Visiting Scholars' Opinion Paper

ViSiTiNG SCHOLARS' OPINION

KIEP Visiting Scholars Program Crisis and Fragility: Economic Impact of C VID-19 and Policy Responses

Edited by Dr. CHO Choongjae



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Dr. CHO Choongjae

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In 2009, the Korea Institute for International Economic Policy (KIEP) launched its Visiting Scholars Program (VSP). Since its inception, 102 scholars from 38 countries have participated in the program and the VSP has demonstrated that sharing thoughts and ideas works as a catalyst for enhancing mutual understanding among scholars and professionals from diverse backgrounds. Successfully operating the VSP over the past 11 years, KIEP has remained committed in its role as a hub for international economic research in the region.

With the spread of COVID-19 across the world, face-to-face interactions and communication have become more and more difficult and it became impossible to invite visiting scholars to KIEP in 2020. When it comes to tackling this common crisis, international cooperation and cross-border exchanges of knowledge and insights are playing a pivotal role. In order to encourage interchanges between past visiting scholars, KIEP has decided to publish a series of Visiting Scholars' Opinion Papers, under the topic of "Crisis and Fragility: Economic Impact of COVID-19 and Policy Responses."

The COVID-19 pandemic has disproportionately affected vulnerable sectors of our society. At an international level, COVID-19 has been accelerating the reshaping of global value chains, seen for instance in the rise of protectionism. At a national level, the pandemic highlights multidimensional aspects of fragility in public systems. At a personal level, the impact of COVID-19 has been particularly harsh on socially disadvantaged individuals.

In this context, these Visiting Scholars' Opinion Papers aim at examining crisis and fragility, focusing on the economic impact of COVID-19 and

policy responses in diverse aspects of international trade and cooperation, business and industry, labor and employment, and health and sustainable development. We hope these papers can provide a foundation for policy learning and comparative research among countries by discussing and sharing crisis, policy responses and implications for each country.

Here I would like to express my deepest gratitude to the 25 past visiting scholars from Egypt, Ethiopia, India, Indonesia, Iran, Nepal, Nigeria, Pakistan, Palestine, Sri Lanka, Turkey, UK, Uzbekistan, and Vietnam who have gladly contributed their Opinion Papers. Special appreciation goes to Dr. CHO Choongjae and Ms. YOO Injee, who planned and managed the overall process, Dr. JANG Youngook, Dr. LEE Sunhyung, Dr. RO Yoon Jae and Dr. KANG Munsu, who reviewed the opinion papers, and Mr. CHANG Min-kyu, who edited the papers.

We look forward to meeting everyone in person after the end of the pandemic.

Dr. KIM Heungchong

President, Korea Institute for International Economic Policy

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Breaking the Chains. COVID-19 Impact on the Global Supply Chains in the Health Sector

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Visiting Scholars' Opinion Paper

Crisis and Fragility: Economic Impact of COVID-19 and Policy Responses

Breaking the Chains. COVID-19 Impact on the Global Supply Chains in the Health Sector

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Abstract

2020 will be remembered in world history as the Year of the Pandemic and the one with the worst economic recession on record since the Great Depression of the Thirties. While virtually all countries and sectors in the world have been severely affected by Covid-19, there is one that presents unique challenges: the world's pharmaceutical sector, now under enormous stress to discover and manufacture a vaccine and/or an efficient retroviral treatment protocol for the coronavirus emergency. As the last months have shown, countries have made use of heavy-ended protectionist measures to ensure domestic supplies of medical protective equipment and treatment drugs, in the widespread fear that the disruption of the global supply chain of the pharmaceutical sector would restrict or harm their access to treatment. As often in similar situations, unilateral protectionist initiatives generally backfire, resulting in retaliatory actions and in global shortages. This piece analyses the pharmaceutical sector's friction points, discuss possible scenarios, and suggests mitigations strategies.

Keywords: pandemic; global supply chain; pharmaceutical sector; protectionist measure; the EU initiatives

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International Trade and Cooperation





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1. A year like no others

2020 will be remembered in the world history as the Year of the Pandemic. To be true, it is not the first time world has been stricken by a pathogen. The Black Death killed about one-third of Europe population in 1347-1350. In 1919 Spanish Flu made more victims than the First World War, counted in several million. What is unique about Covid-19 and different from the previous two, however, is that, so far, it is proving comparatively deadlier for human activities than for humans themselves.

A look at the data will show that, globally speaking, this is the worst recession on paper since the 1929 Great Depression, due to what the IMF called the 'Great Lockdown', that in spring 2020 put the breaks to economic activities of billions of people to stop the pandemic to spread. And while firm numbers for 2020 GPD are still far from certain, the predicted figure is about a global –3 per cent, for a projected loss of about 9 trillion US\$ (IMF, 2020). As a comparison, the global financial crisis of 2008-2009 only accounted for what seems now a modest -0.1 per cent of real GDP growth, year-on-year per cent change. For some countries, these grim figures are even grimmer. In the UK, the GDP fell by 20.4 per cent in Quarter 2 (April to June) 2020, the worst ever result since records have been taken (ONS, 2020).

Moreover, things can get even worse than that, especially if what everybody fears turns to be correct – i.e., the so-called 'Autumn wave', an even deadlier outbreak of the virus, as it happened with the Spanish Flu – and countries are forced back into lockdown. This seems to be the case in Europe, with France and Spain getting back to localised lockdown at the end of September and other countries, such as Italy and the UK, facing rising numbers of infected.

The IMF predicted an additional -3 per cent in 2020 if the pandemic continues until the end of the year. In the case it draws on 2021, about -8 per cent more could be added to the already bleak forecast.

This is what at least seems to be the history's lesson from the Great Depression, which is the longest (1929-1940) and most severe economic crisis the modern world remembers.

Some comparative analyses (NYT, 2020) draw the attention on disturbing similarities between the two cases; others (Barro et al., 2020) explore instead the economic fallout of the Spanish flu in 1919 not only on GDP growth but

also on inflation, stock exchanges, and government revenue.

And yet, looking now at the way it started back in December 2019 and to the comparatively mild mortality rate (about 3-4 per cent overall), it seems difficult to believe something in kind managed, and still manages, to wreak havoc to the entire planet. After all, while Covid-19's closest relative, the 2003 virus SARS, did create economic fallout in East Asia, that crisis was short-lived. To understand why things are so different, we need to remember that the world economy functions now in a truly interconnected way, far more it was the case two decades ago. Not only the status of enhanced globalisation we live nowadays made possible to the virus to spread like fire across the planet; it obliged countries to virtually shut down essential activities, like international travel, tourism, and global supply chains (GSCs), which are the way both advanced and emerging economies profit from the economic growth.

To the analysis of one specific global supply chain this article is devoted. With one important point: this particular supply chain is fundamental to fight the Covid-19 that caused its disruption in the first place. Because it is about the pharmaceutical sector and its troubles in these difficult times.

2. Big pharma, big headache? The challenges of a complex supply chain

It might not figure among the top ten world industries for revenue, but the pharmaceutical sector remains one of the most prominent nonetheless, with a global market value of about US\$1.25 trillion in 2019, which was the result of sustained growth over the last decades. Among the top players of the sector, both in terms of R&D and prescription sales, there are European and US companies, including some giants of the sector such as the Swiss Roche (US\$48.25 billion of sales in 2019) and Novartis, the US Pfizer, Merck, Bristol Myer & Squibb, J&J, the UK GSK and AstraZaneca, and the German Bayer. Among the giants, there is also the Japanese Takeda.

Apart from these figures, the American companies were the ones who contributed the most to the development of new chemicals and biological substances –120 in between 1998-2019, compared to 58 for Europe and 36 for Japan. This also explains the increase in the already elevated industry ratio of R&D, which reached about US\$180 billion in 2018.

Chart 1.



Top 15 global pharmaceutical companies by prescription sales and R&D spending in 2019 (in billion US dollars)



Even in times when all the Covid-19-related hurdles were not an issue, scholars had already discussed and highlighted specific concerns regarding the global health supply chain, the lack of coordination among the world institutions first of all (Sridhar and Batniji, 2008), something that has gained enhanced attention in 2020 after the Covid-19 struck worldwide.

But there have always been other issues straining the global supply chain of the health sector for a few years now, and they encompass a series of areas (Privett & Gonsalvez, 2014), such as: inventory management; insufficient data about demand; difficulties in recruitment (availability of trained personnel is often a factor, especially in developing countries; Dowling, 2011); insufficient contingency plans against localised shortages; the issues of expiration dates and other technical fault lines (warehouse management and temperature control among them) and, last but not the least, shipment policies.

But in 2020, due to the Covid-19 crisis, another quite serious fault line has emerged. It is something that directly affects not, or not just, the market leaders in R&D but the so-called generic drugs manufacturers. These companies, while less known than the giants in the above chart are nonetheless an important and ubiquitous feature in the world's pharmaceutical industry.

Once the patent protection over a branded drug expires, companies other than the original manufacturer are free to get the compound formula and produce it, at a generally cheaper price. Many of these companies are now increasingly based in emerging countries, in what has represented a market shift since the 2000s (Kesic, 2009) when they belonged mostly advanced economies; they also supply the world with both over-the-counter products such as acetaminophen (paracetamol), aspirin, and with chemical compounds ending up in other drug manufacturing.

Their business model is therefore quite different from the so-called branded-drug companies considered before, which invest heavily (a company like AstroZaneca spends about a quarter of its revenue share in R&D) in the development of new drugs from where most of the profits come from.

In line with the growth of the global pharmaceutical market, the generic drug segment has been growing as well and is projected to rise at a compound annual growth rate (CAGR) of about 8.7 per cent in the next years. The five-year projection (2016 to 2021) forecasts a global increase from US\$352 billion to \$533 billion (European Pharmaceutical Review, 2019).

Some of the biggest generic drug manufacturers have a substantial dimension – like the segment leader, the Israeli Teva Pharmaceutical Industries (US\$18.9 billion of revenue) – even though with lower revenues compared to the sector giants.

India prominently figures among them, both in terms of companies and as a consumer market. The country is by far the largest suppliers of generic drugs in the world, contributing up to 40 per cent of the United States' generic demand in 2019 and widely exporting everywhere in the world (only in 2019, India pharmaceutical export grew of +11 per cent). Among the Indian leading companies, there's the Mumbai-based Lupin Pharmaceutical with a turnover of about US\$2.3 billion, and Sun Pharmaceuticals (US\$4 billion) also based in Mumbai.

Taking everybody by surprise, in March 2020 India decided to restrict exports of 26 drugs' active ingredients in order to prevent internal shortages,

and sounded alert bells everywhere (*BBC*, 4 March 2020; after a few weeks, however, India eventually relaxed the ban due to the US retaliation threats; *The Economic Times*, 9 April 2020).

This followed the temporary closure of compound manufacturers in China, which supply about 70 per cent of Indian pharmaceutical companies, including components such as a few antibiotics – tinidazole and erythromycin – the fertility drug progesterone, Vitamin B12 and the omnipresent paracetamol.

Panicked headlines in the press apart, the reaction of the pharmaceutical industry has been mixed. Some generic drug manufacturers such as the European Mylanm admitted drug shortage a possibility in the medium term, while others, like the US-based Eli Lilly excluded any adverse impact on its own products, as for instance, insulin products.

However, when considering that together China and India produce more than 80 per cent of the world's paracetamol (China 59 per cent and India 25 per cent in 2016), 90 per cent of its penicillin and amoxicillin (two essential antibiotics), and 50 per cent of its ibuprofen, any change in their foreign trade approach is liable to create alarm and fuel stockpiling initiatives or, worse, retaliatory measures to address the shortage threat.

3. What next? Scenario analysis

Some projections suggest that the Covid-19 pandemic will probably be over in a couple of years, especially if one or a handful of the many vaccines under study at the moment (about 180 to date, 32 of which are currently in human trials; New York Times, 21 August 2020) makes to the finishing line and starts delivering results. However, as discussed above, even in these allegedly optimistic scenarios there's the lingering and not-so-farfetched worry that the economy will suffer many years to come. Moreover, as shown above, the global health sector faces specific challenges, some of them already well known to the sector experts. However, in some cases, Covid-19 is increasingly regarded as the proverbial last straw that breaks the camel's back.

Since the start of the emergency in January 2020, the US FDA (Food and

Drugs Administration) has kept close contact with the manufacturers of medical equipment and with more 180 producers of human drugs, with the dual aim of getting notification of any anticipated supply disruptions and evaluating their global supply chain, including active pharmaceutical ingredients (i.e. the main ingredient in the drug) and other filling components, especially the ones manufactured in China (FDA, 2020).

This adds to the general concerns about the over-reliance on the Asian raw production of API (active pharmaceutical ingredients) that the CFR has been already flagging in pre-Covid-19 times, under a security framework perspective.

"While the Department of Defence only purchases a small quantity of finished pharmaceuticals from China, about 80 per cent of the active pharmaceutical ingredients (APIs) used to make drugs in the United States are said to come from China and other countries like India" (CFR, 2019, online).

It is possible, albeit not likely, that the US would consider restructuring their pharmaceutical supply chain due to security concerns, even though the case of REEs is a good example of how this is neither simple nor easily achievable in the short term.

The EU has gone even further in its vulnerability security assessment.

A EU report of July 2020 takes stock of a perceived medicine shortage in the European market, coming out with what looks like a geopolitical assessment (The EU Commission, 2020). According to the report, and in line with what mentioned in the previous section, 80 per cent of active pharmaceutical ingredients used in Europe are sourced from India and China; the two countries together account for about 40 per cent of finished medicines sold on the European markets.

To address this looming threat, the EU put on the table a series of mitigation initiatives, the return to EU independence to secure autonomous supplies of medicine and equipment in the first place.

The report goes to the extent of recommending the identification of potential production sites for EU pharmaceutical manufacturing, together with financial incentives to encourage European producers to reshore their production factories. This will likely take back to Europe the manufacturing of some of the most popular drugs, reversing a trend of the last decades that led to the shutting down of European domestic facilities, as Rodhia, which closed its last plant in Southern France in December 2008 (MacDonald, 2009), leaving the US company Covidien as the only non-Asian paracetamol producer.

In parallel, a more robust intra-EU coordination among member states is advocated as fundamental to deliver affordable and open-to-all health care to European residents.

Even beyond the EU Commission concerns, there are evidence countries are starting stockpiling both chemical compounds and ready-to-use medical supplies, in what looks like an understandable but hardly helpful reaction to a global supply threat.

A quite recent example is Finland, which has started stockpiling generic (but essential in Covid-19 emergency) medications such as paracetamol and dexamethasone in summer 2020 (*Euronews*, 9 August 2020), due to growing worries that the drug global supplies would run out due to production cut in China as had already happened in March 2020.

This is a cause for concern.

A long experience and studies in the economics of stockpiling show that this kind of policy approach risks to be counterproductive for everybody and severely harmful for the most vulnerable countries. This adds to worries of protectionist measures aimed at restricting exports of the drug compounds and other medical supplies to support the domestic medical sector. As mentioned before, a few of these measures have been enacted in the past months during the peak of the Covid-19 crisis, joining Indiaimposed ban on paracetamol export in March 2020 and making the global situation worse.

As the International Trade Centre reported (ITC, 2020) in April 2020, 88 countries had some kind of protectionist measures in place, ranging from an outright ban to some sort of restrictions on selected items). While some countries have since then relaxed those measures, especially in summertime, others have not.

Chart 2.

Covid-19 temporary export measures worldwide



COVID-19 Temporary Export Measures Affected products include personal protection equipment (e.g. masks, gloves), pharma products, hand sanitizer, food and certain other products

"It has become apparent that protectionist measures are affecting the global pharmaceutical supply chain. Export bans and national stockpiling, within and outside the EU, can easily lead to inequitable supply and shortages in the EU and worldwide." (The EU Commission, 2020:5).

It doesn't need to be in this way.

If there is anything good that has emerged from the Covid-19 emergency, it is in the sense of a never-before witnessed close cooperation among large pharmaceutical companies in a joint effort to find a cure.

In March 2020, a few of the sector leaders, Novartis, AstroZaneca, Takeda, Eli Lilly, Novartis, Gilead among them, formed a research group, Covid-19 R&D, to share best practice, data analysis, and streamline cooperation toward a vaccine (*The Scientist, 2020*).

Another example of global cooperation is the Access to COVID-19

Tools (ACT) Accelerator, launched in April 2020 and that was the result of a combined effort by the WHO Director-General, the French President Emmanuel Macron, the EU President, and the Bill & Melinda Gates Foundation to bring together public and private organisation against the new coronavirus challenge (*WHO, 2020*).

More importantly, "the collaboration between Gavi, SII, and the Gates Foundation supports the efforts of the ACT Accelerator's vaccines pillar, also known as COVAX, co-led by Gavi, CEPI and the World Health Organization (WHO), to accelerate the development of COVID-19 vaccines and ensure rapid, global access to them. Decisions around investment in manufacturing are taken in close collaboration between these three lead organisations of the COVAX pillar," (Gavi, 2020, online), which will become crucial once one or more vaccines will be approved for use and will need to go into mass production.

Global cooperation is the way to go.

A multinational, concerted response to the virus and the economic fallout that is stretching the limits of more of one industry or country is required if the world wants to limit the damages of what increasingly looks like a perfect storm.

Managing the supply chain of one of the essential ammunitions we have against the virus -our global health care sector - and avoiding protectionist measures that undermine joint efforts are, and have to remain, the world's top priorities.

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COVID-19's Lessons in Self-Reliance and India's Recent Trade Policies

PART

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Visiting Scholars' Opinion Paper

Crisis and Fragility: Economic Impact of COVID-19 and Policy Responses

COVID-19's Lessons in Self-Reliance and India's Recent Trade Policies

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Abstract

The outbreak of a deadly coronavirus followed by a worldwide lockdown led to a complete shutdown of global economic activity. This led to both demand and supply side shocks to the world economy, thereby adversely affecting economic and trade operations. It has severely impacted economic operations in India and pushed the economy into a deep economic downturn. In view of challenges posed by the pandemic, the Government of India introduced the Self-Reliant India Mission to promote the domestic manufacturing industry to bring the economy back on track. Under the Self-Reliant India Mission, India is bringing significant changes in its trade policy regime to augment the domestic manufacturing sector. This opinion paper analyses the contemporary changes in India's trade policy, particularly with reference to mandatory standards for electric and machinery products

Keywords: trade policy, non-tariff measures, tariffs, global value chains and WTO

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International Trade and Cooperation





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Introduction

The outbreak of the coronavirus in Wuhan, China and its global diffusion has stalled the wheels of the world economy. International trade in goods and services cannot be an exception in today's world of global value chains in which economies are interdependent and inter-networked (Singh, 2020). The pandemic-led global economic crisis has attributed to both demand and supply side shocks with a sharp fall in global aggregate demand, consumption, investment and disruption in the functioning global supply chains.

One of the greatest challenges for countries is to respond to supply side shocks that originated from disruption in global supply chains. China, being a center of the pandemic and a global supplier of intermediate parts and finished goods, has severely impacted downstream manufacturing activities worldwide. The pandemic-led disruption in global supply chains has exposed the over-reliance of firms and economies on China. Challenges are further compounded by a widespread use of traditional trade policy instruments such as export restriction. This problem is particularly recognized in medical devices and the pharmaceutical sector. Extensive use of trade policy instruments and over-reliance received considerable policy attention both in developed and developing countries. It has created the need and urgency for countries such as India, Japan and the United States to make their supply chains more resilient to mitigate the adverse economic and trade implications.

It has been noted that many countries across the world are extensively using industrial policy measures to reorient their supply chain linkages. This is well recognised in the recent economic stimulus packages announced by countries. For example, Japan has announced a stimulus package of US\$2 billion to help Japanese companies move their production out of China and develop alternative sources of global trade supply chains¹. The Government of India's call for a Self-Reliant India (Atmanirbhar Bharat) categorically focuses on promoting the domestic manufacturing industry to address the looming economic crisis. India also recognizes that the expansion and development of the domestic manufacturing sector is critical to providing

Coronavirus Impact: Japan to offer \$2.2 billion to firms shifting production out of China, Business Today, 10 April 2020 https://www.businesstoday.in/current/world/coronavirus-impact-japan-to-offer-22-billion-tofirms-shifting-production-out-of-china/story/400721.html

productive employment, reduce poverty and regional inequalities.

The Self-Reliant India Mission has received considerable attention globally. Economists, trade analysts and research scholars are arguing that India is moving back to import substitution of the 1980s. However, the Government has made it very clear that the Self-Reliant India need not be interpreted in the context of the import substitution strategy. It is an effort to create an ecosystem that promotes the domestic manufacturing industry. Against this backdrop, this opinion paper is segregated into four parts. Section 1 provides a brief overview of Self-Reliant India Mission and its key elements in shaping the future of the economy. Section 2 discusses the dynamics and direction of India's foreign trade with the world. Section 3 maps recent changes in India's trade policy in specific areas to regulate imports and its potential implications to the domestic and export manufacturing industry. Section 4 concludes the main findings.

1. The Self-Reliant India Mission

In his historic speech on 12 May 2020, Prime Minister Narendra Modi made a clarion call for Self-Reliant India to unleash the path of sustainable economic development. He emphasized five pillars: a) Economy, b) Infrastructure, c) System, d) Vibrant Demography, e) Demand. The Government has introduced an economic package of US\$ 265 billion (INR 20 lakh) to undertake bold reforms to reduce the cost of factor of production (land, labor, liquidity) and address legal and regulatory impediments.

The Self-Reliant India Mission clearly outlines key priorities to revive the economy with a focus on expanding the capacity of domestic manufacturing. The overarching goal of these five pillars is to make India Self-Reliant in key economic sectors by augmenting the capacity of domestic manufacturing and shifting the economy at a higher growth trajectory. This will ultimately lead to greater economic activities, thereby creating employment opportunities for millions of young people.

These five pillars of Self-Reliant India complement each other. The first pillar focuses on the heart and vein of the economy and underpins the importance of a strong and diversified economy, reflected not just in domestic and external macroeconomic fundamentals but in addressing distortive elements of demand and supply. India's development challenges of providing livelihoods and quality employment requires a greater focus on addressing key economic sectors. The second pillar focuses on developing

the critical infrastructure and contains many initiatives for infrastructure and development projects. Key areas of infrastructure development include boosting connectivity within the country as well as with regional markets, development of dedicated freight corridors and upgradation of industrial infrastructure and developing indigenous capabilities for Aircraft Maintenance, Repair, and Overhaul (MRO), among others.

The third pillar underlines the importance of creating a robust technologydriven system that encompasses governance, economic and social management in rendering public and private services. These include digital payments and digital transfers in most government programs to fix issues related to rent-seeking and inadequate utilization of resources. The value of a favourable demographic structure in sustainable economic development is placed in the fourth pillar of Self-Reliant India. Various international estimates suggest that India is likely to exhibit a relatively young population profile for the next several decades as compared to many countries. India has the unique advantage of large numbers of young people who can play an important role in fuelling the growth of the economy, provided this demographic divided is utilized through appropriate skill development and enhancement which are marketable. The final pillar focuses on demand creation and this is well reflected in the economic package. Given the fact that the Self-Reliant India mission focuses on improving domestic manufacturing capabilities to reduce imports of manufactured products, this creates the need to analyse India's foreign trade in this reference.

2. Dynamics and Direction of India's Trade with the World

India's foreign trade with the world has witnessed significant growth over the past two decades. Exports and imports have increased both in terms of values and volume. Figure 1 analyses the trend of India's trade with the world in last five years. It demonstrates that India's exports to the world were US\$ 263.89 billion in 2015 and increased to US\$ 323 billion in 2019. On the other hand, India's imports from the world were US\$ 390.80 billion in 2015 and reached US\$ 478.88 billion in 2019.

Figure 1. India's Foreign Trade with World(US\$ billion)



Source: ITC trade map, accessed on August 2020.

This demonstrates that the growth of India's imports from the world were higher than the growth of exports that led to a massive rise in India's total trade deficit over the concerned years. India's trade deficit was US\$ 126.91 billion in 2015 and reached US\$ 155.63 billion in 2019. India's trade with the top five major trading partners provides important insights regarding its trade deficit. India's top five export markets are the United States, the UAE, China, Hong Kong and Singapore while its top five import sources are China, the United States, the UAE, Saudi Arabia and Iraq. It is important to mention India has a significant trade deficit with China, which contributes almost one third to its total trade deficit. This is mainly in electric machinery equipment, machinery and mechanical appliances and organic chemicals.

Table 1 shows the composition of India's foreign trade. It is worth noting that India's exports to the world are dominated by resource-based products. India's top five exports include mineral fuels and oils, natural or cultured pearls, organic chemicals, machinery, mechanical appliances, and vehicles other than railway. India's top five exports contribute 42.74 percent to the total exports and concentrated in few products categories. On the contrary, India's imports from world include a combination of raw material,

intermediate and finished products. India's top five imports include mineral fuels, mineral oils, natural or cultured pearls, electrical machinery and equipment, machinery and mechanical appliances and organic chemicals. They constitute 68.39 percent of total imports from world.

Table 1.

India's Top Five Traded Products with World in 2019 (US\$ billion)

HSN	Products	Exports	Share
27	Mineral fuels, mineral oils	44.53	13.77
71	Natural or cultured pearls	36.73	11.36
84	Machinery, mechanical appliances	21.26	6.58
29	Organic chemicals	18.25	5.64
87	Vehicles other than railway	17.41	5.39
	India's Total Exports	323.25	
HSN	Products	Imports	Share
HSN 27	Products Mineral fuels, mineral oils	Imports 152.67	Share 31.89
HSN 27 71	Products Mineral fuels, mineral oils Natural or cultured pearls	Imports 152.67 58.90	Share 31.89 12.30
HSN 27 71 85	Products Mineral fuels, mineral oils Natural or cultured pearls Electrical machinery and equipment	Imports 152.67 58.90 50.85	Share 31.89 12.30 10.62
HSN 27 71 85 84	Products Mineral fuels, mineral oils Natural or cultured pearls Electrical machinery and equipment Machinery, mechanical appliances	Imports 152.67 58.90 50.85 44.48	Share 31.89 12.30 10.62 9.29
HSN 27 71 85 84 29	Products Mineral fuels, mineral oils Natural or cultured pearls Electrical machinery and equipment Machinery, mechanical appliances Organic chemicals	Imports 152.67 58.90 50.85 44.48 20.53	Share 31.89 12.30 10.62 9.29 4.29

Source: ITC Trade map, 2020

A close analysis of India's exported and imported products shows key product groups that contribute to India's trade deficit. India's trade deficit emanates from key product items such as animal and vegetable oil, mineral fuels, fertilizers, plastics and articles, natural or cultured pearls, electrical equipment, machinery equipment and optical and photographic instruments. Mineral fuels contribute 69 percent to India's total trade deficit, followed by electrical machinery and equipment at 23.07 percent, machinery, mechanical appliances at 14.91 percent and so on. India's concerns with respect to the rising trade deficit lies in product categories such as electrical machinery, equipment and machinery, mechanical appliances, fertilizers, plastic articles and optical and photographic instruments rather than mineral oil, mineral fuels and natural or cultured pearls. This is because mineral oils and fuels, natural or cultured pearls are natural resources available in a few specific countries of the world. Moreover, imports of these products add value in domestic industrial activities and exports.

3. Shifting Paradigm of India's Trade Policy: A Case of Mandatory Standards

Under the Self-Reliant India Mission, the Government of India is focusing on boosting domestic manufacturing capabilities to make India a hub of the global manufacturing sector. It is important to state here that the Government of India has categorically stated that Self-Reliant India focuses on augmenting and utilizing domestic production capacity to expand the role of the manufacturing sector in the economy.

The Department of Commerce under the Ministry of Commerce and Industry is working with relevant ministries to introduce a number of trade policy measures that would help India regulate imports of those products that can be manufactured domestically. In this context, a comprehensive mapping of products has been conducted to identify the potential tariff lines (HSN Eight Digit) in which India's imports from the world are significant. It is important to state that a number of products under Chapter 84 (machinery and mechanical appliances) and Chapter 85 (electrical machinery and equipment and parts thereof) were identified as those of which India's imports from the world are substantial. There are 756 tariff lines falling under Chapter 84, 85 and 29 in which India's imports from the world are significant. A high volume of low-cost imports in these tariff lines adversely impacts the domestic manufacturing industry. In order to curb imports in these tariff lines, the Government has two possible options. First, import tariffs may be increased in those tariffs in which imports are significant, but it is not possible to increase import tariffs on all tariff lines given the fact that affected countries will also retaliate against increased import tariffs. The possible option to use traditional trade policy instruments such as tariffs is limited. Second, India may introduce technical and quality standards to monitor imports of sub-standard and spurious products in the country. This option has a legal base and is relatively less conflictive. Keeping this in mind, the Government is in the process of introducing a number of mandatory technical standards to regulate the imports. The Department of Heavy Industries (DHI) and Bureau of India Standards (BIS) are working on the Omnibus Technical Regulations (OTR) on machinery and electrical safety standards to regulate imports of spurious machinery and electrical products in the country². The objective is to ensure that machinery and electrical products manufactured in India or imported from any country in the world must comply with the prescribed safety standards of BIS to protect users of the machines and electrical equipment and reduce the risks of environment. It is equally important to state that India's approach for formulating mandatory standards for imports under the Self-Reliant India Mission for machinery and electrical products is consistent with the World Trade Organization's Agreement on Technical Barriers (TBT), as the proposed mandatory standards do not discriminate between domestic and imported products.

However, the proposed mandatory standards for machinery products will have some implications for the domestic and export manufacturing industry. They can be broadly summed up in three points. First, the mandatory standards for machinery and electrical equipment will increase the cost of imported goods, thereby making final products expensive for Indian consumers. This essentially means that consumers have to pay a higher price if they are to buy similar or the same products from the domestic market. This line of thought may be challenged on the ground that if a country wants to develop its manufacturing capabilities, the government needs to provide import protection for a certain period of time so that it could beef up domestic manufacturing capabilities to compete with foreign producers. But, this has some drawbacks. It is stated that the Government support to the domestic industry is generally taken as granted by the industry and its demands for import protection become a permanent feature of policy. At a later stage, it becomes very challenging for the government to withdraw the support and create a market-driven system. This is primarily because of the state of the domestic political economy which creates an unviable dilemma for the Government to adopt competitive policies. They also discourage the private sector to invest in research and development to enhance their productivity to become more competitive.

Secondly, the proposed standards for machinery and electrical equipment will bring additional costs on the domestic manufacturing industry, especially Micro Small Medium Enterprises (MSME) to adhere to mandatory standards. This will increase the cost of manufacturing,

India - Draft Omnibus Technical Regulation for Safety of Machinery, https://www.tuv.com/regulations-and-standards/en/india-draft-omnibus-technical-regulation-for-safety-of-machinery.html
thereby affecting domestic and export competitiveness. This is vital in the context of MSMEs, which contribute a significant portion to the total manufacturing output of machinery and electrical equipment. Moreover, it will also increase procedural and operational hassles for MSMEs to comply with mandatory safety standards.

Finally, the potential implications of mandatory standards for machinery and electrical products may be far more serious for firms operating in value chain-led trade. Exporting firms relying on competitive imported machinery and electrical products will find it difficult to import machinery as the cost of compliance with mandatory standards for machinery and electrical equipment will magnify the cost of imported products. An increased cost of machinery and electrical products due to mandatory standards will increase the cost of exported products in value chain-led trade, thereby affecting the cost of competitiveness of final products. It will also affect their participation in value chain-led trade. It is pertinent to note that lead firms in GVCs are price-sensitive and tend to change their suppliers if the cost of any intermediate inputs at any stage of the value chain escalates the price of final products (World Bank 2020). This creates the potential risk for Indian machinery and electrical manufacturers to move out of value chain networks.

However, the likely implications of mandatory standards for machinery and electrical equipment will largely depend how the contemporary policy changes shape the cost dynamics in domestic and export manufacturing. In addition, it is equally important to bear in mind that the introduction of mandatory standards for machinery and electrical equipment may have cost implications for domestic machinery and electrical equipment manufacturers in the short run, but it may benefit them in the long run in terms of improving the quality of products. This hinges on other factors such as the ability of the Government to undertake reforms in those areas (product market and ease of doing business) which are far more critical for boosting productivity and competitiveness.

4. Conclusion

This short opinion piece gives a brief overview of the Self-Reliant India Mission and its key pillars to understand how it will contribute to the transformation of the manufacturing sector through various reforms. It analyses the dynamics of India's foreign trade and its evolving trade strategy under Self-Reliant India. It argues that India's approach to boost the domestic manufacturing industry by regulating imports of sub-standard products may have economic ramifications in the short run. It highlights that the introduction of mandatory standards for machinery and electrical equipment will increase the cost of manufacturing for domestic MSMEs as they need to comply with standards. They will also increase the cost of imported intermediate inputs and finished products, which may or may not be produced at equally competitive prices. This will have a significant impact on the consumers, who use imported finished products. Finally, firms that rely on competitive imports for their manufacturing exports are likely to suffer due to higher standards-induced compliance costs. On the other hand, they can also gain from improved quality standards as they are important determinants to participate in global value chains.

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COVID-19 and Pakistan's Trade

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PART 1

KIEP Visiting Scholars Program

Visiting Scholars' Opinion Paper

Crisis and Fragility: Economic Impact of COVID-19 and Policy Responses

COVID-19 and Pakistan's Trade

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COVID-19, more commonly known as the coronavirus was first detected in Wuhan, China in December 2019. It has since then plagued the entire world affecting over 42 million people and has resulted in a whopping death count of approximately 1.1 million.¹ Major countries that have borne the brunt of the impact like the USA, India, Brazil, Spain, Italy, France, Germany, and the UK account for about two-thirds of the global death toll. The United States alone has reported more than 8.8 million cases and 230,000 deaths. These countries contribute towards around 45% of global trade and around 65% of manufacturing value addition (Nakhoda, 2020). Hence the World Trade Organization's (WTO) predictions of a trade plunge of 18.5 percent in 2020² come as no surprise given the continued suffering of economies across the globe.

The outbreak of COVID-19 has disrupted the economies around the globe. The evolution of Coronavirus and its economic implications are greatly indeterminate, making it difficult for policymakers to express a suitable economic policy response (McKabbin and Fernando, 2020). With the virus showing no signs of relenting, a prolonged COVID-19 pandemic will have serious economic implications for a developing country like Pakistan. The Pakistani government approved a Rs. 1,200 billion relief package in March to deal with the growing coronavirus crisis. The relief

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International Trade

and Cooperation

Pakistan

2019

^{1.} As per Oct, 25th 2020 , https://www.worldometers.info/coronavirus/

^{2.} https://www.wto.org/english/news_e/pres20_e/pr858_e.htm

package contains Rs. 100 billion emergency fund that was set up to deal with the impact of the pandemic. Around 20.2 million low-income people were provided Rs 12,000 monthly for four months and additional Rs.200 billion has been allocated for daily wage earners and laborers due to lockdown. The government also abolished a 2 percent tax on the import of pulses and dry milk, Rs 50 billion was set aside for the procurement of medical supplies, a substantial Rs 280 billion was assigned for procurement of wheat to stock it for use in the future. However, despite of these measures, the impact of COVID-19 is beyond mortality and morbidity. Economies dependent heavily on remittances or on export revenue from those sectors which will be effected more in case of control actions like restrictions on transportation and limited labor mobility are exposed to a sharp decline in external revenue (ESCAP,2020).

Against this backdrop, this short policy brief discusses the impact of COVID-19 on Pakistan's trade and remittances. This brief also examines the economic implications of a potential second wave of corona on Pakistan's economy. This is done using a supply shock in the case of control actions like restrictions on transportation, less labor mobility, and closure of workplaces on Pakistan's economy using a Computable General Equilibrium (CGE) framework. This updated CGE model is calibrated with the latest Social Accounting Matrix of Pakistan.

Impact of COVID-19 on Pakistan Trade

Pakistan's economy is already at the brink of collapse having incurred a colossal external debt of approximately \$113 billion. Pakistan can face catastrophic consequences if the looming new trade crisis hits its shores, since about 50% of Pakistan's exports are shipped to countries most affected by COVID-19 (Figure 1). To fully comprehend the lethality of this new threat it is important to understand the sensitive situation the country was in before COVID-19. Given the gargantuan debt Pakistan owes to various countries and organizations and the nearly depleted state of its foreign reserves, the country has been in dire need of regular cash influxes for a prolonged period. When the current government of Pakistan came into power in 2018, one of its primary objectives was to lower the current account deficit by decreasing imports through applying contractionary pressures such as tariff hikes and to increase exports.

Figure 1. Major Trading Partners of Pakistan



Source: Author's calculation based on ESCAP (2020).

When the pandemic first hit China in December 2019, Pakistan's textile industry experienced an increase in export demand. Some of this was primarily attributed to the Pakistan-China Free Trade Agreement (FTA)-Phase II, which became operational from December 2019. This renegotiated FTA means now Pakistan will have similar access to the Chinese market as China has accorded to its competitors especially ASEAN countries. By January 2020, Pakistan's textile sector was working at full capacity in part due to the absence of government taxes but mainly because of the increase in orders from the world's textile buyers. Traffic in the textile sector was being diverted to Pakistan from China due to China's ongoing fight against COVID-19. Demand reached such heights that many Pakistani exporters began turning down new offers. It is worth noticing that many countries restrict their trade with China and redirect to Pakistan as an alternative but Pakistan seems unable to grasp this opportunity due to high dependence on China for the provision of raw material, intermediate and capital goods to boost the production and hence exports. China however made a speedy recovery and was soon back on its feet. Pakistan's demand for imports also dropped significantly due to lower levels of consumption and the shutdown of industries using imported raw materials for production. Figure- II illustrates the percentage change in Pakistan's imports and exports during the first six months of the Pandemic. Exports and Imports declined in the very first month of COVID-19 and the magnitude of decline continues to

increase by each passing month till May 2020. Exports drop by a minimum of 3.3 percent in January and a maximum of 20.3 percent in April. Whereas, Imports in Pakistan are less affected by COVID-19 as compared to exports. Imports lowered by merely 0.6 percent in January and declined by a maximum of 12.6 percent in May. In 2018, Pakistan exported around \$1 billion worth of medical products to its trading partners while imports were around \$980 million, thus a trade surplus in medical products (Nakhoda,2020. Almost 80 percent of Pakistani exports in medical products were comprised of just two products, indentured ethyl alcohol, and medical and surgical instruments (Hyder et.al, 2020).



Figure 2. Percentage Change in Pakistan's Import and Exports (Post COVID)

Source: Author's calculation based on Exports and Imports Data from State Bank of Pakistan.

COVID-19 is causing major disruptions in local and global food supply chains. The pandemic has been associated with direct and indirect impacts that carry certain uncertainties and complexities but in the analysis of cereal supply, most of the developed world is predicted to remain strong towards food supply shocks. However, COVID-19-induced trade restrictions could have severe impacts on agricultural income and GDP due to a decrease in trade and prices, globally (Udmale, Pal & Szabo, et al., 2020). To help small and medium-sized enterprises (SMEs) continue their operations, the supply chain integration must be supported. The government of Pakistan should make sure that large enterprises cooperate with them. Bringing these SMEs back into the broken supply chain and logistics will be crucial. Not only should the government provide tax reliefs but also give subsidies to cover the interest expenses of SMEs. More so, if any late repayments have been made on government contracts over the last three months, penalties should be suspended (Javed & Ayaz, 2020).

Pakistan's major exported commodities include textiles, cereals, leather, surgical instruments, chemicals, etc. More than two-thirds of the overall textile products are exported to western countries hence making them the most important destination for finished products belonging to the textile and leather industries. With demand steadily declining in foreign countries due to continued layoffs and lockdowns (results in supply-side and demandside disruptions) the demand for Pakistani textiles continues to fall. On the other hand, demand for other products such as cereals is not expected to be impacted by the same degree as they are exported to countries with lower proportions of infected populations. Total exports in the case of Pakistan may not decline entirely due to COVID-19 but also due to a decline in Imports. Figure (III) represents the composition of Pakistan's imports. It shows that 68 percent of imports are consist of intermediate goods, capital goods, and raw material. Those are then utilized to produce goods for domestic consumption as well as for export to the rest of the world. Therefore, the decline in imports of such goods will result in a decline in exports as well. The import of final consumer goods consists of 32 percent of total import and will have no impact on exports or production level.

Figure 3. Composition of Pakistan's Imports

🔲 Raw Material 📕 Intermediate goods 📕 Capital goods 📕 Final goods

Source: Author's calculation from World Integrated Trade System (WITS) Dataset.

Impact on Remittances

Remittance along with Exports plays a major role in acquiring foreign reserves. A potential decline in remittance flows in Pakistan has a great impact on the economy and society in general. At the micro-level, remittance dependent households may experience a drop in savings, living standards along with financial stability for housing, food, education, and health care. At a macro scale, the national economy is highly dependent too. Although it favors real exchange rates and improved trade competitiveness among other countries, it largely impacts national savings, expenditure for development, the balance of payments, and foreign reserves (Salik, 2020). It is worth mentioning that Remittances hold a major share in Pakistan's GDP. Remittances share as a percentage of GDP in Pakistan is around 8 percent, while the Asia Pacific and global average is less than 1 percent in 2019-20 (Figure IV). A recent authoritative report by the Asian Development Bank (ADB)³ concluded that the coronavirus pandemic will hit remittances hard across the globe and Pakistan could be one of the worst affected economies. Lockdowns and travel bans enforced across the globe due to COVID-19 have negatively impacted remittances from migrants.



Figure 4. Remittances as a percentage of GDP in 2019-20

Source: Author's calculation Based on ESCAP (2020).

The Asian Development Bank (2020) reported a decline of 27 percent in Pakistani remittances due to the Corona pandemic (Takenaka et.al

3. https://www.think-asia.org/handle/11540/12258

2020). A recent World Bank report forecasted that remittances to Pakistan in 2020 are projected to decline by 23 percent due to COVID-19 (Ratha et.al 2020). However, amidst the chaos, the recent data shared by the State Bank of Pakistan in June-2020 shows an increase of 6.4 percent compared to last year (Figure V). Remittances in Pakistan also increased to 6.1 Billion dollars in the second quarter of 2020 from 5.6 Billion dollars in the first quarter of 2020. The reason might be attributed to greater use of digital remittances in last one year, increased number of Pakistan migrants and government of Pakistan's policy reforms aimed at promoting remittance facilitation (Ahmed and Mughal, 2020).



Figure 5. Remittances in Pakistan during COVID-19 (Million US \$)

Source: Author's calculations based on Data from State Bank of Pakistan.

Control actions like restrictions on transportation, limitation of mobility of labor, and shutdown of workplaces lead to shock in the supply side of an economy. At the start restrictions on labor's mobility and transportation diminished the production capacity of the economy, thus upsetting supplies. People were locked down and workers were laid off, leading to the down economy on the demand side. Air travel restrictions on air traveling and closures of borders restricted people's mobility and supply of goods. As a result, governments instantly spent more on curative equipment including masks, protecting kit, and drugs. The government of Pakistan declared several macroeconomic stimuli to support labor forces, provided transfers of cash and supply of food to the needy people, and extended loans and reduction of the tax to businesses (Park et al. 2020). Pakistan is one of those countries which has seen a steady decline in the number of positive cases in the past few weeks. Total cases reported in Pakistan are 303,089 with 6,393 deaths (2 percent) and a high recovery rate of 290,760 (98 %). Pakistan has the lowest cases and deaths per million among its all major trading partners (See Figure V).



Impact of Production (Supply)Shock on Pakistan Economy

Pakistan is among those countries which have seen a gradual decrease in daily reported cases. However, the problem with this virus is that we still do not know much about it. What if there is a second COVID-19 wave in Pakistan? What will be the economic implications? Against this backdrop, this short policy brief used an updated computable general equilibrium (CGE) model to estimate the effect of reduction in trade flows associated with the slowdown in the economic activity in Pakistan in case of a potential lockdown for 3 months. This will be interpreted as the impact of the COVID19 outbreak on trade. The global CGE model used is an extended version of the GTAP model (Hertel and Tsigas 1997)⁴ which

4. The model is solved using the software GEMPACK (Harrison and Pearson 1996).

facilitates the analysis of multiple households and factors of production. The latest GTAP database (Aguiar et. al 2019) contains input-output tables for 141 countries/regions and 65 sectors, linked through bilateral trade data. Each country in the GTAP model has a regional household that collects all income (from factors of production and taxes) and then maximizes a Cobb Douglas utility by allocating this income across consumption (private and public) and savings. Like final demand, firms may purchase domestic or foreign (imports) intermediate inputs, this is implemented through a series of nested CES functions (Khan et.al 2020). Markets are assumed to be perfectly competitive and prices adjust to ensure all markets are in equilibrium.

This model also contains additional data on Pakistani households and factors of production to examine the impact of COVID-19 on Pakistani households. Data for 16 household types (or representative households)⁵ and 12 factors of production are incorporated into the GTAP 10a database⁶ using data obtained from the 2010-11 Pakistani SAM (IFPRI 2015).⁷ The framework, nicknamed MyGTAP, developed by Minor and Walmsley (2013), incorporates the household data into GTAP, ensuring that the household data are consistent with the original GTAP data.

Research Scenario

The outbreak of COVID-19 has disrupted the economies around the globe. Control actions like restrictions on transportation, less labor mobility, and closure of workplaces lead to shock in the supply side of an economy. Thus, the restrictions on transport and labor movement impaired the economy's production capacity. This coupled with air travel restrictions and border closures restricted not only the movement of people but the movement of goods across borders. Against this backdrop, this research assumes a production shock in case of Short containment (Lockdown) in Pakistan for 3 months. This research reduced the production/output of Pakistani Top exported items⁸ by 25 percent. (Table 1).

The approach relies on the 'household' being disaggregated into multiple household groups based on data taken from SAM.

^{6.} Base year 2014.

^{7.} The link between the sectors in the Pakistan SAM and GTAP is available from the author.

^{8.} Textile and Apparels, Processed Food (Vegetable oils and fats, Dairy Products, Sugar, Food Products, Beverages and Tobacco products), Light Manufacturing (leather, wood products, paper products, Metal Products, Motor Vehicles and parts, Transport Equipment) Heavy Manufacturing (, Petroleum, coal products, Chemical products, Basic Pharmaceutical products, Rubber and plastic products, Mineral products ne, Ferrous metals)

Table 1. Simulation Design				
	CODE	Simulation Detail		
Production Shock	Sim-I	The reduction in production/output of Pakistani Top Exported Items I.e. Textile and Wearing Ap- parels, Processed Food, Light, and Heavy Manu- facturing by 25 percent .		

Impact of Production Shock on Macroeconomic Variables in Pakistan

Table 2 illustrates the impact of production shock on the standard macroeconomic measures used in CGE models, namely real GDP, total exports, welfare, and overall income inequality in Pakistan. Results show that production shock accounts for \$6 billion or 2.24 percentage point of the Pakistani GDP decline in the short containment scenario where production of its major exported goods are decreased by 25 percent. The welfare loss is around 12.2 billion US dollars. In the GTAP framework, welfare is measured in terms of equivalent variation (EV). This measure captures mainly improvements in allocative efficiency, changes in capital stock as well as any gains or losses in the country's terms of trade. Productivity loss due to lockdown will have a negative impact on overall welfare. Production shock will also account for a loss of \$2.72 billion or 8.9 percent of Pakistan's total exports.

Simulation	l Real GDP % change (Million US \$)	ll Welfare (US\$ Millions)	III Total Exports % change (Million US \$)
Pakistan	-2.4	-12235	-8.9
	(6016)		(2726)

Impact on Pakistan's GDP, welfare, and Exports (Constant 2014 Prices)

Source: Author's own calculations.

Table 2.

Impact on Exports

Table 3 shows the impact of Production shock due to COVID-19 on sectoral exports. Results show that production shock accounts for almost \$3.5 billion loss in Pakistani Exports of Textile and apparels. Textile and apparels are Pakistan's top exported items and almost 40 percent of Pakistani total output of Textile and Apparel is exported to the Rest of the World. Light Manufacturing exports will decline by \$1.6 Billion, Processed Food by \$ 0.97 Billion. The impact on Services is positive. Services exports will increase by \$1.3 Billion. Textiles & wearing apparel are Pakistan's largest export, while heavy manufactures are the largest import; both of which are produced using low skilled non-farm labor and formal capital. Heavy manufacturing exports will increase by 205 million US dollars.

Table 3.

Impact on Sectoral Exports (Constant 2014 Prices)

Sector/ Commodities	BAU ⁹	Production Shock	Difference
Grain Crops	2652.61	2393.02	-259.59
Vegetable - Fruits	661.52	604.59	-56.93
Processed Food	1525.15	552.44	-972.71
Textile and Apparels	14721.39	11193.68	-3527.71
Light Manufacturing	3156.83	1525.19	-1631.64
Heavy Manufacturing	1930.29	2135.63	205.34
Services	2911	4287	1376

Source: Author's own calculations.

9. Business as usual. Pakistan Exports to Rest of the World in 2014. Source : GTAP 10a Database

Impact on Household Income

Production/Supply shock due to COVID-19 will have distributional impacts on real factor wages in Pakistan. The changes in relative wages lead to changes in household incomes. Per-capita income is the key determinant of household economic status and levels of poverty. Household incomes are primarily composed of factor income, such that the changes in the wages shape the changes in household incomes.

Textile & wearing apparel – Pakistan's largest export commodity, which is produced primarily by rural non-farm and urban unskilled workers. Table 4 illustrates the impact on household incomes. The production shock will impact factors involved in the production processes. Control actions like restrictions on transportation, less labor mobility, and closure of workplaces impact the factors of production and ultimately the household income. Production of textiles & wearing apparel, processed food, and other light manufactures all require the use of unskilled workers and capital. Textile & wearing apparel use non-farm unskilled workers more intensely, while processed food and other light manufacture use capital more intensely. Hence a decrease in the production of textiles & wearing apparel decreases the wages of non-farm and poorer unskilled workers more, while a decrease in the production of processed food and other light manufactures reduces the returns to capital owned by richer urban households further – leading to a decrease in the income of all urban household types in Pakistan.

Table 4.

Impact on Real Household incomes in Pakistan (Constant 2014 prices)

	Simulation
Rural small farmer (quartile 1)	6.09
Rural small farmer (quartile 234)	7.15
Rural medium+ farmer (quartile 1)	10.09
Rural medium+ farmer (quartile 234)	9.62
Rural landless farmer (quartile 1)	3.91
Rural landless farmer (quartile 234)	2.39
Rural farm worker (quartile 1)	0.14

	Simulation
Rural farm worker (quartile 234)	-6.53
Rural non-farm (quartile 1)	-37.94
Rural non-farm (quartile 2)	-39.02
Rural non-farm (quartile 3)	-39.76
Rural non-farm (quartile 4)	-41.14
Urban (quartile 1)	-31.67
Urban (quartile 2)	-35.38
Urban (quartile 3)	-37.36
Urban (quartile 4)	-39.74

Source: Authors' calculations.

Conclusion

The outbreak of COVID-19 has disrupted the economies around the globe. In this era of globalization, with economies so connected and integrated, the impact of COVID-19 is beyond mortality and morbidity. Economies dependent heavily on remittances or on export revenue will be effected more in case of control actions like restrictions on transportation, Production cutdowns and limited labor mobility. Remittances in Pakistan are not hit hard due to the pandemic as predicted by the World Bank and the Asian Development Bank. In July-2020, Pakistan received \$2.768 billion - the highest-ever level of remittances in a single month in the history of Pakistan. The increase in remittances is primarily due to the greater use of digital money transferring mechanism by overseas Pakistanis. The government of Pakistan declared several macroeconomic stimuli to support labor forces, provided transfers of cash and supply of food to the needy people, and extended loans and reduction of the tax to businesses.

Pakistan can face catastrophic consequences if the looming new trade crisis hits its shores in case of the second wave of COVID-19 since about 50% of Pakistan's exports are shipped to countries most affected by COVID-19. Control actions like restrictions on transportation, less labor mobility, and closure of workplaces for 3 months will account for a decline of \$6 billion or 2.24 percentage points of the Pakistani GDP. Production (Supply) shock accounts for almost \$3.5 billion loss in Pakistani Exports of Textile and apparels.

Textile and apparels are Pakistan's top exported items and almost 40 percent of Pakistani total output of Textile and Apparel is exported to the Rest of the World. Pakistani exporters in this global pandemic should focus on shifting towards the production of personal protection equipment and face masks. The government must facilitate exporters by easing their business constraints and make sure that there are no supply chain disruptions across the sectors.

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COVID-19 and Impact on Export Sector in Sri Lanka

PART 1

Janaka Wijayasiri

/ Researcher International Consultant **KIEP Visiting Scholars Program**

Visiting Scholars' Opinion Paper

Crisis and Fragility: Economic Impact of COVID-19 and Policy Responses

COVID-19 and Impact on Export Sector in Sri Lanka

Janaka Wijayasiri

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1. Introduction

The COVID-19 pandemic, which has killed 800,000 people and infected 22.7 million worldwide, is causing a significant impact on the global economy. Towards containing the spread of the virus, countries have taken various measures, including travel restrictions, nationwide curfews, and border closures. These have disrupted productions, supply chains as well as financial markets. The World Bank, the Organization for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF) have all released forecasts showing a significant slowdown in global economic activity, much worse than during the 2008–09 financial crisis. According to the World Health Organization (WHO), the pandemic could last for at least two years (BBC, 2020). Thus, the outlook for the global economy over the next two years is highly uncertain and this is likely to weigh heavily on trade growth.

World trade fell sharply in the first half of the year, and trade volumes will register a steep decline in 2020. The fall in trade is historically large, affecting both the demand side and supply side. The disruption to global value chains (GVCs), particularly in China, Europe, and the US, have affected crucial supplies while market disruptions have created a decline in the demand side. Exports from Asia is expected to be amongst the hardest-

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hit. However, the situation could have been far worse according to the World Trade Organization (WTO). Initial estimates by WTO showed that world trade would fall between 13% and 32% due to activity disruptions caused by the pandemic (WTO, 2020) but as things currently stand, the pessimistic scenario is less likely.

Governments and central banks around the world have enacted extraordinary fiscal and monetary policy measures to support economic activity amidst the disruptions. Policy decisions have helped in softening the blow to output and trade, and they will continue to play a significant role in deciding the pace of economic recovery. Looking ahead to 2021, adverse developments, including the second wave of COVID-19 outbreaks, weaker than expected economic growth, or widespread recourse to trade restrictions, could affect trade expansion.

This article will look at the impact of the COVID-19 pandemic on Sri Lanka, particularly its exports, policy interventions undertaken by the Government of Sri Lanka and what more can be done to help the export sector on the road to recovery.

2. Impact of COVID-19 on Sri Lanka's Exports

The first case of the virus was confirmed in Sri Lanka on 27 January 2020, after which there were no cases till about mid-March; thereafter cases reported increased rapidly. As of 12 September, there are 3,169 confirmed cases, 12 deaths and 2,969 recoveries reported in Sri Lanka (Health Promotion Bureau, 2020), which has been relatively successful given its population of 21.6 million in curtailing the pandemic due to early lockdown, access to a good health care system, and an established public health surveillance system (Mukhopadhyay, 2020). So far, the toll of the virus on the health sector has not been heavy. However, it is important to note that these circumstances can quickly change with cases being imported. Sri Lanka has over a million migrant workers abroad, of whom about 60,000 are wanting to return home.

Despite the relatively low cases of COVID-19, it has had wide-ranging

impacts on Sri Lanka across all business sectors of the economy. To curb the spread of the virus, curfew was enforced across the island by the Government and inter-district travel was banned for two months or 52 days since the third week of March while the airport was closed and returnees were quarantined. The curfew curtailed movement of labour disrupted livelihoods and supply chains and created cash flow problems for businesses. According to estimates by the World Bank and Asian Development Bank (ADB) in April 2020 Sri Lanka's economic growth is estimated to contract by 0.5 (Newswire, 2020) and 2.2% this year, respectively. The latter figure was later revised downwards by ADB to -6.1% in 2020 with a recovery at 4.1% in 2021.

One of the pathways COVID-19 has affected countries is through disruptions to international trade (other pathways being transport and tourism, remittances, foreign financial flows). Sri Lanka as a small open economy is dependent on trade; exports plus imports account for 53 % of the GDP in 2018. As such, Sri Lanka's exports were hurt in the shortterm due to the supply chain disruptions as well as the collapse in global demand for its goods and services. The EU, and the US, which are the main export destinations of Sri Lanka, and India and China, the largest import markets of Sri Lanka, are amongst the severely affected countries due to the coronavirus. The EU and US account for 33 and 25% of Sri Lanka's exports, respectively, followed by India. In terms of imports, India and China provide 21 and 20% of Sri Lanka's total imports in 2017 (World Integrated Trade Solution, 2020). The situation has not been helped by the fact that Sri Lanka's export markets and products are highly concentrated, as shown in Charts 1 and 2. The poor economic performance of the key trading partners has not only affected Sri Lanka's export earnings but caused supply disruptions which will, in turn, impacted the country's export capacity (Central Bank of Sri Lanka, 2020). Moreover, Sri Lanka's imports exceed exports over the years, leading to a deteriorating trade balance; exports cover about half of the imports while the rest has to be covered by foreign remittances and earnings from tourism, both of which have been severely affected by COVID-19.

Chart 1 & 2. Composition of Exports and Export Markets of Sri Lanka



According to a survey on trade and labour market impacts of COVID-19 by the Ceylon Chamber of Commerce (2020), three key challenges highlighted by export firms at the height of the crisis in the country included: difficulties in the continuation of overall business operations, lack of operational cash flow and decline in workers' production or productivity due to working from home or termination of employment. With the containment of the spread of the virus and normalization of economic activity by mid-2020, however, firms expect a slow recovery towards the latter part of the year.

The apparel and textile industry, one of the highest contributors towards national exports (45 % of total exports) and a significant employer (supporting livelihoods of almost one million workers), are amongst the most affected sectors in Sri Lanka (PWC, 2020) due to plunging in demand in its key markets (the US and EU) and supply disruptions of raw materials in addition to production disruptions due to island-wide lockdown, which has since been eased. In early March, the industry was facing supply shortages of raw materials because of the outbreak of the virus and factory closures in China, a major supplier to Sri Lanka – China supplies 40% of Sri Lanka's textile imports. On 19 March, Sri Lanka went into island-wide lockdown and factories were closed till the end of April. Factories were gradually opened from early May but were operating below capacity, due to health restrictions imposed by the government and the ad-hoc manner in which the restrictions were eased. Further to the supply and production disruptions, with lower consumer spending in the affected markets, buyers were cancelling orders, refusing to accept shipments, and unilaterally extending the payment terms, which affected the cash-flow of firms (Rodrigo, 2020) and their ability to pay suppliers and wages, especially SMEs. Workers in the apparel industry have lost their jobs while others have experienced salary reductions due to loss of incentives, bonuses, attendance allowances, and overtime. Whilst Sri Lankan factories were closed, competitor countries like Vietnam and Cambodia continued to operate, which hurt the industry as new orders were placed with them. In 2019, the industry earned USD 5.1 billion from exporting apparel (Dinesh, 2020). Due to COVID-19, a revenue loss of USD 1.5 billion is estimated for the second quarter alone even though the health crisis has opened new opportunities in the manufacture of personal protection equipment (PPE)¹.

Since the COVID-19 outbreak, the global supply chain for PPE has not been able to adequately cope with the surge in worldwide demand. Constraints in supply and logistics, including export bans on PPE and materials, have contributed to a global shortage of PPE together with abrupt supply disruptions in China, a major producer of PPE. In light of the surge in international demand for PPE, the Sri Lankan apparel industry is switching to the production and export of PPE as international orders for regular items of clothing dry up.

Also, the export of commodities such as tea, coconut, rubber, spices and food and beverages were heavily impacted due to the pandemic. Total exports were down 26% in the first half of 2020 in comparison to last year (Table 1). However, some sectors are starting to see some growth after the lockdown ended. For example, in the month of June, the export of tea, coconut-based products, spices and essential oils, fish and fisheries products were up (economynext, 2020). Sri Lanka's seafood exports have experienced strong demand and higher prices despite the global crisis and higher air freight rates. Seafood exports from Sri Lanka include fresh and frozen yellowfin tuna, shrimp, prawns and crabs. The main markets for Sri

Personal protective equipment (PPE) refers to protective clothing, helmets, gloves, face shields, goggles, facemasks and/or respirators or other equipment designed to protect the wearer from injury or the spread of infection or illness.

Lanka are Europe, US and Japan but with the crisis, there has been a shift in products (from fresh to frozen) and the emergence of new markets closer to Sri Lanka such as the UAE, Singapore, Malaysia (Mahadiya, 2020).

Despite the huge drop in tea exports in March by as much as 50% with closures (Daily News, 2020), the outbreak of COVID-19 also has led to a positive outcome in the tea industry with the digital transformation of the 126-year-old tea auction which was up to recently done manually over the course of two days in the week. Tea auction is a crucial channel in the tea value chain with almost all of the tea produced in the country sold through the auction (Neo, 2020). Digitizing the tea auctions has been in discussion for 20 years, but the pandemic catalyzed the shift as the curfew declared on March 20 made it impossible to hold physical tea auctions. Moreover, the global demand for tea is expected to rise, as studies show that black tea may help boost immunity (Illanperuma, 2020). Main markets of Sri Lankan tea include Turkey, Iraq, Russia, Iran, Azerbaijan, and China, which is emerging as a top buyer of black tea (Tea Exporters Association, 2020).

While everyone was affected, export-oriented Small and Medium Enterprises (SMEs) were worst hit, as they are less equipped to face order cancellations and prolonged demand decline. Considering the unprecedented disruption to the global economy and trade due to the COVID-19 pandemic, the Sri Lanka Export Development Board (SLEDB) revised its 2020 exports forecast by a hefty 42% to \$10.75 billion, down from the target of \$18.5 billion. Despite the uncertainty and severe disruption to business in the immediate/short term, many exporters expect the situation to improve over the next 12 months (Ceylon Chamber of Commerce, 2020).

Table 1.

Export Performance, First Half of 2019 and 2020

Product	2019 Jan- June	2020 Jan- June	% Growth	2019 June	2020 June	% Growth
Apparel & Textile	2753.58	1936.66	-29.64	503.91	402.04	-20.22
Теа	684.95	571.66	-16.54	113.18	114.93	1.55
Coconut & Coconut-bases Products	314.05	281.61	-10.33	54.53	65.01	19.22
Rubber & Rubber-based products	457.11	349.17	-23.61	80.80	68.89	-14.74
Electrical & Electronic Products	195.38	144.11	-26.24	33.14	31.06	-6.28
Food, Feed & Beverages	193.06	156.28	-19.05	34.47	31.59	-8.36
Spices, Essential Oils & Oleoresins	144.09	114.49	-20.54	24.40	31.71	29.96
Fish & Fisheries Products	151.61	105.5	-30.41	22.50	26.30	16.89
Fruits, Nuts and Vegetables	37.08	30.59	-17.50	5.57	6.72	20.65
Cut Flowers & Foliage	10.09	6.64	-34.19	1.73	1.47	-15.03
Other Export Crops	14.38	39.16	172.32	2.56	9.30	263.28
Diamonds, Gems & Jewellery	157.79	71.16	-54.90	23.28	10.13	-56.49
Footwear & Leather	46.14	17.3	-62.51	5.73	3.56	-37.87
Base Metal Products	90.69	55.46	-38.85	13.83	9.63	-30.37
Petroleum Products	165.66	170.65	3.01	32.21	29.64	-7.98
Others	515.08	311.9	-39.45	132.17	64.04	-51.55
Total	5929.74	4362.34	-26.43	1084.01	906.02	-16.42

Source: Sri Lanka Export Development Board

3. Policy Responses

The Government of Sri Lanka has stepped in and allocated via the Central Bank of Sri Lanka (CBSL), LKR 50 billion, which was later increased to

LKR150 billion under a Saubagya COVID-19 renaissance facility to support local businesses, and individuals affected by the pandemic. Major concessions have included debt moratorium for loans/leases, overdraft facilities, rescheduling of non-performing loans and granting of new loans. Sectors eligible for concessions include SMEs (small and medium enterprises); tourism, direct and indirect export-related businesses; selfemployed businesses and foreign currency earners. The government has also allowed a delay in the payment of ETP (Employment Trust Fund) and EPF (Employment Provident Fund) (Rodrigo, 2020). However, such measures are limited in scope.

Sri Lanka was performing poorly on the economic front even before the outbreak. GDP growth was the lowest in almost a decade (2.3%) in 2019 while the budget deficit and public debt were quite high – 6.8% and 87%, respectively (Weerakoon, 2020). Also, a huge amount of foreign debt settlement of USD4 billion per year is due over the period 2019-2022. Constraints on fiscal space and high levels of public debt have limited the government's ability to mobilize resources. Fiscal space was already constrained due to a large tax relief package – estimated to about 20-25% of existing revenues – delivered before the COVID-19 outbreak, following the Presidential Elections in November 2019 (Weerakoon, 2020).

At the same time, on the monetary front, the Central Bank of Sri Lanka has reduced lending/borrowing rates and increased liquidity in the market by reducing the statutory reserve ratio of banks to support economic activity, and resorted to extraordinary measures to shore up their foreign currency reserves and ease the pressure on the exchange rate/balance of payments by suspending purchases of foreign currency bonds by Sri Lankan banks and banning imports of 'non-essential' goods, which have created supply chain bottlenecks and affected export-oriented industries dependent on imported inputs (Hamza, 2020). The import control and movement to protectionism in support of local agriculture and industrial production is concerning given that Sri Lanka's economy and exports require imports for its growth and competitiveness. Subsequently, the government allowed imports of essential raw materials for production of value-added products for export orders. However, many businesses catering to the domestic market which depended on imported inputs are scrambling to find alternatives for costeffective production.

Other than the above fiscal and monetary policies, a Presidential Task Force on COVID-19 was set up to monitor and prevent the spread of the disease, and ensure essential services in the country while relevant trade supporting agencies in the country including the Export Development (EDB), the Department of Commerce (DOC), Sri Lanka Customs have been assisting exporters in various ways to mitigate the negative effect of COVID-19 on the trade with a skeleton of staff during the height of the crisis in the country. EDB for example has set up a help desk to resolve urgent issues facing exporters, providing information on best practices, state concessions, logistics and fast-evolving global markets with support of Sri Lankan diplomatic missions and embassies around the world. In the meanwhile, SLC introduced new working hours, measures were taken to continue providing custom services whilst adhering to social distancing protocols, facilitating importations of relief and essential commodities (and progressively started processing other transactions, including the importation of raw materials or semi-manufactured goods to be processed for re-export), accelerating the movement to paperless process, whereby trade operators and relevant regulatory agencies can now submit supporting documents and approvals electronically to Customs (Jayaratne, 2020).

At the regional level, leaders of South Asia met online in March to discuss a regional response to the COVID-19 crisis through the regional organisation, South Asian Association for Regional Cooperation (SAARC). Countries adopted a range of steps including provisional clearance of imports from the region at preferential duty and acceptability of digital documents, and resolving issues on exports/imports at customs to facilitate intra-regional trade (SASEC, 2020). In addition to other measures, a USD22 million SAARC COVID-19 Emergency Fund was constituted to cushion the impact of the pandemic; Sri Lanka pledged to contribute USD5 million to the Fund.

Despite the above domestic policy measures, there have been criticism/ questions about their access and effectiveness (Fernando, 2020). For example, CBSL and banks have extended loans under the newly established facility for COVID-19, but the ground reality may be that larger businesses or those which have a solid working relationship with banks/bank managers will have better access and refinance their previous loans while those who truly have finance needs (like SMEs and others who were severely affected by the COVID-19) may not benefit or get crowd-out. Also, banks have a higher incentive to deposit with CBSL and simply earn higher interest with minimal administration cost, rather than providing a loan facility at lower interest to customers. Banks have been also reluctant to take the risk to provide loans in a challenging environment due to fear of default while banks' credit approval systems and delays in banks' internal approvals for loans have not helped the situation, given the urgent need of such facilities and higher demand for loans.

4. Way Forward

Economic contraction in major markets will adversely affect the demand and prices of Sri Lanka's key export categories (apparel, tea, spices, rubber, coconut, seafood, etc.) with intensified competition from lowercost producers (Bell, 2020). In this context, Sri Lanka's exporters need to focus on differentiation, value-addition, branding, and quality rather than quantity as espoused by the Government of Sri Lanka. Sri Lanka's leading export firms in most sectors are already doing this but they need to redouble their efforts, as still a lot of goods go out of the country in raw/bulk form. For example, although Sri Lanka is an important producer and exporter of tea to the world, only 40 percent of the tea goes out of the country in value added form. With consumers increasingly concerned about the environmental and social impacts of the goods they buy; Sri Lankan exporters need to differentiate their products along these lines. Towards this end, it is important to strengthen and support the export of quality and value-added products from the country.

The global shutdown as well as the supply disruptions caused by COVID-19 have made many companies recognize their over-reliance on supplies from China (Bell, 2020). These companies are now actively seeking new suppliers and manufacturing locations outside of China with the rising cost of production in China and to diversify their supply-chains and risk – from electronics and appliances to auto-parts and precision components, to textiles and garments. There is an opportunity for countries like Sri Lanka to benefit from supply chain disruptions and realignment, which is currently underway. Sri Lankan firms with capabilities in these sectors together with the government need to attract these global companies seeking alternate manufacturing or sourcing locations. Developments like Colombo Port City, the export processing zone near Hambantota in the South, and the proposed dedicated textile industrial park in Eravur in the East of Sri Lanka provide further opportunities to pitch Sri Lanka as an ideal location for relocation of major manufacturing facilities from China. To take advantage of these supply shifts, Sri Lanka will have to articulate industry specific strategies, identify areas to improve in the country for investor consideration, and sell Sri Lanka as a destination to specific companies seeking to diversify their supply chains (Deloitte, 2020).

With COVID-19 pandemic and social distancing, working remotely has dramatically increased digitization of knowledge-based services. These services can now be delivered remotely via online from anywhere in the world. Sri Lanka is already supplying software which runs the world's top stock exchanges, airlines and retailers, and accounting services that support the back office of leading banks and insurance companies (Bell, 2020). The pandemic has made more people around the world including Sri Lanka comfortable with sourcing online services including medical consultations, legal advice, accounting services, etc. Since Sri Lanka has long been known as a supplier of top-quality doctors, lawyers, engineers and accountants, there is a huge opportunity for Sri Lankan professionals to export these services to the world online. The Sri Lankan government can still do more to support the growth of the sector by improving its legal framework for a digital economy (consumer protection, data privacy, cyber security), providing access to affordable digital infrastructure, implementing educational reforms which ensure that firms can source sufficient talent and accelerating digitization of government processes and its departments. The pandemic forced many government processes/procedures to go online: from the tea auctions to customs clearances. The government needs to further digitalize its departments and services which will mitigate the adverse effects of COVID-19 and facilitate cross-border trade.

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Impact of COVID-19 on Vietnam's International Trade and Policy Responses

PART '

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Visiting Scholars' Opinion Paper

Crisis and Fragility: Economic Impact of COVID-19 and Policy Responses

Impact of COVID-19 on Vietnam's International Trade and Policy Responses

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1. Introduction

COVID-19 (Coronavirus) originated from Wuhan, China in December 2019. Following this, it has rapidly spread all over the world, causing the worst pandemic of the last 100 years. As of August 31, 2020, more than 25 million confirmed cases and 850 thousand deaths have been reported worldwide. The toll keeps rising fast every day.

In the first COVID-19 wave in Vietnam (January - April 2020), the Government swiftly implemented measures to contain the disease. All transport means (air, road, railways and sea) were halted, at first with China, then with other countries. Visa provision was stopped, at first for Chinese, then for other international visitors. Wearing a face mask became mandatory. Home-coming Vietnamese have been quarantined for 14 days. At the first wave's height in March 2020, a nationwide lockdown was declared for four weeks (March to April 2020).

After a 99-day virus-free period (April – late July 2020), the second wave broke out in Danang on July 25, 2020. Almost instantly, lockdown was imposed on Vietnam's third-largest city and other affected areas across the country. All infected people have been traced to find potential infections. All people across the country who visited Danang in July 2020 have been tested.

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As a result of these measures, impacts of COVID-19 on Vietnam are rather limited. As of Aug 31, 2020, there have been 1,040 cases and 32 COVID-19-related deaths (against the population of nearly 100 million).

While Vietnam's human losses are minimal, impacts on the country's economy and trade are measurable.

2. Economic Impacts of COVID-19 Pandemic

2.1. Impacts on Global Economy

The pandemic forces countries across the world to impose lockdown. Businesses have been closed down, factories and production lines halted. Global supply chains (GSCs) have been disrupted, at first in China, "the workshop of the world," then in other countries. Major economies (such as the US, the EU and Japan) plunged into recession.

In their June 2020 reports, both the World Bank (2020) and IMF (2020) assert that the current recession is worse than the 2009 global crisis (Table 1). If the pandemic continues, impacts on the world would be more devastating.

Table 1. Global Economy in Crisis: 2020 vs. 2009				
		2020 (forecast)		
Indicators	2009 ^a	IMF ^b	WB°	
World GDP Growth (%)	-0.6	-4.9	-5,2	
World Trade Volume Growth (%)	-10.7	-11.9	-13.4	
Commodity Prices				
Oil	-36.3	-41.1	-47.9	
Non-fuel	-18.7	0.2	-5.9	

Source: a) IMF (2011), b) IMF (2020), c) WB (2020).
2.2. Impacts on Vietnam's Economy

Vietnam's economy grew relatively fast in recent years, with its GDP growth ranging between 6.2% and 7.1% for the last five years (2015–2019). The pandemic abruptly ended this path of development. As a highly open economy, Vietnam has been hurt severely by this unprecedented shock. The country has been on the world's top list of openness as its index of economic openness amounts to more than 200%.¹ While the high index of openness indicates Vietnam's high level of integration with the world, it also implies the country's vulnerability to external shocks.

The pandemic's impacts are more severe as Vietnam's top economic partners such as US, EU, China, Japan and Republic of Korea (ROK) have been hit hard. As a result, Vietnam's economy in the first half of 2020 deteriorated considerably compared to the same period in 2019 (Table 2).

Table 2.

Impacts on Vietnam's Economy: First Half of 2020 vs. 2019

Indicators	First Half of 2019	First Half of 2020
GDP Growth (Y-Y change, %)	6.71	1.81
Agriculture	2.19	1.19
Industry	9.14	2.98
Services	6.85	0.57
Labor market		
Unemployment rate (%)	1.99	2.26
Under-employment rate (%)	1.29	2.59
Business Operation (Y-Y change, %)		
Temporarily Stopped Businesses	17.4	38.2
Newly Established Businesses	38.5	14.1
International tourists (Y-Y change, %)	7.5	-55.8

Source: Vietnam's GSO (2020a).

1. A country's economic openness is measured by ratio of its exports plus imports over its GDP.

GDP growth for the second quarter of 2020 is lowest since the General Statistical Office (GSO) began computing GDP growth in 1991, while GDP growth for the first half of 2020 is lowest since 2011. All sectors of the economy (agriculture, industry and services) contracted. Both unemployment and under-employment in the first half of 2020 rose compared to the same period of 2019. Number of temporarily stopped firms jumped by 38.2% (compared to 17.4% for the same period in 2019) while number of newly established firms increased by just 14.1% (compared to 38.5% for the same period in 2019). Number of international tourists dramatically fell by 55.8%, reversing the uptrend in recent years (GSO, 2020a).

2.3. Impacts on Vietnam's Trade

As a result of the export-led growth strategy Vietnam has pursued since 1986, the country's exports surged from US\$ 350 million in 1986 to US\$ 263 billion in 2019. Average growth of exports for 1987–2019 is 23.3%, one of the world's highest rates (author's calculation from GSO data). The country now stands #22 in the world in terms of export size, being one of the world's top exporters of many agricultural products such as cashew, rice, coffee, natural rubber and seafood, and manufactures such as garment, footwear and furniture (Le Quoc Phuong, 2018a).

As the global economy has been devastated by COVID-19, the world's GDP growth, trade growth and commodity price index all look to be negative for 2020 (see Table 2). Consequently, Vietnam's exports have been hurt by the fall in world demand for, and world price of, most of Vietnam's export products. The country's exports slumped also due to the reduced production capacity caused by the disruption of GSCs. In addition, border closing worldwide prevented goods movement and trade activities.

Vietnam's major export items such as smart-phones, garment and footwear slumped in the first 7 months of 2020 (while for the same period in 2019, value of all major export items increased). Exports to main markets (namely the EU, ASEAN and ROK) plummeted (whereas for the same period in 2019, exports to all main markets surged).

On the import side, supply of intermediate goods (much needed for Vietnam's largely assembly-based industry) dipped due to disruption of GSCs. Imports from main supply sources (China, ROK, ASEAN and the US) dropped. Overall, exports for the first 7 months of 2020 rose by 0.2% (the lowest figure since the 2009 global economic crisis, and a far cry from the average export growth of 23.3% for 1987–2019), while imports declined for the first time since 2009 by 2.9%. Impacts on Vietnam's trade can be clearly seen by comparing trade data for January–July 2020 to that for the same period in 2019 (Table 3).

Table 3.

Impacts on Vietnam's Trade: January-July 2020 vs. 2019

Indicators (Y-Y change, %)	January-July 2019	January-July 2020			
Total Exports	7.5	0.2			
Total Imports	8.3	-2.9			
Major Exports					
Smart-phones	3.1	-6.6			
Computers, electronic devices	14.9	24.1			
Garment	10.5	-12.1			
Footwear	13.8	-7.9			
Machinery, parts	7.2	27.1			
Major Imports					
Intermediate goods		-2.6			
Consumer goods		-7.3			
Main Export Destinations					
US	25.4	15.0			
EU	0.4	-5.9			
China	0.1	18.4			
ASEAN	5.5	-15.4			
ROK	4.4	-0.4			
Main Import Sources					
China	16.9	-1.8			
ROK	-0.8	-9.2			
ASEAN	5.2	-11.3			
Japan	-0.4	5.1			
EU	8.6	6.0			
US	8.6	-2.5			

Source: GSO (2019, 2020b).

3. Vietnam's Policy Responses

3.1. Economy-wide Responses

Facing with unprecedented shock, the Government was quick to release responses to limit its impacts on the economy. Economy-wide responses include stimulus and social-security packages, and a number of other policy arrangements, which are given in the governmental documents:

- Prime-Minister's Directive #11 of March 4, 2020 on "Urgent tasks and measures to ease businesses' hardship and maintain social security in response to COVID-19 pandemic" (Vietnam's Government, 2020a).
- Government's Resolution #42 of April 9, 2020 on "Measures to support people who have suffered from COVID-19 pandemic" (Vietnam's Government, 2020b).

Stimulus Package. Not long after the first case of COVID-19 was reported on January 23, 2020, the Prime-Minister issued Directive #11 of March 4, 2020 (Vietnam's Government, 2020a), which contains the largest ever stimulus package worth some US\$ 20 billion. The package aims to help businesses survive the hard time by providing them easier access to financial sources and reducing their business costs. Troubled companies are allowed to postpone debt payment and social-security contributions. The package reduces or even exempts firms from loan interests, reduces numerous fees for businesses, and provides funds for re-training out-of-work workers.

Social-security Package. On April 6, 2020, the Government released Resolution #42 (Vietnam's Government, 2020b), which offers largest ever social-security package worth \$US 2.6 billion to provide support for some 20 million people affected by the pandemic, which are classified into 6 major groups:

- 4 million people under social-security program.
- 2 million poor households.
- 3 million workers with work contract deferred and workers who have to stay home with no pay.
- One million employers to be provided zero-interest loan for 12 months to pay salary for out-of-work workers.
- 760 thousand small-household businesses which temporarily stopped

their operation.

• 5 million out-of-work workers or workers with work contract eliminated but ineligible for social security.

Recently, in light of the long-lasting pandemic, the Ministry of Labor, Invalids and Social Affairs submitted to the Government for approval a second package worth nearly \$US 1 billion to provide additional support for businesses and for human resources development (Nhan Dan, August 22, 2020).

Other Policy Measures. To limit the pandemic's impacts and assist affected businesses and people, alongside with above-mentioned packages, the Government has implemented other measures (Vietnam's Government, 2020a) which aim at:

- Improving business environment, thus helping businesses survive the hard time.
- Accelerating public investment projects to stimulate demand at time of slumping private investment.
- Reviving most hard-hit sectors (such as tourism and airlines).

It should be noted that in parallel with the economy-wide responses, the Government has adjusted fiscal and monetary policy accordingly to avoid rising inflation, public debt and budget deficit, possibly caused by huge stimulus and social-security packages.

3.2. Policy Responses in Trade Sector

With regard to the trade sector, Directive #11 requires related ministries to realize following policy measures (Vietnam's Government, 2020b):

- Maximizing benefits of free trade agreements (FTAs), first of all the EU-Vietnam FTA (EVFTA).
- Diversifying export destinations and import sources.
- Stepping up development of supporting industries.
- Promoting domestic markets as a complementarity for external markets.

In response to the Government's guidelines, in June 2020 the Ministry of Industry and Trade (MOIT), which is in charge of industrial and trade sectors, released the "Action plan to revive and then further expand industrial and trade sectors amid COVID-19 outbreak" (MOIT, 2020a).

The plan includes major groups of actions to realize the policy measures, given in Directive #11.

4. Implications of Policy Measures in Trade Sector

4.1. Maximizing Benefits of FTAs (in particular EVFTA)

Problem: unutilized opportunities of FTAs. To facilitate its exportled growth strategy, Vietnam has been active in pursuing FTAs. To date Vietnam has concluded 12 FTAs with its trading partners. These include:

- 3 bilateral FTAs (with Japan, Chile and ROK, respectively)
- 9 regional FTAs, namely AFTA (ASEAN FTA), 5 "ASEAN+1" FTAs (ASEAN and China, ASEAN and Japan, ASEAN and ROK, ASEAN and India, ASEAN and Australia and New Zealand), FTA between Vietnam and EAEU (Eurasian Economic Union of Russia, Belarus, Armenia, Kazakhstan and Kyrgyzstan), CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership between Vietnam and 10 other economies in the Asia-Pacific region), and EVFTA.

These FTAs have been pivotal in gaining access for Vietnam's firms to international markets and facilitating rapid rise of the country's exports. However, the enormous opportunities of these FTAs have not been fully utilized by Vietnamese companies, due largely to their low competitiveness on global markets. In the wake of the COVID-19 pandemic, the urgent need of maximizing benefits of FTAs has again been stressed by the Government in Directive #11.

Among these FTAs, most notable are the newly effective CPTPP (effective January 14, 2019) and EVFTA (effective August 1, 2020), the newgeneration and high-standard agreements, which are characterized by the following features (Le Quoc Phuong, 2018b):

(1) Wide scope of liberalization, covering not only trade issues (trade in goods and services, investment, intellectual property rights, trade dispute settlement, government procurement, sanitary, technical barriers and

other non-tariff barriers to trade) but also non-trade items (environment protection, labor standards, trade union, reform of state-owned-enterprises (SOEs), and support for small and medium enterprises (SMEs).

(2) New issues to deal with new challenges (innovation, productivity, role of Internet and digital economy).

(3) Fast and comprehensive market access, with most tariff lines being cut to zero immediately and the remaining being eliminated according to a fast roadmap.

In particular, the EVFTA is of special importance because it took effect amid the COVID-19 pandemic. To date, Vietnam is the only developing country, and the second country in ASEAN (after Singapore), with which the EU has concluded an FTA. The EVFTA is therefore expected to provide a big push to expand Vietnam's exports to EU's immense markets of 27 countries with 500 million of high-income people.

Before the EVFTA came into effect, only some 40% of Vietnam's exports to the EU were given 0% tariffs under EU's Generalized System of Preferences (GSP). Now that the EVFTA took effect on August 1, 2020, 85.6% of tariff lines (currently covering some 70% of Vietnam's exports to EU) have been cut to 0% immediately. By 2027, more than 99% of tariff lines (covering nearly 100% of Vietnam's exports to EU) will be cut to 0%.

Based on these massive tariff cut commitments, Vietnam's Ministry of Planning and Investment (MPI) estimated that the EVFTA would help raise Vietnam's exports by 42.7% by 2025 and by 44.4% by 2030 (MOIT, 2020b). However, to realize this huge potential, domestic companies should make enormous efforts to overcome challenges posed by the EVFTA. These include EU's rule of origin (requiring Vietnam's products to have certain local contents to get preferential tariffs), high product quality requirements, and numerous technical and sanitary standards. Moreover, to be accepted on the EU markets, Vietnam's products should meet strict requirements of labor standards, environment protection, and social responsibility. Further, Vietnam's firms have to compete with more advanced EU companies at home since the treaty requires Vietnam to open its domestic markets in return for having access to EU markets. Actions and expected effects. For effective implementation of the EVFTA, in early August 2020 the Government released the "Action plan for EVFTA implementation" (Vietnam's Government, 2020c) with the following measures:

- Provide information on the EVFTA (its contents, opportunities and challenges) to Vietnam's business community using all means of communications.
- Provide information on opportunities of doing business in Vietnam to EU business community via trade- and investment-promotion programs.
- Build up support programs to raise competitiveness of domestic industries and companies (particularly SMEs) in compliance with Vietnam's international agreements, and to assist domestic companies in interacting with FDI companies and joining GSCs.
- Restructure industrial sector toward industrialization and modernization and restructure agricultural sector toward a clean production based on advanced and environment-friendly technology.

To realize the Government's policy measures, MOIT has implemented the following activities (MOIT, 2020a):

- Preparing scenarios for exploring opportunities of export markets (especially the EU and other markets with which Vietnam has concluded FTAs).
- Realizing export-promotion measures using various cooperation mechanisms (such as inter-government commissions and joint FTA implementation commissions).
- Providing businesses with detailed information on various certificates which are required for Vietnam's export products (especially to the US and the EU).
- Preparing list of preferential export taxes and import tariffs under the EVFTA (in collaboration with the Ministry of Finance).

Under normal conditions, these measures would help Vietnam maximize benefits of the EVFTA. Unfortunately, as EU economies have suffered from COVID-19, their import demand has declined. Vietnam, therefore, will not likely be able to maximize the EVFTA's huge potential at this time. But once the outbreak is under control, Vietnam's well-prepared companies are expected to expand their exports to EU.

4.2. Diversifying Export Markets and Supply Sources

Problem: dependency on a few external markets. Although Vietnam has traded with some 230 out of the world's 240 economies, most of the country's trade volume has been made with a few major trading partners. In 2019, six top export markets, namely the US, the EU, China, ASEAN, Japan and ROK (in order), accounted for some 75% of Vietnam's exports. Similarly, almost 80% of Vietnam's imports came from six largest supply sources, namely China, ROK, ASEAN, Japan, the EU and the US (in order) (author's calculations based on GSO data).

The dependency on a few export destinations and import sources poses significant risk, especially when critical conditions take place in these economies. Indeed, Vietnam's trade considerably suffered from the Asian economic crisis 1997-1998 (when its major trade partners in Asia were severely impacted), and from the global crisis 2008-2009 (when its major trade partners in the world were badly hurt).

Actions and expected effects. As Vietnam's trade has been hurt by the pandemic which devastated its major trading partners, the urgent need of diversifying export markets and supply sources is again stressed by the Government in Directive #11. In line with the Government's guidelines, various activities have been carried out as follows (MOIT, 2020a):

- Stepping up activities to gain access for Vietnam's exports to new markets.
- Diversifying Vietnam's trade relations to avoid high dependency on a few suppliers.
- Implementing activities to connect network of supply chains, and to enhance supply chains for Vietnam.
- Adjusting the National Trade Promotion Program to reflect latest developments in the world.

In normal circumstances, these measures would help Vietnam's companies to have access to new export markets and supply sources. Unfortunately, COVID-19 has pushed down import demand and supply capacity in many economies. It is expected that when the outbreak is over, Vietnam's companies will be ready to expand their exports to untraditional markets, and to bring imports from new supply sources, thanks to these policy measures.

4.3. Raising value-added of exports by stepping up the development of supporting industries

Problem: low value-added of exports. As analyzed in Le Quoc Phuong (2018a), although Vietnam's export value has escalated since 1986, export value-added has been low. In fact, Vietnam's domestic value-added of exports has been significantly lower compared to that of its neighboring ASEAN countries such as Singapore, Malaysia, Thailand, Indonesia and the Philippines. This is because most of Vietnam's agricultural commodities (including top exports such as coffee, rice and seafood) have been exported as raw materials, while major export manufactures (including largest exports such as smart phones, computers, garment and footwear) have been assembled at home.

The main reason is, Vietnam's supporting industries have been underdeveloped, thus unable to provide a sufficient amount of parts and materials for assembly-based industry. Vietnam's firms have to import most of parts and materials to complete products at home in the assembly stage (the lowest value-added stage in the GVCs).

Actions and expected effects. Boosting supporting industries has been the Government's long-term concern. The pandemic again raises the pressing need of this issue, as supply of intermediate goods has been disrupted due to the devastation of the world's main suppliers. In this context, building up strong supporting industries would reduce dependency of domestic firms on imports of intermediate goods, and raise value-added of their exports.

To materialize the Government's policy measure specified in Directive #11, MOIT, which supervises industrial sector including supporting industries, has implemented the following actions (MOIT, 2020a):

- Implement, in a more effective way, the program to assist businesses operating in supporting industries, and help them participate more deeply in GSCs.
- Carry out measures to create more favorable conditions for development of supporting industries.
- Accomplish measures to raise value-added of domestically-produced goods.
- Draft, and submit to the Government for approval, a new decree to replace Decree #111/2015/ND-CP of November 3, 2015 on "Expansion

of supporting industries" (Vietnam's Government, 2020d).

• In collaboration with related ministries, construct new project on "Measures to expand supporting industries for exploring new opportunities from post-pandemic FDI wave."

These actions are expected to accelerate the build-up of supporting industries. With the Government's assistance, businesses operating in supporting industries would significantly improve their performance, thus becoming able to supply parts and materials for other domestic industries. This, in turn, helps reduce Vietnam's dependency on external supplies, and raise value-added of the country's exports.

4.4 Promoting Domestic Markets as a Complementarity for External Markets

Problem: under-developed domestic markets. Historically, Vietnam's firms have focused on exports. This is because vast international markets, with their huge demand and high purchasing power, provide more business opportunities than limited-size and low-income domestic markets. Only in 2009 when the global economic crisis pushed Vietnam's exports down by almost 10% (for the first time since 1986), the importance of domestic markets as a complementarity for external markets was recognized. Since then, the program "Vietnamese give priority to made-in Vietnam products" has been implemented to expand domestic markets.

Actions and expected effects. COVID-19 again highlights the significance of domestic demand. Promoting a home market of nearly 100 million people is identified by the Government in Directive #11 as one of the effective measures to encounter negative impacts on Vietnam's exports. In line with the Government's guidelines, MOIT, which oversees international trade and the domestic market, launched a program of demand stimulation on domestic markets (July 1 to December 31, 2020). This program includes the following activities (MOIT, 2020c):

- "Vietnam Grand Sales 2020," a nationwide sales program (July 1 to July 31, 2020).
- Massive media programs to promote domestic products.
- Activities to connect domestic producers, distributors and consumers.
- Sales points across the country for "OCOP" (one community one product) to honor specialties of localities.

• "Proudly to be Vietnam's products," a program to honor and recognize domestic products.

These activities are expected to win the interest and trust of Vietnamese customers in domestically-produced products, thus boosting domestic markets at a time when exports plummet under the pandemic's impacts.

5. Conclusion

The COVID-19 pandemic has devastated economies across the world and caused global recession. Vietnam's economy has also been hit massively. Facing with the unprecedented outbreak, Vietnam's Government has implemented economy-wide policy responses to minimize its impacts on the economy.

In regard to trade, a number of policy responses have been carried out to revive Vietnam's trade sector. These measures aim at maximizing benefits of FTAs, diversifying external market structure, improving supporting industries, and promoting domestic markets. Not only these policy responses address the challenges posed by the pandemic, but they also tackle with fundamental issues of Vietnam's trade sector. In that sense, Vietnam views COVID-19 not only as a huge negative shock to deal with, but also as a great chance to push for measures to enhance its trade sector.

Since the COVID-19 pandemic disrupted GSCs worldwide and pushed down world demand, these measures may not bring about desirable effects immediately when the outbreak has been raging. But they have provided much needed support for Vietnam's firms to survive the hard time, and created favorable conditions for them to recover and expand in the mid term and long term. Once COVID-19 is put under control, domestic companies would be ready to take full advantage of global markets.

As these measures have been actively implemented, Vietnam's economy and trade is expected to recover swiftly after the pandemic is over. As WB (2020b) forecasts, in the baseline scenario (global economy recovers in the second half of 2020), Vietnam's economy would grow by 2.8% in 2020 and by 6.8% in 2021. In a downside scenario (global economy recovers in 2021), the economy would grow by 1.5% in 2020 and by 4.5% in 2021. WB (2020b) also predicts, as of July 2020, that Vietnam would be among the top five in the list of 57 economies with positive GDP growth for 2020, while some 180 other economies across the world would be in recession.

The case for Vietnam to reach this tough target is quite strong. Firstly, as the COVID-19 outbreak has been somewhat contained in Vietnam with minimal impacts, the country could embark on early economic recovery while most of other countries are still struggling to control the pandemic. Secondly, Vietnam's current macroeconomic conditions are relatively sound, creating a favorable environment for further expansion. Lastly, as policy responses to COVID-19 are expected to produce positive effects on Vietnam's economy and trade, the country will bounce back vigorously once the outbreak is over.

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Egypt's Policy Responses to Mitigate Impact of COVID-19 on Exports

PART

Hossam Younes

Undersecretary of Export Sectors Affairs, Export Development Authority, Ministry of Trade and Industry KIEP Visiting Scholars Program

Visiting Scholars' Opinion Paper

Crisis and Fragility: Economic Impact of COVID-19 and Policy Responses

Egypt's Policy Responses to Mitigate Impact of COVID-19 on Exports

Hossam Younes

Undersecretary of Export Sectors Affairs, Export Development Authority, Ministry of Trade and Industry

1. Introduction

While the World Health Organization (WHO) recognized Coronavirus (COVID-19) on 11 March 2020, Egypt's Ministry of Health announced the first case in the country at Cairo International Airport involving a Chinese national on 14 February. According to the WHO website,¹ as of 25 September 2020, 102,513 confirmed cases of COVID-19 with 5,835 deaths have been reported in Egypt.

Egypt is the third most populous country in Africa, with more than 100 million people and one of the fastest growing economies. Egypt's top trading partners include the EU, the U.S., Turkey, UAE, Saudi Arabia and Britain, which are among the economies highly affected by the COVID-19 pandemic. Trying to contain the spread of the disease, these countries have all but halted their industrial and manufacturing activity, imposed some form of restriction on people and businesses, some of them declared citywide or nationwide lockdowns, imposed an entry ban on foreigners, which have direct negative impacts on two-way trade. On the export side, experts are forecasting export proceeds for Egypt may decline by 25% throughout 2020 as the movement of Egypt's exports to the EU (specifically

1. WHO website, 25 September 2020 (https://covid19.who.int/region/emro/country/eg).

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Italy) and U.S. face internal and external delays, which will also weigh on the country's external accounts. Similarly, Egypt is likely to import lower volumes, as overseas suppliers focus on domestic markets; this will affect a number of Egypt-based manufacturers, especially in the electrical appliance, electronic devices and textiles sectors, which rely heavily on imported production inputs.²

To combat the growing spread of COVID-19 in Egypt, the Egyptian government took on steady 'preventative' measures to remain in control of the pandemic's impact in the country. As of end of April, Egypt have taken many measures to mitigate impact of COVID-19 on whole economy and exporters particularly.

To examine the Egypt's policy responses to mitigate impact of COVID-19 on Exports, the paper use trade data up to August 2020 and refer to two time periods: January- August 2019 and January - August 2020.

2. Impact of COVID-19 on Egyptian exports

2.1 Total export values

The value of the trade balance deficit reached US\$18.2 billion during the first eight months of 2020 compared to US\$ 25.8 billion for the same period of 2019, a decrease of 29%. On the other hand, merchandise exports declined by 5%, to reach US\$16.2 billion during the first eight months of 2020, compared to US\$17.2 billion during the same period in 2019 due to decrease in exports of traditional export items as shown in the below table, also there was a decline in merchandise imports by 20% to reach US\$34.5 billion during the first seven months of 2020, compared to US\$42.9 billion during the first seven months of 2019.³ This does not mean that this negative picture will continue, as orders are likely to strengthen.

AmCham (2020), Impacts of COVID-19 Pandemic on Egypt's Economy, A Research Note by American Chamber of Commerce in Cairo, March 31, 2020.

GOEIC (2020), Ministry of Trade & Industry, The General Organization for Export & Import Control, Monthly Trade Digest (September 2020).

Figure (1) shows the trend of Egyptian exports for the first eight months of 2020 compared to the same period of 2019. It is clear that Egyptian exports began to rise in January and February 2020, exports recorded US\$2,376 and 2,391 million compared to US\$2,104 million and US\$2,151 million in January and February of 2019. From March to May declined and rose again in June 2020, reaching US\$2,178 million compared to US\$2,005 million in June of 2019, and then headed down again in July and August 2020.



Source: Ministry of Trade & Industry, The General Organization for Export & Import Control, Monthly Trade Digest, September 2020.

2.2 Sectors export values

Egypt's exports are highly concentrated on a few sectors – building materials, chemicals products, food staff, agro products, engineering products, ready-made garments, yarn and textiles, books and artistic works, medical products and home textile accounted for 92% of export earnings for the first eight months of 2020. The below Table (1) shows with exception of building material and food products all other sectors exports decreased during the period January – August 2020 compared to the same period of 2019.

Table 1.

Egyptian exports of main sectors from January to August 2019 and 2020 (million US\$)

Sectors	2019	2020	Change %
Building materials	3,325	3,979	20%
Chemicals products & Fertilizers	3,751	3,310	-12%
Food staff	2,254	2,294	2%
Agro products	1757	1,677	-5%
Engineering and electronic products	1,593	1,368	-14%
Ready-made garments	1,114	841	-25%
Spinning & Textile	563	481	-15%
Books and artistic works	408	399	-2%
Medical industries	341	317	-7%
Home textile	329	285	-13%
Furniture	180	136	-24%
Handcrafts	131	119	-9%
Leather products	57	33	-42%
Others	1,367	1,023	-25%
Total	17,170	16,262	-5%

Source: Ministry of Trade & Industry, The General Organization for Export & Import Control, Monthly Trade Digest, September 2020.

From the data issued by the General Organization for Export and Import Control, the paper noticed an increase in exports of building materials and food industries by 20% and 2%, respectively, and a decrease in exports of chemicals, agricultural crops, engineering products, ready-made clothes, yarn and textiles, Books and artistic works, medical industries, home textile, furniture, handmade and leather and shoes by 12%, 5%, 14%, 25%, 15%, 2%, 7%, 13%, 24%, 9% and 42% respectively during January to August 2020 compared to the same period in 2019.

By highlight on the five most important export sectors that decreased during the first eight months of 2020 compared to the same period in 2019,

which represent about 47% of Egypt's total exports during 2020, we notice the following:⁴

Table 2.

Monthly change % of Egyptian exports of main sectors of 2019 and 2020 (million US\$)

	Chemical Products			Agro products			Engineering products			Ready-made garments			Spinning & Textile		
Month	'19	'20	%*	'19	'20	%	'19	'20	%	'19	'20	%	'19	'20	%
Jan	437	405	-7.3	234	239	2.1	168	200	19.0	145	144	-0.7	71	74	4.2
Feb	467	454	-2.8	288	308	6.9	184	202	9.8	131	128	-2.3	69	72	4.3
March	515	469	-8.9	306	342	11.8	208	165	-20.7	130	105	-19.2	80	77	-3.8
April	513	374	-27.1	277	267	-3.6	216	86	-60.2	139	51	-63.3	75	38	-49.3
Мау	516	360	-30.2	248	176	-29.0	216	126	-41.7	135	59	-56.3	78	38	-51.3
June	453	392	-13.5	230	192	-16.5	187	185	-1.1	126	129	2.4	59	64	8.5
July	470	433	-7.9	98	88	-10.2	230	206	-10.4	172	134	-22.1	77	62	-19.5
August	380	423	11.3	76	65	-14.5	184	198	7.6	136	91	-33.1	54	56	3.7
Total	3,751	3,310	-11.8	1,757	1,677	-4.6	1,593	1,368	-14.1	1,114	841	-24.5	563	481	-14.6

* (%) is change.

Source: Ministry of Trade & Industry, The General Organization for Export & Import Control, Monthly Trade Digest, September 2020.

2.2.1 Chemical products

- With exception of August 2020, all months' exports decreased, exports of August 2020 reached US\$423 million, an increase of 11.3% compared to August 2019 (table 2).
- Main markets: Turkey, with a value of US\$477 million represent about 14% of the sector's exports during the first eight months of 2020 (figure 2) and a decrease of 45% compared to the same period of 2019.

Figures data from Ministry of Trade & Industry, The General Organization for Export & Import Control, Monthly Trade Digest, September 2020.

Figure 2.





Figure 3. Main chemical products



Main products: plastic products with value US\$1,060 million (32%) and fertilizer with value US\$953 million (29%) of exports of chemical products sector during the first eight months of 2020 (figure 3) and decreases of 47% and 30% respectively compared to the same period of 2019.

2.2.2 Agro products



Main markets for agro products



• With exception of January, February and March 2020, all months' exports decreased, exports of January, February and March 2020 reached US\$239 million, US\$308 million and US\$342 million respectively, an increase of 2.1%, 6.9% and 11.8% compared to the

same three of 2019 (table 2).

- Main markets: Russian Federation, Saudi Arabia, Netherlands and UK with a value of US\$264 million, US\$170 million, US\$163 million and US\$133 million respectively represent about 16%, 10%, 9.7% and 8% respectively of the sector's exports during the first eight months of 2020 (figure 4) and changes of 2%, -29%, -4% and -28% respectively compared to the same period of 2019.
- Main products: fruits with value US\$756 million (45%), potato with value US\$222 million (13%), citrus with value US\$150 million (9%) and union and garlic with value US\$135 million (8%) of exports of agro products sector during the first eight months of 2020 (Figure 5) and decreases of 16%, 14%, 27% and 48% respectively compared to the same period of 2019.
- Fruits, citrus, potatoes and onions are the most exported horticultural products during the year 2020. Despite increasing world demand on fruits and vegetables during COVID-19 crisis all four products exports decreased during the first eight months of 2020. Also, despite how Egypt remains second in global potato exports, exports this year have dropped by 25%.⁵ Egypt exported 673,000 tons of potatoes this year, falling short of the target for 850,000 tons. The main cause of this is the COVID crisis and its impact on exports in general and ban on the export of beans, peas and lentils for a period of 3 months in order to increase strategic food reserves to meet domestic demand.

2.2.3 Engineering and electronic products

- With the exception of January, February and August 2020, all months' exports decreased, exports of January, February and August 2020 reached US\$200 million, US\$202 million and US\$198 million respectively, an increase of 19.0%, 8.9% and 7.6% compared to the same three months of 2019 (Table 2).
- Main markets: UAE, UK, Turkey and Slovakia with a value of US\$127 million, US\$123 million, US\$112 million and US\$103 million respectively represent about 9.3%, 9%, 8.2% and 7.5% respectively of the sector's exports during the first eight months of 2020 (figure 6) and decreases of 37%, 56%, 18% and 47% respectively compared to the same period of 2019.

^{5.} egyptindependent.com, Mon 24 Aug 2020.

Figure 6.





Figure 7. Main engineering Products



• Main products: home appliances with value US\$498 million (36%), vehicles components with value US\$227 million (17%) and cables with value US\$150 million (11%) of exports of engineering sector during the first eight months of 2020 (figure 7) and decreases of 43%, 47% and 49% respectively compared to the same period of 2019.

2.2.4 Ready-made garments

• With the exception of June 2020, all months' exports decreased, exports of June 2020 reached US\$129 million, an increase of 2.4% compared to June 2019 (Table 2).





- Main markets: USA with a value of US\$490 million represents about 58.3% of the sector's exports during the first eight months of 2020 (Figure 8) and a decrease of 49% compared to the same period of 2019.
- \bullet Main products: casual wear with value US\$346 million (41.1%) and formal

wear with value US\$344 million (43.9%) of exports of sector of ready-made garments during the first eight months of 2020 (Figure 9) and decreases of 47% and 45% respectively compared to the same period of 2019.

2.2.5 Spinning & Textile

• With the exception of January, February and August 2020, all months' exports decreased, exports of January, February and August 2020 reached US\$74 million, US\$72 million and US\$56 million respectively, an increase of 4.2%, 4.3% and 3.7% compared to the same three months of 2019 (Table 2).



Figure 11.

Main spinning and textile products



- Main markets: Turkey and Italy with a value of US\$175 million and US\$56 million respectively represent about 36.4% and 11.6% respectively of the sector's exports during the first eight months of 2020 (Figure 10) and decreases of 41% and 55% respectively compared to the same period of 2019.
- Main products: cotton with value US\$149 million (31%), synthetic or artificial filament with value US\$109 million (22.7%) and filler and felt with value US\$85 million (17.7%) of exports of spinning & textile sector during the first eight months of 2020 (Figure 11) and decreases of 51%, 41% and 24% respectively compared to the same period of 2019.

3. Policy Responses

As of March 26, Egypt's government has taken a number of measures to contain the outbreak's effects on the export sector, which has made giant strides over the past few years as follow:⁶

3.1 Fiscal policy

Similar to other nations, Egypt's government rolled out a full-fledged stimulus package worth at least EGP 100 billion, about US\$6.13 billion (1.8% of GDP), to absorb the shocks of the pandemic. Fiscal measures to support the export sector include:

- Lowering the price of electricity for industrial use by 10 piasters (US\$0.0064) per kilowatt hour (kWh) for the medium, high and ultrahigh usage tiers, and freezing rates for the next 3-5 years. Government sources estimate these electricity price cuts could cost around EGP 6 billion alone (about US\$385 million). This will allow export units to set export completive prices for forging markets. The iron, steel and aluminum industries are the most prominent beneficiaries of the decision, considering that electricity constitutes about 15-17% of the production cost in these industries and the decision will have less impact for industries that electricity represent only about 5% of their production cost.
- Unifying the price of natural gas for the industry at US\$4.5 per British

AmCham (2020), Impacts of COVID-19 Pandemic on Egypt's Economy, A Research Note by American Chamber of Commerce in Cairo, March 31, 2020.

million thermal units. Factories were getting gas at a price of US\$4.5 per British million thermal units, which was problematic for some industries that considered the price of gas to be high locally compared to international prices;

- Tax Authority has issued decision No. 47 for the year 2020 dated April 27th, in addition to the appendix dated April 28th, in accordance with the Minister of Finance's instructions, and in implementation of the presidential plan to support and provide all the possible facilitations to the sectors mostly affected by the Corona Virus pandemic (COVID-19). One of them is the industrial sector (especially export-oriented firms), except for food-sector or pharmaceutical-based industrial plants, health-care supplies or detergents. It was decided that all the industrial companies mostly affected by the Corona Virus (COVID-19) will be able to settle corporate tax of 2019 free of late payment interest on three installments as follows: 20% payment of the tax due in April 2020; 30% payment of the tax due in May 2020; and the remaining 50% of the tax due should be paid before the end of June 2020.⁷
- Fast-tracking payouts from the Export Development Fund under export burdens reimbursement program, which will see EGP 3 billion (about US\$ 192 million) in arrears fully paid out by April's end and 10% in cash payments for new obligations during June. Egypt provided EGP 1 billion in March and April to help cover some of the dues they pay into a government fund for their benefit and paid 10% of those dues in cash to exporters in June.

The rationale behind government strategies to support exports is that their growth not only benefits business but also increases employment and stimulates the economy as a whole. As a part of reforms and liberalization, Egypt has shifted its attention to export development, adopted a strategy and established institutions to implement it.

The export subsidy program is a program sponsored by the Ministry of Trade and Industry. The program is a mandate of the Export Development Fund (EDF). Law No.155/2002 was signed to establish the EDF to create an incentive for Egyptian companies to push for more exports. The EDF requires the support of specialized 13 Export Councils, which are

Ahmed Ali and Hazem Shawki (2020), Egypt COVID-19 Updates –Three Tax Installments for Corporate Tax Return of 2019 Free of Late Payment Interest – Permitted For Some Sectors (Tax Alert 116), Andersen Tax & Legal law, tax and financial consultancy firm, 20 May 2020.

responsible for developing Egypt's exports in each sector. The subsidy ranges from 1-10% of the total value of exports. The program has been effective generating 5 times the value of its investment and tremendously expanding Egypt's export capacity.

The growth of exports receiving incentives has outpaced that of non-incentivized exports; since the start of the incentives program in 2002/2003, incentivized exports have increased 5-fold, as compared to non-incentivized.

Funds provided to the EDF shown in financial years from 2008/2009 to 2020/2021. The below figure shows the values of subsidy in Egyptian pound (L.E.) and US\$. The paper shows that the value increased to L.E. 6 billion in 2019/2020 to mitigate impact of COVID-19 on exporters and paying the subsidy arrears, and in the same context government of Egypt raised the amount to its peak of L.E. 7 billion in budget of 2020/2021 (Figure 12).



* In November 2016, Egypt devalued the Egyptian pound. Source: calculated from the State's Budget, Ministry of Finance, Various years.

3.2 Monetary policy

Along with 39 other central banks around the world, the Central Bank of Egypt (CBE)'s Monetary Policy Committee (MPC) has taken a number of measures to contain the outbreak's effects on the export sector as follows:

- Issuing instructions to study and follow up the sectors most affected by the spread of the COVID-19 and to develop plans to support companies operating in these sectors; and
- Setting urgent plans to increase credit limits with foreign banks to ensure the continued provision of the necessary financing for export operations.

3.3 Support the shipping sector and facilitate trade movement⁸

According to what was announced by the International Monetary Fund on April 1, 2020; the COVID-19 crisis is expected to throw the global economy into an economic recession, negatively impacting the expected growth rates for all regions and countries of the world. This has led to a decrease in demand, slowing economic activity and disruptions in global supply chains, and caused a decline in international trade by about 3% during the first quarter of 2020, and by 18.5% during the second quarter of the same year compared to the same periods of 2019. The following responses have been taken by the government of Egypt (GoE):

- Extending the program of support air freight for agricultural crops to include the Arab Gulf states;
- The National Food Safety Authority decided to inspect only 25% of finished food commodities that were pre-inspected before shipment, provided that they are accompanied by an inspection certificate approved by the inspection companies registered with the authority.

ECES (2020), Views on the Crisis on the transport sector, The Egyptian Center for Economic Studies (ECES), March 2020.

4. Analysis and Policy Implication

- COVID-19 is expected to have a severe impact on the manufacturing sector in Egypt. The crisis obliged all manufacturing sectors to slow down their production, with some exceptions of specific food and medical industries. This will negatively influence manufacturing value added growth rate and its contribution to the GDP, which were 4.7% and 16.2% in 2018, respectively. The expected recession in the global economy, resulting from the decline in international trade patterns and the travel restrictions that are currently applied in more than 100 countries, will negatively impact Egyptian exports. Current expectations provide a landscape in which Egypt might not be able to maintain its high growth rate in exports, which reached 11% at US\$ 25.1 billion in 2018.⁹ In this landscape, exporting firms could respond to the global crisis by cutting working hours, laying workers on temporary rather than permanent jobs, and might consider cutting staff and non-essential jobs.
- Egypt's top trading partners include the EU, the U.S., Italy, Spain, China, Turkey, UAE and Saudi Arabia, which are among the economies highly affected by the COVID-19 pandemic. Trying to contain the spread of the disease, these countries have all but halted their industrial and manufacturing activity, which had direct negative impacts on twoway trade. On the export side, experts are forecasting export proceeds for Egypt may decline by 25% by the end of 2020 as the movement of Egypt's exports to the EU (specifically Italy) and U.S. face internal and external delays, which also weighed on the country's external accounts. Similarly, Egypt imported lower volumes, as overseas suppliers focus on domestic markets; this affected a number of Egypt-based manufacturers, especially in the electrical appliance, electronic devices and textiles sectors, which rely heavily on imported production inputs.
- Egypt has responded heavily to the COVID-19 pandemic. Most measures taken consist of the prohibition of export of medicines and medical devices, although these also affect the exportation of food products such as types of legumes (beans, peas, lentils) and medical equipment (including masks, gloves, and disinfection alcohol). Export restrictions are applied to ensure the local supply of certain locally

GOEIC (2020), Ministry of Trade & Industry, The General Organization for Export & Import Control, Monthly Trade Digest (September 2020).

manufactured goods can be guaranteed. These are normally applied to promote the value addition or the local industry.

5. Conclusion

Egyptian exports, like most countries of the world, suffered from the negative impact of the COVID-19, starting from the first quarter of 2020, as the total value of Egyptian exports decreased during the period from January to August 2020 compared to the same period in 2019 due to the decrease in exports of most export sectors except for exports of building materials and food industries.

In implementation of the comprehensive plan approved by the Egyptian government to provide for the needs of its citizens and support efforts to confront the crisis, a number of important measures and decisions have been taken to confront the economic effects of the spread of the COVID-19, and the state has taken proactive policies to limit the decline in economic growth and stimulate economic activity. These policies focused on two aspects, the first of which focused on increasing support to the health sector to control the virus, and the second focused on supporting sectors and groups affected by the crisis.

Egypt has taken a number of measures to contain the outbreak's effects on the whole economy and export sector particularly, including fiscal policy stimulus package worth at least EGP 100 billion (about US\$6.13 billion, or 1.8% of GDP) and monetary policy by the Central Bank of Egypt (CBE), in addition to measures taken to support the transport sector and facilitate trade movement and restrictions on some imported and export products. Egypt has succeeded in maintaining the continuation of the production wheel in many sectors as well as preserving employment in factories. The Ministry of Industry and Trade has also taken a set of decisions to stop the strategic stockpile of some basic commodities with some exceptions made for exporters whom linked to export contracts before issuing decisions to maintain export opportunities and foreign markets for Egyptian exporters.

Egypt's government have taken different measures to support the export sector include lowering the price of electricity for industrial use with package cost around US\$385 million; unifying the price of natural gas for the industry at US\$4.5 instead of US\$5.5 per British million thermal units; Most affected sectors will pay the income tax of 2019 in installments until the end of June 2020 without paying any delay penalties or interest; and fast-tracking payouts from the Export Development Fund under export burdens reimbursement program, which will see EGP 3 billion (about US\$ 192 million) in arrears fully paid out by April's end and 10% in cash payments for new obligations during June.

By the end of 2020, the value of Egyptian exports is expected to decrease as a result of the impact of COVID-19 on the Egyptian industrial sectors and the import capabilities of Egypt's main trading partners (the European Union, the United States of America, Turkey, the United Arab Emirates and the Kingdom of Saudi Arabia) to import from foreign markets, in addition to ban on export of some legume varieties and medical products. Also, one of the main reasons for the decline in exports of some sectors such as electrical appliances, electronic devices and textiles sectors is the decrease in the volume of imports of inputs required to these sectors production.

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Egypt's Trade During COVID-19 Crisis: An Assessment of Responses and Implications

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Visiting Scholars' Opinion Paper

Crisis and Fragility: Economic Impact of COVID-19 and Policy Responses

Egypt's Trade During COVID-19 Crisis: An Assessment of Responses and Implications

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1. Introduction

COVID-19 is the main reason of the world economy slowdown, the global interruptions in the production systems and supply chains as well as widening budget deficits all over the world. The international trade decline increases pressure on oil prices. Travel restrictions reduce the international trade in services, namely, tourism and maritime transportation. As a result, a large portion of the export revenues will be negatively affected, causing a decline in foreign currencies supply and a deterioration in exchange rate which in turn drives the increase of imports payments and inflation rate.

This paper aims to identify the particular characteristics of the COVID-19 virus shock on Egypt, with special focus on trade prospects, and to determine the channels through which its impact is likely to affect Egypt's trade balance. It examines the likely impact on the Egyptian trade of a significant reduction in tourism and Suez Canal revenues because of the slowdown in the global trade due to the COVID-19 virus. It also sheds light on the policy responses and their implications.

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2. Main Features of Egypt's Economy:

Egypt's growth increased from 5.3% in Fiscal Year 2017-2018 to 5.6% in 2018-2019. This rate was sustained through the first quarter of Fiscal Year 2019-2020 (Macro Poverty Outlook, World Bank). Despite the expected gradual recovery which was driven by a macroeconomic stabilization program¹, performance of growth is expected to be undermined by COVID-19 through its effect on production and exports. According to IMF statistics (Table 1) GDP growth is expected to fall to 2% in 2020 and pick up to 2.8% in 2021, subject to global economic recovery. Current account deficit to GDP was at 3.6% for 2019 and is expected to decline in 2020 (4.3%) and 2021 (4.5%). Government balance deficit declined from 19.8% of GDP to 5%, as well as debt-to-GDP ratio was improved to fall below 100% to be at 84.9% in 2019, because of fiscal consolidation and nominal GDP growth. Inflation fell to 13.9% in 2019, from 20.9% the previous year. The inflation rate is expected to drop to 5.9% in 2020 and increase to 8.2% in 2021.

Table 1.

Main Indicators of Egyptian Economy

			2019	2020	2021
Indicators	2017	2018	(e)	(e)	(e)
GDP (billions USD)	236.53	249.56e	302.26	353.00	376.54
GDP (Constant Prices, Annual % Change)	4.1	5.3	5.6	2.0	2.0
GDP per Capita (USD)	2,495e	2,573e	3,047	3,478	3,627
General Government Balance (% GDP)	-10.8	-9.6e	-7.7	-7.1	-5.0
General Government Gross Debt (% GDP)	103.2	92.7	84.9	83.8	80.7
Inflation Rate (%)	23.5	20.9	13.9	5.9	8.2
Unemployment Rate (% of the Labor Force)	12.2	10.9	8.6	10.3	11.6
Current Account (billions USD)	-14.39	-5.96e	-9.30	-9.89	-8.76
Current Account (% GDP)	-6.1	-2.4	-3.6	-4.3	-4.5

Source: IMF, World Economic Outlook Database

- (e) Estimated Data

Economic reform program launched as part of an agreement with the IMF in 2016 (worth USD 16 billion over three years).

The previous main indicators declares that the Egyptian economy is improving, despite the drop in world demand. According to the Central Bank of Egypt (CBE), the annual consumer price inflation rate declined from 7.2 percent in January 2020 to 5.3 percent in February. The Egyptian pound (EGP) was considered one of the year's top-performing currencies where its value witnessed a steadily gained strength against the US dollar in 2019.

The Egyptian market has been gradually opening up, where trade represents 48% of GDP. Structurally, the Egyptian economy has a trade deficit of 10.5% of its GDP (World Bank, 2018). Egypt's primary trading partner is the European Union (30.9%); however, its main customers are Turkey and the United Arab Emirates (accounting for 6.9% and 6.8% of the country's exports, respectively), followed by the United States (5.9%) and Saudi Arabia (4.9%). The EU (chiefly Germany and Italy) and China are the main suppliers of goods and services in Egypt, followed by Saudi Arabia, the United States and Russia (Figure 1). According to the Chinese Ministry of Commerce, bilateral trade between China and Egypt reached 13.2 billion USD in 2019.² India is Egypt's 10th largest trade partner, where bilateral trade between India and Egypt increased from \$3.68bn in India's FY 2017/18 to \$4.55bn in FY 2018/19.³

Egypt has various cooperation agreements with many countries. In 2004, an agreement was signed with the European Union that allows industrial goods to enter duty free into Europe. In 2007, a free trade agreement was signed with 4 countries of the EFTA (European Free Trade Association) and with Turkey in 2005, also, the Agadir agreement among Egypt, Morocco, Jordan and Tunisia entered in force in 2007. In addition, Egypt is a member of the Greater Arab Free Trade Area (GAFTA), a pact of the Arab League that entered in force in January 2005. Egypt also belongs to the common market of eastern and southern Europe (COMESA) which could potentially lead to a customs union. Egypt has also signed a trade agreement with 21 other countries in the São Paulo Round of the Global System of Trade Preferences among Developing Countries (GSTP) (Societegenerale, July 2020),

^{2.} Source: http://www.xinhuanet.com/english/2020-06/19/c_139149954.htm

Source: https://menafn.com/1100619100/Egypt-India-trade-reaches-453bn-in-FY20-despite-COVID-19-Ambassador-Kulshreshth 11-8-2020.





Source: Author: World Bank, World Integrated Trade Solution, https://wits.worldbank.org

3. The Effects of COVID-19 on Trade:

The country-specific effects depend on the composition of production and exports by sector and destination, in addition to the level of openness of the country and its relative competitiveness in front of trading partners. (Maliszewska et al., 2020)

A. Trade of Goods: A Special referring on raw and Processed COTTON exports

The disturbance in global supply chains will adversely affect industries that depend on inputs from foreign markets, especially China, thereby affecting production levels that oriented to the domestic and foreign markets. Egypt's exports in cotton contributed around 471.63 million USD during 2019, constituting about 3% of its GDP. Egypt produces around 200,000 tons of cotton yearly and imports another 200,000 that it processes before exporting. The local availability of high-quality extra-long staple (ELS) cotton as an input for high-value apparel products has given Egypt

a major competitive advantage in the textile and apparel sector. In 2018, exports of this sector (excl. raw materials) amounted to almost US\$3 billion, representing roughly 12% of total exports (Ministry of Foreign Affairs, Feb. 2020).

One of the recent measures of improvements the Egyptian government had taken is investing 1.25 billion USD to modernize spinning, weaving, knitting, dyeing, finishing, printing and cut-and-sew manufacturing of the textile industry of the public sector. Even though Egypt has not imposed a full lockdown, its obligatory curfew and health measures have adversely affected cotton production and local demand by 30% to 40%. As farmers are reducing cotton crops and are focusing on other products while popular retailers like Zara and H&M have shut many of their stores worldwide from the fallout out of the pandemic, limiting consumers' spending. In addition, many farmers realized that they have to opt food security priorities by planting their fields with more food crops (Kamal, July 2020).

The last situation has a bright side, where focusing on food production has increased Egyptian's agricultural exports. According to a report issued by the Agricultural Quarantine Administration confirmed that the volume of agricultural exports since January has reached nearly 4.2 million tons. As a results to the outbreak of the COVID-19 epidemic in countries competing with Egypt in the Arab region and East Asia (e.g. India and Pakistan), agricultural exports has recently increased to the Arab Gulf countries especially in all kinds of onions, peas, beans, peas, lemons, onions, oranges, and potatoes. Exports of oranges and potatoes to Russia also increased greatly due to the same reason.

Egypt imports around 40% of its food requirements according to the Food and Agriculture Organization (FAO). Therefore, disruption of global value chains is likely to be a main form of economic damage, mainly because of China, but also in the rest of East Asia as well as the large world economies. This coincides with measures to build reserves of the major strategic commodities range from 4.2 to 11.9 months. April 2020, Egypt has imported substantial quantities to cover its needs for the year, particularly wheat. It has doubled its modern grain silo capacity (from 1.5 million tons in 2014 to 3 million tons in 2019). (Food and Agriculture Organization [FAO], 2020).

From the other side, COVID-19 has "little impact" on Egypt-China bilateral trade: bilateral imports and exports in the first quarter of this

year reached 3.185 billion U.S. dollars, marking a slight increase of 0.91 percent compared to the same period last year.⁴ In addition, Egypt's exports to India from January to March 2020 were at 353 million USD, while its imports from India were 549 million USD in the same period, despite the disruptions in February and March 2020 due to COVID-19.⁵

B. Trade of Services: Tourism and Transport

Almost 90 percent of Egypt's trade is take place via sea port. The Ministry of Transport attaches great importance to developing various sectors of transport, particularly the maritime transport through implementing a future strategy for the maritime sector in line with Egypt's sustainable development plan for the year 2030. The international trade slowdown as a result of the disruption of supply chains will also have adverse effects on revenues from the Suez Canal, which reached 5.8 billion USD in 2019 (Elnaggar, 2020). As a large share of all globally traded goods pass through the Suez Canal, revenues from the Canal may decline by between 10 percent (optimistic) and 15 percent (pessimistic) according to the estimates of the Egyptian Center for Economic Studies (ECES). Maritime transport plays an essential role in responding to the short-term emergencies of COVID-19, by facilitating the transportation of vital goods and products. Although the vast majority of ports have managed to remain open for shipping operations, most of them are still closed to passenger traffic (Union of Mediterranean, July 2020).

The 2018 ratio of exports of services to GDP reached around 9% in Egypt. Travel constitutes 49% of service exports in 2018. The last year has also witnessed a flourish of the tourism industry, which is a key pillar of the economy. It is a major source of employment and foreign exchange, with revenues of 12.4 billion USD in the 2018/2019 fiscal year. This represents an increase from \$3.93 billion in the first quarter of the 2018/2019 fiscal year to 4.19 billion USD in the first quarter of the 2019/2020 fiscal year. The sector's added value was 140.5 billion Egyptian pounds (9.4 billion USD), 2.7% of GDP, in the 2018-2019 fiscal year. According to Egypt's Central Agency for Public Mobilization and Statistics (CAPMAS), the accommodation and food services employed more than 700,000 workers in the third quarter of 2019, accounting for 3.1% of total employment.

^{4.} Source: http://www.xinhuanet.com/english/2020-06/19/c_139149954.htm

Source: https://menafn.com/1100619100/Egypt-India-trade-reaches-453bn-in-FY20-despite-COVID-19-Ambassador-Kulshreshth 11-8-2020.

Tourism has been by far one of the "most severely impacted sectors by the crisis", says Marina Wes, World Bank country director for Egypt, Yemen and Djibouti. It was one of the first industries and the hardest hit when COVID-19 entered Egypt. In March 2020, with COVID-19 beginning to spread in Europe, tourism declined sharply in Egypt with between 70 and 80 percent of hotel bookings being cancelled (ECES 2020b).

According to UNCTAD (2020), the GDP effects are much greater than the loss of tourist expenditure because of the indirect effects through the supply chain. In this regard, Breisinger et al. (2020) found that COVID-19 could reduce national GDP by between 0.7 and 0.8 percent (EGP 36 to 41 billion) for each month during the crisis' period. Tourist cancellations have already reached 80% in mid-March compared to the corresponding period in 2019, with an initial 138,000 job estimated at risk (OECD, April 2020). The decline in tourist spending will affect not only hotels, restaurants, taxi enterprises, and tourist guides, but also agriculture and food processing. The absence of tourists may cause monthly losses of EGP 26.3 billion or about 1.5 billion USD. That is, the total estimated impact is around one and a half times the expected direct loss in revenues of tourism (Breisinger et al. 2020).

4. Policy Responses and implications:

A. National Policy Responses:

The Egyptian Government has enacted temporary trade measures to confront the emerging COVID-19 and limit its spread (Table 2). These measures have been taken to restrict exports of vital medical supplies and to liberalize imports of vital medical supplies, as well as other essential products (Box 1). Egypt has imported substantial quantities in April 2020, particularly of wheat, to enhance food availability for the year (FAO, 2020).

The Ministry of Trade and Industry has issued two decrees banning, for three months, the export of infection prevention supplies, including face masks and alcohol, as well as its derivatives, to ensure the supply of these items as part of the government's precautionary measures to protect citizens.

On 28 March 2020, the Egyptian Ministry of Trade and Industry issued

Decree No. 194 imposing an export ban on all kinds of legumes for three months in response to the outbreak of COVID-19. The decree did not state the specific HS codes affected. This Decree comes within the framework of the Egyptian National Strategy to secure sufficient amounts for local consumption and protection of citizens against possible percussions of COVID-19.

On 15 June 2020, The Ministry of Trade and Industry issued Ministerial Decree No. 272 extending the export ban on beans and lentils for an additional period of three months. The subject goods fall under 0708.20, 0713.40, and 2005.51. The export ban on the remaining goods is set to expire on 28 June 2020.

Table 2.

COVID-19 temporary trade measures

Type of Measure	Affected products	Measure	Effect on Trade	Af- fected Partners	Status	Start Date	End Date
Export prohibition	beans, peas, lentils	June 15:New measure imposes a temporary (three months) export prohi- bition on beans and lentils only Minister of Industry and Trade introduced an export ban on certain type of vegetables.	Restric- tive	All countries	<u>Active</u>	2020/ 03/ 31	2020/ 09/ 15
Prohi- bitions/ restrictions of imports for SPS reasons	garlic, carrots and green ginger	Egypt announced that imports of garlic, carrots and green ginger from China would be temporarily suspended.	Restric- tive	China	Active	2020/ 02/ 09	Un- known
Export prohibition	masks, gloves, dis- infection alcohol	June 18: Egypt extends export ban for further 3 months. March 17: Egypt bans exports of medical masks and rubbing alcohol for 3 months.	Restric- tive	All countries	Active	2020/ 03/ 17	2020/ 09/ 17

Source: https://www.macmap.org/covid19

Box 1: Affected Food Products By Exports Ban

012 Vegetables

0708 Leguminous vegetables, shelled or unshelled, fresh or chilled. 070890 Other leguminous vegetables

017 Pulses (dried leguminous vegetables)

0713 Dried leguminous vegetables, shelled, whether or not skinned or split. 071331 Beans of the species Vigna mungo (L.) Hepper or Vigna radiata (L.) Wilczek 071333 Kidney beans, including white pea beans (Phaseolus vulgaris) 071339 Other 071350 Broad beans (Vicia faba var. major) and horse beans (Vicia faba var. equina, Vicia faba var. minor)

213 Prepared & preserved vegetables, pulses & potatoes

2004 Other vegetables prepared or preserved otherwise than by vinegar or acetic acid, frozen, other than products of heading 20.06.200410 Potatoes200490 Other vegetables and mixtures of vegetables

Source: https://www.globaltradealert.org/intervention/78953/export-ban/egypt-export-ban-on-all-kinds-of-legumes-covid-19

As for the tourism sector, the Egyptian banks has introduced stimulus measures through providing a \$ 1.3 billion credit line to the tourism sector. Tourism enterprises were expected to use the credit to modernize facilities, pay workers' salaries, and prepare for recovery after COVID-19. The measures include suspending flights to and from Egypt, which led to the freezing of the tourism and travel sector. Hotels and other tourist facilities have begun to use the suspension to modernize themselves and prepare for the return of tourism movement after the pandemic ends. Museums and ancient sites in Egypt have started a campaign of cleaning and decontamination. The Ministry of Tourism and Antiquities is arranging some museums and making changes to others.

To maintain the performance of the entire economy during COVID-19 crisis, the Central Bank of Egypt announced and government announced various measures (Box 2).

Box 2: the Official Measures to Mitigate Economic COVID-19 Effects

Central Bank of Egypt

March 16: Cut by 300 basis points both the overnight lending rate (from 13.25% to 10.25%) and the overnight deposit rate (from 12.25% to 9.25%) in what it described as a "preemptive" move to support the economy in the face of the COVID-19 outbreak.

March 23: Told commercial banks to cut interest on dollar deposits to 1% above the London Interbank Offered Rate (Libor) instead of 1.5% above Libor, starting March 23, in order to control the exchange market and reduce the expected dollarization operations after cutting interest rates on March 16. March 29: Instructed Egyptian banks to apply temporary limits on daily withdrawals and deposits in a move seemingly designed to control inflation and hoarding during the coronavirus' spread, after 30 billion Egyptian pounds (\$1.91 billion) were withdrawn from banks in the past three weeks. The daily limit for individuals would be 10,000 Egyptian pounds (\$635) and 50,000 pounds for companies.

Government of Egypt

March 14: Indicated that the government will allocate 100 billion Egyptian pounds (\$6.4 billion) to finance a "comprehensive" state plan for combating the COVID-19 outbreak. March 22: Announced that the government would allocate 20 billion Egyptian pounds (\$1.27 billion) to support the stock exchange.

March 30: Ordered relevant authorities to boost strategic reserves of staple goods, as global concerns about food security rise amid the COVID-19 crisis.

Source: Jackson et al. (2020).

B. International Responses:

The European Bank for Reconstruction and Development (EBRD) is supporting the Egyptian Economy with a US\$200 million financing package to National Bank of Egypt (NBE) for trade and for on-lending to local companies impacted by the coronavirus pandemic.

In addition, the Bank is increasing an existing uncommitted trade finance limit for NBE by US\$100 million under the EBRD's Trade Facilitation Program to reach US\$300 million, to help meet the increased demand for import and export transactions (Zgheib, June 2020). **The African Export-Import Bank (Afreximbank)**⁶ has disbursed a total of \$3.55bn to the Egyptian Banking sector under its Pandemic Trade Impact Mitigation Facility (PATIMFA) since the outbreak of the pandemic in March this year. In an effort to boost long-term economic prosperity in the region, the bank has also provided \$300 million to the National Bank of Egypt to support activities aimed at expanding intra-African trade.

PATIMFA is designed to assist Afreximbank member countries in managing the negative impacts of financial, economic and health shocks caused by COVID-19. By doing so, it helps maintain and enhance economic stability during a period of global uncertainty. The funds ensure that due commercial debt payments are met, and support the stability of foreign exchange resources in order to keep significant imports flowing. It will boost the liquidity of the central bank and local Egyptian lenders during the crisis, while ensuring the continuation of vital trade in commodities such as food and medical supplies.

Moreover, Afreximbank has also provided a \$250,000 grant to support the Egyptian government's relief efforts regarding COVID-19. The support provided to the National Bank of Egypt reflects Afreximbank's continued commitment to promoting regional integration and intra-African trade – an area of development that is considered vital to the continent's recovery from the pandemic and its long-term economic resilience. The funds will support the operational expansion of the National Bank of Egypt through investment and trade in Africa. It will also boost its trade business between Egypt and Africa, which aims to increase its support for regional trade from \$85 million in 2020 to \$125 million in 2022.

As for the efforts of bilateral countries, China–Egypt have been cooperating closely in fighting the COVID-19 pandemic through exchanging medical aid and expertise and offering mutual support and solidarity. In early February, Egypt provided aid to China to help with its fight against COVID-19 and China later returned the favor by sending three batches of medical aid to the North African country, the latest of which was in mid-May.⁷

While some countries locked their borders with Egypt, like Sudan and

7. Source: http://www.xinhuanet.com/english/2020-06/19/c_139149954.htm

^{6.} The African Export-Import Bank (Afreximbank) is a Pan-African multilateral financial institution with the mandate of financing and promoting intra-and extra-African trade. Afreximbank deploys innovative structures to deliver financing solutions that are supporting the transformation of the structure of Africa's trade, accelerating industrialization and intra-regional trade, thereby sustaining economic expansion in Africa. For more information see: https://www.afreximbank.com/egypt-afreximbank-disburses-3-55bn-to-cush-ion-impact-of-covid-19-300m-to-stimulate-intra-african-trade/

Israel, Sudan reopened its land border for trade with Egypt, after COVID-19 closure in March 2020, where 20 trucks carrying goods from Egypt will be allowed to enter the country through the border crossing. Food and consumable materials will be allowed, while personal items and furniture will not (Sudanese news agency SUNA). Market expanding has been an effective response to the probable exports shortage towards neighboring countries due to the lockdown. In a recent statement, the Egyptian Ministry of Agriculture confirmed that Egyptian agricultural products are currently invading most countries of the world, including European and American markets, which place harsh technical barriers on their imports of food commodities.

Upon the policy responses and international cooperation, Egypt successfully abled to overcome the supply risk by securing the food availability through imports, domestic production and food reserves. From the demand side, the government has taken a host of measures to mitigate the adverse effect of the crisis on households and on the business, banking and financial sectors.

The impact of export restrictions could be to increase prices of medical masks by 20.5 percent and of masks by 9.1 percent. Prices of protective equipment such as aprons and gloves are estimated to increase between 1 and 2 percent due to the current restrictions. Other products could experience smaller increases (Espitia et al., 2020).

Unfortunately, the tourism industry is unlikely to rebound until next season in light of the ongoing travel restrictions and the continuing psychological impact of the health risks associated with international travel. The demand shock will extend into recessionary trends that may affect domestic investment and employment.

5. Conclusion:

A global crisis requires global and local responses. Moreover, there is a need for global collaboration not just on health, but also on trade, finance and macroeconomic policies. Egypt should rethink its intra-regional trade integration – for example, in agricultural goods and food staples, which can help serve national food security goals. Moreover, building up regional

value chains and enhancing intra-regional trade in services after the end of the disaster can help in mitigating the negative effects of the COVID-19 shock.

As the world changes in the wake of the COVID-19 pandemic, Egypt has an opportunity to address some of the structural reforms in the economy by boosting the confidence of the domestic private sector, as well as moving at a faster pace to promote technological transformation, particularly in the financial and health care industries.

Boosting the domestic private sector gives an opportunity to tackle some structural reforms in Egypt, as well as moving at a faster pace to promote technological change, particularly in the financial and healthcare industries, where Egypt intensively depends on imports of digital assets and services. Lastly, the Covid-19 crisis has given an important lesson regarding the necessity of supporting economic diversification where possible, as a high dependence on one or few sectors increases vulnerability.

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Turkey's COVID-19 Diplomacy : International Cooperation in the Age of Global Health and Economic Crisis

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Visiting Scholars' Opinion Paper

Crisis and Fragility: Economic Impact of COVID-19 and Policy Responses

Turkey's COVID-19 Diplomacy : International Cooperation in the Age of Global Health and Economic Crisis

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Introduction

The COVID-19 pandemic has brought very unexpected challenges in 2020 from health issues to economic and humanitarian crisis. These challenges make countries spend more energy to handle difficulties properly. In fact, no one has a capacity to confront those new or aggravated global challenges individually. International cooperation in the age of global health and economic crisis has become more imminent to diminish national and global repercussions. Turkey, as a rising middle power,¹ has also suffered a lot because of the global pandemic. On the other hand, Ankara has initiated active diplomacy and global engagement strategy to increase its globality² and to decrease its suffering with the help of international cooperation.

As many countries across the World, Ankara has faced the two big challenges because of the pandemic. The first one is a health crisis in the country. Despite growing concerns and questioning of transparency, Ankara was not that bad in its handling of the first wave of the pandemic from the mid-March to late May. Turkey put severe restrictions and partial lockdowns to take control of the pandemic in the first wave. Despite

Turkey



International Trade

and Cooperation

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Jeffrey Robertson, "Middle-power Definitions: Confusion Reigns Supreme", Australian Journal of International Affairs, Vol. 71, No. 4, 2017, pp. 355–370.

Selçuk Çolakoğlu, "From Antalya to Osaka: Assessing Turkey's "Globality" and Performance in the G20", The Global, November 20, 2019.

declining state capacity, deinstitutionalization, and political polarization and mistrust between the government and the opposition in recent years, Turkey had relatively lower fatality rates than many "similar" countries.³ Turkey's hospital capacity and reaching a proper treatment was not a big issue in the first wave during last spring. According to the Turkish Ministry of Health, as of August 25, 2020, Turkey has a total 6.5 million COVID-19 cases with 6,163 fatalities. Ankara has closely followed the international community for their combat strategies against pandemic and is open to any kind of international cooperation.

The second big challenge for Turkey during the pandemic and so on is the shrinking economy. This has pushed Ankara to open more cooperation with big economies and international financial institutions to overcome economic difficulties at home.

Turkey has played highly active global engagements from the beginning of the pandemic for certain motivations. In fact, a number of state-endorsed Turkish institutions have assumed prominence in Turkey's humanitarian diplomacy activities, together with a large number of humanitarian nongovernmental organizations (NGOs). This substantial investment in humanitarian diplomacy is evidenced by Turkey's rise to 3rd place in recent years among donor governments delivering international humanitarian aid.⁴ Thus, Ankara has pursued a dynamic humanitarian diplomacy in the pandemic to increase "soft power" capacity with its advantageous medical equipment production. Turkey's self-sufficiency in those areas and the relative success in fighting the pandemic is a big advantage. The Turkish government has had three certain purposes for its active "corona diplomacy" during the pandemic.

1) Getting sympathy across the World and creating leverage to fix its problems with some EU & NATO countries

By adopting a very active corona diplomacy, the Turkish government consisted by the Justice and Development Party, or AKP and the Nationalist Action Party, or MHP has tried to remedy damaged international relations

Evren Balta and Soli Özel, "The Battle Over the Numbers: Turkey's Low Case Fatality Rate", Institut Montaigne, May 4, 2020.

 [&]quot;Global Humanitarian Assistance Report 2014", OCHA, September 10, 2014. https://reliefweb.int/report/ world/global-humanitarian-assistance-report-2014

as well as to reshape the image of the country globally. As Ankara sends medical aid to scores of countries, Turkey wants to improve ties with NATO and/or the European Union (EU) members like the United States, Italy, Spain, Britain, and France, which have soured over many issues including Turkey's active policies in the Eastern Mediterranean, the migration flows from Turkey to the EU, and Turkish military involvement in Libya.⁵ With the United States, the political gains sought by Turkey through medical aid are not a secret. Ankara wants Washington to acquiesce to the Turkish government purchase of the Russian S-400 defense system while the United States wants Turkey to resolve several bilateral issues of contention and improve its human rights practices.⁶ The move also helped fuel the AKP-MHP government's domestic narrative that Turkey is now in a position help major powers in Europe as well as the United States struggling to cope with the global outbreak.

Despite past tensions between the two countries, Turkey has made efforts to help Israel amid the COVID-19 outbreak, flying stranded Israelis and Palestinians back to their home country, and supplying Israel with medical equipment. Turkish medical aids were also sent to the Palestinian territories.⁷

China and Turkey have further strengthened their cooperation in the battle against the COVID-19 pandemic and the solidarity will have a lasting effect on their relationship. Chinese President Xi Jinping said in April 2020 in a phone call with his Turkish counterpart Recep Tayyip Erdoğan that China would continue to support Turkey in its fight against the pandemic in line with its needs, and facilitate its purchase of medical supplies in China.⁸

The corona diplomacy does not necessarily bring always positive outcomes for Turkey. There were several cases where some extra problems with other countries were created. Yerevan denied in April 2020 a senior Turkish official's claim that it has asked Ankara to send medical supplies needed for tackling the spread of COVID-19 in Armenia. The Armenian Ministry of Foreign Affairs (MFA) insisted that its officials contacted with relevant Turkish authorities with the sole aim of evacuating Armenian

^{5.} Ronald Meinardus, "Mask diplomacy and power politics", *Qantara.de*, July1, 2020.

^{6. &}quot;An implausible list of demands behind Turkey's medical aid campaign", The Arab Weekly, May 11, 2020.

^{7. &}quot;Turkey aids Israel in time of coronavirus despite tense relations", *Jerusalem Post*, April 10, 2020.

^{8. &}quot;Chinese-Turkish ties grow stronger in fight against COVID-19, experts say", People's Daily, April 10, 2020.

citizens from Turkey.9

Furthermore, China's medical aids to Turkey's problematic neighbors, Armenia, and the Republic of Cyprus, created some sort of frictions with those countries and China. The boxes of the supplies were marked by a dedication, in English, reading: "May our friendship be higher than mountain Ararat and longer than the Yangtze river." Mount Ararat is a national symbol of Armenia, but it is located within the current borders of Turkey. One of the sensitivities of Armenian "genocide" recognition in Turkey is the fear that Armenia might use recognition to claim territory in eastern Turkey from which the Armenians were deported in 1915, and the Chinese inscription fed into that concern.¹⁰ After reports emerged about the Chinese aid to Armenia, Turkey's MFA demanded an explanation from the Chinese embassy in Ankara. Ambassador of the China to Ankara, Deng Li, stated that the local Chinese authority prepared the English message without consulting the central government and added that the Beijing respects the sovereignty and territorial integrity of Turkey.¹¹

Ankara did not allow to pass a Chinese cargo plane to the Republic of Cyprus over the Turkish airspace.¹² The Turkish MFA said that the Chinese cargo plane did not share its flight route before entering the Turkish air space. Ankara does not recognize the Republic of Cyprus as a legitimate authority on the island and refuses to allow flights over the Turkish airspace heading to Southern Cyprus. Ankara only recognized the Turkish Republic of Northern Cyprus (TRNC) on the island. However, Ankara allows planes heading to and from Southern Cyprus to use Turkish airspace and airports for humanitarian and emergency issues. In the case, the Chinese plane did not give enough time to the Turkish authorities to evaluate the situation as a "humanitarian" case.¹³

2) Relocating European supply chain from China to Turkey

The COVID-19 pandemic and increasing tensions and war of words between Beijing and Western capitals have carried out an imminent agenda

^{9. &}quot;Armenia Denies Asking for Turkish Coronavirus Aid", RFE/RL, April 13, 2020.

^{10.} Joshua Kucera, "Coronavirus exacerbates Armenia-Turkey rancor", *Eurasianet*, April 13, 2020.

Yahia H. Zoubir, "China's Health Silk Road Diplomacy in the MENA", Med Dialogue Series, No. 27, July 2020.

 [&]quot;Plane that landed in Moscow due to Turkey's actions eventually delivers aid to Cyprus", TASS, May 14, 2020.

^{13. &}quot;Turkey defends denying overflight clearance to aircraft", Anadolu Agency, May 15, 2020.

for G7 countries to change global supply change from China to regional countries. Turkey would be a perfect alternative of China for European countries particularly for its strong textile and manufacturing industry. Turkey's next step is to position itself as an alternative to China for supplying medical equipment and supplies to European countries, taking advantage of adaptive industry, especially within the defense sector.¹⁴

This claim was mostly based on the European intention of reallocating supply chains geographically closer. Clearly this is very valid within the debate of strategic autonomy and the new industrial policy. The possibility of getting a juicy part of the repositioning of the supply chains would be an important advancement for the already troubled Turkish economy. Turkish officials think that the country is a great candidate for it with existing economic ties and the EU Customs Union already in place. Turkey's geographical proximity to Europe, Eurasia, the Middle East, and North Africa will be its strongest part to move some European investments from China to Turkey.¹⁵ Turkey's geographical proximity to Europe is not only advantage for Ankara for relocating European supply chain from China. Turkish strong textile and manufacturing industry is already competing with Chinese products for years for the European market. Furthermore, being part of the EU's Customs Union, Turkey will have more superior position against China, if the EU Commission decides to impose extra tariffs on Chinese goods.

Ankara has also claimed that the quality of Turkish medical supplies is higher than the Chinese ones. It was claimed that faulty Chinese equipment with insufficient filters and failing to fit the mouths adequately increased COVID-19 cases in hospitals in recent months.¹⁶ However, Turkey has faced familiar quality and delivery failure critics during the pandemic. A commercial shipment of ventilators to Spain was delayed over export licenses. Another commercial shipment of 400,000 protective suits to Britain was criticized after some failed quality checks, but both Ankara and London said that was not a government-to-government shipment, and that there had been no problem with aid sent directly by Turkey.¹⁷

Marc Pierini, "Emerging From the Pandemic, Turkey Rolls Out a More Assertive Foreign Policy", Carnegie Europe, June 3, 2020.

İlke Toygür, "No coronavirus diplomacy could solely revitalize Turkey-EU relations", *Elcano Royal Institute*, June 24, 2020.

Megha Gupta and Mansheetal Singh, "COVID-19: China's 'Health Silk Road' diplomacy in Iran and Turkey", ORF, April 13, 2020.

^{17.} Tuvan Gümrükçü, "Turkey turns to medical diplomacy to heal damaged relations", *Reuters*, May 11, 2020.

3) Getting fresh financial funds and loans to vitalize its crisis hit economy during the pandemic

The Turkish economy has been hit hard by the pandemic. Turkey's already fragile economy, undermined by external debt, dwindling foreign reserves, and growing unemployment rates, has placed the country's recovery prospects in a precarious situation. Turkey has announced a \$15.5 billion stimulus recovery package and launched a nation-wide voluntary donation campaign to enhance solidarity in combatting the pandemic. The tourism sector, which accounts for 12 percent of the economy, is particularly in trouble. Turkey was the sixth most visited country in the world in recent years. The near to \$26 billion Turkey earned from tourism in 2019 will not likely be realized in 2020. Anticipating that some 2.5 million people are expected to lose their jobs between April and October in this industry alone, Turkey is aiming to boost its tourism income with a new initiative aimed at certifying tourist attractions, such as restaurants, hotels, museums, and historical landmarks, as "COVID-19 free".¹⁸

Turkey is heading for its second recession in less than two years. As of August 2020, the International Monetary Fund (IMF) expects to see the Turkish economy contract by 5%.¹⁹ The Turkish lira has been under pressure after the beginning of the pandemic, hit by rising investor concern over the country's economic strength and ability to defend its currency during a turbulent period for global financial markets. The latest drops in early May and early August pushed the lira below the previous trough hit during the 2018 currency crisis, which triggered Turkey's first recession in a decade.

The Turkish central bank has used up roughly a quarter of its freely available currency reserves in recent months and with huge dollar-denominated liabilities to service there are question marks about what its policy response is. Turkey's net currency reserves have fallen to nearly \$25 billion from \$40 billion so far this year. Turkey's economy needs to refinance close to \$168 billion over the next 12 months. That equates to 24% of Turkey's GDP.²⁰ Moreover, there were further declines of Turkey's exports in recent months, because of halting some factories under lockdown measures.

There are two options for Ankara to overcome its balance-of-payment

Ayça Arkılıç, "What is the impact of the COVID-19 pandemic on Turkey and its corona diplomacy?", The Big Q, May 26, 2020.

^{19. &}quot;Turkey", International Monetary Fund. https://www.imf.org/en/Countries/TUR

Marc Jones, "The Turkish lira's perfect storm", *Reuters*, May 7, 2020.

problems in months. The first option is signing a bailout deal with the IMF and initiating structural reforms to start remedying Turkey's economic woes. However, the AKP-MHP government is reluctant to sign a "Stand-By Arrangement" with the IMF since such a bailout deal would come with strict policy conditionalities concerning good governance, transparency, accountability, and anti-corruption. The AKP-MHP government believes that these conditions make it impossible to pursue an independent policy and undermine its grip over the economy.²¹

The second option is signing swap deals with the United States, Britain, and the EU. On 19 April 2020, Turkish officials reported their outreach to Britain. Ankara has likely been in contact with other Western central banks, as indicated by the 30 April announcement by the Turkish central bank governor that they are holding talks on swap lines with several central banks. However, initial signs indicate that Turkey is unlikely to get its expected swap amount. Turkey could only receive a U.S. Federal Reserve (FED) swap line for "geopolitical reasons" as Ankara's need for dollar liquidity. This is the only hope for Ankara that Washington will allow a FED financial lifeline to Turkey for political reasons.²²

Furthermore, Turkey's central bank tripled its currency swap agreement with Qatar in May 2020. The Turkish-Qatari deal amended the original limit of \$5 billion on the two countries' initial swap agreement in 2018, raising it to \$15 billion.²³ Turkey's central bank allowed the payment of Chinese imports to be settled using the yuan in June 2020, the first time under a currency swap agreement between Turkey and China's central banks. According to the Turkish central bank, all payments made for imports from China via the bank were settled in the yuan, a move which will further strengthen cooperation between the two countries.²⁴

Aykan Erdemir and Saeed Ghasseminejad, "COVID-19 in Iran and Turkey: Mismanagement, Crackdowns, Economic Crises, and Corona-Diplomacy", FDD Insight, June 5, 2020.

^{22. &}quot;Bar high to Fed swap line for Turkey but Trump could weigh in says former top central banker", bne IntelliNews, May 13, 2020.

^{23.} Natasha Turak, "Turkish central bank triples Qatar currency swap line to \$15 billion as economy flounders", CNBC News, May 20, 2020.

^{24.} Yang Kunyi, "Turkey uses Chinese yuan for import payment 1st time under swap agreement", Global Times, June 21, 2020.

Turkey's delivered COVID-19 aids

The pandemic offered Turkey the opportunity to project its soft power abroad. Thanks to well-prepared textiles and manufacturing sectors, Ankara was able to provide around 140 countries all around the world (see Table 1).²⁵ From Asia to Africa, from Europe to America cargos with Turkish flags were welcomed in countries hard hit by COVID-19.²⁶

According to the 2019 World Trade Organization (WTO) data, Turkey is the world's fourth-largest textile exporting country after China, India, and the United States. Its sufficient raw material capacity, supported by the textile infrastructure, allowed the country to produce up to two million/ day disposable masks.²⁷ Turkey has mainly donated tons of surgical masks, N95 masks, test kits, drugs (hydroxychloroquine and tamiflu), ventilators, respirators, overalls, aprons, protective glasses, gloves, face shields, visors, and disinfectant. Turkey has also delivered EKG devices, patient monitors, central oxygen flowmeters, 12-channel EKG devices, infusion pumps, defibrillators, PCR devices, surgical intervention kits, mobile X-ray device, diagnostic kits, UV devices, and ambulances to some countries in the Balkans, Eurasia, and Africa. Turkey has sent medical aids to Balkan and Central Asian countries more than one time.

Turkey's received COVID-19 aids

Turkey has received medical aids only from China and Taiwan during the pandemic. Turkey sent its first shipment of medical aid to China in early March, then China sent medical aids to Turkey in late March. Taiwan launched in early June a humanitarian assistance for Syrian refugees in Turkey to fight the novel COVID-19 pandemic. Medical aids were distributed among Syrian people in Turkey's southern provinces of Kilis and Hatay, which host many Syrians, while there are nearly 4 million

^{25. &}quot;Turkey to send medical aid to Serbia, Algeria, Paraguay to fight coronavirus pandemic", *Daily Sabah*, July 23, 2020.

^{26.} Valeria Talbot, "Turkey's Coronavirus Diplomacy and its Impact on Relations With the EU", ISPI, June 1, 2020.

Ali Demirdaş, "How Turkey was able to send Coronavirus Aid to 55 Countries", *The National Interest*, May 25, 2020.

Syrians across Turkey.²⁸ Turkish diplomatic sources refuted Iranian Foreign Minister Javad Zarif's claim in May 2020 that Tehran sent 40,000 advanced Iran-made test kits to Germany, Turkey, and others.²⁹

Table 1.

Turkey's Aid Diplomacy

	Turkey's Aid to Third Countries-	Third Countries' Aid to Turkey
Africa	Algeria, Botswana, Burkina Faso, Chad, Djibouti, Eritrea, Ethiopia, Guinea, Lesotho, Libya, Mozambique, Namibia, Niger, Somalia, South Africa, Sudan, Tunisia, Uganda	
America	Bolivia, Brazil, Colombia, Mexico, Paraguay, Venezuela, United States	
Asia	Afghanistan, Australia, Bangladesh, China, Indonesia, Iran, Iraq, Israel, Lebanon, Myanmar, Pakistan, Palestine, Philippines, Qatar, Syria, Yemen	China, Taiwan
Eurasia	Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Ukraine, Uzbekistan	
Europe	Albania, Andorra, Belgium, Bosnia and Herzegovina, Bulgaria, France, Germany, Hungary, Ireland, Italy, Kosovo, Montenegro, Northern Cyprus, North Macedonia, Poland, Romania, San Marino, Serbia, Spain, UK	

Source: Made by the author by collecting country names from separate news. There is no certain list released by the Turkish government showing how many countries benefited from Turkish medical aids. The number of countries which received Turkish medical aid might be higher than Table 1. Progovernment media claimed in August 2020 that Turkey sent medical aids to around 140 countries without naming all.

Evacuation & repatriation of Turkish and third countries citizens

Turkey also actively engaged in evacuation of its citizens from third countries and repatriation of third countries citizens from Turkey. By late

^{28. &}quot;Taiwan, Turkey cooperate to aid Syrians amid pandemic", Anadolu Agency, June 4, 2020.

^{29.} Aykan Erdemir and Saeed Ghasseminejad, "COVID-19 in Iran and Turkey: Mismanagement, Crackdowns, Economic Crises, and Corona-Diplomacy", *FDD Insight*, June 5, 2020.

April, around 40,000 Turkish citizens living abroad had been transferred back from 75 countries. Turkey has introduced new programmes and services to address the needs of the Turkish diaspora. These include the creation of hotlines for emergency situations, the deepening of communication between the Presidency for Turks Abroad and Related Communities (YTB) in Ankara and Turkish local diaspora organizations, regular COVID-19 updates from Turkish consulates, the improvement of social media channels, the digitalization of the diaspora engagement tools, and the establishment of new funding and donation programs for those affected by the pandemic, such as the "Diaspora COVID-19 Program for Support and Cooperation." Turkey's other diaspora institutions, such as the Yunus Emre Institute, has also joined forces with the YTB to establish workshops on mask and medical uniform production in Europe.³⁰

Ankara was also able to fly back 120 stranded Israeli Arabs and Palestinians from that were studying in Turkey to Tel Aviv's Ben Gurion Airport. This was a clear example of successful cooperation in the pandemic between Turkish, Israeli, and Palestinian authorities.³¹

Ankara and Yerevan made a joint effort to repatriate Armenians who had been living in Istanbul who wanted to return to Armenia despite closed borders. Turkey is home to tens of thousands of Armenian citizens, mostly labor migrants, and some of them sought to return home as the COVID-19 outbreak rapidly began to spread. In April 2020, 73 Armenian citizens were able to make the trip, by bus via Georgia.³² Turkey also helped some stranded third countries' citizens in other parts of the World to fly back to their home countries with the help of a large network of evacuation flights by Turkish Airlines.

Turkey's received COVID-19 loans

Turkey has also developed a close cooperation with international financial institutions to cover up its economic difficulties during its fight against the pandemic (see Table 2). The European Bank for Reconstruction and

^{30.} Ayça Arkılıç, "What is the impact of the COVID-19 pandemic on Turkey and its corona diplomacy?", The Big Q, May 26, 2020.

^{31. &}quot;Turkey aids Israel in time of coronavirus despite tense relations", Jerusalem Post, April 10, 2020.

 [&]quot;Armenia Denies Asking for Turkish Coronavirus Aid", RFE/RL, April 13, 2020.

Development (EBRD) has committed processing loans worth €1 billion to Turkey in 2020. The President of the EBRD, Suma Chakrabarti, said Turkey could emerge stronger from the COVID-19 crisis in a world of increased regionalization of economic activity, shortening supply chains and geopolitical uncertainty. Depending on developing of closer relationships between Turkey and the EU, the EBRD has invested €12.4 billion to Turkey over the past decade. In the first five months of 2020 alone, the EBRD has channeled funds worth €870 million to the Turkish economy. A large portion was provided to the banking sector to boost lending to small and medium-sized enterprises.³³ As a part of this commitment, the EBRD delivered a €40 million (\$47 million) loan to Aklease, a leasing subsidiary of the top-tier Turkish lender, Akbank. The new funds would enable Aklease to increase the availability of funding to Turkish businesses for their crucial capital investments to mitigate the medium- to long-term negative impacts of the COVID-19 pandemic.³⁴ Another big loan of the EBRD was to Garanti BBVA, the second-largest private lender in the country, to boost Turkey's banking sector amid the COVID-19 pandemic with a \$55 million.³⁵

The Asian Infrastructure Investment Bank (AIIB) approved \$500 million in loans in July 2020 for the Development Investment Bank of Turkey (TKYB) and the Industrial Development Bank of Turkey (TSKB) to reduce the effects of the COVID-19 pandemic. The AIIB granted a \$300 million loan to TKYB and \$200 million to TSKB under the guarantee of the Turkish Treasury and Finance Ministry.³⁶

The EU has approved in July 2020 sending Turkey €485 million for ensuring urgent humanitarian aid to refugees. The funding cleared by both the Council and the European Parliament will allow the EU to extend two flagship humanitarian programmes in Turkey until the end of 2021. These programs have been running as part of the 2016 EU-Turkey deal, meant to stop irregular refugee flows to the EU and improve the conditions of Syrian refugees in Turkey³⁷.

The World Bank provided a €316 million (\$353 million) loan in June 2020

^{33.} Olga Rosca, "Turkey could emerge stronger from coronavirus crisis, EBRD President says", EBRD, June 17, 2020. https://www.ebrd.com/news/2020/turkey-could-emerge-stronger-from-coronavirus-crisisebrd-president-says.html

^{34. &}quot;European bank loans \$47M to Turkish leasing company", Anadolu Agency, July 28, 2020.

^{35. &}quot;EBRD announces new \$55m Ioan to Turkey's Garanti BBVA", World Finance Informs, May 22, 2020.

^{36. &}quot;Asian bank loans \$500 million to Turkish banks", Anadolu Agency, July 2, 2020.

^{37. &}quot;EU approves €485 mln in financial aid to Turkey for refugees", Duvar English, July 12, 2020.

to the TKYB that would help refugees and Turkish citizens in accessing formal employment opportunities in creditworthy enterprises in provinces with a high number of Syrian refugees.³⁸

Table 2. Turkey's received loans in the pandemic			
	Turkey's Received Loans		
EBRD	 €1 billion in total in 2020 €870 million to the Turkish companies from January to May 2020 \$55 million loan to Garanti BBVA in May 2020 €40 million loan to Aklease in July 2020 		
AIIB	 \$300 million loan to Development Investment Bank of Turkey (TKYB) in July 2020 \$200 million to Industrial Development Bank of Turkey (TSKB) in July 2020 		
EU	€485 million in July 2020		
World Bank	\$353 million loan to TKYB in June 2020		

Source: Made by the author

Turkey's COVID-19 diplomacy in international organizations and forums

Turkey has actively aligned itself with international organizations and forums for fighting against the pandemic in worldwide. The G20 is one of the forums in which Turkey has deeply engaged. The G20 emergency virtual leader's summit was held on March 26, 2020 under the presidency of Saudi Arabia. Turkey warned the world's 20 major economies in the virtual summit that no one can afford to implement protective and unilateral policies during the COVID-19 outbreak. Turkey also stressed that the experience in controlling the pandemic and diagnosing and treating the disease should be shared. Turkey urged the countries must act immediately as they did during the 2008-2009 global financial crisis and all measures to

 [&]quot;Turkey signs \$353M World Bank loan for job creation", Anadolu Agency, June 2, 2020.

tackle COVID-19 should be compatible with WTO rules and encourage global cooperation. Turkey reiterated the importance of cooperation and reconciliation in the G20 and urged countries to share their experiences with controlling the pandemic and diagnosing and treating the disease and drew attention to the importance of helping developing countries, Africa in particular.³⁹

MIKTA, a middle power grouping consisted by Mexico, Indonesia, the Republic of Korea, Turkey, and Australia, is another unofficial forum in which Ankara has shared its strategy against the pandemic. The 17th MIKTA Foreign Ministers' Meeting was held virtually on July 17, 2020 under Seoul's leadership as the chair of grouping to discuss ways to strengthen multilateralism amid the COVID-19 situation. The foreign ministers of the five MIKTA countries underscored in one voice the urgent need to strengthen multilateralism for cooperation and solidarity of the international community against the pandemic. MIKTA countries agreed to further cooperation on the multilateral stage, including the United Nations (UN).⁴⁰

Turkey has also engaged in corona diplomacy with its NATO allies. The COVID-19 aids have been channeled through the Euro-Atlantic Disaster Response Coordination Centre (EADRCC), the Alliance's primary civil emergency response mechanism.⁴¹ Furthermore, this emergency delivery is possible using NATO's Rapid Air Mobility (RAM) measures and granting of priority handling by EUROCONTROL, which handles the flow of all air traffic over Europe. Since the beginning of the pandemic, Turkey has helped 15 NATO allies and 21 NATO partner countries. Allied solidarity in response to COVID-19 takes place in different forms, through bilateral assistance as well as through the EADRCC.⁴² NATO Secretary General Jens Stoltenberg welcomed this example of NATO solidarity in action and thanked Turkey for its responsible actions.⁴³

Turkey has also used the Turkic Council for its COVID-19 strategy. The secretary-general of the Turkic Council, Baghdad Amreyev, praised

 [&]quot;Erdoğan warns G20 leaders against unilateral policies in COVID-19 fight", Hürriyet Daily News, March 27, 2020.

^{40. &}quot;Minister of Foreign Affairs Hosts 17th MIKTA Foreign Ministers' Meeting", Korean Ministry of Foreign Affairs. http://www.mofa.go.kr/eng/brd/m_5676/view.do?seq=321166&srchFr=&srchTo=&srchWord=&srchTp=&multi_itm_seq=0&itm_seq_1=0&itm_seq_2=0&company_cd=&company_nm=&page=1&title-Nm

Gönül Tol and Dimitar Bechev, "Can corona diplomacy cure Turkey's foreign policy isolation?", Middle East Institute, April 29, 2020.

^{42. &}quot;Coronavirus response: Turkey delivers medical aid to the US", NATO, April 28, 2020. https://www.nato. int/cps/en/natohq/news_175550.htm

^{43. &}quot;Coronavirus response: Turkish medical aid arrives in Spain and Italy", NATO, April 1, 2020. https://www. nato.int/cps/en/natohq/news_174826.htm

Turkey for helping member and observer countries to reach the necessary capabilities for diagnosing and treating the people suffering from COVID-19.44 An extraordinary summit of the Turkic Council was held through a video conference on April 10, 2020 by the chair country Azerbaijan on the topic of combating the COVID-19 pandemic. The heads of state and government of Azerbaijan, Kazakhstan, Kyrgyzstan, Turkey, Uzbekistan, as well as observer countries Hungary and Turkmenistan and the Director-General of the World Health Organization (WHO) Tedros Adhanom Ghebreyesus joined the virtual summit. The parties informed each other about the situation and the fight against COVID-19, shared their experiences and agreed on further actions. The Turkic Council has also strengthened economic, political and technical cooperation among its member states, presently applying to government, private, academia and NGO sectors, as well as international partners, such as the UN, the Organization of Islamic Cooperation (OIC) and the Organization for Security and Co-operation in Europe (OSCE) during the pandemic.⁴⁵

Following the summit, cooperation efforts among Turkic Council members have gained new momentum in health, transport, economy, trade, customs, and migration under the auspices of the Istanbul-based Secretariat. In the area of health, member countries decided to launch systematic cooperation for prevention, diagnosis, and treatment of other dangerous infections in the future, including by the establishment of a new Health Coordination Committee. Transport Ministers also agreed on coordinating the uninterrupted flow of food, medical products, and humanitarian aid to maintain supply chains, including by the launch of a "green corridor." Meanwhile, Turkic Council economy ministers have decided to review import taxes in view of maintaining contactless trade while upgrading digital trade solutions and e-commerce as a crisis response. The establishment of a Turkic Investment Fund was also on the agenda, which will serve as an important financial tool to boost intra-regional trade. The Turkic Council countries have also decided to establish a Migration Coordination Group as they agreed to mutually facilitate the issuance of visas and residence permits for citizens who were strained in other member states' territories after the closure of borders.⁴⁶

^{44. &}quot;Turkic Council praises Turkey's aids in COVID-19 fight", Anadolu Agency, July 14, 2020.

^{45. &}quot;Turkic Council discussed coronavirus", Contact.az, April 11, 2020.

^{46.} Ömer Kocaman, "Need for regional cooperation amid COVID-19 pandemic: Op-ed", Hürriyet Daily News, May 29, 2020.

WHO Regional Director for Europe Hans Kluge thanked Turkey for helping many countries and showing "international solidarity" during the pandemic.⁴⁷ The WHO has also backed establishment of a helpline which supports those affected by mental health issues in Turkey in the wake of the pandemic. This psychosocial health support line was established to help people cope with stressors caused by changes to the lives of health workers and the public from the pandemic. According to the Turkish Ministry of Health, the service reaches all of Turkey's 81 provinces and has provided more than 80,000 consultations to health workers and citizens since its launch in March 2020. A guide for the helpline staff was developed jointly by the WHO and the Turkish Ministry of Health, and prior to the launch of the service, 418 staff were trained to offer advice on how to protect against COVID-19, manage stress and access mental health services.⁴⁸

Conclusion

Turkey as a middle power has pursued an active diplomacy during the pandemic to increase its global role. By reaching 140 countries across the globe, Ankara did a great job to create further leverage for international cooperation. Turkey has become a leading global donor for pandemic-hit countries across the World. With the help of corona diplomacy, Ankara has mostly intensified its diplomatic cooperation with many countries. Turkey's rising international role during the pandemic has also provided further influence on it in international organizations and forums. This has made Turkey more influential global player as a rising middle power.

On the other hand, successful corona diplomacy did not prevent Turkey's economic suffering. Turkey's already fragile economy has grasped Ankara unready to the pandemic and the Turkish lira plunged two times in a three-month period. These economic difficulties have also urged Ankara to increase its international cooperation efforts for signing swap deals with strong economies and getting loans from international financial institutions. All in all, the pandemic has urged Turkey to open more to international cooperation for political and economic reasons.

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^{47.} Jeyhun Aliyev, "Turkey sent aid to at least 57 countries to fight virus", Anadolu Agency, April 27, 2020.

^{48. &}quot;WHO-backed telephone counselling in Turkey for those dealing with COVID-19 stress", World Health Organization, June 30, 2020. https://www.euro.who.int/en/countries/turkey/news/2020/6/whobacked-telephone-counselling-in-turkey-for-those-dealing-with-covid-19-stress

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COVID-19 Pandemic-led Lockdown and MSME Sector in India: Towards a Revival Strategy

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Visiting Scholars' Opinion Paper

Crisis and Fragility: Economic Impact of COVID-19 and Policy Responses

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1. Introduction

The COVID-19 pandemic and the subsequent intense and prolonged lockdown not only created a livelihood crisis but also led to public health, education and humanitarian crises. As varying degrees of lockdowns continue across the globe, many new developmental challenges are emerging. The crisis in the micro-small-medium enterprise (MSME) sector is one such developmental challenge that requires a thorough grass-roots level understanding, futuristic planning and coping strategies. There is growing consensus among academic scholars, policy makers, practitioners, and civil society across the globe that the MSME sector has been one of the worst affected segments of the economy in most countries. The immediate negative impact of the economic slowdown was visible in the form of a steep decline in overall economic growth. The latest available data suggests that the GDP growth rate in the first quarter of 2020-21 (April-June 2020) was estimated at a negative 23.9 per cent¹. Although the Government report claims that the economy has been showing signs of (V-shaped) recovery, this growth pattern has raised concerns for the future growth prospects of the economy. Due to this slowdown in economic growth, combined with demand slump, liquidity crunch, labour shortage, the industry sector in the



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^{1.} Govt. of India (2020), Monthly Economic Review: August 2020, Dept. of Economic Affairs, Ministry of Finance.

general and small industry sector in particular will face varying degrees of setbacks.

The MSME sector² in India is huge and highly heterogeneous in terms of size and locale of operation, organizational forms, and varied access to markets, for credit, raw materials technology, output and so on. At present, this sector accounts for over 90 per cent of industrial units, 40 per cent of the total manufacturing output and nearly 35 per cent of India's exports. But an issue of concern has been the perpetuation of an abysmally low level of productivity in this sector, caused by various infirmities such as a low level of technology-in-use, limited access to inputs and credits and an unfavourable market environment. Further, these enterprises (both exporting and non-exporting) operate under several size-related disadvantages like inadequate finance, low R&D, management constraints, inadequate market information and so on. About a quarter of these enterprises also work under subcontracting systems, which provide various kinds of assistance in terms of marketing, technology and finance, but are also characterized by problems such as delayed payments, undue price cutting, strict quality control, a sudden slash in orders and lack of work continuity. Further, a low resource base and inadequate managerial capability put these enterprises in a more disadvantageous position. The problem of delayed payment is sometimes so severe that many small firms had to close down business and/or lay off jobs. The MSME sector is also exposed to the export market and its risks and uncertainties. With decelerating growth performance and global economic slowdown, as well as lockdown-led restrictions, the export-oriented MSME sector is also going to be worse affected. The MSME sector already operates at a disadvantageous position as compared to large enterprises and the big corporate sector in terms of access to formal institutions, including finance, market, technology and innovations, low education and skill levels of workers and owners, inadequate access to infrastructure, and so on. The COVID-led lockdown has made these constraints even more challenging for the MSME sector. The present note aims to assess the impact of the COVID-19-led lockdown on MSME sector and provide policy recommendations to help MSMEs in reducing business losses and survive through the crisis. We follow an exploratory methodology with comprehensively reviewing the available literature,

^{2.} As per the latest available Annual Report of Ministry of MSME (2019-20), out of 63.39 million estimated number of MSMEs, 32.49 million MSMEs (51.25 per cent) are in the rural area and 30.9 million MSMEs (48.75 per cent) are in the urban areas. It employs a total of 110.98 million workers.

including Government policy documents, research papers and reports and newspaper articles in the relevant field.

2. Impact of Pandemic-led Lockdown on MSMEs

There are several ways the COVID pandemic and lockdown affect the economy, especially the MSME sector, on both the supply and demand side. On the supply side, the MSME sector experiences a reduction in the supply of labour³, while a severe drop in capacity utilization and disruption in the supply chain has led to a shortage of raw materials, and in some cases, a rise in the prices of raw materials. On the demand side, a sudden slash in demand and earnings may affect their ability to restart and/or cause them to face a severe liquidity crunch. Some small units may also lay off workers, unable to pay salaries and utilities. Overall, there will be a reduction in business and consumer confidence. Small units may lose their consumers, if the lockdown is prolonged. MSMEs are likely to be more vulnerable to social distancing, as a preponderant majority of these enterprises either operate inside household premises or in a very limited work space. These various impacts are affecting both large and small firms, but the effect on MSMEs is severe because of their higher levels of vulnerability and lower resilience related to their size. If the lockdown becomes longer, MSMEs may find it difficult to rebuild their past connections with networks and may lose their business contracts. There is no hard data to assess the full impacts of COVID-19 on the MSME sector in India, but there are evidence and corroborations based on various reports and newspaper articles, which clearly brings out the varying degree of setbacks experienced by this sector. The spell of the lockdown and the responses of the Government to revive and restore the MSME sector will decide the magnitude of impacts on MSMEs.

An OECD study⁴ based on cross-country business surveys indicates severe disruptions and concerns among small businesses. More than half

^{3.} Many workers working in small units located in urban and semi-urban areas, left for their home state. Even though India has announced Unlock 4.0 (on September 2, 2020), many small units located in the urban area are still struggling for workers.

^{4.} OECD (2020), Coronavirus (COVID-19): SME Policy Responses, OECD, July 15, 2020.

of the surveyed units faced severe losses in revenue and one-third fear to be out of business without further support within one month. Risk of shutting down, because of not having adequate working capital, layoffs, decrease in orders, serious cash flow problems, drop in turnover and sales and so on are brought up this report. However, there are large country-specific and sector-specific variations. The negative impacts are not limited to existing enterprises. The impacts may be even harsher for start-ups as well as aspiring entrepreneurs.

3. Policy Responses

To mitigate the ill impacts of economic slowdown, various policies including stimulus packages were initiated by all multilateral and bilateral agencies and also by individual countries. While the first concern is public health, a balance needs to be struck between lives and livelihood, and hence a wide array of measures are being introduced to mitigate the economic impacts of the pandemic on small businesses. While some countries focused on general policies, many countries have introduced MSME-specific policy measures. Appendix Table 1 shows the most widely used instruments in response to the pandemic and subsequent lockdown. The Government of India also initiated several measures to ease the liquidity situation and improve credit flow in the economy to help the MSME sector not only restart their business but also put them on a sustainable growth path. The Ministry of Finance of the Government of India announced measures for relief and credit support related to businesses, especially MSMEs, to support the Indian economy's fight against COVID-19. This MSME stimulus package was a part of the special economic and comprehensive package of Rs 20 lakh crores (about 307.65 billion US Dollars) announced by the Prime Minister of India under the Aatma Nirbhar Bharat Abhiyaan, which is built on five pillars, i.e. Economy, Infrastructure, System, Vibrant Demography and Demand.⁵

Govt. of India (2020) Finance Minister announce measures for relief and credit support related to businesses, especially MSMEs to support Indian Economy's fight against COVID-19. Posted On: 13 May 2020 6:39 PM by PIB Delhi (https://pib.gov.in/PressReleseDetail.aspx?PRID=1623601)

Following are the key measures announced under the MSME package:

1. Rs 3 lakh crore (about 40.8 billion US Dollars) Emergency Working Capital Facility for Businesses, including MSMEs: To provide relief to businesses, an additional working capital finance of 20 per cent of the outstanding credit as of February 29, 2020, in the form of a Term Loan at a concessional rate of interest will be provided. This will be available to units with up to Rs 25 crore (about 3.4 million US Dollars) outstanding and a turnover of up to Rs 100 crore (about 13.6 million US Dollars), whose accounts are standard. The units will not have to provide any guarantee or collateral of their own. The amount will be 100 per cent guaranteed by the Government of India providing a total liquidity of Rs. 3.0 lakh crores (about 40.8 billion US Dollars) to more than 4.5 million MSMEs.

2. Rs 20,000 crore (about 2.72 billion US Dollar) Subordinate Debt for Stressed MSMEs: Provision made for Rs. 20,000 crore (about 2.72 billion US Dollars) subordinate debt for two lakh MSMEs which are non-performing assets (NPA) or are stressed. The Government will support them with Rs. 4,000 crore (about 543.91 million US Dollars) to Credit Guarantee Trust for Micro and Small enterprises (CGTMSE). Banks are expected to provide the subordinate debt to promoters of such MSMEs equal to 15 per cent of existing stake in the unit subject to a maximum of Rs. 75 lakhs (about 0.10 million US Dollars).

3. Rs 50,000 crores (about 6.8 billion US Dollar) equity infusion through MSME Fund of Funds: The Government will set up a Fund of Funds with a corpus of Rs 10,000 crore (about 1.36 billion US Dollars) that will provide equity funding support for MSMEs. The Fund of Funds shall be operated through a Mother and a few Daughter funds. It is expected that with leverage of 1:4 at the level of daughter funds, the Fund of Funds will be able to mobilise equity of about Rs 50,000 crores (about 6.8 billion US Dollars).

4. New definition of MSME: The definition of MSME will be revised by raising the investment limit. An additional criteria of turnover is also being introduced. The distinction between the manufacturing and service sectors will also be eliminated.

5. Other Measures for MSMEs: i) e-market linkage for MSMEs will be promoted to act as a replacement for trade fairs and exhibitions. MSME receivables from Government and CPSEs will be released in 45 days; ii) General Financial Rules (GFR) of the Government will be amended to disallow global tender enquiries in the procurement of Goods and Services of a value of less than Rs 200 crores (about 27.2 million US Dollars); iii) Employees Provident Fund (EPF) Support for business and organised workers introduced as part of the Pradhan Mantri Garib Kalyan Package (PMGKP) under which the Government of India contributes 12 per cent of salary each on behalf of both the employer and employee to EPF; this will be extended by another 3 months for salary months of June, July and August 2020. Total benefits accrued is about Rs 2500 crores (about 0.34 billion US Dollars) to 7.2 million employees; iv) Statutory Provident Fund (PF) contribution of both employer and employee reduced to 10 per cent each from the existing 12 per cent each for all establishments covered by EPFO for the next 3 months. This will provide liquidity of about Rs. 2250 Crore (about 0.31 billion US Dollars) per month; v) The Government will launch Rs 30,000 crore (about 4.08 billion US Dollars) Special Liquidity Scheme, liquidity being provided by RBI. Investment will be made in primary and secondary market transactions in investment grade debt paper of NBFCs, HFCs and MFIs. This will be 100 percent guaranteed by the Government of India; vi) Towards providing tax reliefs to the MSME sector, the Central Board of Direct Taxes (CBDT) issued income tax refunds worth Rs 5,204 crore (about 0.71 billion US Dollars) to nearly 0.82 million small businesses since April 8, 2020 and proposes to issue refunds equivalent to another Rs 7,760 crore (about 1.06 billion US Dollars) as early as possible. It also extended the deadline filing Income Tax Return and filing GST returns from March to June 30, 2020.

To supplement measures announced by the central Government, the Reserve Bank of India (RBI) also announced various initiatives. To enhance liquidity in the economy, RBI immediately announced a reduction in cash-reserve ratio (CRR). It also announced Targeted Long Term Repo Operation (TLTROs) of Rs. 100050 crores (about 13.60 billion US Dollars) for fresh deployment in investment grade corporate bonds, commercial papers and non-convertible debentures. It increased the banks' limit for borrowing overnight under the marginal standing facility (MSF), allowing the banking system to avail additional liquidity of Rs. 137000 crores (about 18.63 billion US Dollars). All these measures are expected to benefit the MSME sector directly and indirectly. RBI announced a moratorium for 3 months on payments of instalments and payments of interest on working capital facilities, which is expected help MSMEs meet their urgent needs, including payment of wage bills and utilities. The Small Industries Development Bank of India (SIDBI)⁶ announced an additional package for MSMEs to help fight against the coronavirus on April 4, 2020. A new scheme, SAFE (SIDBI Assistance to Facilitate Emergency response against coronavirus) Plus, has been introduced to provide emergency working capital against confirmed government orders, under which revolving working capital term loans shall be provided up to Rs. 100 lakh (about 0.14 million US Dollars). With no collateral, the loans will be released in 48 hours, at a rate of interest of 5 per cent. SAFE Plus is proposed to provide emergency working capital to MSMEs which are producing goods and services directly related to fighting the coronavirus, against specific orders form the government / government agencies. SIDBI has also opened an additional financial window for the healthcare sector under a flagship scheme called SMILE (SIDBI - Make in India Soft Loan Fund for Micro Small and Medium Enterprises).

The World Bank on June 30, 2020 approved a \$750 Million Emergency Response Program for Micro, Small, and Medium Enterprises in India⁷. It will address the immediate liquidity and credit needs of some 1.5 million viable MSMEs to help them withstand the impact of the current shock and protect millions of jobs. This programme will support the initiatives of the Government and RBI. It will improve the funding capacity of key market-oriented channels of credit, such as the NBFCs and Small Finance Banks (SFBs), to help them respond to the urgent and varied needs of the MSMEs. It will also incentivize and mainstream the use of fintech and digital financial services in the MSME lending and payments ecosystem.

Amazon India⁸ has announced a new initiative - 'Stand for Handmade' to help over 1 million entrepreneurs including artisans, weavers and women entrepreneurs, rebound from the economic disruption caused by COVID-19. Under this initiative, more than 0.8 million artisans and weavers from the Amazon Karigar program and more than 0.28 million women entrepreneurs from the Amazon Saheli program will benefit from 100 per cent Selling on Amazon (SoA) fee waiver for 10 weeks. Amazon India has also partnered with 22 Government Emporiums and five

SIDBI press release 4th April, 2020; (https://www.sidbi.in/files/pressrelease/Press-Release_BL-SIDBI-announces-additional-package-for-MSMEs-to-help-fight-against-coronavirus.pdf)

https://www.worldbank.org/en/news/press-release/2020/06/30/world-bank-approves-750-million-emergency-response-program-for-micro-small-and-medium-enterprises-in-india

https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/amazon-india-waives-off-fees-forartisans-weavers-women-entrepreneurs-for-10-weeks/articleshow/76730827.cms?from=mdr

Government bodies to showcase authentic crafts to craft lovers and increase market connectivity.

Many state Governments also announced different schemes and packages to help MSMEs restart and grow. For instance, the Andhra Pradesh state Government announced a mega boost for MSMEs with a Rs 1,110 crore (about 0.15 billion US Dollar) restart package on May 22, 2020, which will benefit nearly 98,000 units employing more than 10 lakh workers. The state government further announced that it will directly purchase 360 items manufactured by MSMEs and give payments in a period of 45 days, which will further help the sector.

4. Analysis and Policy Implications

There are diverse issues for the huge and heterogeneous MSME sector due to the pandemic-led prolonged lockdown, which was already facing the brunt of economic uncertainties, marketing fluctuations, liquidity crunch and inadequate access to formal institutions. It will be too early to assess the role and impact of various schemes, programmes and packages announced by the Central and state Governments and the Reserve Bank of India (RBI) on MSMEs, but concerns may be raised such as a) whether the MSME package is adequate; b) how these interventions will be implemented; c) whether it adequately addresses the huge and heterogeneous character of this sector; d) whether there is a mechanism in place to monitor the implementation and impact of this MSME package?

A close reading of the MSME package suggests that there are many issues which need more elaboration and clarification for the different stakeholders who are to implement this scheme and also for the intended beneficiaries. First, the government announced that the scheme will be beneficial for around 0.45 million MSME units in green zones, having no due loans and applying for fresh loans. This means 58 million units out of the total of around 63 million units existing today cannot avail any stimulus benefits like collateral-free loans, credit guarantees, subordinate loans or fund of funds. Second, many economists have expressed their apprehensions that despite the 100 per cent government guarantee, risk-averse bankers may

not extend the loan benefits to all MSMEs, given the status of the MUDRA⁹ loans today. Third, given the severe demand slump, no business firm will take fresh loans to start or continue production unless they are certain about the demand prospects. Fourth, changing the definition of MSMEs and disallowing global tenders for government procurement up to Rs. 200 crore (about 27.2 million US Dollar) are welcome steps. The suggested change in the definition will allow them to grow without losing benefits of being an MSME, and disallowing global tenders will create demand for their products. But these are more revival features rather than survival strategies. Whether the MSMEs survive the effects of a longer lockdown to stand up and grow at a later stage is still difficult to predict at this current juncture. Moreover, the Government announcement does not specify the implementation date of the new definition, which also requires the necessary changes in the MSME Act and the RBI notification on the matter. Fifth, the whole package is bank-centric and its success will depend on the smooth delivery of credit. The package fails to address structural issues related to MSME credit. If anything, the 100 per cent sovereign guarantee for uncollateralised, automatic MSME loans will encourage both banks and borrowers to never return the money and to become wilful defaulters. It will discourage banks from willingly lending to these MSMEs in the future. Sixth, the operational modality of the schemes announced is to be elaborated as to the implementation of the schemes by banks. Seventh, this is just a liquidity plus package without any fiscal stimulus. Unlike many other countries (see Appendix Table 1), in India's case, the announcement focused on credit guarantees and liquidity provision, with no direct wage payment support. Eighth, the Government is also silent on how the information about this package will reach the intended beneficiary.

5. Concluding Remarks

MSMEs being critical for employment preservation and growth, a multipronged strategy (a proper mix of short-term, medium-term and long-term) needs to be devised to address a set of three challenges: 1. reactivation of business activity; 2. recovery of pre-crisis conditions and 3. future planning

Prime Minister Micro Units Development and Refinance Agency Ltd (PM MUDRA) is an NBFC supporting development of the micro-enterprise sector in India. It provides refinance support to banks, NBFCs and MFIs.

to grow further. The cloud of COVID-19 will, we hope, be gone sooner rather than later, but a key question that will hunt us for quite some time is how we can reverse these adverse currents.

It is important to create an enabling environment or ecosystem to help MSMEs recover from the lockdown. Towards this strategy, the following steps may be followed: a) identifying micro, small and medium enterprises and their workers, b) developing a vulnerability assessment framework for the MSME sector, c) increasing the capacity of the Samadhaan system to expeditiously clear government dues, and d) improving the creditworthiness of small businesses¹⁰. Given the diverse varieties of enterprises operating in the MSME sector, it is difficult to identify the right unit that needs support. Therefore, first, it is important to develop a realtime information system to identify beneficiaries of government schemes, to be called the MSME Information System for Holistic and Real-time Identification, Incentives and Support (MISHRII). Second, the revival of the MSME depends on tackling vulnerabilities such as financial conditions, demand for products and services, availability of a migrant workforce, and exposure to the export market. Therefore, it is crucial to develop a Vulnerability Assessment Framework for MSMEs to efficiently target support measures by accounting for varying levels of vulnerabilities and sectoral nuances, resulting in the effective use of government resources. Third, very often, the bigger companies delay not only payment for supplies received but also tax payments, which causes the MSME to suffer a double blow. So it is important for the government to increase the capacity of the SAMADHAAN¹¹ system to expeditiously clear government dues to MSMEs. Policymakers should also focus on improving the credit worthiness of small businesses and connect these units to formal financial institutions. Social security measures for workers engaged in the MSME sector will also be very important, especially for those who lost their jobs due to lockdown.

While it is only natural to expect a tough future for the MSME sector, the lockdown can help us learn important business lessons that can help us not only survive but also thrive and be well prepared for any other crisis that might come our way in the future. Measures such as detailed financial assessment and security, re-evaluation of business plans, a strong digital

^{10.} CEE-NIPFP, Jobs, Growth and Sustainability: A New Social Contract for India's Recovery, June 2020.

^{11.} A portal maintained by the Ministry of MSME, Government of India to monitor delayed payments and other industrial disputes.

ecosystem, a crisis management strategy in place and business continuity plans are going to be crucial for survival and an effective bounce back for businesses, keeping long-term growth and planning in mind. With the prolonged lockdown, disruption in the supply chain and demand slump, the MSME sector will face severe marketing constraints. Therefore, it is important to help these enterprises with innovative marketing strategies and connections to e-commerce. In addition, long-term and continuous handholding and mentoring will also be critical to moderate the negative impacts and put the MSME sector on a sustainable growth path. The bigger challenge for the MSME sector is to think of growth and expansion with the government bringing together credit availability, market exclusivity, and procedural simplification for setting up new businesses. It is time to reach out to each and every MSME unit operating in rural and urban India and start a fresh conversation.

	Labour		Deferral					Financia	nl Instrumen	ts	Structura	al Policies		
Country	Wage Subsi- dies	Self Em- ployed	Income/ Corpo- rate Tax	Value Added Tax	Social Security	Rent/ Utilities/ Local Tax	Debt moratori- um	Loan guaran- tees	Direct Lending to SMEs	Grants and Subsi- dies	New Markets	Teleworking /Digitalization	Inno- vation	Training and Redeployment
-	2	m	4	2	9	2	~	6	10	1	12	13	14	15
China	~		7		7	>	~		7	7		~	>	7
Brazil	\geq		\geq		\geq		\mathbf{i}		7					
Germany	7	\geq	\geq					\geq	7	\mathbf{r}				\sim
Indonesia			\geq							7				
ltaly	\geq	\geq	\geq				\geq	\geq	\mathbf{k}	7	\mathbf{i}	\searrow		
Japan	\sim		\geq			\searrow		\geq	\mathbf{k}			\searrow		
Korea	\mathbf{i}	\geq					\geq	\geq		\searrow	\mathbf{i}	\searrow		
Malaysia							\sim		\mathbf{k}			\searrow		
Singapore	\geq		\geq			\sim		\geq	\mathbf{k}					
South Africa							~		7		\geq			
Spain	\geq	\mathbf{i}	\geq		\geq	~	\geq	\geq	7	\sim		\sim		
Thailand	\mathbf{i}		\mathbf{i}	\geq	\mathbf{i}	7			7					
Turkey	\geq		\geq	\geq	\geq	7	\geq	\geq	7	7				
NK	\geq	\geq	\geq			\geq	7	\geq	~	~				
NS	\geq	\geq	\geq					\geq	7					
Vietnam			\sim			1								

Appendix Table 1.



Impact of COVID-19: Micro, Small and Medium Enterprises in India, Pandemic Shock of COVID-19 and Policy Response: A Bird's Eye View

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Visiting Scholars' Opinion Paper

Crisis and Fragility: Economic Impact of COVID-19 and Policy Responses

Impact of COVID-19: Micro, Small and Medium Enterprises in India, Pandemic Shock of COVID-19 and Policy Response: A Bird's Eye View

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1. Introduction

India is still in the process of "flattening the curve" of the COVID-19 pandemic. The first case of COVID-19 in India was reported on 30th January (1/30/2020) and the number of reported cases has exceeded five million as of September 21, 2020. Two principal cities of Delhi and Mumbai with populations of 18 and 20 million respectively have reported cases in excess of 184,000 and 246,000 respectively. The pandemic has expectedly had a far reaching impact on the economy and the intensity of its effects has not been well understood. Small-scale enterprises, central to the functionality of India's manufacturing and services sectors have suffered the most. This paper presents a bird's eye view of the impact of COVID-19 on the micro, small and medium enterprises (MSMEs) in these two major sectors of India's economy.

In response to the COVID-19 outbreak, the Government of India (GOI) initiated lockdown measures that involved closure of educational institutions, industrial establishments, hospitality services, and banned domestic road, railway and air travel, services delivery and a whole host of measures. The announced measures explicitly listed a set of non-essential economic activities that are prohibited (e.g. all commercial, private establishments including manufacturing, restaurant services, hotels, courier services etc.,) and another set of permitted activities deemed essential (e.g.



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hospital services, electricity and water, ATM banking) during the lockdown period. The GOI declared a nationwide lockdown for 21 days from March 25th to till 14th April 2020 (Lockdown 1.0); for 19 days from 15th April to 3rd May (Lockdown 2.0); for 14 days from 4th May 2020 till 17th May 2020 [Lockdown 3.0]; and subsequently for 14 more days from 18th May 2020 till 31st May 2020 [Lockdown 4.0]. The strictness of measures depended on the risk profiling of the districts measured by the number of reported total active cases, doubling rate of confirmed cases and the district feedback. Districts were classified into three categories: Red zone (hotspot), and Orange and Green zones. The Union Health Ministry had listed 130 districts in the country in the Red zone, 284 in the orange zone and 319 in the green zone at the beginning of Lockdown 2.0. The lockdown was extremely strict in districts designated as Red zones, while some relaxations were given in districts in the Orange and Green zones. Later, on 30th May 2020, the GOI initiated phased reopening of the economy with some restrictions and strict social distancing norms in place.¹ In short India has experienced a longer period of lockdown than the world average. This has severely affected domestic economic activity and pulled down the GDP growth much more than anticipated at the beginning of the pandemic.

2. Impact of COVID-19 on SMEs

2.1 Growth and Employment: Aggregate Effects

The International Monetary Fund (IMF) has projected a sharp contraction of 4.5 per cent for the Indian economy in 2020, a "historic low" (IMF World Economic Update June 2020). The governor of India's central bank, the Reserve Bank of India (RBI), has indicated negative growth rate of GDP in the financial year 2020-21. The consumption of petroleum products, proxy for transport activity and oil demand, during the period April to July 2020 recorded a decline of 22.5% as compared to consumption in the same period in 2019.² The impact of the lockdown on industrial production in the first quarter of 2020-21 has been severe. The Index of Industrial Production (IIP) was 35.9 per cent lower compared to its level a year ago.³ India's overall

The lockdown in containment zone is extended till 30th June 2020 and the phases of opening are designated as unlock 1.0 and so on.

^{2.} Ministry of Petroleum and Natural Gas report available at https://www.ppac.gov.in/

^{3.} https://www.cmie.com/kommon/bin/sr.php?kall=warticle&dt=2020-08-12%2020:15:55&msec=630

exports (Merchandise and Services combined) in April-July 2020-21* are estimated to be USD 141.82 billion, showing a negative growth of (-) 21.99 per cent over the same period last year. Lockdown affects the economy first through labor supply shocks as it restricts people's mobility and forces them to work from home. In a large number of occupations, particularly manufacturing and traditional services, workers would not be able to work from home. Second through demand shocks as workers incur loss of wages, salaries and income either due to job loss or inability of enterprises to pay their employees. One recent study has estimated that 116.18 million (25%) and 78.93 million (17 %) of India's workers were affected in Lockdown 1.0 and Lockdown 2.0.⁴ A large majority of them are found to be those in the unorganized segments of manufacturing and services. The likelihood of working from home is very low for workers employed in occupations within the manufacturing and services sectors. According to the Centre for Monitoring Indian Economy (CMIE), at least five million salaried people have lost their jobs in the month of July, taking the total count of job losses in the category to 18.9 million since April 2020. With all industrial and transport activities shutting down, the coronavirus lockdown has crippled the country's economy. As per the CMIE data, 17.7 million salaried employees had lost their jobs in April. In May, another 0.1 million jobs were lost. 3.9 million persons had gained jobs in June, but five more million employees went jobless in July.⁵

2.2 New Definition of MSMEs

The definition of MSMEs is provided by the Micro, Small, and Medium Enterprises Development (MSMED) Act of 2006. MSMEs are defined as "all enterprises engaged in production of goods pertaining to any industry specified in first schedule of Industrial (D&R) Act, 1951 & other enterprises engaged in production and rendering of services subject to limiting factor of investment in plant & machinery and equipment respectively".2 The earlier definition of MSMEs was in terms of threshold level of investment in plant and machinery equipment, and the suitability of investment criterion was under the scanner much before the onset of COVID-19. The government changed the criterion for defining MSMEs in response to the COVID-19 crisis.⁶ It revised the definition of MSMEs and added the criterion of

See "Impact of COVID-19 Pandemic on Labour Supply and Gross Value Added in India" by Estupinan, Sharma, Gupta and Birla (2020) available at http://www.igidr.ac.in/pdf/publication/WP-2020-022.pdf

^{5.} https://www.cmie.com/kommon/bin/sr.php?kall=warticle&dt=2020-08-18%2011:02:19&msec=596

^{6.} https://msme.gov.in/sites/default/files/MSME_gazette_of_india.pdf

annual sales turnover in addition to investment, as given in Table 1. The introduction of turnover has facilitated the verification of turnover declared by the MSMEs under the new Goods and Services Tax Network (GSTN).

	Existing Definition		Revised Definition: Manufacturing and Services
Enterprise Type	Investment in Plant & Machinery (Manufacturing)	Investment in Equipment (Service)	Annual Sales Turnover
Medium	≤\$1.3 Million	≤ \$680,000	Investment ≤\$6.8 Million and turnover≤\$34 Million
Small	≤\$680,000	≤\$272,000	Investment ≤\$1.36 million and turnover≤\$6.8 Million
Micro	≤\$34,000	≤\$13,600	Investment up to \$136,000 and turnover ≤\$680,000

Table 1.

Revised Criteria for Micro, Small and Medium-Sized Enterprises

Source: https://msme.gov.in/

Note: Rupee values have been converted to US dollar at current market exchange rates.

The idea of revising the MSME definition has been under the consideration of the central government even before the onset of the COVID-19 pandemic. It was reportedly opposed by small-scale industrialists who perceived the threat of competition from larger enterprises who would also become eligible for size-dependent incentives like concessional bank credit. The economic crisis situation created the right time to bring about the change without facing opposition from certain interest-groups. The prevailing definitions of MSMEs that used only the investment were widely believed to have discouraged the size expansion of small enterprises. The new common definition of MSMEs hikes the threshold investment level for the category Micro units to one crore (approximately US\$133,000 at current exchange rates) and brings in the turnover criterion of INR Rs.5 crores (approximately US\$667,000 at current exchange rates). Under the modified composite definition an industrial/service establishment will be classified as belonging to the Micro/Small/Medium category if it falls below either of the two criterions, namely, investment or turnover. In practical terms all units with turnover value below ₹250 crores (approximately US\$33 million at current exchange rates) constitute the MSME sector. If an establishment crosses both the investment limit as well as turnover limit of the respective category then that unit goes out of that particular category. The intent of higher threshold is to encourage the growth of MSMEs by inducing them to undertake greater investment and achieve economies of scale and cost competitiveness.

It is hard to estimate the exact number of enterprises and workers in the MSME sector at present. A reliable source is the survey of *unincorporated enterprises* that was held last in the 2015-16.⁷ One could get based on 2015-16 survey results some orders of magnitude of MSME enterprises and workers affected by the pandemic COVID-19. In 2015-16 there were 63.4 million enterprises out of which 19.6 million were in manufacturing, 20.6 million enterprises were in the services sector and the remaining 23 million were in the business of retail and wholesale trade. The MSMEs provided employment to 101 million workers that include owner-managers (Own Account Enterprises). Manufacturing and other services had almost equal share of 36 percent each with the remaining 38 percent in retail and wholesale trade. In short MSMEs provide employment and livelihood to 25 percent of India' total workforce and contribute about 30 percent of India's GDP.⁸

More importantly, MSMEs contribute significantly to India's exports. Their share in total exports has hovered around 42% to 48% in the last few years. The five major export products are Gems & Jewelry, Ready Made Garments (RMG), Electrical & Electronic equipment, Organic Chemicals, and Pharmaceuticals. Global slowdown in international trade has severely affected the very survival of MSMEs. Major commodities which have recorded negative growth during July 2020 vis-à-vis July 2019 Petroleum products (-51.54%), Gems & jewelry (-49.61%), Leather & leather products (-26.96%), Man-made yarn/fabrics/made-ups etc. (-23.33%), RMG of all textiles (-22.09%), Cashew (-21.25%), Marine products (-20.14%), Tobacco (-19.49%), Electronic goods (-17.42%), Spices (-11.38%), Mica, Coal & other ores, minerals including processed minerals (-8.21%), Handicrafts(-6.12%),

Survey on Unincorporated Non-Agricultural Enterprises (Excluding Construction) conducted in the 73rd round of National Sample Survey Organization (NSSO) during July 2015 to June 2016. The survey was conducted over whole Indian Union with a sample of 290113 Enterprises.

Annual Report of the Ministry of MSME 2018-19, page 27. India's total workforce is estimated to be 465 million in 2017-18 (Periodic Labour Force Survey (PLFS), 2017-18).

Tea (-3.97%) and Organic & Inorganic Chemicals (-0.05%).⁹ The extended lockdown is reported to have severely impacted the import of raw materials (sports goods, silk, rubber, etc.,) and their transport from the ports to manufacturing units.

2.3 Impact on Industries and Firms Based on Reported Survey Results:

- In a statement, the Confederation of All India Traders (CAIT) reported that the traders across the country are highly depressed because of very minimal footfall of the consumers, considerable absence of employees, and having serious financial problems.
- Another survey conducted by a non-financial banking institution, in the second half of May 2020, focused on the financial impact of the pandemic on MSMEs and their outlook towards the earnings. It is based on responses from 14,444 MSMEs. Nearly 50 per cent of micro, small and medium enterprises (MSMEs) were reported to have witnessed a 20-50 per cent reduction in their earnings.¹⁰
- According to apparel industry body Clothing Manufacturers Association of India (CMAI), which surveyed 1500 of its members, at least 60 per cent of them anticipated a drop in revenue to the tune of 40 per cent and almost 20 per cent of them were thinking of closing down their business after lockdown. CMAI has around 3,700 members employing over 7 lakh people, mostly MSMEs. Garment industry in India is largely populated by MSMEs.¹¹
- In a survey of 360 enterprises the enterprise owners were asked to estimate their total losses if the lockdown were to end on 17 May. On average, this was reported to be around 17% of their annual sales, which suggests that about two months of revenue has already been wiped out. The smallest MSMEs experienced the biggest losses. Firms with less than eight employees lost 24% of their annual sales, whereas those with over 45 employees lost about 10%, which is significantly lower. The survey data also show that MSMEs were, on average, operating at 75% of their capacity before the lockdown. After the lockdown, MSMES were operating at an average of only 11% of capacity, with 56%

^{9.} Ministry of Commerce, https://commerce.gov.in/Press_Release_July_2020.pdf

^{10.} The Economic Times, 23 July, 2020, E-Paper.

https://economictimes.indiatimes.com/industry/cons-products/garments-/-textiles/lockdown-1-crorejob-cuts-likely-in-textile-industry-without-govt-support-says-cmai/printarticle/75125445.cms.

producing nothing at all.¹²

- A rapid survey of 1,416 microenterprises across the country was conducted that covered various sub-industries in manufacturing, services, and trade. A first round telephonic survey was conducted between 29 May and 10 June. The median age of businesses in the sample was 12 years, with a median of 2 employees; 67% of the enterprises employ 1-4 people, and 24% employ 5-15 people, while the remaining 9% had more than 15 employees. Overall, the majority of microenterprises were closed, with only 17% partially or fully operational during the lockdown. It is notable that this survey was conducted in midst of the national lockdown. It found that 52% of the essential businesses remained shut, as they were not aware of government classification. In terms of non-essential businesses, 92% of the surveyed respondents remained completely shut. Among those who are fully or partly operational, 72% of the surveyed businesses have reported a significant decline in profits compared to the pre-COVID scenario. The decline is more pronounced in manufacturing and service sectors, where profits suffered a hit of 78% and 81%, respectively. The impact was less pronounced for the trading sector, with 62% businesses reporting a decrease in profits. The microenterprises that were operational during the lockdown reported that their revenue was only 28% of regular prelockdown revenues, on average.¹³
- To understand the digital trends among small businesses during the lockdown, Endurance International Group (EIG) administered an online questionnaire to their MSME customers in the segments of retail, educational services, technology services, independent bloggers, consultant, advertising & marketing, travel and finance. The majority of these MSMEs are in the metro cities. The survey was conducted over the first 2 weeks of June 2020. It reported that the negative impact of COVID-19 on MSMEs has been intense with many having to pause or entirely shut their business. In this survey, one third of MSME respondents confirmed that they are temporarily shutting their business until normalcy resumes. This pause in business is more prominent among MSMEs in metros cities and those in the retail and manufacturing verticals. The majority of MSMEs (nearly 60 percent of those surveyed) believe that it will take up to 6 months for business to

Rathore, U and S Khanna (2020)," Covid-19 crisis and health of small businesses: Findings from a primary survey", Ideas for India, 17 June, 2020

Sharon Buteau and Ashwin Chandrasekhar, "Covid-19: Assessing vulnerabilities faced by microenterprises", Ideas for India, July 31, 2020.

return to normal. MSMEs are seeking support from the government to tide over this crisis. More than 50 percent of MSMEs expect the government to offer tax discounts or exemptions, followed by 36 percent of MSMEs asking for loans at zero interest or cheaper rates. According to the survey, approximately 30 percent of MSMEs started a business website or enabled e-commerce functionality since the lockdown started owing to the COVID-19 pandemic. More than 50 percent of MSMEs surveyed used video conferencing tools and WhatsApp to keep business running during these turbulent times. They were able to offer e-commerce functionality and it helped them to improve their revenue generation. MSMEs in retail and educational services, increase in revenue contribution from e-commerce was 53 percent and 65 percent respectively. According to the survey, lack of technical expertise and the perceived costs of developing a web presence were reported to be the key challenges to creating web presence. MSMEs are seeking support from the government to tide over this crisis. More than 50 percent of MSMEs expect the government to offer tax discounts or exemptions, followed by 36 percent of MSMEs asking for loans at zero interest or cheaper rates.¹⁴

- A survey by the All India Manufacturers' Organization (AIMO) has revealed that about 35% of micro, small and medium enterprises and 37% of self-employed individuals have started shutting their businesses. AIMO is reported to have stated that such a "mass destruction of business" was unprecedented. The survey was based on over 46,000 responses from various associations and industry groupings in the country. The respondent MSMEs in the survey also said (32%) they would take about six months to recover from the shock.¹⁵
- Vinod Kumar from the India SME Forum directed attention to the particularly difficult time being faced at present by the "micro" enterprises. "Of our 86,000 members in the India SME forum, 24,000 members are micro units. Almost 80% of them are going to be in deep trouble and will look at closing down if no funding comes in from the center or states," ¹⁶
- According to the National Restaurant Association of India (NRAI)

http://www.businessworld.in/article/One-Third-of-MSMEs-Enhance-Digital-Presence-During-The-Lockdown-Survey/25-06-2020-291067/

https://economictimes.indiatimes.com/small-biz/sme-sector/over-one-third-msmes-start-shutting-shopas-recovery-amid-covid-19-looks-unlikely-aimo-survey/articleshow/76141969.cms?from=mdr

https://economictimes.indiatimes.com/small-biz/sme-sector/msmes-dont-have-the-capacity-to-dealwith-something-unexpected-like-covid-19-suresh-prabhu/articleshow/75485280.cms

over 20 lakh, Indians may lose their jobs in the restaurant industry amid the coronavirus pandemic. The NRAI represents over 5 lakh restaurants across India. Dushyant Singh, a Jaipur based entrepreneur who runs three restaurants, informed that the restaurant business involves a lot of overhead expenses and eateries would fire employees to cut down expenses and it would be difficult to start again with the same workforce.¹⁷

3. Responses and Relief Packages:

The government of India has taken the following policy initiatives to support the MSMEs to manage the shock of COVID-19 pandemic. However, we must note that only the registered MSMEs are eligible to get the financial support.¹⁸

- Relaxing tax returns and due dates: Several measures to help businesses including MSMEs were announced. Income tax filing due dates have been extended by 30/90 days, in the case of small tax payers (INR< 50 million of turnover) the late payment interest on delayed payment of taxes reduced to 9 per cent till June 2020, and filing due dates for Goods and Services Tax (GST) is extended to June 30, 2020, among many other administrative relaxations.
- Easing the cost of bank credit: The Reserve Bank of India has gradually reduced interest rates from 5.15% in February to 4% on 22 May. It has also announced a three-month moratorium on repayment of term loans.
- **Special Package:** The government announced a support package with the specific objective to support the availability of credit to SMEs and microenterprises.¹⁹ The package has the following three components:
 - INR 3 trillion (INR 300,000 crore) for collateral free loans to MSMEs. Under this scheme commercial banks and Non-banking

https://curlytales.com/over-20-lakh-indians-may-lose-their-jobs-in-the-restaurant-industry-amid-coronavirus.

^{18.} Since September 2015, MSMEs have to register themselves with the Ministry of MSMEs using the Udyog Aadhaar Memorandum (UAM). UAM is a one page online registration system for MSMEs based on self – certification. At present more than 6.8 million MSMEs are reported to have registered themselves under UAM.

On 12 May, the government announced INR 20 lakh crore (INR.20 trillion) support package that included three schemes for MSMEs.

Financial Intermediaries (NBFCs) will provide collateral free loans of four-year tenure with no payments due for 12 months. The banks can lend INR 3 trillion till October 31, 2020. It is meant to finance working capital and eligible firms can access an emergency credit line of 20% of their outstanding credit, with 100% government credit guarantee and a moratorium of 12-months on principal repayment. This will be available to existing firms with credit outstanding of INR 250 million and subject to a turnover threshold of INR One billion. The government expects that 4.5 million firms will benefit from this scheme.

- (2) The government made a provision of INR 200 billion for subordinate debt aimed at helping MSMEs with equity problem. That is those declared as Non-Performing Assets (NPAs) or currently economically stressed MSMEs. Under the Scheme, Promoter(s) of the MSME unit will be given credit facility equal to 15 % of his/ her stake in the MSME entity (equity plus debt) or INR 7.5 million (whichever is lower) and the credit advanced through the financial institutions will be guaranteed under the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMCE). The CGTMCE will get an allocation of INR 40 billion to support MSMEs. This is expected to bail out 200,000 ailing small and medium sized companies.
- (3) The government will set up a fund of funds for equity funding for firms with growth potential. It announced that a fund of funds will be set up with INR 100 billion corpus. It is expected to raise INR 500 billion.
- Global tenders are now excluded from government procurement of up to INR 2 billion to protect MSMEs from foreign competition.
- The government promised to that receivables from government and central public sector enterprises will be released in 45 days to help firms manage their cash flows.
- On 14 May, the government announced credit facilities for small, informal businesses and street vendors. These include a 2% interest subsidy on microloans for a period of 12 months for loans up to INR 50,000 and a special lending program for street vendors of up to INR 10,000 to finance their working capital, targeting about 5 million street vendors.

4. Analysis and Implications

The response of the government to the COVID-19 pandemic and the announced measures to support the MSMEs have fallen short of expectations. A major limitation of the announced package is that they all except one (collateral free loan) are relevant only in the medium term. They do not address the immediate survival ability of MSMEs facing a steep decline in revenues but large payment obligations in terms of loan repayments and wage bills of workers. In addition the following two key points may be noted.

- The collateral free loan to MSMEs is a good move. However, there are two basic problems. Banks may be reluctant to lend as they are already seized with the problem of high share MSMEs in their portfolio of NPAs. Loan guarantees scheme may not help because no commercial bank or NBFC would be willing to lend under this scheme because you can only apply to the government to refund a guarantee after 18 months. No bank would be willing to take that hit in its balance sheet. The waiting period needs to be reduced to six months from the present 18 months.²⁰ In short the risk aversion level of financial institutions is already high and may constrain lending to MSMEs. It is reported that banks have sanctioned 36.7 per cent of the targeted INR 3 trillion under the Emergency Credit Line Guarantee Scheme (ECLGS) for stressed (MSMEs), as per Finance Ministry data.²¹
- All Micro and Small Enterprises (MSEs) face serious problems of delayed payments. A recent RBI committee (U.K. Sinha Committee 2020) has recommended that all MSMEs must upload their invoices to an Information Utility. States must have more than one MSE Facilitation Council to cater to the high number of delayed payment cases. To address this issue, the Reserve Bank had introduced the Trade Receivables Discounting System (TReDS) in 2014. TReDS is an electronic platform where receivables of MSMEs drawn against buyers (large corporates, PSUs, Government departments) are financed through multiple financiers at competitive rates. This is done through an auction-based mechanism. To widen the scope of TReDS and to incentivize more players to be part of this platform, banks' exposure

^{20.} https://thewire.in/business/why-indias-msme-sector-needs-more-than-a-leg-up

https://indianexpress.com/article/business/economy/banks-sanction-36-7-of-govts-msme-package-lagin-disbursals-6490480/

through this platform were brought under priority sector lending in 2016. But this facility has not taken off in a big way, constraining working capital finances of MSMEs.

• Above all the fundamental problem of MSMEs in the COVID-19 situation is how to pay wages and salaries for their workers when cash flows are close to zero. Given the state of risk aversion of commercial banks, the MSME sector was expecting much larger fiscal support from the government. The announced collateral free loan scheme is seen to help a small segment of the universe of MSMEs. It will support only the registered MSMEs as we noted above. Budgetary constraints of the central government and the high level of NPAs of financial institutions together perhaps precluded much larger fiscal support. The policy package is widely perceived to have fallen short of putting up a support system for MSMEs that would have enabled them to pay wages, survive the pandemic, and indirectly mitigated the effects of demand shock.

5. Conclusion:

The upshot of the above analysis is the relief packages would be able to help only a small percentage of the MSME units in India. The economic and financial problem of MSMEs in India is unprecedented and threatens their very existence, simply because the extent of damage inflicted on MSMEs due to supply and demand shocks have turned out to be far in excess of what has been anticipated, and it is still evolving. The information on damages to the functioning of MSMEs and to the larger Indian economy is slowly trickling in. The impact of the change in the definition of MSMEs on their economic performance has not yet been investigated and remains an area for future research. Whether it will reduce the access to bank credit to micro and small enterprises relative to medium enterprises is another big issue. Some have argued that commercial banks will be biased against small-scale enterprises because of higher transaction costs. No data is available to evaluate this argument. The policy makers are seriously handicapped by the delayed information filings by the entire spectrum of economic entities including enterprises, corporates, commercial banks, nonbanking financial institutions (NBFCs), and statistical agencies due to the pandemic situation. Demand shocks due to second order effects of the pandemic could perhaps result in deeper damage to the economy in general and the MSMEs in particular. The actual damage to the MSMEs and the wider economy will be known perhaps after a few more months.



Is the Virus Gender Neutral? The Impact of COVID-19 Outbreaks on Women's Entrepreneurship Development in Indonesia

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KIEP Visiting Scholars Program

Visiting Scholars' Opinion Paper

Crisis and Fragility: Economic Impact of COVID-19 and Policy Responses

Is the Virus Gender Neutral? The Impact of COVID-19 Outbreaks on Women's Entrepreneurship Development in Indonesia

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Introduction

Small and medium enterprises (SMEs) play a pivotal role in Indonesian economic development. In 2018, the Ministry of Cooperatives and Small and Medium Enterprises reported that nearly 65 million units of MSMEs create jobs for 117 million workers. MSMEs contributed to nearly three-fifths of Indonesia's GDP. Given this fact, the key drivers of high economic growth driven by strong domestic demand is a harvest of consistent support by the Indonesian government to SME development. Prior to 2000, Indonesia's SMEs were concentrated in agriculture, displayed lower productivity, were less likely to be foreign-owned and produced less exportoriented products (Hill 2001). This feature remains to exist until today. Data from Statistic Indonesia (2016) suggests that in Indonesia, 48.85% of SMEs were agriculturally focused. A quarter of them were engaged in trading, hotels, and restaurants.

Concerning the share of employment by sectors, between 1990 and 2020, the ILO data projection reveals that women are more concentrated in the trade and manufacturing sectors (Figure 1). Women's share of employment in trade and hospitality rose from below 20% to 35%, while the shift out from the agricultural workforce to this sector has been faster in the last five years. Meanwhile, the manufacturing workforce stayed around 10%-15%, indicating a serious longer-term lack of job creation in this sector

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Umi.karomah.yaumidin@ lipi.go.id (Dong and Manning 2017). Further, the rapid growth of the Indonesian economy in the last two decades gives an opportunity for women to enter the world of business and entrepreneurship. The term "entrepreneur" refers to different economic agents, such as the founder of a startup, a member of the directing board of a company, a self-employed person, an inherited business owner, an innovating manager and so on and so forth (OECD 2012). As such, entrepreneurs may not always be a person who has her own business. As entrepreneurs, she has to perform all functions involved in managing enterprises, particularly in making decisions for handling and undertaking business risks and innovation. In the context of Indonesia, women entrepreneurs are associated with a person who owns her business, or a self-employed person. Given this fact, an innovative manager or the founder of a startup may not be classified as an entrepreneur unless the business is under her name.

Figure 1.





Source: ILO database, 2020

The estimation of women entrepreneurs varies due to different classifications and limitation of representative data. Regardless of the definition women entrepreneurs, women-owned SMEs is estimated at about 23% of the female adult population (World Bank 2016). The limited

availability of current data on women entrepreneurs in Indonesia may limit understanding in which sectors women entrepreneurs should operate SMEs. A current study by the International Labour Organization (ILO) and Investing in Women (IW) supports that women-owned enterprises are engaged in sectors where women more dominantly work than men do. The survey was conducted between May and June 2020 with 416 enterprises. Their study finds that 19% of women-owned SMEs were engaged in the manufacturing sector, followed by other service activities (10%) and shopkeeping, sales or trade activities (10%) (ILO 2020).

Despite the fact that the proportion of women entrepreneurs remains lower than men entrepreneurs, women-owned SMEs are growing significantly faster than those owned by men (GEM 2019). Further, this report also highlights that the ratio between female and male in Total Entrepreneurial Activity (TEA) is higher in Indonesia (1.01) compared to the global average (0.69) in 2018. Only nine out of fifty-nine economies have reported women entrepreneurial behavior at levels equal to (parity) or greater. The ratio of TEA women entrepreneurs at a parity level is found in services industries such as wholesale, trading, financial, and consumer services.

The report also measures established business ownership. That is, the proportion of adults who own and manage an existing enterprise within 42 months. The capability of women in established business (11%) is slightly lower than the capability of men (12.5%) in established a business. Similarly, on average, the level of business discontinuance rates is about 28% higher for women than for men. Given this fact, women entrepreneurs are more vulnerable than men entrepreneurs. This data reflects the condition of women entrepreneurs in the stable economic situation in 2018. Little is known about their resilience and behavior in coping with calamity and disaster.

Given the result of the GEM survey, the higher value of gender parity in TEA for the Indonesian case is perhaps influenced by some important aspects. First, women entrepreneurs have financial and material support from their family or husband's business. For small and medium scale enterprises, joint business ownership between women entrepreneurs and their relatives –mostly their partners - are commonly found in businesses for which women are registered as owners (World Bank 2016). Meanwhile, in the case of women who inherited businesses, particularly medium and large ones, their family usually makes marriage arrangements for them to maintain business continuance. In this case, the woman may marry a successful businessperson or a man who runs a business closely related to the woman's family business. For example, the rise of startup businesses run by women occurred mostly in fashion, beauty products, marketplaces and food. They establish their business for the first time with support from their husband or their family (Hasibuan 2019). Having a big name in her business is probably a guarantee to attract either foreign or domestic investors to finance her business.

Second, the closing gender gap in education may contribute to making women more eligible to run their own business. Women entrepreneurs are notably heterogeneous in terms of firm size and educational background. The prevalence of women with a higher level of education and higher return on investment are quite low. The GEM result probably only captures the middle and large enterprises, therefore the TEA ratio stands at parity level. However, an important aspect overlooked in the feature of Indonesian female entrepreneurs is micro and small enterprises. The intention of women to become involved in entrepreneurship is more likely because they can afford to pay the expensive cost to enter formal labour market (Hallwart-Driemeier, Hasan Tazeen, and Rusu 2013). Data in 2011 from the Ministry of Women Empowerment and Child Protection estimated that women own 60% or around 33 million of MSMESs. This data also indicates the parity in entrepreneurial activity between men and women in Indonesia, although the qualities of how run the business and handle risks are noticeably lower than that of men entrepreneurs.

Today, COVID-19 has become a major concern for people around the world. Theoretically, in dealing with business risks, any shock should be gender-neutral. There is no discrimination in the effect of crisis toward gender. However, the current health crisis is different. Indonesia was hit by the Asian Financial Crisis in 1997-1998, which caused economic growth to drop by -13.6%. The current situation is different from those previous crises. Indonesia may not have enough experience to manage and cope with a health crisis, although the prevalence of malaria, DBD dengue and TBC was high across the islands.

The GoI introduces measures to reduce the risk of virus transmission by partially locking down affected areas, restricting travel and banning mass gatherings. These policies have reduced domestic demand and have threatened businesses, particularly for SMEs. Consequently, it is predicted that this health crisis can cause a massive increase in the natural rate of employment, deepening poverty and widening the gender gap.

Impact of COVID-19

As I wrote this paper, the total number of infections nationwide is 190,665 people, with the death toll at 7,940 million, and 136,401 patients in recovery. This official data, for some observers, may be meaningless, as they believe that the number of cases could be much higher than official figures. People are not taking COVID-19 seriously. They tend to pretend that this outbreak does not exist. The key feature of much concern is that more than 100 doctors have died from the virus in the past six months; the number of cases reached a high record of 3,000 cases in two consecutive days last week. This number is predicted to keep going up as the experts believe Indonesia is still experiencing its first wave and is yet to see a peak (Souisa, Renaldi, and Wibawa 2020).

Figure 2. Map of COVID-19 outbreaks by Province in Indonesia



Source: Indonesia COVID-19 Acceleration Tasks Force (COVID-19.go.id), 2020

Data from the Indonesia COVID-19 Acceleration Task Force (*Satuan Tugas Penanganan COVID-19*) and Indonesia National Board for Disaster

Management (*Badan Nasional Penanggulangan Bencana-BNPB*) stated that the comparison of cases between women and men shows a quite balanced prevalence. The coronavirus has spread throughout 34 Provinces and 456 out of 514 district/cities in Indonesia. The highest numbers of cases are found in East Java, Jakarta, South Sulawesi, Central Java and South Kalimantan Province. Mapping the spread of the prevalence of the virus is important for two reasons. First, it helps the government enforce a set of protocols regarding pre-conditions, timings, priorities, nationalregional coordination as well as monitoring and evaluation. Second, this information should be spread widely and easily to be accessed by the public to help citizens make decisions on whether they can go to particular places or where they have to stay alert of COVID-19.



Figure 3. Indonesia's GDP growth by sectors 1990-2020

Sources: CEIC database, 2020

Turning to the impact of the COVID-19 pandemic on the Indonesian economy, figure 3 exhibits economic growth by three main economies activities. In the second quarter of 2020 against the first quarter of 2020 (q-to-q), experienced a contraction growth of 4.19 percent. Business fields experiencing growth contraction include transportation and warehousing by 29.22 percent; provision of accommodation and food services by 22.31
percent; and other Services by 15.12 percent. On the other hand, several business fields are still experiencing growth, namely agriculture, forestry, and fishery by 16.24 percent; information and communication by 3.44 percent; and procurement water, waste management, waste and recycling by 1.28 percent.

Before the COVID-19 crisis, the natural unemployment rate stood at 5.31 per cent for men and 5.23 per cent for women in 2019. This unemployment rate is the lowest rate in Indonesia since 2015 (Statistic Indonesia 2019). Part-time job workers or some people classified as disguised unemployment who work less than 35 hours per week and do not seek a permanent job are higher among women employed (32.31%) than those of men (16.39%).

Overall, a recent study by the World Bank (2020) suggests that more than 30 per cent of Indonesians employed have stopped working as a consequence of the partial economy lockdown. This is about one-third of those working in manufacturing; construction; transport; storage; and communication. In detail, information on how the health crisis affects job status by subgroups is presented in figure 4. For those employed who work in Java, particularly in the capital city of Indonesia, rural areas, and have received senior secondary education or lower are more likely to stop working. Meanwhile, female breadwinners are slightly more likely to leave their current job than men breadwinners.

Figure 4.





Source: World Bank, 2020

A further impact of this virus outbreak has also reportedly affected young Indonesian entrepreneurs. A current survey conducted by UNDP under the Youth Co. program has reported that 79% of Indonesia young entrepreneurs have stopped running their business. Nearly half of 756 young entrepreneurs reported that the total value of sales has contracted by 81%, while only 6% of them could make a profit during this current pandemic. To counter this adverse effect of the crisis, they have started developing support systems through various youth entrepreneurs' networks.

The emergence of the 'gig' economy in which work status and employment protection is generally controlled by platforms is probably one of the solutions for SMEs to cope with the crisis. The government through a number of specific e-commerce projects has promoted e-commerce penetration to MSMEs development. It was estimated that 47,913 MSMEs benefited from those programs (Ministry of Information, 2018). However, e-commerce adoption by MSMEs remains low based on Indonesia's 2016 Economic Census data. A survey on 104 MSMEs in the greater Jakarta area (Jakarta, Bogor, Depok, Tangerang and Bekasi - JABODETABEK) finds that the barriers to adopting e-commerce are due to business limitations in managing the internal organization (59%), environmental change (56%), technological updates (42%), and the perspective of the SME owner on the business platform (41%) (Anas 2020). Given these results, the performance of MSME business, already affected by COVID-19, is getting worse because of the low capacity to adopt technological information and the internet.

The impact of the coronavirus pandemic has been well documented in terms of the intended consequences, notably unemployment rates and closing of business activities. The common belief is that the unprecedented situation caused by this particular crisis should not discriminate gender. Women, the elderly and children, however, are vulnerable groups in the presence of disaster. Having said that, the nature of work remains significantly gender-specific: women and men tend to cluster in different occupations. In this section, I discuss the gender implications of the pandemic. It is suggested that this health crisis has profoundly affected women's loss of employment, reduced hours of work and pay as well as bringing about increasing pressures in balancing work and family responsibilities. Women are a large majority employed in the accommodations and food service, which have been severely affected, though the manufacturing, construction and warehousing sectors, in which more men are employed than women, have also suffered from the crisis. Notably, agriculture has made growth from a quarter-to-quarter basis, and the participation of women in this sector is marked as unpaid workers, which makes little contribution to their family's income. The only sector of workforce activity where the participation of women was higher relative to men was among the self-employed or unpaid family workers, where women's participation rate in 2015 was 43%, while men's participation was 21% (Hill, Baird, and Seetahul 2020). In conclusion, women's participation tends to be low across all forms of economic activity, and women who do contribute to the economy tend to be the most vulnerable economic participants in the country.

Women are treated disproportionally in terms of the wage gap, particularly in sectors negatively affected by the COVID-19 crisis. Due to this crisis, women workers are the riskier group than men workers. The McKinsey Global Institute (MGI) has studied the power of parity work between men and women since 2015. MGI has established 15 gender-equality indicators across four categories that is equality in work, essential services and enablers of economic opportunity, legal protection and political voice, and physical security and autonomy. This study showed a strong link between gender equality in society (the three latter categories) and gender equality in work (Madgavkar et al. 2020).

Furthermore, MGI's assessment on gender equality in the COVID-19 situation has been found more uneven worldwide. This analysis is based on the condition of MGI's 15 indicators. It showed that tangible progress toward gender parity had been larger than that of before the crisis. It is estimated that 4.5 per cent of women's employment is at risk in the pandemic globally, compared with 3.8 per cent of men's employment, just given the industries that men and women participate in. In conclusion, this study highlights that good for greater gender equality is also good for society as a whole.

Remarkably, women accounted for 58 per cent of the labour force in the textile and footwear industry (ILO 2020). Considering the economic downturn in the wake of the COVID-19 pandemic, experts have highlighted the need to support Indonesia's women-owned businesses and women employed in this industry. Varied employer responses have included lowering wages, not extending contracts and rostering workers for fewer hours (Fair Wear, 2020). The mass layoffs in the garment, textile and footwear industry perhaps increased the number of women in unpaid care work, whereas women were already burdened by domestic chores three times more than men even before the outbreaks. In late July 2020, the Ministry of Cooperatives and Small, and Medium Enterprises launched a press release and stated that the pandemic has battered female entrepreneurs, who owned 60 per cent of Indonesia's SMEs. As a result of temporary closures to comply with the government pandemic restrictions, about fifty per cent of SMEs could not run their business and 34 per cent of the respondents intended to permanently close their business (Yunindita 2020).

Nevertheless, the contribution of women-owned SMEs to Indonesia's GDP is quite small (9.1%). This indication tells us that the persistent weaknesses of women entrepreneurs need to be addressed. The constraints of women-owned SMEs include lack of access to financial institutions; lack of technical knowledge in adopting new technology; lack of supply chain management; lack of access to wider markets; lower capacity to absorb the shocks to customer demand, which hampered the development of Indonesia's SMEs. Hence, providing targeted and practical assistance to support women entrepreneurs to manage the severe economic impact of the health crisis in Indonesia is needed toward gender equality in work in the COVID-19 recovery.

Policy Response

In response to the COVID-19 outbreaks, the Indonesian government adopted various containment measures including temporary bans on domestic and international travel, school closures, flexible working time, and other restrictions on public events. As I discussed earlier, this partial lockdown policy affects the business cycle of SMEs. Therefore, as part of the government response to the current crisis, on the fiscal side, the government launched the National Economic Recovery (NER) program on May 11, 2020. The cost of the program is estimated to be approximately US\$ 43 billion per July 2020, which brings the budget deficit to around 6.27% of GDP for the fiscal year 2020.

The NER comprises of tax breaks, capital injections for state-owned enterprises, interest subsidies for micro, small, and medium-sized enterprise (MSMEs), liquidity support for the banking industry, as well as financial assistance for vulnerable households, among others. The latter program takes the highest proportion of the government budget. This program is intended to provide social assistance that prevents vulnerable people from falling into deep poverty. Chart 5 below is a list of social assistance programs based on the income decile of recipients. It is targeted for more than 50 million poor and vulnerable people affected by the coronavirus pandemic. They can benefit from this program. The budget ceiling of the program reaches US\$ 7.5 billion, with the biggest allocation for cash transfer programs such as the staple food card program, cash transfers for greater Jakarta and the surroundings areas, and the village fund direct cash assistance program.

Table 5.

Social Assistance Programs by Income Decile

		Family Hope Program (PKH)	Gro- ceries Card	Electric- ity Bill Discount	Cash Social Assistance Non-Jabode- tabek	Groceries Assistance Jabodetabek	Cash Transfer Village	Pre-working
ln- come Decile	6					·		- 5.6 million People
	5			450VA: 24 million HH 900VA: 7.2 million HH 450VA: Free 900VA:50% discount		Jakarta: 1.3 million HH Bodetabek: 600.000 HH	- 11 million HH	
	4				Non-Jabode- tabek: 9 million HH			Training: 1 million/month Incentive: IDR 600.000/month Survey(3x):IDR 50.000/month
	3		20 million HH		April-June: IDR 600.000/month July-Dec: IDR 300.000/month	April-June: IDR 600.000/month July-Dec: IDR 300.000/month	April-June: IDR 600.000/ month July-Sep: IDR 300.000/month	
	2	10 million Household			Outside of PKH and Groceries Card	Outside of PKH and Groceries Card	Beside the beneficiaries of PKH, Groceries Card, Cash transfer and Pre working card	
	1	Top of Benefit by 25%	IDR 200.000/ month					
Time period		Month- ly-for 12 months	Month- ly-for 12 months	(April - Decem- ber)	9 months (April - December)	9 months (April - December)	9 months (April - Decem- ber)	April - Decem- ber
Addi- tional Budget		IDR 8.3 T	IDR 15.5 T	IDR 6.9 T	IDR 32.4 T	IDR 6.8 T	IDR 31.8T	IDR 10 T
Total Budget		IDR 37.4 T	IDR 43.6 T	IDR 6.9 T	IDR 32.4 T	IDR 6.8 T	IDR 31.8T	IDR 20 T

Source: Indonesia Ministry of Finance, 2020

MSME actors who meet the eligible criteria of one of those programs can apply and receive assistance. As instructed by the President, small and medium-level businesses should be included in the list of direct cash assistance program (BLT) recipients and should arrange new loans for MSMEs that are experiencing financial hardships. Moreover, the government has also announced plans to prioritize economic stimulus for affected MSMEs. The Ministry of Cooperatives and Small and Medium Enterprises, as the institution in charge, provides several programs that include subsidized credit interest payment for MSMEs; providing lowcost working capital; loans restructured; cash transfers for productive use; and tax refunds for MSMEs. Working together with the Central Bank (Bank Indonesia) and Financial Services Authority (OJK), the Ministry of Cooperatives and Small and Medium Enterprises will coordinate to establish the mechanisms and detailed budget allocation for loan restructuring, additional new financing, as well as the budget for the addition of an extended social security program for MSMEs.

The official government has been concerned with two major programs for MSMEs, one of which is the MSMEs interest subsidy program. The budget ceiling for this program is US\$ 2.4 billion and targets 12 million MSMEs. MSMEs that are not capable of accessing formal credit from banks or other financial institutions are eligible to acquire additional funds of approximately US\$ 160 for four months. Due to the small absorption of this fund, the government noticed that this budget allocation was quite large and adjusted it for another program. However, this fund has helped 7.8 million MSME actors with a total loan value of US\$ 21 billion. Furthermore, a new initiative to help MSMEs has been launched, namely Productive Presidential Assistance. The program is estimated to cost US\$1.4 billion and targets 9.1 million MSMEs. Another budget allocation for MSMEs is called the Fund Placement Program, which reaches US\$ 5.3 billion. Of that amount, the realization distributed by the Association of State-owned Banks (Himbara) has reached 38%. It also reached more than 620 thousand MSMEs and loans amounted to US\$ 2.3 billion.

Experts' response to the government stimulus package for economic recovery is summarized into two points. First, they agree that the two programs mentioned above are relevant to help MSMEs recover from the crisis. Other programs such as tax incentives are not fit for the current situation, since the size of MSME businesses are already small and might not be eligible to be taxpayers. The whole policy response pays little attention to women's welfare, except by continuing the existing conditional cash transfer program, the so-called "Family Hope Program - *Program Keluarga Harapan* (PKH)". The recognition of this program as a successful social safety net program in Indonesia has perhaps driven its continuity as a buffer strategy in the time of crisis. However, understanding the risks to women entrepreneurs during a health crisis requires a sophisticated analysis of the recovery process. PKH may just cover a small number of women entrepreneurs. PKH is designed to empower women through children's education and by reducing the prevalence of stunting. This program has nothing to do with boosting women entrepreneurs' productivity or encouraging women to increase their business return.

Women-owned SMEs constituted a majority of businesses during the crisis; they still earned less than men on average earn and faced uncertainties that led them to close their business either partly or permanently. Regular difficulties in accessing financial services and assets, information and communication technology and business networks made women-led SMEs particularly vulnerable, even in the recovery stage. During the recovery, men also tended to do better than women as male-dominated sectors were prioritized and occupational segregation kept women concentrated at the bottom of the labour market. Given this fact, in the view of a gender-regressive scenario, the policy responses of the government do not reflect some important aspects that promote easing business for women entrepreneurs and women workers. Childcare burdens, attitudinal bias, a slower recovery, or reduced public and private spending make women leave the labour market permanently. Women bore the burden of domestic chores when public childcare and educational facilities were closed. Their roles were not limited to wife and mother, but on some occasions, they had to be a teacher, house cleaner and driver. Accordingly, time allocation for doing their business has reduced significantly because of those additional tasks.

Moreover, the gender gap between men and women entrepreneurs' access to information about special support for businesses, such as low interest loans, deferred payments and tax exemptions, or on how to apply for relief or programs that provide exclusive support to SMEs as a recovery measure, is expected to grow following the COVID-19 crisis. The Economic Research Centre-Indonesian Institute of Sciences has conducted a quick survey on 881 SMEs across Indonesia. This study was carried out in May – July 2020. The survey results found that women were more involved

in micro and small enterprises (63.34%) with a lower level of education and had business experience of less than ten years. This study confirms the aforementioned studies, which highlight that women entrepreneurs are more involved in small-sized businesses and new start-ups. This research also provides evidence that COVID-19 has reduced profit and return on investment. More than 40% of SME actors claimed that their profit was reduced by 75% from the previous month, and 60% of them are women. The increasing raw material (42.57%) cost and reduced product sales are the main problems that need to be swiftly solved (P2E-LIPI 2020). Given the features of women entrepreneurs, their lack of access to credit facilities and technology adoption perhaps neglect them as a targeted group of government aid. As such, women entrepreneurs are more affected by the adverse effects of the COVID-19 outbreak than men entrepreneurs. Women entrepreneurs tend to avoid risk, while men entrepreneurs are risk-takers. It is true that the impact of this health crisis increased profit for businesses related to information and technology, warehouses and health services, which are dominated by businessmen (UNDP 2020).

However, data on how many women entrepreneurs have benefited from those schemes are missing in the monitoring and evaluation of the national task of the economic recovery team. Little information and studies have discussed how women-owned MSMEs have allocated financial aid. Did they use the money to run their business, or did they spend the money to fulfill their family's basic needs? It is arguable that the government might miss aim in the targeting of budget disbursement. Handling the adverse effect of the novel COVID-19 indeed requires a long process of recovery. For those countries, which experienced a prolonged crisis like Indonesia, the recovery process to reach the new normal and a new equilibrium of the economy needs more time.

The feminist economy and the gender and intersectionality perspective seek to place the sustainability of life and solidarity at the center. Thus, the integration of this perspective is necessary and urgent in the design of social measures and economic packages that respond to the crisis. This is also an opportunity to promote sustainable long-term investments for universal and resilient health systems, social protection and care systems, as well as the development of active employment and economic recovery policies, with inclusive growth, social inclusion and environmental sustainability at the core. On the other hand, experts also said that government stimulus packages are considered insufficient for increasing domestic demand and creating markets for MSME products. The pandemic has weakened the potential demand, reduced domestic consumption and hampered supply chains. It is costly for MSME actors, as they receive working loans to continue production, but have to store their final products in the warehouse, as the market is incapable of buying their products. A survey published by Cyrus Network, which involved 1,230 individuals in 123 villages of all 34 provinces, found that the majority of respondents are satisfied with the government's stimulus such as tax incentives, financial aid for MSMEs and debt restructuring. They also express their agreement to soon reopening retail stores, restaurants, malls, tourism, sports, offices and schools, while the case numbers of infectious people with coronavirus record steeper hike trends.

Health programs may rank second after economic programs, from the view of government policies. "There is no economic recovery without handling the pandemic well" is a famous and viral quote among Indonesia's social media users. Health and economic recovery programs should go hand in hand to cover the underlying effect of the health crisis. Policymakers in developed countries have considered to precaution against the unintended consequences of lockdowns, or as they call it, the "Shadow Pandemic" for children and women (Ravindran and Shah 2020). Mental health issues, violence against women, declining childhood immunization rates, the loss of learning, and loss of social interaction are more likely a consequence of the lockdown of the economy. However, those effects can hardly be measured but indeed have consequences for the quality of human resources in the future.

Concluding Remarks

The novel virus SARS-CoV-2, which the caused coronavirus disease 2019 (2019) pandemic, has undoubtedly attracted many people around the world. The outbreak spread at an unprecedented speed across continents, resulting in a huge number of calamities since the Second World War. The lockdown policy has significantly reduced the risk of COVID-19 in most affected countries. However, the intended and unintended consequences of the lockdown of the economy are also well identified.

Indonesia is the fourth populous country in the world and currently ranks 23rd in terms of the highest number of infectious cases. The government has established several policies and programs in handling the adverse effect of the current health crisis. These actions take into account the necessity to prevent the economy from falling into a recession. In this article, I addressed the impact of COVID-19 and the lockdown of the economy on the development of Indonesia's women entrepreneurs, who are often neglected in the public policy agenda. The risk of SARS-CoV-2 may not discriminate gender, but the current system on community and workplace is gender-biased. Therefore, the gender gap is considerably increasing during the pandemic, particularly in relation to economic activities where women are more dominantly involved in the labour market than men.

The constraints of women-owned MSMEs, which include low-skilled labour to low adoption in technology and innovation, are probably the key factors triggering them to close their business permanently. This is especially the case for those entrepreneurs and workers who rely on income and revenues from the garment, textile, footwear, retail, wholesale, accommodation and restaurant sectors. Notably, to some degree, the government stimulus packages on economic recovery are helpful for continuing the MSME businesses. However, increasing the government budget without considering the increasing spending on consumption is meaningless. MSMEs are still facing the issue of lacking market absorption.

Another weakness missing in government policies is how deeply the current system places fundamental importance on care work in Indonesian communities. During this crisis, the screw is being turned ever tighter on people who carry out most of this care work. Without people having, caring for and educating children, economic growth or other welfare measures would not exist. In other words, there would not be a workforce in the future to continue creating this economy.

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Building Businesses Back Better amid COVID-19 Pandemic in Africa

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Visiting Scholars' Opinion Paper

Crisis and Fragility: Economic Impact of COVID-19 and Policy Responses

Building Businesses Back Better amid COVID-19 Pandemic in Africa

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1. Introduction

The year 2020 started with a brighter global economy partly due to the partial trade deal reached by the United States and China. In addition, the International Monetary Fund earlier forecasts revealed that the global gross domestic product (GDP) would expand by 3.3% (World Economic Outlook, 2020). Considering the adverse impact of COVID-19 pandemic on the global crude oil price and demand, Nigeria's oil sector suffered immensely from staggering production levels with negative implications on government finances and retarded overall business and economic growth. Suddenly, the Corona-virus 2019 (COVID-19)¹ dampened the global economic outlook such that the Nigerian economy was hit by twin crisis of health shocks and pandemic-induced decline in crude oil prices, thereby resulting in a projected -4.3% contraction in 2020 (IMF, 2020).

As the post-COVID-19 global economy evolves in a seemingly unstable business ecosystem, trade, investment, industrial and production policies

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Business and Industry

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COVID-19 is caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV) and has affected all businesses and economic sectors across all countries around the world.

become more unpredictable in realizing the UN SDGs 2030. There is no doubt in the fact that one of the apparent repercussions of the COVID-19 pandemic include inter alia reduced capacities of public health systems, almost collapsing agri-food systems, inadequate capacities of informal micro, small and medium scale businesses, disruptions in national, regional, and global trade systems, with special reference to intra-African trade and investment relations, especially in public health items, medical supplies, medicines, and pharmaceuticals.

Prior to COVID-19 outbreak, the Nigerian economy showed a fragility sign of 10 out of 46, compared to the year 2019, in which 16 out of 46 sectors recorded growth of less than 2%. Among agriculture, manufacturing and services sector, the latter remained the largest sector accounting for about 52.6% of GDP (NESG, 2020)

However, evidences have revealed that one of the resilient roads to socioeconomic shocks recoveries is strengthening digital trade and e-ecommerce capacities of micro, small and medium enterprise (MSMEs) as well as supply chain networks from the effects of the COVID-19 pandemic. In other words, how African countries, and governments endeavour to lay a solid foundation for a strong socioeconomic recovery across households, businesses and communities is crucial during and after the COVID-19 era.

This research analyses the effects of COVID-19 pandemic on micro, small and medium business activities, and its implications for how to be better prepared for possible future socioeconomic shocks, and the geopolitical repercussion for African governments.

2. Impact of COVID-19 Pandemic Related Challenges faced by MSMEs

Concerted efforts to stem the spread of COVID-19 has resulted in widespread movement restrictions and shutdown of industrial activities. Five countries – China, Germany, Ireland, Switzerland and the U.S – account for half of the world exports of medical products such as gloves, masks with filters, disinfectants, while African, South America and the

Pacific export a significant share of inputs for these products (ITC, 2020). The situation suggests opportunities for the restructuring of the regional and supply chains towards diversification of the global supply of such commodities. One of the COVID-19 related effects of the Chinese, EU and the US factories shutdowns are the economic shocks being experienced by African exporters are set to at more than \$2.4 billion losses in global industrial supply chain exports. By implication, reduced demand due to firms not paying suppliers or canceling existing contracts, often cause significant hardship on businesses, thereby endangering livelihoods.

According to an International Trade Centre (ITC) survey on SMEs Competitiveness Outlook 2020, more than half of firms say that they have problems with accessing production resources such as raw materials and equipment due to lock downs in other countries. More specifically, this also results in slower certification processes, temporary trade measures and other similar logistics problems.

Businesses, including MSMEs, remain the backbone of most economies, more especially in the post-COVID era. According to the Central Bank of Nigeria (CBN), SMEs make up over 86% of the Nigerian workforce and form a crucial part of the private sector ecosystem. Since the COVID-19 pandemic compelled African governments to enforce economic lockdown and social distancing, this has undermined SMEs capacities to operate, generate revenues, meet short-term cash obligations and household's consumption needs. In fact, most of the SMEs experienced mounting cost pressures, inability to pay salaries and potential business liquidation. At the micro-firm level, the spread of the coronavirus (COVID-19) had a devastating impact on small businesses, which has led to a growing level of concern among small business owners. Among the challenges faced by African MSMEs are price fluctuations, production uncertainty and business discontinuity or unsustainability. Both interview and questionnaire administering methods were adopted to collect and document these COVID-19 related business challenges. Based on the data collected through these methods, Figure 1.0 presents the information on age, occupation, education, business location, age of business, types of businesses, and MSMEs' capacities to deploy digitization tools for overcoming business challenges that are attributable to COVID-19 pandemic. 94.3 per cent of the respondents are within the working age population (25 - 54 years of age)², and 51.1 per cent of the respondents have tertiary education (diploma and bachelor), while about 47 per cent possess either a Masters or doctoral degree. 53 percent of the respondents have their businesses geographically located in urban spaces, and approximately 97 per cent of the businesses are characterized by MSMEs sizes with less than fifteen years lifespan. Furthermore and as the unprecedented COVID-19 pandemic evolves, 87 per cent of the businesses offer services³ and will continually deploy simple digital tools in accessing domestic and global markets. Consequently, enterprises, industries, and countries⁴ are investing in digitalization tools and capacities as strategic priorities. In other words, as African micro, small and medium enterprises contribute arithmetically to national and continental socioeconomic transformation, its achievements have not been without capacities challenges, such that businesses are characterized by inadequate capacities in upskilling, shocks absorption, preparedness plans and negotiations capacities in response to the rapidly digitalizing global landscape amid COVID-19 outbreak.

Figure 1.

Descriptive Statistics on African Small Businesses Responses to COVID-19 Pandemic

Variables	Mode	Mean
Age of respondents	25 - 54	94.3%
Gender of business owner	Male	59.1%
Business owner level of education	Tertiary (diploma and bachelor)	51.1%
Business category	MSMEs	97.2%

^{2.} Operationally at the Nigerian national level, 'working age' means economically active members of a population, which is 15 – 64 years. However, this questionnaire was designed to capture business owners within the prime age 25 – 64 years due to the fact that 15 years old might be too young to register and operate a business in Africa.

- 3. The service sector, which accounts for over 50% of the GDP of most of Africa's regional economies, is projected to be negatively impacted by COVID-19, and worsened by travel bans, as well as disruption to transport, distribution, entertainment, trade, retail, creative sectors, hotels and restaurants (AfDB's Southern Africa's Economic Outlook 2020). Based on this background, the provision of an enabling business ecosystem will enable MSMEs to effectively deploy digital technologies to advance business agenda during socioeconomic shocks like the ongoing COVID-19 outbreak.
- 4. For all SSA economies, except the low-income economies, the impact of COVID-19 is seemingly resulting in increase in the amount of services as a percent of GDP, therefore moving towards a services economy. Two of the major driving factors for this global restructuring are digitalization and as 'servicification' or 'servitization' of the global economy, especially as demand for services expands as income rises in emerging economies such as China, India, crude oil driven economies and selected African countries. The Fourth Industrial Revolution (Industry 4.0) and its profound socio-economic implications purport seemingly limitless trade-in-services, investment, and industrial opportunities across national borders.

Variables	Mode	Mean
Age of business	0 – 14 years	89.8%
Business location	Urban	52.8%
Access to COVID-19 funding support	No	62.5%
Confidence in AfCFTA	Confidence	65.9%
Capacity to deploy digitization	Yes	77.1%

Sources: Author's Survey and interview with selected MSMEs.

In spite of the fact that about 87% of the businesses adopt digital tools to access markets before and during COVID-19 pandemic, it is incredible that a mere 37% believes in the contribution of the African Continental Free Trade Area (AfCFTA) in enhancing domestic and regional markets access (See Figure 2.0). By implication, digitization is more than an innovative pathway to opening the doorways of inclusive development, it is the most effective tool for bringing business back better and more dynamically in the post-COVID era as well as in the implementation of the African Continental Free Trade Area (AfCFTA) (Odularu, 2020a, Odularu, 2020b; Odularu, 2020c, Odularu, et al. 2020; Odularu G., Aluko O.A., Odularu A., Akokuwebe M., Adedugbe A., 2020; McKinsey & Company, 2020; Ali, 2019; Odularu and Alege, 2019).

Figure 2.

MSMEs Confidence in African Regional Market Access

How confident are you that domestic and African market will meet your business needs (1-most confident; 4-not confident)?

176 responses



Sources: Author's Survey and interview with selected MSMEs.

The COVID-19 pandemic has adversely impacted on Nigerian and African MSMEs as a significant number of the enterprises suffered due to the shock. The global pandemic (COVID-19) also impacts commodities supply chain in Nigeria and Africa. The cost of input skyrocketed immediately, and the reason is attributed to the lockdown, although there is free movement of essential services which agricultural commodities are part of. The lockdown increases the cost of moving inputs from one location to another. Off takers also reduce the purchasing price from farm due the lockdown as an excuse that they may hold the stock longer than it used to be and they will incur additional cost while holding it, coupled with the cost they will incur during transportation. Farmers not knowing the extent at which the lockdown will take, start selling their produce so as not to incur additional cost.

According to the focus group interviews with selected business owners, the challenges confronting African MSMEs during the unprecedented COVID-19 pandemic are funds, skills, business capacities and infrastructure related. Since the commencement of the lockdown, economic activities have declined. Businesses have been forced to momentarily close shops. Some commercial banks did not initially suspend the monthly debits for loan repayments (interest and principal). Consequently, there has been a reduction in revenues projections and sales because patronage dropped as individual customers are not prepared for spending so much in a lockdown. Since purchasing power is low, even if restrictions are stopped, sales might not drastically improve as salary cuts, increased expenses in health, data service, increased prices for food, etc. will come to bare. As a result, some facilities keep accumulating interest and principal without taking into cognizance the attendant effects of the lockdown which has spanned for five (5) consecutive weeks. For instance, an import-dependent business experienced an unexpected rise in exchange rates account as the major cause of capital erosion which adversely affects the settlement of matured foreign obligations⁵. Quite a number of the MSMEs applied for government loans but never got a feedback or received got a negative response at a delayed time. Many MSMEs claim that early and expedient access to credit facilities and tax holidays will enhance their businesses' capacities to absorb the COVID-19 shocks and also accelerate their post-covid-19 socioeconomic

Settlement of foreign obligations occurs when a company have signed a Memorandum of Understanding (MOU) with his foreign manufacturers or suppliers to produce or supply product(s) at a mutually agreed exchange rate at a specific maturity date,

recovery. These MSMEs' challenges become more complicated because government loan agencies barely meet 10% of the total loans and credit facility needs of the MSMEs.

3. National and Regional COVID-19 Pandemic Policy Support Interventions

COVID-19 has temporarily undermined daily business and socioeconomic activities in African communities. Facilitating business and economic recovering in a post-COVID-19 world require a ready-to-go strategy. As businesses re-open, most of them will be confronted with a new normal that need to implement a more systems thinking strategy which will require governments, CSOs and relevant stakeholders leverage of relevant digital tools for business re-engineering and transformation. Critical reanalysis of the COVID-19 outbreak related challenges and dynamics being faced by these small businesses and with specific focus on digital trade related connectivity infrastructure is very crucial.

3.1. National Policy Support Interventions

The sudden appearance of the COVID-19 pandemic in the first quarter of the year 2020 has forced many African governments to implement policies and programs. More specifically, the Nigerian government imposed national level business lockdown, social distancing and travel restrictions. Though based on the survey, Nigerian SMEs⁶ are yet to benefit maximally from meaningful supporting actions from the government, which continues to cause a great deal of fear and uncertainty. In other words, SMEs are disillusioned by the Government's intervention stating that previous loans have been difficult to access. This categorization of these challenges has elicited mixed reactions by business owners bordering on clear-cut strategies to protect their businesses in the wake of the COVID-19 pandemic. In response to cushioning the effects of these challenges, some of the government interventions and palliative measures aimed at

According to the Central Bank of Nigeria (CBN), a Small and Medium Enterprise (SME) is a company that employs from 11 to 100 people and has assets between N5 and N500 million.

ameliorating the adverse effects of COVID-19 on MSMEs are presented in Table 1.0. These palliative measures are presented in Table 1.0 based on specific types and categorization such as subsidies, tax exemption, credit facility, and the providers of these stimulus packages. According to Table 1.0, and in terms of provision of COVID-19 shock supports, the federal government is the biggest donor during the pandemic and most of these interventions were in the form of credit facilities.

Table 1.

Types of Fiscal Interventions and Stimulus Packages implemented during COVID-19 Pandemic

Subsidies/ Tax exemption	MSMEs Incentives	Credit facilities	Others – trade policies, laws, etc	Provider
	Federal Government / Corporate Affairs Com- mission (FG/CAC) approval of 250,000 free business names registration for micro, small and medium enterprises across all the 36 states of the federa- tion. More specifically, it implies free registration of 6,606 business names in each of the 34 states while Abia, Lagos and Kano will have 7,906, 9084 AND 8406 freely registered businesses respectively as part of Government's post COVID-19 Pandemic sur- vival intervention. Selected aggregators were approved to receive applications from interested persons in alignment with CAC re- quirements - https://www. cac.gov.ng/wp-content/ uploads/2020/10/AGGRE- GATORS.pdf	Registration portal for the N75 Billion Nigerian Youth Invest- ment Fund (NYIF), thereby pav- ing the way for Nigerian youths to access between N250,000 to N5,000,000, with working capital loans set at 1 year, and term loans set at 3 years. Youth between the ages of 16 and 35 years old with business ideas that require funding apply for the fund through the following link: https://nyif.nmfb.com.ng/ Applicants/New	Among African countries, it is important to note that Nigeria's new non-tariff policies discourage im- ports of the fol- lowing commod- ities: COVID-19 test kits, disin- fectants, medical c o n s u m a b l e s, protective gar- ments. However, this incentivized indigenous firms to produce these commodities in order to meet growing national demand.	Federal Ministry of Industry, Trade and Investment.

Subsidies/ Tax exemption	MSMEs Incentives	Credit facilities	Others – trade policies, laws, etc	Provider
Strategic Sectoral Intervention: Small / Micro Enterprises are now complete- ly exempted from corporate taxation.		Establishment of a N50 billion COVID-19 Crisis Intervention Fund to upgrade federal and states healthcare facilities as well as financing the creation of a Special Public Works Pro- gram. This facility would be used to provide micro grans of between N3 million and N5 mil- lion to up to 16,000 SMEs and no less than 10,000.	Amendment of 2020 Appropria- tion Act: Revision of benchmark oil price and produc- tion for 2020 to US\$30/barrel and 1.7mbpd. respec- tively.	Federal Ministry of Finance, Bud- get, and National Planning.
Corporate tax rates for Medi- um-size Enter- prises reviewed downward from 30% to 30%.		The Federal Government Support Fund provision of N102.5 billion for direct interventions in the healthcare sector.	Augmentation of FAAC allocations to States and mor- atorium on States' debts: US\$150 million from the Nigeria Sover- eign Investment Authority (NSIA) Stabilization Fund to support the June 2020 FAAC disbursement.	
Finance Act, 2019 VAT Exemption List for essential food, medical supplies and other basic items that are critical in the government ef- forts to address the COVID-19 pandemic.				
		Enhanced financial support to States for critical health- care expenditure based on the US\$190 million World Bank Regional Disease Surveillance Systems (REISSE) facility which will only be accessed by the Nigeria Centre for Disease Con- trol (NCDC).		The World Bank and Federal Gov- ernment

Subsidies/ Tax	MCMEs Incontinues	Cuadit facilities	Others – trade policies, laws,	Drevider
exemption	INISINIES INCENTIVES	Credit facilities	etc	Provider
	Waiver of guarantor provi- sion requirement by SMEs and households ⁷ that ap- plied for its N50 billion COVID-19 targeted credit facility.	N50 billion (\$139 million) COVID-19 Targeted Credit Fa- cility (TCF)	One-year morato- rium on CBN inter- vention facilities	Central Bank of Nigeria
		Reduction of interest rates from 9% to 5% per cent on all CBN intervention facilities through participating Other Financial In- stitutions (OFIs), - Microfinance Banks (MFBs), Primary Mort- gage Banks and Institutions, among others.	Maintenance of all policy rates at the current levels prior to COVID-19 pandemic	
		Provision of foreign exchange funding to pharmaceutical companies.	Liquidity injection of N3.6 trillion (2.4% of GDP) into the banking system.	
		Introduction of regulatory re- strictions towards restructuring loans in COVID-19 related im- pacted sectors.	Adjustment of official exchange rate by 15 per- centage points.	
		Lagos State Employment Trust Fund (LSETF) provided forbear- ance on its loans to MSMEs.		Lagos State Gov- ernment of Nige- ria.
	Commercial banks like Sterling bank and Guaranty Trust Bank proactively pro- vided moratoriums to their SME clients.	IFC's COVID-19 fast-track fi- nancing support package [®] . The World Bank Group Internation- al Finance Corporation (IFC)'s US\$50 million loan to Nige- ria's First City Monument Bank (FCMB) Limited to help expand lending to SMEs to enable them sustain business activi- ties disrupted by the COVID-19 pandemic.	Association of Chartered Certi- fied Accountants (ACCA) – Interna- tional Chamber of Commerce (ICC) MoU.	Organized private sectors including banks and profes- sional societies

Source: Author's compilation

 IFC's COVID-19 fast-track financing support package represents IFC's commitment to Nigeria's private sector following the severe challenges. The funds will support hundreds of businesses with trade financing and working capital loans.

^{7.} Based on CBN guidelines, eligible beneficiaries are households with verifiable evidence of livelihood adversely impacted by COVID-19, as well as existing enterprises with verifiable evidence of activities adversely affected because of the COVID-19 pandemic.

In addition to the interventions provided in Table 1.0, other government palliative measures to SMEs are provided⁹. The governments continue to monitor developments and implement appropriate measures to safeguard financial stability as well as support stakeholders impacted by the COVID-19 pandemic.

3.2. Regional Policy Support Interventions

African governments need to systematically integrate digitalization in their intra- and inter- continental trade relations as well as adopt more proactive digital trade strategies towards boosting post-COVID-19 trade, business and investment volumes, direction and composition in this digital decade. Of great relevance is the need to understand how digital communication technology, digital infrastructure and information remain critical components of sustainable trade policies towards enhancing socioeconomic recovery as well as trade trajectory in Africa. In other words, nationally and regionally customized digital trade programs should include sustainable trade practices, guidelines. recommendations and policy interventions for fostering effective MSMEs business recovery programs and bringing back trade and investment volumes.

Business support organizations and multi-agency platforms like the chamber of commerce, sector associations, trade and investment support institutions and cooperatives should take front roles in bring firms together, matching business opportunities with shared needs through shared knowledge, resources, and procurement, and economies of scale. One of the effective pro-poor, broad-based and inclusive growth policies for enhancing resilience and combating socioeconomic shocks is economic diversification, with reference on commodity-driven industrialization. In addition, the implementation of the African Continental Free Trade Area (AfCFTA) is projected to provide medium- and long-term opportunities for improved and more competitive business ecosystem towards fostering economic growth (Odularu, 2020a, Odularu, 2020b; Odularu, 2020c, Odularu, et al. 2020; Ali, 2019).

As policy response to stem the spread of COVID-19 pandemic and ameliorate its adverse impact on MSMEs, the African Union Commission (AUC)'s interventions focus on the:

Other COVID-19 government interventions are provided in this link: https://guardian.ng/business-services/ nigeria-support-your-small-and-growing-businesses/

- Implementation of the Common African Continental Strategy on the COVID-19 pandemic. Thus, the AUC provided direct funding to strengthen public health systems, resource mobilization as well as development and operation of an AU Trade Corridor aimed at facilitating continued flow of essential goods across borders, required to fight the COVID-19 pandemic.
- Collaboration with Development Partners to establish Technical Committees involving the participation of experts from all AU Member-States with a key focus on implementing a holistic set of measures to mitigate the negative impacts of the COVID-19 Pandemic as well as mobilize international support for Africa's efforts to combat the pandemic.
- Coordinated capacity building and pooled procurement of pharmaceutical products under the coordination of the African Centers for Disease Control and Prevention (CDC); and,
- Establishing an African Youth Front on the novel coronavirus as an AU framework to be used in engaging young people to come up with youth-led solutions in Africa's multi-stakeholder efforts to fight the COVID-19 global pandemic.

In addition to those policy measures, the current efforts to operationalize the African Continental Free Trade will contribute greatly to quick economic recovery from this crisis and enhancing MSMEs' capacities to produce and access markets (Odularu, 2020a, Odularu, 2020b; Odularu, 2020c, Odularu, Hassan and Babatunde. 2020; Ali, 2019;). By creating one African market, we are transforming the MSMEs' landscape to bring in a large market of 1.27 billion people (expected to be 1.7 billion in the next ten years) and large economies of scale and scope which will in turn attract largescale and long-term investments. Arising from this, the basic incentive for businesses operating in the post-COVID-19 AfCFTA ecosystem is that they will face huge and attractive opportunities (Odularu, 2020a, Odularu, 2020b; Odularu, 2020c, Odularu, Hassan and Babatunde. 2020; Ali, 2019;).

4. Policy Implications

In addition to the provision of CARES-related stimulus package to MSMEs, an effective strategy to deploy in overcoming this challenge is the establishment of a digital business and trade academy for re-tooling and re-skilling national MSMEs and trade negotiation training and research capacities in response to the advent of artificial intelligence, big data, internet of things, electronic commerce (e-commerce), electronic stock exchange, and multi-commodity exchange. More specifically, the workable policies for immediately urgent attention by African governments should include inter alia:

- Funding for business with longer tenors and lower interest rates to support and sustain MSME.
- Tax exemption for the business until sales increase to profitability
- Policy that will encourage manufacturers of these raw materials products to reduce the cost of these items during economic shocks.
- As businesses have to source for more funding for renovation, installation, and generation of electricity from financial institutions, these loans would be restructured for longer tenors with lower interest rates.
- The government could buy our products to distribute to school children to assist in their online learning and for those in remote areas without access to internets as part of palliatives for children.

5. Conclusion

In Africa, the rapidly evolving coronavirus diseases 2019 (COVID-19), and weak connectivity and digital infrastructure are placing huge pressure on micro, small and medium enterprises (MSMEs), thereby posing immense challenges to the region's capacity to achieve the United Nations Sustainable Development Agenda (UNs SDA) 2030. Although SSA boasts vast, human and natural resources, its business and trade capacity to contribute to Africa's economic transformation agenda is being seriously undermined by factors such as poor adoption and utilization of innovations and digital tools, climate change impact, environmental degradation, weak political will, limited interest in farming, lack of government support, and more. In spite of these constraints, sustainable agriculture, and socioeconomic recovery of businesses can be achieved by adopting a multipronged approach, which includes inter alia: improved business engineering, increasing systemic digitalization, use of information technology, public investments in improved technologies, and rural infrastructure funding. This research provides innovative policy tools for enhancing SSA's MSMEs'

capacity to achieve sustainable business transformation in the face of COVID-19 pandemic and other socioeconomic shocks. Furthermore, this article presents smart strategies for increased MSMEs productivity outcomes by harnessing the latest discoveries in digitalization, innovation, research, education and advisory services.

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The Impact of COVID-19 on Iran's SMEs: Policy Implications for Current and Post Pandemic

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Visiting Scholars' Opinion Paper

Crisis and Fragility: Economic Impact of COVID-19 and Policy Responses

The Impact of COVID-19 on Iran's SMEs: Policy Implications for Current and Post Pandemic

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Abstract

The spread of the COVID-19 in the world has not only affected the health sector but also had the greatest impact on the economy and businesses. Iran was one of the world's early COVID-19 hotspots. The combined death toll in Iran rose to 17,405 while the number of confirmed cases rose to 312,035 on 4 August 2020. Iran has been facing serious challenges to respond to the pandemic as well as the US sanctions imposed on its foreign trade, oil exports and bank system. Due to this global challenge, the COVID-19 pandemic hurt Iran's businesses and manufacturing enterprises, especially SMEs, more severely. Because of such difficulties imposed on the SMEs, a huge number of current jobs and job opportunities have been lost, which has led the production capacity to downsize sharply. Therefore, the Iranian government should support vulnerable enterprises to prevent the economic disaster although it has faced lack of financial resources due to budget deficit and the imposed sanctions.

The objective of this paper is to explore the impact of COVID-19 on the economic situation of Iran's SMEs and to roles for the country, including the government, to play a supportive part to secure the SMEs for both current and post-pandemic times. The government should take the approach of increasing demand, maintaining jobs with a policy of preventing the downsizing of the



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SMEs during the COVID-19 era. Based on the case study results, the reflection of the most SMEs has been towards banking support package, which is more applicable to indicate that most of them have problems in financing.

Keywords: COVID-19 Pandemic, SMEs

1. Introduction

COVID-19 presents a major threat to the global economy and the health of millions of people around the world, but its impact on Iran, one of the early epicenters of the outbreak, has been particularly severe. The Iranian labor market was already suffering from a higher rate of unemployment due to structural problems of the economy and imposed sanctions as well as the COVID-19 pandemic. The outbreak of the COVID-19 in February and March 2019 came very close to the Iranian New Year, an important period of time for many businesses. The COVID-19 pandemic caused many businesses to reduce working hours and in some cases complete closure to prevent its spread. These efforts caused ample financial losses for the companies, with the loss especially greater in services, tourism, retail, transportation, clothing, education, among others.

Small and Medium Enterprises (SMEs), which are among the most vulnerable sectors, have a lower level of resilience than others. They have suffered greatly from the COVIID-19 pandemic.

The COVID-19 outbreak affects SMEs negatively upon both the supply and demand sides. On the supply side, companies experience a reduction in the supply of labor and on the demand side, a dramatic and sudden loss of demand due to consumers' fear of contagion and heightened uncertainty, which results in reduction in spending and consumption. Therefore, the pandemic decreases SMEs' revenues and severely affects their business activities in which they may face severe shortage of liquidity.

The objective of this paper is thus to study the impact of COVID-19 on the economic situation of Iran's SMEs and to identify proper roles for the country, including the government, to play in its supportive role to secure the SMEs for both current and post-pandemic times.

The remaining of this paper is classified into four sections. Section 2 comprehensively studies the effect of COVID-19 on Iran's economy. Section

3 concentrates on Iranian SMEs' actions in the COVID-19 pandemic, and Section 4 discusses the supportive packages which the society and the government have launched relevant policies to preserve the SMEs' roles in production and business activities. Section 5 concludes with some remarks.

2. Effect of COVID-19 on Iran's Economy

As previously discussed, Iran was already enduring huge trade and financial sanctions imposed mostly by the US government, and is suffering from the COVID-19 pandemic, leading so far to a fall of 15% of GDP, affecting 50% of Iran's workforce, particularly impacting the bottom 40% income-deciles of the population, deepening inequality and raising additional unemployment possibly by 2 million.¹

The outbreak of COVID-19 has plunged the Iranian economy into a state of ambiguity. Although its effects are important for all developed and developing countries, it seems that in the case of Iran, this issue will have different and more serious dimensions due to simultaneous incidences of the pandemic and the imposed sanctions. Based on the FM Global Resilience Index² in 2020, Iran ranks 125 among 130 countries and based on fragile states index annual report 2020, Iran's score is 83.4, which places the country in high warning countries' classification³ indicating that Iran is not able to adapt and act well in confronting with the economic shocks.

Due to withdrawal of the United States from the Joint Comprehensive Plan of Action (JCPOA) in 2018, Iran faced huge economic shocks; especially the country has experienced exchange rate fluctuations and laid the groundwork for unemployment and recession during the last two years. Iran's economic growth was -5.4% in 2018 and -7.6% in 2019. It indicates that COVID-19 outbreak deepened the economic difficulties in Iran. While it is predicted that the real GDP growth will reach -6% by the end of 2020.

^{1.} United Nations (June 2020)

https://www.fmglobal.com/. This index is the definitive ranking of nearly 130 countries by the resilience of their business environments. It provides companies with objective information about countries' economic, risk quality and supply chain resilience.

^{3.} https://fragilestatesindex.org/wp-content/uploads/2019/03/9511904-fragilestatesindex.pdf

Additionally, the unemployment rate increased during 2018-2019, while it is predicted that the rate will increase to 16.3% and 16.7% in 2020 and 2021, respectively, not only due to sanction but also due to COVID-19 outbreak and industries' lockdown. As people's purchase power decreased during recent years due to the economic problems and COVID-19 outbreak, many jobs in both manufacturing and services industries, particularly related to the SMEs, may close down where it results in further unemployment. In addition, the COVID-19 outbreak caused Iran's neighboring countries such as Iraq, Turkey, Turkmenistan, Afghanistan and Pakistan to close their borders, causing obstacles for Iran to trade and export goods to these countries.

However, closure of businesses in the field of domestic and foreign tourism, which was one of the engines of employment and growth during the embargo, intensifies the economic problems in Iran. Therefore, a chain of bounced checks is created and many businesses are faced with bankruptcy, which increases unemployment in Iran.



3. Impact of COVID-19 on the Iranian SMEs: A Case Study

In most countries around the world, especially developing countries, SMEs are recognized as an important factor in socio-economic development.
SMEs play a major role in creating job opportunities with low investment, regional growth and development, and organizational development of knowledge-based companies. In recent years, most governments, including Iran, have prepared special and various programs for the growth and development of SMEs, which also support the emergence and creation of this type (Keskin et al., 2010).

According to a report provided by the Iranian Ministry of Industry, Mines and Trade, SMEs account for 92 percent of the total number of active units in Iran's industrial sector. Iranian SMEs exported US\$1.5 billion worth of commodities in the first eight months of the current Iranian calendar year (March 21-November 23, 2019). Iran's Small Industries and Industrial Parks Organization (ISIPO)⁴ also announced that, before the COVID-19 pandemic, over 33,000 SMEs were active in Iran of which 1,100 were exporting their products and services to foreign destinations indicating the important role of SMEs in Iran's economy especially in considering long time of the sanctions imposed.

However, SMEs have been more fragile in counter with economic shocks than large enterprises (LEs). SMEs have been affected severely by the COVID-19 pandemic and the smaller the company, the harder the hit because SMEs are typically faced with lack of cash flow and capital. Consequently, it is supposed that a majority of SMEs, particularly in the services sector, will have to close or disappear from the economy forever.

To study the impact of the COVID-19 outbreak on Iranian SMEs, a questionnaire was designed in order to distribute it randomly to a sample of 60 SMEs registered by the Isfahan Chamber of Commerce, Industries, Mines and agriculture (ICCIMA) located in Isfahan province. The questionnaire included a number of questions to ask the impacts of COVID-19 on their production – sales, production factors, and job lose etc. Figures (3) to (9) presented their responses.

According to Figure (3), 32% of SMEs have experienced more than 50% reduction in their sale and 46% between 25%-50% reduction in their sale. In addition, 47% of SMEs in services sector have more than 50% decline in their sales especially in tourism and hoteling subsectors because people prefer not to travel and not eat out in the COVID-19 pandemic situation.

^{4.} http://isipo.ir/

In the commerce sector also 75% of SMEs have been faced with 25%-50% decrease and 25% of them have more than 50% decline in sale due to Iran neighbor's countries border.



Figure (5) shows that 60% of SMEs have faced an increase in inputs' prices and about 23% of them did not have any problem during the pandemic. However, 80%, 75%, 75% and 60% of SMEs in mines, agriculture, commerce and service have faced 25%- 50% increases in inputs' prices, respectively. In the industry sector, 52% of SMEs experience 25%- 50% increase in inputs'



COVID-19 impact on SMEs input's price in



Source: Questioners compiled with ICCIMA

prices while 4% of them have more than 50% increase in such prices.

Figure (7) reveals the fact that 45% of the SMEs have had a decrease in their exports by more than 50%, while 3% of SMEs have experienced an increase in their exports, mostly in the area of sanitary products.

According to Figure (8), as e-commerce and virtual technology are the useful tools to control COVID-19 pandemic problems, 65% of SMEs have replied that such tools are appropriate to manage the relevant impacts.



4. Iran's Supportive Packages

To control impacts of the COVID-19 pandemic on Iranian households and the SMEs in particular, the government and the private sector have launched several attempts.

Figure (9) indicates that more than 55% of SMEs have shown their satisfaction with a devoted loan support package arising from the bank system, which is useful for confronting the COVID-19 crisis. However,

41.8% of the SMEs have chosen a tax package and 2.8% have selected a custom package applicable to solve their financing problems. It indicates that most of the SMEs have been restricted in liquidity and financing.



Figure 9. Assessing government supporting package in COVID-19 era

In priority, the health sector started providing guidelines and sanitary protocol for people and small business and all media started encouraging people to take care of social distance and wear facemasks, especially at the work. It is obligatory for those businesses, like supermarkets, groceries, health centers, etc., could not lock down, as they have to supply necessary goods and services. In addition, the government forced all business to decrease working hours and decrease the number of employees who work in joint at the office at the same time. In confronting with the demand side of COVID-19 crisis, Iranian government allocated cash transfer to 4.3 million households in addition to provide cheap micro/small loans on demand (for a four member family, at near equivalence to minimum wage). Additionally, to support supply side Iranian government provide recovery stimulus package of 1,000 trillion IRR (circa 5% of Iran's GDP) to support businesses and households. To support business, this recovery stimulus package includes⁵:

Source: Questioners compiled with ICCIMA

^{5.} United Nations (June 2020)

- Loan package to business (75% of the total amount) at cheap (4%) interest rates for small businesses not firing workers
- Moratorium on all payments by the business community to Government for a three-month period (including taxes, employment insurance contributions, interest rates on loans, utility bills etc.);
- Enabling trade in Justice Shares : prompting small capital holders into capital markets
- Financial asset sales; capital market support; capital gains tax law in the parliament of Iran

To support households, this recovery stimulus package includes:

- Allocation of free rate of interest amounted for 10 million Rials loan for all households upon their requests
- Allocation of free rate of interest amounted for 20 million Rials loan to women-headed households
- 120 Trillion Rials allocated for purchasing medical equipment
- 50 Trillion Rials allocated to unemployment insurance fund
- Raising of the legal minimum wage by 20%

5. Conclusion and Policy Implications

The COVID-19 pandemic has made unprecedented difficulties to all countries around the world. The crisis has hurt Iran intensively in the time of heavy financial and trade sanctions imposed. This is because the country has witnessed a 40% inflation rate, a higher rate of unemployment of about 16%, severe volatilities in exchange rates and the foreign trade slowdown. Although having partly supported financially by the government, the Iranian households and the SMEs require further support in current time and during the post-pandemic as predictable. Investment and finance in the SMEs look quite required in order to enhance their production capacities. One significant step that the government should take is to provide a strategic plan for the SMEs financial collateral, in which the SMEs face often as the serious challenge.

Meanwhile, as most of selected SMEs have mentioned in their interviews, e-commerce enhancement is an effective way to remove partly difficulties made by the COVID-19 pandemic. Hence the Iranian government should provide necessary technological infrastructure and invest more on this sector. The COVID-19 pandemic has made vastly the use of digitalization in business to take care of social distance and decrease people's direct contact to control the pandemic and prevent more infections. In this respect, governments can make the benefit of this situation in order to enhance electronic government, move towards digital government and put all services online. Additionally, the economic sectors have the chance to expand their activity chains including production and sales lines via digitalization. To this end, all Iranian companies especially SMEs should train their staff to apply internet and social networks in distance working and empower their staff in different jobs.

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- https://fragilestatesindex.org/wp-content/uploads/2019/03/9511904fragilestatesindex.pdf
- https://www.fmglobal.com/. This index is the definitive ranking of nearly 130 countries by the resilience of their business environments. It provides companies with objective information about countries' economic, risk quality and supply chain resilience.

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Impacts of COVID-19 Pandemic on Turkish Construction Sector

PART 2

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Visiting Scholars' Opinion Paper

Crisis and Fragility: Economic Impact of COVID-19 and Policy Responses

Impacts of COVID-19 Pandemic on Turkish Construction Sector

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1. Introduction

Since the outbreak of the COVID-19 pandemic, the global economy faced an unexpected and unprecedented crisis as production halted or severely decreased in several locations, international trade of goods services in many sectors were seriously affected, and mobility of people within and across countries almost stopped. No country around the globe has been able to escape from the negative consequences of the pandemic; albeit in varying levels, depending on the readiness of their health services, structure of their financial systems, social and economic policies followed during the pandemic, etc. At the sectoral level, while a few industries such as online trade, information technologies and so on, benefited from these developments, most of the sectors have been severely hit by the crisis, most notably tourism, wholesale and retail commerce, manufacturing, social and personal community activities, construction and real estate activities.

The Turkish economy has also been experiencing serious impacts of the pandemic, reflected by the slowdown of GDP growth, serious depreciation in Turkish lira which does not adequately channel into rise in exports, and sharp declines in tourism revenues. Recent reports on Turkey's 2020 GDP growth foresee the Turkish economy to contract by around 5 percent (see, for example, IMF, 2020; Moody's, 2020). This study focuses on the



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impacts of the COVID-19 pandemic on the construction sector in Turkey, by summarizing the effects of the pandemic on Turkish economy, the role of the construction sector and interpretation of the latest developments in the sector with the recent data.

2. Impact of the pandemic on Turkish economy: Early studies

In the course of the COVID-19 pandemic, several studies have been carried out in order to analyze and estimate the impacts of the pandemic on different sectors of Turkish economy. Due to the limitations of data in such a short period of time, these studies developed a set of assumptions based on observations and inferences. The first detailed study to examine the effects of the pandemic on production and employment in different sectors of Turkish economy was conducted by Taymaz (2020). By using the Input-Output and Supply Use Tables, Taymaz (2020) found that the Turkish economy may experience a shrinkage between 3.2 percent and 12 percent annually according to different scenarios. Özatay (2020), on the other hand, has found that the economy can be exposed to a shock wave that will create a contraction of up to 32 percent.

In their macroeconomic outlook for the Turkish economy, Fitsch (2020) took the global demand collapse in the production process, into consideration and expected a contraction in national income in 2020 by 3.4 percent. Fitsch forecasts that the demand for Turkey's exports will decline by 40 percent, while the balance of payments will deteriorate moderately. In parallel with this, the IMF's World Economic Outlook report (2020) expects that the contraction in the world economy would be 3.7 percent, while contraction in the Turkish economy is expected to be around 5 percent.

The study by Bayar et al. (2020) followed a different path and focused on households and used the micro data of the Income Living Conditions Survey of TURKSTAT. This study determined how each sector could be affected by assigning an "impact value" to each sector based on various observations and estimations, in a range of 1 to 5, where 1 is "Very Bad" and 5 is "Very Good". For different scenarios, Bayar et al. (2020) estimated that employment level would fall from 45.6 percent to a range of 43.4 percent to 37.8 percent, the share of the poorest 20 percent of the society in total income would fall from 6.5 to 5.6 percent and income distribution would deteriorate significantly.

The general equilibrium analysis of the COVID-19 pandemic on Turkish economy by Voyvoda and Yeldan (2020) shows that the first (upon-impact) economic effects of the restrictions due to the COVID-19 outbreak will be an contraction of 26.7 percent per annum in national income, a decrease in total employment by 22.8 percent, from 28.2 million to 21.8 million, where the unemployment rate would increase from the 2019 average of 14.2 percent to 33.7 percent. There will be a significant fall in household private disposable income, leading to a decrease in total private consumption expenditure demand. Besides, investment expenditures are estimated to contract by 66.7 percent. Due to unfavorable conditions in the global markets, the expected loss in total export revenues is 27.8 percent, and the decrease in import demand is 29.5 percent. A study conducted by Voyvoda and Yeldan (2020) expects a depreciation in the Turkish lira at a level over 30 percent.

3. Construction Sector in Turkey

The construction sector has been playing an important role in growth and has been seen as one of the driving forces of the Turkish economy in the last two decades. With the implementation of the IMF stabilization program between the end of 2001 and 2008, an emphasis has been put on construction of infrastructure, which was followed by a general growth in the construction sector as a whole. The present government that came into power in 2002 also gave significant importance and provided important privileges to the construction sector. Hence, the sector has indeed been one of the important determinants of economic growth, especially in the period from 2002 to the 2008 global crisis. According to TURKSTAT (2020) data, the construction sector grew by 17.3 percent in real terms in the 2002-2007 period, increasing its share in GDP from 4.5 percent to 6.8 percent. The sector, which contracted in 2008 and 2009, later experienced a rapid recovery and recorded a higher growth than GDP with an average real growth of 11.1 percent between 2010 and 2017. In 2017, the share of construction activity in GDP reached 8.6 percent. However, the sector experienced a significant contraction in real terms in 2018 and 2019 due to factors such as the increase in the exchange rate, global economic

uncertainties, increasing foreign trade protectionism, and savings policies in public expenditures. The total production level of the construction sector in 2019, at current prices, is approximately 232 billion TL, and its share in GDP is 5.4 percent. However, considering the contribution of other sectors that provide input to the sector and continue their activities depending on the developments in this sector, the share of the construction sector in GDP is around 30 percent (INTES, 2020).

In addition to having a strong presence in the domestic economy, the Turkish construction sector has been in the process of becoming an important actor in international markets. To meet the requirements of the IMF and keep up with globalization, Turkey has liberalized its economy in many aspects and introduced several policies that promote greater trade openness. These developments were projected in the growth of the construction sector both through expanding the market for it, thanks to trade liberalization, and by increasing its competitiveness, thanks to macroeconomic stability. On top of all that, the government granted an immense amount of subsidies to support the sector's chances of reaching international standards. As a result, the Turkish construction sector secured a strong presence in the Middle East, Africa, Russia, and other CIS countries, especially in the last decade. As of now, Turkish construction firms offer various types of construction services through increased skills and cooperation with leading international firms (Düzgün-Öncel, 2019: 163-4).

The construction sector, along with being a significant component of Turkey's GDP, creates large levels of value-added and, as a result of being a labor-intensive sector, contributes to the economy by bringing about major employment opportunities. As of now, there are 1.3 million employees in the construction industry in Turkey, which makes up to 5.2 percent of total employment (TURKSTAT, 2020). Along with these, it is a sector in which intersectoral relations are quite intense and, therefore, it is a sector which contributes to economic growth both through its direct effects and through interactions with other sectors. It is worth noting that the finished products of the construction sector are considered to be investment goods, thus, these goods are not only used for their functions but for the creation of other goods and services. Each activity carried out in the construction sector can affect other related sectors due to its relationship with the inputs used in the production process. The sector, due to its input-output relations with more than two hundred other sub-sectors in Turkey has wide effects on value added and employment in the Turkish economy. The construction

sector is largely based on national capital and labor, as well as playing contributing to Turkey's international trade and also playing a notable role in the global value chains (Küçük and Tekçe, 2020). However, this closely tied relationship between the construction sector and economic growth, increases the sector's susceptibility to volatile macroeconomic conditions. This is why the crushing economic effects of the COVID-19 pandemic have been more apparent in the construction sector than in many others.

4. Impact of COVID-19 on the Construction Sector in Turkey

Because of the COVID-19 pandemic, the construction sector has been getting serious hits all around the world through closing of construction sites, cancellations of projects, supply chain disruptions, and cash stagnations. As the construction sector is linked to over two hundred subsectors, any disturbance in one of them is expected to create a ripple effect in the construction sector. In Turkey, not so different than in many other developing countries, construction takes up an especially important part of the economy. Therefore, aforementioned disruptions in the sector have caused a greater negative overall impact than they would have in a less dependent, more developed economy.

When we evaluate the above-mentioned studies about the impacts of the pandemic on Turkish economy with a focus on the construction sector, we see that all studies report and expect serious losses in the sector. For example, Bayar et al. (2020), in their "impact value" of the pandemic to each sector, in a range of 1 to 5, label the impact of the COVID-19 pandemic on Turkish construction sector as 1 - "very bad". The study expects very serious production and employment losses in the construction sector in the course of the pandemic.

According to Voyvoda and Yeldan (2020), construction is among the top five sectors that will experience the highest real production contraction relative to 2019 by sectors along with accommodation and food services, tourism, air transport and iron and steel, with an expected fall in real production of 48.75 percent. They estimate that private consumption expenditures fall by 22.26 percent and exports fall by 47.77 percent. Voyvoda and Yeldan (2020) stress that, if a labor-income support policy is implemented, the decline in production in the construction sector will be limited to 21.53 percent.

As a matter of fact, the construction sector in Turkey has already been experiencing hardships in the last few years, resulting in its negative growth rates, and 2020 has been no exception. Figure 1 shows that the sector contracted by 1.5 percent in the first quarter of 2020. The interesting part of this is that the overall economy and many sectors grew in the first quarter of the new year. The only sub-sector to shrink was the construction sector. Thus, the construction sector shrank seven quarters in a row. As the problems arising from its own dynamics that lead to shrinkage in the construction sector continue, let alone the external shocks due to the COVID-19 pandemic, the sector is expected to shrink in the rest of the year.

Another point worth noting is that in the recent years, the relationship between the construction sector and economic growth started to fade away. The positive relationship between the construction sector and the overall growth of the economy first weakened and then a significant break occurred. Table 1 shows that in 2018, while the economy grew by 2.8 percent, the construction sector contracted by 2.1 percent. In 2019, while the economy grew by 0.9 percent, the construction sector contracted by 8.6 percent. In the first quarter of 2020, the economy grew by 4.5 percent, but the construction sector shrank by 1.5 percent. The divergence between the sector and economic growth is getting stronger.



Figure 1.

Source: TURKSTAT (2020)

Table 1.

Growth rates of construction, real estate and GDP (%)

Period	Construction	Real Estate	GDP
2016	5.4	3.6	3.2
2017	9.0	2.3	7.5
2018 Q1	6.8	3.8	7.4
2018 02	1.5	0.8	5.6
2018 03	-6.3	2.3	2.3
2018 Q4	-7.8	4.8	-2.8
2018	-2.1	2.9	2.8
2019 Q1	-9.3	1.6	-2.3
2019 02	-12.7	2.7	-1.6
2019 Q3	-8.3	2.4	1.0
2019 Q4	-3.8	3.1	6.0
2019	-8.6	2.5	0.9
2020 Q1	-1.5	2.4	4.5

Source: TURKSTAT (2020)

Despite how valuable the construction sector is to the public and to the government, construction expenditures shrunk substantially this year. Figure 2 depicts that in the first quarter of 2020, construction expenditures decreased by 6.8 percent at current prices compared to the same quarter of the previous year and were realized as 137.5 billion TL. Considering the annual increase in construction costs, construction expenditures contracted by 19 percent in real terms. In April, construction jobs experienced a very sharp contraction with the effect of the COVID-19 outbreak. The level of construction works dropped by 36.4 points in April compared to the previous month, the result of the cessation of many economic activities. In May, a gradual return to economic activities began. Accordingly, employment levels in the construction sector increased by 5.0 points in May, followed by an increase of 19.1 points in new business orders received by the sector in June and 21.5 points increase in July (TURKSTAT, 2020).



When we observe the levels of international trade for inputs of production of the construction sector, the story remains more or less the same. Exports of construction materials declined significantly in May. In May 2020, exports of construction materials decreased by 42.3 percent compared to May of the previous year and decreased to 1.27 billion dollars. The sharp monthly export drop in May was due to the effects of the COVID-19 outbreak. The isolation measures, which were put into force as a result of the COVID-19 outbreak, negatively affected exports. In May, with the negative effects of the COVID-19 pandemic, imports fell by 28.1 percent compared to the same month of the previous year and decreased to 465 million dollars. Despite the increase in imports of construction materials in the first quarter of the year, the effects of the COVID-19 pandemic in the April-May period led to a sharp contraction in those imports. The upward trend in imports of construction materials will depend on domestic construction activities and is not expected to be realized soon.

Starting from May 2020, two factors helped the construction sector to make a rapid recovery: (i) relative easing of the quarantine measures and controlled return to economic activities thanks to lower numbers of COVID-positive cases, and (ii) historically low interest rate policy of Turkish government and the Central Bank that makes it more advantageous to access housing loans. These two factors combined, construction sector confidence index significantly improved from May to August 2020, but declined again in August mainly due to sharp currency depreciation in that month and increasing concerns about a second wave of COVID-19 quarantine measures (Figure 3).

Figure 3.





Figure 4 below shows the building activity over the past three months, which is an index based on individual questions concerning the construction sector tendency, and tells a very similar story. The sector entered a crisis period in mid-2018 as the building activity declined sharply. Its recovery after June 2019 faced a sudden stop and fall when the COVID-19 pandemic hit the economy. With normalization of the economic and social life after May 2020, the construction sector has largely returned to its activity that reached and exceeded the pre-COVID-19 period.



New job orders received in the construction sector (Figure 5) also fell sharply during the first months of the COVID-19 outbreak, rapidly recovered when the two factors mentioned above, normalization and favorable interest rates, fueled the sector, but the latest data reveals a downward trend, similar to Figure 3. Although it is positive that in addition to the return to existing jobs, new job orders increased in the sector, it is early to claim that the construction sector fully recovered from its crisis as it is very likely that the expected second wave of the pandemic may create a downward trend in the sector.

Current level of orders in construction sector (seasonally adjusted) 80 75 70 65 60 55 50 45 40 35 30 2018-02 2018-12 2011-01 2012-04 2013-02 2013-12 2014-05 2014-10 2015-08 2017-04 2018-07 2019-05 2012-09 2013-07 2015-03 2016-01 2016-06 2016-11 2017-09 2019-10 020-03 020-08

Figure 5.

Figure 6 shows the housing sales (left axis) and housing loan interest rates (right axis). When we examine housing sales, we see a rather interesting figure – a decline in housing sales since January 2020, reaching extremely low levels in April and May 2020 with the impact of the COVID-19 outbreak and the restriction measures. This was followed by a historical jump to unprecedented levels until July 2020. Similar to the previous figures, both the return to economic and social life started and very low interest rate housing loan campaigns fueled these housing sales. The Association of Turkish Construction Material Producers expects that housing sales will normalize in the coming months (IMSAD, 2020: 7).

Source: TURKSTAT (2020)

Figure 6.





Source: Central Bank of Turkey (2020)

Construction of houses is a very important driving force of the Turkish construction sector. There exists a significant new housing stock, and as they are sold, new housing constructions gain momentum. In order to understand the boom in sales after May 2020 depicted in Figure 6, we need to talk about the interest rate policy of the Central Bank of Turkey and the resulting credit boom. With the COVID-19 outbreak, housing sales, which were already stagnant for some time, sharply declined. As a policy response to that, the government started campaigns to make mortgage loans more attractive and followed a negative real interest rate policy, and this revitalized housing sales. Figure 7 below illustrates housing loan interest rates and consumer price index (CPI) in Turkey in the last five years. As seen in the figure, before May 2020, there were very few periods where housing loan interest rates are lower than the CPI (in other words a negative interest rate) and in those periods the difference between interest rates and CPI was very small. However, between May and July 2020, the housing loan interest rates have been cut as low as around 9 percent while CPI has been around 12 percent. This unprecedented favorable interest rate led to the steep increases in housing loans which naturally reflected to the aforementioned rise in housing sales in those months (Figure 6). However, the increase in loan interest rates above the CPI level after August 2020 led to an immediate sharp fall in housing sales. This is a clear indicator showing that the upward trend in housing sales, and thus in the construction sector, was mostly a result of very low rates of interest, and with non-negative real rates, the negative impacts of both COVID-19 pandemic and other adverse economic conditions become more visible.



Figure 7.

Source: Central Bank of Turkey (2020)

Fast policy response to the construction sector that was shaken by the COVID-19 pandemic led to a quick recovery and created optimism in the sector reports (see, for example, the July report of the Association of Turkish Construction Material Producers, IMSAD, 2020). But, as the same report stresses, it is more important to have a healthy and stable recovery in the sector. With the gradual decrease in this policy support in the coming months, the construction sector will continue its activities with its own dynamics and this will bring a normalization after a rapid recovery in the construction sector activities (IMSAD, 2020: 3).

5. Impact of COVID-19 on employment

COVID-19 pandemic has affected the Turkish economy in numerous ways, one of which through employment. In Turkey, according to the official records, unemployment has increased by 0.1 percent in May 2020 compared to May 2019. This figure may look reasonable, but severely, total employment has decreased by more than 2.4 million people which reduced employment rate to 41 percent from its 2019 level of 45.5 percent. Figure 9 shows the development of employment rate in Turkey since 2014. We see that in the last year, the number of employed people decreased by 308 thousand in the agricultural sector, 274 thousand in the manufacturing sector, 206 thousand in the construction sector, and 1.6 million in the services sector. With the negative developments caused by the pandemic, it is no surprise that labor force participation in Turkey, which was already lower than the OECD average, fell from 52.9 percent in May 2019 to 47.6 percent in May 2020 (TURKSTAT, 2020). In other words, the official unemployment rate of 12.9 percent (in May 2020) does not reflect the labor market situation in Turkey precisely as labor force participation and employment rates are at record-low levels due to very high levels of discouraged workers, who are not counted as unemployed.



Figure 8.

Source: TURKSTAT (2020)

Employment in the construction sector has been hit by the pandemic, but as explained above in this paper, the sector was already facing hard times since mid-2018. Employment in the sector fell from April 2018 to January 2019 by around 670 thousand. After a period of constant level of employment, the sector experienced another steep decline after October 2019, where employment fell from 1.64 million to 1.25 million only in six months (Figure 9). Some of this decline is caused by the pandemic, as reflected in the figures about the sector above.



Source: TURKSTAT (2020)

6. Conclusion

COVID-19 pandemic has been shaking the global economy since March 2020, and although a recovery has been experienced during the summer months, it is expected that in the coming months the pandemic will hit a second wave and global production and supply chains will be harmed again. The countries who took early, appropriate and strong policy measures will be less affected than the others. Turkey is no exception; although Turkey has not been one of the very badly affected countries like USA, Brazil or Italy, its economy has significantly contracted during the pandemic. The construction sector has been one of the worst affected sectors of

Turkish economy. The recent data about the sector makes it clear that the construction sector was already in the course of a decline, but the negative conditions of the pandemic both in domestic and international markets made this decline steeper.

The policy response of Turkish policymakers to the crisis in the construction sector was lowering interest rates, reaching negative real rates for housing loans. This policy, combined with relative normalization of social and economic life during the summer led to a rapid upturn in the sector and increased optimism about the near future. However, limiting the policy response only to monetary measures would be ineffective and even harmful. In fact, this measure could be used for a very short period and when the loan rates came back to the CPI levels, housing sales experienced a sharp decline. Historically low interest rates made Turkey very vulnerable to exchange rate shocks; between June and the end of August, Turkish lira depreciated more than 10 percent against US dollar, making imported raw materials and intermediate goods that the construction sector depends on more expensive. In this respect, current policy measures in the construction sector may only be effective in the short term.

The sector needs sustainable policy measures, as soon as possible, in order to cope with the economic shocks of the COVID-19 pandemic, limiting the economic policies to the sector with lowering interest rates would be very short-sighted, further stimulus packages are urgently needed. As the employment statistics analyzed in this paper reveal, the construction sector lost around one million workers in the last two years and it would be reasonable to expect further losses as the situation worsens because of the pandemic. As the sector requires policies that give rapid results against the pandemic shocks, policies like debt restructuring and rescheduling to construction firms and income transfer policies to construction workers could create a better protection shield to the sector against the economic implications of the COVID-19 pandemic.

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COVID-19 and Informal Labor in India

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Crisis and Fragility: Economic Impact of COVID-19 and Policy Responses

COVID-19 and Informal Labor in India

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1. Introduction

The informal sector of Indian economy is quite substantial, and according to International Labor Organization (ILO) estimates in 2020, more than 90 percent of 500 million working people in India are part of this segment of the Indian economy. It is estimated that around half of India's gross domestic product (GDP) is contributed by the informal sector. According to another estimate by Sarath Davala in 1991, the informal economy of India employed 91% of labor force, which reached 96% in 2014. The informal economy encompasses agriculture, self-employment, contract labor, household labor, and so on. The rapid growth of the informal sector in India happened with the opening and globalization of the Indian economy in the early 1990s. With the globalization, contractual labor increased and many of the employees of the formal or organized sector had to leave their jobs because of downsizing, and join the informal sector. The growth of the informal sector is also related to growth of the medium, small and micro enterprises (MSMEs) in India.

Laborers in the informal economy are subject to unpredictable and irregular employment, bad working conditions, lack of workers' rights, lack of health benefits and other facilities such as life insurance, pension and so on. Even though the sector contributes substantially to the Indian



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economy, the government paid little attention to the plight and grievances of the workforce engaged in the sector. When the Indian economy was growing rapidly between early 1990s and 2014, it was estimated that more than 30 percent of the Indian population were brought above the poverty line. Many of the erstwhile poor people from the agricultural sector moved to urban centers and became informal laborers. They now had relatively more wages. Even if the improvements in their earnings and life conditions were only marginal, a fast growing Indian economy did provide them hope and encouragement.

One of the biggest setbacks to the informal sector of India came with the demonetization of the Indian economy in November 2016. Since most of the informal sector in India worked through cash transactions, the demonetization had huge consequences for the sector. Especially in agriculture, MSMEs and informal sectors, the demonetization led to a huge disruption in their economic activities. Various estimates suggest that because of the cash shortage, between 5 and 20 million people lost their jobs in the very first year after the demonetization, and most of them were in the informal sector. The job loss could also be attributed to the slowing down of the Indian economy after demonetization and implementation of the Goods and Services Tax (GST), which was introduced in July 2017. Even though there are not enough studies to ascertain which was more consequential for the job losses in the informal sector; demonetization, slow growth and GST collectively are being blamed for the same.

The informal sector of India was still not able to recover from these shocks when another crisis engulfed the sector in the form of the Covid-19 pandemic in February 2020. Because of the pandemic, India announced a sudden and complete lockdown of the country for three weeks, which was further extended twice, and led to a complete halt in the economic activities in the country for months. The sudden and abrupt lockdowns, which might be a reasonable move in terms of controlling the pandemic, led to a significant economic crisis in India. Especially, India's informal sector had to face multiple layers of crisis because of the lockdowns. The crisis led to loss of jobs and thus livelihood in the informal sector, a crisis of food and shelter for the migrant laborers who were stranded at various places, and fear of infection. Most of these stranded laborers became desperate to go back to their hometowns because they were emotionally and economically not in a position to cope with the pandemic and lockdowns. Out of around 400 million people in the informal sector, 100 million people were migrant laborers.¹ The continuation of the lockdowns led to a large percentage of the migrant laborers walking from their work places back to their native places that were generally 500 to 3,000 kilometers away. The scenes of such exodus became more vivid since, under the lockdown, trains, buses, and other public transports were not allowed to operate and because many of these laborers were not in a position to afford private transport. According to the government data, around 10.6 million people walked thousands of kilometers from the place of their works to their native places. According to various reports in the media, many of them lost their lives and suffered terrible ordeals on their journeys. The government of India initially tried to discourage them moving from one place to another but when it realized that it could not be stopped, the government ran various Labor Special Trains and other bus services for them.

One of the reasons for such chaos in the Indian economy, and more importantly in the informal economy, was the fear that the pandemic may not end anytime soon and that the economic activities might also take a longer time to restart. It also meant that the growth rate of the Indian economy will be far lower. According to the World Bank estimates, in 2020-2021 fiscal year, India's growth rate will be between 1.5 and 2.8 percent instead of the earlier prediction of 6.1 percent. Actually, as per initial estimate of the government of India, the growth rate of the Indian economy in the first quarter of current fiscal year (April-June 2020) has been -23.9 percent. Furthermore, it was estimated that around 30 to 100 million people would lose their jobs because of the Covid-19 related economic crisis. The loss of jobs is going to be more severe for salaried factory workers, small/daily wage earners, home-based workers, migrant laborers and so on. Because of disruptions in the supply chain due to intermittent lockdowns, most of the MSMEs in India have been suffering and even though the lockdowns have been lifted, regaining lost jobs does not appear to be easy in the near future.

As per India's 2017 Economic Survey, internal migration accounts for 100 million people in India and the figure is quoted in Saurabh Mukherjea, "India's Real Economic Dynamo: A Silent Force that Brings in 2% of GDP," *The Economic Times*, 15 April 2019, https://economictimes.indiatimes.com/markets/stocks/news/ indias-real-economic-dynamo-a-silent-force-that-brings-in-2-of-gdp/articleshow/68886500.cms

2. Impact of Covid-19 on Informal Labor of India

The entire Indian economy was severely affected by the Covid-19 pandemic. However, the effect was more catastrophic in the informal sector. It is not because the virus discriminates between rich and poor but because already the informal sector laborers were in a disadvantageous position due to their socio-economic and other pre-existing circumstances. Here it is important to underline that data for the informal economy of India and informal labor in it is largely imprecise and based on estimates or inferences from samplings.

According to the Periodic Labor Force Survey (2017-18), in rural India around 57 percent households are dependent on self-employment and 25 percent are casual labor. In urban India, the share of self-employed labor and casual labor are 37.57 and 12.68 percent. The survey also highlights that even though in India national minimum wage is stipulated to be \$5 per day, around 84.6 percent of casual workers, 52.8 percent of regular workers and 67.9 percent of self-employed workers did not receive minimum wages. The gap between actual wages/earnings and stipulated minimum wage is 41 percent. In the Periodic Labor Force Survey (2018-19), it was further reported that around 95 percent of the self-employed workers in India are either engaged in an individual one-man job or work in a household. Apart from self-employed workers, around 24 percent of Indian workforce is casual laborers. Regular wage salaried workers (RWS) in India are 24 percent of workforce.

The most important and obvious casualty of the Covid-19 pandemic was loss of jobs in the informal sector. Even though the formal sector also saw job losses, the impact in the informal sector was more devastating. For example, according to reports of the Centre for Monitoring Indian Economy (CMIE), in April 2020, overall 121.5 million jobs were lost in India and out of it 91.2 million were informal jobs such as small traders, hawkers, daily wage laborers etc. Once the lockdown in India started to be lifted there have been signs of recovery in informal labor employment. However, overall, from April to July 2020, around 18.9 million salaried workers have lost their jobs. Almost half of the Indian households reported a drop in their monthly income. This data is just for the portion of the informal labor that is salaried because most of the informal sector laborers get daily or weekly wages as and when they work. The job losses led to the problems of hunger and daily survival. According to a study by economists of Azim Premji University after the lockdown in late-March 2020, 64 percent of urban households and 35 percent of rural households did not have enough money to buy essential goods even for one week. Overall, according to the report of the CMIE, 66 percent of Indian households had money to buy essential food items for just two weeks.

Another related problem has been the disproportionate health burden on these laborers because the pandemic meant illness, accidents, and disabilities along with a high possibility of exposure to the virus. Since the public sector health services, on which the informal sector laborers are mostly dependent, are very poor in India, they had to suffer disproportionately. Furthermore, these laborers lack any legal recognition or social protection, which means that any big crisis such as the Covid-19 pandemic makes their lives more miserable. Virus, job loss, hunger, emotional insecurity, illness, and lack of legal or social protections made lives of these laborers incredibly unbearable. It is important to note that since there is no comprehensive data or information or channel of communication available to most of these informal laborers, even if the State wants to reach out and provide help to them, it becomes an impossible task. Also, since there is so much ignorance about them, their plights, problems and sufferings are difficult for the state and society to gauge.

The lockdowns in India led to lower income or no income for most of these households as the production and demands both plummeted. When production of non-essential items stopped, it resulted in loss of wages to millions of workers in the informal sector as there is no provision for paid leave for them. Even though the Prime Minister of India appealed to individual and corporate employers to keep paying salaries to their drivers, domestic help and employees at their small business units, it hardly happened in reality. Most of the people involved in the informal sector were bound to become penniless in the situation. Even though, the Prime Minister appealed to landlords to reduce, postpone or forgo house rents from these poor migrant laborers, it is hard to believe that it had any substantial impact on the actual behavior of the landlords. Here it is also important to underline that most of the people who work in informal sectors have no cushion of savings or other assets. Households in the informal sector spend most of the money they earn, and sometimes more than what they earn and once the source of income has stopped, they have no breathing space.

After several rounds of nationwide lockdowns and subsequent intermittent lockdowns in one or the other areas, gradually, economic activities of the country have largely been opened up. However, it does not seem that things will return to their pre-pandemic level any time soon. The huge decline in demand is going to continue in the medium term and the recession will continue. This means that the labor force in the informal sector will remain under stress. Few of these informal sector businesses are likely to recover but since demand will not rebound in the economy soon, the employment situation of labor will remain grim.

Probably the most disturbing scene of the informal workers' plight in India became visible when because of lack of food, shelter, basic amenities and emotional support, many of the workers in the informal sector had no choice during the lockdown but to walk toward their hometowns. Since public transport was not available, they started walking from their work place to their native places. Around 40-50 million seasonal migrant workers who used to work in construction sites, factories, and other service activities started walking home. They had no money, water, food or other resources during their mass exodus that happened when the temperature in India was more than 40 degrees Celsius. Many of them died on their ways for various reasons including lack of food and water. According to one survey, 90 percent of these workers who were walking back to their native places did not receive food assistance from the local governments and 89 percent said that their employers had stopped paying them. According to a report by the Centre for Monitoring Indian Economy (CMIE) in March 2020, the unemployment rate was 8.7 percent and it further worsened in April 2020. Even though the Government was to provide jobs under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) to these migrant workers once they reached their native places, in the second half of April 2020, only 30.8 million jobs were provided in contrast to 273.9 million in the corresponding period in 2019. In fact, it has been reported that because of fear of virus transmission, work under MGNREGA has also been limited in the rural India.

The frailty of the informal sector and the labor force has been clearly exposed by the Covid-19 pandemic. The biggest human tragedy in the last several decades becomes more acute because the data and information about it is largely inferential, anecdotal and insufficiently discussed. It is also important to note that distribution of the informal work force is more tilted towards Muslims, schedule castes, schedule tribes and other backward classes of India. Consequently they have been the most affected by the pandemic. Thus other social inequalities and exclusion have further multiplied the effect of the pandemic on the most vulnerable section of the people of India.

3. Policy Responses:

The Indian government tried to provide income replacement support and tax reductions to individuals and corporations to deal with the crisis. However, the tax reduction had no direct relevance to the informal laborers. Even the income replacement measures have also not been able to reach a large portion of informal workers. There are reports that many of the announced direct money transfers to informal workers face implementation challenges and only a small percentage of vulnerable people have been able to receive them successfully. The digital divide has also one of the impediments in the way.

The pandemic led most of countries, including India, to announce and implement various relief measures for different sections of society. However, as mentioned earlier, the relief is often routed through pre-existing relationships between states, workers and businesses and unfortunately in India those relationships are not well developed. That has led to further widening of the gap between informal and formal sectors in India. Actually, the pandemic posed the serious question of a choice between life and livelihood and most countries, including India, chose life first. However, a study of the informal sector in India clearly demonstrates that when more than 90 percent people are employed in the informal sector and do not have enough cushion, the threat to livelihood becomes a threat to lives within weeks. For the same reason, the Indian Prime Minister ought to change his slogan of 'jaan hain to jahan hain' (only if there is life, will there be livelihood) soon to jaan bhi jahan bhi (both lives and livelihoods matter equally). The situation has clearly shown the structural inequalities in India's dualist labor market, where a small minority of labor has stable jobs and social security and a huge portion is engaged in informal jobs without any stability or social security.

There have been various policy measures as well as steps taken by the central and state governments of India to deal with the plight of these workers in the informal sector of economy. For poor, elderly, disabled, female and informal workers compensation in lieu of their daily wages has been announced.

The government of India started consultations with MSMEs and hospitality industries well before the lockdown. On 21 and 22 March 2020, the Uttar Pradesh and Punjab governments announced that they would make direct money transfers of \$14 and \$42 respectively to all daily wage workers and all registered construction workers in their states. On 23 March 2020, the Haryana government announced \$14 per week money transfer to laborers, street vendors and rickshaw pullers and food assistance for families below poverty line (BPL) for April 2020.

On 25 March 2020, Indian government announced its intention to provide 7 kilograms food grains per person every month to around 800 million poor people across the country. On 26 March 2020, it was announced that \$24 billion would be used through Pradhan Mantri Garib Kalyan Yojana (the Prime Minister's Welfare Plan for the Poor) to provide food and cash transfers to poor people so that they would not remain hungry. The money was targeted to 80 million families who are below poverty line (BPL). In April, the Government of India targeted to send the first installment of \$28 each under the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) (Prime Minister's Farmers' Honor Fund). The government also announced that it would pay contributions of both sides of the Employees' Provident Fund (EPF) for those 8 million employees who earn less than \$205 per month.

The Delhi government set up around 500 hunger relief centers in the state and ventured to provide free food every day to 400,000 people who were facing difficulties because of the lockdown. The Uttar Pradesh government announced on 1 April 2020 that it would use \$86 million fund to distribute cash among 2.7 million workers under the Mahatma Gandhi Rural Employment Guarantee Act (MNREGA). On 8 April 2020, the Central government provided \$420 million to the Pradhan Mantri Garib Kalyan Yojana (the Prime Minister's Welfare Plan for the Poor), which would be distributed among 20 million construction workers across the country.

On 12 May 2020, the Indian Prime Minister announced a huge \$280 billion economic package (almost 10 parent of India's GDP) to deal with the pandemic. It included monetary provisions that were announced in multiple phases. The definition of MSMEs was also revised to include
more companies in the ambit so that they could benefit from the package. The Finance Minister announced a 'one nation, one ration card' scheme so that all migrant workers, farmers, street vendors and others could be given benefits of food assistance. On 20 June 2020, the Central government provided \$7 billion funding to the Garib Kalyan Rojgar Abhiyaan (Employment Campaign for the Welfare of Poor), which was inaugurated to provide help to migrant workers.

To deal with the immediate crisis of the mass exodus of migrant workers, around 21,000 camps were being arranged to house 700,000 migrants to stop them from moving away. According to the central government's reply to the Supreme Court of India, by 12 April 2020 around 38,000 relief camps and 26,000 food camps were being set up to help the poor and laborers. In various states, governments, NGOs and religious organizations got involved in supplying daily food to stranded workers at various places in India. When it became impossible to stop the mass exodus of migrant laborers, the government provided railway and bus transport services. According to one report around 5 million migrants used special trains to reach their native places between 1 and 27 May 2020.

It has been announced that all these households would be provided extra 5 kilograms of grains and 1 kilogram of lentils every month for the next three months to mitigate their food problem. The food assistance will be provided not only to people who have ration cards such as BPL and non-BPL but also to all the needy and the assistance will continue up to at least September 2020. Provincial governments have also announced direct cash transfers to these people in one or multiple installments. There have also been attempts to involve these migrant workers who have returned home in productive activities for rural development and pay them wages.

The attempts have been important but quite insufficient. Apart from being meager, these packages are problematic because the data on laborers in informal sector and the poor are neither complete nor is there a smooth channel to reach out to them. Administrative and other forms of leakages further complicate the process and assistance at the ground level has been far from satisfactory. Many of the government's measures that have been announced and implemented in India might have helped a few businesses and individuals, but it would be mistaken to believe that they have been able to make any substantive impact on the informal sector of the economy.

According to one of the surveys, the Indian government's promised

assistance to vulnerable sections of population in the forms of cooking gas, cash transfers, and food grains have been inadequate.² For example, the Delhi government decided that it would deposit \$68 twice in the accounts of construction workers, but it reached only up to 40,000 workers out of the 540,000 registered workers. In Delhi, there are overall 1,000,000-1,200,000 registered and non-registered construction workers. It is really painful to see that non-registered workers were already left out of this relief measure and even 90 percent of registered workers were not given cash assistance because these workers had not revised their registrations and, unlike other states, the Delhi government was not ready to extend the benefits to non-registered workers. There are around 55 million registered and unregistered construction workers in India.

Between 24 March and 30 June 2020, the Food Corporation of India (FCI) supplied 13.9 million metric tons of food all over the country. Under the PM Garib Kalyan Yojana around 810 million poor people were provided 5-7 kilograms of free ration in grain every month. The government has decided to extend the assistance up to November 2020. It is important to note that this is in addition to the subsidy of 5 kilograms of grains which the government provides to the poor under the Antoyodaya (Development until the Last Person) Scheme. These food grains were largely supplied through 540,000 ration shops operating across the country. According to the announcements, the government has also intensified its efforts to provide benefits and security under the Atal Pension Yojana (Atal Pension Plan), Swasthya Bima Yojana (Health Insurance Plan) and so on to people involved in the informal sector.

4. Analysis and Policy Implication:

The informal sector and labor force in India are under huge stress during the pandemic for several reasons. The workforce in the informal sector is the most vulnerable and any economic crisis in general leads to huge negative implications for them. The informal sector labor gets affected first and the foremost in any crisis. As mentioned earlier, the Indian economy

The survey was conducted by Institute of Social Studies Trust and its finding was reported at "Government Schemes Leave India's Informal Sector Workers Cold," *The Tribune*, 25 May 2020, https://www.tribuneindia.com/news/nation/government-schemes-leave-indias-informal-sector-workers-cold-89822

was already going through a slowdown before the Covid-19 pandemic and the informal sector was suffering because of it. It is being reported that the purchasing power of the rural poor and urban poor has declined and the government was trying to cope with the situation. The Covid-19 pandemic further worsened it.

The announcement of the lockdowns to deal with the Covid-19 pandemic was quite sudden and allegedly not much planning was done before implementing it. Any informed policy making should have realized that, since there are more than 400 million informal sector workers in India and since they sustain their livelihood by daily wages, a lockdown for three weeks and more would deprive them of food and basic amenities. Actually, without having any well-established mechanism to reach out to them with food and other assistance, it would be next to impossible to help them. It appears, in hindsight, an important misstep by the government.

Another reason for the suffering of the informal laborer was the fact that they were not allowed to go back to their native places immediately and were forced to stay at the places where they used to work. It is important to note that given the lack of housing facilities for these poor workers, they used to have small rooms in which multiple people slept together. These rooms could not be called houses but just places to sleep and when lockdown forced them to stay there continuously, the problem got worse. The hardships in terms of food and living space forced many of these migrant workers to go back to their native places. They were so desperate that even though no public transport was available, many of them decided to walk back amidst all the insecurities thousands of kilometers to reach their native places.

Another lacuna in the Indian response has been absence of reliable data about contact points with its huge informal labor force. In the absence of information, it was next to impossible to reach out to these people to inform them about "dos and don'ts," provide them food assistance or even provide them cash assistance. There has been a lack of information about them and it is reflected at each step in the process. A pandemic that resulted in economic and humanitarian crises was mistakenly perceived as a problem of law and order and governments across the country tried to manage the issue through administrative officials and police and a plethora of guidelines that used to change almost twice every day. These labor forces, when they were caught at various places without food and money, were not provided any clear information about where to get assistance in food, shelter, and transportation to their native places. The rumors, spread by the mainstream and social media, further worsened the chaos among these laborers. It has proved to be the biggest blunder that when in the early days of the pandemic these migrant laborers were free from the virus and they could have been safely allowed to go back to their native places, they were not allowed to do so, and when many of them got the virus, they were allowed to go back, which meant that the remote countryside of India also got affected by the virus in subsequent months.

The next problem has been the lack of political will to address the problem. Most of the governments in India were more concerned with managing the press' reporting these events. Rather than actually working to help these laborers with food or transport facilities, various states ruled by different political parties used the crisis to demean themselves and each other by fighting over these issues. Most of them claimed through media and government press briefings that they had been doing a lot but that others are not cooperating.

At another level, it has also been seen that the central and state governments of India, rather than giving priority to the issue of informal sector labor forces and their suffering, used this crisis to announce big economic reforms. These announcements had to do with many nonemergency sectors such as in defense, space and labor to promote domestic and overseas capital investment in the country. The measures were so numerous that the Finance Minister had to announce them in four days in relay press conferences. These reform measures might be important and needed but they could have waited for a few more months and immediate priority should have been given to the informal sector and poor people in the Indian economy. It was not appropriate to use this crisis to dilute the labor laws as was done by a few states of India that further worsened service conditions of the millions of laborers who had already been working under abject working conditions. The Uttar Pradesh and Madhya Pradesh governments suspended most of the labor laws for three years through issuing ordinances. The changed laws make it possible to require more than 8 hours a day of work and in a way put laborers at the mercy of their employers. The Gujarat government has given notice that no overtime will be paid to the workers. The Rajasthan government has also made similar changes in labor laws.

Ironically, however, the effect of the pandemic on the informal sector of India along with insufficient government measures have also brought some positive changes that might be helpful in the medium and long term. According to a noted Indian journalist, P. Sainath, suddenly the middle and upper classes of urban India - who were oblivious of the informal laborers' plight and used to live their secure lives in cities - discovered the existence of the informal labor class and their inhuman working conditions. Actually, many of these urban well-to-do people got to know for the first time how many people there are in the informal sector, how many of them are migrant laborers, how much average wage they receive and how inhuman their living conditions are in both urban and rural areas. Although, the discovery might have been made largely because of their selfish concern that these informal workers might cause damage to their stable lifestyle, the discovery may lead to a much more informed debate and discussion about reforming the informal sector of the Indian economy. Definitely the crisis has made the informal sector and people involved in them visible to the public consciousness.

As articulated by the Women in Informal Employment: Globalizing and Organizing (WIEGO), the impact of the crisis must be seen from a framework of three Vs: visibility, validity and voice. The framework demands that if informal labor related reforms have to take place, there must be efforts to make this work force visible, recognize their validity and they must be given a voice. In normal situations these objectives could have been sought by mobilizing social movements, educating and making people aware by different means. However, a crisis like the Covid-19 pandemic has helped in the quest for some of these objectives. According to Kate Magher of the London School of Economics, the pandemic has led to increased visibility of the informal labor. All these laborers already had social, political, economic and other vulnerabilities, and their vulnerability was there for decades, but it was not a political issue. However, when their vulnerability made middle and upper classes also vulnerable, suddenly the larger society became concerned about it. It is important to note that the visibility might not last again, once the crisis subsides or crisis linkages are disconnected there could be apathy about the issue in the larger society. However, this is definitely an opportunity and the visibility must be sustained. Actually, the pandemic has also shown that the sense of insecurity among these laborers is quite different than others. While the larger society is concerned about corona infection and related health risks, the most important priory of the informal laborers has been hunger and

livelihood. Their own risk assessment is quite different from what the state and mainstream population think about their threat and it could be used as a starting point to ameliorate their working and living conditions.

The Covid-19 pandemic has also underlined the importance and validity of the informal labor force in our economy and lives. Suddenly, people realized that taxi drivers are as important as public transport, local fruitsellers and street vendors are as important as market traders, and in a crisis situation like this, temporary health workers are as important as formal health workers. Suddenly, there is a lot of attention, appreciation and recognition of sanitation workers, ASHA workers, Aanganwadi workers, electricity workers, power sector workers and factory workers in our daily lives. However, it also must be admitted that most of this recognition has still to translate into actual material benefits to these laborers. Their salary and other incomes have not been raised significantly and there has just been rhetoric to honor them with words like 'corona warriors' and lighting lamps for them. The policy framework to recognize their contributions must be followed with economic remuneration to improvement their lives. Their job security, social support and other mechanisms must be built and overhauled if any significant change is to be expected in their lives. There are also cases in which these workers were harassed, beaten up and punished when they expressed and acted according to their own priorities and wishes, including their attempts to move to their hometowns. In contrast, the middle class does not have to face such restraints and treatment from police and administration.

It is also important to note that at least because of the crisis, for the first time, various formal media and social media have raised their voices. Generally labor unions, advocacy groups and NGOs are meant to give these informal workers voice but amidst the pandemic, their voices became audible probably for the first time, via other media. Thus, in terms of visibility, validity and value, the informal labor and its state have become more prominent but the problem is that it might not be sustained beyond a certain point because formal mechanisms to sustain these issues are missing in the Indian society.

5. Conclusion

The Covid-19 pandemic has indeed created huge challenges for informal laborers in the Indian economy. Even though government measures have been introduced, they have been neither sufficient and timely nor well thought-out. Structural problems and long-embedded disadvantages have further complicated the situation. However, the crisis has also brought an opportunity as a lot of attention has been drawn to this sector and there might be pressure on the state to have a comprehensive policy to revamp the situations. On a long-term basis, the informal sector and labor in this sector must be carefully geared up to self-sustained growth behavior that does not remain perennially dependent on government support. Such efforts must be integrated into economic policies and measures such as poverty reduction. Survival strategies must not be considered as sufficient or the final goal. Actually, the Indian government in the last six years has tried to formalize the labor force in India, and between 2015 and 2018 around 7 million jobs have been formalized. It has been done through introduction of Employee Provident Fund reforms, Fixed-Term Contract reforms, Goods and Services Tax (GST) reforms, Skill India, demonetization and Maternity Benefit reforms. There are estimates that another 11 million jobs would be further formalized by 2021. The Covid-19 pandemic has been instructive that such formalization must be augmented and hastened.

Furthermore, the dichotomy between social support for the informal labor sector and productive initiatives must be bridged, which could be done by providing help in stimulating productive development of small and micro enterprises by providing them market access as well as resources. There must be also concrete measures to ensure the social well-being of the informal workers. Regulatory frameworks also must be reformed to create an integrated economic process and provide incentives for formalization of labor. It is advisable that amidst the pandemic, the government must give the highest priority to the poor and informal workers so that their livelihoods are not threatened but at the same time, structural limitations must be addressed to make this marginalized section a source of strength rather than weakness in the Indian economy.



Impact of COVID-19: Focusing on Remittance Flows to Pakistan

PART 3

Junaid Ahmed Senior Research Economist, Pakistan Institute of Development Economics KIEP Visiting Scholars Program

Visiting Scholars' Opinion Paper

Crisis and Fragility: Economic Impact of COVID-19 and Policy Responses

Impact of COVID-19: Focusing on Remittance Flows to Pakistan

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1. Context

Over the past decades, the economy of Pakistan has faced challenges owing to a chronic energy crisis, persistent inflation, food insecurity, the balance of payment crises with dwindling foreign exchange reserve, and higher foreign debt repayments. However, the remittances sent by millions of Pakistani migrants across the world provide a lifeline, such as supporting households and proving crucial in offsetting the pressure on the balance of payments crises. Remittances, the amount of money sent home by migrants, are one of the largest financial flows to Pakistan. The country accounts for a large and growing slice of the remittance market and ranks among the top ten recipients in developing countries. In 2020, the State Bank of Pakistan reported that official remittance of USD 23.13 billion showed a growth of 6.4 percent compared to the previous year (Table A2). However, the actual amount arguably could be roughly 40 percent above this amount, as much of the transfers take place through informal means such as hand carry, *hundi* and other informal sources.

The significance of these remittances inflows into the Pakistani economy can hardly be overstated. To put into perspective, the remittances volume



Labor and Employment

Pakistan



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contributed to about 8 percent in GDP,¹ accounted for more than half (55 percent) of the country's import receipts and covered almost the country's entire trade deficit during the (July 2019- June 2020) financial year.² Similarly, compared to other foreign financial flows, remittance flows surpassing export 22.51 billion,³ foreign direct investment (FDI) 2.56 billion,⁴ and official development assistance (ODA)⁵1.36 billion. Another beneficial characteristic of remittances to Pakistan pertains to their resilient and counter-cyclical nature and act as macroeconomic stabilizers compared to other flows such as FDI and ODA.⁶ Its exhibits that a drop in remittance flows is likely to intensify economic, and social pressures on governments, and the households already struggling to cope even in normal times. Therefore, these transfers are important from the perspective of macroeconomic stability and its ripple effect in improving the livelihood of the people.

2. Overview of international migration and remittances

The first major wave of economic migration from Pakistan started during the 1970's when thousands of Pakistani workers left for the Persian Gulf States to participate in the development of the newly-oil prosperous economies. By 2019, about 6.3 million Pakistani immigrants resided abroad, compared with about 5.0 million in 2010 and 3.3 million in 1990 (Table. A1). The Middle East region, in particular, Saudi Arabia and the United Arab Emirates, is the principal destination with more than half of the Pakistani migrant's, followed by half a million each in United States, United Kingdom and other countries such as Malaysia, Australia, etc. The Middle East hosts the largest Pakistani diaspora, partly due to geographical proximity and cultural closeness, but also attracted the large proportion with medium and low-skilled jobs.⁷ Likewise, migration to these countries

^{1.} World Development Indicator, World Bank, 2020

^{2.} State Bank of Pakistan, 2020

^{3.} Ibid.

^{4.} Board of Investment 2020, Pakistan

^{5.} World Development Indicator, World Bank, 2020

Ahmed, J., & Martinez-Zarzoso, I. 2016. "Blessing or Curse: The Stabilizing Role of Remittances Compared with other Financial Flows". *Journal of South Asian Development*, 11(1), 38-66.

Arif, G. M. 2009. Economic and social impacts of remittances on households: The case of Pakistani migrant's working in Saudi Arabia. Pakistan Institute of Development Economics.

is mostly temporary, and immigrants are generally young males⁸ coming from a rural, low-income family background.⁹ These migrants do not only have sufficient financial resources for distant migration but have limited skills and education to be absorbed in the labour market in the Western countries. On the other hand, migrants to Western countries are often highly educated, come from better-off households.¹⁰ who often bring their families and often settle down permanently in the host country. This type of emigrants predominantly migrate to the United States and the United Kingdom, Australia, and Canada.

Remittances to Pakistan first gained importance in the 1970s (Figure 1), when the oil-exporting economies of Persian Gulf began to import thousands of Pakistani workers to work in the rapidly growing construction work. Remittances increased sharply to reach 10 percent of Pakistan's GDP in 1982-83. The subsequent drop in oil prices and the resulting slowing down of construction projects started to a gradual decline in remittances. The second phase of remittances growth began in consequence of the terrorist attacks of September 11, when remittances to Pakistan more than doubled in the fiscal year 2001-02. The increase in remittances in this phase has been sharp and sustained from major Pakistani migrant communities around the world even unaffected by the financial crisis in 2008, and the recent COVID-19 health crises.

Figure 1. **Remittances flows to Pakistan (1976-2019)** 25,000 12 10 20.000 8 15,000 6 10,000 4 5 000 2 0 0 2006 2008 2010 2012 2014 2014 2016 2016 2018 2018 2020 976 994 966 998 2000 2002 2004 986 988 390 992 82 86 980 6 Personal remittances, received (current million USD) Personal remittances, received (% of GDP) Source: World Development Indicator, World Bank

- 8. Gazdar. H. 2003. A review of migration issues in Pakistan. Paper presented at the regional conference on migration, development and pro-poor policy choices in Asia. Dhaka
- 9. Azam, F. 1991. Labor Migration from Pakistan: Trends, Impacts and Implications. Regional Development Dialogue 12(3): 53-71.; Addleton, J.S. 1992. Undermining the Centre: The Gulf Migration and Pakistan. Oxford University Press

10. Gazder, H. 2003

The growth in remittances is subject to several factors such as the global economic environment which could spur or hinder the growth of remittance flows, emigration rate, economic conditions of the recipient countries, and more importantly, the share of skilled diaspora, and the cost of sending money.¹¹

3. COVID-19 and remittances to Pakistan

The COVID-19 pandemic crises have shaken the world economy and it has costed the world's economy USD 3.8 trillion and left 147 million people unemployed.¹² However, the impact is going to be devastating for developing countries due to the reduction in remittances as the economic shock will be magnified by the loss in inflows. The crisis affects directly the flow of international migrants and the money they send home to help their families. The economic shock caused by the pandemic to the migrantsource economies can have spillover effect to those of the remittancereceiving economies. For instance, for a recipient country where remittances correspond to ten percent of the GDP, a 1 percent decrease in the source country's output gap (the difference between actual and potential growth) will tend to decrease the recipient country's output gap by nearly 1 percent (Barajas et al., 2012).¹³ Therefore, the loss in remittance flows will possibly even worse than during the financial crisis of 2008.

The prospect of remittances reduction by Pakistani diaspora further exacerbate the economic situation triggered by the subsequent global lockdowns that have reduced wages and taken jobs. COVID-19 is expected to have a severe impact on the remittances, particularly from the Gulf States (i.e. Saudi Arabia and UAE). It is because that migrant workers in these countries reside temporarily and have a higher probability of losing their employment due to their low skills and education level (See Figure 2).

Ahmed, J., & Martínez-Zarzoso, I. 2016. Do transfer costs matter for foreign remittances? Economics: *The Open-Access, Open-Assessment E-Journal, 10*(2016-4), 1-36.

https://www.dailymail.co.uk/sciencetech/article-8506463/Covid-19-pandemic-cost-worlds-economy-3-8TRILLION.html

Barajas, Mr Adolfo, Mr Ralph Chami, Mr Christian Ebeke, and Mr Sampawende J-A. Tapsoba. 2012. Workers' Remittances: An Overlooked Channel of International Business Cycle Transmission? No. 12-251. International Monetary Fund.

Figure 2.





Source: Bureau of Emigration and Overseas Employment, 2020

Pakistani workers, particularly those working in the Gulf region, are often employed in the construction and services sectors. According to the BEOE data (that almost entirely comprises placement of overseas Pakistanis in the GCC countries), 38.4 percent of Pakistani workers abroad work as labourer's, 12.2 percent as drivers, 6.95 percent as masons, 4.69 percent as carpenter and 4.06 percent work as a technician, 3.49 percent as electrician, and 3.13 as a steel fixer. Likewise, in United Kingdom the BAME community has been affected disproportionality both health-wise as well as by the job losses due to pandemic crises.¹⁴ This means the British Pakistani community has been affected too as being more prone to the pandemic, hence a low level of remittances are expected from Britain in coming months as currently people are relying on short-term relief provided by the British government to the public. Pakistani people are often employed in the jobs which were most impacted by the pandemic such as transport (taxi services) and small restaurant businesses (take-away foods). Generally, these professions are some of those that could be seriously affected by a prolonged lockdown, and over a thousand migrants are expected to return home, particularly from GCC countries when travel restrictions are eased. Meanwhile, newly recruited emigrants and those who were on vacation at home face the bleak

^{14.} https://firstaidforlife.org.uk/covid19-bame-communities

prospect of losing their jobs. If the crises are prolonged, this would not only impact remittances flows but would put pressure on the labour market already brimming with unemployed youth. Therefore, the estimated drop in remittances together with the fall in other inflows could have an adverse impact on Pakistan's external finances.

For instance, the PIDE has estimated a drop of over 9 percent to 14 percent in remittances flows from favourable to worst-case scenario in the fiscal year 2020.¹⁵ However, the World Bank and ADB predictions are more worrisome as remittances are expected to fall by 23 percent from

According to Dilip Ratha, the World Bank's lead economist for migration and remittances,

"If we are expecting a fall of 20 percent, it's going to be a huge shock, it's going to cause a lot of hardship for countries in terms of macroeconomic management and balance of payments difficulties. But more important is the human story.... The number of people who are going to be impacted --- both for the migrants in host countries and families back home it's going to be huge."

their 2019 level.¹⁶ Similarly, the ADB estimates Pakistan might be among the worst-affected country in Asia, with remittances expected to fall by 26.8 percent in the worst-case scenario.¹⁷

However, contrary to the predictions, the country received a sizeable amount of remittances in 2020, with an increase of roughly 6.4 percent compared to the previous year. Similarly, the inflows of remittances registered a rise of 15.58 percent since the pandemic period (March-August) compared to the same prior period. Likewise, for the same period, the breakdown of the remittances flow from different major sources exhibit a 40.96 percent growth in receipts from Saudi Arabia, followed by UAE 15.03 percent, UK 2.31 percent, and other GCC countries 13.29 percent. However, remittances drop by 21.63 percent from the US compared to the corresponding period in 2019.

 [&]quot;Covid-19 and Remittances," PIDE COVID-19 BULLETIN No. 20, Pakistan Institute of Development Economics, https://www.pide.org.pk/pdf/PIE-COVID-Bulletin-20.pdf

^{16.} COVID-19 Crisis: Through a Migration Lens, Migration and Development Brief 32, April 2020, World

COVID-19 Impact on International Migration, Remittances, and Recipient Households in Developing Asia, No. 148, August 2020, Asian Development Bank

Figure 3.

Pre- and Post-Remittances flows



Source: State Bank of Pakistan

Monthly data depicts a clear picture of the remittances dynamic after the COVID-19 pandemic crises compared to the corresponding month of the previous year (Figure 3). Overall, remittances during the first eight months of 2020 remain above 2019 levels except for May, where remittances declined by roughly 19 percent. Therefore, despite the bleak experience during the pandemic, for many overseas workers abroad, the effect on remittances has proven resilient.

Table 1.

Month to month comparison of remittances to Pakistan from major corridor before and during COVID-19 Outbreak (2019-2020)

					(in percent)
	Saudi Arabia	United Arab Emirates	United Kingdom	United States	Total
Jan19-Jan20	31.61	32.55	-31.73	-43.69	9.86
Feb19-Feb20	38.67	39.28	-31.18	-40.78	15.96
Mar19-Mar20	37.17	35.14	-35.89	-44.77	9.87
Apr19-Apr20	28.12	24.35	-33.08	-41.19	0.84
May19-May20	9.64	-13.3	-38.4	-50.11	-18.97
June19-June20	123.97	45.03	30.11	-34.14	51.14
July19-July20	42.32	9.69	81.72	81.74	36.48
Aug19-Aug20	27.96	1.09	67.18	51.11	24.42

Source: State Bank of Pakistan

To have a closer look, we have compared the flow from major corridors. Remittances flows for February rose by about 15.96 percent from February 2019. Likewise, despite increasing economic challenges, remittance inflows for March, and April remained robust, grew by 9.87 percent, and 0.84 respectively from the same months of 2019. However, in May 2020 to the corresponding month of 2019, remittances were reduced by 18.97 percent, mainly due to fewer remittances received from the major corridor except for UAE. Also, remittances from the Western corridor fall considerably January-May compared to the same months in 2019. In June historic growth of 51.14 percent has been recorded compared to corresponding months, partly driven by the significant increase from Saudi Arabia and UAE. Remittance flow data from Western countries shows a decline during the first six months of 2020 – as well as signs of a rebound in July and August. These high levels continued, with remittances in July and August exceeding for the same months 2019 in total as well as from major remittances corridors.

The recovery in remittances flows could be driven greatly to financially supporting families back home during a pandemic situation. Nonetheless, if the senders are dipping into their meager savings to support families in the origin countries, this may not be sustainable over time and could jeopardize remittances flows further, in particular if the recession becomes prolonged in sending countries.

Remittance flow data from Bangladesh in South Asian regions also suggests an increase during the first six months of 2020. For example, Bangladesh, which is among the world's top origins of overseas migrants, received 11.64 percent more from January to June, compared with the same period in 2019.¹⁸

Various factors may have supported the growth of the remittance despite the COVID-19 pandemic.

1- The effect of recent policy change of sending free remittances under the Pakistan Remittances Initiative (PRI) scheme. They reduce the threshold level from USD 200 to USD 100 to incentivize small and frequent remitters from the Middle East in particular. Also, a decrease in remittances cost doesn't necessarily increase the volume of remittances. Still, the number of transaction increases that previously

^{18.} https://www.bb.org.bd/econdata/wageremitance.php

sent by hand or via the informal channel, *e.g. Hundi.* As depicted in Figure 4, the Pre-COVID remittances costs are not overly different from Post-COVID prices due to timely government efforts in reducing the cost of transfer, except a rise in the cost of sending money from UK in the first quarter of 2020 compared to 2019Q1. More importantly, awareness campaigns were launched regarding the adoption of digital channels, asking the banks to have targeted marketing campaigns about the available digital channels, to promote formal sources for sending remittances.

- 2- After easing of lockdown by many of the source countries in June, overseas Pakistanis were able to transfer accumulated funds. The reason why people were still able to send money during the pandemic period is because COVID-19 fell on holiday season, which meant that people could not travel from Middle East for their annual holidays. Similarly, people from Western countries (UK, Spain, Germany, and Italy) couldn't travel either. Usually people from Western countries travel with their kids and families for holidays to Pakistan or to any other country for leisure (which they could not do so) so this was another saving (short term rise in remittances).
- 3- Remittances flow to Pakistan are more diversified, unlike a significant amount of remittances to Tajikistan coming from Russia, Mexico from the United States, and Turkey from Germany for example.
- 4- Further, due to COVID-19, more remittances were sent by the overseas Pakistanis to support extended families due to the rise of economic difficulties back home. As the pandemic has created a global emergency during the lockdown period which has increased a sense of responsibility for the migrant communities to send money to their loved ones to support them during difficult times, and this increased sentiment could be funded from their emergency personal savings.

Figure 4.





Source: World Bank, Remittances Prices Worldwide (2020)

4. Policy Responses

A number of policy measures can be taken to make sure that the remittance channel is not substantially affected during the current environment of global economic uncertainty. These include:

- 1- Declare remittances an essential financial service. Thus, to resume operations amidst the pandemic, allowing migrants to send funds following the health safety protocols.
- 2- To keep remittances in motion during lockdowns and limited mobility, the government needs to further strengthen the digital capacity, thereby to facilitate more and more digitalization of remittance transfer for both senders and receivers. This will help to create less

disruptions and minimize the damage in any future global pandemics or natural disasters. It is pertinent to mention that those with limited digital access are often the ones who depend the most on these flows. These people either send this through Hundi or carry back when they travel. To counter this, the government requires to invest in capacity building such as financial literacy and digital skills.

- 3- The government can discuss with authorities of the Gulf States, and other countries, the rights of workers whose visa or job permits expire due to travel restrictions and the payment of pending pays and dues of those who lose their jobs. Efforts on these lines will be necessary to ensure the well-being of the burgeoning overseas Pakistani community, which has become one of Pakistan's key assets.
- 4- Another necessary intervention is a program to improve the skills level of waiting and potential migrant workers to help them transition to viable and desirable jobs in different countries. In this respect, the National Vocational & Technical Training Commission (NAVTTC) Pakistan should play a pertinent role to meet skill demand of the workforce both at home and destination countries.
- 5- To ensure the welfare of returning migrants, the government must make considerations for them in different social safety net programs.

5. Conclusion

Remittances to Pakistan have played an important role in the stability of the economy. The flows of remittances helped cushion the economy against a severe current account deficit. They have not only neutralized the balance of payment problems but have also helped to improve the external debt situation. Remittances also helped to reduce poverty among migrants' families. Therefore, the reduction in remittances can have significant ripple effects on economies and vulnerable communities, resulting in a decrease in productive investment, consumer spending, and access to education and health services.

During the ongoing COVID-19 pandemic, a large part of the global economy had to be partially or entirely closed down as a part of the

preventive lockdown. This led to slowing down of economic activity in many developed economy and loss of millions of job. Concerns were expressed that international migrants may be among the worst hit, which in turn might amplify the economic effects of the pandemic on the developing countries dependent on international remittances. This pattern was observed in a number of major remittance receiving countries. However, contrary to the expected reduction in remittances, flows to Pakistan have increased during the pandemic compared to the previous year. This owes to a number of factors including policy measures taken to reduce the cost of remitting, promotion of digital transfer platforms, enhancing ease of regulation, and source country diversification. It provides relief to the already under pressure economy in sustaining the foreign exchange. Further efforts towards encouraging digital payments, controlling informal inflows and focusing on the improvement of the skill set of labour force can help sustain this beneficial trend.

Appendix

Table A1.

						_
Year	Saudi Arabia	United Arab Emirates	United Kingdom	United States	Total	
1990	556.715	158.71	228.321	91.889	3343.328	
1995	570.555	225.75	267.177	159.793	3345.394	
2000	586.225	305.782	310.526	229.151	3401.303	
2005	724.16	383.831	380.338	261.537	3902.648	_
2010	938.913	836.31	460.473	302.798	4992.279	
2015	1187.817	913.855	532.77	376.432	5910.36	
2017	1343.737	950.145	529.324	370.353	5978.635	_
2019	1447.071	981.536	605.016	406.509	6303.286	

Migrant stocks in major destination in thousand (1990-2019)

Source: United Nation Department for Economics and Social affairs UN-DESA, 2020

Table A2.

Percent Change in remittances flows from Source Countries

	FY2019	FY2020	% Change
Total	21739.4	23132.31	6.41
USA	3309.08	1742.83	-47.33
U.K.	3412.31	2569.02	-24.71
Saudi Arabia	5003.01	6613.45	32.19
U.A.E.	4617.27	5611.79	21.54
Bahrain	340.18	417.14	22.62
Kuwait	725.77	738.61	1.77
Qatar	385.94	760.2	96.97
Oman	667.17	994.25	49.02
Germany	123.53	392.18	217.48
France	61.4	240.36	291.47
Netherland	6.83	65.73	862.37
Spain	150.94	329.68	118.42
Italy	111.15	361.26	225.02
Greece	49.62	145.09	192.40
Sweden	16.95	44.87	164.72
Denmark	15.81	45.31	186.59
Ireland	51.15	75.43	47.47
Belgium	21.65	78.58	262.96
Malaysia	1551.74	226.5	-85.40
Norway	43.47	69.67	60.27
Switzerland	31.07	31.13	0.19
Australia	246.04	339.81	38.11
Canada	213.03	313.42	47.12
Japan	22.96	66.42	189.29
Others Countries	561.33	859.58	53.13

Source: State Bank of Pakistan, 2020



Economic Impact of COVID-19 on Employment, Migration, Remittance and Poverty in Nepal: Policy Responses

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KIEP Visiting Scholars Program

Visiting Scholars' Opinion Paper

Crisis and Fragility: Economic Impact of COVID-19 and Policy Responses

Economic Impact of COVID-19 on Employment, Migration, Remittance and Poverty in Nepal: Policy Responses

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1. INTRODUCTION

The world economy was functioning smoothly till December 2019. World output per annum grew by 3.0 percent while the GDP of emerging economies such as China and India grew by 6.1 percent each by that time. It was projected by IMF that the world's GDP would grow by 3.4 percent in 2020 (Bank, 2019). A novel coronavirus that originated from Wuhan, a city of 11.3 million people in Central Hubei province, spread to all the provinces in mainland China and rapidly reached overseas. There were 31,490,644 coronavirus cases throughout the world till September 22, 2020, while the death toll climbed to 969,367 and around 23,120,798 people recovered. Countries like the USA, Brazil, India, Russia, China, the UK, etc., were among the countries with maximum cases. The World Health Organization (WHO) declared the situation "a pandemic". Along with the intense spread of COVID-19, the world economy began to decelerate too. The intensification of this virus got elongated from the eastern to western continents of the world. The leading economies of the world then revised the growth of the world economy forecast, which was said to be about 3.0 percent, to 2.4 percent for 2020. It was projected that most major economies will lose at least 2.4 percent of the value of their GDP during the year 2020 (Duffin, 2020).



Labor and Employment

Mepal



2020

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The rapid transmission of the virus is linked to the globalization of the world economy and the advent of global travel. It has triggered a public health emergency and an unexpected economic shock. Stock markets across Asia have tumbled, and China-centered global supply chains are collapsing. Travel bans and lockdowns have disturbed life on a daily basis. Similarly, unemployment and income inequalities are also rising along with it (Wignaraja, 2020). COVID-19 is disrupting tourism and travel, supply chains and labor supply the most. Uncertainty is driving negative statements here, which will ultimately also affect economy's trade, investment, output and growth (Menon, 2020).

South Asia shares similar institutional roots but the economy is vastly diverse in sizes and complexities. If we talk about India for instance, it is a very diverse country when it comes to its population of 1.35 billion people; Maldives is an archipelago of an 1,200 islands with less than half a million people; Bhutan and Nepal are landlocked nations with 0.7 million and 29.4 million populations respectively; Sri-Lanka is an island of 21 million people; Bangladesh is the largest delta with over 700 rivers and 165 million people. Thus, South Asia becomes the most densely populated region in Asia (Goretti, Kihara, & al, 2019). Given its size, population, market, GDP and location at center of SAARC, India plays a critical role when it comes to regional development. India is the world's sixth largest economy eying for a GDP of \$5-6 trillion by 2020 (Perera, 2019). The World Bank opines that the prospects of South Asian regions are better than they seem. Globalization has been good for development and trade has been crucial for poverty reduction (Hasan, 2019). South Asia is least integrated in terms of trade and connectivity as compared to the rest of the world. Associations like the EU, NAFTA, and BRICS are extensively successful when it comes to trade within the member countries. However, the platform of SAARC which was developed by South Asian countries is still not effective in developing trade relations within the region as only 7 percent of the exports are within South Asia (Ahmed, Javaed, & al, 2019).

Table 1.

	Real GDP Growth (Annual Percentage Change)			Infla (% (Con	ation Chang sume	e in Price)	Current Account Balance (% of GDP)				
	Actı	ıal	Proje tions	ec-	Actu	ıal	Proje tions	ec-	Actu	al	Proje tions	C-
Country	′18	'19	'20	′21	′18	′19	'20	′21	'18	′19	'20	'21
Afghanistan	1.8	2.9	-5.5	1.0	0.6	2.3	4.7	4.5	13.0	8.6	4.9	5.8
Bangladesh	7.9	8.2	1.6	1.0	5.6	5.7	5.5	5.6	-2.6	-2.7	-2.2	-0.8
Bhutan	3.8	3.9	1.5	1.8	2.7	2.6	3.1	3.5	-19.5	-23.1	-21.3	-20.2
China	6.6	6.1	1.0	6.9	2.1	2.9	3.0	2.6	0.4	1.0	0.5	1.0
India	6.1	4.2	-3.2	3.1	3.4	4.5	3.3	3.6	-2.1	-1.1	-0.6	-1.4
Myanmar	6.8	6.3	1.5	6.0	5.9	8.6	6.2	6.3	-4.2	-2.0	-4.7	-3.9
Nepal	6.7	7.0	1.8	2.1	4.1	4.6	6.7	6.7	-8.1	-7.7	-6.5	-6.2
Pakistan	5.5	1.9	-2.6	-0.2	3.9	6.7	11.1	8.0	-6.3	-5.0	-1.7	-2.4

Selected Asian Countries' GDP Growth, Inflation and Current Account Balance

Source: (ICIMOD, 2020)

The World Bank has projected that the growth of developing countries in South Asia will decline to 1.3 percent in the baseline and to negative 2.8 percent in the lower- scenario in 2020 from the estimated 4.7 percent in 2019 (BS, 2019). Selected Asian countries' annual GDP growth was promising in 2019. For example; Bangladesh, Nepal, Myanmar, India, China, etc., recorded 8.2 percent, 7.0 percent, 6.3 percent 6.1 and 4.2 percent growth of GDP in 2019. Due to COVID-19, these countries' annual GDP growth (projected) will shrink and will remain at 1.6 percent, 1.8 percent, 1.0 percent and -3.2 percent respectively in 2020. However, Asian countries such as China, Myanmar and India will likely recover from the COVID-19 affected economy and the GDP figure will stand at 6.9 percent, 6.0 percent and 3.1 percent respectively in 2021 (See Table No. 1).

The ongoing novel coronavirus outbreak will have a significant impact on developing Asia's (including the South Asian economy) economies through numerous channels; including a sharp decline in domestic demand; lower business and tourism, travel, trade and production linkage; supply disruptions and health effects (MD, 2020). Traditional service sectors such as tourism, retail, hospitality and civil aviation, and some labor-intensive and supply-chain-based manufacturing are facing an immediate hit, resulting in increased layoffs and unemployment (ESCAP, 2020).

The vast majority of workers in South Asia earn their livelihood through the informal economy, often depending on daily wages. ILO has assumed that the informal sector accounts for 80 percent of total employment in South Asia. They include street vendors, sanitation workers, cleaners, tea plantation workers, cooks, fisherfolk, porters, and domestic workers, many of whom are internal as well as external migrant workers and live far away from their families (AI, 2020). For the majority of South Asian countries with large numbers of overseas workers, remittances would slow down due to layoffs and delay in salary payments abroad. Lower overall domestic consumer demand will have a negative impact on production and employment as well.

2. COVID-19: Its Impact on the Nepalese Economy; Focus on Employment, Migration, Remittances and Poverty

2.1. COVID-19: Nepalese Economy and Growth

Nepal is a primarily agricultural country, with agriculture providing employment for more than two thirds of its population and contributing to one third of its GDP. Agriculture represents the large sector of the economy and provides a principal livelihood for more than 60 percent of working adults. The industrial sector's stake on Nepal's GDP is hardly 16 percent, where most of the industries are clustered in Terai, and inner Terai regions. Nepal has industries like food processing, assembly, cotton, iron, soap, shoe, liquor, garment, handicraft, ceramic, etc. Of the total labor available in the market the industrial sector is accumulating fewer labors annually. With the growth of tourism in Nepal, the tourism business has flourished gradually within the last decades. This sector is also employing some portion of labor available in the market annually. Additionally, foreign-invested enterprises are also recruiting some portion of labor in construction, energy-based, IT, services, mining and so on. Nepal witnessed a rapid urbanization trend from 2000 onwards. As a result, more unemployed youth as well as adults migrated to various cities to engage themselves in construction work. Thus, construction, transport and allied service sectors also accumulated an increased labor force in Nepal. The opening up of travel agencies, private offices, schools, hospitals, recreation centers, parlors/spas, etc., have further digested a few portions of unemployed youths.

Table 2.

Economic Impact of COVID-19 Pandemic on Nepal (Constant Price NRs Million)

S.N	Sector	Scenario I	Scenario II	Scenario III
1.	Agriculture	1069.8	1663.7	2733.5
	Loss as percentage of sector GDP	0.4	0.6	1.0
2.	Industry	1721.4	3552.2	4234.5
	Loss as percentage of sector GDP	1.3	2.6	3.1
3.	Service	5763.9	8640.1	9982.0
	Loss as percentage of sector GDP	1.2	1.8	2.1
4.	Total Loss	8555.1	13856.0	16950.1
5.	Total Loss as percentage of GDP	1.0	1.6	2.0

Source: (ADB, 2020)

It was projected earlier that the Nepalese economy will grow by 7 percent plus in 2020. Nepal has been severely hit by COVID-19; thus projected economic growth will not be fetched by the end of 2020. It is expected that Nepal will witness the loss in its total GDP from 1.0 percent to 2.0 percent (Scenario I to III) due to the coronavirus outrage. Under scenario I (general condition), the agriculture, industry and service sectors are expected to record a loss of 0.4 percent, 1.3 percent and 1.2 percent in GDP respectively. Similarly, under scenario II (moderate condition) Nepal may lose 0.6 percent, 2.6 percent and 1.8 percent of the agriculture, industry and service sectors' GDP. Likewise, under scenario III (worst case) Nepal may lose 1.0 percent, 3.1 percent and 2.1 percent of the agriculture, industry and service sectors' GDP as projected by ADB. Thus, it is projected that these sectors' GDP will fall from 0.4 percent to 3.1 percent of GDP in the case of general, moderate and worst-case scenarios (See Table No. 2). ADB has thus forecast that GDP will drop by -0.463 percent (US \$42.2 billion loss) in the worst-case scenario of COVID-19 in 2020 for the majority of developing countries in Asia. This may be applicable to Nepal as well. Thus, the Nepalese economy will hardly grow by 2.5 percent in 2020 due to COVID-19. The Central Bank of Nepal mentions that Nepal will record a loss of NRs 168 billion worth of GDP due to the COVID-19 pandemic (NRB, 2020).

Post COVID-19 vs. Nepal's Economic Indicators (NRs in Billion)								
	2019 (M	id-month	1)	2020 (Mid	-month)			
Particulars	March /April	April /May	Ma /June	February /March	March /April	April /May	May /June	
Inflation	4.4	5.3	6.2	6.7	6.7	5.9	4.5	
Exports	8.6	8.7	9.3	9.9	3.9	3.3	5.9	
Imports	112.5	116.5	121.7	120.6	58.3	42.6	75.7	
Tourism Income	7.1	9.1	5.4	5.1	1.7	0.9	1.3	
Remittance Inflow	71.0	72.1	73.7	79.2	34.5	53.9	94.0	

Table 3.

Source: (NRB, 2020)

In March/April 2019 Nepal recorded 4.4 percent inflation; this figure increased up to 6.7 percent by March/April 2020 due to COVID-19. An increase in food item prices in the market was the main cause of such trend of inflation. Nepal's export to India and overseas countries was NRs 9.3 billion (US\$ 79.4 million) in May/ June 2019, which rose to NRs 9.9 billion (the highest) (US\$ 84.5 million) in February/ March 2020. Due to the COVID-19 effect (lockdown, closure of border, halt in international flights, etc.), the export of Nepal to India and overseas countries dropped to NRs 3.3 billion (US\$ 22.8 million) in April/May 2020. Similarly, Nepal's import figure from India and overseas countries was the highest, i.e. NRs 121.7 billion (US\$ 1.1 billion) in May/June 2019; due to the COVID effect the import figure dropped sharply to NRs 42.6 billion (US\$ 363.7 million) in April/May 2020.

Due to continuous lockdowns, export as well as import figures also decreased to NRs 3.3 billion (US\$ 28.2 million) and NRs 42.6 billion (US\$ 363.7 million) respectively in April/May 2020, whereas this figure was NRs 8.7 billion (US\$ 72.3 million) and 116.5 billion (US\$ 994.7 million) respectively for the same months of 2019. Similarly, income from tourism and remittances inflow remained low in March, April and May 2020 due to COVID-19 in Nepal. For example, tourism income stood at NRs 0.9 billion (US\$ 7.7 million) in April/May 2020 while remittance inflow remained the lowest, i.e. NRs 34.5 billion (US\$ 294.6 million) in March/April 2020 due to the COVID-19 effect (See, Table No. 3).

Continuous lockdowns created havoc especially among producers due to supply side hurdles. Nepalese farmers and entrepreneurs were discouraged from producing everyday goods such as vegetables, milk, meat, poultry, fish, etc. If these shutdowns don't find an alternate way for the produced goods to be supplied in the market, an additional job loss among the people involved will create an impact on the economy itself. One can also expect rampant rural un-employment and frustration especially among rural entrepreneurs and farming families. Thus, the level of income may degrade and poverty may rise again in Nepal.

2.2. COVID-19: Impact on Employment

Economic sub-sectors like agriculture, forestry, fishing, wholesale, retail, internal trade, repairs of vehicle and motorcycle; manufacturing; construction, etc., employs more workable Nepali manpower in Nepal. Other socio-economic sub-sectors such as education, accommodation, food and services, human health and social work activities accommodate less manpower. In Nepal, some 21.5 percent workers are engaged in agriculture, forestry and fishing followed by wholesale, retail and internal trade, which has 17.5 percent workers and manufacturing has 15.1 percent workers. Other sectors such as education; accommodation, food and service; human health and social works accommodate 7.9 percent, 5.2 percent and 2.4 percent labor forces in Nepal respectively (See Table No. 4).

Table 4.

Employment by Economic Sector

Sector	Number of Employed (In Thousands)	Employed percentage	Average weekly work hours
Agriculture, Forestry and Fishing	1523	21.5	36
Manufacturing	1872	15.1	45
Construction	978	13.8	50
Wholesale, retail and Internal Trade, repair of vehicles and motor cycles	1240	17.5	46
Accommodation, food and services	371	5.2	53
Education	358	7.9	40
Human health and social work activities	171	2.4	46

Source: (Koirala, 2020)

Almost all the sectors of Nepal's economy have been badly hit by COVID-19. A slump in the economy affects employment. According to a study by the National Planning Commission of Nepal, it is estimated that more than six million people will be unemployed because of this ongoing pandemic (Bhatta, 2020). Data from the Central Bank of Nepal (Nepal Rastra Bank) suggests that during the lockdown that lasted three months (March-May), four percent of industries were in full operation, 35 percent were partially operational, and 61 percent were closed. During this period, there was a 22.4 percent layoff in industries and businesses in Nepal. Two thirds of manpower hired as temporary staff or on a contract basis lost their jobs. The sectors of hotels, restaurants, transport and education suffered the most from the COVID-19 pandemic (NRB, 2020).

In Nepal, about 55 percent of the population of 10 years and above is economically active, which holds 17.3 million as the workable population in 2019 based on ILO estimations (DTUDA, 2019). There are nearly 3.7 million workers earning their livelihoods in the economic sectors deemed most at risk to experience a significant (medium to high) reduction in output as a result of COVID-19. Nearly four in every five workers are the most vulnerable to disruption and are engaged in the construction, manufacturing and trade sub-sectors. It is estimated that between 1.6 and 2.0 million jobs are likely to be disrupted in Nepal in the current crisis either with complete job loss or reduced working hours and decreased wages (ILO, 2020).

In Nepal's case, a nationwide lockdown, from 24th of March till the end of July, placed large restrictions on the movement of people and goods throughout the country. This led to work stoppages and income losses for Nepalese labor migrants to India. The economic shock created by COVID-19 and lockdown is touching a highly exposed population. The majority of Nepal's labor force of 62 percent or 4.4 million people work in informal sectors and 59 percent of enterprise laborers are in microenterprises, often with low or non-existent social insurance coverage (WFP, 2020). It was revealed that the majority of informal sector workers lost their jobs; they had to return to their villages due to the continuous lockdown. If we take the case of some 1.7 million construction sector workers; up to 95 percent of them lost their jobs (TAF, 2020). Likewise, low production from agriculture will distort its contribution to generate more GDP, which in turn would also retard the whole GDP growth process in Nepal. The selfemployed manpower involved in crop cultivation, horticulture, pasturing, and animal husbandry business will also be adversely hit by the continuous closure. Also, most of the hotels and restaurants will be closed for a longer time and will ultimately force people to either quit jobs or employers to fire staff. Farmers will be frustrated and discouraged to produce agro-products needed for daily consumption. Thus, production of agro-goods may drop in coming years; this will result in further unemployment, magnification of poverty and food insecurity in Nepal.

2.3. COVID-19: Impact on Migration and Remittances

While physical remoteness, less concentrated economic activities, low population density and low level of urbanization provide source protection against the spread of the virus, many Least Developed Countries (LLDCs) are still vulnerable- Lao ADR, Kyrgyzstan, Nepal, Republic of Moldova and Tajikistan, among others, as sizeable shares of their populations (up to 45 percent in some cases) live and work abroad. As migrant workers are often compelled to live in congested, squalid quarters in the host country and as many of them have been returning to their home countries in the past couple of months, larger outbreaks in these LLDCs remain a distinct (UN, 2020).

Table 5.

Maior Destination Countries of N	lepali Migrating [.]	for Work ((2019)
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Destination Country	Number of Workers	Percentages
India	969,113	34.5
Malaysia	468,556	16.7
Qatar	436,387	15.5
Saudi Arabia	352,135	12.5
United Arab Emirates	227,242	8.1
Kuwait	82,630	2.9
South Korea	50,483	1.8
Japan	34,055	1.2
Bahrain	27,873	1.0
Australia	15,579	0.6
Oman	8,520	0.3
Israel	3,665	0.1
Lebanon	861	0.0
Other countries	135,140	4.8
Total	2,812,289	100.0

Source: (CSLM, 2020)

Foreign labor migration has been an ultimate dream for thousands of youths across the nation. As of now, more than five million work permits for foreign employment have been issued, with the most popular destinations being Malaysia and Gulf countries like Qatar, UAE and Saudi Arabia. In these countries, 16.7 percent, 15.5 percent and 12.5 percent Nepali labor are working. Besides, 8.1 percent, 2.9 percent, 1.8 percent and 1.0 percent Nepali migrant youths are working in the United Arab Emirates, Kuwait, South Korea and Japan (See Table No. 5). Since the introduction of the Employment Permit System, there has been a growing trend and competition to travel to South Korea for work among the Nepali workable youths. A significant number of migrant workers are also working in Japan and more than 100 destinations around the world (Bhattarai & Senchurey, 2020).

Although there is no official record in terms of the number of Nepali migrants residing in India for employment, it is estimated that there are an estimated 15,00,000 Nepali migrants in India, most of whom are engaged in service sectors. The majority are represented in informal and seasonal works. Thousands of Nepalese working in Indian cities and the countryside have travelled back long distances with a hope to return to Nepal, only to find themselves stranded on the India-Nepal border without any further notice due to the travel restrictions placed by the Government of Nepal soon after the outbreak of the coronavirus. While efforts have been made to solve this issue, thousands remained stranded on the border without adequate food or shelter (TKP, 2020).

In 2018, Nepal received US\$ 2,227 million remittance from Qatar followed by Saudi Arabia (US\$ 2,039 million), India (US\$ 1,337 million), the UAE (US\$ 136 million), Kuwait (US\$ 301 million), Malaysia (US\$ 745 million), South Korea (US\$ 45 million) and Bahrain (US\$ 16 million), respectively (See Bar Diagram).



The country's Central Bank, Nepal Rastra Bank reported that Nepal received US\$ 7.2 billion worth remittances in 2018/19; this figure was US\$ 5.1 billion in the first nine months of fiscal year 2019 (i.e., Mid-July 2019 to Mid-April 2020) (NRB, 2020). The National Account Statistics published by the Central Bureau of Statistics on April 29, 2020, estimates that the share of remittances in Nepal's GDP will fall sharply to 19.01 percent in the current fiscal year due to COVID-19. As per the World Bank's preliminary estimates, remittances to

Nepal are projected to fall by 14 percent in 2020 (IIDS, 2020).

In Nepal, like external migration, internal migration also contributes significantly to households, as many rural poor populations migrate to urban centers for their livelihood. The COVID-19 pandemic has placed many internal migrant workers in dire conditions; many have lost their jobs since both formal and informal work has been imparted and many have been unable to return home due to disruptions in public transport services. It is estimated that more than a million informal sector workers have lost their jobs temporarily or permanently (Awasthi, 2020). FAO argues that "as the COVID-19 spreads across regions with large informal economies (sub-Saharan Africa, South and Southeast Asia and Latin America), it is therefore expected that more informal workers will lose their jobs and face extreme poverty and food insecurity (FAO, 2020)."

2.4. COVID-19: Impact on Poverty

Nepalese living below the poverty line are highly vulnerable to idiosyncratic shocks. When we use a higher threshold of US\$ 2 a day as a measure of poverty, a measure internationally benchmarked for moderate poverty, Nepal's poverty incidence more than doubles. For example, in 2010/11, the poverty rate (when measured using the poverty line of US\$ 1.25 per day) stood at 24.8 percent, but when the threshold is increased to US\$ 2 per day, the poverty rate expands to 57.3 percent (UNDP, 2020). This means that any kind of shock - natural, political, economic, health or any combination of these (such as the COVID pandemic) is likely to push a large proportion of Nepalese towards poverty.

Nepal's poverty is partly related to the large segment of the population employed in the informal sectors. Informal sector employment accounts for 84.6% of total employment. Such workers are not entitled to sick pay or health insurance and are ineligible for social security benefits too. The lockdown brought by the pandemic has affected the welfare of the poor who are vulnerable through several channels. First, the most obvious, is through the loss of income and jobs of working adults. The poor often rely on labor income and live hand to mouth. However, halt of businesses, pay cuts and job losses increased the probability of falling back into poverty. As the economy is currently stagnant, it will take several months or even years before business or internal economic activities return to normal. Secondly, with income cuts and job losses, the poor are likely to sell assets to cope with shocks. It is obvious that Least Developed Countries (LDCs) have limited capacity and preparedness to handle the economic fallout due to a crisis like COVID-19 and are likely to face significant hardships. Initial estimates suggest that these disruptions could potentially contribute to increased global poverty, with the number of poor and hungry people rising by two percent (Tembo & Adhikari, 2020).

3. Policy Responses on COVID-19: Reference to Employment, Migration, Remittances and Poverty

The Government of Nepal announced a relief package to combat the effect of the COVID-19 pandemic. Selected measures under the relief package were (MOF, 2020):

- Employers will have to pay salaries of their workers during the period of lockdown. However, they can utilize welfare funds for such compensation.
- Worker's contributions to social security funds for Mid-March to Mid-April that were to be deposited by employees and employers will now be deposited by the government.
- Information regarding people who could not depart for foreign employment despite receiving permission will be collected. Individuals will be provided employment opportunities through local bodies. They will be registered at the Local Level Employment Service Center and be provided with employment opportunities through the Prime Minister Employment Program.
- The government has requested private house owners to waive off a month's home rent for workers residing in urban areas.
- An insurance package of NRs 2.5 million (US\$ 21.3 thousand) will be provided to health care and security personnel involved in treating and managing COVID-19 patients.

The Government of Nepal has responded to the COVID-19 crisis through both fiscal and monetary measures (TWB, 2020). Firstly, there are immediate health measures aimed at increasing access to testing for COVID-19 infections and establishment of quarantine facilities, as well as a waiver on

custom duties for medical items related to COVID-19 such as masks, sanitizers and surgical gloves. Secondly, to reduce the crisis impact on livelihood, the government has implemented food distribution programs, extended eligibility for the Prime Minister's Employment Programs, and provided discounts on utility (water, electricity, etc.) bills. Third, to provide economic support to firms, the government has deferred the payments of taxes and provided concessional loan facilities to the severely affected sectors. The cumulative cost of such a program is estimated at 5 percent of Nepalese GDP.

The Government of Nepal has also set a counter cyclical expenditure program of US\$ 1.26 billion for fiscal year 2020/21 (ADB, 2020): (i) US\$ 347 million for health and medical support, (ii) US\$ 359 million for social protection for the poor and vulnerable, and (iii) US\$ 555 million for economic support for affected sectors. The program's key objective is to control the pandemic and mitigate its adverse impact on livelihood and employment, especially for the poor and vulnerable including women. On March 1, 2020, the government formed the High-Level Coordination Committee for the Prevention and Control of COVID-19 (COVID-19 High-Level Committee), led by the Deputy Prime Minister and participated by the Ministers of (i) Home affairs; (ii) Cultural Tourism and Civil Aviation; (iii) Finance; and (iv) Health and Population. The key functions of the COVID-19 High Level Committee is to ensure, on behalf of the Cabinet, the implementation of the National Relief Program, provide oversight to Line Ministries on its implementation, and issue other policy decisions related to COVID-19 responses.

Similarly, the Central Bank of Nepal (Nepal Rastra Bank) also announced some policy initiatives in relation to COVID-19 (NRB, 2020):

- To inject liquidity into the economy, the cash reserve ratio for commercial banks, development banks and finance companies has been reduced by 100 basis points to 3.0%.
- Bank rate reduced by 100 basis points to 5%.
- Loans sought for the import, distribution, and sale of medical equipment approved by the Department of Health Services and essential items such as food shall be processed within 5 days of application.
- Workers who could not depart for foreign employment due to the pandemic despite receiving permission earlier shall be eligible for subsidized loans to initiate their own businesses. Once the pandemic ends, they can apply for loans that will be approved within 7 days of application.
Furthermore, the Central Bank of Nepal (Nepal Rastra Bank) has set the period and ceiling of the refinancing facilities to the business and industries affected by the COVID-19 pandemic. Bank and Financial Institutions can ask the Central Bank for as much as NRs 50 million (US\$ 427 thousand) refinancing per client and the amount should not exceed 70 percent of the total refinancing facility margins. The BFIs can lend up to NRs 200 million (US\$ 1.7 million) refinancing for each client. In its monetary policy for the current fiscal year 2020/21, the Central Bank has categorized the refinancing facilities under three topics: micro, cottage and small enterprise refinancing, special refinancing and general refinancing with 2 percent, 1 percent and 3 percent interest rates respectively. Thus, the measures taken by the Central Bank were aimed at providing liquidity support to banks and facilitating credit to the private sector.

The World Bank had approved a fast-track US\$ 29 million COVID-19 Emergency Responses and Health Systems Preparedness Project to help Nepal prevent, detect, and respond to the COVID-19 pandemic and strengthen its public health preparedness. The agreement was signed on April 7, 2020, by the Ministry of Finance and the World Bank. The project will focus on immediate response and preparedness needed to fight the virus. The project provides emergency support to enhance Nepal's capacity to detect cases and ensure prompt contact tracing consistent with World Health Organization (WHO) guidelines and the Ministry of Health and Population, Nepal Protocol (MOF, 2020). Similarly, the IMF Executive Board had also approved the disbursement of US\$ 214 million in emergency financing to help Nepal address urgent balance of payment need created by COVID-19, which is having a severe impact on remittances, tourism and domestic economic activities (IMF, 2020).

4. Policy Implications

Nepal induced a full lockdown since March 24, 2020, initially for 12 days and since then extended it for an additional four-week period and further until June 14, closely following the epidemiological patterns in and outside Nepal, particularly neighboring India. Although Nepal has already closed down its borders with India and China, the transnational migration of workers returning from India elevates the risk of disease transmission. Open borders with less surveillance on the part of government and the

penetration of Nepali and Indian labor along the border has become a major factor of transmission of the virus; it is threatening the rapid spread of the disease within the nation. Considering the risk of COVID-19 transmission, the government of Nepal has initiated various preventive measures. Several districts including Kathmandu are in lockdown where people are asked stay at home except for emergency reasons; dedicated health-desks have been set up at the international airport and on the border checkpoints with India and China. All foreign nationals and returnee migrant workers who enter Nepal must remain at quarantine facilities designated by the Government or self-quarantine at home for at least 14 days (Asim & al, 2020).

The mere formulation of policies either by the Government or by the Central Bank does not have a meaning until and unless there will be support and cooperation from people, political leaders, local government and the stakeholders involved to contain COVID-19. Despite a lockdown for months, Nepal witnessed a tremendous increment in the number of COVID-19 cases, with the death toll at 427 (till September 22, 2020) and transmission of the virus at the community level. The coronavirus death rate is 0.60 %; there are 65,276 (till September 22, 2020) affected COVID-19 patients; some are living in home isolation or are hospitalized while others are in various quarantine and isolation facilities designated by the Government. The Nepalese Government invested a huge amount for the management of quarantine, buying masks, sanitizers, gloves, and medicine, managing health personnel, buying of testing kits, expenses and security throughout the country. Besides the trans-border migration, returnee youth workers from abroad also transmitted the virus in cities, villages and even in the communities where they live. A poor tracking mechanism with weak security checks on the part of government were the main causes of the spread of the coronavirus in Nepal. As the majority of the rural poor population are less aware of wearing masks, using sanitizer or washing hands even with soap, this aided the increase of the coronavirus spread in rural areas. A lack of proper advocacy at grass-root levels further fueled the spread of the coronavirus at the community level in rural areas. Likewise, the reluctance of people towards maintaining social distance or using masks and sanitizers further increased the number of cases.

Managing such extraordinary challenges during the pandemic would also require equally extraordinary manpower and responses. These include large people-centered relief and stimulus programs, as well as community participation and society approaches to be effective. As the government mobilizes resources for mounting the relief and stimulus packages, the objective should be not to go back to the status quo ante that prevailed in the pre-COVID-19 scenario but to build back better by directing the resources to inclusive, sustainable and resilience recovery (ESCAP, 2020). Nepal suffers from an unequal distribution of health care services which makes it hard to reach rural areas, especially in hills and mountainous regions. Most private health care institutions in Nepal are urban-centric, and seem reluctant to show any empathy and commitment to the people during the current crisis (Singh & al, 2020). The government policy responses to the COVID-19 crisis need to include migrants in all short, medium and long-term interventions. This should include supporting stranded migrants, regularizing remittance inflows, providing recovery support for migrant's families who have lost subsistence income and ensuring access to health, housing, education and nutrition (Lando, 2020). As the current situation is beyond the control of non-state stakeholders, it is important for the government to take the lead in terms of supporting migrant workers. The role of government has to be envisioned in several stages; support in destination countries, facilitating safe returns, immediate and longterm integration in Nepal as well as the long-term assurance of safe migration back to countries of destination.

5. Conclusion

With the spread of COVID-19, almost all economies around the world have been affected. It is projected that the world's annual growth might retard and stand at a mere 2.4 percent. High levels of frustration and growing unemployment has been witnessed among the people and this has affected their mental health. It is expected that developing countries will be the ones to be most affected by COVID-19. Asian economies are expected to retard with the COVID-19 effect. Afghanistan, Pakistan and India's GDP growth will remain negative for 2020, with a fall in output, increase in unemployment and increased poverty. The majority of South Asian economies will witness a slowdown in the flow of remittances, which may obstruct their balance of payment position and thereby place stress on macro-economic fundamentals. Nepal's economy will also be affected by COVID-19. Its agriculture, industry and service sectors are expected to decrease by 1.0 percent to 2.0 percent of GDP in 2020. Nepal will record a loss of NRs 168 billion (US\$1.43 billion) worth GDP in 2020. With COVID-19, Nepal witnessed the lowest flow of remittances in March/

April 2020, i.e. NRs 34.5 billion (US\$ 294 million). Inflation remained high during this period and stood at 6.7 percent due to supply side bottlenecks caused by the continuous lockdown.

Almost all sectors of the Nepalese economy have been hit by COVID-19. It is estimated that more than six million working people will be unemployed during and post COVID-19. ILO estimated that between 1.6 and 2.0 million jobs are likely to be disrupted by the pandemic either with complete job holders with reduced working hours or a decrease in monthly wages. The major proportion of the labor force working in informal sectors will be further unemployed with the loss of their jobs; some 95 percent of construction sector workers lost their jobs during the pandemic in Nepal. Labor migration and remittance inflow has also been affected by COVID-19. The Central Bureau of Statistics estimates that the share of remittances in Nepal's GDP will fall sharply to 19.01 percent in 2020 due to COVID-19, whereas the Central bank of Nepal assumes that remittance for Nepal could fall up to 20 percent in 2020. Nepal may face magnification of poverty levels due to unemployment in formal and informal economic sectors; the majority may face a state of poverty and food insecurity. With the income cuts and job loss; the poor working classes are likely to sell their assets to cope with shocks created by COVID-19. As the Least Developed Countries such as Nepal have limited capacity and preparedness to handle a crisis like COVID-19 and its economic fallout, the country is on the verge of facing a severe economic crisis in the year ahead.

To lessen the effect of COVID-19, the Government of Nepal and Central bank (Nepal Rastra Bank) addressed policies/regulations through their annual budget and monetary policy. Employers urged to pay salaries to workers, social security fund provision on behalf of workers, waiver of home rent for workers, opportunities for migrant workers to be employed at the local level, insurance packages for health workers, etc., were provisions set by the Government of Nepal on the front of containing COVID-19. Furthermore, the provision of access to testing for COVID-19, establishment of quarantine facilities, waiver of custom duties for importing COVID-19 related tools/medicines, etc., were also formulated by the Government of Nepal. A counter-cyclical expenditure program worth US\$ 1.26 billion for fiscal year 2020/21 was set by the Nepalese Government. Nepal had obtained US\$ 29 million and US\$ 214 million worth of assistance from the World Bank and IMF to fight against the coronavirus. The Central Bank of Nepal (Nepal Rastra Bank) announced policy initiatives reflecting

COVID-19. Injection of liquidity, lowering of bank rate on loans to import medical equipment and medicine, subsidized loans for stranded workers supposed to go abroad, provision of refinancing for industries and small and medium scale enterprises (SMEs) and liquidity support schemes were the major policy initiatives made by the Central Bank so as to contain the effect of COVID-19.

Despite the efforts on the part of the Government, the number of affected cases increased over the months and stood at 38,561 on the threshold of August. The death rate is fairly higher (0.6%) than the Maldives and Sri Lanka, while alarming death rates have been witnessed in other South Asian Countries such as Afghanistan, India and Pakistan. This indicates the Nepal Government's inefficiency despite having funds rendered by donors and contributions from Banks and Financial Institutions, Charities, INGOs, NGOs, etc., to the COVID-19 Fund created by the Government. A lack of governance and negligence on the part of the Government, Line Ministries/Departments, lagging of proper advocacy in rural areas by concerned Line Ministries/Departments, open border and penetration of migrant laborers from Nepal and India, cumbersome and costly methods of coronavirus testing for the general public, fickle management of returnee labors from abroad affected by the coronavirus, etc., were major causes of the rapid spread of the disease in Nepal. Besides, the reluctance of private health care institutions to show any empathy and commitment to the people and the unequal distribution of health care services were also causes for the magnification of the disease.

With the increment in COVID-19 cases throughout the world, many jobless youths from India and abroad desire to return to Nepal during this pandemic and want to work on nation-building. The Government could use such labor for agriculture extension, animal husbandry, horticulture, sericulture and expansion of infrastructure under the money and food for work program. This could be a boon on food security and the poverty-lowering drive, especially in rural areas. With a concrete road map on the use of abundant labor forces available in the country post COVID-19, Nepal could become a self-reliant economy possessing sustainable characteristics in itself.

Note: <u>-1 US\$ = Nepalese Rupees 117.12</u> <u>-Nepalese Rupees 100 = 990.17 South Korean Won (As of September</u> <u>18, 2020)</u>

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Crisis and Fragility: Economic Impact of COVID-19 and Policy Responses (Employment in Uzbekistan)

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Visiting Scholars' Opinion Paper

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Annotation -

The article examines the state of employment of the population of Uzbekistan during the pandemic and the measures taken to minimize the negative impact on the socio-economic development of the country. In particular, to prevent unemployment and the negative impact of quarantine restrictions on the labor market, the activities of enterprises and the employed population. The measures taken to reduce the unemployment rate, informal employment and support for business entities in Uzbekistan are analyzed.

Keywords: employment, labor market, social security, unemployment, labor relations, informal employment.

Ensuring effective employment of the population in the economy and the rational use of labor resources is one of the main tasks facing any state, which is the key to sustainable economic growth of the country, consistent improvement of living standards and welfare of the population.

The employment rate of the population is the main indicator of the economic development of any country, and the issue of ensuring its effective employment has always been a key factor in socio-economic development. Since a person provides his life needs and opportunities



Labor and Employment

Uzbekistan



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through employment, in many countries this problem is a priority for determining the potential and available prospects of society.

However, there is no country in the world where the labor market is not affected by the negative impact of COVID-19. The rise in unemployment and poverty in the context of the pandemic has become a serious problem even in the most developed countries. Today we will look at the lessons that the coronavirus has taught the labor market in Uzbekistan.

Manufacturing and service enterprises have suspended their activities due to quarantine. Difficulties were faced by workers who earned daily labor in service or catering establishments.

The national goals and objectives of Uzbekistan in the field of sustainable development until 2030 include the implementation of active and passive measures in the labor market, in particular, creation of favorable conditions aimed at ensuring decent work and expanding productive employment of the population, especially youth, persons with disabilities, significantly reduce the proportion of young people who are NEET (Not in Employment, Education or Training), protect labor rights and provide safe working conditions for workers. The issue of increasing effective employment by creating favorable conditions for equal employment for young people and people with disabilities and the expansion of productive employment, as well as equal employment for men and women.

1. Impact of COVID-19: Focusing on Employment Matters in Uzbekistan

The global economy has suffered serious damage as a result of the sharp spread of the coronavirus pandemic across the planet, self-isolation of states, a reduction in trade relations between countries, and the termination of passenger air, rail and road transport. Like other countries, Uzbekistan is also one of the hardest hit countries during the current crisis.

It is necessary to note that 600-700 thousand people appear in the labor market of Uzbekistan annually, and the number of jobs created is up to 500 thousand. Another two hundred are missing. According to the Ministry of Employment and Labor Relations, the total labor force in the country (men 16-59 years old and women 15-54 years old) is 19 million people. Of these, 5.1 million are employed informally, and another two million work abroad. Unemployment has risen in Uzbekistan as a result of the impact of the pandemic, according to a June labor force survey. During the quarantine, 671 thousand people were looking for vacancies.

In Uzbekistan, due to quarantine measures, from March 20, 2020, the activities of about 95 thousand individual entrepreneurs were stopped, 196 thousand enterprises significantly reduced the volume of goods produced and services provided. In a short period, the number of people who applied to employment centers increased to 150 thousand. That is three times more than the period between January-February of this year.

Manufacturing and service enterprises have suspended their activities due to quarantine. Difficulties were faced by workers who earned daily labor in service or catering establishments.

Quarantine measures aimed at preventing the spread of coronavirus infection during the COVID-19 period have had a tangible impact on the labor market. The unemployment rate in Uzbekistan in January-July 2020 amounted to 2 million people or 13.2% of the economically active population. About 550,000 people could not go to work to other countries.¹

The citizens of Uzbekistan working abroad are in a particularly vulnerable position. Organized 311 charter flights have already delivered about one hundred thousand compatriots to the republic. Those who are still abroad are provided with consulting services, legal and social assistance, as well as financial support: it is planned to provide fellow citizens with a onetime financial assistance in the amount of \$40. Migrants who have been unemployed or found themselves in any other difficult situation due to the pandemic can report their problems, including through the sites birgamiz. com and anketa.migration.uz.

Due to COVID-19, the service sector has especially suffered, the share of GDP in 2019 was 35.5%, which accounts for more than 40% of the employed population. The number of citizens in need of work was 1.94 million people. The unemployment rate among the young aged 16 to 30 is high at 20.1%, and 17.4% for women.

In the first half of 2020, and especially in order to mitigate the negative impact of the COVID-19 pandemic on the labor market, labor authorities provided employment promotion services to 588.2 thousand unemployed and unemployed citizens (of which 159.9 thousand are persons under 30 and 229.4 thousand women).

During the quarantine period, 43% of respondents reported a decrease in income, and 29% a complete loss of income. The survey results show

^{1.} Data of the Ministry of Employment and Labor Relations of the Republic of Uzbekistan.

that quarantine has negatively affected the incomes of 72 percent of the population. At the same time, adding to the 13-15% of the population in need of assistance another 30% of the population below the poverty line and 43% of the population with low incomes is likely to complicate the socio-economic situation.²

One of the features of the labor market in Uzbekistan is the rapid increase in labor resources due to the high rate of population growth and the high level of informal employment in the country's economy (Table 1).

able 1. Aain indicators of labor ma	dicators of labor market of Uzbekistan, thousand people ³						
	2015	2016	2017	2018	2019	9 months of 2020	
Employed, total	13058,3	13298,4	13520,3	13273,1	13541,1	13205,2	
Labor resources	18276,1	18488,9	18666,3	18829,6	19007,8	19121, 3	
Economically active population	13767,7	14022,4	14357,3	14641,7	14876,4	14847,7	
Unemployment	709,4	724,0	837,0	1368,6	1335,3	1642,5	
Unemployment rate, %	5,2	5,2	5,8	9,3	9,0	11,1	
Employed in the informal economy	7763,4*	7959,6*	8239,7*	5379,8	5368,2	5618,8	
Share of the employed in the informal sector of the total employed*. in %	59,5	59,9	60,9	40,5	39,6	42,5	

* with those who went to work abroad

The pandemic has mercilessly exposed the weaknesses of the labor market. The activities of both large and small enterprises have been suspended, working hours have been reduced, and personnel are being dismissed. The closure of shopping malls, hotels and restaurants, the cancellation of flights and the shift of businesses to remote work have put many on the brink of collapse. At the same time, the first to lose their jobs are those for whom it was not stable to begin with: salespeople, waiters, kitchen staff, loaders, cleaners.

^{2.} Data of the Ministry of Economy Development and Poverty Reduction of the Republic of Uzbekistan.

^{3.} Based on data of the State Statistics Committee of the Republic of Uzbekistan.

In Uzbekistan, the number of unemployed has increased from 1.35 million to 2 million due to the coronavirus pandemic and the suspension of some businesses. The Ministry of Employment and Labor Relations solves the issue of employment by subsidizing entrepreneurship and attracting people to paid public works.

The informal sector turned out to be more resilient to shocks compared to small and micro-businesses, the report says. After the introduction of quarantine restrictions, an average of 21.8% of self-employed and 24.8% of individual entrepreneurs lost their jobs.⁴

Although the informal sector proved to be more resilient in terms of maintaining employment, quarantine restrictions had a significantly more negative impact on the income of informal categories. As shown by an express survey, almost 60% of self-employed and 64.2% of individual entrepreneurs (IE) have lost income completely or significantly. This is significantly higher compared to workers in the formal sector, where incomes were supported by the state (state-owned enterprises, institutions and organizations) or by small businesses.

Against the background of high-income losses, informally employed categories did not receive assistance during the period of quarantine restrictions. None of the individual entrepreneurs received social assistance. 82% of the self-employed also did not receive any assistance during the quarantine, the survey showed.

The rest (18%) indicated that they or their family members received assistance (cash or in-kind). In the structure of this assistance, the main part was made up of traditional social benefits, while unemployment benefits amounted to only 5%, although they should have been most in demand in the face of a surge in unemployment.

The number of people employed in the official sector of the economy amounted to 5.6 million people (a decrease of 0.2%, or 12.4 thousand people).

Individual entrepreneurs decreased by 167.5 thousand (46.4%) compared to the same period last year, which is a consequence of restrictive quarantine measures. At the same time, due to the involvement of 131.2 thousand people in paid public works, a sharp decline in the number of employed in the formal sector was prevented.

The number of economically inactive population in the first half of the year increased by 4.5%. This indicator increased due to the fact that representatives of the business and services sector, who temporarily

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^{4.} Data of the International Labor Organization (ILO) Office for Eastern Europe and Central Asia.

suspended their activities during the quarantine period, in the course of the survey, spoke in favor of resuming it after the restrictions were lifted, subsequently preferring not to engage in other activities.

2. Policy Responses for Employment in Uzbekistan

On a global scale, unprecedented measures are being taken to combat the spread of coronavirus infection, including imposing restrictions on the movement of people and the suspension of activities of enterprises.

This caused a sharp decline in production and consumption in the largest economies, disruption of global production chains and trade ties, falling commodity prices and deteriorating conditions in the global financial markets.

The economy of Uzbekistan, being part of the global economic system, is also influenced by these factors, which requires the adoption of effective proactive measures to mitigate their negative impact. Particular attention should be paid to supporting and ensuring sustainability of such rapidly developing sectors of the republic's economy as tourism, transport, pharmaceutical and textile industries.

To mitigate the negative impact on the economic sectors due to the coronavirus pandemic and the global crisis, since March 19, 2020, several policies proposed by the President of the Republic of Uzbekistan have been adopted to support the population and business entities during the coronavirus pandemic. These include measures to ease state regulation of entrepreneurship and self-employment.

The anti-crisis measures taken by Uzbekistan fully comply with the four basic principles of the ILO to combat the pandemic, i.e. aims to stimulate the economy and employment, support businesses, jobs and incomes, protect workers in the workplace and social dialogue.

In addition, the Government approved a temporary order to ensure the employment of family members whose social situation and standard of living have deteriorated in the context of the coronavirus pandemic. At the expense of the Public Works Fund for Temporary Employment, about 230 thousand unemployed citizens were employed; more than 33 thousand families are provided through the mechanism of subsidizing lowincome families for the development of household plots and the creation of agricultural cooperatives; 3 thousand unemployed were employed due to subsidies for the development of entrepreneurship among the population; 20 thousand unemployed people received unemployment benefits. Thus, 374 thousand citizens are provided with employment and regular income for three months of work.

Based on internal resources, one of the main tasks is to attract this category of citizens to work, since they know the profession and have worked abroad for many years. For example, 3.6 trillion sums were allocated from the Anti-Crisis Fund for the construction of social facilities in the regions. In each region, construction began on average of 50-60 such facilities. Territorial employment promotion centers identify labor migrants who could not leave, draw up a list, and attract them to facilities in their specialty in their districts.

The imperatives in the Ministry of Employment and Labor Relations response to the crisis were:

Protecting workers: Protecting workers' rights and limiting the spread of the virus in the workplace;

Support for jobs and income: Support enterprises, stimulate labor demand and expand social support for the population.

Creation of new opportunities: Allocation of grants, subsidies, training and provision of temporary employment in public works.

Strengthening social dialogue: Building public confidence, supporting measures to overcome the crisis.

From January to June, labor authorities rendered employment assistance services to 588.2 thousand unemployed and unemployed citizens (of which 159.9 thousand are persons under 30, 229.4 thousand are women).⁵

Employment for permanent jobs and involvement in paid public works provided employment for 501.1 thousand, 15 thousand unemployed were sent for professional training, unemployment benefits were paid to 27 thousand unemployed at the expense of the Employment Promotion Fund for a total of 10.1 billion soums.

In addition, subsidies from the Employment Promotion Fund provided employment for 24.8 thousand people on personal subsidiary plots, 15 thousand citizens were accepted as members of agricultural, sewing or handicraft cooperatives, 3 thousand were involved in entrepreneurial activities, 256 employers were provided with material measures and/or support for professional development, and 2.3 thousand unemployed were hired in the direction of labor authorities.

^{5.} Data of the Ministry of Economy Development and Poverty Reduction of the Republic of Uzbekistan.

In order to ensure macroeconomic stability, uninterrupted operation of sectors and spheres of the economy, stimulate foreign economic activity, effective social support and employment of the population during the coronavirus pandemic, several measures were taken, in particular:

1) the Anti-Crisis Fund was created under the Ministry of Finance of the Republic of Uzbekistan in the amount of 10 trillion sum (sum – national currency) – about 1 billion US dollars.

2) the Republican Anti-Crisis Commission was formed to promptly resolve the problematic issues and develop additional measures to ensure the smooth operation of industries and sectors of the economy, social support for the population during the period of countering the spread of coronavirus infection and other global risks;

3) an operational headquarters has been created to ensure expedited passage of goods through border customs posts, their uninterrupted customs clearance, as well as the issuance of permits for exported and imported goods;

4) the Republican Commission for the Development of the Export Potential of Regions and Industries approved effective measures of targeted support for exporters;

5) ensuring timely payment of wages to employees who have suspended their activities, in particular, preschool, general secondary, secondary specialized and higher educational institutions, sports and cultural institutions and other departments financed from the State budget; and

6) a deferral was provided for the payment of debt on loans (without charging penalties) issued to travel operators, hotel business entities, transport and logistics companies and other enterprises of the tourism industry, as well as business entities that faced financial difficulties due to the introduction of restrictions on foreign trade operations.

To attract unemployed citizens to public works, to the Ministry of Employment and Labor Relations was allocated 200 billion sums from the Anti-Crisis Fund.

Also, in order to further promote widespread involvement of the population in entrepreneurial activity and create additional conditions for the implementation of legal labor activity and reduce the level of informal employment was adopted a normative act which allows from July 1, 2020:⁶

- income received as a result of the labor activity of self-employed persons is not included in the total income of an individual;

Decree of the President of the Republic of Uzbekistan №-4742 dated June 8, 2020 "On measures to simplify state regulation of entrepreneurial activity and self-employment".

- the list of activities has been expanded to 67 (works, services) that selfemployed persons can engage in;

- registration of self-employed persons was introduced in a notification procedure through a special mobile application or a personal account of a taxpayer with the issuance of a matrix bar code (QR code), certifying the fact of registration as self-employed, with the abolition of the procedure for issuing temporary labor certificates; and

- self-employed persons pay social tax for 2020 in the amount of at least 50% of the base calculated amount.

In addition, it is envisaged to provide self-employed persons with preferential loans for 67 types of activities within the framework of the program "Every family is an entrepreneur". These measures are aimed at accelerating the growth of the service sector, supporting entrepreneurship and creating new jobs for the population.

To self-employed persons are given the opportunity to pay social tax for 2020 in the amount of at least 50 percent of the minimum wage, regardless of the time actually worked as self-employed. This amount is completely directed to the off-budget Pension Fund, which is the basis for calculating pensions for individual entrepreneurs.

Also, self-employed persons providing services (performing work) through the Internet (freelancing) are granted the right to:

- accept from individuals and legal entities, non-residents from abroad payment in foreign currency for services rendered (work performed) to accounts in banks of the Republic of Uzbekistan without entering relevant information into the Unified Electronic Information System of Foreign Trade Transactions;

- provide services (perform work) to foreign individuals and legal entities without concluding a contract by accepting a public offer for an agreement (offer) or exchanging electronic messages or issuing invoices (invoices), including in electronic form.

The most important thing is that the wages of these citizens are not subject to the calculation of a single social payment and that income received as a result of self-employment **is not subject to personal income tax.**

Also, commercial banks for the development of the industry have been allocated a credit line from the Fund for Reconstruction and Development in the equivalent of \$100 million. Concessional loans in the amount of up to 1 billion sums at the level of the Central Bank's refinancing rate will be provided to business entities in the service sector, especially in the field of consumer services, education, medicine, information and communication technologies and in other popular areas. With the use of these funds, projects are currently being formed in all regions of the republic for the further development of the industry and ensuring employment of the population.

To increase the share of the service sector in GDP, it is envisaged to attract additional financing, taking into account an in-depth analysis of the possibilities, potential and geographical location of the regions. All of these reforms are aimed at further supporting the industry most affected by the pandemic and providing employment for the population.

In particular, due to employment in permanent jobs and attraction to paid public works, employment was provided for 501.1 thousand, 15 thousand unemployed were sent for vocational training, and unemployment benefits were paid to 27 thousand unemployed at the expense of the Employment Promotion Fund.

From community service to one's own business, the list of areas of paid public works in the country was expanded to 20. The list included disinfection works, sanitization and improvement, construction and repair of basic infrastructure, and care of representatives of vulnerable groups of the population (veterans and the elderly).

The salary of citizens participating in public works ranges from 751 thousand sums to 1.1 million. For this purpose, an additional 250 billion sums were allocated from the Anti-Crisis Fund and the Public Works Fund for temporary employment.

Funds are allocated to low-income families for the development of household plots and the creation of agricultural cooperatives. More than 18 thousand people were attached to them, who were given about 40 billion sums of subsidies.

Special opportunities have also been created for those wishing to become individual entrepreneurs. For example, training and subsidies in the amount of 2.2 million sums to cover the costs of registering as a businessman and insurance policy for a start-up loan. This made it possible to register almost 3.6 thousand new entrepreneurs since the beginning of the year, receiving more than 800 million sums of payments. Among them are both women and youth.

3. Analysis and Policy Implication

The scale of the government's response to the economic crisis caused by the consequences of the spread of COVID-19 has been unprecedented. The

measures and tools taken were aimed at mitigating the economic impact of COVID-19, promoting a sustainable and rapid recovery of the labor market, and developing follow-up efforts to ensure productive employment and decent work in Uzbekistan in the post-crisis period.

The effectiveness of the measures taken and are being taken depends on the duration of the pandemic, trends in the global and national markets, as well as the discipline of the executive branch, as well as the economic decisions of business and the population. In this regard, the World Bank's updated economic growth forecast for Europe and Central Asia says that economic growth in Uzbekistan in 2020 will amount to only 1.6% (compared to 5.7% at the beginning of the year).

Large-scale anti-crisis measures were taken by the Government in order to stimulate employment, preserve jobs and incomes of workers, ensure safety and health at work in the field, and prevent discrimination and social exclusion. So, to support small - and micro - businesses, guarantees and deferred payments were provided for individual taxes and payments, tax deductions and rates on preferential loans were reduced.

In Uzbekistan, the state budget deficit may be 5.6% of GDP in 2020 and 4.7% in 2021. At the same time, the monetary measures of the Central Bank and the fiscal measures of the Ministry of Finance will be appropriate only if they are aimed at a coordinated increase in economic efficiency. In particular, making timely rational decisions to support enterprises and business entities that are experiencing economic depression due to the difficult economic situation will play an important role in maintaining jobs and increasing employment.

It's possible to solve this difficult situation by identifying people who have lost income and providing them with targeted support. First of all, it is necessary to implement controls over the payment of wages by employees by monitoring the structure of tax revenues from wages in the country by the State Tax Committee. If it is determined that tax revenue from the wages of officially registered workers has stopped or is sharply reduced, it becomes clear that the employee is not paid or is underpaid.

Also, the employee is not protected from industrial injuries and occupational diseases. Currently, during the period of measures taken to prevent the spread of a new coronavirus infection (COVID-2019), citizens who applied to employment centers in order to find a suitable job, obtain unemployed status and unemployment benefits have problems - the inability to confirm the length of service, place, period work, professional experience, salary, which affects the amount of unemployment benefits.

It should be noted that the pandemic had the most negative impact on

the informally employed population (5.6 million people), as a result of which they found themselves without work and income which made their financial and economic situation very difficult. Since they are not registered with the state tax service as taxpayers and employed and state support was not accepted for this category of persons during this difficult period, their position turned out to be very precarious. Considering that the level of the informal employed population in the country is almost 40%, this can lead to negative social-economic consequences.

In the informal sector, social benefits and material assistance were provided to support people who have lost their jobs. Therefore, the government pays special attention to reducing the informal economy and informal employment, and adopts regulations especially in the COVID-19 period based on international experience in this area.

Institutional change, the creation of a decent business climate and effective integrated employment policies will lead to the expansion and productivity of economic units and the transition of informal employment to the formal sector.

The coronavirus pandemic also showed the need for a qualitative revision of the current Labor Protection Law. The regulatory framework should maximize the organization of safety and decent working conditions for workers in accordance with the requirements of the current situation and international standards.

During the pandemic, the issues of illegal dismissals arose sharply, while refusals to pay wages and maternity benefits became more frequent. During the COVID-2019 pandemic, the State Labor Inspectorate considered 8.2 thousand complaints from citizens on violations of labor laws and discrimination in the workplace, of which 3 thousand were from women. As a result of inspections, labor rights of 3.6 thousand citizens, including 1.2 thousand women, were restored.

For eight months of 2020, almost 826 thousand people were employed throughout the country. With the participation of employment assistance centers, more than 198 thousand unemployed have found permanent jobs in areas. And more than 19 thousand people have been trained, retrained and retrained in the directions of regional specialized bodies. 206 companies received subsidies totaling over 6 billion sums to train their employees to keep jobs. In the first half of the year, 37 thousand unemployed were paid benefits under the new rules.

The types of public works have been expanded from 8 to 20. The following types of works have been introduced: disinfection works, sanitization and improvement; construction and renovation of basic infrastructure; and

caring for vulnerable segments of the population (veterans and the elderly). For these purposes, an additional 250 billion sums (25 million US dollars) were allocated from the Anti-Crisis Fund to the Public Works Fund for temporary employment.

In general, for eight months of 2020, paid public works provided temporary employment to 479,492 people.

A mechanism has been developed to subsidize low-income families for the development of household plots and the creation of agricultural cooperatives. Based on the Chinese experience, 18.2 thousand, including 6.7 thousand women and 7.6 thousand unemployed among young people, members of low-income and poor families were attached to 389 cooperatives created on 8.6 thousand hectares of land in the country, and they were allocated 41.7 billion sums of subsidies as a share in the authorized capital of cooperatives.

For the development of household plots, 28.7 thousand, including 11.7 thousand women and 7.3 thousand youths, received subsidies in the amount of 73.5 billion sums for the construction of a greenhouse with a light structure, the purchase of seeds and seedlings, and also purchase of irrigation equipment.

Paying tribute to the efforts and some positive results of the measures taken in the republic in this area, we consider it expedient to carry out the following comprehensive measures in the area of employment:

- implementing macroeconomic policies for employment that support aggregate demand, efficient investment and structural transformation, and help create new businesses and jobs;

- trade, industrial, tax, sectoral and infrastructure policies that promote employment, increase productivity and facilitate structural transformation; and

- corporate policies that support sustainable enterprises, including micro, small, medium-sized enterprises and entrepreneurship, as well as sound, transparent regulations to facilitate the transition to the formal sector and ensure fair competition.

4. Conclusion

The pandemic not only exposed weaknesses in the labor market, but also revealed gaps in the social protection system of the population, especially among migrants and informal workers. The operability of the anti-crisis measures taken in Uzbekistan made it possible to prevent more serious socio-economic consequences of the pandemic.

The state has stepped up work to protect workers' rights, support jobs and income, create new opportunities (grants, subsidies, training and temporary employment in public works), and strengthen social dialogue.

Many companies and enterprises have adapted their activities in the conditions of quarantine and restrictive measures by switching to remote work mode. To ensure the correct transition and compliance with all norms, the Ministry of Employment and Labor Relations has developed and implemented the "Regulation on the temporary procedure for the transfer of workers to work remotely."

Experts of the World Bank and other international organizations note that the world economy, including the economy of Uzbekistan, is in decline, but there are opportunities to achieve the planned development indicators and even strengthen their positions in the international division of labor. This requires the implementation of crisis and post-crisis measures based on thoughtful economic and political decisions. In particular, it is necessary to strengthen measures to ensure income stability during the coronavirus pandemic. Regardless of the form of ownership, it is necessary to prevent the loss of labor income by providing subsidies or benefits from the anticrisis fund when it is established that enterprises and organizations that temporarily suspend work during the quarantine period cannot reach the average wage. Income, in turn, will help maintain the purchasing power of the population and help them get out of the crisis faster.

The ILO concept considers decent work as an opportunity to work effectively in conditions of freedom, social justice, equality and security. The prevalence of decent work depends on the standard of living, quality and lifestyle of the population.

We consider it necessary to take a set of measures aimed at stabilizing the labor market, creating new jobs in the economy, including:

1. Implementing macroeconomic policies for employment that support aggregate demand, investment and structural transformation, new enterprise creation, jobs and business.

2. Reducing the tax burden to achieve the competitiveness of goods and services and the attractiveness of Uzbekistan for investment, in particular, the reduction of value added tax and excise tax, as well as the adoption of a legislative act regulating the minimum wage, based on international experience; improvement of the pension system.

3. Improving the quality of education, developing a new system of

remuneration, regulatory legal acts that stimulate the transition to formal employment.

4. Continuation of institutional and structural reforms aimed at further development of private entrepreneurship, small and medium business and, reducing the role of the state in the economy, preventing unjustified interference of local authorities in the activities of small business.



External Labor Migration of Uzbekistan: Causes, Problems and Prospects

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Crisis and Fragility: Economic Impact of COVID-19 and Policy Responses

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1. INTRODUCTION

Currently, international migration processes are globalized and cover almost all regions and countries. External migration also has a significant impact on demographic changes in developed and transition economies.

As a result of international migration of labor resources, a special quality commodity - labor force is being transported abroad. Its main difference from other types of goods is that the labor itself is the factor of the production of other products. A country that exports its labor force, as a rule, receives payment for such exports in the form of repatriation of part of the income of migrants. Given the relative growth of labor resources in many countries, their exports reduce unemployment and provide an influx of cash flows from abroad. But, on the other hand, the decline in the highly skilled labor force leads to a decrease in the technological potential of the exporting countries, as well as their general scientific and cultural level.

Despite being the largest labor exporter in the Central Asian region, Uzbekistan has only recently identified migration as a key policy area, with a particular focus on diversifying labor migration flows and integrating migration into broader development planning. As part of this renewed focus on migration, Uzbekistan is expanding organized labor export schemes with third countries such as Russia, South Korea, Japan, and Poland as a safe and long-term alternative to unregulated and dangerous



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forms of migration. However, in their current form, these organized labor recruitment programs cannot adequately distribute the existing demand for labor migration within Uzbekistan and have not proven effective in protecting the rights of labor migrants.

2. GOALS OF GENERAL UZBEK MIGRATION

One of the main features of the Uzbek citizens flow is that most of them go to visiting relatives (Diagram 1). The reasons for this are as follows:

- during the former Soviet Union, republics repeatedly established borders (for example, after World War II...);
- in all the republics of the former Soviet Union, intellectuals who could follow the people were banished to different regions under different pretexts, or they fled to countries such as Afghanistan, Iran, Pakistan, and Turkey;
- many women and children were evacuated to Uzbekistan during World War II;
- during the former Soviet Union and the first years of independence, there were marriages between residents of neighboring republics.

Diagram 1.

Number of Uzbek emigrants by their goals, in percentage



Source: database of the State Committee of the Republic of Uzbekistan on Statistics. www.stat.uz.

Because of these circumstances, relatives settled in different countries. After gaining independence, especially after 2016, because of positive changes in political and economic relations between Uzbekistan and other countries, in the issue of border crossing, relations between relatives located in different countries are restoring.

The number of citizens working abroad represents 26.7% of all Uzbek emigrants. Due to the increasing importance of labor migration and the purpose of this study, we are conducting a broader study of this issue.

3. CAUSES OF EXTERNAL LABOR MIGRATION

The economic development of any country is linked to the efficient use of the available labor force. This requires accelerated development of the manufacturing sector, small businesses and entrepreneurship in the country, creating a favorable investment environment and stimulating investment activity. This, in turn, will ensure an increase in the level of employment. Increasing the level of employment reduces external labor migration. On the contrary, an increase in unemployment increases the labor migration.

What is the situation in Uzbekistan in this regard?

The employment rate in Uzbekistan was 69.4 percent in 2009 and 67.4 percent in 2018. The unemployment rate was 5% in 2009 and 9.3% in 2018. 15% of those who want to work are aged 16-30 years, 12.8% are women [1].

Theoretically, two groups of factors influence labor migration:

- Non-economic factors (war, political and religious persecution, natural disasters, etc.). Due to the stable socio-political situation in Uzbekistan and the low probability of natural phenomena, these factors do not have a significant impact on external labor migration;
- 2. Economic factors, these include:
 - different levels of economic development of countries. For example, GDP per capita (PPP) in Uzbekistan is 8,999.6 US dollars, in Kazakhstan 28,849.2, in Russia 29,642.4, and in the Republic of Korea 44,740.4 US dollars [2];
- state of the national labor market. For example, in most Russian regions, there is a shortage of working personnel nine of the top 10 scarcest professions belong to the "blue collar": welders, locksmiths, movers, assemblers. However, at the same time, in the whole country, doctors

head the rating of «scarcity» — they are not enough in 64 of the 75 analyzed regions [3];

- existence of problems of structural adjustment of the economy associated with the transition to a market economy in former socialist countries; Uzbekistan was part of the former Soviet Union and, despite gaining independence, the relations characteristic of the market economy in the country are still not fully formed.
- scientific and technical progress, its development is accompanied by an increase in demand for skilled workers. All countries are interested in attracting skilled workers to drive innovation and increase productivity. For recipient countries, developing a clear strategy for granting residence permits or even citizenship is an important aspect of attracting skilled labor, since in such countries jobs are usually created on a permanent basis and require significant investment in human capital, taking into account the special aspects of employment;
- activities of transnational corporations that ensure the relationship of capital with labor by exporting capital or transferring it to regions with a large number of labor.
- the desire to earn money in exchange for intangible benefits the desire to improve the professional level.

Economic reasons are related to the uneven development of different countries. As a rule, more jobs are created in a developed country, so it will be easier to find a job in it, and the standard of living and wages in a developed country will be high. Therefore, such a country can provide more paid work. Due to its high scientific and technical potential, it needs a skilled, creative workforce. For this reason, qualified personnel are moving to a developed market. This can also be seen in Diagram 2 [4].



Diagram 2.

Average monthly net salary, in 2019

According to the data shown in Diagram 2, wages in Uzbekistan are 1.86 times lower than in Kazakhstan, 2.41 times lower than in Russia, 3.74 times lower than in Poland, 8.88 times lower than in South Korea, 10.56 times lower than in Japan, 10.20 times lower than in Germany, and 14.15 times lower than in the United States.

Over the past 10 years, the population of Uzbekistan has increased by almost 21%. Every year, 600-700 thousand people enter the labor market of Uzbekistan, and the number of jobs created reaches 500 thousand. Another two hundred thousand people were left without work. The country's total labor force is 19 million people, of which 5.1 million are engaged in informal labor. In particular, because of the pandemic, the unemployment rate in Uzbekistan has increased. During the quarantine, 671 thousand people were left without work. This situation has particularly affected the selfemployed. Such cases certainly reflected in migration indicators: almost 2.5 million people work abroad.

4. FEATURES OF UZBEK LABOR MIGRATION

- due to the strong competition in the labor market in the host countries, most migrants cannot work in areas that require high qualifications, so they work in construction, food and transport services;
- due to unemployment, Uzbek migrants tend to work in other countries in order not to get into difficult living conditions in their homeland and, despite the fact that they may find themselves abroad in more difficult conditions;
- due to the cheapness of goods and services in Uzbekistan, the funds sent by migrants will be sufficient to meet the needs of their families, and some of them are reserved for savings;
- some orientation of migration are regulated and managed by the state, and some are chaotic. Despite the fact that recently there have been private firms that help to work and settle abroad, emigrants independently go to Russia, Europe, South Korea and other destinations;
- migrants go back and forth, that is, to their own country; for example, they come to Russia for a while (season) and return home to rest.
- the migration rate is very high among young people.

5. LABOR MIGRATION PROBLEMS

Labor migration from Uzbekistan is really massive: Uzbeks working Russia numbered 1.5 million, Kazakhstan 240 thousand, Korea 71 thousand, Turkey 43 thousand, the UAE 5 thousand, and other countries of the world 120 thousand (Diagram 3). In general, the number of people working outside of Uzbekistan amounted to 2.5 million people [5].



Uzbek labor migrants are going not only to Russia or neighboring Kazakhstan, but also to more distant countries such as the United States, Europe, Japan, and South Korea. In addition, they also have many opportunities to find well-paid jobs in Kazakhstan, and this process is really large-scale and massive. Until recently, the land border crossing point between Kazakhstan and Uzbekistan, for example, was constantly overcrowded and unordered due to the huge flow of migrants crossing the Uzbek-Kazakh border.

The process of external labor migration in Uzbekistan is mainly urgent and seasonal, and most migrants work abroad in the spring and summer, returning home in the winter season. Most of them are employed in areas that do not require qualifications on the territory of Russia and Kazakhstan. Research conducted by the Center for Economic Research and Reform found that low-income family members are mostly sent to these countries, while higher-income households are sent to Turkey, South Korea, and the United States [6]. According to data released by the Central Bank in 2019, the volume of money transfers sent by emigrants to Uzbekistan amounted to \$5.8 billion (Table 1). In particular, 5 billion US dollars have been sent from CIS member states, of which 98% corresponds to the contribution of emigrants in Russia and Kazakhstan [7]. In 2019, the volume of money transfers from Russia to Uzbekistan averaged \$418 per migrant. It should be noted that in recent years, Uzbekistan has become the recipient country of the largest number of money transfers in comparison with other Central Asian countries.

Table 1. Cross-border money transfers								
	Unit	2014	2015	2016	2017	2018	2019	In 2019 compared to 2014
Cross- border money transfers received by residents	billion USA doll.	6,5	3,9	3,7	4,8	4,9	5,8	-0,7
	Percentage in GDP	8%	5%	5%	8%	10%	10%	+2 %

Source: Publication of the Central Bank of the Republic of Uzbekistan on the balance of payments, international investment position and external debt of the Republic of Uzbekistan. www.cbu.uz

Why is labor migration a problem related to national security and social stability? There are several reasons for this consideration of the desired problem. This category of citizens become migrants due to unemployment and harsh social conditions in their places of permanent residence. This means that they are socially vulnerable and discontented people. But neither are the places they go to any more comfortable, for some reasons.

First, most of them arrive abroad without a proper level of knowledge of the language of the migrant-receiving (host) countries. Secondly, in the host country, they immediately face problems of bureaucracy, corruption, arbitrariness, blackmail by officials who control the migration sphere, as well as racketeering, humiliation of human dignity and simple fears for their safety (especially in the CIS countries). Third, during the period of their life and work abroad (usually several years), migrants observe and "learn" the peculiarities of social and political life in the host country.

All this together sows in their mentality and consciousness the seeds of a more liberal worldview, culture and behavior, as well as a simple expression

of their indignation and protest. Migrants return home having experienced all this, tired, still disillusioned, still needy and uncultured, still unemployed in their country, however, with some cultural deviations and not excluded, politically awakened.

Meanwhile, most often Uzbeks in Russia are targeted by Russian nationalists, which causes various conflict situations. There are all signs of an even greater aggravation of the situation due to the economic and financial crisis in Russia, which has significantly affected the income of migrants. There are reports that the recent economic sanctions imposed by the West against Russia have begun to negatively affect the level of migration and migration expectations. In general, it should be noted that Russia attracts migrant workers, perhaps only because it provides them with certain incomes, but it cannot be the best example for them in social, moral and cultural terms.

6. THE IMPACT OF THE COVID-19 PANDEMIC ON LABOR MIGRATION

Most labor migrants work in the informal sector of the economy temporarily and without protection of their rights. Since in many countries this category of people does not comply with the national labor legislation in that state, there is a high risk that they will not be able to use their social and economic protection measures in emergency situations, such as pandemics. In particular, in the conditions of the crisis associated with the COVID-19, in some countries there is an increase in discrimination, dismissal, deterioration of working conditions and other similar negative cases in relation to labor migrants.

The fact that most migrants are unable to use the health care system for a variety of reasons leads to a more extensive and rapid spread of the virus. On the contrary, in the case of using medical services, this will further worsen their financial situation and increase the likelihood of falling into the trap of poverty.

Also, due to the introduction of stringent quarantine measures and the limitation of state-owned transport flights, migrants are faced with such difficulties as a sharp decrease in the labor market and a decrease in the amount of wages (Table 2).

Table 2. The main problems and risks faced by Uzbek emigrants in the conditions of a pandemic

Types of migrants	The main problems and risks faced by emigrants
Temporary and seasonal migration	 stay out of work; reduction of wages; decrease or complete stop of money transfers; increasing debt, increasing the likelihood of falling into the poverty probability; deprivation of social protection, psychological depression; increase in the risk of infection of the disease due to deterioration of living and working conditions.
Informal migration	 Additional to the problems of temporary and seasonal international migration: problems with the guarantee of labor rights; lack of social protection benefits.
Return of migrants to the homeland	 risk of contracting the disease during mass homecoming; low level of employment opportunities when returning home; low level of access to social capital; increasing the likelihood of falling into the poverty trap in exchange for increased debt; an increase in the number of families who do not receive money transfers and an increase in family problems; the appearance of frustration among those who plan to emigrate abroad in the future.

The closure of borders and strict quarantine measures have also had a negative impact on Uzbek citizens working abroad. In particular, about 500 thousand citizens who returned home during the winter season could not return to their intended address. In addition, in the Russian Federation, which is one of the main addresses of citizens of Uzbekistan, every second emigrant is unemployed [8]. Due to rent and food costs, the condition of immigrants became more severe. Due to the cost of rent and food, the situation of migrants has become even more difficult.

In Uzbekistan, in January-June 2020, the number of people in need of employment increased to 1.94 million, and the unemployment rate among the economically active population was 13.2%. This figure in the first half of 2019 was 9.1%. The unemployment rate among 16-30-year-olds increased by 5%, and among women by 4.7%. The number of labor resources increased by 0.6 percent compared to the same period in 2019 and amounted to 19 million people. Due to the negative impact of COVID-19, the number of employees decreased by 5% and reached 12.7 million people.

Diagram 4.





The number of people engaged in individual entrepreneurship decreased by 167.5 thousand people (by 46.4%) compared to the same period last year. This condition arose because of restrictive measures aimed at preventing the spread of coronavirus infection.

Due to the fact that many districts temporarily stopped operating during the quarantine and people stayed at home, the number of economically disadvantaged residents increased by 4.5 percent.

The number of individuals engaged in individual entrepreneurship decreased by 167,500 people (by 46.4%) compared to the same period last year. This condition arose as a result of restrictive measures aimed at preventing the spread of coronavirus infection.

As a result of that, many areas of the economy temporarily stopped working during the quarantine and people stayed at home, with the number of poor people increasing by 4.5 percent.

And the number of citizens moving abroad to earn money was 2 million. This is 553,200 people less than in the first half of last year [8].

7. CONCLUSION

It is important to take urgent measures to address the serious problems that arise as a result of the spread of coronavirus infection in the field of labor migration, as well as to ensure safe, orderly and targeted employment of the population at home and abroad.

After the crisis, there is expected to be a shortage of specialists from large
foreign employers, especially in the field of agriculture, which will seriously affect the socio-economic life of people. Even a year after the pandemic, the situation may not return to its previous state. Therefore, during and after the crisis, it will be necessary to jointly manage the situation related to labor migration. To manage the flow of labor migration, it is necessary to determine the directions and tasks that must be performed by employment agencies, employers and state cooperation.

After the crisis, the demand for employment agencies and their recruitment process will grow. This also increases the risk that some of them abuse their responsibilities when hiring people. In these circumstances, in order to effectively manage the situation, it is necessary to properly organize the work on sending migrants, especially to take a serious approach to checking their health. In this regard, it is necessary to reach an agreement between the receiving and sending States of migrants and employment agencies that ensure high-quality labor organization.

Another important aspect is that in order to create a safe and acceptable environment for migrant workers, first of all, employment agencies need to better understand the industries in which migrant workers work.

In particular, when attracting employees, it is necessary to observe the principles of legality, openness and protection of rights. Also, in accordance with the international standards, in the use of labor migrants must be respected the following principles:

- the prevention of forced labor;
- having a mutual voluntary agreement between the employer and migrant labor;
- prevention of forced payments, i.e. wages abroad must be made only by the employer, the migrant worker must be free in hours;
- clarifying of working conditions;
- the confidentiality of personal data by employment agencies and employers.
- Such conditions will certainly allow emigrants to feel free and confident to work, and expand opportunities for obtaining additional income.

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The Gendered Impact of COVID-19 Pandemic in Palestine

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Visiting Scholars' Opinion Paper

Crisis and Fragility: Economic Impact of COVID-19 and Policy Responses

The Gendered Impact of COVID-19 Pandemic in Palestine

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1. Introduction and Background

There is a common yet false narrative that viral pandemics 'do not discriminate' on any basis.¹The outbreak of the COVID-19 pandemic quickly proved that crises significantly exacerbate already existing inequalities, affecting vulnerable groups in the society more severely.² This is especially true for women who already struggle with systematic gender inequality in fundamental rights and responsibilities. As the United Nations Population Fund (UNFPA) and the World Health Organization (WHO) emphasize, "[p]andemics and their resultant safety measures introduce an array of challenges that are uniquely the result of systemic gender inequalities and discrimination."³ Across every sphere, from physical and mental health to economic hardships, the impacts of COVID-19 are likely to severely increase the vulnerability of women, especially in the Least Developing Countries (LDCs).⁴

Emerging data has shown that women are more likely to contract the COVID-19 virus as they make-up the majority of healthcare workers

ibid.

PART 3 _ 06. The Gendered Impact of COVID-19 Pandemic in Palestine



Labor and Employment

2016



^{1.} UNFPA. COVID-19: Reporting on Gender-Based Violence During Public Health Crises, 2020.

^{2.} World Bank Group. Gender Dimensions of the COVID-19 Pandemic, April 2020.

^{4.} United Nations. Policy Briefs: The Impact of COVID-19 on Women, April, 2020.

(up to 70%) and are typically the main caregivers in their family which increases their exposure levels.⁵ Females are also more likely to reduce their food consumption levels in order to curb the impacts of economic shocks affecting the household, causing a rise in food insecurity levels amongst women.⁶ Across the globe, women are also victims of large pay-gaps, are overrepresented in the part-time and informal labor sectors, and hold less secure jobs.⁷ Hence, they make up a significant portion of the labor categories that are most likely to severely shrink during recession and less likely to have access to social protection.⁸ Most importantly, throughout history, studies have documented a rapid increase in gender based domestic violence levels during and as the aftermath of disasters.⁹ In fact, reports from various countries in the MENA region (Palestine, Lebanon, Iraq, and Egypt) show that COVID-19 has caused a rapid rise in Gender Based Violence (GBV), severely affecting women's mental and physical wellbeing.¹⁰

To avoid negative or ineffective mechanisms in confronting the COVID-19 crisis it is important to fully understand the disproportionate gender impacts of the pandemic in Palestine. This is especially important given the unique set of challenges that Palestinian women have to struggle with in addition to the global gendered impacts of the outbreak.

Palestine is one of the most densely populated areas in the world —with Gaza being the most densely populated at 5,453 persons/ km2 living under total blockade since 2007— increasing the risk of COVID-19 exposure and spread.¹¹ Moreover, Palestinians have been experiencing decades of economic hardship due to the Israeli military occupation which resulted in increased scarcity of land and resources, high rate of violence, violations of human rights and laws, and severe mobility restrictions. These challenges have left many Palestinian in a fragile state with minimal resources to curb or survive the severe

^{5.} WHO cited in UNFPA. COVID-19: Reporting on Gender-Based Violence During Public Health Crises, 2020.

^{6. &}quot;Evidence suggests that when faced with economic shocks, poor households adjust their consumption patterns. They mostly do so by eating less and eating poorer-quality Within the household it has been shown that women often end up absorbing such shocks". See: R. Holmes, N. Jones, and H. Marsden. 2009. Gender Vulnerabilities, Food Price Shocks and Social Protection Responses. Background Note. London: Overseas Development Institute.

^{7.} United Nations. Policy Briefs: The Impact of COVID-19 on Women, April, 2020.

^{8.} UNFPA. COVID-19: Reporting on Gender-Based Violence During Public Health Crises, 2020.

See: Sera Gearhart, Maria Perez-Patron, Tracy Anne Hammond, Daniel W. Goldberg, Andrew Klein, and Jennifer A. Horney.Violence and Gender. Jun 2018.87-92.http://doi.org/10.1089/vio.2017.0077

^{10.} UNFPA. COVID-19: Reporting on Gender-Based Violence During Public Health Crises, 2020.

PCBS, 2019. See:http://www.pcbs.gov.ps/post.aspx?lang=en<emID=3503#:~:text=The%20population%20density%20of%20Palestine,persons%2Fkm2%20in%20mid%202019.

socio-economic impacts of COVID-19. The exacerbation in mobility restrictions, economic hardships, and border closures due to the lockdowns are likely to hit those who are the most vulnerable in the society.¹² The Women's Centre for Legal Aid Counseling (WCLAC) is especially warning of the severe impact of the pandemic on Palestinian women as it is likely to exacerbate the existing gender inequalities already reinforced by occupation.¹³ Palestinian women, especially those living in Gaza, struggle on a daily basis with mobility restrictions and limited access to various essential resources such as adequate amounts of food, clean water, and electricity due to the occupation.¹⁴ They also experience additional challenges to men in terms of difficulties in accessing healthcare, increased unpaid labor and responsibilities in providing care to family members, greater vulnerability in the labor market, and greater risk of economic hardships.¹⁵ As the UN Women gender assessment report underlines, "[t]he Israeli-military occupation is inherently masculine and has further reinforced patriarchal norms in the Palestinian society while disproportionately impacting women."¹⁶ Therefore, women are dealing with Israel's violations of humanitarian law, the patriarchal structures in Arab societies, high pre-existing levels of GBV, in addition to the outbreak of COVID-19.17 Such struggles have been apparent and noted by many women organizations such as WCLAC, UN Women, CARE Palestine.¹⁸

Before the outbreak of COVID-19, there was an existing gap in labor participation between men and women (7 out of 10 of males participated in the labor force, compared with about 2 out of 10 of females).¹⁹ This disparity is further compounded with a 40% gap in daily wages.²⁰ This discrimination is despite that fact that more Palestinian women (60% of the total number of students) are enrolled in higher education compared to men.²¹ This

Women's Centre for Legal Aid and Counselling (WCLAC). COVID-19 and Women's Rights in Palestine, June 2020

^{13.} ibid.

UN Women. COVID-19: Gendered Impacts of the Pandemic in Palestine and Implications for Policy and Program. p.11, 2020

^{15.} WCLAC, 2020

^{16.} ibid. Read more on the disproportionate effects of occupation: https://wilpf.org/wp-content/uploads/2017/11/Palestine-UPR_web-2-5.pdf & http://www.el-karama.org/wp-content/uploads/2018/11/ Palestinian-Women-The-Disproportionate-Impact-of-the-Israeli-Occupation.pdf

^{17.} WCLAC, p.3, 2020

UN Women: Rapid Assessment on COVID-19 and Domestic and Family Violence Services Across Palestine, May, 2020

^{19.} PCBS. Labor Force Survey. 2019

^{20.} WCLAC, 2020; CARE Palestine, 2020; UN Women, 2020, Jazoor, 2020

^{21.} PCBS, 2020

gendered inequality decreases the capacity of women to absorb economic shocks induced by the pandemic as they are less secure and more limited financially then their counterparts.²²

2. COVID-19 and Increased GVB in Palestine

Even before the outbreak of COVID-19, GVB was prevalent in Palestine. Indeed, in the 2019 Violence Survey conducted by the Palestinian Central Bureau of Statistics (PCBS), *29% of currently or ever married women in Palestine (38% in Gaza, 24% in the West Bank)* had experienced some form of violence by their husbands in the last 12 months.²³ Moreover, *the survey found that 57% of currently or ever married women* had experienced psychological violence by their husband at least once in the past 12 months, making it the most common reported form of GBV in Palestine.²⁴



Data Source: 2019 Violence Survey conducted by the Palestinian Central Bureau of Statistics (PCBS)

The outbreak of the pandemic, however, has exacerbated the domestic

^{22.} United Nations. Policy Briefs: The Impact of COVID-19 on Women, April, 2020.

^{23.} PCBS, 2019 Violence Survey, 2019

^{24.} PCBS, 2019 Violence Survey, 2019

violence levels that Palestinians women face on a daily basis.²⁵ Rapid gender assessment reports produced by local and international organizations emphasize the increase in GBV as women are in forced confinement with their abusers and are unable to access available resources due to the nation-wide lockdowns (ex. UN Women, 2020, CARE, 2020; Juzoor, 2020; WCLAC, 2020). The reallocation of the scarce resources and health services towards the COVID-19 relief projects have impeded the ability of women to access the limited GBV support systems, including safe spaces, shelters, medical, psycholocological, and reproductive services.²⁶ Moreover, WCLAC predicts that fear of being separated from one's children is more pronounced given the compounded fear for the children's health and safety during a pandemic, decreasing likelihood of taking any measures to remove themselves from the unsafe family homes to protect their children instead.²⁷

Factors Increasing Women's vulnerability to GBV



*married women in the youngest age group (15-19 years old) are the most vulnerable to physical violence. Married women between the ages of 20 and 29 years old are more vulnerable to repeated physical violence. UN women Palestine (2017):

Navigating through Shattered Paths: NGO Service Providers and Women Survivors of Gender-Based Violence

SAWA, a Palestinian organization that provides support and counseling to victims of violence, recorded a decrease in the first weeks of lockdown in the number of women calling their hotline while there was an increase in the number of young men reporting parental violence. This is because, as the report explains, mothers are bearing most of the domestic work and are burdened with their families being in lockdown, lacking the privacy and time to communicate or reach out to counseling and emergency hotlines.

^{25.} UN WOMEN, 2020; CARE, 2020; Juzoor, 2020

^{26.} Juzoor for Health and Social Development. Gender-Based Violence during COVID-19 Pandemic Palestine, May 2020, p.3

^{27.} Women's Centre for Legal Aid and Counselling. COVID-19 and Women's Rights in Palestine, June 2020

The higher number of calls from young might be explained by the rise in anxiety and stress related to the unknowns regarding the virus. In March 2020, there was little known about the virus, how it operates, and how it is going to impact education, health, employment, and social life. Given that more young males participate in the economy and have a social life (due to cultural life) it might have been harder for them to process the lockdown compared to young females.

According to the SAWA helpline reports, calls regarding abuse and violence, specifically domestic violence from partners, **rose by 38% for Palestinian females in less than a month into lockdown**.²⁸ The **total number of calls continued to surge with a 52% increase in calls in May compared to April and a 30% increase in the month of June compared to May**. In the second week of April alone, **the hotline received three cases of suicide attempts due to sexual abuse, harassment, incest, and rape attempts**.²⁹



Once the hotline hours were extended, allowing women to access their resources 24/7, *calls from women seeking support increased from 40% to 58%* of the total number of calls.³⁰ This rise is suggestive evidence that women are indeed bombarded with domestic work and lack the time and privacy to seek help. In fact, with the ease in restrictions in the month of June, calls *from women above the age of 21, increased to 30% of the total cases documented. This is a 13% rise compared to the last two weeks of*

^{28. (}SAWA, 2020). Moreover, "Similar to PWWSD and SAWA, WCLAC also created a hotline that allowed its Services and Community Empowerment Unit to continue to provide legal and social support during lockdowns. WCLAC also experienced a rise in the number of calls for the GBV helpline, especially in the first three weeks in April. The majority of the concerns in the total number of calls received are related to the deprivation of social and economic rights".

^{29.} SAWA, 2020

^{30.} SAWA, 2020

May. Most of these cases were reports from married women from between the ages of 21-35. Hence, it is likely that lockdowns have indeed impeded married women from seeking help given the 24/7 confinement with their partners. This increase in hotline calls recorded is not unique to SAWA. A recent report published by the Palestinian Working Woman Society for Development (PWWSD) indicated a total for *510 consultations in less than two weeks (March 22- 4 April 2020), 206 of which were directly related to GBV.*³¹



32. Male calls include young boys abused by parents and other family members. In fact, in march 2020, 65 of the total male calls were from boys between the ages 16-18 (the majority of total calls).

The Palestinian Working Woman Society for development. Progress Update: COVID-19 Emergency Situation, April 2020.

[&]quot;It is worth mentioning that the PWWSD created and shared its open-line numbers with the general public only since the beginning of home-quarantine in Palestine on the 22 of March. Therefore, the immediate response from the public is an indication for the necessity of psycho-social support. The PWWSD also highlighted that most of the women contacted are uncomfortable in sharing their feelings and discussing the details of abuse given the presence of their children and husbands at home at all hours. Moreover, the women noted that their phones are usually with the husbands or used by their children for school and entertainment purposes, limiting their access to online-support groups and resources".

Figure 2.





WCLAC has also witnessed *an increase in the number of women who reported threats to their lives through their emergency hotline.*³³ Indeed, between mid-April and May, there has been an *average of three cases of life threats every week*, a significant increase in comparison to pre-pandemic rates. This increase is also in line with the rise in femicide in Gaza and the West Bank in which more than *10 females were killed during the enforced state of emergency compared to 28 women killed in the whole year in 2019.*³⁴

While the numbers of physical violence remain constant throughout the period of the lockdowns, the helpline unit has noted an increase in the *severity and extent of violence that women experience*. The injuries reported have become increasingly more acute, requiring professional help. This is especially dangerous given that hospitals are considered an unsafe environment during the outbreak. In fact, the WCLAC report emphasizes that, "women have found themselves victims of psychological violence that has later been compounded with economic and physical violence as lockdowns [have] continued and additional stress has been added to the family".³⁵

Women's Centre for Legal Aid and Counselling. COVID-19 and Women's Rights in Palestine, June 2020
https://peoplesdispatch.org/2019/09/25/palestinian-women-to-march-against-gender-based-violence/
ibid., p.8

One of the most notable and effective *interventions* from national womencentered organizations was the provision and/or extension of hotline hours. As mentioned above, SAWA's extended hotline hours resulted in an 18% increase in calls, as it allowed women to find time and space (not during the day) to seek help. Therefore, it is critical for other women's organizations to make their services more accessible by extending their hours, providing online counseling to reach a wider audience using various platforms, and enhancing outreach programs. The Ministry of Social Development (MoSD), which first states that women could not enter protection centers without having been quarantined for 14 days, issued new guidelines after women rights advocated for new guidelines to safely transfer women with life-threatening cases to shelters.³⁶ The new procedures included COVID-19 testing for GBV victims in urgent need for protection and guaranteed approval for protection shelters when test results are negative.³⁷ Moreover, women's right organizations are working to facilitate transitional shelters in which women could be quarantined before entering anti-violence shelters.³⁸ It is important to emphasize that these shelters and the adaption in the referral systems should take into consideration the specific needs of victims of GBV from mental support, security, hygiene, adequate nutrition and health services.

3. COVID-19 and Increased Domestic Burdens

The lockdowns, work-from-home orders, and school closures have significantly increased the household and childcare burdens for women in Palestine. According to the Arab World for Research and Development (AWRAD) polls, as high as 86.8% of Palestinian women said that their household duties have increased or somewhat increased, compared to 72.9% of men.³⁹ *While about 68% of women said that their household duties have increased, about 44% of men reported an increase with the rest*

^{36.} ibid.

^{37.} WCLAC shelters have been able to provide safe spaces for women since mid-April following the changes in regulations and the organization has paid special attention to the safety and health of the staff attending to these women at such challenging times.

^{38.} WCLAC, 2020

^{39.} AWRAD, 2020

(29.4%) reporting a somewhat of an increase. In terms of childcare, 51% of women said that their childcare duties increased compared to around **30% of men.**⁴⁰ It is worth mentioning that these numbers are a percentage increase, therefore, women that were already disproportionately burdened with childcare tasks pre-COVID-19 and are now responsible for even more tasks with the enforced closures. While the experience of Palestinian women in terms of increased household burdens is shared with women in the MENA region and around the globe given the normalized gender roles, it is important to note that the Governmental Cabinet in Palestine decided to excused all women with children from work by asking them to stay at home to take care of the children.⁴¹ As the UN Women assessment report emphasizes, "[this is part of] a visible pattern of women primarily taking on the role of caregiving, even if at the expense of comprising their own needs".42 "The added burdens of household chores include meeting the needs and wants of various members of the family, ensuring necessary hygiene and sanitation standards for minimizing exposure to the viral infection, adjusting to the new teaching mechanisms, and managing household resources", they explained.43



Gendered Increase in Household Duties

Figure 4.

Gendered Increase in Childcare Duties throughout lockdown



Source: AWRAD, 2020

Figure 3.

40. AWRAD, 2020, p.6

- 41. UN Women. COVID-19: Gendered Impacts of the Pandemic in Palestine and Implications for Policy and Program, 2020
- 42. UN Women. COVID-19: Gendered Impacts of the Pandemic in Palestine and Implications for Policy and Program, 2020
- 43. UN Women: COVID-19 and Ending Violence Against Women and Girls, April 2020, p.19

Additional responsibilities such as teaching and providing for children during online-school and afterhours are causing a surge in the already high levels of unpaid work that women do.⁴⁴ Globally, females are responsible for 75% of domestic and unpaid work.⁴⁵ The COVID-19 pandemic has revealed the fragility of women's participation in the paid economy. With the enforced lockdowns, many families need to take care of their children with no institutional support. Such responsibilities are almost automatically transferred to the women in the household as they are assumed/expected to be the main caregivers. These reinforced gender roles are, therefore, translated in the disproportionate increase in household burdens between men and women.

4. The Economic Impact Of COVID-19 on Palestinian Women

In line with global trends, emerging rapid assessment reports on the impact of COVID-19 suggest increased economic burden on Palestinian women (e.g. UN Women, 2020; CARE Palestine, 2020, WCLAC, 2020). Palestinian women are not only having to adjust their personal and professional goals to provide for the families during lockdowns, but are also victims of economic violence and food insecurities.⁴⁶ Given the huge pay-gap between men and women in Palestine (71 NIS for females compared with 105 NIS for males), females are less likely to have a safety-net to fall-on during times of economic distress.⁴⁷ Additionally, females are more likely to be laid-off as they are overrepresented in acute service sectors that were the first to lay off their employees such as retail, hospitality, and tourism.⁴⁸

Approximately 32,000 of employed women in Palestine work in the informal sector.⁴⁹And more than 25% of women in the private sector are employed with no official contracts. Accordingly, they are more likely to

48. ibid.

Power, Kate. (2020). The COVID-19 Pandemic has increased the Care Burden of Women and Families.
ibid

^{46.} UN Women, 2020

^{47.} PCBS, 2019

^{49.} PCBS, 2020. These numbers are likely an underestimation given that it is hard to determine the exact number of employees working informally. Read more:http://www.pcbs.gov.ps/site/512/default.aspx?tab ID=512&lang=en<emID=3730&mid=3171&wversion=Staging

be laid-off as they lack legal labor protection, have no protection against furlough and wage cuts, are not paid for sick leaves, and have limited access to social protection.⁵⁰ Such factors are critical to ensure labor rights especially during the spread of a deadly pandemic that resulted in compounded economic grievances.

As mentioned earlier, *women were the first group of governmental staff to be told to work from home with the outbreak*, prioritizing male jobs and emphasizing the woman's role at home. Prior to the outbreak, 7% of women-led enterprises reported childcare as a limitation in continuing their projects.⁵¹ Given that women are now forced to stay at home with their children, these limitations are likely to *increase significantly, driving small businesses to shut down*.

The outbreak of COVID-19 severely impacted female workers in Palestine. For example, according to a flash survey with 301 respondents conducted by UN Women in April 2020, 95% of Palestinian women who own micro, small, and medium enterprises (MSMEs) reported negative *impacts* from the pandemics only a few weeks into lockdown.⁵² According to the gender assessment interviews conducted by CARE Palestine in April, more 28% of female respondents could not work at all, compared to 8% of men (3 times as likely).⁵³ In nearly every respect, female respondents found earning a living during COVID-19 more difficult than men.⁵⁴ Indeed, 89% of female small business owners were forced to reallocate money previously dedicated to their work or businesses to the household compared to only 50% of men. This is an indication of the lack of financial safety nets available to women likely due to pay gaps and limited ability to save.⁵⁵ Additionally, the study found that females were *more impacted by the lack of inputs and* shuttered bank services than their male counterparts, with 90% of women unable to access financial services compared to 73% of men.⁵⁶

- 54. ibid.
- 55. CARE, 2020
- 56. ibid.

^{50.} PCBS, 2020. Read more: http://www.pcbs.gov.ps/site/512/default.aspx?lang=en<emID=3679

UN Women. COVID-19: Gendered Impacts of the Pandemic in Palestine and Implications for Policy and Program. 2020, p.21

^{52.} ibid.

^{53.} CARE, 2020

Figure 5.

Percentage of Entrepreneurs unable

to work at all due to lockdowns

Figure 6.

Percentage of Entrepreneurs forced to re-allocate money from their businesses to the household

Figure 7.

Percentage of Entrepreneurs unable to access financial services



Source: CARE, 2020

These increased restrictions on women-led SMEs are alarming given that, globally and nationally, women businesses face financial and nonfinancial barriers, making them more vulnerable to the economic shocks induced by COVID-19 than their male counterparts. In terms of financial barriers, women entrepreneurs have more restricted access to finances than their male counterparts. Indeed, a market and credit assessment study of the International Finance corporation finds that women MSMEs face unfavorable lending policies, lack of collateral, and overall challenges in obtaining credits and loans to fund business.⁵⁷ These barriers result in a credit gap for women entrepreneurs who require finance to maintain and grow their businesses but unable to obtain funds.⁵⁸ These challenges are exacerbated by non-financial barriers such as limited networks, access to opportunities and information, and gender roles that emphasize the role of women in the home or as caregivers.⁵⁹

 ^{57.} Across regions, formal women owned SMEs are more likely to cite access to finance as a major or severe constraint: 29% of women compared to 24% of men (see: International Finance Corporation, 2014).
58. International Finance Corporation, 2014
59. ibid.

Figure 8.

Percentage of Women-led MSMEs reporting negative impacts a few weeks into lockdown



Did Not Report Negative Impacts Reported Negative Impacts on MSMEs

These global trends are likely to be more severe in Palestine. In fact, in 2012, female entrepreneurship in Palestine was amongst the worst in the world, ranking as the 58th out of 67 countries in early-stage entrepreneurship activity. Moreover, it was the second worst country (66th out of 67) in established-business female owners (which has been in operation for more than 42 months). In Palestine, the majority of finances, tax relief, and small-business incentives to promote further growth for MSMEs are directed towards new businesses with a financial capital no less than \$250,000.⁶⁰ Because the majority of women-led enterprises invest less this specified amount, they do not benefit from the efforts directed towards growing Palestinian enterprises.⁶¹ Therefore, women-led MSMEs have restricted access to finances and governmental relief policies, increasing the costs of starting and maintaining businesses.⁶² Women face more challenges in receiving microfinancing from banks than men in Palestine.⁶³ This is because most Palestinian women cannot provide guarantees (mainly physical assets), and have to ask a male-figure to co-sign to be able to borrow. Furthermore, more women report difficulty finding a co-signer than men.⁶⁴ Hence, in a study conducted by MAS in 2012, 61% of women who planned on starting a business chose not to take the risks due to lack

- 62. ibid.
- 63. ibid.
- 64. ibid.

^{60.} Unless it is an IT business. See: Adullah and Hattawy, 2014

^{61.} Adullah and Hattawy, 2014, p.39

of financing.⁶⁵ Additionally, 10% of women who halted their projects had to do so due to the lack of financing opportunities.⁶⁶ As discussed above, these financial barriers were exacerbated due to the pandemic. Hence, more women entrepreneurs facing difficulties accessing financial services.⁶⁷

In addition to the challenges associated with starting a business under occupation (limited mobility, high risks, scarce resources, high costs and competition with external markets), Palestinian women have to face other financial and non-financial barriers because of their gender. Most importantly, women MSMEs in Palestine are more vulnerable because of the social and cultural gender norms and restrictions imposed on women. Not only are women restricted to a certain of businesses deemed culturally "appropriate", but also struggle from lack of social services that should provide quality and accessible childcare.⁶⁸ In the same 2012 MAS study, 38% of women who halted or stopped their projects did so because of increased pressure from society or their immediate families (traditional norms, patriarchal systems, domestic work, childcare) to adhere to traditional gender roles.⁶⁹ This is especially true for women living in rural areas and area C. Such cultural stigma and the increased lack of childcare services due to COVID-19 are likely to have forced more women entrepreneurs to stayat-home to attend for their children.⁷⁰ Hence, women were 3 times more likely to report not being able to work at all during shutdowns compared to men.⁷¹

Although scarce, there have been some recent efforts geared directly towards promoting women's economic empowerment in Palestine in response to the pandemic. Most notably is the "Valiance Basala"-Empowering women in H2" established by ActionAID Palestine (AAP) and the Australian Government.⁷² The project supported 22 women-led economic enterprises including agricultural and commercial enterprises that promote strengthening the economic power of women and their presence

71. CARE, 2020

^{65.} Ibid. These statistics are based on an Adult Population survey conducted in Palestine in 2009, 2010, 2012 using a harmonized survey designed by GEM

^{66.} ibid.

^{67.} CARE, 2020

^{68.} ibid.

^{69.} ibid.

^{70.} UN Women, 2020

^{72.} The project is based in Hebron in area H2 which refers to the 20% of the city of Hebron under Israeli control. H2 is home of 33,000 along with a few hundred Israeli settlers. Read more on the humanitarian situation in H2: https://www.ochaopt.org/sites/default/files/h2_spotlight_april_2019.pdf

in local communities.⁷³ "[the project provided] 22 women with agricultural items and equipment needed for planting vegetables and livestock farming and other commercial items to establish their own businesses."⁷⁴ This project offers great examples on the ways in which organizations can enable women to provide for their families during periods of economic decline. This is especially true given that the items were delivered to women under the state of full lockdown with cooperation with Hebron Governorate.⁷⁵

Additionally, most recently the Canadian government collaborated with the Palestinian Agricultural Relief Committees (PARC) and the Ministry of National Economy to launch a new four-year project aimed towards economically enabling women from low-income backgrounds in the Agricultural sectors. The project provides small grants for females between the ages of 19-29 to promote green entrepreneurship along the value chain (inputs, production, manufacturing, marketing and distribution).⁷⁶

5. COVID-19 and Women's Physical and Mental Health

5.1. Physical Health

Given their essential role as caregivers in the household and as frontline workers during COVID-19, women require greater attention in testing and healthcare.⁷⁷ Indeed, females represent 60% of workers in the care sector and comprise around 70% of frontline health workers (nurses, medics, ...) in the West Bank and Gaza.⁷⁸ This means that women are at higher risk in terms of being exposed to the virus, requiring more direct mitigation efforts. As the UN Women assessment emphasizes, "[while both] male and female frontline health workers are increasingly exposed to isolation and ill treatment in some cases, [for female health workers] there is the added consideration of potential deterioration of health becoming a justification

Palestine Action Aid, 2020. Read more at https://palestine.actionaid.org/news/2020/actionaid-palestine-promote-womens-economic-empowerment-h2-during-covid-19-pandemic

^{74.} ibid.

^{75.} ibid.

^{76.} PARC, 2020. Read more:http://www.pal-arc.org/articles/Article/327

^{77.} ibid.

^{78.} ibid.

for patriarchal norm of remaining in the household".⁷⁹ Moreover, according to CARE Palestine, *only 58% of women reported having safe access to health facilities inside and out of their communities compared to 86% of their male counterparts.*⁸⁰



In terms of the COVID-19 response, UN women noted that the designated quarantine facilities do not include an adequate space for a women's needs.⁸¹ In Gaza, the schools used as facilities for quarantine due to overcrowded neighborhoods do not have sufficient sanitation or hygiene products that are suitable for female needs.⁸² Quarantine facilities should include gender responsive facilities and take into account women's privacy, modesty, and hygiene needs.⁸³

In terms of intervention, Palestine has received international assistance targeted towards pandemic relief. In addition to the WHO, other international

^{79.} UN Women: COVID-19 and Ending Violence Against Women and Girls, April 2020, p.17

^{80.} CARE, 2020

UN Women. COVID-19: Gendered Impacts of the Pandemic in Palestine and Implications for Policy and Program, 2020

UN Women. COVID-19: Gendered Impacts of the Pandemic in Palestine and Implications for Policy and Program, 2020

^{83.} ibid.

donors have been providing necessary PPE and other equipment to aid the Ministry of Health during the outbreak. For example, the Catholic Relief Services (CRS) is providing equipment, supplies and Infection Prevention Control, training for health facilities, and community engagement and hygiene kits for families at risk for exposure.⁸⁴ Moreover, the Palestinian Family Planning and Protection Association (PFPPA) partnered with various international organizations to provide more than 5,000 hygiene kits and disinfection items for vulnerable families, focusing on pregnant and lactating women.⁸⁵ The Union of Health Work Committees (UHWC) also partnered with various organizations such as the UNFPA, UNICEF, and WHO to provide 7,089 high risk pregnant and mothers with essential health and nutrition care services.⁸⁶ Still, there is a vacuum in Palestinian women leading the COVID-19 relief response to ensure necessary needs for women, despite high presentation in healthcare services.⁸⁷

5.2. Mental Health

Palestinian women report greater negative emotional effects due to COVID-19 than their male counterparts.⁸⁸ This disproportionate impact is likely explained by the higher levels of stress and anxiety women are experiencing due to increased loads of household duties and higher levels in GBV given the stay-at-home orders.⁸⁹ According to AWRAD, Palestinian women felt stressed or somewhat stressed 81.9% of the time compared to men at 72.9%, and 47.5% of women felt fully emotionally stressed during lockdown compared to 35.1% of men.⁹⁰ Also, almost 50% of women felt anxious compared to 30.8% of men, and 66.6% felt anger to a large extent compared to 53.8% of men.⁹¹ *Higher levels of stress, anxiousness, and anger amongst women is expected given that 47.5% of women are doing their full-time jobs from home instead of the workplace while still taking care of the household compared. This is only true for 34.1% of men who reported having to work from home.*⁹² Additionally, Health Cluster in Palestine warns of the severe mental health impacts reported by women, particularly

- 86. ibid.
- 87. UN Women, 2020
- 88. AWRAD, 2020, p.8
- 89. AWRAD, 2020
- 90. AWRAD, 2020, p.8
- 91. ibid. 92. ibid.

Health Cluster Opt, 2020. Read more:http://healthclusteropt.org/admin/file_manager/uploads/files/ shares/Documents/5f056566a328a.pdf

^{85.} ibid.

pregnant women who are afraid for themselves and their children because of the limited access to health services.⁹³



To mitigate the negative influence of COVID-19 on women's mental health, Health Cluster supported the Ministry of Health (MoH) to provide Mental Health and Psychosocial Support services (MHPSS) for families affected by COVID.⁹⁴ Almost 3,300 received MHPSS consultations and support from this initiative. Various women's organizations such as WCLAC, SAWA, and PWWSD are providing counselling and other resources such as legal aid to help alleviate and guide women in terms of psychosocial support. Still, most of the women's essential service providers report a fear of funding cuts that will hinder their ability to provide for women in need for such support.⁹⁵

6. Conclusion

While the outbreak of the COVID-19 is severely impacting the Palestinian society as a whole, the emergency response and roadmap to recovery

^{93.} Health Cluster oPt. The impact of COVID-19 on sexual and reproductive, including maternal health in Palestine, 2020

^{94.} ibid.

^{95.} UN women, 2020

should emphasize on creating coping mechanisms that are directly targeted towards uplifting women. This is because rapid assessment reports from various national and international organizations have emphasized that across every sphere, the impacts of COVID-19 are exacerbated for women and girls.

The closure of schools has increased the burden of unpaid care work and domestic responsibilities. These increased burdens have affected the psychological wellbeing of working women given that they have to balance working from home in addition to taking care of children. Moreover, the mobility restrictions due to nation-wide lockdowns have already increased GBV (economic, social, psychological, and online abuse) levels as people are confined in their houses with their abusers. These mobility restrictions are also preventing women from accessing essential services (including health protection, violence protection aid services, shelters, and courts). Additionally, the pandemic had direct impacts on women working in the informal sector as they are unlikely to be able to absorb the economic shock due to the lack of safety nets. Female-led SMEs are also severely impacted as more women are having to redirect business capital towards their household, are unable to access financial capital more than men, and are increasingly burdened with household responsibilities. In terms of physical health, more women are working at the frontlines in Palestine, increasing their exposure to the virus. Given these severe impacts, it is of most importance to concentrate on creating alternative and effective methods that will help women, as a vulnerable group, cope with the severe impacts of the pandemic. While there has been an effort from international and national women's organizations to aid Palestinian women and decrease the severity of the COVID-19 pandemic impacts, there are necessary steps to be taken on a national and international level to help Palestinian women who are suffering from the gendered impacts of the pandemic in addition to the effects of Israeli military occupation.

6.1. Recommendations and Policy Implication

Given the disproportionate impact of COVID-19 on Palestinian women compared to men, it is critical to place women at the center of the pandemic response and future policies. In this section, we introduce key recommendations and policy implications for policy makers that are essential to reduce the rates of GBV and provide services for female victims, support women working on the frontlines to fight the pandemic, provide aid for the vulnerable women-led MSMEs, and relieve the increased domestic and economic burdens of COVID-19 on women.

In terms of tackling the issue of increased rates of violence, women centered organizations should continue to provide lifesaving services for victims of GBV such as 24/7 hotlines, online and in person (following safety guides) counselling to increase access, and ensure that more safe houses and shelters are available for women who need a safe-space to distance from their abusers in the case of a future lockdown. Sheltering services must provide appropriate transportation and follow health precautions to avoid COVID-19 exposure for current residents and protect victims. Shelters are extremely important as some women's lives are equally threatened by their abusers and the virus. Moreover, women-centered organizations and national authorities should raise awareness about GVB in the society and spread information about resources and safe spaces available for women who are victims or survivors of GVB.

Women are on the frontlines fighting the pandemic in large numbers, therefore, it is critical to support female nurses and medics by providing appropriate supplies such as adequate facilities and resources to ensure female hygiene and safety, a safe working environment in which there are accountability mechanisms for discrimination against women at the workplace, equal pay to their male counterparts, and psychological support to reduce the increased mental burdens. It is also important to create policies that would encourage women to test in higher numbers and break the cultural stigma associated with females contracting the virus.

Due to the pandemic, women are becoming even more vulnerable in the labor market and women-led businesses have been disproportionately affected. It is important to support women-led micro, medium, and small enterprises to ensure their sustainability. This aid should include cash assistance and cash for work opportunities, but more importantly, it is critical to provide the necessary skills to move towards e-commerce or create online/distant working modalities to cope with the current and any future crises. It is also essential to engage local women organizations and Palestinian women in the decision-making process for the COVID-19 recovery roadmap and determining long-term policies to curb the severe gendered impacts of the pandemic. There is also a need to encourage and promote the role of men in the home and as caregivers through awareness campaigns. For example, in a case of another lockdown, the government should offer a choice for women and men to decide which partner is to work from home first, instead of targeting women in the work-from-home policy

Socioeconomic policy interventions in Palestine should be focused on protecting women from falling into poverty (especially those in the informal sector) and avoiding persisting economic and health impacts in the long-run. This is critical given that only 0.6% of the 1.7 billion USD of humanitarian funding distributed to Palestine were allocated to projects specifically targeting women's needs, gender equality, or empowering to participate in socioeconomic recovery.⁹⁶ In order to produce effective intervention policies, there is a need for national in-depth analysis and understanding of the impact of COVID-19 on women to ensure an appropriate and effective COVID-19 response that is specifically targeted towards Palestinian women. Therefore, data about the impact of COVID-19 on women is crucial to decrease the pandemic socioeconomic negative influences, which requires collecting data by the Palestinian Central Bureau of Statistic (PCBS) and other official bodies.

^{96.} Wph-Fund, 2020. Read more: https://wphfund.org/countries/palestine/

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PART 4 HEALTH AND SUSTAINABLE DEVELOPMENT

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- 03 (UK) Impacts of COVID-19 Epidemics and State Policies on the Interactions of Economic and Health Systems: The Cases of the UK and Russia During 2020, Christopher Mark Davis
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Food Security Impact of COVID-19 and Policy Responses in Ethiopia

PART 4

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Visiting Scholars' Opinion Paper

Crisis and Fragility: Economic Impact of COVID-19 and Policy Responses

Food Security Impact of COVID-19 and Policy Responses in Ethiopia

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Introduction

Ethiopia is a country with the total population of more than 110 million, of which about 80% is found engaged in subsistence farming in rural areas (CSA 2017). Food insecurity is still a big challenge in Ethiopia with millions of people needing food assistance. Ethiopia ranked 97th in the Global Hunger Index (GHI) in 2019 (World Bank 2020). The causes of food insecurity in Ethiopia are multiple and varied including, but not limited to, extreme weather conditions, environmental degradations, population pressure, less but improving government dedication and policy drawbacks. Undoubtedly, the COVID-19 pandemic might aggravate the already-precarious food security situations, both along and at the end of the COVID-19 pandemic. The fact that COVID-19 spreads (according to WHO's series of briefings) primarily through coughing/sneezing and touching of the virus-infected surfaces makes the disease so dangerous for the people to engage in daily livelihoods activities. COVID-19 spreads so easily unlike the other previous pandemics (such as HIV/AIDS) making the economic activities so challenging at international, national and local levels. Hence, poor economic performance could be an outcome of the pandemic (in addition to other adverse impacts) as it impacts almost every single business and individual, which in turn, aggravates the existing poverty and food insecurity situations of the country. As noted by the FAO (http://www.

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Health and Sustainable Development

Ethiopia



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fao.org/news/story/en), the already most vulnerable communities may face 'a crisis within a crisis' owing to the COVID-19 pandemic. In Ethiopia whose medical system is under-resourced and the economy is subsistence, the health crisis of the people may be compounded by 'lost livelihoods and hunger crisis' unless concerned government organizations and individuals implement pandemic protection guidelines most properly and immediately.

COVID-19 outbreak: Global and Ethiopian overviews

Ethiopia started the COVID-19 outbreak with imported cases. On 28 September 2020, there were 73,332 confirmed cases in Ethiopia of which 1,170 ended in death due to the virus and 30,363 recovered. Most of the confirmed and death cases in Ethiopia are imported. Ethiopia reported the first confirmed COVID-19 case on 13 March 2020. The person found positive was a 48-year-old Japanese citizen who came to Ethiopia from Burkina Faso in early March 2020. The first COVID-induced death took place in Ethiopia on 5 April 2020. A 60-year-old woman who was in treatment at a hospital since 31 March 2020 died of the virus as well.

Many fear that the socioeconomic and cultural scenarios in Ethiopia may exacerbate the prevalence of COVID-19 in the country though the government is trying its level best to manage the situation. The greeting habits (such as hand shaking, kissing chicks and hugging), overcrowding in public transportation and market places, congested living rooms, and unfavorable workplaces are feared to worsening the situation in Ethiopia. Moreover, chat/khat (a stimulant fresh leaves) chewing traditions, cultural coffee and meal gatherings, group-based shisha smoking, crowds of street vendors and religious gatherings are feared to contribute to the spread of the virus, particularly in urban areas. In addition to these, traditional collective farming and harvesting practices (such as debo and walfala) are other factors through which the virus may spread in rural areas unless proper and strict awareness creation measures are taken.

Currently, almost all business enterprises, education institutions, informal and subsistence businesses and government offices are highly impacted by the pandemic. The majority of the existing about 7.5 million employees
(workforce) in government offices, NGOs, international organizations and private companies are forced to 'stay home or work from home' in Ethiopia. Most persons working in several informal sectors (such as street vending, manufacturing, construction, mining/quarrying, wholesale and retail trade) are impacted. These predicaments, no doubt, exacerbate the socioeconomic and food insecurity problems in the country calling for wide-ranging thorough planning and proper management to buffer the long-term challenges of the pandemic.

How COVID-19 impacts food security in Ethiopia?

Ethiopia is already one of the most food insecure countries in the world though it has made important development gains over the past two decades in reducing poverty and expanding investments in basic social services. Cognizant of the continued and at least half-a-century-old food insecurity problems in the country, the government of Ethiopia, together with donor organizations, formulated the National Food Security Strategy (NFSS) in 1996 and has been implementing the Productive Safety Net Program (PSNP) since 2005, both in urban and rural areas. The target was to significantly reduce the number of food-insecure people in the country though the progress has not been remarkable. However, the government isn't using the PSNP to mitigate the COVID-19 pandemic both in rural and urban Ethiopia.

As per the 2020 Humanitarian Development Plan (HRP), an estimated 8 million people require food assistance in Ethiopia. This figure includes internally displaced persons (IDPs), who have had to leave their homes due to unrest or natural shocks (OCHA, 2020). The COVID-19 pandemic is feared to be a burden on the existing precarious food security situation in Ethiopia since it may adversely impact investments, job opportunities and livelihoods in/around urban areas as well as the production, input supply and marketing of the agricultural system.

The COVID-19 pandemic may result in enormous job cuts as investment projects may be forced to halt operations to mitigate the spread of the virus through reduction of workers' crowds and social/physical distancing. Currently, nearly 15% of those who attend post-secondary education are unemployed in Ethiopia (NPC, 2016). Over the years, efforts have been made to combat the increasing challenges of unemployment at all levels, including higher education. A recent effort in this regard has been the setting up of a national committee led by Ethiopia's Prime Minister Abiy Ahmed geared towards the creation of 3 million jobs per year. This ambitious plan, however, appears to have been seriously jeopardized since the onset of COVID-19 with increasing threats to the creation and maintenance of available jobs. In the same way, according to the preliminary estimations of the Jobs Creation Commission of Ethiopia (published on 29 March 2020), over 1.41 million jobs were threatened in April, May and June 2020 and an income loss of about \$265 million among urban self-employed citizens.

The job cuts may also be because of lack of markets for the outputs of the investment projects (such as cut flowers, textiles, footwears, minerals and agricultural products) as most importing markets are severely hit by the pandemic and may face economic downturn. Economists are already projecting that the pandemic may cause the greatest economic downturn next to the great global economic depression in 1930s. Presently, the National Planning Commission (NPC) of Ethiopia is forecasting the Ethiopian economy to slow down by 2.8% to 3.8% due to the pandemic. The overall result of the COVID-induced economic depression and job cuts among the investment projects may exacerbate extreme poverty and food insecurity. Data from the Ethiopian Investment Commission (EIC) shows that just before the outbreak of the pandemic, foreign direct investment (FDI) had created job opportunities for hundreds of thousands of Ethiopians over the last 2 decades. FDI inflows to Ethiopia had accelerated since the late years of 1990s and recorded US\$4 billion in 2017. Ethiopia had maintained its top rank in East Africa with the total FDI stock of over US\$22.25 billion.

Almost all hotels, restaurants, cafeterias, beauty salons, and recreational organizations are either closed or operating far below their full capacity. Night clubs, wedding event organizers and meetings of various kinds are suspended and/or limited in operation. Food processing companies (such as dairy, poultry and fattening farms) are severely hit by the adverse impacts of the pandemic and lost their markets. Poultry hatcheries, for example, are forced to discard their baby chickens owing to lack of markets for their products. Dairy processors significantly limited their milk collection capacities, production and distribution of their outputs. Rural-to-urban transportation of fruits and vegetables are significantly halted leading to

unprecedented spike in the prices for some vegetables (such as onion) in urban areas. All these realities have severe adverse impacts on the jobs, poverty and food security situations of the majority in Ethiopia.

Another key area of livelihoods and the food security challenge along the COVID-19 pandemic tunnel is related to informal sector workers, including temporary jobs such as street vending, petty trade, lottery selling, shoes-shining, transportation services and other similar activities. Several sources indicate that during the last few decades, the informal sector has been growing fast in urban areas of Ethiopia due to the influx of many young population into the sector who come from rural areas of the country with the expectation of a better life in cities/towns. The informal sector is believed to play an important role in poverty reduction and household food security enhancement. It provides jobs, reduces unemployment, bolsters economic activity and helps alleviate poverty. According to data obtained from the National Planning Commission (NPC), informal sector practitioners in Ethiopia are estimated at about 2 million, the vast majority of these living in urban areas and assumed to be living on daily subsistence income. This group of people are at risk of COVID-19 infestation in that they work in crowds and almost impossible to maintain the social/physical distancing precautions set by the WHO. It seems that it is almost equally challenging for this group of people to stay home or work outside for their daily subsistence. They may have nothing to eat for themselves and their children if they stay home and may contract the virus if they work outside. Therefore, the COVID-19 pandemic may push several millions of informal sector Ethiopians into acute poverty and food insecurity if the country is locked down owing to the pandemic. On the other hand, the country's economy doesn't allow the government to fulfill the subsistence of the existing huge informal sector practitioners amidst the lockdown.

Agriculture (the mainstay of the country's economy) is another key sector that may be severely hit by the COVID-19 pandemic in Ethiopia. If the virus spreads to rural areas, it may severely affect the farm workforce hindering production, harvesting and marketing processes. In fact, the general population infection rate may remain relatively low as compared to urban cases. The sparse settlement in rural areas may slow down the spread, unless the farmers contract the virus and spread it through market places, religious/cultural events, and group-based working traditions. Particularly, market places may be the main point of spread. If the worst comes, the spread of the virus may end up in sickness and/or death of the farm workforce, making them out of the farm work. Particularly, the elderly workforces are at high risk level, as data from other countries that have done more extensive testing suggest that COVID-19 has a much higher level of severity for those in their 60s and older. If they become ill or constrained by restrictions on movement or activity, they will be prevented from working their land, caring for their animals or accessing markets to sell their produce, buy food, or get seeds and supplies. Hence, the spread of the pandemic to rural areas may reduce agricultural output, which in turn, worsens the food scarcity situation in the country. This indicates that preventive and protective recommendations from health experts are critical for the farming population. Hence, a wide-ranging awareness creation work should be carried out to safeguard the farmers.

Rural-urban supply chain slowdown and shortage of agricultural outputs in urban areas are among the feared outcome of the COVID-19 plague in Ethiopia. If transportation is disrupted to slow down the spread of the virus, multiple connected industry sectors may be impacted. As an example of supply chain interruptions on farms, milk collection from smallholders may be hampered and in short supply for dairy processors in cities. In the same way, urban consumers' associations may be challenged by an interruption in supplies of key agricultural outputs (such as cereals, fruits and vegetables) leading to scarcity of the products in urban markets. Hence, a comprehensive and well-thought-out plan will be essential to buffer the impact of unforeseen events.

Recommendations for social/physical distancing, reduced travel, avoiding crowds, closures and other protective practices to slow down the spread of COVID-19 may force the urban consumers to make tough choices about food, eating away from home, and overall spending. This may lead to some disruptions in food service sales, particularly dairy products, fruits and vegetables. This will likely have an adverse impact on market chains and prices. Concerns about the impact of the virus on the broader economy in Ethiopia are likely to have an even larger impact on prices of agricultural outputs. Similar to many countries and economic blocks, Ethiopia may experience slower economic growth owing to the pandemic. This may worsen the already precarious poverty and food insecurity situation of the country.

The food insecurity impact of COVID-19 may go even beyond the pandemic period if the poor and riskier people are not supported at least to access food free of charge. These people have very little to fall back on materially. As noted by the FAO (http://www.fao.org), they could find themselves forced to abandon their livelihoods. They might have to sell off their assets, animals or their fishing boat for cash during/after the pandemic to buy food. Farming households may eat all of their seeds instead of saving some to replant, and once a rural farming family does that, getting to be self-reliant again becomes extremely difficult. Some victims might even have no other choices than to leave their homes/businesses, and even subjected to trafficking, in search of subsistence elsewhere.

Policy responses, resource mobilization and foreign aids

The government of Ethiopia is keen to prevent serious damage to one of Africa's fastest-growing economies, which expanded at more than 10% average annual growth rate in the 2010s. Safeguarding these gains, preventing job losses, and ensuring firms' survival have been critical in the trajectory to fight against Covid-19 in Ethiopia. The Ethiopian government has relied heavily on community mobilization and public-awareness campaigns, which have proved to be effective and cost-efficient. With this, Ethiopia has managed to keep its COVID-19 cases to a minimum, with only about 270 deaths (as of 31 July 2020) out of a population of over 110 million. The government's rapid response, including house-to-house screenings, awareness creation works and diagnostic testing, were crucial in stemming the outbreak. Ethiopia has also encouraged production and other economic activities to continue during the crisis.

Ethiopia's unconventional approach reflects the country's limited financial and human resources, as well as the low level of available international support. Despite these severe constraints, the results so far have been better than anyone expected. Instead of implementing a national lockdown like most other governments, including in Africa, Ethiopia initiated other essential measures in January, well ahead of most developed countries. The government then scaled up its response in mid-March, when the first COVID-19 case was reported in the country, and declared a state of emergency in April 8. Moreover, it has encouraged production and other economic activities to continue during the crisis, thus considerably easing the pressure on vulnerable social groups and the informal sector. The key policy response to COVID-19 in Ethiopia is a 5-month State of Emergency in accordance with Article 93 (4) (a) of the Constitution of the Federal Democratic Republic of Ethiopia. It was declared in an effort to counter and control the spread of the virus and its impacts. Following its approval by the Council of Ministers, Proclamation 3/2020, also known as the 'State of Emergency Proclamation Enacted to Counter and Control the Spread of COVID-19 and Mitigate Its Impact' made its passage through the House of Peoples' Representatives on 10 April 2020. Furthermore, the House endorsed a seven-member 'State of Emergency Inquiry Board' (SEIB) to scrutinize its implementation in accordance with the Constitution.

The SoE prohibits, among others, meetings, worship gatherings, handshaking, any lessor of residential/commercial property to evict a lessee or increase rent, termination of employment contracts, face-to-face classes, games/sporting events, visit of any detainee in a prison and/or policy custody, night club services, shisha/khat services, entertainment services and dissemination of information about Covid-19 which would cause terror among the public. It has also limited public and private transport services to 50% of the seating capacity.

The SoE has also imposed duties as follows: quarantine of everyone suspected of Covid-19 positive and international passengers; isolation of any person who has tested positive for Covid-19; wearing of mouth/nose masks within public areas; private/public service sectors to provide their clients with sanitary materials; a-two-adult stride distance for anybody on the street/queue; and allowing employees to work in shifts or work from home or take paid leave. According to the SoE Act, the owner of any house, hotel, apartment, vehicle, or any other property shall avail to the government such property if the Government determines that the property is necessary as well as any medical or other profession in active service, in retirement or in training or any citizen has a duty to comply with any request the government might issue in the effort to counter and control the spread of COVID-19 and mitigate its impact.

Ethiopia has also established the National Emergency Coordination Center for COVID-19 response and response resource mobilization task force in the effort to counter and control the spread of COVID-19 and mitigate its impact. The task force is fundraising in the form of cash, kind and voluntary services. At federal level, the COVID-19 response is coordinated by the Emergency Coordination Center (ECC) led by National Disaster Risk Management Commission (NDRMC) Commissioner; while coordination centers/taskforces have been established at regional level. NDRMC is working to ensure that regional coordination forums mirror federal coordination mechanism. The resources have been donated by individuals, government organizations, business entities, embassies in Addis Ababa, development partners, non-government organizations (NGOs), Civil Society Organizations (CSOs) and countries such as China, South Korea and EU.

Concluding remarks and recommendations

Ethiopia declared a State of Emergency and/or regulation on 20 April 2020 to counter and control the spread of Covid-19 and mitigate its impact with a wide range of orders such as limited movements, gatherings, business operations and transportation service carriers; introduced workfrom-home platform and closed schools and universities. Ethiopia also targeted mobilization of resources to control and suppress community transmission and reduce mortality. The country prohibited meetings, hand shaking, alcohol and recreational services at night clubs, entertainment and sport services and entrance of foreigners to the country. Unlike most other countries, Ethiopia has not implemented complete closures and curfews. It could have been riskier and more inappropriate for Ethiopia to completely shut down economic activities externally and internally. A severe lockdown of economic activities might imply the risk of social unrest as people's livelihoods and food security situations could be significantly affected. The fact that Ethiopia largely relies on importation may aggravate the scarcity of goods in markets. This could, in return, hinders the efforts on fighting the COVID-19 pandemic in the country.

Protection (not patient treatment) of the COVID-19 pandemic is a wise approach and more realistic disaster risk management for Ethiopia to save lives as well as to protect the economy from severe depression. This is because Ethiopia is a very poor country with severe scarcity of medical professionals and related equipment (such as ventilators and masks) to properly treat the infected patients. All sorts of prevention measures (except complete closure) seem vital for Ethiopia to prevent the pandemic. These include (as recommended by WHO and endorsed by the Ethiopian government) social/physical distancing, reduced travel and avoiding any form of crowds to prevent the spread of the virus. The recommended measures must be strictly enforced. Specific to the farming community, the farmers must be suspended from going to urban areas (unless to sell/buy very important products) and refrain from group-based farming/harvesting practices in addition to other protection recommendations. While supplying their produces and/or buying commodities/services, they must be strongly and frequently advised (most importantly through rural development agents and health extension workers) to strictly follow the general COVID-19 protection recommendations: proper and frequent hand washing, physical/ social distancing, avoiding crowds and other measures.

The COVID-19 pandemic more severely impacts the lives, livelihoods and food security situations of very poor people, pity street vendors, daily wage earners, homeless street persons, temporary migrant workers and beggars. Most of this group of people 'cannot work from home' or cannot 'stay home'. They have only two worst choices: (1) to go out for their daily subsistence amid the virus or (2) die of hunger at home. Rationally speaking, they may not take the first option. It may be very challenging to keep these people at home as they may riot to the streets or may engage in some criminal acts to access food. The stampede among the crowds of hungry people surging for food aid in the Kibera slum of Nairobi (10 April 2020) and the food protest in Cape Town and Mumbai (14 April 2020) are distressing examples. This shows that thorough preparations must be in place to safeguard the group of people who may immediately suffer from COVID-19 restrictions from making a living. Scaling up of the 'Food Bank' to all cities/towns (already started by Addis Ababa City Administration) seems a brilliant option in this regard. The sources for the food bank may be government treasury, individuals, employees of the government organizations and private companies, business organization, NGOs/CSOs, embassies and welloff farmers. Government and the media are required to be aware of and encourage the cash/food donors for the food bank to help fight the double burdens on the poor during this bad time. The cooking and feeding places could be schools, colleges and universities where only thoroughly selected double-burden victims are allowed to access food. Another important option is to encourage individual households to support at least one person/ household be able to access adequate meal per day during these bad days. Nepotism and corruption may be emerging concerns that should be taken care of at this juncture.

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COVID-19, Lockdown and the Environment: Policy Response and the Way Forward

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Visiting Scholars' Opinion Paper

Crisis and Fragility: Economic Impact of COVID-19 and Policy Responses

COVID-19, Lockdown and the Environment: Policy Response and the Way Forward

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Abstract

The Coronavirus, which originated in China, has been declared a global pandemic and already affected over 24 million people and caused over 830,000 deaths globally. Unlike many countries that attempted a short or partial lockdown of their territories, India has enforced a preemptive national lockdown. Through this, India could avoid the rapid spread of COVID-19 during its initial months of the pandemic when the system and society was unprepared. Now, although COVID-19 is on an exponential growth path, India could manage to have the highest recovery rates and lowest fatality rates among all countries in the world, which can be attributed largely to the national lockdown. It could also avoid the incidence of mortality to the tune of 13 times the registered mortality. The great Indian lockdown, due to its longer span and the huge Indian population, has many negative impacts and yet some very positive impacts. This paper explains all such impacts and also analyses the opportunities that this crisis has brought to the fore and makes suggestions for converting the changes into transformations.

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1. COVID-19 – The Global Pandemic¹

The Coronavirus, which originated in China during the later part of 2019, has affected 215 countries and territories in the world and the resulting COVID-19 disease became a global pandemic as declared by the World Health Organization (WHO). The total number of infections reported across the world are 24,339,123 as on 28th August 2020 (20:00 IST) of which 829,742 have died of COVID-19 related complications and 16,877,167 cases have recovered from the infections. There are still 6,632,214 infections being treated globally. With daily new cases registered globally on the rise the pandemic has yet to reach its first peak.

Though very small compared to the Plague (100 millions deaths) and Spanish Flu (500 millions infections and 50 million deaths), the present pandemic has affected about 25 million people globally. The fact that 50% of these cases are coming from only three countries and many other heavily populated countries such as China, Indonesia, Nigeria and Vietnam have yet to be exposed to the COVID-19 pandemic presents an imminent threat to the world.

Among the major countries affected by this pandemic so far, India has the lowest tests per million population and also the lowest fatality rate at 44-deaths/million population. Observing the progression of the pandemic in the US and India, it is clear that India has flattened the curves during the initial months of the pandemic and that has saved India from a surge of cases and fatalities in the initial and vulnerable periods of the pandemic. This establishes the fact that India has dodged effectively the front-runners disadvantage² into the pandemic. Although the first case in the US and India appeared at the same time (February 2020), India could flatten the curve of daily cases as well as total registered cases and that has resulted in a much better situation with respect to the fatality rate (44 deaths in India against 554 deaths in the US per million population). As shown in Figure 1, the area in the dashed line represents the COVID19 cases avoided in the initial months of the pandemic in India. Consequently, the daily deaths avoided during the same period in India are highlighted by the dashed line in Figure 2.

Data as on 28th August 2020 was used in this analysis. As the pandemic progresses, the numbers tend to change.

Front-runners are the countries that are subjected to certain disadvantages such as low awareness about the disease and poor preparedness of the system and lack of established disease management protocols.

2. The *Great Indian Lockdown* and the Controlled Fatality of the Pandemic

As the development of a vaccine takes at least a year's time (now expected to have it by early 2021), the onset of the pandemic has been managed by adopting *social distancing*³ and imposing lockdowns. Given the severity of the infection and its fast-spreading nature, a number of countries have locked down their respective territories and confined their citizens to indoors as it has been considered as the only option to contain this global pandemic. Following many pandemic-hit countries globally, India also has resorted to a national lockdown.

2.1. The Great Indian Lockdown

India has been one of the countries to announce a nation-wide lockdown at an early stage of the pandemic when the confirmed infection cases were around 500 only. The first lockdown (LD.1) was announced on 24th March for 21 days, bringing one of the largest lockdowns ever in the world to reality. A population of over 130 million was confined to their homes and the entire economic activity came to a standstill. Only essential services were exempted from the lockdown. The Government of India has extended the lockdown further in four phases, as shown below.

^{3.} Social distancing is the maintenance of 3ft (or 1 meter) distance between individuals.

Figure 1.

Comparison of Daily New Cases Registered in the US and India



Source: Graph developed by the author using data collected from the World Health Organization Note: Trend line is a 7-day average of the data





Source: Graph developed by the author using data collected from the World Health Organization. Note: Trend line is a 7-day average of the data.

Nationwide lockdown (68 days)

Phase 1	24 March 2020 – 14 April 2020	(21 days)
Phase 2	15 April 2020 – 3 May 2020	(19 days)
Phase 3	4 May 2020 – 17 May 2020	(14 days)
Phase 4	18 May 2020 – 31 May 2020	(14 days)

During Lockdown 3.0, by categorizing the cities into RED, ORANGE and GREEN zones based on the incidence of Corona infection, the Government has provided an exception for local activities in zones where the spread of Corona is under control (GREEN).

- Better awareness among people, which resulted in improved protective measures such as wearing face masks, hand gloves and regular use of sanitizer and washing of hands.
- Higher preparedness for disease handling at the time of explosive growth by observing social distancing in public places.
- Continued restrictions even after 160 days on mass gathering domains such as universities, schools, festivals and large public meetings.
- Availability of better treatment protocols for COVID-19 and arrangement of large medical facilities with the necessary supplies and equipment.
- Made available enough supplies of PPE kits (Personal Protective Equipment) for medical staff, drugs and other essentials to fight COVID-19.
- Availability of more effective drugs such Remdisvir and Faviflu.

As explained in Figures 1 and 2, the nation-wide lockdown has helped India flatten the infection incidence curve to a large extent, protecting its population from serious exposures. This has resulted in the flattening of the pandemic progressions, and also resulted in higher and improved recovery rates and lowered fatality rates. The recovery rate in India is the highest at 76% as compared to the global average of 69%. Benefitting immensely from the nation-wide lockdown and the valuable preparation time made available for the system to respond better, the recovery rate in India has been rising over time as shown in Figure 3.

Figure 3.

Improvement of Recovery Rate from COVID-19 cases in India



Source: Graph developed by the author using data collected from https://www.worldometers.info/coronavirus/

This has further resulted in falling fatality rates in India. As on 28th August 2020, the Indian fatality rate was recorded as 1.98%, which is far lower than the global average of 4%. Fatality rates of various countries in the world are shown in Figure 4. It is evident from the figure that India has gained significantly from its nation-wide lockdown and it has been successful in fighting this pandemic better than other major affected countries. The highest fatality rate of the UK is 8 times higher than India, and the US and Brazil have recorded fatalities twice that of India. India has been increasing its testing activity on a continuous basis and that did not halt the improving fatality rate and recovery rates.







Source: Graph developed by the author using data collected from the https://www.worldometers.info/coronavirus/

2.2 Lockdown and the Avoided Fatalities in India

Countries such as the US, Russia and Brazil did not embark on a complete national lockdown, and as a result along with other factors, they have recorded very high fatality rates. The non-imposition of a lockdown would have resulted in a much wider spread of the coronavirus in India, and the unprepared population and medical management system would have resulted in a much higher fatality rate than the UK, and that would have meant the worst possible scenario for the country. Exploring such scenarios in order to find the fatalities avoided due to the nation-wide lockdown, the total fatalities are calculated by taking a few higher fatality rates from different countries in the world. The scenario results presented in Table 1 explains the potential mortality avoidance that the Indian lockdown has achieved. In the worst-case scenario, India would have recorded a whopping 856,000 deaths due to this pandemic. Mortality avoided by India by pitching an effective lockdown is in the range of 86,140 – 796,211. That is about 1.42 -13.13 times the registered mortality.

Table 1.

Scenario of Fatalities in India based on Fatality rates in different COVID-19 dominant countries

Scenario	Fatality Rate (Death/ Million Population	Total Deaths	Total Estimated Deaths in India based on Different Scenarios of Fatality Rates
India	44	60,629	
World Average	106.4	829,742	146,769
USA Scenario	554	183,653	765,628
UK Scenario	610	41,465	843,020
Spain Scenario	620	28,971	856,840
Brazil Scenario	553	117,756	764,246

Source: https://www.worldometers.info/coronavirus/#countries accessed on 27th August 2020, 11:30 IST. Note: The scenarios were built based on the data sourced from above.

The lockdown has resulted not only in lesser cases, but also in a lower fatality rate. Apart from the possible immunity support resulting from the use of drugs for the control of malaria and other infections, enhanced awareness among people, use of tools such as social distancing, improved personal hygiene, improved preparedness of the health system in the country and availability of better 'disease management protocols' and drugs, made this avoidance possible in the case of India. Therefore, this has been termed as the "Great Indian Lockdown" and some of the opinions expressing the same are presented below.

- "India's lockdown as one of the most stringent in the world, scoring 100 out of 100 on their tracker" *A group of researchers at the University of Oxford*
- "It was predicted that lockdown (1.0 + 2.0) helped avert 14-29 lakh cases and 37,000-78,000 deaths till 15 May" *MoSPI*
- "1.2L 210,000 lives were saved and 36-70 lakh cases were averted due to the lockdown till 15 May" – *Boston Consulting Group based on various estimation models*
- "78,000 deaths were averted during the lockdown period" *Prediction by Public Health Foundation of India*
- "Indian Lockdown is timely, comprehensive and robust" *WHO Representative to India*

As the economic activity became seriously affected and the hardships of people soared, the Government of India after careful stocktaking of the situation has implemented a progressive unlocking process in phases as presented below.

Unlock Process (Over 92 days)

Unlock 1.0	1 June 2020 – 30 June 2020	(30 days)
Unlock 2.0	1 July 2020 – 31 July 2020	(31 days)
Unlock 3.0	1 August 2020 – 31 August 2020	(31 days)

The Ministry of Home Affairs has come up with an unlocking process to regain "economic focus" in the country. Imposing lockdown restrictions only in containment zones, the country has restarted economic and commercial activities in a phased manner. In the first phase termed Unlock 1.0, commercial places such as shopping malls, hotels and restaurants were allowed to reopen from 8 June. While inter-state travel was allowed, large gatherings were banned during UL 1.0. Night-time restrictions (night curfew) from 9 p.m. to 5 a.m. were in force. In Unlock 2.0, the lockdown measures were only imposed in containment zones. In all other areas, most activities were permitted. Night curfews were in effect from 10 p.m.

to 5 a.m. Inter and intrastate travel was permitted. In a mission to help expatriates return home, limited international travel was permitted as part of the Vande Bharat Mission. Educational institutions, metros, recreational activities remained closed till 31 July. Restrictions such as night curfew were relaxed in Unlock 3.0. Facilities such as gymnasiums and yoga centres were allowed to reopen from 5 August. However, educational institutions will remain closed till 31 August. Large gatherings are still restricted across the country.

Figure 5.





Source: Graph developed by the author using data collected from https://www.worldometers.info/coronavirus/ Note: Green lines indicate (not to scale) lockdown phases and orange lines indicate unlocking phases.

Figure 5 presents the lockdown and unlocking progression in India. While the daily new cases were under control during the four phases of lockdown, the cases started to rise during the first unlocking period (Unlock 1.0). The progression of the pandemic has taken an exponential rise from the beginning of the second unlock period and continues to rise at the same rate during the third unlock period as well. Though various estimates predict that India will reach a peak in the months of August to October, it would depend on various factors such as "new areas of spread" and "new hotspots". Figure 6 presents the geographical spread of COVID-19 in India.

Figure 6.

Geographical Spread of COVID-19 in India



As is evident from Figure 6, midland India is not as widely impacted as the coastal regions and the Indo-Gangetic Plain. Spreading to the midland, the pandemic could continue to rise. The hotspots of COVID-19 have been shifting from region to region in India. The outbreak of COVID-19 has started with Delhi as a hotspot, followed by Mumbai, Chennai, Hyderabad, Kolkata, and Andhra Pradesh. Newer hotspots may emerge, causing the pandemic to progress further. As evident from Figures 1 and 2, the US has been experiencing a second wave of the pandemic. It is yet to be seen if India also would have a second wave. It would be hard to predict at this point in time, as India is yet to show a stabilization of the curve.

The great Indian lockdown has delivered the goods for India, which is now in a better position to handle the pandemic even in its exponential growth stages. However, given the steep rise it has been experiencing now and the spread and rise expected in the next few months, India has to brace for a deeper impact of the COVID-19 pandemic. The following section discusses all the positive and negative impacts of the pandemic and the great Indian lockdown.

3. Impacts of the Pandemic

Though the nation-wide lockdown has delivered on controlling the progression of COVID-19 in the initial months, giving the system and people enough time to respond well, it has resulted in very serious negative externalities as listed below.

3.1 Adverse Impacts

- Issue of migrant workers: Millions of people migrated out of major Indian cities, as they became jobless after the lockdown. Many deaths were reported during the lockdown, attributed to starvation, suicides, exhaustion, road and rail accidents and denial of timely medical care. After the first period of lockdown, the Government has started rail transport to help migrant workers reach their hometowns/villages.
- Severe slowdown of economic growth: Due to the stalled industrial and commercial activities, India has seen serious hindrance to its economic growth rates. Estimates of growth rates by various agencies predict that the Indian economic growth rate for this financial year may be the lowest ever since the Independence. Various estimates are given in Table 2.

Table 2. Estimates of Economic Growth in India during the COVID-19 Pandemic

Agency	Estimate of Economic Growth Rate							
FICCI	-4.5%							
IMF	1.9%							
UN Report	1.2%							
Moody's	Zero							

Source: Various news reports on Indian GDP Growth Rates in FY 2020-21

• **Critically impacted SMEs and industrial activity:** The most impacted sector due to the COVID-19 pandemic is the Small and Medium Scale Enterprises (SMEs). With most migrant workers, who constitute the main workforce in SMEs, leaving cities, this sector has completely come

to a standstill, leaving millions unemployed. Even after introducing the unlocking process, this sector has yet to regain the momentum.

- Increasing Unemployment: With the closure of industries, SMEs and other business establishments and schools, unemployment has reached new heights in the country. The already impacted agriculture laborers are further aggrieved by the return of migrant workers to the villages, making it the worst possible scenario for employment and livelihoods.
- Relief package by the Government of India: The Government of India, in order to help the economy, announced an economic relief package of 1.7 Lakh Crores INR (US\$24 billion) on 26th March. It was a mix of food security and direct cash transfers, primarily given to migrant labourers and daily wage labourers. Subsequently, the Government of India has announced a 20 Lakh Crores INR stimulus package to save the lockdown-battered economy and focused on tax breaks for small businesses as well as incentives for domestic manufacturing. With this stimulus package that accounts for 10% of its GDP, India has joined the likes of the US and Japan, which have rolled out the most substantial financial packages to fight the pandemic.
- Exposed Health Care System in the Country: This pandemic has exposed the shortfall of the health care system in the country and reestablished the need to improve it. There is a need for transformational change in the health care system and to cover all citizens for health risks.
- Disturbed academic and learning system: The disturbed academic system is one of the most serious impacts of COVID-19 across the world and holds even more relevant to India. All academic institutions have been closed since mid-March 2020 due to the outbreak of COVID-19. Academic institutions in India, with an exception for some in the top league, do not have online teaching resources and that made it extremely difficult for academic and curriculum instruction throughout the country and for all sections of academia. Though the missing academic curriculum is the evident impact, there are reports globally that psychological implications of this pandemic-driven hibernation on young children is a much more serious issue and is yet to be understood completely.

3.2 Positive Externalities of the COVID-19 Pandemic

While the above are some of the negative impacts of the COVID-19 pandemic, it certainly resulted in some positive developments in the society. Following are such positive externalities observed in India.

a) Mass "reverse" migration leaving the slums less loaded: The peculiarity of Asian urbanization is the mass rural-urban migration. With such large-scale migration, many cities in Asia have been growing into mega cities, and that has resulted in the development of slums. Slums have been vulnerable areas where the provision of basic civic services and amenities is a herculean task for city administrators. Slums have been the most under-supplied, and also due to the unauthorized and highly dense living conditions anti-social elements are increasing in these settlements. As the growth centers largely remain as unplanned urban agglomeration, the cities are compelled to have these slums and there is no simple solution to streamline them. And an alarming fact is that the migration continues to further make these settlements almost inhabitable. Dharavi, the largest slum in Asia, is a striking example.

Many efforts have been made by the governments to decongest the cities, but all those efforts have been either failures or partly successful. Navi Mumbai as a decongestion measure for Mumbai could not successfully decongest Mumbai. Similarly, slum rehabilitation programmes aimed at decongesting the slum areas in Mumbai also did not succeed, owing to various population and demographic dynamics. Many researchers have been advocating for 'reverse migration' as one of the means to decongest cities and slums, but no country in Asia could demonstrate such a phenomenon. However, the COVID-19 pandemic has resulted in mass exodus and mass reverse migration where millions of migrant workers have moved back to their villages and towns during the lockdown period.

A study reported by various governments indicates that 2.169 million workers returned to UP, 1 Million to Bihar states and 1.1 million workers have left Maharashtra state and 2.05 million workers from Gujarat. According to the Chief Labour Commissioner of India, about 9.7 million migrants have been transported back home during the lockdown period. Using a new Cohort-based Migration Metric (CMM) and railway data, the Economic Survey of India 2017 has put the interstate migration at 60 million. However, a study by Kundu and co-workers have estimated that 22 million interstate migrants were destabilized economically and a fraction of them have returned to their respective home states, estimated to be 12 million. Another 4 million would still move back by the time harvest begins, unless the urban economy picks up.

Though the unlocking process has progressed into its third month, the returned migrant workers have not headed back to their urban domains. The relief package announced by the Government of India, which includes a supply of essential commodities and money transfers to unemployed migrants apart from economic incentives to start small businesses in their own places, could be the reason. This is expected to pin down the "re-migration" process.

b) Improved Environmental Quality Index: This global pandemic, with footprints in more than 200 countries, has greatly impacted the global environment to regain its "wellness". In a study carried out by Sasanka et al., (2020) the impact of the COVID-19 pandemic on environmental quality was assessed. The environmental quality index constructed by using remotely sensed biophysical parameters such as particulate matter (PM10), land surface temperature, normalized different moisture index, normalized vegetation index and normalized difference water index, explains that the overall environmental quality in four major Indian cities has improved significantly during the national lockdown period. The following sections explain such improvements at micro levels.

c) Reduced pollution

Improved Air Quality: Lockdown followed by the COVID-19 outbreak in India has resulted in almost no travel within cities and between cities, sparing the movement of goods and individuals for essential services. That has resulted in the control of automobile emissions, which has improved the air quality in cities across the country. Delhi has experienced a phenomenal improvement in its air quality, with the air quality index falling to as low as 85. Similar trends are observed in other Indian cities as well. The closure of small-scale industries (SMEs) has further added to this environmental improvement. Almost negligible transportation within cities and between cities has literally cleared congestion on the roads and all public places including shopping malls and markets. This observation holds good for all cities in India. The following table (Table 3) presents the air quality index in Delhi reported for pre-COVID and COVID times. It is evident from the table that COVID-19 has clearly improved the air quality in Indian cities.

Table 3.

	Air	Air Quality Index										
	2019	2019					2020					
City	Feb	Mar	Apr	May	Jun	July	Feb	Mar	Apr	May	Jun	Jul
Delhi	292	201	112	268	238	152	210	85	97	150	108	129
Mumbai	-	-	-	-	-	-	176	138	53	14	-	19
Bangalore	-	-	-	108	-	-	98	110	-	82	-	-
Hyderabad	-	95	63	68	62	35	92	82	-	49	47	27
Chennai	62	-	37	77	229	51	79	63	42	32	124	72

Air quality index in Indian cities during COVID and Pre-COVID times

Data source: https://app.cpcbccr.com/AQI_India/ AQI Monitoring stations: Delhi – ITO; Mumbai – Airport; Hyderabad – Sanathnagar; Bangalore – City railway Station; Chennai – Alandur Bus stop

d) *Control over Greenhouse Gas Emission:* Due to reduced road travel on highways and within cities, and almost no train services and absolutely no air traffic, green house gas emissions (GHG) from these three important sectors have seen significant reduction during the lockdown period and to some extent during the unlocking period as well. Reduced production activity in SMEs and reduction in energy consumption in commercial sectors would further reduce the GHG emissions during this period. Using the Long Range Energy Alternative Planning (LEAP) Model Framework, the total GHG reductions due to COVID-19 are being estimated by the author (Yedla, 2015).

In a study it was estimated that the coronavirus-triggered lockdown has resulted in a steep fall in global carbon emissions and it would be as high as 17 percent in early April compared to 2019 levels. Also, India's emissions are expected to drop by 26 percent. This is the highest-ever drop in annual carbon emissions since World War II, according to the study. However, this could be followed by a surge in carbon emissions due to the restart of economy post-COVID. The Government of India is mulling over resorting to green growth models as the economy is restarting itself.

e) *Re-blossomed bio-diversity:* The Great Indian Lockdown seems to have a rebound effect on flora and fauna. The more frequent appearance of

wild animals in otherwise encroached natural habitats in the country is an indication that the biodiversity has re-blossomed even within this short gap in human activity. It portrays the fact that flora and fauna are stressed heavily by the encroachments by human activity in the natural habitats and eco-systems.

f) Clean rivers: The Government of India has been putting in a lot of efforts to clean up the rivers in India, and Clean Ganga Action Plan is one such example. Such initiatives were allocated thousands of Crores of Indian Rupees and yet they have failed to deliver impressive results. Rivers in India continue to remain polluted, and foaming in rivers such as Ganga and Yamuna in Delhi are commonly spotted in recent times. However, the water quality has improved significantly in many rivers across India during the national lockdown period. All the improvements that the heavily funded national river project could not achieve were demonstrated by the lockdown. This is one of the most significant positive externalities of the COVID-19 pandemic in India.

The nation-wide lockdown has resulted in improved water quality and quantity in Indian rivers such as Ganga and Yamuna. According to pollution control experts, this is mainly attributed to the fact that industries have stopped discharging their toxic effluents into the rivers, and there is less withdrawal of water for industrial and agricultural purposes due to the lockdown that has shut down industrial activity and agricultural work. About 80% of the pollution in the river Ganga is contributed by domestic sewage, and the rest by industrial effluent. According to the Central Pollution Control Board (CPCB), based on an assessment of Ganga water quality in January 2020, most of the stretches of Ganga till West Bengal have violated drinking water quality standards and almost zero dissolved oxygen (DO). Due to the nationwide lockdown, for the first time in many decades, several stretches of Ganga are conforming to CPCB standards for the quality of river waters and some stretches are even meeting "fit for drinking water" standards of CPCB, with the biological oxygen demand (BOD) recording less than 3 mg/l, and dissolved oxygen greater than 4 mg/l. Owing to more western disturbances which brought more rain, the flow in the rivers improved and that led to better dilution. Zero industrial effluent coupled with more flow in the river owing to rains and reduced withdrawals has resulted in drastic improvements in river water quality.

In an effort to understand the impact of the nation-wide lockdown on river water quality in Yamuna, one of the major rivers in the northern part of India, Yamuna Pollution Monitoring Committee has undertaken a water quality analysis with the help of CPCB and Delhi State Pollution Control Board (DPCB). CPCB has monitored at three stations and DPCB has monitored at nine stations. The results have confirmed that the water quality in river Yamuna has improved due to the nation-wide lockdown. Figure 7 presents the results of the CPCB study of water quality in river Yamuna. Compared to the water quality in the month of March 2020 (pre-lockdown), water quality in terms of BOD and COD has improved significantly.



Figure 7.

Improvements in the water quality (BOD and COD) of river Yamuna in India (by CPCB)

Based on the water quality monitoring done by DPCB at nine stations, it was found that water quality parameters such as BOD, COD and DO have shown considerable improvement during the lockdown period (April 2020) when compared to the reading at the same time in the previous year (April 2019). Figure 8 (a, b, c) presents the improvements in water quality noted in the river Yamuna. However, such improvements noted tend to reverse with the restarting of economic activity during the unlocking and subsequent periods.

Figure 8 (a, b, c).

Improvements in the water quality (BOD and COD) of river Yamuna in India (by DPCB)









- **g**) *Clear sky and picturesque backdrops:* Due to the improved air quality, the skies in Indian cities have turned blue and the clear sky has improved visibility to greater distances. This has unveiled beautiful landscapes and the Himalayan mountain range could be spotted even from far-off cities and towns in North India, which was not the case in the recent history. For once, the environment in a developing country like India has resembled the clean and clear environment that is often seen in industrialized nations such as Japan and the US.
- h) Reduced incidence of pollution-related health ailments: Though the COVID-19 pandemic has been spreading fast and mortalities are on the rise, owing to the improved air quality and water quality and the clear and clean environment, pollution-related health ailments such as tuberculosis have shown a clear decline, which can be observed from the reduced hospital visits in India than for other reasons. With a thorough estimation, this would have phenomenal economic benefits.
- i) Improved Consumption Habits: India has been experiencing increasing consumption patterns in the past two decades with the influence of western culture of use and throw. This has been resulting in higher waste generation rates and an increase in food waste generation as well. This is an alarming trend for India, particularly due to its population size. Increasing food waste is a concern both for waste managers as well as for the Controller of Food Grains in India, as food waste can be linked directly to the food insecurity issue. The COVID-19 pandemic has confined all its 1.3 billion population to indoors and the fear of shortage of food stocks has brought back the old-time conservation practices. Food waste generation has reduced and waste generation in general has come down. Such a long lockdown could potentially bring the behavioral change in the Indian population towards a more resource-conservation lifestyle.
- j) Cultural reinvention: Due to the forced confinement, the "family" in Indian households, which was on a transformational change to accommodate the "fast moving" lifestyle, has brought back the old habits of spending more time with the family, and their eating habits has become healthier. Children spend more time with parents and that refreshes the rich cultural roots. This also improved personal hygiene, on which Indians otherwise fall short in general.

- k) Energy savings: Following the nation-wide lockdown, India's electricity demand was reported to have reduced to a five-month low on 28 March. Due to reduced industrial activity and almost no transportation across the country, India's energy consumptions must have been the lowest in the past five months of lockdown. And a similar observation can be made at the global scale, although to a lesser extent. As part of the climate change mitigation efforts, it is the aim of the global community to see a dip in per capita energy consumption, and the COVID-19 pandemic for a change must have brought it up. As the global energy consumption data becomes available, such a fact would be established empirically.
- I) Newer Challenges: The COVID-19 pandemic has also brought newer challenges such as increased generation of bio-medical waste and infectious waste in particular in the form of PPE kits. This would pose a serious threat to sanitary workers in the days to come. However, this problem will remain a short-term concern, as the pandemic is not to stay too long. Other such challenges include the collapsed waste management system due to the non-availability of a complete work force and the lack of people participation due to the compromised services of garbage collection.

The Indian lockdown has unlocked the population from many unhealthy life styles and habits. Unlearning a habit is the most difficult part of behavioral change and COVID-19 has forced people to unlearn many things. People travel less, they do not waste food, there is a growing respect for cleaning tasks and the people doing that job, commodities are conserved, people spend more time with the family, avoid unnecessary purchases, eat less of outside and unhealthy food and more of home-cooked and healthy food, spend quality time with the kids and help them in studies; hone hobbies and hidden talents and more importantly, breathe fresh air as they step out of homes. Undoubtedly, these are the ideal ways of living, which we are all deprived of in the wake of the modernizing world. Following are a few important behavioral and functional changes that are observed during the lockdown and the unlocking process in India which are transformational in nature.

- New work culture, such as working from home
- Less travel
- · Less waste generation

- Resources conservation
- · Dignity of labour
- · Family re-defined
- Healthy lifestyles, and
- Re-starting the economic activity and re-initiating the industrial/ production activity

3.3 Are We Wasting the Crisis?

The above points constitute the pathways for sustainable development and the COVID-19 pandemic has brought these most essential changes in the society. But will these changes pass the test of time? Are we going to waste the opportunity that the COVID-19 crisis brought to the fore?

Roads and transportation used to be the backbone of the economy and unsustainable consumption patterns powered the economy. Now due to the COVID-19 pandemic, ICT and broadband forms the backbone of the economy and sustainable consumption patterns give the economy much-needed strength. For such a transformation, India needed a cultural change, and the COVID-19 pandemic presented a unique and neverbefore opportunity. While the lockdown brought these healthy changes, "unlocking" can potentially take all this away. This would not only reexpose us to the potential of the virus coming back but also lock us down with unhealthy habits once again. This is the time to further these transformational changes, and the Government of India, in consultation with all the State Governments, should immediately make directives and necessary policy measures so that implementation of the same during the unlocking phase becomes easier. Or else, India will miss on the golden opportunity that this crisis has provided.

4. Post-COVID-19 Pandemic -The Way Forward

Fighting climate change needs both production-related measures as well as consumption-related measures. In the sustainability science jargon, one can say that efforts to meet both internal sustainability and external sustainability conditions need to be made in an integrated framework. Consumption-related measures largely involve correction to the existing consumption practices and that is linked to behavioral changes. Bringing a behavioral change towards a public good is the hardest of all tasks and that precisely makes the task of climate change mitigation a herculean task, globally. The COVID-19 pandemic has brought out this unique situation where people all around the world are forced into a new consumption pattern, and now it is important to sustain that changed consumption pattern and transform the same into a behavioral change. Or else, the opportunity that the COVID-19 crisis brought would be wasted. Towards such an effort, the Government of India, while it is trying to restart the industry and get the economy rolling, the following, if included in the "unlocking" process, can make a big difference.

- Institutionalize the new work culture and make the necessary provisions
 - Work from home;
 - On Saturday and Sundays work should be from home only;
 - Video conferencing as a means for all meetings and conferences;
 - More virtual conferences avoiding long air travels;
- Re-orient the philosophy of infrastructure development in light of crisis-induced behavioral changes
 - Every house with a video-conferencing facility Government needs to ensure improved bandwidth
- Restricted travel and travel behavior
 - Control on registration of personal vehicles per year;
 - Policies to control the use of personal vehicles;
- More automation and efficiency in production and a more rigorous Make in India campaign
 - More automation in industries;
 - More discipline in small and medium scale operations;
 - More emphasis on relying on domestic goods and non-reliance on imports;
- Introduce a new paradigm of improved industrial safety
- Odd-even policy in every domain to control congestion and consumption patterns
- Improved e-commerce by promoting monetary policies towards cashless transactions

- New system of online academic instruction
 - Conduct all school/university exams and other competitive exams online only
- New system of social and health Security health security, unemployment security to all citizens

Some long-term and futuristic measures towards sustainable systems

- Some permanent restrictions in the cities such as restricted movements on Sunday and holidays
- Lockdown on one day of the month (i.e. the last Sunday) and declare it as a "day for the environment." On such days, people can only walk and use public transport
- No motor vehicles in university campuses and other industrial and business premises
- Introduce a regime of recycling with strict enforcements and promote EIPs
- Grab business opportunities

Apart from the above measures, the Government of India must ensure to have the following in place to gain the maximum mileage from the opportunity and conditions that were created by the COVID-19 crisis.

- 1. Maintain the decongestion of cities and slums across states
 - The Government of India has to come up with changes in the National Urban Policy and should include some structural changes such as density limitations on cities and the management of slums
 - Formalizing and limiting migrations (changes need to be made in the Constitution)
- 2. A better health care system must emerge and a new line of governance needs to be instated to handle medical emergencies
- 3. **Re-invent SMEs** in sustainable ways by promoting Eco-Industrial Networking Principles. This would help in maintaining clean rivers even after the COVID-19 crisis.
- 4. Further **groom the behavioral changes** that were seeded during the lockdown, towards sustainable consumption
- 5. **E-India:** E-governance, E-learning, E-meetings to become an integral part of governance in the country
- 6. Emphasize **online learning in the place of physical learning** at all levels of education and training

7. **Re-visit the National Policies** in light of changes in lifestyles brought about by COVID-19 with a set of stronger reforms and augmented governance

The changes in the behavior and consumption patterns that are seeded during the crisis have shown us the way to handle the environment and the climate. As more and more data becomes available, the environmental benefits that these crisis-driven changes could bring will be established. These are expected to be some path-breaking outcomes that two-decade long climate change mitigation measures could not bring. Therefore, the COVID-19 crisis has shown us the way to handle the problem of the environment and climate. It is time for India and the world to re-orient themselves and their economies towards a more sustainable and environmental friendly living. The small changes that COVID-19 brought with it can be the beginning for big transformational changes in the world. The Government of India has to revisit and revise its national policies and make some policy changes and send strong signals to the stakeholders. Rural-urban migration, which is the root cause for many unsustainable patterns of living, was reversed by the COVID-19 pandemic and the Government of India must take immediate steps to control the "reappearance" of migration for which it has to make some fundamental changes to its constitutional provisions. The Government of India has responded well so far, first by enforcing one of the strongest and longest lockdowns and then following it up with a structured and phased unlocking process. This was followed up by a robust relief package to the tunes of 10% GDP, which is aimed at reinforcing the "employability and entrepreneurship" in rural areas. Augmenting it further and similar to the suggestions made earlier in this paper, the prime minister of India, Mr. Narendra Modi, has announced the following measures to fight the pandemic, bring changes in health care and also put the economy back on the growth path but in more sustainable ways.

- 1. Every Indian to have a digital ID. This is expected to bring a significant change in India's health care system.
- 2. Development of indigenous vaccines for COVID-19.
- 3. Introduction of new cyber security policy. This is aimed at promoting ICT-based livelihoods.
- 4. Development of Ladakh as a carbon-neutral region as a demonstration to other Indian states and to the world on their fight against climate change.
- 5. All villages to be connected with optical fiber in the next 1,000 days. This is proposed to enhance connectivity so that changed lifestyles

such as online academic instruction and e-commerce are supported.

- 6. National Cadet Corps to be extended. This helps the country to have trained manpower in fighting calamities stemming from climatic changes and other natural phenomena.
- 7. Decision to spent Rs 100 lakh Crores (10 Million Crores) on infrastructure projects to support the changed lifestyles and sustainability.
- 8. These attempts by the Government of India should make substantial changes in the society, and more efforts towards control of migration, reducing travel, and cleaner SMEs linked to Eco-Industrial Networking can bring significant changes in the production and consumption patterns of India. And that would mark the best use of this crisis.

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Impacts of COVID-19 Epidemics and State Policies on the Interactions of Economic and Health Systems: The Cases of the UK and Russia During 2020

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Visiting Scholars' Opinion Paper

Crisis and Fragility: Economic Impact of COVID-19 and Policy Responses

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1. Introduction

The COVID-19 pandemic in 2020 was a 'black swan' event for most countries in that it had a low probability but substantial negative impacts.¹ Contrary to the expectations of governments and their advisors in Europe and North America that COVID-19 would be contained in Asia or other regions, like SARS and MERS, it spread rapidly from China to the rest of the world. The epidemics within countries caused almost universal unexpected problems in their complex systems of politics (instability, unpopularity of leaders), society (psycho-social stress, greater poverty), economy (collapses of production and trade, unemployment), social care (high mortality rates of elderly residents of care homes), and health (wide-spread infections, strains on medical care). The shocks to health systems generated by epidemics required the adoption of emergency policies, notably lockdowns, designed to return health indicators to stability states, but these efforts had major negative impacts on economies and societies.

This paper is focused on how COVID-19 has affected and changed the interactions between health and economic systems. Until 2020 the

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Health and Sustainable Development







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The phrase 'black swan' was popularized by Taleb (2008). It refers to an event occurring that was considered to be impossible within the 'normal' conceptual/ideological framework of elites, which then undermines the system of thought that denied its existence.

predominant understanding of the causality in this relationship had been that economies strongly influence health systems for better or worse through their varying provision of finance, labor and material resources (Davis 2020a). For example, the Global Financial Crisis (GFC) of 2008-2010 had major negative impacts on the population's health through falling living standards and on medical systems through cuts in real health spending. However, COVID-19 epidemics have reversed this causality, with illness and public health policies causing severe disruption to economies. This change has stimulated a 'paradigm shift' in the understanding of the healtheconomy relationships from prevailing 'normal science', as explained by Kuhn (1972) in his book concerning revolutions in scientific thought.²

Although it is clear that the COVID-19 epidemics have had negative impacts on economies, the transmission mechanism has not been clear. This paper considers whether the negative influences on economies have been primarily due to developments in morbidity and mortality related to COVID-19, to reactions by citizens out of fear of infection (e.g. reductions in dining out), or to state policies directed at controlling epidemics, notably lockdowns and constraints on international trade and travel. Evaluations also are made of the effectiveness of more specific anti-epidemic policies of governments, both in reducing infections and in enabling economies to return to 'new normal' states.

This latter task involves assessments of the dynamics of complex systems and the readiness and resilience health systems related to both First and Second Waves of the COVID-19 epidemics in 2020. This paper applies to the study of COVID-19 epidemics ideas concerning complex systems and their interactions, which were developed in the OECD's New Approaches to Economic Challenges program to explain the causes and consequences of the GFC (OECD 2019, 2020; Davis 2020b). A complex system is made up of interconnected subsystems, which make different contributions that usually help overall performance. However, an adverse shock in one subsystem (e.g. shortage of medicine in the supply system) can cascade into others with negative effects (e.g. disruption of hospital treatment). A complex system can be closely linked with other ones, sometimes in a hierarchical manner (e.g. health within the economy). If the partner

^{2.} Kuhn (1972) explained that prevailing paradigms of science do not change abruptly, but are undermined as inconsistencies accumulate until finally it is recognized that 'normal science' is inadequate and must be changed, resulting in a scientific revolution.

complex systems are operating normally and achieving their objectives, then the inter-connections generate synergies. However, the failures in one complex system caused by internal or exogenous shocks can adversely affect its partners through the process of contagion and can generate challenges beyond the normal capabilities of system controllers.³

The readiness of a health system to confront a severe external shock is determined by initial conditions (e.g. path dependence), accuracy of risk assessments, the quality of its control mechanisms (e.g. government decision making), preparatory measures (e.g. inventories of supplies), and pre-shock policies (e.g. re-organization of hospitals).⁴ Resilience of a health system measures its capacity to respond appropriately to negative shocks that disrupt its functioning and to return to a normal state despite the adverse conditions. Important determinants of resilience are features of the health system, understanding the nature of the shock, effective feedback and control mechanisms, and availability of resources to support corrective actions (OECD, 2019).

In order to give the analysis better focus, the cases of two countries are studied: UK and Russia. Both have been adversely affected by COVID-19 epidemics, have national health services (NHS) that provide medical care to the whole population free of direct charge and of compulsory individual insurance contributions, and have market economies of roughly similar sizes. Major differences are that the UK has an open decentralized economy and liberal democracy, whereas Russia has a state capitalist economy and an authoritarian democratic political system. The case studies are related to past research of the author (Davis 1989, 1990, 2001, 2020ab).

^{3.} OECD (2019) reported that the International Risk Governance Center concluded with respect to the GFC that 'external shocks to interconnected systems, or unsustainable stresses, may cause uncontrolled feedback and cascading effects, extreme events, and unwanted side-effects'. During the GFC intensifying performance problems in the subsystems of 'sub-prime property' and 'derivative' products spread by contagion throughout the financial system, paralyzing even its healthy operations, and then cascaded into the real sphere of the economy and the interconnected political, society and health complex systems.

^{4.} Davis (2001, 2020ab) define health systems as being comprised of the following subsystems: households, medical care, medical supply, medical industry, biomedical R&D, medical foreign trade, residential social care, and central health management.

2. Readiness of the UK and Russia Health Systems for COVID-19 Epidemics

The assessments of the readiness of the health systems of the UK and Russia are based on detailed evaluations of historical developments during 2008-2019 presented in Davis (2020a) and of sixteen categories of readiness in Davis (2020b). The two subsections below briefly review tightening resource constraints on the health systems and increasing shortages, discuss national health management systems and policies, and summarize findings concerning other categories of readiness. The periods of readiness prior to the First Wave are shown in Figures 1a and 1b.

a. Readiness of the UK Health System in 2020 for the COVID-19 Epidemic

The GFC caused the UK to experience a short recession that was followed by a decade of low positive growth and austerity policies that limited the growth of real health spending to an average of 1.3% a year (0.6% per capita). Central government financial support of local public health services was cut severely (Lawrence et al., 2020). The rising demand for medical care of the ageing UK population combined with the slow growth of spending on the national health service (NHS) to generate increasing shortages of labour, facilities (e.g. intensive care units), medical equipment, medicines and other supplies. According to Smyth (2019, November 25):

Staff shortages have become the most pressing problem facing the NHS, with hospital bosses saying that even with extra cash they cannot find the doctors and nurses to spend it on. About one in ten NHS posts is vacant and a lack of nurses is the biggest problem...

By 2020 the NHS had deficits of 43,000 nurses and 10,000 doctors. Deficits of treatment capacities in hospitals were intensified by 'bed blocking' by older patients (5-6% of the total bed stock in 2020), who could not be discharged after treatment because of inadequate social care arrangements. Bottlenecks in the production of medical services occurred regularly due to shortages of facilities and specialist medical personnel.

The UK government had incomplete control over the broadly defined health system (e.g. private medical industry) and there was fragmented management in the national health service (NHS) because of devolution of powers to the four 'nations' (England, Scotland, Wales, Northern Ireland), decentralization of decision making to quasi-autonomous hospital trusts and outpatient doctors, and growing involvement of private sector units (e.g. in the supply system). Health had a relatively low national priority in public spending in 2020 and with respect to intra-NHS priorities, non-communicable illnesses were much more important than infectious diseases. Public health was weak because of deficiencies in the responsible organization, Public Health England (PHE) and reduced funding of local government. The government's epidemic contingency planning had focused on influenza, the probability of an epidemic was assessed as low, and the stockpiling of necessary medical supplies had been neglected. The possibility of an epidemic causing a major shock to the economy had not been considered.

Although the UK had low provision of medical personnel by OECD standards and chronic shortages, the quality of medical staff was high. Few medical facilities had been designed to deal with a serious epidemic of infectious disease. The UK had low provisions of hospital beds, ICUs and medical capital equipment. In 2018 the number per million of MRI machines in the UK was 7.2, whereas in Germany it was 35.1. The country had only 5,000 ventilators and barely sufficient supplies of medicines, medical goods and PPE to support normal activities. However, health administrators and senior medical personnel had high competence and experience in dealing with shortages, rationing and pressure. Medical industry and biomedical R&D institutes were not prepared for an epidemic, but they had very good mobilization potential. Mass testing and contact tracing capabilities were severely deficient. Davis (2020b, Table 4) rates the UK's overall readiness for the COVID-19 First Wave as Substandard.

b. Readiness of the Russia Health System in 2020 for the COVID-19 Epidemic

The Russian economy experienced recessions during 2009-2010 (GFC) and 2014-2016 (low energy prices and sanctions) (Davis 2016). Russia lowered the priority of health, which resulted in the deceleration of growth of spending on the NHS to 3.2% a year during 2008-2019 and a decline in health share of GDP from 4.2% to 3.2% (Davis 2020a, Tables 8ab). The rising demand for medical care due to population ageing combined with slow growth of inputs to the NHS to generate increasing shortages of all types (Davis 2020a, Table 10). Sidorenko (2019) reported:

According to the Ministry of Health, polyclinics on their own have a deficit more than 25 thousand doctors...However, the Ministry of Labor told Izvestiya that only one thousand relevant jobseekers are registered on the labor exchange...

The increased intensity of shortages generated bottlenecks in the production of medical services in polyclinics and hospitals, more queuing and longer waiting lists.

In early 2020 Russia had a centralized authoritarian political system, which had substantial influence over the health system, including medical industry and biomedical R&D. The Ministry of Health RF managed the NHS through an administrative hierarchy, owned its medical facilities, and employed its staff. Within the low priority NHS, the highest priority was awarded to non-communicable diseases. The government's pandemic contingency plan focused on influenza, so its anticipated responses and emergency stockpiles were inappropriate for a Corona virus epidemic. No special plans were made to protect economic activities. However, the centralized management of the NHS in Russia meant that the government had greater ability than did its counterpart in the UK to deal with an epidemic (Cordell and Gershkovich 2020, March 19):

Historically, the health system of the USSR and Russia was built on the basis of mobilization - it is militaristic, even, because governments were preparing for an emergency...

The NHS had large numbers of medical personnel and facilities, but there were shortages of specialist doctors and nurses. Hospitals had high numbers of beds, but low provision of ICUs. Few facilities were designed to deal with a serious epidemic of infectious disease. The NHS had adequate numbers of ventilators (40,000), but insufficient provision of CT scanners and dialysis machines. It had adequate stocks of some medicines and supplies, but serious shortages of others (e.g. PPE). There were substantial inequalities in the distribution of health resources between urban-rural areas and regions. Russia had a capable but somewhat backward medical industry and a good biomedical R&D subsystem, which could be mobilized. Russia's mass testing system was average, but contact tracing through the NHS was poor.

The government was positive about overall readiness, but many health professionals in Russia were pessimistic (Mishina 2020, April 4):

55% of doctors participating in the nationwide survey said that their

medical institutions are not ready to receive patients with coronavirus infections. 49% of more than 4,000 respondents noted low epidemiological preparations of hospitals, referring to the availability of uniforms and means of protection, and 35% of respondents said that there was insufficient availability of medicines...28% reported a shortage of staff...

An authoritative newspaper article concluded (Sokolov 2020, April 9): 'The medical system in Russia is not at all ready for the coronavirus – or any other pandemic.' Davis (2020b, Table 4) awards the readiness of the Russia health system a rating of Substandard.

3. Resilience of the UK and Russia in Responding to the First Wave of COVID-19 Epidemics: The Impacts of Health Policies on Economic Systems

a. The COVID-19 Pandemic and Its Impacts on World Health and Economies

COVID-19 spread more rapidly globally than it would have in the Cold War period because over the past several decades the international system opened up as a result of freer trade and capital flows, professional and tourist travel, migration and electronic information linkages.

Authoritative, but imperfect, Worldometer data show that the number of world cases of COVID-19 rose from 94 thousand on 2 March 2020 to 10.6 million on 30 June to 63.6 million on 30 November (Worldometer 2020, November 30).⁵ The number of new cases per day rose to 687 thousand on

^{5.} Worldometer data, based on national reporting, describe trends and provide comparisons between countries, but they have substantial deficiencies: lack of testing or diagnoses by doctors at the start of the epidemic, so substantial under-reporting of incidence and prevalence; variations in methodologies used to register COVID-19 cases and deaths of the disease; and both over-estimates and underestimates of mortality rates. National, WHO and Worldometer COVID-19 morbidity and mortality statistics should be considered to be best estimates within wide error bands.

3 December and total deaths to 1.5 million.

The usual policy responses of governments throughout the world to COVID-19 were to: (1) promote better public hygiene (e.g. social distancing); (2) quarantine infected people and attempt to trace and isolate their contacts; (3) impose regional or national lockdowns; and (4) restrict international travel. These measures constrained the growth of infections and eventually reduced disease incidence to 'new normal' magnitudes.

COVID-19 epidemics generated greater disruptions to economic systems than the GFC. The worsening conditions and performances in health and economic systems in turn caused intense strains in society (e.g. family and social life) and substantial excess deaths of the elderly in residential social care homes.

There were three adverse consequences for economies of the COVID-19 pandemic. First, the more risk-averse behaviors of consumers and businesses and the rigorous national lockdowns generated wide-ranging negative demand and supply shocks. This caused macroeconomic excess supply disequilibrium ('Keynesian unemployment') (Davis 2020ab). In October the IMF (2020, October) predicted global economic growth of -5.0% in 2020. The pandemic also caused microeconomic excess demand ('chronic shortage') disequilibrium and shortages in markets for medical goods (ventilators, medicines, PPE, testing kits) because of high demand and reduced supply. A third economic consequence of the pandemic was an unexpected disruption of international supply chains and 'just-in-time' logistics systems because of production declines and bans by countries of exports of medical products. This caused many governments to promote 'national resilience' through import substitution, self-sufficiency in manufacturing, and augmented strategic reserves of medical products.

The histories of the national epidemics in the UK and Russia, using the indicator of daily cases, and periods of Readiness and Resilience related to the First Wave and the Second Wave are shown in Figures 1a and 1b. The numbers of cases shown for the First Wave are significant underestimates because both countries initially had limited testing. However, the trends can be viewed as reasonably accurate because of their correlations with hospital admissions and deaths.

Figure 1.

Daily Test-Confirmed Cases of COVID-19 in the UK and Russia: 15 February – 16 November 2020



Figure 1a: Daily Test-Confirmed Cases of Covid-19 in the UK

Figure 1b: Daily Test-Confirmed Cases of Covid-19 in Russia



Notes: (1) The figures show number of confirmed cases by day. In both countries testing improved over time, so actual cases in March-April would have been substantially higher than shown. Despite this, it is clear that a Second Wave started at the end of the summer, for well-known reasons. (2) The author obtained the statistics from the 'source code' pages of the relevant Worldometer figures, which contain separate blocks of comma delimited data for 'days' and 'daily cases'. These were disaggregated into cells in rows of Excel tables and then were used to generate the cluster column charts.

Sources: Worldometer 2020 and online information about timing of lockdowns in the UK and Russia.

b. The COVID-19 Epidemic in the UK: Resilience of the Health System During the First Wave and Impacts on the Economy

(1) Resilience of the UK Health System During the First Wave

The initial cases of COVID-19 in the UK were diagnosed in February and the epidemic developed as shown in Figure 1a.⁶ During the First Wave the number of daily cases rose to a peak of 5,618 on 1 May, but then declined to 353 on 6 July (Worldometer 2020; Davis 2020b, Table 5). Deaths from COVID-19 increased to 40,340 on 29 June.

Evaluations were made in Davis (2020b, Appendix B) of resilience in the UK health system in 16 categories. This section discusses government management and policies during the First Wave and then summarizes findings about the other categories.

The Conservative government had a strong parliamentary position in March and therefore was able to act decisively with respect to anti-epidemic policies. However, it faced constant criticism of its public health policies (e.g. national lockdowns, testing and contact tracing) from the opposition Labour Party and the Scottish National Party. The latter differentiated its 'national' anti-epidemic policies from those of the UK (England), in part to promote its nationalist political goals concerning Scotland. The central government continued to have weak control over the whole health system because of the private ownership of most institutions (e.g. medical industry) and the fragmentation of the NHS. The national priority of health was raised, a £5 billion supplemental allocation was made to the NHS and the Chancellor promised a 'soft budget constraint' (Neville 2020, March 11):⁷

Whether it's research for a vaccine, recruiting thousands of returning

^{6.} During the First Wave of the epidemics in the UK there were no accurate measurements of incidence and prevalence of COVID-19. Table 5 and Figure 6a in Davis (2020b) show numbers of cases verified by tests. These are substantial underestimates and perhaps account for only 20% of true cases. However, the upward and downward movements during March-June reflect reality because that can be correlated with statistics measuring hospital admissions, treatment in ICUs and deaths. In the UK early measurements of COVID-19 deaths were inaccurate because there were risk-averse and inadequate diagnoses by doctors of people dying at home or in residential care homes and probably were over-estimates due to that reasons and features of the methodology: deaths measured people with a positive test who died over the next month, irrespective of proximate cause.

^{7.} The concept of the soft budget constraint is explained in Davis (1989, 2020a). During the COVID-19 epidemics health systems discovered that the physical acquisition goods (e.g. PPE, testing kits) was more important than having a high priority and almost limitless budgets because of global excess demand and competition between countries for scarce supplies.

staff, or supporting our brilliant doctors and nurses, whether it's millions of pounds or billions of pounds, whatever it needs, whatever it costs, we stand behind our NHS.

The internal priorities of the NHS changed radically (Davis 2020b, Table 2), with that of treatment of COVID-19 cases becoming the highest and lower priorities being given to other illnesses and medical activities. In formulating anti-epidemic policies, the government tried to follow the advice of its scientific advisors, although their recommendations were at times not acceptable for political or economic reasons.⁸ Early policies were to: improve public health behaviour of citizens; mobilize the NHS, medical industry, and biomedical R&D; and increase testing.

On 23 March the central government imposed a nationwide lockdown and adopted the effective slogan: *Stay at Home - Protect the NHS – Save Lives.* It adopted a 'nudge approach' approach to compliance, rather than a coercive one. *Public Health England (PHE)* demonstrated weaknesses in organising and expanding testing and in providing advice concerning medical PPE. Local government public health personnel and GP practices played negligible roles in contact tracing. In May the central government established *NHS Test and Trace* and the *Joint Biosecurity Centre.* Overall, the resilience of central health management merited a mark of *Substandard.*

Davis (2020b) provides the following summary of resilience in the different categories. The UK achieved several successes in its fight against COVID-19: adequate government leadership from mid-March with sciencebased policies; a generally well-observed lockdown; effective mobilization of medical personnel and equipment in the NHS, medical industry and biomedical R&D; reorganization of NHS hospitals, use of private medical care facilities, and emergency construction of *Nightingale* hospitals; effective treatment of acutely ill under-60 years COVID-19 patients in hospitals; re-organization of testing and increases in its volume to a modest level; and innovative work on COVID-19 diagnostic tests and candidates for vaccines. The main failures were: tardiness of the government in imposing a national lockdown; weak control over the total, mostly private, health system; inadequate central management of the NHS because of its excessive

The main UK organizations were: UK Government Chief Scientific Advisor, Chief Medical Officer NHS England, SAGE (Scientific Advisory Group for Emergencies), and New and Emerging Respiratory Virus Threats Advisory Group (*Nervtag*)

fragmentation; uneven care of elderly COVID-19 patients; weaknesses in *PHE* related to PPE advice, testing, organizing laboratories, and contact tracing; poor organization and performance of the medical supply system; inadequate provision of PPE to NHS and social care workers; initial failure of mass testing for COVID-19; and poor performance of the NHS medical supply system. Overall, the positive contributions of some categories did not fully balance out negative ones, so Davis (2020b) awarded a rating of *Substandard*.

(2) The Impacts of the COVID-19 Epidemic on the Economy: Illnesses and Deaths versus Public Health Policies

No detailed studies have been carried out yet of the relative importance of the impacts on the UK economy of COVID-19 illness and deaths versus public health policies.⁹ This subsection provides preliminary comments on this issue.

The UK has an ageing population of 66 million and there were around 5 visits to GPs per year in 2019, so the number of doctor visits (a proxy for the number of cases of illness) was 330 million, or 6.3 million per week. During the initial seven weeks of the First Wave, the number of COVID-19 cases detected was 120,067, whereas the expected number of GP visits (general illness) would have been 44.1 million. The total number of deaths in the UK in 2018 was 616,014, or 11,846 per week. During the initial seven weeks of epidemic in the UK the number of COVID-19 deaths was 12,661, whereas the expected number of total UK deaths was 82,922 (7 x 11,846). These calculations show that although the epidemic generated significant numbers of illnesses and deaths, these were not large relative to normal levels. It therefore is unlikely that the epidemic on its own had a significant direct negative impact on the economy through sickness absence rates and premature deaths of members of the labor force.

In contrast, risk-avoidance behaviours of consumers and workers and government public health policies had substantial adverse impacts. This was due to drops in demand for public transport, the services of the hospitality sector, and overseas travel. The national lockdown plus restrictions on domestic and international travel devastated the economy and threatened

^{9.} The author has written about the economic costs of morbidity and mortality of the economically active, as well as cost-benefit and cost-effectiveness studies. In 2004 he produced a report on these issues related to the USSR for the World Health Organisation, European Office for Investment in Health and Development.

substantial unemployment. The government's anti-crisis policies prevented the worst possible outcomes. Still, the predicted GDP annual growth of the UK economy in 2020 deteriorated from a positive 1.4% in January (IMF 2020, January) to -9.8 in October (IMF 2020, October).

c. Resilience of Russia During the First Wave of the COVID-19 Epidemics and Impacts on the Economy

(1) Resilience of the Russia Health System During the First Wave of the COVID-19 Epidemic

The epidemic started somewhat later in Russia than in European countries because of its lesser involvement in international interactions. By late March infections from foreign countries had spread to Moscow (87% of early cases) and then were transmitted to other regions. The number of daily cases rose to a peak of 11,656 on 11 May (total cases 221,3440) and then declined to 6,693 on 30 June (by 43% from its peak) (see Figure 1b). The official number of COVID-19 deaths in Russia, which is approximately 50% below what would be calculated using WHO methodology, rose to 9,166 on 29 June. This paper treats 30 June as the end of the First Wave in Russia, as in the UK.¹⁰

Evaluations of resilience in the Russia health system in 16 categories are presented in Davis (2020b, Table 8). This section discusses government management of the health system (category 1) and then summarizes findings about the other categories.

Although Russia had a Presidential political system with strong central control, much decision-making power concerning the COVID-19 epidemic was delegated to the Prime Minister, the Ministry of Health RF, other central bodies, and governors of regions. The authorities avoided portraying the epidemic as a major crisis, and did not have opposition parties criticizing every public health policy decision. Nevertheless, over time public opinion became more critical of the government because of the adverse health situation, the lockdowns, and deteriorating economic performance.

^{10.} Although the number of daily cases in Russia (Figure 1b) remained substantially higher than those in the UK (Figure 1a) after 30 June, over the following two months infection rates continued to decline and the government adopted more relaxed public health policies, demobilized the NHS, and started to prepare for a Second Wave. Developments in Russia in the Readiness period of July-August are discussed in Section 4.

The priority of the health sector was raised at the national level. Substantial additional finance was provided to the NHS from the National Wealth Fund to purchase deficit items from domestic and foreign suppliers and to provide extra payments to medical personnel engaged in front-line treatment of COVID-19 patients. Within the NHS, COVID-19 and cancer treatment programmes were given highest priorities.

The central government obtained advice from a variety of scientific committees. In March it ordered random temperature tests, restricted exports of medical PPE, gave citizens stronger advice to not travel abroad, urged the elderly to self-isolate, and made efforts to import ventilators, PPE, medicines and COVID-19 tests. Russia banned flights to and from Europe on 11 March and closed its border to foreigners on 23 March. Energetic efforts were made by the government to support the development of COVID-19 tests and vaccines, the movement to mass testing, the supplemental training of medical staff, and the mobilization of the medical industry to produce needed products. On 30 March the President announced a national 'non-working week' with pay. Moscow City and other regions introduced rigorous lockdowns that were administered in an authoritarian manner. The lockdown measures were relaxed in May and ended on 9 June.

The overall assessment of resilience in the Russian health system is as follows. Russia both achieved successes and experienced failures in its fight against COVID-19. The successes included: early isolation of elderly citizens; rigorously enforced lockdowns; coherent and hierarchical control of the NHS by the Ministry of Health RF; effective mobilization of medical personnel and equipment in the NHS; rapid reorganization (re-profiling) of polyclinics and hospitals and construction of new hospitals for COVID-19 patients; effective hospital treatment of COVID-19 patients; adequate protection of state residential care homes; early development of COVID-19 tests and rapid expansion of mass testing; mobilization of domestic industry to produce medical products; and apparently effective research on a vaccine (Sputnik V). The main failures were: tardiness of the national and regional governments in imposing lockdowns; severe shortages of PPE, medicines, medical supplies, and medical equipment (e.g. kidney dialysis machines); and failure to develop a local-based contact tracing system. On balance, the modestly funded Russia health system was reasonably effective in dealing with the unexpected COVID-19 epidemic and is awarded an overall rating of Average in Davis (2020b).

(2) The Impacts of the COVID-19 Epidemic on the Economy: Illnesses and Deaths versus Public Health Policies

During the initial seven weeks of the epidemic from 9 March, 47,121 cases of COVID-19 were registered. According to official statistics, the expected numbers of new cases of illnesses in Russia over this period would have been: all categories 15.4 million; respiratory 6.9 million; cardiovascular 619,000; and cancer 229,000. This suggests that COVID-19 would not have been viewed by the Russian leadership as a likely cause of economic disruption through illnesses of employees. With respect to mortality, in 2018 Russia had a population of 147 million and it experienced 1,828,900 deaths, or 35,171 deaths per week. Official deaths from COVID-19 during the initial seven weeks of the epidemic totaled 4,731 deaths, whereas the normal number of deaths would have been 246,198 (7 weeks x 35,171). Consideration of this evidence indicates that the morbidity and mortality related to COVID-19 did not have significant direct negative effects on the economy.

However, individual risk-averse behaviours of consumers and workers and public health policies, notably lockdowns, had significant adverse impacts on the economy through declines in public transportation, use of hospitality facilities, and travel. However, Russia had a smaller service sector than the UK and the country kept industrial manufacturing, construction, energy extraction and agriculture functioning throughout the First Wave. As a result, the economic downturn was less pronounced than that in the UK. The predicted GDP growth for 2020 deteriorated from 1.9% in January (IMF 2020, January) to -4.8% in October (IMF 2020, October).

4. Readiness and Resilience Related to Second Waves of COVID-19 Epidemics in the UK and Russia

The First Waves of the national epidemics ended around 30 June and daily cases remained either absolutely low (UK) or relatively low (Russia) during July-August. These two months comprise a new period of Readiness. Infections rates began to accelerate again in both countries in late August and the months September-November became the initial phase of the Second Waves (see Figures 1a and 1b), which again challenged the resilience of the health systems. This section provides preliminary assessments of readiness and resilience related to the Second Wave.

a. Readiness for the Second Wave in the UK and Russia: July-August 2020

Epidemiologists in the UK and Russia predicted that there would be substantial second waves interlinked with influenza in the autumn. Governments and health systems responded to these warnings by making efforts to improve readiness. Both countries marginally enhanced their health management, maintained a high priority for health, and developed prudent anti-epidemic plans that were focussed on COVID-19, but also included influenza containment measures. The high priority of COVID-19 within the NHS was reduced and those of neglected illnesses, such as cancer and cardiovascular, were raised. Resources were reallocated from COVIDrelated medical activities back to normal ones.

Doctors and middle medical personnel in the two countries had developed significantly higher skills in diagnosing and treating COVID-19 by July than they had in March, so they were better prepared for future outbreaks. Many who had been working on the 'front-line' were re-deployed to their former duties. Efforts were made to provide recuperation time and psychological support to medical staff who had experienced intense professional stress.¹¹ However, inherited shortages of medical personnel (e.g. specialist ICU nurses) could not be corrected in the short term. Retired doctors and MMP(middle medical personnel) exited again from the workforce and medical students returned to universities. Readiness in the UK concerning personnel was undermined by the continuing departure of MMP from the EU due to impending Brexit and by difficulties in recruiting replacements in a period of global excess demand for skilled medical professionals.

Both countries improved their readiness in: medical facilities (e.g. newly constructed COVID hospitals, more ICUs), medical capital equipment (e.g. higher numbers of ventilators), the organisation of supply, provision of

^{11.} Morris & Barnes (2020, October 24) reported that a study by the COVID Trauma Response Working Group, based on a survey of 1,200 health care workers from across the UK between May and July, found that nearly 60% of them met the clinical criteria for a diagnoses for anxiety, depression or post-traumatic stress disorder.

medical products (notably PPE), and capabilities in testing. Despite efforts to build up inventories of medicines, inadequacies remained because of insufficient domestic production and continued difficulties in acquiring goods in excess demand international markets.¹²

Two categories of readiness in both the UK and Russia exhibited deficiencies in summer 2020: reducing the hidden components of morbidity icebergs and lowering backlogs of untreated reported illness. According to Blakely (2020, October 2):

A quarter of a million people who would normally have been urgently referred by their GP to a cancer specialist are missing from the diagnostic pipeline...Millions more have missed routine screening appointments or are waiting for diagnostic tests and treatment.

Although the medical systems attempted to return to normal work conditions and to encourage people with symptoms of cancer and cardiovascular disease to report them to doctors, progress was slowed in August by growing fears of potential patients about the Second Wave. Only modest progress was achieved at reducing waiting lists and waiting times.

There was much higher readiness to support the fight against COVID-19 in domestic medical industries and biomedical R&D institutions. Both countries increased the swab testing of patients, medical and social care staff, and members of the public by the end of August: 400,000 tests per day in Russia and 131,000 (Pillar 1 and 2) in the UK. However, the UK laboratory system had tight capacity constraints and could not expand the processing of tests to keep up with their receipts of samples from tests. Contact tracing related to positive tests remained substandard.

The readiness of the national health services to treat COVID-19 patients in August was significantly higher than it had been in February. During July-August, protection of the elderly in residential social care homes was strengthened. Overall, both countries achieved a rating of *Average* for Readiness for the Second Wave, because their health systems had improved, but each had weaknesses (Ball 2020, August 26; Davis, 2020b).

^{12.} According to Lay and Smyth (2020, October 24) a UK government minister revealed in Parliament that millions of doses of painkillers, sedatives and antibiotics normally held in the Essential Medicines Buffer Stock and the COVID-19 Supportive Medicines Stockpile had been used up and not replaced by October 2020.

b. Resilience During the Second Wave in the UK and Russia: September-October 2020

The Second Waves of the COVID-19 epidemics in the UK and Russia can be measured by the respective increases in daily confirmed new cases from 1,406 and 4,993 on 31 August to 8,414 and 8,135 on 28 September to 12,330 and 26,338 on 30 November (Figures 1ab in this chapter and Table 5 in Davis 2020b). Their onsets were earlier and their intensities were greater than anticipated. Contributing factors were insufficiently cautious populations taking summer vacations abroad, resuming work, engaging in more social and family interactions, and returning to schools and universities.

Health management structures in the UK remained unchanged, but in August the government merged *NHS Test and Trace*, the *Joint Biosecurity Centre*, and components of *PHE* to form a new *National Institute of Health Protection*. Russia in mid-October established a Security Council RF *Interagency Commission on a National System of Protection Against New Infections*, headed by former President/Prime Minister Medvedev (Kamenskii 2020).

As the second wave developed in the UK, the four governments imposed increasingly tough restrictions (e.g. a 'national' two-week lockdown in Wales, regional Tier 2 and 3 restrictions in England). Political divisions over public health policy intensified in the UK with the 'nations' squabbling with each other and Labour Party leaders in northern England refusing to accept the central (Conservative Party) government's regionally-differentiated restrictions, despite high local infection rates. Due to worrying predictions concerning illnesses and hospital admissions, the UK government was forced to introduce on 5 November a one month lockdown in England. The Russian government was strongly committed to avoiding harsh lockdowns, but it introduced new containment policies, such as strongly encouraging self-isolation by pregnant women and the elderly and requiring more employees to work from home.

By late September both countries resumed partial mobilisation of medical personnel and medical facilities for the fight against COVID-19. Efforts were made to compartmentalize hospitals, so treatments of patients with cancer and other serious illnesses could continue in parallel with care of those ill with COVID-19. By late October use was being made of some of the reserve COVID-specialised hospitals (e.g. *Nightingales* in UK, *Kommunarka* in Russia), but their functioning was severely hampered by shortages of qualified intensive care medical personnel.

Medical supply systems functioned better in the initial phase of the Second Wave. However, excess demand intensified in global markets for medical products because most affluent countries experienced starts of their second waves at roughly the same time. Domestic stocks of medical capital equipment (e.g. ventilators) were high, so the increasing demands could be met by re-allocations of national assets, However, supply problems developed related to medicines (e.g. *Remdesivir*, Smyth 2020, October 1), medical supplies and influenza vaccines. Both countries were able to provide PPE to most medical and social care personnel out of their augmented stocks, but acute shortages developed again in rural areas and remote regions of Russia.

The resurgence of the epidemics inhibited risk-averse ill people from visiting outpatient medical facilities, so unreported illnesses in the morbidity icebergs increased. By October hospitals in heavily infected areas were forced to re-allocate resources in favour of COVID-19 activities in order to avoid reaching treatment capacity limits (Roberts 2020, October 18). This meant that diagnoses and treatments of normal serious illnesses were suspended again, so backlogs of untreated illness increased (Lay 2020, October 19; Campbell 2020, October 24).

The medical industries in both countries increased their production of necessary medical supplies, testing kits, and vaccines still involved in clinical trials (e.g. Oxford-AstraZeneca and Sputnik V). State and private R&D institutions continued research into new drugs, medical products and vaccines related to COVID-19.

Both countries continued to expand their testing of the population for COVID-19. From 1 September to 22 October the UK increased its number of tests carried out per 1,000 population from 2.5 to 4.0, while for Russia the increment was from 2.0 to 3.4. The UK experienced excess demand for public (Pillar 2) tests and bottlenecks in processing the swabs in laboratories (Bodkin 2020, September 14). The UK and Russia marginally improved their inadequate contact tracing, but these efforts were overwhelmed by the rapid growth of infections.

Hospitals in the UK and Russia initially operated within their capacities

concerning COVID-19 and normal patients, but by late October those in high infection experienced difficulties in coping with demands. The results of treatments of COVID-19 patients in hospitals were better than those in the past due to improvements in medicines, medical equipment (e.g. oxygenation, dialysis), and medical protocols. However, the problem of infection within hospitals remained unsolved. According to Donnelly (2020, October 10) in the Northwest of England 18% of new cases of COVID-19 were the result of infections contracted by patients and staff in hospitals.

Russia maintained tight public health controls over its state-owned residential social care homes. The UK imposed restrictions on visits to homes by outsiders and on the employment of part-time workers. Both countries improved the provision of PPE and increased the testing of care givers and patients. There were fewer outbreaks of infections in care homes than in the First Wave.

The resiliencies demonstrated in the UK and Russia health systems during the Second Wave in September-October were better in almost all categories than those during the First Wave. However, the greater than anticipated acceleration of the epidemics in both countries soon exhausted prepared reserves and pushed components of medical systems in high infection areas into severely challenging situations. National authorities usually were able to intervene to avoid acute overloads of medical systems in local areas by re-deploying assets. Taking into account performances in all categories, Davis (2020b) awards ratings for overall resilience of the two health systems in the initial phase of the Second Wave of *Average*.

5. Conclusions

Governments and analytical elites in the UK and Russia have understood the importance of health in society and its linkages with the economy, but until recently they had assumed a one-way causality: economic performance determines the resources for health services and influences the health of populations. The COVID-19 epidemics have demonstrated that health problems can cause major unanticipated disruptions to economies that are worse than those caused by the GFC. As a result, leaderships have been forced to deal with new unanticipated realities.

Over the past decade, the UK and Russia governments assumed that

the most important issues in health were related to infant care and adults suffering from non-communicable potentially fatal diseases (e.g. cancer, cardiovascular) and therefore allocated most health resources to related programmes. Furthermore, the prevailing opinion of elites was that the threat of a serious pandemic of influenza had a low probability and could be managed by their health systems. As a result, the two governments under-funded public health programs, allowed inventories of anti-epidemic equipment and capabilities in testing and contract tracing to deteriorate, and ignored potential impacts of epidemics on economies. These countries therefore had *Substandard* Readiness for their COVID-19 epidemics.

The two health systems demonstrated *Substandard* (UK) and *Average* (Russia) resilience during the First Wave, with good performances in some categories and substandard ones in others. For example, the UK central government discovered that its past health reforms involving devolution to its 'nations' and decentralization of decision-making to hospitals and GP practices left it with only weak powers when it needed to act decisively in the emergency caused by COVID-19.

The actual morbidity and mortality generated by COVID-19 epidemics had limited direct negative impacts on economies. Riskaverse behaviours of consumers and workers and public health policies of governments, especially lockdowns, caused the greatest economic problems because of their disruptions of the service sector (notably hospitality), public transportation and international travel. The servicedominated economy of the UK was more adversely affected than the Russian economic system with its high shares of heavy industry and agriculture and modest service sector.

The Second Waves of the COVID-19 epidemics were caused by the incautious behavior of subsets of the citizens of the two countries, who did not observe clearly communicated public health rules. As infections accelerated, the UK and Russia governments imposed increasing restrictions on their populations. They tried to avoid the strict national lockdowns of the First Wave, which were shown to be blunt instruments that reduced infections, but also undermined economies, caused psycho-social stress in the population, and contributed to the neglect of other important medical problems, such as cancer. However, the UK was forced to introduce a less stringent national lockdown in early November. One lesson from the

experiences of these two countries is that until the people of UK and Russia learn how to behave more responsibly in a period of a global infectious disease pandemic they will suffer adverse health consequences, and not even energetic and properly designed interventions of governments will prevent substantial illnesses and deaths of individuals and members of their families.

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Influencing Factors of COVID-19 Spreading: A Case for Government and Divine Intervention

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Visiting Scholars' Opinion Paper

Crisis and Fragility: Economic Impact of COVID-19 and Policy Responses

Influencing Factors of COVID-19 Spreading: A Case for Government and Divine Intervention

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Abstract

The pandemic, COVID-19, is a special one. It has created a disruption, like the ones seen in case of major wars, turning the growth trajectories of many economies' upside downs. What would be an ideal policy response? As countries across the world differ structurally, that is, some countries are more industrially advanced than the others; some are more populous, with a large dependence on agriculture and urban-informal sector; the nature of policy response to fight against COVID-19 varies across countries. Policy responses enacted through a combination of fiscal and monetary policies are meant to minimize loss of life and livelihoods. Some of the countries such as South Korea and New Zealand did well in containing the crisis. On the contrary India was not so successful. I compare and contrast the policy response of India, benchmarking it against South Korea and New Zealand. Although COVID-19 is spreading fast in India, the mortality rate is low. I attribute these to the exogenous factors. These factors such as demographic profile, tropical weather, dietary habits, large vaccination program, and ability to supply affordable drugs have been responsible for the low number of COVID-19 deaths in India.

Key Words: COVID-19, Testing, India, South Korea, New Zealand, Fatality Rate JEL Classification: 113

PART 4 _ 04. Influencing Factors of COVID-19 Spreading: A Case for Government and Divine Intervention



Health and Sustainable Development





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1. Introduction

The pandemic, COVID-19, is a special one. It has created a disruption, like the ones seen in case of major wars, turning the growth trajectories of many economies' upside downs. There is a prevalence of demand and supply-side shocks. Demand has fallen because of a lack of jobs, and loss in livelihood. Supply-side disruption is arising as firms have stopped manufacturing and imports of intermediate inputs, especially from China, affecting sectors such as pharmaceuticals and automobiles. For the economy to revive, these demand and supply-side shocks need to be addressed simultaneously. As private sector participants are stepping back in the face of uncertain demand conditions, the role of government in controlling the business cycle (cyclical fluctuation in output) is becoming even more important. Some economists and national leaders are advising for financial assistance by transferring money to the poor and needy. Usually, money transfer works as a temporary redistribution scheme when there is no dearth in supply of goods, but in the case of COVID-19, supplies are constrained by the lack of production resulting from a broken supply chain. Under this circumstance, money creation may lead to inflation and hurt the poor.

The future of many economies depends upon the capacity of the states around the world to contain the spread of this disease and ensuring a smoother flow of goods and services. For less-developed countries, the challenge is to strike the right balance between life and livelihood. Given their fragile health infrastructure, many of these countries are imposing a strict lockdown. The lockdown is a way to implement state-enforced social distancing. The virus spreads through person-to-person contact, and the only way to limit its spread is to identify the people who are infected. With proper screening and lockdown of the infected person, the virus can be eradicated within 14 days. Without containing the spread, the economy cannot be opened up. In addition to lockdown, a country has to consider other steps so that citizens are more informed about this disease, and to ensure that supply chains of essential items are not broken.

Lockdown has its own downsides. It affects livelihood, particularly those of unskilled workers who cannot take their work back homes. For the urban informal-sector workers and the agricultural laborers, lockdown means loss of jobs. As their income is hand to mouth, with zero savings, lockdown can be life-threatening. In fact, the inflationary impact of lockdown is going to hit them the most. Also, the impact of a prolonged lockdown may boomerang as the migrant workers unable to sustain their family start traveling back from cities to their native hometowns, taking along the virus with them. Many of these migrant workers are also illiterate. On the other hand, the skilled workers, particularly, those employed in software services, academics, engineers, etc. can work from the comfort of home without their livelihood getting affected. Skilled workers are also more educated and are able to make better and informed decisions in the fight against COVID-19. For this group, the best strategy is to seek an extended lockdown, as their life and livelihood are little affected.

What would be an ideal policy response? As countries across the world differ structurally, that is, some countries are more industrially advanced than the others; some are more populous, with a large dependence on agriculture and urban-informal sector; the nature of policy response to fight against COVID-19 varies across countries. Policy responses enacted through a combination of fiscal and monetary policies are meant to minimize loss of life and livelihoods. However, there are few other exogenous factors that are not directly under the control of the policymakers. For instance, a number of COVID-19 related death are much higher in temperate countries such as Belgium, Italy, Spain, and the United Kingdom but not that much higher in tropical countries such as India, Ethiopia, Bangladesh, and Pakistan. This is in spite of the former group of nations being economically well-off and having access to a better healthcare infrastructure.

Although for India, the government pledged \$265 billion to fight COVID-19,¹ and the exogenous factors such as climate and demography are acting favourably, there is a need for better implementation of policy measures that can contain the spread of COVID-19. The motivation for writing this paper is to see whether India can learn something from the best practices followed in South Korea and New Zealand. The latter two countries are successful in containing the spread of COVID-19.

The rest of the paper is organized as follow. I start looking at various policy alternatives available with the governments as part of the demand management policy. This is done in section 2. In section 3, I look at best practices for controlling COVID-19. I look at the case of two countries,

https://www.bloombergquint.com/global-economics/india-boosts-aid-to-economy-with-package-totaling-265-billion.

namely, New Zealand and South Korea, which have successfully controlled the spread of COVID-19. I also comment about India, which is the world's largest democracy and has the dubious distinction of having the world's second-largest coronavirus caseload, only behind the US. In section 4, I consider the factors such as, climatic condition, demography, dietary habit, and living conditions; which are outside control of policymakers and yet may impact the spread of this disease. Section 5 concludes with some policy recommendations.

2. Demand Management Policy at the time of COVID-19

Demand management policies refer to a combination of fiscal and monetary policies, laid down by the policymakers, to smooth out business cycles. Managing demand is important because when there is a greater demand for output relative to its supply, it causes inflation. On the other hand, slack demand conditions lead to excess supply. Firms unable to sell goods and services do not hire, and may even retrench workers, leading to unemployment. At the time of COVID-19, there is economic disruption caused by an extended period of lockdown. Firms are not able to sell goods because markets are closed and demand is less. Lockdown also means firms are not able to manufacture. As there is a disruption in economic activities, the governments are also collecting less money on account of taxes. And yet, the government had to spend money on account of cash transfer (for example, Iran and Malaysia), subsidizing utilities (Maldives), reducing or deferring social security payments (Brunei Darussalam), deferring student loans (Fiji), providing rental subsidies (Nepal) and providing free food and ration (India and Myanmar). Households who lose their income because of lockdown measures will need government support. Cash transfers are needed for the self-employed and those without jobs (Huang and Saxena, 2020).

Countries, across the economic stratum, are also spending on account of administrative costs, such as implementing travel restrictions, social distancing, and enforcing lockdown measures (Chinazzi et al., 2020). There are also costs involved in building additional hospitals, makeshift health care infrastructure (for example converting a football stadium into a hospital), manufacturing greater number of personal protective types of equipment and other healthcare kits. To revive the demand, governments, particularly from the high-income countries, have already pledged more than \$10 trillion, which is three times more than the response to the 2008-09 financial crises (Casim et al., 2020).

The flexibility for using fiscal policy is however less for the governments from low-income countries. With limited economic activities, the government must borrow money from banks and institutional investors. Foreign funding is likely to be difficult for low-income countries with an already lower sovereign rating. Disinvestment, wherein the government tries to sell its own assets to monetize the deficit, may not work either. The only option available with the government is to rely on the monetary policy.

The central bank can help the government finance the fiscal deficit by printing money. Printing money is a technical way of creating new money because the governments neither have to pay the interest rate nor the principal amount when it borrows from the central bank against its own securities. One downside of this policy measure is that it is inflationary. Since March, eight central banks from the developed economies made announcements for quantitative easing. The US initially announced a \$700 billion purchase of government bonds on 16 March, followed by an announcement of 'unlimited' purchase on 23 March. The United Kingdom also announced a purchase of \$200 billion on 19 March.² Money created through quantitative easing can also be used by private corporate and retail sectors, as private firms are struggling to survive with a fall in operating cash flow.

Money can also be created with central banks buying 'newly' issued government bonds. A popular approach to finance government expenditure at the time of COVID-19 is governments issuing COVID-bonds. In April 2020, governments across the globe (excluding the US) have already issued \$55 billion worth of COVID-bonds. EU is raising Euro 750 billion from the bond market.³Among other countries, Israel is raising \$5 billion, the Philippines raising \$2.35 billion, Canada \$78 billion, and another \$1 trillion of sovereign bonds across the world are coming to market this year.⁴These

https://www.livemint.com/opinion/online-views/opinion-covid-19-triggered-unconventional-monetary-policy-india-s-concerns-11593930564483.html

^{3.} https://www.ft.com/content/5a749314-89cb-4716-b348-eb0c0880ac39

https://www.livemint.com/market/stock-market-news/a-1-trillion-glut-of-bonds-is-dwarfing-centralbank-demand-11595390993213.html

securities typically come with a maturity period ranging between 15 days and 10 years. Central banks usually sell these bonds through auctions to other commercial banks, insurance companies, and mutual funds.

The funds raised by the government from the money market are used to finance expenditures related to COVID-19. In the next section, I look at the strategies that New Zealand and South Korea adopted which made them successful in containing the spread of COVID-19. Thereafter, I compare these strategies, with those followed in India, and why India was not that successful in containing the spread.

3. Ensuring the Life and Containing the Spread: The Case of South Korea, New Zealand, and India

3.1 South Korea

The reason why South Korea is successful in containing the spread has to do with testing and isolation of the infected people at a rapid speed. As early on 1 March 2020, Italy tested 0.357, UK tested 0.17, and the US 0.007 tested people, in comparison to South Korea testing 1.88 for every 1000 people (Our World in Data, 2020). Italy, UK, and the US have learned in a hard way for initially testing less number of people. The number of fresh cases has almost stopped emerging in the case of South Korea, whereas for the other three countries thousands of fresh cases started emerging, starting May 2020.

The result of early testing in South Korea was tell-tale. When countries around the world have shut down the spread of COVID-19, South Korea was actually opening up and people were able to come out back into the street. Starting late February 2020, South Korea was witnessing a sharp rise in the number of COVID-19 cases. They were registering the highest number of coronavirus cases around the world. South Korea decided to implement testing early. Early testing, isolation, and contact tracing, yielded results. While cases in most other countries continued to rise; Korea's number

started levelling off. It indicates South Korea managed to contain the spread of the virus, early on.

South Korea benefited from learning the lessons of responding to previous outbreaks of SARS (2003) and MERS (2015).⁵ The role of an efficient and independent bureaucracy has been an additional advantage. Soon after the news of virus spread, the South Korean government started working with the biotechnology companies to develop testing kits for the COVID-19. By the time COVID-19 started spreading in South Korea, the country already had manufactured thousands of medical kits made available to conduct testing and implement contact tracing for the infected persons. In fact, economies across the world – Brazil, Colombia, Canada, Egypt, Ethiopia, the US, various European countries, including Italy, Bulgaria, Hungary, France, Poland, and Romania – have been importing medical kits from South Korea.⁶ South Korea was not only able to contact trace and isolate infected people, but they also had all the necessary medical kits used for fighting the disease. Prior experience in handling SARS and MERS disease helped.

Contact tracing is a way to identify the people who have interacted with corona-infected people, and then testing these people to ascertain whether they have contracted the disease. The process is repeated if anyone from the new sample is tested positive. They are quickly isolated and treated at home or in the hospital. The testing is done free of cost so that it is made accessible to the entire population. But that's just the human-to-human transmission. The infected person may have travelled by bus and metros, and have touched subway poles and door handles. The South Korean government developed applications through which they collected data of the patients, their places of travel, and then disseminate this information to others using the mobile applications. The people are now aware of the place of travel of the COVIDinfected persons and stayed away from where the patient travelled.

Apart from testing, the independent role of bureaucracy also helped to contain the spread. For example, a 'new regulatory system' was introduced in South Korea where the bureaucrat fast-track approval for newly-developed testing kits without obtaining permission from the political head (Hille and White, 2020). Such an independent role of bureaucracy may not be possible

^{5.} https://ourworldindata.org/covid-exemplar-south-korea

^{6.} https://thediplomat.com/2020/04/south-korea-ramps-up-exports-of-covid-19-testing-kits/

for India, where the politicians are powerful and at times are guided by religious interest groups.

3.2 New Zealand

New Zealand is another country that implemented a well-designed coordinated policy response to flatten the COVID-19 curve. Once the first case was registered on 28 February 2020, New Zealand was quick to close its border. Being an island country helped. In fact, over the years New Zealand has been successful in keeping biohazards away from the island nation. On 16 March 2020, New Zealand closed its border to foreigners.⁷ For the New Zealanders returning back, they had to go through mandatory selfisolation for 14 days. In fact, in the process, New Zealand was able to stop the spread of coronavirus to various pacific island nations. After closing down its borders, New Zealand implemented what they learned from the experience of some Asian countries such as China and South Korea. They rigorously followed the principle of finding the cases, isolating the cases, and tracking the close contacts. The government joined hands with the private sector to manufacture personal protective equipment and other medical kits, early on. The government also ensured that the supply chain of essential items was not broken. The fully functional healthcare system was an added advantage. Having a small and educated population helped in implementing the lockdown. Starting 26 March 2020, apart from essential workers, the entire country was required to self-quarantine at home. Only grocery stores, pharmacies, hospitals, and gas stations stayed open, and movement of vehicles was restricted. The government reached out to people with the message that it trusts the citizens and responsibility lies with the people. This COVID-19 related message was aired through the Ministry of Civil Defence (so that people treat the message with importance) reaching the mobile phone of every citizens. The message read, "This message is for all of New Zealand. We are depending on you. Follow the rules and STAY HOME. Act as if you have Covid-19. This will save lives."8 As a result, by 2 July 2020, New Zealand had 1180 confirmed cases and only 22 deaths.⁹

^{7.} https://www.dw.com/en/jacinda-ardern-leadership-in-coronavirus-response/a-53733397

^{8.} https://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=12319899

^{9.} https://www.who.int/westernpacific/news/feature-stories/detail/new-zealand-takes-early-and-hard-action-to-tackle-covid-19
3.3 India

Unlike New Zealand and South Korea, India is different in many ways.

First, India is a large populous country where many people are poor. An average middle-class Indian earns between \$3,500 and \$16,000 per annum.¹⁰ Only 6% of the Indians earn more than that, and to get into the top 1% income-earning bracket, one needs to earn over \$20,000 per annum in India. The average national income is around \$1,900 per annum. However, considering the distribution of income, 80% of the Indians earn less than the average per-capita income. And when it comes to the lockdown, it is the livelihood of these people that gets the jolt. The biggest impact would be on the lives of the bottom 80% of the population. These people are mainly agricultural labourers and the urban informal-sector workers. Their number is 120 million with most of them being migrant workers with a subsistence level of income less than \$5 per day (Banik and Banerjee, 2000). For these group of people, going out for work is more important than losing their livelihood to pandemics. Another related study pointed out that the most vulnerable group in India, in terms of loss in employment, are those who are into non-agricultural self-employment; such as street vendors, drivers, tailors, carpenters, painters, and petty shopkeepers (Centre for Equity Policy Studies, 2020). Nearly eight out of 10 such workers reported loss in employment during the lockdown. Therefore, irrespective of the government directive, the first best option for this group of people is to go to work without thinking much about social distancing.

Second, India also lacks adequate health care infrastructure. For instance, the States of Delhi and West Bengal in India, are suggesting home quarantine (The New Indian Express, 2020).Indian policymakers are finding it hard to quarantine "lakhs and lakhs of people". For India, given its fragile healthcare infrastructure, strict lockdown is seen as a preventive measure. With a community spread of COVID-19, India does not have enough doctors and hospital beds to provide treatment. India has 0.9 hospital beds and 0.7 doctors for every 1,000 people, against the WHO mandate of 1.9 hospital beds and 1 doctor per 1,000 population (World Bank, 2020).Additionally, India does not have adequate number of testing kits. As on 23 April 2020, India has tested only 0.362 for every 1,000 people in spite of having a much higher population than UK, South Korea, and the US (Our World in Data, 2020).

https://www.livemint.com/Opinion/uMcYLhhViH2I0X9jdzvHcM/How-can-India-bridge-the-gap-between-its-middle-and-median-c.html

And third, India also did not have prior exposure of handling a pandemic of this scale. Policymakers were caught off guard. There were no supply of medical kits available and during the initial months of March and April 2020, the numbers of testing done in India were pretty low. There is a belief that India was under-reporting the actual number of infected persons. The suggestion for home quarantine is a way to signal that there may be more number of infected persons than what the official figure suggests (Singh, 2020). As there was less number of testing during early months, the number of COVID-19 affected persons was less. During April 2020, India on average was reporting around 3,000 cases each day. Fast forward to July 2020, the number of COVID-19 affected persons increased manifold, with more than 60,000 people getting infected daily.¹¹ However, the numbers of deaths are much less, with a coronavirus death rate below 2%. A way to understand the fatality rate is to examine how many number of days it take for total deaths to double. As on 25 April 2020, this number was 9 days for India - there were 410 COVID-19 confirmed deaths on 16 April 2020, with the number doubling to 825 on 25 April 2020 (ICMR, 2020). For New York, which was at the same stage of pandemic, this number was 2.5 days. The lower fatality rate is because of other exogenous factors which I discuss in the next section.

3.3.1. Policy Response to fight COVID-19 in India

Initially, Indian policymakers wanted to contain the spread of COVID-19 through harsh lockdown measures. Given the poor state of healthcare infrastructure, lockdown seems to be a natural choice. However, lockdown has hit the economy hard. Recent estimate suggests around 122 million Indian lost jobs between March and April 2020.¹² Close to 90% of the workforce in India are in the informal sector, without any social security benefits.¹³ In the period during and following the lockdown, most of the small manufacturing units, urban mom and pop stores, small time restaurants, amusement park, etc. got closed. These places used to employ a larger chunk of India's 500 million rural- centered, illiterate working class. Suppressed income due to low agriculture productivity in India prompted rural to urban migration. Economic shutdown means loss of livelihood for

https://www.livemint.com/news/india/usa-witnessed-50-000-covid-19-deaths-in-23-days-india-took-156-days-10-points-11597570938030.html

https://indianexpress.com/article/jobs/122-million-indians-lost-jobs-due-to-pandemic-these-skills-canhelp-them-be-employed-again-6510032/

^{13.} Employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (such as paid annual and sick leave).

these groups of people, most of whom live in hand-to-mouth existence. The International Labour Organization estimates around 400 million people working in the informal economy in India are at risk of falling deeper into poverty, and 195 million full-time jobs are expected to be wiped out.¹⁴ All these call for an expansionary demand-management policy on part of the government and central bank in India.

The government announced a fiscal stimulus package of 20 trillion Indian rupees, almost 10% of GDP, to kick-start the Indian economy.¹⁵ The fiscal stimulus came in the form of deferment of tax payment, distribution of free food grains, ease of doing business processes, and implementing some fundamental reforms. On 5 June2020, the government ushered in the much-needed reforms by changing the agricultural produce market committees (APMCs) act, permitting trade in agricultural produce between farmers and the corporate sectors. Such a move is likely to facilitate contract farming and increase farm income. Any person having a national identity card (such as PAN and Aadhaar cards) can operate and trade using electronic platform to transact in agricultural produce. Such activities were earlier not allowed, where trading in agriculture product only happened in government designated markets. A reform in the APMC act is expected to boost farm income. Around 60% of the rural households in India earn their livelihood from the agriculture sector.

The central bank, Reserve Bank of India (RBI), to complement the government's fiscal measures, also followed an expansionary monetary policy. The central bank reduced both repo and reverse-repo rates to 4.4% and 3.75%, respectively, which is a reduction by 25 basis points. This meant more money in the hand of the commercial banks, which in turn can be lent out. On 27 March, the RBI Governor Mr. Shaktikant Das said, "monetary policy needs to proactively arrest any deterioration in aggregate demand, and create enabling conditions for businesses to normalise production and supply chains."¹⁶ In addition to buying government bonds, RBI provided additional fund at cheaper rates to the non-bank financial companies (NBFCs), and offered refinance options to small and medium business, and agriculture sectors. These measures are expected to enable banks

https://economictimes.indiatimes.com/news/economy/indicators/about-400-million-workers-in-indiamay-sink-into-poverty-un-report/articleshow/75041922.cms.

https://www.livemint.com/news/india/rs-20-trillion-stimulus-going-by-govt-s-maths-rs-10-71-tn-package-at-disposal-11589331802344.html.

^{16.} https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=49659

and NBFCs, to extend additional loans at cheaper rates to the business communities.

Although India, like any other country, is following expansionary demand-management policies, there is a need for effective implementation. Fortunately, the exogenous factors are playing out in India's favor, explaining the lower mortality rates from COVID-19.

4. Exogenous Factors affecting COVID-19-related Death

Exogenous factors are the ones over which policymakers have little control. It can act as a boon or bane for any economy. Below I discuss a few of them.

Age Profile: A reason why the number of COVID-19 deaths is less in India is because India has a much younger population in comparison to the developed countries. With an increase in age the severity of the disease goes up. Elderly people are co-morbid and more likely to suffer from other types of diseases, such as diabetes mellitus, coronary artery disease, cancer, and upper respiratory tract infection (Valderas et al., 2009). For this group, chances of hospitalization and intensive care go up, leading to more deaths by the COVID-19 (Brurberg, and Fretheim, 2020). A report of 72,314 cases that occurred in mainland China shows for the people aged between 70 and 79, the overall fatality rate increases from 2.3% to 8.0%. For the people above 80 years, the fatality rate was at 14.8%. Similarly, for Italy, for the people aged between 70 and 79, the fatality rate is 12.8%; whereas for the people above 80 years of age the fatality rate increases to 20.2% (Onder et al., 2020). US Centers for Disease Control and Prevention conducted a study on the elderly cohorts and found elderly people with comorbidities such as heart disease and diabetes are twelve times more likely to die and 6 times more likely to be hospitalised because of COVID-19 (Sharma, 2020).

Figure 1.

Median Age and Fatality Rate



Source: Our World In Data (https://ourworldindata.org/age-structure) Note: A 2 point moving average tracks data as an average of last 2 periods to smooth out the data.

As evident from Figure 1, India and countries such as Bangladesh, Kenya, Nigeria and Pakistan have a lower level of fatality rate in comparison to the developed countries – the US, Italy, South Korea, United Kingdom, Germany and Spain. India, Bangladesh, Kenya, Nigeria, and Pakistan have a younger population and also share similar economic profile (lower-middle income countries).¹⁷ The trend is negatively slope, suggesting that an elderly population is more likely to have a higher fatality rate.

Tropical Climate: What is also particular about the sample of lower-middle income group of countries is that they also share similar climatic condition. Most viruses exhibit seasonality, varying across geographic locations and across diseases (Martinez, 2018). The COVID-19 virus is sensitive to high temperature and humidity (Chin, et al., 2020). A study that analyzed the meteorological data for 166 countries revealed a negative relationship to both - temperature and relative humidity - on the daily number of new cases and new deaths resulting from COVID-19. A 3.08% (95% CI: 1.53%, 4.63%; CI stands for "Confidence Interval") reduction in daily new cases and a 1.19% (95% CI: 0.44%, 1.95%) reduction in daily deaths could be

^{17.} World Bank classifies countries into three groups: low-income, middle-income and high-income. In 2018, the high income countries are those with a per capita income more than US\$ 12,376 per annum. Middle income countries are the ones with per-capita income between US\$ 1,026 and US\$ 12,376 per annum. Countries with per capita income less than US\$ 1,026 per annum are classified as low income countries.

associated with a 1°C increase in temperature. Similarly, relative humidity increasing by 1% was associated with a 0.85% (95% CI: 0.51%, 1.19%) reduction in daily new cases and a 0.51% (95% CI: 0.34%, 0.67%) reduction in daily new deaths (Wu, et al., 2020). However, when temperature is below 3°C, the daily confirmed cases of COVID-19 increase by 4.861% (95% CI: 3.209, 6.513%) for every 1°C fall in temperature (Zhu and Xie, 2020). Cold and dry weather is favorable to virus survival and spreading. Also, the innate immune system's ability to function is hindered in cold and dry weather conditions (Sun et al., 2020). The reason why we may observe a higher mortality rate for the developed countries may be attributed to the temperate climatic condition characterized by cold and dry weather conditions. Moreover, Indians while growing up have an early exposure to vector-borne diseases such as malaria, dengue and chikungunya, and may have developed a state of resistance to COVID-19.

Dietary habit, associated living condition, and health policy: The Ministry of AYUSH, Government of India has issued guidelines for using the Indian system of ayurvedic (traditional) medicines with antipyretic properties to be used as a general immunity booster (Government of India, 2020). Ayurveda is a plant-based science. There is a belief that the phytocompounds present in herbs such as andrographis paniculata, vetiveria zizanioides, cymbopogon jwarancusa, ginger, cyperus rotundus, etc. can stop the virus from replicating and protect the body from COVID-19 (Tejonmayam, 2020). The suggested guidelines for developing immunity, as issued by the Ministry of AYUSH, are based on the idea of practicing yoga and eating a healthy diet.

Likewise, a cleaner air quality may help to reduce the chance of contracting COVID-19. The research done in the US and in Italy suggests people living in polluted areas are more likely to die from COVID-19 than those living under cleaner environment. High death rates in the northern industrial part of Italy (in Milan and Lombardy) are attributed to a higher level of pollution (The Guardian, 2020). In fact, in India, following a strict lockdown measures, air quality has improved. For example, in the national capital region of Delhi, the air quality index has fallen from the high of 900 micrograms per cubic meter in 2019, to around 20 micrograms per cubic meter in 2019, to around 20 micrograms per cubic meter during April 2020 (Ellis-Petersen, 2020). Moreover, unlike in the developed countries where people are used to working in a close office environment (with centralized air conditioning), the majority of the people in India work outside, or under conditions which do not require

centralized air conditioning. The virus is more likely to spread in close office environments, wherein, if one person gets infected they are more likely to affect others. A new found cleaner air quality in India and absence of indoor office environment may have helped to develop immunity to fight COVID-19.

Health policy in India encourages universal vaccination for poor income cohorts. A few studies have commented on the effect of BCG vaccine in reducing respiratory infections (Hegarty et al., 2020, and Curtis et al., 2020). Lower incidence of COVID-19-related death among South Asian countries and other African countries, in comparison to their counterparts in North American and European continents, can be partially attributed to BCG vaccination policy (Miller, et al., 2020). Countries with higher COVID-19 related death counts, such as USA, Canada, and Italy do not have universal BCG vaccination policy, whereas, United Kingdom, Spain, France, and Germany, earlier used to have an universal vaccination policies.

Generic pharmaceutical industry: India is home to 3,000 pharmaceutical companies and 10,500 drugs factories. India is the world's third largest manufacturers of medicines (by volume) and has emerged as a major exporter of generic drugs in such areas as diabetes, anti-depressants, high blood pressure, epilepsy and even cancer, in part because the Indian government allows foreign multinationals to invest in India. Tie-ups between Indian domestic drug manufacturers and foreign multinationals - Piramal Healthcare with Abbott Laboratories, Ranbaxy Laboratories with Daiichi Sankyo, Dr. Reddy's Laboratories with GlaxoSmithKline, Shantha Biotechnics with Sanofi-Aventis, and Biocon with Bristol-Myers Squibb – have allowed India to move up the value chain, with formulations and packaging moving in here. In fact, pharmaceuticals are an important component of Indian trade with the African and South American continent, with India supplying 85% of all anti-retroviral drugs used to treat HIV in Africa. Like in the case with HIV, India is also a major manufacturer of hydroxychloroquine, the drug that is used to prevent and treat malaria, lupus and rheumatoid arthritis, and now being used in India, Brazil, and the US as a preventive drug to fight against COVID-19.

5. Conclusion and Policy Recommendations

In this policy paper, I examine various policy options available with the government as part of the demand management policy. Doing this, I look at best practices for controlling COVID-19. I look at the case of two countries, namely, New Zealand and South Korea, which have successfully controlled the spread of COVID-19. At the other extreme is India. India, which is the world's largest democracy, has the dubious distinction of having the world's second-largest coronavirus caseload, behind only the US. India spent around \$265 billion in the form of monetary and fiscal policies to contain the COVID-19. However, India has failed to contain the spread of the disease. To contain the spread the following steps are necessary:

- 1. Implementation: If the government is announcing any further lockdown, such a measure should be universal and complete except for food, medicines, and other essential supplies. In this regard, India should take a lesson from New Zealand. Movement of politicians and local leaders should be restricted as they are using this COVID-19 situation for their personal benefit. To garner sympathy the politicians are seen roaming in the streets and handing over the goodies, without maintaining social distancing. The army should step in to monitor the distribution of the essential items. Migrant laborers, unemployed people, and beggars should be broken down into small groups and given shelter and food in large convention halls, schools, parks, and stadiums. For this group the level of awareness is low, and economically they are the most vulnerable. India has 30.97 million metric tons of rice and 27.52 million metric tons of wheat, enough to feed its population for a year. Each camp should have a medical center or clinic nearby to pick up cases as fast as possible. Alternatively, the places of residence of the migrant workers in their native areas should be identified, and the local district magistrate should be held accountable in case anyone breaks the rule of self-quarantine.
- 2. Screening: Given our huge population and stigma associated with COVID-19, there are instances of under-reporting. It is essential that the central government make it mandatory for any person having upper respiratory tract infection and history of travel undertake rapid

tests for protective antibodies in a finger prick. This test is both costeffective, scalable, and can be used for initial screening. All the data can be collected via a mobile application. This data then can be analyzed by Artificial Intelligence to detect high-risk areas.

- 3. Profiling: High-risk areas should be tested first followed by universal screening to detect community spread. Once screened, areas can be demarcated into 3 zones (red, orange and green) depending on the number of positive cases. In this regard, India should take a lesson from South Korea. These zones will be transitional as the recovery rates increase with time. Localized travel and relaxation of lockdown can be done in the green zones whenever they attain that status. Drones can be used to monitor the zones.
- 4. Treatment: Hospital care will depend upon the initial triage of the patients. Hospitals should be separated into 3 categories with ventilators and Intensive Care Units, without ventilators but high flow oxygen devices, and the ones with moderate care to quarantine patients only. Already railway coaches have been turned into isolation wards.
- 5. Infrastructure: Drug trials and vaccine development should be the priority of all biomedical companies. 3D printing of PPE should be done at all automobile and defense equipment manufacturing companies. At times, when there is a shortage of PPE, government should refrain to send these essential medical kits to other countries (read, Serbia). Instead, there should be a way to bring back API from China in larger quantities. Drugs manufacturing are drying up and many medical stores are running short of supply as the distributors are not able to reach the retailers. The supply chain involving medicine has to be up and running on a priority basis.

The spread of COVID-19 can be controlled better if the policymakers in India follow these aforementioned policy recommendations. Luckily for India, the exogenous factors such as demographic profile, tropical weather, dietary habits, large vaccination program, and ability to supply affordable drugs, are playing in its favor. These factors may have been responsible for the low COVID-19-related mortality rates in India.

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Impacts of COVID-19 on Inclusive Economic Growth in Nigeria

PART 4

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Visiting Scholars' Opinion Paper

Crisis and Fragility: Economic Impact of COVID-19 and Policy Responses

Impacts of COVID-19 on Inclusive Economic Growth in Nigeria

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1. Introduction

The coronavirus first-named 2019-nCoV and officially renamed as SARS-CoV2 (the virus) and COVID-19 (the disease), has had the most significant shock to the global socioeconomic system in the 21st century. The epidemic, which was first reported in December 2019 in Wuhan, China now has a global record of more than 700,000 deaths, and well over 18,214,603 confirmed cases around the world and counting and has led health agencies, institutes, and experts the world over to declare that the outbreak constitutes a Public Health Emergency of International Concern (PHEIC) while instituting measures to contain the spread of the virus.

While Africa's number of COVID-19 infection and fatalities appear relatively low in comparison with other continents [1], the continent is starting to see exponential growth in the number of infections, and the impending health crisis can have significant impacts on the continent's fragile health systems, which could quickly turn into a social and economic catastrophe. Africa is deeply interconnected in the global economic system and this makes her economically exposed and vulnerable to the impact of the pandemic. Looking beyond the medical and health situation, the coronavirus (COVID-19) impact on African economies will be through: (i) reduced trade and investment, particularly its exports; (ii) direct impact on its services sector and indirect impact on the labour market as a result

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Health and Sustainable Development

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of lockdown implementations; and (iii) supply and demand shocks which will have a strong impact on inclusive growth and economic development.

1.1 Inclusive Growth in Nigeria

Nigeria has had an impressive growth rate over the past decade and has been one of Africa's fastest-growing economies. Its economy was rebased in April 2014, and GDP deflator index revealed that its economy is more diverse than previously assumed. Strong previously unrecorded growth was underreported in Information and Communication Technology (ICT), financial technology (Fintech), education technology (Edutech) services sectors, which helped generate employment for a large number of the young educated working class. Likewise, the massive emigration of semi-skilled labour from the rural areas to the towns and cities led to absorption into the informal sectors, (which accounts for over 50% of Nigeria's GDP) into activities such as market trading, small scale manufacturing and service provision (e.g. private clinics and pharmacies, carpenters, cab and minibus drivers) was not captured. Growth was also observed in the agricultural and manufacturing sectors along with the establishment of Special Economic Zones (SEZ) in different parts of the country. The expanding economy has led to improvements in healthcare, housing, infrastructure, and food security, however, there is still room for improvement to widen the rate of inclusivity as data from the Central Bank of Nigeria indicate that the country's GDP growth rate is less than the national population growth rate and the country has a Gini coefficient of 35.1 points.

1.2 The Impact of COVID-19

The economic impacts of COVID-19 are broad-based due to the effect of the virus (sickness and death), the policy initiatives instituted to mitigate its spread (lockdown of businesses and academic establishments, restriction of movements and associations), and the attendant behavioural modification that the citizens made to limit exposure to the virus (avoiding common areas and mass gatherings) simultaneously combined to affect supply and demand in Nigeria. It should be stressed that a larger percentage of the economic impact of the pandemic is a spillover of the containment measures instituted to curb the spread of the virus rather than the immediate influence of the disease itself.

Figure 1.

Total cumulative COVID-19 cases in Nigeria (as of September 10,2020)



Source: ourworldindata, 2020

Figure 2.





Nigeria's Ministry of Health confirmed its first coronavirus disease (COVID-19) case in Lagos State, on the 27th of February 2020, and in the first week of August, Nigeria has had 47,000 recorded cases and 942 deaths. To contain the spread of the virus, President Buhari in March 2020 announced a month-long lockdown in Nigeria's major cities, and governors were given broad discretion on the implementation of control measures in

their respective states. The pandemic has hit Nigeria hard with economists projecting the economy to contract from anywhere between 2.3% to 8% in 2020, thus putting Nigeria on track to experience its worst economic performance in three decades [8]. The International Monetary Fund (IMF) has also revised its growth projections for Nigeria, with its economic outlook for April 2020 forecasting the economy to shrink by over 5% and not the 3% earlier reported, though the global lender expects Nigeria's economy to rebound by 2.6% in 2021 [9]. Its forecast is influenced by the higher than expected shocks to global value chains arising from the pandemic, which has impacted negatively on global demand for goods and services.

In an attempt to assess the impact of the pandemic on the Nigerian economy, we shall summarise the effect of COVID-19 on the economic and social sector, focusing on selected sectors such as the primary sectors which include industries involved in the extraction of raw materials, secondary sectors involved in the production of finished products, the tertiary sectors, and the social sector.

2. Economic Sector

2.1 Agriculture

The agricultural sector is important to the GDP of Nigeria, as it employs over 60% of its population and a source of livelihood. The lockdown instituted to curb the spread of the virus is having an economic effect on farmers nationally through limited access to agricultural inputs, as well as through shortages in labour across the agricultural sector. Compliance with the lockdown directives and border closures have led to disruptions in supply channels, which has had ripple effects on food production, distribution, and transportation, which has led to artificial scarcity of essential agricultural products. These constraints are leading to hikes in agricultural products and food prices, thereby limiting the population's access to food supply. According to the National Bureau of Statistics, there has been a rise in the composite food index, which was caused by increases in the prices of staple food products as a result of the pandemic. Below is the price index on selected products: [10].

Figure 3.

Naira price per kilo of beef (as of June 20, 2020)



Figure 4. Naira price per kilo of fish (as of June 20, 2020)



Figure 5.

Naira price per loaf of bread (as of June 20, 2020)



Figure 6.

Naira price per basket of rice (as of June 20, 2020)



Source: Nigeria Bureau of Statistics, 2020

2.2 Petroleum

A major impact of the pandemic globally, has been lower energy demand with many economic activities brought to an abrupt halt. The recent price war between Russia and Saudi Arabia which led to a plunge in oil prices was further compounded by the global decline in oil demand as a result of shutdowns instituted to curb the coronavirus. The pandemic has led to a slump in the oil markets with reports from government officials that Nigeria has several crude oil cargoes on the high seas with no buyers in sight. Furthermore, with oil accounting for over 90 percent of Nigeria's exports and foreign revenue, the global decline in the demand for oil and fall in prices significantly affected the volume and value of its net exports [11]. According to the IMF, the economy might suffer a contraction of around 4% in 2020 as a result of the drop in crude prices. The drop in oil prices and export volume as a result of the pandemic and the Saudi-Russia price war has taken a massive toll on the country's finances and led to cuts in planned expenditure [12]. On March 18, the government through its finance ministry disclosed plans to slash its budget by 1.5 trillion Naira (\$4.17 billion) through cuts in capital and recurrent expenditure to accommodate for the deficit in oil revenues.

Figure 7.

US\$ price per barrel of crude oil (as of March 20, 2020)



Figure 8.

Nigeria's crude oil export in millions of barrels per day (as of March 20, 2020)



Source: Nigerian National Petroleum Corporation (NNPC)

Figure 9.

Nigeria's crude oil production in millions of barrels per day (as of June 20, 2020)



Source: OPEC

2.3 Manufacturing Industry

The impact of COVID-19 has also been felt in the Nigerian manufacturing industry. The country is a strategic manufacturing hub and gateway into West Africa, with many multinational companies establishing their factories and plants in Nigeria to export to other West African states. The pandemic has led to factory closures and supply chain disruptions for multinational companies along with raw material shortages, labour shortages, increased costs of materials, reduced orders or delays in deliveries, and a decrease in the availability of manufactured goods [13].

Furthermore, Nigerian industries import over 90% of their industrial machinery and manufacturing components from outside the continent. The most important suppliers are China, Europe, and the rest of Asia, including South Korea. As such, with the COVID-19-related disruptions in global supply chains, many manufacturers in the country are already experiencing an acute shortage of raw materials and intermediate inputs as well as inflation in the prices of available inputs. This has had implications on productive capacity, job creation, and supply chain networks especially on small and medium enterprises (SME's) that have been unable to find alternative sources of suppliers.

Figure 10.

Nigeria's manufacturing production level index (as of June 20, 2020)



Source: Central Bank of Nigeria 2020

2.4 Finance industry

In February 2020, credit rating organizations Fitch and Standard & Poor's (S&P) downgraded the credit rating for Nigeria from stable to negative outlook stating that the Coronavirus outbreak will have a downside risk on short term growth projections due to global economic shocks and Nigeria's dependence on commodities sale, particularly crude oil and gas. The negative outlook ratings will increase the cost of borrowing should the Nigerian government move ahead with its plans to raise funds through Eurobond issuance from external markets to cover for its budgetary deficits.

Figure 11.





ANNUAL % INCREASE OF PUBLIC DEBT BETWEEN 022019 & 02 2020

Also, due to the downgrade in outlook ratings, overseas investors will tend to request a higher form of compensation to tolerate the higher risks. The lowering of Nigeria's credit rating, other than tightening Nigeria's borrowing window, can in turn impact negatively on foreign investment and investors to the Nigerian stock market due to the risky perception of the economy. Indeed, it was no surprise that the Nigeria Stock Exchange recorded a significant drop in the value of its all-share index and many listed companies reported poor first-quarter results.

Lastly, foreign investment (FDI) is expected to contract due to the economic shocks caused by the pandemic as the operational and logistical roadblocks in such a period of instability and uncertainty will further heighten the risk of investing abroad. The consequence will be losses in employment, revenue for the government, technology transfer, and infrastructure development in Nigeria.

2.5 Logistics

The Coronavirus (COVID-19) has led to supply and demand shocks as a result of production and supply chain disruptions due to the temporary closures of the Lagos and Port Harcourt ports, with spillover impact across all sectors. Nigeria's supply chains have continued to suffer due to quarantining enforcement on cargo ships and crews at the respective ports, and this had led to delays in product movements. Furthermore, lockdown enforcements in China and India led to disruptions in supply chains as these countries are major suppliers of inputs for manufacturing companies in Nigeria. Container shipping lines, including AP Moller Maersk, have reduced or cancelled their cargo routes from Asia, Europe, and North America to Nigeria in recent months and this has led to higher shipping costs and fewer vessels coming into the ports. Also, the government has implemented containment measures ranging from partial closure of the ports to increased quarantine examination and additional documentation requirements. The Lockdown and containment measures are leading to mounting congestion at the ports as increased protective measures for workers to ensure minimal human contacts, has contributed to longer waiting times for docked vessels to unload their cargoes at the ports. Also, the closure of the airports to international flights has led to reduced trade deals, as cancellation of flights has limited the availability of air cargo resulting in increases in the price of air cargo. Delivery times have also increased, which has an impact on urgent medical supplies and agricultural imports.

2.6 Tourism

In towns and cities where tourism and related services are the major revenue generator, the pandemic has seriously disrupted such service sectors. The travel and hotel industry has also been severely affected by the lockdown and associated measures while recovery is expected to be very slow. Furthermore, restrictions on traveling by the government and the reluctance to travel by citizens will have a longer-term impact on the tourism sector. Restaurants, bars, and canteens will also be impacted due to the non-availability of food delivery culture in Nigeria.

2.7 Retailers and Fast-Moving Consumer Goods (FMCG)

Also, the pandemic has created a high degree of uncertainty and decreased optimism in the economy with changes in consumer spending

behaviours towards a shift in essential goods and services. While initial panic buying at the start of the lockdown led to stock shortages, most households later instituted cuts in expenditures due to a fall in income, rising unemployment or to make provision for uncertainty. This has led to the closure of many shops, groceries, and retail outlets as customers avoid crowded areas and spaces, and those still operational have been mandated to procure protective equipment and sanitizers at a high cost.

2.8 Healthcare and the Pharmaceutical Sector

COVID-19 has also created unprecedented challenges in Nigeria's health and pharmaceutical sector. Apart from the risks to medical and healthcare officials, there has also been a rise in healthcare costs, as well as shortages in medical equipment and products. With China and India, as major suppliers of pharmaceuticals and protective equipment to Nigeria, restrictions on the importation of medical and health supplies imposed by the country's trading partners have affected Nigeria's fragile health system. In March 2020, India's Directorate General of Foreign Trade announced that the country would restrict exports of 26 medical products and ingredients, including paracetamol and antibiotics, to foreign countries, consequently leading to shortages in Nigeria. Also, China, the main manufacturer and supplier of surgical masks to Nigeria, in January 2020, due to global demand for surgical masks, enforced restrictions to mask exporting into Nigeria. This along with the growing global demand for diagnostic material, personal protective equipment, and other medical equipment has led to a sharp increase in their prices, and reduced availability in Nigeria.

2.9 Informal Economy

The informal economy plays a significant role in Nigeria's economy and is a means of livelihood to a large segment of the population. Workers in the informal sector such as cobblers, street vendors, hired helpers and domestic servants, caterers, craftsmen, traders, and tailors are daily wage earners and will be affected through job insecurity, loss of income due to lockdown measures, and the non-provision of welfare benefits in a large number of the states. The Nigerian Bureau of Statistics estimates about 10 million citizens could be plunged into transient poverty by 2022 from the dual impact of the oil crisis and the pandemic.

3. Social Factors

3.1 Education

As a result of physical and social distancing measures implemented in response to COVID-19, educational institutions all over the country have been shut from March to September. The closure of academic establishments will have a long-term impact on human capital formation, while the fear of infection and the risk of death has increased the levels of psychological distress amongst academic students in tertiary institutions. Also, the lockdown socioeconomic effect on many households' finances and income will ensure many parents struggle to pay educational fees, when institutions resume, due to job losses and loss of income. What's more, the shutdown has been linked to increased cases of teenage pregnancies and early marriages among girls especially in the northern regions of the country. Lastly, the disruption in academic activities has the potential to reduce motivation towards academic studies and potentially see higher rates of dropout when schools reopen.

3.2 Social impact

The lockdown and social distancing measures imposed by the federal and state governments to prevent the spread of COVID-19 have led to a spike in incidents relating to domestic violence and sexual abuse, as the restrictions have forced vulnerable persons, who normally go to work in the morning and return late in the evening to stay more closely to their potential attackers. There has been an increase in reported cases of spousal related abuse, boyfriend - girlfriend abuse, neighbour to neighbour violence, or police-citizen violence. Data from the Ministry of Women's Affairs show an increase in domestic violence and gender abuse in the month after the imposition of the lockdown across the six geopolitical regions in Nigeria.

In Lagos state, the Domestic and Gender Violence Response Team, a government initiative disclosed that 360 cases were reported in the month after imposition of the lockdown of which 216 (60%) were domestic-related.

Figure 12.



March 2020 reported sexual and domestic violence cases in Lagos State

Also, there have been numerous incidents of citizens killed by security personnel while attempting to implement and enforce lockdown rules in different parts of the country. As of May 2020, the British Broadcasting Corporation (BBC) reported that more people had been killed by the law enforcement agencies implementing containment measures than by the virus in Nigeria.

3.3 Gender Impact

Nigerian women have been more susceptible to the impacts of the trade and economic disruption generated by the pandemic than the men. A reason for this is that a greater percentage of Nigerian women work in the informal sectors hard hit by the pandemic or in micro-enterprises with little or no access to finance or government funds for the survival of their businesses.

Markets are an important segment of the informal economy to which women are actively engaged in, and the restrictions and shut down implemented had an impact on the livelihood of these women. Furthermore, a greater percentage are involved in the agricultural sector, and disruptions in supply channels of agricultural and manufactured products have created artificial scarcity and loss of income for many women. Also, most women who are engaged in the manufacturing and service sectors more often tend to take on administrative or support roles, and those positions are the first to be temporarily or permanently laid off in any crisis.

3.4 Poverty Threshold

Where there has been an improvement in household income over the past two decades, fears persist that the pandemic will lead to an increase in poverty levels especially amongst the most vulnerable of the populace. A rise in unemployment, food prices, and a fall in income will increase the poverty threshold in many households. A long-term impact will be a rise in social vices such as theft, armed robbery, online fraud, smugglers, and prostitution

4. Policy Responses

President Buhari's led administration has taken health, social and economic measures to contain the spread of the virus and cushion its impact on the citizenry. As the country experienced a rise in confirmed cases, governments at various levels instituted the following measures and policies:

4.1 Health Policies

4.1.1 Contact tracing: With the confirmation of Nigeria's first infection case on the 27th of February, the government implemented a nationwide contact tracing process on the 28th, to identify persons who may have had contact with an infected person and subsequently test them for infection. The country's contract tracing process was helped by the experience gained during the Ebola pandemic in 2014.

4.1.2 Lockdown Implementation: A comprehensive nationwide lockdown order was instituted followed by the closure of academic establishments, religious and economic centres. This was subsequently eased as the country experienced a fall in the rate of infection.

4.1.3 Travel restriction: In April, states in the federation instituted

restrictions on inter-state travels to mitigate the spread of the disease, and the government also announced the closure of its international airports until September 24th. During this period, the government only allowed inbound flights for medical and essential goods.

4.1.4 Imposition of curfew: A dusk to dawn curfew was put in place to restrict movements except for emergency or essential activities. This was gradually relaxed as the country experienced a fall in infection rate.

4.1.5 Compulsory face mask and social distancing: With the easing of the lockdown, the wearing of face mask was made compulsory to citizens when they venture out of their houses. Also, citizens were mandated to observe social distancing at all times, while households were directed to put a bucket of water and sanitizer in front of their houses for visitors and guests to use for sanitation.

4.2 Economic policies

4.2.1 Passage of stimulus bill: In March 2020, the legislative arm of the government (House of Representatives) swiftly passed the 2020 stimulus bill to provide assistance to individuals and business enterprises all over the country. The bill allowed citizens 6 months deferred payment on mortgages and house loans, while business enterprises were given tax concessions to halt further job losses and future layoffs.

4.2.2 Credit stimulus: The central bank also provided over US\$130 million in loan financing and relief assistance to households and business enterprises hit hard by the pandemic. To be eligible, recipients are required to provide proof that they have experienced a significant shortfall in their income or revenue due to the pandemic.

The apex bank further provided over US\$300 million in loan financing to companies engaged in pharmaceutical production and for the expansion of existing medical establishments. The bank also instituted cuts in its monetary policy and revised the official exchange rate as it attempts to stimulate a fresh wave of economic growth.

4.2.3 Contingency fund and food support program: The government through the Humanitarian Affairs and Disaster Management Ministry announced in April that it will provide food assistance to targeted households deemed to be vulnerable in selected states through the

establishment of food banks. The objective is to provide emergency food safely to people who cannot afford to buy the essential food items. The government further made provision of over US\$20 million to the Centre for Disease Control (CDC) to acquire kits for testing and tracing, as well as for personnel training.

4.2.4 Other policies: Furthermore, the government waived tax and import duties on the importation of drugs and medical kits by pharmaceutical companies, initiated a reduction in the prices of fuel, and revised the 2020 national budget to make provision for economic shocks experienced due to the pandemic.

5. Analysis of Policy Implication

As earlier stated, the Nigerian government has taken health, social and economic measures to contain the spread of the virus and cushion its impact on the citizenry. However, some of the policy measures have weaknesses and, summed together, are not commensurate with the issue at hand. Besides, these measures may not be enough to prevent Nigeria from going into a recession that could last until 2021.

Nigeria, like most developing countries, lacks a coordinated and comprehensive strategy to tackle economic and social catastrophes or to propagate plans for economic recovery. Therefore, while the government was quick to follow global practices by imposing lockdown and containment measures on the citizens, it only exacerbated and highlighted the vulnerability of a larger percentage of the population.

The economic stimulus bill that was passed focuses on relief provision to enterprises in the formal sector, however, studies have shown that more than fifty percent of the country's total GDP comes from the informal economy, and this sector, also accounts for more than 85 percent of the total labour force, and these workers will require government assistance and support during this period of uncertainty. The government should endeavour to make interest-free or long repayment period loans and grants available to individuals, businesses and enterprises in the informal sector.

While its palliative measures such as food support program and loan

schemes for the vulnerable is commendable, its logistics and distribution network has been marred by allegations of corruption, lack of coordination, and political manipulation in the implementation of its programs.

6. What needs to be done

To ensure the programs are not mismanaged and to achieve its objectives, measures should be implemented to enhance transparency and accountability in its support programs.

The food supply program can be improved by using a public distribution system (PDS), whereby subsidized or free food products can be distributed through a network of shops for easy reach to the most vulnerable. Middlemen should be cut off the distribution channel, and the government should ensure that each community manages its food allocation. Simultaneously, the government should strive to ensure that markets continue to operate without restrictions and guard against price gouging.

The Central Bank economic stimulus initiative provides loans, which yield interests and are backed by collateral, and this prevents individual and small-scale enterprises from accessing the loans. The initiative should endeavour to provide collateral free loans to small and medium enterprises (SME's) if community or political leaders can stand as sureties. Furthermore, a lot of individuals and SME's are not aware of the stimulus initiatives rolled out by the government, and thus there is an urgent need to undertake awareness and sensitization programs at the towns and villages.

With regards to other health and palliative measures, the government needs to invest in early-diagnosis tools, funnel stimulus packages, and emergency relief materials such as gloves and face masks to SMEs, households, and informal workers. Additionally, the government should also as a matter of urgency, strengthen its health and pharmaceutical manufacturing system as well as enhance the national food chain to prevent supply shocks.

Lastly, gender equality strategies such as legislation on gender-based violence and harmful practices should be enacted to tackle gender discrimination, and the government should undertake advocacy and awareness raising campaigns to educate and alter the attitudes of its citizens.

7. Conclusion

Despite its challenges, the fundamentals of the Nigerian economy are still strong – its economy is still the largest in Africa, and a majority of the population is younger than 30 years old. Also, its strategic location as a gateway to West and Central Africa will continue to ensure that international companies will tend to choose Nigeria as their preferred entry point into Africa. The pandemic will not last forever, as a return to normality seem plausible, given the degree of progress that has been made against the virus. However, the Nigerian government needs to urgently develop a comprehensive post-corona virus recovery strategy that will serve as the pathway to achieving economic growth and lead to a more balanced inclusive society in the long run.

Ethical approval:

No ethical approval is required.

Data statement:

The data in this opinion paper is available online and not of a confidential nature.

Declaration of competing interest:

No conflicts of interest.

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Appendix:

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