



Confederation of Indian Industry
125 Years - Since 1895

BUILDING INDIA FOR A NEW WORLD

Lives • Livelihood • Growth



The CII Agenda 2020-21
June 2020

Economic impact of COVID

For India, the developments since February/ March 2020 have been unprecedented, as they have been for the rest of the world.

Just as COVID struck India, India was trying to get out of a weak economic situation.

The year 2020 began on a sombre note, as the economy was already facing challenges. In the quarter ending December 2019, GDP growth had decelerated to 4.1% while the ratio of fixed investment to GDP had steadily declined to 29% from 32% a year ago. With the slowdown in global trade, both exports and imports have continued to decline. Consumer spending was still holding up when the onslaught of the pandemic resulted in a sharp decline. The growth in private consumption expenditure fell from 6.6% in the third quarter of FY2020 to 2.7% in the fourth quarter, leaving only government consumption to drive growth.

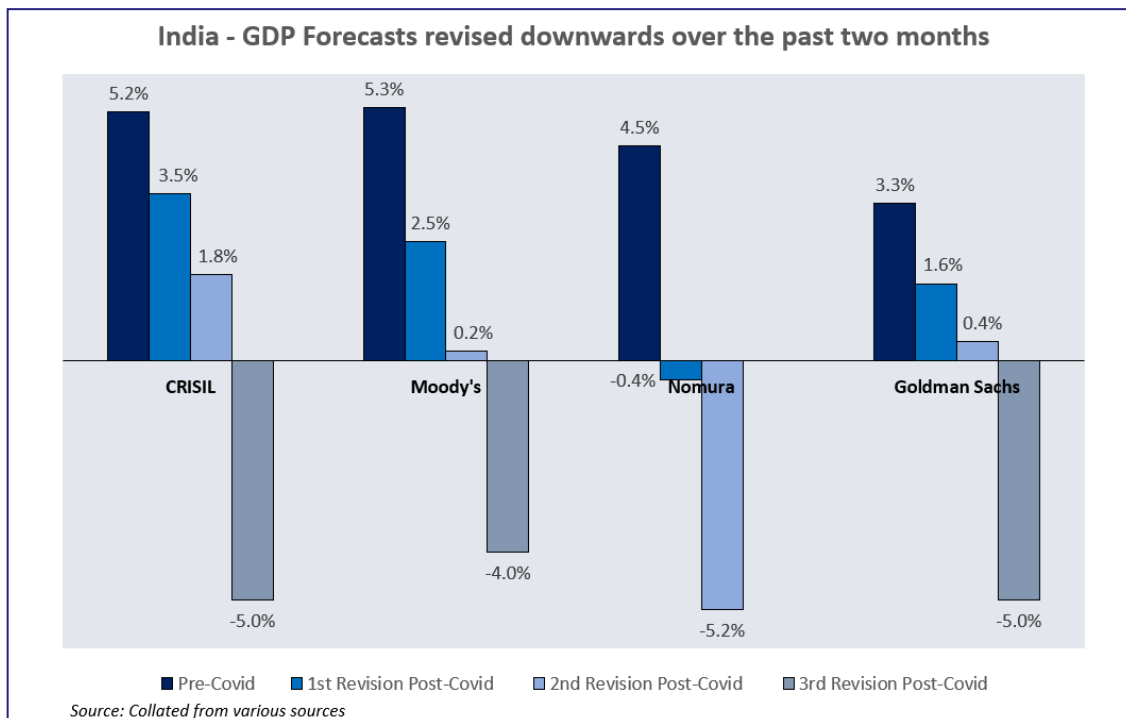
Key macro-economic indicators

	2017-18	2018-19	2019-20
GDP (% growth)	7.0	6.1	4.2
IIP (% growth)	4.4	3.8	-0.7
Investment (% to GDP)	34.2	32.2	29.7
Exports (% growth)	10.0	9.1	-4.8
Bank credit (% growth)	10.0	13.3	6.1

The COVID induced lockdowns, wherein economic activity came to a virtual standstill, will deepen the slowdown sharply. There is currently a consensus amongst economists that the Indian economy will witness a



contraction in FY 21, the question is how deeply negative, the growth is likely to be. RBI also expects GDP growth to remain negative in 2020-21.



Amid projections of sharp contraction in global economy, many agencies have downgraded India's growth forecasts for FY20-21, indicating a steady moderation in their growth expectation culminating in widespread expectation of deep contraction of 4.0-5.0%. In CII, we refrain from making an estimate this year given the uncertainty of the situation.

With the Indian economy entering the Unlock Phase 1.0, economic activity is expected to pick up. However, it is difficult to say what will be the shape of the recovery. Will it be a V-shaped one as the lockdown is gradually eased? Or is it likely that the initial bounce back will not be sustained due to lack of demand?

The need of the hour is for government and industry to work together to return to a sustainable growth path. As the Hon'ble Prime Minister has



highlighted, this is not achievable without active partnership between the government and industry. To quote him: “The private sector in India is a partner in ensuring India’s growth. Develop concepts, think big and together we can build a self-reliant India.”

CII Theme for 2020-21

We are in a new paradigm where uncertainty is the hallmark. And yet our aim will be to strategise and navigate through the uncharted territory to bring back growth. Capturing that spirit, CII’s theme for 2020-21 would be:

BUILDING INDIA FOR A NEW WORLD: Lives, Livelihood, Growth

The CII theme proposes to prepare India for the shift from the before-corona (BC) paradigm, as coined by Thomas Friedman, to the after-corona (AC) world, even as we live through the period during corona (DC). COVID has changed the status quo and all stakeholders are trying to find out the new realities, from individuals, companies, economy, to the country as a whole. The policy planning and the road ahead for India, its economy and Indian businesses will have to take this uncertainty and its impact into account.

Hon’ble Prime Minister Narendra Modi’s message at the CII Annual Session will be the guiding principle for all our interventions towards building Atma Nirbhar Bharat, “Five things are very important to build a self-reliant India and to bring India back on the path of rapid development - Intent, Inclusion, Investment, Infrastructure and Innovation”,.



CII's work through the course of the year, and beyond, will be guided by 10 lenses described below and will be geared towards finding optimum solutions to the challenges that lie ahead.

The ten lenses

1. Protecting lives and livelihoods

Like other economies, India is faced with a challenge of trying to find a balance between protecting lives from the virus and protecting lives from loss of livelihood.

The fact that more than 80% of the employment in India is in the unorganised sector adds to this challenge. Workers in the unorganised sector have no social security and depend upon earnings based on daily work.

Another challenge for India is that it is starting to open up after a protracted lockdown, just when the spread of the virus has gone to the community. In terms of timing, India's situation is very different from other countries which opened up once the spread of the virus was contained.

This has implications in terms of the importance of a massive ramp up in India's testing infrastructure and COVID related healthcare infrastructure. The Center and the States will have to work together seamlessly in ensuring robust processes for identifying hotspots and containment protocols, to manage the spread. India's health and safety response to the spread of the virus will have to be very nimble, with states and local authorities playing a key role.

In terms of addressing the structural issues vis-à-vis employment,

measures to increase formalisation levels in the economy must be expedited. These include labour reforms and regulatory reforms to encourage businesses to be in the formal sector and greater employment to be created in the formal sector.

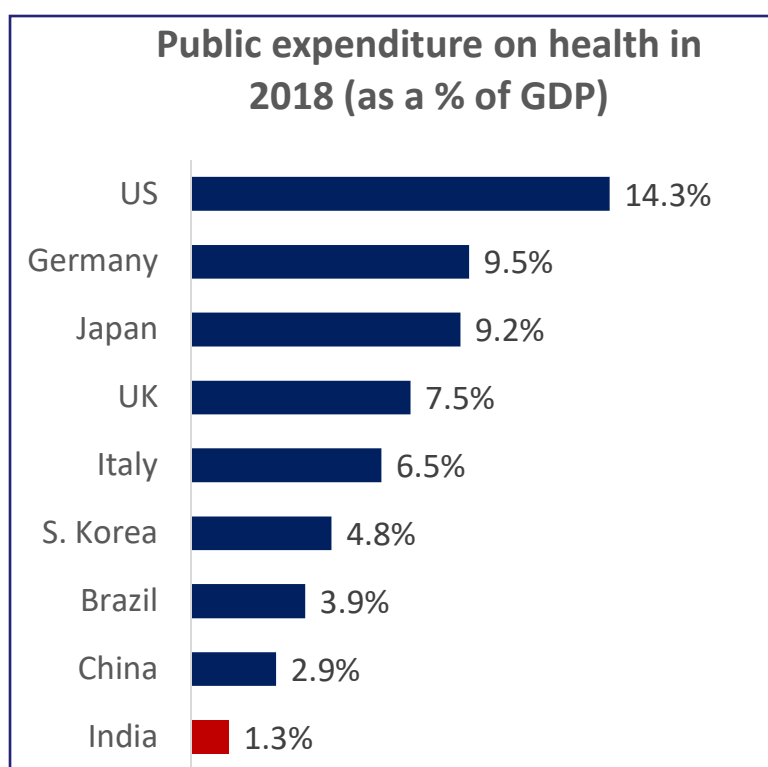
One of the biggest casualties of this Great Lockdown implemented to stem the rise of the contagion arising out of COVID-19 has been the casual daily-wage workers who account for almost a third of country's total workers. With factories shutting shop and roadside vendors without customers, these workers have been rendered jobless. Given that most do not have any written contracts or social security, it is highly likely that many of the migrant workers and daily wage earners are at risk of being pushed deeper into poverty.

2. Prioritisation of healthcare and education

The current crisis is induced from the health front, though it is impacting every other aspect of our lives.

The immediate concern therefore, is to find the solution in that domain, both in terms of treating the affected and being able to find a medicine or a vaccine. The healthcare system needs to be ramped up in a short span of time to be able to deal with the health outcomes of the spread of the pandemic.

The pandemic places having a robust healthcare system on the same strategic priority as perhaps defence, which is to protect us from external threats. As is clear the enemy is within. The pandemic, more than ever before, demonstrates that health and economy are inextricably linked. It makes the cliché 'health is wealth' true.



India needs to increase its spending on public health from its currently very low level of 1.3% of GDP. This needs to be increased to 3% on an urgent basis, to be on par with peers. Hitherto neglected aspects such as malnutrition will need to be brought to the forefront. A long-term dimension of dealing with future pandemics is to boost the innate immunity of the population through high quality preventive healthcare, focus on nutrition, sanitation and hygiene.

Focus on education has to go hand in hand with focus on healthcare. India has a tremendous shortage of healthcare professionals at all levels. Education plays a key role in achieving the required levels of standards in nutrition and hygiene.

Given the vast expanse of India, the e- healthcare and e-education interventions alongside the traditional methods of delivery, can play a very vital role. The Mission Digital India, lays the foundation

for India to build on its e-healthcare and e-education initiatives. India is a model for the world in low cost quality healthcare, and it has the potential to take a leadership role on digital healthcare and digital education as well. In fact, India needs to think of a healthcare model where India's healthcare industry could be the next IT sector for India.

Similarly, both school education and higher education need further development for a more productive society. Emphasis on research and development can lead to innovation that will be beneficial to industry and enterprise.

3. Mother nature

As is said, mother nature has its own ways of re-establishing the nature's equilibrium, when disturbed. The increase in the incidence and the intensity of natural calamities and spread of disease are all signs of mother nature trying to restore nature's equilibrium. As we re-visit our development models, we need to be conscious of keeping harmony with nature.

COVID has shown us that the climate change is for real and that industrial activity is an important contributor to the same. The lockdown period also showed us blue skies in most of our cities and air quality improved which is also good for the health of our citizens. India has been at the forefront of climate change mitigating measures; however, we would need to deepen our work and attention to sustainability in all our economic activities.



4. Fiscal deficit and financial stability

In trying to find measures that would deal with the economic crisis, India has to find the right balance between leaning towards a high fiscal deficit and ensuring financial stability.

Government spending has been supporting the economy over the last few years. For substantive economic recovery to kick in, government spending would be crucial.

However, with an increasing fiscal deficit and mounting government debt, the economy runs the risk of rating downgrades which has consequences. Moody's has recently downgraded India's rating from Baa2 to Baa3, the lowest in investment grade, with a negative outlook on worries over growth and fiscal risks. Any further downgrades will make India susceptible to flight of capital and leave its currency vulnerable.

Higher government borrowing will have a crowding out effect on private investment. It will increase bond yields, wiping out some of the gains made by RBI interventions in towards reducing interest rates in the economy. At the same time, government spending is necessary to revive growth, without which our ability to service debt will in any case suffer.

This will be a difficult balance to achieve for the government and CII will consider both sides when giving its recommendations.



5. Distribution of economic pain

The economic pain and the losses in the economy will have to be borne by three entities:

- ✓ On the front line and first to get impacted are the individuals and businesses.
- ✓ The second line is the government.
- ✓ The residual impact would have to be borne by the financial system of the country.

The question is what should be the share of loss that each of these three entities is expected to bear? The pain for each of these stakeholders have telling consequences and some of it is already playing out.

Perhaps the government will have to take on a disproportionate share of this pain, in order to ensure long term survival of businesses and a financial system strong enough to support the recovery in the real sector.

CII will work on strategies and recommendations that can reduce the sharp burden of the loss for the real and financial sectors.

6. Role of digital and physical

There is a sudden change in the balance between digital and physical and this will have a lasting impact, well after COVID goes away (if it does). For example, online buying has gained much more popularity, during COVID and this is likely to continue post COVID. This change in consumer behaviour will have enormous impact on business in terms of business models.

Businesses will need to orient their offerings to a completely new consumer who will prefer the digital choices instead of physical. Also, some consumers will become risk averse and therefore look at products that are less risky. Rentals and Lease may become a way of life.

This tilt in the favour of the digital, also has the potential to widen the rural vs urban divide. Most of the work from home jobs are in urban India. The rural population is less equipped to participate in an economy with higher digital component. This is where education and skill development will have to play a key role, bringing the digital skills to rural India. Broadband connectivity will need to expand to all areas in the country.

Business offerings and functions will need to be re-engineered to the needs of these new consumers enabled by policies framed by the government.

7. Future of jobs and social security

In the BC world the future of jobs was primarily discussed in the context of technology and increasing share of the gig economy.

The post COVID world is likely to transform the existing form of jobs due to the need for social distancing. With a likelihood of fewer jobs being generated in the present structure of the economy, this could have massive social ramifications, unless we are able to put in place a social security system. While we recognise the necessity to bring in social security, it will need to be well calibrated and provided for.



In this context manufacturing, agriculture and infrastructure sectors gain greater importance.

The Make in India initiative was launched to scale up India's manufacturing and increase its contribution to the GDP and employment. With its focus on land, labour and laws, mission Atmanirbhar Bharat lays a very strong foundation of reforms for making India a leading global manufacturing hub, as also envisaged by the Make in India initiative.

Post COVID, many global companies are looking at broad basing their supply chains as well as markets. India has demonstrated its capability to deliver quality and scale in many sectors. India is the world's largest producer of tractors and two – wheelers, third largest producer of heavy trucks, and the fourth largest producer of cars. India leads in cutting and polishing of diamonds. India is also the second largest producer of steel and cement globally.

In addition to the capability, India's ideals of peace, democracy and free expression resonate well with many developed countries inspiring mutual trust. All these make it possible to transform India into a global manufacturing hub, strengthening the economy and creating jobs.

To sum up the goal of manufacturing as elucidated by the Hon'ble Prime Minister "The need of the hour is that more and more products are 'Made in India' which are 'Made for the World'. 'Be Vocal about Local to go Global.'

The mission lays down the path for a strong agriculture and related sectors. It not only aims to increase farmer incomes for rural prosperity but also creates opportunities for the rural enterprise and private sector engagement. Agriculture is one of the more resilient sectors, as is evident from the current experience. Hence growth driven by higher farm incomes would be more resilient and sustainable. It would also be more inclusive and broad based.

Construction is the second largest employer after agriculture. Government has identified a national infrastructure pipeline. A massive public works program to front load the projects in this pipeline, especially in the rural areas, could be another source of employment generation. In addition, infrastructure creation will enhance the overall productivity of the economy.

8. Rural-urban re-balance

For the first time in India, we are witnessing reverse migration with migrant workers going back to their hometowns. We should take this as an opportunity to create more geographically distributed model of development. Programs like the Backward District Development program need to be expanded.

Hon'ble Prime Minister, in his address to CII, has urged the Indian industry to take care of the opportunities arising for the private sector in the rural areas.

CII will work with state governments and farmers, through farmer cooperatives and help build a strong rural ecosystem that provides business opportunities to medium and small industry in joint partnership with the farm community. There are multiple

opportunities in allied products and food processing that can add to the farmer's income and help create jobs in the rural economy.

Industry should be encouraged to set up in the rural hinterland. One such industry where this is feasible is the mining industry. India has vast mineral wealth which can be tapped for reducing India's imports such as that of coal and metals and at the same time drive the development of the hinterland. In this context, the implementation of reforms announced in the minerals and mining sector should be expedited.

The areas discussed in the earlier section, specially agro based enterprises can help create jobs in rural areas. Co-operative models should be explored. The success of Amul and how it has transformed the dairy landscape of the geographies it operates in, could be expanded to many more agro product-based industries across geographies.

Another area, which has a lot of potential is revival of traditional Indian crafts be it weaving, or metal craft, or paper craft and many more. The reaching out of the broadband connectivity across rural India, under Digital India initiative, makes it possible for such rural based enterprises to use e-marketing platforms to reach out to global markets.

A vibrant rural sector can be an important pillar of India's growth strategy in the post COVID world. Rural India has been relatively insulated from COVID, which has been more of an urban phenomenon across the globe. Therefore, a higher GDP coming in from rural areas, will mitigate the risk to growth from pandemics.



In addition, it will reduce the pressure on urban economic centres. The rural folk will be able to find employment near their homes, providing them with a better quality of life.

Industry and government should also re-think the amenities in terms of housing, education and healthcare that should be made available to the workers who chose to come to the cities to work.

9. Four levers for growth

The traditional four engines of growth are Investment, Consumption, Net Exports and Government Expenditure. For the last few years the economy has been primarily growing on just one of these engines – which is government expenditure. This situation is not tenable as the government is already running a high deficit.

Therefore, it is important to re-start the other engines of the economy. Given demand uncertainties private investment remains a challenge. Funding private investment is yet another challenge as risk capital becomes scarce in the COVID world. These challenges would need to be overcome to catalyse private investment.

Similarly, with global trade falling precipitously, boosting exports is difficult. However, India has to be a net exporter both for manufactured goods and services. To achieve this, integration with global value chains is important. Competitiveness has to be at the core of the strategy for achieving this goal. At CII, we are setting a target for India to achieve 5 percent and 7 percent respectively, of global merchandise and services exports by 2025.

Investment in Science and Technology can help India become more competitive. India needs to create an ecosystem of collaboration



between industry, academia, start-ups and patient capital to build capacity for basic research, capacity to translate research into innovation which then can be commercialized for the benefit of all.

In this scenario, the government and CII needs to continuously deliberate on how the private sector can play a role in igniting the growth engine and the forces of entrepreneurship.

10. Getting growth back is non-negotiable

Getting growth back is essential, for that is the only way to protect/generate jobs and livelihoods and to retain the great strides that India has made in reducing poverty since independence.

The Indian economy is expected to contract this year, an outcome that we have experienced only five times in the last 70 years.

The previous contractions were all driven by decline in agricultural production while this year the agricultural sector is likely to be the only one to expand. The contraction in economic activity is leading to a loss of jobs and income generation, which in turn is pulling down economic growth.

Another distinguishing feature of the contraction this time is that both demand and supply have collapsed. The dilemma then is that should the economic priorities address demand and supply simultaneously or should there be a sequence in which measures are aimed at demand and then supply or the other way around?

CII will work intensely and closely with all stakeholders as this will require some fine balancing so that we can slowly but surely bring back investments which will depend of demand picking up.

Government spending in public infrastructure and direct benefit cash transfers may help boost demand initially but we need to find ways to sustain demand particularly in such uncertain times when consumers tend to save and get risk averse.

The need of the hour is for government and industry to work together to return to a sustainable growth path. As the Hon'ble Prime Minister has highlighted, this is not achievable without active partnership between the government and industry.

And for this reform and reforms and more reforms is the only way. Many path-breaking reforms have been announced by the Government. The implementation of these has be to a very high priority, and new reform measures need to be identified. To quote the Hon'ble Prime Minister "For us, reforms means having the courage of taking bold decisions and then ensuring that that it is implemented in a time bound manner. We have been working continuously to create a favourable eco-system for investment and business".

To quote Hon'ble Prime Minister, at the CII Annual Session 'Getting growth back is not difficult. The most important thing is that you all industrial units- have a clear path. The path paved by a self-reliant India'.

CII's role in 'we will get growth back'

As an apex industry body, which has upheld the principle of India First for the last 125 years, CII will play its role in nation building, emphasising its social contract as a responsible corporate citizen. It

has been a partner in India's development journey and will do so even more strongly today as we charter new territories.

Responding to Hon'ble Prime Minister's call to industry, "CII will also have to come forward with a new role. Now you have to come forward as champions of indigenous inspirations. You have to facilitate the recovery of domestic industries, assist and support the next level growth. You have to help the industry to expand its market globally", CII will work as the knowledge partner to the government and help build the India story for the world.

CII and industry can play the role of a true knowledge partner by helping in capacity building of the government. Experts from industry with different domain knowledge and global perspectives of changing trends can work as a board that can support policy making on a continuous basis. This pool could act as a think-tank to support the government in expediting and implementing the policy reforms in the economy.

Industry will also have to keep in mind what the stakeholders expect from industry.

The first thing that industry will need to do is to ensure complete transparency and adoption of the highest level of corporate governance. To quote the Hon'ble Prime Minister, "It is the responsibility of organizations like CII to ensure that trust, quality and competitiveness are associated with 'manufactured in India'."

High governance and clean business will be the way forward.

CII believes that a self-reliant India, which is globally competitive and sustainable as the only way forward.



Confederation of Indian Industry
125 Years - Since 1895

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government and civil society, through advisory and consultative processes.

For 125 years, CII has been working on shaping India's development journey and, this year, more than ever before, it will continue to proactively transform Indian industry's engagement in national development.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, with about 9100 members from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 300,000 enterprises from 288 national and regional sectoral industry bodies.

CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

Extending its agenda beyond business, CII assists industry to identify and execute corporate citizenship programmes. Partnerships with civil society organizations carry forward corporate initiatives for integrated and inclusive development across diverse domains including affirmative action, livelihoods, diversity management, skill development, empowerment of women, and sustainable development, to name a few.

With the Theme for 2020-21 as Building India for a New World: Lives, Livelihood, Growth, CII will work with Government and industry to bring back growth to the economy and mitigate the enormous human cost of the pandemic by protecting jobs and livelihoods.

With 68 offices, including 9 Centres of Excellence, in India, and 11 overseas offices in Australia, China, Egypt, France, Germany, Indonesia, Singapore, South Africa, UAE, UK, and USA, as well as institutional partnerships with 394 counterpart organizations in 133 countries, CII serves as a reference point for Indian industry and the international business community.

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