

Breaking the Value Chain

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April 03, 2020

First published online: <https://indianexpress.com/article/opinion/coronavirus-india-lockdown-economic-impact-nikhil-damodaran-6358707/> on April 12, 2020.

India's CoVID-19 response has been making headlines around the globe¹. These are not related to lapses in public health system or inaction against the then impending pandemic. Instead the attention is on its administrative inability to plan the lockdown.

However, the mismanagement of India's lockdown goes beyond the negative international publicity to cause a potential persistent shortfall in demand for goods² and supply of inexpensive migrant labor. Further, the macroeconomic spillover effects of reverse migratory exodus make apparent the disconnect between policymakers and reality.

While the lockdown was intended to prevent community transmission³ and put a cap on spread of the pandemic, the resultant mass migration has increased the possibility of an escalation. It has also dealt a body blow to the livelihoods⁴ of these migrants.

The administrative debacle was further fueled by shutdown of public transport⁵ which shows the lack of anticipation on the part of policy makers. All this has worsened the plight of the migrant worker. Now the exodus is on foot!

Migrant based mini economies as sources of demand

This mass movement of workers back to their villages is only the starting point of India's troubles. Migration in India relies on existence of networks⁶ which ensure a flow of workers from villages to urban centers for work. These networks often support mini economies which sustain labor supply in urban centers as well as add to the aggregate demand in the overall economy⁷.

For instance, a *kirana thela* who serves egg rolls or *kadhi chawal*, caters to demand by migrant workers. This generates incomes for these informal workers in the local economy based on demand from a migrant consumer.⁸ These are considered ancillary services which are essential offshoots of the migrant networks.

¹ A lot of international media sources have captured the plight of the migrants and have criticized this massive humanitarian crisis. Some of these are: "India racked by greatest exodus since partition due to coronavirus", [The Guardian](#) (March 31). "Coronavirus Lockdown Sends Migrant Workers On A Long And Risky Trip Home", [NPR](#) (March 31). Indian migrant workers sprayed with disinfectant chemical, [Al Jazeera](#) (April 6, 2020). India's Coronavirus Lockdown Leaves Vast Numbers Stranded and Hungry, [NYT](#) (March 29).

² Covid-19: Macroeconomic implications for India, [Rajeshwari Sengupta](#) makes this point in Ideas for India on March 24.

³ "The crush of human bodies was the antithesis of the social distancing ordered by Modi, and the police responded by beating up workers who tried to board the buses.", from Guardian quoted earlier.

⁴ Advocates for the poor say that while they support the lockdown to save lives, the way it has been rolled out — with apparently little guidance for the poorest of India's poor — may mean the lockdown itself endangers more lives than the coronavirus. From the NPR quoted earlier. Coronavirus Finds Fuel in a World of Migrants, [NYT](#) (April 10): not only in India, but migrants in other countries also face livelihood issues. Their disadvantage gets exacerbated.

⁵ "India Halts Trains as Coronavirus Spreads Across World's Second-Most Populous Nation" Time ([23 March](#)): Trains were stopped from March 22, 2020 as workers scampers to move from urban centers to villages. NYT ([April 2](#)). Washington Post ([March 28](#))

⁶ What are Migration Networks? IZA [Discussion paper #200](#), September 2000. Migrant Networks and the Spread of Information, [Oxford Bulletin of Economics and Statistics](#), October, 2017.

⁷ Migrants and refugees are good for economies, [Nature June, 2018](#).

⁸ Though there are other types free-services which also facilitate migrant economies in the place of work such as community participation and even [faith](#). (Informal networks of generosity are supporting asylum seekers on both sides of the border, [Dec 19, 2018](#))

The establishment of these local service economies is not automatic. They rely on a critical mass of migrant workers in order to ensure profitability. If there are 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.

Further, these migrant workers are typically hand-to-mouth consumers⁹ i.e. those who earn subsistence living and spend a large part of their income in the local economy. This contributes to another layer of demand, which would now cease to exist. Hence neither would the *thela wala* earn any income, nor does the migrant earn his livelihood.

Both, in their capacity as consumers are a part of an informal economy which generate and sustain volumes for the FMCG industries. For instance, Parle-G's¹⁰ already falling fortunes would dwindle further due to this drop in demand.

From informal demand to possibly a generalized downturn

This lack of demand from the migrant workers and the mini economies they sustain imply that forward and backward linkages to formal sector are also weakened. For instance, the informal sector directly employs approximately 450 million people without formal contracts or job security.¹¹ Part of these sustain production in the small and medium enterprises (SME).

After the lockdown, the overhead costs, administrative expenses and mounting debt of the SME would make it difficult for these industries to survive without adequate support from the government. Moreover, expecting them to sustain wage payments as advised by the government, without a corresponding flow of incomes is an unrealistic scenario for the near future.

Even in the presence of the recently announced moratorium on loan payments, these industries lie in the grey zone left to the discretion of the banks. Instead, if India could direct its fiscal resources to support these payments, it might be able to prevent massive drops in demand as implemented by Australia¹² and France¹³ this week.

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 chain¹⁴. This is the domino effect of an unanticipated demand drop which permeates into a general adverse effect on the overall economy.

These spillover effects on the formal economy will only be exacerbated by the disruption in flow of footloose labor which diminishes the possibility of a revival. The networks of migrant labor supplemented local workforce and plugged regional resource gaps to expand the productive capabilities of the region. Without them, this ostensibly demand problem might turn into a supply bottleneck too!

The exodus and the foreseeable restrictions on migrants not only worsen their own lives, it affects other parts of the economy which were thought to be shielded from such adverse outcomes. But this does not end here.

⁹ NPR cited Jean Dreze also makes this observation. Recent piece in [The Economist](#) "India and Pakistan try to keep a fifth of humanity at home" also make this point of subsistence work in India and Pakistan. So does this description of India's migrant workers by [Smarajit Jana](#) in the Scientific American on April 4.

¹⁰ Why rural India can't afford to buy biscuits, [August 23, 2019, Hindustan Times](#).

¹¹ A report from the [Observer Research Foundation](#) pegs GDP contribution to 50% and employment upto 90% for the unorganized sector of India. Economist pegs the employment number to 70%. Even a conservative estimate would imply a high enough number to leave a sizable proportion without income. How India plans to put 1.3 billion people on a coronavirus lockdown, Washington Post ([March 30](#))

¹² Government announces \$1,500 a fortnight wage subsidy to keep Australians in jobs during coronavirus shutdown, SBS News, [March 30](#).

¹³ The race to save jobs: European governments step in to pay wages, [France 24](#), March 25.

¹⁴ The worry of a clogged value chain has been reiterated by many including economist Jayati Ghosh in the earlier NPR story. She notes the class basis of the response when flights with NRI Indians were planned and the resident migrant ignored.

India comprises of high growth industrial or trade centers, dependent on this constant stream of migrant labor through these networks. The aggregate growth in GDP relied on these regions which spearhead production and generate momentum for the rest of the economy. The lockdown strips these centers of their capability and threatens India's overall macroeconomic stability.

Some pre-planning which included the local state machinery was necessary to avert this migration crisis instead of a top-down approach, and the government finally seems to realize this¹⁵. However, going forward, governments should better plan the reverse migration because market forces might work with a lag under uncertain economic environment due to the pandemic.

The real cost of the pandemic would then be measured by the extra effort required to oil the machinery and promote growth centers till the time they work on autopilot. The mismanagement of the lockdown now becomes a significant barrier and acceleration to maintain the 2.5 trillion-dollar economy needs planned policy. For the foreseeable future, we can forget about the 5 trillion-dollar dream!

Updated: April 15, 2020

¹⁵ Govt mulls a phased unwinding of the 21-day lockdown, general guidelines likely today, [Live Mint](#), April 03.