

The Indian Economy in the post Covid-19 World: An overview.

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In this world of extreme crisis today, the future looks bleak and uncertain. But we humans, as a race, have historically evolved out of crisis and stood the test of time. And this time, we sincerely hope, things will be no different!

Covid-19, or more popularly known as the Corona virus, is a small microscopic organism that has brought, literally the entire world to a standstill! Moreover it modifies itself genetically, so no antidote has been found as yet either!

The suffering that the lockdown has brought upon the people is unparalleled. The migrant labourers are stuck at faraway lands with no food or shelter. The corporate houses had almost immediately started either deducting a portion of the employees' salary or in many cases, forgoing them completely. Though the government, both at the state and central levels tried to do their best to tackle the crisis, but the best, initially was clearly not good enough! The results of the new package announced by the government is much awaited. The worst affected section due to this complete lockdown has undoubtedly been the urban lower middle class who have virtually been left sinking in the sea — whatever little savings they had, exhausted.

But the electricity bills, the house rent, the monthly EMIs, the telephone bills still continue to haunt them. What's worse is the fact that they do not qualify to avail government benefits either, which other BPL card holders can, in order to sustain.

So now, a burning question awaits us. What is the optimal trade-off between life and livelihood!? What is the way forward? Do we still sit indoors? Or do we accept corona, take it in our stride and live with it!?

Pakistan, decided to gradually uplift its lockdown when Corona was at its peak because it estimated that the casualties due to hunger would be way more than those due to the virus. Will we have to do the same!? For how long will the government be able to sustain and maintain the economy with its 20 lakh crore aid!? Only time will tell!

But what happens to the Indian Economy when we actually do beat the virus? The Indian export sector, which accounts for 19.74% of India's GDP, has taken a hard hit. India, the chief exporter of raw materials, semi finished, and finished goods in multiple industries like textiles, leather, hardware and chemicals will suffer immensely due to the lack of demand for these goods in the international market. The aviation and the tourism sector will be very badly hit.

A Barclays report estimates that the India's aggressive lockdown could bring the country's growth down to 2.5% from the 4.5% it had earlier estimated. Globally, the United Nations Conference on Trade and Development estimated, that the pandemic could result in a \$50 billion decrease in exports across global value chains.



The Indian economy was going through a rough patch since the pre Covid days, and many people have been losing their jobs ever since. The pandemic has merely expedited the unfortunate process. The problem has particularly hit the unorganised sector which accounts for about 93.6% of the Indian workforce. This has resulted in a huge negative demand shock for the Indian economy. Moreover due to the large scale disruption in the various supply chains during the lockdown, the country will face a supply shock as well in the post lockdown period, with a rise in the prices of certain commodities that have limited supply. With the migrant labourers heading back towards their homes, there will also be lack of availability of cheap unskilled labourers leading to a mismatch between demand for and supply of labour. Not only that, but it will also exert an unwanted pressure on the already overcrowded Indian agricultural sector.

For India, the trade impact is estimated to be the most for the chemical sector at \$129 million, followed by textile, automobile, and the leather industry at \$64 million, \$34 million and \$13 million respectively as per a report in The Hindu. With International exports hitting rockbottom, India will have to find a way out to ensure that it's local industries don't crash. The only way to come out of the crisis is to stimulate and increase domestic demand and that is only possible by increasing the purchasing power of the people.

The government must ensure an increase in the domestic demand to make up for it, atleast partly. We might expect a few incentives, changes in the repo and the reverse repo rates and an increase in domestic money supply. That will not only increase the demand for goods but also create numerous jobs and therefore increase India's GDP by the multiplier effect.

On the other hand, the MNCs who will look to expedite their sales to make up for the low profitability in the Covid months, might look towards India as a potential hub for manufacturing and other backend servicing activities. As it is, people, especially the corporates have become quite sceptical about China in the post Covid world. So, India with it's abundance of resources and cheap skilled and unskilled labour becomes the automatic alternative. Industries such as electronics, electricals, pharmaceuticals, solar, etc have huge potential. As many as one thousand industries have shown interest to start operating in India. India will have to seize this opportunity and make the best use of the situation. The government must promote, build Special Economic Zones, give tax concessions and seize the opportunity.

However it will be interesting to see how people react if China then decides to depreciate it's currency as pointed out by Nobel laureate Dr. Abhijit V. Banerjee. Another major component of the Indian economy is the MSME sector. These industries lack the financial cushion to survive the entire pandemic especially having to still bear the fixed expenses like rent, salaries, taxes, etc. even during the lockdown. According to CII data, this sector adds 13-15 million jobs annually and employs about 110 million people. So, it is imperative for the government to protect this particular sector. The government must take steps like GST write-offs, easy credit facilities and tax concessions to protect them.

Though the pandemic has taken the Indian economy a few steps backwards, it is the best time for us, to take this as an opportunity and capitalise on it. Leadership and gaining public confidence becomes of paramount importance in such dire times and one can only take the necessary steps and hope for the best!

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