



Munich Personal RePEc Archive

Impact of COVID-19 on Indian economy and the road ahead

Jakhotiya, Girish

30 June 2020

Online at <https://mpra.ub.uni-muenchen.de/101456/>
MPRA Paper No. 101456, posted 07 Jul 2020 07:08 UTC

Impact of COVID-19 on Indian Economy and the Road Ahead

Dr. Girish Jakhotiya

1. The present COVID scenario in India

COVID - 19 has terribly impacted the global economy. Corona continues with its impact. A populous country like India (1350 million people) is suffering more because 60% of her workforce is in the unorganized sector with very low or no guarantee of jobs. For decades together, their salaries have remained very poor. Therefore, these people exhausted their tiny savings during the last three months of corona. Their jobs being absolutely temporary and not covered by any social system or insurance, they have exposed to a devastating situation. There is a huge dilemma between the lock - down for human safety and the unlocking of economic activity for human survival. Every day with serious revenue losses, the government is gradually getting into an insolvency trap. India's 60% business and 70% of employment generation comes from the SMEs (small & medium enterprises). These are seriously affected by corona in terms of cash losses and shortage of working capital. Around 25% of labour has migrated to their native places as a result of the pandemic fear, causing a serious shortage of workforce in the manufacturing sector. Farmers too find it difficult to carry their agriculture produce to the markets, because of the lockdown and poor quality of transportation. On the other side, India's public health system is both, inadequate and inefficient. The poor and the lower middle-class people are increasingly getting affected by the pandemic and this has caused an unmanageable pressure on the public health care system.

2. The Pre - COVID Matrix of Indian Economy's Performance

A mild economic recession began in India in the year 2011. It gradually started losing its grip on the 'GDP' front. The new government (which came to power in 2014), declared an unwise and unplanned demonetization which almost derailed the rural and semi - urban economy. Later on, the 'GST - Regime' was brought into force without an adequate support mechanism. This affected the working of millions of SMEs. With this, the illness of the patient became severe! The economy got exposed to a deepening recession, rapidly growing unemployment, lowering capital formation, serious decline in the performance of the manufacturing sector etc. The poor of India are largely dependent on the public sector enterprises for fulfilling their basic needs, right from energy to water to transportation to education & health care. Except a few, many public sector enterprises and banks got badly impacted by confused policy framework of

the government, decline in the performance of the bureaucracy and growing inclination towards unnecessary privatisation. This added to the woes of the poor.

If we connect the three sectors of the economy viz agriculture, manufacturing and service with three major players viz the SMEs, the big corporates from the private sector and the public sector enterprises, we observe the following matrix of economic performance:

		Agriculture	Manufacturing	Service
The Players	SMEs	Low	Average	Average
	Private Sector Big Corporates	Low	More than Average	Good
	PSUs	Very Low	Low	Average

Figure 1: Matrix of Economic Performance

3. The Pre - COVID Minuses and Pluses of the Indian economy

To understand the growing seriousness of the impact of COVID-19 on the Indian economy, we need to look at its pre COVID minuses and pluses.

Pre-COVID Minuses

- Increase in unemployment
- Lowering rate of growth in GDP
- Increasing rate of ‘real inflation’
- Low capital formation
- Declining ‘lending performance’ of the banks
- Stagnated flow of foreign direct investment
- Continued impact of demonetization on liquidity in the market
- Lowering purchasing power of the lower middle-class
- Decline in the quality of neighboring relations (The South Asia dilemmas)
- Automobile industry’s stagnation

Pre-COVID Pluses

- Reduced global oil prices

- USA – China trade war & USA looking at India for import alternatives
- GST mechanism has matured
- Global demand for Indian soft skills viz. designing, medical research, auto-networking
- Indian MNCs doing better abroad
- Europe & USA viewing India as a manufacturing hub
- Gulf nations’ preference for India over China
- Reasonable monsoon during last two years & good monsoon expected in this year also
- Good reforms in insolvency, insurance & infrastructure finance sectors

4. Impact of COVID-19 on the global economy and eco-system

India got integrated fully with the global economy around the year 2004. Till then, some of the developed economies already started showing a declining pattern of their overall performance, mainly as a result of their structural flaws. Unfortunately, these economies attributed their decline to the cyclical factors alone. Then came the devastating fall of 2007 - 8. This fall clearly exhibited the serious imbalances in the rich economies. Obviously, this 'fall' adversely impacted the entire global economy. Countries like China, India, Germany, Britain, Japan etc. suffered with different degrees of impact. China and India, which were viewed to be the "engines of global economic growth", rapidly started losing that goodwill. Of course, their own internal problems caused a major break in their growth. This was also a disillusionment for the entire world. In my opinion, the 'global economic collapse' began from this point of disillusionment. China, to prove its growth story, started resorting to the tactics of geo - political game plan. An aggravated global situation got complicated further with the trade war between China and the USA. The growing tension between Iran and the USA, damaged the global oil market. Russia and N. Korea added to the global confusion, with their dangerous military plots.

When the entire globe was fighting to restore its socio - economic and geo - political order, the corona pandemic started in China. Countries like Japan, S. Korea, Taiwan and Germany could arrest the spread of this pandemic with their cautious and close understanding of China's socio-political behaviour. The same understanding was not exhibited by countries like the USA, Italy and later on by India. Corona rapidly impacted the entire global economy, hardly in four months’ time. This was also because the very structure of the global economy became fragile before the COVID hit.

The overall impact of COVID-19 on the global economy and eco-system can be briefly described as follows:

- Serious decline in global trade, choking many economies
- Corona uncertainty delayed many global investment collaborations
- Oil, commodity & metal markets under depressionary pressure
- Countries heavily dependent on China suffer from supply chain bottlenecks
- Global cost of environment management increased substantially
- Huge loss of production in almost all countries
- Very serious job losses in developing economies like India, Brazil, Indonesia etc.
- Migrant labour cornered terribly
- Underutilization of capacities forcing poor countries to become bankrupt
- Agriculture proving to be the front survivor for all & hence under the pressure of absorbing the migrant labour
- Global economy heading towards long recession if Corona is not curtailed

5. Impact of COVID-19 on Indian Economy

As I have mentioned in the earlier paragraphs, Indian economy was already in trouble before the corona impact started. There are structural flaws in the economy which were not addressed properly during last seven decades after India got independence. India's agriculture management is not 'pro - farmer'. The higher education system is not connected with what the industry requires. Hence there is a huge 'competency deficit' causing low labour productivity. Indian bureaucracy is not 'people - friendly', hence 'ease of doing business' is seriously inadequate. Corruption is omni - present which almost runs a parallel economy. There is virtually no social security system for the poor. Every political party coming to power exploits this fact and woos the innocent poor, by offering them temporary financial aid. Salaries of almost 60% of Indians have been pathetic for many decades. Naturally they are left to their destiny to fight the corona impact. Here again the government has done very little to support them during this devastating time of COVID-19. Of course, the serious structural flaws cannot be addressed overnight. (And this is what every government has been saying for decades, to avoid any accountability.)

One can simply imagine, what could be the “corona impact” on an economy which is already suffering from many chronic diseases. The rate of growth in India's GDP was never a

proportionate reward for her poor masses. Hence the story of her economic growth is lately proving to be illusionary, if the pain and sorrow of the 'poor' is considered. Unfortunately, the legacy of India's caste-system has always deprived the poor of their legitimate rights. The broad indicators measuring the impact of COVID-19 on Indian economy may be narrated as follows:

- Formal unemployment rate is 24% (informally it could be around 29%)
- 80% loss of production & 85% loss of services in Q-I of 2020-21
- Around 40% reduction in overall financing of business & trade
- Recovery of production & services sector extended to at least two years after 2020-21
- Industries like automobile, construction, tourism, textile, chemicals, pulses processing, hospitality are under pressure of 'negative growth'
- Small banks & SMEs to grow as serious defaulters
- 50% of state governments to face serious liquidity crunch & administrative collapse if COVID continues for two more quarters
- The state of Maharashtra – the biggest sufferer of loss of migrant labour
- Lowering oil prices in the Gulf to cause serious job losses for Indians
- Smaller eco-friendly cities & tehsils gaining importance
- Agriculture regaining prominence to support local economics

6. Impact of COVID - 19 on various sectors or sections of the Indian economy

Indian economy is complex in terms of too many inter - dependent variables, many unorganised economic sectors, imperfect markets and unreliable data bases. Hence the corona impact needs to be studied sector-wise, connecting it with the pre-COVID scenario. Let us take the account of this impact one by one.

Impact on labour, unorganized sector and the people just above the poverty line

- Labour laws will essentially go through productivity-based reforms
- Migrant labour & under-developed states are exposed to 'compulsion of improvisation'
- Advantage of 20% of the poor crossing poverty-line may vanish if COVID continues for three more quarters
- Indian industry to prefer automation causing around 5%-6% further job losses
- Low-skilled labour to return to natives & become a burden on agriculture (disguised unemployment to increase)
- Salary cuts will seriously impact the savings of lower & middle-class earners. This will badly impact local banks, local trade & MSMEs etc.

Impact on agriculture

- Corona's lock down has seriously affected the distribution of agricultural produce. Hence farmers on one side are not getting good price for their produce and on the other side consumers are facing shortage of supply.
- As migrant workers have shifted back to villages, they are becoming a burden on their siblings who are basically small farmers earning hand to mouth.
- It is becoming difficult for the farmers to take care of the corona - affected migrants, with very inadequate medical facilities available in their villages.
- Corona's impact on the farmless rural workers is serious as their rural employers are not able to pay them salaries.
- Lazy and corrupt bureaucracy, casteism and unaccountable politicians corner the village resources. Hence government's schemes to fight corona do not reach the needy people adequately and on time.
- Most rural - agro families used to get a cash support from their urban siblings. Urbanites being mostly temporary or contractual labourers, have no jobs right now.
- If the corona pandemic continues, government too will face shortage of resources to support the marginal farmers.

Impact on the MSMEs (Micro, Small & Medium Enterprises)

- Except the nimble & disciplined Kiranawalas (i.e. grocery shops) & small community stores, around 15% of MSMEs will face bankruptcy & cause 6%-7% of local job losses
- SMEs have already got into a 'liquidity – debt trap' with a heavy imbalance between cost & revenue
- Only specialized SMEs from agro-based industry, mechanical components, energy & agro-logistic, deemed export, import-substitutes to survive comfortably
- SMEs dealing in non-priority products & services are suffering the most

Impact on the large manufacturing companies

- Except agro-based, FMCG, energy & pharma; most of the manufacturers will face cash losses in 2020 (to be compensated in 2021)
- Import-based manufacturers are facing production losses
- Exporters of non-priority goods (e.g. automobiles, information technology, jewelry, furniture) will incur hefty losses in the 1st half of 2020-21
- Labour intensive manufacturers will suffer from the issues of migrant labour, lower productivity & unproductive salary cost
- Project delays, idle capacities may lead weak companies to loan defaults & bankruptcy

Impact on the service sector

- The growth in India's GDP has been mainly fuelled by her service sector, especially logistics, travel & tourism. Corona's lockdown has almost paralysed this sector, causing a huge loss of revenue & jobs.
- India gains a lot of tax revenue from this sector, which is presently stopped.
- Road and rail logistic being badly affected, movement of goods and labour has become a serious challenge. Small towns and villages, which are not self - sufficient even for their basic needs, are suffering terribly.
- India's tourism sector earns maximum foreign exchange and creates employment even in remote areas. Corona has stopped both.

Impact on education

- Around 60% of Indians are poor. They cannot simply afford 'on line learning' for their kids.
- Indian government does not make enough budgetary provision for school education. Hence creating adequate online learning infrastructure in rural and semi urban areas is impossible.
- Children of migrated workers are going to be the worst hit. They will not be easily absorbed by the rural education system.
- Indian education system depends a lot on contractual or part-time teachers who are paid a meagre salary. Now they have lost their jobs.
- Government-aided colleges are finding it difficult to sustain as the government needs to focus on school funding right now.
- Research in India was never taken seriously. Corona has impacted it further with fund shortage.

Impact on the public health system

- India's public health system is inefficient and substantially inadequate. COVID-19 has exposed it badly. Corona - testing and treatment is not reaching the rural & semi - urban areas timely.
- The government is not providing enough budgetary support for tackling corona, in terms of equipment, testing centres, doctors etc.
- As the system is basically weak, the pandemic consumes most of the medical resources. Genuine patients suffering from other diseases are now put to severe hardship.
- Many private hospitals are exploiting the corona situation by charging the patients exorbitant fees.

- As there is no proper government supervision, many faulty or fake claims are being made about the cure from corona. Innocent poor fall prey to this.
- India does have good number of intelligent doctors and devoted nurses in the government-owned hospitals but they become helpless very often on account of lack of resources. Corona has further complicated this situation.

Impact on banking, insurance and financial services

- Banks will have to change their priorities & take agro sector seriously
- Small banks will have to consolidate through mergers
- Inventory-based & debtors-based lending and insurance will suffer from heavy collective claims
- Financial services are already into ‘negative growth trap’
- Small fixed deposits of middle & lower income groups shall decline on account of salary & business losses

Impact on the government finances

- Heavy reduction in tax revenue will add to serious ‘revenue deficit’
- Governments will have liquidity bottlenecks leading to delays in development projects
- Many state governments will be seriously debt-ridden causing fiscal imbalances
- Public sector banks, financial & insurance institutions may be required to bail out some of the state & district governments

7. Fighting COVID-19: The Road Ahead (What should India do?)

It is absolutely uncertain, how long we will have to live with corona. The post-corona economic recovery is going to be a herculean task for most of the countries including India. The present ‘corona period’ has to be dealt with on a war-footing level. Economic activism and human safety have created a massive dilemma in all the countries. Yet a lot of innovation will have to be used with caution to support the down - trodden people. For India, I have spelled out the remedies as immediate, short term and long term. The long-term remedies are strategic in nature. A brief account of these remedies is presented as follows:

Immediate Remedies

- Create a ‘national fund’ to pay the unemployed for six months (50% of funds of temples, churches & mosques may be used)
- Offer ‘cash credit’ to SMEs @ 3% interest
- Offer special credit to Kiranawalas

- Give interest free cash loans to small farmers
- Levy ‘Corona Cess’ @ 1% on profitable corporates
- Finance ‘public health infrastructure’ 100%
- Introduce around 20% cut in the salaries of government officials, at least for the Corona period
- Engage youngsters to manage schools through double or triple shifts
- Create direct connect between farmers & consumer groups
- Spend special budget on public transport
- Facilitate the movement, shelter & jobs of the migrant labour

Short term Remedies

- Raise cheaper funds from Japan to improve the health of public sector banks & scheduled banks
- Concentrate on those commodities, which can be ‘import substitutes’ for Chinese products
- Finance small & medium size non-banking finance companies (NBFCs) for their short-term health
- Consolidate ‘micro financing agencies’ through mergers
- Arrange a complete value-chain of farmers, Kiranawalas & consumers
- Promote public health centres
- Arrange insurance for covering the revenue losses of MSMEs, farmers & unorganized labour

Long Term Strategic Remedies

- Build-up National Calamity Fund (NCF)
- Create Farmers’ Cooperative Confederation
- Create Kiranawalas’ Cooperative Confederation
- Create Consumers’ Cooperative Confederation
- Design & build-up ‘Cluster Civilization’ to promote local economies
- Agriculture & agro-based industry to be the focus of local economies
- ‘Make In India’, a high priority to replace China globally
- New Socio-Economic Alliances in the global market
- Skill & ethos-based free education to all types of backward communities
- Rebuilding of all public sector enterprises & banks, keeping common man at the centre of the economy

8. India's acute dilemma

India has to fight on two fronts simultaneously - the ongoing corona impact and the impact of her own blunders committed in the immediate past. The corona and the immediate past blunders have together complicated many things in India. The positive outcome of the COVID-19 is, Indians have rightly and seriously realised their socio - economic priorities. They now understand that their economy requires a holistic approach of renaissance. The solution cannot be piecemeal. As I stated earlier, the challenges of Indian economy are many folds and day by day they are becoming more acute. The road ahead for India will have to be defined considering the following four pillars of economic equilibrium and sustained growth:

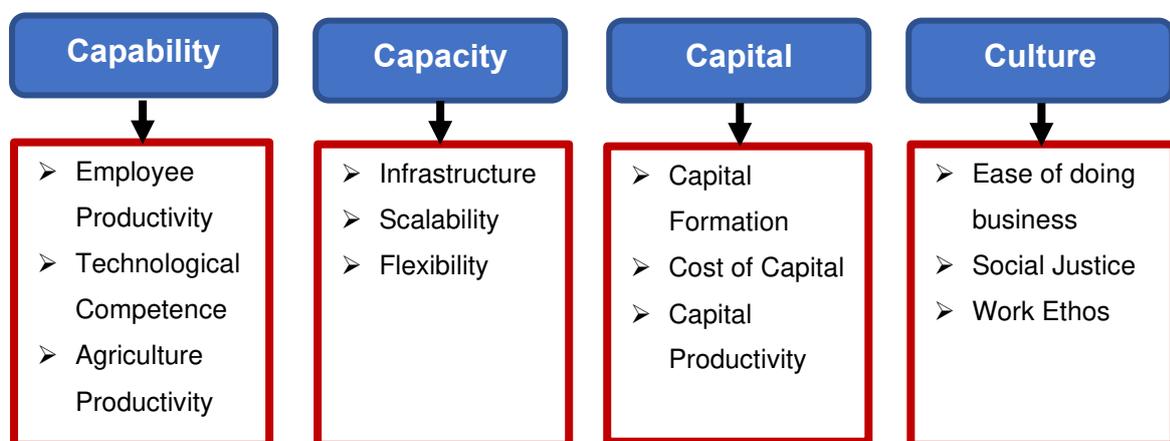


Figure 2: Four Pillars of Economic Equilibrium & Sustained Growth

India is certainly a country with great potentials. 60% of its population being pretty young, workaholic and demanding, her future can be bright. But this requires mature political leadership supported by devoted bureaucracy. Six crore SMEs are her strength. The present generation of the farmers is hungry to learn new ways of conducting agriculture. India's agricultural land is very fertile which feeds today 1350 million people. India has got the largest pool of engineers who can make this country a 'global hub of manufacturing, research and development'. To perform with these strengths and march ahead, India will have to take care of her poor people at the bottom of the pyramid. COVID - 19 has taught this biggest lesson!

References:

1. Dr. Girish Jakhotiya,(2018) "Are we heading towards a global economic collapse? - MPRA_paper_89428". Available at <https://mpra.ub.uni-muenchen.de/89428/>
2. Dr. Girish Jakhotiya,(2018) "Redefining the development index of a nation - MPRA_paper_90783". Available at <https://mpra.ub.uni-muenchen.de/90783/>
3. Prof. Joseph E. Stiglitz, "The Great Divide! Unequal Societies and What We can Do about Them"
4. Prof. Adam Smith, "The Wealth of Nations"