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Emerging Issues After Covid-19 on Indian Economy and World

Dr. Shital A Agrawal*

Dr. Rita H Parekh**

**Assistant Professor, Shri & Smt.P.K.Kotawala arts college,Patan.*

***Associate Professor, Shri & Smt.P.K.Kotawala arts college,Patan*

Abstract:

Post its outbreak in Wuhan, China, Covid-19 has impacted many countries across the world and has affected day to day life and economies. In China and Asia, near-term business activity and consumption will likely be significantly impacted as people curtail their movements as a preventive measure. This could result in a materially negative growth print. Consumption is a meaningfully more important contributor to the economy than it was in 2003 at the time of the SARS episode, and now accounts for over 70% of China's gross domestic product (GDP) growth (versus less than 40% in 2003). This leads us to believe the drag on the economy may be more severe in magnitude than what we saw in 2003. However, a recovery may not be as speedy, as China's economy is now not only much larger in size but also growing at a more modest rate than the double-digit rate experienced 14 years ago.

Sectors such as travel, leisure, retail and select sub-segments of discretionary consumption will likely be directly impacted in the near term. As China has become an integral part of the global supply chain, any further extension of factory closures would raise risks related to temporary supply chain disruptions for multinational companies.

As we believe China's economic growth will likely be affected for at least one or two quarters, the government may respond to a slowdown in the economy through stimulus measures such as interest rate cuts, or measures to encourage infrastructure spending and/or boost consumption. In early February, Chinese authorities announced the use of various monetary policy tools to ensure liquidity remains reasonably ample during the special period of virus control. In the very near term though, the government's efforts will likely remain focused on containing the spread of the virus.

However, long-term growth outlook for China and emerging Asian economies remains unchanged. The mass adoption of technology, rising consumption and premiumization (rising consumer demand for premium goods), manufacturing upgrades and government reforms should help the country emerge from this challenging period stronger and more self-reliant, with multiple pillars of economic support.

Keywords: Covid-19, IMF, Economies, Emerging nations, Developed nations

Introduction

Thus far the coronavirus pandemic has hit some of the world's richest economies particularly hard. The United States, Italy, Spain, France and the United Kingdom were the five countries experiencing the highest known death tolls from COVID-19 as of mid-April 2020. But this does not mean that emerging markets and developing economies have been spared. The worldwide coronavirus pandemic is likely to hit these economies harder than economies in richer countries. Not only are their public health systems under-resourced to deal with the outbreak, making the containment and treatment of the disease more difficult, but their economies are already being battered by the way in which the pandemic is impacting global demand and financial markets. The economic and financial vulnerabilities of these countries at the beginning of this year, as well as the way the economic effects of this pandemic are unfolding, suggest that many less-developed countries are facing a very rough road ahead.

COVID-19 have paradigm shifts many aspects:

- **Bigger companies become even bigger:** As smaller companies have limited resources are most vulnerable would not able to withstand the crisis for long would exit from the market would create more space to capture for giants. The large digital platforms, including Alphabet and Facebook, will come out of the crisis even stronger.
- **State may become more powerful and interventionist:** Covid-19 poses a problem where states must act decisively and gain control on freedom even in largest of democracies and have greater access on free markets. History suggests that after crises the state does not give up all the ground it has taken. Today that has implications not just for the economy, but also for the surveillance of individuals. State would become powerful, interventionist, likely to exploit its unique power to monitor people using their data.
- **Trend of nationalism**: We states becoming from protectionists COVID-19 have fueled it. Countries would become more and more nationalist and few evidences are already visible where India openly encouraging to use domestic products, USA posing stricter norms for immigration to protect domestic job markets, etc.
- **Industries like Aviation and Travel may lose capacity permanently**: With lockdowns and travel bans aviation and travel industry have suffered the most with notable bankruptcies already like Flybee, Virgin Atlantic, Lufthansa getting state support and list is endless. Perhaps the greatest uncertainty concerns shifting

attitudes to business and leisure travel. If corporations detect that they can operate with fewer executives flitting round the globe, and holidaymakers get a taste for "staycations" or trains, compounded by "flight shame" over aeroplanes' carbon emissions, the industry may struggle to keep doubling passenger volumes every 15 years, as it has done for the past three decades and in fact loose pre-covid passenger volumes for prolong period of time.

As health crisis developing into an economic crisis and transitioning into a sovereign crisis. COVID -19 is posing a significant burden on government finances, especially Emerging market countries (India included) would have long term consequences given increased cost of funds and currency devaluations

- Lebanon has just defaulted for the first time ever. In the 1950s, it seemed the brightest economic star in Asia, but was then devastated by a civil war that still continues in a sort of equilibrium. Despite that, Lebanon never defaulted on its foreign debt - until now. Covid-19 has finally done what even civil war could not.
- Argentina has defaulted too, on dollar debt subject to adjudication within the country. It has massive debts running into billions of dollars under international judicial jurisdiction, which presumably will suffer default too. Argentina enjoyed a spell of fast growth in the 2000s that enabled it to look so creditworthy that in 2017 it could actually sell 100-year dollar bonds to global buyers. Today, it is comprehensively bust.
- Venezuela cannot pay its debts but is a special case since it has been the target of US sanctions. Ecuador is also on the verge of default. Venezuela and Ecuador are oil exporters, and the collapse of the price of oil from $65 a barrel a few months ago to under $30 a barrel today means their main source of tax revenue and foreign exchange has evaporated.
- The same story is going to be repeated in other oil-exporting countries and can devastate smaller exporters in Africa. Mexico, a major oil exporting countries.
- Just a few years ago, BRICS (Brazil, Russia, India, China and South Africa) were touted as the next major global powers. They even set up a BRICS Bank to finance global projects. Of the five members, three -- Brazil, Russia and South Africa --have seen their currencies sink 20% in recent weeks. They will want to borrow rather than lend through the BRICS Bank.
- **Although there is a high degree of uncertainty regarding specific forecasts, as the full duration and pathway of the novel coronavirus outbreak remains unknown, there is widespread agreement that there will be a worldwide economic slump in 2020.**

The International Monetary Fund predicts the global economy will contract by 3 percent in 2020 in its April 2020 World Economic Outlook. This outlook is in agreement with forecasts by, among others, S & P Global and 'Moody Analytics.

- **Emerging market and developing economies entered 2020 with vulnerabilities.** The group of countries that the IMF classifies as emerging market and developing economies is diverse, including low-income nations in Africa, Asia and Latin America, but also countries that are highly dependent on one export product such as oil-producing Saudi Arabia, and countries such as India, China and Russia. Though not all characteristics apply to all of the countries in this category, many share features that place them in a vulnerable situation to face the pandemic. Advanced economies in Europe and the United States have struggled to find sufficient ventilators and medical equipment in regions where their medical systems have become overwhelmed by the pandemic. Developing nations are confronting the outbreak with health systems that have fewer resources: Sierra Leone, for instance, has 13 ventilators for the whole country. Developing and emerging market countries similarly have far fewer macroeconomic tools than advanced economies to cushion the blows from the outbreak and the social isolation measures taken to counter it. They have less money to spend on fiscal packages to support workers and companies through the pandemic, they have weaker social safety nets, much larger informal sectors— with workers lacking access to any government support and depending on tasks that often require personal interaction to make a living — and it is more difficult for their governments to borrow money as their borrowing costs soar. Central banks are unable to finance government spending by printing money, or engage in expansionary monetary policy, without stoking fear of a return to previous episode of inflation and further weakening their currencies relative to the U.S. dollar.
- **Income from international trade and remittances will be adversely affected by the coronavirus crisis.** Developing countries are typically more dependent upon fewer sectors than advanced economies, and often these include reliance on commodities, tourism, agriculture and some manufacturing. These economies also tend to have a higher proportion of imports and exports than most advanced economies. The steep decline in economic activity in advanced economies will cut into the demand for exports from developing countries, depressing incomes in these

countries. Countries that export commodities will also be hurt by falling prices due to the worldwide recession. The global prices of some agricultural commodities have fallen by more than 15 percent between the beginning of 2020 and early April: these include cotton (an important export of China, India, Pakistan and Vietnam), cocoa (Ghana and Ecuador), and palm oil (Indonesia and Malaysia), according to the IMF report. Copper (an important export of Chile, Peru, Indonesia and Brazil) and oil (an important export of Mexico, Colombia, Nigeria, Russia and Saudi Arabia) have fallen by 15 percent and 66 percent, respectively during the same period (the oil price decline has also been driven by rising supply from Saudi Arabia and Russia). The shutdown of the global economy also truncates revenues from tourism and remittances. Toruism accounts for about one-seventh of GDP for Cambodia, one-tenth of GDP in both Thailand and Jamaica, about 3 percent for South Africa and about 2 percent for Mexico. A diaspora of workers in developed countries sending home part of their paychecks have now lost their jobs. Remittance account for about one-third of GDP for Haiti, one-fifth of GDP for El Salvador, and one-tenth of GDP in Egypt, Ukraine, and the Philippines.

- **The ability to borrow from advanced economies has been adversely affected as a result of the crisis.** Emerging markets and developing economies borrow from other countries through capital inflows. This borrowing provides resources for governments and companies to enable them to build capacity and meet current needs. Emerging markets and developing economies are not entering this crisis from a position of strength: they already had an excessive build-up of public and private debts. Emerging Market debt reached 220 percent of those countries GDP in 2019; by comparison, this figure was 147 percent in 2007 before the Great Recession. International investors have responded to the coronavirus crisis by pulling capital out of these countries in order to buy safe-haven assets. March 2020 has seen the largest non-resident capital outflows on record for emerging market and developing economies, which have pushed up borrowing costs and made debt servicing even more difficult, according to the Institute of international Finance.

Opportunities may also poise themselves up in certain areas like

- Expand manifolds in crypto currency, Fintech, Artificial Intelligence and Machine Learning (AIML), Blockchain technology, to mention a few.

- Countries will seek for faster, cleaner, safer transportation.
- Countries may opt for safe and secure trade than "free" trade.

Conclusion:

More than 90 Percent have petitioned the IMF for assistance in the past few weeks, and the IMF estimates that emerging markets and developing economies will face a shortfall of at least $2.5 trillion this year - the IMF can lend up to $1 trillion. Even if advanced economies successfully transition back towards a more normal situation by the end of the summer, it is most likely that developing countries will still be facing the challenges outlined here. And beyond the economic and humanitarian crisis for people in those countries, the fact that emerging markets and developing economies account for around 60 Percent of the global economy means that weakness there will contribute to weakness among advanced economies as well. This dire prediction calls for responses. A recent set of proposals from the Peterson Institute for International Economics sets out a range of ways the international community could help developing countries including direct support for COVID-19 responses, bans on medical equipment and food export restrictions, a stronger international financial safety net, and a voluntary standstill on foreign debt repayments.

To sum up, the COVID-19 pandemic has the potential to be the largest macroeconomic shock faced by developed and developing economies over the past 100 years. Moreover, it is going to hit certain sectors of the population which are subject to lockdown particularly hard. Many developed economies will be able to mitigate its impact by redistributing resources from safe workers to the hardest hit.

Overall, the situation remains fluid and developing we would have to see how deep the damage and how long it takes to "New Normal" but one thing is clear that we would have to leave with COVID-19 for some time now.

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