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Impact of Global Economic Crisis on India and the ASEAN Countries

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ABSTRACT

The Global Economic Crisis 2008 was started from United States from 2006–2007 and known as the worst financial crisis which affected all over the World. This causes the up-growing US housing sector to collapse and by which almost the developed and developing economies were affected. This study draws evidence by focusing on the impact of economic crisis in India and the ASEAN countries over the period of 2006–2010. Most of these countries were affected due to the problem of unemployment, low export earnings. Due to this the GDP of these countries were also badly affected. This study also deals with the impact of foreign trade in India and the ASEAN countries during the time of economic crisis. Moreover, the financial crisis slowed down the growth process of ASEAN countries and Indian economy as well during the time of 2008–2009.

Keywords: Asean, GDP, FDI, Financial Crisis, Housing Sector

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INTRODUCTION

The economic crisis 2008 was one of a serious blow to the world economy. Before that the global economy faced many economic crises those are, the global economic crisis 1873, the Great depression 1930, the East Asian crisis 1990, ASEAN crisis 1997(currency crisis). But the global economic crisis 2008 was so high than another economic crisis. It was started initially in 2006–2007 in U.S. and after that it spread to all over the world. It was happened due to the sub-prime mortgage crisis in U.S. financial market. In that time in the U.S. economy the great demand of housing sector (Wail, 2012). The bank had faced great loss in the U.S. After that it affects firstly many developed countries like U.K., Japan etc. Indian banking sector was not affected very much than other developed nation. But Indian trade sector was affected [1]. India's inflation just increased in that time. Similarly, FDI sector of India was suddenly go up. In the ASEAN countries, it affected very much in the price level, unemployment, growth rate etc. In some ASEAN countries, i.e., Indonesia, Myanmar, Lao, etc., there had very little impact of the global economic crisis. Hence, an attempt has been made in the present study to analyze the impact on global economic crisis 2008 in India and ASEAN countries [4].

ANALYSIS AND FINDING

The present study is based on descriptive statistics. All data are collected from secondary source, i.e., Reserve Bank of India (RBI) and World Development Indicators of World Bank. This study basically discus about the impact on Indian trade sector, financial sector, unemployment, growth and the impact on ASEAN trade sector, unemployment, financial sector and growth [5].

IMPACT OF GLOBAL ECONOMIC CRISIS ON INDIAN ECONOMY

Indian government initially disagrees that the impact of global economic crisis does not happened in the Indian economy. In August 2007, the sub-prime mortgage crisis effect initially started in the Indian economy. In that time, Indian GDP growth rate had slowed down in 2008. At that time Indian economy had face some inflationary pressure in the economy. So, RBI was raised the interest rate until July 2008 to manage the inflationary pressure in the economy. Basically, the impact of Global economic crisis affects India's trade sector, inflation, FDI sector. But India's financial sector was not very much affected as compared to developed countries like U.S., U.K. only one larger bank ICICI was affected by the global economic crisis but due to its strong balance sheet, and there some impressive action taken by the government to managed [6].

EXPORTS

The India's export has contributed 20% of share of the India's GDP. India has exported many goods like tea, coffee, jute, cotton, spices, etc. Due to global economic crisis, the demand for Indian products had been declined in the international market. Because in that time money supply in the economy decreased due to low investment and high unemployment in the developed economy. This is shown by Table 1, how the trade sector of India affected by the global economic crisis.

As shown from Table 1, in April 2007, the export of India was $11326.8 million. It was increased to $18460.4 million in April 2008. But due to Global economic crisis the demand for Indian products declined to $15789.1 million in September 2008. Like that in November 2008 it was again decreased to $11163.3 million. In January 2008, it was just increased to $12869.0 million. But after that in February, it was again decline to $11940.9 million. After that in April 2009, it was $12474.8 million. Then it was increased to $20180.9 million. Again, even after the global economic crisis its effect shown in the Indian trade which decreases the export of India in 2011 [2] [3].

Table 1. *Export Performance of India From2007–2008 to 2009–2010.*

Month	**2007–2008**	**2008–2009**	**2009–2010**
	Exports (US$ million)	**Exports (US$ million)**	**Exports (US$ million)**
April	11326.8	18460.4	12474.8
May	12455.7	18686.6	12315.6
June	12101.0	19180.9	13605.6
July	12513.3	19030.4	14340.6
August	12640.6	17759.3	13585.5
September	12521.4	15789.1	14623.5
October	14674.7	14130.8	14805.2
November	12909.3	11163.3	14932.6
December	14625.5	13368.2	16511.9
January	14889.1	12869.0	15569.1
February	15116.2	11940.9	15716.8
March	17254.0	12916.0	20180.9
Annual	**162904.2**	**185295.0**	**178662.2**

Sources: *Directorate General of Commercial Intelligence and Statistics.*

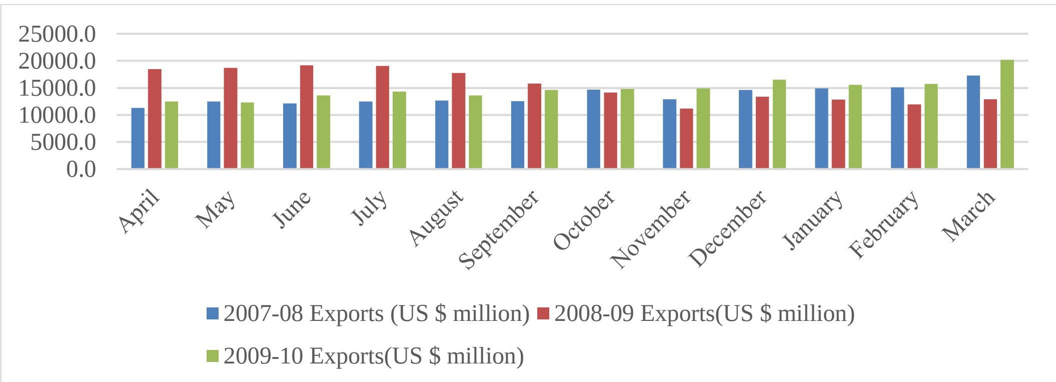

Fig. 1. *Export performance of India.*
Source: Directorate General of Commercial Intelligence and Statistics.

In Figure 1, there is no impact of global economic crisis on the Indian trade sector which shown in the diagram in April to September, there were no impact on the trade sector, but in October, there is small decrease in the export and after that it was increased continuously up to June 2008.

Here after July substantial reduction in exports of Indian goods and services in foreign market due to global economic crisis. The major reason is the significant fall in the external values of Indian currency. Based on global financial turmoil, the capital outflow creates deficiency in domestic investment. Resulting to this the production sector remained with their excess capacity with unsatisfying output regarding the export. Due to this unemployment started to showing dominance in the Indian economy in all over the world as well [8].

In that time, RBI had taken some steps to eradicate this type of problem. In that time the liquidity potential of the financial system raised by 7% of total GDP by quantitative easing. Due to this, most of the banks reduced their lending rates, which worked like stimulant in the investment process. Due to this the production sector got strengthen.

FDI SECTOR

The global economic crisis, 2008 had also affected to the Indian FDI sector. In 1991, India had implemented Liberalization, Privatization and Globalization (LPG), when Narasimham government took the power. In this LPG policy, oureconomy must compete with global economies. So, it means our economy free to foreign investors to invest in our economy. This FDI sector includes real estate, telecommunication, service sector, construction activities; power etc. became very attractive for domestic as well as foreign investors. But from 1991, FDI had not increased as much as the target. In the time of Global Economic Recession, the FDI of India had increased suddenly. It was due to developed financial market, i.e., New York Stock Market, London stock market were crashed in the time of Global Economic Recession. But due to proper fiscal policy of the government and proper monetary policy of the RBI, Indian financial market was not very much affected.

Table 2. *FDI in India.*

Year	Direct Investment to India	FDI by India
	US$ Million	US$ Million
2000–2001	4031	75.9
2001–2002	6125	1391
2002–2003	5036	1819
2003–2004	4322	1934
2004–2005	5987	2274
2005–2006	8901	5867
2006–2007	22739	15046
2007–2008	34729	18835
2008–2009	41738	19365
2009–2010	33109	15143
2010–2011	29029	17195
2011–2012	32952	10892
2012–2013	26953	7134
2013–2014	30763	9199
2014–2015	35283	4031
2015–2016	44907	8886
2016–2017	42215	6603

Data Source: *Handbook of Statistics, RBI.*

Table2 shows 2004–2005, FDI in India was $5987 million. In 2006–2007, it was suddenly increased to $22739million due to global economic crisis. In time of global economic recession FDI had dried up. Because other countries financial sector in the world basically affect by the economic meltdown. But India has the country in which the economy had less affected in the Global Economic Crisis due to large public spending and RBI's proper monetary policy in the economy. In 2008–2009 the FDI has suddenly increased to $41738 million, which shows the Indian economy less affected in the global economic meltdown. In 2010–2011 due to European debt crisis Indian FDI had declined. European debt crisis had affected Indian economy badly. It was declined to $29029 million. After that European crisis recovery started year by year. In 2016–2017 it was $42215 million.

EMPLOYMENT

In Indian economy service sector plays a dominant role in providing employment. But in the time of global economic crisis the employment of India was affected but relatively less as compared to developed countries. A survey conducted by the ministry of labor and employment provokes that in the year 2008 five Lakh workers lose their jobs. This survey is based on textile, automobiles, Gems and jeweler, metals, mining, construction, transport etc. Employment in these sectors goes down from 16.2 Million during September 2008 to 15.7 million during December 2008. The transport and automobile sector had also decline in the global economic crisis by 12.45% and 10.18%, respectively, because investors were not interested to invest due to current economic situation. Due to this, they invest less in that sector.

INFLATION

In the global economic crisis, the inflation increased in India and all over the world due to low investment in production sector in the economy. In that time people had no faith on investment in the economy. Due to low investment in the production sector, the prices of goods increased due to low productivity whereas the demand was very high. The impact on global economic crisis on inflation stayed till 2010. After that the inflation in India just sharply declined.

Figure 2 shows that there were increased inflation levels in India. Due to low investment in the production sector production was decreased. But demand for goods was not decreased. That's why inflation was increased to 11.9%. After increased in investment inflation again deceased to 8.8%. After 2006 it was increased due to global economic meltdown.

GDP

When output of a country is higher, then GDP is also higher. But due to Global economic crisis the GDP of India had declined. In 2006 the percentage GDP of India was 9.26. But in the time of recession in 2008 India's percentage GDP decreased to 3.89. It was due to when collapse of housing and financial market in the U.S. took place the GDP of India badly affected. In that time the export of India declined due to global economic crisis. So, investors thought that investment in production sector will be fruit less. Resulting to this they liked to invest money in high earning bonds and shares to get higher rate of interest as profit.

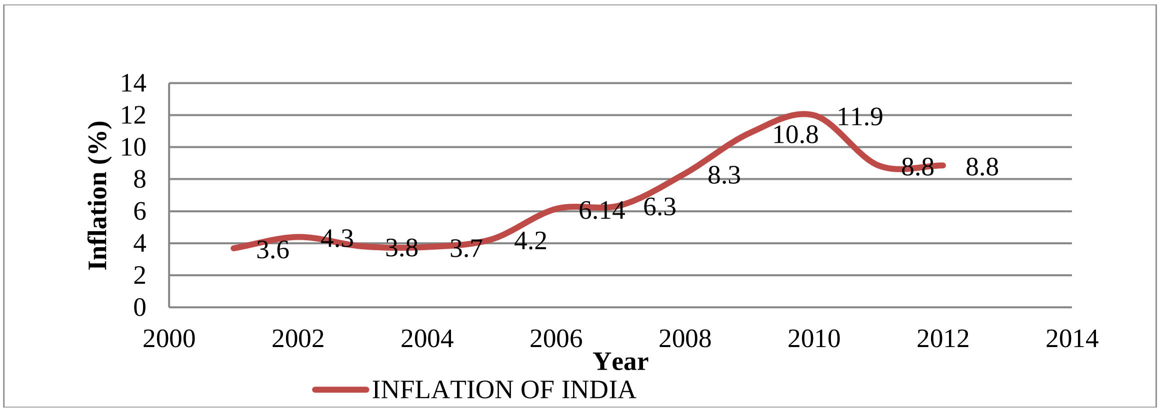

Fig. 2. *Percentage of annual inflation of India.*
Source: *International Monetary Fund, International Financial Statistics and data files.*

Table 3. *Percentage of annual GDP growth rate.*

Year	% Annual GDP Growth rate
2003	7.86
2004	7.92
2005	9.28
2006	9.26
2007	9.80
2008	3.89
2009	8.47
2010	10.25
2011	6.63
2012	5.45

Table3 shows that due to global economic crisis Indian GDP had declined to 3.89 in 2008, because of low investment, decreased export etc. But before crisis Indian GDP was very much high. After 2009, it was increased to 10.25 in 2010. Again, it was declined due to European Debt crisis. As a result, Indian Economy was badly affected.

BANKING SECTOR

Indian banking system is the largest financial system in Asia. The Indian financial system had not directly affected by the global economic crisis as compared to developed countries. Indian banks are divided into public sector and private sector. But both sector of the Indian banking system had well equipped, well capitalized and well regulated. In that time in U.S. there was huge debt problem for housing sector in the banks and in that time, bank faced many losses. But due to RBI'S proper monetary policy the Indian banking system was not directly affected. So, to control the impact of recession RBI announced various facilities to ensure financial stability which includes extension of additional liquid support to banks. And in that time RBI reduced interest rate on the lending and increases the term deposit interest rate and which also helped to ensure financial stability [7].

INDUSTRY AND SERVICE SECTOR

The financial crisis was like a bomb in the Indian industrial sector. This means it was affected adversely to the manufacturing sector of India. In April to November 2008, in the manufacturing sector the growth was declined to 4% as compared to 9.8% in 2007. Due to the less demand in export, entrepreneurs did not like to invest in production sector which resulted decrease in production of commodity. It adversely affects the domestic market. In that time entrepreneur thought that investment in production sector will not be beneficial. The businessman invested those amounts on shares and bonds to get more return. The service sector which provide large employment and contribute 50% of India's GDP. This includes transport, communication, trade, hotel and restaurants etc. But the global economic crisis negatively affected the service sector because of low investment in that sector.

FOREIGN EXCHANGE RESERVESECTOR

Foreign exchange reserve plays a very important role in the Indian economy as well as balance of payment of a country. When export of India is higher in that time foreign exchange reserve also more because due to higher export payment to our country increases. In India foreign exchange reserve in that time of Global Meltdown slightly declined due to low export. Before crisis it was increased year by year. But in that time, it was slightly declined.

Figure 3 shows in the time of global economic crisis, there is high reserve in foreign exchange. Due to low import as well as export remaining same foreign exchange was increased day by day. In the time of crisis, the foreign reserve was 309723. It was highest reserve in Indian economy. Before crisis the foreign exchange reserve was also increased day by day due to decreased in import because of crisis.

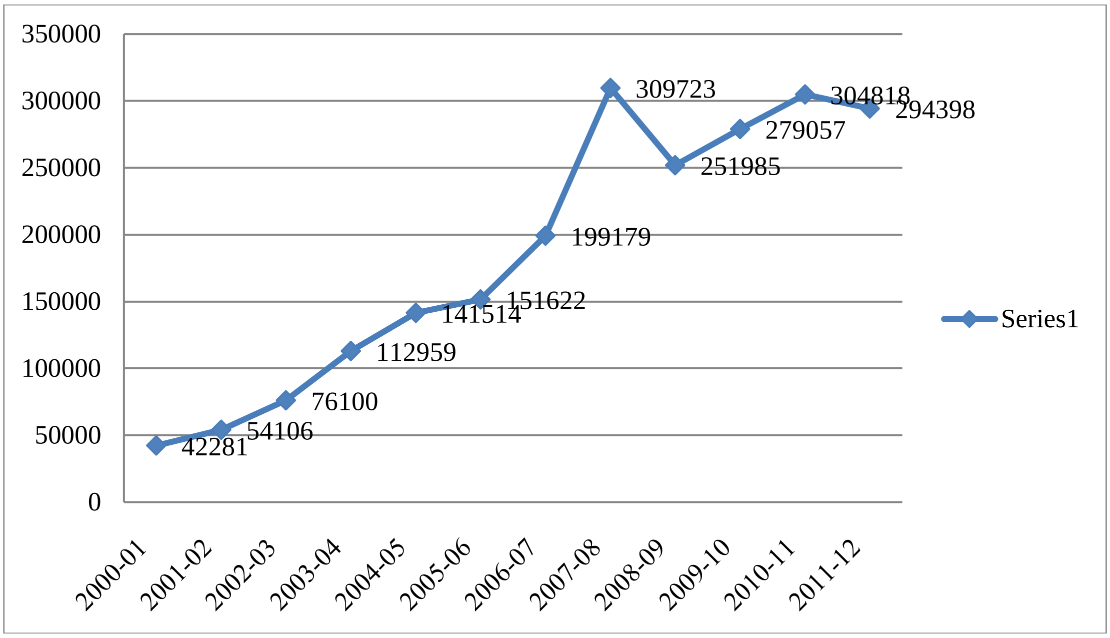

Fig. 3. *Impact on foreign reserve.*

Table 4. *Value of export in millions U.S. $.*

Countries	2004	2005	2006	2007	2008	2009	2010	2011
Brunei	5613	6857	8371	8505	11600	8087	9262	12900
Cambodia	3394	4026	5017	4681	5020	4966	5934	7765
Malaysia	144000	161000	183000	206000	230000	186000	222000	254000
Philippines	32560	33770	41800	46300	47700	43200	54550	57150
Singapore	247000	288000	340000	387000	444000	370000	472000	560000
Lao	542	757	1105	1201	1494	1450	2257	2404
Myanmar	2920	3783	4535	5737	6262	6253	7704	8457
Vietnam	30350	36620	44930	54590	69700	62900	79700	106000

Source: *International Monetary Fund, Balance of Payment statistics Year Book and Data Files.*

IMPACT ON ASEAN COUNTRIES

Due to global economic downturn some ASEAN countries affected, and some ASEAN countries were not affected. In that time Investment in production sector had decreased in some ASEAN countries due to low export. As a result, unemployment had increased, Consumption also decreased. But some ASEAN countries were very less impact in global economic meltdown. There were Indonesia, Myanmar, Lao, etc.

EXPORT

Export is major portion of the growth of GDP of ASEAN and the other world economies as well. The global economic crisis was started from U.S. economy. After that initially it started in the developed countries. As a result, in the developed economy, there was huge unemployment due to disinvestment in the production sector, because the global economic crisis was prevailed. Due to unemployment, there was no demand of foreign goods for consumption, because there was low income in the economy. In Brunei, the export was suddenly decreased in 2009. Similarly, in Malaysia, Philippines, and Singapore etc., the export was suddenly decreased. But in Lao, Myanmar, Cambodia there was no impact of global economic meltdown on export.

***Table 5.** Percentage of annual unemployment status of ASEAN.*

Countries	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Brunei	4.6	5.6	5.6	5.6	5.7	6.7	6.6	4.6	4.8	5	6.3	7	6.9	6.5
Cambodia	3.1	1.9	1.6	1.4	0.9	0.4	0.2	0.4	0.2	0.2	0.3	0.1	0.1	0.2
Indonesia	9.5	9.9	11.2	10.3	9.1	8.4	7.9	7.1	7.5	6.1	6.2	5.9	6	5.6
Lao	2.1	2.4	1.4	1.4	1.4	1.4	1.4	1.4	1.3	1.3	1.3	1.3	1.3	1.4
Malaysia	3.6	3.5	3.5	3.3	3.2	3.3	3.7	3.4	3.1	3	3.1	2.9	3.1	3.5
Myanmar	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Philippine	11.4	11.8	7.7	8	7.4	7.3	7.5	7.4	7	7	7.1	6.6	6.3	5.5
Singapore	5.9	5.8	5.6	4.5	3.9	4	4.3	3.1	2.9	2.8	2.8	2.8	1.7	1.8
Vietnam	2.3	2.1	2.3	2.4	2.4	2.3	2.6	2.6	2	1.8	2	1.9	2.1	2.2
Thailand	1.5	1.5	1.4	1.2	1.2	1.2	1.5	1	0.7	0.6	0.8	0.8	1	0.9

***Data Sources:** International Labour Organization, ILOSTAT database.*

Table 4 shows there was fluctuations in the export of many countries. Before of crisis, there was increased in the export of Brunei. In Brunei, the export was suddenly decreased to $8087 million in 2009. Similarly, in Malaysia, Philippines, Singapore, etc., the export was suddenly decreased to 186000, 43200, 370000, respectively. Countries, i.e., Lao, Myanmar, Cambodia had no impact of global economic meltdown.

UNEMPLOYMENT

Basically, industrial and service sector provide large number of employments. But due to global economic crisis, export was decreased. Due to decrease in export, investment in production sector fell and people want to invest in bonds, shares to earn large profit. So, in that time unemployment increased not only ASEAN countries but also all over the world due to global economic crisis. Similarly, in Brunei there was sudden increase in inflation due to global economic crisis. In some countries of ASEAN, there was some little change in unemployment due to global economic meltdown, because there was less competition among world market. So, there was small impact on unemployment.

Table5shows the Malaysia unemployment was 3.5% in 2005. After that it was decreased 3.2% in 2007. In the time of recession, it was again increased to 3.3% and 3.7% in 2008 and 2009 respectively. Countries, i.e., Myanmar had no impact on unemployment sector. That was same throughout the year, i.e., 0.8%. Lao countries had unemployment rate 1.4% before crisis. After crisis it was slightly declined to 1.3%.

GDP

In the time of global economic crisis, some ASEAN countries affected by lower GDP. Due to low export, there was low investment in production sector in that region, production was decreased. As a result, unemployment was increased, and consumption was decreased. Similarly, the GDP of Singapore and Thailand in the time of crisis reduced to negative level. Some other ASEAN countries GDP also decreased in the time of crisis but remained positive.

Table 6 shows there was decrease in GDP in almost countries in 2009. But Brunei's GDP had just increased in that time. In that time, the GDP of Malaysia was 5.33 in 2005, and it was increased to 9.42 in 2007. After recession, it was declined to 3.31 in 2008 after that it was reduced to negative level in 2009. In that time, the GDP of Brunei was negative -1.93% in 2008, -1.76% in 2009. Countries, i.e., Singapore, Thailand, had also negative GDP in that time, i.e., -0.60, -0.69, respectively.

Table 6. *Percentage of annual GDP growth rate of ASEAN countries.*

Country	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Brunei	2.90	0.50	0.38	4.39	0.15	-1.93	-1.76	2.59	3.74	0.91
Cambodia	8.50	10.34	13.25	10.77	10.21	6.69	0.08	5.96	7.06	7.31
Malaysia	5.78	6.78	5.33	5.58	9.42	3.31	-2.52	6.98	5.29	5.47
Philippines	4.97	6.69	4.77	5.24	6.61	4.15	1.14	7.63	3.65	6.68
Singapore	4.43	9.54	7.48	8.86	9.11	1.78	-0.60	15.24	6.22	3.87
Lao	6.06	6.35	7.10	8.61	7.59	7.82	7.50	8.52	8.03	8.02
Myanmar	13.84	13.56	13.56	13.07	11.99	10.25	10.55	9.63	5.59	7.33
Vietnam	6.89	7.53	7.54	6.97	7.12	5.66	5.39	6.42	6.24	5.24
Thailand	7.18	6.28	4.18	4.96	5.43	1.72	-0.69	7.51	0.83	7.24
Indonesia	4.78	5.03	5.69	5.50	6.34	6.01	4.62	6.22	6.16	6.03

Data Sources: *World Development Indicator.*

Table 7. *Impact of inflation of ASEAN.*

Country	2004	2005	2006	2007	2008	2009	2010	2011
Brunei	0.81	1.24	0.15	0.96	2.08	1.03	0.35	2.01
Cambodia	3.92	6.34	6.14	7.66	24.99	-0.66	3.99	5.47
Malaysia	1.51	2.96	3.60	2.02	5.44	0.58	1.71	3.2
Philippines	4.82	6.51	5.48	2.9	8.26	4.21	3.78	4.64
Singapore	1.66	0.42	1.02	2.09	6.51	0.60	2.8	5.25
Lao	10.46	7.16	6.80	4.52	7.62	0.03	5.98	7.57
Myanmar	4.53	9.36	19.99	35.02	26.79	1.47	7.71	5.02
Vietnam	7.75	8.28	7.38	8.30	23.11	7.05	8.86	18.67
Thailand	2.75	4.54	4.63	2.24	5.46	-0.84	3.24	3.80
Indonesia	6.24	10.45	13.10	6.40	9.77	4.81	5.13	5.35

Data Source: *World Bank Group*

INFLATION

In the time of global economic meltdown Cambodia, Thailand of ASEAN countries were high inflation after that it was negative. In that time due to increase in demand and decrease in investment in production sector that increased the price. After that in 2009 there was low money supply in the market. So, inflation decreased to very low level. Similarly, some other countries had also inflation occurred. But there were not very large.

In Vietnam, 2007, the inflation was 8.30379%, but in the crisis at 2008, it was increased to 23.1163%. After that in 2009 the inflation decreased to 7.05456 due to low money supply in the economy. In Cambodia inflation was very low that was negative -0.66% in 2009. Thailand had also negative inflation -0.84 in 2009. These two has severely affected in global economic crisis. In Myanmar, inflation had suddenly decreased to 1.47 in 2009 [5].

POLICY IMPLICATION AND SUGGESTION

1. Government should increase the export by reducing the price of a product than the market price and other incentive in foreign market.
2. Government should increase the public spending in the form of old age pension, unemployment benefit, sickness benefit, etc. to the consumer in the time of depression which help the public demand of a product and consume more of a product. As a result, GDP of a country increases in the time of global melt down.
3. Government should increase his public debt. From IMF, World Bank and other international organization which help the country's economy more powerful.
4. Government and central bank should increase private confidence in the economy and should increase private investment in the form of necessary

goods market basically by providing incentive and providing more loans to the private as well as corporate sector which gives more employment and enhancing the GDP of a country which provide the economy more powerful and financially strong.

5. In that time Central Bank should lowering the repo rate, bank rate, cash reserve ratio, etc. which help to increase loan to private sector and flow of cash in the economy which help more investment and more demand in the economy.
6. In that time government should take step to increase production and reduce import which helps to increase balance of payment stability and increase foreign exchange reserve in the economy.
7. Government and central bank should increase incentive and loans to farmers and primary product available in the market and decrease inflationary pressure in the economy.
8. In that time government should increase productive expenditure and reduce the unproductive expenditure which helps to boost the economy.
9. Government should stop corruption and black money in the economy.

CONCLUSION

The global economic recession had some bad effect in Indian economy as well as some ASEAN economies. It is concluded that in Indian context there is decrease in export in the economy but due to large foreign exchange reserve and FDI inflow resulted to less impact on Indian economy as compared to developed countries. In ASEAN context it is concluded that the countries like Indonesia, Myanmar, Lao, Vietnam have come across the less negative impact of Global Economic Crisis.

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