

CONCERTED ACTION: A GLOBAL RESPONSE IS NEEDED TO MITIGATE THE ECONOMIC IMPACT OF THE PANDEMIC

# Urgently needed: A G-20 joint effort



**▶ The Coronavirus pandemic is an unprecedented global crisis that has brought economic activity across much of the globe to a near halt, a situation that could continue for several weeks, if not months. Thousands of businesses are expected to shut down and millions expected to lose jobs across the world. Governments across the world are announcing stabilisation and stimulus packages for their own economies, but what is needed is concerted action, especially by the major economies, to revive all economies. No one nation or group of nations can expect to thrive alone after Coronavirus. We are all in it together - to sail or sink.**



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The Coronavirus (Covid-19) pandemic, which has affected more than 182 countries and over 6 lakh people worldwide by now, has forced many countries to go in for partial or complete lockdowns, thereby severely affecting economic activity across the globe. The economic and welfare cost to the world economy is huge and, in fact, the world economy is heading for a crisis. Though the top priority at this moment is to contain this pandemic and ensure public safety, a well-coordinated fiscal and monetary stimulus by major economies like the G-20 countries, similar to the one followed after the global financial crisis (GFC) of 2008, is the need of the hour.

The pandemic's impact on the world economy and welfare loss is more than we can imagine. The top 10 economies, having a share of 66% of the world economy, have been severely affected and isolated. The unexpected worldwide outbreak of Coronavirus has halted trade and given the biggest shock to the global value chain after the GFC. As projected, global growth will be near-zero and the world

economy will lose output worth as much as \$2.7 trillion. In terms of international trade, about 45% of world trade will be severely impacted. Specific sectors like manufacturing and services such as travel, transportation and tourism are the worst affected, having huge implications on employment and welfare.

The worst affected regions, including the US, China and the European Union, account for more than 70% of world manufacturing exports and 60% of such imports. These countries are the epicentres of global production networks, thereby affecting global industrial growth and millions of jobs. Similarly, labour-intensive services such as transport, travel and tourism are severely influenced, resulting in massive loss of revenues and employment. The total trade in transport services accounts for around 17-22% (over \$1 trillion) of total trade in services. Travel services accounted for around 25% of the total services trade in 2018. With strict travel restrictions along with self-restraints, which are necessary, airlines across countries have grounded flights and the estimated global revenue loss for airlines is over \$115 billion.

A significant fall in international travel and transport services adversely affects the tourism and hotel services as the former facilitates the end-use of the latter services. The tourism industry - a highly labour-intensive sector - currently accounts for 10% of global GDP. The World Travel and Tourism Council (WTTC) es-

timates that 50 million workers, around 30 million in Asia and 7 million in Europe, may lose their jobs because of Covid-19.

Overall, the worsening slowdown will affect the aggregate household spending, thereby leading to deflationary pressures and further slowdown of the global economy, possibly pushing it into a recession. The severe slowdown, along with employment loss, as a large number of businesses cease to operate, may lead to a crisis situation unless systematic and coordinated fiscal-monetary stimulus is quickly implemented.

A few countries have already initiated unconventional monetary policies and fiscal stimuli. There has been a flurry of interest rate cuts across central banks; however, the rates are already at a very low level and stimulus packages are not sufficient. Therefore, we need a well-calibrated and coordinated big stimulus to deal with a pandemic as this. Structural policies are needed both in short and long-run. In the short-run, sector-specific bail-out packages, tax cuts and incentives, reduction in import tariffs and subsidies to exports, higher government spending, etc., are the need of the hour to stop employment loss and fall in demand.

So far, India has not been severely affected but if the pandemic were to spread at the community level in a densely populated country like ours, the economic and welfare costs would be unprecedented. India, compared to China and the US, is so far less affected by the plunge in global trade. In fact, crude oil prices plummeting to \$25 per barrel is good for India's current account balance and external sector stability. However, there are signs of capital flight, like during GFC. India's financial sector, particularly the capital market, has been on the edge. The BSE Sensex lost more than 35% over the last few weeks, before recovering partially, eroding the wealth of millions of investors.

India's informal sector accounts for more than 50% of its GDP and employs more than 80% of the workforce. People are avoiding restaurants, movie theatres,

and other public places. Many business and economic activities, which provide employment opportunities in the informal sector on daily basis, are badly affected. Thus, expansionary fiscal policy measures such as cash transfers to the informal sector, subsidies in food and healthcare items, reduction in taxes will help mitigate hardship and generate effective demand.

Though the banking sector is gradually recovering from the NPA crisis, banks need to go easy on firms for mortgage and interest payments until the pandemic is under control. Otherwise, a large number of micro and small firms could cease to operate. The RBI has already taken initiatives to increase liquidity and inject confidence in financial markets as well as lowered interest rates by a whopping 0.75% in one go and announced a three-month moratorium on EMI payments.

Though the present crisis in the world economy is not the same as the GFC, the world economy is heading for a serious slowdown. We are experiencing unprecedented times that demand a coordinated monetary-fiscal policy effort by major economies, especially the countries in the G-20. Immediately after the 2008 GFC, the G-20 - an informal collective of 20 advanced and emerging economies - was able to jointly implement stimulus measures that helped revive demand, restore financial and credit markets and bring back global growth into positive territory in the first half of 2009. It's a similar crisis situation that the world economy is facing, with severe implications for the welfare of people across the globe. Therefore, there is a need for global leaders to adopt a collective and coordinated approach for a quick turnaround of the world economy and bring it back on the path of stability. This is a second opportunity for the G-20 countries to come together, after the GFC, to initiate coordinated policy action to deal with this pandemic.

(The writers are Professor and Faculty at the Institute of Economic Growth, Delhi, and Indian Institute of Technology, Ropar, respectively)

## Both demand and supply are hit, and need support



ALOK RAY

Currently, the entire world is fighting a war against a silent, invisible enemy, the coronavirus SARS-CoV2 that has caused the Covid-19 pandemic. It does not respect national boundaries. There is no vaccine or known cure for this ailment currently. Given the highly contagious nature of the disease (relative to the usual seasonal flu), policymakers all over the world are emphasizing the urgent need to 'flatten the curve' of its spread to prevent healthcare systems from being overwhelmed by the surge in numbers requiring critical care at any given point in time. The cases of America, Italy, China, Spain and Iran show how quickly the situation may spiral out of control, unless adequate advance steps are taken.

In addition to the enormous human suffering, this pandemic has had and will further have huge economic consequences. Ironically, the more successful the isolation measures to contain the spread of the disease, the bigger will be the economic burden.

The economic costs will arise from both demand and supply sides. As national and international supply chains get disrupted, production (and employment) will fall. This is a supply shock. The corresponding fall in income (both current and expected future income) will generate a demand shock in the form of a fall in current expenditure. This, however, would be mitigated in the initial weeks to some extent as there would be some additional panic buying of essential consumer products and medical supplies/equipment to stock up for anticipated future shortages.

So, the immediate sales of some products (like food, medicines and sanitary products) and some businesses (like retail grocery stores) may temporarily go up, which will be followed by sharp declines later. But it will also mean a restructuring of demand away from other products (like consumer durables), which will cause an immediate decline in demand for products like cars and two-wheelers.

That is why the stock market values of different firms and sectors would move in different directions. For example, the stocks of some pharma companies may go up while those of consumer durables and banks would suffer a decline. It is obvious that the biggest immediate sufferers would be the airlines, shipping, hotels, and leisure industries. Also, different countries' stock prices would be behaving differently, depending on how severe the impact of the pandemic is and how closely connected a country's production system is to the global supply chains.

From that point of view, India may well be less affected than some other South-East Asian economies heavily dependent on intra-Asian (especially China-centric) supply chains and markets and also some of the European economies closely integrated into an intra-EU division of labour.

Compared to the beginning of the 'Great Recession' in 2007, the world is much more leveraged (though household debts have fallen in many countries) now. Our financial sector as well as the corporate

sector is under much bigger load of NPAs, compared to the pre-2007 days. So, any further defaults in payments will seriously strain the over-stressed banking and corporate sectors.

In addition, the huge falls in stock prices will immediately generate an adverse 'wealth effect' in all countries as consumers and producers would feel themselves poorer than before. This will induce them to cut back on their current expenditures. It is near certain that Japan and most of Europe will go back into recession as a result of this pandemic.

Inevitably, all governments will have to go in for additional monetary, fiscal and income support measures to mitigate the adverse economic impacts. Monetary policy has reached its limits in many advanced economies, already having their policy rates hovering around near-zero or even negative territories. So, nothing much can be done there.

Consequently, fiscal policy will have to do the heavy lifting. With borrowing rates at near-zero levels, governments as well as reputed companies can borrow at low cost to tide over the temporary disruption whose primary impact may well be over in the next 4-6 months.

Temporary income support to people forced to sit idle or having serious cash flow problems as a result of business disruption is another major action area. Many countries are devising specific relief packages to alleviate temporary loss of income by initiatives like allowing deferral on payment of taxes, interest and loans, rents, and electricity bills, especially for small businesses, and protecting at least 80% of wages of furloughed workers. This is easier to finance by the government since this dislocation would be for a few months, rather than for many years, as in the case of a prolonged recession. Also, it would be less costly than allowing the firms to go bankrupt and start all over again.

However, it is far more difficult to administer a program to protect the incomes of people like daily wage workers, roadside vendors, cab drivers and homeless people as most of them are unregistered workers.

It is of utmost importance to minimize the disturbance to supply chains as far as possible to maintain cross-border transportation of goods while restricting the migration of people.

This needs international coordination of policies, which is not an easy task as the difficulties in intra-EU movement of goods following the virus outbreak show. The International Monetary Fund will have an important role in ensuring that the monetary and fiscal policies of different member countries do not run at cross purposes, in addition to arranging temporary adjustment assistance to needy countries. Philanthropic organizations can provide a big helping hand in this humanitarian crisis.

If China's industrial sector quickly recovers (as major industrial areas like Shanghai are not much affected, unlike Wuhan), it will hopefully help the rest of the global economy by resuming supplies of inputs and final products at low prices again.

Finally, if (and it is a big if) India can bridge the crisis through appropriate advance measures at relatively low cost while the Chinese GDP suffers a couple of percentage points loss, India may even get back the 'fastest growing big economy' tag for a few quarters.

(The writer is a former Professor of Economics, IIM-Calcutta)

## NATION

### 3 die in isolation ward, Covid test results awaited

CHENNAI, DHNS: Three persons, including a two-year-old baby, who were admitted to the Covid-19 isolation ward at the Kanyakumari Government Medical College Hospital died on Saturday due to "underlying conditions" and their test results are yet to arrive.

A 66-year-old man, two-year-old child and a 24-year-old man passed away on Saturday morning, the government confirmed but denied that their death was due to Covid-19.

"The 66-year-old man had chronic kidney disease and lymphoma while the two-year-old child had a congenital anomaly of osteoporosis. The 24-year-old man had viral pneumonia with high sepsis. All three had underlying conditions. Once we get the results of their swab and blood tests, we will get back to you," Health Secretary Dr Beela Rajesh said.

Beela Rajesh clarified that a 40-year-old man, who died on Thursday in the hospital, has tested negative for Covid-19.

## China offers to build makeshift Covid-19 hospitals in India

ANIRBAN BHAUMIK  
NEW DELHI, DHNS

China has offered to build makeshift hospitals in India to accommodate the Covid-19 patients in case of a rapid rise in the number of cases - much like the ones it set up at Wuhan in its Hubei Province, where the virus first caused an outbreak.

Beijing is in touch with New Delhi to coordinate the response to the Covid-19 pandemic that has so far infected over 5,00,000 people, killing over 23,000 people around the world.

An article in China's state-owned *Global Times* suggested that the communist country's companies might help to build makeshift hospitals in India.

"Chinese companies already in the South Asian nation

(India) can offer help including aiding the locals to build makeshift hospitals like those in Wuhan if asked," the article authored by *Global Times* staff reporters suggested, quoting unnamed "Chinese experts".

"Chinese enterprises have started to make donations to India," Ji Rong, the spokesperson in the Embassy of China in New Delhi, said earlier this week, adding: "We stand ready to provide further support and assistance to the best of our capability in light of the needs of the Indian side."

Though the Covid-19 infected more than 82,000 people and killed over 3,200 people in China, the communist country seems to have succeeded in controlling the outbreak.

The Chinese government had built several temporary hospitals in and around Wuhan

in January and February when the outbreak reached its peak. A 1000-bed hospital built in a record time of just two weeks had hit the global headlines.

"Chinese companies working on existing projects in India, with sufficient supply networks in place, can take over the construction of makeshift hospitals.. upon India's invitation," the article in *Global Times* quoted an unidentified expert in China Railway Construction Corporation.

"Chinese enterprises have started to make donations to India," Ji Rong said. "We stand ready to provide further support and assistance to the best of our capability in light of the needs of the Indian side."

She recalled that India had gifted China surgical masks, gloves, defibrillators and other medical equipment.

## Virus helmet to spread awareness

E T B SIVAPRIYAN  
CHENNAI, DHNS

Wearing a coronavirus-shaped helmet, a policeman stops a two-wheeler on the ever-busy, though now deserted, grade separator in Villivakkam in this metropolis.

"I am a coronavirus. What will happen if I come and sit in between you two people? Tell me, what will happen?" the policeman, Inspector Rajeesh Babu from the Villivakkam police station, asks the riders. Taken aback by the shape of the helmet, the duo says "we would get the virus" if we come in contact with it.

This is one among various coronavirus awareness initiatives by the Chennai Police, aimed to discourage people from stepping out of their homes.

The video of Babu stopping the two-wheeler and asking the youngsters to stay home in the interest of society has gone viral on the internet and some even creating memes out of it.



A police officer, wearing a helmet depicting coronavirus, requests people to stay at home, in Chennai on Saturday. PTI

The coronavirus-shaped helmet was designed by artist Gautham, who has done many innovative campaigns in the past on social issues.

"While I was involved in patrolling at markets and roads after Section 144 was imposed, I realized that awareness among people about Covid-19 was missing. People were as casual as ever and that is when Gautam came up with this idea

and we implemented it immediately," the Inspector who donned the helmet, told *DH*.

The coronavirus-shaped helmet takes the message to people in a simple but powerful way. "When I wear the helmet and go near people, I can see the fear in them. When I ask them shall I come near them, they say no," Inspector at the Villivakkam police station said. Gautham told *DH* that he

designed the helmet to create awareness about Covid-19 and to ensure seriousness among people. "Police weren't using force in this area and people were very casual as they turned up in large numbers at markets in my area. That is when I thought of a virus-shaped helmet and made one in just four hours. The helmet is made of old newspaper and tissues," he added.