



## **Economic Implications of COVID -19**

**SPEAKER:** Dr. Amita Batra, Professor of Economics in the Centre for South Asian Studies, School of International Studies, JNU

**CHAIR:** Ravi Bhoothalingam, Treasurer & Honorary Fellow, ICS

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**VENUE:** Zoom Webinar

The focus of the seminar was to analyze the wide-ranging economic implications of the COVID-19 global pandemic. The speaker started the presentation by comparing the global economic prospects that were forecasted at the beginning of the year, which were generally positive, and the current scenario which is much bleaker as the markets are expected to enter into recession. The current pandemic differs from past outbreaks as the ten hardest hit nations are also the ten largest economies of the world. So, most of the nations form an integral part of the global value chain and the outbreak could lead to a supply chain contagion around the globe.

The speaker lists out specific sectors that are potentially going to be hardest hit by the disruption in global supply chain. Since China is a global hub for manufacturing and for some of the biggest companies in the electronics and the automobile sector, there could be a fall in supply of electronic components and auto parts. Moreover, east Asian nations, such as Japan, Korea and China, account for a major amount of imports of electrical components and due to the slowdown in these economies there could be a fall in demand. This combined effect of decline in both demand and supply could lead to a collapse in the manufacturing sector not only in nations affected by the outbreak but nations worldwide. Oil producing countries are also plagued due to widespread travel bans and decline in tourism which could negatively influence the oil prices. Further, there is a negative trend amongst investors globally leading to collapse in the financial markets globally. Although the manufacturing sector may recover after the

lockdown is lifted, with support from governments and international financial institutions, the service sector, mainly those which require public to gather in places such as restaurants, cinema halls and public events like major sports and concerts, may find it harder to bounce back. This is due to insecurities and to maintain the trend of social distancing to further avoid chances of the outbreak bouncing back.

The speaker then emphasized the importance of policy response from the government which has largely been in terms to lockdown and shutdown of businesses. According to her, this has led to a loss in supply of manufactured consumer goods since a decline in income imply that household demand for consumer goods may also decline. She suggests that fiscal and monetary policy responses from the governments should be balanced and well-structured. Large number of MSMEs and startups could face bankruptcy and would find it difficult to meet their running expenses, therefore they require liquidity injection from the financial markets to keep themselves afloat. Moreover, the most vulnerable to the fallout from the outbreak are mainly daily wage workers and casual labor force who might face unemployment due to the outbreak. Therefore, it is imperative for governments to formulate stimulus packages to give assurances to the public, also to keep the economy in a running position so as to make it easier to get the economy back in shape when the lockdown is lifted. Prof. Batra then briefly mentioned some of the stimulus packages and relief commitments made by various countries to dampen the impact of the outbreak.

Talking about the impact of the outbreak in India, the speaker points out the weak position of the Indian economy prior to outbreak due to demonetization and the implementation of GST nationwide. She also talks about how there could be an inflationary gap in the markets as there will be decrease in supply of goods but the demand might not fall as much due to the relief packages by the government. Although inflation is not necessarily troublesome for the economy, it might spiral out of control if left unchecked and hence, needs to be avoided. Migrant labor force will have to bear the brunt of the fallout due to lack of savings as a steady source of income could have kept them afloat during the lockdown. She emphasizes the need of a balanced relief package from the government to protect this class from the fallout. Moreover, she points out that enterprises should be provided relief in the form of liquidity and loan waiver, and the labor class, especially the casual workforce should be provided with necessities such as food rations and running of shelters and community kitchens.

During the post-presentation discussions, questions were raised whether there could be a trend amongst enterprises to turn back to their home countries for manufacturing or to move their

operations to nations other than China, also whether this could potentially help India be a part of the global supply chain. According to the speaker, this is unlikely since India itself would be dealing with the adverse effects of the outbreak, further there is a lack of competitiveness in the Indian manufacturing sector which makes it a less lucrative option for the same. Moreover, it would be unlikely that companies will move out of China at an increasing rate as it still maintained its level of competitiveness in the global markets. Production has already begun in China since lockdown was lifted and most of the industries had quickly adjusted their workspace according to the social distancing trends. Also, concerns were raised on the possible scale of bankruptcies among startups and MSMEs, and how the stimulus package should be structured to combat the same.

*Report prepared by Akshit Goel, Research Intern at Institute of Chinese Studies, Delhi.*

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This report is the summary produced for the purposes of providing an overall view of the presentation and subsequent discussion of the subject. All views expressed here should be understood to be those of speakers(s) and individual participants, and not necessarily of the Institute of Chinese Studies.