

The Impact of Covid-19 on India's
Society,
Political Economy and Foreign Policy

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Introduction

- The Covid-19 crisis makes more visible structural trends in India regarding social inequalities
- And may have impacts on the political economy and the foreign policy of India.

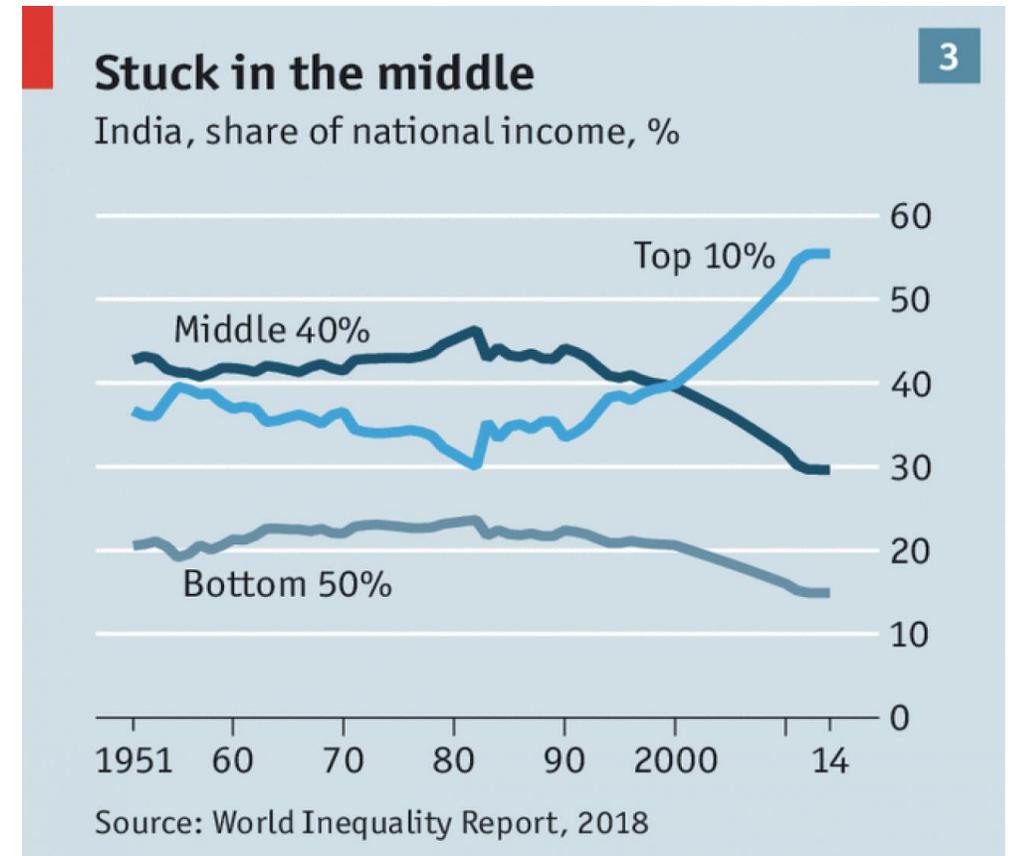
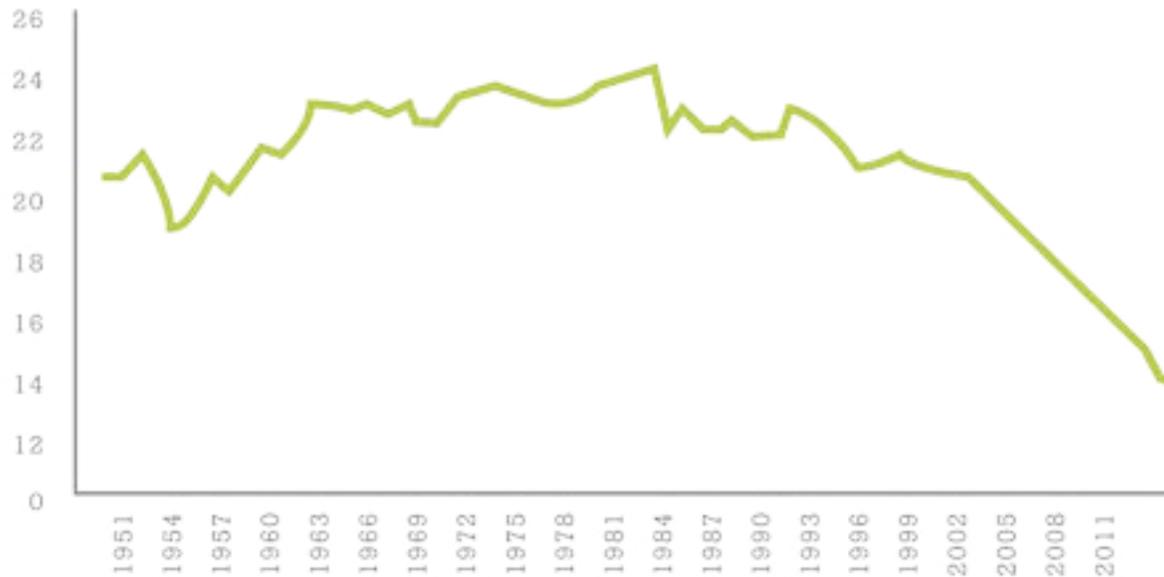
1. The social impact

- The lockdown has resulted in a major social crisis:
 - Factories, shops, agricultural markets were shut down ;
 - Transports services were discontinued ;
 - Supply chains were broken; ;
 - Millions of migrant workers, who had lost their jobs had to go back to their village



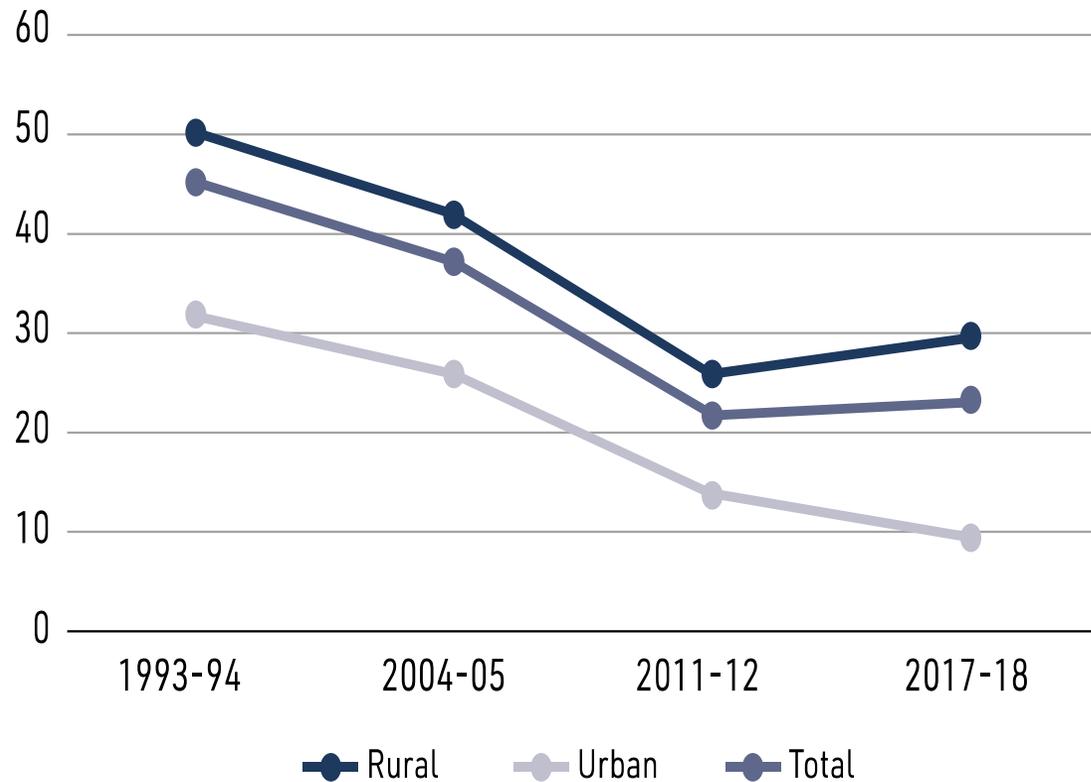
The present crisis is making visible the impact of decades of growing inequalities:

Share of bottom 50% in national income



The agriculture: 55% of the workforce, 15% of GDP.

Poverty rates in India (% of population)



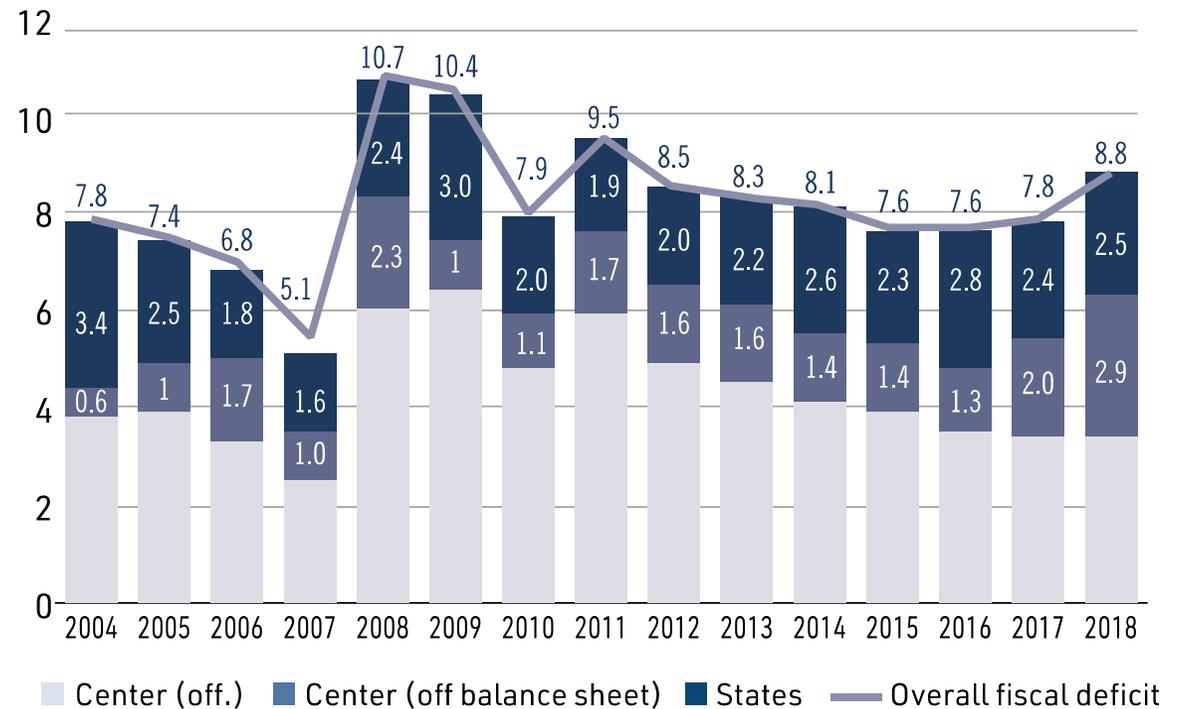
Source: Planning Commission (2013) & National Sample Survey Office.

Why can't the government spend more?



The fiscal deficit was already close to 9 % of the GDP before the Covid crisis

Official and Adjusted Fiscal Deficits (% of GDP)



Source: Motilal Oswal (2019).

INDIA'S TAX MESS

2019-20 gross tax collections are lower than 2018-19. Corporation Tax cuts have the biggest responsibility.

CHART 1 Is India vastly overestimating its revenue generation ability?

Tax buoyancy in 2019-20 is the lowest since 1962-63

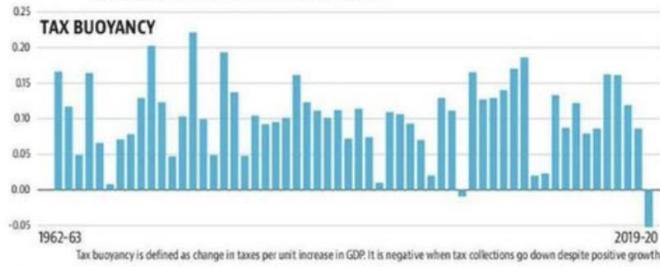
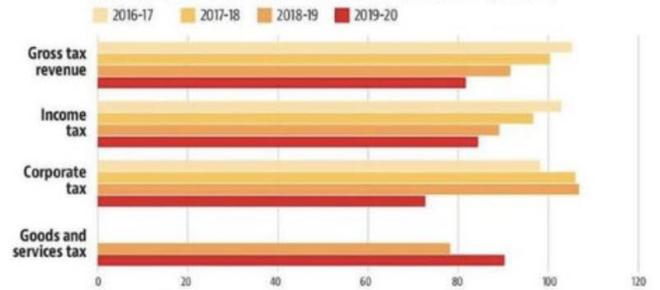


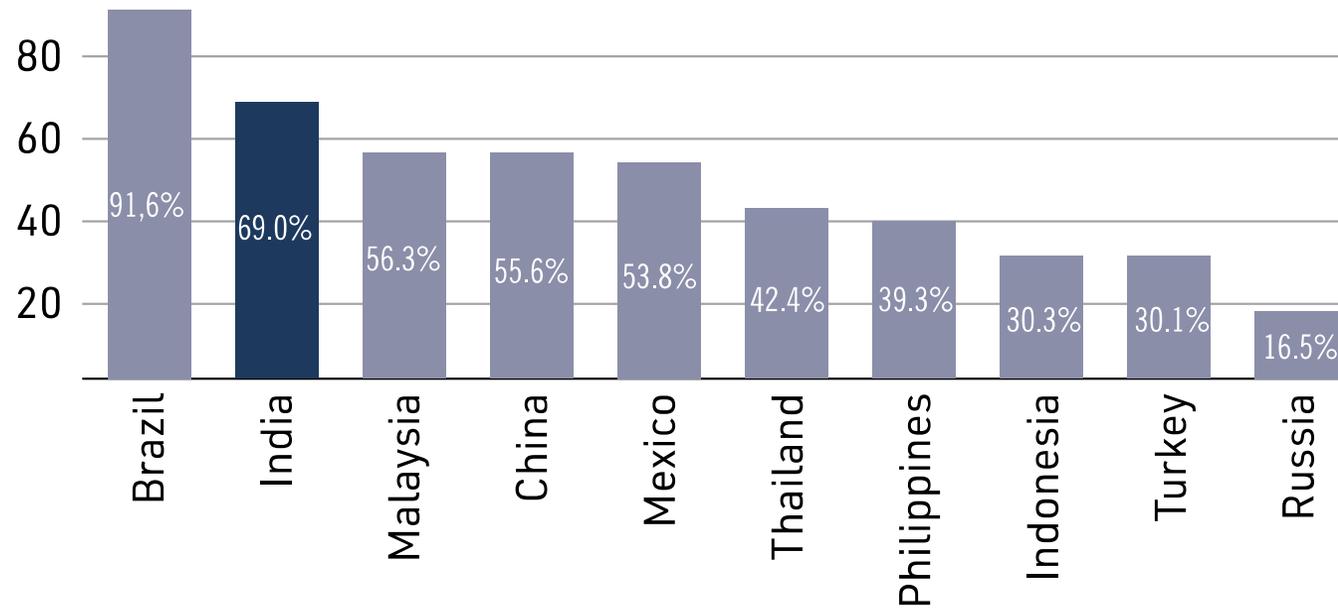
CHART 2 Was Corporation Tax cut a wise move?

Columns show actual tax collections as percentage of Budget Estimates. Corporation Tax was the only major tax head which had outperformed expectations in 2017-18 and 2018-19



GST was implemented in July 2017. The 2019-20 figure has added CGST, IGST and GST Compensation Cess from CGA website
 Source: CME, Ministry of Finance 2019-20 BE. Figures are taken from the Budget Documents, Provisional
 Figures have been taken from Controller General of Account's Website

India's debt-to-GDP Ratio, compared with peers



Source: IMF WEO, World Development Indicators Database (World Bank).

The issues ahead

- In late May, Moody has lowered **India's sovereign ratings** from Baa2 to Baa3, (the last step before the junk status), citing “persistent weak private sector investment, tepid job creation and an impaired financial system”.
- In mid-June Fitch Ratings has revised the Outlook on India's Long-Term Foreign-Currency Issuer Default Rating (IDR) **to Negative from Stable**.
- It said: « A stronger focus by the ruling Bharatiya Janata Party on its **Hindu-nationalist agenda** since the government's re-election in May 2019 risks becoming a distraction for economic reform implementation and could further raise social tensions ».

2. A New Political Economy ?

- The government of India and some state governments are fighting the Covid crisis by making structural reforms.

1/ The self-sufficiency quest

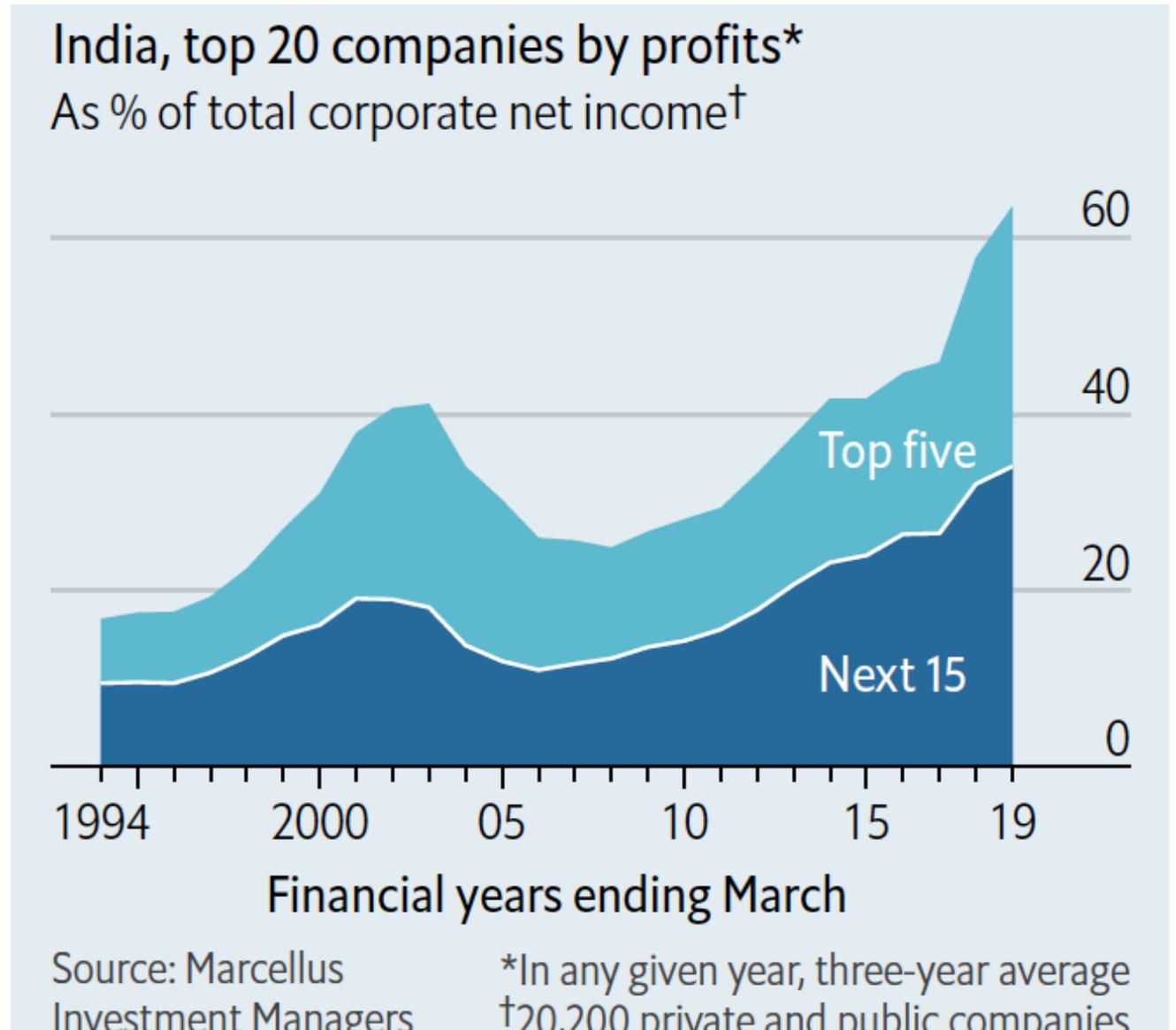
- In his 12th of May speech, Modi stated that it was now time, for India, to be “self-reliant”
- Indian Department for Promotion of Industry and Internal Trade had revised its foreign investment policy, making prior approval of the government mandatory for investment activities including mergers and acquisitions from countries that share a border with India: China was the target.
- At the same time, “Make in India” is continuing as Indian authorities announced in early May that they were in a position to offer to foreign investors “land twice Luxembourg’s size”.

2/ Privatizations and “desinvestments”

- In February 2020, presenting the yearly budget in parliament, the Finance Minister had already announced that a large number of PSUs would be privatised (including Air India) or would have their capital open to private investors (including Life Insurance Company, a huge undertaking of 1 million agents and 300 million policies).
- But the deepening of the fiscal deficit, in the context of the Covid crisis led the government to accelerate its privatization plans.
- According to the new Public Sector Enterprises Policy (PSEP), a list of strategic sectors will be notified where there will be **no more than four public sector enterprises** – the rest would be merged or privatized.

The road to crony capitalism widens

- The private companies which are in a position – financially and politically – to buy big public undertakings are a handful of Indian capitalists who are already at the helm of “oligopolies”.
- Already, 20 Indian companies account for nearly 70% of India Inc’s total earnings, up from 14% three decades ago.

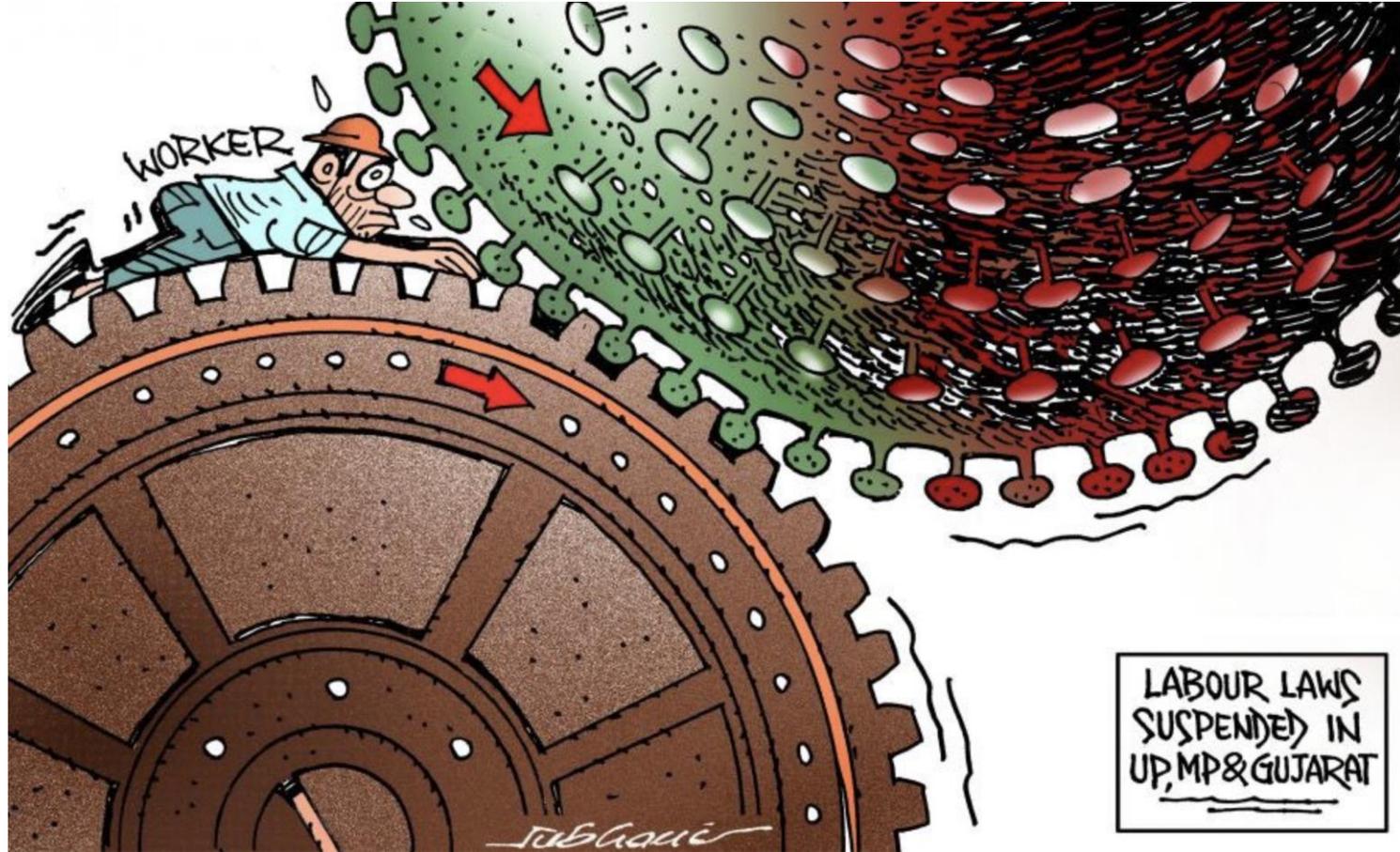


3/ *Liberalizing the agriculture*

- The Modi government intend to amend the Agricultural Produce Marketing Committee (APMC) Act, the Essential Commodities Act in order to deregulate trading practices in the agricultural markets.
- Peasants would be allowed to sell their products wherever it is valuable for them and barriers to inter-state trade in agricultural would be lifted.
- **Contract farming** would be introduced in such a way as the buyer can assure a price to the farmer at the time of sowing.

4/ Reforming the labour laws at the state level

- BJP-ruled states (Uttar Pradesh, Gujarat, Karnataka and Madhya Pradesh) have all passed ordinances exempting the industrialists from most of the labour laws.
- In UP, the list of laws which have been suspended via the Uttar Pradesh Temporary Exemption from Certain Labour Laws Ordinance, 2020 is very long: The Minimum Wages Act, The Maternity Benefit Act, The Equal Remuneration Act, The Trade Unions Act, The Industrial Employment (Standing Orders) Act, The Industrial Disputes Act The Factories Act, The Contract Labour Act, The Inter-State Migrant Workmen Act, The Working Journalists Act, The Employees' Provident Funds and Miscellaneous Provisions Act, The Employees' State Insurance Act, The Payment of Bonus Act, The Unorganized Workers' Social Security Act.



LABOUR LAWS
SUSPENDED IN
UP, MP & GUJARAT

3. Towards a new foreign policy?

- Not only the Covid-19 crisis has weakened India's economy, but China's aggression has made the country more vulnerable.
- In reaction, India may buy more arms (to France and others) – but how far can that go given the financial constraints the country is facing?
- The growth rate of India's defence budget was already declining for years: It increased by 259% in 1990-2010 and only 37% in 2010-2019.

But India was still spending more than \$ 66 bn for its defence in 2019 according to the Stockholm International Peace Research Institute (SIPRI);

A new Indo-Pacific strategy?

- India may join hands with new partners and accentuate its rapprochement with older partners in the framework of its « Indo-Pacific » policy.
- The Quad (India, US, Australia, Japan) may be the « mini lateral » arrangement of the future.
- But European countries may be also seen as relevant partners, including France, Germany and UK which are more and more interested in the indo-Pacific as a region.
- However, are European countries prepared to take side if the relations between India and China become even more tense?

Conclusion:

- 1/ The Covid-related economic crisis has impacted a society where mass poverty was already on its way back before;
- 2/ Some of the decisions made by the government will probably strengthen industrialists who are already at the aims of oligopolies, a development that will further transform the political economy of India;
- 3/ Weakened by the economic crisis and under pressure because of China's expansionist strategy, India may dilute its old non alignment doxa and become closer to other architects of the « Indo-Pacific » concept.