

Post Pandemic Economic Order: Challenges for Indian Economy

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Abstract

Having suffered for over 18 months from COVID-19, the Indian economy appears to be on recovery path now. However, despite recovery in some sectors, the economy presently suffers from numerous challenges. The first big challenge confronting our economy is related to poverty and hunger. The second problem is related to inequalities. The paper points out that if a country attempts to achieve high growth rate on the global level, the rich will become richer while the poor will become poorer. The paper also describes multi-dimensional poverty, which is extremely high in Bihar, Jharkhand, U.P. and M.P. A big challenge confronting Indian economy is the rising burden of debt. Another challenge which our economy is facing is 'corruption'. A very formidable challenge which faces Indian economy is related to urban rural divide. The paper describes various facets of the gap between cities and villages and highlights that the switch over from planned development to adhocism is not appropriate for India.

Keywords: Indian Economy, Post Pandemic, Poverty, Challenges

Introduction

Indian economy has finally emerged out of the impact of pandemic, which it had experienced during 2020 and a major part of 2021. There are clear indications that during the past few months, Indian economy is showing positive indications of recovery in demand. It is interesting to note that while Government of India claims to have achieved a V shaped growth during the past post-pandemic period, the pace of recovery has remained un-even across the different sectors. For example, the recovery in automobile sector has been faster

than in textiles, cement, and steel. The prices of latter products have obviously risen in relation to other products.

Our finance minister claims that India is now capable of achieving V-shaped growth rate though in reality, as shown below, such claim is by and large, not true. Likewise, the pace of recovery in hotel and hospitality sectors has been slow during the past one year, implying a spurt in the number of job-seekers in these sectors. However, the recovery in I.T. industry, pharmaceuticals and automobiles has been rather positive. Notwithstanding such recovery,

presently the Indian economy is facing quite a formidable challenge which warrant an urgent and immediate attention of our policy makers. The purpose of this paper is to identify such challenges and their intensity for Indian economy.

Challenges Confronting Indian Economy

Notwithstanding a recovery of Indian economy in recent months, numerous challenges have emerged that pose a block in the process of swift pace of recovery.

1. Poverty and Hunger: In the first place, the recent report of the United Nations on Hunger shows that a big challenge confronting Indian economy is high number of deaths on account of hunger. It needs to be pointed out that according to the U.N. Report released in May 2021, India ranks 101 out of 126 countries among hungry nations of the world. In November 2021, India's Supreme Court pulled up our Central Government on the number of deaths due to hunger for which there is no law in India. It is interesting to observe that only the poorest countries of Asia and Africa exhibit higher levels of hunger than India. It needs to be juxtaposed with the quantum of buffer stocks (of 50 million tons) of food grains in the godown of Government of India. The challenge is: How to take the problem of hunger with the available buffer stocks?

2. Growing Inequalities: While analyzing the relationship between high growth and

economic inequalities, Thomas Piketty contended that countries which achieved high growth rate of GDP also experienced high levels of economic inequalities (Piketty, 2017). India is no exception in this regard. Piketty showed that because of high emphasis on growth rate, in India just 1.0 percent of super rich now own 54 percent of resources, while the rest have very meagre share of productive resource base. India is a very unequal country, as top 10 percent received 57% of national income in 2021 while the bottom 50% could receive only 13% (OXFAM, 2021).

According to one estimate, India had 179 billionaires in 2019, but their number rose to 237 in 2020. One billionaire commands a total wealth of Rs. 1,000 crores. It is also estimated that creation of one billionaire implies an increase of 2.0 million in the number of poor people. Thus, with an increase of 58 billionaires in India, the number of poor increased by 1.6 crores just over one year. Thus, one may infer that with an increase in the number of rich persons, the number of poor in India has increased. It thus implies that over emphasis on high rate of growth in GDP is bound to expand the gap between the rich and the poor in our country.

It needs to be mentioned that while the super rich control nearly 64% of wealth in India, the corresponding share of poorest 60 percent is only 4.7 percent. Oxfam reported that in 2018, the fortune of India's billionaires rose by Rs.

2200 crores per day (OXFAM, 2021). Since in modern economy, few persons dominate the market, concentration of power increases. We measure inequalities through Gini-coefficient

which depicts the proportion of wealth or income for different percentiles. Suppose 10% of people appropriate 60% of total GDP, the economy has high income inequality.

Causes of Inequality	Consequences
Concentration of political and economic power	Inter group conflict – loss of peace
Lust for accumulation of greater wealth / income.	Social disorder
Inequalities of opportunity	Hindrance in development
High stress on growth rate	Growing inter regional desperation
Corruption	Wider rural urban divide, since generally agriculture remains subservient to industry.
Political Support for the rich.	Growing poverty, malnutrition etc for the poor.
Inequality of Wages / salaries	Corruption
	Unemployment
	Vicious circle of poverty

In November 2021, NITI AYOOG released a report on Multidimensional Poverty Index (MPI) in India and various states (Niti Ayog, 2021). It was reported that 25 percent people in India live in poverty. Multidimensional poverty refers to various types of deprivations experienced by a family in health, education, living standards, empowerment, quality of work and law and order scenario. MPI is thus an index showing a broader aspect of poverty.

As per Niti Ayog report on proverty (Niti Ayog, 2021) shows, Bihar has the highest number of poor, followed by Jharkhand, U.P. and M.P. on the other hand, Kerala has virtually no poverty while the ratio of poor in numerous other states is less than 10 percent. Niti Ayog report thus

reveals that rate of poverty depends on levels of literacy, income, employment and health.

3. Rising Burden of Debt: One glaring issue which modern economies are currently facing is the increasing burden of debt. Generally, each country borrows for its industrial, and infrastructure development from either internal sources or external sources. Often developing countries fail to repay their outstanding loans, and resort to furthers borrowing, and thus deliberately increase their burden of debt. It is strange to note that there are numerous countries across the world whose ratio of debt burden is higher than their GDP (WPR, 2022). Musgrave and Musgrave argue in their book that if a country borrows to meet its bridge its revenue gap, the loan becomes ultimately a

burden (Musgrave & Musgrave, 1989). However, all nations across the world ultimately carry a burden. Many major as well as small countries of the world have outstanding debt that exceeds even their GDP (WPR, 2022).

It is interesting to observe that the burden of debt on India is just 70 percent of its GDP whereas almost all rich nations have two to four times outstanding debt over their levels of GDP. China, the country ranking second in respect of global GDP (over \$8 trillion USD) contracted a fresh loan of \$ 4 trillion USD during 2006 and 2020 as reported by the Institute of International Finance. One may argue that as compared to developed countries, the burden of outstanding debt on India is extremely low. Yet, it remains a big challenge looking to over weak fundamental. First, our current Account Balance has remained negative over the past decades. Second our competitive strength is poor to raise our exports. Third, FDI, FPI and other sources of dollar inflow are not favorable to India. Finally, while exports are sticky, our imports have very low price and income elasticity, and are thus sticky.

On the contrary, according to a recent report by the Institute of International Finance, in January 2021, China's outstanding claims on the rest of the world increased from \$ 1.6 trillion in 2006 to \$ 5.6 trillion in mid-2020. It was also reported that globally the debt to GDP ratio in 2020 was 105.4 percent, while for emerging Asian countries, such burden was 63.4 percent.

4. Corruption: According to Prof. Bibek Debroy, Chief Economist to Indian P.M., Narendra Modi, corruption may take any one of the following forms:(i) Delay (ii) Harassment (iii) Kick back or bribery (iv) Misbehavior (v) Money laundering (vi) Insider trading (vii) Over channelization (viii) Black marketing (ix) Under or Over rating in passage of contracts (x) favoritism. Each year the Transparency International prepares Corruption Perception Index (CPI) for about 180 countries (Transparency International, 2021). It was found that in Asia, Police Department is the most corrupt in the whole system. Next is the group of politicians at various levels. In the US also, police department is highly corrupt. Transparency International in its report on CPI (2020) has found that in Asia, India is the most corrupt country with 86th rank, while China ranks at 78. followed by Indonesia and Pakistan. Least corrupt nations are Denmark, Finland, New Zealand, Japan, Sweden, Singapore and Switzerland. Out of 180 nations for which CPI is prepared, the rank of USA in 2020 was 25 among clean nations (Transparency International, 2021).

5. Rising Urban-Rural Divide: While in developed countries, rural areas generally have the same facilities which are available in urban centers, in India we find a wide gap between villages and urban centers. As is widely known, that of India's population lives in villages. According to the Population Census of 2011, almost 70 percent of population lived in

villages in 2011, but it is likely to be 50 percent by 2041. However, during the past few years, rural areas have received quite a few facilities which were available generally in urban centers. These are (a) institutes of higher education, (b) electricity (c) cooking as under Ujjawlaa Scheme, (d) health centers, (e) toilets,

(f) connectivity via transport faculty, (g) mobiles etc. In short, due to these facilities, the gap between villages and towns or cities has considerably been harrowed. Yet, there are numerous parameters which highlight the urban-rural divide prominently. Table I shows such gap.

Table 1 - Urban Rural Divide in India

S.No.	Indicator	Unit Value	
		Rural	Urban
1	Population (%)	30	70
2	GDP (%)	52	48
3	Per Capita Value Added (Rs.)	40925	98435
4	Literacy Rate (%)	68	85
	Male	78.6	89.7
	Female	58.8	79.9
5	Percentage of Working doctors	34	66
6	Percentage of working nurses	32	68
7	Availability of Safe drinking water (%)	91	94
8	Availability of Sanitary facility (Rest go for open defecation)	50	82
9	Access to computers (%)	4	29
10	Access to colleges (%)	60.5	100
11	Consumption expenses per capita (%)	565	1060
12	Rate of Unemployment		
	Female	3.5	9.9
	Male	5.6	7.1

Sources: (i) NSSO data (ii) C.M.I.E. data (iii) Media reports (iv) Economic survey 2019-20

Thus, the gap between villages and urban areas tends to be little. Yet, both continue to face problems which warrant an immediate policy intervention. First, about 38 percent of urban population presently lives in slums, and remains deprived of basic minimum facilities that are needed for human beings. The incidence of unemployment, and ailments is also extremely high in these god forsaken

habitats. It is also argued that quite a few persons living in these habitats turn criminals as they have no other option. This is really a big challenge for Indian policy makers, since with rising urban population, these problems are likely to assume more formidable dimensions.

6. Adhoc-ism versus Long Term Vision: Few years ago, the Government of India disbanded the Planning Commission, and along with the

same, all state governments also scrapped their respective planning boards. With this action, the era of medium-term planning in India came to an end. In fact, the erstwhile Planning Commission was engaged in preparing a vision for Indian development. In most cases, plans for India were based on inter sectoral linkages. Since then, however, planning in this country has been replaced by adhoc-ism where inter sectoral linkages are missing. Yet, on infrastructure front and industries front, wide development activities are taking place. Such ad hoc steps may often yield miraculous results, albeit their long-term impact is hazy, and lacks a long-term flavor of perspective growth. For instance, some start ups have done miracles in industrial productivity as also in export trade, but majority of start ups have not been able even to take off.

In fact, Government of India has to proclaim their long-term vision and pronounce strategies for over all development of Indian economy. Let us not oblivate the fact that piece meal development goals can yield miracles only for the short run, as their foundation is only ad hoc and is based on short term strategy.

7. Poor Record on Global Competitiveness:

Notwithstanding as impressive track record of quite a few start-ups and emerging new companies in the past few years, the global ranking of India in competitiveness continues to be poor. It needs to be mentioned in this context that Switzerland based World Economic Forum (WEF) released every year

the Global Competitiveness Report for 141 countries across the world. The WEF has identified 12 pillars for computing the competitiveness of these nations to ascertain their capability to compete with other nations (WEF, 2020).

It must be mentioned that all European countries and many Asian countries have higher rank in the global competitiveness than India while in 2019, India's rank was 68, the rank for China that year was 28 (IMD, 2021). It must be made clear that over the past one decade, the competitiveness of China, Japan, Brazil, Malaysia and even Israel in the global markets has been far higher than that of India.

8. Ease of Doing Business:

For over one decade, the world bank regularly published a report on 'Doing Business in various countries, but then abruptly stopped its publication in September 2021 on account of allegations of irregularities and inconsistencies by some countries (WBG, n.d.). Yet, the report has been good in many respects. It highlighted the easiness or difficulties confronting a nation in doing business and provided an excellent guide for introducing policy reforms. The report 'Doing Business' ranked a country with respect to 10 parameters and then awarded an overall rank to denote the condition of a country depicting the "overall – easiness" in doing business. Such ranking is done for 191 countries. This overall rank for India was 100 in 2017, but it swiftly in proved to 63 by 2021, depicting the impact of various, policy reforms

introduced by the Government of India. The challenge now is to improve our performance further in doing business.

It is believed that notwithstanding a shift in the rank of India to 63, the (while for China it was 107) the data used by the world bank experts were controverted and inflated the rankings of bank countries while suppressing those of some others, for this reason, the world bank decided to scrap their report on 'Ease of Doing Business in September 2021. It must be mentioned that except market size, India's ranking in respect of other pillars has been very disappointing. Such poor ranking acts as a deterrent in our pursuit to increase our exports and raising our credibility in the global financial markets. If India must emerge as an export surplus country, it must adopt policies to raise productivity of labour and capital to make its products and services cheaper in the global markets.

As is widely known, production of goods and services in China, Japan and other competing nations is more cost effective than India. In a report, released in August 2020, the Niti Ayog admitted that in majority of cases the index of Export Preparedness India, pertaining to states seems to indicate that performance of states and UTS in general was rather disappointing (Niti Ayog, 2020).

9. Problem of Global Poverty: According to world bank latest data a poor person is that person who earns less than \$ 1.90 per day.85% of the world people live on less than \$ 30 per

day, while two third live on less than \$ 10 per day. 1.6 billion live in extreme poverty globally. Martin Ravallion spent decades in knowing how extreme poverty can be measured and wrote a book 'Economics of Poverty: History, Measurement and Policy. According to Ravallion, over 1.2 billion people across the world live under extreme poverty. In Africa, South Asia and parts of U.S.A. quite a few live under extreme poverty. In India 38% urban people live in slums 2020. World's 25% poor live in India (IndianExpress, n.d.). Yet with economic growth the ratio of people living under extreme poverty has declined. By 2015 persons in the middle-income range have increased. Main causes of extreme poverty in Africa and South Asia are

1. Uneven distribution of productive resources.
2. Lack of skill with 50 percent people.
3. Lack of capital with 85-90% of people.
4. Exploitative wage rates.
5. Dominance of usurer in rural areas.
6. Lack of mobility among rural workers
7. Illiteracy.

Conclusion

Pandemic has brought many challenges for the already troubled Indian Economy. Though, the country has done better on many parameters, there is still a long way to go. The government must work on the fundamental issues such as poverty, corruption, inequality a great deal. The country in the regime of the new leadership, has done good for making it easier to do business in

India, but there is a long road ahead. Similarly, the long term focus and improving the global competitiveness for India is the need of the

hour, especially in the world that is more volatile and uncertain.

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