

COVID-19 in India: Re-thinking Economic Strategies

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Summary

The initial 21-day lockdown in India is being extended by another fortnight, as the trade-off between saving lives and providing for livelihoods is becoming a difficult choice for politicians, health workers and economists. This paper examines the dilemmas and offers some suggestions.

All nations that are at different stages of their lockdowns have to make a difficult choice between providing for livelihoods and health safety. In developing countries, especially India, the problem is exacerbated by the very large number of people in the unorganised sector, especially migrant workers from the poorer states of the country. The lockdown has resulted in a huge migration of this labour back to their villages. To get the economy back on the rails, these workers need to return.

Currently, in India, agricultural labour is a very serious problem. The monsoon last year was above average and there is a big crop of wheat waiting to be harvested in Madhya Pradesh, western Uttar Pradesh and Punjab. Harvesters often do the work, but they need to be moved to different areas of a state depending on the need, and this movement is hampered by the lockdown. The absence of farm labour is being felt most keenly in vegetable and fruit farms, especially those that have to reach the market on a daily basis. Buyers are absent and there is a distinct possibility that a significant portion of the crop could be wasted. The positive side is that sugar factories are working and cane farmers are able to get their produce to the factories — they will face problems only when they seek to plant the next crop on the vacated fields. States have also taken some pro-active decisions — the procurement happens at farm gate and the farmer is paid and entrusted with storage, obviating need for transport immediately. The support prices have also been enhanced. There was always a bottleneck at procurement purchase centres and markets, and now the farmer has been left free to dispose off his crop, relaxing the agricultural marketing regulations. In cereals, sugarcane, oilseeds and pulses, policy has moved swiftly to reduce pain. However, there are acute problems in commercial crops and horticulture.

In the manufacturing sector, especially in pharmaceuticals and medical equipment, the lockdown is biting. There is a shortage of workers. The production of personal protection equipment is taken care of by micro, small and medium enterprises but these are facing labour, capital, and logistic problems. They are falling due on their bank payments. Even though their order books are full, they are unable to supply. Other manufacturing units including automobiles are facing a problem of production, supply and demand.

The technology sector, where work from home is an alternative, has yet to gauge its impact on productivity and output. Clearly, in a project that requires teamwork, like architectural

design or chip making, the work from home will deliver sub-optimal results. Complex analytical operations requiring teamwork are also getting bogged down in conference calls.

Moving out of the lockdown will require a careful balance between exposure to the virus and restarting the economy, an agonising decision that can go both ways. There are four actors to this decision – political decision makers, health workers, people in business and those who will be impacted by these decisions. The hesitation among the political class about an early lifting of the lockdown stems from a fear that preparations to handle a surge may be inadequate and the backlash that may follow. They want cash transfers to the poor to mitigate the pain of loss of livelihoods but this has limitations if goods and services are in short supply, and anyway, it can never be enough to replace wage incomes.

Action Plan Going Forward

Coming out of this lockdown, in economic terms, is going to be a long haul, and clearly, things are going to be different.

First, there is a clear indication that control over supply chains will have to be reconfigured. Reviving Indian manufacturing would require looking at present supply chain arrangement. For example, India is strong in the pharmaceutical sector, but many of its bulk chemicals come from China. This is an opportunity to set up indigenous manufacturing facilities. The government could consider meeting the entire moving costs of moving out of China as an incentive. They could allow the total costs to be expensed out, and provide tax reliefs for the import of equipment and bank financing for capital.

Second, if distancing is likely to be a feature for some more time, it is possible to use technology much more effectively in manufacturing. India has the skills and capability to do this and one could easily think of manufacturing lines where human interface is reduced. Workers could be asked to wear protective gear, while operations supervision and material testing could be done remotely. Again this is an area where the government could incentivise investment and innovation.

Third, it is important to get public health right. If states like Kerala and Tamil Nadu can do it, other states can also achieve the same through a balance of public and private initiatives, increased infrastructure spending on the health sector and encouraging local manufacture.

Fourth, in the short and medium term, there is likely to be less reliance on global integration. Global trade is likely to have a setback, and India, as huge oil importing country, must quickly re-engineer its export earnings to meet its current account demands. Remittances will continue for workers and skill from India will continue to be in demand. Sectors like pharmaceuticals, technology and even agriculture offer great export opportunities.

Finally, in all this, domestic consumption will continue to be met by existing patterns of production, whether in the automobile, engineering, chemicals, textiles or fast-moving consumer goods sectors.

In short, this is an opportunity for India to rethink its economic strategies, leverage on its strengths, and emerge from this lockdown with a different set of goals.

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