



The Impact of COVID-19 on India's Economy and International Standing

Patryk Kugiel

Despite the government's restrictive preventive measures, India has emerged as one of the countries most affected by COVID-19, and it has yet to reach the peak of infections. The pandemic has ignited the most serious economic crisis in the country's history, worsened India's investment attractiveness, and constrained resources that would otherwise help it pursue a greater international role. The economic crisis also undermines the country's international image, boosted by the quick and decisive response to the pandemic in its initial phase. At the same time, the economic problems and the continued fight against the pandemic will encourage the authorities to deepen cooperation with the EU in public health, the economy, and security.

COVID19 in India. As of 20 July, India had reported more than 1.118 million cases of SARS-CoV-2 infection and 27,000 deaths. This puts India third in infections in the world (behind only the U.S. and Brazil) and eighth in terms of deaths. The number of new infections has been growing dynamically in recent weeks to more than 40,000 a day. Although these rates are relatively low in relation to its huge population (810 infections per million inhabitants compared to the global average of 1,877 per million, and 20 deaths per million to 78 per million worldwide), it is probable that a significant number of infected people were not diagnosed. The surge in infections is also connected to the increase in tests performed, which rose from several thousand a day in March to more than 200,000 a day in July. It comes at a point when a long national lockdown is ending and the government may have more limited ability to extend radical measures.

Relatively early in the crisis, the Indian authorities introduced some of the toughest social and economic restrictions in the world to counter the pandemic. Since the beginning of March, the country has blocked incoming foreigners and state authorities introduced orders for social distancing. On 24 March, the government imposed a total lockdown on the country for 21 days, ordering people to stay at home, stopping transport, and disrupting economic activity. This decision was extended five times, with the

subsequent stages containing fewer and fewer restrictions. Since June, the economy has been gradually re-opening. However, in view of the increase in incidence in some regions of the country, individual states (such as Maharashtra until the end of July) and cities (e.g., Chennai) have restored a total quarantine. According to government estimates, by June the preventive measures may have saved 37,000-78,000 lives; however, it took place at a huge cost to the economy and society.

Economic Impact. With the introduction of the total lockdown, the government allocated \$24 billion in direct aid to people affected by the pandemic (including food and shelter). On 12 May, a major stimulus package worth \$268 billion was announced, amounting to 10% of the country's GDP. This includes fiscal instruments and direct support (including food, money, loans) for the poorest people, small and medium-sized enterprises, and states. Even so, the abrupt closure of the country left hundreds of millions of workers without a source of income and tens of millions of seasonal migrants stranded in cities with no way to return to their homes.

The long-term constraints on economic activity have deepened the slowdown in GDP growth already observed in recent years (down to 5% in 2019). While in mid-April the IMF predicted that the growth of the Indian economy would slow to 1.2% of GDP in 2020, remaining one of the few that

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would not fall into recession, new forecasts from June predicted a decline of 4.5% this year. According to Goldman Sachs, in the second quarter of this year, India's GDP may have dropped by a record 45%. All sectors of the economy experienced huge losses, including industrial production, services, and agriculture. According to estimates, unemployment reached 30% in April (from 5.5% in 2019) and consumer optimism fell to a historic low (63 points). Major ratings agencies have downgraded India to the lowest level of investment, pointing to the deepening public debt and tensions in the financial system.

The campaign "Aatmanibhar Bharat" ("Self-Reliant India"), announced on 12 May, also caused great concern among the country's foreign partners. The aim of the campaign is to strengthen the country's long-term resilience to global crises in the future. Statements by Prime Minister Narendra Modi could suggest a return to the Cold War-era policy of import substitution and building economic independence. India will try to reduce its trade deficit and be more independent, especially in strategic sectors such as defence, pharmaceuticals, and advanced technologies. Modi promotes it as an Indian version of globalisation, one that is human-centric, not growth-oriented, and considers local conditions and environmental protection.

The self-reliance campaign can be read as the Indian government bowing to its nationalist electorate. However, this does not necessarily mean that the country will become more protectionist. China is most likely the main target of this campaign (for example, in April, Chinese investments in India were restricted, and in July, the use of Chinese apps were banned). [India's largest trade deficit is with China and relations with it have worsened in recent months](#) because of border clashes. Also, recent declarations by the Indian government, such as the announcement of the liberalisation of the labour law and land acquisition rules, may create more favourable conditions for foreign investment in the long run. The new initiative can be understood as an extension of the "Make in India" campaign, which aims to turn India into the world's manufacturing and design hub.

India's Corona-Diplomacy. India used its initial decisive response to the pandemic to strengthen its international image as a responsible state and a source of stability in the region. The successful evacuation of Indian citizens and foreigners from Iran, China, and Italy demonstrated its logistical capabilities and diplomatic skills. In mid-March, India brought together the leaders of the South Asian Association for Regional Cooperation (SAARC), which had been inactive for years, and proposed the creation of a joint emergency fund to fight the pandemic, to which it contributed half of the proposed budget (\$10 million). It has provided technical and medical assistance to Bangladesh, Bhutan, Sri Lanka, and Afghanistan, and Indian ships with

medical teams, drugs, and food were sent to the Maldives, Mauritius, Seychelles, Madagascar, and the Comoros. As one of the main producers of pharmaceuticals in the world, India has sent stocks of hydroxychloroquine and paracetamol tablets (which at the beginning of the pandemic were considered helpful in treating COVID-19) in the form of gifts and or sales to a total of 133 countries, for which India was publicly thanked by the leaders of the U.S., Brazil, Israel, and others.

In supporting a multilateral response to the pandemic, India has called for a more active role for the G20 and closer cooperation within the UN. Indian diplomacy extensively informed about actions taken in the country to limit the spread of the virus, aiming to present an attitude of transparency and solidarity to positively distinguish it from China, which is increasingly criticized in the world for its response. India also supports the international WHO investigation into the causes of the pandemic. Further confirmation of India's international role was its almost unanimous election (supported by 184 out of 194 countries) in June as a non-permanent member of the UNSC for the 2021-2023 term.

Conclusions and Perspectives. The drastic restrictive measures adopted by the Indian authorities did not prevent the spread of the coronavirus, although they slowed it, allowing time to better prepare the health system. The dynamic increase in incidence suggests that in the coming months India may become the biggest pandemic hotspot in the world, which will aggravate the worst economic crisis in its history. The global recession and structural problems of the Indian economy will make it difficult to return to the fast pace of growth, and the announcements of the "Self-Reliant India" campaign may further undermine the confidence of foreign partners. As a result, the pandemic will slow the implementation of plans to make India a \$5 trillion economy by 2024. It will also further reduce the financial resources to play a greater international role and weaken the positive image it's built since the onset of the pandemic.

Yet, the Indian authorities present the crisis as an opportunity and an impulse to build a new economic model, one more inclusive, sustainable and based on domestic production and innovation. They also hope that criticism of China's response to the pandemic will induce many companies to move production to India, and to upgrade its position in global supply chains. The economic problems and rise of anti-Chinese sentiment will make India even more in need of capital and technology from democratic countries. This opens opportunities for closer cooperation with the EU in countering the pandemic and rebuilding their economies, [as confirmed by the bilateral summit on 15 July](#). The crisis may turn out to be an opportunity to accelerate the negotiations on a free trade and investment agreement.