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COVID-19

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RIS Diary

— Research shaping the development agenda

## From Director General, RIS

With each day crisis seems to be deepening and we as a society and as a nation are worried about the consequences. With a prompt and efficient response from the government, all agencies and government departments are responding, along with the States, to the best of their abilities.

However, a major supply disruption can be seen in the near future and, with the lockdown, a big demand shock. There are estimations that if the crisis goes on for some more time, unemployment could hit a high of almost 15 to 20 per cent with the economies contracting by and estimated 20-30 per cent.

The question that is foremost in the minds now is how would the global economic situation improve and how will India be able to turn back into a vibrant economy. As several governments are benchmarking their national responses, the need for global coordination is being articulated by various afflicted countries. RIS, as a think tank, had been thinking of different possibilities, even before the actual lockdown was initiated.

In this Special Issue of the RIS Diary faculty from RIS have shared their thought-provoking insights on possible areas for action as perceived by them. The colleagues are namely, Professor Amitabh Kundu, Professor Manmohan Agarwal, Professor Milindo Chakravarty, Professor T. C. James and his team, Dr Sabysachi Saha and Dr Priyadarshi Dash. We are thankful to our Senior Adjunct Fellow Mr Subhomoy Bhattacharjee for facilitating and also editing the issue.

**Sachin Chaturvedi**

## Introduction

We are in the fight of our lives, across the globe. The exponential scale at which the Covid19 virus expands across virtually every geography has pitted human civilisation after a century into another World War. The enemy is not just the virus but the massive divisions among countries on virtually every development goals that has made it so difficult to forge a common front to win the war, even now.

Covid19 at one level is deceptively simple to conquer but as each country falling prey has discovered it can fatally catch the weaknesses in the development goals the countries set for themselves. It is, therefore, a threat to their economic survival by overwhelming the capacity of their public health system to keep the population fit. Authors have argued this will have fall outs with one of the key casualties being globalisation, possibly the most recognisable character of modern civilisation. Globalisation was based on a set of more or less agreed consensus built on a faith in multilateralism


which lead to a common set of norms for trade and finance that in turn allowed deepening of value chains in production and service delivery. The resultant unprecedented scale of cross-border flows of goods, capital and people raised to the power of technology will now have to be reimagined. But it is the weakness of the current model that unimaginably a virus has exposed.

It would be a long time, when the debris of bodies are cleared before the implications of the pandemic at the sub national level will even begin to become clear. It is then the immediate costs and the costs of reconstruction will become apparent. To put it in perspective, in the Second World War there were over 150 million soldiers who fought the battles for six years; for the current war, WHO estimates we have a third of their number of medical, para medical and any sort of health workers (59 million) available globally.

Surprisingly so far, some of the best responses to the pandemic has come from Asia including India. If India's responses, impressive till now, sustains it could well turn a global crisis into a model of opportunity, may be even for this century. It would have delivered a vastly improved model of public health that can finally turn our demographic advantage into a true dividend. However, not only the fight to break the chain of COVID-19 infections will be difficult, it shall also be a long drawn one.

This brief examines how this can be done. A comparison with the spread of the virus in other countries indicates that the Indian lockdown has earned it three weeks of crucial advantage to face the full-blown epidemic. That India has done so despite its massive weakness in medical capacity, extremely low per capita income and the world's second largest reservoir of population has begun to inspire a rare confidence in its public policy framework.

RIS has begun to examine the outline of this war which has no easy framework to offer. In the following chapters, each of our distinguished authors therefore pick up themes to examine that will provide a new perspective to judge the battle. There are some fascinating insights but each insist that a fresh redraw of the global order is necessary to create pools of cooperation and of commonly acceptable development goals. It is this context which makes clear why Prime Minister Narendra Modi was spot on in asking for a SAARC partnership to multiply the forces against the virus. It also illuminates the need for a global insurance to face such threats in the future so that health becomes an unequivocal public good. It is also the reason why the post Covid19 world must reimagine industrial networks instead of the somewhat exploitative one, at present.

Yet, these are the first impressions and more such work combining short-term and long-term analysis will follow from RIS. We encourage you to read on and debate with our authors about the road they are pointing to, in this war. We shall be back with many more to keep you intellectually immersed, to make sense of this raging war.

**Subhomoy Bhattacharjee**
Senior Adjunct Fellow, RIS

# COVID-19: Time for Global Partnership

SACHIN CHATURVEDI


Prime Minister Narendra Modi's proposal to engage with SAARC member countries and leaders through video conferencing for chalking out collective strategy for combating Corona virus outbreak is a very timely and laudable initiative. This truly reflects the spirit of the G-20 statement which said that the G20 countries will enhance cooperation and coordination to control the outbreak, protect people, mitigate the economic impact and maintain economic stability. It indeed shows how the leaders at global level articulate positions and how best regional cooperation may help cope-up with the crisis.

The challenge seems to be deepening on all fronts. The globalisation that was already grappling with the rising of nationalism now is facing a much greater crisis of global governance. In this respect, the key question is how the world organises itself, as trust deficit has also multiplied many times, particularly when economic challenges have also deepened.

## Global Overview

Amidst the collapsing share markets across, the economic impact studies are pouring in from all sides. All have their own take and prescriptions. The announcements from the US of travel and other restrictions in engagements have, however, further accentuated panic and fear across the global trading system. According to OECD report on Covid-19, the GDP shrinkage might be 4½ per cent and unemployment may go up by 7 per cent. In this study two shocks were given of 4 per cent in Q1 and 2 per cent in Q2. The shrinkage in the global GDP is estimated to be close to 2.4 per cent. It is also reported that globally almost four thousand flights are affected and several goods consignments have missed their timelines.

It is in this respect that the role of Central Banks has assumed great significance. The Central Banks have come forward with different approaches for supporting the global crisis. The US Fed has generously supported liquidity through treasury bills of the magnitude as high as $7.49 billion. Along the G7 statement, the Bank of Japan has suggested a very close monitoring of the unfolding payments crisis, while People's Bank of China (PBC) has lowered MLF (Medium-term Lending Facility) and LPR (Loan Prime Rate) by 10 basis points. The PBC has also proposed a provision of RMB 300 billion for banks in provinces where epidemic has gone above a particular threshold, in terms of its economic impact. The budgetary allocation of 12 billion pounds, by the British government, has been further supplemented by the Bank of England with cut in interest rates by half a percentage point to 0.25 per cent. The ECB has already came up with a list of similar suggestions for the EU economies.

With China being a major trading partner for most of the global economies, there is a major blow as supply chains are increasingly getting fragmented. The persistent worsening of corona virus in China and the resultant shutdown signals the potential scarcity of pharmaceuticals across the world as China alone caters to around 40 per cent of global demand of APIs.

## Indian Scenario

While auto, electronics, chemicals are prominent sectors that are likely to be affected, we exclusively focus here on possible imperatives for Indian pharmaceuticals. India's global API imports worth USD 2.7billion, USD 1.5 billion (56 per cent) is coming from China alone.

Further in India's global imports of medical devices worth USD 5,502 million in 2018-19, China's contributed USD 614 million (11.2 per cent).In high technology medical devices including preparations for x-ray examinations, diagnostic reagents designed to be administered to the patient' India's import dependence on China is too high. In this specific product category, India's global imports approximated around USD 43.38 million in 2018-19, out of which China alone constituted 32.47 million (75 per cent).

Taking account of the gravity of the situation, India must increase its domestic production of face masks and medical gears. Here also lies the opportunity for India to cater to the growing world demand for face masks and other medical devices, especially coming from USA and Philippines (Global demand for face masks is rising up to 100 times (WHO), UN News 7th February, 2020). Also, India must build its adequate domestic capabilities in this industry through increasing investment in scientific human resources, R&D, standards & quality control and technological up gradation.

## Global Public Goods

The world leadership must take a call on what Prime Minister Modi has suggested in the regional context. As is clear, nationalism is no solution to this major crisis at hand. Together we need to move for creating global public goods. They are required to be strengthened and nurtured, particularly in the realm of connectivity, supporting national medical and other specialised capacities and collective R&D efforts.

Supporting global evacuation missions require greater efforts at this point. India in this regard has undertaken some initiatives that should be scaled up further, of course in partnership with other countries. Under its six evacuation missions India has evacuated 1031 persons including 48 nationals from other countries such as Maldives, Myanmar, Bangladesh, China, US, Madagascar, Sri Lanka, Nepal, South Africa and Peru.

The world needs urgently several initiative of this nature at global level. Supporting each other for improving infrastructure to meet the national challenges is equally important. India also sent teams of senior doctors and scientists to Male and Tehran for expert led crisis management. This is in continuation of India's larger global efforts within the framework of South-South cooperation. Going beyond South, India also sent a team of four doctors from the Ministry of Health to Rome with sufficient material and reagents to collect samples of Indians there for onward testing in India. Most of this comes from India's own experience. The ICMR has expanded the testing capacity for the virus to 52 labs now.

Collective R&D efforts should be the top most priority. India has sent scientists, equipment for labs, reagents and brought back samples for testing to the country. So far, 1199 samples have been collected in Iran and brought to India for testing. The recent development of isolating the coronavirus by the scientists at the National Institute of Virology (NIV), Pune is very encouraging. As reported, they have been successful in getting around 11 strains isolated. The strains are the prerequisite for conducting any research related to viruses. Such collective efforts must lead to light at the end of the tunnel engulfed by the darkness

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*Director General, RIS.* Earlier this article appeared in the *Financial Express* on 25 March 2020.

# Lockdown, Containing COVID 19 and Dealing with Interstate Migrants

AMITABH KUNDU

People in India have by and large welcomed the lockdown for 21 days, given the gravity of the situation and the daily tolls being reported in different countries that have much higher level of economic wellbeing. The implications of the lockdown at community level, however, are not always clear. Does this mean everyone remains captive, not stepping out of the premises even for purchase of medicine, food and other essential items, household emergency or constitutional walk? If so, has a system of doorstep delivery and safety in transaction at the door been operationalised? Alternately, if the lockdown permits people to be out of the house or the colony within the city for genuine purposes, how its misuse will be detected and penalized? In case permission for travel beyond the city or state limits has to be allowed in exceptional cases, its modus operandi needs to be institutionalized. Twenty-one days is a long period for over 300 million plus households for assuming no grave exigency requiring them to step out. Relaxations, however, would open up the possibility of vested interest playing foul in our hierarchical society,

It is important to stipulate maintenance of the thin line between precaution and panic but difficult to observe in practice. One is noticing the line being broken and the distinction getting blurred in the policy pronouncements, administrative orders, and ground level management in dealing with COVID 19, affecting production and movement of essential commodities and services and of people. The most important requirement for this is availability of information and transparency of the management system, which unfortunately is a casualty.

Panic reactions like the ones during several earlier challenges like demonetization,etc brought serious problems but different groups with complimentary interests mutually cooperated, exchanged goods based on trust, relationship, etc. and saved the vulnerable from extreme misery. This is unlikely to happen in the present crisis. The state can't take care of the issues linked with lockdown single handedly without community help. Even helping nine poor families every day during Navaratra, as proposed, would mean exposing the households


to unsafe interactions, unless it is institutionalized. The implications of all these must be worked out and addressed. Unless the logistic issues are sorted out immediately and communicated to the lowest level of administration and common people, there will be serious management issues, besides protest and intra group violence at the community level.

Involving the community or civil society in big way would be a challenge since this may compromise the safety concerns. Also, this results in ignoring the concerns of the people who have special needs or are trapped in an exigency like daily wage workers, those taking care sick/ disabled and those separated accidentally from family.

For certain specific problems government, private sector and civil society partnership can be effective and in fact bring down the security risks. A major problem of movement in the period of lockdown is that of about 65 million interstate migrants, 33 percent of them being workers. By conservative estimates, 30 percent of them are casual workers and another 30 percent work on regular basis but in informal sector. This would mean about 12 million people, who are at the risk of losing employment, are residing in states other than that of their origin. The street vendors amounting to about 8 million can also be placed in this vulnerable category. Many among them have lost the means of their subsistence and started leaving their place of residence and have been stranded at different cities. The government which is rightly bringing back the Indians in Corona affected countries could have easily provided safe transportation to the migrants who desperately wanted to go back to their homes, rather than allowing them to travel in jam packed vehicles or to fend for themselves.

The state governments must work with the private corporate sector and non-governmental organizations including those of the workers, to ensure that there is no massive loss of employment. Some Central funds could be used like the recent permission given to use to use State Disaster Response Fund of Rs 29,000 crore[1] along with that of private companies for this purpose while civil society organizations can be engaged in provisioning of travel, food, stay and medical checkup for the period required, under the safety supervision of state authorities. Attempts must be made to ensure that large majority of these people remain at their present place and are taken care of. Uttar Pradesh and Bihar account for 25 percent and 14 percent of the total interstate migrants, followed by Rajasthan and Madhya Pradesh, recording figures over 5 per cent each. It would be very difficult to control the pandemic when they return home after all their travails enroute. They will be just another unemployed in the household. Taking care of them at their current locations would be a major step in ensuring that the COVID 19 does not make inroads into the interiors of the backward regions of the county.

*Distinguished Fellow, RIS.*

[1] States can use Rs 29,000 crore SDRF fund…TOI, March 28 https://timesofindia.indiatimes.com/india/home-ministry-asks-states-to-set-up-relief-camps-for-migrant-workers-use-sdrf-funds/articleshow/74862858.cms

# The Macro-Economic Impact

MANMOHAN AGARWAL

## Short-term

**Agriculture:** The main concern for the agricultural sector is to maintain the supply chain for fruits and vegetables. How will wholesale markets in particular operate without large numbers of buyers and sellers being present?

## Industry

Production in all three kinds of enterprises will be affected but will show up differently. For all types of enterprises including MSMEs the question is what are their liabilities?

**Borrowings:** Letting them go bankrupt will have a further devastating effect on their creditors particularly the banks. It thus might be better to postpone their debt servicing. This is something that will have to be dealt with in the context of the current regime on reporting on NPAs and their effects on bank lending.

**Wages:** Since there will be limited demand and production they could reduce this liability by sacking workers. This, however, should be avoided as apart from its social consequences it will make the revival of the economy more difficult. As and when the economy recovers the firms will have to hire new workers and train them a time consuming process. It would be best if firms can be persuaded to retain them. Some European countries do this by paying a portion of the wages of the workers, say 50 to 75 percent. Of course, not all of this is a cost to the government as then the government need not pay unemployment benefits. It should be investigated how some such scheme can be shaped to take account of Indian realities.

## Financial costs

The recession will reduce revenues from both direct taxes, personal and corporation and indirect taxes, GST. To the extent that the level of economic activity is maintained the social expenditures will be offset by higher tax collections. An important question is by how much the deficit may be increased to tackle the fall in economic activity. Most developed countries are planning to spend between five and ten per cent of GDP to support livelihoods of individuals and to support companies. The US initially thought that an expenditure of about $1 trillion will suffice, but the bill cleared

by the Congress has doubled the expenditure to about $2 trillion which would be about 10 percent of GDP. The recognition of the gravity of the situation can be gauged from the consensus about the increased expenditures against the strong opposition to President Obama's much smaller stimulus package of $ 787 millions for 2008-09.

## Medium-term

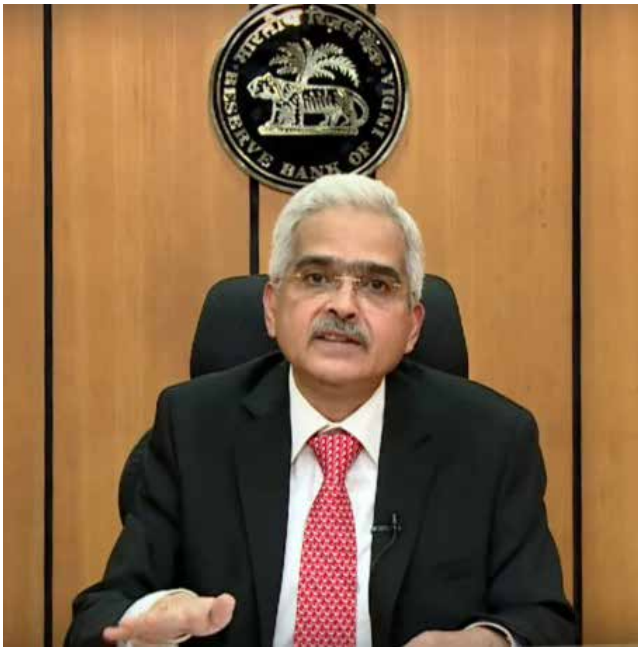
**Agriculture**: Problem will arise when the harvest is ready. Will there be enough workers for the harvesting, an issue especially important for larger farmers? Also, how will the sale and storage of the harvest be organized? Also how should the input supply chain be maintained when the next sowing season arrives?

Industry and employment: Existing safety net schemes such as the PDS, MNREGA, and various pension schemes need to be strengthened to minimise the adverse welfare effects of the fall in economic activity and the subsequent fall in employment. For those losing jobs what is needed is to provide them with income. To meet the needs of these workers including daily wagers the PDS system needs to be expanded.

**Financial sector:** The higher tax collections will persist in a longer run as the recovery in economic activity will be faster the lesser the disruption in the production system. In the Indian context the multiplier effect of government expenditures is likely to be larger as the income supplements will largely go to poorer sections of the population who have a higher propensity to consume. An increase in the deficit of about 3 to 6 percent may be sufficient in the Indian case. Of course, one will have to be flexible as further support may be needed.

Injection of such a large demand when the production system is declining will risk a rise in the rate of inflation. This can be checked by two sorts of action:

Strengthening of the PDS system and maybe extension of the system to newer essential commodities. The other would be larger imports. Planning for the larger imports will have to start soon so that they are available when demand outstrips domestic supply. Fortunately the reserves seem to be large enough to absorb the higher imports. The effect on the current account and balance of payments deficits needs to be estimated. The deficits would increase not only because of higher imports but also lower exports as world demand falls and our production capacities are adversely hit. It might be necessary to make provision for higher borrowings now rather than after the deficit has increased.




**Role of the Reserve Bank:** In these uncertain times monetary policy should be used not for the purposes of inflation targeting but to ensure sufficient liquidity. However, in addition, there is the need to strengthen its supervisory function to ensure that financial institutions do not indulge in unsustainable practices.

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*Senior Adjunct Fellow, RIS.*

# Arguing for a Global Pandemic Insurance Fund

MILINDO CHAKRABARTI

The global and rapid spread of COVID 19 indicates that morbidity and mortality profile of an individual need not necessarily be influenced by parameters completely under her control. The call for "social distancing" – even though what we are practicing should be called "physical distancing" – clearly identifies a frenetic short term policy effort. The objective is to generate a protective shell around an individual entity and break the potential contact with someone else so that the virus does not spread. Undoubtedly, such a strategy is the only way out in a policy space that for decades practiced curative perspectives in health policy as against the desirable emphasis on the preventive perspective.

## Health Services Emerging as a Private Good

The curative approach to health policy calls for efforts to ensure that an individual is cured of a certain health disorder as and when she is afflicted with a disease. The cure is predicated on the purchasing power of the concerned individual, converting health care services into almost a private good, on the assumptions that the morbidity and mortality profile of a person does not depend on that of others and that a cure for such a disease is available that can be accessed on payment. Such an understanding helped conceptualize and promote health care that would be more efficient if provided through private agents. Gradual transformation of Indian health care services into an effective private good is being observed since the last decade of the past millennium. To some extent, the efforts appeared to have been effective, even though studies have shown that cost of curative approach at the level of an individual went up considerably, often beyond the paying capacity of a large number of Indian citizens. The skeletal structure of public health system with stagnant, if not dwindling, flow of resources took care of the preventive perspective along with providing curative services to the marginalized sections of the society. The quality of services has been compromised immensely.

Unfortunately, a health service mechanism developed with disproportionately higher emphasis on curative approach, fails miserably when faced with a crisis that cannot make the individual morbidity and mortality profile independent of that of others. I am talking of an infectious pandemic that calls for a preventive health policy in the absence of a known curative solution. Lockdowns that would create a protective shell around each individual is being considered the only preventive solution to this spread of the virus, even though the measure has the potential to affect the livelihoods of millions who would suffer from the consequent "economic lockdown".

## Short Term Measures

Some short term measures have been proposed, both locally and globally. The Finance Minister announced an economic package that provides short term economic support to everyone vulnerable to such a lockdown. The G20 leadership also pledged trillions of dollars to tide over the resulting economic crisis. One is, however, not sure if the pledged amounts will be sufficient to take care of the long term impacts of this pandemic – both social and economic.

The pandemic, hopefully, will be taken care of within a definite period of time. Antidotes to the virus will be created to cure those affected with COVID 19. Organizations like GAVI will initiate processes to make those vaccines available at an affordable consideration to the vulnerable population at a subsidized rate for some time as long as the respective countries cannot graduate to an economic state to pay for the actual cost of vaccines out of their own resources. Chances are that we will soon forget its impact and settle down with a "back to business" mood with a curative approach.

## Health Services as a Public Good: Creating a Global Pandemic Insurance Fund

The pandemic and its rapid spread across the globe has perhaps made us realize that health services can no longer be provided only from the consideration of being a private good. The public good nature of health services and that too at a global level is to be factored into the design of providing health services. SDG 3 calls for good health and well being for all thus rendering a public good character to health services. However, the actions are considered to be initiated at the national level with each country being allowed to set its own target and achieve it within a stipulated period of time. COVID 19 and its global spread makes us realize that SDG 3 has to have a global strategy and associated global policy towards health services with a higher emphasis on the preventive perspective.

The G20 summit has pledged a sum of USD 5 trillion to take care of the immediate global economic shock resulting out of this pandemic. Prime Minister Narendra Modi also initiated a process to generate a regional fund at the level of South Asian Association for Regional Cooperation (SAARC) with a number of member states having pledged to contribute to the fund. However, it is time for the global leaders to realize the need for initiating a long term mechanism to take care of future pandemics. One may suggest creation of a global pandemic insurance fund to be prepared for such eventualities with contribution from all countries. Such contributions may be worked out through discussions and in tune with estimated disability adjusted life year (DALY) of the respective countries. According to World Health Organization (WHO), "One DALY can be thought of as one lost year of "healthy" life. The sum of these DALYs across the population, or the burden of disease, can be thought of as a measurement of the gap between current health status and an ideal health situation where the entire population lives to an advanced age, free of disease and disability. DALYs for a disease or health condition are calculated as the sum of the Years of Life Lost (YLL) due to premature mortality in the population and the Years Lost due to Disability (YLD) for people living with the health condition or its consequences"

About 198 countries are suffering from the pandemic. Even a conservative contribution of USD 10 million per country would generate an annual corpus of USD 2 billion. Once established, such a fund may also attract contributions from philanthropic organisations and enhance the size of the fund to a considerable extent. Further, if the R&D efforts out of the fund create benefits that are bigger enough than the royalty obligations made by the global community , the fund will attract greater contributions from its members. Gradually, regional insurance funds may also be created, over and above the global fund. Adherents to the spirit of South-South Cooperation can also conceptualize such a fund of, for and by the global South.

## Global IPR in Health Related Innovation

Pandemics are infrequent, even though uncertainties prevail as to whether they will be more frequent in the coming days with impending climate change. Annual premia from all the countries could be collected and accumulated into a fund to be utilized in case a pandemic that occurs in a multiple of countries. Since such expected to occur with a considerable time gap, such a fund will grow every year with significantly low annual outflow. If invested judiciously in carefully identified monetary instruments the fund will grow exponentially over the years to serve as an effective cushion during global health disasters like the one we have been facing. A carefully chosen share of this fund can also be utilized to be invested in Global R&D in public health services that can help develop new vaccines and medicines. Such an initiative will help the much vexed issue linked to intellectual property rights (IPR) that creates the unwanted prospect of health services being converted more into a "private good", involving generation of a considerable amount of super normal profit in the hands of private investors. This proposed global fund will professionally compete with the private investors in pharmaceutical innovations without claiming any extra reward for its efforts in innovation. The IPR on their products will lie with the global community.

WHO and GAVI have been playing very important roles in creating a global health ecosystem. While the former is engaged in creating standardized protocols for global health practices for both preventive and curative purposes, GAVI has been effective in ensuring universal immunization across the globe. The proposed global pandemic insurance fund would not only provide succor to the global community to tide over the difficulties associated with a pandemic, but also ensure cheap funds for global R&D in health sector that can bypass the contentious issue of IPR that often excessively burdens those who enjoy no rights on the innovations but are equally dependent on them for their existence.

A global pandemic insurance fund will be the true harbinger of achieving SDG3 that ensures that health services end up as a true Global Public Good.

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# COVID-19 and Indian Pharmaceutical Industry

T. C. JAMES

The major problem for public health in India is lack of adequate infrastructure, medical supplies and human resources, as may be seen from Table 1. Against a global average of 2.7 hospital beds for 1000 population, we have only 0.7. The global average is 3.4 nurses and midwives per 1000 population, but in India it is 2.1. Italy, which is badly affected by the current virus outbreak it is a healthy 5.86. Similarly, the world level statistic for average number of doctors per 1000 population is 1.50, whereas in India it is 0.78. Italy has an average of 4.09 and still it is facing a daunting problem.

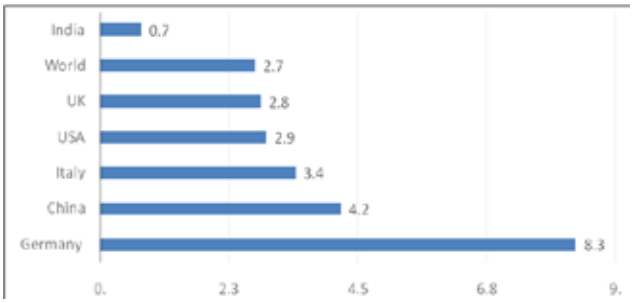
**Table 1: A comparative analysis of healthcare in India and the World**

| Indicator | India | | World |
|---|---|---|---|
| | In absolute terms | Ratio | |
| Physicians per 1000 population | 10,44,420 | 0.78 | 1.50 |
| Nurses and Midwives per 1000 population | 28,11,900 | 2.10 | 3.42 |
| Hospitals Beds per 1000 population | 8,75,000 | 0.7 | 2.7 |

***Note:*** Data taken for the latest year available,
***Source:*** World Development Indicators Dataset, World Bank

The World Health Organisation recommends one doctor per 1000 population. It also recommends five hospital beds per 1000 populations. The infrastructure disparity with developed countries and India's own gross inadequacy can be gauged from Figure 1.

**Figure 1: Figure- Hospital Beds per 1000 Population**




***Note:*** Statistics as per the latest available year
***Source:*** World Development Indicators, World Bank Database

The challenge for the country will fall in right perspective when we realise that in Universal Health Care (UHC) service index, which encapsulates accessibility, and affordability of quality health services in a region, India scored 55 in 2017 compared to the global average of 65.7. Italy, a country that is struggling with COVID-19 pandemic, scored 82 in the UHC service index. While it may not be possible to find a solution to all the issues identified above, in a short span, certain steps can be identified.

## Immediate priorities

The first and most urgent action required is to boost medical supplies. These include sanitizers, disinfectants, face masks, surgical gloves, protective gears for health personnel, test kits, infrared thermometers, scanners, ventilators, inhalers and so on. Some of these are high end technology but most require low level of technology only and can be easily manufactured. What could be done is that apart from the conventional pharmaceutical and medical equipment industry, other sectors of industry can buttin. In view of the economic impact of the pandemic, the demand for convenience and luxury items, including automobiles, is declining. There are industries like Hindustan Latex Ltd. which can easily switch over to manufacture of gloves and masks. In the USA, companies like General Motors and under garment giants like Hanes Brands are now producing masks and gloves. In India, Mahindra and Mahindra has already announced its intention to move in the direction of General Motors. Maruti Udyog Limited, instead of shutting down its production units, which would render thousands unemployed and impact GDP of the country, can also follow suit.

MSME is a sector that needs high focus in this endeavour of twining public health and economic development. This crisis situation could be made into an opportunity for MSMEs. They need to be given special incentives for producing low end technology items in medical and sanitary equipments like masks, gloves, cottons, etc. That will revive the stagnant sector.

So far as health infrastructure is concerned, although we have created a sizeable infrastructure, because of growth in population, the reach of health care services per person is still very limited (See table1). The immediate demand is likely to be for more and more isolation camps with minimum facilities. The country of 130 crore people will have to prepare for an explosion of the cases once the third phase sets in. As of now, countries like Italy and UK who had much better health infrastructure than India are finding it difficult to accommodate all COVID-19 patients. What can be planned as an emergency measure in India is setting up a massive number of transit and/or isolation facilities for quarantine. Considering the size of the population, we may have to look for each centre accommodating 3000-5000 patients and one centre should cater to around 10-lakh population. India is a country still prone to infectious diseases and various natural disasters. That being so, these new facilities are likely to be used in the future also. The central and state government funding earmarked for various infrastructure projects may have to be diverted for this, perhaps. But that is likely to stand in good stead for the country in the short, medium and long term.

## Generic Pharma and Human Resources

The generic pharmaceutical sector of India has always been a reliable source for cheap medicines for the world. But the outbreak in China has raised many handicaps for the industry because of shortage of Active Pharmaceutical Ingredient (API) supply. What the industry can immediately focus is on manufacturing that can be done with available raw materials and linking with the Indian supply chain instead of waiting for the revival of the global value chain. In order to guarantee the back-end suppliers that they will not be left in the lurch in case of the global value chain getting restored in a year or so, the front-end firms should enter into medium term contracts with them. The industry should on its own form a consultation group of public health experts and medical personnel who can identify and prioritise requirements in the case of the outbreak of the epidemic and calibrate the production.

Human resources pose a different kind of problem, as they cannot be readied in at a short notice. What could be done is the optimal utilization of available resources and redeployments. The emergency also raises certain fundamental questions about the kind of health personnel that a country like India requires. Our medical education system should be geared to the high-end speciality medical care or more suited for the requirements of a rural and suburban community with low or medium paying capacity is the question that the policy makers will have to address seriously. It should also be remembered that India has been subsidising medical education in a big way. While there is nothing wrong in that, one will have to ensure that public funds are utilized in the most efficient way that is conducive to development and public good. It may also be necessary to develop the medical education models that are tuned to not only the public health needs but are also suited to the levels of pharmaceutical industry in the country, so that they become co-players in national development.

Handling of the COVID-19 crisis is likely to have long term and global implications. As of now, almost all countries are tackling their own issues. However, the models may have to vary depending on country situations. A country like India with certain strong basics like a well-spread pharmaceutical industry and well-developed education system can construct its own models of nation-building by marrying public health requirements and economy for national development.

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# Industrialisation in a Post-COVID World: Options for India

SABYASACHI SAHA

While the chain of COVID-19 infections is proving to be rather difficult to be snapped, all other chains of economic activity appear to be brutally dismantled. Globalisation has been the most recognisable character of modern human civilization. This involved unprecedented scale of cross-border flows of goods, capital and people raised to the power of technology. This is going to change for sure. Host of factors determining cost of production led to fragmentation of production across countries. With some consensus building efforts globally, greater transparency and faith in multilateralism lead to common set of norms for trade and finance that allowed deepening of value chains in production and service delivery. Although, rising global inequities due to lopsided ownership of knowledge and resources had become a genuine concern in recent times leading to sporadic backlash against 'globalisation'.

High-income countries were fast losing their hegemonic dominance with the emergence of large developing countries. Their inabilities to owning up and responding to imminent global challenges like climate change and rising inequalities have significantly lowered their profile. The financial crisis of the last decade had already de-mystified the chances of global finance capital as an adhesive; further drying up of development finance in the face of rising global challenges led to deep legitimacy crisis of multilateral governance; and international trade has already fallen prey to trust deficits even though it was made to look innocent and decent for a long time. However, even as many countries have spent their energies in the previous decade to recover from the global financial crisis and stabilize their economies, the world looked uncertain and countries started looking inwards. While some developing countries utlilised the favourable window of globalization towards rapid per capita income growth, it is becoming increasingly difficult for many others with heightened apprehensions about 'middle income traps'. COVID-19 could not have come at a more wrong time.

What is absolutely certain is that over emphasis on GVCs as the dominant model of industrial production is going to change and countries that are not so intensely integrated with

GVCs are going to lose less. However, availability of resources and sources of intermediate inputs would remain distributed across countries. The question that was being asked for sometime was whether GVCs are a sustainable model and to what extent domestication of value chains is possible. It is also true that value chains would mean different things to different countries and smaller countries would be able to specialize in parts and components. The driving force in the form of increasing returns to scale at the level of the industry led to new manufacturing hubs often concentrated in a handful of countries. While the older paradigm of center-periphery was considered less relevant, newer inequities were emerging. A new wave of tension would be created while stemming rising inequities in a


post-COVID world through localizing production and focus on livelihood generation. New sources of competitiveness, rather than scale economies would be the defining character.

Big businesses and MNCs would have to adjust to new realities. Their accounting methods would have to stretch to social and environmental costs and risks. Hence, competitiveness defined in terms of factors of production alone may not be sufficient. As dependence on new technologies increase, countries may find it difficult to remain too distant from the sources of such technologies and the traditional business models propagated by MNCs. However, with increasing risks even such business models are set to transform and countries would be in a race to ramp up local capacities. The short term and long term policy incentives would be about promoting local production in many countries particularly in areas that necessitate self-reliance. Whether all countries would be successful remains to be seen.

What happens to industrial production in India next is matter of deeper analysis. India has a large market to fall back on. But industrial production needs to go up manifold as has been suggested – 'Make in India' is more meaningful today than before. The welcome expansion of some new sectors like electronics adds to the confidence. Chances are high that with active support for MSMEs, domestic supply chains can be improved and stabilised acting as new sources of competitiveness in India's case, notwithstanding similar policy moves in other countries. Innovation, quality and sustainability would be attractive components of firm level strategy comprehensively encouraged through Government policies. Pharma, capital goods, electronics, auto, FMCG, consumer durables apart from resource based industries would be important. Till the time the world regains the momentum in trade, focus should be on developing longer term strategy of diversifying the basket and deepening the technology content for higher premium. Human development, skill building and technological prowess would certainly add to industrial capacities that have so far remained below potential. While the economy would have to survive the virus, Government's early response is a reflection of the right intent. The National Electronics Policy announced exactly a year ago has been topped up with the recently approved financial assistance to the Modified Electronics Manufacturing Clusters (EMC2.0) Scheme for development of world class infrastructure along covering common facilities and amenities through Electronics Manufacturing Clusters (EMCs). Such policy push is absolutely necessary at this juncture and would incentivize the domestic industry and even encourage re-location.

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# COVID-19: May Perpetuate Uncertainty in Indian Financial Sector

PRIYADARSHI DASH

The corona virus pandemic, COVID-19 has unfolded a tremendous level of uncertainty in the global economy. Like any previous episode of economic slowdown, the most immediate fall-out of this pandemic would be on the financial sector. This is the reason why the Reserve Bank of India (RBI) came out with a Rs 3.74 trillion of support that enveloped most sectors. Never before has the RBI cut the interest rate at which it lends to banks by 75 basis points. The other key measure announced was the forbearance on payment of installments on all sorts of loans including farm loans. This will apply to all loans offered by regional rural banks, small finance banks and local area banks, co-operative banks, scheduled banks, and NBFCs (including housing finance companies and micro-finance institutions)[1].

The measures are meant to ease disruptions in fund flows to real sectors of economy, avoid working capital shortage for businesses and stem panic withdrawals by households from banks and non-banking deposit-taking institutions. The confidence building measures have also had a positive impact on outflows of capital by foreign institutional investors (FIIs) as well as drying up of external commercial borrowings. The move to reset working capital loans will particularly provide support to SME financing, averting significant distortion of supply chains.

Already anticipating the possible seizure of the financial sector in the world economy, the major global financial institutions such as International Monetary Fund (IMF), World Bank and Bank for International Settlements (BIS) and Multilateral Development Banks (MDBs) like New Development Bank (NDB), Asian Infrastructure Investment Bank (AIIB), etc have announced different financing support packages to counter further deceleration in global economic growth. In addition, IMF and the World Bank have announced easing the debt burden of the developing countries by delaying their payments.

Despite the RBI package, Indian banking and financial sector faces tough challenges in the coming months. Some sectors of economy such as travel, hospitality and transportation & logistics are badly hit. Credit exposure of commercial banks and non-banking financial companies to those sectors may gradually turn into bad assets in the coming days. COVID-19 could further exacerbate the erosion of confidence in the Indian financial system due to the Punjab and Maharashtra Cooperative (PMC) Bank and Yes Bank crises. Before settling the blame over higher accumulation of non-performing assets (NPAs) in the commercial banking sector over the past few years, the banking regulator, the Reserve Bank of India (RBI) had to face systemic regulatory collapses in PMC and Yes Bank credit exposures sending worrying signals of the health and resilience of the banking sector. As per the Financial Stability Report published by RBI in December 2019, "…..sources of vulnerabilities are continuously interacting" which probably had allowed the banking sector to pursue accommodative monetary policy in the recent years. The report further underscores the

fall in wholesale credit growth and challenges in transmission of monetary policy impulses to real sectors of economy. On the flip side the sharp rise in usage of digital money could change for the better the domestic financial landscape.

The assessment of COVID-19-related dislocation in Indian financial sector can be studied from two angles: firstly, the channels that would perpetuate the risks already built up over the past few months, and secondly, the new challenges emanating from global economic shocks in the form of falling foreign direct investment (FDIs) and collapse of export revenues, remittance flows, etc. Following the first strand, despite noticeable improvement in banking segment in terms of capital adequacy, liquidity and asset quality after seven years of deterioration, Indian banking is not entirely free from challenges. Overhang of NPAs and low credit growth by scheduled commercial banking (credit growth during 2018-19 was primarily aided by private banks) indicates build up of risks in the system which may deteriorate further if cut in aggregate demand and business activity prolongs. Macros-stress test for credit risk suggest that NPAs may increase to 9.9 per cent in September 2020 from 9.3 per cent in September 2019. These numbers may have to be further revised now. One positive point that contributes to the resilience of Indian banking sector is remarkable improvement in provision coverage ratio, compliance to Basel III standards with stable Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Moreover, the Capital to Risk-Weighted Assets Ratio (CRAR) of the scheduled commercial banks improved from 13 per cent in 2014-15 to 15.1 per cent in first half of 2019-2020.

Likewise, the second channel of risks for Indian banking and financial sector is the contagion from faster transmission of global shocks. Exports from India touched $292.9 billion in the 11 months to February 2020, while imports were $436.03 billion but these will certainly taper off in 2020-21. Till 27 March, foreign institutional investors have pulled out Rs 58,408.15 crore from Indian capital markets[2]. On a single day the BSE Sensex crashed by 4000 points. All these developments would help aid the slowdown to worsen in a synchronized fashion thereby impacting commercial banking. Moreover, the depreciation of Indian Rupee could deteriorate current account balance even though lowering of oil prices has provided some relief. However foreign exchange reserves are still stable for India and the stock of all essential supplies of food, vegetables, medicines, etc amidst 21-day lock-down is not an issue at the moment.

A sense of how the fall in economic activity and consequent fall in tax revenues would constrain the fiscal space of the government would be visible when the RBI and the finance ministry issue their borrowing calendar this week. At the same time it may be necessary for RBI to pause further steps till the spread of the disease is arrested. Higher allocation of government expenditure towards fighting corona virus manifested in the form of medical supplies and health infrastructure would cut or postpone capital expenditure in other sectors to a great extent. India may need to explore emergency COVID-19 funding support from AIIB and NDB as well. AIIB contributed US$ 1 million to China by ensuing necessary medical supplies while NDB extended RMB 7 billion emergency assistance package. In order to sustain efforts directed towards COVID-19, Indian financial sector needs to be prepared for tougher times in the coming days.

**Endnotes**

1 COVID-19 – Regulatory Package (Revised), RBI, March 27,2020; https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11835&Mode=0

2 FII & DII TRADING ACTIVITY DURING MAR '20, Money Control; https://www.moneycontrol.com/stocks/marketstats/fii_dii_activity/index.php

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