Deterrents To India's Growth: Building Optionality and Resilience

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Abstract-Identifying the obstacles for growth in India particularly in this pandemic hour is very relevant. The impact of demonetization, the introduction of GST, the pandemic Covid -19 had also badly affected the state. The decline in GDP and the growing inequality in the state is stressful. To adapt and grow in the face of stress and shocks, to convert risk to opportunities and transform when condition demands, is the major challenge. Action from a team that includes the politicians, Investors, Academicians, Economists, Policymakers, and administrators will help build resilience. The gradual restoration of the supply chain and faster progress on the vaccination process could pull inflation downward and open space for addressing the urgent need to repair and revive the economy from the blows it had suffered from the pandemic.

Key words -Gross Domestic Product, Goods and Service Tax, Covid -19 and Demonetization

INTRODUCTION

The feasibility of the government to fulfill the aspirations and ideas of its people in India is really challenging as it faces imminent danger in the trinity of social disharmony, global health epidemic, and economic slowdown. India will have to strive hard to come over this combination of risk factors that will otherwise rupture not only the soul of India but also diminish our global standing as an democratic and economic power in the world. The Covid -19 pandemic has resulted in a considerable slowdown of economic activities all over the world. Its direct impact was on the consumption of goods and services as it reduced consumer confidence and made the consumers remain home. The next indirect impact was financial market shocks and their effect on the real economy along with the supply side disturbances which increased the unemployment situation.

Experts opine that the Indian economy is on shaky grounds. The real GDP growth of India has gone down from 8.2% in 2016-17 to 6.8% in 2018-19, with the fourth quarter of 2018-19 dipping to 5.8%. India's economy had grown at more than 4 percent (4.2percent)in 2019-20, but later entered a recessionary phase with two successive quarters of sharp contraction triggered by the COVID-19 national lockdowns beginning March 2020, further followed by a 23.9% collapse in the economy between April to June 2020 period, the GDP fell by 7.5% in the second quarter – leading to a real GDP contraction of 15.7% in the first half of 2020-21 Based on the advanced estimates of the National Statistical Organization the second half of the year will surface to a record near-zero growth or a mere 0.1 percent contraction. Demonetization in 2016 wiped out 86 percentage of cash in circulation and the introduction of new tax code Goods and service tax hit business hard.

The International Monetary fund spoke of the slow growth in rural incomes, domestic demand as reflected in the sharp decline in automobiles sales and credit from Non-Banking Financial Companies as plausible causes. The usual panacea for growth is the government spending which jumped nearly 12 percent and braced up a falling GDP, but this could not compensate for the fall in private investment. As per the Reserve Bank of India data, the slowdown in demand is not only attributed to the decline in Bank credit but also over 60 percent of commercial banks retail lending was for housing and education purposes and not for consumption spending. Only less than half of NBFC's retail lending was for automobile financing. There are certain structural issues too, it is observed that banks have avoided large corporate projects, but whether this was due to risk aversion or lack of new investment demand is unsure. The manufacturing and construction sectors and the stagnant private investment has contributed to the fall in GDP. These complex problems still plague the various sectors of the Indian economy and separating the demand and supply factors will be a difficult exercise.

The supply chain disruptions and higher taxes on petroleum products and others further flinched the upward pressure on inflation despite the masked demand conditions. According to the RBI'S Consumer confidence survey for September 2020, one year ahead inflation expectations remained at an elevated level.

According to the *World Inequality Report 2018*, the top 10 per cent of India's population got 54 per cent of all income while the bottom 50 per cent shared only 15 per cent even though the policy makers of India has always stressed on social justice as one of the primary macroeconomic goals. The pandemic has deepened the inequality and this is a real challenge for the government and the policy makers.

Employment pattern

Our labour markets have many growth-impeding rigidities — a low labour force participation ratio (which means a large section of working-age population, mainly women, choose not to work); a high percentage (over 70 per cent) of rural labour ostensibly engaged in agriculture, but adding little to productivity or income; and a large informal work structure, where reportedly about 46 per cent people are self-employed and 20 per cent casually employed, making income estimation little more than guesswork for two-thirds of the labour force.

The sectoral Gross Value Added (GVA) data as well as income tax data reinforce these facts. A large GVA signifies a higher share of wage incomes and capital surpluses. Thus, while agriculture had high value addition (78 per cent), its share in the national income was small because of the large labour force working at low or zero wages. In contrast, the services sector contributes over 50 per cent of the GDP and also has high value addition, but employs a far lesser proportion of labour (about 25 per cent). The combination of low per capita GDP and high-income skew has, not surprisingly, led to a low tax-GDP ratio.

The Effect of Demonetization

To start with, private consumption has taken a beating due to Demonetization as consumers suddenly prefer to hoard cash or keep it in the bank instead of spending on consumer goods. Moreover, demand has also collapsed in the rural areas as the entire rural economy runs on cash and Demonetization led to the loss of jobs as well as incomes thereby squeezing the rural consumer who now prefers to wait and watch as well as postpone consumption except that of essential goods and services. It has also led to small and medium businesses or the so-called SMEs to withhold investment since they too operate on a cash basis and the cash crunch has left them high and dry. The situation is that cash has dried up leading to a slowdown in the economy.

One must also take note of the fact that it is not only private consumption and small enterprises causing the slowdown. Indeed, the Big Corporate is as much to blame since they are drowning in debt that they accumulated during the Boom Years of the first decade of the 21st century. It is also a fact that this has contributed to a freeze on investment by industrial houses and corporations who are now paying down the debt or postponing debt repayments to ensure that their present cash flow is sufficient to remain in business.

Adding to the Debt Burden

The public sector banks are burdened with high Non-Performing Assets that have resulted in tightening lending and instead, seeking deposits and otherwise repairing their balance sheets by making provisions for bad loans. The government and the RBI have to take concerted action to break the vicious cycle wherein bad debts and collapse of demand ultimately leading to no fresh investment and no lending in addition to any consumption.

Rollout of GST

The rollout of GST on a nationwide basis has led to the slowdown. Indeed, It has obstructed the small businesses more than Demonetization by forcing them to withhold inventory until they migrate to the GST Network, the numerous rules and regulations of this tax are unsatisfactory. It can be said that the implementation of GST is erroneous thereby aggravating some of the factors that have contributed to the slowdown.

Global Slowdown

India is a net commodity exporter, but a slump in the volume of exports in India has also added to the global economic slowdown. Apart from that, the global slowdown has also been a chaperon by retreat of globalization which has resulted in FDI being only in the areas of speculative finance and troubled assets purchases rather than into investments that help the Real Economy. Thus, it can be said that ongoing global winds also have contributed to the slowdown in the Indian Economy.

Overcome the crisis

The economic slowdown is experienced as a part of a long-term structural shift where we experience the economy shifting gears from a high investment era to a low investment one and a transition from a cash-driven economy to a digitally enabled economy. The real estate sector has come to a grind in recent months and has contributed to the slowdown. There has to be a time lag to expect a turnaround and to get rid of this crisis. The coronavirus is the ultimate stress for the global governance system itself, it is a challenge that has to be tackled with robust and multidimensional international cooperation between nations. Availability of vaccines to the entire population is the need of the hour and this has to be ensured by the government. How and when to lift quarantines, identifying more effective treatments, to the research scientist racing to find a vaccine, we actually watch in real-time the benefits of intellectual collaborations that do not stop at national borders.

Responding to the pandemic situation requires a whole of government strategy for which and legitimate leadership and political will are vital to convene and maintain. The ability to mobilize the entire system helped Germany and Kerala to emerge as a success story in Europe and in Kerala the state Chief Minister congregated a response team at the state level at the earliest possible moment and coordinated public health strategy and this has been accepted by the state citizens who have learned to trust the government in such situations.

Xenophobic posturing- Here we see the consequences of starving public health systems of necessary funds and resources. The need of the hour is redundancy or excess capacity and we know the comparative advantage of private hospitals is efficiency, but the need of the hour is a vast stock of Personal Protective Equipment's and extra ICU beds to accommodate a flood of sick patients into hospitals. The advanced health care system of northern Italy bucked under the unimaginable pressures to which it was exposed for a few weeks should be a cautionary tale for all countries that thought turning health care over to private actors was responsible governance, consider again the case of Kerala which has consistently the top of state rankings for health expenditures and as a result has a well-functioning local public health system capable of implementing the test –isolate –trace protocols critical for fighting COVID-19. The global coronavirus pandemic has created an unprecedented crisis but it has given very important messages concerning the way we have lived so far. The most important message is that we need to be self-reliant from the village, district, state and national level in terms of our ability to satisfy them within our own country. High population growth, water and sanitation and literacy these are other three major issues which has to be seriously dealt with.

CONCLUSION

The real GDP has declined by an unprecedented 23.9 percent in the first quarter of 2020-2021 and the domestic activity is hit by this unrelenting pandemic. Demonetization had already worsened the aggregate demand in the economy and covid -19 added to the woes. The real GDP has gone down deeply to a negative, during this pandemic situation. The gradual restoration of the supply chain and faster progress on the vaccination process could pull inflation downward and open space for addressing the urgent need to repair and revive the economy from the blows it had suffered from the pandemic. India's lack of dynamism in the industrial sector, which is regarded traditionally as the core of economic development is also a matter of concern. Maintaining environmental sustainability is very critical to maintaining the development path. The huge population density, extreme climatic conditions, and its economic dependence on natural resources makes the situation more critical. The judicial system, regulators, administrators, and of course the politicians have to change systematically for the success of any economic strategy The need of the hour is redundancy or excess capacity as the comparative advantage of a private hospital is efficiency, but they need at present is a vast stock of life-saving pieces of equipment in hospitals. The critical challenges like population hike, sanitation issues and illiteracy which India faces can only be overcome through communication and cooperative initiatives between the people of India and the current political administration.

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