



Journal Homepage: -www.journalijar.com

INTERNATIONAL JOURNAL OF ADVANCED RESEARCH (IJAR)

Article DOI:10.21474/IJAR01/10979
DOI URL: <http://dx.doi.org/10.21474/IJAR01/10979>



RESEARCH ARTICLE

POTENTIAL IMPACT OF NOVEL COVID-19 ON INDIAN ECONOMY

Mr. Pranjul Srivastava

PGDM Healthcare Management Student, Goa Institute of Management.

Manuscript Info

Manuscript History

Received: 26 May 2020
Final Accepted: 31 May 2020
Published: May 2020

Key words:-

COVID-19 Impact, Economy,
Pandemic, Lockdown, GDP

Abstract

The outbreak of COVID-19 in China in December 2019 has brought the whole world on its knees and has adversely affected the global economy. This is a secondary research/review work wherein aim is to study the potential impact of the outbreak of novel COVID-19 on Indian economy. In dept analysis of the impact has been conducted for four sectors, which are, Aviation & Tourism sector, Education & skilling sector, Food & Agriculture sector, and Pharma & Medical device sector. The methodology adopted includes in-depth review and analysis of various published journals, book chapters, newspaper reports, articles, and World wide web(WWW) search. The study concludes that the economic impact of COVID-19 is long term and adverse. There is need to introduce various policy reforms and implement them at grassroot level to mitigate the adverse economic effect of COVID-19.

Copy Right, IJAR, 2020, All rights reserved.

Introduction:-

COVID-19 is a new infectious disease caused by Corona virus. It is said to be originated in China when the first person tested positive for it on 17 November 2019. Chinese authorities alerted WHO of these cases with an unknown cause on December 31, 2019. WHO characterised COVID-19 as pandemic on March 11, 2020.

Novel COVID-19 pandemic is inflicting two kinds of shock on countries: a health shock and an economic shock. The ways to contain the spread of this contagious disease adopted by countries around the world including India has steps such as social distancing, Nationwide lockdown, closure of institutions, offices, restricted movements and self-isolation at home. These steps could lead to dire consequences for economies, in other words we can say, effective containment of disease requires economy to stop functioning normally. The Chief of International Monetary Fund, Kristalina Georgieva, said that the year 2020 could witness worst global economic fallout since Great Depression in 1930s, with more than 170 countries likely to witness negative per capita GDP growth. Many experts are already calling this pandemic as Black swan event for the global economy.

On January 30, 2020, India recorded its first case of the novel COVID-19 disease. Since then, the number has been increasing at steady pace. Therefore, in order to curb the spread of virus, the Government of India has announced a nationwide lockdown starting March 25, 2020, which was initially till April 14, 2020 and then extended further by subsequent lockdown until May 31, 2020 in order to break the chain of spread of virus. It is also not certain when the lockdown would be lifted for the country, what might happen if it is relaxed in a phased manner, and how long it will take for normalcy to restore. Public health system of India is relatively weak as Government of India spends only about 1.5% of its total GDP on public health, therefore, as a result of which, country is grossly underprepared

to deal with such pandemic. Lockdown will only postpone the problem if the period is not utilised properly to speed up testing, contact tracing, isolating patients, setting up of makeshift hospitals. An effective collaboration between public and private enterprise is the need of an hour for effective utilisation of pooled resources and skills.

These unprecedented lockdown across the Nation is expected to adversely affect the economic health of the country as millions of jobs and livelihood are at stake. More than 50 million of migrant workers are left with no job and are therefore forced to return to their native place or stay at camps where they were employed as state borders were sealed and transport suspended. Transport of raw materials as well as finished goods are severely constrained. Closure of International border has brought International trade and commerce to abrupt halt. These steps are severely affecting supply mechanism and distribution channel of almost every sector. Also, a complete collapse of consumption demand has been seen as millions stayed home and avoid or postpone their non-essential and luxury expenditures.

The magnitude of these impact depends on severity and duration of health crisis, nationwide lockdown, duration it takes for economy to be back to its normalcy and also on situation prevailing post lockdown is lifted. It is predicted by economist that if the Nationwide lockdown in India continues beyond the month of April 2020, then the damage to economy and livelihood could be catastrophic.

This pandemic and thereby economic crisis came at a time when GDP growth of India was already deaccelerating and unemployment was on rise owing to several past years of poor economic performance. Thus, effect of this pandemic is expected to give more economic shock to India. Earlier, the Indian economy was seeing only demand slowdown, but now both supply and demand has been hit hard. Four major channels through which impact is expected to get transmitted to output growth includes external supply and demand constraints, global supply disruption, domestic supply disruption and reduction in domestic demand. Economic shock is expected to have an impact on both formal and informal sector.

It may take a long time for economy to recover from the shock that COVID-19 had brought in to the country. Recovery majorly depends upon how effectively we handle this pandemic, policy response of the Government and Reserve Bank of India (RBI) during and post crisis. Policymakers have already started initial round of actions, much more need to be done to minimize the effect of COVID-19 on Indian economy.

Therefore, the current study becomes very relevant in time we are in, as it is aimed to study impact of COVID-19 on Indian economy. It also targets to study sector wise economic impact of the pandemic, limited up to four sectors for the purpose of the study. Four sectors included in study are: Aviation and tourism, education and skilling, Food and agriculture, and Pharmaceuticals & Medical device. This study gives an insight on how pandemic can adversely affect economy of the county and it stresses on the importance of public health, allocation of more share of GDP to the health sector so that we as Nation are better prepared to handle any such pandemic in future.

Literature Review:-

Andrew Atkeson (2020): The study aimed to introduce simple SIR (Susceptible, Infected, Recovered) model to economist regarding the progression of COVID-19 in the US over the next 12-18 months. It is a Markov model that allows for quantitative statements on trade-off between social timing and suppression of disease through social distancing and progression of disease in population. The main conclusion for economist from this study was that it requires severe social distancing for a year or 18 months to avoid severe public health consequences. Therefore, it appears that there is significant trade-off to happen between the choice of economic cost of whether we should impose social distancing measure for entire 12-18 months or economic cost of large cumulative disease burden of lost work time and life due to disease, and it is hard to determine. In model simulation peak infection rate occurs between 7-14 months from then, therefore it is imperative to try to find how healthcare, economic, and financial institutions would function in period of such concentrated disease burden. Author expected that this study and model would help in further economic evaluation.

Richard Baldwin., et al. (2020): The objective of this study was to examine the trade impact of COVID-19 and look beyond it. Study founds COVID-19 to be both a supply as well as a demand shock which will impact international trade in goods and services. Key take away was that the virus is likely to be as contagious economically as it is medically. The study concludes that there is a danger of permanent damage to trade system driven by firm's reactions and policy. The study cautioned not to misinterpret pandemic as justification for anti-globalism. The study

also points the important difference between trade collapse in 2008-09 global recession and which is likely to happen on wake of COVID-19 is that 2008-09 recession had impacted mostly demand side, but not much of impact was seen on supply side. However, COVID-19 is likely to adversely impact the both sides- the demand as well as the supply side.

Scott R. Baker., et al. (2020): The study has used text-based research by automatic and manual/human reading of newspaper to quantify the role of COVID-19 on US stock market volatility. The study finds that no previous pandemic, including Spanish flu, has impacted stock market as strongly as current COVID-19 pandemic. As per study COVID-19 is said to strongly impact stock market due to three prime reasons: (a) By very nature and severity of this pandemic, apparent ease with which it spreads, it has great grave implications for public health and economy. (b) Information about pandemic is richer and diffuses more rapidly compared to earlier pandemics. (c) inter connectedness of modern economy.

Shlomo Maital., et al. (2020): This study surveyed and summarises recent reports on impact of COVID-19 on global economy. The study asserted that major impact of novel COVID-19 outbreak would be on supply side of the market, but the remedies being considered currently is largely focusing on the demand side. It also concludes that under reasonable ongoing scenarios, a global recession is much likely to occur.

A. Abiad., et al. (2020): The study was conducted to examine the effect of COVID-19 outbreak on developing Asia. The study finds that given the highly unpredictable nature of the outbreak, it has predicted global impact between \$77 billion to \$347 billion or 0.1 to 0.4% of global GDP, with moderate case estimate of 0.2% of global GDP or \$156 billion. Two third of expected impact is likely to fall on China, where outbreak was concentrated earlier.

S. Mahendra Dev., et al. (2020): The objective of this research was to find the impact of COVID-19 outbreak on Indian economy. The study has analysed Indian economy situation across sectors before the outbreak and after the outbreak. It has mentioned that measures like nationwide lockdown, restriction on international trade & commerce, closure of non-essential services, restricted movement, all these will lead to adversely affect the economic health of the Nation. Further, the study has mentioned that the magnitude of economic impact will depend upon the severity and duration of health crisis, duration of lockdown, how effectively lockdown is handled and also on manner in which situation unfolds once the lockdown is lifted.

Research Methodology:-

The study is secondary/review work in nature with aim to analyse the effect of COVID-19 outbreak on Indian economy.

Method of Data collection:

The outcome of the study is based on secondary data/literature review of various websites, journals, articles, book chapters and newspapers.

Findings & Discussions:-

The global economy was facing turbulence even before the onset of COVID-19 and many economists has predicted that the that FY20 & FY21 could bring in recession similar to one occurred in the year 2008-09. And, now with the spread of global pandemic, economy is set to hit low of several years or decades aggravated by the demand, supply and liquidity shocks that COVID-19 has inflicted. Shape and speed of the recovery of US and China market would be the factors determining global economy recovery.

However, India and China are expected to be least exposed to the recession brought about by COVID-19 as predicted in the report titled 'The COVID-19 shock in Developing countries' by UNCTAD.

India's real GDP has already been lowest in 3Q 2019-20 over the past six years. Steps like Nationwide lockdown has brought the economic activity to standstill impacting both the consumption and the investment side. Three Major contributors of GDP- private consumption, investment and external trade- will get affected.

Three scenarios are used to explain impact of COVID19 on Indian economy:

Scenario 1:

Quick retraction across globe including India, by April end to mid-may: India's growth for 2020-21 may be in range of 5.3-5.7%.

Scenario 2:

While India is able to control COVID-19 spread, there is significant global recession: Expected growth range is between 4-4.5%.

Scenario 3:

COVID-19 increases exponentially within India and lockdown extended; Global recession: Growth may fall below 3% under this scenario.

Demand side impact:

Maximum brunt of the present crisis is faced by Tourism, aviation and hospitality sector, these are amongst the worst affected sector. Declining footfalls in malls, closure of cinema theatres has impacted the retail sector as well by affecting the consumption of both essential and discretionary items. Consumption and thereby demand is getting impacted due to job losses, declining income particularly of those in informal sector and daily wage earners. Overall confidence level of consumer has gone down severely with increasing pandemic cases across the Nation. Travel restrictions has adversely impacted transport sector, hotels are witnessing large cancellations be it for leisure travel or a planned business trip. Abrupt stop of urban activity had led to steep fall in consumption of non-essential goods.

Supply side impact:

With shutdown of factories and delay in raw material supply, Indian manufacturing sector has been severely affected by Lockdown, particularly those that depends on supply of goods from China, as among COVID-19 affected countries, China is the largest import source for India. It is hampering business sentiment, affecting production schedule and investments. Besides negatively impacting import of raw materials, it is also affecting India's export to other countries.

Impact on Financial market:

Financial market has become extremely volatile, huge crashes and wealth erosion are on the way which in turn are also impacting the consumption level. Both BSE Sensex and NSE Nifty are falling and witnessing major slides day by day as investors resorted to relentless selling amid rising positive cases of COVID-19.

Impact on International Trade:

For many of the Indian products like petrochemicals, sea foods, gems etc. China has been a major market for India, and therefore exports of these goods had been severely impacted with the outbreak of COVID-19. Example, Fisheries sector has anticipated loss of more than Rs.1300 crore due to the fall of exports. Also, due to export restrictions to China, petrochemical products are expected to see price reduction. As per UNCTAD, trade impact due to COVID19 outbreak, can be around US\$348 million for India. India ranked among top15 countries that is affected by manufacturing slowdown in China due to the outbreak of COVID-19. Also, as per estimation by UNCTAD, exports across global chain value could decrease by US\$50 billion, in case there is 2% reduction in China's export of intermediate inputs.

Cancellation of four major trade events between Feb and April 2020 is likely to cause an estimated loss of around Rs 8000-10000 crore in terms of business opportunity in Jaipur alone. For India, the overall trade impact is estimated to be the most for the chemicals sector at 129 million dollars, textiles and apparel at 64 million dollars, 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.

Sectoral impact:

Aviation & Tourism:

This industry has been severely affected by the lockdown on account of the outbreak of COVID-19. Experts believed that crisis is even greater than the one happened due to 9/11 and during 2008-09 global recession. It is estimated by World Trade and Tourism Council (WTCC), that outbreak can cost tourism sector at least USD 22 billion, travel sector is expected to shrink up to by 25%, may result in loss of approximately 50 million jobs. The global revenue

loss in 2020 for passenger business is estimated between USD63 million (11%) and USD114 billion (19%), as reported by International Air Transport Association. Around 38 million, which is around 70% of total workforce is the potential job loss, which Indian tourism and hospitality sector, is expecting on account of COVID-19 outbreak.

Education & Skilling:

Lockdown due to COVID-19 would reduce the available skilled manpower by 10-15%, which in turn coupled by sluggish human Resource demand would increase unemployment rate in the country. Online and ed-tech players may see an increased adoption rate by students and institutions respectively to ring the fence against similar calamities in future. Closure of skilling institutes is likely to create temporary unemployment for trainers and may adversely affect quality of education in the long term. Private training partners may become insolvent and may not be able to repay the loans, if any, which in turn would create working capital management issue in future.

COVID-19 is also expected to impact admission to higher education in coming academic year. Also, Higher education institutes are not fully geared to implement online learning, and COVID-19 is therefore impacting academic schedule more adversely. Placements and internship of students are also been affected with companies delaying the onboarding dates and in worst cases rescinding offers. Outbreak is also expected to have far greater impact in terms of decreasing mobility of students, difficulty in recruiting faculty etc.

Food & Agriculture:

As primary agriculture is the backbone of the economy and part of government announced essential category, the impact of COVID-19 is likely to remain low, however it is not eliminated completely, given that migratory labour movement for harvesting crops in Rabi season should be allowed. However, as per press release by Agriculture Ministry, mandi operation and crop procurement are yet to be streamlined which in turn could result in low sowing and impact the yield of agriculture inputs in coming season.

Food based industries are allowed to function normally but are facing operational issues due to lack of skilled/semi-skilled manpower and restriction on movements. Last mile delivery and online food grocery are impacted as well. Indian food-based export companies are impacted adversely due to low consumer demand and import hurdles.

Pharmaceutical & Medical Devices:

As reliance is high on import from China, Generic drug are most impacted due to raw material supply disruption. Pharmaceutical manufacturing production volume has been bottle necked in spite of exemption from lockdown, but due to non-availability of labour, raw material, restriction on movements and physical distancing. Supply and distribution of essential medicines, PPE and sanitisers are also impacted. There is high export demand of certain products like hydroxychloroquine. E-pharmacy business is also impacted due to staff not tuning up and non-availability of passes.

India imports large number of raw materials and medical device equipment's including gloves, orthopaedic implants, syringes etc. from worldwide and especially from China. Due to ongoing global pandemic, large number of medical device manufacturers are facing shortage of raw materials and critical electronic parts. It is adversely affecting the margins and profit of companies involved in this sector. In short term, it can also put upward pressure on prices of medical devices.

Conclusion and Recommendations:-

The paper concludes the unprecedented economic impact of COVID-19 in India across various sectors discussed in the paper. The large size of Indian population, with 65-70% of GDP coming from informal sector, and already sluggish growth of Indian GDP before COVID-19 era has further worsen the situation for developing country like India. Policy makers and government should come with robust economic measures to save the Indian economy.

For Aviation and tourism sector, some of the reforms which government can come and continue for few years as suggested by economist across Nation includes financial aid to reduce overflight fee, airport charges, expanding ambit of GST to cover ATF, directing oil making companies to provide unsecured interest free credit terms to aviation sector. For hospitality and tourism sector, government can consider waiving off upcoming renewal and permit license fee, defer all statutory due payment for at least next twelve months.

In education and skilling sector, government need to collaborate with private EdTech and colleges to ramp up digitalisation. By introducing policies and reforms, government need to ensure that large pool of teachers on contract role do not loose their jobs amid pandemic. Given the uncertainties of next academic calendar, government should ensure continuity in operation such as admissions, assessment by creating a detailed contingency plan, fiscal support should also be provided to low fee private schools.

Central and various state government should proactively take steps to ensure that food and agriculture sector do not get adversely impacted by COVID-19 outbreak. Classification of essential food items with no hurdle supply chain mechanism should be done for food industries and food retail to help consumers. Steps must be taken to regulate the entry and exit of people in agriculture mandis. Steps must be taken to ensure liquidity in trading system of rural areas particularly. Various reforms at national, state and district level must be introduced and implemented properly in food and agricultural sector.

For pharma and med device sector, government should introduce tax and compliance related reforms such as single window clearance for faster approval, quick reimbursement of GST, promoting digital payment mechanism, ensuring availability of essential medicines, strengthen local FDA, create pharmaceutical critical reserve inventory for both formulations and API, Indian ports may consider opening a green channel for emergency medical supplies.

Thus, in conclusion, it can be said that Government has recognised the challenges coming up as a result of COVID-19 outbreak, and is taking steps to minimise damage to economy. This is just a beginning, policy makers must be prepared to be agile and response faster, scale up reforms, implement them at ground level as the event unfolds to minimise damage and paved way for V-shaped recovery.

Overall, the paper also establishes that the impact of COVID-19 may remain to continue for remainder of theyear 2020 and thereafter changing the way business works and people live forever.

References:-

1. Atkeson, A. (2020). What will be the economic impact of COVID-19 in the US? Rough estimates of disease scenarios (No. w26867). National Bureau of Economic Research.
2. Abiad, A., Arao, R. M., &Dagli, S. (2020). The Economic Impact of the COVID-19 Outbreak on Developing Asia.
3. Baldwin, R., &Tomiura, E. (2020). Thinking ahead about the trade impact of COVID-19. *Economics in the Time of COVID-19*, 59
4. Baker, S., Bloom, N., Davis, S. J., Kost, K., Sammon, M., &Viratyosin, T. (2020). The unprecedented stock market reaction to COVID-19. *Covid Economics: Vetted and Real-Time Papers*, 1(3).
5. Dev, S. M., & Sengupta, R. (2020). Covid-19: Impact on the Indian economy (No. 2020-013). Indira Gandhi Institute of Development Research, Mumbai, India.
6. Evelina, J., Samuel, N., & Lukas Homateni, J. (2020). Estimating the Economic Impact of COVID-19: A Case Study of Namibia.
7. Maital, S., & BARZANI, E. (2020). The Global Economic Impact of COVID-19: A Summary of Research. Samuel Neaman Institute for National Policy Research.
8. McKibbin, W., & Fernando, R. (2020). The economic impact of COVID-19. *Economics in the Time of COVID-19*, 45.
9. Information retrieved from <http://www.ficci.in/publication.asp?spid=23195>
10. Information retrieved from <https://www2.deloitte.com/us/en/insights/economy/covid-19/economic-impact-covid-19.html>
11. Information retrieved from <https://home.kpmg/in/en/home/insights/2020/03/the-business-implications-of-coronavirus.html>
12. Source:<https://www.pharmaceutical-technology.com/features/coronavirus-affected-countries-india-measuresimpact-pharma-economy/>.