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Critical Analysis on the Impact of Covid-19 over Economy

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ABSTRACT

The pandemic has always had a resonating impact on people all over the world. Whether it was in the past or the present, the impact had always been a devastating one. The slow rooting of people suffering had made a greater impact on the economy of the Nations. This global economic crisis can be compared with the "Great Depression" which occurred primarily in the United States of America in the early 1930s. The 'Covid-19' recession is the greatest depression of mankind. This recession is caused due to the lack of adaptability to the economic conditions of the Nations. Many developing countries have high unemployment structures which makes it hard for the people to survive. It is because, when the country takes certain measures to curb the spread with appropriate methods like social distancing, complete protection of face and head with face mask and a face shield, ultimately a lockdown, many people are not abiding by the rules. This situation is also caused due to illiteracy, with people not understanding the complexity of the current situation, the recession had turned into an even worse situation. While the governments of various countries are pondering over, how to control this strain as well as manage the economy. Though the vaccination had been found, the adaptability to sustain the recession had been quite difficult. during the first wave of the pandemic, the government was not prepared for the situational crisis yet it still managed to balance the economy as well as control the strain. Though the situation is controlled, there had been an unexpected turn of events that caused turmoil among the Nations. This paper highlights the insights of the situation and be an instigator to a better economy.

Keywords: *Pandemic, Great Depression, Covid-19, Recession.*

I. INTRODUCTION

On January 30, 2020, the 'World Health Organization declared the outbreak of 'coronavirus' a global health emergency. In the initial stage, people were not aware of the seriousness and the complexity of the situation. Many countries were not prepared for this pandemic situation and neglected the basic protocols to ensure personal safety, thus impacting the whole Nation. The

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worst way of affecting a country is by its degradation of economy. The economy started to fall when there was the implementation of complete lockdown and other measures to ensure safety and a curb to the spreading of the strain. The onset of this recession coincided with the 2020 stock market crash which started in early February and lasted up to April 2020. Although the stock market crash was for a short period, the effect was a major one which made the countries setback new records by 2020. With the effect of the stock market crash, there was also a major effect on consumer-based activities since people were under strict lockdown. Economic recession in a country occurs due to many reasons. Unemployment being the major reason for recession, it affected the developing countries way worse than the developed. By October 10 there had been more than 10 million unemployment cases in the United States and over 10 percent of the unemployment rate in the developing countries. Along with the economic crash, there had been a warning of many pandemic famines. There was an early prediction that many would die due to hunger and their problems could not be properly addressed to the food security, hence leading to a famine. There are other causes of this pandemic famine. This includes the threat of 2019-20 'Locus infestation' as well as the political turmoil in many countries. The major impact of this recession was on fields such as tourism, hospitality, education, business, etc. Going further through this article we will analyze, what impact did the economic recession had on countries.

Various impacts caused the recession as well as impacts which the recession had caused.

II. ECONOMIC DEPRESSION

Lack of industrial trades, exchange of products, and less circulation of money in product exchange, as well as the daily function of various businesses, affect a country's economy. Various other reasons which affect the economy are:

(A) Financial Crisis

Since 2007-08, there had been a large amount of corporate debt which amounts up to 84 percent of the gross world product. In 2019, this debt had risen to 94 percent which made it impossible for the corporate to meet the financial interest rates. The Institute of International Finance had declared the economic crisis that occurred during the pandemic is as worse as the financial crisis which occurred in 2008. If this continues, the eight world's largest economies' corporate debt would be over trillions of dollars and that will be a huge risk to many companies. In 2019, the International Monetary Fund organization reported that the world is facing an economic slowdown for which the 'heightened trade and geopolitical tension' have been the cause for such slowdown. Economic slowdown indicates an increase in the trade barriers among the

countries as well as a rise in debt levels in various developed countries.

(B) Economic Crisis

Economic crises either occur due to interstate trade relations or differences in trade relations among the countries. Adhering to this issue, the current trade relations with China have been deteriorating since 2018-20 (China – United States Trade war) and had caused significant global damage to many economies. During the start of the pandemic, many believed that this virus was not a natural one but was intentional. The government of various countries reacted immediately and initiated a complete lockdown to stop this spread. The impact of such a lockdown affected the global economy. Many industries have been shut down and the manufacturing of products has been stopped. Due to the lack of production, consumerism is affected. With the ongoing trade war, the downturn of consumerism and manufacturing had worsened the economic crisis. Few other reasons that led to the economic crisis are:

1. Russia-Saudi Arabia Oil Price War

The economy is generally defined in terms of gold rates, oil prices, stocks, and shares or the currency exchange. Due to the lack of factory activity and travel demand, there had been a significant impact on demand for oil, causing its prices to fall. The ‘International Energy Agency’ in mid-February forecasted that the oil growth in 2020 would be the smallest since 2011. Before this situation, there has been a 30 percent increase in the oil price at the start of the year. But due to the pandemic there had been a 30 percent decrease. This impact made the OPEC (Organization of the Petroleum Exporting Countries) to held a meeting and discuss the potential cut to the production to balance its loss in demand. The production is cut by 1.5 million barrels per day. On 5th March 2020, a meeting which was held in Vienna stated that the production levels had declined to its lowest they had been since the 'Iraq War'. After the meeting held in Vienna, production cuts were drastic that the OPEC and Russia decided to held a meeting with Saudi Arabia on March 6th and decided to increase the production from March 7th. Even though the production increases the oil prices were cut down by 25 percent. Thus, selling a barrel for 6-8US\$ to Asian countries. Following the breakdown of negotiations as Russia resisted cutting the production, a discount was a way to compensate the production costs.

2. Changes in Gold Price

Since the start of 2020, gold prices have increased up to 28 percent and kept increasing for the following months. It is difficult to predict how much higher the prices can go. According to World Gold Council data, as investors sought low-risk returns, a 9th consecutive month of

inflows to gold exchange-traded funds in August set a record high of US\$2,067.15. The rise in gold prices had affected Asian economies more since the purchase of gold is at a higher rate.

(C) Educational Crisis

Education is the most important factor in life. The recession had caused a tremendous disturbance in the education system. An economy can flourish when the country's people are well educated. From education imbalance, there will be an employment crisis. No contact and social distancing made all schools, universities around the world shut down. Most of the countries adopted an online mode of education while a few countries decided to postpone the learning. Online mode of education is a new enhancement the world achieved in this pandemic. Although the internet connects all the dots, there are few problems faced in this type of education.

- a. A student's lack of interest in the subject.
- b. Gadgets to every student to access their classes.
- c. Proper internet connection to all
- d. Examinations not properly conducted.

Adhering to this issue, neither it is the fault of the education board, nor the students. In a crisis like this, whatever decision a government takes, is highly degraded by the people. For example, If the government of the country decided to conduct the exams offline (where the students have to attend the test centers) people would panic and not agree since the exposure might affect their health. In a different scenario, if the exams are conducted online, there are numerous ways an exam could go wrong. Again in this situation, people would protest that they lack proper amenities to attend an online examination. Students who had to leave to their universities by scoring a perfect rank in the entrance exams are affected the most. In the same way, graduating students are affected the worst since many industries and corporate firms have shut down their functioning, thus leading to a decline in the employment system.

Highlighting this situation, there are many developing countries where the unemployment rates are at a higher stance. Without a proper employment structure, an economy can be ruined.

III. TOURISM

Apart from the financial reserves of the economy, the tourism sector is the major backing of an economy. 'It is a generator for employment, income, tax collections and foreign exchange earnings³' Due to the implementation of lockdowns, social distancing, curbs on crowding, self-

³ Sanjit Jaipuria, Ratri Parida, Pritee Ray, "The Impact of Covid-19 on Tourism Sector In India";

quarantine, and no contact, major tourism industries have been closed. This had affected the employment rate of over 100 million in the travel and tourism sector worldwide. This effect remained approximately, for more than 1.5 years. There is a decrease of 68 percent of 'in arrival foreign tourists' and hence a decrease in Foreign Exchange Earnings (FEE) by 66.32 percent. Tourism is generally classified into two types:

- A. Inland Tourism
- B. Outland Tourism

(A) Inland Tourism

Inland tourism or within the country tourism implicates citizen's travel, either for educational purposes or for a vacation. Astonishing artifacts, unique sites, peaceful destinations enhance the quality of tourism. People within the country travel around to experience such views. Inland tourism promulgates 35% of the country's economy. There are few reasons which the tourism sector declined within the country.

- i. Travel ban being the first reason. Restricting trains, buses, flights caused the public to retain themselves at home.
- ii. Closing of state borders implicates the need to curb the spread and to maintain an everyday record of no. of increasing cases.
- iii. As mentioned earlier, unemployment in the tourism sector caused many hotels, resorts, and restaurants to shut down their business.
- iv. Many tourism destinations to be turned into Covid-19 relief camp centers.
- v. The budget allocated to the tourism sector is now utilized for purchasing hospital equipment to sustain the strain.

(B) Outland Tourism

Tourism which promulgates travel to other countries via flights or ships. People are more fascinated with touring around countries, hence the foreign tourism sector has been increasingly rapid from years 2011-19. The foreign tourism sector alone can repair 45 percent of the economy globally. The development under this sector is huge as to enhance the diversity of a country. Up until 2020 March, this sector flourished very well, since the outbreak of a mysterious virus, many Nations decided to put a travel ban restricting its citizens to get affected as well as to bring back the virus into the country. Although the travel ban is a serious decision to be made since it opposes the harmonious relations between countries, they decided to

temporarily initiate the ban and prolonging it further. Many developing nations such as India are one of the leading tourism destinations. India with its diverse culture, uniqueness in trading, and explicit sites stand at the top of the tourism industry. While being in the top leadership, it also has to ensure safety measures to both citizens as well as foreigners. With the effect of the second wave, the country had no other option but to ban travel internationally. Situations like this instigate the country to take measures to provide safety for its citizens.

IV. INDIAN ECONOMY

This paper will highlight the economic crisis a developing country had to face. Indian economy although a developing Nation is by far the richest in heritage and integrity. It is the world's 6th largest economy by nominal GDP and 3rd largest by purchasing power parity. Since the 21st century India's economy increased up to 6-7 percent and from 2014-2015 it became the fastest-growing major economy surpassing China Indian economy remains positive due to its young population and corresponding low dependency ratio, healthy savings, and investment rates which leads to long-term growth in increasing Globalization. India is the world's 9th largest importer and 12th largest exporter has an amazing nominal GDP and is also fueled by government spending, investments, etc. Since 1 January 1995, India had been a member of the World Trade Organization, it ranks 63rd on the Ease of doing business index and 68th on the Global Competitiveness Report. The following are the respective fields Indian economy flourished globally.

- a) In the manufacturing sector, India is the world's largest manufacturer of generic drugs and is over 50% of the global demand for vaccines.⁴
- b) Indian IT industry is a major exporter of IT services with \$191 billion in revenue and employs over four million people.⁵
- c) India's chemical industry is extremely diversified and estimated at \$178 billion.⁶
- d) The tourism industry contributes about 9.2% of India's GDP and employs over 42 million.
- e) India ranks second globally in food and agricultural production, while agricultural exports were \$35.09 billion.⁷

⁴ Indian Pharmaceutical Industry; <https://www.ibef.org/industry/pharmaceutical-india.aspx> ; 22nd June 2019

⁵ "Indian IT-BPM Industry FY 2019-20 Performance". NASSCOM; (22 June 2020.)

⁶ "Chemical Industry and exports"; <https://www.ibef.org/industry/chemical-industry-india.aspx> ; (22nd June 2020.)

⁷ Business standard; "India- An Agriculture powerhouse of the World"; (8th January, 2019.)

- f) The construction and real estate sector ranks third among the 14 major sectors in terms of direct, indirect, and induced effects in all sectors of the economy.⁸
- g) The Indian textiles industry is estimated at \$100 billion and contributes 13% of industrial output and 2.3% of India's GDP while employs over 45 million people directly.⁹
- h) India's telecommunication industry is the world's second-largest by the number of mobile phones, smartphone, and internet users. It is the world's 25th-largest oil producer and the third-largest oil consumer.¹⁰
- i) The Indian automobile industry is the world's fifth-largest by production.
- j) It has \$1.17 trillion worth of retail market which contributes over 10% of India's GDP and has one of the world's fastest-growing e-commerce markets.¹¹
- k) India has the world's fourth-largest natural resource, with the mining sector contributing 11% of the country's industrial GDP and 2.5% of total GDP.¹²
- l) It is also the world's second-largest coal producer, cement producer, steel producer, and third-largest electricity producer.

When the pandemic hit the country, the government was not prepared for any circumstances and hence initiated a strict lockdown from March to July. While this lockdown is initiated, there had been a travel ban from state to state and only restrictive traveling with permission within the state. By implementing the lockdown, the country could save 70% of its citizens from getting affected by this virus. Although the impact of lockdown had a positive impact on people's health, it had a negative impact on the economy. Numerous rating agencies had declared that India's financial year GDP rates have gone down to negative figures. Even though the economy had gone down drastically, the country tried to cope with its economy through online financing, marketing, and socializing. Like the rest of the countries, it had started to find a cure to the virus and Bharath Biotech being the second-largest producer of generic drugs, has taken an initiative to produce the Covid-19 vaccine. Along with Bharath Biotech, the Serum Institute Of India (under the license of AstraZeneca) took an effort to produce a vaccine for India as well as other Nations under the contractual agreement. Beginning of the year 2021, India had exported vaccines to many countries. That being said, it is under the contractual

⁸ "Indian Real estate Industry"; <https://www.ibef.org/industry/real-estate-india.aspx> ; 22 June, 2019.

⁹ "Textile Industry and Market Growth in India"; <https://www.ibef.org/industry/textiles.aspx> ; (22 June 2019.)

¹⁰ US Energy Information Administration; "Production of Crude Oil including Lease Condensate 2019"; (31st March, 2019)

¹¹ "Retail Industry in India"; <https://www.ibef.org/industry/retail-india.aspx> ; (22nd June, 2019.)

¹² Anthony, Craig ; "10 Countries With The Most Natural Resources"; <https://www.investopedia.com/articles/markets-economy/090516/10-countries-most-natural-resources.asp> ; (12th September, 2016.)

agreement between the countries that the Indian economy can cope with the production of a vaccine to the other countries.

The current state of the Indian economy is worse than the financial year 2020. It is because of a new strain that caused the 2nd wave all over the country. This new variant can even affect the people who are vaccinated. Un-vaccinated people suffer more and the country is lacking oxygen supply to support its citizens. The United States of America supported India by sending oxygen generators, ventilators, and other equipment that the country needed. In a crisis like this, people are more concerned about their lives rather than their financial status. Thus the interest in working for an economy is long gone. World Health Organization predicted that the peak India is facing will deplete in the following months. Hopefully, the economy can sustain the loss and be determined to retain the nominal GDP.

V. CONCLUSION

With the above insights, of how a country's economy suffered due to the pandemic. It is for the best if the country concentrates on getting the citizens back to health and then concentrating on increasing the financial and optimal state of an economy. The global economy can be restored if the developed countries take initiative and help many developing countries with the upliftment. The major situational problem faced by all economies is unemployment. The problem of unemployment can be solved when the countries take an initiative to implement methods to which a person cannot be unemployed and to enhance the knowledge of individuals of what they can achieve even though they are unemployed and how can they overcome this situation. Covid-19 recession had drastically changed lives, with that being said. It is up to the individual perspective to be brave and face the situation.
