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POST-PANDEMIC ECONOMIC TRANSFORMATIONS IN INDIA¹



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Abstract. COVID-19 is a game-changer for much of the developing and emerging countries of the world, and not in a good way. COVID-19 hotspots are flaring up in many low-income countries. And, while it is challenging to combat the disease in developed countries, developing ones face even graver challenges. Combatting spread is difficult. Social distancing remains near impossible in the dense mega-cities. The lack of clean water in many poorer towns and villages prevents effective handwashing techniques. For those who do become ill, health systems are less developed, with fewer hospital beds and medical personnel per citizen, less technology, and less equipment and personal protective equipment. But it is not just the disease that will have a human toll. The corresponding slowing of the global economy from the pandemic is leading to unemployment and food insecurity. For the first time in over 20 years, we expect that global poverty will rise. This, in turn, may roll back gains in nutrition, education, and preventative health. So, there is an urgent need to examine how COVID-19 – as a health and development crisis - unfolded the way it did it and to consider possibilities for post-pandemic transformations and for rethinking development more broadly. In this context this paper will try to explain that what the pandemic has done and how to create an economic transformation that is more equitable and democratic. Also, examine what should be the local responses to COVID-19's damage.

Keywords: economies; development; inequality; transformation; COVID-19.

JEL codes: F63; O11; O16.

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Introduction

We are in the midst of a worldwide Covid-19 epidemic, which is causing countries to experience two types of shocks: health and economic. Given the extremely infectious nature of the disease, policy initiatives such as social distance, self-isolation at home, closure of institutions and public facilities, movement limitations, and even country-wide lock-down are all options for containing the spread. These activities have the potential to have disastrous implications for global economies. To put it another way, successful disease containment necessitates a country's economy ceasing to operate normally. This has sparked worries of a worldwide recession that would last for years.

On January 30, 2020, India reported the first instance of the illness. Since then, the number of cases has consistently and considerably climbed. After the United States and Russia, India has the world's third biggest Covid-19 burden, with over a million confirmed cases and over 25,000 deaths. The daily new confirmed cases are roughly 28,000-30,000, and the doubling rate has gradually increased to around 18-22 days.

To stop the virus from spreading, India's government declared a countrywide lockdown on March 25, 2020, which lasted for roughly two months. Except for some inter-state transportation permitted towards the end of April and early May to allow migrant workers, stranded pilgrims, tourists, and students to return to their native places, all non-essential services and businesses across the country remained closed during this period, including retail establishments, educational institutions, and places of religious worship. This was the most far-reaching reaction by any government to the epidemic at the time, and it remains the world's largest lockdown in the context of the illness to this day.

Outside of the 'containment or high-risk zones,' certain relaxations have been allowed, including the opening of non-essential enterprises and companies.

Domestic flights have been permitted, subject to government rules designed to guarantee passenger safety during the epidemic. However, prohibitions on educational institutions, public meeting places like as retail malls, gymnasiums, swimming pools, film theatres, entertainment parks, places of religious worship, and the operation of metro rail services, among other things, remain in effect. The re-imposition of the lock-down has put off any economic rebound that had been expected after the first phase of "unlocking" began in June [1].

The lockdown was largely meant to buy time for the health system to prepare and formulate a plan for dealing with the epidemic once the caseload began to increase. In comparison to other nations, India's public health system is comparatively underdeveloped.

The lock-down phase was utilised to increase testing, contact tracing, isolating confirmed patients in designated quarantine centres, and establishing treatment facilities, including improvised

hospitals, to the degree practicable. The health-care system, on the other hand, continues to be overburdened by an increasing number of patients every day, particularly in the worst-affected states.

The economy has suffered significantly as a result of the extraordinary lockdown. Hundreds of millions of jobs and livelihoods are now on the line. Because state borders were locked, more than 50 million migrant labourers either returned to their original villages or transferred to camps inside cities as activity throughout the country came to a standstill. Raw materials and finished commodities transportation between states was also severely limited.

Countries have closed their borders, thus halting international trade and commerce. All of this is wreaking havoc on supply chains and distribution systems across practically every industry. At the same time, consumption demand has completely collapsed as millions of people stay at home and postpone non-essential purchases.

This crisis strikes at a time when India's GDP growth is faltering and unemployment is rising as a result of the country's dismal economic performance in recent years. The economy's shaky state before to the shock might exacerbate the effects of the shock.

This is especially true because the economy's brain, the financial sector, has been malfunctioning, and macroeconomic policy room to respond to such a crisis has been severely constrained.

Previously, the Indian economy was suffering from a demand slowdown, but now both demand and supply have been impacted. The influence of the impact is conveyed to production growth through four pathways. External supply and demand restrictions resulting from the global crisis and disruption of global supply networks, domestic supply interruptions, and a drop in domestic demand are among them. Both the official and informal sectors are affected by the economic shock [2].

This article examines the Indian economy prior to Covid-19 and assesses the shock's likely impact on several parts of the economy. It goes over the initiatives that have been announced so far to help alleviate the economic shock before offering policy proposals.

In terms of demand and supply interruptions, as well as the resulting economic downturn, the shock is playing out very identically in various nations throughout the world.

1. Impact of the crisis

1.1. Overall macro impact

Almost all economic activity in the country have come to a standstill as a result of the nationwide lockdown [3]. Even once the lockdown is removed, demand and supply factors are likely to be disrupted. The economy will take time to recover, and social distancing measures will endure for as long as the health shock lasts.

As a result, demand, particularly for non-essential products and services, is unlikely to recover in the coming months. Consumption, investment, and exports, three significant components of aggregate demand, are expected to remain weak for some time.

Aside from the extraordinary drop in demand, extensive supply chain disruptions will persist for some time due to a lack of raw materials, the departure of millions of migrant workers from cities, slowed global commerce, and shipment and travel restrictions imposed by practically all impacted nations [4]).

Firms will find it more difficult to stay afloat the longer the crisis lasts. Almost all domestic industries will suffer as a result of this.

This will have more spillover effects on investment, employment, income, and consumption, lowering the economy's overall growth rate.

The Covid-19 epidemic has already done the most damage to India's aviation, tourist, and hospitality businesses, and it's unclear how well they'll be able to weather the storm after the closure.

According to the World Travel and Tourism Council, travel might drop by 25% by 2020, putting 12-14 percent of employment in the industry at danger.

Most industries have seen a significant drop in revenue as all non-essential enterprises have closed. Businesses will be forced to shut or retrench their workforce as a result of revenue losses.

1.2. The banking and corporate sectors

The financial sector is one area of the economy that is required to play a critical role in reducing pressures on the actual economy during times of crisis. To assist people get through this crisis, it's critical to maintain credit flowing to all types of economic agents—firms, consumers, and so on.

However, India's financial system is severely harmed. Banks, particularly public sector banks, have been grappling with rising losses on their balance sheets due to non-performing assets.

Problems in the banking system have had a negative impact on credit development, and by the time the pandemic struck India, these issues had spread to the debt markets, which play a major role in financial intermediation [5].

1.3. Informal sector

India has the world's biggest informal economy, employing about 90 percent of the working population and providing more than 45 percent of the country's overall GDP. From 2016 to 2019, this industry was affected by two successive shocks in a short period of time. The first shock occurred in November 2016, when a government edict rendered 86 percent of the money in circulation useless overnight, followed by the haphazard implementation of the Goods and Services Tax in 2017.

In the pre-Covid-19 period, informal labourers were already struggling with poor salaries and earnings. The epidemic has afflicted people at all levels of society, but informal labourers, particularly migrants, have been the worst hit. The lockdown has resulted in large-scale job and income losses for these individuals due to the lack of economic activity, particularly in metropolitan regions. The already suffering informal sector has been disproportionately affected by the Covid-19 epidemic.

1.4. MSMEs

Micro, small, and medium businesses account for a considerable portion of manufacturing in India and play a vital role in creating large-scale jobs.

Although the pandemic has impacted all firms, the MSME sector will be particularly hard hit because to diminished financial flows. Their supply chain has been interrupted, and businesses have been harmed by migrant labour exodus, limits on raw material availability, disruptions in exports and imports, and extensive travel prohibitions, as well as the shutdown of malls, hotels, theatres, and educational institutions. As a result, MSME firms have been severely impacted. According to a recent poll conducted by the All India Manufacturers Organisation (AIMO, June 2020), 35 percent of MSMEs and 43 percent of self-employed people believe their enterprises have little hope of recovery and have begun closing down operations. As a result, hundreds of thousands of individuals employed by these tiny firms may lose their jobs and pay [6].

1.5. Financial institutions and markets

The financial system's risk aversion will become dramatically exacerbated as the consequences of the health shock and the ramifications of the country-wide lockdown become clearer with each passing day. As more businesses struggle to remain afloat and are unable to pay their bills owing to enormous demand and supply disruptions, corporate delinquencies will rise, and the number of nonperforming assets (NPAs) in the already shaky banking system will skyrocket. In other words, if the crisis develops, there are various pathways through which an already weak financial system might get clogged, exacerbating the slowdown.

2. Financial markets

There has been turmoil in the debt markets since the onset of Covid-19. Credit spreads of corporate debt papers have risen sharply to levels higher than what was witnessed.

2.1. What type of policy assistance is required?

The immediate goal of governmental responses to Covid-19's economic impact is to reduce the shock's impact on economic agents in both the formal and informal sectors and help them weather the storm. The twin shocks of Covid-19 and lockdown are working at two levels against the backdrop of a depressed economy: disrupting the supply chain and causing a drop in aggregate demand. Policy initiatives to address both supply and demand-side issues are urgently needed.

The following variables are causing extra interruptions as a result of the pandemic:

–Massive migrant worker flight from cities: Many businesses will be unable to obtain the necessary number of workers, limiting output even if there is no demand shortfall [7]. Construction, logistics (last-mile delivery of products), unskilled manufacturing, and other industries that use a significant number of foreign workers would be particularly affected;

–Lack of financing: Finance is the lifeblood of every firm. Risk aversion has been significant in the financial sector, particularly among public sector banks (PSBs). Borrowers' future prospects have become increasingly dubious as the crisis continues. This will have a negative impact on loan availability;

–International trade restrictions: The epidemic has affected global supply lines. Importing enterprises will experience supply limitations to the degree that international commodities movement is hampered [8].

–Problems with logistics: Movements within and between states have been restricted as a result of the shutdown. Even inside national borders, this has made transportation of raw materials and completed items challenging. In other words, all components of production — capital, labour, and raw materials — are experiencing disturbances. Furthermore, marketing has been affected, retail outlets have shuttered, and e-commerce has been impacted [9]. Although the progressive lifting of the lockout will relieve some pent-up demand, supply-side issues are unlikely to be remedied very soon. As a result, the demand deficit will worsen [10].

As a result, authorities must devise new ways to provide finance to businesses in need in order to keep them afloat. The explanation above illustrates the type of financial assistance that may be required right now. On the supply side, to lend funding to businesses in order to keep them viable and to assist in the resolution of other supply problems. On the demand side, provide assistance to individuals who are in need in order to support demand.

The government and the Reserve Bank of India (RBI) have unveiled a first set of fiscal and monetary policies, as well as some larger economic changes. Moreover, a number of state administrations have launched fiscal stimulus plans.

2.2. Policy challenges

While the government and the RBI have already announced certain policy initiatives, they are primarily temporary and will not be sufficient to help the economy. Given the current macroeconomic and financial situation in India, there are considerable problems in fiscal, monetary, and financial policies that policymakers must examine. Even more importantly, in order to avert a long-term economic calamity, several policy traps must be avoided. Once the health crisis has passed, the goal must be to assure a V-shaped economic recovery.

2.3. Principles of policy response

The ongoing crisis is made up of three interconnected issues: a health scare, an economic shock as a result of the lockdown, and a worldwide economic slump. Each of these shocks is substantial in and of itself, but when taken together, they have put tremendous pressure on policymakers to respond fast and decisively. However, developing an effective policy response is difficult.

Agriculture:

–Farm population safety: Farmers, agricultural labourers, and supply chain employees must be safeguarded against health shock. Rural regions are affected by the epidemic. Some efforts, such as rural population testing, social distancing in harvest operations, procurement, marketing, and packaging, will assist to limit pandemic spread;

–Supply chains: During and after the lockdown, one must focus on the seamless functioning of post-harvest operations, production marketing, retail, wholesale, storage, and transportation. Supply networks must be revitalised in order to provide greater pricing for farmers and create jobs for agricultural labourers and other rural workers [11].

Informal sector: It is critical to protect employees in the informal sector, who have been disproportionately affected and have limited savings. Additional relief measures for informal sector employees may be considered in addition to the fiscal package already proposed by the central government until economic activity and employment increase;

Transfers of cash: The informal sector employees would require cash income support due to significant job and income losses and uncertainty about when the situation will normalise.

Migrant workers: Migrant workers have been and will continue to be the most affected by the lockdown. They have been through a lot. Several recommendations have been made to assist migratory workers. Following the lockdown, the migrant workers must be returned to their jobs in a timely manner. Steps must be taken such that the benefits of social safety nets like PDS, Ujjwala scheme etc. become available to them even in the urban and semi-urban areas.

2.4. Recovery-oriented policies

In the absence of a vaccine or viable treatments for the virus, nations that are reopening must find a compromise between allowing business and social activity to resume while avoiding or limiting any new outbreaks. They'll also have to establish the correct mix and sequencing of health, economic, and social policy interventions to create long-term labour market results, as well as implement and sustain policy initiatives at the necessary scale in the face of shrinking public financing. To make labour markets fairer and more equitable, specific measures will be necessary to address increasing inequality and the unequal impact of the crisis. In this regard, policymakers may want to explore the following policy directions, which may be tailored to their own country's needs:

- Keeping yourself safe. Solving the health problem is a prerequisite for tackling the economic and employment crises. It is critical to develop or expand safeguards and standards to guarantee a safe return to work when the economy reopens. Small and medium-sized businesses will need extra help to adopt workplace health and safety policies.

- Changing job retention policies. Some sectors have reopened or will shortly reopen, while others will remain confined in their employment opportunities. To improve sustainability and cost-effectiveness, consider requiring businesses to contribute a portion of the costs of these programmes; making support time-limited but adaptable to changing circumstances; and encouraging workers to move from subsidised to unsubsidized jobs, including through training while working reduced hours.

- Assisting and supporting job seekers while ensuring enough income protection. As economic pressures grow, effective targeting of minimum-income benefits will be critical, but governments must also guarantee that those in desperate need continue to receive assistance. As economies recover and job creation accelerates, a balance must be struck between ensuring enough support and promoting active job seeking.

- Assisting in employment generation. Jobs can be created by temporarily increasing time-limited hiring subsidies or increasing incentives to work by paying re-employment bonuses to job seekers, in addition to supporting macroeconomic measures.

As part of this approach, certain broad policy orientations may be identified, which would need to be adapted at the country, local, and/or sectoral levels to account for each individual scenario as well as national institutional arrangements and conditions.

1. Enabling a quick reaction to economic shocks through a combination of counter-cyclical macroeconomic policies, enough income support for all workers, and the ability to expand job-retention programmes quickly.

2. Strengthening work institutions through a variety of initiatives:

–Improving the working environment. Examining current legal frameworks to ensure fair treatment of employees regardless of their employment status, as well as maintaining suitable working conditions for all workers, should be a key component of getting things back on track.

–Modernizing and providing more flexible job services. To improve labour market resilience, institutions must be able to scale up critical measures fast while preserving service quality. This means that, in the event of a catastrophe, the policy infrastructure should already be in place and scalable.

3. Improving employment and social protection systems to ensure that they cover all employees and that they prioritise risk avoidance as well as assisting people in dealing with difficulties as they arise.

4. Promoting transfers from the informal to the formal economy through a combination of measures that make formal labour more appealing than informal work.

5. Improving young people's employment prospects necessitates: a. bolstering income assistance during economic downturns; b. removing structural hurdles to effective school-to-work transitions; and c. addressing the extra challenges that young women encounter in finding good-paying jobs.

6. Encouraging all people to pursue lifelong learning opportunities in order to meet evolving skill requirements. Strengthening digital skills, particularly for persons with low digital literacy, should be prioritised in order to provide chances to work and learn online.

Conclusion

Covid-19 has presented India with an unparalleled problem. Lockdowns and other social distancing measures are proving to be extremely disruptive, given the population's size, the economy's perilous state, particularly in the financial sector in the pre-Covid-19 era, and the economy's reliance on informal labour. The federal and state governments have noticed the problem and are taking steps to address it.

The economic harm will almost certainly be far greater than the present projections. On the demand side, the government must strike a compromise between the need for income support and the requirement to keep the budgetary situation under control.

The current balance appears to be fair, but the government has to develop more ways to boost poor people's earnings. The participation of state and municipal governments might be critical in the successful implementation of future budgetary measures.

Policymakers must be prepared to scale up their reaction as events develop in order to reduce the shock's impact on both the formal and informal sectors and pave the path for a long-term recovery.

Simultaneously, they must guarantee that the answers are established in a rules-based framework and that discretion is limited in order to minimise long-term economic damage.

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