

**1. The recession induced by the ongoing COVID-19 pandemic is different from the economic crisis of 2008. Do you agree? Critically comment.**

**अभी चल रहे COVID-19 महामारी से प्रेरित मंदी 2008 के आर्थिक संकट से अलग है। क्या आप सहमत हैं? समालोचनात्मक टिप्पणी करें।**

**Demand of the question:**

It expects students to write about the differences between the recession induced by the ongoing pandemic and economic crisis of 2008 along with critical analysis about the scale, impact and other factors.

**Introduction:**

The global economy is already in a recession due to health emergency of COVID-19 pandemic and subsequent lockdowns, shut downs of economies across the world. According to the IMF, this recession triggered by the Great Lockdown will be more intense and more extensive than the Great Recession in the wake of the global financial crisis (GFC).

**Body:**

Differences between the recessions of COVID-19 pandemic and 2008 financial crisis also known as Global Financial crisis:

COVID-19 Pandemic recession	Global Financial crisis
<ul style="list-style-type: none"> <li>• Origin and Transmission: It originated outside financial sector. It broke supply chains from china then multiple lockdowns and economy shutdowns, demand slumped. The ensuing distress in the real economy led to distress in the financial system.</li> </ul>	<ul style="list-style-type: none"> <li>• The GFC originated in the financial sector as banks and financial intermediaries got carried away by irrational exuberance and recklessly piled on risk. It unfolded in rich countries. As people lost their wealth and savings in the financial meltdown, demand collapsed and growth slumped. Transmitted from financial sector to real economy.</li> </ul>
<ul style="list-style-type: none"> <li>• Challenge: central challenge is to beat the pandemic, and that solution has to come from science. Only when there is public confidence that the incidence of the pandemic has been brought down to a low-level equilibrium, will there be a</li> </ul>	<ul style="list-style-type: none"> <li>• To restore faith in the financial system, this meant rescue and rehabilitation of banks and other financial institutions. Once that task in the financial sector was accomplished, repair of the real economy fell in place. Demand came back; supply resumed and growth picked up.</li> </ul>

<p>resolution in both the real and financial economies.</p>	
<ul style="list-style-type: none"> <li>Asymmetry of the solutions: Every country needs to control the pandemic within its borders. But that is not sufficient because the virus can hit back from across the border. In other words, rich countries are not safe until poor countries are safe too. And no country is safe until every country is safe. The effort to contain the pandemic is exacerbating the challenges in both the real economy and the financial sector. The more stringent the lockdown to save lives, the more extensive the loss of livelihoods. Managing this tension is by far the biggest dilemma for governments battling the crisis.</li> </ul>	<ul style="list-style-type: none"> <li>Restoring financial stability in the US was necessary, and for the most part, a sufficient condition for restoration of financial stability everywhere. Other countries returned to normalcy eventually as by-product. Solutions in the financial sector and in the real economy reinforced each other. E.g., RBI cut rates to stabilise the financial system, intervened in the forex market, government extended special concessions for housing and real estate sectors to provide stimulus in the real economy.</li> </ul>
<ul style="list-style-type: none"> <li>Impact: It is more widespread than the economic crisis of 2008, almost every country affected badly.</li> </ul>	<ul style="list-style-type: none"> <li>China and India were less affected even as all rich countries were in a financial meltdown. In fact, one of the less acknowledged facts of the 2008 crisis is that it was the stimulus provided by China that kept the global economy afloat.</li> </ul>

However, Nature of the crisis or the reason, origin of the crisis may be different but the burden on the economy is very much similar rather more intense compared to economic crisis of 2008. The Global Financial Crisis originated in the subprime mortgage sector of the US and then, rapidly engulfed the world. The current pandemic originated in the Hubei province of China and rapidly engulfed the world.

- Uncertainty: Both crises share uncertainty as a key factor once they emerged in one of the two leading economies and spread globally. Uncertainty is a risk that cannot easily be traced so that its probability of occurrence and its impact can hardly be predicted. This applies both to the new non-visible corona virus and to the subprime virus.
- Debacle of the stock markets across the world is similar link between two events which often remains sensitive to the disruptions in the financial market.

- Response of the governments: Stimulus packages announced by the governments across the world after both calamities. It eventually will increase inflation and interest rates will hurt the poor most.

As per various studies current recession is much bigger than 2008 financial crisis rather than different:

- Economic shock of COVID-19 pandemic is not just a demand shock but also a massive supply shock. Propping up demand may contribute to flattening the contagion curve by helping people stay locked down, but there is a limit to how much it can help the economy. Supply chains impaired due to mass exodus of migrants in India.
- According to World Bank data, the COVID-19 recession will be the deepest since 1945-46, and more than twice as deep as the recession associated with the 2007-09 Global Financial crisis along with contractions in annual per capita gross domestic product (GDP) and the global rate of unemployment will likely climb to its highest level since 1965.

### Conclusion:

There is also ray of hope in V-shape or U-shape recovery predictions of various economic models which might reduce the time of recovery from current recession as compared to the 2008 crisis at much faster rate. Effective drug to treat the disease even before the breakthrough of vaccine can save the world from economic downturn.

### 2. Examine the significance of internal migration for the economy. How is the current exodus of migrants hurting the economy? Explain.

अर्थव्यवस्था के लिए आंतरिक प्रवास के महत्व की जांच करें। प्रवासियों का मौजूदा पलायन अर्थव्यवस्था को कैसे नुकसान पहुंचा रहा है? स्पष्ट करें।

### Demand of the question:

It expects students to write about the significance of the internal migration for the Indian economy and impact of current exodus of the migrants on the economy.

### Introduction:

The COVID-19 crisis for India has also become economic as well as humanitarian involving inter-State migrants on return journeys home racked by pain and suffering and no surety of any income going ahead. For a majority of migrant labourers, migration is either a livelihood accumulation strategy or survival risk reducing strategy whichever way we define the nature of migration.

### Body:



According to the Census of 2011, there were 139 million interstate migrants who moved for all manner of reasons ranging from education to marriage, not just employment. The data reconfirm the dominance of Uttar Pradesh and Bihar as well as other Hindi-speaking states as main source states, while Maharashtra, Delhi, Gujarat, Uttar Pradesh and Haryana absorbed half of the migrants.

According to the Centre for Monitoring Indian Economy (CMIE), an estimated 122 million people lost their jobs in April alone and three-quarters of these were small traders and wage labourers majority part of internal migrants.

Significance of internal migration for the economy:

- Dependence of multiple industries: Major sub-sectors using migrant labour are textiles, construction, stone quarries and mines, brick-kilns, small-scale industry (diamond cutting, leather accessories, etc.), crop transplanting, sugarcane cutting, rickshaw-pulling, fish and prawn processing, salt panning, domestic work, security services, sex work, small hotels and roadside restaurants/tea shops and street vending. Calculations based on these estimates indicated that the economic contribution of migrants was around 10% of India's gross domestic product (GDP) as per study of Priya Deshingkar.
- Demand of casual work and better income: Internal migration is major force for unskilled work in industry and daily wage sector of informal economy. E.g. Daily wages in state like Odisha is 100 to 120 for unskilled work whereas it is as high as 600-800 in state like Kerala.
- Income source for poorer region: Internal remittances in India totalled \$7.485 billion in 2007-08, highlighting the poverty and inequality reducing potential of internal migration as the money flows directly to families in poorer parts of the country.
- Interstate male migrants often move alone which became part of cheap labour force on which Indian economy capitalise to attract foreign direct investment. E.g. out of 11 million migrant population registered under census 2011 in south Delhi only around 27000 are female. Left over families in rural area reduces the cost of living in the urban centres which help them to survive and send remittances in comparatively satisfactory wages.
- On the other hand, internal migration increases homogeneity of Indian society with more cosmopolitan cities helps in increasing national integrity.

Impact of migrant exodus on the economy:

- Collapse of mini-economies: Mini economies which sustain labour supply in urban centres as well as add to the aggregate demand in the overall economy faced major blow due to exodus. E.g. Tea shop outside private offices which catered demand in the urban centre generated demand in the distant rural areas by remittances of money, which completely closed due to exodus.
- The establishment of local ancillary service economies is not automatic. They rely on a critical mass of migrant workers in order to ensure profitability. If there is enough number of customers, then the street vendor finds it profitable

to sustain his service. After the reverse migration, their incomes would be adversely affected.

- High cost of labour in comparatively industrialised and manufacturing states: The networks of migrant labour supplemented local workforce and plugged regional resource gaps to expand the productive capabilities of the region. Without them, this ostensibly demands problem might turn into a supply bottleneck too.
- High input cost in manufacturing states will wipe out profits of businesses which will reduce the export potential eventually.
- Production delay: The aggregate growth in GDP relied on high growth industrial or trade centres which spearhead production and generate momentum for the rest of the economy. The lockdown strips these centres of their capability and threatens India's overall macroeconomic stability.
- Stress on MSMEs: Now parts of the economy which seemed to have the capacity to pause during the lockdown would experience a strain eventually due to their linkages with the SME's. Unable to obtain ancillary inputs, the larger enterprises will end up with a clogged value chain. This is the domino effect of an unanticipated demand drop which permeates into a general adverse effect on the overall economy.
- Socio-economic inequality: when the poor become poorer, there can be serious long-term impacts on economic growth. Studies have shown that one of the main mechanisms through which inequality affects growth and development is by limiting educational opportunities for children from poorer backgrounds, reducing their prospects for social mobility and breaking out of caste-based occupations. With remittances no longer flowing to rural areas, for the time being, the poor will struggle to invest in education and other ways of enhancing their children's life chances.

However, governments should better plan the reverse migration because market forces might work with a lag under uncertain economic environment due to the pandemic.

### Conclusion:

The mass exodus of migrants now becomes a significant barrier and acceleration to maintain the \$2.7 trillion economy needs planned policy for reverse migration along with reduction in development deficit to increase opportunities in source states. Otherwise it will be difficult in the foreseeable future to realise dream of \$5 trillion economy.

### 3. Is boycotting Chinese products a viable strategy to counter Chinese aggression? Critically examine.

क्या चीनी आक्रामकता का मुकाबला करने के लिए चीनी उत्पादों का बहिष्कार एक व्यावहारिक रणनीति है? समालोचनात्मक जांच करें।

### Demand of the question:

It expects students to write critical analysis about the viability of the strategy of boycotting Chinese product to counter Chinese aggression.

### **Introduction:**

After Prime Minister Narendra Modi's call for 'atmanirbharta' gave self-reliance the status of a national mission, the outrage has been particularly pronounced on social media, with hash tags like Boycott China trending on Twitter. Engineer Sonam Wangchuk's initiative on micro blogging site has been quite successful. Recent violent face-off in the Galwan valley intensified the strategy of boycotting Chinese product further.

### **Body:**

Rationale of boycott Chinese goods and services:

- **Pandemic of COVID-19:** Given the source of coronavirus in China and its mishandling of outbreak in earlier phase has increased animosity of world towards China and demands for reparations has been increased.
- **Violent face-off on the border:** Latest scuffle between soldiers of Indian army and People's liberation army in the Galwan valley which led to death of 20 Indian soldiers has angered the common sentiments of Indian population.
- **Predatory pricing:** China has adopted the ruse of manufacturing goods at such low prices that industries in other countries are unable to compete. Keeping a tab on what is in demand in the market and delivering it in large numbers quickly and cheaply has become China's forte.
- **Wide trade deficit:** India's trade deficit with China stood at \$51.68 billion between January-November 2019. Bridging this trade gap alone is a matter of concern.
- **Comparatively Lesser Investment:** Of all FDI inflows to India, Chinese investments have only been 0.52 percent since 2000. The biggest increase has been in the acquisition of shares in existing businesses, including pharmaceuticals companies—a source of concern during corona virus-related medical supply chain fears. Chinese investment has also been directed toward technology start-ups. According to a study, 18 out of 30 Indian "unicorn" companies have significant Chinese investment. E.g. Paytm, Ola, Flipcart.
- **Data Security:** China's increasing stakes in Indian start-ups and other technology companies also raise major concerns over the protection of intellectual property rights, data privacy, and national security. E.g. Alibaba is the single largest shareholder in Paytm, which handles the daily financial transactions of millions of Indians.
- **Global concerns:** India isn't the only country concerned about the Chinese government's influence over private technology companies' foreign activities. E.g. opposition to Huawei in US and EU.
- **Given the world wide wave of protectionism,** India should focus on building its own supply chain and occupying its domestic market.



- Indian government has shown its intent by scrutinising Chinese investment. According to the Indian Ministry of Commerce, tighter restrictions on Chinese investment became necessary in order to prevent “opportunistic takeovers” of Indian companies.

However, there are concerns voiced by commentators that boycott china might hurt India more.

- Globalisation: We live in a world which, despite many recent setbacks to globalization, is inextricably interlinked, with the supply chains of companies spanning various geographies.
- Complex nature of sourcing: Products made by Indian firms contain components that come from China or use Chinese machinery to make them. Small and medium businesses, the focus of attention currently for their fragility in the face of pandemic-induced lockdowns, extensively use low-cost Chinese machinery and capital goods, besides trading in many finished products from that country.
- Large Indian companies like Dr. Reddy’s Laboratories, Mahindra & Mahindra and Sundram Fasteners have manufacturing units in China that cater to markets abroad as well as in India. In several segments, the fate of an entire industry could be in jeopardy if its China links are severed.
- Vital capital needs of Indian industry and start ups: Commentators have also pointed out how any such call to boycott Chinese goods sits uncomfortably with the billions of dollars of Chinese investment in local start-ups that are routinely held up as role models of Indian ingenuity.
- More loss to Indian exports in reciprocal action: India is a large market for Chinese goods, accounting for 3% of China’s exports and adding up to \$75 billion in 2019. But here’s the thing: India’s \$17 billion of exports to China account for a much-higher 5.3% of our total exports. Any trade war with China would hurt India, too.

Though, it is also debatable how much effect a politically-motivated boycott can have.

- India’s aspiration of global power from regional power: One global power cannot have regressive restrictive trade practices against other. Such policies or initiatives might hurt India’s economic development by losing market of large country like china.
- Sustainable development: India is heavily dependent on China when it comes to achieving its renewable energy target. India's import dependence for meeting its solar equipment demand was over 90 percent in past three financial years, Power and New & Renewable Energy Ministry said in a written reply to the Lok Sabha last year. India is third largest economy in the world on the basis of purchasing power parity, there should not be trade boycott between first and third largest economy for the sake of sustainable development of world.
- Middle income trap concerns: Free trade and open economy has helped India in rapid progress of Economy from around \$296 billion in 1989 to around \$2.80

trillion in 2019. India is still in need of globalisation to come out of middle income trap.

- Compromised quality: Excessive protection of domestic firms might reduce competitiveness of Indian product in international market and would create another foreign exchange crisis.

**Conclusion:**

Many times clamour for boycott is due to geopolitical reasons however diplomatic and military rivalry can go on with continuation of trade outside strategic domain exemplified in flourished trade between US-China. Instead of boycotting Chinese goods, we should negotiate with Beijing to open China's market further to Indian services as well as more finished goods without compromising on territorial integrity and sovereignty.

