing a rise in the fiscal deficit ¹. The focus on liquidity infusion rather than substantial direct cash transfers limited the immediate impact on consumption for the most vulnerable ¹⁴.

4.2. Monetary Policy Easing and Liquidity Management:

The Reserve Bank of India (RBI) played a crucial role in responding to the economic crisis by implementing a series of monetary policy measures aimed at easing financial conditions and ensuring adequate liquidity in the financial system ²². Key actions included significant reductions in the policy repo rate, totaling 115 basis points in a short span during March-May 2020 ⁴⁷. The RBI also reduced the cash reserve ratio (CRR) for banks and conducted long-term repo operations (LTROs) and open market operations (OMOs) to inject liquidity into the banking system ⁴⁹. Recognizing the unprecedented uncertainty, the RBI provided both state-based and time-based forward guidance, committing to an accommodative stance as long as necessary to revive and sustain growth while ensuring inflation remained within the target ⁴⁷. These measures aimed to lower borrowing costs, enhance credit availability for businesses and individuals, and stabilize financial markets amidst the pandemic-induced turmoil ⁴⁷. Overall, liquidity enhancing measures worth US\$ 227 billion (8.7 percent of GDP) were announced ⁴⁷. However, as the economy began to recover and inflationary pressures started to build, the RBI gradually shifted its stance from accommodative to withdrawal of accommodation, beginning with an off-cycle meeting in May 2022 where the policy rate was raised ⁴⁷. This proactive approach to managing liquidity and eventually prioritizing inflation over growth demonstrated the central bank's adaptive response to the evolving economic landscape ⁴⁷.

ANALYZING THE POST-COVID-19 ECONOMIC RECOVERY

5.1. Trends in GDP Growth and Sectoral Performance:

Following the severe initial shock of the COVID-19 pandemic, the Indian economy has exhibited a recovery, although its pace and characteristics have varied across different phases and sectors. After the significant contraction in the first quarter of FY2020-21, GDP growth began to rebound, with India recording a strong expansion of 9.5 percent in FY21-22 ³¹. This recovery outperformed most other major economies during the same period ³¹. However, the average annual GDP growth rate since the onset of the pandemic has been around 4.43%,

which is still below the pre-pandemic figure of approximately 7%, suggesting an incomplete recovery ³⁰. Sectoral performance during this recovery phase has been particularly noteworthy. The agriculture sector demonstrated remarkable resilience, even registering positive growth of 3.4% in the first quarter of FY2020-21 ⁵⁸. This was aided by a strong monsoon season and the concessions provided for rabi harvest activities ¹⁹. The services sector has also been a key driver of growth, expanding by 7.2% and contributing significantly to India's GDP and employment, especially for the urban middle-income population ¹⁹. Notably, services exports surged by 21.3% between April and October 2024, indicating a strong global demand for Indian services ¹⁹. In contrast, the manufacturing sector has faced more challenges in its recovery. While exports of high-value-added components like electronics and pharmaceuticals have shown strength, overall manufacturing growth has been modest and, at times, slower than other sectors ¹⁹. Factors such as monsoon-driven disruptions and potentially higher dumping from neighboring countries have been cited as reasons for temporary slowdowns in the secondary sector ¹⁹. The construction sector also experienced a slowdown, growing at its lowest rate since the last quarter of fiscal 2021 to 2022 ¹⁹.

5.2. Uneven Recovery: Rural vs. Urban Perspectives:

The economic recovery in India following the COVID-19 pandemic has not been uniform across rural and urban areas, exhibiting a degree of divergence in both pace and nature. Rural consumption has played a significant role in sustaining overall demand, largely supported by the strong performance of the agriculture sector ¹⁹. Agricultural growth hit a five-quarter high of 3.5%, aided by a strong monsoon season, and indicators like rising sales of fast-moving consumer goods and declining demand for jobs under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) confirm the strength in rural demand ¹⁹. With healthy harvests expected, rural consumption is projected to remain robust, further boosted by festive season spending ¹⁹. In contrast, while urban consumption initially led the recovery with the reopening of the economy, there has been a noticeable divergence in the economic revival between the two segments ³². The urban consumption index climbed above pre-COVID levels earlier, while rural consumption showed signs of tapering and remained below pre-pandemic levels for some time ³². This suggests that the recovery's breadth has been uneven, with the rural economy losing some steam after the second wave of the pandemic ³². Regarding employment and income recovery, shifts towards more informal and lower-paid work in agriculture and rural areas were observed ²⁴. Higher education and location in dense, urban areas partially mediated the adverse shocks, indicating some disparities in the labor market recovery between rural and urban regions ²⁴.

5.3. Developments in Employment and the Labor Market:

The Indian labor market experienced a dramatic shock during the COVID-19 pandemic, with unemployment peaking at an unprecedented 24.3 percent in April 2020 ²⁴. Following the relaxation of lockdowns, headline labor market indicators recovered relatively quickly, with unemployment falling to 7.3 percent by July 2020 ²⁴. However, the second wave of the pandemic in May 2021 caused another spike in unemployment to 11.4 percent, which then subsided to around 7 percent between July and December 2021 ²⁴. While the headline unemployment figures suggest a recovery to pre-pandemic levels (around 7-8%), a closer examination reveals concerns about the quality of employment created during this period ²⁴. There has been a notable trend of downward transitions in the labor market, with workers moving out of the labor force or into more informal and lower-paid types of work, particularly in agriculture and rural areas ²⁴. The COVID-19 pandemic has induced further shifts into insecure forms of employment, with a higher likelihood of workers moving from casual-wage and salaried work to self-employment or casual wage work ²⁴. Even among salaried workers, there was a shift towards lower-paying jobs ²⁴. Moreover, historically disadvantaged groups, including women, youth, and marginalized castes, experienced relatively more adverse effects due to the vulnerable nature of their pre-pandemic occupations ²⁴. Urban unemployment has improved gradually since the pandemic, especially for female workers, falling to 8.5 percent in early FY24/25. However, unemployment among urban youth remained elevated at 17 percent ²⁵. The recovery in salaried jobs has been comparatively slower, particularly in rural areas and for those with elementary education ⁴².

5.4. Evolution of Foreign Trade and Investment:

India's foreign trade has shown a significant rebound in the post-COVID-19 period, with overall exports reaching \$778.2 billion for the fiscal year 2024²¹. Services exports have been a major contributor to this recovery, surging by 21.3% between April and October 2024, reaching a total of US\$216 billion compared to US\$192 billion in the same period in 2023¹⁹. Merchandise exports have also seen growth, particularly in high-value manufacturing components such as electronics, engineering goods, and chemicals, which now comprise 31% of total merchandise exports¹⁹. India has been actively pursuing diversification of its export destinations, with countries like Bangladesh, Indonesia, and the Netherlands growing in importance alongside traditional markets like the United States and the UAE³³. The government's focus on "self-reliance" through initiatives like the "Make in India" and Production-Linked Incentive (PLI) schemes aims to further boost domestic manufacturing and exports³¹. Foreign direct investment (FDI) inflows have generally remained strong, with the U.S. being the largest single source of FDI in India for the second consecutive year, reaching a stock of \$103 billion during IFY22-23²¹. India has also been actively engaging in free trade agreements (FTAs) with countries like the UAE and Australia, and is currently negotiating FTAs with the UK, Canada, and the European Union, signaling a proactive strategy towards enhancing its global trade relationships in the post-pandemic era³³.

LONG-TERM ECONOMIC IMPLICATIONS AND EMERGING CHALLENGES**6.1. Impact on India's Potential Growth Trajectory:**

The COVID-19 pandemic has likely had some lasting effects on India's long-term economic growth potential. Disruptions in education and training due to school closures and reduced on-the-job training may have held back improvements in human capital, adversely impacting future labor markets and productivity⁴. While the recovery has been broad-based, some gaps remain in contact-intensive services and micro, small, and medium enterprises (MSMEs) that were particularly hard-hit²⁷. Private sector investment, a major driver of economic growth, had already been declining in the pre-COVID-19 period, and the pandemic may have further exacerbated this trend⁴. To enhance long-term growth prospects, continued focus on structural reforms is essential⁵. These reforms should aim to improve the ease of doing business, enhance logistics and infrastructure, and simplify land and labor laws⁵. India aspires to reach high middle-income status by 2047, but achieving this goal will require sustained high growth rates and addressing fundamental structural challenges²⁶. The government's focus on boosting manufacturing through initiatives like "Make in India" and PLI schemes is crucial for long-term growth and job creation, although the manufacturing sector's contribution to GDP has seen a decline in recent years²¹.

6.2. Changes in Poverty and Inequality Levels:

The COVID-19 pandemic is estimated to have temporarily increased poverty and inequality in India²⁸. Lockdowns and social distancing measures led to widespread job losses and income reductions, particularly affecting low-income families and those in the informal sector⁵. Some estimates suggest that the pandemic pushed over 120 million people into poverty⁵. While India has made significant progress in reducing poverty in recent decades, the economic downturn associated with the pandemic likely reversed some of these gains in the short term²⁶. However, government interventions, particularly the expansion of food transfers through the Public Distribution System and cash transfers to vulnerable groups, played a crucial role in mitigating the impact on poverty²⁸. By the end of 2021, both poverty and inequality are estimated to have returned to their pre-pandemic levels, suggesting that the increase was temporary²⁸. Nevertheless, the pandemic highlighted the vulnerabilities of certain segments of the population, particularly low-skill workers and those in the informal sector with no formal employment protection, who were more negatively impacted²⁸. The non-universalization of the public distribution system and the limited financial package posed challenges to people facing starvation¹⁰.

6.3. The Need for Structural Reforms to Sustain Growth:

Sustaining high economic growth in India over the long term necessitates addressing fundamental structural issues that have hindered its progress even before the pandemic²¹. Key areas requiring reform include land acquisition processes, which often face regulatory complexities and delays, hindering industrial development and

infrastructure projects ⁵. Labor laws also need to be overhauled to provide greater flexibility and encourage the creation of formal sector jobs, as the current laws are perceived by some to favor unions and impede large-scale manufacturing ⁵. The regulatory environment needs to be simplified and made more consistent to attract foreign investment and foster a competitive business climate ³⁶. Significant investments in infrastructure development, including ports, roads, railways, and digital connectivity, are crucial for improving logistics and reducing trade costs ⁵. Furthermore, investing in education and skill development is essential to enhance the quality of the workforce and meet the demands of a rapidly evolving economy ⁵. While the government has undertaken some reforms, political hesitation and implementation challenges persist, underscoring the need for a concerted and sustained effort to address these long-standing structural bottlenecks ⁵.

CONCLUSION

7.1. Summary of Key Findings:

The COVID-19 pandemic delivered a significant shock to the Indian economy, exacerbating pre-existing vulnerabilities and causing a sharp contraction in GDP and a surge in unemployment. The government and the Reserve Bank of India responded with a range of fiscal and monetary policy measures to mitigate the impact and support recovery. The post-pandemic economic recovery has been uneven, with agriculture and services showing more robust growth compared to manufacturing in certain periods. Rural consumption played a crucial role in sustaining demand, although the recovery's breadth differed between rural and urban areas. While headline unemployment rates have largely recovered, concerns remain about the quality of jobs and the persistent challenges of youth and female unemployment. India's foreign trade has rebounded, with a focus on diversifying exports and leveraging global supply chain realignments, and FDI inflows have remained generally strong. However, the pandemic has highlighted the potential for lasting negative impacts on long-term growth, particularly through disruptions in human capital development. Poverty and inequality likely saw a temporary increase, but government interventions helped to mitigate the worst effects.

7.2. Policy Recommendations:

To strengthen the Indian economy and foster sustainable and inclusive growth in the post-COVID-19 era, the following policy recommendations are suggested:

1. **Sustained Focus on Structural Reforms:** The government should prioritize and accelerate the implementation of long-pending structural reforms in areas such as land acquisition, labor laws, and the regulatory environment to enhance the ease of doing business and attract investment ⁵.
2. **Investment in Human Capital:** Increased investment in education and skill development programs is crucial to improve the quality of the workforce, enhance productivity, and address the challenges of youth unemployment and low female labor force participation ⁵.
3. **Strengthening the Manufacturing Sector:** Targeted policies and incentives, beyond the PLI schemes, are needed to boost the manufacturing sector, enhance its competitiveness, and create more high-quality jobs. Addressing infrastructure gaps and technological adoption in SMEs is also essential ¹⁹.
4. **Promoting Inclusive Growth:** While poverty levels have largely returned to pre-pandemic levels, continued efforts are needed to strengthen social safety nets and ensure inclusive growth that benefits all segments of the population, particularly the most vulnerable ⁵.
5. **Fiscal Prudence and Targeted Spending:** While fiscal stimulus was necessary, the government should now focus on fiscal consolidation while ensuring that public expenditure is strategically directed towards investments in infrastructure, healthcare, and education to support long-term growth ¹⁹.
6. **Enhancing Trade Competitiveness:** India should continue to pursue free trade agreements and work towards reducing trade barriers to enhance its global trade competitiveness and leverage opportunities in the evolving global supply chains ³³.

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