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IMPACT OF COVID-19 ON INDIA'S TRADE

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Abstract: The outbreak of the Covid-19 pandemic is an unprecedented shock to the Indian economy. The Government of India has announced a variety of measures to tackle the situation, from food security and extra funds for healthcare, to sector related incentives and tax deadline extensions. With the prolonged country-wide lockdown, global economic downturn and associated disruption of demand and supply chains, the economy is likely to face a protracted period of slowdown. This study focuses on the COVID-19 impact on Indian trade and the way ahead after pandemic. There are some suggestions in the study for the policymakers for specific sector.

Key words: COVID-19, Pandemic, Indian Trade, Economic Downturn.

Introduction

The COVID-19 epidemic has devastated the entire world economy and international trade is also not untouched by this. The loss due to this is more than the financial crises of 2007-2008. According to the World Trade Organization, due to this, international trade has declined by 13 to 32 per cent. And in the coming time, its status cannot be said until a vaccine of the COVID-19 epidemic is prepared and most likely it will depend on the policies of the Governments, how soon they will get out. All regions are facing failure in their exports. The United States and Asia have been the most affected by this. The electronics and automobile sector is the most affected. Services have also suffered heavy losses due to the closure of the transport. India was going through a recession even before the epidemic and now exports are being affected due to this epidemic. Trade wars between the US and China, inward looking and protectionist economies, led by Europe, and global tensions had resulted in an export slump and the pandemic has only added further to India's exports woes.

Literature Review

The answer would depend largely on the extent of spread within India. So far, India is among the Asian economies that are deeply impacted. With the number of Covid-19 cases nearing 9 lakh and the death toll topping more than 20000 the impact of the virus on global sentiment, economic and otherwise, has been immense. While new afflictions have been declining in China – the epicentre of the outbreak – since the end of February, it is spreading fast outside. New cases outside China now surpass those in China, with Italy, USA, India and Brazil being the worst affected. With more than 160 countries reporting confirmed cases of Covid-19, its implications on the global economy is more threatening than envisaged a month ago.

Objectives of the Study

The major objectives of this study are:

1. To understand the impact of Covid-19 on Indian Trade
2. To investigate the Post Pandemic Scenario
3. To suggest some recommendation for policymakers

Research Methodology

In this study, I have taken survey reports & study reports by various agencies in detail. I have chosen the reports mostly published in March to June months to understand the impact of COVID-19 on Indian economy and various sectors. Also, I have studied few research papers and News articles which publish in these months.

Results & Findings

Shrinking Trade

According to a report brought by CRISIL in March 2020, India's total exports dropped 34.6 per cent in March 2020. In the latest reports, India's total exports recorded US\$ 21.4 billion in March 2020 and imports recorded US\$ 31.2 billion in March 2020, thus, registered a decrease of 28.7 per cent. As a result, India's trade balance recorded a deficit of US\$ 9.8 billion in March 2020. In FY 2019-20, India's import from China amounted to US\$ 70 billion and exports US\$ 17 billion, and if the pandemic is not contained soon China's demand for cotton, iron ore, and petroleum products from India is likely to suffer. Besides, India's import of several items including pharmaceuticals, consumer durables, automobiles, electronics, etc. could decrease due to the pandemic.

India is a service-led economy, and the US and Europe are the major destinations of India's services exports. More than 3/4th of India's services exports from the IT industry would be affected given the vast spread of COVID-19 in these regions. India's major IT companies, which are software exporters, are likely to be affected due to the reduced technology spending by companies in the US and Europe during the lockdown in a bid to prevent the spread of the disease. India's exports to its major trading partners have been negatively impacted due to the lockdown in several countries such as China, Italy and Germany.

According to the Ministry of Commerce's Statistics, baring iron ore, exports of all the 30 major groups witnessed a contraction in March 2020. Some of the top items of India's exports which witnessed a fall include oil meals, meat, dairy and poultry, engineering goods, gems and jewellery, leather and leather products, plastics and linoleum, carpets, etc. Petroleum products exports dropped 31.1 per cent, while rice exports declined by 28.3 per cent and electronic goods by 21.5 per cent. Also, core (non-oil and non-gold) exports dropped by 34.2 per cent in March 2020, while such imports fell by 29.1 per cent.

Post- Pandemic Scenario

The situation is expected to improve in the third and fourth quarters of the on-going financial year as Christmas and holiday seasons in the US and EU, which is historically demand driven, could lead to boost India's exports. Once most countries lift the lockdown and the global economy begins to kick-start, a weak rupee against the dollar could also boost India's exports and India's niche in certain products such as pharmaceuticals, which will be in high demand due to the pandemic will also help India's export sector.

During the FY 2020-21, India's exports contracted by 4.8 per cent to US\$ 314.3 billion, while imports declined by 9.1 per cent to US\$ 467.2 billion, leaving a trade deficit of US\$ 152.9 billion. The 29 of 30 items each in export and import baskets contracted, pointing to severity of impact. This is the first time in four years that annual exports have fallen. The government's internal target of annual exports was US\$ 350 billion, but India is well below the target in FY 2020-21.

Although China was the epicentre of the pandemic and everything was shut in China in the last few weeks, the Chinese economy has kick started and manufacturing is beginning to pick-up. Many countries have again started placing orders with China and it will be a disaster if India does not resume its factories and kick start manufacturing activities immediately. Small economies such as Sri Lanka and Vietnam are big competitors to India, and these countries have also received huge stimulus. Unless the government bucks up and announces a major relief package for India's export sector, there is little hope that India's external sector will regain its lost sheen and get back on track.

Recommendations:

Here are a few suggestions that the policymakers can consider as they gear up to deal with the economic crisis.

1. The first measure must be to protect the workers in the informal sector, who will be badly affected, and yet have little savings to tide them over the shock. This will not be easy to do, but there are two mechanisms that could be utilised: MNREGA (Mahatma Gandhi National Rural Employment Guarantee Act) and Jan Dhan accounts.

2. For organised sector as discussed above, the objective should be to make the banks somewhat less risk averse in their overall lending, while preserving their authority to distinguish between viable and non-viable firms.

3. To increase liquidity and increase consumer confidence, the Government of India should provide a pay roll tax holiday for a quarter to help support demand in these stressful times.

4. MSMEs should be provided concessional working capital loan, equivalent to one to three month's (based upon the extent of disruption) average turnover of last year. To support them, when the supply chains have been impacted globally, MSMEs should also be provided concessional finance at a rate of 5% for three months through SIDBI. The interest payment for such financing can be adjusted over the next three years as part of GST.

5. CSR spending by corporate organisations should be directed towards a response fund dedicated for the management of the pandemic.

6. A disaster management framework focused on managing disease outbreak will become essential in the large and densely populated country.

Conclusion

Within India, it is at peak stage and priority should be given to the steps to deal with it. The tax rate exemption and rationalization of the tax rate can be understood by its impact on the Indian economy. Government policymakers are required to implement substantial fiscal, monetary, and policy rates to counter the economic impact of the corona virus. As the COVID-19 crisis continues to expand, manufacturers will likely face challenges on numerous fronts. Manufacturers will also need to look beyond their own economic viability. They will need to coordinate closely with the public sector to forge plans that are essential to both public safety and the solvency of their workforce, while keeping the lights on in their operations.

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