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CASE OF INDIA**

**Dr. Medha Tapiawala**

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# NEW NORMAL ECONOMICS WITH AND POST COVID-19: CASE OF INDIA

Dr. Medha Tapiawala<sup>1</sup>

## Abstract

The impact of COVID-19 pandemic is felt across globe. The Corona Virus originated from China is evidenced affecting more than 180 countries in just 2 months and affected all their domains including social, political, environment, pharma, media, economics and many more. This paper emphasizes on the capability of various countries, especially India, to digest “new normal” in economic conducts. The new normal will be about work-life integration and work-life balance.

The pandemic has delayed the dream of making India \$5 trillion economy. In fact, the pandemic has pushed Indian economic growth 5 years backward. It is estimated that not only for developing countries but for all, global trade and GDP are to decline sharply, through the first half of 2020, after WHO announced this as pandemic on 11<sup>th</sup> March 2020. The pandemic and the lock down, have forced countries across the world to bring many alterations in policies to fight the spread of pandemic. Change in work pattern, to maintain the social distancing, in everyday life for the people who are directly as well as indirectly affected. This resulted in total change in business conduct and consumer behaviour.

Locked down of more than 100 days have brought supply side contraction and hence reduced the size of market. On the other hand, increase in unemployment, especially in informal unorganized sectors resulting loss of voluminous jobs due to uncertainty, affected demand side severely.

This paper throws light on the impact of COVID-19 various sectors of Indian economy to get acquainted with future new normal. The pandemic has taught many lessons to humans being, believing in their super ability to exploit the resources of mother earth selfishly.

**Key words:** New normal economics, COVID-19, Indian economy, Health sector, Unemployment and Labour issues.

**JEL codes:** H 62, I 10, I 18, I 30, J 06, J 60

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<sup>1</sup> Professor, Mumbai school of economics and public policy, University of Mumbai, Mumbai – 400 098  
Email; medha020@yahoo.com

## 1. INTRODUCTION:

The coronavirus was first detected in china and has infected 188 countries in span of 2 months. Sooner the world realised that the pandemic of COVID-19 is transforming life drastically. Resulted deaths are 514021 (1<sup>st</sup> July 2020) infected cases are 1,05,91,079 out of which 57,98,973 are recovered across the world. People are worried about the future and still uncertain to deal with the life affected by COVID-19.

The impact of this pandemic is felt on all spheres like social, economic, political, health, *etc.* while looking at economical aspect, there is a need to study both, direct and indirect impact. The direct loss is measured in terms of the money spent on fighting with pandemic. It is estimated that major economies will lose at least 2.4 per cent to 13 per cent of the value of their gross domestic product (GDP) over 2020 due to COVID-19. Since January 2020, the emergency has evolved into global public health due to COVID-19 and an economic crisis that has affected the \$90 trillion global economy beyond anything experienced in nearly a century. On the other hand indirect cost can be measured in terms of opportunity cost incurred from demand and supply shocks faced by the entire world due to measures like lockdown in various parts of globe and there is no precise estimate of this cost yet.

The short term effect of the pandemic, is loss of world GDP while fighting the pandemic at present. But, the long term effect of the pandemic is due to lower investment and its prospects, an erosion of human capital through loss of working days and schooling, and fragmentation of global trade and contractions in supply linkages, *etc.* which is very precarious. However, a lockdown across globe with sealed borders within and for international trade from standstill aviation, port movements even for cargo, halted shipments have tapered economy at serious stage. Consequently, market is shrunk, due to reduction in demand as well as supply linkages. Advanced economies are projected to shrink 7 per cent. Such weakening will spill over to the outlook for emerging market and developing economies, who are forecast to contract by approximately 2.5 per cent as they cope with their own domestic outbreaks of the virus.

This would represent the weakest performance by this group of economies in at least sixty years. (Global economic Outlook, World bank 2020)<sup>2</sup>.

On the other hands, while looking at personal expenses, the health expenses made by families have increased largely due to consumption of medicines used for preventive, precautionary and treatment reasons. It is observed that in US, the money spent per person on treatment is approximately \$2340 (Remdesivir - 5 days treatment in Rs 1,77,840). In India, the treatment in private hospitals for 14 days comes to approximately Rs 6 to 7 lakhs. The pandemic has killed more people than any war or any other pandemic in last 100 years. Lot of countries at macro level, are struggling to find out medicines and vaccine for this virus at the earliest. The expenditure on research and medical trials have added to the health expenditure.

This paper attempts to look into the new normal for the world with COVID-19 in future.

## **2. NEW NORMAL:**

Life before the pandemic of COVID-19 was very different than the life post COVID-19. The difference is in terms of ways of socialisation, employment and business conduct, maintenance of hygiene, cultural and festival celebrations, system of education, health and medical sector, *etc.* COVID-19 has affected the life and behaviour of the population of all the countries in the world. New normal brings lot of changes like- education online, work from home, high internet demand, minimalistic lifestyle, decline in Mall and Multiplex culture and so on.

Indian experience is not different. The pandemic of COVID-19 has affected all the sectors and compelled to bring the new conduct for survival in post COVID-19 eras. However, there are some positive effects of the pandemic experienced.

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<sup>2</sup> <https://www.worldbank.org/en/news/feature/2020/06/08/the-global-economic-outlook-during-the-covid-19-pandemic-a-changed-world>

### **3. POSITIVE EFFECTS OF NEW NORMAL RESULTED FROM COVID-19:**

These positive effects are experienced at least during fighting of this virus for breaking the chain of infection. This was done by lockdown so that people will be able to maintain social and physical distancing. Following are some of the effects seen:

#### **3.1. Decline in Pollution:**

COVID-19 is contagious and fast spreading disease. Many countries declared lockdown to break the chain of infection leading to a complete standstill of all businesses and other activities. No manufacturing plants working, no vehicles on road, no trains and other modes of transportation including aviation in operation, led to decline in carbon emission by remarkable amount. The most polluted cities also were started breathing clean air with decline of PM2.5 by 15 per cent to 60 per cent. The most polluted city Delhi also had better air quality in April and May due to lockdown (59 per cent decline in PM2.5). New York reduced by 25 per cent, Seoul by 54 per cent, Wuhan by 44 per cent Los Angeles by 31 per cent showing that worldwide pollution has gone down. This has helped to assess the capacity of mother earth to regain the environment if human activities are restricted.

#### **3.2. Decline in Deficit:**

During the lockdown public expenditure was mainly diverted to health sector and rest of the activities besides defence were at standstill hence the deficit started reducing the reason for fall in government expenditure mainly lies in less spending in oil import expenditure Less use of fuel and energy generation. The changes are also due to reduction in Gold imports and trade being halted. Though the revenue surplus created in March 2020 at Rs. 11 Lakh mn is turned to deficit in the next month to Rs 25 lakh mn.

**Table 1.: Change in Deficit in India During COVID-19**

	Revenue deficit (rs.cr)	Gross fiscal deficit (rs.cr.)
Dec 19	8,42,270	12,38,910
Jan 20	4,32,470	5,37,470
Feb 20	3,24,490	5,10,130
Mar 20	-11,54,130	-10,08,500
Apr 20	25,15,710	27,95,120
May 20	16,03,970	18,68,310

Source: CMIE economy outlook

As shown in above table the deficit is reduced (both revenue and fiscal) in May 2020.

### **3.3. Increase in Foreign Reserves:**

India's foreign exchange reserves rose by USD 1.3 billion to USD 506.8 billion during the week ended 26 June 2020. Foreign currency assets, the largest component of India's foreign exchange reserves, increased by USD 564 million to USD 467.6 billion. Gold reserves increased by USD 708 million, but special drawing rights (SDRs) contracted by USD 3 million. India's reserves position in International Monetary Fund (IMF) improved by USD 3 million to USD 4.3 billion during the week ended 26 June 2020. (CMIE)

### **3.4. Spread of Digitalisation:**

India's online shopping population could see a sharp increase, online penetration in grocery could finally inflect as e-commerce and new entrants make a bigger push in this category, digitization of small and medium business (SMB) enterprises could take centre-stage (and) investments in segments such as gaming, ed-tech, health-tech, and cloud could increase. India's total online shopper base at 30 per cent of its internet population is low when compared with 78 per cent in China and 70-plus per cent in the US. Morgan Stanley projected India's 670 million internet users to rise to 914 million by 2027 and online shoppers to jump to 590 million from 190 million in 2020. COVID-19 has relieved some apprehension relating to digital transactions. (Such as e-commerce



and payments) and provide a tailwind to growth in India's digital economy. (Economic times)<sup>3</sup>

The average spend per online shoppers is also projected to nearly double to USD 318. The power of online has been seen in the past few months as start-ups helped consumers shop, pay for bills, converse, entertain, and collaborate without much physical contact.

### **3.5. Technology Enhancement:**

Normal have carved a new shape of the business conduct and consumer behaviours with the help of technology enhancement. COVID-19 spread was to be stopped by social distancing and hence crowding at workplace or while traveling. Hence there is a need for working online to avoid any kind of physical contact. Technology helps to be connected even if physically distanced. Leading to new normal conduct of business. Following cases are good example of such technology – a) Blue Apron's (meal kit supplier) stock price was \$2.6 apiece, which registered a strong rally and ended at \$15 apiece on March 18, 2020. b) Zoom's stock price has zoomed from \$104 on March 02, 2020 to \$150 on March 30, 2020. However, also crisis highlighted the digital divide within countries, across regions, and in rural communities and urban digital deserts to take further action.

New technology includes Collaboration tools *e.g.*, video conferencing, team chat, project planning, *etc.* It also develops virtualization infrastructure *e.g.*, remote desktops, VPN networking, learning to use mobile devices, maintain their security.

### **3.6. Family Time:**

The pandemic of COVID-19 and lockdown thereafter have given chance to the families which were the victims of fast life and were unable to spend quality time with

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<sup>3</sup> [https://economictimes.indiatimes.com/tech/internet/covid-19-to-accelerate-digital-adoption-in-india-jio-helped-spur-internet-usage-morgan-stanley/articleshow/76031939.cms?utm\\_source=contentofinterest&utm\\_medium=text&utm\\_campaign=cppst](https://economictimes.indiatimes.com/tech/internet/covid-19-to-accelerate-digital-adoption-in-india-jio-helped-spur-internet-usage-morgan-stanley/articleshow/76031939.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst)

each other, got chance to be together. Children and parents, husband and wife, senior citizens of the families were able to spend time together.

Though there are above mentioned positive effects experienced, but the pandemic has worsened the situation on almost all junctures of life. Unprecedented deaths, and loss of economic resources have led economy to contract the interactions. Similarly, physical and social distancing have also raised the question of maintaining good mental health. Some of these problems are explained as under.

#### **4. NEGATIVE EFFECTS OF NEW NORMAL IN COVID-19:**

It is seen that the world is now facing a very different situation which is very gloomy for the survival in such epidemic disease.

##### **4.1. Loss of Lives:**

The health services in India is inadequate to fight this pandemic. Using data from National health profile 2019, there are 7,13,986 total government hospital beds available in India. This amounts 0.55 beds per 1000 patients. The elderly population is especially vulnerable, given more complications which are reported for patients in this age group. (5.18 beds per 1000 Sr. citizens). There is also a state level variation of beds availability in India 12 states having 70 per cent of population in India like Bihar, Jharkhand, Gujarat, Uttar Pradesh, Andhra Pradesh, Madhya Pradesh, Haryana, Maharashtra, Orissa, Assam, Manipur have 0.55 beds per 1000 person. Further the doctor patient ratio is at 1:1800 in India, where world average is 1:1000 as per World health organisation (WHO). India's total healthcare spending (out-of-pocket and public), at 3.6 per cent of GDP, as per OECD, is way lower than that of other countries. The average for OECD countries in 2018 was 8.8 per cent of GDP. Developed nations such as the US (16.9 per cent), Germany (11.2 per cent), France (11.2 per cent) and Japan (10.9 per cent) spend even more. India spends the least among BRICS countries: Brazil spends the most (9.2 per cent), followed by South Africa (8.1 per cent), Russia (5.3 per cent), China (5 per cent). With public healthcare infrastructure stretched, out-of-pocket expenditure in urban centres is high in India. The Centre spends less as public

health and sanitation are on the State list. India needs to increase beds, health infrastructure and health professionals in COVID 19.

#### **4.2. Global Economy Affected:**

That major economies will lose at least 2.4 per cent to 13 per cent of the value of their gross domestic product (GDP) over 2020 due to COVID-19. The lockdown has affected global economy with loss of \$90 trillion. Global trade could also fall by 13 per cent to 32 per cent, depending on the depth and extent of the global economic downturn.

Production declines in China have spill over effects around the world given China's role in producing computers, electronics, pharmaceuticals and transport equipment, and as a primary source of demand for many commodities.<sup>234</sup> Across Asia, some forecasters argue that recent data indicate that Japan, South Korea, Thailand, the Philippines, Indonesia, Malaysia, and Vietnam could experience an economic recession in 2020. In early January 2020, before the COVID-19 outbreak, economic growth in developing economies was projected by the International Monetary Fund (IMF) to be slightly more positive than in 2019. This outlook was based on progress being made in U.S.-China trade talks that were expected to roll back some tariffs and an increase in India's rate of growth.

#### **4.3. Reshuffling Global Trade and Politics:**

Globalisation has faded the borders of countries and hence there was lot of interdependence. Hence, there is a need to rethink about global supply chains due to lockdown internationally as well as domestically. It will have an impact on transfer pricing due to vertical linkages especially in industries internationally.

On the other hand, there is also a possibility of insolvency and defaults in various industries due to breaking of business connectivity. Under the weight of the

new crown pandemic, many giants are facing the crisis of failure. Five months of pandemic created a lot of debt, and number of companies went bankrupt in the world<sup>4</sup>.

Another point to be taken care of is of capital flight and contraction of FDI. the International Monetary Fund announced that investors had removed 83 billion US\$ from developing countries since the beginning of the COVID-19 crisis, the largest capital outflow ever recorded. (IMF press release According to the UN Conference on Trade and Development (UNCTAD), global FDI flows are expected to contract between 30 per cent to 40 per cent during 2020/21. All sectors will be affected, but sharp contractions in FDI are especially evident in consumer cyclicals, such as airlines, hotels, restaurants and leisure, as well as manufacturing industries and the energy sector (UNCTAD 2020). Shrunk market size with shortages of liquidity brings restriction on flow of funds across borders.

#### **4.4. Indian Economy is Pushed Back:**

The IMF has projected the Indian economy to contract by 4.5 per cent in 2020. It was measured that Indian growth rate was reduced by 6.4 per cent for 2020-21 (CARE). That shows the actual GDP growth rate was -1.6 per cent during lockdown's first three phase (CMIE). India is the tenth most-affected nation by the pandemic after US, Russia, UK, Spain, Italy, Brazil, Germany, Turkey, and France as per indicated by John Hopkins university data tracker. Lockdown of more than 100 days have resulted contraction in supply chain. A complete standstill of manufacturing plants has reduced the supply of all consumables. The vertical and horizontal linkages are broken and hence the industrial sector is suffering on manufacturing. There is a lack of funds as the banks are also suffering liquidity crunch. Banking sector is distressed due to rising of NPAs even before COVID-19. The pandemic has added to such ruins. Continuous fall in interest rate have affected the returns to the pensioners on their term deposits and hence restrict the flow of deposits to the banks. On the other hand, there is no takeaway for loans due to uncertainty and contraction of supply chain in spite of a bailout package of Rs. 20 lakh crores in India. MSME is expected to pick

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<sup>4</sup> Some of the cases showing grim picture are as follows - Victoria's Secret declared bankruptcy, Zara closed 1200 stores, La Chapelle withdrew 4391 stores.



up the benefit but due to problems of migrant labours and non-availability of raw material there is a limited response from them.

#### **4.5. Inadequate Public Health Services in India:**

In India healthcare spending (out-of-pocket and public) is at 3.6 per cent of GDP which is lowest amongst BRICS countries too. Brazil spends the most (9.2 per cent), followed by South Africa (8.1 per cent), Russia (5.3 per cent), China (5 per cent).

The average of health sector spending for OECD countries in 2018 was 8.8 per cent of GDP. Developed nation spending on health sector is as high as 16.9 per cent in US, 11.2 per cent in Germany, 11.2 per cent in France and 10.9 per cent in Japan sometime even more. The health emergency arouse from the pandemic is difficult to handle in India due to inadequate health infrastructure available in India. As explained before the availability of beds in govt. hospitals per thousand patients is as mere as 0.55 in India. Whereas it is highest in Japan at 13 followed by Korea at 12 and Germany at 8. Hence, the deaths due to COVID-19 in India is rising and yet to have control over the spread.

#### **4.6. Negative Impact on Indian Industries:**

As per CMIE report of June 2020, Indian Industrial production in May fell over a base of 4.5 per cent. This comes after a 57.6 per cent decline recorded in April 2020. Mining & quarrying activity recorded a 21 per cent y-o-y fall in May 2020. Electricity generation declined by 15.4 per cent. Manufacturing index nosedived from 135.8 in May 2019 to 82.4 in May 2020. It translates into a 39.3 per cent y-o-y fall. 22 out of 23 industry groups in the manufacturing sector recorded a fall in production. Production of 9 out of 23 industry groups declined by more than 60 per cent in May 2020. These sectors include production of motor vehicles, furniture, and machinery, electrical equipment, computers & electronics, fabricated metal products, wood, paper, leather, textiles, readymade garments, beverages, and tobacco.

India has slowly started unlocking in June. It is thus quite likely for industrial activity to continue declining through May and June 2020, but the extent of the fall is expected to slowly reduce. The sectors facing the highest job losses are travel and tourism, automobiles, food, entertainment, aviation, and manufacturing. Whereas the industries doing good during this time are Healthcare, Pharmaceuticals, e-commerce, IT services and essential retails. However, some industries would relax a bit are hospitality including hotels, restaurants, and malls along with jewel industry and retail industry.

#### **4.7. Increase in Unemployment:**

The job loss in India due to COVID-19 is approximately 130 million and 40 per cent of those would be blue collar jobs. (global consultant report 2020) the major problem felt by industries is lack of working capital, non-availability of workers and drastic reduction in consumers demand. Whereas most hit is to the population between the age-group of 25-29 age.

The rate had gone up from 8.75 per cent in March to 23.5 per cent in April. It had peaked at 27.1 per cent in the week ended on 3<sup>rd</sup> May 2020. In the first three weeks of June, the unemployment rate dropped to 17.5 per cent, then 11.6 per cent and now 8.5 per cent. more towns and cities emerge from the lockdown and economic activity starts gathering pace. (CMIE) However, in June 2020, the rate of unemployment in India has come to normal at 13.1 in June 20 which had touched 30 per cent in May. Rural unemployment is at 11 per cent which was 8.3 per cent before lockdown. Increase in MNEREGA days and sharp increase in Kharif sowing is leading to improvement in employment in rural India.

#### **5. NEW NORMAL FOR COMMON MAN:**

Common man must incorporate many changes in the new normal situation to fight COVID-19. Work from Home, Physical distancing, maintenance of hygiene, use of sanitizer are the main habits to be incorporated in one's life. There will be change in the working condition as well as the job requirement leading to change in the required skill sets. The training programs to develop the needed skills sets would change the

academics and curriculum of various streams of education. Technology and digitalisation will be an obvious facet of the expected new normal life.

There will be restrictions on outing and social gatherings to avoid infections and hence people will be confined to limited physical space. This may have an adverse impact on nurturing of interpersonal relations and hence affect mental health.

Children will not be able to gather in school where they used to learn not only the curriculum but also the facets of development of personality like leadership skills, discipline, team bonding, *etc.* women, senior citizens, physically challenged people also will have to get acquainted with such new normal in post COVID-19.

## **6. EPILOGUE:**

New normal for post COVID-19 is different from pre COVID-19 in all dimensions of life. The experience of pandemic is historical in its effect on life for everyone irrespective of the countries and their stages of development. It is evidenced from evaluating of impact of COVID-19 is mostly negative than that of positive for economy.

There will be a different style of living post COVID-19. Changes in employment, social structure, and the living pattern of everybody and many more factors needed to be dealt with the new normal. Hope to have reduce significant humanitarian effects and social and economic impacts caused by a total lockdown of population.

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