The Great COVID19 Depression: Bearing the Burnt

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Abstract:
The COVID 19 depression has caused a lot of hue and cry around. Economy is bearing the burnt for it due to the lockdown and lack of business. The paper reviews the struggles ahead and current impact in detail as a roadmap for further.

***Key words**: COVID19, depression, Impact, economy, India*

Introduction:
Known as the most impactful pandemic of all times, COVID19 has assumed the role of King Midas. It has touched every aspect of human life- living and abstract. After the great depression of 1920, followed by the post World war II economic crisis, and then the recent collapse seen from 2005- 2010, the present economic condition seems to go down in history as the most brutal one. Though at any point of depression, markets were still open and there was a scope for recovery, today, the double impact of lockdown plus the psychological fear has slumped everything in trade and commerce. While the previous outbreaks such as the SERS, Ebola, H1N1, etc., have had minimum impact of Indian trade, however **,** September 2008 may provide some indications for what we might be headed for. With the American investment banking giant Lehman Brothers' bankruptcy freezing the financial world, the month saw India's trade go through a trend reversal that took years to undo. While every single month, during the 12 months preceding September 2008, had seen India's merchandise export. While the short run repercussions of the COVID-19 pandemic on India's trade are somewhat foreseeable, its long to medium term fallout are anything but it. For starters, India's Foreign Trade Policy (FTP) is in a spot. Late last year, almost all export incentive schemes under the FTP were ruled World Trade Organisation (WTO) non-compliant by the global trade regulator. And while the government has appealed against the ruling, it knows that India must do away with a subsidies-based policy. Another most likely fallout of the COVID-19 pandemic is that countries are increasingly likely to adopt more and more protectionist measures. [1] While countries, particularly those exporting finished manufacturing goods, with established export markets, are likely to wade through such an environment, those like India that are dependent on intermediate and agricultural exports and are on the lookout to tap newer markets, are likely to find the going tougher. With India in a lockdown and a large chunk of its workforce, particularly those employed in Micro, Small and Medium Enterprises (MSMEs), back in the hinterlands, there's another major concern. Even if

demand from existing export markets were to come back in the medium to long run, it's unlikely that our exporters would be in any position to cater to them. And with competitors only too willing to pounce on such an opportunity, India runs the risk of losing some of its export markets permanently. While the gloom and doom surrounding COVID-19 is palpable, the crisis might also throw up some great opportunities for India. There are already reports of several Western manufacturers looking at moving their factories out of China. [1] Many Indian chemical producers have gone on record at having received enquiries from Western manufacturers who earlier never used to look towards India as a source. Tapping these opportunities, however, will require some serious innovation on the policy front. Indian policymakers need to hunker down and plan economic assistance that will not only help India's export sector survives the immediate crisis, but also retain stability and resume growth in the medium to long-term. [2]

Impact of COVID19:
A 2019 joint report from the World Health Organization (WHO) and the World Bank estimates the impact of such a pandemic at 2.2 per cent to 4.8 per cent of global GDP (US$3 trillion). That was well before the world knew of Covid-19. Barclays estimates that India's aggressive 21-day lockdown could bring the country's growth down to 2.5% from the 4.5 per cent it had earlier estimated. As Prime Minister Narendra Modi said in his address to the nation when he announced a 21-day lockdown, if this pandemic is not contained, it could set us back by decades. Ben Bernanke, former chairman of the US Federal Reserve, is much more optimistic. In a television interview, Bernanke said: If there's not too much damage done to the workforce, to the businesses during the shutdown period, however long that maybe, then we could see a fairly quick rebound. [1] However, even if global economies bounce back sooner than expected, Indian MSMEs are likely to pay a high price. These companies are too small to have enough of a cushion to last through a pandemic like this one. Add to this the fact that many of these companies have been asked to down shutters or curtail operations while still paying employees and that's apart from meeting costs for taxes, power, and other utilities. The Prime Minister has announced the creation of an economic task force to suggest some steps to ease the situation. This is as necessary as beefing up the country's healthcare system. Available data show that MSMEs employ upwards of 110 million people; asking companies to keep paying during a prolonged lockdown is not a sustainable solution in the medium- to long-term. Media reports say that MSME representatives have appealed to the government for concrete action. This includes tax concessions, easy access to credit, GST write-offs, and reimbursement or concession for wage-guarantee. [2] According to the OECD Trade In Value Added (TiVa) database, the share of foreign value added in electronics exports was around 10% for the United States, 25% for China, more than 30% for Korea, greater than 40% for Singapore and more than 50% for Mexico, Malaysia and Vietnam. Imports of key production inputs are likely to be interrupted by social distancing, which caused factories to temporarily close in China and which is now happening in Europe and North America.India's overall growth is expected to fall by 2.5% from the estimated 4.5 in the first quarter of 2020. World trade is expected to fall by between 13% and 32% in 2020 as the COVID 19 pandemic disrupts normal economic activity and life around the world. Estimates of the expected recovery in 2021 are equally uncertain, with outcomes depending

largely on the duration of the outbreak and the effectiveness of the policy responses. If the pandemic is brought under control and trade starts to expand again, most regions could record double-digit rebounds in 2021 of around 21% in the optimistic scenario and 24% in the pessimistic scenario – albeit from a much lower base. With air and waterways being the major transport for export and import, social distancing is always a huge risk. More investment will go into a safe and secure packaging, and more automation for delivery of goods. [3] Even though China has restarted its trade extensively, it will be difficult for the prediction in India. Layoffs, pay cuts, excessive health care spending will all reduce the buying or the purchasing strength of the consumers, that in turn will further bring down the trade. It will take years for the trade to unfold and flourish as it was before. India is among the 15 most affected economies due to the COVID-19 epidemic and slowdown in production in China, with a trade impact of $348 million. Smaller companies and trading bodies don't have the financial cushion for sustained payment to all their employees in these difficult times. Newer jobs and trade will not be a rare entity for the next few years. There are more chances of shutting shops and applying for waiver in these testing times. The slump is here to stay and we need concrete steps for staying with COVID 19 as a part of the daily life. [3, 4]

What is needed?

More investment is needed. Concrete steps from Government are required as a part of helping medium and small scale industries. Commerce can happen online, but trade cannot. Hence more action is required than a mere lockdown. Available data show that MSMEs employ upwards of 110 million people; asking companies to keep paying during a prolonged lockdown is not a sustainable solution in the medium- to long-term. The government has also raised the threshold for starting insolvency proceedings to Rs. 1 crore. Apart from this, bank charges have been lowered for digital trade transactions for all trade finance consumers. [2]

In the wake of a pandemic like this one, demand is likely to soar, while supply will be extremely weak. Raw materials will likely be in short supply, as free trade will be curtailed for a while. Wuhan, the centre of the pandemic, is also one of the largest auto hubs in the world. With Wuhan shut for months, there's going to be a huge shortage of components too. At this point in time, China seems to have entered the post-peak period. According to the WHO, this is when levels of the disease drop from the peak and the process of recovery begins. Much of the rest of the world is still in the early stages of the pandemic. This means China could get its industries up and running in time to meet the global post-pandemic demand. While that may be good news for a connected world, it could be another severe blow to Indian MSMEs who manage to survive. Given raw material, transportation, and labour issues that manufacturers are likely to face, they are not going to be able to drop their prices. China, with its head start, could still manage to get low-cost products to the world, creating a massive competition issue for Indian exporters. [5]

Road map ahead should have the following points.

1. The government should consider easy lines of credit for MSMEs, as this is probably going to be most difficult to access. Increased protectionism may also be called for, to keep cheap imports at bay till such time manufacturers find their feet.

2. According to a report released last year, the MSME sector added 13-15 million jobs annually. It is vital that this sector, a key component of the Indian economy, be protected during times of crisis.
3. A longer-term plan needs to be put in place to ensure that small businesses are encouraged to get back on their feet as soon as it is safe for them to do so.

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