

## NEWSLETTER

### **GOVERNMENT SHOULD UNLEASH LAND, LABOUR AND CAPITAL MARKET REFORMS, SAYS MR. NAYYAR**

“A crisis of this magnitude should not be wasted”, is the advice of most economists and policy observers to Government of India. Mr. Dhiraj Nayyar, Director, Economics and Policy at the globally diversified natural resources firm Vedanta Resources also feels that India should use this circumstance to unleash structural reforms to make the economy globally competitive.

In an interview to MVIRDC World Trade Center Mumbai, Mr. Nayyar shares his perspectives on the impact of COVID-19 on Indian economy and proposes some policy reforms. Mr. Nayyar was Head of the Economics, Finance and Commerce division at NITI Aayog, Government of India from 2015 to 2018.

#### **Excerpts of the Interview:**

#### **1. What is your assessment of the impact of COVID-19 on the Indian economy?**

It is an unprecedented shock to every economy in the world and India is no exception. It is highly unusual to have such an extended period of almost no real economic activity (except some essential goods and services) because of the lockdown. Given the serious public health challenge on hand, any opening up has to be gradual and graded. So, supply chains and indeed demand will be subdued for a prolonged period. As of now, it is hard to predict the precise quantum impact because that depends on a number of unknowns, including how long the lockdown lasts, at what speed the opening up happens and what economic package, if any, the government announces in the coming weeks.

#### **2. What according to you is the ideal size of the relief package from Government of India and what should be the components of this package?**

There is no ideal size. But the Government must be prepared to do whatever it takes to ensure that firms and individuals survive this period of lockdown which is accompanied by a serious loss of revenues and substantial loss of incomes. Certainly, this is not the time to focus on the fiscal deficit. If required, it can go up to 10 percent of GDP from the current 3.5 percent. The Government can always finance this directly through the RBI, basically by printing money. In normal times, this is not recommended for its inflationary consequences. But these are anything but normal times and deflation and destruction of national wealth is a real worry. Just as there are positive multiplier effects when the economy grows there are huge negative multiplier effects when it begins to contract. The Government must support the poor, the middle classes, small businesses and large businesses. The economy is interlinked and in a crisis like this, support is required across the board. Obviously, the nature of direct support would vary. The poor need cash transfers; the middle class needs relief on EMIs; small businesses need protection from bankruptcy cheap working capital; large firms need liquidity.

### **3. India is a net importer of coal, even though it has huge reserves of this fossil fuel. How can India attain self-sufficiency in this sector?**

It is unfortunate that India has been a net importer of coal despite such huge reserves. But, recently, the government has taken the positive step of opening up coal for commercial mining. Ultimately, Coal India's monopoly over commercial mining did not serve the purpose of making India self-sufficient. If the government executes its new policy efficiently, the scenario will change in the next couple of years.

### **4. What are the long term reforms you expect the government to take to make India a hub of global value chain post COVID-19?**

India must become globally competitive. There are two aspects to this. First, firms need to become competitive. Second, and more importantly, policy needs to be benchmarked to global best standards. In a way, Covid-19 is a great leveler and things will change after such a big event. For one, the world may want to diversify away from China in terms of manufacturing supply chains. If India wants to be quick out of the re-starting blocks, now is the time to implement structural reform in land, labour and capital markets. And the Government should do away with the elaborate system of clearances and approvals. It needs to move towards self-certification as far as possible and establish trust with the private sector. Investors will only come to India if it is cost competitive to set up value chains here.

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