Disabled by a virus

As we witness the pandemic, the established model of globalisation is taking yet another beating

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Social workers distribute aid to homeless people during lockdown in Mumbai, India, Monday, March 30, 2020.**(AP Photo/Rajanish Kakade)**

Quoting W.B. Yeats — “Things fall apart; the centre cannot hold;/ Mere anarchy is loosed upon the world” — is quite common when discussing crises of varying intensities. The Covid-19 pandemic, however, seems to be one crisis where even Yeats’s words fail to adequately capture its severity.

At the time of writing, the number of people infected has increased to more than 735,345, with deaths crossing 34,818. The sharp rise in infections and deaths has caught many governments unprepared. While governments around the world have been criticized for delaying the drastic action needed to combat the spread of the virus, it needs to be recognized that achieving the right balance between citizens' need to move freely and imposing restrictions to stop the spread of the virus is difficult. Governments across centuries, from the 14th to the 21st, and of different persuasions, authoritarian and democratic, have faced the same difficult dilemmas. The initial response to the outbreak of the bubonic plague, which killed between 75 and 200 million people in the 14th century, was to isolate those affected and those who came in contact with them. What proved effective in combating the bubonic plague and other pandemics in the long run, however, were vaccines and public health policies designed to improve sanitation.

Achieving the right balance between freedom of movement and restrictions to slow down a pandemic is as difficult for one-party authoritarian states — China — as it is for democratic countries — India. Estimating the tipping point is often impossible. Initially governments are always reluctant to impose the necessary restrictions to control the spread of the epidemic fearing a slowdown in economic activity and popular anger. However, when confronted with the reality of its rapid spread, governments tend to move quickly and impose controls. One of the reasons for China's early reluctance to impose restrictions was the impending Chinese New Year holiday season when millions of people travel back from cities to their home towns and villages. It was the sharp increase in infections and deaths in January that forced China to impose a lockdown in Wuhan.

Once the full extent of the threat became evident, governments elsewhere took harsh measures, including nationwide lockdowns. After some initial hesitation, the Italian government imposed a lockdown to prevent people moving into or out of Lombardy and, later, extended it across the nation. The French president called for a lockdown and closed the country's borders on March 17. On March 20, Boris Johnson ordered the closure of pubs, restaurants and cinemas in Britain — measures he seemed reluctant to take even a few days earlier. The 'people's curfew' observed in India at the suggestion of the prime minster and the lockdown in

75 districts imposed are examples of the unprecedented measures that governments have taken to combat the spread of the epidemic.

The standard prescription to handle the economic impact of such a crisis has been the pursuit of monetary and fiscal stimuli. A comparison with the measures taken after the global financial crisis of 2009 is often made in this context. This, however, is misplaced for three reasons. First, the years between the dot.com bubble and the global financial crisis — 2002-2007 — were bright years for the global economy. On the contrary, in recent years, the global economy has witnessed a number of shocks, such as the Sino-US trade tensions, increased conflict in the Middle East, and socio-political unrest in Hong Kong. The downward risks to the global economy appear to be high now. Even before the severity of the coronavirus outbreak was known, the International Monetary Fund estimated that real global GDP growth for 2020 would be at 3.3 per cent. Second, unlike the global financial crisis, the Covid-19 crisis is a major human tragedy emanating from the real economy where the wounds and fault lines appear to be much deeper and widespread. Third, after the global financial crisis, we have witnessed an accommodative monetary policy, a huge amount of quantitative easing, negative interest rates and large fiscal stimuli worldwide. We expect the economic response to the current crisis to be similar. The fiscal stimulus of the US administration is substantial. It includes a 2.2 trillion dollar package from Donald Trump and direct payments to individuals and small businesses. The US Federal Reserve has already lowered interest rates and indicated a renewed pace of quantitative easing. Interestingly, when the US authorities started using these stimuli measures in 2008, these were in their infancy. They have become much more burdensome now. The debt-GDP ratio for the US was 64 per cent in 2007, it was 106 per cent in 2019. Thus, the headroom for fiscal and monetary stimuli is much limited.

How do we see the future? In a special submission to G-20 on the economic impact of Covid-19, the managing director of the IMF, Kristalina Georgieva, had indicated in February that China’s economy could return to normal in the second quarter of 2021 and that the impact on the world economy would be relatively minor. The 2020 growth for China was expected to be around 5.6 per cent (0.4 percentage points lower than the January numbers) and global growth was expected to be about 0.1 percentage points lower. But that was in end February. The virus has spread to a lot many countries since then. Apart from China, the US, Italy, the United Kingdom, France, Germany, Portugal, Spain and South Korea have been affected significantly. The impact on emerging markets is not clear yet. The new global GDP estimates are going to be released during the Spring Meeting of the IMF and the World Bank in mid-April. There are indications that global growth this year is going to be much lower than the 3.4 per cent estimated earlier. In fact, there is now talk of recession kicking in, according to Georgieva

While we are currently experiencing a major human pandemic, the established model of globalization is taking yet another beating. People are increasingly questioning the role of global supply chains and the huge dependence on China for the manufacturing needs of the world. As and when we win this global war against Covid-19, the world could be a different place. Walls at the borders could be taller, global migration viewed with suspicion, and more isolationist nation states with inward-looking policies could become the norm.

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