

Corona Crash: Need Global Efforts to tackle Global Crisis

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The Corona pandemic has affected around 6 lakh people with little more than 27 thousand casualties across the globe as on 27th of March 2020 and still counting. The pandemic has severely affected top economies such as China, Italy, Spain, Germany, S. Korea, France, the U.S., Switzerland, the U.K. and India. The economic and welfare cost of Corona pandemic (COVID-19) is huge and the world economy is in crisis, probably worse than GFC.

The top ten worst affected economies including India are locked down, which collectively account for about 55.61% of the world GDP on PPP (WEO, 2019)³. These top economies are the core of global demand, supply and overall growth. For example, only China, the U.S., and India together account for around 43% of the world economy. The world economy with 3 billion under lock down has given the most unexpected and unprecedented setback to World trade, manufacturing, services, employment, etc. The current crisis demands a well-co-ordinated fiscal and monetary stimulus by major economies similar to the steps during GFC.

Shock to the Global Supply Chains

The top ten economies affected by COVID-19 - seven of them rank among the top 10 leading traders of goods and services - account for 45.8% (USD 8.9 trillion) of world merchandise exports and 48.5% (USD 9.56 trillion) of world imports in 2018. The combined share of the top ten economies is about 72.5% (USD 9.5 trillion) and 60% (USD 8.5 trillion) in World's manufacturing exports and imports in 2018, respectively. These major economies, particularly China and the U.S., are the epicentres of global value chains. Therefore, the complete lockdown in these economies has brought about a standstill in the supply-chains and production network across sectors all over the world. Similarly, in the case of trade in commercial services, these top ten worst-affected economies account for 47.7% (USD 2.78 Trillion) of world exports and 45.6% (USD 2.5 Trillion) of world imports⁴.

The collapse of world trade not only affects the manufacturing sector but also agriculture exports, which affect general prices of essentials and standard of living of larger sections. For example, China and the U.S. were ranked among top exporters of agriculture products in 2018 while India was ranked at seventh. With the whole of Europe is in complete lockdown, it is expected that more than 50% of the world trade in agriculture products will be severely affected. In 2018, the combined exports value⁵ was around USD 1 trillion for agriculture products and 831 billion for food products with a share of 53.6% and 61.3% in World exports, respectively. The collapse of agricultural trade will not only affect the large sections employed in agriculture in countries like India and China but will affect consumer price index across the world and standard of living

Significant setback to the services sector

The services sector is the engine of the World economy for the last couple of decades having 70% share in World GDP. Most of the employment opportunities are created in the services sector, particularly in developed countries. For example, the share of the service sector in total employment is more than 85 percent for the top 10 OECD countries.

The global lockdown has directly affected services like travel and transportation. The total trade in transport services was valued at over USD 1 trillion (17-22% of total trade in services) in 2018. In 2018, there were more than 1.8 billion international air passengers. With strict travel restrictions in effect, the airline industry is bleeding, and some airlines may collapse. The International Air Transport Association estimates USD 200 billion bail out package to survive the pandemic. Travel services accounted for around 25% of the total services' exports and imports. The worst affected European Union, U.S., China, and India are the leading exporters and importers of travel services. A complete collapse of international transport services has adversely affected the hotel and tourism which are

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³ IMF (2019) World Economic Outlook, October

⁴ WTO (2019) World Trade Statistical Review. Geneva: WTO.

⁵ Hereafter, combined values indicate summation of European Union, the US, India, and China.

highly labour-intensive thereby leading to millions of job losses.

Other Commercial Services (OCSs), which accounted for 50% of total trade in services and include financial services, business services, information services, insurance services, etc. are dependent on overall economic activities and also other services like travel and transportation. These services are output themselves but used as inputs or intermediates for end use. China, the U.S., India and the European Union together account for about 74% of World exports and 65% of imports in OCSs in 2018⁶. Hence, severe slowdown will result in a large number of job losses.

World Economy is in a Crisis

The centrality of the European Union, China, the U.S., and India to the global supply chains, services sector value-added and services exports, and an almost complete lockdown of these major economies will have both demand-side and supply-side effects. The lockdown and social distancing have grounded sectors like travel, transportation, tourism, hotels, etc. leaving millions of workers on the verge of getting thrown out. For example, Thailand hosted 39 million foreign tourists in 2019 (10 million from China) and generated around USD 60 billion revenues, around a fifth of their national income. In terms of welfare costs, The World Travel and Tourism Council (WTTC) estimates that 50 million workers, around 30 million in Asia and 7 million in Europe, may lose their jobs because of COVID-19. The fall in their growth and employment in both manufacturing and services in these major economies will have phenomenon of negative demand shock leading to reduce household spending and prolong the crisis. The International Labour Organization estimates that global unemployment could increase by about 24.7 million, which is even greater than the rise in global unemployment, 22 million, due to the GFC. Further, women workers around the world - 58.6 percent of employed women work in the services sector - are most vulnerable to falling labour demand. Workers employed in the informal sector will also experience knock-off effects on their incomes as the reduction in economic activity will put the demand for their services at a halt.

On the supply side, the disruption in production networks and global value chains will constraint the supply, leading to inflationary pressures. MNCs that are heavily dependent on China for intermediate goods will run out their inventories and may face the bottleneck. The plunge in output growth and the possibility of a large number of small businesses ceasing to operate will lead to employment loss. On top of it, the inflationary pressures from supply shocks will further create demand-side effects by reducing the economy's

disposable income, savings, and giving rise to unwanted uncertainty. In this scenario, we may face severe liquidity crunch as households became aggressively forward-looking. In expectation of either losing a job or fall in income, people may start hoarding money instead of using it for their consumption expenditure. Another sector that suffered a blow is the financial sector – the lifeline of business and corporates - across the counters have been on edge.

Need Coordinated efforts to avert a prolonged crisis

The world economy is in a crisis and the welfare cost of the pandemic is humongous. The current pandemic is working its way through a highly globalized world with highly interconnected financial markets and production networks. Immediately after GFC, G20 was able to jointly implement stimulus measures that helped revive demand, restore financial and credit markets, and brought back global growth into positive territory in the first half of 2009. This is the second opportunity G20 leaders and they virtually met on March 26th and pledged to infuse a stimulus of \$5 trillion into the global economy and, urged World Bank and the IMF to use USD 100 billions emergency fund to help distressed developing countries. It's time for the G20 to fulfill what they pledged but continue for coordinated aggressive fiscal stimulus and expansionary monetary policies. Otherwise World economy is staring at a prolonged global crisis.

Monetary policy measures like rate cuts – which are already in place across central banks – are best suited for financial markets and credit channels. The central banks need to directly buy bonds from large businesses to inject liquidity into markets and ensure banks go easy on micro and small firms for mortgage and interest payments until the pandemic is under control; otherwise, these firms could cease to operate. G 20 central banks can follow steps taken by RBI. Since February 2020, the RBI has injected liquidity of 3.74 lakh crore through various instruments, equivalent to 3.2% of our GDP, and given relief to borrowers. .

Although governments are taking steps, further fiscal stimulus is required as an aggressive fiscal policy is more effective than monetary policy to deal with supply chain disruptions. Expansionary fiscal policy measures in the form of tax cuts and higher government spending will increase aggregate demand and employment. The governments need to conduct structural policies and provide bailouts to the most stressed sectors in manufacturing and services, especially transport and travel. Although this would mean rising debt levels, governments should embark on 'whatever it takes' to bring the world economy out of the crisis.

⁶ India accounts for 5% and 3.2% of share in world exports and imports of commercial services, respectively.