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Industrial Sector in Indian Economy and Covid-19

Dr. Arun Kharde
Dept. of Economics,
S.G.R.G Shinde Mahavidyalaya,
Paranda, Dist. Osmanabad (MS) India

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A Novel Coronavirus outbreak was first documented in Wuhan, Hubei Province, China in December, 2019. As of this writing it has now been confirmed on six continents and in more than 100 countries. As the world's health systems funnel resources into learning about, treating, and preventing infections in humans, new information is released daily. Coronavirus are a large family of zoonotic viruses that cause illness raning from the common cold to severe respiratory diseases. Zoonotic means these viruses are able to be transmitted from animals to humans. There are several coronaviruses known to be circulating in different animal populations that have not yet infected Humans. COVID-19 is the most recent to make the jump to human infection.

As Covid-19 takes a firm grip over India, the central and state authorities are working in overdrive to try and curb the spread. As per latest government data Covid-19 has affected people in the country, killing many. The Indian Centre for Medical Research (ICMR) has maintained that the virus is still in phase-2 of transmission which means there is no evidence of local transmission yet. As the cases climb Prime Minister Narendra Modi has announced a complete Lockdown in the country.

A lockdown is an emergency protocol that prevents people from leaving a given area. A full lockdown will mean you must stay where you are and not exit or enter a building or the given area.

The scenario usually allows for essential grocery stores, pharmacies and banks to continue to serve the people. All non-essential activities remain shut for the entire period, India, at the moment, is not under complete lockdown. However, severe travel restrictions have been imposed on some states and public places have been shut. Rail, intercity, bus services have been suspended throughout the country.

Under complete lockdown less than a quarter of India's $ 2.8 trillion economy is functional and expected to lose over Rs. 32,000 crore ($ 4.5 billion) everyday during the lockdown. Over the past few years there has been a decline in India's GDP grown rates and the problem has been further exacerbated by the Covid-19 pandemic.

The Indian economy is expected to languish in the 1% to 2% zone next year. When the crisis ends and when the economy starts running again, every government in the world will have to lend their industry a hand. We in Indian will need a high octane financial boost. But we will know that Governments have taken a beating as far as tax revenue and foreign remittances are concerned. Therefore governments will have to focus on those sectors that will deliver the biggest bang for the buck.

Our agriculture backbone that accounts for almost 14% of our GDP can recover quickly and in fact even grow next year.

Once the threat of the virus recedes, the service industry the number one contributor to our GDP will start crushing again. We cannot underplay the impact of COVID-19 pandemic but unlike geophysical disasters and wars, the physical infrastructure of the industry has survived without damage. Therefore most industries can quickly become operational with a new work can quickly become operational with a new work culture, if they have the labour force back and the working capital to restart their business.

The Micro, Small and Medium Enterprise (MSME) Sector, which contributes to 30% of the India's GDP is one of the key driver of the Indian Economy.

Today almost all MSMEs are out of action due to the lockdown, they are unable to pay their employees and several don't have the financial resources to restart their business.

The Government contemplating a Rs. 20,000 crore relief package for this sector. The other sectors that need help urgently are tourism, aviation, automobile and real estate. These sectors will put people back to work and build some traction in the recovery of our economy. This may all sound simple but obviously there is no early fix to this unprecedented crisis.

In smaller manufacturing units, social distancing is not possible and there is no way to certify workers (to be free from the virus) so that the production can be resumed without fear.

The Indian Economy had already been showing signs of distress much before the arrival of the pandemic. Any attempts of reviewing the economy have only become more difficult as the effects of lockdown have intensified the downward pressures on the economy.

In simplistic terms, the national income of a country is determined by private and government consumption, expenditure, investments and net exports. With countries shutting down foreign trade in almost all goods and services, there is little hope for export driven grown now. According to estimates, global trade is going to take some time before it returns to pre-pandemic levels, not to mention the inability to return to pre 2008 levels. Therefore, economic policy making must focus exclusively on the domestic front and harness the country's immense labour potential to make significant progress along developmental indicators. Indicators of economic activity such as automobile sales and production have been reflecting a very pessimistic outlook, with major producers in the automobile sector downsizing their existing capacities or reporting a steep decline in their grown figures. Additionally in the last two months the manufacturing managers index (PMI) has also experienced its sharpest decline, and was among the lowest globally. Surprisingly, despite several service sector activities continuing amidst the nationwide lockdown, the decline in the services PMI was even more extreme (falling to 5.4 in April from 49.3 in March) caused by a negative expectation of future business prospects and thus dampening the likelihood of a services - let survival of the Indian Economy. Furthermore, the grown rates of gross fixed capital formation dipped to 0.61% in the year 2019-20, implying negative investments.

A kin to the great depression of the 1930's the problem today is also that of effective demand. As such stimulus packages must focus on reviving demand. Although the government has announced an additional package aimed at infusing liquidity into the economy, its efficacy is dependent on the stimulation of demand. With the aspirational class and the lower segments of society exhibiting higher propensities to consume, it is necessary to boost their income and/or income earning opportunities. However, as a result of non-inclusive policies, income inequality in Indian has seen arising trend. Growing inequality further aggravates the problem of effective demand by leaving lesser income in the hands of those willing to spend more.

In this vein, it is important to identify the right policy mix of both fiscal and monetary measures that will directly boost employment and effective demand in the economy, which will then automatically feed into private investments by boosting business sentiments. This can be achieved through employment generation facilitated by direct fiscal expansion or redistributive taxation resulting in income redistributive taxation resulting in income redistribution and higher consumption demand. The government may find it more favourable to work towards fiscal expansion led by expenditure in infrastructure development - both social and physical.

Investment in Developmental Goals :

Identifying gaps in social development across the country can provide a yardstick for development policy making. The objectives of achieving the Sustainable Development Goals (SDGs) is likely to get delayed due to impacts of nationwide lockdown. But policy makers can capatalise on the current situation by targeting fiscal expansion in sectors that improve India's status across developmental indicators. Not only will this provide a significant boost development trajectory, but also ensure progress along the SDGs. Poverty alleviation, quality education, clean energy, decent work and infrastructure and capture elements of social, physical and human capital have strong forward and backward linkage and investment in one have positive spill over on the others.

Protection of urban informal workers is extremely important because most of them are migrant workers and they can fall prey to uncertainties' that leave them in object poverty. The aftermath of the lockdown has provided ample evidence of this. These expenditures will not only ensure social security but also help in reducing income inequality. Furthermore investments in clean and renewable energy (SDG) through government schemes can provide jobs and energy security. Funds can be channeled through the Indian Renewable Energy Development Agency (REDA) to boost investment in the sector.

Government expenditure in education has increased over the five years, it is still below 6 percent of GDP - a figure that the (NITI) Aayog suggests is necessary to achieve quality education, there by suggesting the potential of increasing government expenditure in this sector with adequate focused on Vocational Training, higher education and research and development. They have a strong favourable influence on human capital development. Through the respective state governments, infrastructure, development, in the forms of roads, bridges, schools hospitals, drainage systems etc. can be undertaken in the relatively backward states. This will greatly help in increasing income and aggregate demand in the economy, and also promote balanced regional development by reducing the gap between states across the country.

Generating employment opportunities through large scale investments in some of the aforementioned sectors will have a multiplier effect on the economy. It is not just in the context of post-pandemic economies, but in the overall developmental planning of the country, that these expenditures are necessary as the entail certain essential public goods.

Managing a deficit :

It may be argued that additional government expenditure might not be compactable with the fiscal discipline of the economy by generating larger fiscal deficits. But, one must understand that a country cannot afford to focus excessively on fiscal discipline especially at a time when unemployment is at a high and economy is in a turmoil, Undoubtedly, there are macroeconomic impacts of a high fiscal deficit, but the can be circumvented if government expenditure is incurred in developmental activities that underpin future demand.

Once the economy is set on its path to recovery, greater demand will also encourage private investors, ultimately leading to what may be termed as a 'crowding-in' effect of government expenditure. It is only then that the monetary policies pursued by the RBI may compliment the fiscal policy.

Form the above study I come to know the Coronavirus pandemic has not only turned out to be lethal for humans across the world biologically, but also financially. Multiple reports have suggested a global economic recession with India also facing brunt of job losses and reduced wages.

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