How India can deal with Black Swans

What is the issue?

As another black swan event engulfed the world with Russia and Ukraine at loggerheads, it is a clear call for economies like India to draw lessons from it.

Which aspects need to be focused more by India?

- **Utilising services sector-** India's global share in services sector in 2005 stood at 2% which increased to 4.1% in 2020.
- The share of the services sector in India's GDP increased from 45 % in 2001-02 to 54 % in 2020-21.
- The contribution of services exports in India's total exports has been surpassing that of merchandise goods.
- A sustained stability in net earnings from services trade has supported India's current account by partly offsetting the merchandise trade deficit.
- According to RBI, an optimistic service exports led by IT are likely to keep the current account deficit contained well below 2% of GDP during FY22.
- India has a huge headroom for growth such as remote onboarding of new employees, lectures from remote locations, tele-healthcare across geographies, a big jump in e-commerce, etc.
- Need
    - Increased access to mobile connectivity
    - Mutual recognition agreements on legal services with countries
- **Reduce dependency on crude**- India's dependency on crude has increased by more than 165 times between FY01 and FY21.
- With the ongoing crisis in Europe, the elevated oil prices will result in a domestic inflation and raw-material prices going up.
- Exploring unconventional energy will not only help the country save billions on imported fuel but also protect it from energy price jolts.
- Need
    - Encouraging investors to take interest in alternative fuels
    - Across the board availability of electricity and expansion of battery charging stations
- **Diversifying defence sources-** India accounts for 3.7% of the world military expenditure, making it the third highest military spender.
- Nearly 70% of military hardware of India is of Russian origin.
- Government has launched two Defence Industrial Corridors and hopes to attract investments of ₹20,000 crore by 2024.
- Need
    - India based production of defence equipment and sharing of technology know-how.
    - Leverage and incentivise defence companies to produce in India.
- **Financial infrastructure-** After the onset of the Russia-Ukraine crisis, the SWIFT sanctions against Russia have caused payments being stuck, including from India.
- The ongoing crisis in Europe has also shown the impact of suspension of popular global platforms like MasterCard, Visa and American Express.

- In 2012, the National Payments Corporation of India (NPCI) introduced RuPay as an Indian multinational financial services and payment service system which has still to compete with the global majors.
- Need
    - Consider building an alternative to SWIFT similar to the one developed by Russia and China
    - Work along with South Asian counterparts in promoting financial instruments for the common good

- **Strong domestic consumption-** Household consumption constitutes the largest part of aggregate demand.
- The level of consumption by every household is mainly dependent on their level of income.
- Latest data show that private consumption as a share of nominal GDP slipped further to 57.5 % in FY22 from 58.6 % in FY21.
- Need
    - Boost household consumption to facilitate the growth of the consumer market, which would have a multiplier effect on the economy.
    - Promote a strong self-reliant domestic market that would create jobs, leading to increase in income levels

Reference

1. https://www.thehindubusinessline.com/opinion/how-india-can-deal-with-black-swans/article65220026.ece

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