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THE COLLISION OF COVID-19 ON INDIAN PRODUCTIVITY AND TRADE

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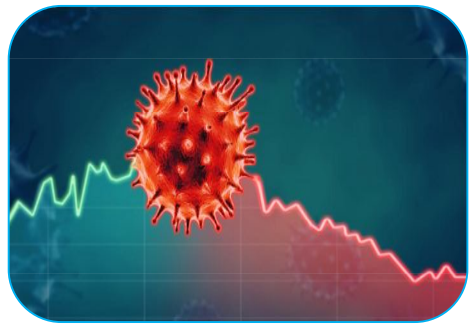
ABSTRACT:



The current pandemic crisis is having a significant negative influence on Indian business. The collision of the corona virus pandemic COVID-19 on domestic demand could cause a downturn. This will lead to a loss of purchasing power as a result of job losses or wage cutbacks, and the deferred demand effect will have a longer-term collision on many sectors, particularly if demand is discretionary. During the fourth quarter of 2019-20, India's real GDP fell to its lowest level in over six years. India's growth is expected to range between 5.3 percent and 5.7 percent in 2020-21. The COVID-19 pandemic, also known as the coronavirus, has exposed many flaws in the worldwide system. Despite our years of crisis management training, this virus has managed to isolate us all in our houses. The Indian economy has been severely impacted by COVID-19. The present corona virus pandemic could result in a four-percentage-point irreversible reduction in real Indian GDP. For 2020-21, India's Gross Domestic Product (GDP) growth rate is expected to be 1.9 percent. This will be the lowest growth rate since India's 1.1% growth rate in 1991-92. The COVID 19 has wreaked havoc on major industries; it's clear that tourism and aviation, telecom, the car industry, and transportation are among the worst-affected sectors. Workers' livelihoods are at jeopardy in the current circumstances, with all retail sectors shutting down their operations. Many governments have provided assistance to employers in paying their employees' salaries. The purpose of this study is to investigate the influence of COVID 19 in various sectors using secondary data and a variety of acceptable statistical methods and methodologies for analysis and conclusion. On the basis of the findings, recommendations for overcoming these adversities are made.

The economy is a non-linear web of interconnected sectors. The collision of a shock like COVID-19, as well as the lockdown, will spread through various sectors like a virus. The Social Accounting Matrix (SAM) for India is used in this article to quantify the collision of the shock on the economy. In nominal terms, we estimate that GDP will expand in a range of 2.26 percent to 6.29 percent, depending on the intensity of the shock. Industries with significant links to other sectors and overseas demand would be the hardest hit.

KEYWORDS: *Aggregate economy, COVID-19; Lockdown, Collision on household income, potential risks, overall economy, Banking and insurance, Social Accounting Matrix, etc.*

1. INTRODUCTION:

The COVID 19 has wreaked havoc on the Indian economy. The country's GDP growth is being harmed by the coronavirus-induced lockdown, which is causing considerable disruption across numerous industries. A fully automated manufacturing infrastructure will save energy and increase quality while lowering production costs. The ensuing reduction in human working hours will improve our health and allow businesses to continue operating uninterrupted in the event of another crisis. Consumer behavior is shifting away from traditional ways due to increased faith in technology, technical performance, and online payment sectors. This encourages us to adapt to new trends, such as working from home, and progress toward a future where brick-and-mortar offices are no longer the norm. Due to the advent of video-conferencing equipment, there will be a long-term drop in business travel, with High Net Worth Individuals preferring to travel by private jet rather than first-class air travel. After uncovering the flaws in the worldwide system while fighting the coronavirus, governments, corporate leaders, and companies will allocate more funds for investing in healthcare and healthcare products. More tech start-ups with innovative applications will emerge. Central banks have pumped massive quantities of money into financial institutions and provided hitherto unheard-of exemptions. [1]

Before the viral shock, the India economy was already experiencing slow growth and high union rate due to demand-side depression, as was the case in other world economies. Now, the coronavirus pandemic's massive supply and perhaps large demand side slowdown would aggravate the slowdown and put a large number of people out of work.

Non-essential item manufacturing has come to a complete halt, affecting almost half of the economy. People will resume non-essential consumption once the lockdown is lifted, and economic demand will likely rebound. However, there are two caveats. To begin with, some of the demand will be fulfilled by existing inventory. Second, due to disruptions in global supply chains, sectors that rely heavily on imports for their key inputs may be unable to produce at their current capacity. This means that output will continue to be at a bare minimum for a while longer, with very little growth in the Gross Domestic Product (GDP). [2]

As a result, many individuals will be out of work and without a source of income between now and when manufacturing resumes at full capacity. This, in turn, would result in a drop in consumption, a further drop in demand, and, as a result, a second wave of GDP contraction. Exports will also suffer due to a drop in demand from other nations that are also suffering from the virus. Given that private consumption accounts for around 60% of overall GDP and exports for about 20%, domestic spending by households and exports play a significant role in propelling the economy in 2018-19. Recently, quarterly GDP growth has been regularly declining, with the main cause being a reduction in domestic consumption and external demand. [3]

We use the Social Accounting Matrix (SAM) model developed by IDF for the year 2015-16 and updated significant indicators of interest for the year 2019-20 to evaluate the collision of the lockdown and additional economic decline. [4] We can examine the collision of this lockdown, and the pandemic in general, on output, income, employment, and household incomes of different sections of society using the SAM model. This is accomplished by utilizing multipliers generated by the model for various sectors.According to the SAM, industrial goods account for 30% of private final consumption in India, while services account for 53% and agriculture accounts for 17%. Meanwhile, industrial items account for around 52% of the Indian economy's overall exports, while services account for 45% and agricultural accounts for 3%. The industrial sector employs 17 percent of the workforce, agriculture employs 40 percent, and the service sector employs 43 percent of the workforce. As a result, the industry and service sectors' significant reliance on domestic consumption by consumers and exports would indicate increased unemployment in these sectors as the economy slowed. [5]

To analyze the likely effects of the shock on the economy, this article examines four different scenarios. The first situation is referred described as "historical." It denotes a thriving economy under normal circumstances (business as usual). This is the average of the last five years in India, prior to the lockdown. Exports of goods and services expanded at a compounded annual growth rate of 6.58 percent and PFCE at 7.33 percent, respectively, throughout the historical period (2017-2020). In nominal terms, GDP rose at a nearly same rate of 7.73 percent (see Table 1). Situations 2, 3, and 4 are categorized as 'Future.' They show growth following the lockdown in the downturn period. We projected that exports and PFCE will rise at different rates in different conditions for the future term (2020-2021). Situation 2 (difficult conditions): Exports and PFCE are expanding at 75% of typical levels. Situation 3 (very unfavorable conditions): Exports and PFCE are expanding at half their usual rate. Situation 4 (worst-case scenario): Exports and PFCE grow at 25% of typical levels. In these instances, we calculated the output, income, and employment generated in the economy (see Table 2).

	2016-17	2017-18	2018-19	2019-20	CAGR (2017-2020)[4]
GDP	11.50	11.30	11.00	7.50	7.73
GVA[5]	10.80	11.10	10.70	7.90	7.33
PFCE	12.20	10.60	11.60	9.10	7.33
Exports	8.10	8.90	17.30	1.01	6.58

Table 1: Major Economic Indicators' Growth Rates at Current Prices (Data from the National Accounts Statistics Office, 2019)

2. Collision on aggregate economy output, income, and employment:

Situation 1 for the upcoming year is if exports and PFCE rise at the same rate as they did in the previous year. The economy would therefore create an amount of INR 404372.85 billion. The output loss would be INR 16195.70 billion if it grew according to scenario 3 (which we believe is most likely). The loss of output will result in a loss of income or GVA of INR 8170.45 billion and INR 25.35 million in employment, respectively. Similarly, Table 2 shows the magnitude of losses in different scenarios. Table 3 shows nominal GDP growth of 4.52 percent and employment growth of 1.73 percent for various scenarios (which we deem most likely). According to the many scenarios we've generated, nominal GDP growth will range from 6.29 percent to 2.26 percent.

Indicator	Current Scenario (2019-20)	Scenario—1	Scenario--2	Scenario--3	Scenario--4
Output (INR billion)	371981.46	404372.85	394499.31	388177.16	380075.19
GVA (INR billion)	180311.35	196652.26	191655.37	188481.81	1843942.46
Employment (million numbers)	535.57	551.64	536.05	526.29	513.64

Table 2: Total output, gross value added, and employment

Indicator	Scenario--1	Scenario—2	Scenario--3	Scenario--4
Output	8.70	6.05	4.34	2.17
GVA	9.06	6.29	4.52	2.26
Employment	3.00	0.00	-1.73	-4.09

Table 3: Major indicator growth rates (percentage)

3. Collision on household income:

As the economy's income falls, so do the earnings of different segments of the population. Rural households lose INR 2591 billion, while urban people lose INR 2724 billion, according to estimates in Situation 3. Even though the affluent class loses more in absolute terms, the poorer portions of society lose far more proportionally due to their already low income base. The bottoms 20% of households, who are already impoverished, become further poorer. Due to a decline in monthly per capita income and, as a result, monthly per capita consumption, some households in the next 20% that are extremely close to poverty will fall below the poverty line. [6]

4. Some of the potential risks linked with large industries:

The country's largest political challenge will be dealing with rising inequality as resources become scarcer. This income shock must be addressed in a way that alleviates the suffering of low-income families. To close the gap, some wealth redistribution is required.

5. Collision of external shocks on the overall economy in several sectors:

Other services, food goods, textile and textile products, transportation and supporting services, banking and insurance, and education are the primary sectors that will suffer the most revenue losses (both direct and indirect) as a result of weak development in the aggregate economy. All of these industries are export-oriented or have a high level of domestic consumption, as well as significant income multipliers. As a result, while the economy is growing slowly, they generate the most losses. [7]

Textile and products:

- High reliance on China for raw resources Among the country's largest employers, with the bulk of workers employed on a contract basis
- Strong backward links with other sectors, resulting in higher indirect losses for other sectors that give inputs to it when external shocks occur. [7]

Transport and equipment:

- Highly export-oriented sector Already experiencing weak domestic demand Falls in the non-essential item category, implying demand postponement Strong backward connections with other sectors, resulting in larger indirect losses for other sectors that give inputs to it
- Auto clusters with high COVID pandemic instances can be seen in states like Maharashtra, Gujarat, Tamil Nadu, and Delhi NCR.

Transport and supporting services:

- Significant contribution to exports, resulting in significant losses
- High potential for job loss, with an employment multiplier on the upper side
- Strong link with pandemic-affected hotel and tourism [8]

Banking and insurance:

- Strong interconnections across all sectors, resulting in increased indirect losses
- Non-performing assets (NPA) are expected to rise as a result of loan defaults.
- Due to a higher multiplier, there is a significant loss of income and employment.

Communication services:

- Already in horrible situation, they're going to the government for help.
- The broadband network load will expand as a result of the 'work from home' characteristics, and the sector lacks the means to invest. [9]

6. The advanced direction:

Changing the way businesses are operated should be one of the future solutions for dealing with such unanticipated pandemics. Our suggestions are as follows: [10]

- Invest more in healthcare systems and strengthen the rules that regulate them. Invest in technological infrastructure to deal with biological disasters.
- Reduce reliance on imported items from a single source, especially in vital industries that are critical to the supply chain, and produce these locally.
- Alternatively, you may diversify your supplier chain.
- Businesses are attempting to reduce fixed costs and shift to variable cost techniques.
- To assist reduce damages, educate and train individuals on how to deal with such events.
- Encourage firms to provide social security to their employees and/or make it mandatory.
- Make the most of this chance to entice enterprises from other countries to invest in the United States. Because enterprises from other nations are leaving China today, India has a window of opportunity.

7. CONCLUSION:

The corona virus outbreak has thrown the entire planet into disarray. The current crisis is a radical departure from the recessions we experienced in 2008 and 2009. This has a variety of implications, including shifting people's mindsets, posing a challenge to the business, and upending the global economic order. Everyone is attempting to quantify the pandemic. It is undeniable that we are adapting to the changes in our lives in a permanent manner. Most businesses have improved their ability to operate remotely and allow employees to work from home. [11] While many of these safeguards were already in place, they will soon become the new normal.Supply chain risks are serious and will have long-term consequences. As a result, it is critical that we increase our capabilities in order to mitigate the effects of unforeseen events. We must swiftly recover business profit and return to the original situation, which was obliterated by the risk. One little virus has wreaked havoc on the earth in ways that humanity could never have imagined. The most essential lesson we've learned thus far is the importance of total cost control in business and living on the bare minimum.

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