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India’s Prospects to Reap Dividends of Cooperative Economic Growth

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Abstract—*The aim of the paper is to investigate the challenges and strategies needed to revive Indian economy amidst crisis of Covid 19 and help strengthen our reform process. As the world continues to wage its war against COVID-19 and everything has come to a standstill, India has so far managed to keep a relatively flatter infection curve in its battle against the pandemic. The global economic slowdown will mean that developed world economies such as the U.S.A will be looking out for low-cost outsourcing solutions. Whether it is IT, finance or non-core items, India can rise up to the challenge. Globally, consumers are shifting to lot of products and services of India including our culture and lifestyles. India has done exceptionally well after the coming of Modi government to power since 2014 and attracted global attention by rising up the ranks in the Ease of Doing Business Index from 142nd in 2014 to 63th in 2019 and this momentum needs to revive after Covid 19 when economy start opening up full swing and India needs to keep reforming and maintaining consistency in its business environment for all investors. So, with a range of 6-6.5% real growth pre-epidemic, real growth for 2020-21 is unlikely to be more than 1.5 % to 2% as predicted by IMF or may be even retard to 0 percent as told by Moody’s two days back. According to number of economists, still theirs lot of hope for revival, provided, if India learns from its past mistakes and focuses on Agriculture which serves as a lifeline amid pandemic and government should focus on the betterment of the agriculture sector and the rural economy. It will help to contain rural-urban migration and solve the present problem of reverse migration to a large extent. There is vast scope for boosting consumption is agriculture. Public Investments through Public Private and People’s Partnership(PPPP model) is the need of the hour. Government should take necessary fiscal and monetary reforms by promoting Import Substitution as an important measure to help boost the domestic consumption and keep rolling the economy.*

Introduction

The world continues to wage its war against COVID-19. As nations sweep down their streets with various forms of restrictions and lockdowns, the stagnant growth of global economy feels more pronounced than ever. This novel strain – called as SARS-CoV2 or Covid 19 – that originated from Wuhan, took the world by a storm. With global spread reaching staggering numbers, losses - both to human lives and economy - are irrecoverable. For India, despite a slower curve of infection, the impact has been ruthless in many ways. The initial 21-day lockdown period had been estimated to cost nearly $4.5 billion every single day. With India entering into phase four of the nationwide lockdown from 18 May, the63 days nationwide lockdown bringing the $2.9 trillion economy to a standstill and the lockdown in many of India's big cities likely to be extended, many economists expect the economy to stagnate, or even shrink this year, putting further pressure on government finances. India has a fiscal deficit target of 3.5% of GDP for the current year that runs through March 2021, which it is most likely to miss due to weak revenue collections. In this pandemic hit economic situation, when revenues are falling the economy needs government support in midst of widening of the fiscal deficit. Despite about half of the nation’s businesses being adversely affected, and supply chains having fallen victim to the pandemic, there does appear a silver lining in the dark clouds.

India has so far managed to keep a relatively flatter infection curve in its battle against the pandemic. When compared to other countries, it does appear to have a better chance of pulling off with lesser collateral damage, at least for the time being. However, several factors are already playing in, or might play out, during the course of these events, and these might prove to be favourable for India to become a major trade and commerce player in the world.

The global economic slowdown will mean that developed world economies such as the U.S.A will be looking out for low-cost outsourcing solutions. Whether it is IT, finance or non-core items, India can rise up to the challenge. Globally, consumers are shifting to lot of products and services of India including our culture and lifestyles.

After the general elections of 2014 and 2019,when Modi government was reelected with thumping majority paradigm shift can be seen in every sphere of Indian governance. India has shown remarkable consistency and maturity in conducting its foreign policy through diplomacy, in the interest of attracting investments and taking full advantage of cooperative economic growth seen among G-20 nations.The current geopolitical milieu is interesting in that it offers India a fair chance to really mobilize investments to ensure that we grow at a rapid pace. Right now due to Covid 19 whole world is witnessing huge pain, distress and economic stagnancy but India can confidently ride this phase out by attracting FDI ,FII and NRI investments from abroad in the context of China's isolation being considered by the majority of nations. We can boost the confidence of new business owners who are potentially looking out for new markets and also of those who have already invested in the Indian sectors.

Major Reforms initiated during Modi Government

Over the past few years, India has done exceptionally well and attracted global attention by rising up the ranks in the Ease of Doing Business Index from 142nd in 2014 to 63th in 2019, a record for a major economy. In the process, we have also become the world's fifth largest economy, beating France and UK. This momentum needs to revive after Covid 19 when economy start opening up in full swing and India needs to keep reforming and maintaining consistency in its business environment for all investors.

The World Bank said India conducted four reforms in the 12-month period from May 2019 to May 1 2020 for making Ease of Doing Business . Some of the positive shift which India did in Modi government regime is reformed Labour laws which was much demanded by WTO ,IMF and global companies, reduced the Corporate Taxes ,reformed indirect tax structure by introducing GST and has tried to bring transparency in financial accounting by making online transactions mandatory.

The reform was also made in the process of obtaining a building permit more efficient. Obtaining all permits and authorizations to build a warehouse now costs 4% of the warehouse value, down from 5.7% the previous year. In addition, authorities enhanced building quality control in Delhi by strengthening professional certification requirements. Importing and exporting also became easier for companies with the creation of a single electronic platform for trade stakeholders, upgrades to port infrastructure and improvements to electronic submission of documents.

India saw the biggest jump in ranking in “resolving insolvency" category, to 52nd rank from 108th, on the back of implementation of the Insolvency and Bankruptcy Code, it was announced that the minimum threshold for initiating insolvency proceedings would be extended to Rs 1 crore from the earlier threshold of Rs 1 lakh. This move will largely benefit smaller businesses since for the larger ones,while its ranking improved substantially in Dealing with Construction Permits (to 27th from 52nd) and Trading across Borders (to 68th from 80th).

Despite some challenges in the implementation of the reform—particularly regarding court operations and the application of the law by multiple stakeholders—the number of reorganizations in India has been gradually increasing. As a result, reorganization has become the most likely procedure for viable companies as measured by Doing Business, increasing the overall recovery rate from 27 to 72 cents on the dollar according to the World Bank.

Compared with 2018, India's ranking deteriorated in 2019 on two parameters -- protecting minority investors (from 7th to 13th position) and getting electricity (from 22nd to 25th) -- and remained unchanged in enforcing contracts at 163rd. India's ranking improved in Registering Property to 154th rank from 166th despite a drop in score. The Global Competitiveness Index, 2019, released by the World Economic Forum (WEF) showed that India slipped a sharp 10 notches to 68. India's score fell in eight of 12 parameters while other countries improved their domestic business environment faster than India. Iran (99) was the only other country of the 141 countries surveyed whose ranking also fell by 10 positions. In all the three parameters, India's score remained unchanged indicating no reforms were recorded by the World Bank.

Major Challenges faced by Indian economy

Amidst this pandemic the secondary sector contribution will probably shave off almost 2% from growth. For the tertiary sector, a corresponding number would be something like 1.75% and for the primary sector, something like 0.25%. So, with a range of 6-6.5% real growth pre-epidemic, real growth for 2020-21 is unlikely to be more than 1.5 % to 2% as predicted by IMF. But Moody's prediction on May 23rdof 0 percent growth for India in 2020 -2021 gives gloomy picture.

In decreasing order of magnitude, the sectors most affected are clearly: airlines and hotels; automobiles and ancillary industries; construction; textiles and garments; freight and logistics; oil and gas; metals and mining; power; consumer products and retail; chemicals; IT and related services; pharmaceuticals; telecom; and agriculture including animal husbandry, horticulture, dairy farming ,poultry and many others.

For textiles and garments, consumer products and retail, chemicals, IT and related services and telecom, one can guess that some kind of revival will occur in Q2 of 2020-21. For construction, oil and gas, power, pharmaceuticals and agriculture, the timeline will probably be Q3. For the remaining sectors, one is possibly looking at Q4.

Outside agriculture, the impact of job losses is largely restricted to construction (of the order of 16 million); trade, hotels and restaurants (5 million); manufacturing (13 million); transportation (4 million); and mining (1 million). That's around 39 million. In the event of India faring much worse, this number can increase to upwards of 60 million.

In addition to direct transfers included in PM Garib Kalyan Yojana, considered direct income support for workers for three months. In urban India, there are an estimated 60 million contractual and permanent workers, though most work for MSMEs/SMEs and not for the corporate sector. Since most MSMEs/SMEs are not legally registered, some form of identification has to be based on GSTN (GST Network) numbers. Without identification of enterprises and workers, direct income transfers cannot work.

There are an estimated 135 million informal sector workers. There are instances (more for rural) where mapping between Socio-Economic and Caste Census 2011 (SECC) and PMJDY/Aadhaar has been done. In such cases, direct income support for targeted beneficiaries identified through SECC is an option to consider, for a limited duration of 3 or 6 months.

Strategies to combat Economic Slowdown

- The first prerequisite for a revival is a boost in spending, especially on consumer durables such as automobiles, food FMCG sector. The government is one of the biggest employers in the Indian economy. A significant proportion of government jobs are permanent in nature, so the workers are assured of future income flow. Any policy which gives incentives to government employees to advance their spending decisions can give a big boost to current levels of demand. An interest rate waiver on loans from sources such as Employees Provident Fund Organisation (EPFO), which is workers' own money, or a tax rebate on big-ticket spending for the current fiscal year are examples of such a policy. EPFO alone has a corpus of Rs 11.5 lakh crore. The central government is expected to spend around Rs 4 lakh crore in salaries and pensions this fiscal year. In 2017-18, the combined spending by states on wages and salaries was Rs 3.2 lakh crore. These numbers suggests that government employees advancing their consumption decisions can give a big boost to economic activity. Some of these incentives could also work for the private sector. Even if the government loses some amount in direct taxes, its indirect tax receipts are bound to increase.

- Resorting to Deficit Financing and accelerating Public, Private and People's Partnership(PPPP) in investment for infrastructure building in healthcare, education, rural-urban development would help long term strategies of Make in India, Skill India, Digital India, Startup India project flourish (including National Infrastructure Pipeline), through Public, Private and Community participation which would build a new alternate sustainable model of economic development .

- Agriculture serves as a lifeline amid pandemic and government should focus on the betterment of the agriculture sector and the rural economy. Farmers must be encouraged to set up small-scale food processing and agro-based units in the rural areas to generate employment for youngsters and landless labourers on the basis of scientific and technological upgradation. It will help to contain rural-urban migration and solve the present problem of reverse migration to a large extent. But this can only be achieved by following a sustainable model of development, to maintain a balance between rural and urban development. There is vast scope for boosting consumption is agriculture. This government takes a lot of credit for maintaining a low inflation environment. Low food prices have played a big role in controlling inflation. However, this has led to a squeeze on farmers' incomes. If food prices continue to be depressed for a long time, rural demand will be difficult to revive. There is one way in which the government can use low food prices to actually boost demand in the economy. Majority of Indians spend a significant part of their incomes on food. Despite this, India continues to have a low nutrition society with nutrient intakes being far less than not just developed country levels, but also countries such as China. Hence, promotion of diversification of agricultural crops, easy availability of certified seeds of cotton, maize and other water-saving crops, coupled with government assurance for procurement, may drive more farmers to opt for alternative crops.

- Due to the nationwide lockdown, labour shortage may occur for paddy transplantation. The Agriculture Ministry must tap this opportunity to increase the cover under less water-intensive crops. The recent decision of the RBI to provide Rs 25,000 crore to NABARD for refinancing regional rural banks and cooperatives has ample scope to eliminate any possibility of liquidity crunch for agriculture credit. All the departments concerned need to work in cooperation to make farming a profitable and environment-friendly business.

- Adjusting the scope of MGNREGA (Mahatma Gandhi National Rural Employment Guarantee Act) to offer employment to returning 40 crores migrants and linking it with agriculture would help them to build their livelihood. Giving one month's advance wages through authenticated MGNREGA accounts is also possible. There should be specific interventions for migrant workers, including tracking them, ensuring access to basic food, transport and healthcare and enabling them to access PM Garib Kalyan Yojana, even if not formally registered (if they are without Jan Dhan accounts, but have an Aadhaar card or Ayushman Bharat card or ration card). There should be identification, registration and formal linking of migrant workers, daily wage workers, construction workers, through e-platforms that link benefits.

- Monetary policy of Reserve Bank of India should provide Liquidity line to banks/non-banks to help MSMEs, Agriculture with credit backstop by government (can also be structured as support to large corporates who provide credit support to the supply chain). Credit guarantee fund to absorb likely non-performing loan slippage and credit costs in small business and MSME loans, despite liquidity infusion.

- For large corporates, debt restructuring by banks, easing procedural requirements to raise private or foreign equity capital, and a transparent troubled asset relief programmetype programme of government capital infusion for select distressed companies in key sectors (travel, logistics, auto, textiles, construction, power). This needs to be independent of government, with a new institution and an independent board.

- Capital strengthening for banks/NBFCs (rolling back regulatory capital constraints, easing capital raising procedures, TARP-type recap for stressed entities). Also, other liquidity measures such as payout of unpaid government dues, and steps to boost liquidity for banks, Non Banking Financial Corporations and reforms in the bond market.
- Restoration and rebuild a stronger primary healthcare system is the need of the hour, with a strong community care component, providing a protective and secure environment for healthcare professionals. Expansion of health infrastructure as an employment multiplier for doctors, nurses and para-medical staff, ASHA workers and ICDS Anganwadi workers, technicians and related services, along with skill development support.
- Import Substitution can boost domestic growth. After having reached a peak of 17% in 2013-14, exports accounted for just 12.1% of India's GDP in 2018-19. Deepening trade wars and the current slowdown in the global economy does not bode well for future export growth. This means that an important driver of past growth has been weakened significantly. Exports are only one side of the story in foreign trade's impact on GDP growth. A country can also add to its GDP by reducing imports. So, reducing imports can have the same impact on domestic economic activity as increasing exports. India can do little to reduce imports such as petroleum. Reducing the non-petroleum trade deficit can give a big boost to the domestic economy. This is not going to happen on its own. The government should ideally identify sectors where it wants to reduce imports and then provide attractive incentives to both foreign and domestic entrepreneurs who are willing to invest in these sectors within a reasonable but short window. This should ideally be the beginning of the making of a long-term trade and industrial policy for India. Much of the focus of the Modi government has been on non-targeted investor friendly sector. It is time to supplement these policies with aggressive import substitution.

New opportunities coming for India

After Covid 19, there has been shift of many large corporations from countries like China, Turkey and Malaysia. What we need to realize is that these companies are a political and letting them operate in an unbiased manner projects a great image of India to the world. India has much to gain from treading a path of economic cooperation, which has always defined its policymaking. However, we need huge investments to build our infrastructure especially in Agriculture and manufacturing sectors in the light of reverse migration which is so rampant these days. Our policy makers should understand that the foreign companies that operate here consistently are ambassadors of ease of doing business in the country. Hence, our commitment to easing business operations and providing a stable business environment should not change rather it be more conducive to attract large multinational corporations and create a direct linkage between domestic industries so that aggregate demand gets immediate push.

The flip side to this argument is that we live in a globalized world and targeting foreign companies could prove to be counter-productive, as there are several Indian companies operating in other countries and any unilateral action could get reciprocated. What's worse, other countries can easily jump in to fill India's shoes, costing our country by way of lower trade volume. For example, after a reduction in palm-oil import by Indian traders, China, Pakistan and Turkey intend to increase their import to cover the loss of the Indian trade. During the period August-December 2019, India's share in total Malaysian palm-oil export increased from 18% in the same period a year earlier to 22%, but China's share grew faster, from 16% to 23%, and it became the top importer of Malaysian palm oil, surpassing India. Besides palm oil, Malaysia is also a major source for remittance inflows to India, which received USD 287 million from around 130,000 Indian emigrants during 2017.The world is economically integrated and India needs to safeguard its economic interest by collaborating with countries. India should choose diplomatic channels to respond to countries. Targeting companies from specific countries could be an incorrect approach. India needs to put its economic good above all else and let this consideration dictate its efforts. India has shown admirable maturity in declaring that it is not looking to impose import curbs on Malaysia and Turkey. However, the pandemic has instilled a shift in consumer psychology, and the outcome will be an altered behaviour towards the market, especially China and its products.

Conclusion

India leaps to fill this global void, but before that it needs to cut the shackles of its dependencies. India has had an over-reliance on Active Pharmaceutical Ingredients (APIs) supplied from China. The shutdown of supply chains, however, has called for a need to shift the market or become independent. Recently, our government has planned to boost local production of these APIs and emerge as a global alternate supplier. For a long time, China has been in the top of India's imports list for a variety of items. It is no denying that, given the pandemic, the supply has been hit hard but the Indian government is already exploring alternative countries for over 1,000 items to replace China as their supplier. In today's world, as economies grow increasingly intertwined, business and commerce dictate that countries collaborate and find a way to resolve differences and move ahead in mutual interest.

India is a democracy with a market-driven economy that has earned a reputation for being a country that provides stability of regulation with predictable policymaking. We must not let this hard-earned reputation change, and squander our economic achievements.

A good starting point to address the slowdown would be acceptance that India faces a demand-side problem in the economy, which needs to be addressed both on a long-term and short-term basis. A short-term contingency plan involving reorientation of existing agriculture/industries/PSUs/ railways/ defenseunits for production. This should be spliced with a medium-term plan for diversification and self-reliance. This is also an opportunity for India to occupy disrupted global supply chains.

A widening of the current food security programme in India, which moves beyond cereals and focuses on sectors such as horticulture and dairy – both of which are in a big crisis – can give a boost to demand for these food items. Such polices need not take the traditional procurement route used by the Food Corporation of India.

The concept of farmers' markets, like in the US, is useful in this context. The US food security programme entitles beneficiaries to spend cash transfers to buy from markets where only farmers are allowed to sell. Promoting such a model will also shift some of the profits in the food economy currently going to corporate players towards farmers. Such a policy will not be in conflict with World Trade Organization requirements as well. It could be rolled out on a pilot basis and then expanded gradually. Spending money this way is probably better than giving Rs 6,000 per year to all farmers, which is too insignificant a sum to make tangible difference.

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