

41. Never waste a Crisis

By Gopal Krishna Agarwal,

India is doing a commendable job in fighting the Covid-19 pandemic. It took the epidemic seriously unlike some other countries when it emerged on the global horizon and has generally been ahead of the curve. Whether it's the screening of international passengers, quarantine, or announcing lockdown, the central government has never been found wavering or hesitant.

The first priority obviously is to save people from this virus. The lockdown was announced when the cases were still very few. It reduced the speed of the spread of the virus and gave the government time to set up the required health infrastructure. Then the focus of the government shifted to mitigating the hardships of the people due to the lockdown. And now, rightly so, the focus is gradually shifting to the health of the economy.

It is an understatement to say that the economy has been severely affected by the lockdown. The global economic engine has come to a sudden stop because of the pandemic, as one country after another declared lockdown. The Indian economy, which was on a recovery path after a slower growth phase, has been brought down to its knees.

Covid-19 is a non-linear and uncertain event. Proper action at the right time alone will ensure that the cost of recovery is not huge. The likelihood of post-Covid-19 recovery being a V-, U- or L-shaped curve will depend on the road map ahead. The government intervention will be commensurate with the severity of the global recession. India's strengths are its demography, democracy, and demand and while the first two will remain unaffected by the crisis, demand will diminish due to economic uncertainty, job losses, and financial problems. Therefore, post-Covid-19, the government will focus on reviving the demand.

The business of SMEs and other small enterprises is disrupted in a major way. In the absence of public social safety measures, compelling the private sector to bear its cost is not justified. There already is a twin risk aversion in the credit market for the SMEs. Credit guarantee schemes have to be made more robust and the government will have to actively consider sharing some part of the credit risk. Though, the availability of credit is not the only issue for the SMEs, going concern and business-continuity plans require a strong balance sheet which is missing among the SMEs.

The trend of deglobalization, which started after the global financial crisis and gained strength after the 2016 US elections, is expected to accelerate. The world will see the reshaping of international relations. Non-economic dimensions will become more important as countries try to become self-sufficient. However, countries will not return to autarky as no country can be fully self-sufficient in the present era. Though India will try to be self-reliant in critical products, that will not be achieved merely by increasing import duties. Global competition is an important factor in boosting domestic productivity.

The shutdown in China due to the COVID-19 outbreak was a rude shock for countries. It highlighted their vulnerability due to dependence on one country. A number of multinational corporations are working on a risk diversification strategy, but India will not automatically benefit from such a shift out of China: The success of Bangladesh and Vietnam over India is a sobering reminder. Old rulebooks that hamper private initiative will have to be scrapped by the government.

The government can formulate a new National Manufacturing Policy to make manufacturing in India competitive. The cost of doing business is very high compared to other countries. The cost of compliance, logistics, power, land and so on are very high. This is the right time to undertake factor market reforms, particularly land and labor. The crisis has also shown the importance of migrant workers in keeping the wheels of the economy moving. Going forward, we need a large infrastructure set up for migrant workers so that the events of mass exodus do not reoccur.

The crisis has brought in sharp focus the aspect of state capacity. Our private sector has immense potential and in times of crises such as the present, the government will need to have in place a mechanism to rope in the private sector to augment the state capacity. The use of big data and artificial intelligence (AI) for good governance, policies, and welfare programs can bring massive improvement in state capacity. India's earlier digital story based on Aadhaar is very different from that in the US and China, and has set an example for the world. Using AI to identify critical areas for government intervention and scenario planning have the potential for huge application in better execution of schemes, predicting natural calamities, agricultural output, and so on. India has the talent to do it.

The lockdown will be lifted in a staggered manner and after detailed planning and a standard operating procedure. With inflation remaining under control and lower oil prices benefiting India, the Centre may use special provisions under the Fiscal Responsibility and Budget Management (FRBM) Act to go for a one-time off-balance sheet borrowing with a declared timeline. The borrowing limits on states under the FRBM Act may have to be relaxed for the time being.

Reviving demand, increasing liquidity and big-ticket reforms is the road map. India is fighting the current crisis with all its might and we will set the path for other nations to follow.