Economics of a contagion: Opportunities for India amidst impact of COVID-19

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Abstract

At present, we are living in unprecedented times and definitely as a global health challenge, corona virus is strengthening its grip. It has serious impact on various dimensions such as health, social, economic and of curse political. The present paper concentrates on the impact of corona virus pandemic on the various economic variables and tries to estimate the behavior of economic variables during and post pandemic period. To analyze the facts, data has been collected from various reliable secondary sources. The study explains that estimated movement of economic variables would be helpful in finding out the economic loss due to corona virus. Later in the paper, the way forward for the Indian economy has been discussed. The study concludes that there may be some opportunities for the Indian economy in the corona virus period and in the post corona virus period where Indian economy may get a strong boost in the near future.

Keywords: Covid-19, Economic impact, Recession, Pandemic, Growth, Income.

Introduction

Pandemics are not new to human history. Human race has experienced many pandemics since ages and every time human beings have emerged victorious by overcoming these natural threats. Corona virus (Covid-19) is another pandemic that has become a major challenge for the medical world and is causing many deaths globally and a large number of populations have been infected.

Everybody is worried about the impact of the virus on the globe in different forms. The health impact is very much visible in the form of number of infected persons but the extent of its overall economic effects is still not very clear. It has caused a serious threat of persistent recession in the world economy. The world is in the face of devastating impact due to corona virus pandemic and has clearly entered a recession as stated by International Monetary Fund (IMF).

Flu Pandemics and World Economy: History

To put the situation in perception, some of the pandemics have been explained below, in reverse chronology:

Flu Pandemic (1968)

It started from Hong Kong and then later spread to some other countries like India, Philippines, Europe and United States. It took lives of about one million people in the world and Hong Kong lost about 15 percent of its population in the pandemic.

Asian Flu Pandemic (1957-58)

In February 1965 influenza was detected in China and later spread in the counties like Hong Kong, Singapore, Japan. Up to June 1957, about twenty countries were affected by this virus.[1] It emerged in East Asia and its cause was H2N2 virus. The first case came in Singapore and then spread in other parts of the world. It was a big killer as 1.1 million people died because of this flu.

Flu Pandemic (1918)

This flu infected about one third of population of the world and more than 20 million people died[2] in the world. The flu pandemic of 1918 cost $ 800 billion to the world economy (World Bank).

Flu Pandemic (1889-90)

It is also known as Russian flu and it spread in three different locations, Turkestan, Canada and Greenland. It caused over one million deaths in the world. The high population growth helped in spreading this flu.

The Black Death (1346-1356)

It was outbreak of plague in Europe, Asia and Africa that took lives of about 200 million people. It spread in different continents through rats on the merchant ships. Due to huge loss of lives it is termed as The Black Death in the history of pandemics.

It shows that human race has been confronted by many pandemics and able to control them every time, though after the loss of many lives. Influenza epidemics and pandemics have heavy socioeconomic burden. According to World Health Organization (WHO) seasonal influenza causes 250,000 to 500,000 deaths every year globally, and mortality is very high in pandemic periods.[3]

According to a World Bank report, in a severe case of flu pandemic economic loss could be about 4.8 percent of global GDP, or more than $3 trillion. A moderate case may cause about half of the damage to the world economy than serious flu, and a weak flu pandemic such as H1N1 flu pandemic of 2009 could cause 0.5 percent of world GDP loss.

Objectives

The objectives of the study are:

1. To see the economic impact of corona virus on world economy through economic variables.
2. To observe the behavior of Indian economy due to impact of Corona virus.

3. To look forward opportunities available for India during and after the Corona virus phase.

Methods and Materials

This descriptive study is based on the data and facts collected from various reliable secondary sources such as The Organization of Economic Cooperation and Development (OECD), World Economic Forum, United Nation Conference on Trade and Development (UNCTAD), International Monetary Fund (IMF). The study first analyzes the impact of Covid-19 on world economy and then on the basis of that finds out the future prospects for Indian economy during and post Covid -19 periods. The study also gives a framework that depicts how economic variables behave during the outbreak of pandemic.

Rationale

It is expected that Novel Corona virus (COVID-19) will largely have negative impact on world economy. The OECD has warned that the world economy may grow at its slowest rate since 2009. The stock markets in all the affected countries drastically declined. Many multinational companies are cutting down production because of fall in economic activities all over the world. Success in containing the virus comes at the price of slowing economic activity as per WEF. Therefore, the growth of the economy of many countries in the world will contract. The UNCTAD has warned a slowdown of global growth to under two percent, which is equal to one trillion of the world economy (WEF). According to a poll, there will be fall in the GDP growth of China from three to four percent. The similar negative impact of fall in economic activities is estimated in the other countries where corona virus has become a pandemic.

Central banks of almost all the affected countries are slashing interest rates. This will give a temporary boost to the market but that will remain volatile unless the growth curve of the infected cases flattens. Moreover, the sentiments are not so positive and The Marginal Efficiency of Capital (MEC) is very less so the effect of cutting interest rate on investment may not be so effectual. Considering the coming recession in the US market, the US Government passed $ 2 trillion corona virus aid bill to boost the business.

The number of Americans surged to a record high for filling unemployment claims. The total number of unemployed cases increased to 3.3 million in March 2020.(Department of labor data US) .According to international labor organization, the global unemployment could be increased by 25 million due to COVID -19. Moreover, according to UNCTAD there would be decline of $2-$3 trillion investment for the commodity rich exporting countries in next two years. It is expected that the low rate of employment will lead to fall in worker's income up to $ 3.4 trillion by the end of 2020. This will be reflected in the fall in the consumption level and that will further aggravate the situation of recession. All the sectors are affected adversely due to spread of Covid-19 as depicted below.

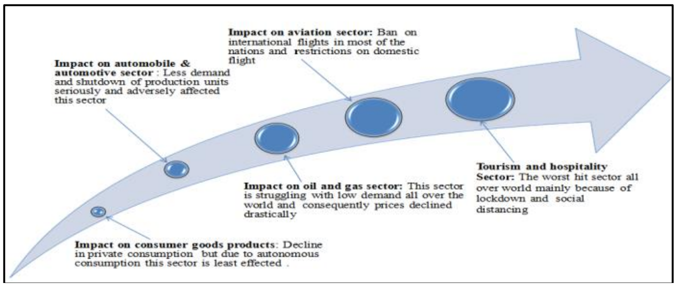

Fig. 1: Sector wise impact of covid-19 globally.

The travel and tourism industry is also hit badly as flights around the world are either banned or the people are cutting down their personal or business travel. Therefore, there will be huge reduction in the revenue of the organizations working in travel and aviation industry. Tourism industry currently accounts for 10 percentage world GDP and it is expected that Covid-19 may cut down 50 million jobs in the tour and travel industry in the world (WEF).The loss of revenue and jobs may even be more in the near future.

The automobile industry also affected to a great extent due to spread of pandemic. The global automotive industry imports worth $ 34 billion parts from China as they are facing problems because of lack of supply. Moreover, China is also a huge market for automobile demand and demand for cars dropped by 80 percent in China (Forbes) and thus companies outside china are suffering on both demand and supply side.

Results

According to an article published in The Economic Times April 2, 2020, United Nations Trade Body predicted recession in the world economy with India and China as exceptions. The body did not explain why these two countries likely to be exception of global recession. Let us explain the same and also make an effort to see the opportunities for the Indian economy during and after corona virus period.

The Indian Government is providing financial boost to the economy time to time to minimize the corona impact. To keep demand intact the Indian finance minister announced 1.70 lakh crore packages for the poor that includes food security and direct transfer of funds this will shield the poor in the situation of lockdown. The minimum balance requirement has been relaxed from the saving bank accounts and EMIs has been postponed for three months, will lead to more money in the hands of people. The minimum wages have been increased in MANREGA and will benefit 136.2 million families. Overall Rs. 20 Lakh crore has been pumped up in the economy in terms of incentives. The all these efforts support the aggregate demand and prevent the economy from going in recession.

To benefit the small business units Government will contribute in the employee provident fund from the side of employee and employer for three months. Government reduced compliance burden on companies and extended some deadlines for them. That will really give the business sector a sigh of relief in the tough environment. To retain employees, it is important for the business that they should get their payments on time. Government is planning to do that with Trade Receivables electronic Discounting System (TReDS). In this system the business will get their due payments with the help of banks on some discounts.

All the above mentioned measures will keep the money in the hands of the people and they will spend as per their need preventing Indian economy from recession.

It is expected that many foreign investors may shift investments in India to diversify their operations. There are chances that India will get more FDI in the near future. That will give a robust growth to make in India campaign. Indian present government also has strong political will for the same. Huge population base, rural demand and availability of skilled and cheap labor and inflow of huge FDI will give impetus to the economy. India can also increase export of essential goods to some other countries as a close substitute of China.

All the efforts and nature of the economy reveals that in India, there are very less chances of persistent drop in economic activities because of huge population and high marginal propensity to consume. The present downturn in the market is only based on negative sentiments due to corona virus and global slump. The markets in India will bounce back sharply while in some other countries it may take longer period and the recovery phase may be much elongated.

Discussion

The various sectors of the world economy and the overall growth are facing a setback due to adverse movement of economic variables. With the help of a three sector circular flow of income[4], let us see, how the Covid-19 pandemic is suppressing economic activities.

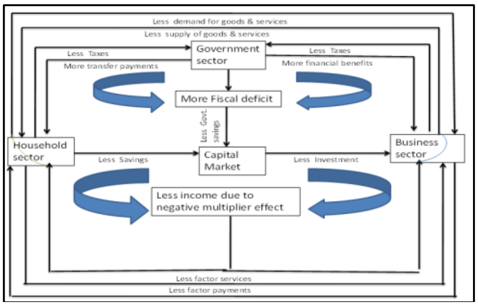

Fig. 2: Variation in the economic variables due to Covid-19.

The business sector is facing sluggish market forces. On one side they are confronting with less demand and on the other side they are tackling with obstacles in availability of raw material and other resources and production drops. Therefore, demand for factor services is also less and that results unemployment in the economy. At this situation both household sector and business sector earnings get worse. In this case both the sectors able to pay less tax to the government. On the other hand, government transfer payments to household sector and financial relief to business sector surge due to abnormal economic conditions. Low income and high Government expenditure leads to greater fiscal deficit and that have further adverse economic consequences. In capital market, the inflow of money adversely affected in terms of less Government and household savings. A smaller amount of savings causes less investment and due to negative investment multiplier effect, level of income shrinks in the economy. Low income will negatively affect the demand for goods and services from the side of household sector and less investment and output from the side of business sector. Thus the economic activities further contracts unless the situation becomes normal in the economy.

Conclusion

Pandemics are not new in the history of human beings. There have been many pandemics before Covid-19 and they have serious implications on the physical and economic health of the people. Many people are getting affected by corona virus all over the world. As it is a communicable disease people prefer to stay at home and following social distance. Many production units have stopped their operations due to lockdown and employees are not going to their office and many of them have lost their jobs. It is expected that lack of demand and overall decelerate will convert in the global recession. The largely affected countries will face a tough time and recovery phase for them will be delayed and will take a long time. On the other hand the two highly populated countries, China and India may come back with bang after recovering from Covid-19 because of huge demand base. In India, marginal propensity to consume is high and that can save us from the expected future recession but it is important for us to make our full effort to fight with Covid-19 and restrict it from spreading on mass scale.

Source of Funding

None.

Conflicts of Interest

None.

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