New Normal Post-Covid 19: Economic Outlook

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The pandemic of COVID 19 has not only taken lives but also shrunk the size of the global economy. The coronavirus that originated from China is affecting more than 180 countries in just 2 months and has affected all the domains including society, politics, environment, pharma, media, economics and many more.

The pandemic has delayed the dream of making India a $5 trillion economy. It is estimated that not only for developing countries but for all the countries, there is a sharp decline in global trade and gross domestic product (GDP). In the first half of 2020, world GDP has shrunk by around 2.4 % to 3%. The international monetary fund has estimated a loss of $9 trillion between 2020 and 2021. The pandemic and the lockdown, instituted to fight the spread of the virus, have affected demand and supply adversely.

Lockdown of more than 100 days has brought with it life-changing and disrupting experiences. Many people have faced situations like – reduction in income, loss of jobs, sudden increase in expenditure on health and hygiene, non-availability of modes of transportation, need for maintaining physical distancing, non-availability of entertainment avenues etc. All this has resulted in the contraction of demand on the one hand. On the other hand, industries and manufacturing sectors are suffering from issues like – non-availability of raw materials, standstill in transportation of cargo and shipments, lack of liquidity and inadequacy of working capital, non-availability of labourers etc. This has resulted in supply-side contraction and hence has reduced the size of the market. This paper attempts to present the observations about the new normal economics post- COVID 19.

Introduction

It is observed that when any disease, resulting from virus infections, turns into a pandemic due to its geographical spread, it has a significant impact on people's life due to economic, social and political disruptions. The Pandemic of COVID 19 has increased mortality and morbidity, which in turn, has pressurised the financial and physical capacities of every nation across the globe. The spread of the pandemic was so rapid that it impacted 188 countries in just 2 months. This is because of ever-increasing global trade and travel.

In the late 20th century, globalisation increased interdependence of countries in the world. Global travel and integration, rapid growth in urbanisation, change in lifestyle and greater exploitation of the natural environment have been common features of economic development globally. International travel exacerbated the virus spread across the countries and hence it became a pandemic.

The virus was first detected in China in December 2019. Soon the world realised that the COVID 19 pandemic is affecting living conditions drastically. On 1st of July 2020 there were 5,14,021 deaths, 105,91,079 infected cases out of which 57,98,973 recovered worldwide. People are worried about the future and are still uncertain on how to deal with life, affected by COVID 19.

The impact of this pandemic is felt on all spheres of life – social, economic, political, health, etc. It has impacted life across time, region and occupation. This paper intends to look into the economic impact of the pandemic. The direct economic impact is measured by the expenditure in fighting the pandemic at community level as well as individual level. It is estimated that major economies will lose at least 2.4 % to 3% of the value of their gross domestic product (GDP) in 2020 due to COVID 19. Since January 2020, the emergency has evolved into a global public health crisis due to COVID 19 and an economic crisis that has affected $9 trillion of global economy which is beyond anything experienced in nearly a century (The Economic Times, 2020). This money could have been used for other purposes like development or for protecting the environment or for technological advancement to bring in sustainability in development in the normal times. It still cannot account for the loss of deaths, morbidities and families torn apart. This is accounted for as the indirect cost of the pandemic. This is the scale of the opportunity cost incurred from demand and supply shocks faced by the entire world, for the need of improving health care facilities on one hand, and urgency to adopt measures like lockdown in various parts of the globe on the other hand. However, there is no precise estimate of this cost yet.

Magnitudes of COVID impact

The immediate economic effect of the pandemic is the loss of world GDP while fighting the pandemic. However, in the long run, the pandemic is going to affect investment in various ways like – an erosion of human capital through the loss of working days and schooling, and fragmentation of global trade and contractions in supply linkages etc., which is very dangerous, as the exact cost of such factors are difficult to calculate at this juncture.

Further, unprecedented lockdowns across the globe have been adapted by many countries to break the spread of COVID 19 since March 2020. The sealed borders, internally and internationally, leading to effects like – halted trade, standstill aviation, stopped port and cargo movements, ceased shipments etc., have damaged the economy. Consequently, the market has shrunk due to reduction in demand and supply linkages. This would bring in the weakest performance by the group of emerging market economies in at least sixty years. Advanced economies also are projected to shrink at 7%. Such weakening has spilled over to emerging markets and developing economies (The World Bank, 2020).

As per the World Bank's latest assessment, India is expected to grow 1.5 percent to 2.8 percent in 2020. However, IMF projected India's GDP growth at 1.9 percent in 2020 (International Monetary Fund, 2020). To achieve the objective of USD $5 trillion economy, India is expected to grow at 9 percent every year for five years, which looks next to impossible at this juncture. Hence, Indian economic growth will be delayed in reaching a 5 trillion economy due to the setback of COVID 19.

Impact on Labour

Labour is seen as human capital which serves as a backbone of any economy from both the sides of development – consumption and production. The pandemic has created many problems for labourers at the present time like restrictions on mobility, need of new skill sets in new normal times, loss of employment, closing down of many small and marginal scale industries (labour-intensive industries). Such problems will have long term effects too. Following are some of the factors depicting the perennial problems for labourers.

a. Mechanisation

The recovery from this pandemic needs strong and stimulating plans because it has changed our way of life. Life post COVID 19 will be one where physical distancing is inevitable. Similarly, maintenance of hygiene, lack of mobility will increase the labour cost. Modern industries will prefer robotisation and consequently will need to adapt more mechanisation techniques which will be affordable in the long run. Only high skilled labourers or labourers who are ready to acquire new skills will be able to survive.

There is a vast difference between labour requirements for manufacturing industries and agriculture. Labourers have migrated from workplaces in the urban areas to their native places. Due to which there is more pressure on the agricultural sector for accommodation of these labourers. However, the agricultural sector is also getting mechanised to adapt modern and sustainable production techniques. This will add to the disguised unemployment which already exists in the agricultural sector. Hence, declining jobs due to mechanisation will complicate already tensed lives.

b. Loss of job opportunities

"India is set to lose around 130 million jobs due to the Covid-19 pandemic, and 40% of those would be blue-collar jobs, says a report by Global Consultants" says India Today (2020). A lot of manufacturing units

have been closed down post Covid 19, due to contraction of demand, non-availability of raw materials, limitations on transportation facilities, issue of illiquidity etc. There is a need to acquire a change of skill sets to get adapted to the changing industrial sector. Further, there will be a change in working hours and working styles also. Older labourers will find it difficult to get adapted to this changed requirement. Hence, there will be more unemployment amongst older labourers. This will increase the dependency ratio in the long run.

It will have a long-term impact on the labour market, income distribution trends and in turn growth pattern transformation. The distribution of income will be further worsened

c. Agricultural labour

An estimated 50 million migrant labourers (of India's 140 million total labourers) are expected to have returned to their native places from cities following the nationwide lockdown from 24th March 2020. They account for about 11% of the non-self-employed labour force. Many migrant labourers, mainly from eastern states, are working in agricultural fields in the north and west of the country. They are also significantly employed in marine fishing, post-harvest activities, managing livestock, in marketing, and the creation of agricultural infrastructure. It appears that the migrants' return is having a negative impact on agriculturally developed regions like Punjab, with the proximate cause being the harvest of important rabi crops like wheat and mustard, resulting in a higher production cost. If the lockdown continues without adequate mitigation efforts, even the Kharif crop could be affected. Unless compensated for the loss of labour force, many marine fishing and fish processing activities will also be impacted (Suresh and Reddy 2020).

30% of migrant labourers are expected to return to their earlier jobs in the industrial sectors. However, if these jobs are unable to accommodate them, there will be further problems faced by the rural and agricultural sectors as mentioned above.

d. Gender gap

The disruption resulting from COVID 19 added the gap in wages paid to men and women at the outset, especially, where manual work is involved. Hence, the sectors employing workers for their physical presence, will not be available for women mostly.

However, in the health sector, there are more women workers compared to men. Out-break of COVID 19 has compelled the health sector for rapid expansion to extend medical treatment to the increased volume of patients. This led to the generation of more opportunities for women as nurses and for other relevant jobs, which is a temporary increase in employment. However, it involves life risk and also special training, and hence it is difficult to consider it as a solution to reduce the gender gap.

During the period of lockdown, the work culture has shifted to 'work from home (WFH)' from the 'office work' category. This may continue for a few months or years depending on adaptability to the new normal. WFH, pre Covid, was mostly suitable for women due to the flexibility of working hours offered by it. It helped women to balance work and family more efficiently and become financially independent. However, post Covid 19, WFH has been a new normal even for men. Hence, the jobs which used to be for women would now be transferred to men. Though once the vaccination is found for Covid 19, such jobs will go back to women. This will provide more incentives for women to work for remuneration (paid work) in future.

Impact on the health sector

The health services in India were inadequate to fight this pandemic, though the government tried to stretch the resources to meet the needs of health sector during the pandemic. National health profile 2019 reported that there are 7,13,986 total government hospital beds available in India. This amounts to 0.55 beds per 1000 patients. The elderly population is especially vulnerable, given more complications which are reported for patients in the age group above 60 years (5.18 beds per 1000 sr. citizens). In this context, the health expenses made by families were examined. The result shows that the household expenses on health have increased largely due to the consumption of medicines used for preventive, precautionary and treatment reasons.

It is observed that in the US, the money spent per person on treatment is approximately $2340 (Remedisivar- 5 days treatment in Indian currency Rs 1,77,840). Whereas, In India, the treatment in private hospitals comes to approximately Rs 3 to 7 lakhs, depending on number of days spent, type of treatment and type of hospital. In public hospitals in India, it is claimed that the treatment is available free of cost under Mahatma Jyotiba Phule Jan Arogya Yojana (MJPJAY). But there is a lot of mismatch of demand and supply in this regard.

There is also a state-level variation of bed availability in India. 12 states having 70 per cent of the population in India like Bihar, Jharkhand, Gujarat, Uttar Pradesh, Andhra Pradesh, Madhya Pradesh, Haryana, Maharashtra, Orissa, Assam, Manipur have 0.55 beds per 1000 person (Medical Dialogues, 2020). Further, the doctor-patient ratio is at 1:1800 in India, where the world average is 1:1000 as per World health Organisation.

Impact on Trade

The pandemic has killed more people than most war in the world. Every country has locked the borders to break the chain of COVID infection. This has impacted trade across the world. The supply chain in the age of globalisation has increased interdependence of countries and hence trade.

"World trade fell sharply in the first half of the year, as the COVID-19 pandemic upended the global economy" says News18 (2020) quoting WTO. The trade will be contracted approximately at a range between 13% to 32% in 2020 as per WTO estimate. It will be contracted by 13% if the trade will grow at least at 2.5% in the remaining quarters of 2020.

Production declines in China have had a spill-over effects around the world, given China's role in producing computers, electronics, pharmaceuticals and transport equipment, and as a primary source of demand for many commodities. Across Asia, some forecasters argue that recent data indicate that Japan, South Korea, Thailand, the Philippines, Indonesia, Malaysia, and Vietnam could experience an economic recession in 2020. In early January 2020, before the COVID-19 outbreak, economic growth in developing economies as a whole was projected by the International Monetary Fund (IMF) to be slightly more positive than in 2019. This was based on progress being made in U.S-China trade talks that were expected to roll back some tariffs and an increase in India's rate of growth. However, now it is difficult to maintain the expected growth for India.

According to UNCTAD, India's trade impact is about to be 348 million dollars. India stood among 15 most-affected economies. But the pandemic impacted production of all the countries, especially the production in China. This has impacted the export from China which was very cost efficient. Further there was a wave of banning Chinese goods. Besides, this lockdown also was responsible for limiting world trade and disturbing the entire trade pattern of the world. For India, the estimated trade impact was most on the chemical sector at 129 million dollars, textiles and apparel at 64 million dollars, the automotive sector at 34 million dollars, electrical machinery at 12 million dollars, leather products at 13 million dollars, metal and metal products at 13 million dollars and wood products and furniture at 15 million dollars8.

Impact on Important Financial Indexes in India

Financial health is indicated in general with the trends in prices and financial indicators in the country. The Indian economy, like other countries in the world, was subject to recession even before the pandemic was declared by WHO i.e.

11th March 2020. The economic health of the country is much deteriorated after the pandemic. Sensex and Nifty closed down sharply as the foreign investors have pulled out $14 billion in March 2020 from Indian stock market due to weak global cues like crash in crude oil prices. The economy is facing huge crashes and wealth erosion, which in turn is impacting consumption levels

The Reserve Bank of India (RBI) has reduced the repo rate by 75 basis points (bps) and brought it down to 4.4 per cent, the lowest repo rate fallen till now. The rate cut will lead to encouraging growth and financial stability.

It is observed that another indicator i.e. exchange rate, in Jan 2020 was Rs 71.27 for 1 dollar. In May, despite the fall in imports, it went down to 76.71 and now it is settled at Rs 74.9 on 31st July 2020.Gold prices are also increasing. In January 2020 gold price in Mumbai was Rs 41,150, which now in August 2020 reached to Rs.53500. Similarly, BSE Sensex, though not directly, but to some extent, shows the trend of economic movement. The Sensex of BSE was 40723 in Jan 2020 which was down to 29468 in March 2020 and now slowly it has gained to 37606 in August 2020.

The volatility has resulted in the loss of huge wealth for many investors. The virus crisis has already dropped out equity wealth to 40 per cent of the expected size of India's gross domestic product (GDP). The aggregate market capitalisation of all BSE listed shares of is 52 lakh crore, as it falls from Rs.155.53 lakh crore on December 31, 2019, to Rs. 103.69 lakh crore on March 24, 202011.

In response to the current turmoil, RBI and the Government of India has come up with a slew of reforms such as reductions of repo rate, regulatory relaxation by extending moratorium and several measures to boost liquidity in the system, however the pandemic has impacted the premise of the corporate and banking sector. Payment deferrals, subdued loan growth, rising cases of bad loans and sluggish business conditions have impaired the growth and the health of the economic activity. Hence, the optimist approach says that innovations in products and technologies used by industries, and increase in their distributional range, only can bring recovery in lockdown.

As reported by the IMF, the growth of India's GDP in Q4 2020 will be somewhere

3.1%. However, the latest UN report mentioned that the national lockdown in India is expected to depress economic growth to just 1.2 per cent, much lower than the already disappointing growth (4.1%) in 2019.

The bailout package (Rs 20,00,000 cr.) announced by the Finance Minister of India to combat the pandemic effect on the economy may boost industrial growth through MSME. There is a need to improve demand and supply chain domestically. However, the Prime Minister suggested adapting the strategy of 'Atmanirbhar Bharat' which is yet to reveal clarity on its execution.

To know about few other countries in the world, China is estimated to record a 1.7 per cent growth rate for 2020 which is lowest in last few decades. Similarly, other economies in the world, including the US (-4.8 per cent), Japan (-4.2 per cent), European Union (-5.5 per cent) and the United Kingdom (-5.4 per cent) are projected to shrink this year.

Demand and Supply Shocks

The consumption pattern is changed in this pandemic due to some of the reasons mentioned below –

a. Lack of purchasing power

b. Fear of loss of jobs

c. The new way of living (physical distancing)

d. Uncertainty of future

Besides this, travel and transport services (including cargo shipments and others) are on pause due to the lockdown across the world, having a direct impact on the slowdown of economic activities. It accounted for a loss of approximately $4.5 billion every day of the lockdown. The hotel services are facing huge cancellations from business travellers from various conferences, workshops seminars that got cancelled on such a large scale. Tourism that accounts for 9% of GDP may decline at least next 2-3 quarters. Aviation that contributes around 2.4% of GDP has severely impacted and these sectors include employees around 42.7 million of people. Sectors such as auto, that contribute 10% of GDP and employ around 40 million of people, are declining continuously due to less demand and due to which the marginal firms and other industries have been forced to shut down. Closing of cinema halls, declining in shopping from complex malls has affected the retail sector too and also to the consumption pattern of the consumer in terms of essentials and luxury goods (Agarwal and Gupta, 2020).

On the other hand, lockdown in the entire country and sealing of borders have reduced supply and its linkages. Various sectors such as pharmaceuticals, automobiles, electronics and chemical products etc. are facing a shortage of required components, as mentioned above, China accounting for 27% of India's automotive part imports. India imports about 85% of active pharmaceutical ingredients from China and due to this factor there is a possibility of shortage in availability and thus prices may increase. But the demand for pharma products dealing with COVID 19 is increasing. Hence Indian pharma companies are boosting their efforts to be self reliant and get the benefit of this rise in demand.

Some of the industries doing good during this time are – healthcare, e-commerce, IT services and essential retail etc. On the other hand, some industries that have relaxed a bit are hospitality including hotels, restaurants and malls along with jewel industry and retail industry. Transformation of hotels into quarantine centres may support the industry to some extent.

New Normal for Common People

A common person has to incorporate many changes in the new normal situation to fight COVID 19. Work from Home, Physical distancing, maintenance of hygiene, use of sanitizer are some of the habits to be incorporated in one's life post-COVID 19. The threat of losing one's job and change in the working conditions as well as the job requirement will lead to upgrading to the required skill sets. The training is needed to upgrade the skills sets, which would bring in new academics and curriculum of various streams of education. Technology and digitalisation will be an obvious facet of the new normal life.

There will be restrictions on outing and social gatherings, to avoid infections. Hence, people will be confined to a limited physical space. This will harm nurturing of interpersonal relations and hence affect mental health. There are chances of slowing down of economy which will increase the unemployment rate severely. Combining all such unprecedented circumstances may result in an increase in antisocial activities harming the quality and health of society.

The pandemic is affecting people across age, gender and region. Children will not be able to gather in school where they used to learn not only the curriculum but also the facets of the development of personality like leadership skills, discipline, team bonding, etc. Women, senior citizens, physically challenged people also will have to get acquainted with such a new normal post-COVID 19. Distancing will result in more divide in society. Migration from urban to rural and then reverse migration will bring disruptions at both the sectors.

The situation of a new normal is still unclear to visualise. Short term and long-run consequences will have to be dealt with different standards. However, humans are adaptable and hence this pandemic will also teach different types of norms to get adapted to a new life post-COVID 19.

Epilogue

The pandemic of Covid 19 has brought serious changes in the future life. World economy was already in recession before Covid 19, which is now pushed to depression-like circumstances. Loss of $9 Trillion in global GDP will bring a lot of repercussions. Major sufferers of this contraction are emerging countries. Indian economy contracted by 6.5 % due to lockdowns and recovery is too slow because expected rate of growth in 2020-21 is a meagre 1.2 % (IMF report). The pandemic has pushed back the growth targets.

The pandemic has created uncertainty in all areas of economy. Inadequate supply of raw material, lack of financing facilities, problems of labourers and their migration have created difficulties for industries. Inability to cope up with such uncertainty has shut down some of the business. On one hand it led to supply contraction and closing of business, on the other hand, will add to more unemployment and hence will reduce demand due to loss of jobs and reduction in income. A stimulus package of Rs 20,00,000 cr. is declared by Indian government to increase the effective demand. Its effect will be seen in coming course of time.

The pandemic has contracted global trade, declining huge imports and exports even for India. This can be taken as blessings in disguised because India may find opportunities to be self- reliant and will be 'Atmanirbhar' by reducing imports in future.

But as of now, the pandemic is still beyond control due to non-availability of medicines and vaccines. Hence, there is lot of ambiguity about the future. However, by getting adapted to the prevailing situation, human will surely evolve in the 'new normal'.

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Review

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