

Lockdown 2.0 in India and its impact on Indian Economy

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Abstract

India has second largest population in the world and also one of the developing countries. Most of the population age group is between 18 to 30. In this regard economy depends on this youth generation. Present day corona virus¹ is the major disease in the country. Now a days every economic activities have become slowdown because of corona, people can't imagine these types of situations in the country. This corona came from china but India and other countries are avoiding as much as possible by maintaining the physical distance from other people. The government is trying by creating the awareness about corona among the people. In this regard the paper intends to cover massive impact on Indian economy after lockdown and discusses the sector wise impact of the lockdown 2.0 in India. This paper based on secondary source of information gathered from various recent articles about covid 19, news papers, Television and relevant websites.

Key Words: Covid 19, lockdown, youths and awareness

1.1.Introduction

Corona virus outbreak was first reported in Wuhan², China on 31 December, 2019. Corona virus is a large family of viruses that causes illness. It ranges from the common cold to more severe diseases like Middle East Respiratory Syndrome and Severe Acute Respiratory Syndrom. The novel corona virus is a new strain of virus that has not been identified in human so

¹ Corona virus disease (COVID-19) is an infectious disease caused by a newly discovered corona virus

² Wuhan, the sprawling capital of Central China's Hubei province, is a commercial center divided by the Yangtze and Han rivers. The city contains many lakes and parks, including expansive, picturesque East Lake. Nearby, the Hubei Provincial Museum displays relics from the Warring States period, including the Marquis Yi of Zeng's coffin and bronze musical bells from his 5th-century B.C. tomb.

far. WHO is working closely with global experts, governments, and other health organizations to provide advice to the countries about precautionary and preventive measures?³

With the number of COVID-19 cases leaning dangerously more than 200,000 and the worldwide death toll crossing more than 8,000, the World Health Organization (WHO) declared the virus outbreak a pandemic in the second week of March 2020, four months after the novel virus first made headlines.

Nearly 162 countries are steadily going into lockdown, and businesses across the globe are operating in fear of an impending collapse of global financial markets. This situation, clubbed with sluggish economic growth in the previous year, especially in a developing country like India, is leading to extremely volatile market conditions. Let's understand how the corona virus is impacting business and subsequent tax reforms in India.

With rising unemployment, interest rates, and fiscal deficit, the economy in India has seen better days. Adding fuel to this fire is the novel Corona virus that is sending tremors down Indian trade markets dependent on China for imports.⁴

1.2. Objectives of the study

1. To know the massive impact of corona virus on Indian Economy
2. To discuss the impact of after the lockdown 2.0 in India

1.3. Methodology

The study is based on secondary source of information gathered from various journal articles, news papers and relevant websites etc.

1.4. Interpretation and analysis

1. Raw materials and spare parts

Nearly 55% of electronics imported by India originate from China. These imports have already slid down to 40% in light of the corona virus outbreak and subsequent lockdown. As a counter measure, India is considering the promotion of indigenous production in a bid to reduce dependency on a single market. Additionally, China is India's third largest export partner for export of raw materials like organic chemicals, mineral fuels, cotton, etc.; and a lockdown of the countries is likely to lead to a substantial trade deficit for India.

³<https://www.jagranjosh.com/general-knowledge/what-is-the-impact-of-coronavirus-on-indian-economy-1582870052-1>, Downloaded Date:1-05-2020, Time. 10.15 PM.

⁴ <https://bfsi.eletsonline.com/covid-19-and-its-impact-on-indian-economy>, Downloaded Date:010502020, Time: 10.00 PM.

2. Pharmaceuticals

The toll on the pharmaceutical industry is of significant concern for India, mainly as 70% of active pharmaceutical ingredients (API) are imported from China. These active pharmaceutical ingredients are essential to a large number of pharmaceutical manufacturing companies in the country. As COVID-19 is rapidly making its way through India, medication is going to be the number one consumer demand, and because there aren't nearly enough APIs to manufacture drugs, the subsequent traders and the market are witnessing skyrocketing prices. The prices of vitamins and penicillin alone already see a 50% surge.

3. Tourism

India is big on cultural and historical tourism, attracting domestic and foreign nationals throughout the year. It does not come as a surprise that a large number of confirmed COVID-19 cases in India include foreign tourists. But with visas being suspended and tourist attractions being shut indefinitely, the whole tourism value chain, which includes hotels, restaurants, attractions, agents, and operators, is expected to face losses worth thousands of crores. Experts believe the tourism industry is likely to take a massive hit, and it could end up crippling the industry for the foreseeable future.

4. Aviation

After the Government of India indefinitely suspended tourist visas, airlines are said to be working under pressure. Nearly 600 international flights to and from India were canceled for varying periods. Around 90 domestic flights have been canceled, leading to a sharp drop in airline fares, even on popular local routes. Private airport operators have requested the Government to grant permission to impose a nominal passenger facilitation charge on airfares to cover the increased operating cost.⁵

Will rationalizing tax rates or providing tax relief help curb the impact of COVID-19 on the Indian economy?

Speaking on measures to combat the economic impact from the rapidly spreading corona virus, Chief Economist of the International Monetary Fund, Gita Gopinath⁶ said that Government policymakers would need to implement a substantial targeted fiscal. She also

⁵ <https://bfsi.eletsonline.com/covid-19-and-its-impact-on-indian-economy>, Downloaded Date:01-05-2020, Time: 10.00 PM.

⁶ Gita Gopinath is an Indian American economist who has been the Chief Economist of the International Monetary Fund since 2019. In that role she is the Director of IMF's Research Department and the Economic Counselor of the Fund

advised on broader monetary stimulus and policy rate cuts to help normalize the economic situation.

India is already running short on its GST revenue collection, and the corona virus scare could make matters worse. With less than 200 active COVID-19 cases in a 1.33 billion population, the Government of India is not in a rush to make any drastic changes in policy and offer tax relief (even though Indian enterprise leaders are calling for cuts in import duties). They have, however, announced an extension in filings of GST for FY 2018-19 until June 30, 2020. India has also rescheduled the introduction of mandatory e-invoicing until October 1, 2020.

5. Remote working

With major cities on lockdown, organizations have had no choice but to dig into their business continuity and contingency plans. Ever since the first **COVID-19** case was confirmed in India, numerous companies have instituted a 'work from home' drill using critical resources to understand whether remote working conditions are feasible. That being said, remote working also has its limitations and cannot be carried out by other sectors like retail, hospitality, or manufacturing, leaving them no choice but to face business interruption.

6. Safety measures for employees

Employee safety is the need of the hour. Still, with no experience of dealing with a virus that has the potential to spread rapidly, most companies are brushing off their hands by asking employees to stay home. Some organizations, however, are implementing measures like temperature screening, disinfection of office premises, setting up COVID-19 response teams, distribution of COVID-19 precautionary packages.

7. An open line of communication

Even though the mortality rate of COVID-19 is lower than the 1918 influenza pandemic, it has caused a widespread panic due to unclear lines of communication. Organizations are stepping up and maintaining an open line of communication with all their stakeholders, including employees and customers.

8. Opportunity in a crisis

Like India, several international economies are becoming cognizant of the risk they face by being overly dependent on one market. Making the current situation a learning opportunity, CXOs of Indian multinationals, who recently attended the annual meeting of the *Confederation of Indian Industry* (CII), believe this is the time India can work on capturing potentially 40% of

their competitor's market share by looking at indigenous production of goods, furthering the country's Make in India campaign.

9. Impact of Corona virus on the Indian Economy after lockdown 2.0

Have to combat with COVID-19; Indian Government extended the date of lockdown to 3rd May, 2020. Recently an industry survey that is jointly conducted by industry body FICCI⁷ and tax consultancy Dhruva advisors and took responses from about 380 companies across the sectors. It is said that businesses are grappling with "tremendous uncertainty" about their future.

According to the survey, COVID-19 is having a 'deep impact' on Indian businesses, over the coming month's jobs are at high risk because firms are looking for some reduction in manpower. Further, it is added that already COVID-19 crisis has caused an unprecedented collapse in economic activities over the last few weeks.

The present situation is having a "high to very high" level impact on their business according to almost 72 per cent respondents. Further, 70 per cent of the surveyed firms are expecting a degrowth sales in the fiscal year 2020-21.

FICCI said in a statement, "The survey clearly highlights that unless a substantive economic package is announced by the government immediately, we could see a permanent impairment of a large section of the industry, which may lose the opportunity to come back to life again."

The survey found that,

In respect to the approved expansion plans, around 61 per cent of the respondents expect to postpone such expansions for a period of up to 6 or 12 months, while 33 per cent expect it to for more than 12 months. Surveyed firms of around 60 per cent have postponed their fund-raising plans for the next 6-12 months. Also, nearly 25 per cent of the firms have decided the same Surveyed firms around 43 per cent have reported that they do not predict an impact on exports. Further, 34 per cent said that exports would take a hit by more than 10 per cent.

⁷ The Federation of Indian Chambers of Commerce and Industry is an association of business organisations in India. Established in 1927, on the advice of Mahatma Gandhi by GD Birla and Purshottamdas Thakurdas, it is the largest, oldest and the apex business organization in India.

According to Dun & Bradstreet ⁸, COVID-19 no doubt disrupted human lives and global supply chain but the pandemic is a severe demand shock which has offset the green shoots of recovery of the Indian economy that was visible towards the end of 2019 and early 2020. The revised Gross Domestic Product (GDP) ⁹estimates for India downwards by 0.2 percentage points for the fiscal year 2020 to 4.8 per cent and by 0.5 per cent for the fiscal year 2021 to 6 per cent. Further, it is stated that the extent of the actual impact will depend upon the severity and duration of the outbreak.

There are three major channels of impact for Indian businesses according to the report namely linkages, supply chain and macroeconomic factors. The data of the Dun & Bradstreet shows that at least 6,606 Indian entities legal linkages with companies in countries with a large number of confirmed COVID-19 cases. And business activity in the foreign markets is slow which implies a negative impact on the topline of these companies. Sectors that would be much affected includes logistics, auto, tourism, metals, drugs, pharmaceuticals, electronic goods, MSMEs and retail among others

Further, according to the World Bank's assessment, India is expected to grow 1.5 per cent to 2.8 per cent. And IMF projected a GDP growth of 1.9 per cent for India in 2020 because the global economy is affected by the COVID pandemic, the worst recession since the Great Depression in the 1930s. Also, we can't ignore that the lockdown and pandemic hit several sectors including MSME, hospitality, civil aviation, agriculture and allied sector.

According to KPMG,¹⁰ the lockdown in India will have a sizeable impact on the economy mainly on consumption which is the biggest component of GDP. Reduction in the urban transaction can lead to a steep fall in the consumption of non-essential goods. It can be severe if disruption causes by the 21-day lockdown and affect the availability of essential commodities. Due to weak domestic consumption and consumer sentiment, there can be a delay in investment which further adds pressure on the growth. We can't ignore that post-COVID-19,

⁸ The Dun & Bradstreet Corporation is a company that provides commercial data, analytics, and insights for businesses. It is headquartered in Short Hills, a community in Millburn, New Jersey, U.S.

⁹ Gross domestic product is a monetary measure of the market value of all the final goods and services produced in a specific time period.

¹⁰ KPMG International Cooperative is a multinational professional services network, and one of the Big Four accounting organizations. Seated in Amstelveen, the Netherlands, KPMG is a network of firms in 147 countries, with over 219,000 employees and has three lines of services: financial audit, tax, and advisory.

some economies are expected to adopt de-risking strategies and shift their manufacturing bases from China. This can create opportunities 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.

KPMG India Chairman and CEO Arun M Kumar said: "Apart from providing robust safety nets for the vulnerable, a focus on ensuring job continuity and job creation will be imperative". "And there is urgent need to mobilize resources to stimulate the economy for increased demand and employment".

According to the KPMG report "It is expected that the course of economic recovery in India will be smoother and faster than that of many other advanced countries".

In terms of trade, China is the world's largest exporter and second-largest importer. It accounts for 13% of world exports and 11% of world imports. Up to a large extent, it will impact the Indian industry. In imports, the dependence of India on China is huge. Of the top 20 products (at the two-digit of HS Code¹¹) that India imports from the world, China accounts for a significant share in most of them.

India's total electronic imports account for 45% of China. Around one-third of machinery and almost two-fifths of organic chemicals that India purchases from the world come from China? For automotive parts and fertilisers China's share in India's import is more than 25%. Around 65 to 70% of active pharmaceutical ingredients and around 90% of certain mobile phones come from China to India. Therefore, we can say that due to the current outbreak of corona virus in China, the import dependence on China will have a significant impact on the Indian industry.

In terms of export, China is India's 3rd largest export partner and accounts for around 5% share. The impact may result in the following sectors namely organic chemicals, plastics, fish products, cotton, ores, etc. We also can't ignore that most of the Indian companies are located in the eastern part of China. In China, about 72% of companies in India are located in cities like Shanghai, Beijing, provinces of Guangdong, Jiangsu, and Shandong. In various sectors, these

11. The Harmonized Commodity Description and Coding System, also known as the *Harmonized System* of tariff nomenclature is an internationally standardized system of names and numbers to classify traded products.

companies work including Industrial manufacturing, manufacturing services, IT and BPO, Logistics, Chemicals, Airlines, and tourism.

It has been seen that some sectors of India have been impacted by the outbreak of corona virus in China including shipping, pharmaceuticals, automobiles, mobiles, electronics, textiles, etc. Also, a supply chain may affect some disruptions associates with industries and markets. Overall, the impact of corona virus in the industry is moderate.

According to CLSA12 report, pharma, chemicals, and electronics businesses may face supply-chain issues and prices will go up by 10 percent. The report also says that India could also be a beneficiary of positive flows since it appears to be the least-impacted market. Some commodities like metals, upstream and downstream oil companies, could witness the impact of lower global demand impacting commodity prices.

According to CII13, GDP could fall below 5% in FY 2021 if policy action is not taken urgently. It is said that the government should take some strong fiscal stimulus to the extent of 1% of GDP to the poor, which would help them financially and also manage consumer demand. In the third quarter (October-December) growth is slowed down to 4.7% and the impact of COVID-19 will further be seen in the fourth quarter. FICCI survey showed 53% of Indian businesses have indicated a marked impact of COVID-19 on business operations. And 42% of the respondents said that up to three months could take for normalcy to return.

10. Agriculture

While extended lockdown means more pain for most of the industries, the agriculture sector could cheer a bit as almost all farm sector activities have been permitted during this period. With harvesting near 100% in Gujarat and 70-odd per cent in Madhya Pradesh and Punjab heading for wheat harvesting starting April 15, the farming community got a huge relief with the opening up of the sector, including allied sectors such as food processing and cold storages - vital for securing the produce.

12. CLSA Ltd. is a capital markets and investment group focused on alternative investment, asset management, corporate finance and capital markets, securities and wealth management for corporate and institutional clients around the world.

14. *The Confederation of Indian Industry* is an industry association in India. CII is a non-government, not-for-profit, industry-led and industry-managed organization

Learning from previous experience, the Centre has this time clearly spelt out in its order that farm sector would be exempted from the extended lockdown through May 3. Accordingly, transportation of seeds, fertilizers, food grains would get the green channel. But agriculture sector experts still fear a slight delay in harvest of crops due to lockdown as policies set by the Central government are not properly executed at the local level. While harvesting of wheat has neared completion in many states, it is yet to wrap up in the key states of Haryana and Punjab.

T Haque, former chairman of *Commission for Agricultural Costs and Prices* (CACPC) said that delay in harvesting of Rabi crops could lead to late sowing of Kharif crops which could result in lower yield. "The harvesting could be further delayed by untimely rain and hailstorm. There are issues related to transportation, storage and agriculture market being nonoperational. In case of perishable items in some states like Karnataka, farmers are facing difficulty in harvesting as labour is not available," Haque said.

Transportation of processed seeds is another issue as they are transported from one state to the other. Haque said that in the Kharif¹⁴ seasons, the demand for processed seeds is quite significant. The seeds may not reach farmers in time if its smooth supply is affected. Even as government has allowed mind is dealing in agricultural produce, many markets are reported shut.

Given that agriculture is the mainstay for two-thirds of the population, any negative impact of extended lockdown on it could multiply the problems. Lower yield means lower income for farmers and hence poor demand for consumption.

11. Economy Loses in the time of corona virus in India

With Prime Minister Narendra Modi extending the nationwide lockdown to May 3, foreign brokerage Barclays has cut India's calendar year (CY) 2020 GDP forecast to zero per cent from 2.5 per cent earlier and 0.8 per cent for the financial year 2020/21 from 3.5 per cent earlier. The brokerage has also lowered its CY21 GDP growth forecast to 7.5 per cent from 8 per cent, previously¹⁵.

Even as Barclays recognizes that the corona virus pandemic has not officially reached the community transmission stage, it believes the existing restrictions on movement are causing

¹⁴ Kharif crops, monsoon crops or autumn crops are domesticated plants like rice that are cultivated and harvested in India, Bangladesh during the Indian subcontinent's monsoon season, which lasts from June to November depending on the area

¹⁶ <https://www.businesstoday.in/current/economy-politics/coronavirus-barclays-cuts-india-2020-gdp-forecast-to-zero-over-lockdown-extension/story/400973.html>

much more economic damage than anticipated, including in the essential sectors. "The negative impact of the shutdown measures on the mining, agriculture, manufacturing and utility sectors appears higher than we had expected," it said.

The brokerage estimates the economic loss will be close to \$234.4 billion (8.1 per cent of GDP), assuming the country will remain under a partial lockdown at least until the end of May. "This is much higher than the \$120 billion we had estimated earlier for roughly the same time period previously," it said. Most losses are expected to be incurred in the first part of Q2 2020.

Also read: India Lockdown Extension Live Updates: 1,211 new COVID-19 cases, 31 deaths in 24 hours; total count at 10,393, Barclays further pointed out the estimates factor in an economic scenario where the Kharif crop cycle during the monsoon will remain unaffected. The brokerage also expects a weaker profile for recovery given the deteriorating global backdrop, and rising risk of COVID outbreaks leading to local-level shutdowns. "Across the country, we see major economic losses for the large industrial states such as Maharashtra, Delhi, Tamil Nadu and Punjab. Even for states that are likely to experience a faster recovery cycle -- such as Kerala, Karnataka, Haryana, while their economic losses will likely be limited -- we think a precautionary increase in savings and reduction in discretionary consumption, especially on travel and recreational services, will weigh on growth rates longer. This drives the downward revision in our growth recovery outlook to show a shallower pick-up in Q3,"

12. The Barclays report says,

1. The brokerage emphasized that "*Modest Fiscal Stimulus*" unveiled by the government so far was unlikely to offset the negative impact on 'animal spirits' caused by relative inactivity for a long period. "Major policy interventions, if taken, could change the outcome and bring about a faster upswing after the lockdown opens. That said, the slowdown in early Q2 will be driven entirely by the shutdown and is unlikely to be impacted by policy support," it added.
2. Meanwhile, the data from the Ministry of Health and Family Welfare shows 8,988 active corona virus cases in India and 339 deaths as of April 14, while 1,035 have been cured or discharged.

3. Also read: Covid-19 impact: Barclays cuts India's GDP target to 2.5%, fiscal deficit to 5% of GDP

1.5.Findings

2. Nearly 55 per cent of electronics are imported by India originate from China.
3. Large number of confirmed COVID-19 cases in India includes foreign tourists.
4. Work from home concept help to generate the income for the Economy.
5. 'Deep impact' on Indian businesses
6. The data of the Dun & Bradstreet shows that at least 6,606 Indian entities legal linkages with companies in countries with a large number of confirmed COVID-19 cases

1.5. Suggestion

2. Indian government should encourage Make in India concept to avoid the import from other countries.
3. Don't give visa for the foreign tourist because it may increase the number of cases of corona virus in India
4. People should maintain physical distance, wear mask and use sanitizer to avoid corona virus
5. Government should create awareness about financial condition of the country among the people.
6. Government should boost economy through MSME
7. Agriculture is the life line of the Indian Economy so government take care about agriculture production in the time of corona virus and provide quality seeds and fertilizers to the farmer to enhance the economy activities.
8. Government should motivate the doctors to find out medicine for corona virus and also provide financial assistance to them.
9. After 2.0 lockdown it major impact on in India in this regard government should provide 20 lakh crore package of the small scale industry to boost of the economy and should avoid importing testing kits from other countries by motivating the small scale industries to prepare testing kits by themselves.

1.6. Conclusion

In India corona virus confirmed cases after the lockdown are 39,980, recovered 10,633 and Death 1301 cases but in the world large numbers of cases identified per day 3.43 million confirmed cases, recovered 1.09 million and Death 244 k. In this regard the people should maintain physical distance and should cooperate with governments. Particularly old age group persons should be aware about corona virus because almost the virus attacks on these groups and when we are aware about these types of diseases there will be no issues for the future. Mainly government should focus on weaker industry and should announced financial help for their development. Government should be investment income generate field for the development of economy.

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