Pacific Business Review International
Volume 13 issue 6 December 2020

Covid 19: Impact on Major Sectors of Indian economy

Dr. Saveeta
Assistant Professor
P.G. Department of Economics
Khalsa College, Amritsar

Abstract

The outbreak of the Covid-19 pandemic and the resulting lockdown has chocked off almost all economic activity in India. Informal sector of India which is the backbone of the economy will be hardest hit due to economic activities coming to a total standstill. On the demand side, Tourism, Hospitality and Aviation are going to be worst affected sectors due to present crisis. Also, due to overall confidence level of consumers being dropped significantly, they are likely to postpone their purchasing decision related to non essential food items and consumer durables. On the supply side, shutdown of factories in China and the resulting delay in supply of goods from it has affected many Indian manufacturing sectors which source their intermediate and final product requirements from China. This is hampering business sentiment and is further likely to affect investment and production schedules of companies. This study reveals the potential impact of the shock on three important sectors of Indian economy i.e. Agriculture, Manufacturing and Travel and Tourism.

Keywords Covid-19, Indian Economy, Agriculture, Manufacturing, Travel and Tourism, Migrant workers

Introductiona

The covid-19 pandemic infecting more than 5.58 million people across the globe has overwhelmed the entire world and India is no exception to it. The only way to control and defeat this pandemic was to make people follow social distancing and they were to be restrained from moving out in order to avoid social contact. In order to effectively achieve this objective, India had been brought under lockdown since March 22, 2020. The lockdown may be helpful in limiting the health crisis but complete shutdown of economic activities is likely to result in massive job losses and misery for the poor, thus creating an economic crisis.

India is likely to experience a much more severe economic shock as firstly , the economy was already slowing down pre covid-19 adding to existing problems of low incomes, unemployment and widespread inequality and secondly, as there is a large informal and vulnerable sector in India, accounting for around 91 percent of total work force. The United Nations Conference on Trade and Development (UNCTAD) , has suggested that India's trade impact due to the COVID-19 outbreak could be around USD 348 million. For India, the overall trade impact is estimated to be at 129 million dollars for the chemicals sector, textiles and apparel at 64 million dollars, the automotive sector at 34 million dollars, electrical machinery at 12 million dollars, leather products at 13 million dollars, metals and metal products at 27 million dollars and wood products and furniture at 15 million dollars. The present study is an attempt to analyse the effect of Covid-19 and the resultant lockdown on three different and important sectors of Indian economy . The data for this purpose are taken from secondary sources including different reports published by Government of India and private agencies.

Impact on agriculture sector

The impact on agriculture sector is complex and varied across diverse segments that form the agricultural value chain. Presently, the problems in agriculture are mainly related to (a) inability to access markets for produce due to issues in transportation as well operation of markets and (b) labour availability . The lockdown made it difficult for the farmers to take their products for sale in the market. Prices have declined for the vegetables due to the closure of hotels and restaurants. Milk sales are also depressed due to the same reason.

Moreover, lockdown came into force at a time when crops like wheat, mustard, lentils and grams were almost reaching maturity and were approaching towards harvestable stage. At this point of time, the migration of workers from few parts to their native places triggered a panic button. An estimated 50 million migrant labourers are expected to have returned to their native places from cities following the nationwide lockdown. These workers are critical for both harvesting operations and post harvesting handling of produce in storage and marketing centers. Non availability of migrant labour will further interrupt sowing activities particularly in Northern India where paddy is being sown in the months of June-July. Therefore, commercial crops will be hit drastically as they tend to be more dependent on migrant workers. Moreover, shortage of migrant workers is likely to result in a sharp increase in daily wages for harvesting and sowing operations, making the farming unremunerative for producers.

The rising labour costs and lack of access to markets will result in huge financial losses to the farmers. Another important problem arising from this scenario which the Indian farmers are likely to face is the problem of repaying the crop loans. However, an important observation is that the reverse migration can provide an opportunity for hinterland administration to engage these unemployed labourers in gainful employment. But , for this purpose, government should bring in a road-map of how they are going to employ such a large number of migrants who have returned to their hometowns. A database of all the returning migrants should be made and jobs should be provided to them on that basis.

Impact on Manufacturing Sector

The ongoing lockdown has put a lot of strain on the manufacturing industry, which contributes almost 20 percent of the GDP. The Indian manufacturing sector is over dependent on China for finished goods and raw material. India imported about US$90 billion worth of good from China in 2018 alone, according to World Bank data. Hence the slowdown of Chinese manufacturing sector (loss of production in China was estimated at 85-90 percent in February 2020 and 40-60 percent in March 2020) is expected to adversely affect the Indian manufacturing sector in the FY2020-2021. Moreover, as India is heavily dependent on China for import of finished goods and raw material essential for production, therefore, the production loss in China would affect over 70 million traders in India. Here are some of the sub sectors that are going to be most affected in current scenario-

Auto Industry Of the total share of manufacturing sector in GDP of India, 50 percent is contributed by the auto industry. However, the auto industry was not in a great shape, even prior to the lockdown, with sales down by more than 15 percent and production cuts of the order of 5 to 10 percent or more and it is further likely to witness massive revenue loss due to disruption in supply chain globally. In case of passenger cars alone, the production is likely to have reduced by 240,000 units i.e. 10 percent of total annual production. Each day of loss of production has caused the industry a loss of over INR 2,300 crores in revenue over a period of 21 days. Further, it is also expected that even after lifting of lockdown, 35 to 40 percent of consumers may defer their vehicle purchase decisions for the next six months due to financial compulsions and low sentiment. Hence, annual sales of light motor vehicles and motorcycles are estimated to fall by approximately 4.2 million units in 2020.

Textiles: India imports US$ 460 million worth of synthetic yarn and US$ 360 million worth of synthetic fabric from China annually. The country also imports over US$ 140 million worth of accessories like buttons, zippers, hangers and needles. India also exports 20-25 million kg of cotton yarn a month to China. There has been a drop in cotton yarn prices in the domestic market due to a decline in demand from China due to Chinese factories being shutdown in the wake of COVID-19. Also, textiles exports have also been negatively impacted due to the spread of Covid19 in Europe, UK and the US, which are the main markets for Indian garments. Inventories have piled up as many foreign buyers have put their purchases on hold. Also, many of them are deferring their payments for shipments sent before the lockdown. If the condition continues to remain same, exporters may have to cut production which will impact jobs as well.

It's true that the government has extended the rebate on state and centre taxes from 1st April to boost the liquidity and competitiveness of these players but this will not help many buyers who are going bankrupt due to the lockdown and closure of stores , resulting in a fall in exports.The closure of retail stores and malls on account of lockdown situation across the nation will affect the industry's sales domestically also. Even after the lockdown is lifted, demand for textiles will take time to pick up. This is because footfalls will be low in malls and retail stores as people will avoid visiting crowded markets . Thus, the textile industry scenario will depend on how the situation evolves in the domestic and international markets and a faster return to normalcy will enable the industry to curtail the damages and improve on its growth prospects.

Pharmaceuticals : The Indian pharma industry has been a world leader in generics both globally and in domestic markets contributing significantly to the global demand for generics in terms of volume. However, India's large import dependence on China (nearly 70 percent by value) has become a significant threat to India's healthcare manufacturing and global supply chain. Any disruption in supply chain can result in significant shortages in the supply of essential drugs in India. As a result of the lockdowns and closures, slowed production of APIs (Active Pharmaceutical Ingredients) resulted in less availability and higher costs for the materials required for generics production. As per the current data, cost of paracetamol has gone up from Rs 250-300 kg to 400-450 kg. Similarly, the prices of vitamins and penicillin have also increased tremendously. Another major issue faced by this industry is the Inter-state transport challenges. There is a lot of medicine stock that is transported from Goa, Baddi and Sikkim. Due to the lockdown, it has become difficult to reach this stock to the retailers. The distributers are also facing transportation issues for supplying medicines in other states. Though, the government eased rules as part of its latest set of efforts to supply goods and services during the coronavirus -induced lockdown and has undertaken vital step by fixing the price of sanitizer and surgical masks yet their availability for the masses is a big challenge in India.

FMCG: According to a report by the market research firm Nielsen , the FMCG sector is likely to grow by 6.3 percent for the year 2020 as against its earlier prediction of 9-10 per cent due to the lockdown in India. Nielsen also expects consumers to be bearish on discretionary spending such as movies and restaurant visits, luxury brands and leisure travel, and defer spending on fashion, personal grooming and home decor even in the coming months. Rather, the focus will be more on health and hygiene products, healthy organic food, medical needs, fitness, mediclaim, education and financial investments. Thus, production of certain categories of goods including the non essentials will be a major challenge as their demand is unlikely to pick up immediately . According to experts, the non –essential food retailers are likely to face 80 to 100 percent reduction in sales due to lockdown .

FMCD: Due to lockdown, sales of electronics, appliances, and mobile phones have remained suspended with shops closed across the country. The online retailers such as Amazon and Flipkart also temporarily stopped selling such products as they fulfil essential grocery orders. Moreover, most top manufacturers of electronics goods have suspended plant operations following the lockdown. The covid-19 impact will be felt on sales of appliances from March through May, which account for 30 to 35 percent of total sales. Therefore, consumer durables companies fear that they will be losing out on peak summer sales due to ongoing lockdown. Moreover, as India imports 45 percent completely built units of consumer durables and nearly 70 percent of the components for television, and other consumer durable products such as air conditioners, refrigerators, and washing machines from China, the sales of these items are likely to be hampered due to supply disruptions. Also, Chinese suppliers have reportedly increased the prices of some components by more than 2 percent, and prices of TV panels by more than 15percent , so it is anticipated that prices of these consumer durable items will see a price increase in the range of 3to 5 percent.

Impact on Travel and Tourism

The travel and tourism industry in India has come to a standstill as the crisis has hit its nerve centres i.e. the airlines and railways. The Centre for Asia Pacific Aviation India (CAPA India) in a report had said that the Indian aviation industry, excluding Air India, would incur losses of $500-600 million in Q4 of FY20 because of the pandemic. According to the Ministry of Tourism's annual report for 2019-20, this sector accounts for 12.75 percent of employment (5.56 percent of it direct and 7.19 percent indirect). During April-June, the Indian tourism industry is expected to book a revenue loss of Rs 69,400 crore , denoting a year-on-year (y-o-y) loss of 30 per cent due to various travel restrictions imposed by the Indian government as well as governments across the globe. The forward bookings for various conferences and leisure travel bookings to foreign destinations have already been cancelled along with the cancellation of most of the summer holiday bookings thereby impacting domestic tourism also. India's total foreign tourist arrivals (FTA) stood at 10.9 million and the foreign exchange earnings (FEE) stood at Rs 210,971 crore during 2019 but presently, with travel restrictions in India due to the lockdown, the Indian domestic as well as foreign travel and tourism industry is expected to witness a sharp negative impact in 2020.

Suggestions and Conclusion

COVID-19 is an unprecedented challenge for India and it may wreck the Indian economy as the lockdowns and restrictions on commercial activities are necessarily going to strongly impact domestic growth. As far as agriculture sector is concerned, relaxation of the norms by Agricultural Produce Market Committees allowing farmers to sell their produce beyond the designated mandis will certainly ease the burdens of farmers. State Governments must gear up their machineries for smooth procurement operations of farmers' marketable surpluses at MSP (minimum support price) or through other price support schemes. Regarding manufacturing sector, it is high time for an important lesson to be learnt by India not to depend on a single source for raw material supplies, and shift towards localization and variable-cost models. The present crisis may also provide some great opportunities for India as there are reports of several Western manufacturers looking at moving their factories out of China. Many Indian producers have received enquiries from Western manufacturers who earlier never used to look towards India as a source. Tapping these opportunities, however, will be quite challenging for Indian producers to address the issues of supply disruptions, labour shortage and liquidity crunch amid the present scenario.

References

Gupta, Achal (2020, May 19) , India: Coronavirus

(COVID-19)and Indian Economy, www.mondaq.com

https://economictimes.indiatimes.com/industry/cons-products/garments-/-textiles/indian-textile-andapparel-industry-to-be-affected-due-to-coronavirus-attack-in-china-cmai/articleshow

https://economictimes.indiatimes.com/markets/stocks/news/coronavirus-impact-on-indias- pharma-sector

https://m.economictimes.com

https://m.economictimes.indiatimes.com

https://rbidocs.rbi.org.in/rdocs/PressRelease

https://rbidocs.rbi.org.in/rdocs/Publications/PDF

https://www.businesstoday.in

https://www.jagranjosh.com

Mishra , Prachi(2020, April 9) ,https://economictimes.indiatimes.com/markets

Singh, Amarinder (2020, April 21) , Impact of Lockdown on FMCG industry: Disruption in Supply Chain and Labour Force, www.indiaretailing.com

Suri , Ishwinder Singh(2020, April 30), Impact of COVID-19 on Indian Economy and Road Ahead for Corporate Sector , http://bwdisrupt.businessworld.in

www.business-standard.com

www.business-standard.com (2020, April 1), Lockdown: Disruption in production, supply lines to hit consumer business

www.ficci.in

www.financialexpress.com

www.indiatoday.in

www.manufacturingtodayindia.com