

# Post Pandemic ECONOMY

## New destination, New path

### INTRODUCTION

The coronavirus pandemic has exacerbated the existing geoeconomic, geopolitical, and strategic fault lines in the global economy. At the same time, it has had diverse impacts on different countries given their differential capabilities to deal with its consequences. While developed economies can afford to prioritize surviving the pandemic and getting back to pre-pandemic living standards, emerging economies like India must treat recovery as a necessary opportunity to remedy the long-standing problems within their economies. If left untreated, these problems could precipitate into other crises and might make a permanent dent to India's growth trajectory.

In this context, it becomes important to understand how COVID-19 has exposed the existing fault lines of the Indian Economy? How these fault lines have made permanent changes to the nature of the economy?

What effects these economic changes will have on other spheres of life? What can be done to ensure smooth and speedy recovery of the economy? And what can be done to build a better Post Pandemic Economy for the future? In this edition, we will attempt to answer these questions.

# How has COVID-19 exposed the prevalent fault lines of the Indian Economy?



The outbreak of COVID-19 has brought social and economic life to a standstill. International and internal mobility became restricted, and the revenues generated by travel and tourism, which contributes 9.2% of the GDP, took a major toll on the GDP growth rate. Aviation revenues came down by USD 1.56 billion, oil plummeted to 18-year low of \$ 22 per barrel in March, and Foreign Portfolio Investors (FPIs) withdrew huge amounts from India totaling about USD 571.4 million. These numbers provide a reflection of the poor economic situation that India was facing.

The economic downturn precipitated into a crisis, with India witnessing a mass exodus of floating population of migrants on foot, amidst countrywide lockdowns. The socio-economic situation created by the pandemic has exposed the following prevalent fault lines in the economy-

- **Persisting Economic Slowdown:** Since Quarter 1 of 2018-19, the GDP growth rate had been consistently declining. This can be attributed to several factors like persistent Non-Performing Asset (NPA) crisis, slow pace of reform in factor markets and transition effect of structural changes like GST among others.
  - **Outbreak of COVID-19 compounded this crisis** by further stretching the credit flow, unemployment levels and the economic output.
- **Economic Fragility:** Large dependence of the Indian economy on the services sector did not bode well during the pandemic, as services sectors such as tourism and hospitality suffered a major setback. This over dependence on one sector increases vulnerability of the Indian economy to large fluctuations.
- **Limited fiscal capacity:** The aftermath of the pandemic demanded large fiscal and monetary stimulus. But India's fiscal capacity in terms of tax-to-GDP ratio is not comparable with that of developed countries, and the government's receipts had been hit by the crisis. This constrained direct fiscal spending by the Government.
  - Also, as the economy was reeling under slowdown, the government had already deployed the usual instruments of macroeconomic policy. This further decreased the room available to the Government.
- **Trust deficit between Government and Private Sector:** A key factor in India's post-pandemic recovery is growth in consumer demand and private investment. But despite opening of the economy in the recent times, demand and investment have not picked up.
  - Primary reason for such a scenario is absence of private sector's trust on the government with regard to conducive atmosphere, policy consistency and most importantly security to investment. This distrust combined with limited consumer confidence in the economy has generated a **lower demand-supply equilibrium**.
- **Lack of resilience in supply chains:** The pandemic has exposed one of the major weaknesses of many supply chains i.e. the inability to react to sudden and large-scale disruptions. This lack of resiliency has been especially notable in the supply chains of the sectors like life sciences, health care, and food industries in India.
  - For example, larger part of the food supply chain in India is informal in nature which includes hawkers, regulated and unregulated mandis etc. This ecosystem was drastically affected during the pandemic.



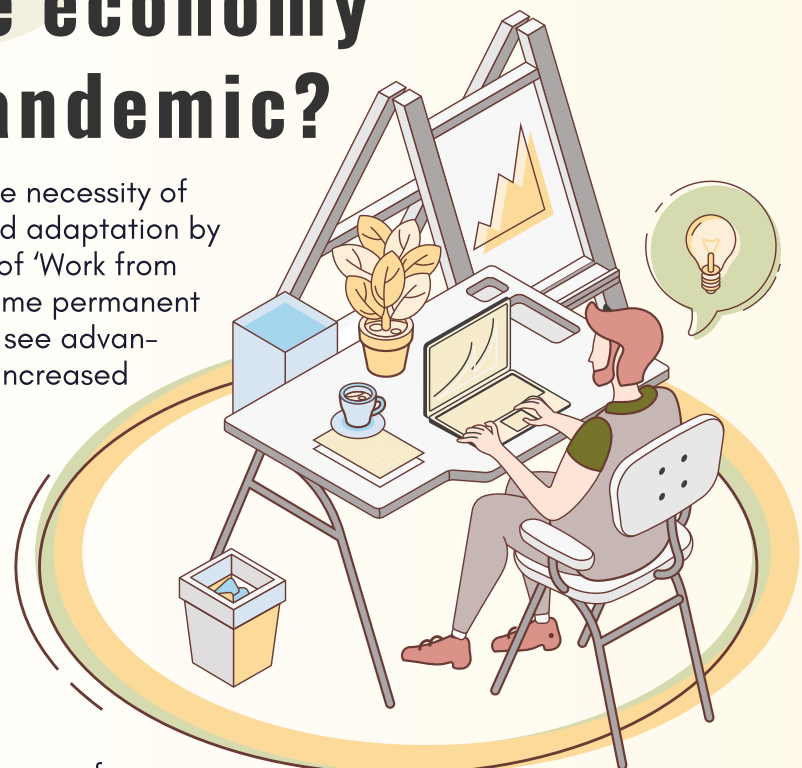
- **High degree of informalization:** The unemployment rate soared from 8.4 percent in the week just before the lockdown to 27.1 percent in the middle of the lockdown. Large proportion of these job losses were of daily wage labourers. This precipitated into a large-scale migrant crisis, indicates towards the level of informalization in the economy and risks associated with high degree of informalization.
- **Deep rooted poverty:** Although India has done well to reduce poverty levels in the recent past, but majority of the Indian population (including sections immediately above the Poverty Line) still does not have adequate saving or capital, resulting in a **'hand to mouth' pattern of consumption**. This makes them extremely vulnerable to economic shocks, pushing them into a vicious cycle of low income and poverty.
  - The deep-seated nature of poverty is further sustained by **limited penetration of social security net**.
  - There is a significant risk that the pandemic will push the country further back from achieving the 2030 Agenda for Sustainable Development, leaving the country to deal with long term socio-economic impacts.
- **Entangled inequality and economic growth:** Despite sustained growth for more than a decade, inequality has not decreased but rather increased. A **World Economic Forum report** suggests that during the course of the pandemic, bottom 44 percent of the economy saw significant decrease in their income whereas top 1 percent saw an increase of 20 percent in their income.
  - The data indicates that the bottom half of the population gets comparatively lesser returns on their labour but bear the larger chunk of the economic risks, which makes the model of the economic growth that has been followed questionable.
- **Environmentally unsustainable nature of the economy:** The economic halt induced by the lockdown gave a breathing space to the environment. This resulted in increased spotting of wildlife in sanctuaries, improved air quality, decreased carbon footprint among others. This one-off event has showcased the amount of pressure that economic activities create on the environment, which is unsustainable in the longer term.

The pandemic has exposed these fault lines by further aggravating them. As a result, **the pandemic has pushed us to either address these fault lines or work around them** by creating some permanent changes in our economy.

## In this context, what are the changes in the nature of the economy triggered by the Pandemic?

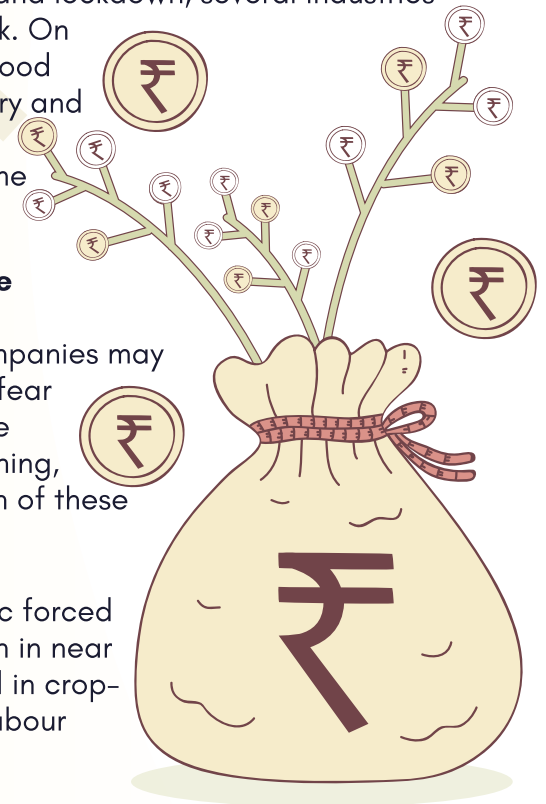
- **Normalizing the idea of work from home:** The necessity of lockdown, desperation of the service sector and adaptation by the workforce resulted in normalizing the idea of 'Work from home (WFH)'. This normalization may lead to some permanent changes as both organizations and employees see advantages of WFH in the form of reduced cost and increased flexibility respectively.

- The idea of WFH has brought **associated technological developments** in the form of Video calling software, digital tools etc.
- Also, 'Work from home' has further provided a fillip to the **ideas like remote working and gig economy in companies**. The government has also started recognizing it by inculcating new forms of employment in its regulatory frameworks.



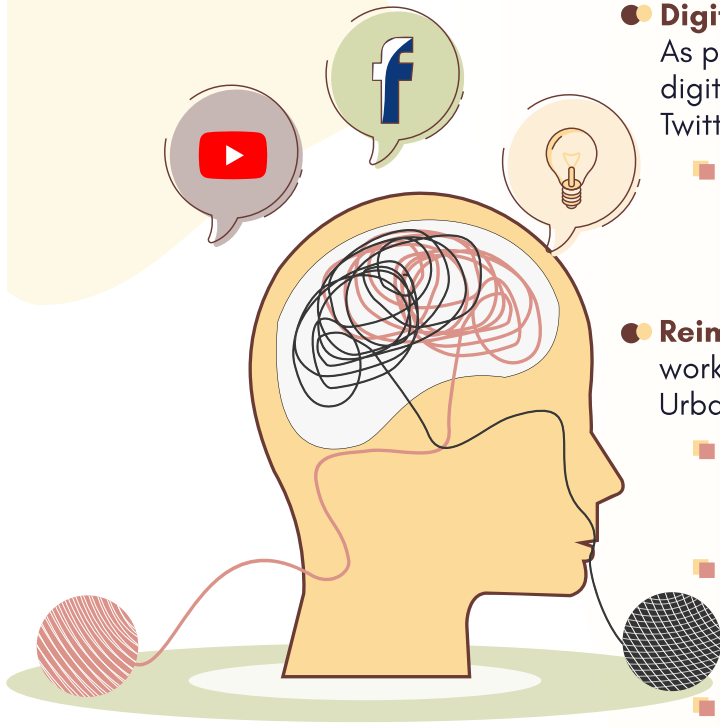


- **Increased focus on self-reliance:** Lockdown of international borders disrupted the global supply chains, highlighting the fragility of the supply chains and the risks associated with it. As a result, focus on self-reliance has increased in the form of **Aatmanirbhar Bharat Abhiyan**.
- **Increasing Digitization:** During the pandemic, operating digitally was the only way to stay in business due to mandated shutdowns and restricted activity. As a result, most of the businesses and institutions adapted to the digital world. For example, exponential growth was seen in adoption of online classes.
- **Accelerating the trend of deglobalization:** Borders between and within nations are more restrictive than before. National and nationalist sentiments have grown sharper due to ideas like Vaccine Nationalism and subsequently protectionism and populist 'Nation first' politics have gained more traction.
- **Push towards technology-intensive and capital-intensive growth:** The necessity of social distancing and labour uncertainty has pushed the capital-intensive vs. labour intensive debate towards the former. Also, the idea of social distancing has seen plethora of technological adoptions from touch-free appliances to increased adoption of AI-based systems for routine tasks.
  - Although, the trend increases technology penetration, this may lead to a scenario of increased unemployment vis-à-vis pre-pandemic levels, resulting in a K-shaped recovery i.e. increasing growth but with increasing unemployment in labour intensive sectors.
- **Development of health capacity:** The immediate need to address the pandemic was availability of robust healthcare system, both infrastructural and institutional. The healthcare ecosystem that has been created in the form of **testing infrastructure, enhancing production capacity for key products like ventilators** etc. will boost the overall healthcare capacity of the system in the long term.
- **Change in equilibrium of the economy:** The response to the pandemic in the form of restricted movement, changing needs has altered **the sectoral, regional & employment equilibrium** of the economy.
  - **Altered sectoral equilibrium:** Due to social distancing and lockdown, several industries such as tourism, airline, hospitality etc. suffered a setback. On the other hand, lockdown saw proliferation in areas like food industry in the form of increasing demand for food delivery and demand for consumables via **Fast-moving consumer goods (FMCG)** sector. This temporary shift may have some lasting impact.
  - **Simultaneous formalization and informalization in the economy:** The lockdown resulted in job losses as several companies could not stay afloat, employees of these companies may move towards the informal sector. At the same time, the fear associated with the virus forced people to think about the cleanliness and quality of domestic services such as cleaning, plumbing, salon services etc. This resulted in formalization of these services through start-ups like Urban Company.
  - **Change in regional distribution of work:** The pandemic forced large scale movement of labour. The uncertainty of return in near future forced them find work elsewhere. This has resulted in cropping up of industries and crafts in newer places due to labour availability in those areas.



## How will these economic changes impact other spheres of our lives?

The economic changes brought on by the pandemic have the potential to leave footprints on all spheres of human life:



### ● **Digitization of economy translating to digitization of society:**

As physical spaces have been constrained since the lockdown, digital ecosystems such as social media platforms like Facebook, Twitter, Instagram etc. have seen drastic increase in their usage.

- Although, digitization of the economy and society increases interaction and improves communication, expanding digital divide at both rich-poor level and urban-rural level **may aggravate already prevalent inequalities.**

### ● **Reimagining of Urbanization:** The idea of WFH and remote working may create several potential changes for the future of Urbanization-

- **Less pressure on Metro cities** like Mumbai, Delhi, Bengaluru etc. as some workforce even though working for companies situated in Metros would be working remotely.
- **Positive outcomes for urban air quality** as WFH or remote work alternatives in relation to travelling to work will reduce vehicular pollution.
- **Limited office space requirements** as WFH would stagger the employees and decrease the average number of employees at any given time on the premises.

### ● **Rapid technology penetration in education:** The pandemic affected close to 285 million young learners since the lockdown, as a response, technology penetration has increased in following ways-

- **E-learning** has shown a 25 percent growth since March 2020.
- **Use of Artificial Intelligence in education** would grow 48 percent by 2022.
- **Almost 98 percent educators** think that interactive video learning will be essential in the future.

### ● **Internalization of sanitation and cleanliness standards:** During the pandemic, awareness campaigns, strict regulations ensured that cleanliness was maintained, and highest degree of hygiene standards were followed. Since then, institutions, offices and individuals have assimilated these habits into their culture. In the long run, good hygiene practices are life-sustaining and play an important role in maintaining public health, controlling the spread of disease, as well as underpinning human rights, well-being and development.

### ● **Ramifications for gender parity:** Several surveys have suggested that the pandemic has had adverse outcomes for female population such as disproportionately high burden of domestic and care responsibilities in WFH ecosystem, increase in instances of domestic violence, higher rates of job loss etc.

### ● **Intensification of social issues:** The poorer faction of the economy was already grappling with issues like child labour, exploitation of workers, bonded labour and human trafficking. The large-scale unemployment, resultant loss of income and increased informalization created by the crisis could intensify these issues.

## What can be done to ensure smooth and speedy recovery of the economy?

In response to the pandemic, the Indian government announced **a fiscal and monetary package amounting close to 10 percent of GDP under the Aatmanirbhar Bharat Abhiyan**. Apart from **liquidity enhancing and relief measures**, the package also contained **reform measures for almost all the sectors**. The efforts made by the Government could be complemented by following measures-

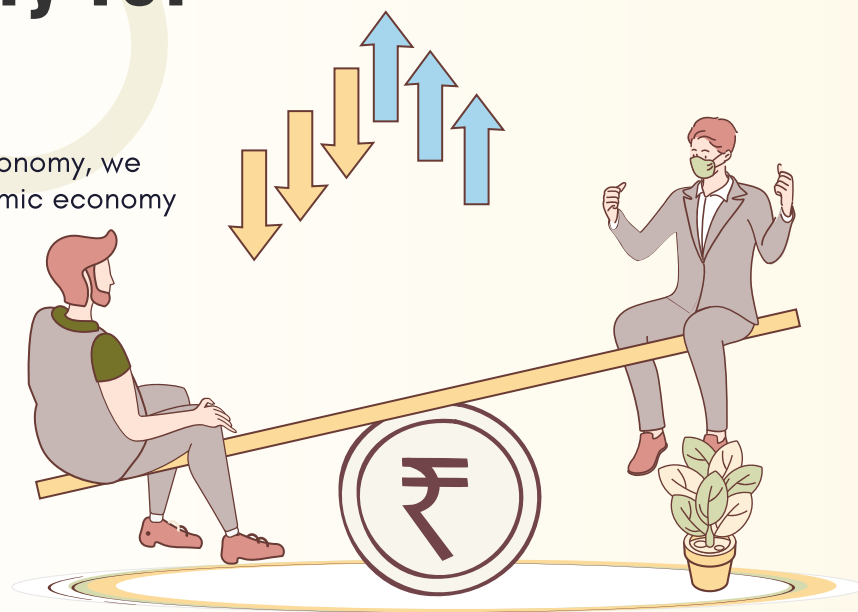
### ● **Ensuring food security by further expanding the Public Distribution System (PDS):** The immediate threat that the pandemic poses is poverty and associated socio-economic degradation. Given that, expenditure on food, as percentage of total household consumption, was 33.2 percent in rural areas and 22.4 percent in urban areas in 2017-18, PDS could provide immediate relief needed to restore the consumption levels.

- **Direct cash transfer to affected populations:** The pandemic has hit not only the poor, but also a sizeable section of the workers who do not have any kind of social security. DBT to these workers could provide income support which not only directly supports the population but would indirectly augment consumption levels and aggregate demand in the economy.
- **Participating in rekindled supply chains (Post-China Phase):** Post-pandemic is likely to see a rekindling of supply chains with most of the major economies shifting away from China. This provides an opportunity for India to capture the economic space vacated by China.
  - Also, **recalibrating its engagement with other Asian states**, playing a **stronger role in developing South Asia** and **having a clearly defined Indo-Pacific strategy** will help India safeguard its interests.
- **Public investment in physical and social infrastructure:** Trends and nature of infrastructure investment is going to decide how fast the Indian economy can revive itself. Strengthening and augmenting health infrastructure, urban planning, roads, rural infrastructure and digital infrastructure are going to be the key drivers even in the long run.
- **Providing fiscal room to the economy by relaxing FRBM Act in the immediate term:** Suspending FRBM would have to be the initial step to finance any fiscal revival attempt on the path to address concerns surrounding economic growth.
  - This should be accompanied by developing a suitable medium-term fiscal strategy, thereby building resilience in fiscal management and adaptation in the coming years. This would ensure that temporary easement does not translate to fiscal misconduct and rising national debt.

# What can be done to build a better Post Pandemic Economy for future?

In order to move towards a Post-pandemic economy, we first need to identify the nature of post pandemic economy we desire. The economic destination which has its basis in profit has created several fault lines from inequality to unsustainability. To create a better Post pandemic economy, we need a **new economic destination** which addresses and repairs these fault lines. In the current scenario, four objectives that should accompany economic growth are:

- **Environmental sustainability:** It entails rapidly declining greenhouse gas emissions and environmental degradation, consistent with avoiding catastrophic damage and achieving a stable and healthy level of ecosystem services.
- **Rising wellbeing:** It is understood as an improving level of life satisfaction for individuals, and a rising sense of improvement in the quality of life and condition of society as a whole.
- **Falling inequality:** It encompasses reduction in the gap between the incomes and wealth of the richest and poorest groups in society and enhancing incomes and opportunities for those experiencing systemic disadvantage, including women, members of ethnic minorities, disabled people, and those in disadvantaged geographic communities.



- **Systemic resilience:** It is understood as the economy's ability to withstand financial, environmental or other shocks without catastrophic and system-wide effects.

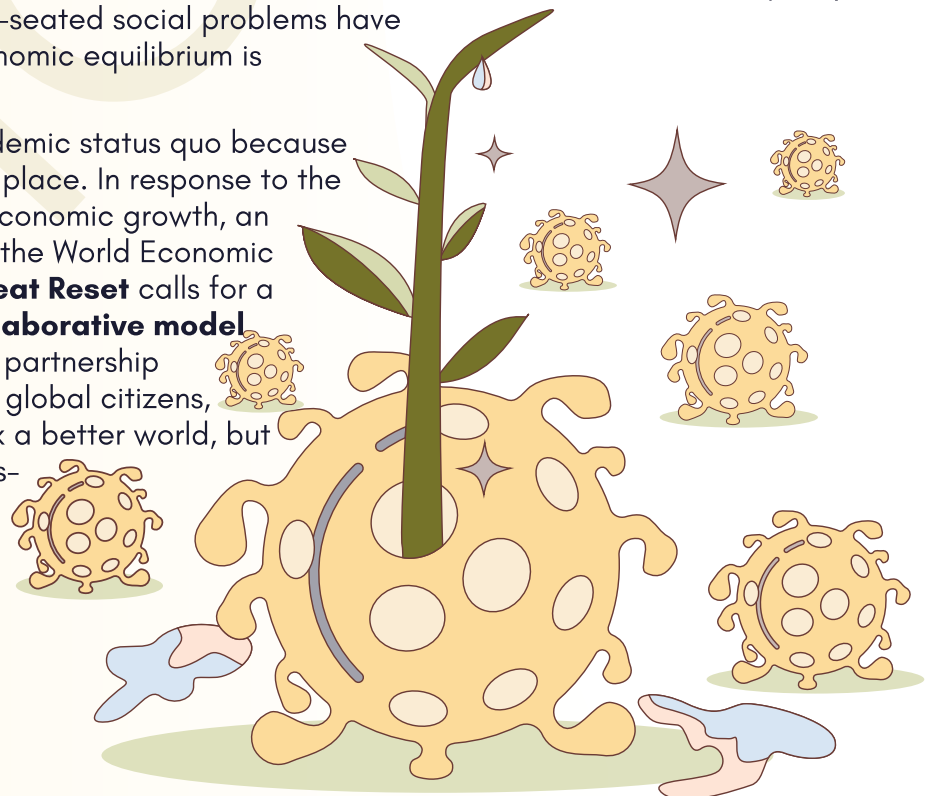
Moving towards a new economic destination will require **traversing a new path i.e.-**

- **Moving from Shareholder Capitalism to Stakeholder Capitalism:** Shareholder capitalism concentrates the entire decision-making process in hands of one stakeholder i.e., the corporate entity. But, under the stakeholder model, all those who have stake in the economy participate in the decision-making process. Involving all the stakeholders in the process broadens the objective, thus moving closer to the idea of a new economic destination.
- **Focus on building resilience going forward:** Given the long-term damage from crisis that goes beyond just declines in output, recovery packages should aim to build a better tomorrow by making the economies more resilient to future economic or environmental shocks. The main elements needed for this are to **prioritize people** by investing in strengthening health and social protection systems, close the digital divide; and ensure a green recovery by developing green infrastructure and integrating environment-social-governance (ESG) principles in channelling public and private investments towards SDGs.
- **Focusing on the Triple bottom line- People, Profit, and Planet:** Moving towards a new goal would require new quantitative parameters to assess the direction of growth. As a result, a triple bottom line which includes economic growth, movement of social parameters like inequality levels and status of the environment would be needed to guide the course of action.
- **Making continuous innovation part of the process:** The pandemic forced both employers and employees to try work from home. It broke the inertia around the concept of 'Work from home' and highlighted the benefits that it can provide to both workers and business. This showcases the need of deliberation on novel economic and social concepts that have not been tried on a large scale like '4-day week', '24X7 economies' among others. This forced experiment indicates that **more regular experimentation should be done** with lifestyles and the **current or default practices may not be the best.**

## CONCLUSION

The Pandemic has drastically affected all areas of the economy, though in a disproportionate manner. This has exposed the persistent weaknesses in our economic model. Prevalence of divides such as inequality, unsustainability, poor resilience and deep-seated social problems have shown us that the hitherto envisaged economic equilibrium is unsustainable in nature.

We don't want to go back to the pre pandemic status quo because it was the one that got us here in the first place. In response to the idea of going towards a new pattern of economic growth, an interesting approach was propagated by the World Economic Forum- namely 'The Great Reset'. **The Great Reset** calls for a **stakeholder centric, equitable and collaborative model of growth** which has its basis in seamless partnership between Public and Private sector. We as global citizens, not only have an opportunity to build back a better world, but as custodians of this world have a responsibility towards the future of humanity.



## TOPIC AT A GLANCE

### POST-PANDEMIC ECONOMY: NEW DESTINATION, NEW PATH

#### COVID-19 exposed following fault lines in the Indian Economy-

- **Persisting Economic Slowdown** was compounded by the pandemic and issues like NPA Crisis and transition effect of GST were further aggravated.
- **Economic Fragility** due to large dependence on the Services Sector.
- Inability to provide adequate fiscal stimulus highlighted Indian Economy's **limited fiscal capacity**.
- **Trust deficit between Government and Private Sector** can be seen as hindering quick recovery and creating a lower demand-supply equilibrium.
- Large scale disruptions in supply of essential commodities have indicated towards **lack of resilience in supply chains**.
- **High degree of informalization** in the economy resulted in creation of migrant crisis and large-scale loss of employment.
- The immediate threat of increasing poverty posed by the pandemic showcased the **deep-rooted nature of poverty in Economy**.
- The disproportionate impact faced by the poorer sections exposed the **entangled nature of inequality and the prevalent model of economic development**.
- The immediate impact of the pandemic in the form of increased wildlife presence and natural repair of ecosystems has glaringly showcased the currently **unsustainable nature of the economic growth**.



#### Changes that happened in the nature of the economy

- Measures like social distancing and lockdowns have **normalized the idea of 'Work from Home (WFH)'**.
  - WFH has further encouraged technological developments in this direction and provided a fillip to remote working and gig economy ecosystems.
- **Increased focus on self-reliance** due to disruption of global supply chains.
- **Increasing digitization** of most of the businesses and institutions.
- **Accelerating trend of deglobalization** due to growth of nationalist sentiments like 'Vaccine Nationalism'.
- Uncertainty associated with labour has given a **push to technology-intensive and capital-intensive growth**.
- **Development of health capacity** in the form of testing infrastructure, enhanced production capacity for key products like ventilators etc.
- **Change in equilibrium of the economy** in the form of **altered sectoral equilibrium, simultaneous formalization and informalization in the economy** and **change in regional distribution of work**.

#### Changes that happened in other spheres

- **Digitization of economy translating to digitization of society** with growth of digital platforms.
  - Also, increased digitization may increase already prevalent digital divide.
- **WFH** may lead to **reimagining of Urbanization** with less pressure on metro cities & limited office space requirements.
- **Rapid technology penetration in education** with E-learning becoming popular.
- The precautions and habits followed during the pandemic have resulted in **internalization of sanitation standards**.
- **Ramifications for gender parity** in the form of disproportionately high burden of domestic & care responsibilities, increase in instances of domestic violence etc.
- Increased unemployment has led to **intensification of social issues** like child labour, exploitation of workers etc.



#### Measures to ensure smooth and speedy recovery

- **Ensuring food security** by further expanding Public Distribution System (PDS).
- **Direct cash transfer to affected populations** to increase social security for workers.
- **Participating in rekindled supply chains** as countries will be moving away from China centric supply chains.
- **Public investment in physical and social infrastructure** to augment health, urban, rural and especially digital infrastructure.
- **Providing fiscal room to the economy** by relaxing FRBM Act in the immediate term.



#### Philosophy to build a better Post Pandemic Economy

Moving towards a new broader destination of economic development encompasses **environmental sustainability, rising well-being, reduction of inequality** and **systemic resilience** alongside economic growth.

- **Moving from Shareholder Capitalism to Stakeholder Capitalism** to make economic decision making more inclusive.
- **Focus on building resilience going forward** by investing in strengthening health and social protection systems, close the digital divide; and ensure a green recovery.
- **Focusing on the Triple bottom line- People, Profit, and Planet** which includes economic growth, movement of social parameters like inequality levels and status of the environment.
- **Making continuous innovation part of the process** with by experimenting with ideas like '4-day week', '24X7 economies' among others.