



# Creative Stimulus Package: Viability to Strengthen the Economy in View of Employment Generation and Retail Sector

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## Abstract

The entire world is passing through great uncertainty. There are, primarily, two major challenges that the Indian economy is facing at this juncture. First is to save the country from the spread of COVID-19, which is a health emergency. Saving lives is the principal concern of the Indian government. Second is to save the economy from the unfolding economic crisis due to the dual effects of the COVID-19 pandemic and the global and national lockdown. The Indian economy has been hit hard by the ongoing COVID-19 driven global crisis. As on 3 July, 2020, more than 6 lakh people in India have been affected by COVID-19. With some variations, there has been an unprecedented rise in number of Corona patients across the world. A health crisis worldwide has generated a global economic crisis. As much as 10% of GDP, the package did not appear to leave any major sphere untouched as Government brought out the fiscal artillery to complement RBI's monetary ballast spread over the past few weeks, putting India firmly in the league of biggies that have gone all out against the virus. This package would focus on land, labour, liquidity and laws, and would deal with such sectors as cottage industries, MSMEs, the working class, middle class and industry. He also talked of focusing on empowering the poor, labourers and migrant workers, both in the organised and unorganised sectors. The unfolding health crisis poses unprecedented challenges to individuals, families, Governments and to the international community. While containing the pandemic is the most urgent priority, countries are quickly acting to counter its negative impact on employment and poverty, including through fiscal stimulus plans. Whether these plans will protect the most disadvantaged people and households over the long-term depends on their size, duration and on how measures are implemented.

The Indian economy, before the pandemic, though was growing decently, but was not in the best of its situations. The Indian GDP growth, which was recorded at almost 9 % in 2016-17, fell to 6.6 % and 6.3 %, in the following two years. It was estimated to be 5.1 % for the year 2019-20. However, the latest World Economic Outlook of the International Monetary Fund (IMF) puts the Indian growth to 1.9 % for 2020, clearly signifying the impact that the COVID-19 is expected to have on the economy. The most recent Fitch forecast shows India to grow less than 1 % in coming months.

**Keywords:** Covid-19; MSMEs; Health

## Introduction

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

great uncertainty. There are, primarily, two major challenges that the Indian economy is facing at this juncture. First is to save the country from the spread of COVID-19, which is a health emergency. Saving lives is the principal concern of the Indian government. Second is to save the economy from the unfolding economic crisis due to the dual effects of the COVID-19 pandemic and the global and national lockdown. Countries across the world are facing serious consequences and damages to the

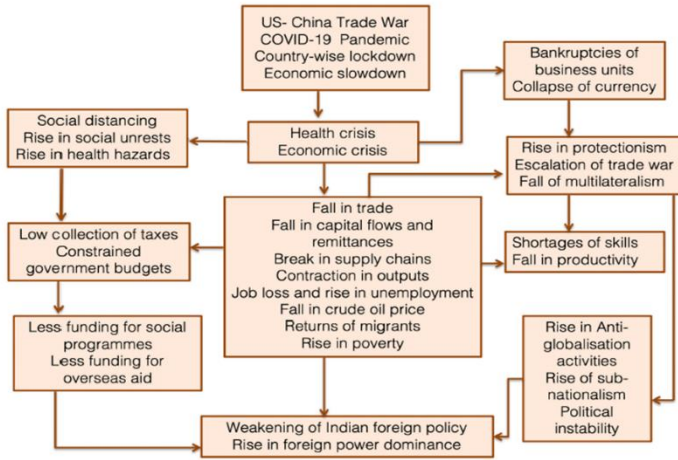
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economies. According to the International Monetary Fund (IMF), many economies may face negative per capita income growth in 2020 due to the COVID-19 pandemic. In its recent forecast, the World Trade (Figure 1).



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

Organisation (WTO) indicated a clear fall in world trade between 13 % and 32 % in 2020, perhaps the highest fall since the Great Depression of the 1930s. The IMF has also slashed growth forecast for the Indian economy, projecting a GDP growth of 1.9 % in 2020. In its recent World Economic Outlook, the IMF does project a rebound in the growth of the Indian economy in 2021, at a rate of 7.4 %. So, there is hope! Although India has managed well till date in containing the spread of the virus, the COVID-19 pandemic has already disrupted normal economic activity and life in the country. India's trade has been severely impacted. At the moment, businesses are very vulnerable to the unfolding economic crisis. People have been facing a sudden loss in their incomes, causing a major drop in demand. To rescue the economy, India has announced a range of fiscal and monetary stimulus packages. The major aim of this stimulus is similar to the traditional Keynesian prescription of 'pump priming', whereby income transfers to people having higher marginal propensity to spend can boost up the sagging demand.

### Social protection and other income support measures in announced fiscal stimulus packages

The measures implemented or announced so far are encouraging. Namely, actions to support businesses include provisions to help them secure employment and wages by, for instance, providing income support to workers who may be temporarily laid off or those whose working hours have been reduced. Regarding measures to protect people, most fiscal stimulus plans offer income support to sick workers and their families by, for instance, Figure- Social protection and other income support measures

extend paid sick leave to self-employed workforce or expanding its duration. There is some support for workers who cannot work from home, including help with caring responsibilities. Many plans extend access to unemployment benefits to workers who are not covered, ease way in to benefits or help to ensure that families can stay in their home (by suspending evictions, for instance). (Table 1).

**Table 1:** Social protection and other income support measures.

Type of measure	Concrete actions
Measures to support businesses, with a focus on small and medium enterprises	Securing workers jobs and incomes by introducing or expanding support to laid-off workers or those whose wages are cut training programmers.
Measures to protect individuals and households	Expanding income support to sick workers and their families; extending or easing access to unemployment benefits; supporting workers who cannot work from home, including through offering care options; easing access to targeted benefits or providing a one- off universal income transfer.
Measures to strengthen public health systems	Increasing health spending a

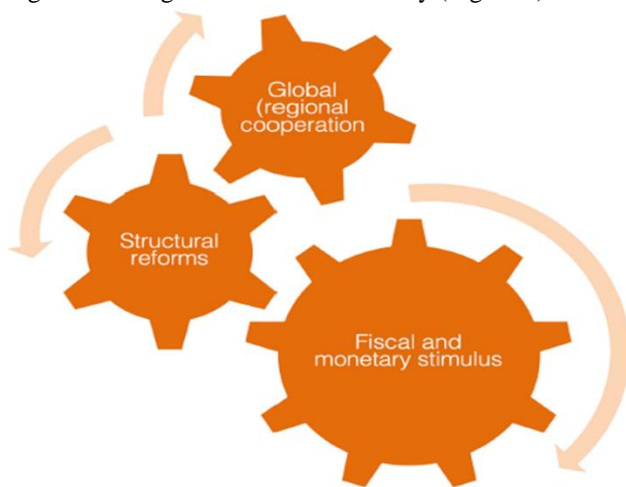
### Emerging Trade Scenario

The recent monthly trade data for India reveals that the overall exports in January, 2020, compared to January 2019, was down by 1.9 %.<sup>3</sup> Looking more closely at the HS 2 digit level data, it is observed that the major sectors which caused this slowdown are vehicles other than railway or tramway rolling stock (HS 87), natural or cultured pearls, precious or semiprecious stones (HS 71), nuclear reactors, boilers, machinery and mechanical appliances (HS 84) and organic chemicals (HS 29). The sectors which helped prevent further slide in export growth are mineral fuels, mineral oils and products of their distillation (HS 27), pharmaceutical products (HS 30) and electrical machinery and equipment and parts thereof (HS 84). In case of sectors causing the slowdown, it was seen that the traditional markets were buying less from India. Given the impact of the COVID-19 pandemic, the situation is expected to be worse. If the trade reduces on an average as predicted by WTO then the slowdown will reach double digits, and hence, maintaining the market share in case of a general slackening of demand may be the only option left.

### The Ripple Effect

This global pandemic turned economic crisis affects India's economic and national security. The effects of the crisis on trade

and foreign policy are not only complicated but also widespread. The financial crisis has begun with the US-China trade war, and then the rise of Corona virus pandemic accompanied by the global and national lockdown has occurred. As a result, we see a fall in global trade, capital flows and remittances; disruption in supply chains; contraction in outputs; rise in unemployment; and then rise in poverty. Health crisis, if not controlled, may generate further social unrests and complicated health hazards. Barring few, countries across the world have already entered into recession. The sudden drops in oil prices may cause a further contraction in growth, particularly in developing and emerging economies. Several business units may have to shut down and face bankruptcies, and with the fall in business orders, both international and domestic, the value of the currency may deteriorate further. Taxing people and economic units are politically not sustainable. What next? Pandemic then may lead to shooting up protectionism as it has been happening for the last few years, resulting in a further escalation of a trade war, and finally, the collapse of multilateralism. In India, there might be a parallel rise of anti-globalisation activities along with sub-nationalism. Political instability may rise as well. Funding for aid and diplomacy may shrink. Therefore, social and economic effects may pose greater foreign policy challenges, which ultimately may lead to the weakening of foreign policy and allowing the dominance of foreign power. So, the effects are quite diverse. These short-run economic conditions can also have long-lasting impacts. In other words, economic recession can lead to long term damage to the Indian economy (Figure 2).



*Figure 2: Rebooting the economy.*

## Dealing with Uncertainties

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

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

## Fiscal and Monetary Measures

It is expected that demand for public expenditures will surpass the available fiscal space, and therefore, reprioritization of expenditures (or, expenditure switching) may play an important role in prudential fiscal management. Any public expenditure programme which does not have immediate economic or social benefits may be deferred. Effectiveness of any fiscal stimulus would be dampened during the present crisis due to uncertainties on time required to get back to normal economic activities. Therefore, it is expected that fiscal stimulus would be required for a longer period and much larger in size than the stimulus rolled out during the global financial crisis. On revenue mobilization, the government may consider acceleration of disinvestment programmes, auction of licenses of natural resources extraction and utilization (e.g., 5G spectrum, coal blocks) and reduction of unproductive subsidies. Given the uncertainties associated with revenue generation from GST, providing GST compensation to states would be an additional fiscal burden for the union government. Therefore, exploring a suitable design of GST compensation cess – either as a concurrent tax or central tax – may be a win-win situation for both the union and state governments. Strengthening tax administration to reduce tax frauds (evasions) and plugging the loopholes in taxation of inter-state trade of out-of-GST goods may be timely interventions. On monetary policy, dedicated credit lines to informal sector enterprises may play an important role to revive livelihoods of lower strata of the society. Institutions like self-help groups and microfinance institutions may play important roles to monitor activities of informal enterprises and also facilitate credit off take and recovery.

## Supply-Side Measures

On the supply-side, easier accessibility of finance and reshuffle of regulatory bottlenecks would go a long way in expediting recovery in the aftermath of this pandemic, including via trade.



Despite marked improvements in the ease of doing business, India is still ranked 77th amongst 190 countries on the World Bank's Trading Across Borders index. A vast majority of Indian firms continue to identify customs and trade regulations as a major constraint. Similarly, despite a largely liberal Foreign Direct Investment regime, the country attracts less than 2 % of its GDP as inward investment, signifying that other investment environment and regulatory issues remain a challenge for potential investors. Addressing these challenges would also facilitate commercial presence or Mode 3 trade in services, which is not only the most dominant mode for supplying services abroad but often also an essential precursor to cross border or Mode 1 services trade. These two modes together account for nearly 90 % of global trade in services, thereby highlighting their overwhelming importance from a policy perspective. The RBI has already announced several policy measures to ease the flow of credit in the economy. These include a 25 basis-point cut in the reverse repo rate; extension of the realization period of export proceeds from nine to 15 months; reduction of asset classification norms; an increase of the limit under the Ways and Means Advances for states to avail short term funds to 60% of the existing limit; and a special refinance facility of Rs. 50,000 crore to boost liquidity of NBFCs like NABARD, SIDBI and the National Housing Bank.

### Demand-side Measures

The government has announced a Rs.1.7 trillion stimulus package that includes direct cash transfers and food security measures targeted at the poor, farmers, health care staff, women, construction workers as well as the organized sector. However, this allocation is less than 1 % of India's GDP and clearly not adequate for its 1.3 billion people, a section of which live in abject poverty, with about 60 % of the country's total population living on less than US\$ 3.10 a day, which defines the World Bank's median poverty line. The government thus needs to apply more targeted stimulus packages over the course of the next twelve months, also planned to address falling requirements as businesses shutdown and people lose their jobs as a result of this emergency.

### Trade Policy Measures

While COVID-19 is primarily a health crisis, trade policy also provides options to address some of the second-order effects emanating from the pandemic. First and foremost, the government must avoid the use of export barriers on COVID-19 goods and services, from both trade policy and charitable perspectives. It should also use the pandemic as an opportunity to ease up imports by removing both levy and non-tariff barriers and not just on medicine, medical supplies and necessary equipment. Such liberalization may be even more necessary for services sectors like traveller

transport, service, health and education, which are likely to observe imposition of regulatory restrictions on health grounds. The government, however, must ensure that such restrictions do not become unaffordable and that borders, both domestic and international, remain open. Lowering of trade barriers on goods and services used as intermediate inputs for domestic production and exports will also reduce economy-wide costs for both consumers and firms, facilitate recovery from both the demand and supply-side.

### Measures to Recovery

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

- Identify capacity (and comparative advantages) to reorient production for COVID-19 related goods
- Augment the standard and regulatory approval of COVID-19 medical products
- Implement electronic Bill of Lading (eBL) at the earliest to smooth the progress of seamless trade documentation
- Need to improve within your means access to essential medical supplies
- Liberal and quick refund of Remission of Duties and Taxes on Exported Products (RoDTEP)
- Restore full operation of transport and logistics services along the main trade (export and import) corridors
- Establish COVID-19 "container clinics" along India's golden quadrilateral corridors of national highway network
- Coordinated purchase of medical supplies from overseas
- Better intellectual property access
- Making standards for medical supplies freely available

### Stimulus and Reviving the Supply Chains

Trade cannot grow without commensurate policies to revive the economy. A combination of fiscal and monetary stimulus is required. The Reserve Bank of India (RBI) in its policy statement on 27 March, 2020 reduced the repo rate by 75 basis points. Along with that a slew of measures to increase the liquidity in the country were undertaken. Policies to lessen stress due to debt burden through moratorium on debt repayment and also not classifying them under 90 day NPA norms and allowing more advances to states under ways and means advances are policies in the right direction. Increasing provision for higher liquidity should also match with renewed business and customer sentiments. The lockdown has caused severe stress on mostly the daily-wage earners and also employees in the formal sector who fear losing jobs due to slackening economic activity. The monetary stimulus will only work when 90 % of the labour force



who are either working in the informal sector or are casual workers in the formal sector get some relief in terms of direct cash transfers to boost their income during this difficult period. Given that most of the highly affected countries have announced bail-out packages which include income transfer, this should be followed in India as well. The fiscal stimulus announced by the government seems inadequate when compared to the measures taken in highly affected countries.

### Post-Pandemic Scenario

However, the situation is expected to improve in the third and fourth quarters of the ongoing financial year as Christmas and holiday seasons in the US and EU, which is historically demand driven, could lead to boost India's exports. Once most countries lift the lockdown and the global economy begins to kick-start, a weak rupee against the dollar could also boost India's exports and India's niche in certain products such as pharmaceuticals, which will be in high demand due to the pandemic will also help India's export sector. The government has extended serious attention to the external sector as most of the issues being faced by India's exporters and importers have prevailed for several years including before the pandemic. The pandemic has only aggravated the problems. For instance, India's foreign trade policy (2015-20) is outdated and needs a major overhaul and restructuring, which is long overdue. Last year, all the export incentive schemes under the FTP were ruled to be WTO non-compliant by the global trade regulator. Though the government is negotiating with the multilateral body, it is given that India needs to do away with subsidies given to the export sector in the form of various schemes, which are WTO non-compliant. Recently, the government abandoned the Merchandise Exports from India Scheme (MIES) and replaced it with the Remission of Duties and Taxes on Exported Products, which is called the RoDTEP. However, whether the scheme is better than MIES and more beneficial it is too early to say. The Indian exports scenario certainly looks bleak. With more and more countries becoming protectionist and India largely into the export of intermediate goods and raw materials and with manufacturing in a slump across the world, the demand scenario is not encouraging.

### Concluding Remarks

Global shock like the COVID-19 pandemic require a global, co-ordination response, which in turn requires leadership, which unluckily is missing at this point in time. India should, therefore, use the COVID-19 pandemic as an opportunity to galvanize support for coordinated action at the multilateral level and play a lead role in this regard. That would be the best response to this crisis. Trade policy reforms can be a vital element in our response to the Corona crisis. Limiting the negative economic and social

impact will require reforms that reduce the cost and improve the accessibility of corona virus goods and services. Measures to rationalize trade procedures and facilitate trade can add to the response to the crisis by expediting the movement, release, and authorization of goods, including goods in transit, and enabling exchange of services. Reforms can be designed to reduce the need for close contact between traders, transporters and custom/port officials to protect stakeholders and limit the spread of the virus through use of eBL process, while maintain essential assessment to ensure revenue, health and security. Interventions to sustain and enhance the efficiency of logistics operations are also critical in avoiding substantial disruption to distribution networks, and hence, to regional and global value chains. These measures will address the COVID-19 related downturn and support the eventual economic recovery. Trade in both goods and services will play a vital role in overcoming the pandemic and limiting its health and economic impact, across nations. Trade contributes by providing countries access to essential medical goods (including material inputs for their production) and services to help contain the pandemic and treat those affected; and only if necessary inputs to the industry and maintaining economic activity in the face of a global recession, disruption to regional and global value chains. Trade policy must stay open.

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