International Journal of Advances in Engineering and Management (IJAEM)
Volume 3, Issue 1 Jan-Feb 2021, pp: 630-635 www.ijaem.net ISSN: 2395-5252

Re-envisaging 5 Trillion Indian Economy in the light of the aftermath of COVID-19 Pandemic

Animesh Kumar1, Rahul Kumar Yadav2, Subhash Kakarla3
Indian Institute of Management Ranchi, Ranchi, Jharkhand, India

Submitted: 15-01-2021 Revised: 27-01-2021 Accepted: 31-01-2021

ABSTRACT: India witnesses 111 deaths per million population due to Covid-19, much larger than just 3 deaths per million population in China, thus the health crisis being posted to have a long-term impact on the Indian economy. Indian economy has already been weakened due to this novel virus having stopped the positive growth rate and poising roadblock to the 5 trillion economic plan of India. The results of the second quarter of AY 2020 showed GDP contraction of 23.9%, affecting almost all the sectors of Indian economy. Although, the annual GDP growth is projected to contract by 7.7% on a Y-o-Y basis (according to NSO estimates), the first half of FY 2020-21 has seen promising positive growth with the right measures being taken with evolving new revenue streams.Indian economy aims to grow to USD 5 trillion, with a consistent double-digit growth rate in the coming years when coupled with inflation. A deeper look into the calculations behind the target economic growth puts the GDP growth rate to be at 11.5% for the next five years. India has seen the highest GDP (nominal) growth of 11.4% (in 2007-08) since Independence with only two incidences when GDP was recorded to be in double digits (other in 1988-89). The only possible way India achieves this target is when inflation of 4% couples with 7.5% growth rate annually. Putting the pressure on inflation, there will be consequent depreciation in the rupee as compared to the US dollar, resulting in weakening local market demand. This paper aims to bring out the thought process as to how we could re-envisage 5 Trillion Indian Economy in the light of the aftermath of COVID-19 pandemic.

INTRODUCTION

India had witnessed 'Hindu Growth rate" till 1980's, and saw an unprecedented growth story thereafter. The growth was driven by the opening of the economy to foreign companies to set up a unit in India. Liberalization, Privatization and Globalization (LPG) reforms being announced in 1991, brought drastic changes to the economic outlook and mechanism in India.

India's ambitious target of becoming USD 5 trillion (Nominal GDP) has been vouched for in the government's budget and speeches of the government heads. Deviating from the Nehruvian economic model, the government has an entrepreneurial spirit to bring growth focused on capitalist economic growth. Government has introduced policies like Atmanirbhar Bharat, Skill India, Make in India, Vocal for Local, Production Linked Incentive Scheme (PLI) and many others to catalyze the Indian economic growth. The Central Bank, RBI, has introduced several measures to increase the money supply and increase the consumption. Through these measures, both government & RBI envisages increasing cash flow in the market, increasing the consumption giving a boost to all sectors, which have faced the wrath of pandemic.

Covid-19 brought fresh turmoil in the economy, when the GDP was already falling in previous quarters. As a result of pandemic there has been a decline in credit growth rate seen for industries and agro-sector. Despite governments strides to dampen the impact of Covid-19 with packages aimed at promoting MSME's and easing credit for industries at large, credit growth to industry grew by merely 2.2 per cent in June 2020 as compared with 6.4 per cent growth in June 2019. According to ICRA estimates, the year-on-year (y-o-y) growth in bank credit is expected to decelerate sharply to 6.5-7.0% during FY'2020 from 13.3% achieved during FY2019.Central bank data showed credit grew at more than 6% as of end-December 2020 from a year earlier, higher than the 5.1% growth seen in the second half of October 2020. Also, with the decline in Covid cases and the roll out of vaccines, the economic resurgence has been faster than expected. Markit India Services Purchasing Managers' Index came in at 52.3 in December 2020 from 53.7 a month earlier, with a reading above 50 indicating economic expansion.

Our economy has directly shifted from an agriculture-based economy to a tertiary (service-based) economy. This weakened our secondary sector, i.e. the manufacturing sector. Hence, if we need to grow at a faster pace, we need to improve our manufacturing sector. Contrary to perceptions, India imports a lot of intermediate Chinese goods, and stopping this will affect our capability to produce finished goods. There are other sectors that are import-dependent such as automobile, electronics, pharmaceuticals, telecommunications, etc.

Thus, moving towards a boycott of these products could therefore be counter-productive, having an impact on the overall competitiveness of our manufacturing sector and undermining our export competitiveness. But the journey to overcome our reliance on Chinese products – or, for that matter, on imports from any other country – needs Indian policymakers and businesses to do real hard work and just not resort to lazy solutions like banning trade or rising tariff barriers.

The first thing to realize is that India's poor share of global trade, particularly goods, reflects our acute lack of competitiveness. This is the hard fact, but far too often, instead of acknowledging this reality, policymakers often blame India's stagnating export output for weak global demand. (Global trade: India comprises ~1.7% of total exports and ~2.5% of total imports with 17% of the world's population.)

For all the exports combined, domestic bottlenecks explain half of the export growth slowdown (50%), weak world growth also turns out to be a significant contributor (33%) and further, the stronger rupee explains the rest 17% of the export growth slowdown. Domestic bottlenecks are 1. Poor infrastructure, 2. Lack of reliable electricity, 3. Logistical delays, 4. Problems in enforcing contracts, and 5. Regulatory hurdles, etc.

Here, we need to be more sector-specific and concentrate on factors of production that can make a big difference. To fine-tune a sector-specific strategy to boost exports, the government can only revisit the advice of Chief Economic Advisor Krishnamurthy V. Subramanian in the latest economic survey published in 2020.

1. India must not harbor "misplaced insecurity on the trade front." India has benefited from trade agreements: an increase of 0.7% per year in the trade surplus with the partner and an increase of 2.3% per year in total goods.

2. India's current foreign trade system provides an unparalleled opportunity to analyse China's labor-intensive export trajectory. This offers unprecedented employment prospects for our emerging youth.

According to the Indian Economic Survey, by integrating Assemble in India into India, we can generate four crore well-paid jobs by 2025 and eight crores by 2030. The survey identified China as a model for India to imitate China’s remarkable export success vis-à-vis India is driven predominantly by deliberate large-scale specialization in labor-intensive activities, especially 'network products,' where manufacturing and development takes place across global value chains (GVCs) run by multinational corporations."

Why merely more government spending will not help the Indian economy?

-23.4% contraction of Q1 GDP and subsequently -7.5% in Q2 depicts the positive sentiment of economic recovery despite the economic activity halting due to lockdown during Covid-19. (Only the agriculture sector showed a +ve growth and rest all sectors were showing negative growth in quarter 1 results.) Now, when the growth of GDP will depend on the government’s action to mitigate the slowdown, need is to broaden the consumer base by empowering the low and middle-income consumers rather than pushing consumption itself.

In the aftermath of the economic crisis, many have requested higher government spending to bail out the economy. But why can't the government spend to revive growth?

First, in all likelihood, the temporary incomes, coupled with the job/income uncertainty, will be inducing precautionary savings without any significant impact on growth. Second, the fiscal situation of our country was weak even before the pandemic. With revenues having cratered, higher borrowings are used to finance additional expenditure. Any incremental debt can be seen in the light of potential investment being hindered by current consumption.

It's easy to prescribe compromising fiscal prudence or 'printing money' to boost spending. Yet the risk-reward ratio seems far from benign. It should be noted that India's public debt / GDP is expected to hit about 85 per cent (> 77 per cent is not good for any GDP) and also the consolidated gross fiscal deficit-to-GDP ratio may be about 12.5 per cent this year. Assuming incremental fiscal consolidation, it might take months or years for these metrics to return to pre-COVID levels. Rapid consolidation would have a negative effect on growth. This sets the foundation for every kind of "stimulus"—it needs to be well-targeted and also have a strong multiplier effect.

So what should be done?

Ideally, most of the public spending should be focused at sectors such as major roads, infrastructure, railways, health care and education to help revive the economy. In order to encourage the development of infrastructure along with private sector participation, the government needs to charge reasonable prices for goods and services such as electricity, irrigation and public utilities, define the rule of law with minimal market regulation, streamline fast approval processes and ensure prompt payments to private operators.

To achieve sustainable economic growth of 7-8% over the next decade, the government needs to begin fixing some of the legal challenges, such as the high infrastructure deficit, the poor financial sector, the outdated land and labor rules, and the administrative and judicial barriers. If it fails to do so, India's projected growth would be much weaker, and we fear losing a decade of favorable demographics.

Remedy

Indian economy will have to bring in regulatory and structural reforms in order to be in the race for its target. Economic Survey released in January 2020, posits the exports of network products to form a quarter of value required for India's GDP growth by 2025. Putting its initiative for "Assemble in India for the World' against China's "Factory for the world," the Indian economy would be able to add jobs to the market, besides raising export market share to 3.5% globally. It is important for the Indian economy to focus on exporting items in which it is already exporting. The government has focused on increasing exports and not on curbing imports from the largest importer country China. Banning of apps on grounds of privacy and data localization would need to be maneuvered tactfully, as India imports essential items for many of its industries which only China manufactures. The twenty-first century can belong to India only when it doesn't maneuver its budget allocations increasingly on defense. It points to inclusive growth for south-east Asian nations. India shall play its growth card correctly, given that West superpower, US is in direct conflict with China and would go a long way in preparing a strong base in the region. However, the Indian government has rightly taken a cue from the developments in Iran & Afghanistan after US entry and is cautious in putting its stance globally. India has rightly not depended on any nations backing when it went ahead with negotiations on Galwan issue.

Simultaneously, regulations related to privatization, labor laws, GST registration & FDI changes among other measures taken, has paved the way for investments in Indian industries. Indian MSME has somewhat dampened the effect of Covid-19 on the Indian economy. Digital transactions have increased, local delivery systems have evolved into a new market, small entrepreneurs are coming up, innovation has taken a forefront in India (ranked 48th in the global innovation index 2020), after Mangalyaan, India has spearheaded the vaccine production for the world with indigenous Covid-19 vaccine – Covaxin. Despite futuristic targets, certain social issues related to dowry, unemployment, income inequality, child marriage, child labor, atrocities against women, acid attack, murder, corruption and many more need to be addressed. India needs to not only develop Smart cities for this futuristic goal to be achieved but also incorporate social responsibility as a part of learning path, which the new National Education Policy could have included. USD 5 trillion economy would be attainable only if the society across the nation spends more. The airports built under UDAN scheme would only be profitable when demands are present in society, which would depend on educating the society.

Govt reforms will unleash growth wave for India: CEA

Highlighting a similar low-growth period in 2000-01 due to the Asian economic crisis, India responded with three significant moves — fiscal spending (especially the transport networks-push of the Golden Quadrilateral Project), reforms and disinvestment.

"The above initiatives have helped the country to achieve 8 per cent plus economic growth over the next five years. Similarly, the government is now raising infra-expenditures, emphasizing export growth through initiatives such as the PLI scheme and a series of reforms in agriculture, commodities and small and medium-sized enterprises, among others. Three labor bills have been tabled in Parliament. Collectively, these policies will accelerate the country's rapid economic growth in the coming years, "he added.

Global supply chain:Referring to the opportunities emerging from the rebalancing of the global supply chain due to economic and geopolitical events, Ramesh Mangaleswaran, Senior Partner, McKinsey & Company, said that India could reverse the situation of becoming a significant electronics importer to exporters by playing a much more significant role in the global value chain.

Calling for advancement in India's processing technologies, he said that the country should become the best in terms of operational excellence — cost, quality and execution. "We're not there because there are some limitations that

International Journal of Advances in Engineering and Management (IJAEM)
Volume 3, Issue 1 Jan-Feb 2021, pp: 630-635 www.ijaem.net ISSN: 2395-5252

need to be resolved. We also need global business development capabilities," he added.
Also, there should be a strong emphasis on developing the skills essential to meet the requirements of the hardware electronics industry, said Mangaleswaran. The foundation of dedicated zones and specialised research parks will also assist in this, he added.

Impact of Covid

India's economy has spiraled down remarkably owing to the stringent lockdown that has been announced on 24th of March 2020, which far from controlling the dissemination of the pandemic, seems likely to have made it worse. Due to lockdown being imposed to counter the spread of Covid-19, people across the nation encountered the sudden stoppage of work, lack of transportation facilities and the break in supply chains that left millions of poor workers stranded in their work location with no wages to earn. Livelihood had been gravely imperiled due to lockdown. The most vulnerable citizens of the country who confronted the catastrophe that has been triggered due to Covid-19 outbreak following lockdown include migrant laborers, daily wage workers, grocery workers, private service employees, farmers, landless agricultural laborers, construction workers, auto drivers and many others. Many of the daily wage workers who worked outside their home states have gone back to their home states owing to unemployment that left no opportunity and many others' livelihood wrecked till date across the nation, without any work. Over one-third of the daily wage employees in urban India have to incur the stress of vague income, substantially owing to the significant fall in urban business deals that has led to an abrupt and sheer fall in the consumption of non-essential goods.

According to the International Monetary Fund's report, India's Gross Domestic Product i.e., GDP growth for FY 2021-22 will be in the negative zone due to the outbreak that severed various economic activities. Inflation has been higher than 6% (upper limit as per inflation targeting by RBI) the first half of the FY 2021, and is projected to ease in the later part of the year, according toincumbent RBI Governor, Mr. Shaktikanta Das.

Covid Impact & Ramifications

India's GDP has declined by 23.92% Y-o-Y for the first quarter of FY 2020-21, the period coinciding with the lockdown imposed nationwide. Government of India (GoI) has put in efforts to infuse relief funds, announcing 20 lakh crore relief packages earlier. However, the expenditure for the pandemic Covid-19 relief amounts to mere 10% of GDP, abysmally low than relief funds announced by Japan to the tune of 21.1% of its GDP. Governments around the world is looking to provide direct relief to the affected industries and corporates. Creating environment for industries to thrive and keeping conglomerates away from shifting its operations to low cost production centres across borders has been a key challenge. India has witnessed scaling down of operations and closing of operations owing to reduced or no manpower supply, difficulties in procuring raw materials, batches of workers being diagnosed with Covid-19, supply chain being wrecked and market demand being snapped among many other issues. The much predicted economic downfall results are out and the Indian government is geared on several fronts as economy suffers even greater downturn than 2008 Global Financial Crisis (GFC).

Private sector employees face the greatest risk of job security in this pandemic. To make things worse, Indian youths are protesting against the delay in Railway Recruitment Board Examination, Combined Graduate Level Examination and for recruitment to many vacant positions in the government sector. Indian government has failed to generate employment over the past decade and the Industry-Academia skill gap is evidently more visible than ever before. Realising the shortcomings of the Education system, the government was quick to roll out New Education policy after 34 years of the last amendment done with more ornamental change. However, the current situation demands more impactful and short-term relief to the growth drivers of India's GDP. Services sector which constitutes roughly half of India's GDP has resorted to off-playing employees in order to cut costs in these uncertain times. The government needs to come up with clear policies for the future which would reinstate confidence in the employers of the support ahead. Indian government has banned Chinese applications, imposed higher tariffs on imports from China taking the Import Substitution route which would hinder its own growth rather than protecting the home companies. India has already opened its economy to the world and today global events would have both its positive as well as negative implications on its growth. Indian government should focus on incentivizing innovation in Indian startups under Make in India & Atal Innovation Labs initiative. Incubation centers present nationwide shall be operating on mission mode to help startups.

Bad loans have been on rise making commercial banks wary of lending. RBI has

International Journal of Advances in Engineering and Management (IJAEM)
Volume 3, Issue 1 Jan-Feb 2021, pp: 630-635 www.ijaem.net ISSN: 2395-5252

declared a solid INR 28,258 billion reserves in July 2020, stimulating lending by decreasing lending rate to 4%. With State governments looking to raise debts to meet fiscal deficits, commercial banks would be more than willing to park their money in these safety havens. With the need of immediate economic pullover, the government should foster growth by meeting its fiscal needs through these debts. Despite the consumer inflation rate exceeding the 6% threshold, the economic reforms required in short term warrants for these expansionary policies. In order to infuse capital in the market, RBI has issued Open Market Securities (OMO) which would help in meeting the short-term capital demand for economic boost.

Central government looks to raise capital through an ambitious disinvestment target of 2.1 lakh crores in this FY 2020-21. Interestingly, in normal times last year, the government missed the disinvestments target by more than 40%. To add on, DIPAM has not been able to start with disinvestments for this financial year till now. Government plans to disinvest its stakes in 23 PSUs, LIC touted to bring in the major part in immediate future through IPO route.

India is in bid to receive USD 4 billion loan from International Monetary Fund, USD 1 billion loan from World Bank & USD 2.2 billion from Asian Development Bank as a part of Covid relief funds. Indian government has infused merely 10% in economic reforms post Covid, which comes down to 2-3% of GDP effectively if the actuals are studied in detail. Pandemic like Covid-19 demands extra efforts from the government to mitigate the unprecedented burden on the industries. Indian government has the opportunity to avail loans to fund economic rehabilitation. It would be important for the government to work on its prior object of expanding the economy and not just save it.

With the economy picking pace post lockdown, the resurgence of the economy can be already felt. India has sustained the economic blows of GFC in 2008 and has ushered to growth plans henceforth until this pandemic. There exist a lot of avenues to make India, ‘AtmaNirbhar’, which the government shall focus upon by incentivizingcommercialization of innovation. For immediate relief, India shall not shy away from economic growth on investors’ money, i.e., loans from WB, ADB, IMF and other forums. India shall leverage the confidence of its economic growth to pump in investments and avail funds to stimulate the growth. If this century has to belong to Asia, India cannot afford to miss on the opportunity to come out strong when the world looks to its growth ahead.

India witnesses 85 deaths per million of population due to Covid-19, much larger than just 3 deaths per million population in China, thus the health crisis being posted to have a long term impact on the Indian economy. Indian economy has already been weakened due to this novel virus having stopped the positive growth rate and imparting severe blows to the 5 trillion economic plan of India. The results of the second quarter of AY 2020 has shown the GDP contraction of 23.9%, affecting the sectors of economy. However, as the economy declined, the capital market did exactly the opposite, Nifty rising 23% in the same period. This stability in the capital market proves the hope of economic reforms among the masses, given that the new demat accounts opened during the same period has increased to a record high of 6 lakhs in the month of April. Sectors of economy like Information Technology and Metals which have exposure to global markets, have witnessed a dampened impact of Covid-19. According to Credit Suisse report, only 26% of the companies in BSE 500 have a direct impact on the macroeconomic growth of India. Thus, India also faces the risk of unaccounted growth, with companies able to grow due to its diversified portfolio, but performing poorly in Indian operations, with low or no growth added to Indian economy. RBI has come forward to pump in money to the economy to stimulate growth which should ideally lead to inflation. However, the inflation seen in Indian economy is primarily due to lack of supply of items, elections and other factors which clearly articulates that the consumer demand is not picking up. In this scenario, the excess cash in the economy is going to assets markets as people are not readily spending in these uncertain times. Thus, the prices of safe havens for investment like gold and lands goes up, which leads to a vicious cycle of unwarranted growth. Thus, the RBI’s push to increase M3 money in the Indian economy, its breaching of MCLR CPI target of 6% being breached and lowering of repo rate, has all been a welcome move in these unprecedented times of Covid till the economy stabilizes.

Government shall focus on ensuring that the corporates stay invested in Indian economy for the long term restructuring of the economy. The annual GDP growth projected to slow to 10% on a Y-o-Y basis, the first half of FY 2020-21 has been promising positive growth with the right measures being taken. Exports which had been contracting by more than 35% in the months of April and May has seen positive growth of 5.3% Y-oY in the month of September. Imports have also picked up in third quarter of 2020, the fears due to a drop of more than 50% Y-o-Y seen in May has been allayed with the gap being narrowed down in the latest reports. There has been a quantum leap in the sales of two wheelers with 15 lakh units being sold in the month of September in contrast to just 46k sold in April this year. GST collections have improved to pre-Covid figures giving relief to the much needed credit requirements of the government. Purchasing Managers Index which shows the overall economic trend in the manufacturing and services sector has been 56.8%, a positive trend seen post lockdown. Indian economy has witnessed more than expected growth rate post lockdown and the new measures being taken to push the growth of Indian economy with the policies like Atmanirbhar Bharat and Vocal for Local, the government has been working in the right direction to push the Make in India initiative for structural growth. Government has announced LTC cash voucher scheme and a special festival advance to government employees as an initiative to push the consumption in the economy. More such measures to boost the consumption shall be focused upon by the government. Government shall focus on cementing employment to curb precautionary savings and thereby create confidence amongst the public to spend more. Going forward the focus shall be laid on the informal sector of employment, which once addressed would help in boosting the consumption to a large extent owing to its higher share in our economy. However, the path ahead would require much larger cooperation between the corporate groups, social groups, government and the central bank to bring the economy back to its projected growth journey.

REFERENCES:

[1]. https://www.euractiv.com/section/coronavirus/news/danish-corona-hit-firms-get-state-aid-to-pay-75-of-salaries/
[2]. https://www.pwc.in/assets/pdfs/research-insights/full-potential-revival-and-growth/view-how-to-pull-the-indian-economy-out-of-its-rut.pdf
[3]. https://www.livemint.com/industry/banking/rbi-says-bad-loans-may-rise-to-12-5-by-march-could-even-spike-to-14-7-11595592199601.html
[4]. https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=50291
[5]. https://indianexpress.com/article/business/economy/india-july-2020-cpi-consumer-price-index-retail-inflation-6551842/
[6]. https://www.livemint.com/news/india/as-imf-sits-for-its-spring-meet-4-billion-could-be-offered-to-india-to-combat-covid-19-11586691972914.html
[7]. https://timesofindia.indiatimes.com/business/india-business/no-divestment-yet-against-target-of-2-1l-cr-for-2020-21/articleshow/77646432.cms
[8]. https://www.deccanchronicle.com/business/in-other-news/110919/how-will-india-become-5-trillion-economy-singhvi-takes-a-jibe-at-cent.html
[9]. https://www.opindia.com/2019/11/prime-minister-narendra-modi-dollar-5-trillion-economy-by-2024-how-realistic/
[10]. https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=50152
[11]. https://www.financialexpress.com/opinion/assemble-in-india-move-may-revive-exports-but-widen-skills-gap/1888029/

International Journal of Advances in Engineering and Management
ISSN: 2395-5252

IJAEM

Volume: 03 Issue: 01 DOI: 10.35629/5252

www.ijaem.net

Email id: ijaem.paper@gmail.com