

COVID-19

Challenges for the Indian Economy: Trade and Foreign Policy Effects





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Dr Mohan Kumar
Chairman, RIS

Message from Chairman, RIS

The world is facing humanity's biggest crisis since World War II. Almost every country has been affected by the devastating Coronavirus disease (COVID-19). The world is passing through a great uncertainty. Undoubtedly, the Coronavirus has put the world economy at a major risk.

Coronavirus ravages the economic foundations of world trade. According to the WTO, the world trade is expected to fall by between 13 per cent and 32 per cent in 2020, thereby indicating the world economy is expected to face recession.

Trade cannot flourish without commensurate policies to revive the economy. A combination of fiscal, monetary and trade policy measures is, thus, required to revive the economy and trade in these uncertain times. I am sure the world will come out of the crisis and give birth to a new phase of an improved and inclusive world.

Although India has managed well till date in containing the spread of the virus, the COVID-19 pandemic has already disrupted normal economic activity and life in our country. India's trade has been severely impacted. People have a sudden loss of their income, causing a major drop in demand. To rescue the economy, India has announced impressive fiscal and monetary stimulus packages. This pandemic has strong foreign and trade policy effects.

The ASEAN-India Centre (AIC) at Research and Information System for Developing Countries (RIS) in collaboration with the Engineering Export Promotion Council (EEPC) has produced a Report entitled "COVID-19: Challenges for the Indian Economy - Trade and Foreign Policy Effects", which presents freshly written 40 important commentaries by our country's professors, economists and practitioners on India's trade and foreign policy challenges posed by this crisis and the way forward. This Report is an excellent piece of publication, which not only captures vital narratives but also presents an important literature on the present crisis.

I extend my appreciation and thanks to all the contributors for their valuable contributions at a particular time when we all are under lockdown and passing through uncertainties. Their voluntary contributions in this Report will go long in strengthening our country's economic foundation.

I would like to record my appreciation of the efforts that have been put by my colleague Dr. Prabir De, and Mr. Suranjan Gupta, Executive Director, EEPC, in putting together this volume.

I am certain that this publication will be a valuable reference for our policymakers, academics and practitioners.

Mohan Kumar



Ravi Sehgal
Chairman, EEPC India

Message from Chairman, EEPC India

"It was the season of darkness, it was the spring of hope, it was the winter of despair"

– Charles Dickens

The pandemic caused by COVID-19 has created a shock and awe among us all, putting two-third of the global population under lockdown. *Insaan, Gyaan & Vigyaan* (Humanity, Knowledge & Science) stand challenged; posing socio-economic and political risks for the whole world. The world wide spread of the pandemic resulted unfathomable economic fallouts; zero economic activity, disruption of supply chains networks, falling global demands, supply gluts leading to price fall, loss of trust and confidence and fear of gloomy future. Pandemic comes at a worst of time when global economic order is already exposed to rising trade protectionism, ongoing tariff wars, unilateral economic sanctions, standstill at WTO talks, waning economic and financial institutions and lack of mutual trust, wisdom and initiation among global leadership.

India's engineering sector is not untouched from these changing and challenging economic realities. Our exporters are challenged at multiple levels, domestically as well as globally. Trade community has to re-negotiate with changing times, with themselves, their business processes, domestic markets structures, supply chain stakeholders, global clients and emerging global economic regime. As challenges are manifold, emanating from different sources, sourcing reliable information is important as it can form parts of invaluable business decisions which matters to Indian exporters in these volatile times. Moreover, there are large number of engineering products exported by India to the global markets, and the exporters need to have an indispensable resource for both generic and industry specific information for exportation.

EEPC India and ASEAN-India Centre (AIC) at Research and Information System for Developing Countries (RIS) decided to seek the inputs from India's leading economists, trade policy and trade operations experts to highlight the macro, meso and micro economic challenges before India and the way forward. I am sure that the ideas and thoughts of these leading scholars

and thinkers on the current economic challenges will be useful for our policymakers to chalk out a comprehensive economic strategy to combat with the unprecedented economic scenario in the post pandemic world. On-behalf of EEPC India, I thank each of the contributors and appreciate their efforts. My special thanks to Professor Prabir De for taking the lead for this work. Finally I would request our exporting fraternity to remember that this pandemic has virtually opened immense opportunities for Indian products and services to reach out to the world and let's not forget that *Enthusiasm is Key to Success*.

Ravi Sehgal

Preface

The Indian economy has been hit hard by the ongoing Coronavirus pandemic-driven global crisis. The entire world is passing through great uncertainty. There are, primarily, two major challenges that the Indian economy is facing at this juncture. First is to save the country from the spread of Coronavirus (COVID-19), which is a health emergency. Saving lives is the most important, the principal concern of the government. Second is to save the economy from the unfolding economic uncertainty due to the dual effects of the Coronavirus pandemic and the global and national lockdown.

Many economies may face negative per capita income growth in 2020 due to the Coronavirus pandemic, according to the International Monetary Fund (IMF). In its recent forecast, the World Trade Organisation (WTO) indicated a clear fall in world trade between 13 per cent and 32 per cent in 2020, perhaps the highest fall since the Great Depression of the 1930s. There is also a disclaimer: no forecast is perfect when the pandemic is at its peak and changing the contours frequently. The IMF has also slashed growth forecast for the Indian economy, projecting a GDP growth of 1.9 per cent in 2020. In its recent *World Economic Outlook*, the IMF does project a rebound in the growth of the Indian economy in 2021, at a rate of 7.4 per cent. So, there is hope!

Although India has managed well till date in containing the spread of the virus, the COVID-19 pandemic has already disrupted normal economic activity and life in our country. India's trade has been severely impacted. People have been facing a sudden loss in their incomes, causing a major drop in demand. To rescue the economy, India has announced a range of fiscal and monetary stimulus packages.

The present health cum economic crisis throws up several important challenges. If the spread of the virus and the consequent loss of life is minimised, either through newly invented vaccines or medicines, economies will rebound sharply. Countries are, therefore, heavily engaged in inventing the vaccines, and also injecting appropriate fiscal and monetary stimulus measures. These two will then become major factors supporting the recovery in the coming

months. This pandemic has, therefore, strong foreign and trade policy effects, and motivated us to engage in compiling this Report.

The Engineering Export Promotion Council of India (EEPC India) in collaboration with the ASEAN-India Centre (AIC) at Research and Information System for Developing Countries (RIS) is glad to present to the readers this edited Report entitled “COVID-19: Challenges for the Indian Economy - Trade and Foreign Policy Effects”, which presents freshly written 40 important commentaries by research scholars, professors, economists and practitioners on trade and foreign policy challenges posed by this crisis and the way forward.

In particular, this Report covers three important issues: first, what is the magnitude of the impact of the crisis on Indian economy – is it shallow or deep, and the scope to rebound, particularly India’s exports; second, India’s immediate challenges in managing the recovery; and third, the longer-term structural challenges of the Indian economy. Each chapter of this Report has outlined key recommendations to navigating through the present crisis and the policy responses.

This Report is also a *Primer* to EEPC India–EXIM Bank’s forthcoming seminal publication entitled “World Trade and India: Multilateralism, Progress and Policy Response”, edited by Ajitava Raychauduri, Prabir De and Suranjan Gupta, which is coming up from the Sage Publications later this year. Many of the contributors of this Report have also contributed full-length policy research papers in the aforesaid edited volume.

We extend our deep appreciation to all the contributors for their invaluable contributions in a short notice. We would like to take this opportunity to thank all contributors for their timely contribution despite their preoccupation. Not only they came forward spontaneously to our call, but they also have contributed voluntarily important research papers, showing the direction to cope up with the challenges and recovery. Collaborated through digital interfaces, this publication has been produced at zero cost while staying at home during the lockdown period.

Prabir De
Suranjan Gupta

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The Report entitled “COVID-19: Challenges for the Indian Economy - Trade and Foreign Policy Effects” has been edited by Prof. Prabir De, Head, ASEAN-India Centre (AIC), RIS and Mr. Suranjan Gupta, Executive Director, EEPIC India, New Delhi.

We are grateful to Dr. Mohan Kumar, Chairman, RIS and Mr. Ravi Sehgal, Chairman, EEPIC India for their encouragement and cooperation. We are thankful to Prof. Ajitava Raychaudhuri for his guidance. We are equally thankful to all our contributors for their valuable contributions.

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Views expressed in this volume are those of the authors and not the views of the Governments of India, EEPIC India, RIS and AIC. Usual disclaimers apply.

List of Abbreviations

ACI	Asian Competitiveness Institute
ADB	Asian Development Bank
AEO	Authorised Economic Operator
AI	Artificial Intelligence
AIC	ASEAN-India Centre
AIML	Artificial Intelligence and Machine Learning
API	Active Pharmaceutical Ingredient
APLM	Agricultural Produce and Livestock Market Committee
APMC	Agricultural Produce Market Committee
ASEAN	Association of Southeast Asian Nations
BRI	Belt and Road Initiative
CBDT	Central Board of Direct Taxes
CBIC	Central Board of Indirect Taxes and Customs
CCS NIAM	Chaudhary Charan Singh National Institute of Agricultural Marketing
CFS	Container Freight Station
CII	Confederation of Indian Industry
CIS	Commonwealth of Independent States
CL	Compulsory License
CNG	Compressed Natural Gas
COVID-19	Coronavirus Disease
DA	Dearness Allowance
DFC	Dedicated Freight Corridor
DGFT	Directorate General of Foreign Trade
DPIIT	Department for Promotion of Industry and Internal Trade
eBL	Electronic Bill of Lading
EEPC	Engineering Export Promotion Council

EIC	Export Inspection Council
EMDE	Emerging Market and Developing Economies
e-NAM	Electronic National Agriculture Market
e-NWR	Electronic Negotiable Warehouse Receipt
EoDB	Ease of Doing Business
EOU	Export Oriented Unit
EPCG	Export Promotion Capital Goods
EPFO	Employees' Provident Fund Organisation
ESDM	Electronics System Design and Manufacturing
ESIC	Employees' State Insurance Corporation
ESIS	Employment State Insurance Scheme
EU	European Union
FCI	Food Cooperation of India
FDI	Foreign Direct Investment
FIEO	Federation of Indian Export Organisation
FII	Foreign Institutional Investor
FPO	Farmer Producer Organisation
FTA	Free Trade Agreement
FTP	Foreign Trade Policy
FY	Financial Year
GATS	General Agreement on Trade in Services
GDP	Gross Domestic product
GDPR	General Data Protection Regulation
GIDR	Gujarat Institute of Development Research
GrAM	Gramin Agricultural Market
GSP	Generalized System of Preference
GST	Goods and Services Tax
GVA	Gross Value Added
GVC	Global Value Chain
HIV	Human Immunodeficiency Virus
ICD	Inland Container Depot
ICT	Information Communication Technology
ILO	International Labour Organisation
IMF	International Monetary Fund
IoT	Internet of Things
IPR	Intellectual Property Right
IT	Information Technology
ITA	Information Technology Agreement

JNP	Jawaharlal Nehru Port
LPG	Liquefied Petroleum Gas
LTRO	Long Term Repo Operation
MEIS	Merchandise Exports from India Scheme
MEITY	Ministry of Electronics and Information Technology
MERS	Middle East Respiratory Syndrome
MFI	Micro Finance Institution
MGNREGA	Mahatma Gandhi National Rural Employment
MNC	Multinational Cooperation
MNE	Multinational Enterprise
MOCI	Ministry of Commerce and Industry
MPLAD	Members of Parliament Local Area Development Scheme
MSME	Micro, Small and Medium Enterprise
MUDRA	Micro Units Development & Refinance Agency
NABARD	National Bank for Agriculture and Rural Development
NAFED	National Agricultural Cooperative Marketing Federation of India
NBFC	Non-Banking Financial Company
NGO	Non-Profit Organization
NPA	Non-Performing Asset
NPE	National Policy on Electronics
NRDC	National Research Development Corporation
NSIC	National Small Industries Corporation
NTB	Non-Tariff Barrier
OECD	Organisation for Economic Co-operation and Development
OIDAR	Online Information Database Access and Retrieval
OOP	Out of Pocket
OTOP	One Tambon One Product
OVOP	One Village One Product
PCS	Port Community System
PDS	Public Distribution System
PGA	Partner Government Agency
PLI	Production Linked Incentive
PPE	Personal Protective Equipment
PPP	Public-Private Partnership
PSU	Public Sector Undertaking
RBI	Reserve Bank of India
RCEP	Regional Comprehensive Economic Partnership
RoDTEP	Remission of Duties or Taxes on Export Product

RIS	Research and Information System for Developing Countries
RO-RO	Roll-On/Roll-Off
RTA	Regional Trading Agreement
SAARC	South Asian Association for Regional Cooperation
SARS	Severe Acute Respiratory Syndrome
SCM	Subsidies and Countervailing Measure
SDG	Sustainable Development Goal
SEIS	Service Exports from India Scheme
SEZ	Special Economic Zone
SIDBI	Small Industries Development Bank of India
SME	Small and Medium Enterprise
SSA	Shift Share Analysis
SWIFT	Society for Worldwide Interbank Financial Transaction
TISMOS	Trade in Services Data Set by Mode of Supply
TiVA	Trade in Value Added
TLTRO	Targeted Long-Term Repo Operation
TNC	Transnational Corporation
UAE	United Arab Emirates
UBI	Universal Basic Income
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
USA	United States of America
USTR	United States Trade Representative
WCO	World Framework Organisation
WEO	World Economic Outlook
WHO	World Health Organisation
WTO	World Trade Organisation

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Introduction: Coping with Corona Crisis

Prabir De and Suranjan Gupta

The Indian economy has been hit hard by the ongoing Coronavirus (COVID-19)-driven global crisis. As on 1 May 2020, about 25,000 people in India have been affected by COVID-19¹. With some variations, there has been an unprecedented rise in number of Corona patients across the world². A health crisis worldwide has generated a global economic crisis.

The entire world is passing through great uncertainty. There are, primarily, two major challenges that the Indian economy is facing at this juncture. First is to save the country from the spread of Coronavirus, which is a health emergency. Saving lives is the principal concern of the Indian government. Second is to save the economy from the unfolding

economic crisis due to the dual effects of the Coronavirus pandemic and the global and national lockdown.

Countries across the world are facing serious consequences and damages to the economies. According to the International Monetary Fund (IMF), many economies may face negative per capita income growth in 2020 due to the Coronavirus pandemic. In its recent forecast, the World Trade Organisation (WTO) indicated a clear fall in world trade between 13 per cent and 32 per cent in 2020, perhaps the highest fall since the Great Depression of the 1930s. The IMF has also slashed growth forecast for the Indian economy, projecting a GDP growth of 1.9 per cent in 2020. In its recent *World Economic Outlook*, the IMF does

1 Number of active cases as on 1 May 2020. Refer, <https://www.mygov.in/covid-19/>

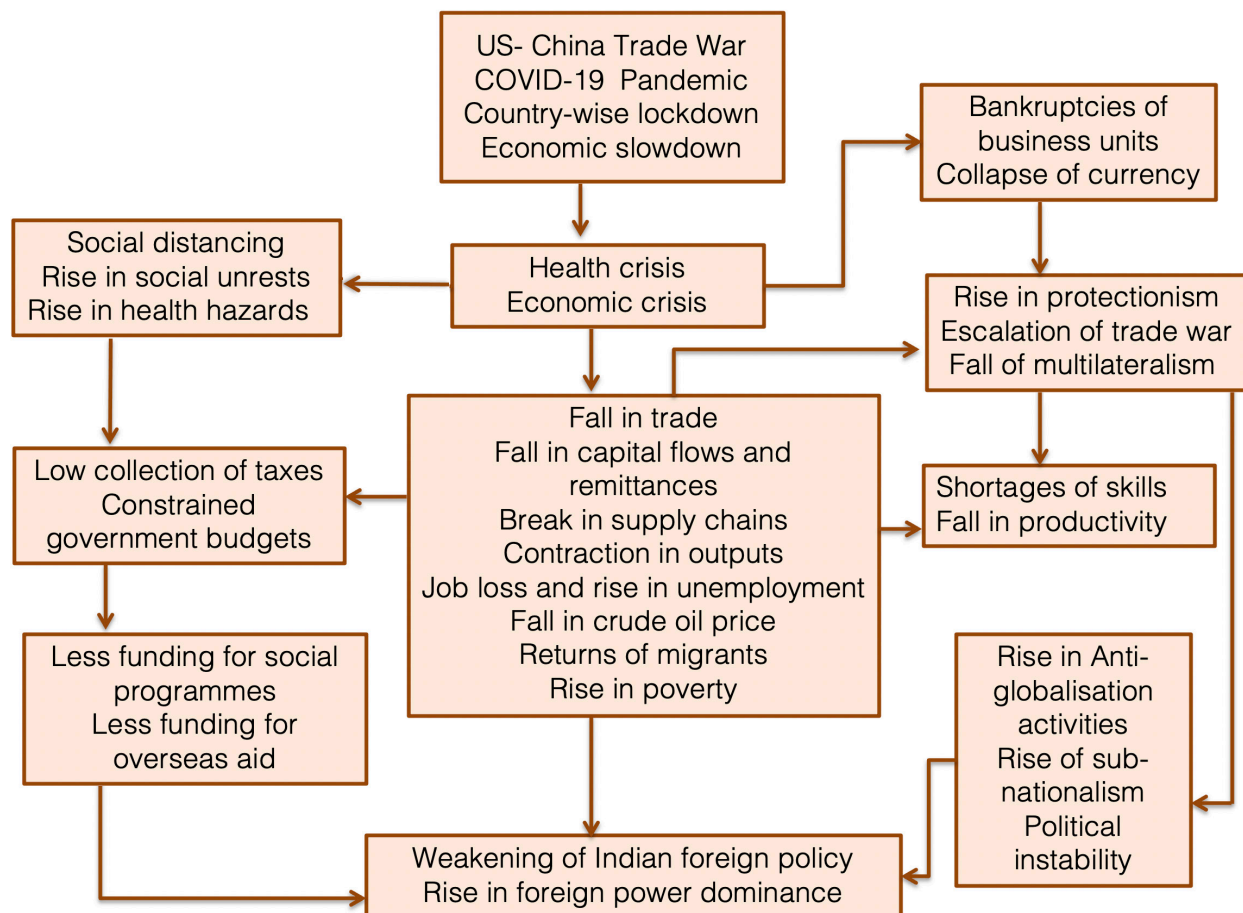
2 As on 1 May 2020, the Coronavirus infected more than 3.2 million people and killed at least 2,33,000 worldwide, according to Johns Hopkins University. The United States alone has reported more than 1 million COVID-19 cases, and at least 63,000 deaths.

project a rebound in the growth of the Indian economy in 2021, at a rate of 7.4 per cent. So, there is hope!

Although India has managed well till date in containing the spread of the virus,³ the COVID-19 pandemic has already disrupted normal economic activity and life in the country. India's trade has been severely impacted. At the moment, businesses are very vulnerable

to the unfolding economic crisis⁴. People have been facing a sudden loss in their incomes, causing a major drop in demand. To rescue the economy, India has announced a range of fiscal and monetary stimulus packages. The major aim of this stimulus is similar to the traditional Keynesian prescription of 'pump-priming', whereby income transfers to people having higher marginal propensity to spend can boost up the sagging demand.

Figure 1: Pandemic-driven Crisis and Potential Foreign Policy Effects in India



Source: Prabir De

3 According to the Ministry of Health and Family Welfare, Government of India, the most important factor in preventing the spread of the Coronavirus locally is to empower the citizens with the right information and taking precautions as per the advisories being issued by the government.

4 Most companies will be very vulnerable to the economic fallout of extended public- and employee-isolation measure (McKinsey & Company, 2020).

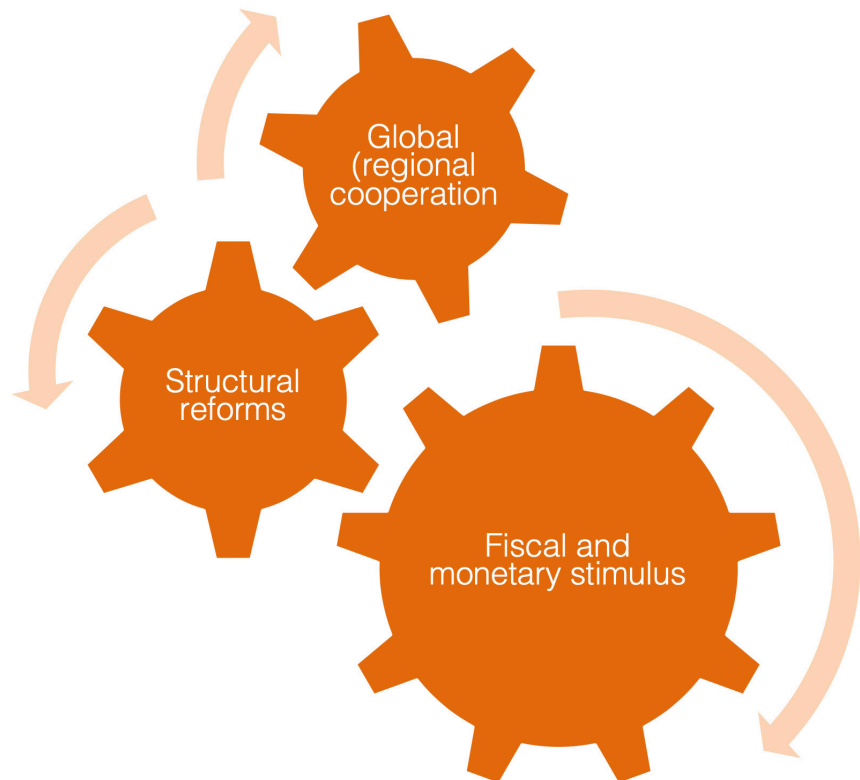
The Ripple Effect

This global pandemic-turned economic crisis affects India's economic and national security. The effects of the crisis on trade and foreign policy are not only complicated but also widespread.

As indicated in Figure 1, the financial crisis has begun with the US-China trade war, and then the rise of Coronavirus pandemic accompanied by the global and national lockdown has occurred. As a result, we see a fall in global trade, capital flows and remittances; disruption in supply chains; contraction in outputs; rise in unemployment; and then rise in poverty. Health crisis, if not controlled, may generate further social unrests and complicated health hazards.

Barring few, countries across the world have already entered into recession. The sudden drops in oil prices may cause a further contraction in growth, particularly in developing and emerging economies. Several business units may have to shut down and face bankruptcies, and with the fall in business orders, both international and domestic, the value of the currency may deteriorate further. Taxing people and economic units are politically not sustainable. What next? Pandemic then may lead to shooting up protectionism as it

Figure 2: Rebooting the Economy



has been happening for the last few years, resulting in a further escalation of a trade war, and finally, the collapse of multilateralism. In India, there might be a parallel rise of anti-globalisation activities along with sub-nationalism. Political instability may rise as well. Funding for aid and diplomacy may shrink. Therefore, social and economic effects may pose greater foreign policy challenges, which ultimately may lead to the weakening of foreign policy and allowing the dominance of foreign power(s). So, the effects are quite diverse. These short-run economic conditions can also have long-lasting impacts. In other words, economic recession can lead to long-term damage to the Indian economy⁵.

5 Read, for example, Irons (2009) for a lucid presentation on consequences of economic crisis.

The present health cum economic crisis throws up several important challenges. If the spread of the virus and the consequent loss of life is minimised, either through newly invented vaccines or medicines, economies will rebound sharply. Countries are, therefore, heavily engaged in inventing the vaccines, and also injecting appropriate fiscal and monetary stimulus measures. These two will then become major factors supporting the recovery in the coming months. This pandemic has, therefore, strong foreign and trade policy effects, and motivated us to engage in compiling this Report.

Managing the Recovery

Figure 2 illustrates the key directions for managing the recovery. People at the moment are locked in homes, and therefore, are unable to spend or earn. First and foremost is to restore confidence in the economic system and the governance. For example, resume businesses on a selective basis in the permissible zone(s). Here, we need better coordinated responses by all stakeholders.

We shall continue with the fiscal stimulus packages for sometime at least till the economy rebounds. Labour-intensive sectors need more attention. Navigate the incentives to better support agriculture, MSMEs, logistics and transportation, exports and imports, health, etc. Here, international cooperation may help countries to minimise the overlaps by sharing information, encourage smart implementation and avoid the procyclical stimulus.

Promoting smart implementation of packages may generate higher dividends to

the economy. Exporters, particularly those of MSMEs, need special incentive packages from the government. For example, exporters have requested the government to extend the interest subsidy scheme for a minimum of two years and at a rate of 5 per cent for all exporters. However, the incentives can be given to exporters only when those are compliant with WTO trade rules. Therefore, proper managing of incentives is needed so that they reach in the hands of real affected people and/or enterprises.

Structural reforms are inevitable. Higher spending in food security, nutrition and livelihoods, public health, technology and innovation, strengthening international trade and capital flow, smart and green logistics, fighting poverty, enhancing the quality of human capital and education standards, strengthening institutions and governance, among others, merit attention.

In this uncertain world, one question is then whether there will be a change in leadership of the world economy, and whether this pandemic will be the turning point away from the US. If the US vacates its position as a global leader, it is possible that a group of countries may need to form a coalition to pose a counterbalance to China in global trade and foreign policy⁶.

A comprehensive strategy addressing the impact of the current crisis may put the Indian economy back on a sustained growth path and strengthen the country's trade and foreign policy.

6 Refer, Pal (2020).

The Report

The Engineering Export Promotion Council of India (EEPC India) in collaboration with the ASEAN-India Centre (AIC) at Research and Information System for Developing Countries (RIS) is glad to present to the readers this edited Report entitled “COVID-19: Challenges for the Indian Economy - Trade and Foreign Policy Effects”, which presents freshly written 40 important commentaries by research scholars, professors, economists and practitioners on trade and foreign policy challenges posed by this crisis and the way forward.

This Report deals with three challenges: first, India’s immediate challenges in managing the Coronavirus-driven health crisis and the economic recovery; second, the longer-term structural challenges; and third, identify the trade and foreign policy effects and possible policy responses.

through the present crisis and the policy responses.

This Report is also a *Primer* to EEPC India–EXIM Bank’s forthcoming seminal publication entitled “World Trade and India: Multilateralism, Progress and Policy Response”, edited by Ajitava Raychauduri, Prabir De and Suranjan Gupta, which is being published by the Sage Publications and expected to be in the market by the second half of this year. Many of the contributors of this Report have also contributed full-length policy research papers in the aforesaid edited volume⁷.

This Report deals with three challenges: first, India’s immediate challenges in managing the Coronavirus-driven health crisis and the economic recovery; second, the longer-term structural challenges; and third, identify the trade and foreign policy effects and possible policy responses.

In particular, the commentaries in this Report cover three important issues: first, what is the magnitude of the impact of the crisis on Indian economy – is it shallow or deep, and the scope to rebound, particularly India’s exports; second, India’s immediate challenges in managing the recovery; and third, the longer-term structural challenges of the Indian economy. Each chapter of this Report has outlined key recommendations to navigating

Concluding Remarks

Countries have to invest more in healthcare – both management and facilities. New social and behavioural norms – “social distancing”, “wearing masks”, “maintaining hygiene”, etc., are the new normal, and we have to adjust with such new norms amid the pandemic. India has an important role to play in the post-Covid-19 world, and it is immensely useful for the country to stay engaged in such global discussions. While there are substantial challenges and concerns, India must resist the temptation for quick fixes that do not address the underlying concerns and avoid permanent solution. Structural reforms are must and should continue to focus on strengthening the country’s economic fundamentals—only then can they contribute meaningfully towards a more robust and resilient Indian economy.

7 Refer, Annexure 1 for further details.

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Part I: Building Blocks



COVID-19 Pandemic Crisis and the Way Forward for India

Ajitava Raychaudhuri

The unprecedented pandemic of COVID-19 has put the world trade and growth in jeopardy. It is now a global crisis of great magnitude and may be compared to the great depression of 1929. The similarity is obvious since the main problem seems to be loss of jobs and income, causing a huge drop in aggregate demand for all major economies. This is not really comparable to World War II which also brought untold economic misery to the world. This is because the crisis which followed World War II was the destruction of production facilities all over Western Europe which required massive infusion of American aid in the form of Marshall Plan. In case of COVID-19, just like the Great Depression, all the production units have not suffered any damage but they are locked down. As a result jobs were lost and people have a sudden loss of

their income, causing a major drop of demand. ILO estimates a maximum possible loss of 230 million full time jobs of 40 hours worldwide and OECD estimates a fall in real GDP growth of world of around 1.5 per cent, given the spread of the Coronavirus. The world trade already slowed down before the outbreak of Coronavirus due to US-China tension by around 1.5 per cent in the last quarter of 2019. WTO estimates a conservative figure of -21.9 fall in world trade in 2020 due to COVID-19.

The Coronavirus has a health contagion effect worldwide, but it has brought economic contagion too whereby investors worldwide have become wary of investing their funds in shares and bonds.

The countries across the world have come forward with economic packages to rescue the economies. The US had already announced a 10 per cent of GDP package of US\$ 2 trillion dollar which will go partly to low income individuals as direct income transfer as well as partly to boost up ailing

MSMEs. The European Union is also planning a Euro 2 trillion package of similar nature. The major aim of this is similar to the traditional Keynesian prescription of 'pump-priming', whereby income transfer to people having higher marginal propensity to spend boosted up sagging demand. In addition, countries like India, apart from income transfer schemes, have expansionary monetary policy to ensure higher liquidity and lower interest rate in the economy to ensure investors have enough incentive to start investment for expansion of production.

The COVID-19 crisis is not only a nightmare for health professionals. It combines characteristics of different types of global economic crisis the world witnessed so far. Apart from the depression it has brought worldwide, it has created an unprecedented crisis for the oil producers, which nobody has witnessed in the last 50 years or so. Oil futures are going at negative prices. This may well destabilize the financial structure of the world. The Coronavirus has a health contagion effect worldwide, but it has brought economic contagion too whereby investors worldwide have become wary of investing their funds in shares and bonds. India witnessed a flight of capital of significant scale in the months of March and April of 2020. The mutual fund, hedge fund as well as pension funds have simply withdrawn their money worldwide to face the possible surge in encashment of deposits by individuals having their money in these funds. In addition, in countries like the USA, mortgage defaults again have become a distinct possibility reminiscent of the 2007-08 crisis, which engulfed the US economy.

There is consensus that a concerted worldwide effort is necessary to stabilize world trade and economic growth again. This is a very wise sign and the common man along with investors has got the necessary boost to feel less insecurity.

The world has managed to recover from major bouts of global crisis - be it 1929 great depression, 1973 oil price shock, 1997 East Asian contagion crisis or 2007-08 US mortgage crisis or global financial crisis. The economic managers worldwide have taken precautionary measures to tide over the crisis on each occasion. The financial superstructure is tightened by central banks and the governments in each country have taken quick measures to save vulnerable low income individuals as well as MSMEs from curtailment of production and jobs. In the present COVID-19 crisis also, some countries in Europe, UK and USA responded later than needed. Nevertheless, there is consensus that a concerted worldwide effort is necessary to stabilize world trade and economic growth again. This is a very wise sign and the common man along with investors has got the necessary boost to feel less insecurity.

Focus of Recovery Plan

India is no exception with various estimates suggesting a rise of unemployment to unprecedented high levels along with a fall in real GDP growth to a record low level of less than 2 per cent in 2020. The government has come forward with economic packages to transfer income to the poorer segments in the economy along with complementary liquidity enhancing measures of monetary authority. But, one must note that these are short term economic measures to keep the demand reasonably high along with an incentive to the MSME sector to carry on investment. Though

these are necessary steps in the right direction (and need additional support in the coming days), one cannot expect such policies to continue indefinitely by recourse to deficit financing. One needs long term planning to sustain the growth.

Long term strategies must take the global reality that is emerging in recent days.

Long term strategies must take the global reality that is emerging in recent days. Given that the origin of the crisis was from China, global supply chains are severely disrupted. Major manufacturing nations in the world have given signals that they wish to diversify the sourcing for global value chains. There will be tough competition to attract investors to India, but this will give a golden opportunity to our struggling MSME sector to get a foothold in the global value chains. Looking at the massive quantitative support given in most of the major consuming economies, the year 2021 promises to be good for world trade. However, to exploit such an opportunity, one needs to identify sectors where our MSMEs can play an important role. The major beneficiary will be the engineering sector since some of the industries which may try to locate their parts and components and ingredients production in India will be automobile, electrical (including power sector), electronics, machine tools, machinery along with sectors like chemicals (including pharmaceuticals), agro-processing, garments, food and fruit processing and leather. For this, the government must come forward with innovative long-term tax concession schemes

The government must come forward with innovative long-term tax concession schemes on the value of sub-contracts given to the MSME sector.

on the value of sub-contracts given to the MSME sector. The advantage of involving MSMEs is to create concurrent jobs in related services like transport, sales, repair, telecom, travel and tourism, finance, etc, without confronting difficult labour laws. The other important

policy is to invest heavily on infrastructure like power, roads, ports, water, etc., possibly in a PPP mode to motivate the private sector to have some ownership of the infrastructure for long term sustainability. In addition,

aggressive marketing by MSME associations in conjunction with Indian missions abroad can never be undermined given the competition from nations in Southeast Asia and Eastern Europe.

Concluding Remarks

Overall, COVID-19 has brought untold misery to a large section of low income individuals

across the globe. The uncertainty about future looms heavily in the mind of both consumers and producers. But, the concerted action by the countries in the world will surely turn the tide. India has great opportunities in this context, especially looking at the composition of global value chains in the world trade. The MSME sector, especially in our competitive engineering goods manufacturing, provides great prospects for employment and growth in the economy. The need of the hour is to carefully chalk out plans for the future resurgence of economic activity in the nation.



The Economic Consequences of COVID-19 and Some Policy Suggestions

Dipankar Sengupta

To theorise the COVID-19 would at first sight appear to be odd. After all, the SARS-COV-2 outbreak is obviously a *Force Majeure*, which by its very nature suggests that is an uncommon event and therefore has to be tackled in a manner specifically designed to the nature of this event. The specifics of this event that are relevant to us in the short run are the following: it has no proven cure and given its contagious nature the practice of “social distancing” among members of any society appears to be the best possible way of tackling its spread in the short run. Those infected must be quarantined for the duration of their infection. The first necessitates a lockdown whereby the State by order prohibits the assembly of persons beyond a certain number, which automatically makes a large number of firms whose employee strength equals or exceeds that number to cease operations. It is commonly agreed that India’s lockdown that commenced on 24 March 2020 and was

extended to 3 May 2020 has been the most stringent in the world with only a few basic services exempt from it.

Where economics is concerned, it may be asked what is the difference between this disruption and one caused by say a comprehensive one day Bharat Bandh? Might it not be expected that just as the economy carries on from where it left off as in the aftermath of Bharat Bandh, the same will happen when the lockdown comes to an end? There are some crucial differences between a one day disruption and an extended lockdown (spread across the globe) that may see to it that

this will not be so and a robust State response may be called for to hasten the passage of the economy to even keel.

Given the nature of COVID-19, it may be expected that demand, even if pent up, will be postponed for quite some time.

The Impact of a Lockdown

How is an extended lockdown different from a one day disruption? The differences may be divided into supply side

effects and demand effects. On the supply side, processes that are continuous processes like steel manufacture once closed down take some time to re-start. Similarly, other economic activities that are labour intensive cannot re-start instantaneously if a substantial part of labour is migrant and has returned to their home states. Restarting economic activity will start with substantial lags if the industry or the sectors that supply these industries with intermediate goods exhibit the aforementioned properties. For agriculture, the problem may be more acute. Even in the case of a bumper harvest, if labour is unavailable, the crop may rot on the field. Spoilage may also be a consequence if the agriculture markets are not open to transact business.

The demand side effects are more complicated and uncertain. In case during the lockdown period, no person lost his/her job, producers may expect that the pent up demand that could not be satisfied will make itself manifest now, then would take steps to meet this extra demand. On the other hand, if producers have reasons to expect that jobs have been shed or salaries have been cut by other producers as a consequence of a cutback in production necessitated by the lockdown, he/she may reopen with lower levels of production, and thus employ less labour than he/she had prior to the lockdown. If this sentiment is fairly widespread, it becomes self-fulfilling. But, COVID-19 has some unpleasant extras for certain sectors like the travel and hospitality sector where, as Virmani and Bhasin point out, production and consumption take place simultaneously. For much of this sector, given the nature of COVID-19, it may be

Indeed with the IMF forecasting a significant drop in the incomes of the OECD countries, India can expect exports to fall even when the lockdown is lifted.

expected that demand, even if pent up, will be postponed for quite some time. Given the size of this sector i.e. 15 per cent of the economy and its labour-intensive nature, loss of employment as well as loss of demand is inevitable.

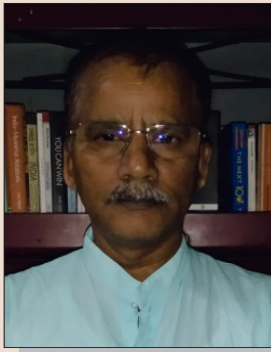
These uncertainties and their consequences will also exist where foreign markets are concerned. Indeed with

the IMF forecasting a significant drop in the incomes of the OECD countries, India can expect exports to fall even when the lockdown is lifted. The massive fiscal stimuli announced by the major economies are measures aimed at curtailing free fall and to try to free ride on such measures by expecting enhanced export demand would be foolish.

India needs to be proactive when it comes to countering the economic effects of COVID-19. It has to do so keeping in mind the dual nature of its economy with a vast informal sector as well as the fact that measures which are feasible options for economies like the USA are not open to it. What are these measures?

The Quantum of Fiscal Space

While it is clear that India cannot be expected to emulate the OECD countries when it comes to the size of government assistance that can be provided to the various economic agents, there is still a lot that the government can do given local conditions provided policy makers give up their strict adherence to the targeted fiscal deficit. This will be breached in the current conditions anyway given the shortfall of revenue given the lockdown and will be accentuated by the extra expenditures that the government will have to undertake anyway.



COVID-19 Shock: Flip Side of Globalisation

Gurudas Das

C COVID-19 pandemic, which, as of end April, 2020, has affected 210 countries and territories around the world and infected more than 3 million people, of which more than 0.2 million people have died, is spreading like a wild fire with such a fury that has compelled the governments across the world to revoke autarky as well as shut down of the national economy in order to save their citizens from this contagion. The strategy of isolation at all levels—local, regional, national and international - is viewed to be the key towards the containment and mitigation of COVID-19. As the crisis deepens, two important realisations, inter alia, have come to the fore.

Two Realisations of Globalisation

First, globalisation not only unlocks the means for the market, it also adds wings to epidemics that spread in no time across the geographical, political and social borders and boundaries. From its source at Wuhan in China, COVID-19

travelled through the highways of globalisation and reached the global nerve centres of trade, commerce and tourism like New York, London, Paris, Milan and Madrid, which are densely populated. Moreover, global value chain (GVC) circuits linked with Wuhan like Detroit and Northern Italy have also acted as the carrier of COVID-19. Similar trend is also visible in case of India, where its globally connected cities like New Delhi, Mumbai, Ahmedabad, Indore, Kolkata and Chennai acted as the gateways through which COVID-19 has entered into the country.

In contrast, countries and regions, which are outliers or less integrated with the process of globalisation, like most of the countries in Africa, are not yet hit hard. For an example in India, one may cite the North Eastern states of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Tripura, which have been least affected so far. As the COVID-19 situation is in flux, evolving every moment, it might create havoc to these outlying

countries and regions at some later date. What is important is that these regions are getting enough time to prepare themselves to contain and mitigate this pandemic. There might be several situations: by the time it poses a threat to the outlying areas, drugs or therapeutics might be invented. The virus itself might lose its vitality. Standard model of containment and mitigation might evolve and we might learn to live with the virus. Whatever might be the situation, the outlying areas seem to be advantageously positioned from the invasion of pandemic like COVID-19. Being away from globalisation highways, their isolation acts as the natural barrier against contagions.

In fact, the economic logic of globalisation, based on concentration of production at low cost regions in order to capitalise from economies of scale and organising the production along GVCs, which are seamlessly connected, and the containment and mitigation strategy of isolation to deal with the novel Coronavirus are diametrically opposed to each other. As a result, nations are in a mood of reflection as to how to optimise the economic gain subject to the least cost in terms of loss of the life of their citizens arising out of contagions like COVID-19. One of the ideas refers to “gated-globalisation” rather than “unfettered-market-led-globalisation” that we are having today.

Second, as the global firms, in their bid to remain competitive, have crafted their circuits of global value chain centring around China, firms and the governments all over the world realised the dereliction of such an architecture of global manufacturing particularly during the time of national emergencies like combating the COVID-19 pandemic. Once the pandemic

breaks loose in Wuhan and countries shut their doors to China, their firms and governments find themselves in a helpless situation as their supply chains get cut off. Even the governments of leading developed countries like USA, UK, France and Italy find it hard to ensure adequate supply of medical equipment and accessories like COVID-19 testing kits, ventilators, personal protection equipment (PPE), sanitizers, masks, gloves, thermal guns, thermal cameras, stethoscope amplifiers, disinfectants, etc. Besides, firms producing electronic and electrical goods, automobiles, pharmaceutical products and so on in both the developed and developing countries had to face tremendous hardships as their productions are linked to inputs imported from China. The realisation that over dependence on a single source is a threat not only to business but also to a nation has dawned in the minds of the leaders in business and politics. The idea of “gated-globalisation” is, thus, gaining currency, which requires creation and development of multiple value chains and alternative supply chains so that if one circuit gets disconnected businesses can fall back on others. Nations could have options to switch gear from one circuit to another as and when needed.

Concluding Remarks

Perhaps the architecture of “gated-globalization” will involve re-inventing the state that places community over market. Rise of nationalism and empowered nation states across the world might get energised and while charting their way forward they might learn from pondering over the narratives of isolation of the outliers.



The Economics of Dealing with a Lockdown

Nilanjan Banik and Anurag Narayan Banerjee

Indian Prime Minister Narendra Modi while admitting *Jaan* (read, life) is important has chosen to extend the lockdown until 3 May 2020. This was the second time, when PM Modi decided to extend the period of lockdown, the original one starting from March 24 2020. The lockdown is a way to implement state enforced social distancing.

The keyword in the ongoing corona episode is social distancing. The virus spread through person-to-person contact, and the only way to limit its spread is to identify the people who got affected. With proper *screening* and *lockdown* of the affected person, the virus can be eradicated within 14 days.

Korean Model

The reason why South Korea is successful is because testing and isolation of the affected are done at a rapid speed. Latest figures from Our World in Data suggest as on 13 April 2020, South Korea tested 10.07 people for every 1000 people in comparison to Italy

testing 17.7, UK testing 4.31, and the US testing 8.87 people for every 1000 population. However, on 1 March 2020, Italy tested 0.357, UK tested 0.17, and the US 0.007 tested people, in comparison to South Korea testing 1.88 for every 1000 people. This points out to the importance of testing and isolation in controlling the spread. Italy, the UK, and the US have learnt in a hard way. The number of fresh cases has almost stopped emerging in the case of South Korea, whereas for the other three countries thousands of fresh cases are emerging every day.

Real Crisis

In India, we do not have an adequate number of testing kits. As on 13 April 2020, India has tested only 0.154 for every 1000 people in spite of having a much higher population than the UK, South Korea, and the US. In fact, the State of Kerala which has successfully dealt with controlling the number of corona-related deaths has pointed out the importance of aggressive testing, contact tracing, and a

host of safety measures which include delivering food to the family of the affected persons. One can assume India is under-reporting the actual number of affected persons. For India, given its fragile healthcare infrastructure, lockdown is seen as a preventive measure, as with a community spread of this disease India does not have enough doctors and hospital beds to provide treatment.

Although social distancing is important, however, lockdown also means millions of livelihoods getting affected, and the possibility of people dying from hunger.

Direct Impacts

Although social distancing is important, however, lockdown also means millions of livelihoods getting affected, and the possibility of people dying from hunger. For India's 120 million migrant workers, earning a daily subsistence allowance of less than US\$ 5 dollars per day, it is quite natural to return back to their native places when faced with an economic shutdown.

There are shortages of N-95 masks, ventilators, and other personal protective equipment (PPE) used by the doctors and health workers. India has 0.9 hospital beds and 0.7 doctors for every 1000 people, against the WHO mandate of 1.9 hospital beds and 1 doctor per 1000 population. Per capita expenditure on health is less than US\$ 75 per year in comparison to US\$ 9536 for the US, and US\$ 4396 for the UK.

The unique thing about COVID-19, keeping in mind the *patient zeros*, is that the carriers have had a foreign travel history. Considering the profile, the travelers belong to a relatively better socio-economic background. The very fact that they are getting affected *en masse* has awakened the authorities.

About 80 per cent of the Out of Pocket expenditure (OOP) is on medicines. Few private sector players¹ have launched insurance products related to Coronavirus. However, the sum insured amount is low, around US\$ 575 and does not cover citizens above 65 years of age. Historically, the insurance coverage in India for both indoor and outdoor treatments continues to be narrow, despite the recent rise in the public-private partnerships (PPP) in health insurance, explaining why people have to rely on OOP. People meet their OOP – some 47 per cent of the cost of hospital admissions in rural areas and 31 per cent in urban areas – by borrowing and the sale of personal goods and assets.

But, in India, other epidemics such as cholera, malaria, and tuberculosis have a disproportionately higher number of people getting affected from the low-income group, and yet they never make it to the status of pandemic. For instance, every year 2.69 million people get affected by Tuberculosis includes (HIV + TB), 15 million from Malaria, and 4 million from Cholera. Even the media attention has been fleeting and not as frenzied as COVID-19.

What is more disturbing is that the mass working class, and their family members are more vulnerable to these diseases with death count much higher than COVID-19. In fact, the authors had a tough time to get recent figures for the number of people getting affected

1 <https://economictimes.indiatimes.com/wealth/insure/health-insurance/star-healths-coronavirus-insurance-policy-no-travel-history-exclusions-but-low-sum-assured/articleshow/74823183.cms?from=mdr>

by tuberculosis, malaria, and cholera, in contrast to the number of people affected from COVID-19, which is tracked every hour.

An average middle-class Indian earns around INR 2,60,000 per annum. Only 6 per cent of the Indians earn more than that, and to get into the top 1 per cent income-earning bracket, you need to make over INR15,00,000 per annum.

The average national income is around INR1,45,000 per annum. However, considering the distribution of income, 80 per cent of the Indians earn less than the average per-capita income. And when it comes to the lockdown, it is the livelihood of these people that gets the jolt.

The biggest impact would be on the lives of the bottom 80 per cent of the population. These people are mainly agricultural labourers and the urban informal sector workers. Their number is 120 million with most of them being migrant workers with a subsistence level of income less than ₹400 per day.

Most middle, upper-middle, and the rich continue to work from home. A large part of high-end economic activity has been moved or could be easily moved online. There is minimal disruption when it comes to the continuation of work and earning prospects of this class. Of course, some industries such as airlines, tourism, hotel, and other related-service industries are getting affected. The business, although it has slowed down, has not completely stopped.

The richer sections of the population are afraid because money alone cannot solve

COVID-19. To them, the first best solution is a complete lockdown. In fact, no one talks about before lockdown, when every day there has been around 625 fatal road accidents in India. So, 21 days of lockdown has saved 13,125 lives.

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For the urban informal sector workers and the agricultural labourers who have left for their hometowns, lockdown means loss of job. As their income is hand to mouth, with zero savings, lockdown can be life-threatening. In fact, the inflationary impact of lockdown is going to hit them the most.

The central government's assurance to frontload INR 2,000 into the account of the poor will not work as inflation will readjust resource demand. Unscrupulous traders have already started hoarding. For the migrant workers, the only way out is to move to a non-monetary environment, to their own villages. Incidentally, this is a good harvest year. However, with the agricultural supply chain broken and lack of storage facilities, there is a fear that food may get wasted and fuel the next round of inflation.

Ideal Solution

Here is an ideal solution that policymakers can think about for phases beyond lockdown. At present, there are around 84 districts that are affected, which are mostly urban. Essential services such as food need to be delivered to these districts where some economic activity is still taking place online. Connecting these two spheres is important. This can happen only by making agricultural and food supply-chain more efficient. While the APMC Act was a major hurdle in connecting farmers to the wholesalers and the final consumers, there

is also an infrastructure bottleneck. These bottlenecks to a certain extent explain the difference between two measures of inflation – Wholesale Price Index (2.5 per cent) and the Consumer Price Index (6.5 per cent).

Opportunities and an Action Plan

The aftermath of the lockdown offers a unique opportunity. Due to lack of other economic activities, and lack of human traffic on roads, railways, and airways, suddenly the infrastructure space has become efficient in terms of goods movement. During normal times, trucks are not allowed to ply in metros during the daytime. In addition to the delivery of goods by trucks and trains, the airlifting of goods and medical equipment can be expanded easily as airline slots are lying vacant. All this will help in faster movement of goods, and at the same time employing a major part of the informal sector workers.

India's foreign trade, which has come to a standstill due to unavailability of workers at airports and sea ports, will also see an uptick in container movements. India has a comparative advantage in high-valued perishable food items like fruits, vegetables, and meats, but a requirement for the seamless movement of goods is a pre-condition.

Suspending administrative rules and legal rules (for example, tweaking the APMC Act, and E-way Bill) through an ordinance will be helpful. Small farmers growing perishable items should be allowed to go and directly sell their products in the urban market. Policing should be done to monitor hygiene and social

distancing in these markets, and at the ports and airports.

For inter-state movement, it will be prudent to involve big corporate to manage the supply chain. The corporate can make use of these migrant workers, who have skills such as driving, speaking and negotiating in vernacular languages.

In spite of these there will be a cluster of poor families who may not be able to get any help. The Odisha model has shown the importance of direct cash-transfers and efficient mobilization of the public distribution system (PDS). PDS is a way to procure food grains from the farmers at the price higher than the market price and distributing the same at a lower price to the poor. As part of this welfare measure, Pradhan Mantri Garib Kalyan Yojana is clubbed with the PDS system, where the central government promised to give an additional 5 kg of food grains per person and 1 kg of pulse to a poor household family over the next three months, starting April 2020.

But to make all these happen, state governments need to take tough calls. Many market aggregators and leaders of worker unions are politically connected and donate generously to the party fund. For the State of West Bengal, there are allegations that food is not reaching the target group with local counsellors and party leaders siphoning-off the food meant for the poor. At the time of COVID-19, the government (both central and states) should keep aside politics and focus on economics. The benefits are both immediate and long term.

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The Indian Imperatives in the Post-COVID World

Nilanjan Ghosh

The global economic order is in an amorphous state with the outbreak of the COVID-19. However, this amorphousness is nothing new. Ever since China announced its Belt and Road Initiative (BRI) around seven years ago, the debate on an emerging new global economic order had been floating. With BRI being a global development strategy involving infrastructure development and investments in nearly 70 countries to exploit the cheap factor markets and the expanding product markets, it can well be construed as a “market imperialistic” design that has rocked the status quo of the global political-economic order.

At almost the same time, the last 3 to 4 years witnessed insulating tendencies of some of the major economies that were advocates of free trade philosophies. This coincided with the emergence of strong (wo)man leaders, and consequent dominance of the nationalistic fervours originating from a xenophobic discernment of some global powers. The BRI

and the very existence of China in any trade bloc was definitely a catalyst to this tendency of economies getting into shells. Evidence of such insulating tendencies include US’s withdrawal from the TPP, prolonged US-China trade war, Trumpian disregard of the Climate Change crisis and Brexit. On the other hand, China’s BRI began obtaining momentum with nations from the EU, Asia and Latin America joining in. This marked the happy ride of China on its BRI horse, which was attempted to be combated by coalitions like the “Quad” in the Indo-Pacific – a potential security arrangement among the four large democracies, Australia, India, Japan, and the US.

It is at this juncture that the globe got affected by COVID-19. In the globalised world, the spread of the virus did not take time with more than 210 nations being affected in varying degrees. The most interesting observation is that the economies with highest levels of exposure to China, either through BRI or otherwise, are the ones most affected by

the Coronavirus. This exposure can largely be delineated by three variables, namely, trade, investment, and human capital movement.

This can be evinced with the case of Italy, one of the highest COVID-affected nations. China was not only Italy's largest cooperative trade partner, but ever since the nation became a BRI member in 2019, it emerged as one of the major destinations of Chinese FDI. Iran's exposure to China was in the form of the latter being its biggest trading partner with massive Chinese investments and labour being flown to Iran. Similarly, high export exposure of South Korea to China often occurs through assembly lines before being re-exported to other nations.

While definitely the infection is caused by physical proximity of citizens of affected countries, at a more macro-scale there is substantial evidence about the role of trade, investment, and human capital movement in transmitting the virus. It is quite obvious that economies will be taking counteractive measures through closure of borders.

This is bound to bring about a significant change on the plans for regional connectivity. With economies getting insulated as an immediate response to the crisis, globalisation goals will be severely affected. Trade routes will be seen with suspicion, and investment in foreign destinations to exploit the global value chains (GVCs) in usual destinations will be cast with doubts.

The pandemic will affect the SDGs through various economic, social and political avenues.

The attack of a pandemic of the level of COVID-19 at the global scale severely comes in the way of the SDGs, and calls for a rethinking of the timeline.

SDGs under COVID 19

On this note, let me come to some of the critical goals of global governance that are earmarked by the UN Sustainable Development Goals (SDGs). The pandemic will affect the SDGs through various economic, social and political avenues. With the closure of the millennium development goals in 2015, all UN member nations adopted the 2030 Agenda for Sustainable Development that entailed a shared vision of peace and prosperity. At the very core of this global call are the 17 Sustainable Development Goals (SDGs) that stress on ending poverty and deprivations, reduce inequality, improve health and education, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests. The SDG 17 talks of global partnership to realise the remaining 16 goals.

SDGs, therefore, are not merely the cornerstones of global governance, but are critical pillars of development governance at all levels. As such, the challenge of governance needs to be construed as the challenge of reconciling between the “irreconcilable trinity” of equity, efficiency, and sustainability – a triad that development economist Mohan Munasinghe delineates as the “discourse of sustainomics”. The 17 SDGs essentially acknowledge this irreconcilable trinity.

In this context, the attack of a pandemic of the level of COVID-19 at the global scale severely comes in the way of the

SDGs, and calls for a rethinking of the timeline. While the economies are getting more insulated with closure of borders and international migration, the virus has created suspicion among nations, as can be evidenced with US President using the term “Chinese virus”, China blaming US for the spread, Germany asking for reparations from China, Tanzania denying Chinese aids, and India becoming more vigilant with inward FDI flows. The role of the WHO is already under suspicion. From the perspective of trade, WTO’s relevance will be questioned further. This will definitely come in the way of realising SDG 17 that talks of global partnerships for achieving other SDGs.

From the perspectives of SDG 8 (decent work and economic growth) and SDG 9 (industry, innovation and infrastructure), the impacts in the short-run will be worrisome. More so because one very critical factor to promote SDG 8 is human capital and that has taken a massive beating due to the pandemic. The same goes for SDG 9. However, it may be expected that newer forms of institutions will emerge over time to combat this crisis phase, and the growth drivers will change. Already as far as the service sector is concerned, a large part of it has been moving to the digital world thereby creating virtual workspaces replacing the physical workstations. Moreover, the world is already witnessing a heavy reliance on digital connectivity, way away from goals of physical connectivity.

However, a large part of the services sector in the developing world remains unorganised and does not feature in the digital space – neither will it be easy to place them there as almost all of it requires physical presence. This inability of being accommodated in digital space will lead to more poverty, more hunger, and more inequalities thereby hampering achievements of SDGs 1, 2 and 10. This is purely the challenges to the equity dimension

of holistic development that is being posed by the pandemic severely affecting SDG 3 (good health and well-being).

On the other hand, reduced economic activity in the physical space of the planet will definitely be good for the natural environment: SDG13 (climate action), SDG 14 (life below water) and SDG 15 (life on land) may get augmented. However, sustainable development is not devoid of humans; it talks of the coexistence of biodiversity conservation and development of the human society by meeting with the various equity needs. It is here that one of the most crucial goals gets affected; SDG16 that talks of peace, justice and strong institutions. Large parts of the developing and underdeveloped world view this pandemic as one imported by the privileged class through their international travels and free mixing in the occasional ways of life.

SDG as Ease of Doing Business

Indian government promoted “competitive federalism” among the Indian states through its “Make in India” initiative, with the apparent objective to improve the nation’s rank in the World Bank’s Ease of Doing Business (EoDB) ranking. Our previous research suggested that the states should concentrate on the UN SDGs as major enablers of business competitiveness (see Ghosh et al, 2019). This is because SDGs address the input and product market conditions through bolstering the potentially available capital classified in four types, namely, physical capital, natural capital, social capital and human capital, which are critical inputs to businesses to thrive. Almost all the SDGs are embedded in one form of capital or the other, i.e., human (SDGs 1 – 5: reflecting on poverty, hunger, health, education, and gender equality), physical (SDGs 8 and 9: employment, growth, industry, innovation

and infrastructure), natural (SDGs 14 and 15: life below water and land respectively) and social (SDGs 10 and 16: social institutional variables, etc).

Our econometric analysis showed that the SDG index (devised by us) is a statistically significant causal variable explaining the Ease-of-Doing-Business Index, as developed by the Asian Competitiveness Institute (ACI). We also found a significant causal relation between this index and per capita Foreign Direct Investment (FDI) in the Indian states, indicating that financial capital gets drawn towards those destinations where enabling business conditions are already created through prevalence of the four types of capital.

The Indian imperatives

Will India be a loser or a winner under this changing dynamics of the global economic system? The short-run impacts are going to be negative as expected. It needs to be noted here that it is not only with movement of goods and investment that the gates may be closed, but a more severe impact may be witnessed on labour movements. With stricter immigration rules prevailing all across the world, a nation like India that has boasted of providing “skilled human capital” to the developed world might apparently seem to be a loser.

However, over time the growth drivers will change organically. There remains the possibility that growth may be spurred from this digital space mostly from services, but this will also witness simultaneous slump and closures

From a global perspective, China cannot remain a trusted partner anymore. This creates huge opportunities for India. A changing global economic order can make much focus on India as a preferred destination for investment.

of traditional manufacturing. However, the biggest challenge for India will be to place the major component of the services sector that remains unorganised, informal, and has limited reach in the digital space.

From a global perspective, China cannot remain a trusted partner anymore. This creates huge opportunities for India. A changing global economic order can make much focus on India as a preferred destination for investment. From that

perspective, the eastern states of India will be critical. They present themselves with all four factors of business in abundance, namely, human capital, social capital, natural capital and an improving physical capital. This part is relatively less explored, and can be the fulcrum of development of the region in the post-COVID world. It is, therefore, important that India focuses more on the SDGs. As discussed earlier, these are ground level variables which create enabling business conditions. Hence, while globally SDGs may take a hit as argued earlier, India should ideally treat this as an opportunity, and work on the SDGs! Amartya Sen, in a recent article, stressed on the need for equity, distribution, and welfare state during the crisis phase (Sen, 2020). This will help in promoting human capital and reduce the social transaction costs. The IMF, on the other hand, has been stressing on uninterrupted trade mechanisms. Again, Indian imperatives should lie on promoting its land as a preferred destination for investments. This can happen if it concentrates on creating a land with minimum transaction costs for business and trade, and for accessing human, natural, social and physical capital smoothly.

The futility of the World Bank-DPIIT metric of Ease of Doing Business has already been exposed by Asian Competitiveness Institute. Therefore, the post-COVID19 India should embrace SDGs as important cornerstones of “competitive federalism” for simultaneously meeting two goals: the first is from the perspective of attracting businesses and financial capital; and the second is from the perspective of looking at development through a holistic lens bringing in the efficiency, equity, and sustainability concerns in one frame. So, India’s status as the net winner or loser will depend a lot on how it works on the sensitivities

of the SDG-related variables, the dynamics of the global order, and the “soft power” that the nation can wield in the international domain.

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Rebooting the Economy Post-Lockdown

Nitya Nanda

Less than a couple of months back many experts were optimistic that the export market space vacated by the Chinese company is up for grabs by the Indian companies. Many even estimated the size of the vacated space. For example, in textile and clothing the vacated space was estimated to be worth 20 billion dollar. Now with all major economies including India being under lockdown, China is the only major economy to have its production machines running and is supplying the entire world many essential items to fight the COVID19 pandemic.

Let's get out of daydreaming and get prepared for a future with the global market substantially shrunk and China becoming an even more powerful competitor. Now a kind of news that is doing the rounds is that MNCs of the world are all dying to leave China and ready to relocate in India. Let's not get distracted by such fantasy. Even though China may not be completely out of the pandemic, they have now learned the art of living with the

pandemic. Let's now learn from China and try to save what we already have, the domestic companies that have been sustaining the Indian economy, rather than fantasizing about the foreign companies coming to India in waves! One bird in hand is better than two in the bush!

Possible Economic Impacts

For an individual, it is advisable to remain cautious to avoid infection, it is also important that the need of maintaining immunity is not ignored. Similarly, for a nation, lockdown cannot ignore the long-term health of the economy. Even in China, except for the Hubei province where the city of Wuhan is located, the lockdown was not total. Other cities went for different levels of restrictions depending on the threat perception. Wuhan is the tenth largest city of China and Hubei accounts for roughly 4.3 per cent of Chinese population and has a similar share in the national GDP. Despite this, a complete lockdown in only Hubei province,

and different levels of restrictions in other parts of the country, are expected to have a substantial impact on the whole economy.

It is difficult to estimate how big the impact on the Indian economy by Coronavirus, and the related lockdown, but it is beyond any doubt that the impact is going to be substantial. If we assume that the lockdown might have stopped 50 per cent of economic activities in terms of values generated, we might be losing about one per cent of our GDP every week. So, about five weeks of lockdown in the year 2020-21, might bring down the GDP by about five percent. In reality, it could be even higher! While we might have exempted some sectors, we must not ignore the fact that the exempted sectors might have close linkages with the non-exempted sectors. So, it cannot be business as usual in exempted sectors when many other sectors are still under lockdown, beyond a point.

However, it is also quite certain that the economy may not bounce back to normalcy immediately after the lockdown is lifted. Businesses that depend heavily on casual migrant labourers will take time to restart as the migrant workers will not be available immediately. Some might not even come back at all. Some of the small businesses that operate on wafer thin margins might not be able to come back to business at all. Many of our small and medium enterprises (SMEs) are export-oriented. They cannot have their normal business even if there is no lockdown in India. There are restrictions on international transportation and travels as well as lockdown in several destination countries, and those are likely to continue for some time. Most importantly, some restrictions will remain in some form or other in some parts of the country, even after the lockdown is lifted. Hence, their impact could be quite

substantial, irrespective of what the IMF has forecast.

Spread of COVID in India

China was able to keep its major economic centres free from the pandemic and the numbers of infections in Beijing and Shanghai are lower than those of Delhi and Mumbai. This is a major achievement considering that the epicentre of the pandemic has been at the heart of the country. So far, India has been able to keep the spread of the virus relatively low compared to the US and many European countries.

As on April 18, nine states accounted for about 85 per cent of the known cases in India, while 18 states with a number of cases in double- or single- digit accounted for less than three per cent of the cases, and in half of them, the number of cases was in single digit. The rate of spread has been slightly lower in the past one week (115 per cent) compared to the previous week (118 per cent). In some states of course, the rate of spread is still quite high. More importantly, it is still high in some economically important states like Gujarat and Maharashtra. But in some other economically important states like Tamil Nadu, Telangana, Punjab and Haryana, the rate of spread has been brought down substantially. Kerala has done a commendable job in containing the spread to a rate of 11 per cent over the last week, the lowest among the major states, and the death rate below one per cent.

Not only the number of cases and their rate of spread are skewed across the states, but they are also skewed across districts in the states. As an example of state level skewness, most cases in West Bengal are from the city of Kolkata and nearby areas and some sporadic cases in some other places of the state. This is true for many other states.

Rebooting the Economy

Given this context, it is now time to focus on the economy. Now, with better knowledge and understanding, we can take decisions to balance public health and economic concerns, or *jaan* vs. *jahaan*. While some states or districts will require restrictions even beyond 3 May, 2020, in some areas, many of the restrictions can be relaxed even before that. While near-normal economic activities can be allowed in some districts, there can be restrictions on activities that require large gatherings, including religious activities, social and political gatherings. Economic activities in such places can be allowed with appropriate sanitation measures including wearing of masks. There can be restrictions on inter-state movement of people and even inter-district movement of people can be restricted. Levels of restrictions can be varied at state, district and local levels, especially in areas that have become hotspots.

In determining the scope and level of restrictions, apart from vertical spread (spread within a small area), horizontal or spatial spread (spread from one place to wider areas) should also be considered. Side by side, efforts should be on to develop better understanding of the spread. In this regard, random testing should be initiated in all areas, with different intensities depending on the level of known spread. This data should be fed into the decision-making process to ensure that our policy to contain spread of the virus is dynamic and keeps on changing with new knowledge. State relief measures can be tailored accordingly for different regions with different levels of restrictions.

Failure to build confidence among the people with adequate health safety measures will affect economic activities even if restrictions

are removed. It is now known that in China many people are getting re-infected though they are believed to be cases of re-activation of the virus rather than re-infection. Even in Himachal Pradesh, a man considered to be recovered from COVID-19 has been found to be corona positive once again. This means that we need to play hide and seek with the virus for some time, till the time vaccines and effective remedies are found. We cannot keep our economy under lockdown for an indefinite period. India needs to improve its public health infrastructure and facilities quickly.

Now there is hardly any question of India filling the space vacated by China in the export market, but if we vacate our space in the export market, China is most likely to occupy the space, and it will be extremely difficult to regain the space. Realizing this, Bangladesh has exempted its readymade garments export segment from the lockdown. Even Pakistan has followed the same policy. For Bangladesh, it is relatively easier to handle the situation as the readymade garments sector accounts for about 80 per cent of its exports. Hence, just monitoring of one sector, would be almost enough for it to retain its export market. For India, the situation is much more complex as its export basket is quite diverse and complex.

Considering this, apart from continuing with essential goods and services, focus should also be given to export oriented sectors and units. This will have a public health advantage also. As a substantial part of the distribution chain of the export-oriented units will be outside India, the risk of spreading corona due to such economic activities will be much lower compared to units that serve the domestic market only. Given this, it is good that export-oriented units have been exempted from 20 April, 2020.

Possible Measures

The Reserve Bank of India (RBI) has announced a slew of measures to ensure easy availability of credit. These are welcome, but more are needed, especially from the government. Credit does not help if business viability goes down. It will not be easy for many SMEs when production is suspended for 40 days or even more, forward and backward linkages are disrupted and payments are not forthcoming, but workers are paid.

It is now well known that the system of GST has placed some burden on business including a requirement of larger working capital which increases the costs of production also. While a reform of the system can be taken up later, as an emergency measure, the government can give two concessions. Firstly, the government can allow delayed depositing of GST, say, one more month to deposit GST dues without any penalty. Secondly, they may be allowed to deposit only a part of the GST dues and retain the balance which can be adjusted against the input credit. How much of the GST dues can be retained by companies can vary from sector to sector and may be decided by the government depending on the

nature of the value chain in the sector. Here also, the export-oriented sectors can be given preferential treatment.

For the next few months, management of the economy and the management of public health need to go hand in hand. While we need to learn from other countries, at the same time, we have substantial scope for learning from within India. In the management of the Corona crisis, it also depended on how state governments managed the crisis. Similar approach is needed for management of the economy as well. Strategies cannot be fixed for the entire country and for all times to come. They need to be dynamic and flexible. States need to be on a high level of alertness. They need to be empowered, be it through allowing them to go for fiscal expansion or deciding on the level of restrictions that they would like to impose in different areas or the exemptions that might be allowed. The Centre needs to support them with information and technical advice, logistics and material support, as well as financial assistance. However, the Centre needs to be more concerned about the exports as the failure to revive it quickly can have serious long-term impacts.



Post-COVID-19 Economic Revival in India

Sucha Singh Gill

C COVID-19 pandemic has taken the entire world under threat by surprise. It has created a threat to human life as no vaccine or medicine has so far been invented to control it. In order to contain the spread of this virus, the governments have accepted the guidelines of the World Health Organisation (WHO) to create social (physical) distancing within their territories. The infected persons are isolated from the rest of the population, and patients for a specified period of two weeks. Lockdown has been adopted as a model of social distancing. The citizens are asked to stay in their homes during the lockdown period. Except for essential services like health, supply of milk, vegetables, fruits, items of daily use, medicines or ICT services, every other economic and social activity is closed. The supply of essential services is allowed through authorized persons or pass-holders in curfew bound areas and by the shopkeepers/suppliers in non-curfew areas. All the institutions such as schools, colleges, universities, shops, market places, dhabas, restaurants, factories,

construction activities, transport, cinema halls, etc. are closed. Advisories have been issued to be followed even in social ceremonies related to marriages and deaths. Borders of nations are closed to citizens of other countries. Within India, state boundaries have been sealed to stop the mixing of infected persons from outside states. The identified infected persons are put on quarantine for two weeks, while serious patients are admitted to the hospitals. All these measures have hit the economy very hard due to closure of a large number of economic activities. As yet no systematic estimates are available about the total economic loss during the lockdown/curfew period in any country including India. Various international organisations like the World Bank, IMF, and other rating agencies have been projecting negative/zero growth of various countries. Although various agencies differ in their projections, they also point out towards substantial negative impact on various economies. The exact impact on each economy will depend on the period of

lockdown and subsequently on the amount of revival package administered by the government. This article attempts to examine the policy paradigm changes warranted and the level of expected revival package in India.

Paradigm of Nation State in the Center Stage

The experience of managing the COVID-19 crisis in India brings out that it has been largely the affair of the union and state governments. Managing social distances, sealing of borders with other countries/other states/districts, issue of passes, identification of infected persons/patients, keeping suspected infected persons in quarantine, admission of patients in the hospitals have been the task of the police/civil administration and medical services in the public sector. The private clinics, hospitals and five-star private hospitals closed their establishments due to the fear of COVID-19. The task of feeding the poor or whose livelihood was lost was initially undertaken by the civil society/religious organizations, but later on this had to be undertaken by the government agencies through the Red Cross. This became necessary because the volunteers of civil society or religious organisations were not able to follow norms of social distancing. At several places, the police and local administration of village Panchayats/local urban bodies were engaged in distribution of free ration to the poor and needy households. Most of the employers refused to pay their workers during the lock-down period. In spite of the appeal of the Prime Minister, not to remove any one from employment, many companies/employers resorted to lay off or termination of services of some of their employees. This includes some airlines, media, both electronic and print, to mention a few. Without going into further details it can be stated that it is public sector/government employees who received their assured income. The

employees/workers in the corporate sector and informal sector faced unemployment and loss of income. The experience shows that in emergencies like COVID-19, the public sector/government/state is the bulwark against them. It is also noted that it is the only concern of the nation state to protect its citizens. The global cooperation appears to be missing with sealing of national boundaries. This also led to cancellation of international flights, and export orders of companies were not complied due to threat of COVID-19 infection. The experience brings home an important lesson. In case of pandemic like COVID-19, it is the Nation State, which has to bear the brunt. As the uncertainty of the present situation is likely to continue for some time and also the world may experience new such challenges in the future, the Nation State must be sufficiently strengthened and put in the center stage. The way the Nation State's role was reduced after 1991, when the policy of liberalisation, privatisation and globalisation was adopted, it has been sufficiently weakened. A large role was provided to market forces in areas earlier reserved for the public sector/governments. The private sector flourished at the cost of the state sector reducing the capacity of the latter to act in the hour of crisis. The weakness of the state to protect the health, employment and livelihood of its citizens was exposed in the present crisis. In the light of present experience the terms of discourse needs to be changed in favour of state/ government administration. This can be done by bringing the state in the center stage. In view of refusal to perform under the COVID-19 threat, the Government of Spain nationalised the private health care facilities.

The closure of boundaries by advanced countries point out the greater responsibilities of national governments to the life, health and jobs of the citizens. In the present

circumstances, the private sector has to be regulated in terms of wage rate/salaries, conditions of work especially maintaining social distances during work, retirement benefits to worker/employees and other social security measures. At the same time, natural resources and the ecological environment have to be saved from the greed of bigger and smaller players in the private sector. This has been brought out by Karl Polanyi in his book, *The Great Transformation*, which was first published in 1944 and reprinted in 2001. It is stated that the self-regulating market or economy dominated by the free market brought miseries for the people of Europe in the form of massive unemployment, large inequality in distribution of income and wealth, poverty and destruction of community life during 1870s and 1880s. This created an urgency to replace the *laissez faire* policy by dominance of the state and regulation of the operation of private sector enterprises. Polanyi believes that industrial society will exist and sustain without self regulating market mechanisms. The state has to regulate the labour market, especially the wage rate/salaries, condition of work and social security of workers/employees. Similarly on land and natural resources, the market mechanism cannot be allowed a free role. Unchecked market forces destroy the nature and natural environment and consequently the sustainability of life is threatened. At the same time, the currency and financial markets cannot be allowed to play havoc with the lives of the people. The regulation of the private sector is of utmost importance, and dominance of the public sector allows making effective regulation of private enterprises. This enables the state to protect the health of the people, save their employment and ensure their social

Evidently the impact on the economy is widespread towards reduction in the income of the people.

security. The existence of these three things makes people of the country confident and creative. The need for a strong public sector in health, education and social infrastructure has been brought out by the COVID-19 situation in the country.

The period of extended lockdown has improved the quality of air, water in the rivers and fresh water bodies. This is in spite of the fact that nothing has been done to check the flow of urban sewerage in the rivers. It is obvious that air pollution has vanished due to shut down of factories and stoppage of plying of motorised vehicles. Water quality has improved because no industrial waste was thrown into the rivers.

These two sources can be identified as major factors of air and water pollution in the country. The weak Nation State/government has not been able to control these two factors to save life sustaining sources in the country. In the post-COVID-19 recovery period, motorised vehicle owners and owners of factories must be made to pay for the air and water pollution in the form of environmental tax. The amount collected through the environment tax must be put in the dedicated account to be used for saving the environment, biodiversity, placement of equipment to clean air at the source and clean the water at factories before it is thrown in the freshwater bodies.

Quantum of Package Needed

At this moment, the issue of the quantum and structure of the revival package is of utmost importance for reemergence of the economic situation in the country. The size of the revival package depends on the loss

of private consumption suffered by the citizens due to loss of their income. The lockdown in the country has suspended many economic activities. The factories and processing units, especially dhabas, restaurants and hotels are closed. Producers of milk, vegetables and fruits and vendors suffered. Some media enterprises and some companies have resorted to lay off or retrenched some employees. As a consequence private income of the citizens has declined. The fear and uncertainty has made people stop purchase of durable goods such as vehicles, furniture, TVs, washing machines, fridges, etc. The producers of these products have experienced loss of their business. There has been suspension of ordinary economic activities in the country. This includes stoppage of airlines, railways, roadways cars/taxis, three and two wheelers, rickshaws, etc. As the people are locked down to their houses and agro-processing units like tea stalls, dhabas, restaurants and sweet shops are closed the producers of perishable items are facing loss of their business and income. People are not approaching banks for investment loans. Evidently the impact on the economy is widespread towards reduction in the income of the people. Two components of this impact are visible. One is loss of income of citizens and short fall of aggregate demand. Two, the lockdown and fear of COVID-19 has lowered the business expectations leading to fall in the level of investment. Both the factors have reduced aggregate demand and shrinkage of

The fall in the level of economic activities has hit very hard the daily wage earners.

economic activities. The fall in the level of economic activities has hit very hard the daily wage earners. Some of them faced hunger for some days. Some of them were fed by the civil society organizations and government agencies, but many remained away from their coverage. Similarly, the employees working in the private sector, who either did not get wages/pays during lockdown or were laid off or retrenched have been facing hardship. There are also some companies, which fear bankruptcy due to loss of business. The share market suffered major crashes. The deteriorating economic situation has badly affected union and state government finances due to fall in tax collection. The COVID-19 emergency has tremendously increased their liabilities. It is also the duty of the government to lead the country out of the crisis by preparing a revival package for the country.

The revival package has to cover the loss of private consumption as well as private investment. This has also to include the financial support to the people who suffered loss of their livelihood and provision for saving the companies from impending bankruptcy.

The revival package has to cover the loss of private consumption as well as private investment. This has also to include the financial support to the people who suffered loss of their livelihood and provision for saving the companies from impending bankruptcy. Some countries like the US, UK and Japan have prepared estimates of revival packages for their economies. It is estimated that 8 per cent of GDP of each of these countries will be used for additional public expenditure to counter-balance the fall in private consumption (Varofakis, 2020). The euro zone has been slow in this matter. In this

context, India would need to estimate a revival package by taking into account the loss of private consumption, decline in private investment and expected bankruptcy of private companies. Since the highest proportion of our workforce (more than 44 per cent) is engaged in agriculture, where the impact of the present crisis is likely to be less than that of the urban areas, the package of 6-7 per cent of GDP may be needed to put the economy back on track. This package has to be arranged by the central government as the states have little capacity to raise fiscal resources.

Suggested Measures

The important question is where this public expenditure is to be made. Obviously COVID-19 has already exposed the weakness of our public health system. The public health system has been facing the pandemic bear handed. At present public spending on health sector has been less than 1.5 per cent of our GDP, it should be raised to 3 per cent of the GDP. At least additional 1.5 per cent of expenditure must be made to strengthen the public health system to meet continued challenge of COVID-19 and also possible such challenge arising in the future. The needs of hospitals, community health centers, dispensaries especially shortage staff of doctors, nurses, paramedical staff with proper salaries must be adequately met. The updated equipment and protection gears should be provided along with the provision of minimum medicines. The second candidate most deserving for the package is the education in public sector. Minimum of 2 per cent of GDP of the country must be added to the existing

Most of the job loss has been in the unorganised sector of the economy. The victims of job loss in this sector need food and shelter immediately and jobs on normalisation.

expenditure made in this sector to move towards the ideal of 6 per cent, suggested by the Kothari Commission. Another priority area has to be revival of jobs in the country. The data indicates that unemployment level in the country has jumped from 6.1 per cent of the workforce to more than 23 per cent. Most of the job loss has been in the unorganised sector of the economy. The victims of job loss in this sector need food and shelter immediately and jobs on normalisation.

The programmes like MGNREGA have to be doubled, and opened in urban colonies of the poor along with the rural areas. MSMEs have to be revived with financial sport. The state government can play vital role in both the areas. The union government must act swiftly to save some large companies from bankruptcy. Their operations are critical for revival of MSMEs. The companies need not be given free package, but can be provided concessional loans. The same can be extended to the farm sector as well. These measures have the capability to revive the economy in the COVID-19 phase.

Summing Up

The shift in the policy paradigm is needed to put the Nation State in the center stage to play a critical role to revive the economy and keep it on the path of sustainable development while protecting the life and natural environment. The cooperation at the global level has collapsed at this moment, creating the dire need to strengthen the Nation State. The private sector cannot provide a lead role as it itself is a candidate for support from the governments. But, it should not be allowed to usurp the national resources of the country

at the cost of common citizens. The private sector, therefore, has to be regulated by the government in the interest of state, society, natural resources and the people. The revival package has to be calculated keeping in mind the loss of private consumption, loss of investment and threat bankruptcies. The suggested revival package has to be jointly operated by the union and state governments. The package of additional expenditure to states must come in the form of grants from the union government. The state governments

have the capability to operate the package to the last person in the street.

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COVID-19 Outbreak: Integrated Production Activities and Trade Promotion as a Policy Option

Utpal Kumar De

Almost the whole world is in the grip of COVID-19 and groping cluelessly around alternative short-term measures for reliving people from this life-threatening disease and subsequent livelihood hardship. Since the outbreak of this disease in January 2020 at Wuhan, China, gradually it became a global threat and plummeted the major socio-economic activities. As of 23 April 2020, over 21,000 people in India have got this infection, but the whole population has been suffering due to its indirect impact through the imposition of lockdown, and the job loss of daily wage workers and people in the informal sector. Majority of the activities have been confined within domestic chores including the relief works. Among these short run measures, livelihood space largely captured by the possible life saving measures of lockdown for over a month, social distancing and closure of all major economic and social activities.

The lockdown strategy has been adopted in principle to save life first by social distancing

(in the absence of any concrete medical remedy so far) and then to follow the livelihood options after the spread of disease starts receding. Therefore, all the activities including industries, local-national-international trade and businesses, all forms of transport, tourism, agriculture and related activities, educational institutions, informal sectors all have almost come to a standstill position and suffered serious setbacks in production, employment excepting a few essential operations and opening of banking, agriculture and related operations on a limited scale at later stage. The aim of various measures across the countries is to bring down the infection rate at the earliest possible time with least casualty, and loss of resources, employment and earning.

The lockdown measure has been adopted by almost all the affected nations towards that direction for the understanding of possible transfer of COVID-19 virus through human to human contact in the absence of any convincing medical solution. Though looking

at the plight of informal sector and daily wage earner migrant workers, farmers and agricultural labourers, MGNREGA activities have been allowed across places by various states, the closure of transports and business activities except the very essential ones led to discontinuation of linkages of such operations for which interlinking trade operations is a must. Though government has announced the procurement of agricultural outputs at minimum support price, the scale of operation is far below the reality, since all the articles will neither be procured and nor the Mandis are expected to reach all farmers for such operations.

There is an apprehension that some country like China may use this situation in their favour through reorganization and expansion of trade in medical and other items of their expertise or China would suffer from the flight of foreign capital due to suspected behaviour of spreading this pandemic disease worldwide and the possible decision of many western companies (especially, American) to relocate towards more comfortable zone like India.¹ This may help in employment and income generation along with expansion of market base in neighbouring countries. However, the reports state that there has been initially serious decline in economic growth in China among the worst hit economies during past few months, where India has a little edge over the others. The recovery and emergence of post-COVID-19 world order is still an uncertainty as the economies have gone into shell with choked mobility of human and material resources, international trade, tourism, transport and even the education,

and therefore, the recovery would certainly take some years.

Macro Position and Trade

This standstill situation is expected to put severe pressure on India's fiscal management position for the drastic fall in GST and tax collections, import duties along with sudden increase in government expenditure on various relief measures and healthcare provisions. There is, however, some relief, which has come in the form of drastic fall in global crude oil price (from over US\$ 80 per barrel a couple of months back to all time low on 21 April 2020, below US\$ zero in USA market as per reports² to ease out the situation that could be gainfully utilized by the government by raising the excise duty significantly to raise revenue despite the fall in consumption of petroleum products. Petrol-diesel excise duty was hiked by Rs. 3 per litre on 14 March, 2020³ and again by Rs. 8 through an amendment of law on 23 March, 2020. The price of petrol further increased by Rs 5 per litre on 21 April 2020 despite such drastic fall in crude oil price without passing on a minimum amount of benefit to the common people.

Trade is considered to be an engine of growth. However, the recent IMF and other survey Reports apprehended drastic fall in GDP growth in the current fiscal year in the continuum that was started with demonetization in 2016. The unemployment rate had already reached a 45 years peak (8.7 per cent) in the month of March 2020. The CMIE Report shows a significant fall in jobs and simultaneous significant increase

1 Refer, Business Today, 22 April 2020

2 Refer, <https://oilprice.com/Energy/Oil-Prices/Whats-Next-For-Oil-As-Prices-Go-Negative.html>

3 Refer, The Economic Times, 14 March 2020

in unemployment rate since September 2016 and the number of unemployed people has also gone up from 32 million to 38 million during the same period. A further lockdown in the wake of Coronavirus outbreak appeared as adding salt to injury to the unorganized sector worker that constitutes over 85 per cent of the total industrial employment in India.⁴ In the last week of March 2020, the unemployment rate soared to 23.8 per cent.⁵

A major reason for the current decline in growth in the wake of pandemic COVID-19 would be the choked businesses and trade except in some essential medical or healthcare related products. Simultaneously, the staggering production activities particularly the industrial one makes it impossible to have trade on those items. Even the agricultural production activities have got the setback despite limited permission on account of non-availability of labour, transportation and on-field potential buyers through which market linkage is established.

At this juncture, government, however, has directed its monetary policy to push up the economic activities through RBI's new announcement of (i) pumping in more money into the banks for enhancing lending capability, (ii) relaxing the time period for declaring bad loans as the non-performing assets, and (iii) reducing interest rates to encourage entrepreneurial activities, with a special thrust on the small and medium enterprises.

However, all these measures simultaneously with lockdown, transportation halt, sudden compelled desertion of large scale labourers, limited scope of marketing

due the broken supply chain at several stages of production activities raised doubt about the immediate establishment of such business chains and linkage of such industrial activities. Despite some relaxations, due to panic among the ordinary labourers, businessmen and small industrialists, people are not coming out to participate in their respective activities unless they are forced to do so. At this moment the morale of entrepreneurs is not high as like the market due to severe uncertainty, which resembles the '*Liquidity Trap*' of Keynesian macroeconomic phenomenon, where lowering of interest rate fails to expand entrepreneurial activities and create expansionary impact on employment and income. Unless this trap is broken, neither the entrepreneurial activities and nor the trade in goods would be possible.

Although the import of petroleum products, medical equipment and some other essential items are continued and export of some medicines and a few items are increased, there is no doubt about the serious fall in volume of international trade of India. Yet, we observe fall in Indian Rupee against US\$, indicating the worsening condition of India's trade balance in comparison to India's trading partners.

Policies Needed for the Production and Trade

At the present juncture of Coronavirus phobia all the countries have gone into shell and all forms of internal trade have been shaded. This lockdown period has caused hurdles for all sections of populations whereas the agricultural and informal daily wage earners are the worst affected. This is despite some

4 Refer, CMIE Economic Outlook, "April 2020 Review of Indian Economy: Financial Market Performance", 5 April, 2020

5 Refer, Mehta and Kumar (2020)

relaxation given in the second period of lockdown after 20 April, 2020 to agricultural sector activities like essential services.

Apart from formal international trade, there is a huge informal border trade had taken place through various land custom stations, especially in the North-Eastern states with the neighbouring countries. Also, there is huge inter-state trade and majority of which takes place on agricultural crop, poultry, fishery, garden crops, and the related items. During this emergency situation, this trade has also been affected seriously. Producers either suffered from their inability to harvest the crops timely or failed to sell them at reasonable price, though the final consumers in distant place where those were supposed to be transported are compelled to pay significantly higher price to obtain them. Failure of proper linkage in market operations has caused imbalances in regional supply-demand mechanism and substantial social welfare loss.

If the agriculture and related activities at least can go on in full swing, there is likelihood to bring back the agricultural trade with careful transportation of those goods. Otherwise, regional imbalances in food supply would be an eventual scenario once the old stock is exhausted.

The Union Home Ministry in its recent guidelines on the lockdown, thus, exempted agricultural works (sowing and harvesting operations), activities of agencies engaged in the procurement of agricultural products at minimum support prices, agri-markets

notified by various state governments, inter- and intra- state movement of harvesting and sowing related machines and manufacturing, packaging units of fertilizers, pesticides and seeds. However, those operations would be undertaken with advisable social distancing, which is practically impossible for the poor farmers who operate manually in cooperation and not fully with mechanical devices. Other problem of implementation is due to the miscommunication of circulars to the local authorities, police personnel and sometimes for the misinterpretation by mixing with the circular on limitation of physical and vehicular movement and social distancing. As a result, smooth movement of essential food and agricultural items has been affected.

Relaxation of farming and agricultural operations from complete lockdown of late came, which is understood to be practically impossible to maintain by the farmers class having stand in matured crops in the field like potato, mustard, wheat and other winter crops and also horticultural crops like grapes, watermelon and many more. During the first lockdown period, harvesting of potato was in the midway and stopping of harvest means taking high risk of potato being spoiled by a single rain. Now, the timing has come for harvesting summer rice, mango, litchi, preparation of seed bed for the next crop. Despite harvesting of such crop continued, it is apparent that in some places farmers have to face the challenge of labour shortage, and transportation for marketing or putting in the

If the agriculture and related activities at least can go on in full swing, there is likelihood to bring back the agricultural trade with careful transportation of those goods. Otherwise, regional imbalances in food supply would be an eventual scenario once the old stock is exhausted.

cold storages.⁶ Local level bodies, panchayats and NGOs can act as facilitators for smooth functioning of the farmers, vendors and farm harvest transporters without any harassment. If farmers cannot operate their harvesting, (i) it will not only affect their earning severely and enhance impoverishment, and (ii) the supply to agro-processing mills and then sustainable supply of final food products merely from the old reserves would be in question and the market pressure would cause food inflation in near future.

Informal Sector

The announcement of Finance Minister of a relief package of Rs. 1.7 lakh crore on 26 March, 2020 aimed at providing a temporary relief to those who have been worse affected by the COVID-19 lockdown in the unorganised sector. But, the relief measures are only for temporary survival of the informal sector workers and there is no policy guideline for the continuation of production and trading activities of these sectors on which over 85 per cent of labour force in India depends. However, given the magnitude of the crisis, which is unprecedented, there is a need for significant increase in the financial help to the poor⁷. Though the number of COVID-19 incidence in India is much lower as compared to the European countries or USA, the expenditure

on COVID-19 related healthcare; the preparedness demand and the requirement of millions of overnight unemployed informal sector workers is enormous, which is difficult to meet without employment.⁸

Therefore, the activities of those informal would be continued as far as possible confining the SMEs taking proper medical care. There are several small industrial activities that can be operated even with social distancing, which, I do not think, is possible in the relief camps where many such migrant workers are staying at present. The adequacy of such facilities of sanitization, washing hands, keeping distance in the camps is questionable to maintain. Instead, their engagement like the workers of jewelry making, embroidery, bakery and such type of activities where individuals work keeping a distance can keep these businesses alive and the related trade can continuous.

The relief measures are only for temporary survival of the informal sector workers and there is no policy guideline for the continuation of production and trading activities of these sectors on which over 85 per cent of labour force in India depends.

Concluding Remarks

The COVID-19 has seriously affected the businesses and trade for the lockdown within the country and distancing among countries as well. Trade is highly related to the production activities. If the production activities cannot be continued along with reasonable

6 Reports on crops are getting spoiled in the field due to no transportation facility published In the Anandabazar on 22 April 2020: <https://www.anandabazar.com/editorial/coronavirus-lockdown-unavailability-of-transport-facility-results-in-damaging-of-agriculture-1.1139756>

7 Refer, Dev and Sengupta (2020)

8 Refer, Economic Times dated 4 April, 2020

transportation, trade cannot take place. At this present juncture, excepting the trade in essential items like medical equipment and medicines, petroleum and some food items; manufacturing and other major trade has come down to a minimum scale. Unless, international transactions are started in all items, it is difficult to meet the foreign exchange requirement to import the essential items (though petroleum consumption has declined significantly in recent weeks) by India.

India's major export items are related to agricultural and informal sector activities, whose export demand also has come down. But, this depressing situation is not expected to continue for long period of time, though it is not certain how long this pandemic will force the countries to keep all such activities under lock. Items of daily need have to be either produced or imported by all countries once the sock is over. In this respect, India can go for diversification of some products depending on its expertise, especially in medical items, whose demand has got a sudden peak up in international market.

Moreover, the inter-state and local level trades can continue and that needs the operation of agriculture, agro-processing and related business activities along with other possible informal sector operations to continue. All these activities, has less probability to spread the disease if proper care is taken as per requirement. In the process, interlinked marketing system would be established to a certain extent and partly the confidence in the economy. However, this is not only solution for boosting trade and the economy. A concerted

approach with other livelihood activities would help to scale up the response and reduce the shock on agricultural and informal workers for their livelihood recovery.

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Part II:

Economic Implications



Assessing Economic Implications of COVID-19

Amita Batra

The uncontrolled and rapid spread of COVID-19 has caught the world unawares, in terms of both, medical and economic impact as well as possible solutions. As the medical world grapples with the complexities of finding early treatment and vaccination, the interim solution of shutdowns and lockdowns though necessary to subside the human calamity in hospitals will lead to unintended economic consequences in terms of growth slowdowns and prospects of recession looming large and real.

The likely economic outcome of the COVID-19 pandemic may be comparable only to the Great Depression of the 1930s. The earlier epidemics of this century like SARS, MERS or Ebola had a relatively much less geographic spread and hence, limited economic impact. In comparison, the COVID-19 has engulfed the global economy

and most significantly, the majority of the worst hit economies are from among the top ten largest economies of the world. While initially presumed to be restricted to China, the exponential growth in the number of cases and fatality rates in European economies of Italy, France and Spain and almost all states of the US, has been one of the most disquieting features of the pandemic. Together, these

The overall outcome of the COVID-19 is bound to be recessionary, accompanied by large scale unemployment.

large economies contribute 60 per cent or more of the world's manufacturing output and overall demand. China alone, accounts for 28 per cent of world manufacturing output and a little over 12 per cent of world trade. Furthermore, in recent times, China has been making significant contributions to global tourism. China's outbound tourists account for 10 per cent of global tourists and since 2012, China has been the world's top spender in international tourism. Given this, the centrality of the hardest

hit economies and sectors in this pandemic, the severity of its impact on the global economy is expected to be immense and long lasting. There is, now, no doubt that the world economy is bound to be derailed from where it started at the beginning of 2020. India is going to be no exception in this adversity.

Challenges to Overcome

India has relatively fewer confirmed Coronavirus cases as yet. As of date, India has 26,325 confirmed cases compared to the global total of 2,899,830 or that of the US's 939,249 and China's 83,909 confirmed cases.¹ However, it needs to be kept in mind that the course of the pandemic is yet unfolding and there remains uncertainty with regard to its magnitude and trajectory. Projections of magnitude of economic impact in terms of rates of growth or slowdown, therefore, may only be tentative indicators. It is, though, certain now that some sectors in, both manufacturing and services, will be the most negatively impacted. Manufacturing may, in fact, take the hardest hit given the two-fold blow on the supply and demand side.

The lockdowns/shutdowns necessitated by the time required for the medical infrastructure to catch up with the number of Corona positive patients coming to hospitals or needing intensive care are unavoidable. This necessary public health measure has however also meant a temporary closure of almost all working establishments. In effect, the supply side has been constrained as workers are

prevented from work. Simultaneously, demand has been dampened with more and more workers left with no or much less income. The demand side, in addition, faces the prospect of deferred (possibly also for prolonged periods) purchase decisions for almost everything other than essentials. Reduced domestic demand-existing and potential is further accentuated by lower external demand on account of similar lockdowns elsewhere in

The central bank must stand ready to support banks and the non-banking financial sector to provide easy and sufficient liquidity in the system and avoid financial stress.

the world combined with travel and trade restrictions. India's export competitiveness, in any case, remains low and exports had been falling in an uncertain external environment marked by US-China trade wars even prior to the pandemic. The overall outcome of the COVID-19 is bound to be recessionary, accompanied by large scale unemployment.

In such a scenario, the small and medium enterprises will be among the first to face liquidity issues as these enterprises may invariably have a minimum financial buffer. The fixed costs and payment of wages, bills, etc. bring forth the possibility of large losses and a wave of bankruptcies and insolvencies across production enterprises. Also, households will be constrained by slowing down of job creation leading to concomitant slowing down of income growth.

Measures Taken and What More Required

Given that the choice of lockdowns is not a binary one or even a one-time choice. It may not be unreasonable to expect the pandemic

¹Refer, Corona COVID-19 live cases tracker, John Hopkins

to last for a few months or to re-occur in waves. Suitable mechanisms and financial facility programmes, therefore, need to be planned and formulated to help enterprises and households, particularly the more vulnerable to absorb the economic shock. For this purpose, both monetary and fiscal policies have to be used appropriately.

The central bank must stand ready to support banks and the non-banking financial sector to provide easy and sufficient liquidity in the system and avoid financial stress. In India's case, the Reserve bank of India (RBI) has already announced several policy measures including rescheduling payments and cut in repo rate to facilitate bank lending to firms, but it needs to be recognized that this may not be easy. For India, the pandemic has been most ill-timed given that it was preceded by a grave banking sector situation saddled as it was with NPAs (non-performing assets) and that growth in India was already projected to slow down. On a quarterly basis, in the second quarter of FY 2020-21, India's growth rate had fallen to 4.2 per cent from a high of 8 per cent in the fourth quarter of FY 2018-19. Furthermore, for the MSMEs, this is a shock, in addition to the earlier shocks of demonetization and implementation of the GST, which though well intentioned had led to major hardships for the sector.

The fiscal policy has an equally, if not more important role to play at this time in inspiring confidence among all people that the economic situation will ultimately be resumed to normal. Protecting both the households,

particularly those that are vulnerable due to income shortfalls and production by firms and employment too. People need to be assured that the economic momentum will be maintained and jobs will remain post-lockdown. In the meanwhile, given that India, unlike the developed economies does not have social security mechanisms, must devise ways to bring both food and cash to the poor and migrant labour that has been rendered jobless.

Special packages for sectors most likely to suffer including automobiles, construction and in services-tourism, airlines, restaurants must be carefully designed and on a priority basis.

Special packages for sectors most likely to suffer including automobiles, construction and in services-tourism, airlines, restaurants must be carefully designed and on a priority basis.

It may be useful to also note that prolonged lockdowns will eventually imply production shortfalls. Stimulated demand, matched by slowly running out stocks and inventories' supply may eventually lead to significantly higher prices. Therefore, stimulus packages induced demand combined with lockdown induced production shortfalls, may

ultimately generate inflationary tendencies in the economy that may well be difficult to control. Additionally, inflation will mean lower real incomes/wages for households. So, while the current Indian economy conditions may not necessarily be indicative of this outcome, the possibility of inflationary forces building up does exist.

New and Innovative Mechanisms to Overcome Economic Hardships

A gradual staggered phasing out of the lockdown must, therefore, be worked out in consultation with all stakeholders. It may also

be useful to utilize this time to evolve new working conditions and modes for the industry as, in manufacturing in particular, production of tangibles requires social proximity as opposed to social distancing as an almost necessary condition for operating procedures. Many services sectors, like travel and tourism, which may take some time to recover, will also need new modes of operations and delivery. The need of the hour, therefore, is to evolve new and innovative mechanisms to overcome the economic hardships caused by the pandemic.



Economic Implications of COVID-19

Badri Narayanan. G

C COVID-19 has spread at unprecedented speed to almost every continent on this planet to emerge as the single largest health disaster and the biggest humanitarian crisis we have witnessed in recent times. Having infected more than 25 lakh people and killed more than 1.75 lakh, there is an asymmetric distribution of the spread in different parts of the world reported based on the country's stage of infection and the preemptive measures undertaken by governments to curb and contract the spread of the contagion. Some countries that have reportedly handled and contained the first wave of the pandemic are enduring resurgence and are working out measures to manage the crisis. While some of them are at the peak of the infection and have imposed strict lockdown measures in a desperate attempt to flatten the curve of

infection on one hand, are building makeshift facilities and healthcare capacity to treat the infected, on the other hand. India has witnessed a significant increase in the number of cases, in response to which the government has extended the nation-wide lockdown.

The sudden outburst of the novel Coronavirus and its aftermath have tested the resources, capabilities, capacities, and competencies of every country in terms of their efforts in suspecting the ill, diagnosing the suspected, treating the affected and isolating them to contain the spread of the monster pandemic. The mandatory 'stay-at-home' orders and cautionary directives issued by governments across the world have stopped industrial activity of all forms, disrupted the supply chains, lowered consumption,

Developing countries and the emerging economies are enduring pressure in protecting their currency rates due to collapsing commodity prices, and capital flow reversals.

and dampened the demand for leisure, travel, and entertainment-oriented industrial sectors. Countries that were largely dependent on such industries are facing a huge disruption.

Developing countries and the emerging economies are enduring pressure in protecting their currency rates due to collapsing commodity prices, and capital flow reversals, on one hand, and in managing the crisis with the vulnerable healthcare system that lacks access to life-saving equipment and medicines on the other.

Beyond being a health pandemic and a condition of a medical emergency, COVID-19 is an economic disaster and is predicted to pose serious challenges to an economy that was already enduring a major economic slowdown and was crawling to manage the demand depression and unemployment. This lockdown would add to the supply depression leading to an accelerated slowdown paralyzing not just the industries and the businesses, but also challenging the livelihood of millions in the country.

The global economy has already started displaying signs of a downward steeping slope entering a recession, and the duration and the intensity of the impact in different countries would depend on the span of the health crisis in each country, the proactive policy measures put forth by the governments, and their diplomatic, geopolitical and economic relations with other countries across the globe. The IMF has predicted a cumulative global output loss of around US\$ 9 trillion from the COVID-19 crisis and a huge shrink in per capita income for over 170 countries.

What is needed is a comprehensive policy measure and a stimulus that pumps in more money into the economy in the form of transfers, production aid, and investment support.

In India, the virus has infected more than 20,000 people and has killed about 600 people, despite the early restrictions and bans imposed on people movement, travel and visa regulations. Although the lockdown measures imposed by the Indian government in an endeavor to check the surge and spread of COVID-19 may have arguably averted a community transmission and consequent massive progression of the outbreak, and the catastrophic collapse, the preemptive

measures have jeopardized the economic activity on the whole.

This can be brought under the followings:

Mutually Reinforcing Supply-side and Demand-side Disruptive Effects

Given the uncertainties arising in the wake of the pandemic, India and several countries across the world closed their borders and entered into a complete lockdown to manage the pandemic onslaught. This lockdown prevented businesses from selling their products and services while hindering industrial production and disrupting the supply. As entrepreneurs lose income their spending goes less and so a depression in demand happens, ending up in a vicious cycle. Now, if the government provides stimulus packages and transfers in an attempt to break this cycle without actually working out measures to increase the production, there is an anticipation of inflationary pressures. What is needed is a comprehensive policy measure and a stimulus that pumps in more money into the economy in the form of transfers, production aid, and investment support.

Supply Chain Disruptions

COVID-19 is rampaging at unprecedented speeds and what is even more unprecedented is the closure of borders, travel bans and restrictions, and closure of businesses at the global level. The world economies are intertwined and industries and businesses pursue outsourcing and offshoring strategies in an attempt to go lean and save costs of labor, production, inventory and supply chain. COVID-19 and the recent trade wars have revealed the vulnerability of a supply chain when exposed to a pandemic, natural disaster, or due to protectionist measures imposed by major trading partners across the globe. This has called for immediate measures to increase the resilience and reconfigurability of such supply chains. In India, several MSME's are highly dependent on import from China. Other industries include pharmaceuticals, where China supplies 70 per cent of Active Product Ingredients (APIs), required for the industry to manufacture generic drugs. About 80 per cent of solar panel requirements of India's renewable energy sector are imported from China. About 30 per cent of raw materials and base components needed for automobile, textile and chemical industries are imported from China. A quest to build geographically diverse supply chains with multiple sources for key components and commodities apart from developing local sourcing units is the need of the hour.

An immediate fiscal relief to aid the credit flow in such industries is the most needed to put the export sector back on track.

Fiscal, monetary and financial market measures targeted at the most vulnerable sectors, the households and businesses, both at domestic and international levels is the need of the hour.

A Fall in External Demand

While major economies of the world have slipped into a standstill, Indian exporters are in a state of mayhem and despair as the external market destinations for all our major goods including the USA, the UK, UAE, Germany, Singapore, etc. are paralysed. The cargo

movement has completely stopped and there is a severe block of export finance, on one hand, and as consumption has dipped, and the future export demand is bleak and uncertain. An immediate fiscal relief to aid the credit flow in such industries is the most needed to put the export sector back on track.

Bankruptcy and Mass Lay-offs

COVID-19 has halted the operation of all major industries of the economy from aviation, to tourism and entertainment. As all of them are entangled in a cruel mesh, many of them are at the brink of a full-blown bankruptcy, and others are working out ways to cut costs by freezing salary hikes, introducing a cut in pay and a lay-off at large scale. This would only add to India's unemployment ripple and such drastic measures would only dip consumption hindering a quick recovery from the ongoing slump.

Financial Markets

FII's have already started pulling out funds from the Indian capital markets and there was a heavy sell-off in Indian equity market. The Reserve Bank of India (RBI) may consider

another rate cut and extend complete support to the revival of financial markets, and in managing credit flows and finances of financial and non-financial firms and institutions.

Continuous Spending on Healthcare

The menace and threat posed by the novel Coronavirus will get totally resolved only when there is a therapeutic discovery or a vaccine that can immunize people to the infection. Allocating sufficient funds to continuously monitor the spread of the virus, enhance the testing facilities, and build adequate medical devices, equipment and facilities including Intensive Care Units would be of utmost importance for the Indian government to work on, while resuming the economic activity.

From an analysis that we performed at the Infinite Sum Modelling, using a global economic model-based analysis to capture the linkage between different sectors and countries through the intricate supply chains and trade, and categorizing the impact into three sectors, namely, Tourism and travel industry that is highly vulnerable to such disruptions from a pandemic, trade, and production/consumption/investment that has been affected due to the lockdown measures, and the continuously shrinking demand, reveals that

GDP losses are quite substantial and may amount to US\$ 150 billion, and a large part of the fall would be from the reduced exports and the sudden dip in consumption.

An input stimulus that has been budgeted at US\$ 25

billion has the potential to expand the GDP by about US\$ 35 billion.

To support the daily wage earners, small business owners and low income households, who are identified as the most vulnerable section of the restrictive lockdown measures, and to ensure their livelihoods and enable them to access and secure the basic amenities during the period, Indian Finance Minister introduced an economic stimulus package worth Rs. 1.7 trillion.

Suggested Measures

Fiscal, monetary and financial market measures targeted at the most vulnerable sectors, the households and businesses, both at domestic and international levels is the need of the hour. The timely decline in oil prices shall be of immense help to the government in offering the needed support as for every 2 rupees decline per litre increase of excise duty on oil would result in additional revenues of 0.1 per cent to 0.15 per cent of GDP.

Having successfully survived the health disaster by adhering to all the precautionary measures, it is natural for people to expect and anticipate proactive policy measures from the government to safeguard their livelihood. Given the dual responsibility, protecting the livelihood by promoting intensive economic activities while also preventing and suppressing the further spread of the deadly virus, the question of relaxing the lockdown measures and reviving and restarting the economic activity has

The internal and external economic policy measures should be calibrated considering the scale of the crisis, formulated rapidly and deployed immediately to complement the brave healthcare workers who are on the ground combating the crisis.

gained significant attention and paramount importance.

Relaxing the lockdown measures should be decided considering not just the number of people infected or the intensity of transmission, but also on the basis of the effectiveness of containment measures, crisis readiness and the ability of healthcare facilities in an area to respond to resurgence.

The internal and external economic policy measures should be calibrated considering the scale of the crisis, formulated rapidly and deployed immediately to complement the brave healthcare workers who are on the ground combating the crisis. Otherwise, containing the spread of an epidemic or pandemic at the price and cost of a prolonged industrial slowdown and economic contraction would only surrogate one form of suffering to another.

We shall conclude with a mention of a silver lining of this bad situation we are in, on two major aspects. First, the recalibrations happening globally in terms of supply chains, in particular involving the decoupling of China with several economies notably USA, offer a huge opportunity for India to evolve rapidly as a major exporting hub for manufactured goods. India has already missed the bus to take the slack left by China during the US-China trade war, but here is a second much bigger chance

to expand our capabilities aggressively. Second, the digital transformation that has led to reduced costs and increased efficiencies is now in a stage of leapfrogging, wherein countries like India can take a global leadership in implementation of these new disruptive technologies to face the challenges in a post-Covid era of less travel, more virtual work and possibly less labor-facing work. This involves technologies such as Internet of Things, robotics, automation, Artificial Intelligence, Blockchain, drones, cloud services, digital twins, Industry 4.0, etc., where India may have to move rapidly as a world leader.

Concluding Remarks

Therefore, we are in extremely challenging times now, but perhaps we are also heading for a much brighter future, if policymakers take note of these new opportunities coming up. If IMF projections are a testimony, despite the entire slump globally, India is still expected to grow marginally with a rapid comeback next year, which may further propel in this suggested direction. In the meantime, firms, both large and small, need to adopt innovative strategies to both expand their supply chain capabilities and new technologies as mentioned above, and think about survival tactics in the short term by methods such as cost-budgeting and visionary thinking for the next few years if not decades, in terms of markets and supply chains.

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COVID-19 and the Indian Economy

N R Bhanumurthy

With the onset of COVID-19, the global economy is set to undergo a sharp double-dip recession. As many international agencies have already forecasted, the global growth could be -3 per cent in 2020, which is a decline of about 6 percentage points from the baseline projection of positive 3 per cent growth with no pandemic. Such swings in growth forecasts are unprecedented, and this is due to both health scare with lots of deaths and infections and also due to the lockdown of a major part of the global economy. Added to this, the pandemic appears to be more severe in the industrialized economy. While the forecasts for 2021 suggest a sharp rebound, the trends suggest that the world may need to endure this for a longer period than expected.

Unlike the global economy, Indian economy

was already in a slowdown phase before the pandemic affected and there were expectations that the economy is on a recovery path. But, with the COVID-19 such hopes are not only dented rather down turn turning out to be much deeper. There are various forecasts that suggest a sharper slowdown. Some forecasts even suggest a negative growth, which was not heard in the past five decades. With the lockdown and with increasing infections, the uncertainty in the economy has increased manifolds. There are also discussions about the shape of the recovery – V or U or W. But, in our view, the most probabilistic recovery could see an elongated U shape.

There are also early signs in India to suggest that it is quite close to ‘flattening of the curve’, which has become an important objective in these fights against COVID-19.

Policy Options

What are the policy options that India has in order to overcome such uncertainty? Has India done enough to address this?

Based on the recent decisions, the answer is mixed and India may need to do a lot more to overcome the distress that the pandemic has created across the sections of the society. Indeed, India was relatively fast in declaring national lockdown, and rightly so, and took quick precautionary measures compared to most of the countries that are reeling with exponential growth of the infections. There are also early signs in India to suggest that it is quite close to 'flattening of the curve', which has become an important objective in these fights against COVID-19. While this should minimize the loss of lives, there are concerns that there could be severe second round impact through its adverse impact on livelihoods.

The Government and the RBI have taken various measures on a regular basis not only to ensure liquidity in the financial markets but also transferring money to *Jan Dhan* accounts to partially mitigate the income losses to the poor and daily wage earners. The government has already announced a fiscal support of Rs 1.7 lakh crores, which is in addition to the support measures that other state governments have taken so far. However, as it might turn out, the measures taken till now may not be sufficient enough if the lockdown is extended further or for the post-lockdown economy. This is more so to the sectors such as MSMEs that are already struggling with two major shocks in the form of demonetization and messy GST implementation. There are also demands for distribution of free foodgrains to poor and destitute and some have further argued for Universal Basic Income (UBI) type of support as was declared in the US (10 per cent of GDP) and other Scandinavian countries. Does India have such fiscal space to go for such mega fiscal support? Or, what India should do to ensure both

lives and livelihood and help post-pandemic economy recovery? It is also important to understand what needs to be done to revive the trade sector as well, which is the backbone of not only for economic growth but also for employment.

In the fiscal space, unlike during the 2008 crisis, this time around the fiscal situation of both Centre as well as most of the states is in a precarious position. The Centre has already invoked the escape clause for two consecutive years to breach its fiscal deficit target as suggested by the existing FRBM Act (amended in 2018). There are many studies and especially by the RBI, that the state finances have been deteriorating for the past three consecutive years. While given the unprecedented situation right now, it may not be wise to look at the fiscal targets now; most certainly it is important to look at how to finance the fiscal deficit. Again, unlike in 2008, this time around the total savings rate has declined by more than 10 percentage points (in 2007 even government sector savings were positive). Hence, any fiscal support that centre could undertake needs to be financed (indirectly or directly) by the RBI. In other words, monetization of deficits by the RBI, which, under an Act, was dismantled in the early 1990s.

There is a need to reprioritize, recalibrate and frontload the expenditure lines especially if they are meant for rural, agriculture, and informal sector.

In my view, while monetization may be inevitable, it should be the last option. Before that the government (both Centre and states) could do many things. First and foremost, as the current year budgets are passed just now, there is a need to reprioritize, recalibrate and frontload the expenditure lines especially if they are meant for rural, agriculture, and informal sector. Second, as this is not

the time for looking into new projects (even in defense), all the proposed new projects need to be postponed. However, there are many existing projects that are waiting for funds; these projects need to be preponed.

Suggested Measures

In the fight on pandemic, the states are the first line of defense. Here, there is a need for the Centre to ensure sufficient resources at the states/districts. However, with the declining divisible pool as well as in GST collections, states may not be in a position to enhance expenditure for health. Although RBI has already suggested a 60 per cent hike in the ways and means advance to the states and also extended the overdraft time, it is still at a cost. Here, the Centre and the RBI need to observe the States' cash balance positions and accordingly handhold them with additional resources. One way to finance the discrepancy in cash balance position is to release the GST compensation fund in advance to the needy states and this part could be monetized by the RBI. There is another source for the states to tap the resources. It is the local bodies (especially the rural local bodies) that are known for holding unspent balances especially after the recommendation of the 14th Finance Commission. Here, as the end to the pandemic is not sure, it may be wise for the governments to think of having a 'COVID Responsive Budgeting' so that it would not affect allocations for other sectors.

One way to finance the discrepancy in cash balance position is to release the GST compensation fund in advance to the needy states and this part could be monetized by the RBI.

Expected Longer Recovery

On the trade front, as WTO as already predicted, the world trade expected to decline by 13 to 32 per cent, the impact on India's trade sector is expected to be very devastating. As the empirics suggest, India's exports depend heavily on the external demand and much less on the domestic factors. While the external sector is expected to have a V-shaped recovery, this should also reflect on India's exports. However, the fear is that post-pandemic recovery may see the countries adopt stringent protectionist policies, thus restraining any recovery in the exports. One way to overcome this could be for domestic industries to focus more on improving productivity that strengthen India's competitiveness in the international markets. Further, focusing more on services and its exports could help recover some of the lost ground in merchandise exports. But if one looks at the other transmission channels, the overall external sector could face many more headwinds in the coming quarters. Many countries (recently by India also) started introducing de facto and de jure measures on foreign capital. There are risks on the invisibles and the last World Bank study says the remittances to India could drop by 22 per cent. And there are already capital outflows from India. Overall, unfortunately, it would take longer time for the external sector to recover. But then it majorly depends on how the global institutions are going to help improve cooperation coordination among the countries.



Reshaping the Economy after COVID-19

Biswajit Mandal

The wake of massive wide-reaching lockdown calls for brief prologue about what is in the hindsight. It is the outbreak of COVID-19, which took hold of China in December-end, 2019. By January end, amidst thousands of new cases in China, a “public health emergency of international concern” was officially declared by the WHO. Subsequently on 12 March, WHO declared COVID-19 as pandemic.

COVID-19 is a war mainly waged in the health sector, but will surely have a far-reaching impact on the economic front. The stock market is one of many different factors that economists consider while examining economic health. Stock markets worldwide have knocked rock bottom in recent times. Hence, it remains to be seen how the economies react.

The Trigger Point

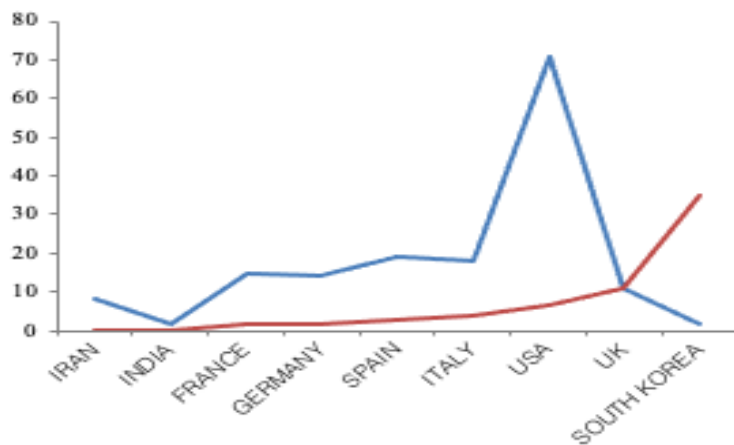
Even though the major symptom of COVID-19 is common-cold and flu-like symptoms, we are

more concerned with its economic symptoms and impact. It does have the potential of slowing down not only the Chinese economy but also the global economy and the tremors are already felt. China has become the central manufacturing hub of many global business operations and a slowdown in Chinese production will naturally have repercussions in other countries. The intensity of such repercussions would obviously rely on how dependent the industries of other countries are on Chinese suppliers.

We do some casual empirics to figure out the possible conduits and the extent, which is presumably worse than what we observed during the Great Depression of the 1930s. Here, we analyze nine countries. Except India, all these countries feature amongst top ten countries affected by the COVID-19 (excluding China). First, we check whether the outbreak has anything to do with the number of Chinese immigrants to those countries. And then we move to the dependence on Chinese imports.

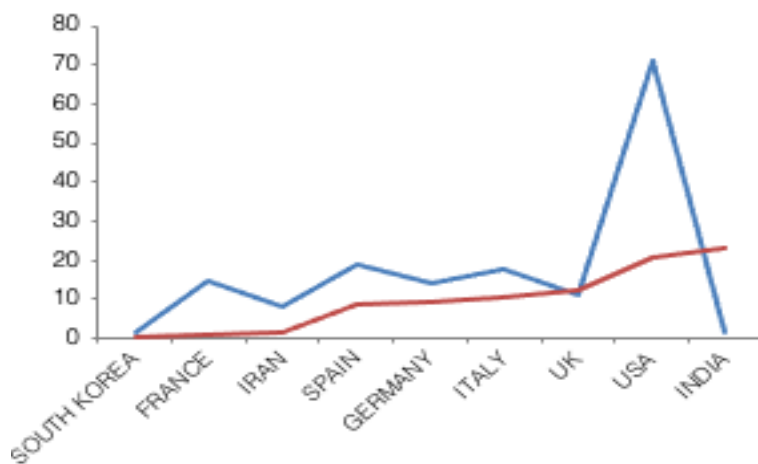
The Coronavirus infected cases (as on 18 April, 2020) were recorded in ten thousands (Figure 1) and Chinese immigrants as a percentage of total immigrants to a particular country is calculated. And for trade connections

Figure 1: Corona Infected Cases and Chinese Immigrants



Source(s): <https://www.worldometers.info/coronavirus/#countries>;
<https://www.tradingeconomics.com>;
<https://data.oecd.org>;
<https://www.ceicdata.com> and author's own calculation

Figure 2: Chinese Imports and Corona Infections



Source(s): <https://www.worldometers.info/coronavirus/#countries>;
<https://www.tradingeconomics.com>;
<https://data.oecd.org>;
<https://www.ceicdata.com> and author's own calculation

we calculate the percentage of Chinese imports to the same group of countries (Figure 2).

Italy, with a very high Coronavirus infected case and death till a couple of days back (though now USA has claimed the spot due to a total policy paralysis), is considered to be the epicentre of the pandemic in Europe. China is the largest cooperative partner of Italy in terms of imports and exports. The bilateral trade volume was to the tune of US\$ 48.25 billion in November 2018 and Italy is the ninth-largest export destination of all Chinese exports. The reason might not be hard to fathom as China had always offered cheaper manufacturing for their apparel factories. This has resulted in more and more fashion houses outsourcing their work to China, especially Wuhan. It also allowed over 100,000 citizens from China to move to Italy and work in those factories.

The situation with Iran was no different either, but official statistics claim that there were virtually no Chinese immigrants in recent years. However, a vital point still remains - Iran is an important partner of BRI and Tehran did not risk slighting Beijing. When the Coronavirus outbreak affected China, the Iranian authorities showed no signs of being prepared to deal with it and were dismissive of the danger it posed. In addition, hundreds of Chinese workers and engineers are employed across Iran.

On the other hand, comparison of the percentage of Chinese imports to the same group of countries and the incidence of Corona infections also revealed that countries with higher percentage share of imports were really at a risk of being infected. India might be an exception in this regard, mainly because of the pro-active policies adopted by the Indian government and acting swiftly to enforce lockdowns and social distancing.

South Korea's figures seem to suggest its trade remoteness with China. However, it should be kept in mind that South Korea is more dependent on exports and around three quarters of South Korean exports to China is for processing, meaning goods are sent to China only to be assembled and then exported to a third country.

The Casualties

The COVID-19 outbreak affects economic activity in China, the rest of developing Asia, and the world. A sharp but temporary decline in domestic consumption is unavoidable in all the outbreak-affected economies. This obviously affects people's perceptions regarding future business activity and a probable decline in investment is. A decline in tourism and business travel is the most anticipated channel of disruption of economic activity. Consequently, each of the following would also have a say as the world takes the much dreaded path to the global recession viz. spillovers of weaker demand to other sectors and economies through trade and production linkages; supply-side disruptions to production and trade and effects on health.

To stall the Corona march, various economies have taken measures like full border closure. It would lead to inevitable

production disruptions. Immobility of labour due to various controls would be accompanied by unnecessary economic cost. A variety of economic policies are also framed and international sanctions are essentially imposed to restrict international movement of goods and services, and labour. The impact would be similar to the one noticed during H1B visa sanctions imposed by the USA government or during BREXIT. This certainly would have a huge economic impact. When mobility of resources like labour is restrained worldwide, production in a single particular economy does not get affected alone – it affects the global economy at large. We must witness a global price rise for all commodities and services. At the same time we should not forget that 60 per cent of the value of international trade comes through the global value chain while 40 per cent of the global production is contributed by the labour from various countries. Hence, when international movement of labour and other factors are restricted, the entire global production system will certainly be badly jostled. In fact, OECD estimated the global growth rate to be 2.4 per cent in 2020, compared to 2.9 per cent in 2019. If the Corona outbreak cannot be immediately contained, the global growth rate can even spiral down to 1.5 per cent.

Trade Equalizes Morbidity?

It seems now that the Corona outbreak took the corridors of physical proximity of affected countries and human beings. This corroborates the role of trade, travel and migration for whatever reasons in transmitting Corona. Several countries have already restricted two things: trade is restricted due to low domestic production and less import demand; travel is restricted because of strict social distancing policy.

Liberalized trade policy is conventionally assumed as the harbinger of global development though it allegedly begets divergence and some other perils. Trade is what keeps us bonded, makes us dependent, and eludes us from being self-reliant. This thread of bonding is now under severe criticisms as one cannot deny the deadly contagious nature of the Coronavirus. Celebrated trade models of gravity equation also assert that apart from cost of production induced commodity price differential there are a bunch of other factors behind rising volume of trade. Correspondingly, they also influence labour migration prospects. Thus, international labour mobility is often considered as a substitute of trade in goods and services as both these two, interestingly, aim at global factor price equalization. Ironically, Coronavirus is taking the same route to force morbidity equalisation across the globe.

Human Capital and Productivity in Days to Come

Another undeniable economic setback would follow the channel of quality of human capital. In this context, health becomes the most predominant factor as health and improvement in health as investment in human capital are intertwined. Improvement in health not only enhances productivity immediately, it also adds to the stock of human capital and increases the rate of human capital formation for augmenting productivity in future.

But, unfortunately, accessible health infrastructures in various countries are showing

signs of waning in their incessant warfare against the pandemic. This obviously calls for a significant amount of government money to be justifiably siphoned off for treating Corona patients and for protecting the others. Thus, the governments would be left with no choice but to cut back spending to finance other programmes including health and human capital for future.

Given the upcoming economic crisis the prime question boils down to what India can do to minimize the upheaval and to bring back the economic functioning in order. Since the problems are manifold, probable solutions cannot be unidirectional.

The Road Ahead

Given the upcoming economic crisis the prime question boils down to what India can do to minimize the upheaval and to bring back the economic functioning in order. Since the problems are manifold, probable solutions cannot be unidirectional. We need to address the situation from both demand and supply sides. This is a long run plan. Before adopting such remedies Indian government must ensure the supply of basic necessities by means of cooperative farming and a well designed public distribution system such that

the majority of the workforce, both skilled and unskilled, remains safe and healthy to contribute in the domestic production system in coming months. Already declared fiscal stimulus package is a step taken in the right direction. And once the relentlessness of COVID-19 dies down we have to spotlight two things: One is trade, and the other is health.

Now, it is apparent that import demand would not be very encouraging, at least, in coming years which indicates some sort of self-reliant economy. Unfortunately this is not possible these days as the world has already

gone a long way towards economic interdependence and globalization. This contradicts the basic principle of comparative cost advantage argument as well. Thus we must figure out those countries where Indian goods are appreciated and India has cordial bilateral relations. One such country is the USA, and some other European countries. There is another convincing reason behind such an opportunity – USA-China trade war, which has already taken a serious turn during the COVID-19 crisis. India must capitalize on it. So, the recent decision to lift the ban on the export of Hydroxychloroquine to other countries is a brave step forward. Also, not to forget that India did not join RCEP (Regional Comprehensive Economic Partnership) in the recent past in anticipation of being one of the important global leaders. So, we must not let this prospect go. There is always a first mover advantage. India should appropriate it. This would also help our unemployment ridden economy not to overstrain with the difficulty of return migration in both domestic and international fronts. For such an opening public investment must be the top priority at this crossroad since private investors may not find the environment very lucrative to work with. Another encouraging dimension of Indian economy is its strength in the services sector, which does not necessarily require physical movement of labour.

Already declared fiscal stimulus package is a step taken in the right direction. And once the relentlessness of COVID-19 dies down we have to spotlight two things: One is trade, and the other is health.

India trades in services with some countries which are located in different time zones allowing both of them to work continuously without augmenting the unemployment snag. Hence, virtual trade in services is another area of importance in such trying times.

This character of services trade also creates a feel good factor in the destination country as the reason behind displacement in the job market is not apparently visible which happens when a large number of people migrate internationally. On top of this, India trades in services with some countries which are located in different time zones allowing both of them to work continuously without augmenting the unemployment snag. Hence, virtual trade in services is another area of importance in such trying times.

Concurrently, the government must be very careful about the basic health infrastructure of the country. Because it goes without saying that the niggling question coming to the fore is who is going to substitute human capital? Can we envisage of artificial intelligence or robots to take charge? In such a mechanized society, will a computerized programme be able to handle crisis situations? Is it necessary to be compassionate, sympathetic, and socially acceptable? What would happen to mental health, happiness, social capital etc.?

At the end, however, another humongous task that researchers would be exposed to is to analyse the quality of health condition and work ability of all the Corona survivors. Economies san healthy individuals can never exist. Health has a sustaining long run effect on human

capital and productivity in general. Thus, the possibility of second round productivity shock should not be ruled out. And, if the global lockdown, which is in force across the globe, is the only way to contain the ruthlessness of Coronavirus, this again may pilot us to an age

old debate of liberalization versus protectionism entailing the efficacy of a self reliant economy which we cannot embrace again because of specialized nature of modern factories and division of labour.



COVID-19: How to Minimize Uncertainties, Increase Confidence and Achieve Economic Stability in India?

Sacchidananda Mukherjee

Outbreak of the Novel Coronavirus Disease (COVID-19) and subsequent spread of the infection across the world has posed many challenges. The first and foremost challenge is how to contain the infection to spread and provide adequate medical care to those who are infected. Many countries, including India, have locked down (social distancing), as a measure to contain the spread of the virus to a large number of people. The lockdown may help to postpone the spread of the virus and get time to prepare medical care facilities to cope up with the health crisis. But, given the population size and inadequate infrastructure facilities in India (e.g., transport infrastructure, inadequate working and living spaces), social-distancing may be difficult to enforce once lockdown is rolled back. Moreover, lockdown has resulted in loss of livelihoods for

Ensuring safety of health may be the first priority to gain the confidence of common man which will encourage them to participate in economic activities.

a large section of the population. Therefore, it poses a great challenge for a country like India to ensure public health security without compromising on livelihood security of the citizens. No doubt that protection of lives is the foremost important, but it cannot be at the cost of livelihoods for a large segment of our society and moreover in absence of any social security. The lockdown has caused enormous hardships to all economic agents and governments (both union and state) have taken various measures to minimize the hardships. The question is how to revive normal economic activities without causing any public health hazards after lockdown is revoked. It may be true that some people may not have any option but to take risks and participate in economic activities to earn livelihoods. However, for a nation, any loss of life would be detrimental and

it will not only cause huge economic stress on individual families but also for a nation it will delay economic progress and development, in terms of loss in economic efficiency. Physical-distancing would be the new norm in every sphere of our daily routine and for that we need adequate infrastructure. Though investment in infrastructure (other than in health services) is desirable to expand the capacity for effective enforcement of social-distancing, in the short-run it may not be a policy priority of the government, given the fiscal constraints. Therefore, it is expected that, as an immediate response to COVID-19, all feasible measures will be taken to decongest our public exposures and facilitate 'ease of living'. Wherever possible, physical presence may be avoided – like education institutions – as long as the COVID-19 infection curve does not flatten. This will also encourage innovations in online activities (e.g., teaching and learning), which may help India to leapfrog human development ladder. There are several options available to decongest working space by adopting alternative working hours, work from home, etc. Ensuring safety of health may be the first priority to gain the confidence of common man which will encourage them to participate in economic activities.

Dealing with Uncertainties

It would be too early to estimate economic costs of the COVID-19 outbreak, but uncertainties looming around economic recovery are many. A large part of uncertainties could be internalized if we manage to get back to normal economic activities without compromising on safety and security of individuals life.

Putting more money in the hands of consumers will be the priority rather than giving tax concessions, even if it is sector specific.

There will be reservation for people to take part in normal economic activities, given their individual preferences (reservation) for security of health and life. There will be several factors which will influence individual choice to work or not, e.g., age, human capital (level of education, health status, per capita income), stock of accumulated wealth, alternative sources of income (interest, rents, profits, royalty), immunity level, value of life, prospect of future stream of income. However, it is the task of the policymakers to take into account median individuals' preferences while making policies. Keeping in mind safety and security of old people, they may be allowed to avoid taking part in economic activities physically. Mandatory health check-up may be suggested to avoid any risk of life.

The International Monetary Fund (IMF) in *World Economic Outlook* of April 2020 has rightly pointed out that the present crisis looms into three spheres – health, economic and financial – and it can be divided into two phases, a 'phase of containment and stabilization' (phase I), followed by the recovery phase (or, phase II). In both the phases, security of public health and economy would be the foremost priority of the policymakers. During the phase I, providing adequate budgetary support to health facilities is required to cope up with the health crisis. The impact of lockdown on livelihoods of the people, especially those working in the informal sector, needs to be kept in mind. Providing support – like financial assistance, foods - to those who cannot afford to meet their basic needs is essential. In phase 2, the main objective would be to revive back normal economic activities, and therefore, providing income and credit support should be

the priority rather than providing tax concessions (cuts, relief or deferrals). Putting more money in the hands of consumers will be the priority rather than giving tax concessions, even if it is sector specific. Transmission of tax concessions in terms of additional investment, fall in prices or rise in factor incomes depends on market conditions (price elasticities of demand and supply), and therefore, is not obvious. At the same time, any proposal of tax adventurism – in terms of imposing additional tax / surcharge - may be avoided. Government may think of reducing the burden of tax compliance by allowing additional time to file tax returns.

Fiscal and Monetary Measures

It is expected that demand for public expenditures will surpass the available fiscal space, and therefore, reprioritization of expenditures (or, expenditure switching) may play an important role in prudential fiscal management. Any public expenditure programme which does not have immediate economic or social benefits may be deferred. Effectiveness of any fiscal stimulus would be dampened during the present crisis due to uncertainties on time required to get back to normal economic activities. Therefore, it is expected that fiscal stimulus would be required for a longer period and much larger in size than the stimulus rolled out during the global financial crisis. On revenue mobilization, the government

Exploring a suitable design of GST compensation cess – either as a concurrent tax or central tax – may be a win-win situation for both the union and state governments.

may consider acceleration of disinvestment programmes, auction of licenses of natural resources extraction and utilization (e.g., 5G spectrum, coal blocks) and reduction of unproductive subsidies. Given the uncertainties associated with revenue generation from GST, providing GST compensation to states would be an additional fiscal burden for the union government. Therefore, exploring a suitable

design of GST compensation cess – either as a concurrent tax or central tax – may be a win-win situation for both the union and state governments. Strengthening tax administration to reduce tax frauds (evasions) and plugging the loopholes in taxation of inter-state trade of out-of-GST goods may be timely interventions. On monetary policy, dedicated credit lines to informal sector enterprises may play an important role to revive livelihoods of lower strata of the society. Institutions like self-help groups and microfinance institutions may play important roles to monitor activities of informal enterprises and also facilitate credit off take and recovery.

There will be challenges for EMDE not only on current accounts but also on capital accounts in terms of capital flight and lower inflow of remittances, which will induce depreciation of currencies.

External Challenges

Uncertainties surrounding economic recovery are looming and in the April 2020 issue of the *World Economic Outlook (WEO)*, the International Monetary Fund (IMF) has projected negative growth rate of world's GDP of 3 per cent in FY20 (2020-21). Growth rate in GDP of Advanced Economies is projected to be 6.1 per cent whereas the same for Emerging

Market and Developing Economies (EMDE) is projected to be 1 per cent. With the fall in growth rate in GDP for advanced economies, it is obvious that demand for import of goods will fall. Lower growth rate in advanced economies will spillover to EMDE, in terms of lower export demand for goods and services, lower remittances inflow and lower demand for workers from EMDE due to expected job cuts, including BPO/KPO services. The volume of exports from EMDE is projected to fall by 9.6 per cent vis-à-vis fall in import volume by 8.2 per cent in FY20. This implies that there will be challenges for EMDE not only on current accounts but also on capital accounts in terms of capital flight and lower inflow of remittances, which will induce depreciation of currencies. The fall in global crude petroleum prices may look good for oil importing countries, but it will create additional stress for oil producing countries, and therefore, reduce their demands for goods and services. For EMDE exports demand from oil producing countries will fall as well as there will be lower remittances inflow from these countries.

Domestic Challenges

From the external sector, if we move to the domestic sector, the challenges are many. IMF projects India's growth rate of 1.9 per cent in FY20. It is even 0.2 per cent lower than half the growth rate India achieved during FY19 (i.e., 4.2 per cent). At 3.3 per cent projected inflation in consumer prices, India's nominal GDP is projected to grow at 5.2 per cent in FY20 as compared to 8.7 per cent in FY19. The fall in nominal growth rate has impacts in terms of lower growth rate of tax collection, at a given

tax buoyancy. Given the huge population and large share of employment in the informal sector in India, it is evident that there will be more mouths to feed than available jobs in hand in coming days. In other words, there will be larger demands for public expenditures than fiscal space for the governments to spend on. The imbalance between revenues and expenditures will lead to revenue as well

as fiscal deficits. Now the question is it desirable for the governments to cross the fiscal deficit targets and borrow from the market to finance public expenditures. What will be the impacts of fiscal deficit in terms of crowding out of private investments? What will be the impact on public finances if a large part of current revenue is spent on interest payments and servicing of debts? What will be inter-generational equity in terms of tax payments and

availability of public goods and services? An extraordinary situation demands an extraordinary solution and therefore there is a need to study how much fiscal space could be freed to accommodate the demand for fiscal stimulus to minimize economic impacts of the Great Lockdown.

Resuming supply chains of domestically produced goods and services would be a major challenge. In absence of adequate supply, the possibility of inflation cannot be ignored.

Resuming supply chains of domestically produced goods and services would be a major challenge. In absence of adequate supply, the possibility of inflation cannot be ignored. Reestablishing of global supply chains with a focus on decentralization and de-integration have also been suggested by some scholars as a measure to cope up with the ongoing crisis. Holding of inventory is a function of costs of transportation (logistics), costs of adoption of information technology for

inventory management and costs associated with blocking of cash flows (including tax payments on inputs). Therefore, providing incentives for larger inventory holding may make the Indian economy resilient to supply side shocks. Diversification on input baskets with participation of multiple suppliers may not be cost efficient but it could help businesses withstand individual supplier specific shocks.

Way Forward

With globalization pressure on public expenditures increases on account of demand for insurance and protection as a result of rising vulnerabilities, and the writing of Karl Polanyi (*The Great Transformation: The*

Political and Economic Origins of Our Time, Boston, Mass.: Beacon Press, 1944) about an earlier period of market liberalization (i.e., the nineteenth century) presented a fascinating and powerful argument, which suggested that market pressures may, in fact, catalyse societal demands for greater protection and insurance. Therefore, it would be imperative for the Government in India to universalize health (medical) and life insurance to boost confidence of Indians and provide stability to the Indian economy by encouraging economic participation of all without compromising on health security. There is also a need to invest in health infrastructure to facility easy access to quality health care for all.



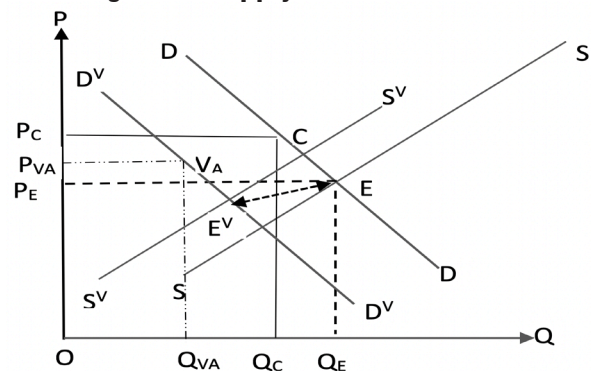
Recession, COVID-19, and Aftermath: A Macroview

Sanjib Pohit

For the last two quarters or so, Indian economy was phasing through a difficult phase, even though the government was in a denial mode. On top of it, COVID-19 fallout would seriously impinge India's economic fortune. To contain COVID-19 and minimise human fatality, the Prime Minister of India has announced an all-India lockup till 3 May 2020, which is probably the only way out. Only time will tell whether this lockdown period is enough to contain the spread of the virus or India may have to extend it. However, one thing is sure that this lockdown will have a lasting effect on the economy stretching more than 3-4 quarters depending how India and rest of the world come out of this global pandemic. Of course, correct macroeconomic steps and policy packages may ameliorate the situation. The wrong policy package may postpone the recovery.

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Figure 1: Supply – Demand Curve



Let me explain with a simple Supply-Demand curve as shown in Figure 1. Let SS be the upward sloping supply curve of the economy in the pre-COVID-19 phase indicating that more supply comes to the market with rising prices. DD represents the demand curve. It is downward sloping indicating that consumers demand more goods with a fall

in price. Demand and supply curve intersect at point E indicating that market clears at PE with quantity demanded Q_E by consumers matches what the suppliers produce. In reality, there was already a recession before the onset of COVID-19 with firms operating at significantly below full capacity due to shortage of demand. Probably the economy was operating at a point like C, with consumers demanding Q_C amount of good paying price P_C . Thus, the economy was short of producing $Q_C Q_E$ segment and thus missing the income generation associated with that production. According to RBI's survey on capacity utilisation, the economy was operating only at 68 per cent capacity utilisation rate during the third quarter of the last financial year. With 68 per cent capacity utilisation rate, India realised a growth rate of about 4.7 per cent in the same quarter. If the economy was operating near full equilibrium (say, 95 per cent), potential growth rate could have been 6.6 per cent, indicating that the segment $Q_C Q_E$ represents nearly 1.9 per cent of GDP.

Clearly, if price P_C declines, there will be more demand in the economy and economic loss arising for not producing the $Q_C Q_E$ segment can be minimised. Remember, government tax consists of a significant part of price build-up of any good. For instance in case of oil, this is nearly 100 per cent of the other cost. Even though oil price is supposed to be market driven with daily revision, every lay man now understands that it is a joke. The oil price is only market driven upwards but not downwards. In the past, whenever there is a spike in the global oil price, consumer price has been adjusted upwards. But, when the global oil stumbles downwards, neither consumers

nor producers benefit as the government has adjusted the taxes upwards so that the retail price does not decline. The government mistakenly estimates that their tax revenue will balloon up assuming that neither suppliers nor demanders would react to the policy change.

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In reality, this does not happen, more so when the economy is facing demand stagnation and the economy is operating with excess capacity. Both the parties react. Consumers would reduce their demand, and producers would only absorb a part of the increased cost and the rest would be passed to the demanders. The net

result would be a contraction of the economy. It is a known fact that oil based inflation encompasses the entire economy. Thus, the effect from lower domestic oil price, if tax were not raised, could have percolated to the entire economy stimulating demand. Additionally, the government is giving an extremely negative signal to the investors/producers/consumers: *the oil price will never go down in the Indian economy*. The basic macroeconomic theory tells us that intertemporal choices of firms, consumers are explained by whether the changes are permanent or temporary. In this circumstance, the entire economic agent would consider that the probability of oil price going down ever is unlikely and they would adjust their consumption/investment decision accordingly. The net result is further contraction.

In this Supply/Demand setup, how does the COVID-19 effect play on the economy? The country-wide lockdown implies all the supply channels, domestic plus foreign, are broken. Further, the workers may not report to duty due to the diseases or mobility factor. The net result is that the producers can supply lower amount

good at the earlier price. That is, supply curve will shift left as shown by the new revised curve $S^V S^V$. Likewise, the revised demand curve ($D^V D^V$) will lie left of the earlier demand curve indicating a lower demand of good at each price. Several factors are responsible for this kind of behaviour. There will be minimal demand from rest of world. Whatever efforts are being made by the government, some consumers will suffer loss of income due to job loss and thereby they need to adjust their spending decisions. The entire income from tourism will be foregone for the next 2-3 quarters. The new market equilibrium given by the intersection of new demand/supply curve is E^V , which lies below and left of the earlier equilibrium point E signifying a contraction of the economy. Of course with demand crux, the economy would probably operate at point V_A , with Q_{VA} amount of goods being produced. $Q_{VA} Q_C$ segment of additional output are not being produced in comparison to the earlier situation.

With a shift in demand and supply curve, a Keynesian type large fiscal stimulus is need of the hour for output to expand. So far, INR 15000 crore has been allocated for the health sector for improving health facilities. The Finance Minister has announced a Rs. 1.75-lakh-crore scheme to help the economically weaker sections survive the loss of jobs and income that would be the inevitable fallout of the Coronavirus outbreak. This amounts to 0.2 per cent of India's GDP which is significantly low in case of a pandemic crisis. Most of the countries are setting about 5-10 per cent to combat this crisis. Of course, the union government

has said more such economic packages for different sectors would be announced.

The district magistrate has issued instructions like no payment of rent, wages for lockdown period. This may no doubt lessen the burden. However, full-proof implementation would not be an easy proposition despite the government's best intentions.

Recommendations

A cut in intermediate tax in this time would definitely help the economy. Also, it is essential that the union government transfers the state's share of GST amount due immediately. A relaxation in respect of GST tax has already been given. However, the union government should be proactive in releasing the GST due amount of firms immediately. The money at the hand firms is essential now.

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The global demand will be low in the coming 2 to 3 quarters. Barring government, household is the principal source that can trigger the economy by demanding goods. The money at the hand of the poor people by cash transfer makes sense as they will probably spend the entire amount fuelling demand as their saving propensity is negligible. The lowering tax rates for the lower middle income class also make sense for the same reason. Giving money only to the industry would not help as they may just restructure their debt and may not increase production due to lack of demand. In sum, the government needs to have a plan for Keynesian type fiscal stimulus.

Part III: New Normal



Post-COVID-19 Global Economic Order and China Scenario Building for India's 2050 Strategy

Biswajit Nag

C COVID-19 pandemic has changed the global economic situation. Unlike recession such as the Great Depression of the 1930s or the financial meltdown of 2008, this health crisis is not a product of the failure of the economic system. The Great Lockdown of 2020 is unique in the sense that it has come all of a sudden halting almost all economic activities, for a while. Economists besieged to analyse the implications and predict the future. Media inclusive of social media is reflecting a gloomy picture and predicting that negative effects on the world economy might last longer than imagined at the beginning of lockdown. With the global supply chain affected, initially due to a halt in Chinese production system, followed by other countries, its negative impact is also

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witnessed in declining consumer demand. Global oil demand has plummeted significantly (in April 2020) and is hovering around what it was in 1995. Confinement measures in 187 countries and territories, varied in scope and strategy, are having a significant impact on business and governments' fiscal position leading to rise in unemployment and poverty.

Indian economy has been on a slow growth path before the COVID-19 outbreak and the current shock does not augur well for the economy. Its immediate effect on the public health system in terms of improving health facilities, provision of medicines, food and other associated services is visible. However, as the lockdown ends, reviving the economy will remain a serious challenge

due to low expectations resulting in slower consumer demand and the slow recovery of the business sentiment. Business needs to adjust to a new normal with ceremonial costs cut, greater automation, thus reducing the possibility of employment generation. International economy may witness new characteristics with some level of trade barriers considered as natural. Given the new set of priorities countries may rework on the supply chain, FTAs may get renegotiated, and there is a possibility of rise in trade disputes. One may also witness slowdown of multilateral processes until the time world realises that production sharing is mutually beneficial and can create a sustainable position.

Some predict that India will be the next production hub with companies shifting their production base to India creating a new supply chain. However, it may not be that simple given the complexity of the real and financial economy throwing some surprises in the post-lockdown period. The veracity of predication/discussion of this order requires robust information, collection of which now seems difficult. Thus, an attempt to present alternative scenarios globally keeping China at the centre stage with its implications on the Indian economy follows:

Scenario 1: Those sections with this belief that COVID-19 pandemic has its origin in Chinese threat, might influence multinational companies to withdraw their production base from China completely. These companies looking for greener pastures and a new supply chain may consider Southeast Asia and East European countries as new destinations. However, the best option for investing countries would be to continue in their existing production base and enjoy returns on comparative advantage. Shift towards a new supply chain will lead to shortage of

goods in the short run and price may rise. Disentanglement of supply chains with China may be painful as readjustment may take time and in such a situation, China's exports will face negative consequences.

Scenario 2: Chinese firms are aware of the political pressure other firms in China are facing hence; both Chinese and their partner firms may jointly look for an ideal place where both can move for production to avoid political backlash. Say, a European or American electronics company will operate from Vietnam, where the partner Chinese firm is already having a subsidiary. A new partnership formed in Vietnam and semi-assembled products shifted to Singapore for packaging, which is done by another Chinese company already present in Singapore. This will provide a mid-way solution to the current problem. Therefore, goods will not be exported from China directly but China will control the export earnings in other countries. Eventually, money will flow back to China. Countries that are already part of the global value chain (GVC), driven either by western MNCs or Chinese companies will be the major beneficiary. Readjustment cost for supply chain restoration will be relatively less as compared to Scenario 1 leaving less impact on global prices.

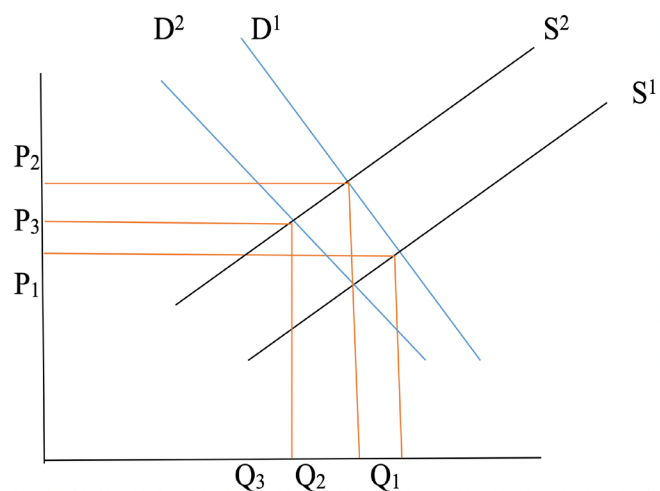
Scenario 3: Chinese growth has seen a deceleration trend during the last several years. Rising wage cost has set limitations to comparative advantage once enjoyed by China and both the Chinese government and Chinese firms are aware of it. China has accumulated huge surpluses through export-driven growth strategy and with the inflow of FDI, capital account has also been inflated which created upward pressure on the currency. In 2005, China decided to move gradually towards managed floating of its foreign exchange system and it took regular

reform measures in this regard.¹ A well-managed and gradual appreciation relative to the dollar resulted in substantial effective appreciation of Chinese Yuan since 2005. It is so clear that China is losing its advantage due to currency appreciation and rising wage costs. Continuous appreciation of currency has further pushed Chinese companies to move to other countries seeking offshore export platforms, an example of 'flying geese' pattern. Chinese government has also taken up an aggressive policy of investment abroad to keep the upward pressure of the currency under control and strategic shift led to the first notable investments abroad in 2005. Investment outflow grew exponentially after the financial crisis as the country followed "going out" (in 2016, China invested US\$ 46.5 billion in the USA and US\$ 37.2 billion in EU),² thereby Asia, Latin America, the US and European nations have been the favourite investment destinations for China. Further, China also invested through its Belt and Road Initiative (BRI) in many developing countries (more than US\$ 100 billion so far), invested in foreign stock markets and bought Foreign Government's Treasury Bill (holding US\$ 1.07 billion of US Treasury Bills). More outflow of Chinese Yuan will keep their currency under control. China is now focussing its competency in areas such as 5G, Artificial Intelligence (AI), robotics, 3D printing, pharmaceuticals, etc. For sectors like petrochemical products, basic electronics, machine tools, textiles etc. China may venture out to new countries. Hence, China may be looking for having a strong hold in the financial market and high-end technology in the long run.

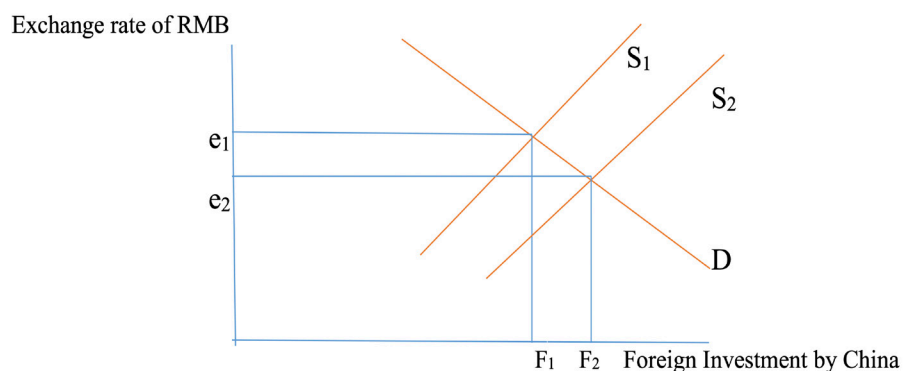
Scenario 4: China has provided development assistance to many developing countries that will increase its dominance in those economies. This will ensure a captive market of Chinese goods in large parts of the world. In a way, China may interfere in the political process in such countries and influence the governments to create a trade barrier on the products from other countries thus establishing Chinese supremacy. China is already in a controlling position for key materials and minerals required for future production of technology goods. China owns mines and commodity productions in large parts of the developing countries, thereby indirectly controlling foreign exchange flows there.

Figure 1 below explains the world demand and supply position in pre- and post-pandemic situations. D^1 and S^1 curves reflect demand and supply in pre outbreak situations with equilibrium price P_1 and quantity Q_1 . With the lockdown, supply came down due to

Figure 1



1 Refer, Das Sonali (2019); China's Evolving Exchange Rate Regime, IMF Working Paper, WP/19/50
 2 Refer, Wong Perry, et al. (2020); China's Global Investment Strategy; Milken Institute

Figure 2

disruption in the distribution channel and S^1 shifted to S^2 , leading to a reduction in quantity and increase in price (P_2, Q_2) in the short term. However, eventually, demand will also decline, as people are quarantined at home (demand curve shifts to D^2). Under this situation, the quantity supplied (Q_3) will be less than the previous situation and price will settle down at a P_3 (less than P_2 but more than P_1) due to supply chain disruptions as many companies will be in the process of shifting out of China.

If companies have decided to completely shift out of China with an attempt to build a new supply chain having no footprints of China, it will take a long time for the supply side to get adjusted. Price will remain high in such a situation (Scenario 1). However, if Chinese companies can make a deal with partner companies and keep the production process functional from the third country through a quick and joint effort, the supply curve will not be shifted back so much. Impact on price and quantity will be relatively less in such a situation and the S curve will settle in between S^1 and S^2 (Scenario 2).

Figure 2 explains the Scenarios 3 and 4. With the

retreat of China from exporting low value manufacturing products and its increasing focus on outward investment, China is expected to be more active in the financial market and technology world. While China's financial sector also needs to grow as is evident from the fact that

global demand for Yuan as reserve currency is still very low. Since 2005, a major shift in China's strategy towards being a key investor in diverse financial instruments along with reforms in the foreign exchange market has emerged. Putting this in the lookout for safe investment especially during the COVID-19 crisis China has not gained, further global investors (with risk aversion attitude) are still looking at the US dollar to stash their money, thereby appreciating dollar value. This indirectly reduces the exchange rate of Yuan in a relative sense. To address this, China may try to follow Scenario 2 to take advantage of its relatively cheaper currency. If China's investment outflow keeps the currency at the relatively appreciated position, China will try to infuse for more investment both in the real and financial market, pushing the supply curve down (from S_1 to S_2). It is important to mention that in April 2020, Chinese currency has bounced back significantly also due to positive expectations from China. In such a case, return on investment will neutralise the loss in trade. Following Scenario 4, China will still hold significant market share in

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the developing world and control the critical material required for technology development.

What would be India's Ideal Strategy?

Table 1 describes India's possible response concerning the above-mentioned four scenarios. As we are not sure, in which way the world economy will move post-pandemic, India's preparedness has to cover all four possibilities. Thus, a comprehensive approach

is the way forward. A mix of trade openness and protectionism along with international diplomacy and tweaking of domestic policies to ensure and sustain gains are the future strategies.

As global business takes a new turn, India has to redefine the country's position not only to leverage gains but also to minimise risks. Trade agreements are neither foregone nor shall a complete free market remain.

Table 1: India's Possible Strategy

Strategy 1	Strategy 2	Strategy 3	Strategy 4
<ul style="list-style-type: none"> Identify the sectors where India can replace China in the short run (auto-components, metals, chemical products, engineering products, etc). Activate production at the earliest providing incentives to such sectors. In the medium run, India must tune its FDI policy in favour of such sectors. Domestic supply chains in many such sectors may spread across the states. However, necessary actions need to be taken to improve time efficiency. 	<ul style="list-style-type: none"> India must strengthen its relationship with ASEAN and East Europe and play a proactive role to be part of the newly developed value chain. India's leverage in sectors such as metal, electronics, chemicals, machine tools, capital goods, auto components and such value chains could be effective. In the medium term domestic supply chain inefficiency to be removed. Skill development and issues related to product, process and design innovation to be enhanced through SME initiatives. 	<ul style="list-style-type: none"> Invite Strategic Chinese companies in India and develop collaborative research to further joint initiatives for productivity and exports enhancement. In this case, India's primary role to protect the country from hostile take over and encourage more Green-field investment cannot be ignored. At the technology front, India must develop an innovation ecosystem where companies from different countries can work together for product development and export from India. 	<ul style="list-style-type: none"> India might lose its valuable markets in South Asia, Africa, Middle East Central Asia, and East Europe. India's diplomatic channel shall be geared towards more development assistance, soft power and lines of credit etc. to manage and sustain current market share. India can also think of overseas investment in many such countries and connect them with domestic value chains.

The judicious mix must vary from sector to sector. India must identify 10 strategic sectors for focused attention related to investment, technology development with market access strategy to remain a part of the global value chain. It must integrate its manufacturing, innovation and trade policy to the best

possible convergence for enabling flexible, agile, technologically advanced and ready for innovation deals in these strategic sectors. How well Indian government is able to lead its resources, both financial and physical, will determine India's position towards 2050.



The Coronavirus Crisis and International Trade

Parthapratim Pal

The Coronavirus attack is an unprecedented crisis that has hit the entire world. At the time of writing, we are amid a global medical emergency. The virus is spreading at an alarming rate, and the damages are still being measured in terms of reported cases and human casualties. While these numbers are already large and growing, there is a distinct possibility that even in developed countries, the extent of damage has not yet been fully captured by the official statistics. Once the pandemic is medically brought under control, the focus should shift more towards assessing the economic, social, and psychological damage caused by it. But even with the early data trends, it can be said that the Coronavirus episode will probably be the biggest and most widespread economic setback recorded so far in modern human history.

The International Monetary Fund (IMF) and the World Trade Organization (WTO) have already made dire forecasts for 2020. In its

baseline scenario, the IMF expects that the global GDP will shrink by 3 per cent. However, IMF also suggests that there is significant uncertainty about the spread and containment of the worldwide pandemic, and under more adverse scenarios, the global growth may plummet by -6 per cent to -11 per cent. The WTO has also projected dismal numbers. According to its estimates, the world merchandise trade is likely to decline by 13 per cent to 32 per cent in 2020 due to the pandemic and the consequent lockdown. WTO predicts that the merchandise sectors with complex value chain linkages like electronics and automotive are likely to be the worst hit. According to WTO, specific sectors in trade in services will also be affected severely. Due to the global lockdown and imposition of transport and travel restrictions, some logistics, transport, and hospitality sectors will be severely affected. According to the WTO estimates, the decline in world trade due to COVID-19 is likely to be significantly higher than the downturn it suffered during the financial crisis of 2008.

These numbers indicate that the COVID-19 crisis will damage the world economy and international trade severely. It is likely that this crisis will also lead to some fundamental shifts in the pattern of trade and long-distance commerce. While the prevailing uncertainty and confusion makes it challenging to predict how things will unfold, some possible trends can be hypothesized. These are preliminary thoughts based on the skeletal data and literature that are available presently. They are as follows:

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a higher demand for agricultural and pharmaceutical exports from India.

Another sector that can benefit from the growing concerns about social distancing is the automobile industry. There is a possibility that social distancing norms will push people away from public transport and there will be growing demand for private transport vehicles, both two-wheelers and four-wheelers. India has some export interests in automobiles, and it is also a

big exporter of auto parts and auto ancillaries. This is one segment that can expect better export performance in the near future.¹

Change in Global Demand Pattern: This sudden and sharp slowdown in economic activities will have an impact both on the volume and pattern of international trade. The impact will both be from the demand side as well as from the supply side. The extent of the decline in global demand will be substantial. This will be a result of a combination of factors including a contraction in economic activities, reduction in purchasing power, increased restrictions on movements of goods and people, and higher uncertainties in short to medium term. Some indication of this decline can be seen in the international oil markets. However, it is possible that there will be an increased demand for essential items like food and pharmaceuticals. It has been seen during the crisis years that global demand tends to shift towards cheaper producers and suppliers. It might be possible that there will be

Supply Shocks and Lack of International Mobility: Because of production lockdown in most countries, there is likely to be a decline in the supply of industrial goods in the short run. However, if restrictions continue, then even in the medium run, there can be disruptions. Given the confusing global climate, it will be essential to focus on national self-sufficiency in industrial goods. This will be true for both intermediate and final goods. The import dependence of Indian exports has grown alarmingly over the past few decades. The sectors, which are overly dependent on imported inputs, may face challenges. Notably, many countries are imposing export restrictions to ensure adequate domestic supply.² So far, these export restrictions are

1 Daimler Says China Business Picks Up Again: Report (<https://www.nytimes.com/reuters/2020/04/26/business/26reuters-daimler-china.html>)

2 WTO report finds growing number of export restrictions in response to COVID-19 crisis- available at: https://www.wto.org/english/news_e/news20_e/rese_23apr20_e.htm

mostly in medical supplies and food. Still, it is possible that given the production disruptions due to lockdown, countries may give priority to their domestic market and impose further export restrictions.

Some authors have indicated that increased restrictions on physical mobility of goods may hasten the next

wave of an industrial revolution, which will depend on disruptive technologies like 3D printers, robotics, and Computer-aided manufacturing. As the WTO's World Trade Report 2018 mentions, "We are entering a new era, in which a series of innovations that leverage the internet could have a major impact on trade costs and international trade. The Internet of Things (IoT), artificial intelligence (AI), 3D printing, and Blockchain have the potential to profoundly transform the way we trade, who trades and what is traded". COVID-19 and the resultant restriction on the physical movement of goods may bring this transition upon us faster than we anticipated. It will be important to be ready for these disruptive changes.

India may need to consider whether our existing labour laws are flexible enough to deal with these new technologies. These new technologies will disrupt our labor markets, and it will be important to prepare a regulatory framework to ensure equitable distribution and meaningful safety nets for our workers while ensuring that the productivity gains from the new technologies are also appropriated.

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Generally, developed countries have become more active users of IPRs. Countries like India should be careful about the uses and misuses of IPRs in international trade.

Impact on Services: The effect of COVID-19 is going to be vastly different for different sectors of services. Transportation, tourism, hospitality, and some entertainment sectors will be affected negatively. But some services, which provide online delivery of content and e-Commerce services, are likely to benefit from this disruption. India should be optimistic about

services exports in Mode 1. However, Mode 4 is expected to be severely affected until there is a medical solution to the COVID-19 virus.

If reliance on digital services increases, there are several associated problems. There is an extremely high market dominance by a few large companies in ICT and digital services. This market is dominated by companies like Microsoft, Amazon, Apple, Google, and Facebook. This dominance is likely to continue if the world becomes more driven by digital services and technologies. Market power and market concentration of these companies may increase. This has widespread implications ranging from privacy, data security, entry barriers, and growing inequality in business and society.

However, many of the big Indian IT firms are vendors to these large TNCs and it is possible that these companies will benefit from the growing global demand for digital business and provision of digital services.

Intellectual Property Rights Will Become More Critical: If services become more dominant and if physical

movements of goods are replaced by movements of data, designs, and ideas, then intellectual property rights (IPRs) will become more important. Generally, developed countries have become more active users of IPRs. Countries like India should be careful about the uses and misuses of IPRs in international trade.

Impact on China: This is probably the most speculated aspect of COVID-19 and its impact on international trade. The conjecture is that the world has grown uneasy about doing business with China after the COVID-19 pandemic. Most countries are now trying not to do business with China. Therefore, India and other developing countries can take advantage of this situation and improve their positions in the global market. While it is true that globally there is an anti-China sentiment, it will not be easy to replace China. China is supremely competitive, and they are also recovering from the lockdown faster than in other countries. Supply chains of many countries, including India, are dependent on Chinese intermediate goods. Even if the rest of the world stops doing business with China, it is not clear if India and other developing countries can fill the void in the short run.³ It is not easy to reconfigure supply chains in the short-run, and moving away from a behemoth like China will be

India needs to be competitive enough to win these investment battles. India has recently made some changes in its FDI policies. While opportunistic acquisition of companies must be prevented, this new law should not restrict Greenfield investment in India.

even more difficult. Secondly, it is also possible that even if there is a movement away from China, Chinese companies based in other Asian countries may grab the business.⁴

However, it is possible that some of the companies presently operating from China may look for alternative locations. This can be an opportunity for countries like India to attract these firms. But there will be competition from some other Asian countries who are also looking to attract some of these companies. India needs to be competitive enough to win these investment battles. India has recently made some changes in its FDI policies. While opportunistic acquisition of companies must be prevented, this new law should not restrict Greenfield investment in India.

More De-globalization and Increased Emphasis on National Self-reliance: Since the financial crisis, the world entered a period of growing protectionism. WTO reports indicate there was a sharp rise in import restrictions over the last few years. It is being said that the world is reacting against the rapid globalization- or, the hyper globalization- which was going on since the mid-1990s. The period since the financial crisis was a period of de-globalization.

3 Anecdotal evidence from Indian importers suggests that in spite of the COVID-19 pandemic there was no significant supply disruption from China even in March 2020. However, most of these imports were stuck at the Indian ports due to the lockdown.

4 Another possibility is that of transshipment of goods. The world is already experiencing this. See here: <https://www.wsj.com/articles/american-tariffs-on-china-are-being-blunted-by-trade-cheats-11561546806>

The COVID-19 pandemic appears to be the proverbial last nail in the coffin of hyper globalization. WTO reports are mentioning that along with protectionist tariff and non-tariff measures on imports, countries are now also imposing export restrictions. Though these are early days, it appears that larger countries are slowly embracing the notion of self-sufficiency for essential and strategic goods. Given the early policy trends, one suspects that the COVID-19 pandemic may end the present pattern of globalization. The new way of doing international trade and long-distance commerce may permanently change after this.

New Global Order?

One crucial question will be whether there will be a change in leadership of the world economy, whether this pandemic will be the turning point away from the USA.⁵ While there are strong sentiments against China, China has massive influences and leverage on many smaller countries. It is also a major market for

many countries. Restrictions of imports from China may lead to a reciprocal blockade by China, and many countries will not be in a position to handle it. China also has a massive financial clout and is one of the significant sources of debts, aids, and grants to many countries. Though China has lost significant goodwill because of its mishandling of the COVID-19 crisis, it still is a formidable force. If the USA vacates its position as a global leader, it is possible that a group of countries may need to form a coalition to pose a counterbalance to China in global trade.

Concluding Remarks

Overall, the next few years are likely to see some fundamental changes in international trade and commerce. Eventually, everything will depend on the medical response to COVID-19 and how fast the medical emergency is managed. It is clear that there will be substantial economic costs, and global cooperation and fiscal-monetary and trade policy coordination will be required to come out of this crisis.

5 See here: <https://www.economist.com/leaders/2020/04/16/is-china-winning>



COVID-19, New Normal and India

Prabir De

The world is facing humanity's biggest crisis since World War II. Almost every country has been affected by the devastating Coronavirus disease (COVID-19). An outbreak from China has gone everywhere. In the last few months, Corona's epicentre has been shifted from China to Europe to the United States. Till 30 April 2020, over 3 million people had been affected by COVID-19 and about 210,000 people had died worldwide. Indirectly, billions of people have been suffering from the impact of the global pandemic of COVID-19. What is alarming is that the numbers likely stem from under-reporting, and may probably rise in the weeks ahead if we factor in asymptomatic patients and more tests. Given that the pandemic-driven crisis is constantly changing, countries are desperate to flatten the curve for COVID-19.

Undoubtedly, this Coronavirus has put the world economy at a major risk. Coronavirus ravages the economic foundations of world

trade. Commentators have identified this outbreak as an outcome of hyper-globalisation or starting of de-globalisation. However, the world is going to face recession; and the global losses, according to some commentators, may exceed World Wars I and II combined. At the same time, the falling world price of crude oil has added further anxieties. Several estimates are now available on the economic loss and post-COVID-19 growth path, and most of the estimates show that the world is already in an economic crisis.

South and Southeast Asian countries are no exception. They are heavily affected, health or otherwise. Countries are under full or partial lockdown for the last few weeks. It is a global challenge and a global response is called for. Flattening the COVID-19 curve together helps everyone in an inclusive manner. Unlike the 2007-08 global financial crisis, it is primarily a health crisis, which has given birth to an economic crisis.

Meanwhile, the world order has been changing fast. Several theories are being postulated. Anti-globalisation rhetoric venom is now unfurled. In such an unfolding “New Normal” of the world order, the consensus is that countries need to save the earth from the epidemic if we need to live together.

Table 1: Fiscal Stimulus Packages Announced

Country	Amount (US\$ billion)	Share in GDP (%)
India	24	0.8
Bangladesh	8	4
Thailand	58	2
USA	2000	11
Malaysia	84	0.7
Singapore	42	12
Japan	990	20
Indonesia	26	2.6

*As on 30 April 2020

Source: Author’s own based on several secondary sources

India has successfully controlled the transmission of COVID-19 till date, thanks to our well-coordinated steps to tackle the Corona pandemic. India’s prowess in pharmaceuticals and health science; mass public awareness with the help of digital systems; and a central command with strong participation of states; among others, indeed helped in containing the spread so far.

South and Southeast Asian countries have been following a similar approach in containing the COVID-19. All of them have introduced stimulus packages, particularly to support the heavily affected people, MSMEs, agriculture, exports, health, rural community, informal sector, etc. For example, Bangladesh has introduced over US\$ 8 billion stimulus

package, India US\$ 24 billion, Thailand US\$ 58 billion; to mention a few (see Table 1).

Regional Cooperation Initiatives

While each of the South Asian countries has undertaken drastic measures to save its nation from COVID-19-driven pandemic, regional cooperation is felt important to effectively handle the common challenge. For example, a full house of SAARC leaders met through a video conference on 15 March 2020 to discuss the scope and possibility of a joint action. Among other decisions, South Asian leaders have decided to launch a regional fund to deal with the crisis. An electronic platform with health experts has been launched, and a follow-up video-conference of senior health officials was organised thereafter, where countries have discussed several important issues ranging from specific protocols dealing with the screening of goods and people at entry points and contact tracing to online training capsules for emergency response teams. Steps are also proposed to foster technical cooperation, training and capacity building, among others. While the need to fight the pandemic is vast, this regional effort is a good beginning not only to share the responsibilities but also to reactivate the SAARC process. Few days later, the leaders of G20 countries had an online summit and pledged to infuse over US\$ 5 trillion into the global economy to minimise the economic and social impact of the COVID-19. India also had a teleconference with some of the Indo-Pacific countries on issues related to countering COVID-19. Indian diplomacy has responded brilliantly. However, the same initiative is yet to occur in case of BIMSTEC or between India and ASEAN.

On the other hand, ASEAN and EU convened a high-level video conference on 20 March 2020 to discuss the COVID-19

situation. ASEAN and the EU agreed to continue working closely together to mitigate the impact of COVID-19, including on social and economic development. They agreed to enhance exchanges and cooperation moving forward, with a view to further regular exchanges between officials and experts from ASEAN and the EU on dealing with this issue. Foreign Ministers of ASEAN and China also met in Vientiane, Lao PDR on 20 February 2020 for the Special ASEAN-China Foreign Ministers' Meeting on the COVID-19. Among others, leaders of ASEAN and China have agreed to step up cooperation in the region against COVID-19 by sharing information and best practices in a timely manner, including exchanging available epidemiological information, technical guidelines and solutions for epidemic prevention and control, diagnosis, treatment and surveillance, with a view to enhancing capacity in emergency preparedness and response; and mitigate supply chain disruptions of urgent medical goods and promote research and development of medicines and vaccines.

There are rich lessons to learn from COVID-affected countries. For example, South Korea and Taiwan

There are rich lessons to learn from COVID-affected countries. For example, South Korea and Taiwan could manage to control the devastation with the help of rapid tests and targeted solutions. Vietnam has no death from COVID-19 as on date. China has taken help of digital technology to contain the spread of COVID-19 in other major cities in the mainland. The common among all is the application of digital technology such as Artificial Intelligence and Machine Learning (AI-ML), Big Data Analysis, etc. in containing the COVID-19 transmission and sharing data and information on COVID-19 on a real time basis.

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There are several channels through which the COVID-19 outbreak may affect Indian economy (or any economy for that matter), of which the disruption of supply chains is the major one. Job loss is on the rise along with the slowdown in manufacturing and services activities. Workers are back to their home in faraway places, thereby leaving the coming harvest in uncertainty. Lack of orders may eventually lead to massive trade contraction. Further fall in Indian rupee is not remote. Besides, disruption in air travel, fall in travel and tourism, contraction in outdoor entertainment industries, rise in bankruptcy and NPAs. While these are short-term effects, rise in death

and destabilisation, complicated diseases and continuation of the pandemic, etc., cannot be ruled out. As a result, these shocks can spill over to other sectors and economies via trade and production linkages. Decoupling of economies, particularly between China and the rest of the world may arise, forcing China to concentrate more on domestic consumption.

New Opportunities and Standards Post-COVID

The countries across the world now have policy trade off of how much to open up their economies after the lockdown periods gets over, keeping the contagion effect of Corona infections and its spread in mind. We have seen 31 lakh Corona infections across the World and 2 lakhs deaths till date. US, Italy, Germany, UK, France, Spain, Iran, China, South Korea, among others, are more impacted by this health crisis.

While lockdown is essential for containing the Coronavirus, prolonged isolation is not the ideal solution to bring back the economy on the growth path. In the post-pandemic period, along with new trade standards and certifications, e-commerce and the new value chains may pick up the pace, where trade facilitation means connecting the countries over digital platforms (e.g. interoperability of digital interfaces) and paperless

Decoupling of economies, particularly between China and the rest of the world may arise, forcing China to concentrate more on domestic consumption.

trade. The freight forwarding market is one of evolution. In this new situation, according to the recently launched 'Global Freight Forwarding Report', continued automation and inclusion in fully-encompassing platforms that manage all modes of transportation and data analytics will dominate freight forwarding in the years ahead.

Opportunities may expand manifolds in crypto currency, Fintech, Artificial Intelligence

and Machine Learning (AIML), Blockchain technology, to mention a few. Countries will seek for faster, cleaner, safer transportation, instead of an ordinary FTA, which talks just about trade liberalisation and 'shallow' trade facilitation. Countries may opt for safe and secure trade than "free" trade. New "pandemic" related trade barrier(s) (can be classified as another NTM) may replace the traditional quota and other tariff and non-tariff barriers. The new global order will also create new jobs and skills. Global institutions require reforms to deal with the emerging situation.

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At the same time, countries shall undertake reform to strengthen the digital economy and e-commerce not only to manage the pandemic but also to facilitate trade. Trade barriers should not be allowed to happen in trade in goods and services particularly those that feed the health science.

Among other measures, what South Asia countries shall do in the post-pandemic period is to provide additional solatium. For example, exporters and importers may be waived from customs bonds till the situation improves and trade picks up the momentum or faster payment of incentives to exporters or waving the interests on bank loans, etc. India's SWIFT is a great example here. India's trade partners shall work on interoperability of trade transaction digital interfaces such as SWIFT.

If a crisis is prolonged, value chains, both regional and global, will break. This might also offer an opportunity for India to leapfrog its exports once the current crisis disappears. Is India ready to select new markets? India may have to design a strategy to replace too much reliance on China for the imports, particularly pharma APIs. Shifting the supply chains from China also offers new FDI opportunities.

If WTO is unable to offer its due services on time, India may consider calling an international or regional dialogue to set up new trade standards and certifications for export and import in the post-Covid-19 period. It is difficult to reform inter-governmental organisations where India or other South Asian countries are minor stakeholders. But, it is not impossible.

This is the time of a medical emergency. Crisis time calls for togetherness and partnership. Countries have to work together while dealing with the crisis, particularly for the post-crisis recovery. India's advantage is its leadership. Stable and strong leadership is in command. No event better demonstrates why a stronger network between countries is so vital to design a strategy for the entire world.

Conclusions

In this time of crisis, countries follow Keynesianism to generate jobs for the community, which will then help to improve the aggregate demand, and the production. Growth may eventually happen if both rise. Since the onus is now on the government, the managed market economy should be allowed to work till the growth returns back.

This is the time of a medical emergency. Crisis time calls for togetherness and partnership. Countries have to work together while dealing with the crisis, particularly for the post-crisis recovery. India's advantage is its leadership. Stable and strong leadership is in command. No event better demonstrates why a stronger network between countries is so vital to design a strategy for the entire world.

People who are ill with Coronavirus need doses of new medicines, which then go on building antibodies, save lives, improve oxygen levels and speed up recovery. In the same way, countries today need "economic antibodies" to save the economies from further disasters. Gradual opening of the economies and adjusting in "New Normal" is the need of the hour. Stimulus works well when it is well coordinated. India must step up its diplomatic strength in South and Southeast Asia as there are new scope and opportunities. For example, the RCEP is gone, but India can bounce back if we follow up our pending tasks in trade,

physical and digital connectivity, health and non-traditional security areas. Activating the Indo-Pacific this time may return high dividends in the post-pandemic period.

India's diplomacy has played a major role in managing the crisis on a 24x7 basis, be it lifting the distress people from several parts of

the world or following the pandemic minute by minute or settling immediate and complicated queries. Indian diplomacy should not stop here. India must continue to play a larger role in building a cohesive neighbourhood in this "New Normal" at a time when the partnership will be guided by new ethics, challenges and responses.



What Causes COVID-19 Spread: Cross-country Evidence with Focus on India

Somesh K Mathur

We are in the midst of unprecedented health and economic crisis since the advent of the corona pandemic. Countries are subsequently adopting the lockdown stringency measures. The Corona viral infection has impacted over 200 countries around the world including India in the months of February and March, 2020 due to human contagion and inability to find vaccines for curing the mutating virus. The viral infection is known for its speed, scale and gross uncertainty surrounding its termination. The countries across the world now have policy trade off of how much to open up their economies after the lockdown periods gets over, keeping the contagion effect of Corona infections and its spread in mind. We have seen 31 lakh Corona infections across the World and 2 lakhs deaths till date. US, Italy, Germany, UK, France, Spain,

Iran, China, South Korea, among others, are more impacted by this health crisis.

What is to be noted is that the rich countries having better health care systems and relatively lower population density have been impacted more than some of the South and the East Asian countries, CIS countries, Oceania, African nations and some Latin American countries, among others. What has been the cause of this spread? What needs to be done and what lessons can be learnt from cross-country and Indian states evidence of COVID-19 spread and death rates? This is the focus of this commentary. This commentary is based on cross-sectional data of 125 COVID-19 affected countries and 32 Indian states as of 25 April, 2020.¹ India is getting increasingly impacted because it

¹ Interested readers may contact the author directly for details about the models and the variables considered for this study.

faces various challenges at home apart from the universal fact that international travel to and from COVID-19 affected countries had led to spiraling of COVID-19 cases in India and across the world. India is also witnessing higher COVID-19 cases due to its higher population density, relatively limited health care capacities and its outreach to the hinterland, clusters and hotspots and because of higher incidence of undernourished population across states of India. In India, it is a problem of both lives and livelihoods and especially population which are stationed in the informal sector. The positives coming out of India are its demographic dividend, governance and democratic institutions at the centre and the state and quality health care systems at least operational in the urban areas. Resilient nature of Indians may face the most difficult times.

We can learn from other countries that have low pandemic spread by maintaining social distancing, testing more, improving more on governance and law and order with calibrated lockdown measures and training of police and health workers, identifying clusters and hotspots, providing quality health services to all and taking care of our frontline healthcare workers, among others.

New Empirical Findings

The way forward would be to increase fiscal space for health budget, transfers of cash and in kind to all and especially to poor, needy migrant labourers, people in informal sector, agricultural labourers, among others. Businesses and farming can be supported such that they do not shelve off labour at this time of the crisis. Harvesting shall be done on time for adequate food availability at affordable prices. Humidity and temperatures

are also cause of worry (V-shaped relation with COVID-19 cases). BCG vaccinations and relatively low smoking population help reduce the vulnerabilities to Corona scare. Stringency

has worked across the world, while in India the evidence is statistically weak in reducing the infections in some states. Kerala, Andhra Pradesh, Karnataka and also several eastern states are leading this Corona war in India. The distribution of Covid cases are quiet concentrated in states like Maharashtra, Rajasthan, Telengana and Gujarat, while it has spread across districts in other states of India. Issues are devising policies to restart businesses of small and medium scale enterprises, who have lost almost all of the labour during the reverse migration, which took place in India after the announcement of the lockdown on 25 March, 2020. Econometrically, in India the impact of lockdown stringency on covid cases and daily covid growth rates is weak, but surely one may say

that if it were not implemented, we would have seen cases rise to around one lakh cases and more deaths, five times the figure of what it is today. Partial or calibrated lockdown measures with other social distancing measures and other factors identified by this research study matters for reducing covid infections across the world and in India.

As like India, U-shaped relationship exists between COVID-19 infections and

lockdown stringency index.² But, more flattened relationship, depicting some form of partial lockdown, works in reducing COVID-19 cases. Cross-country regressions show Stringency Index across countries reduces COVID-19 infections, but, lockdown dummy has no statistical relationship with COVID-19 cases. Number of hospital beds and democracy index impact COVID-19 cases negatively. Vulnerable are the population above 65 years. Temperatures and smoking promotes COVID-19 cases. We have considered 125 countries and 32 variables in our ongoing study. Humidity (U shaped) and population density statistically show positive relation with COVID-19 cases in India. Co-morbidity in patients reduces the immune system, leading to higher vulnerabilities.

The rich countries initial response to track international travelers was lukewarm, while it was quicker at least in India, and in contrast, countries like the UK, the policy were initially focused on vulnerable class of the society, leading to postponement of lockdown measures. What is amazing is the probability density function (pdf) for COVID-19 cases for 125 nations and Indian states is same; the shape of pdf is “inverted U” with flattened peaks. Patience is the key as low and high numbers of cases have low probability, while mid-level cases have high peak level probabilities with flattened interval. That is the reason we have well-defined mathematical models defining pandemic spread which can define exact time

In this new global order when countries have come together to fight the corona war, clinical trials data needs to be shared for increasing production of generic counterparts.

period for lockdowns in case of India. The probability distribution of deaths is skewed to the right implying higher deaths have declining probability. Statistical analysis across countries and India bring hopes and belief that if we sustain this scare with aplomb, adhere to calibrated lockdown measures and maintain physical distancing, we would witness the flattening of the spread, even when vaccinations are not available for its cure at this moment.

The solidarity budget can increase up to 10 per cent of the GDP taking into account that this is also an opportunity to address structural issues like recessionary conditions prevailing in India before the advent of the pandemic crisis. We can learn from other countries that have low pandemic spread by maintaining social distancing, testing more, improving more on governance and law and order with calibrated lockdown measures and training of police and health workers, identifying clusters and hotspots, providing quality health services to all and taking care of our frontline healthcare workers, among others.

Next Steps

Designing vaccinations for corona would require increasing capacities to cater to the world population. We learn around 80 companies are on the job. In this new global order when countries have come together to fight the corona war, clinical trials data needs to be shared for increasing

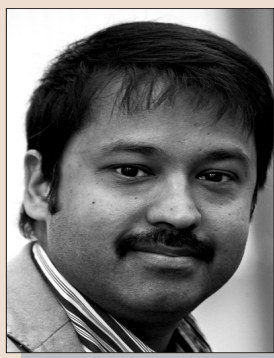
2 Refer, the Lockdown Stringency Index of the Oxford University, UK

production of generic counterparts. FDI should increasingly be invited, but not limited to, in COVID-19 products, be it increasing PPEs, medical equipments and devices, medicines and capital intensive production of high-end specialty equipments in hospitals. Intermediate products to production of medicines and trade in COVID-19 products need lesser tariffication. Flexibilities in the WTO TRIPS regime can be used. Compulsory license can be issued by the national governments if medicines are not affordable or accessible to common citizens. The multilateral health bodies need to be vigilant on international surveillance of any virus spread and be focused on increased

spending on vaccination research. We are vulnerable to this pandemic due to deforestation all around, climate changes and climatic migration, pollution and changing behavioural habits. This is not the time to revert to protectionist policies in limiting skilled personnel movements, among others. Trade in goods, services and FDI should be promoted under the aegis of the WTO.

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Part IV: Trade Policy



Responding to the COVID-19 Crisis: Policy Priorities for India

Anirudh Shingal

The near-complete disruption of economic activity in the wake of COVID-19 has the potential to be the most significant adverse macroeconomic shock in the last hundred years (Hevia and Neumeyer, 2020). The IMF and the WTO, amongst other organizations, have already predicted massive losses in economic growth and international trade in countries and regions across the world. The WTO has predicted a 13-32 per cent decline in trade, but these predictions are likely to be underestimated as they are only based on merchandise trade (Shingal, 2020).

Lockdown and social distancing have resulted in an immediate supply shock, followed by a demand shock. Economic activity has been completely stalled except in essential services and there is great uncertainty relating to the spread of the pandemic and relaxation of lockdowns across the world and within India at the state-level. This uncertainty has a bearing on global trade and investment besides disrupting supply-chains

and postponing consumption. In fact, trade in services is likely to be even worse affected as several services transactions require proximity between the buyers and sellers, which is the first casualty emanating from COVID-19-induced social distancing (Shingal, 2020). Given the increasing use of services as inputs into all sectors of economic activity, the adverse impact on services will have significant knock-on effects on the rest of the economy.

In what follows, I look at some policy options that the government could exercise to address the uncertainty emanating from this pandemic, to stabilize the economy in the short-run and to bring it to a path of recovery in the medium to long-run.

Immediate Priority

The government's foremost responsibility is to contain the spread of the virus and ensure that there are as few deaths as possible because a workforce can only be productive as long as

it is healthy and alive. At the same time, given disguised unemployment in agriculture and the large share of India's workforce employed in informal services and the unorganized sector, an extended lockdown is likely to result in a life-threatening situation of its own. The government should, therefore, coordinate across the states to at least partially lift the lockdowns in sectors of the economy that contribute significantly to the country's GDP, employment and exports, besides generating positive multiplier effects on demand and supply. These sectors include agriculture and allied, transport and electronic equipment, machinery, pharmaceuticals, textiles, handicrafts, construction, and services such as IT, business, financial, telecoms, distribution, etc. At the same time, given the uncertainty around the pandemic relating to a phase II of the Coronavirus in autumn/winter and the time involved in developing a vaccine and getting it approved for human consumption, the government must also invest in improving the country's COVID-19-related health infrastructure – both preventive and curative – on a war footing.

Supply-side Measures

On the supply-side, easier availability of finance and streamlining of regulatory bottlenecks would go a long way in expediting recovery in the aftermath of this pandemic, including via trade. Despite marked improvements in the ease of doing business, India is still ranked 77th amongst 190 countries on the World Bank's Trading Across Borders index. A vast majority of Indian firms continue to identify customs and trade regulations as a major constraint.

The government would also need to implement more targeted measures over the course of the next 12 months, designed to reduce costs on business and to promote cooperation.

Similarly, despite a largely liberal FDI regime, the country attracts less than 2 per cent of its GDP as inward investment, suggesting that other investment climate and regulatory issues remain a challenge for potential investors. Addressing these challenges would also facilitate commercial presence or Mode 3 trade in services, which is not only the most dominant mode for supplying services abroad but often also a necessary precursor to cross-border or Mode 1 services trade. These two modes together account for nearly 90 per cent of global trade in services, thereby reflecting their overwhelming importance from a policy perspective.

The RBI has already announced several policy measures to ease the flow of credit in the economy. These include a 25 basis-point cut in the reverse repo rate; extension of the realization period of export proceeds from nine to fifteen months; relaxation of asset classification norms; an increase of the limit under the Ways and Means Advances for states to avail short term funds to 60 per cent of the existing limit; and a special refinance facility of Rs. 50,000 crores to boost liquidity of NBFCs like NABARD, SIDBI and the National Housing Bank.

However, such measures are generic and should instead be targeted at sectors which can generate multiplier effects on employment and trade more quickly; and at MSMEs which play a pivotal role in the country's pursuit towards inclusive economic growth, job creation and poverty reduction by making investments in plant and machinery, creating value, innovating in process and product technologies, serving the domestic market

and integrating into regional and global value chains by being involved in the production of parts and components. The government would also need to implement more targeted measures over the course of the next 12 months, designed to reduce costs on business and to promote cooperation.

Given that the contagion-related fears would persist till a SARS-Cov-2 vaccine is available for mass deployment, the government should also incentivize firms and their employees to work from home to prevent more damaging and long-lasting effects on health and productivity, besides further straining the country's already stretched health infrastructure. This could be done via production subsidies and/or tax cuts and by curtailing/postponing excessive or unnecessary government expenditure on non-essential items so as not to inflate the budget deficit.

Demand-side Measures

The government has already announced a Rs. 1.7 trillion stimulus package that includes direct cash transfers and food security measures targeted at the poor, farmers, health care staff, women, construction workers as well as the organized sector. However, this allocation is less than 1 per cent of India's GDP and clearly not sufficient for its 1.3 billion people, a quarter of which live in abject poverty, with about 60 per cent of the country's total population living on less than US\$ 3.10 a day, which defines the World Bank's median poverty line. The government thus needs to implement more targeted stimulus packages

over the course of the next twelve months, also designed to address falling demand as businesses shut down and people lose their jobs as a result of this crisis.

Trade Policy Measures

While COVID-19 is primarily a health crisis, trade policy also provides options to address some of the second-order effects emanating from the pandemic. First and foremost, the government must avoid the use of export

restrictions on COVID-19 goods and services, from both trade policy and humanitarian perspectives. It should also use the pandemic as an opportunity to liberalize imports by reducing both tariff and non-tariff barriers and not just on medicines, medical supplies and essential equipment. Such liberalization may be even more necessary for services sectors like passenger transport, hospitality, health and education, which are likely to observe imposition of regulatory restrictions on health grounds. The government, however, must ensure that such restrictions do not become prohibitive and that

borders, both domestic and international, remain open. Lowering of trade barriers on goods and services used as intermediate inputs for domestic production and exports will also reduce economy-wide costs for both consumers and firms, facilitating recovery from both the demand and supply-side.

Another policy response during this crisis would be to unshackle the domestic e-commerce sector by introducing liberal provisions in the draft e-commerce policy that

Lowering of trade barriers on goods and services used as intermediate inputs for domestic production and exports will also reduce economy-wide costs for both consumers and firms, facilitating recovery from both the demand and supply-side.

has not been enacted yet. The policy should also liberalize cross-border data flows and revisit proposed provisions on data localization, etc. Such liberalization would also have positive effects on India's Mode 1 services trade – the one mode of service delivery likely to be least affected by COVID-19-imposed social distancing and lockdowns as these are services transacted over the internet in sectors such as finance, insurance, telecoms and other business, where economic activity is possible even in work from home scenarios (Shingal, 2020). In fact, the demand for these services will only get accentuated in the wake of this crisis.

The disruption of supply chains as a result of the pandemic means that India should explore opportunities in new markets in Africa and Southeast Asia, which are also likely to be more receptive to non-Chinese trading partners. One way of implementing this would be via preferential trade agreements. On this, India should learn from its RCEP negotiations experience. This may also be a great opportunity for India to join the recent plurilateral trade liberalization initiative of Singapore and New Zealand, which has since its ratification seen more members such as

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Canada, Australia, Chile, Brunei-Darussalam and Myanmar. Such pro-active engagement is also likely to enhance India's reputation globally (even the EU has not joined the initiative) and present it as a leader within the G-20 to coordinate global policy action on both the health and trade fronts.

Conclusion

Global shocks like the COVID-19 pandemic require a global, coordinated response, which in turn requires leadership, which unfortunately is missing at this point in time. India should, therefore, use the pandemic

as an opportunity to galvanize support for coordinated action at the multilateral level and play a lead role in this regard. That would be the best response to this crisis.

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COVID-19: Economic Implications and Trade Policy Responses

Arvind Kumar

The speed and scale of the COVID-19 shock is unprecedented. The global economy has been hit badly by a health, human and economic crisis and that is continuously evolving. The virus that triggered a localized shock in China has transformed into a global shock. The crisis comes at a time when confidence in globalisation and multilateralism as tools for development has been weakened.

COVID-19 is a global demand-cum-supply shock. The world is much more integrated today than it ever was through globalised consumption and international production networks. The duration of the shocks is currently unknown. Therefore, the scope for mutual amplification through the trade and financial channels is much greater than when shocks hit just one country or region.

According to the World Trade Organization (WTO), the global trade volumes are projected to decline by between 13 per cent and 32 per cent in 2020 as a result of the economic impact of COVID-19.¹ The WTO's more optimistic scenario assumes that trade volumes recover quickly in the second half of 2020 to their pre-pandemic trend, or that the global economy may experience a V-shaped recovery. The more pessimistic scenario assumes a partial recovery that lasts into 2021, or that global economic activity experiences more of a U-shaped recovery. The WTO concludes, however, that the impact on global trade volumes could exceed the drop in global trade during the height of the 2008-09 global financial crisis. The forecast also projects those sectors with extensive value chains, such as automobile products and electronics, could experience the steepest declines. Although

1 Trade set to plunge as COVID-19 pandemic upends global economy, WTO, April 8, 2020 https://www.wto.org/english/news_e/pres20_e/pr855_e.htm

services are not included in the WTO forecast, this segment of the economy could experience the largest disruption as a consequence of restrictions on travel and transport and the closure of retail and hospitality establishments. Such services as information technology, however, are growing to satisfy the demand of employees who are working from home.

Contractions in both domestic and external demand are expected to lower growth prospects. Private consumption which had sustained growth in recent years, even as investment was sluggish, will now be hurt by both the preventive measures and declining incomes. Government expenditure, which had hitherto been

restrained, is expected to expand and public investment may partially offset the likely further contraction in private investment. Supply chains have been broken across the world, and crisis continues while sourcing medical equipment and gears for health workers.²

India's exports suffer as global productions and imports contract sharply. India's trade openness is still comparatively low compared with ASEAN nations, but still it will be difficult to escape the recession in international markets. This is especially true in the current crisis because

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cross-border services are directly impacted. One of India's largest exports is business and professional services, consisting of business process outsourcing (BPO) centers largely based in India. This sector is severely affected.

India's exports and imports in dollar terms fell by 4.8 per cent and 9.1 per cent respectively in 2019-20. In particular, exports during March, 2020 declined by a whopping 35 per cent in dollar terms due to spread of COVID-19 in across countries which disrupted production and supply chains globally while imports fell by 29 per cent. Fall in exports in March 2020 was spread across sectors, including all top performers, such as petroleum products, readymade garments, engineering goods, gems and jewellery, leather products, coal and other minerals, plastic and linoleum, carpets and handicrafts (Box 1). Export of agricultural commodities such as oil meals, meat and poultry, dairy products, tea and other cereals also posted a steep decline during the month.³

Implement electronic Bill of Lading (eBL) at the earliest to facilitate seamless trade documentation

Lockdown measures, both in origin and destination countries, have forced offices to close as their infrastructure is heavily geared towards in-office working. There is also a concern that external demand will drop sharply even beyond the lockdown

2 Global Shortage of Personal Protective Equipment amid COVID-19: Supply Chains, Bottlenecks, and Policy Implications, ADB Briefs, No.130 April 2020, <https://www.adb.org/sites/default/files/publication/579121/ppe-covid-19-supply-chains-bottlenecks-policy.pdf>

3 Sources of data is Department of Commerce, Government of India; and DGFT, New Delhi

Box 1: Major Trade Commodity Groups Recorded Negative Growth

Major trade commodity groups which have recorded negative growth during March 2020 vis-à-vis March 2019 are as follows: rice (-28 per cent), oil meals (-70 per cent), meat, dairy & poultry products (-45.5 per cent), Engineering goods (-42.3 per cent), Gems & jewellery (-41 per cent), leather articles (-37 per cent), plastic & linoleum (-36 per cent), ready-made garments (-35 per cent), handmade carpet (-35 per cent), ores & minerals (-34 per cent), tea (-34 per cent), Other cereals (-33 per cent), organic & inorganic chemicals (-33 per cent), cotton yarn/fabrics./made-ups, & handloom products (-32 per cent) and petroleum products (-31 per cent).

Source: DGFT, New Delhi

period, as clients cut costs. This situation will certainly mean fewer new projects, as well as the scaling back of existing ones. Demand for Indian exports is likely to fall sharply, but recover by end-2020 as growth of external partner's resumes. While most of the world is still under lockdown, some of our trading partners (e.g. EU, USA, Japan) are likely to experience sharp contraction in their economies according to the IMF. China has been able to resume some economic activity, but few countries are demanding anything but non-essentials.

Tourism sector, which is multi-product activity, is likely to suffer a huge drop in jobs and foreign exchange earnings impacting export of services. The fallout from COVID-19 will disproportionately affect the incomes of industries. More importantly, a large segment of the labour force is directly or indirectly engaged in the tourism industry, affecting more livelihoods than just those directly employed in tourism. Another sector which is severely

**Establish COVID-19
"container clinics" along
India's golden quadrilateral
corridors of national
highway network.**

impacted is Micro, Small & Medium Enterprises (MSME).

Measures to Recovery

There are a range of areas given below where the government can undertake intervention to boost domestic production and trade opportunities in COVID-19

related products.

- i) Identify capacity (and comparative advantages) to reorient production for COVID-19 related goods
- ii) Augment the standards and regulatory approval of COVID-19 medical products
- iii) Implement electronic Bill of Lading (eBL) at the earliest to facilitate seamless trade documentation
- iv) Need to improve affordable access to essential medical supplies
- v) Liberal and quick refund of Remission of Duties and Taxes on Exported Products (RoDTEP)
- vi) Restore full operation of transport and logistics services along the main trade (export and import) corridors
- vii) Establish COVID-19 "container clinics"

- along India's golden quadrilateral corridors of national highway network
- viii) Coordinated purchase of medical supplies from overseas
 - ix) Better intellectual property access
 - x) Making standards for medical supplies freely available

Conclusions

Trade policy reforms can be a vital element in our response to the Corona crisis. Limiting the negative economic and social impact will require reforms that reduce the cost and improve the availability of COVID-19 goods and services. Measures to streamline trade procedures and facilitate trade can contribute to the response to the crisis by expediting the movement, release, and clearance of goods, including goods in transit, and enabling exchange of services. Reforms can be designed to reduce the need for close contact between traders, transporters and custom/port officials to protect stakeholders and limit the spread of the virus through use of eBL process, while maintaining essential assessments to ensure revenue, health and security. Interventions to sustain and enhance the efficiency of logistics operations are also

critical in avoiding substantial disruption to distribution networks, and hence, to regional and global value chains. These measures will address the COVID-19 related downturn and support the eventual economic recovery.

Trade in both goods and services will play a vital role in overcoming the pandemic and limiting its health and economic impact, across nations. Trade contributes by providing countries access to essential medical goods (including material inputs for their production) and services to help contain the pandemic and treat those affected; and providing necessary inputs to the industry and maintaining economic activity in the face of a global recession, disruption to regional and global value chains. Trade policy must stay open.

To retain the production of essential supplies for domestic consumers, several countries have imposed restrictions on exports of medical products. Recent experiences show that these measures ultimately hurt all countries. WTO members—or at least the G20 countries—must agree not to restrict exports of Coronavirus-related medical products. Consuming countries could do their part too by liberalising imports.



COVID-19 Crisis: Impact on Trade and Economy and Possible Remedies

Bibek Ray Chaudhuri

The world has seen many disasters, natural or otherwise. Mankind has been able to get over them through luck or by design. The COVID-19 pandemic presents serious health problems to a majority of the world population not witnessed in recent history. Extent of spread of the disease is unprecedented and the sheer number of people who died and are affected is of epic proportions. A natural response to such a situation has been lockdown, where people are asked to stay home and access essentials through doorstep service or venture out, as less as possible, through proper protection and maintaining social distancing. A lot has been written about predictions of the percentage of world population directly being impacted health-wise from this pandemic, and there is no end at sight until the vaccine is invented. Apart from threat to life directly from the disease, another crisis is its likely impact on the world economy. Due to partial or full lockdown in all

the major countries in the World, production has been severely disrupted. In most of the countries only the production of essentials is being allowed that to at a restricted scale.

According to IMF, the global economy was already suffering from slowdown in 2019 due to US-China trade war, problems in some of the emerging markets and some structural problems related to low productivity growth, and higher proportion of old age people in developed nations.¹ Manufacturing activity and international trade was severely impacted due to enhanced tariffs, policy uncertainty and resulting slackening of investments. Only silver lining was a better performance of the services sector. In terms of trade specifically, it is seen that the trend in trade volume has not recovered to the pre-crisis levels and is predicted to be severely dampened due to the COVID-19 pandemic.² The WTO has given three scenarios: trend as usual, pessimistic

1 <https://blogs.imf.org/2019/10/15/the-world-economy-synchronized-slowdown-precarious-outlook/>

2 https://www.wto.org/english/news_e/pres20_e/pr855_e.htm

and optimistic. If we go by the average of the three, the decline may be in double digits for many countries. Problem in this case is that any prediction about the economy or trade crucially depends upon the prediction of the ending of the pandemic. This makes the situation different from a crisis, which is either economic or natural. Here, the recovery cannot happen by one country supporting the other as almost 170 countries have been affected by the virus.

If the trade reduces on an average as predicted by WTO then the slowdown will reach double digits, and hence, maintaining the market share in case of a general slackening of demand may be the only option left.

In this commentary, I look at the possible course of actions in order to step-up trade and economic activities. I mainly concentrate on trade in the case of India. Some of the policies already implemented by the government in terms of fiscal and monetary measures are also discussed in the passing. First, I look at India's overall trade from the latest monthly figures available. Then, specific product groups would be looked at to find the causes of observed overall trends. To get to the strategies further, data analysis of change in market share of products and destinations is attempted to select a set of products and markets to concentrate on for revival. Finally, a general discussion on the economic and trade policies required to step-up economic activity and trade is presented.

There is a need to look for newer destinations. The ones where the impact of the virus is low or the ones which are expected to come out of it quickly.

Emerging Trade Scenario

The recent monthly trade data for India reveals that the overall exports in January, 2020, compared to January 2019, was down by 1.9 per cent.³ Looking more closely at the HS 2 digit level data, it is observed that the major sectors which caused this slowdown are vehicles other than railway or tramway rolling stock (HS 87), natural or cultured pearls, precious or semiprecious stones (HS 71), nuclear reactors, boilers,

machinery and mechanical appliances (HS 84) and organic chemicals (HS 29). The sectors which helped prevent further slide in export growth are mineral fuels, mineral oils and products of their distillation (HS 27), pharmaceutical products (HS 30) and electrical machinery and equipment and parts thereof (HS 84). In case of sectors causing the slow down, it was seen that the traditional markets were buying less from India. Given the impact of the COVID-19 pandemic, the situation is expected to be worse. If the trade reduces on an average as predicted by WTO then the slowdown will reach double digits, and hence, maintaining the market share in case of a general slackening of demand may be the only option left.

Next the destination of Indian exports is analysed.

Here, we apply a method Shift Share Analysis (SSA) (Green and Allaway, 1985). For this purpose, annual data for Indian exports was used for the years 2015-16 and 2018-19. The destinations increasingly accounting for India's export market share were identified. It was found that China, Netherlands, Nepal, Singapore and Malaysia constitute the top five countries, which are increasingly importing from India, compared to others. Are these countries going to remain the major destinations during and post-COVID-19 pandemic? If we look at data released by the WHO⁴ on 17 April 2020, all the identified countries are in top 50 in terms of numbers of confirmed COVID-19 cases except for Nepal, which has a rank of 178. China is the country from where the virus originated and is in the 8th rank in terms of number of confirmed cases whereas Netherlands is in the 12th position. Hence, there is a need to look for newer destinations. The ones where the impact of the virus is low or the ones which are expected to come out of it quickly.

The countries, which are increasingly importing more products and also with a smaller number of COVID-19 cases, can be a starting point. SSA applied to Country-World imports shows that China, Poland, Vietnam, Netherlands and UAE are the top importing countries in terms of higher share increase,

compared to the total shift in the market.⁵ Only Vietnam has a rank above 100 in terms of confirmed COVID-19 cases; all other countries are among the top 40 in this respect. Hence, we need to go down the list of rankings as per SSA and find destinations which are less impacted by COVID-19 or are coping well with the pandemic. Further, we have also tried to find out products at HS 6-digit disaggregation-level, which are gaining market share globally. The top products turned out to be petroleum oil (HS 270900), electronic integrated circuits and memories (HS 854232), human blood (HS 300210), motor cars including station wagons and racing cars (HS 870390) and petrol, CNG or LPG driven vehicles not exceeding 1200 CC (HS 870322). The full ranking of the products gives us a choice to decide which one of the increasingly demanded products we should concentrate on to step-up exports. One needs to also check for other factors like tariffs, non-tariff barriers (NTBs), price competitiveness etc. to develop a list which can be targeted to step up external trade.

Given the fragmented production structure, this has caused a serious supply-side bottleneck for carrying on cross-border trade. In such circumstances if the transportation and logistics systems cannot be run soon, alternative strategies must be conceived.

Stimulus and Reviving the Supply Chains

Trade cannot flourish without commensurate policies to revive the economy. A combination of fiscal and monetary stimulus is required. The Reserve Bank of India (RBI) in its policy

4 https://www.who.int/docs/default-source/coronaviruse/situation-reports/20200417-sitrep-88-covid-191b6cccd94f8b4f219377bff55719a6ed.pdf?sfvrsn=ebe78315_6

5 Calculations leading to these results are available on request from the author

statement on 27 March, 2020 reduced the repo rate by 75 basis points. Along with that a slew of measures to increase the liquidity in the country were undertaken. Policies to lessen stress due to debt burden through moratorium on debt repayment and also not classifying them under 90 day NPA norm and allowing more advances to states under ways and means advances are policies in the right direction. Increasing provision for higher liquidity should also match with renewed business and consumer sentiments. The lockdown has caused severe stress on mostly the daily-wage earners and also employees in the formal sector who fear losing jobs due to slackening economic activity. So, the monetary stimulus will only work when 90 per cent of the labour force who are either working in the informal sector or are casual workers in the formal sector get some relief in terms of direct cash transfers to boost their income during this difficult period. Given that most of the highly affected countries have announced bail-out packages which include income transfer, this should be followed in India as well. The fiscal stimulus announced by the government seems inadequate when compared to the measures taken in highly affected countries. One estimate⁶ shows that the income loss per week in India is estimated to be Rs. 1.7 lakh crore. Hence, an income transfer under existing schemes and new schemes may be announced to mitigate the loss to casual labourers and others who

In terms of reviving trade while selecting the products additionally, we can pick up products which are less sensitive to income changes. This can largely insulate the export growth from income fluctuations in the destination countries.

are affected by such income loss. These measures would help in revival of demand in the economy. As these households have high spending propensity, the multiplier effect of such expenses can help GDP to grow.

The supply chain has been severely disrupted due to the COVID-induced lockdown all over the world. Given the fragmented production structure, this has caused a serious supply-side bottleneck for carrying on cross-border trade. In such circumstances if the transportation and logistics systems cannot be run soon, alternative strategies must be conceived. The production systems might have to be consolidated in a lesser number of locations. Production networks might be re-aligned among countries which are less impacted by the virus. Within countries the locations, other than hotspots, should be made operational as early as possible provided

the Health Department gives the necessary clearances and proper safeguards are taken by the companies.

Way Forward

In terms of reviving trade while selecting the products additionally, we can pick up products which are less sensitive to income changes. This can largely insulate the export growth from income fluctuations in the destination countries. Xiey (2018) have estimated income elasticities

6 <https://www.dailypioneer.com/2020/columnists/economic-cost-of-the-lockdown.html?fbclid=IwAR2aDBr3sP61gQtJZZ8eMgDfJ2k4Fx2eQJndAo3Z46ui7HNryAlh-Kzjglw>

of products at ISIC 3-digit level. Products like textiles, petroleum, dairy products, tobacco, etc. were found to have income elasticities less than one. These products are also the ones which India exports, among others. So, while prioritising the list of products this factor may be additionally considered to revive trade.

Finally, the pending Regional Trading Agreements (RTAs) with the EU, US, Australia, New Zealand and some others should be taken up on priority-basis. Once signed, they can provide the much-needed market access for India's exports. Negotiations should concentrate more on reducing NTBs as it is the single largest barrier to trade for developing country exports to developed countries. A combination of fiscal, monetary, trade policy measures are, thus, required to revive the

economy and trade in these uncertain times. Allowance should also be made for taking into account the spread and severity of COVID-19 while deciding on the initial set of products and countries.

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Impact of COVID-19 on India's Trade: The Way Forward

Geethanjali Nataraj

The COVID-19 pandemic has created havoc in the global economy and international trade is no exception. In fact, the disruption to trade is so huge that it is likely to surpass the damage brought about by the global financial crisis of 2007-08. According to the WTO, world merchandise trade is set to plummet by between 13 and 32 per cent in 2020 due to the COVID-19 pandemic. The chances of recovery in 2021 also remain bleak as there is no cure to the disease and it may take a while before the vaccine hits the market and a lot also depends on the stimulus packages and policy responses by various governments to revive their respective economies. All the regions are facing setbacks to their exports led by the United States and Asia with the worst affected sectors being electronics and automotive products in the complex value chains. Services are also expected to incur heavy losses due to restrictions on transport and travel.

India has been experiencing a downturn in its exports for a long time now, even before the pandemic hits the world economy. Trade wars between the US and China, inward looking and protectionist economies, led by Europe, and global tensions had resulted in an export slump and the pandemic has only added further to India's exports woes.

Shrinking Trade

According to a report brought by CRISIL in March 2020, India's total exports dropped 34.6 per cent y-on-y in March 2020. In the latest reports, India's total exports recorded US\$ 21.4 billion in March 2020 and imports recorded US\$ 31.2 billion in March 2020, thus, registered a decrease of 28.7 per cent y-on-y basis. As a result, India's trade balance recorded a deficit of US\$ 9.8 billion in March 2020¹. In FY 2019-20, India's import from China amounted to US\$ 70 billion and exports US\$

1 Refer, The COVID-19 fallout CRISI, March 19, 2020.

17 billion, and if the pandemic is not contained soon China's demand for cotton, iron ore, and petroleum products from India is likely to suffer. Besides, India's import of several items including pharmaceuticals, consumer durables, automobiles, electronics, etc. could decrease due to the pandemic.

India is a service-led economy, and the US and Europe are the major destinations of India's services exports. More than 3/4th of India's services exports from the IT industry would be affected given the vast spread of COVID-19 in these regions. India's major IT companies, which are software exporters, are likely to be affected due to the reduced technology spending by companies in the US and Europe during the lockdown in a bid to prevent the spread of the disease. India's exports to its major trading partners have been negatively impacted due to the lockdown in several countries such as China, Italy and Germany. The labour intensive industries across the world are facing job losses in sectors such as gems and jewellery, handicrafts and carpets.

According to the Ministry of Commerce's Statistics, baring iron ore, exports of all the 30 major groups witnessed a contraction in March 2020. Some of the top items of India's exports which witnessed a fall include oil meals, meat, dairy and poultry, engineering goods, gems and jewellery, leather and leather products,

plastics and linoleum, carpets, etc. Petroleum products exports dropped 31.1 per cent, while rice exports declined by 28.3 per cent and electronic goods by 21.5 per cent. Also, core (non-oil and non-gold) exports dropped by 34.2 per cent in March 2020, while such imports fell by 29.1 per cent².

Post-Pandemic Scenario

However, the situation is expected to improve in the third and fourth quarters of the ongoing financial year as Christmas and holiday seasons in the US and EU, which is historically demand-driven, could lead to boost India's exports. Once most countries lift the lockdown and the global economy begins to kick-start, a weak rupee against the dollar could also boost India's exports and India's niche in certain products such as pharmaceuticals, which will be in high demand due to the pandemic will also help India's export sector.

The government has extended serious attention to the external sector as most of the issues being faced by India's exporters and importers have prevailed for several years including before the pandemic. The pandemic has only aggravated the problems. For instance, India's foreign trade policy (2015-20) is outdated and needs a major overhaul and restructuring, which is long overdue. Last year, all the export incentive schemes under the FTP were ruled to be WTO

The government has extended serious attention to the external sector as most of the issues being faced by India's exporters and importers have prevailed for several years including before the pandemic. The pandemic has only aggravated the problems.

2 Financial Express April 16, 2020.

non-compliant by the global trade regulator. Though the government is negotiating with the multilateral body, it is given that India needs to do away with subsidies given to the export sector in the form of various schemes, which are WTO non-compliant. Recently, the government abandoned the Merchandise Exports from India Scheme (MIES) and replaced it with the Remission of Duties and Taxes on Exported Products, which is called the RoDTEP. However, whether the scheme is better than MIES and more beneficial it is too early to say. The Indian exports scenario certainly looks bleak. With more and more countries becoming protectionist and India largely into the export of intermediate goods and raw materials and with manufacturing in a slump across the world, the demand scenario is not encouraging.

During the FY 2020-21, India's exports contracted by 4.8 per cent to US\$ 314.3 billion, while imports declined by 9.1 per cent to US\$ 467.2 billion, leaving a trade deficit of US\$ 152.9 billion. The 29 of 30 items each in export and import baskets contracted, pointing to severity of impact. This is the first time in four years that annual exports have fallen. The government's internal target of annual exports was US\$ 350 billion, but India is well below the target in FY 2020-21.

Although China was the epicenter of the pandemic and everything was shut in China

Small economies such as Sri Lanka and Vietnam are big competitors to India, and these countries have also received huge stimulus.

in the last few weeks, the Chinese economy has kick-started and manufacturing is beginning to pick-up. Many countries have again started placing orders with China and it will be a disaster if India does not resume its factories and kick start manufacturing activities immediately. Small economies such as Sri Lanka and Vietnam are big competitors to India, and these countries have also received huge stimulus. Unless the government bucks up and announces a major relief package for India's export sector, there is little hope that India's external sector will regain its lost sheen and get back on track. The MSMEs, which are the backbone of India's external export contributing nearly 49 per cent to the country's exports, need urgent attention to get back on track.

India needs to restructure its trade policy and bring about radical changes to give a boost to its exports and also make the exporter community, especially the MSME sector competitive and on par with international firms in the global supply chains.

Way Forward

India needs to restructure its trade policy and bring about radical changes to give a boost to its exports and also make the exporter community, especially the MSME sector competitive and on par with international firms in the global supply chains. The exporter community will need to be given big incentives and stimulus to overcome the challenges in tough times. Many of the export industries need some serious handholding. Incentives could include pre- and post-

shipment credit, relaxation in duties, support for increasing market access, etc. But strangely,

the government has extended the current FTP to the end of the FY 2021-22. Possibly, the government would be better able to assess the situation and announce the policy taking the global trade scenario into consideration once the pandemic stabilizes. However, it may be too late by then. The government must be urged that the new Foreign Trade Policy (FTP) needs to be revised and adjusted as per

the current state of affairs and at the earliest possible. Mere export incentives are not enough, and therefore, some major stimulus packages need to be extended to various export sectors to help them overcome the loss caused by the pandemic. It is said that a good trade policy begins at home. If the government focuses on the sector, a quick turnaround would be possible by the end of 2020.



COVID-19: Protecting India's Trade Interests in Services

Pralok Gupta

Pandemic COVID-19 is probably the greatest challenge of our time. The earlier challenges were either between countries or regions, or developing vs. developed countries. However, COVID-19 has affected almost the entire world, which has taken recourse to the precautionary measures of lockdown and social distancing to contain the spread of coronavirus. The lockdown has adversely affected not only the domestic economies but also international trade and the economic impact is huge across geographies including India.

Against this backdrop, this article discusses the impact of COVID-19 on India's services exports and how India should protect its interest in trade in services amidst the global pandemic. It highlights the importance

of services trade in Indian economy, and discusses the mode-wise composition of India's services exports and compares it with major services exporter countries. It also analyses the possible impact of COVID-19 pandemic on various modes of services trade from India's perspective and provides suggestions to mitigate the adverse impact.

Services Sector in Indian Economy and Trade

According to the Economic Survey (2019-20)¹, the services sector's significance in the Indian economy has increased over the years. It has accounted for around 55 per cent of total size of the economy and GVA growth, two-thirds of total FDI inflows into India and about 38 per cent of total exports. As far as international trade is concerned, services exports have

1 See, https://www.indiabudget.gov.in/economicsurvey/doc/vol2chapter/echap09_vol2.pdf; accessed on April 24 2020

outperformed goods exports in the recent years. As a result, India's share in world's commercial services exports has risen steadily over the past decade to reach 3.5 per cent in 2018, twice the share in world's merchandise exports at 1.7 per cent. Services sector is also the largest foreign direct investment attracting sector, as per the statistics released by the Department for Promotion of Industry and Internal Trade (DPIIT, 2019).²

Understanding India's Services Exports

Services can be traded through four modes of services supply: Mode 1 (Cross-border trade in services); Mode 2 (Consumption abroad); Mode 3 (Commercial presence); and Mode 4 (Temporary movement of natural persons). Before analysing the possible impact of COVID-19 on India's services exports, it is important to understand how India's services exports stand vis-a-vis other major services exporters for various modes of supply. Table 1 and Figure 1 provide mode-wise services exports data for India and selected major services exporters for 2017, based on the

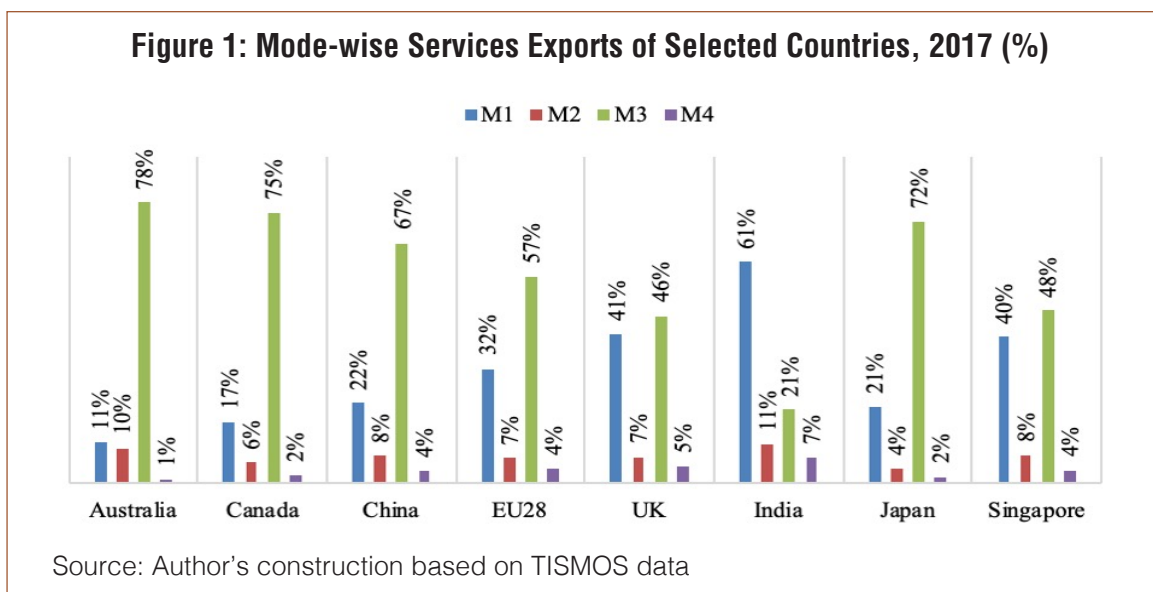
TISMOS database available at the WTO. As it can be observed, India's services exports are composed of mode 1 (61 per cent); mode 2 (11 per cent); mode 3 (21 per cent); and mode 4 (7 per cent).

Table 1: Mode-wise Services Exports of Selected Countries, 2017 (%)

Country	Services Exports			
	M1	M2	M3	M4
Australia	11	10	78	1
Canada	17	6	75	2
China	22	8	67	4
EU28	32	7	57	4
UK	41	7	46	5
India	61	11	21	7
Japan	21	4	72	2
Singapore	40	8	48	4

Source: TISMOS Data

Table 1 and Figure 1 reveal that the composition of India's services exports is a bit different from that of other selected countries. Whereas other major exporters of services



2 See, https://dipp.gov.in/sites/default/files/FDI_Factsheet_December-19_5March2020.pdf; accessed on April 24, 2020

have the largest share of mode 3 in their exports, the largest share in case of India is of mode 1. For mode 4, whereas other services exporters have a relatively very low share, mode 4 share in India's services exports is highest as compared to the other countries. This unique composition of India's services trade provides opportunities as well as challenges amidst the global spread of COVID-19.

Tackling COVID-19 Crisis and Protecting India's Services Trade Interests

As highlighted earlier, most of the countries have taken recourse to lockdown to contain the spread of this disease. The lockdown has resulted in shut down of offices, educational institutions, malls, cinema halls and various other kinds of business enterprises except the essential ones. Most of these businesses have started online meetings with various stakeholders to continue with their operations amidst the lockdown. This has resulted in an unprecedented surge in demand for platforms providing online meeting facilities. The use of online entertainment such as Amazon Prime Video, Netflix, Hotstar, etc. has also increased significantly. According to the BBC, Netflix got 16 million

India's data protection and privacy laws are not considered adequate by many countries including the EU. Therefore, India needs to align its data privacy laws with global practices.

new sign-ups as lockdowns around the world kept people at home where they want to be entertained.³

Given the highest share of mode 1 in India's exports and the worldwide dominance of Indian IT industry, there are significant prospects for enhancing India's services exports through mode 1, while online delivery of services and use of online facilities for official

and entertainment purposes continues to grow after COVID-19. However, an important obstruction in realizing such gains would be data protection issues. India's data protection and privacy laws are not considered adequate by many countries including the EU. Therefore, India needs to align its data privacy laws with global practices. Since the EU GDPR is considered as the benchmark by many countries for their data privacy frameworks, it is important for India to align its data privacy laws with the EU GDPR and make the existing Personal Data Protection Bill into an Act at the earliest.

Most of the developed countries have taken significant national treatment commitments under the GATS, and hence, they cannot impose discriminatory levies on online supply of services from India.

The government may also consider levying discriminatory levies on foreign music and video entertainment platforms such as Netflix, Amazon Prime Video, etc. At present, provision of movie and music through telecommunication networks or internet and online supplies of digital content (movies,

3 Refer, <https://www.bbc.com/news/business-52376022>; accessed on 25 April, 2020

4 Online Information Data Base Access and Retrieval (OIDAR) GST (Goods & Services Tax), CBIC

television shows, music and the like) are covered under the Online Information Database Access and Retrieval services (OIDAR) for the purpose of charging GST on such supplies.⁴ The government can levy discriminatory tax on these kinds of online supplies by foreign players to augment its revenue, which are stretched due to the expenses incurred in tackling the current crisis. It is to be noted that India has not taken mode 1 national treatment commitments for most of the services under the General Agreement on Trade in Services (GATS) of the WTO, and hence, it can impose discriminatory levies on foreign suppliers providing online services. On the other hand, most of the developed countries have taken significant national treatment commitments under the GATS, and hence, they cannot impose discriminatory levies on online supply of services from India.

India needs to think of alternative approaches to enhance its mode 4 services exports during and after the COVID-19 pandemic. One option could be to negotiate bilateral labour agreements with other countries allowing movement of natural persons for predetermined durations and with focus on specific sectors and skills where India has competitive advantage and complementarities with bilateral partners.

Mode 2 services exports are likely to be adversely affected as there will be restrictions on international flights. Foreign tourists and patients may also not prefer to travel to other countries including India given the risk of infection during the travel. For medical value travel, India would like to restrict the treatment of foreign patients as it struggles to meet the healthcare needs of those Indians infected by this disease. Increasing services exports through this mode would require long term

strategies to increase the domestic supply of healthcare facilities as well as building the image of India as a neat and clean country.

Mode 3 provides an opportunity for India to attract foreign investment. Given the global slowdown, many foreign investors would like to shift their investment from other countries to India. However, if India itself goes into severe recession, there is a risk of outward capital flight from India. Therefore, steps are required not only to tame the future slowdown, as has been announced by the government recently, but also to improve the business environment for doing business so as to inspire the relocation of foreign investment from other geographies to India.

Mode 4 exports though consists of only 7 per cent in India's services exports, these are much higher (double and even four times) than other countries, thus, signifying importance of mode 4 in India's services exports. However, this mode is likely to have the most adverse impact of COVID-19 as most of the countries will follow stricter visa regulations before allowing foreign nationals to work in their geographies. A case in point is the recent announcement by the US by which it has put a temporary ban on immigration to the US because of the pandemic.⁵ Other countries may also follow the US to announce

5 Refer, <https://workpermit.com/news/trump-and-coronavirus-green-card-issuance-suspension-60-days-20200421>, accessed on 25 April, 2020

ban on immigrant and non-immigrant visas in future. Travel ban put by many countries is also likely to continue for several months, thereby affecting the movement of natural persons to such geographies. As there is no or very less appetite for liberalizing mode 4 trade across the globe, services exports through this mode are likely to suffer significantly in coming times as far as India's services exports are concerned. Therefore, India needs to think of alternative approaches to enhance its mode 4 services exports during and after the COVID-19 pandemic. One option could be to negotiate bilateral labour agreements with other countries allowing movement of natural persons for predetermined durations and with focus on specific sectors and skills where India has competitive advantage and complementarities with bilateral partners.

One of the significant impacts of the current pandemic will be on employment. A significant number of people are likely to lose their jobs in India due to economic slowdown caused by the current crisis. Retail sector is one of the sectors that can provide employment opportunities to a large number of persons. It has been one of the largest employing sectors in India in the past. However, this sector faces stiff competition from online players due to

heavy discounts. Therefore, the government should take appropriate steps for creating a level playing field between online and offline vendors to sustain employment. Equalization levy, which got expanded in the recently passed Finance Bill 2020 to include e-commerce players from 1 April, 2020, is a step in the right direction.⁶ However, the prescribed rate of 2 per cent for this levy may not be sufficient to bring online and offline sellers on equal footing. Therefore, the rate of equalization levy needs to be further assessed.

Concluding Remarks

The current crisis has affected all spheres of life. These effects are going to determine how business will be done in future. There will be more and more involvement of technology and lesser use of human resources in various business decisions. Therefore, the current crisis has significant implications for India's services exports, for which demographic dividend and skilled human resources are used to be a big asset. As India enjoys foreign exchange surplus in its services trade account which partly compensates for the deficit in the merchandise trade, proactive steps are required to protect India's services trade interests in this uncertain time.

6 Refer, <https://timesofindia.indiatimes.com/business/india-business/equalisation-levy-for-digital-e-commerce-transactions/articleshow/74809194.cms>; accessed on 25 April, 2020

Part V: Trade Strategy



Five Strategies to Revive India's Trade Post-COVID-19

Arpita Mukherjee

The COVID-19 (novel Coronavirus), which started in the Wuhan city, Hubei province, China, in 2019, has affected over 200 countries by April 2020, slowing down their growth and international trade. While developed countries such as the United States (US), Italy, France, Spain and the United Kingdom (UK) are struggling to save lives, India initiated a complete lockdown on 22 March, 2020, when the numbers of cases were low. The lockdown got extended from an initial 21 days to 3 May, 2020. While this seems to have helped to save lives by reducing the spread of the disease, it has adversely affected growth, trade and investment.

From trade perspective, when China declared the lockdown in Wuhan, a study of the United Nations Conference on Trade and Development (UNCTAD) in early March 2020 shows that the trade impact of the Coronavirus epidemic for India is expected to be much lower than that for the US and European Union (EU). India ranked

15th with an estimated impact of about US\$ 348 million due to supply chain disruptions with China. Some also considered this to be an opportunity for India, as companies were looking into alternative sourcing destinations, and India could have been in the top list. Incentives were offered to a number of countries, particularly from Japan to relocate from China. Japan, whose trade impact, according to the UNCTAD study, was around US\$ 5.2 billion in early March 2020, announced a stimulus package worth US\$ 2 billion to help Japanese companies move production out of China. However, when global companies were exploring alternative destinations, the complete lockdown was announced in India.

The International Monetary Fund (IMF) pointed out that the world economy is expected to contract by 3 per cent in 2020 due to the lockdown, announced by several countries, while the World Trade Organization (WTO) estimated that the global trade is likely to deteriorate by 13 per cent to 31 per

cent in 2020 due to the Coronavirus pandemic. A number of international organisations have reduced their growth projections for India, although the projection varies. Some have also tried to estimate the costs of the lockdown. For example, according to the Acuite Ratings and Research Limited, the estimated cost to the Indian economy has been around US\$ 4.64 billion/per day for the 21-day lockdown period, resulting in a gross domestic product (GDP) loss of almost US\$ 98 billion. The expected loss in output between March and May 2020, varies across sectors. Certain services like airlines and hotels are expecting 60-70 per cent loss in output, while the telecommunication industry may have a much lower negative impact (5-10 per cent).

With only a few days under lockdown in March 2020, India's merchandise exports declined by 34.6 per cent to US\$ 21.41 billion from the previous year, while imports declined by 28.7 per cent to US\$ 31.16 billion. According to the Federation of Indian Export Organisations (FIEO), around 50 per cent of the export orders have been cancelled, resulting in a rise in non-performing assets. It predicted that the export sector could lose nearly 15 million jobs. Further, the lockdown in key export markets, such as the US and the European Union (EU), resulting in global recessions and fall in trade will severely hit India's exports, while a slowdown in domestic demand will adversely impact imports. There can be a reduction in negative trade balance for goods, but it is increasingly difficult to predict the impact on trade in services, in which

Countries such as the US may adopt protectionist measures to protect domestic workers and this may adversely impact high-skilled labour mobility. Keeping this in mind, there is a need for a targeted strategy to promote trade, especially exports.

India had a large positive balance in the past. India is a key exporter of information technology and information technology enabled services (IT/ITeS), some of which can be delivered remotely. While some clients may prefer to implement more technology, most of them may have to postpone technology adaptation due to the slowdown.

Stimulus at Work

Export promotion councils and industry bodies have already shared their request with the Department of Commerce, Ministry of Commerce and Industry, which includes COVID-19 interest-free working capital term loan to the exporters to cover the cost of wages, rent and utilities and a waiver from paying into Employees' Provident Fund Organisation (EPFO) and Employees State Insurance Corporation (ESIC) funds for 3 months, from March to May, 2020. The Department of Commerce has extended all the Export Promotion Schemes (except Service Exports from India Scheme (SEIS)) and other schemes under India's Foreign Trade Policy, which was due to end in March 2020 till 31 March, 2021. However, while this may be a temporary relief, it may not help the exporters. In 2018, the US filed a case against India in the WTO over a number of export-linked subsidies under different policies such as the Foreign Trade Policy and the Special Economic Zone (SEZ) policy. On 31 October, 2019, India lost the case in the WTO as the subsidies given by India are prohibited subsidies under the provisions of the WTO's Agreement on Subsidies and Countervailing Measures (SCM). Hence, exports under these subsidies

can be countervailed in the destination market, even if the appeal process is on hold in the WTO. Moreover, the US has also withdrawn the Generalised System of Preference (GSP), and it may not be reinstated soon. Countries such as the US may adopt protectionist measures to protect domestic workers and this may adversely impact high-skilled labour mobility. Keeping this in mind, there is a need for a targeted strategy to promote trade, especially exports.

Strategy to Promote Trade

- First, the government needs to seriously investigate the subsidies and schemes and design WTO smart subsidies, which are difficult to challenge or countervail. The number of subsidies should be pruned down and only those that can provide maximum benefits to the exporters should be retained. Since there is no discipline on subsidies in services in the WTO, most countries are now subsidising the services used in manufacturing. India should also provide subsidies to services like logistics, which can reduce the cost for manufacturers/exporters. Subsidies and incentives should also focus on retention of jobs as in the case of countries like Singapore.
- Second, a number of countries are encouraging their firms to withdraw from China. However, many of them already have trade agreements and other engagements with China, and other
- Third, India may explore innovative methods to attract foreign investment and sourcing from India. For example, given that e-commerce is treated as an essential service across the world today, India may allow foreign investment in e-commerce inventory-based models subject to a minimum export obligation. This may enhance sourcing from India. At the same time, the policy should allow exports of perishables from India through e-commerce route subject to proper due diligence and clearances. This can be an effective route for increasing exports and linking to global supply chains.
- Fourth, incentives can be offered to Indian firms, especially small and medium enterprises, to adapt IT and go online. This will not only help them to access more global clients and diversify export

It is important for India to ensure that its policies are supportive of investments from countries such as Japan, Taiwan, Korea, Germany and the UK. At the same time, some countries (like New Zealand) are less adversely affected by COVID-19 than the others. India needs to explore possibilities of enhancing and diversifying exports to such countries.

countries in Southeast Asia, which may make it difficult for companies to change their supply chains unless India offers a more foreign investor friendly policy and reduces import duties on raw materials and intermediaries. It is important for India to ensure that its policies are supportive of investments from countries such as Japan, Taiwan, Korea, Germany and the UK. At the same time, some countries (like New Zealand) are less adversely affected by COVID-19 than the others. India needs to explore possibilities of enhancing and diversifying exports to such countries.

markets but also improve their own productivity and efficiency. IT adaptation also needs supporting regulations so that sellers and buyers are protected from online fraud, etc. The exporters may need training to go online. Such training may be supported by the government. India also needs a strong data protection regulation like the General Data Protection Regulation (GDPR) of the EU, which gives global clients a level of confidence about sharing data. Today, India's data localisation policy or the lack of it, does not give confidence to a number of clients to locate their sensitive information in India.

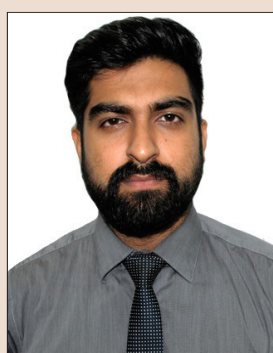
- Fifth, with growing unemployment in many countries, focus on exporting manpower can be a sensitive issue. In fact, India needs to help companies to adopt technology and export services online. It is important to handhold Indian technology start-ups in sectors like online education and health to globalise. In healthcare, India has a huge potential in exports of traditional medicines like Ayurveda. However, it is largely unexplored as Ayurveda is not approved in many markets, especially developed countries, unlike Chinese traditional medicines. As medical tourism and wellness services will take a long time to recover, India may explore the possibilities of offering Ayurveda goods

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and services like Ayurveda medical practice and Yoga in destination markets. This will require degree recognition of medical staff, recognition of the form of traditional practices and recognition of products. A detailed study can be conducted in collaboration between the Department of Commerce, Ministry of AYUSH and industry bodies on country-specific market access barriers and how to address them. In this context, India can learn from countries such as the US, which has a detailed market access study report done by the United States Trade Representative (USTR) every year.

Concluding Remarks

To conclude, the Indian economy and exports have been passing through a difficult time since 2019, and the COVID-19 has worsened the situation. However, it also offers an opportunity to India to be an alternative to China in the global value chains. Trade policies should be designed in a way that it enables the country to reduce the negative impacts of COVID-19 and maximise the gains from the existing situation. While a number of countries have shown appreciation for India in the way that it has managed to save lives under the COVID-19 pandemic, India has not been appreciated for its trade and investment policies, even by its own companies. This area will need policy attention.



Tackling Economic Uncertainty during COVID-19

S. Prahalathan, Rahul Mazumdar, Mayank Khurana

The COVID-19 is a pandemic concern, not only to India, but also to the other parts of the world. While the number of positive cases and the prevalence of healthcare infrastructure might differ across countries, one common measure applied by every country adopted to contain the virus is lockdown, which is still in place in many countries, including India.

Possible Economic Implications for India

The Indian economy, before the pandemic, though was growing decently, but was not in the best of its situations. The Indian GDP growth, which was recorded at almost 9 per cent in 2016-17, fell to 6.6 per cent and 6.3 per cent, in the following two years. It was estimated to be 5.1 per cent for the year 2019-20. However, the latest World Economic Outlook of the International Monetary Fund (IMF) puts the Indian growth to 1.9 per cent for 2020, clearly signifying the impact that the COVID-19 is expected to have on the economy. The most

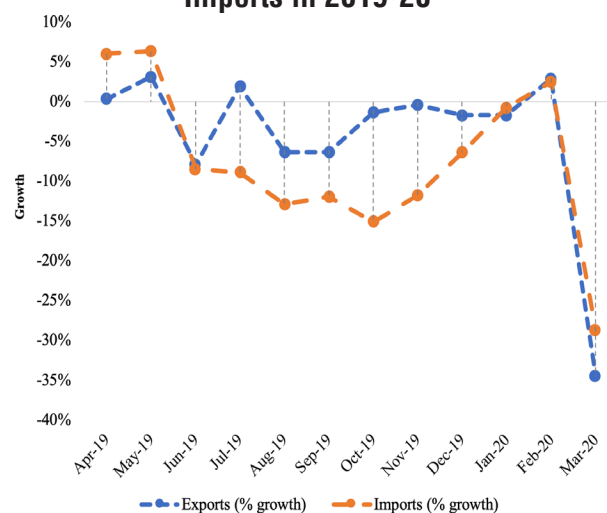
recent Fitch forecast shows India to grow less than 1 per cent in coming months.

The Trade Story

The Indian merchandise exports after reaching a height of almost US\$ 315 billion in 2013-14, fell to as low as US\$ 262 billion in 2015-16. However, post-2015-16, there was a recovery trend for the trade. The exports reached an all-time high of US\$ 330 billion in 2018-19. However, the figure is estimated to have fallen to US\$ 314 billion in 2019-20, a fall of almost 5 per cent, over 2018-19. A similar trend is also noted in the case of imports by India. The imports reached a height of US\$ 514 billion in 2018-19, and then fell at a higher rate of (-) 9.3 per cent than exports in 2019-20, estimated at a level of US\$ 467 billion.

Although Indian exports and imports did record some negative growth rates (y-o-y) during select months of 2019-20, an immensely high negative growth was noted in the month

Figure 1: Monthly Trend of Indian Exports and Imports in 2019-20



Sources: Ministry of Commerce and Industry, Government of India; EXIM Bank Research

of March 2020. The exports and imports fell by 35 per cent and 29 per cent, respectively, in March 2020 vis-à-vis March 2019 (Figure 1). This can be clearly attributed to the halting of the Indian trade with the rest of the world, as a measure against COVID-19.

Impact on Trade

In a report entitled “Global Trade Impact of the Coronavirus (COVID-19) Epidemic”, published by the UNCTAD on 4 March 2020, it was estimated that the trade effect of the COVID-19 for India will be around US\$ 348 million and India features amongst the top 15 economies most affected as slowdown of manufacturing in China disrupts the world trade. Chemicals, textiles & apparels, and automotive are likely to be the most impacted sectors in India’s case.

However, it should be noted that the above mentioned report was published when India was not much on the radar of COVID-19. In the present situation where India’s numbers of COVID-19 patients are increasing rapidly, and there is a complete lockdown barring

essential services, India’s traders are bound to be impacted even more.

The impact of the same can be ascertained from the fact that as per a release by the WTO, the decline in world trade may likely exceed the trade slump brought on by the global financial crisis of 2008-09. The WTO release even states that the recovery in 2021 is also uncertain as outcomes are dependent largely on the duration of the outbreak and the policy responses to the same. As a result, the WTO estimates that the world trade is expected to fall by between 13 per cent and 32 per cent in 2020, depending upon the emerging scenarios, viz., optimistic and pessimistic, respectively. Given this situation, it is likely that Indian trade will also be impacted negatively, to a large extent, especially the MSME sector.

It should be noted that the world production is inter-connected, and the production chain is segmented across several regions. While one stage of value chain might be in one continent, the other might be in a completely different continent. This sort of interconnection is also going to have its impact on India. For instance, in the automobile industry, India is dependent on China and some Southeast Asian nations for a few specialized components. With the trade disruption, it is likely to impact various automobile manufacturers and traders.

Strategies to Overcome Trade Challenges due to COVID-19

While the COVID-19 in India is still expected to be quite far from its peak, the Government of India has already taken measures to kick-start the economy, and eventually the trade, once the pandemic slows down. Once a clearer picture emerges with regard to the slowdown in demand in various sectors and the extent of impact, the Government is expected to take a slew of measures.

(a) Using the Fiscal Route: Lowering the Fiscal Deficit Target

The shocks to the Indian economy are expected to be from both the demand and the supply side. On the supply side, India is dependent on various countries with respect to the value chains and those countries are also facing the economic crisis. On the demand side, it is expected that the demand slowdown would be prominent in consumer durables, fashion oriented products and luxury items. Global demand is likely to slow down with respect to gems and jewellery, high-end textiles like home furnishings, and garments.

The Government may cut its expenditure and divert the funds in managing the healthcare and economic recovery. There have been announcements to suspend MPLAD funds, and freeze the dearness allowance (DA) for central government employees and pensioners. The legislators are also in agreement to get a cut in their pay and allowances.

At the same time, the government may also revise its fiscal deficit target upwards, which was set at 3.5 per cent for FY 2021-22 in the Union Budget 2020-21. It may be noted that the fiscal deficit target was also revised after the 2008-09 global financial crisis. At that time, it was relaxed to 6.1 per cent of GDP for FY 2009-10 and 6.6 per cent for FY 2010-11.

In fact, the Government of India has already started rolling out the fiscal measures. For instance, the ₹1.7 lakh crore economic stimulus plan that provides direct cash transfers and ensures food security measures under the PM Garib Kalyan Yojana. This is expected to let the demand float in the lockdown period.

The Government of India is also expected to announce another stimulus package for businesses and workers in the near future.

(b) Supporting the MSME Sector

The MSMEs account for a sizable chunk of India's exports, and hence, are vital when it comes to tackling any economic crisis. From the monetary policy side, the actions have already started with RBI announcing a targeted long-term repo operation (TLTRO) of ₹50,000 crore to ensure that small and mid-sized companies, including non-banking financial companies (NBFCs) and micro finance institutions (MFIs) get enough liquidity.

A comprehensive package can be a way forward, which can provide relief in payment

of wages, statutory obligations, rental, and utilities. The Central government may also like to address the concerns such as the extension of pre- and post- shipment credit tenure, interest-free loan to cover forward losses, and enhancement of export benefits.

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(c) Providing Environment to Companies for Relocation to India

China, for long, has been the epicentre for the global value chains (GVC), with a large number of companies having their production and assembly centres in China. However, an overdependence on China has been proving to be a not so beneficial exercise for the global manufacturers. As a result, a lot of companies are looking for new destinations to set up their plants, and India could reap this opportunity with appropriate measures.

At the policy level, India should work on its gaps, and create an environment to emerge as a successful alternate destination for global investors. Improving infrastructure efficiency, especially in power supplies, faster port and road operations, could position India as an attractive destination for investment.

India should also consider moving up the value chains, where it can manufacture parts

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India should also consider moving up the value chains, where it can manufacture parts and components, especially in electronics, and be a part of the supply chains, rather than depending on the inputs.

and components, especially in electronics, and be a part of the supply chains, rather than depending on the inputs. This will not only generate employment at a large scale but can also be an efficient model for export-driven growth for India.

Way Ahead

The lockdown measure implemented by the various governments in the world, including India, is bound to impact the economic growth and eventually the trade. However, a well-coordinated strategy between central and the state governments, as well as different concerned stakeholders, can strengthen not only the fight against the pandemic but also the economic crisis that will follow. With this, various sector-wise packages along with a holistic approach towards addressing the gaps can usher a new wave of economic growth and industrialisation for the Indian businesses in the coming years.

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Indian Economy at the Crossroads: Growth and Development

Rajeev Singh

The contagion from the global corona influenced lockout on the economy is entering through (i) finance channel, (ii) real channel, and (iii) confidence channel. It has given both supply and demand shocks. Business disruptions have lowered production, giving supply shocks. And, shaky consumers as well as businesses are not willing to spend, putting the negative multiplier in action. Demand contraction is across all sectors, but most severe in travel, tourism, hospitality, transportation, where it has fallen to zero.

On the supply side, there is a direct reduction in the supply of labour from illnesses, lockdowns and quarantines, which has led to a fall in capacity utilisation. Moreover, firms, from agro to engineering to textiles, that rely on supply chains are unable to get the raw material to process and produce the finished goods.

Dealing with the Crisis

Emergency fiscal measures are needed in India to stave off a GDP growth collapse and a full blown recession. We should increase our Stimulus Package to the extent of 5 per cent of GDP, as this is the time to let loose the purse strings and incur a Fiscal Deficit to the extent of 10 per cent of GDP.

Government has to provide benefits, but time has proved that it is not always best suited to deliver them. To reduce the implementation burden and free up its ability to take on new challenges, the Government should move towards cash transfers. Households and businesses hit by supply disruptions and a drop in demand could be targeted to receive cash transfers, wage subsidies, and tax relief, helping people to meet their needs and businesses to stay solvent. Farmers

and laid off labourers need cash transfers; middle class faced with falling real income need tax relief to restore consumption demand; and MSMEs need wage subsidies to remain solvent. Italy and Korea have extended wage support, and Spain has implemented Universal Basic Income Policy.

The worst hits are the lifestyle products like leather and leather goods, carpets, handicrafts, and apparels, etc., which are having over 75 per cent cancellations.

Moreover, for the average corporate, the liquidity crunch, in a COVID-19 inflicted economy, is a major pain point. With cash flow having dried up, soft loans are needed to tide over the crisis, as liabilities remain fixed. But, neither loan is available to them, nor is there any softness. The benefits of the first tranche of liquidity injection by the Reserve Bank of India (RBI) have been garnered by the large corporate. A second tranche is being directed to non-bank finance companies, particularly to those lending to small and medium-sized enterprises (SMEs), which are unprepared to withstand a sharp disruption. However, as far as monetary stimulus is concerned, implementation remains a key issue in liquidity spreading in the economy.

We are all along asking for banks to start giving General Purpose Corporate Loans with only one end use clause that can be used for the benefit of the Corporate *for* which the loan is taken. The loan will be used to pay salaries, meet statutory expenses, plant maintenance, etc. At present, as per RBI circular dated 5 December, 2018 (effective from 1 April, 2019) most of the loans are taken as term loans for a specific purpose. However, in this unprecedented liquidity crunch, the only purpose should be the benefit of the borrower industrial unit.

Now, we turn to specific measures for the revival of Indian exports.

COVID-19 and Indian Exports

- Today Indian exports are facing over 50 per cent cancellation. Table 1 illustrates the major commodities which have recorded negative growth in March 2020 vis-à-vis March 2019. The worst hits are the lifestyle products like leather and leather goods, carpets, handicrafts, and apparels, etc., which are having over 75 per cent cancellations. This will also put pressure on current account deficit as overseas remittance will decline so will be FDI/FII inflow in the country.
- India's overall exports (goods and services combined) in April-March 2019-20 are projected to be around US\$ 528.45 billion, down by 1.36 per cent year over year. Cumulative value of merchandise exports for the period April-March 2019-20 stood at US\$ 314.31 billion as against US\$ 330.08 billion during April-March 2018-19, registering a negative growth of 4.78 per cent.
- During FY2019-20, India's exports contracted 4.8 per cent to US\$ 314.3 billion, while imports shrank 9.1 per cent to US\$ 467.2 billion, leaving a trade deficit of US\$ 152.9 billion.
- Due to the ongoing global slowdown brought upon by the COVID-19 crisis and the subsequent disruptions in supply chain and demand as well as cancellation of orders exports from India stood at US\$ 21.41 billion in March 2020, down by 34.57 per cent from US\$ 32.72 billion in March 2019.

Table 1: Major Commodities Recorded Negative Growth during March 2020 vis-à-vis March 2019

Commodities	Y/Y Fall in Exports (%) in March 2020
Oil meals	69.85
Meat, dairy & poultry products	45.48
Engineering goods	42.32
Gems & jewellery	41.05
Leather & leather products	36.78
Plastic & Linoleum	35.67
RMG of all textiles	34.91
Carpet	34.72
Mica, Coal & other ores, minerals including processed minerals	34.06
Tea	33.74
Other cereals	33.42
Organic & inorganic chemicals	32.88
Cotton yarn/fabs/made-ups, Handloom products etc.	32.16
Petroleum products	31.12
Rice	28.28
Non-petroleum and Non-Gems and Jewellery	34.19

Source: ICC

Exports Revival Post-COVID-19: Seeking Targeted Stimulus

- Indian exporters should be given additional 2 per cent MEIS and labour-intensive sectors should be provided with additional 4 per cent MEIS on exports up to 31 March 2021. The MEIS should be given without realization as realization will be delayed in such tight liquidity globally. This scrip should be used for payment of any statutory levy including GST, Income Tax, etc.
- Banks must implement RBI relief measures which are

All existing pre- and post- shipment finance in foreign currency or Indian Rupee should be extended on maturity by additional 90-180 days on auto route irrespective of the tune of contract and sanctioned limit.

announced on 27 March 2020 in full and they should not treat it as mere advisory.

RBI may also clarify that pre- and post- shipment credit for exports are in the nature of working capital, and therefore, eligible for concession granted on working capital.

- All existing pre- and post- shipment finance in foreign currency or Indian Rupee should be extended on maturity by additional 90-180 days on auto route irrespective of the tune of contract and sanctioned limit.

- A comprehensive financial support package is the need of the hour to revive exports in textiles and apparels that is hugely hit. There is a need to provide *ad hoc* reimbursement/concession of 5-10 per cent against the remission of duties or taxes on export product (RoDTEP) schemes to compensate for the hitherto unreimbursed levies and taxes to the exporters.

Government should also exempt exporters and importers from paying any penalties and detention/demurrage/storage charges, levied by ports and shipping lines, or it will be difficult for them to survive.

- Government has also extended the current FTP to the end of the financial year 2021. With more time in hand, the government should revisit its stance and come up with more than financial incentives.
- Government should also exempt exporters and importers from paying

any penalties and detention/demurrage/storage charges, levied by ports and shipping lines, or it will be difficult for them to survive. In this context, we welcome the announcement by the Finance Minister that Customs and Excise would work 24x7 to facilitate the clearance of the goods.

Concluding Remarks

Given the cross-border economic linkages, some export contraction could be inevitable and then the

possibility of diverting exports to the domestic market, without incurring losses need to be explored. For that, the importance of a Keynesian stimulus to kick start the economy is of paramount importance. Overall, we need to act, and act fast.



COVID-19: An Opportunity for Pharma Exports?

Reji K. Joseph

COVID-19 has undisputedly confirmed that Indian pharmaceutical industry is indeed the pharmacy of the world. When India decided to temporarily restrict export of medicines, fearing supply shortages in the domestic market, a number of countries requested India not to restrict exports. Although the US President issued a threat of retaliation, it just manifested how desperately that country was relying on exports from India. Paracetamol and Hydroxychloroquine, which are used for treating COVID-19 patients, are exported to more than 100 countries. There are a few cases, globally, where a drug (combination of lopinavir and ritonavir) which has been used for the treatment of HIV/AIDS is found to be effective on COVID-19 patients. This drug is patented in many countries, but not in India as it was not able to meet the patentability criteria in India. Israel has already issued a compulsory license (CL) for the importation of generic versions of this drug of AbbVie (brand name is Kaletra). Later, AbbVie dropped enforcing of its patent rights over the

drug globally in order to facilitate global supply of this drug. Although the merit of Kaletra in the treatment of COVID-19 is still disputed, if more countries come up with the option of using this drug, it will definitely increase the export of the medicine from India. Apart from these developments, COVID-19 is likely to have a major impact on the international political economy which would provide a major opportunity for pharmaceutical exports from India, if prompt measures are adopted aimed at utilising the emerging opportunities.

Emerging Opportunities

COVID-19 is likely to do to Indian pharmaceutical industry what the Y2K crisis did for the Indian IT industry. Fixing the 'millennium bug', which was a labour-intensive process, provided a major opportunity for Indian IT industry resulting in a huge boost to the export of IT-enabled services from India. In a similar way, COVID-19 is likely to create a big opportunity for the active pharmaceutical

ingredients (APIs) segment of Indian pharma industry. Currently, much of the APIs required by the pharma industry across countries is produced in China and India, mostly through affiliate firms or contract manufacturing firms. A letter from the Chairperson of US Senate Finance Committee in 2019 to the US Department of Health and Human Services & US Department of Food and Drug Administration indicates that the 80 per cent of APIs required by the US are produced outside especially in China and India. It is very much likely that much of this import into the US is going from China.

COVID-19 has exposed the perils of hyper globalisation and global supply chains focused on a single country. This pandemic has affected all key sectors as supplies from China were affected. This has forced many countries to re-think on their strategy of supply chains. COVID-19 has brought to the fore strategic dimensions of efficiency seeking supply chains. National security establishments in countries, including India, have been pointing out the risks of relying on a single country for the supplies. However, the economic efficiency argument prevailed. COVID-19 has brought the national security dimension to the forefront, which would result in many countries adopting measures to reduce reliance on China for the supplies. Japan has announced an allocation of US\$ 2.2 billion for aiding its enterprises to move production out of China. In such a scenario, India is likely to become the preferred country for sourcing APIs. In formulations, India has already established its position globally.

India gaining from these opportunities, especially in the API segment, would depend on how swiftly policy makers in India respond to overcome the vulnerabilities facing this sector.

This pandemic is also throwing open an immediate opportunity for exports as some countries are contemplating use of CL for meeting the medicine supply requirements. Chile, Ecuador, Germany, Israel and Canada have already prepared the ground ready for issuing CLs and more countries may follow them soon. The Doha Declaration of 2001 has underscored the right of WTO Members to issue CL for addressing public health needs. And India has a WTO TRIPS compliant patent law which permits export of medicines under CL.

The general sentiment of innovator companies in the current situation has been quite accommodative. Fearing public opinion turning against them, a few other companies also decided not to enforce their patent rights over technologies which will be useful in treating COVID-19. Soon after the issuing of CL by Israel, AbbVie announced that it would not enforce its patent rights on Kaletra. Labrador Diagnostics, after facing criticism, withdrew its complaint against US start-up BioFire for using its technology for developing a COVID-19 diagnostic device. The ruthless enforcement of patent rights by innovator pharmaceutical companies in South Africa over HIV drugs had turned the global public opinion against these firms in the late 1990s which ultimately resulted in the Doha Declaration of 2001. Exports under CL, if countries resort to CL, would be an immediate opportunity for Indian pharmaceutical industry which COVID has created.

India gaining from these opportunities, especially in the API segment, would depend

on how swiftly policy makers in India respond to overcome the vulnerabilities facing this sector.

Need of Proactive Measures

India is an exporter of certain APIs, but at the same time it is very much dependent on China for a number of APIs and intermediates. Overall, more than 60 per cent of its total imported APIs is sourced from China alone. In the case of a number of APIs and intermediates, India has absolute reliance on China – the entire requirement is imported from China. And, in many cases of APIs which are produced in India, the intermediates used in the production are imported entirely from China. For example, the entire requirement of 4-aminophenol for the production of Paracetamol was met through imports from China. Similar is the case with Cipro Acid, Acetophenone and Cyclopropylamine which are the intermediates required in the production of Ciprofloxacin.

COVID-19 has once again rung the alarm bell on the dangers of excessive dependence on China for APIs. When pharmaceutical manufacturing units in Beijing were shut down in preparation for the Beijing Olympics of 2008, supply from China was affected and many Indian pharmaceutical firms were in a limbo. Similarly, when supply from Wuhan was affected, the price of Paracetamol went up 40 per cent in India. It was concerns on supply from China that led to the temporary restriction on export of medicines from India. In order to eliminate the dependence on China for APIs and intermediates and promote their domestic production, Indian government adopted a decision to launch a scheme at a cost of Rs. 10,000 crore on 21 March 2020, and Rs. 3000 crore will be used for creating common facilities in three mega API Parks, which are expected to be established by the private sector. At

the same time, Rs. 6940 crore is allocated for the production linked incentive (PLI) scheme over a period of eight years for 53 APIs which have highest dependence on China. Out of the 53 APIs, 26 are fermentation-based and their producers would receive 20 per cent and remaining 27 are chemical synthesis based and their producers would receive 10 per cent of incremental sales value as incentives. It is expected that this scheme will result in the incremental production of Rs. 46,400 crore. While this is a welcome initiative, it may not achieve the objective unless additional measures are incorporated to overcome some of the constraints India is having as compared to China.

Estimates by the industry suggest that imported APIs from China are cheaper by 35-40 per cent as compared to their cost of production in India. This is on account of various forms of government support, which Chinese firms receive in China, their larger size of operations and superior technology. It is expected that common utilities at API Parks and PLI are sufficient to offset the price disadvantage Indian API manufacturers are having as compared to their Chinese counterparts. But, it need not be so. The average size of SEZs in India is about 1 per cent of the average size of SEZs in China; we are nowhere near the Chinese in terms of scale economies in terms of size of operations. They use technologies which use cheaper raw materials like cauliflower as raw materials, whereas our firms still use costlier raw materials like glucose and lactose for fermentation. Therefore, our firms cannot compete with Chinese counterparts in terms of cost-effectiveness of technology.

Executives from Indian pharmaceutical industry point out that it may take about eight years for establishment of API Parks and commencement of commercial production

of APIs and intermediates. It is likely that Chinese firms would come up with even better technologies, which may further push the prices down. This possibility would amount to business insecurity for the potential Indian investors in the proposed API Parks.

As we have a structural disadvantage in terms of the size of SEZs, India needs to focus on cost effective technologies for the production of APIs if it has to achieve self-reliance in key APIs. And greener technologies are required as the API sector has been identified as one of the 18 highly polluting industries in India by the Pollution Control Board of India. The technology component has been missing in India's recent initiatives to boost domestic production of APIs and intermediates. Development of appropriate technologies has to be done in a mission mode and the large network of CSIR laboratories and public sector universities should be leveraged for this purpose. During the 1970s and 80s, the CSIR laboratories had developed new process technologies and transferred them to the pharma firms, which played an important role in developing the 'pharmacy of the world'.

Some of the public universities in India have developed cost effective and greener process technologies which could potentially be used for indigenous production of APIs. The Department of Biotechnology, University of Calicut, has developed a process

Some of the public universities in India have developed cost effective and greener process technologies which could potentially be used for indigenous production of APIs. The Department of Biotechnology, University of Calicut, has developed a process technology for the production of Penicillin from waste fruits, which is pending scrutiny for patent approval in Indian Patent Office.

technology for the production of Penicillin from waste fruits, which is pending scrutiny for patent approval in Indian Patent Office (patent application number 201841005087, dated 10 February 2018). This process uses solid state fermentation technology, which is more

environmentally friendly and cost effective. This technology is expected to give a cost benefit in the range of 25-33 per cent as compared to current technologies used by Indian API manufacturers apart from its greener nature. Attempts should also be made for the development of technologies, which would use wasted vegetables and food grains as raw materials; tonnes of vegetables and grains are wasted in India every year. Such technologies developed in universities and research institutes need to be scaled up for use in production units which calls for a vibrant industry-academia engagement and intervention of organisations like National Research Development Corporation (NRDC).

And the business insecurity will be overcome if the API Parks with common utilities are established by the

Government and then enterprises are invited to establish their production units there. This will considerably reduce the cost for producers and partly offset the disadvantage India is having in terms of size of operations as compared to China. The Andhra Pradesh Medtech Zone Ltd. is such a model in the case of medical devices.

While a proactive approach is essential in the domestic area, COVID-19 also calls for such an approach in the external front in order to counter the new challenges that are likely to come up.

Potential New Challenges

On the one hand, countries are contemplating on restricting the exercise of patent monopoly power to ensure adequate and affordable supply of medicines, while, on the other, there is a move to further expand the monopoly power using COVID-19 as a backdoor entry point. The US Senator, Ben Sasse has introduced a Bill recently seeking extension of the patent term by another 10 years for the existing and new drugs and medical devices which could be used for treating COVID-19. It is likely that the pro-intellectual property (IP) lobby would push hard for such a law and if the bill gets cleared, it would have serious implications

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for patent regimes across the world. There is no guarantee that this extension will remain confined to innovations to meet COVID-19 challenges. More importantly there is no empirical evidence suggesting that a longer patent period would promote more innovations; in fact longer periods could stifle innovation. Some of the free trade agreement (FTA) negotiations to which India is a party have already taken up the demand of patent term extension. The EU-India FTA negotiation, which is now put into the backburner, contained requirements of patent term extension. It was also very much part of the initial Regional Comprehensive Economic Partnership (RCEP) negotiations, which India had strongly opposed to. Any extension of the patent term would be detrimental for the export prospects of Indian pharmaceutical industry. And such moves go beyond what is required by the WTO TRIPS Agreement.



COVID's Attack on Economy: Deconstructing Possible Strategies for India

Surendar Singh

The global community is witnessing a deadly carnage by Coronavirus (Covid-19) and this has put the world on a standstill mode. The worldwide lockdown has brought forth a sweeping halt to the functioning of the global economy. Restriction on the movement of vessels, trucks and airlines has severely impacted the growth of global trade. A recent estimate of the World Trade Organization (WTO) shows that growth of global merchandise trade is likely to decline between 13 to 32 per cent in 2020 as the pandemic disrupts the global economic activity¹. India's merchandise exports and imports have witnessed a sharp decline in March 2020. Exports declined by a record 34.6 per cent, while imports declined 28.7 per cent in March 2020². Contract Enforcement at both domestic and international arena is likely

to become difficult resulting in a sharp decline in Ease of Doing Business rankings of most countries and heavily impacted in this vein would be the developing nations like India. A sharp fall in both exports and imports is likely to have far-reaching social and economic implications given the fact that trade plays a vital role in generating employment and fostering industrial and economic development.

Challenges in Post-Pandemic World

On the microeconomic front, the tsunami of Coronavirus is likely to push the economy into deep economic recession due to both demand and supply side shocks. Today, the Indian economy is confronting multi-dimensional challenges - fall in global aggregate demand, disruption of both domestic and global supply

- 1 Trade set to plunge as COVID-19 pandemic upends global economy, https://www.wto.org/english/news_e/pres20_e/pr855_e.htm
- 2 Covid-19 pulls down India's exports by 34.6% in March; trade deficit narrows to US\$ 9.8 billion, <https://www.livemint.com/news/india/india-s-trade-deficit-narrows-to-9-8-bn-in-march-exports-dip-34-6-11586955282193.html>

chains, decline in private investment and consumption, providing healthcare facilities to infected patients, among others. One of the main challenges in the post-pandemic world would be to discover ways and measures to restore the growth of the economy, especially exports and imports, which contribute more than 40 per cent to the Gross Domestic Product (GDP). Given the nature and magnitude of crisis, it is important for India to adopt a multi-pronged strategy that provides immediate relief to our exporting community, financial support to the industry and also creates mechanisms to exploit the potential opportunities in global supply chains.

India's Policy Response and the Suggested Measures

In its one of the first moves, the announcement of the new Foreign Trade Policy (FTP) of India has been extended for one year. This essentially means that all export promotion benefits such as Merchandise Exports from India Scheme (MEIS) and the Export Promotion Capital Goods (EPCG) will continue until March 2021. This is a positive move but not enough for the exporting community to deal with both demand and supply side impacts. The exporting community seeks more support to wade through these turbulent times. A number of policy and export promotion measures such as Subka Vikas scheme for EPCG holders, waiver of demurrage charges, relaxation time of submission of document times, waiver of

penalty due late filing of bill of entry, repo rate linked export credit, easier pre- and post-shipment finance, financial support for better market access, doubling duty drawback rate and automatic fixation of Standard Input-Output for a period of one year may provide relief to trading community. These are some important areas of concern which need to be addressed quickly.

Second, one of the most affected sectors of the economy is the MSME sector, which plays an important catalytic role in socio-economic transformation of millions of people who are engaged in this sector. MSME contributes 45 per cent to the total production and 40 per cent to the total exports³. Restrictions on economic activity in the past few weeks make it amply evident that the MSME sector is badly hit by this health emergency. A large number of MSMEs are on ventilators, possibly

at the point of perpetual closure. The sector requires immediate policy response to restore economic activity in the post Covid scenario. It is therefore important for the Ministry of Micro, Small and Medium Enterprise to draw a comprehensive policy framework that helps MSME to continue their business operation in the current crisis and mitigate the side-effects on their financial and economic health due to this global pandemic, not just in short term, but also in medium term and long term in the view of dual demand and supply side shocks. A comprehensive package may constitute a number of provisions such as extension on

A comprehensive package may constitute a number of provisions such as extension on utility and social security payments, partial payment of Goods and Services Taxes (GST) and enhanced credit access.

3 Promotion of exports by MSMEs, <https://pib.gov.in/PressReleasePage.aspx?PRID=1514371>

utility and social security payments, partial payment of Goods and Services Taxes (GST) and enhanced credit access.

Third, many countries are undertaking policy measures to reorient their supply chains to make them more efficient and resilient to such supply side shocks. They are exploring possible options to diversify their markets and sources of imports. Japanese and South Korean companies have started moving out their production from China to either to their respective home and other markets. The Japanese government has recently announced a fiscal stimulus package of US\$ 2.2 billion, of which a substantial part is allocated to assist Japanese companies for shifting their manufacturing plants out of China. This provides an opportunity for India to capitalize on these developments to integrate in Southeast Asia-led regional and global supply chains. This requires quick reforms especially in those areas which are critical for the functioning of regional and global supply chains. One such area is to address domestic trade

supply chain impediments which affect India's integration in global production networks. Most importantly, India also needs to come with competitive financial incentives (tax holidays and preferential tax rates) vis-a-vis Southeast Asian countries to lure companies which

are moving out of China amid trade war and pandemic. These measures may encourage Japanese and South Korean companies to shift their production to India.

Fourth, there is an urgent need for a stimulus package for the external sector. In this context, the Ministry of Commerce and Industry (MoCI) may constitute a task force

Most importantly, India also needs to come with competitive financial incentives (tax holidays and preferential tax rates) vis-a-vis Southeast Asian countries to lure companies which are moving out of China amid trade war and pandemic. These measures may encourage Japanese and South Korean companies to shift their production to India.

of industry veterans to work on a comprehensive stimulus package to prop up the falling exports. It is, therefore, important to identify sectors which are critical for exports and employment generation to accelerate the growth of the economy. For example, a stimulus package for the engineering industry can play an important role in reviving the growth of merchandise exports as the sector constitutes 30 per cent MSME, 25 per cent total merchandise exports and employs 29 per cent of the workforce⁴. It has strong backward and forward linkages with the manufacturing sector, which will have positive spillover effects on other sectors/subsectors of the economy. Likewise, a stimulus package

for the textile and clothing sector can also play a vital role in reviving the exports.

In view of the impending economic recession, it is important for the Government to act expeditiously to mitigate the potential

4 Export India: Unleashing India's Engineering Exports Potential, A report by EEPIC India and Deloitte, 2018, <https://www.eepicindia.org/download/ExportIndia-UnleashingIndiasEngineeringExportsPotential-190327105315.pdf>

negative effects on vulnerable sections of the society. It is pertinent that policymakers need to shed the tunneled vision towards immediate and urgent remedial measures in order to boost the confidence of the business community. There is a need to emphasise more on implementation of measures through extraordinary coordination across departments

both at centre and state level. Most importantly, they also need to evolve a new framework that embraces a holistic approach - an approach that provides relief to all stakeholders in trade supply chains. Such an approach, backed by a strong political will and cooperative federalism carries the promise to bring the economy back on track.

Part VI: Social Impacts



Impact of COVID-19 on Agricultural Marketing in India

Hema Yadav

During the 40-day COVID-19 lockdown, the agriculture sector has been meeting the challenge to cope up with the demand for feeding its 1.37 billion people and giving a glimmer of hope to the economic recovery, post-covid-19, through the forthcoming bumper Rabi crop.

The hope for a bumper crop is coming at a time when the lockdown has severely impacted the farmers in multiple ways. The chief among these are the disruption of the agriculture supply chain and the non-availability of labour during the harvesting season. The instant measures taken by the government have been helpful in addressing the problems faced in the wake of the pandemic outbreak of COVID-19. There are lessons to be learnt, which indicate that much needs to be done in terms of policies, implementation and convergence of systems and technologies. The article discusses the measures that can be taken to restore supply

chains, maintain food security and link Indian village communities with urban consumers in a more efficient and profitable way.

Impact of COVID-19 on Agri Economy

The national lockdown of 40 days to contain the COVID-19 has impacted the agri economy in multi-various facets. There was disruption in procurement of food grains, collection of harvest from the farms, scarcity of labour and truck drivers, blockage of highways, closure of retail agricultural markets and non-operative milling and food processing units.

The production of food grains for the agricultural year 2019-20 is estimated to be 291.95 million tonnes, including rice production pegged at 117.47 million tonnes and wheat at 106.21 million tonnes.¹ The procurement by FCI, NAFED and state agencies is sufficient enough to ward off any food insecurity in

1 Based on author's own research

the country. Owing to good production, good stock and sufficient supply, the price of food grains is expected to be normal. In case of perishables like milk, fruits and vegetables, flowers and even poultry meat and eggs, there are losses and collapse in price, but it is likely to pick up as the lockdown eases.

While there is a robust supply of food grains, pulses and oilseeds in the Rabi season, there is a depression in demand due to non-operative oil expellers, millers and processors. Agri marketing system needs to respond to match supply with demand, and regenerate the operational viability of markets and processing units as the pandemic unfolds.

Series of actions and policy measures were taken by Central and State governments to give relaxation to the rules for procurement and direct selling to ease the supply chain shocks in March – April 2020. The measures taken in this eventuality are as follows:

Management of APMC Markets: For procurement of wheat and rice, APMC Markets in states like Punjab, Odisha, and Haryana are operational for procurement by FCI and state agencies by following social distancing and quarantine measures.

Direct Selling: Farmers have been allowed to sell produce directly to traders, millers and processors. Aggregation and sale by the Farmer Producer Organisation (FPO) and Cooperatives during this period have been allowed.

Warehouses Sales and Financing: Procurement by warehouses and negotiability of

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warehouse through e-Negotiable Warehouse Receipt (eNWR) with bankers has been ensured. e-NWR-based MSP operations have been brought in force.

e-NAM: To decongest the markets and to ease the flow of produce, the Electronic National Agriculture Market (e-NAM) has been improvised by having app based modules on procurement, logistics and farmer friendly interface for advance registration of the produce for sale.

Agricultural Marketing in the Post-COVID-19 Period

Agricultural marketing plays a vital role in connecting the producers with consumers. Marketing function is intended to direct the flow of goods to crystallise demand for productive effectiveness and efficiency of agriculture as a business. It has a responsibility to ensure food security and income to farmers by functioning as a profitable venture. In the post-COVID-19 period, agri marketing has a greater responsibility to respond to unprecedented outbreaks of diseases or any other calamities by having a stable supply chain, horizontal integration of farmers to markets and strengthening the agri logistics.

Some of the measures required to cope up with disruptions and to ready for another eventuality are suggested as follows:

Expansion of Markets: Agri marketing policy through Model APLM Act 2017 beacons to open the markets and expand the reach of farmers by linking to markets, where there is sufficient demand. Agricultural marketing covers a wide range of agricultural produce and producers need to have effective marketing

linkages to a vast array of markets so as to receive optimal value for the produce. As per the recommendations of Doubling Farmers Income Report², farmers need to monetise the produce, hence, there is a need to provide multiple channels and markets for monetisation of the produce. The market channels range from institutions, private markets, commodity exchanges, retailers, processors and exporters, etc. For this, agricultural marketing is to be perceived as a business enterprise and has to be driven by value and not marginal price support.

Institutional Linkages for Marketing Local Produce: Model APLM Act stipulates provisions for promotion of direct interface between farmers and processors/exporters/bulk-buyers/end-users so as to reduce the price spread bringing advantage to both the producers and buyers.

In a study conducted by research interns of CCS NIAM on linking farmers to markets,³ it is found that there is a potential for establishing direct market linkage between farmers and mid-day meal programmes of the Government, student boarding of schools and universities. Considering that in India, around 12 crore children in over 12 lakh schools, and Education Guarantee Scheme centres are being served under mid-day meal scheme. There is a huge potential and a ready captive market for direct procurement of local produce

The successful adoption of e-Nam by states will depend on the use of 3Cs: commerce, content, collaboration.

from farmers for mid-day meal programmes. Similarly, the study also highlights the need to link the group of farmers to university hostels and boarding houses in 903 universities in India, where 29 million students reside in university-owned boarding houses

Strengthening e-Nam: To build up direct links between traders and farmers, 977 farmer producer organizations from 16 states have been on-board on e-NAM platform. There are 585 APMC Markets currently connected with the portal. e-NAM would soon expand to cover an additional 415 markets, taking the total number to 1,000. Approximately 16.6 million farmers, 127,963 traders and 70,904 commission agents, 977 Farmer Producer Organization (FPO) have joined the e-NAM platform⁴. The value chain linkages envisaged are transformational and are expected to get better by technology diffusion and adoption by states. Successful diffusion will depend on easing the technological and organizational adoption barriers by states. The successful adoption of e-Nam by states will depend on the use of 3Cs: commerce, content, collaboration. Collaboration with private companies and start-ups for strengthening e-NAM is envisaged. There was a keen interest reflected by start-ups and FPOs to get integrated to e-Nam by scaling up the innovations and technologies in respect to assaying, quality certifications, traceability, artificial intelligence and market intelligence.

2 Refer, Doubling Farmers Income -Volume 4, Mo&FW, Government of India

3 Refer, Linking farmers to Markets: Opportunities and challenges- 2019, CCS NIAM

4 Refer, www.enam.gov.in

Strengthening Agri

Logistics: Agri logistics to connect with the pan-India market and to supply against the best price possible is the need of the hour. The consumers' changing preferences and associated demand needs to be understood by farmers. In medium to long term, the agri supply chains need to be responsive to disruptions. The backend supply chain operations need to have collection centres and pack houses for aggregation, quality certification and demand information.⁵

Advance data analytics and network mapping to monitor produce flow and identify the gaps is a necessary tool to have information on risks in supply chain and to devise suitable strategies to curb post production losses. The future agri supply chains need to have integration of market intelligence with demand estimation. To achieve this, integrating Internet of Things (IoT), geospatial mapping and cloud computing may be explored.

Integrating Rural Markets to National Markets: The movement

Advance data analytics and network mapping to monitor produce flow and identify the gaps is a necessary tool to have information on risks in supply chain and to devise suitable strategies to curb post production losses.

The movement of migrants from urban to rural is a wakeup call to think about agriculture as to how it can respond to migration of rural youth to urban areas in search of livelihood. There is a need to focus on localised production, processing facilities as well as markets to reduce migration, increase local employment and ensure availability of food.

of migrants from urban to rural is a wakeup call to think about agriculture as to how it can respond to migration of rural youth to urban areas in search of livelihood. There is a need to focus on localised production, processing facilities as well as markets to reduce migration, increase local employment and ensure availability of food.

The Doubling Farmers Income committee recommended developing first mile markets- Gramin Agricultural (GrAMs) for integrated flow of produce from farms to consumers. The key functions would be to aggregate the local production, undertake cleaning, grading and packing in lots to transit to other markets. The existing rural *haats* need to be upgraded as Grams by creating spokes for uninterrupted flow of produce for better income of farmers. A physical grid of 22,000 GrAMs, the necessary logistics links, and the associated new regulations are important precursors of a new agricultural market ecosystem, which enables farmers to get connected with national markets.

5 Refer, Kohli Pawanexh, "Analysis of NDDDB and Cluster Model for Marketing of Vegetables", *NCCD IJCM*, Vol 1 2017

Focusing pro-Nutrition

Value Chains: In long term, the agri value chains also serve the purpose of building nutritional security of people at the bottom of the pyramid. Enhancing nutritional intake of the poor will boost immune systems and contribute to the ability to resist the virus.⁶ Agri value chain interventions are required to link demand and supply of nutritious food, which will influence food availability, food affordability and quality. On the demand side, the main pathway to nutrition involves improving diets through increased consumption of nutritious foods hence a focus on foods with higher value of proteins, iron and vitamins are required by consumer awareness example millets, superfoods, buckwheat, etc. On the supply side, the main pathway to the nutrition value chain involves the traditional value chain development framework through value addition, promoting the pro nutrition value chains, reducing costs, increasing sales

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and profits along the value chain, leading to improved incomes of producers.

Conclusion

Going forward requires a comprehensive approach to agrarian economy by devising farm-to-fork delivery models, enhancing value, upgrading quality, improving agri logistics and making technology work for rural areas in such a way that there exists exchange of value in terms of money,

nutrition and quality of food between farmers and consumers. The agri supply chain needs to be designed to link the Indian village community to urban centres to have fork to farm linkages. The approach to expand the market ecosystem backed by market intelligence and information, which encompasses a wider array of participants and empowers farmers to access markets is required for better outcomes.

⁶ See, Trade and COVID-19 Guidance Note, World Bank group, 2020



Pump Priming MSMEs during COVID-19 Pandemic: Fostering Linkages beyond the Formal

Keshab Das

The uncertainty of the spread, pace and impact of the COVID-19 pandemic across societies and economies, globally, has confounded policy initiatives to get back on the track to recovery. According to the International Monetary Fund (IMF) estimates, India's growth might slide to a meagre 1.9 per cent (or, even less to 0.9 per cent as per the Confederation of Indian Industry (CII)) during this fiscal year even as with targeted fiscal support the economy might recover sooner than several others. Production, distribution and consumption of goods and services have been severely hit and so have been supply chains, logistics and trade. That this crisis is unlikely to be sorted out soon is obvious from the fact that health concerns would dominate alongside declining opportunities of employment and income, particularly for those in the overwhelming informal sector that forms the backbone of the micro, small and medium enterprises (MSMEs) in India.

As per official claims, the MSMEs have not only been contributing to about 30 per cent of the GDP but also over 45 per cent of manufacturing exports. MSMEs have emerged as the conduits of inter-regional trade agreements. Engaged in manufacturing over 8000 highly diverse products the Indian MSMEs have been striving to improve product quality and enhance market access in both domestic and global spheres. This is the sector that needs careful policy attention through institutional innovations to accommodate the concerns of the vast number of informal enterprises vital to the sector.

Notwithstanding the absence of reliable and updated official statistics on MSMEs (the latest census was done for 2006-07), it may be held that around 90 per cent of these over 63 million enterprises are classified micro (with <₹2.5 million investment in plant and machinery) with over 94 per cent of these enterprises

belonging to the informal sector. With the closure of factories across the country, around an estimated 111 million workers are directly or indirectly affected. As we have seen media reports, thousands have returned home, many walking! There is a business crisis but also an unprecedented human crisis, where state support for the sector as a whole has been too little and largely missing. In suggesting mechanisms to revive the MSME sector one is conscious of the fact that informal workers have been unaccounted for and typically fall outside the ambit of intervention as has been the case all these decades. Here are a few policy suggestions.

Fiscal Proposition

As the firm details are already available through the registration under the GST, based on a calibrated approach (turnover figures for the last year, for instance, could be used for the purpose) 1-3 per cent subvention on GST for small and medium enterprises and complete GST write-off for the micro enterprises would be a major relief for the MSMEs. Additionally, and importantly, the subvention/waiver process may be undertaken without asking firms to fill another set of forms.

A concession in power tariff and surface transportation of inputs/finished goods for a time-bound period (say, two months) would infuse

The most crucial component of the revival strategy package of MSMEs (both for domestic and export markets) must include setting aside a fund to pay for their return (transport and incidental expenses) and reimbursement or concession of wage guarantee.

dynamism in MSMEs, where revenue has dried up due to no movement of goods. This step would also rev-up both backward and forward linkages

Steps to make credit access easier have to be seriously planned as previous similar strategies, including the much-publicised Mudra scheme, have fallen much short of their targets. Despite the Udyog-Aadhaar initiative, the latest information suggests that a little above 14 per cent enterprises have registered under the scheme. The steady decline in credit availability, to

the micro and small enterprises, especially, since the mid-1990s from the formal sources has rendered it imperative to address the fund crisis of MSMEs urgently. Reduction in lending rates, non-insistence on collaterals (even as it is not formally required) and easier terms of repayment of loans post-moratorium are some of the mechanisms that need rethinking.

Protecting Workers' Livelihoods

MSMEs would not function without the huge engagement of workers and job workers who are often not on their rolls or not acknowledged formally. Often these workers (skilled, semi-skilled and unskilled) who make important contributions to both manufacturing and related services are migrants from poorer regions of the country. Thousands of such workers had to return to their places of origin due

Several exporters have been facing non-receipt of goods at destination leading to losses; the Indian state could intervene in these instances to support exporting MSMEs.

to the pandemic and lack of protection/wages/job assurances provided by the enterprises or state. The most crucial component of the revival strategy package of MSMEs (both for domestic and export markets) must include setting aside a fund to pay for their return (transport and incidental expenses) and reimbursement or concession of wage guarantee. As most MSMEs are most unlikely to pay for the workers, the state must share the burden, at least partially.

Policy to enlist every worker in the MSMEs needs to be designed as only through such a process payments and state benefits to workers could be both accessed by workers and assessed by the state and/or subsector for financial support required.

Rescaling Space for Industrial Clusters and Trade

Urgent attention has to be paid to build upon what has been described as 'Real Services', which include both internal and external infrastructure support to industrial clusters. A classic example is that of the ceramic clusters in Morbi (Gujarat), where both the cluster stakeholders and the state have played a vital role in setting up business-friendly infrastructure such as laying gas lines, road

A long neglected aspect of revitalising rural industries for exports (as, for instance, achieved by several East and Southeast Asian nations pursuing OVOP/OTOP type business plans) needs to be thought through to boost local economies and also enhance participation in trade.

connecting the clusters to Kandla Port and so on. This is the second largest producer of tiles in the world and has been enjoying a growing export market.

Due to the pandemic, in order to clear huge stockpiles of goods at ports (both for exports and also those that have been imported by the MSMEs) immediate clearing procedure be devised. Exemption of or relief in demurrage is warranted to boost the confidence of MSMEs. Several exporters have been facing non-receipt of goods at destination leading to losses; the Indian state could intervene in these instances to support exporting MSMEs.

Reimagining the Rural

A long neglected aspect of revitalising rural industries for exports (as, for instance, achieved by several East and Southeast Asian nations pursuing OVOP/OTOP type business plans) needs to be thought through to boost local economies and also enhance participation in trade. Ensuring process standards would be an important policy initiative.

Decongesting the urban centres of MSMEs and shifting entire or partial operations to small and medium towns to create manufacturing and storage hubs by ensuring reliable supply of electricity and road connectivity to these hubs would facilitate broad-basing trade activities.



Policy Response to Minimize the Fallout of COVID-19 on Trade and MSMEs

Pravakar Sahoo

It is very clear by now that the Coronavirus outbreak has given an unprecedented and severe setback to the world economy, much more than the global financial crisis. Almost half of the world population is under lockdown and economic activity in major growth centres, namely, the US, EU, USA, China, has nearly stalled. The severe restriction of movement of people, goods and services has disrupted the global value chains, world trade, manufacturing, services, etc. and taken away the livelihoods of millions of people. The unemployment figures projected by the UN and ILO are alarming, much more than what the world had faced during the global financial crisis of 2007-08. In fact, the world economy is

heading for a prolonged recession, if there is no proximate, if not exact, cure of COVID-19 available soon.

The global growth, trade and capital flows have been slowing since 2017 owing to geopolitical uncertainties, US-China trade war, rise of protectionism, and lack of consensus among G-7 and G-20 countries to push world trade and growth. The Coronavirus outbreak has given the biggest blow and uncertainty to the already slowing world economy. The current pandemic is working its way through a highly globalised world with highly interconnected production networks and financial markets. Therefore, Indian economy is also standing at a recession because of its own lockdown.

While India's exports create millions of employment opportunities along with generating necessary foreign exchange for external sector stability, India's imports are vital for domestic production.

Corona pandemic has also hit the Indian economy when it is at its lowest point of growth trajectory over the last six years. Indian economy has been affected by demand slowdown as consumption, investment, and exports witnessed decline over the last few years. When all are expecting a turnaround of the Indian economy, the Corona pandemic has almost given a knocking punch, which has stalled economic activities and added a supply shock to the economy. The ongoing pandemic and subsequent lockdown affect India's trade, manufacturing, and overall growth. Though Indian economy is more domestic-demand driven, India depends heavily on international trade for employment, growth and external sector stability. While India's exports create millions of employment opportunities along with generating necessary foreign exchange for external sector stability, India's imports are vital for domestic production. In fact, the imported content of India's exports is also very high as most of India's major imports and exports fall under the same industries.

Firms with existing exports commitment should be facilitated to continue their works to deliver orders on time.

Declining Trade and Impact on MSMEs

The Corona pandemic which led to complete and partial lock down across the countries creating severe disruption to trading of goods, services and movement of persons is affecting India's trade which already had witnessed negative growth in 2019. The COVID-19 affected economies, namely, the US, China, Italy, Spain, Germany, South Korea, France, the UK, are the major hubs of GVCs and global trade. India's declining exports starting from gems and jewellery to garments/apparel or sea food are mainly exported to

these countries affecting millions of jobs. Moreover, the lockdown in these countries has brought disruptions in the supply chains and production networks across sectors, which have already affected India's manufacturing, trade, employment and growth. In fact the fall out of COVID-19 on India's trade is visible as both exports and imports (year-on-year basis) fell by 30 per cent in March 2020, compared to

March 2019. Small and medium enterprises in India, which absorb the second largest labour force after agriculture, are not only strongly linked to exports but also heavily depend on imports for their productions. In fact, some of the industries depending on imports such as automobiles, pharmaceuticals, electronics, telecom equipment, computer hardware, industrial

machines and equipment, etc. will have to operate at much below their capacity due to lack of inputs and intermediates. Further, the domestic lockdown has affected these small firms from both domestic demand and supply sides. If the overall situation prolongs for a few more months, many small and tiny firms may cease to exist if they are not financially supported by the government in this difficult phase.

Government's Interventions

To counter the fallout of the COVID-19, the Government of India announced an economic package immediately after the lockdown on 26 March 2020 by addressing the immediate basic needs of the majority and vulnerable groups in terms of direct income transfers, enhanced food provisions, etc. The Reserve Bank of India (RBI) has announced liquidity enhancement measures along with policy

rate cuts. Further, the RBI has resolved to furnish special refinance facilities worth Rs. 50,000 crore to NABARD, SIDBI and NHB to enable them to meet their sectoral credit needs, particularly Micro, Small and Medium Enterprises (MSMEs). The government is planning for a Rs 13 billion bailout package for the MSME sector, which is long awaited. Relief to MSMEs and job retention in the sector is most crucial.

Possible Remedies

Among all the countries, India has the brightest chance to have a 'V shaped' recovery, provided we minimise the fall out of COVID-19 on our growth path. India is the youngest country and the biggest in terms of working age population. Once the Corona pandemic is contained, India has a chance to bounce back in terms of trade and growth, provided we keep our production network and supply chain intact during this uncertain time. To do this, we have to take aggressive fiscal and monetary stimulus measures to help our firms survive. This is the time the government need not worry about fiscal rule and go all out with counter cyclical fiscal measures. We should quickly take initiatives to help MSMEs, which not only depend on the domestic economy but also on international trade. Here are some of my suggestions:

- The current situation demands a fiscal response unit that can act swiftly and support firm's balance sheets in worst affected sectors like construction, travel, transportation, tourism, hotel, etc. India's services-led growth significantly depends on services exports. Therefore, it is the time to announce sector specific packages in order to provide some

relief to firms, particularly MSMEs in the services sector.

- Firms in the exports are suffering due to shutdown of factories, collapse of global demand, cancellations of orders, delays in shipments, etc. Therefore, firms, particularly MSMEs, in exports should be supported with interest free working capital to cover their wage cost and establishment cost like rent, utilities and logistics. It is the time to help them survive their existing production establishment and the manpower. Pre- and post- shipment credit and Employment Provident Fund (EPF) and Employers State Insurance Corporation (ESIC) waiver should be extended to export firms not only for the lockdown period but for some extended months.
- Firms with existing exports commitment should be facilitated to continue their works to deliver orders on time. Otherwise, they will not only lose their claims from buyers but also will be regarded as unreliable partners.
- Some of the labour intensive sectors such as garments, leather, footwear, marine products, gems & jewellery, apparel, etc. need special packages to survive and hold onto their men and machines.
- As MSMEs in certain sectors are badly affected by the supply chain disruptions mainly due to limited land and ocean movements of goods, they need to be facilitated by the government along with industry bodies to restore or rearrange new supply chains domestically for the time being. The government should extend everything possible to help firms for local sourcing in case of disrupted imports.

Concluding Remarks

Overall the government should provide additional capital with relaxed norms to the MSME sector, which contributes significantly to exports, employment and GDP, along with wage and market support. With increasing mistrust and uncertainty with China, the world

is looking towards India. Therefore, India is the best place to do business, both trade and investment, in a post-COVID era. To unlock such potential, we need to help domestic firms and strengthen the production networks so that they are in position to rise to the occasion in the post-COVID revival period.



MSMEs and COVID-19

Subash Sasidharan, Rajesh Raj S. N

The ongoing COVID-19 pandemic poses an extraordinary challenge to the Micro, Small and Medium Enterprise (MSME) sector since this sector mostly comprises 'offline' enterprises relying on personal interaction and have much lower reserves of liquidity and less access to credit. The nationwide lockdown since 24 March 2020 is, therefore, certainly bound to break the back of the MSME sector. Given the widespread presence of MSMEs in the industrial and services sectors, the lockdown will have major interruption in the form of job losses, factory closures, manpower shortages in the urban areas due to the mass exodus witnessed during the early days of lock down, increased bankruptcy and export order cancellations. The magnitude of the impact of COVID-19 has made many international organizations calling out for massive governmental support. A study carried out by ILO estimates the worst case

scenario to be 24.7 million workers losing jobs, and the report mentions that "sustaining business operations will be particularly difficult for Small and Medium Enterprises (SMEs)". A survey carried out by MSME industry associations in Tamil Nadu reports 44.7 per cent revenue shortfall during the lockdown period.¹ Given the smaller scale of operations and low level of digitalization, such entities may not be in an immediate position to adopt new technology and teleworking. Therefore, it becomes imperative on the part of government and financial sector to develop and implement multiple support systems for the enterprises in this sector.²

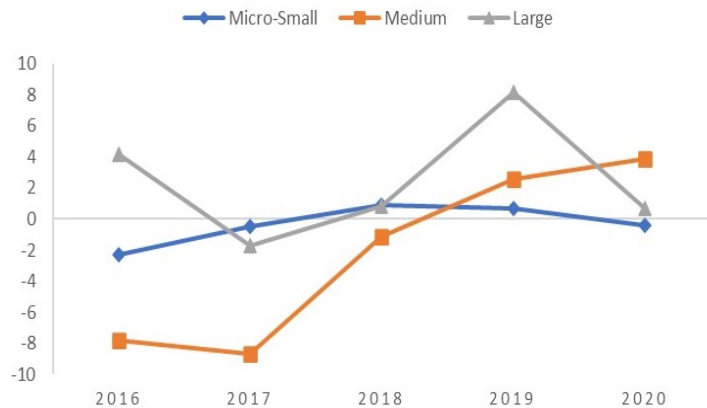
Role of MSMEs in Indian Economy

MSMEs are considered as the backbone of Indian economy due to its contribution in terms of output, employment generation and exports.

- 1 Refer, <https://timesofindia.indiatimes.com/city/chennai/as-lockdown-chokes-msmes-study-finds-54-drop-in-revenue-of-firms/articleshow/75310425.cms>
- 2 Refer, <https://timesofindia.indiatimes.com/city/chennai/as-lockdown-chokes-msmes-study-finds-54-drop-in-revenue-of-firms/articleshow/75310425.cms>

According to the latest estimates, MSMEs contribute nearly 30 per cent of the Gross Domestic Product (GDP) and 31 per cent of the Gross Value Added (GVA). According to the Annual Report for 2018-19 by the Ministry of MSMEs, there are about 63.38 million enterprises in the MSME sector, of which 31 per cent engaged in manufacturing activities, 36 per cent in trade and another 33 per cent in other services. It also indicates that the MSME sector employs 111 million workers, which is around 21 per cent of the total employment. This sector plays a key role in India's export basket too. In 2018-19, the sector's contribution to total exports stood at 48.1 per cent. Recent estimates suggest that the sector contributes about 48 per cent to India's total exports (Figure 1).³ An interesting feature of the MSME sector is the presence of vast number of micro enterprises (95 per

Figure 2. Rate of Growth of Flow of Credit to the MSME Sector (%)



Source: https://www.rbi.org.in/Scripts/Data_Sectoral_Deployment.aspx

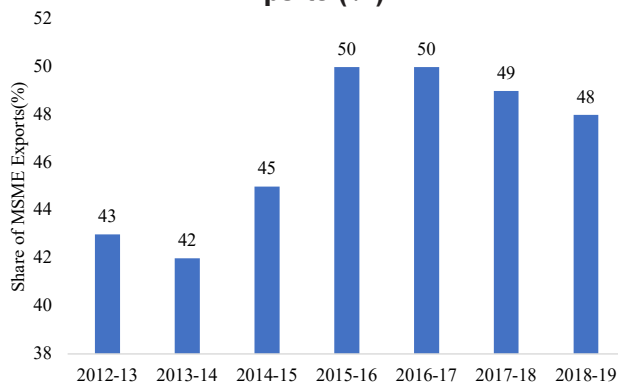
Note: Values are year on year changes

Despite its significant contribution, the MSMEs face multiple obstacles to growth. Among the various obstacles, access to finance is considered as the most pressing one.

cent), while the small and medium units account for 4.8 per cent and 0.2 per cent, respectively.

Despite its significant contribution, the MSMEs face multiple obstacles to growth. Among the various obstacles, access to finance is considered as the most pressing one.

Figure 1. Share of MSME Exports in Total Exports (%)



Source: Report of the Expert Committee on Micro, Small and Medium Enterprises, June 2019

According to the Economic Census, 2013, almost 93 per cent of the enterprises reported absence of institutional or non-institutional sources of finance. These enterprises with very little collateral or credit history face immense difficulty in obtaining formal finance. A look at the credit deployment to the MSME sector during 2016 to 2020 reveals that the sector bore the brunt with credit growth declining multiple times during this period (Figure 2). Part of this can be attributed to the demonetization drive, falling health of public sector banks and the introduction of Goods and Services Tax (GST).

3 Refer, <https://pib.gov.in/Pressreleaseshare.aspx?PRID=1579757>

Global Policy Responses

An UNDP report based on meta-analysis of seven survey studies in China highlights that over 30 per cent of enterprises only have enough cash for less than one month of operation and only 10 per cent of the enterprises have cash flows beyond six months.⁴ Another study carried out by researchers from Tsinghua University and Peking shows that only 4 per cent of Chinese SMEs report that COVID-19 decreased their revenue by less than 10 per cent.⁵ Among

the sample firms, 17 per cent report fall in the revenue by 10-20 per cent, and nearly 26 per cent of the firms report 20-50 per cent fall in revenue, while 29 per cent report more than 50 per cent fall in the revenue. A large scale survey of 24,000 Chinese SMEs carried out by Ali Research Institute and China Household Survey and Finance Research Center reveals that 4/5th of the sample respondents report a loss of 10 per cent of previous year's operating income.⁶ A survey carried out on the impact of outbreak of Japanese SMEs reveals a 26

Table 1: Summary of Policy Instruments Adopted by Select Countries to Support SMEs

	Labour		Deferral					Financial Instruments			Structural Policies			
	Wage Subsidies	Self Employed	Income/Corporate Tax	VAT Value Added Tax	Social Security	Rent/Utilities/Local Tax	Debt moratorium	Loan guarantees	Direct Lending to SMEs	Grants and Subsidies	New Markets	Teleworking/Digitalization	Innovation	Training and redeployment
China	X		X		X	X	X		X	X		X	X	X
Brazil	X		X		X		X		X					
Germany	X	X	X					X	X	X				
Indonesia			X							X				
Italy	X	X	X				X	X	X	X	X	X		
Japan	X		X			X		X	X			X		
Korea	X	X					X	X		X	X	X		
Malaysia							X		X			X		
Singapore	X		X			X		X	X					
South Africa							X		X		X			
Spain	X	X	X		X	X	X	X	X	X		X		
Thailand	X		X	X	X	X			X					
Turkey	X		X	X	X	X	X	X	X	X				
UK	X	X	X			X	X	X	X	X				
US	X	X	X					X	X					
Vietnam			X			X								

Source: OECD SME Policy Responses, www.oecd.org/coronavirus.

4 https://www.cn.undp.org/content/china/en/home/library/crisis_prevention_and_recovery/assessment-report-on-impact-of-covid-19-pandemic-on-chinese-ente.html

5 <https://voxeu.org/article/saving-china-coronavirus-and-economic-meltdown-experiences-and-lessons>

6 <https://www.warc.com/content/paywall/article/warc-datapoints/almost-all-chinese-smes-hit-by-covid-19/132067>

per cent decline in the sales.⁷ For Europe, available estimates suggest that about 90 per cent of SMEs reported to be economically affected. Not less than 30 per cent of SMEs are suffering an 80 per cent loss in their turnover with the average for the EU standing at 50 per cent.⁸ Interestingly, German SMEs operating in regional supply chains faced lower disruptions.

Countries have used varied forms of intervention to support the SMEs. The short run policy instruments in response to the pandemic are income and profit tax deferrals, loan guarantees and direct lending, and wage subsidies.⁹ Table 1 provides a summary of the policy tools used by the various countries to minimize the impact of the COVID-19 crisis on SMEs. In the case of wage support, the payment is either directly given by the government to the firms or through emergency funds created to finance wage support programs. The long term or structural policies have been used only in a limited way. These policy measures include new alternative markets, teleworking and digitalisation, innovation and training of the workers. These set of policies will be relevant once the outbreak diminishes and these tools will be highly relevant to improve the productivity of SMEs in the future.

Policy Response from India

India has announced a slew of policy measures and funding support schemes for MSMEs directed towards lessening the adverse effects of COVID 19. These initiatives are summarised in Table 2. They can be broadly classified under two categories: financial support and preferential tax policies.

Some of these measures are meant to ease liquidity constraints. These include deferral of interest payment and loan instalments. A set of policy measures by the Reserve Bank of India (RBI) is also expected to scale up lending to MSMEs at cheaper interest rates. The country has also stepped up direct lending to SMEs through public institutions. For instance, SIDBI has introduced two schemes to provide financial support to enterprises involved in the production of goods and services related to fighting coronavirus. On the tax front too, some measures have been introduced that include tax refunds and deferral of tax payment. While these measures certainly instil some hope to the MSME sector, there are still more steps that the government can take to safeguard the interests of this ailing business sector.

Saving Small Firms: The Way Forward

Based on the set of policy instruments announced to minimize the impact of the pandemic on the MSME sector, we observe that most of the measures seem to have a selected focus not directly targeting this sector. Based on the media reports, MSME sector is still awaiting a comprehensive package to revitalize this sector. Since most enterprises in this sector especially micro enterprises predominantly operate on cash, the immediate requirement is to provide adequate liquidity to cope with the uncertainty. Some measures which needs immediate focus include:

- (i) Moratorium on current loans has to be extended at least for six months.
- (ii) The creation of an 'emergency fund' based on the model of Korea and Malaysia to help the micro segment in

7 http://www.tsr-net.co.jp/news/analysis/20200309_03.html

8 <https://smeunited.eu/a-view-on-the-covid-impact-on-and-support-measures-for-smes>

9 Refer, https://read.oecd-ilibrary.org/view/?ref=119_119680-di6h3qgi4x&title=COVID-19_SME_Policy_Responses

Table 2: Policies and Measures to Support MSMEs in India

Policy Category	Government/ Government Agencies	Main Content	Key Points
Financial Assistance	Reserve Bank of India (RBI)	Deferment of loan instalments and interest	<ol style="list-style-type: none"> 1. Rate cuts introduced by RBI could result in reduction in bank's MCLR and external rates, thereby reducing the borrowing costs for MSMEs 2. The deferment of interest payment on working capital loans by three months is expected to help the MSMEs to meet their urgent needs such as wages and other urgent bills. 3. From March to June, MSMEs are exempted from paying loan instalments. 4. The move to introduce Long Term Repo Operations (LTRO) worth Rs 100,000 crore to help banks increase lending at cheaper interest rates is expected to benefit MSMEs. 5. Introducing a special refinance facility amounting to Rs. 15,000 crore to fulfil the sectoral credit needs of SIDBI is also expected to help MSMEs.
	Small Industries Development Bank of India	SAFE, SAFE Plus and start-up assistance schemes	<ol style="list-style-type: none"> 1. SAFE scheme is meant to provide working capital in the form of term loan for firms who are manufacturing any product or services related to fighting coronavirus. With no collateral, the loans will be released in 48 hours, at a rate of interest of 5 per cent. 2. SAFE Plus is proposed to provide emergency working capital to MSMEs which are producing goods and services directly related to fighting corona virus, against specific orders from the government / government agencies. With no collateral, the loans will be released in 48 hours, at a rate of interest of 5 per cent. 3. The start-up assistance scheme ensures quick working capital in 45 to 90 days to start-ups. Through this scheme, start-ups can receive a loan of up to INR 2 crore. The loan tenure is 3 years including a maximum moratorium period of 12 months.
Taxes	Central Board of Direct Taxes (CBDT)	Income tax refunds and GST returns	<ol style="list-style-type: none"> 1. Issued Income tax refunds worth Rs 5,204 crore to nearly 8.2 lakh small businesses since April 8, 2020 and proposes to issue refunds equivalent to another Rs 7,760 crore as early as possible. 2. Extended the date of filing Income Tax Return for all businesses for the financial year 2018-19 from March 31 to June 30, 2020. 3. Extended the deadline for filing GST returns from March to June 30, 2020.

Source: Author's own compilation

the MSME sector. These firms should be immediately given a loan of 3-5 per cent of the turnover without any interest. The firms may be allowed to access these funds on condition of registration.

(iii) Another possibility is the enhancement of Sishu scheme under MUDRA Yojana to Rs. 1,00,000 from the current level of Rs. 50,000 which will considerably benefit the micro segment.

- (iv) Often firms owned by disadvantaged sections including women are subject to greater credit market discrimination. Therefore, the comprehensive package should also contain special provision for credit access to them.
- (v) Given the fact that MSME sector is the biggest employer, the ongoing crisis may put pressure on these enterprises to either shut down or they may not be in a position to pay workers beyond a month. Based on the policy responses from the other countries, we notice that wage subsidy is one of the commonly used policy instruments to overcome the sudden stoppage in production. Those businesses which suspend or facing revenue decline should be provided wage subsidy up to three months. To facilitate this, a corpus fund may be established under the supervision of the National Small Industries Corporation (NSIC). In line with the Philippines model of wage subsidy programme for small businesses¹⁰, the employer will have to submit the list of employees, and the subsidy amount should be transferred directly to the account of the workers. Further, a three-month extension for payment of employer's contribution of Provident Fund and ESIS will ease the financial burden of these entities.
- (vi) A large number of MSMEs depend on their cash flows from their customers, which are often large firms including public sector units. Payment delays are one among perennial constraints encountered by these enterprises. Therefore, immediate steps should be taken to ensure the release of these funds by the large firms and the PSUs.
- (vii) Those entities relying on electricity as a source of energy may be given tariff waiver for at least three months.
- (viii) MSME exporters will be one of the hardest hit segments given the vast disruption of supply chains and cancellations of orders. Therefore, there is an urgent need to provide a special package to the MSME exporters in severely affected industries like gems and jewellery textiles, electronics. Policies may include considering an extension of pre and post ship credit and packaging credit for at least six months.

As a long term policy measure, the pandemic provides an opportunity to increase the high speed broadband connectivity especially in the rural areas. This will enable the digitalization of MSMEs which will improve the competitiveness of these firms during the post COVID period.

10 See, <https://www.dof.gov.ph/dof-to-implement-wage-subsidy-program-for-3-4-m-workers-of-small-businesses/>

Part VII: Global Value Chains (GVC)



Enhancing Engineering Exports from India: The Case of Electrical Machinery

Partha S Banerjee

The engineering goods sector is undoubtedly the largest segment of India's industrial sector providing employment to about 40 lakhs skilled and semi-skilled people.¹ Its demand is driven by the creation of capacity in sectors like power, infrastructure, mining, oil and gas, refinery, steel, automotive and durable consumer products. India holds a share of 1.2 per cent in the global trade of these goods and predominantly exports low and medium-tech engineering goods. High technology-intensive engineering products constitute less than 6 per cent in India's total engineering exports.²

Indian exports of engineering products grew at a rate of 6.32 per cent y-o-y to reach US\$ 81 billion in 2018-19 and accounted for a share of 24.50 per cent in total Indian merchandise exports. Thereafter, exports have declined, and only US\$ 64 billion worth

of engineering products were exported during April 2019-January 2020, which was 24.14 per cent of total Indian merchandise exports.

Some of the export challenges in the overall engineering sector are dearth of adequate credit for the exporters, delay in refund of input tax credit, and denial of Goods and Services Tax (GST) on availing higher duty drawback. Moreover, the trade worldwide had lost momentum due to the existence of bottlenecks like the US-China trade war, ambiguity on the extension of Generalized System of Preferences (GSP) benefits by the US and various protectionist measures adopted by the developed nations like the US and the European nations.

Our study shows that India's competitive advantage and associated challenges in each of the engineering sub-sectors vary and

1 <https://www.ibef.org/exports/engineering-goods-exports-from-india.aspx>
2 Engineering Exports Promotion Council India

initiatives to enhance exports would need a specific strategy for each sub-sector. Within the engineering export sub-sectors, industrial machinery and parts³; and electrical machinery⁴ together account for a share of more than 25 per cent in total exports of engineering goods. In an overall scenario of declining engineering exports, the share of industrial machinery and parts' in India's total engineering exports over two years has increased by 1.4 per cent and that of electrical machinery has risen by 2.7 per cent (Table 1). Interestingly, the electrical machinery sub-sector has been steadily

growing its share within the overall basket of total engineering exports.

If we look at the export growth of these two sub-sectors in Table 2, it can be seen that electrical machinery witnessed a good growth rate of 26 per cent from 2017-18 to 2018-19 with industrial machinery and parts' exports following at a rate of 16 per cent. In the year 2019-20 (data up to January 2020), the industrial machinery and parts and electric machinery saw a decline with the latter being affected relatively less.

Table 1: Share of Two Sub-sectors within Total Engineering Exports (%)

	2017-18 (April 2017- March 2018)	2018-19 (April 2018- March 2019)	2019-20 (April 2019- January 2020)
Industrial Machinery and Parts	16.5	18	17.9
Electrical Machinery	8.8	10.4	11.5
Total Engineering Exports	100	100	100

Source: EXIM Monitor March 2019 and January 2020

Table 2: Annual Export Trends (US\$ million)

	2017-18 (April 2017- March 2018)	2018-19 (April 2018- March 2019)	2019-20 (April 2019- January 2020)	Growth (2017-18 to 2018-19) (%)	Growth (2018-19 to 2019-20) (%)	Growth (2017-18 to 2019-20) (%)
Industrial machinery and parts	12605.8	14572.6	11445.7	16	-21	-9
Electrical Machinery	6701.5	8420.6	7390.49	26	-12	10
Total Engineering Exports	76199.33	81017.29	64036.23	6	-21	-16

Source: Exim Monitor March 2019 and January 2020

3 Industrial Machinery: Boilers, IC engines and pumps, Air conditioners, Refrigerators, Industrial machinery for dairy, food processing and textiles, Machine tools, Machines for injecting, moulding, valves and ATMs.

4 Electrical Machinery: Manufacture of electric motors, generators, transformers and electricity distribution and control apparatus, Batteries and accumulators, Wiring and wiring devices, Electric lighting equipment, Domestic appliances and other electrical equipment (see Division 27 of NIC 2008)

Electrical Machinery

In this article, we discuss the case of the electrical machinery sub-sector, which holds promise to do better in the post COVID-19 world, if appropriately supported. Indian electrical machinery sector accounts for a share of about 8 per cent to the manufacturing sector in value terms and contributes about 1.5 per cent to the overall GDP.⁵ It has been estimated that this industry needs about 80,000 - 90,000 skilled workers every year. The cumulative annual export growth of electrical machinery in the past two years has been 10 per cent, and it is among the better performing sub-sectors within the engineering products sector. Globally, there is a demand for electrical machinery, which is expected to continue growing in the post COVID-19 world. Every nation needs to continue investing in its power infrastructure (electrical machinery and equipment) in order to achieve higher efficiencies in operations, build redundancies and increase reliability of their power systems, develop their industrial sector and an energy efficient economy. About 85 per cent share of this sub-sector comprises transmission, sub-transmission, and retail distribution equipment for power systems, while the rest is generation equipment. The major exported products from India are switchgear and control-gear, transformers and its parts, industrial electronics, cables, transmission line towers, conductors, rotating machines (motors, AC generators, and generating sets) and its parts.

The Indian electrical machinery industry enjoys the advantage of a diversified base

of manufacturing with a strong supply chain, availability of skilled labour, competitive designing and engineering. The industry has a good participation of large state-owned and domestic private enterprises, global companies, as well as small and medium enterprises. Public investments in projects to develop power infrastructure have supported domestic demand of electrical machinery leading to an y-o-y growth of 11.2 per cent during 2018-19 in the electrical equipment industry.⁶ It is expected that the per capita power consumption will rise in India and the country will account for a share of 9 per cent in the global energy demand by 2035.⁷ Over the next five years, the Government of India is also planning to invest Rs. 100 lakh crore in provisioning infrastructure which (even if it partly happens), will give a boost to the domestic electrical machinery manufacturing sector.

The global reputation of Indian electrical machinery and products has been increasing. India aspires to become the preferred choice for global manufacturers to set-up their manufacturing base of electrical machinery. The manufacturing output target of US\$ 100 billion has been set that would help balance trade deficits. For the generation equipment industry, domestic demand is estimated to be between US\$ 25 and US\$ 30 billion, while for the transmission and distribution industry, it is expected to be between US\$ 70 billion and US\$ 75 billion.⁸ It has been projected that this sector will provide direct employment to 15 lakh people and indirect employment to 20 lakh people by 2022.

5 <https://www.makeinindia.com/sector/electrical-machinery>

6 <https://www.ibef.org/industry/indian-engineering-industry-analysis-presentation>

7 <https://www.livemint.com/Industry/WtZZpEdwb01T6g9uAF0nsM/Renewables-to-overtake-Indias-oil-output-in-2035-BP-Energy.html>

8 <https://www.makeinindia.com/sector/electrical-machinery>

However, the expansion of export markets has been a mixed bag of success. Presently, the top importers of the Indian electrical machinery are the USA, Germany, UK, Singapore, and France. Countries like Nigeria, South Africa, Mexico, Turkey and Korea have also recorded more than 45 per cent growth in imports from India. On the other hand, Belgium and Indonesia experienced a sharp decline of more than 70 per cent in its imports from India, while Egypt and Japan experienced a 50 per cent drop. Though there have been setbacks, in the post COVID-19 world, the outlook for Indian electrical machinery could still be positive. Power infrastructure development and technology refresh investments, new investments in energy-efficient industrial equipment, and expansion of power networks in many developing countries is expected to drive global demand for the electrical machinery.

Way Forward and the Facilitating Role of EEPC

The post-COVID-19 world places India at an advantageous position to capitalize on the expected sustained global demand for electrical machinery. India must encourage domestic manufacturers to expand capacities, venture into new geographies and reach out to global manufacturers, making it attractive for them to invest in the country. This will help in

India must encourage domestic manufacturers to expand capacities, venture into new geographies and reach out to global manufacturers, making it attractive for them to invest in the country.

This will help in inclusion of India in the global value chains.

inclusion of India in the global value chains. Simultaneously, the government could support a fresh set of studies in partnership with national and global players in order to identify (i) product needs and export logistics in presently importing countries to assess post-COVID-19 political economy realignments with an aim to increase market share in their reconfigured supply chains, and (ii) trade and investment scenarios in the new emerging markets. For this purpose, targeted buyer-seller meets or client interactions could be organized both in India as well as abroad, wherein the Engineering Exports Promotion Council (EEPC) India can play a major role. Also, business delegations meetings for manufacturers need to be promoted in which small and medium enterprises should be encouraged to actively take part.

For the Indian electrical machinery sector to manufacture innovative products that could compete in the global market, the Government could roll-out an innovation challenge fund.

In this era of rapid change and ever-increasing competition globally, the application of new knowledge and faster commercialization of product innovations hold the key to success. Increasing competitive advantage in global markets would need India to increase its present 6 per cent share of high technology-intensive engineering products within the overall basket of engineering exports. For the Indian electrical machinery sector to manufacture innovative products that could compete in the global market,

the Government could roll-out an innovation challenge fund (the funding scheme could be based on annual calls for three successive years) in specific areas such as power electronics and others that could support industries, innovators and manufacturers who have incubated technologies but need to be demonstrated for commercialization.

This would kick-start a process of creating an innovation ecosystem in this sub-sector which could then be sustained by the industries for enhancing their competitive advantage. EEPC could bring together all constituents and anchor this innovation initiative to make it a success.



COVID-19, India's Trade and Global Value Chains

Saon Ray and Smita Miglani

The Impact of COVID-19 has been pervasive, leading to a trade collapse. According to the WTO, the world merchandise trade will decline by 13 to 32 per cent in 2020 due to the COVID-19 pandemic (WTO, 2020). Though all regions are likely to see double-digit declines in trade volumes in 2020, exports from North America and Asia will decline the most. Services trade may be most directly affected by COVID-19 due to transport and travel restrictions. What does this portend for India? This article examines this in terms of the global value chains.

India's Trade

India exported US\$ 322 billion of goods and services in 2018, while imports were US\$ 617 billion (sourced from WITS). In 2017, the corresponding figures were US\$ 483 and US\$ 524 billion, respectively. Services accounted for approximately 36 per cent of the total, and the country a rank of 13th among 133 countries in 2017. Exports of India have grown at an

annual average of 1.6 per cent, while non-oil exports have grown at 2.8 per cent. India's merchandise exports for the year 2018-19 was US\$ 330.07 billion (provisional estimates, Department of Commerce, Government of India, 2019), surpassing the earlier peak of US\$ 314.4 billion achieved in 2013-14. In terms of destination, USA is India's largest trading partner with a share of 16 per cent in 2018, while India's imports from China are the largest, with a share of nearly 15 per cent. India's exports to the USA include diamonds, pharmaceuticals, machinery, mineral fuels and vehicles, while its export to China consists of organic chemicals, cotton, plastics etc. India's imports from China comprise of telephone, cellular phone, diodes etc.

Measuring GVC Integration

The measure of integration of a country in global supply chains is provided by foreign value-added content in exports. This is measured by the Trade in Value Added (TiVA) by OECD,

which has information on 64 countries for 36 industrial sectors for the period 2005 to 2015. The foreign value added content has declined from 18.8 per cent in 2005 to 16.1 per cent in 2016 (with a high of 25.1 per cent in 2011 and 2012). The decline in the foreign content in India's exports is partly due to local sourcing of intermediate inputs, particularly in the services sectors of 'Other Business Services', which saw the sharpest decline over the period (OECD, 2018). Services account for a growing share of India's gross exports and at its peak was at 50 per cent in 2015. The services content of India's manufactured exports was 25.2 per cent in 2015. The other reason is that India is not well integrated in global value chains, compared to either OECD or other Asian countries like China (Ray and Miglani, 2018). In this period, however, the share of imported intermediate inputs in manufactured products has increased. We discuss these below.

Pharmaceuticals and medical devices have assumed importance in the aftermath of the pandemic. While India is a net exporter of bulk drugs, many of the active pharmaceutical ingredients (APIs), which are intermediates for formulations, are imported from China.

the world is experiencing. Will there be an increase in demand for basic metal and ICT and electronics? WTO has cautioned that the products that are most likely to be hit include automobiles and electronics or those with complex global value chains (WTO, 2020). Pharmaceuticals and medical devices have assumed importance in the aftermath of the pandemic. While India is a net exporter of bulk drugs, many of the active pharmaceutical ingredients (APIs), which are intermediates for formulations, are imported from China. Given supply disruptions in wake of the pandemic, India could try to increase its exports of bulk drugs. Germany, the United States and Switzerland supply 35 per cent of the world's trade in medical products, while China, Germany and the United States export 40 per cent of personal protective products. The concerns in this sector remain high tariffs, which the WTO is trying to liberalize.

Manufactured Exports

The industries with most foreign value added content in their exports were 'Coke and refined petroleum products', 'basic metals', 'ICT and electronics' for India (OECD, 2018). These are the industries that are most likely to suffer from supply disruptions due to the pandemic. What does this mean for India's exports?

Baldwin (2020) contends that the trade collapse due to the pandemic is likely to cause both a demand and a supply shock. The price of oil has plunged below zero, indicating the uncertainty in demand that

Services Trend

Services are also likely to be severely affected – though not uniformly. In the last quarter of 2019, trade in commercial services such as financial, telecom, business or information services, experienced positive growth. Transport services, manufacturing services, and maintenance and repair services showed the sharpest decrease in the third quarter of 2019. However, it must be noted that goods-related services trade, and not digital services trade, is in decline (van der Marel and Guinea, 2020). This should be beneficial for India, given its services exports competitiveness.

Food

WTO has observed that the Coronavirus has brought into sharp focus the fragility of international supply lines for essentials like food and medical goods (WTO, 2020). Many countries are banning the exports of items, like buckwheat, onions, garlic, legumes, eggs, beans and certain grains. For countries that are importers of food, this will be a great challenge. Several countries have come together and agreed to let the exports of food grains occur in an unhindered manner. India's imports of food consist of pulses and fresh fruits, while its exports consist of rice, spices, oilseeds, etc.

Prospects for Growth

The global trade landscape was facing issues like increasing protectionism and falling global aggregate demand even before the pandemic. The United States is turning its back on multilateralism; European Union is beleaguered with the BREXIT and immigrant crisis, while China was busy with a trade war-like situation with the US and most recently the COVID-19 outbreak. WTO thinks that the recovery from the pandemic will depend on the duration of the pandemic and the response to it (WTO, 2020). The immediate outcome of this pandemic will be increased protectionism as medical supplies and food runs short in most countries (Crabtree, 2020). It has been suggested that the impact of COVID-19 will be most felt in North America and Asia (WTO, 2020). Most Asian countries will see a decline in their GDP growth and manufacturing shrink (Evans and Acosta, 2020). Poverty levels are set to increase immensely (Sumners et al., 2020). While recovery in trade is expected in

While recovery in trade is expected in 2021, it is dependent on the duration of the outbreak and the effectiveness of the policy responses.

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India's Foreign Trade Policy 2015-2020 came to an end on 31 March, 2020, which, later, extended till 31 March 2021. India's upcoming Foreign Trade Policy has the

difficult task of outlining India's strategic vision amidst the current challenges of decline in global trade as well as myriad political and economic challenges at the domestic level.

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Using the COVID-19 Response to Realign India's Electronics Supply Chain

Smitha Francis

Several of India's strategic manufacturing industries have been adversely impacted from disrupted global supply chains due to the COVID-19 pandemic. Warnings about the deep import dependency of India's pharmaceutical and electronics industries (including computing and telecommunications equipment, medical equipment, etc.), particularly on China, have been made by observers for several years now. The current crisis should serve as a rude awakening for policymakers.

The government has taken an important decision to include the IT hardware sector in the list of manufacturing industries that have been allowed to re-start operations during the extended nationwide lockdown. In fact, it was because of the criticality of the electronics industry that even in Wuhan, the initial epicentre of the Coronavirus outbreak in China, several electronics factories were allowed to stay open and carry out production throughout the lockdown there, by giving them

special approvals from both local and central governments. Meanwhile, in India, small electronics companies making final products based on imported parts and components would have shut down even before the lockdown, due to the non-availability of supplies from disrupted trade flows.

Challenges and Tasks Ahead

The electronics industry thus needs immediate support to withstand these multiple shocks, which include the disruption in supplies, revenues, financing, etc. Moreover, as and when imports resume, the rupee depreciation will make inputs costlier. Demand slowdown from the spill-over effects of the ongoing economic crisis will also take several months to recover. The government should, therefore, immediately provide full wage subsidies, tax breaks, temporary standstill on debt servicing, etc., in particular to SMEs, at least for a period of two quarters. This is direly needed for survival and recovery, for protecting

employment, and to avoid foreign takeovers of distressed domestic electronics companies at all technological levels. Simultaneously, end-user demand for indigenous products must be expanded on an urgent basis through government procurement. For this to work, the Preference for Make-in-India policy must be implemented in letter and spirit, discarding any built-in bias against indigenously developed products and services in government tenders.

In the medium to long term, only a recalibration of the degree of import dependence of India's electronics value chains will enable the country to get back quickly on her feet after production disruptions caused by any such black swan events. Such reconfiguration of our supply chains through a graded approach is within the realm of the possible. What would be required is the political will and implementation capabilities.

The required policy framework needs to be much wider than measures focused on leveraging the expected restructuring of MNC supply chains away from China. Focussing policy efforts only on getting a couple of global mobile phone manufacturers or their component manufacturers to set up plants in India will only create some enclaves of technological capabilities. At the same time, they will continue to lead to net foreign exchange outflows on account of various large payments related to technology, software and other services payments.

It must be remembered that India's signing of the WTO's Information Technology

Agreement (ITA-1) in 1996 and the free trade agreements (FTAs) with East and Southeast Asian countries from the mid-2000s were all supposed to increase the industry's integration into regional and/or global value chains. However, in the absence of policy-driven incentives to build-up indigenous production and technological capabilities, such liberalisation only served to dis-incentivise domestic production of electronic products, by favouring imports. Coherence between trade, FDI and technology policies for building synergies between upstream and downstream activities domestically is essential to generate the scale economies necessary to make domestic firms competitive. Only then, participation in value chains will maximise value creation within the country.

With the transition of multiple sectors into the rapidly growing digital economy, transformations centred on data and digital intelligence-based economic value generation proliferate.

The increased merging of the physical and digital spheres (with data analytics) will increasingly convert more and more electronics value chains into digital value chains. This is occurring across sectors, including in those critical to national security like defence, energy, agriculture, transport, health, finance, etc. as new machines, equipment and new products turn into "intelligent" machines, products and systems.

Our country can ill afford another wave of import surge from the increased demand for new machines and devices driven by

In the medium to long term, only a recalibration of the degree of import dependence of India's electronics value chains will enable the country to get back quickly on her feet after production disruptions caused by any such black swan events.

digitalisation. We cannot also depend on imported control devices as the backbone of our critical digital infrastructural sectors such as public health, telecommunications, defence, transport, agriculture, etc.

Enabling beneficial participation of domestic firms in the emerging digital value chains will require building up domestic synergies by overcoming the structural disconnect between India's hardware and software capabilities, and putting data protection policies in place. This calls for integrating the vision of the National Policy on Electronics (NPE) 2019 to position India as a global hub for Electronics System Design and Manufacturing (ESDM), with the vision of the National Software Policy to drive the rise of India as a Software Product Nation. Further, the pending Data Protection Bill, and the one under consideration on Non-Personal Data, must be put in place at the earliest ensuring data localisation and privacy protection.

Much of the ability of the SME sector to link beneficially with new digitally transformed value chains will depend on them not getting excluded from data and digital infrastructures. Data must not end up becoming the

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Government must use multiple innovation challenges and research grants in emerging technologies to incentivise the development of new indigenous solutions and products that incorporate domestic design/software/local data analytics.

proprietary asset of any firms. Therefore, public/community ownership of non-personal data and the provision of public data infrastructure support (through public cloud and public aggregator platforms) are also critical components of ensuring domestic firms' ability to leverage the opportunities from ongoing digital transformations.

It is the time for consistent efforts to drastically ramp up localization of electronics manufacturing by signalling preference for indigenous products that leverage our software strengths. Many of the following suggestions can be combined within a multi-pronged national digital industrialisation strategy.

The Production-Linked Incentive (PLI) scheme, recently announced by the Ministry of Electronics and Information Technology (MEITY), must be immediately extended to more electronics products such as health devices, telecom equipment, computing equipment like laptops and others, as well as to more core electronics components, after re-working the threshold levels for its eligibility to necessarily include SMEs. For all strategic digitalised products critical for ensuring national security interests, the national security exemption must be used to promote indigenous connectivity

(telecom) and control (software) technologies. Government must use multiple innovation challenges and research grants in emerging technologies to incentivise the development of new indigenous solutions and products that incorporate domestic design/software/local data analytics. Central and state governments must also promote the manufacturing and marketing of innovative digital devices in health, educational, defence, e-governance, etc. through the procurement and promotion of devices with pre-installed indigenous platforms, applications, etc. after ensuring competition among indigenous manufacturers/solution providers through other modes. Different parameters linked to environment protection/energy efficiency linked to

India's climate change challenges must be incorporated in these different programmes.

All of these must be combined with supportive changes in trade, FDI and competition policies. In particular, India should immediately extend the new rule for screening FDI to new investments from all countries. As several other countries have already done or are in the process of doing, screening of Greenfield and Brownfield FDI must include an assessment of impact of new foreign investments on the country's core technological innovation development capabilities, in order to avoid foreign takeover and control over existing capacities in strategically important areas and ensure national security.



COVID-19 Pandemic: Implications for India's Exports and Global Value Chains

C. Veeramani

The COVID-19 pandemic presents countries with simultaneous supply and demand shocks. It represents an unprecedented disruption to the global supply chains and world trade. The supply shock arises due to lockdowns, social distancing, labor and input shortages, and business closures. The demand shock is driven by unemployment, postponement of purchase of durables, postponement of investment by business units and a possible recession. The supply and demand shocks in individual countries transmit the world economy through global linkages. All facets of economic globalization – trade, foreign direct investment, capital flows and migration – are likely to be affected with vast rippling effects across countries and industries.

World trade was already slowing in 2019 before the virus struck, weighed down

by the US-China trade war and growing protectionism in advanced countries. The WTO forecasts that the volume of world merchandise trade will plummet by between 13 per cent (optimistic scenario) and 32 per cent (pessimistic scenario) in 2020.¹ Nearly all regions of the world will suffer double-digit declines in trade volumes, with exports from North America and Asia being hit the hardest. A quick recovery in 2021 is possible if policy responses are coordinated and markets are open and predictable across countries.

Changing Pattern of Trade

Turning to India, the data released by the Ministry of Commerce and Industry (MOCI), Government of India shows that the dollar value of merchandise exports declined by 12.76 per cent in the January-March 2020 quarter, compared to the same quarter in 2019. Exports

1 Refer, https://www.wto.org/english/news_e/pres20_e/pr855_e.htm

plummeted from US\$ 32.72 billion in March 2019 to US\$ 21.41 billion in March 2020 with a negative growth rate of 34.57 per cent. All major commodity groups, except iron ore, have registered negative growth in March 2020 vis-à-vis March 2019. Merchandise imports also declined from US\$ 43.72 billion in March 2019 to US\$ 31.16 billion in March 2020. It appears that, at least for the time being, the situation is relatively less worrisome for services exports. Exports of services in February 2020 were US\$ 17.73 billion, registering a positive growth of 6.88 per cent in dollar terms, vis-à-vis February 2019. The actual data for March is not yet released; however, the MOCI's preliminary estimates suggest that the value of services exports in March 2020 (US\$ 17.69 billion) will be very close to the actual figure recorded for March 2019 (US\$ 17.94 billion). If the US and Europe take longer to recover, services exports from India are likely to decline faster during the coming months. However, some services like information technology (IT), e-commerce and telehealth services may benefit from the crisis. The demand for these services may experience a boom as people work from home, seek medical services online and socialize remotely.

Effect on GVC

While the pandemic is likely to affect trade in most of the sectors, it may have the greatest negative effect on manufacturing industries, where the production process is globally fragmented and occurs through global value chains (GVC). The share of GVC based trade

in total world trade increased phenomenally during the 1990s and most part of the 2000s (World Development Report, 2020). The GVC trade reached its peak - more than 50 per cent of global trade - just before the 2008 global financial crisis, but slowed down during the post-crisis period. COVID-19 is likely to strike a further blow to this form of trade, which was already slowing down before the pandemic. Developing countries relying on GVC trade for livelihood and growth will pay the highest price.

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The virus has struck the largest trading economies such as the US, China, Germany and Japan. The GVC in several industries are mainly controlled by the MNEs operating from these countries that are most affected by the virus. The closure of these firms will manifest as a major supply shock to the world economy. Further, the firms and consumers in hotspot countries are also the major buyers of products from developing countries, like India. Economic slowdown in hotspot countries, therefore, implies that their trading partners will suffer from

an immediate demand shock. The bottom line is that almost all countries in the world are faced with simultaneous demand and supply shocks, though in varying magnitudes.

Will India's export be affected more by the demand shock or by the supply shock? The answer depends on the current level as well as the nature of India's participation in GVC. Based on the relative position of a country in an industry's value chain, the nature of its GVC participation may be described

as either forward participation or backward participation or a combination of the two. A country has a forward participation when it exports raw materials and intermediate inputs for further processing in other countries. On the other hand, the country is said to have a backward participation when it uses imported inputs for further processing and export. In general, developing countries that specialize in final assembly, such as China and Vietnam, have a strong backward participation.

Estimates show that the level of India's participation in GVC-based trade, particularly in manufacturing, is significantly lower than that in countries such as China, Vietnam, Korea and other Southeast Asian countries. India's export market participation in network products (electronics, electrical machinery, computers, telecommunication equipment, road vehicles, etc), where GVC is widespread, is miniscule compared to that of other Asian countries. Network products account for only 10 per cent of India's total merchandise exports compared to about one half of the total exports of China, Japan and Korea (Economic Survey, 2019-20, Veeramani and Dhir 2019)².

The low level of India's integration within GVCs implies that the disruptions in global supply chains are less worrisome for the country as compared to the demand shock.

On the other hand, countries like China and Vietnam are hit, more or less equally, by supply and demand shocks as these countries, being the assembly hubs for network products, have a high level of backward GVC participation.

While India's pharmaceutical industry depends on imported inputs from China (backward participation), the supply chain in this industry is likely to be restored relatively faster given the medical emergency in several countries and the consequent pressure on China to ease the supply.

At the economy-wide level, India shows relatively higher backward participation than forward participation (World Development Report, 2020) mainly because of the high share of refined petroleum products (about 15 per cent) and gems and jewelry (about 12 per cent) in its export basket, where exports are primarily based on imported inputs. However, it must be kept in mind that the supply chains in sectors like refined petroleum and gems and jewelry are not very complex, and hence, can be restored more quickly than in network products where the supply chains are more complex and spread across multiple countries and firms. Hence, sectors like automobiles and capital goods are likely to experience a more prolonged

export slowdown as compared to refined petroleum and gems and jewelry.

Other sectors where India has a high backward participation are automobiles (particularly small and compact cars) and telecom handsets. Several leading automobile companies have established assembly plants

2 See, Veeramani, C and Dhir Garima (2019) "Dynamics and Determinants of Fragmentation Trade: Asian Countries in Comparative and Long-term Perspective" IGIDR Working Paper No WP-2019-040 <http://www.igidr.ac.in/pdf/publication/WP-2019-040.pdf>.

in India and some of them have begun to use India as an export base within their production networks. The automobiles exports (which accounts for about 6 per cent of India's merchandise exports) as well as telecom handsets exports could be hit badly due to the disruptions in supply chains. While India's pharmaceutical industry depends on imported inputs from China (backward participation), the supply chain in this industry is likely to be restored relatively faster given the medical emergency in several countries and the consequent pressure on China to ease the supply.

India has a higher level of forward participation than backward participation in most of the other sectors excluding the ones named above. This is because India has not yet started assembling for the world market across network products, with a few exceptions such as passenger cars, and telecom handsets. The demand shock is expected to play a major role for sectors where the country has a higher forward participation than backward participation such as cotton, textiles, iron ore, metals, chemicals and most of the primary products. Thus, the longer the world economy takes to recover, the more prolonged will be India's export slowdown in these sectors.

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Opportunities

While exports are surely going to decline in the immediate future, the present crisis does offer certain opportunities for countries like India. There is a growing realization among multinational firms that capacities cannot be concentrated at one place. Japan has already announced a package of US\$ 2.2 billion to help its manufacturing firms shift production out of China. Even before the pandemic, the US-China trade war was causing major adjustments in GVC and firms were looking for alternative locations for their operations. Potential realignment of the GVC in near future may provide an opportunity for countries like India to attract MNEs and strengthen their participation in GVC. However, the possibility

of missing this opportunity is very high if protectionists and nationalists across the world, including in India, exploit COVID-19 to promote their narrow political agenda, fuelling further backlash against globalization. Return to protectionism and closing the border is not the answer to the mounting fear over an impending recession. The wiser approach, to guard against similar health crisis in future, is to build domestic resilience by investing more in health infrastructure and by developing national reserves for "critical goods" while allowing free trade in "other goods".

Part VIII: Investment



COVID-19 and Indian FDI Policy

Anusree Paul

The whammy of the COVID-19 pandemic outbreak has created a great deal of uncertainty in the transactional space, disrupting all manner of business throughout the world. Further, the pandemic has created an avaricious and unprecedented environment, where opportunistic buyers can acquire or invest in companies that have been weakened by the ongoing crisis.

Rising Protectionism

The pandemic situation has moved the world economy in a de-globalisation mode. Economies are taking shelter of protections to protect their sensitive assets from foreign takeover during the crisis. In this line, the European Commission has already published

Since the launch of Make-in-India campaign, Chinese companies have revealed significant interest in investing in India in a wide range of sectors such as automotive, renewable energy, electronics, textiles, real estate, and financial investments in Start-ups.

guidelines for EU member states on 25 March, 2020 to adopt stringent foreign investment screening mechanisms to protect the strategic

assets from foreign acquisitions. Accordingly, member states like Spain, France, Italy, Germany, etc. have introduced measures or rules on foreign investment screening to protect the strategically positioned industries in their economies. On 29 March, 2020, Australia had also announced temporary changes to its foreign investment review framework.

New FDI Guidelines

India, although a latecomer in this vein, has announced amendment of the Consolidated Foreign Direct Investment Policy, 2017 on 17 April, 2020. The para 3.1.3 (a) of the policy

Table 1: Investments by Mainland China-based Tech Companies in Indian Start-ups

Alibaba Group	Sectors
BigBasket, Dailyhunt, Healofy, Paytm Mall, Paytm.com, TicketNew, Vidooly, Xpressbees, Rapido, Snapdeal, Zomato	E-commerce, Search Engine, Media, Social Media & Entertainment, Logistics, Fintech, Aggregator, Others
Tencent	Sectors
Byju's, Ola, Doubtnut, Dream 11, Flipkart, Niyo, Gaana, Hike, Khatabook, MXPlayer, Mygate, Pine labs, Pocket FM, Practo, Swiggy, Udaan	Education, Logistics, Gaming, E-commerce, Media, Social Media & Entertainment, Fintech, Aggregator, Others
XIAOMI (Shunwei Capital)	Sectors
CityMall, Hungama Digital Media Entertainment Pvt. Ltd., Marsplay Internet, Oye! Rickshaw, Rapido, Sharechat, ZestMoney	E-commerce, Fintech, Aggregator, Media, Social Media & Entertainment

Note: Highlighted names are unicorns (worth over US\$ 1 billion)

Source: Bhandari et al. (2020).

note has been amended, which states that “A non-resident entity can invest in India, subject to the FDI policy except in those sectors/activities which are prohibited. However, an entity of a country, which shares a land border with India or where the beneficial owner of investment into India is situated in or is a citizen of any such country, can invest only under the government route”. In addition, the amendment also states that “the transfer of ownership of an existing or future FDI in an entity in India, directly or indirectly, resulting in the beneficial ownership falling within the restriction or purview of the para 3.1.1 (a) is subject to government approval”.

The new amendment has modified the earlier position, which placed some restrictions on citizens and/or entities of Bangladesh and Pakistan with the majority of the restrictions being on the latter.

Among the neighbouring countries, China has major investments in India. In last six years, FDI inflow from China to India is approximately US\$ 2031.12 million.¹ Since the launch of Make-in-India campaign, Chinese companies have revealed significant interest in investing in India in a wide range of sectors such as automotive, renewable energy, electronics, textiles, real estate, and financial investments in Start-ups. During 2016-2019, several companies finalised locations for their factories in India, such as SAIC Motors, Haier, OPPO, Xiaomi, VIVO, BYD, Midea, Lesso (building material), Tsingshan (steel manufacturer), among others.

Bhandari et al. (2020)² have extensively studied Chinese investments in India. Their report reveals that investments made by nearly two dozen Chinese tech companies and funds in India. These companies are led by giants

1 See, FDI fact Sheets: DIPP

2 Refer, Bhandari, A., Fernandes, B., Agarwal, A, (2020) “Chinese Investments in India”, Report No. 3, Map No. 10, February 2020. Gateway House, Indian Council on Global Relations, Mumbai

like Alibaba, ByteDance, and Tencent, which have funded 92 Indian start-ups, including unicorns such as Paytm, Byju's, Oyo, and Ola (Table 1). According to them, "Chinese funding to Indian tech start-ups is making an impact disproportionate to its value, given the deepening penetration of technology across sectors in India". The single most significant Chinese investment in India is the US\$ 1.1 billion acquisition of Gland Pharma by Fosun in 2018.

Research reveals that Chinese strategic investments are overarching India's almost all sectors, where FDI is allowed through 100 per cent automatic route. During the COVID-19 pandemic, the stringent lockdown in India makes the new start-ups and MSMEs more vulnerable as they are suffering from fund crunch. The government has taken a precautionary measure against anticipated opportunistic takeovers/acquisitions of Indian firms by Chinese companies, although China has retaliated on this decision by expressing it as "discriminatory".

Challenges Unfolding

Chinese predatory trade practices and trade weaponization have created an intense backlash in countries, and India's FDI policy amendment is a response to its worldwide trend. The current pandemic has accelerated this process. But in the short to medium term,

this measure will decelerate India's FDI-led growth story as China and Hong Kong are two major neighbourhood players in terms of their investment shares in India. The long-run impact is ambiguous, as it may open alternative routes of investment if this policy prevails. In the short run, stringent implementation of this screening process is going to affect the Greenfield investment adversely due to the procedural delay of the approval process. It will create hindrances in the export-led growth trajectory. Again, this protectionist measure will have a further impact on India's product value chains in the medium run, given China's strong foothold in it. The geopolitical relationship between India and China is going to be stringent unless India eases out its screening process for Chinese investments in India.

Further, according to DIPP, during 2019-20, India received the maximum FDI equity inflows from Singapore (US\$ 11.65 billion), followed by Mauritius (US\$ 7.45 billion), Netherlands (US\$ 3.53 billion), Japan (US\$ 2.80 billion) and USA (US\$ 2.79 billion). Countries like Singapore and Mauritius are regarded as tax havens, and have a very high percentage of routed funds. Chinese indirect investments are also routed through these third countries, as China has its free trade agreements in place with these countries. Hence, re-routed investment by Chinese firms cannot be controlled or monitored through this screening policy.

Countries like Singapore and Mauritius are regarded as tax havens, and have a very high percentage of routed funds. Chinese indirect investments are also routed through these third countries, as China has its free trade agreements in place with these countries. Hence, re-routed investment by Chinese firms cannot be controlled or monitored through this screening policy.

Concluding Remarks

Finally, the sectoral impact of this stringent policy will be heterogeneous. Small and new start-ups, which are primarily depending upon Chinese funds, will get a hard hit. Alternative fundraising during a pandemic and post-pandemic recessionary situation will become

extremely difficult for them and will raise a serious question on their sustainability in the growth trajectory. The start-ups that are already in the pipeline of receiving investments from China will receive delayed payment due to stiff government approval, which can further decay the employment generation in a new normal situation.



A Glimpse of Hope from Global Investors amidst COVID-19

Rupamanjari Sinha Ray

Today's world is faced with the Pandemic COVID-19 that led to the collapse of the world economy. It is a “do lockdown - or die” situation for the whole world. The most medically equipped advanced economies have death tolls rising steeply. The first quarter prediction of growth in the world by JPMorgan shows a decline by 12 per cent.¹ Goldman Sachs predicts a 9 per cent fall in growth in European economies. The global economy is definitely moving towards a New Normal. What is this New Normal for the entire world? What is it for India? McKinsey in one of their reports² has defined this New Normal as a less financially leveraged world with substantial Government interventions and regulations in financial markets. Businesses, which would like to have high leverage, would suffer and only those organizations with real productivity

gains would survive. Perhaps, this would be a turning point from the age of high consumerism and a high debt world to more prudent and low risk investments.

Real Challenge

India's present problem is a trade off between pandemic-related lockdown and economic growth. Obviously, the choice is clear as pandemic-related health have far wider implications for the nation than we could foresee. Undoubtedly, lockdown in India has been successful so far to contain rapid transmission. But, Indian population and its density are the current issues in the pandemic coupled with lack of education to understand the implication of the lockdown. High population not only has an implication of rapid

1 “5 charts that show the global economic impact of coronavirus”, World Economic Forum, accessed at <https://www.weforum.org/agenda/2020/03/take-five-quarter-life-crisis/>

2 “COVID 19 implications for business”, a report by McKinsey, accessed at <https://www.mckinsey.com/business-functions/risk/our-insights/covid-19-implications-for-business>

spread of the disease but it has implication on productivity and growth. To sustain the lives of a massive population, we need the wheels of production and trade running; otherwise, it would lead to a scenario where people may die out of poverty rather than pandemic.

India has been facing a severe impact on its economy and industry due to the present lockdown. The current situation of India under the lockdown is quite dismal due to the Pandemic. With a one month lockdown already, major industries such as textile, consumer durables, small scale manufacturing and services like transportation, automobile, tourism, hospitality, retail, real estate, partially e-commerce industries suffer a major fall in their revenue and profit. In March 2020, merchandise exports declined by 34.22 per cent and merchandise imports by 28.27 per cent.³ Except for iron ore, all other exportable show a decline in March 2020, whereas, except some transport equipment, all other importable show a decline in March 2020. Although oil prices have crashed internationally, domestic prices of oil have been high as compared to the rest of the world. The major trading partners such as China, USA, and European nations are likely to restore their economies not before fourth quarter of 2020, whereas China is first mover in the revival process. But, trade of India is going to suffer in post-COVID-19 unless India chooses to shift its direction of trade towards new destinations. Post-COVID-19 may also

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lead to local that in turn may substitute global procurement of goods and raw materials.

A survey by FICCI and Dhruva Advisors⁴ observed a de-growth in the current fiscal year. The latest Monetary Policy statement of the Reserve Bank of India (RBI) did not come out with any GDP forecasts of the country in such uncertain times. Many economists predict a V-shaped GDP growth trend. However, given a breakdown of the supply chain of large industries, it would not be easy to revive them post-COVID-19 and the MSMEs would face the major jolt. The revival process would be further jeopardized by the reverse migration and it would not be easy for the industries to bring them back. A gradual process of opening up of the industrial sectors with all possible protection of social distancing in the work place is the need of the hour; otherwise,

we would not be able to get a V-shaped trend. Instead, we may end up by having a steep decline, followed by a flat curve of growth. A sub-optimal situation may be to open up local economies in the non-confinement zones of the country to begin with. It may be followed by opening up of the districts, then inter-district and intra-state trade, inter-state trade and finally, international trade. This gradual process may take a full cycle of one year.

Stimulus Options

In any such economic recession in the world, we had always witnessed the role of fiscal

3 Source: Trade Analytics of Trade Promotion Council of India

4 Published in Economic Times dated 21 April 2020

policy measures more effective than monetary policy measures. Monetary policy measures have been already undertaken by the RBI through reducing reverse repo rate and expected fall in repo rates and other policy rates. However, the current fiscal stimulus packages are not sufficient to protect the small manufacturers and traders. Without a steady revenue stream survival of these companies would be critical. Many organizations have announced a cut in the salaries of employees in order to retain the employees and manage from the corpus. Soon such announcements may translate into job-cuts and unemployment, particularly in microenterprises and start-ups. Thus, a huge fiscal stimulus package is crucial not only to protect the industries, but also to maintain the demand. Cash transfers and direct subsidies

to producers, traders and migrant workers are some of the policies that could be adopted by the Government of India. A shift in the government expenditure towards the support of medical facilities is already happening with a series of announcements to provide some tax breaks to the business world. But, these measures seem to be inadequate. We need more proactive government expenditure to protect the industry.

New Opportunities and Way Forward

Not all industries would face a loss and setback. Some industries, which are functional, may experience frictional profit. Online Cloud-based platforms are the only option to socialize in a social distancing set up. Online Apps like Zoom, Google Meet, Microsoft Teams, etc.

Global investors would now look for more safe destinations like India and other Asian countries, where the pandemic has been under control, and it would be the next big destination of such western investments.

have become quite user friendly for people to work from home. India, being a country with thriving ecommerce platforms and other App-based digital service economy, has a scope to enhance more Cloud-based services to enter this service of online video-conferencing. Demand for outsourced services of India from the western world can get enhanced further. Agricultural output, pharmaceutical and medical equipment would experience enhanced trade, though there would be scarcity that in turn would raise the supply-demand gap. The supply-demand gap may lead to food inflation.

Though consolidation, mergers and acquisitions are more likely in the near future, competition may be killed leading to more concentration of the industries. In such uncertain times, the global geo-politics have assumed a new role. The investment from China is likely to get siphoned off by the advanced nations as a retaliation measure. Global investors would now look for more safe destinations like India and other Asian countries, where the pandemic has been under control, and it would be the next big destination of such western investments. The recent Facebook-Jio deal is one such example. Many European medicelectronics and medical device industries are now interested to join hands with Indian companies. These would definitely help industries to recover post-COVID. But, not all industries would be revived back. Garment sector always had a fair share in Indian's global exports. However, given the COVID-19 situation, it would be difficult for this sector to recover, given the fact that it comprises labour intensive small and medium scale industries.

Conclusion

So, a new normal for India would again lead to a more digitally enhanced services oriented growth, supported by the growth of agricultural and health industry. If we look into all pros and cons, Indian industry post-COVID-19 is likely to grow more than any other economy through global investments, more local growth in the

supply chain and providing a new normal to the rest of the world as many advanced economies may like to replace China with India as a trading partner. A glimpse of hope can be seen through these critical times under the conditions of health-related prudence in the economy. This is not the time for fiscal consolidation, but we need more fiscal expansion.

Part IX: Trade Facilitation



COVID-19 Pandemic and India's Trade Supply Chains: Disruption, Prevention and Resumption

Ram Singh

The tsunami of COVID-19 pandemic has touched us all around the globe. Cross-border trade of goods, services and associated travel cannot remain untouched in today's interdependent, networked and globalised economic order.¹ Trade of both goods and services stands disrupted around the globe as national borders are sealed, restrictions imposed on exports and imports of essential goods, medicines and protective equipments. Lockdown of economic and social life has far-reaching effects on global trade supply chains, leading to disruptions due to withdrawals of services by truckers, shipping lines, dry ports, gateway ports and associated services providers like fumigators, packers, clearance and stevedoring services and limited availability of custom officials only for essential clearances. In this context, this article makes efforts to identify and understand

the widespread effects of the pandemic, and to find solutions, which are required at addressing issues for logistics disruption, ensuring prevention for international trade losses and resumption of sustainable trade operations.

Understanding the Impact of Pandemic

Indian government, businesses as well as policymakers have responded cautiously to COVID-19 pandemic, which has caused trade supply chain disruptions at gateways and dry ports, inland borders, hinterland transport (road and rail), civil aviation, maritime shipping, and above all on exporting and importing firms. Immediate reaction by government, business and policymakers was to prevent the spread of pandemic in India's trade supply chain networks leading to steps like border closures, travel

1 Adapted from <https://www.weforum.org/agenda/2020/02/why-is-coronavirus-a-global-business-risk/>

bans, export restrictions, social distancing and quarantining, lockdowns, curfews and closures of non-essential businesses. In the first phase of lockdown of 21 days; export and import operations were largely closed and were not fully functional as a result of disrupted supply chains, manpower constraints and movement restrictions. Trading firms faced several challenges during this phase as cargoes were struck at gateways and dry ports and other intermediate nodes, causing problems like non-issuance of bill of lading, non-clearance by customs, unavailability of transport means and absence of courier services, etc. This led to innumerable problems as trade documents cannot be routed on time leading to discrepancies in L/C transactions, demurrages and detention charges at destination ports, refusal by importers for acceptance, payment and negotiation of trade documents, price fluctuations in cargo thus making them uncompetitive in international markets. Exporters and importers have been facing a challenging time as orders are being cancelled, inventory piled up, demand is slowing down, thus directly impacting their financial capabilities to sustainably engage in international business operations.

Preventing the Trade Supply Chain Disruptions

With lockdown put in place, the first priority of the Government of India was to expedite the customs and cargo clearance of 'Essential Goods' so as to maintain proper supply in the country. All modes of transports were engaged to provide essential, lifesaving and export and import cargo services in these challenging times. Indian Railway launched

a series of Roll-on-Roll-off operations, a delivery model, which can provide multimodal transport mix wherein loaded trucks would be moved on the flat rakes to avoid congestion on the roads.² This helped reduce congestion on roads and involved red-tape and police controls. The RO-RO model is useful as it helps in saving fuel and turn-around time and is more economical than the cost incurred by road. The Government of India declared as "essential" the services of cargo carriers such as railway and trucking conveyances, staff of terminal operators, and crews of coastal shipping lines, customs brokers, freight forwarders and delivery services including services of last mile transportation to the final destination. Coordinated and integrated efforts of central and state governments along with logistics chain stakeholders ensured continuous supplies and deliveries of essential goods, medicines, protective gears, food and export and import cargoes in the critical supply chains. The Government of India launched "Lifeline Udan", a government initiative of air transportation of medical cargoes and essential supplies across India at the time of the COVID-19 crisis.³ Indian Air Force not only picked up essential supplies from Wuhan, China⁴ but also transported 6.2 tons of medicines, protective gears and other critical cargoes to Maldives⁵ under "Operation Sanjeevani". The Government of India suspended licensing requirements and considered full tariff relief for life saving essential drugs and also expedited their clearances. Indian Customs published the list of 'essential items' to ensure consistency across Custom Commissionarates to avoid disruptions in supply chains (export, transit

2 Indian Railways' RO-RO service help pull off freight traffic during COVID-19 pandemic, 15 April, 2020 The Live Mint

3 Lifeline Udan: No commercial traffic but Indian skies buzzing with cargo planes carrying Covid-19 essentials; India Today, 5 April 2020

4 How Much-Maligned Air India is Coming to Country's Rescue, Outlook, April 17, 2020

5 IAF airlifts 6.2 tonne essential drugs to Maldives, The Hindu, April 2, 2020

and import). Indian Customs started a help line along with 24x7 cargo clearance at main ports of India. The process of clearance is made simple; for example, no insistence on physical documents (bill of lading), e-gate pass, removal of merchant overtime fee, reducing steps in cargo clearance, secondary appraisalment, non-requirement of physical copies of IGM, waiver of all fees and penalties, etc. Ports also waived off demurrages, and the Ministry of Commerce & Industry issued advisory to dry ports (ICDs/CFSSs) to follow the suit. The Partner Government Agencies (PGAs) stepped in to prevent the damage that may be caused to India's external sector due to lockdown and zero economic activity. Shipping lines waived off detention charges for containers. Export Inspection Council (EIC) advised that physical inspections shall be avoided and consolidated shipments of essential cargoes should be cleared on trust basis. Quality inspection is done for high risks cargo only. Government stressed for "social distancing" even for staff involved in export and import operations, highlighting the theme 'prevention is better than cure'. To implement social distancing, CBIC took following initiatives for seamless cargo clearance at ports/ dry ports.

- CBIC stressed for EDI-enabled customs clearance through 259 custom stations, using electronic data processing and e-payments thus replacing the need for any paper/documents so as to have minimum possible physical contact among staff of customs and associated stakeholders.

Export and import community is undergoing a stressful time, and it is highly desired that all penalties, interests, composition fee, regulatory compliance fee, etc. should be waived off for the period till such restrictions on movements of vehicles and people exist.

- CBIC encouraged advance filing of documents in EDI Platform prior to the arrival of goods (Advance Bill of Entry) and initiated online customs clearance to all 'priority' and 'low-risk' shipments upon arrival. The list of essential items was made available to customs officials.
- CBIC took requisite steps to "fast track" the cargo clearance of AEO and TIR operators and is applying the risk-based post-clearance audit for controls, wherever required.
- CBIC allowed the acceptance of e-signatures or email authorized documents in select cases where otherwise; there is need of wet ink signatures. E-Gate Passes are issued to importers for picking up cleared cargo. ICETRAK application was launched which helped importers and exporters to track their shipment, clearances and pick-up electronically.

Resumption of Sustainable Trade Supply Operations

Export, import and all associated services are declared 'essential' in phase II of the lockdown beginning 15 April, 2020 and manufacturing of EOUs is allowed in non-containment zones from 20 April 2020, subject to state government/local administration compliance. In order to resume the manufacturing and trade supply chain operations, following steps will be further required for ensuring a sustainable trade supply chain of India.

Export and import community is undergoing a stressful time, and it is highly desired that all penalties, interests, composition fee, regulatory compliance fee, etc. should be waived off for the period till such restrictions on movements of vehicles and people exist.

Further, rent and charges for bonded cargo and storage charges of ports/dry ports for export and import cargoes, which cannot be cleared/dispatched under these emergent conditions, should be waived off.

It is the high time to extend time frames for filing claims of incentives and benefits under DGFT/Customs/GST/RBI, etc. Further, time frame for appeals, and other trade measures should also be enhanced.

It is highly desired that all involved stakeholders of the trade supply chain should provide clarity for return of goods in cases where the importer at final destination refused to take custody of cargo or it is non-deliverable due to business closure; hence exported goods have to be brought back.

India needs to promote Authorised Economic Operator (AEO) Scheme in a target based system and streamline AEO processing, thus encouraging trust and compliance in virtual processing of licenses and cargo clearances and movements.

There is a need for a harmonized Stock Keeping Units/ Bar Code based on the United Nations Cargo Code system. As bar coding

practices are market specific due to things like labelling or other regulatory requirements, it causes problems in case of inter-country movement, transshipment and merchanting trade of goods in today volatile and ambiguous times. Unfortunately, regulatory

agencies destroy such non-complying cargo resulting in losses for the export and import community. Further, perishable and time critical cargo can be easily moved to areas of demand from any stressed markets in time of crisis, if bar-coding/stock keeping units are harmonized.

Export and import community witnessed unprecedented shortage of containers due to restrictions on movement of vehicles. There is a mismatch in India's import and export clusters. For example, imported cargoes come at Garhi

Hashru, Gurugram and exportable cargoes go from Sonipat/Dadri. During the *Janta* curfew, the trade community faced shortage of containers as they cannot be moved to areas of demand from areas of excess supply, even if they are abundantly available.

MSMEs constitute around 40 per cent of India's exports, and are extremely vulnerable to this crisis. Business closures have resulted in dramatic decline in their business operations and their ability to sustain export sales in globally stressed economic times. Government can consider some of these ideas to improve MSMEs business resumption and sustainable cash flow in order to ensure their business recovery.

It is high time to facilitate extensive consultation with stakeholders in the trade supply chain of India as it will help policy makers to understand the ground realities for meaningful implementation of government schemes aimed at redressal, recovery and resumption of trading business in India.

India's MSMEs should be offered a deferment or additional days for payment of duties. A window to pay custom duties twice in a month, once on 15th and another on 30th of each month, should be provided to MSMEs. This will reduce their working capital stress.

There is a need for greater communication between bankers and the trade community on priority sector financing of MSMEs. Additionally; Interest Subvention by RBI should be at the time of exports, instead of current practice of post exports. Benefits of liberal trade financing under the RBI guidelines/ Gold Card Scheme should be highlighted and promoted to MSMEs.

It is high time to facilitate extensive consultation with stakeholders in the trade supply chain of India as it will help policy makers to understand the ground realities for meaningful implementation of government schemes aimed at redressal, recovery and resumption of trading business in India.

EPCs/EDAs/CBs should be involved to prepare, update and activate business continuity and trade recovery plans of India's trading and supply chain operations. It is the duty of all, especially the government agencies to take corrective, timely and orderly steps for seamless trade supply chain operations of India.

India should explore possibility of "Cargo Community System" so that all the involved stakeholders like Customs, GST, DGFT, Partner Government Agencies, Export Promotion Councils/Export Development Authorities/ Commodity Boards, Terminal Operators, Ports, Rail, Shipping lines, Airlines, RBI, Custom Brokers, which are integral and inseparable part of India's trade supply chain, should be on-board to deal with this type of crisis in future and there is no need to duplicate the notifications/trade notices/circulars, etc. The Cargo Community System will reduce the number of compliance and audits issues unlike the export and import community today who have to go with different regulatory agencies.

Concluding Remarks

Endeavour should further be made to promote regional and in subsequent phases, global harmonisation aimed at same and similar cargo clearance practices. India has already signed a 'Mutual Recognition Agreement' under the WCO-SAFE Agreement with Hong Kong and South Korea. It is high time to take it forward so as to overcome challenges in any future crisis of this sort. To conclude, India should adopt and promote the use of coordinated border management through Integrated Cargo Community System.



COVID-19 and Container Business in India

Subrata Kumar Behera

Every disruption has two sides attached to it: challenge and opportunity.

We are in a situation when countries are diverting all of their energy and resources to fight the menace of coronavirus (COVID-19). Closed borders, cancelled travels, closed shopping malls (except stores selling essential items) are becoming the new normal in many economies across the globe. Billions of people have been staying at home: some are working from home - thanks to modern technology. Nobody knows how long we have to wait for the resumption of a normal lifestyle.

As far as the container business across the world is concerned, we are experiencing a slump now—the first phase of the downturn generated from the supply side – production cut in China. The second phase of the slowdown came from the demand centres, especially from the US and Europe. The uncertainty spread across the globe and has started impacting the user behaviour, especially the

propensity to purchase goods. We have a demand situation as we had in 2009, although the underlying cause is different.

Owing to the uncertainty, the demand for transportation of goods, especially the intermediate and finished products, suffered a lot. As we all know, China is the manufacturing hub of the world; ships carry containerised goods from China to the US, Europe and other parts of the globe. With limited demand for cargo, the shipping lines have little choice left with them but to use “missed/blank sailing” as a double-edged sword. By skipping a few sailings within the service/loop, they are trying to minimise the cost as well as keeping the freight rates firm or stable at least, by constraining the shipping capacity.

Delay in Exports

India is located on the major east-west trade lanes (Asia-Med/Europe), missed sailings have a considerable impact on importers and

exporters in India. The concept of miss sailing itself indicates delay. Further, many times the cargo from Indian ports are also not being loaded on to the ships due to space constraints as the ships come fully occupied from the previous ports located in China or Southeast Asia. If this uncertainty continues for long, may be a couple of more months, our exports will suffer a lot. Definitely, the shipping line will look at it, but it might prove to be a pain point for exporters in this challenging time.

Ship Waiting Time at the Ports

In the present condition, ships are waiting at the port/ anchorage for two main reasons: quarantine measures imposed by the government, or/ and shortage of workers, trucks and other relevant infrastructure at the port. Again, if this continues for months, it will have a direct impact on both the traders as well as the ports.

Mainline ships cannot afford to be in quarantine as it will hugely impact its financials and credibility in the market apart from delay in shipment in other destination ports. If the quarantine regulation persists, mainline ships may choose to use nearby hub ports and move containers origin/destined for India cargo via the feeders. In this scenario, the cost for importer/exporter will increase both in terms of money and time. Similarly, the ports will lose revenue coming from the mainline ships, which are way higher than that of the feeder ships.

India needs to restructure its trade policy and bring about radical changes to give a boost to its exports and also make the exporter community, especially the MSME sector competitive and on par with international firms in the global supply chains.

The quarantine regulation imposed by the Government of India is a measure very much needed for public health in India. However, the regulation should be monitored and relaxed or should be withdrawn in a reasonable manner considering public health, interests of the exporters/importers and logistic providers in the country.

On the related topic, the government had announced that exports are exempted from demurrage and other waiting charges at the gateway ports. But, the ICDs and CFSs are still levying the same on the exports, which is a pain point for the shippers. However, there

should not be any misuse of this relaxation by the logistic companies.

Cargo Moves Fast Now

As the passenger trains take rest in rail yards, the movement of the container between the ports and their hinterlands have become swift. For example, container trains moving between Jawaharlal Nehru Port (JNP) and Delhi are taking about half the time compared with the normal time. It feels like a trial run of the Dedicated Freight Corridor (DFC), though it will be faster once the DFC is operational.

Opportunity for Complete Digitalisation

The Ministry of Shipping in its order had requested the shipping lines to do away with the physical

Enforcement of complete digitalisation is the need of the hour and will go a long way to minimise the processing time and cost.

submission of Bill of Lading for Imports. However, there are reports that some shipping lines are still insisting on the physical copy. Enforcement of complete digitalisation is the need of the hour and will go a long way to minimise the processing time and cost. Port Community System (PCS1x) is an excellent initiative by the government. However, now the focus of the government should be on onboarding, all relevant stakeholders across the supply chain system to make the digitalisation process a success.

The “moving away from China” trend is now accelerating, and many companies in the US and Europe will move outside china for their manufacturing/sourcing facilities. India has a great opportunity here.

already looking for new import sources. Southeast Asia was an obvious choice for them due to lower labour costs and minimum supply-chain disruption.

The “moving away from China” trend is now accelerating, and many companies in the US and Europe will move outside china for their manufacturing/sourcing facilities. India has a great opportunity here. However, India will have to compete with countries like Thailand, Vietnam, the Philippines and other countries in Southeast Asia.

Dealing with the post-COVID-19 World Order

Many western companies were trying to move out of China even before the outbreak of COVID-19, and this phenomenon was evident during the year 2019 when the world witnessed the trade war between the two largest economies. Even then, irrespective of the outcome of the trade war, both the government as well as the businesses in the US have realised their over-dependence on China for most finished products and intermediary goods. Companies in the US and Europe were

Since the opportunity is huge, India as a county will have to undertake massive reforms to attract businesses. And these businesses will require more infrastructural support than we have at present, especially concerning the movement of containers from the hinterland/probable plant locations to ports. We cannot afford to delay the DFC now. We would also need to provide adequate soft infrastructure along with the physical one. Optimised tax regime, efficient and straightforward custom and document processes are some of the areas which need urgent attention to leverage this opportunity.

Part X: Annexure

WORLD TRADE AND INDIA

Multilateralism, Progress and Policy Response

Edited by
Ajitava Raychaudhuri, Prabir De, Suranjan Gupta

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About the Book

International trade has influenced the world economy more strongly in the recent years on account of globalisation. The debate on the openness of international flow of goods, technology and capital in the development process remains as old as economics. Trade has allowed countries to benefit from specialisation and economies to produce at a more efficient scale. It has also raised productivity, supported the spread of knowledge, introduced new technologies and enhanced the range of choices available to consumers. Trade is *sine qua non* to development. Trade is an area of great promise but also great frustration. Benefits and costs are either too much or too little.

Trade has decelerated in recent years amidst global slowdown and Coronavirus outbreak. Countries have been taking shelters of protectionism. In 2019, WTO celebrated 25 years of establishment. India, the founder-member of the WTO, was forced to reverse the trade liberalisation process by raising the customs duties on some products in recent years. While this is largely true, the rising trade on account of trade facilitating measures is accompanied by, *inter alia*, trade restrictions on account of heightened global tensions among the WTO members. India (and for that matter developing countries) have to be better prepared to deal with the emerging new challenges.

What comes upfront is that world trade has been passing through a difficult time, which calls for drawing a fresh perspective on future of India's trade. There is no doubt that to build the resilience of the Indian economy to trade shocks and improve competitiveness of exports, it would be useful to consider mitigating strategies. Besides, this book aims to improve understanding and appreciation of key and emerging trade policy and negotiation issues facing India in international trade. It has a total of 15 chapters, freshly written for the book. These chapters not only deal with trade as a development instrument but also link it to the trade policy. After more than 25 years under WTO, it is time to look back and evaluate where the nations stand today in international trade and this book is an effort to understand that for a better future.

This book is an important resource for officials, practitioners, academic, and research scholars.

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Notes

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Notes

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Countries across the world are facing serious consequences and damages to the economies. Although India has managed well in containing the spread of the Coronavirus, the COVID-19 pandemic has already disrupted normal economic activity and life in the country. India's trade has been severely impacted. Businesses are very vulnerable to the unfolding economic crisis. People have been facing a sudden loss in their incomes, causing a major drop in demand. To rescue the economy, India has announced a range of fiscal and monetary stimulus packages. This pandemic has strong foreign and trade policy effects, and motivated us to engage in compiling this Report. This Report presents freshly written 40 important commentaries by senior research scholars, professors, economists and practitioners on trade and foreign policy challenges posed by this crisis and the way forward. In particular, the commentaries in this Report cover three important issues: first, what is the magnitude of the impact of the crisis on Indian economy – is it shallow or deep, and the scope to rebound, particularly India's exports; second, India's immediate challenges in managing the recovery; and third, the longer-term structural challenges of the Indian economy. Each chapter of this Report has outlined key recommendations to navigating through the present crisis and the policy responses. The Report suggests that a comprehensive strategy addressing the impact of the current crisis may put the Indian economy back on a sustained growth path and strengthen the country's trade and foreign policy.



Set up in 1955, EEPC India has been the face of Indian engineering exports over a span of 65 years. EEPC India is the premier trade and investment promotion organisation in India. It is sponsored by the Ministry of Commerce & Industry, Government of India, and caters to the Indian engineering sector. As an advisory body it actively contributes to the policies of the Government of India and acts as an interface between the engineering industry and the government. For more information about EEPC India, please visit its website: <https://www.eepcindia.org>



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