

IMPACT OF COVID- 19 ON INDIAN ECONOMY

Dr. Dharendra Ojha*

ABSTRACT

Corona virus or COVID -19 was first reported in Wuhan, China on 31st December, 2019 and it is a family of large viruses that cause illness and death. In India first case of Covid-19 was reported on 30 January 2020 in Kerala and at present it is impacting Indian economy on a large scale. Almost all the sectors of Indian economy are closed due to the widespread of Covid-19 because there is condition of Lockdown in India due to which all the production activity in the country is discontinued. India is one of the few most affected economies in the world due to the spread of corona virus or covid-19 epidemic. The slow production in China will also affect Indian economy. In India the trade impact of Covid-19 is estimated around 348 million dollars and India is one of the 15 most affected economies in the world. According to UN report, the slowdown of manufacturing in China is affecting on a large scale to Indian economy. According to the report published by UNCTAD the slowdown of manufacturing in China due to the outbreak of Covid-19 is disrupting world trade and as a result of this could cause 50 billion dollar decrease in exports across global value chains. But the trade impact on India is less when compared with other economies of European Union.

Keywords: Corona Virus, Economy, Manufacturing, UNCTAD, Lockdown, Covid-19, ADB, ADO.

Introduction

Up to a large extent , Covid-19 will affect the Indian economy. In imports, the dependence of India on China is very huge. Of the top 20 products that India imports from the world, China accounts for a significant share in most of them. It can be shown in the form of a table:

Fig.: 1

Share of China in total imports of India	Percentage
Organic Chemicals	37
Inorganic Chemicals	13
Medicinal and Pharma Products	36
Dyes	28

Source: <https://commerce.gov.in>

According to outlook of Asian Development Bank for financial year 2020-21 it was said that India's economic growth is likely to slow down to 4 percent this fiscal on the back of the current global health emergency. In its outlook of ADO(Asian Development Outlook) it was said that Gross Domestic Product(GDP) growth in India is forecast to slow further to 4% in FY 21 before strengthening to 6.2% in the next fiscal year.

Contribution of China in total import of India is 45%. Out of one third of machinery and almost two fifth of organic chemicals that India purchases from the world comes from China. Contribution of China in automotive parts and fertilizers is more than 25%. Around 65 to 70% of Pharmaceutical ingredients and around 90% of mobile phones and their spare parts come from China to India. When we see the list of export partner's we find that China is India's third largest partner and accounts for around 5% share. We should also keep in mind that most of the Indian companies are located in the eastern part of China. These companies work in various sectors like Industrial manufacturing, IT and BPO, Airlines and Tourism etc.

* Associate Professor (Commerce), AKS University, Satna, M.P., India.

Thus we can see that many sectors in India have been impacted by the outbreak of corona virus in China which is now spread in almost all the countries of the world. It is also spreading in India at a very rapid speed. Some sectors affected by Covid-19 are Shipping, Pharmaceuticals, Electronics, Textiles etc. According to CLSA report, sectors like Chemicals, Pharma etc. may face issues of supply chain and their prices can go up to 10 percent. As per this report India could also be a beneficiary because it appears to be the least impacted market.

Impact of Corona virus on Indian Economy can be studied under following heads:

- **Impact on Chemical Industry:** Due to shut down of some chemical plants in China there is a restriction on shipments / logistics due to which there is an impact of 20% upon the production because of non availability of raw materials. Due to this reason business of the people in India is also getting affected and so people started securing their supplies. But we can look it as an opportunity also. Because due to the diversification of market by US and EU some of the business can be diverted to India which can be as an advantage to India.
- **Impact on Shipping Industry:** The outbreak of corona virus also had impacted the business of cargo movement service providers. There have been complaints of shipment delays between India and China. There has been a sharp drop in the dry bulk cargo movement because due to shutdown in China ships cannot enter Chinese ports.
- **Impact on Pharmaceutical Industry:** As the time is passing by pharmaceutical industries of India which are dependent for raw materials upon China are waiting and watching about the recent developments in China. Although manufacturing and transport of raw materials related to medicines is started but still now it seems far from business as usual. Most of the Active Pharmaceutical Ingredient (API) who are active manufacturers in China are not working at their full capacity, but they are working only partially, and shipments are coming. Our own supply chain is not working in its full capacity.
- **Impact on Auto Industry:** Indian auto manufacturers and Indian auto component industry are affected due to prohibition in import of various components from China. Although current levels of inventory are sufficient in India but if the problem continues, it is expected to have 8-10% of contraction in Indian auto manufacturing in 2020. Dominance of China in the battery supply chain is very much as it accounts for three -quarters of battery manufacturing capacity.
- **Impact on Chemical Industry:** In India local dye units are dependent upon large scale on imports of several raw materials, including chemicals and intermediates, from China. Due to delay in shipment of raw materials and due to increase in prices of raw materials there is an adverse effect upon the dyes industry, especially in Gujarat. Almost 20% of the production is impacted due to improper supply of raw materials.
- **Impact upon Electronics industry:** In the electronics industry China is the major supplier of raw materials as well as the finished product. Supply is affected in Indian electronics industry and production is also reduced. There is also an impact upon the prices of product due to heavy dependence on electronics component supply directly and indirectly and also there is an impact upon local manufacturing. Sales of top electronic companies and smart phones are also decreased due to the spread of corona virus.
- **Impact on Solar Power:** In India solar power project developers continue to import solar modules from China. Nearly 60% of a solar project total cost is of the modules. Nearly about 80% of solar cells and modules used by Indian Solar Components Market are supplied by Chinese vendors. But due to the spread of corona virus which resulted in delay in production, delay in transport etc. Chinese vendors are unable to supply solar cells and modules and as a result Indian developers have started facing a shortfall of raw materials needed in solar panels and cells.
- **Impact on Tourism and Aviation:** Corona virus had also impacted the aviation sector in Indian industry. Domestic carriers are forced to cancel and temporarily suspend flights from India to abroad. Due to lockdown and spread of corona virus Indian tourism and aviation sector is affected adversely.
- **Impact of Corona Virus upon Stock Market:** Corona virus or COVID -19 had also impacted stock market in India. The market fall had been a financial Tsunami that has washed away faith and stability in spite of few liquidity injection measures announced by Central Bank and Government in India. Investors can have some good feeling or comfort that other markets have fallen more in comparison to Indian Stock Market. The crude oil war between Saudi Arabia and

Russia, had made the condition even more worse. Earlier, only the equity and debts market were impacted by the Covid-19 scare but now the commodities and currency market are also affected by the crude oil war.

- **Impact on Banking Sector:** Rating agency Fitch said that corona virus related worries are likely to extend difficulties for Indian Banks. The agency said that Indian Banking system is undercapitalized and continues to be saddled with bad loans, despite some successes. From a banking perspective, travel, which forms 2.2% of all loans and small business lending that accounts for 5.4% will be the hardest hit along with sectors such as auto that depends upon inputs from China.

Conclusion

Due to the lockdown in India majority of factories and businesses are shut down, flights are suspended and movement of vehicles and people are restricted. Due to this reason the Indian economy have to suffer loss of Rs.7-8 lakh crore approx. during the 21 day lockdown period. Such an opinion was expressed by analysts and Industry bodies. As per Acuite Ratings and Research Ltd. it was estimated that the lockdown will cost the Indian economy almost USD 4.64 billion (over Rs 35,000 crore) everyday and the entire 21 day lockdown will result in a GDP loss of almost 98 billion(about Rs 7.5 lakh crore). The lockdown in India will also have an impact on the economy mainly on consumption which is the biggest component of GDP. Consumption of non-essential goods will also fall due to reduction in the urban demand. It is also possible that post COVID-19, some economies are expected to shift their manufacturing bases from China which can create an opportunity for India. According to KPMG, opportunities will largely depend on how quickly the economy recovers and the pace at which the supply chain issues are addressed. The three major contributors to GDP in India mainly consumption, investment and external trade are affected due to COVID-19 outbreak. Indian economy and World economy are attempting to minimize the health risks of COVID-19 with the economic risks and necessary measures are being taken to improve it.

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