

COVID-19 and its Impact on Indian and Global Economy

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ABSTRACT

The coronavirus outbreak which turned into a pandemic in a very short time has claimed more than 2 Lakh deaths worldwide and several lakhs of people are infected. This is first and foremost a human tragedy which is affecting the whole human race in all the possible forms. In this paper we are trying to understand the economic impacts of COVID-19 and its aftermath. How global economy is getting affected in this troubled time. Will the world go into another recession like 2008 crisis? Which kind of recovery graph global economy will see – V shape, U shape or L shape? Further focus will be on challenges ahead for Indian economy. What to do now, how to move on and embrace this new normal.

Also, we would try to understand the possibilities for Indian economy as international market wants to diversify and decrease dependency on China.

1. Introduction

Along with entering into new financial year we have completed a nationwide lockdown of more than a month, which makes us to think that where we are going and till when our economy can survive this unprecedented challenge. In this recent time, we have seen how COVID-19 has scourged whole humanity, lifestyles, businesses, economies and the assumption of common wellbeing. World has already seen something unprecedented which we didn't imagine after achieving the heights of science and technology. Even before the onset of COVID-19, the global economy was already going through a turbulent phase due to disruptions in trade flows and attenuated growth. This situation has worsened now due to

COVID-19 by the demand, supply and liquidity stock inflection. India is trying to make balance between economic impact and COVID-19 adversity through its strict nationwide lockdown. Where on one side it (closing of economy) is helping India in reducing and delaying the COVID-19 fatalities, it is impacting very adversely the GDP of the country which was already at long time low.

2. Impact on the Global Economy

As per the below report from respective countries' National Statistic Office, we can observe the downfall in global GDP growth rate. This report shows that how economic scenarios were already on down slope before this outbreak of COVID-19.

| Real GDP growth rates % | | | | |
|-------------------------|---------|------|------|------|
| Top 10 countries by GDP | | 2017 | 2018 | 2019 |
| 1 | U.S. | 2.4 | 2.9 | 2.3 |
| 2 | China | 6.9 | 6.7 | 6.1 |
| 3 | Japan | 2.2 | 0.3 | 0.7 |
| 4 | Germany | 2.8 | 1.5 | 0.6 |
| 5 | U.K. | 1.9 | 1.3 | 1.4 |
| 6 | France | 2.4 | 1.7 | 1.3 |
| 7 | India | 6.5 | 6.7 | 5.3 |
| 8 | Italy | 1.7 | 0.7 | 0.3 |
| 9 | Brazil | 1.3 | 1.3 | 1.1 |
| 10 | Canada | 3.2 | 2.0 | 1.6 |

Now next chart shows the world GDP growth rate projections post COVID-19. These projections are worrisome for all as we see the World Output goes to negative '-3.0 %'.

| (real GDP, annual percent change) | 2019 | 2020 |
|--|------------|-------------|
| World Output | 2.9 | -3.0 |
| Advanced Economies | 1.7 | -6.1 |
| United States | 2.3 | -5.9 |
| Euro Area | 1.2 | -7.5 |
| Germany | 0.6 | -7.0 |
| France | 1.3 | -7.2 |
| Italy | 0.3 | -9.1 |
| Spain | 2.0 | -8.0 |
| Japan | 0.7 | -5.2 |
| United Kingdom | 1.4 | -6.5 |
| Canada | 1.6 | -6.2 |
| Other Advanced Economies | 1.7 | -4.6 |
| Emerging Markets and Developing Economies | 3.7 | -1.0 |
| Emerging and Developing Asia | 5.5 | 1.0 |
| China | 6.1 | 1.2 |
| India | 4.2 | 1.9 |

Source: International Monetary Fund <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020>

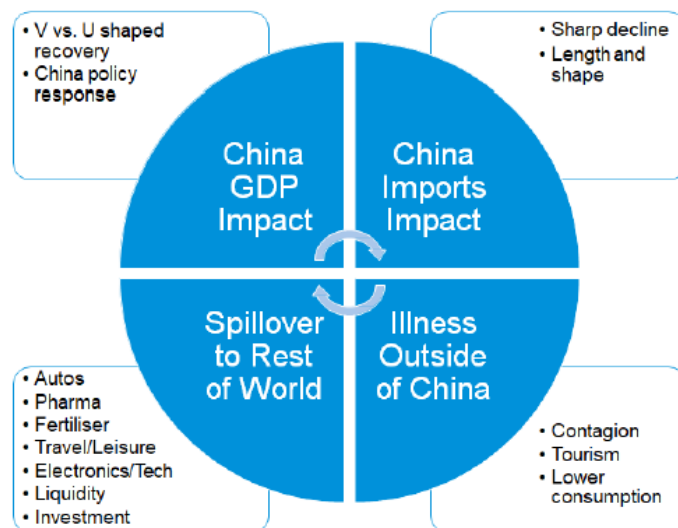
We understand that COVID-19 is the main reason behind this downfall of global economy but why and how it is impacting all the businesses and countries. Following are some of the key reasons on this analysis –

- i) Production is curtailed around the world and firms are not having necessary inputs. This has disrupted the supply of goods and services
- ii) At the same time a severe decline in the demand graph of all kind of products and services
- iii) This complete disruption of demand and supply curve has affected the economic stability of all the countries
- iv) This wave started from China where Purchasing Manager’s Index (PMI) reached below 50 in the month of February.
- v) Earlier which was considered as manufacturing-only recession has now spread sector as well and gripping it tightly
- vi) Elevated debt levels are making the situations more difficult for businesses. Though government is putting

efforts and extending credit terms for households and businesses

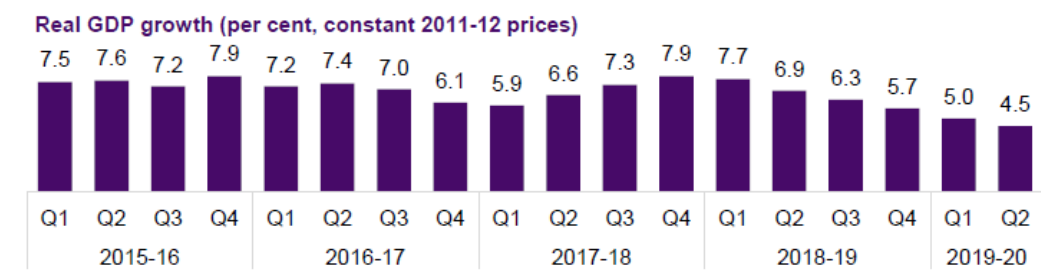
- vii) As we understand that restaurants play proxy of person to person retail activity. Currently restaurants business is 100% close and it will continue for couple of months seeing current situation. This will force many such businesses to shut permanently which will turn out into mass layoffs and unemployment
- viii) Restaurant is just one example. Same will happen will many other businesses as well running on thin margins and then eventually bigger businesses will get affected
- ix) China’s response to COVID-19 and its shape of recovery

Below chart shows that how China’s response to COVID-19 will shape the future of global economy in coming time –



As we know that in today's world, China's contribution to global GDP is 16% which is second largest after USA. Most of the big manufacturing companies are having their production units based out in China which shows the dependency of global manufacturing sector on China's recovery.

All these factors together explain how COVID-19 is affecting world economy and why world needs to take it so seriously to avoid future consequences.



Source: Ministry of statistic and program implementation

Considering the requirement of the situation, Indian government declared lockdown of 21 days and then further extended it up to 3rd May. These measures are quite bold for an economy like India which is vast, growing and dynamic. Many developed nations like USA and Britain have hesitated in taking such measures due to many obvious reasons like economic slowdown and pressure from corporate world.

Now in this situation, Indian industries will face challenges at demand as well as supply end. Though some of the sectors will be able to insulate themselves from global supply disruption due to relatively lower dependence on intermediate imports but their export to other countries will definitely get hit due to decreased demand. To summarize, all three major contributors of the economy— Private consumption, investment and external trade, will get hit badly and will bring down the economy further.

We can take three scenarios to understand the economic effects of COVID-19 –

Scenario 1: Quick retraction across all the countries across India; possibly by Mid May

As per the current numbers coming from worldwide, this scenario seems difficult to consider but this is the best possibility to consider. China has significantly brought down the infected cases and now working on re-opening of the industry. If same is followed by USA and other countries then we can hope the solid recovery globally and in India in the second half of 2020. In this case, India's growth for 2020-21 can be expected in the range of 5.3 – 5.7 percent.

Scenario 2: Though India is able to control COVID-19 spread but there is global recession across the world

In this scenario as well, India will be impacted due to the global recession as India is a global economy and our trades are dependent on various countries globally. We can expect India's growth rate between 4-4.5 percent (lower than scenario 1)

3. Impact on the Indian Economy

Indian economy is already going through its troubled phase since last couple of years. India's real GDP declared to lowest in over six years in third quarter of 2019-20.

Scenario 3: India is not capable to control COVID-19 and lockdown extends indefinitely; Global recession

This will affect our economy from both the side – globally and domestically as demand will go down completely due to lockdowns. In this case, India's growth rate may come down to 3 percent.

4. Beyond Covid-19 – Embrace The New Normal

The increasing spread of COVID-19 has brought varying degree of uncertainty across the world. One of the few things which are certain is that world has to go through economic downfall and recession might come in coming days. This recession will not be like previous ones which were business cycle and of known nature. We can not deny that world is moving towards a permanent and structured change in our way of living, work and play.

I have summarized this change in business and work style in five areas which will be applicable to India as well as world –

- 1) More focus on localization: After this pandemic, countries will be focusing on the localization of products specially essentials and of the sectors which are strategically important. This will help in stabilizing the supply chains in such difficult times
- 2) 'Go Digital' will be getting further boost: COVID-19 has started the 'Online' journey of almost all the businesses. Earlier where only IT sector was able to provide work from options, now even manufacturing companies have found out the way to work remotely. Businesses have seen the advantages of this 'Work from Home' concept which is more economic in some senses. In future, the mindset of organizations towards remote working will change and people will be more open to try new things.
- 3) Cash is always King in the Business: This has taught us that why maintaining liquidity is important. Today those companies are most vulnerable who were living on the edge and were over leveraged

- 4) Shifting towards Variable Cost Model: One of the biggest learning is reducing overall business costs. One significant way to accomplish this is to convert fixed costs to variable costs wherever possible. Now businesses will try to understand what they must keep in-house and explore outsourcing the rest
- 5) Building Agility: The ongoing pandemic is compelling countries and businesses to take quick action in the absence of perfect data. Also it is forcing to think and be prepared for such kind of unexpected situations in future. Going forward it will be required that policies

are formulated faster without hurdles and governments are more responsive and inclusive.

5. Conclusion

In totality, this crisis is a story of uncertain ending till now. However, it is clear that COVID-19 has put forward many questions to governments, international committees and businesses. We also need to understand that we need to accept and adapt this new normal. We have to think about future generations and prepare this world for avoiding such situation.

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