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“POST COVID EFFECT ON INDUSTRIAL GROWTH IN INDIA”

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ABSTRACT:

The Indian government had imposed a national lock-down on 24 March 2020 to try and prevent a spread of the COVID-19 and COVID-19 put an immediate halt to many business activities across the world and the several countries had shut down their ports, airports and domestic transportation while imposing nationwide lockdowns, leading to a disturbance in business and individual civil life. The effect of covid-19 virus on the overall industrial sector and its effect on the economy. The ongoing lockdown has put a lot of strain on the manufacturing industry, which contributes almost 20-25% of the GDP and 45-50% is contributed by the auto industry. Even prior to the lockdown, the auto industry was not in a great shape, with sales down by more than 10-15% and production cuts of the order of 5 to 10% or more. In the unorganized industry, the situation was much more worst, as the uncertainty would effect on smaller organizations with lesser retentive power, due to their lower profitability. This is somewhat similar to the ‘root beer game’ effect in Operations Management parlance, where an event in the market can lead to highly amplified response from the suppliers, leading to short term overproduction and medium term discount sales. Keeping the shrinking of distribution channels due to this effect are not unknown and goods tend to get offloaded at lower prices, providing volume support, but hitting the profit and profitability. India took special measures to control the spread by imposing one of the longest lockdowns in the world, to cushion the scarce availability of healthcare resources. The enormity of the lockdown affected manufacturing activities and supply chains alike, disrupting the overall economy. While India recovered fairly from the first wave, the second wave has hit the country the hardest in terms of fatalities. The second wave has led to further State-imposed lockdowns, impacting the economy while putting several restrictions in place on key businesses. This was followed by a slowdown in labor-intensive industries involving manufacturing, real estate, construction, and infrastructure, on account of the reduced labor availability during this period.

India's role in the post-COVID-19 era, particularly in the industrial sector, is a subject of great hope to the rest of the world. A positive outlook was witnessed in the manufacturing sector after the stabilization of the first wave due to an easing in COVID-19 restrictions and the resuming of full-time work in factories, which was

supported by a surge in new work and exports. Moreover, with this recovery and subsequent gradual reopening of the economy, the country succumbed to a second wave of the virus as focused are as under.

Keywords: Unorganized industry Indian Industrial Sector, Manufacturing industry Corona effect Manufacturing, COVID-19, Lock-down, First wave, Second wave.

INTRODUCTION

The manufacturing sector is a major part of the economy as it accounts for nearly 15-16% of the global GDP in 2017 and resulted in the government across the countries primarily focuses on encouraging the manufacturing sector. Certain initiatives in emerging economies to promote the manufacturing sector include Make in India and Made in China (MIC) 2025. MIC 2025 is the first stage of a larger three-step strategy to transform China into a leading manufacturing power. The initiative seeks to move China up the manufacturing value chain by utilizing innovative manufacturing technologies or smart manufacturing. Make in India is an initiative was launched in the year 2015 to encourage the production of goods in India. This aims to reduce India's dependency on exporting nations by producing goods in their own country. A substantial vaccination drive with bulk production and administration is underway in India with nearly 3-4% of the population completely inoculated. Nearly 190 million doses were given resulting in 40-45 million people fully vaccinated^[1]. Age groups within the range 18-44 can now book a vaccination which is aimed at vaccinating nearly 90-92% of the Indian workforce. Manufacturing is expected to pick up activity in the second quarter after core sector production begins to reach the levels of early-March 2020. Companies that have consolidated their business and organized their supply chains/processes are likely to have increased opportunities after the country recovers from the second wave. We expect ample opportunity to arise for those entities anticipating and planning their business efforts in line with the government's plans for a healthy economic recovery. COVID-19 put an immediate halt to many business activities across the globe, as several countries had shut down their ports, airports and domestic transportation while imposing nation-wide lockdowns, leading to a disturbance in business and civil life. The lockdown in India impacted manufacturing activities across the globe. India took special measures to control the spread by imposing one of the longest lockdowns in the world, to cushion the scarce availability of healthcare resources. The enormity of the lockdown affected manufacturing activities and supply chains alike, disrupting the overall economy. While India recovered fairly from the first wave, the second wave has hit the country the hardest in terms of fatalities. The second wave has led to further State-imposed lockdowns, impacting the economy while putting several restrictions in place on key businesses. This was followed by a slowdown in labor-intensive industries involving manufacturing, real estate, construction, and infrastructure, on account of the reduced labor availability during this period. India's role in the post-COVID-19 era, particularly in the industrial sector, is a subject of great hope to the rest of the world. The present paper makes an attempt to probe the impact of Post-Covid on Indian industrial sector^[2].

OBJECTIVE OF THE STUDY:

- To study the effect of covid-19 on the supply chain of the industrial sectors and method to mitigate the outcome.
- To study the origin of the effect of Post-Covid on Indian industrial sector's growth.

METHODOLOGY:

The data for the present study has been collected from existing secondary literature, such as books, journals, published and unpublished annual reports, Govt. Manuals/Orders, websites etc.

PRE-COVID-19 INDUSTRIAL GROWTH IN INDIA

The shock is playing out in almost a similar manner in all countries of the world in terms of demand and supply disruptions and the consequent economic slowdown. In case of India however the problem might be more acute and longer lasting owing to the state the economy was in, in the pre-Covid-19 period. By the time the first Covid-19 case was reported in India, the economy had deteriorated significantly after years of feeble performance^[3]. GDP (gross domestic product) growth rate has been on a downward trajectory since 2015-16. According to the official statistics, GDP growth slowed down to 4.2% in 2019-20, the lowest level since 2002-03. Industry, which accounts for 30% of GDP, shrank by 0.58% in Q4, 2019-20. Unemployment reached a 45-year high^[4].

TYPES OF POLICY SUPPORT REQUIRED

The immediate objective of the policy responses to the economic impact of Covid-19 is to ameliorate the effect of the shock on economic agents in both the formal and the informal sectors and to help them tide over the crisis. Against the background of a weak economy, the twin shocks of Covid-19 and lockdown are operating at two levels:

- Creating supply-side disruptions
- Triggering reduction in aggregate demand^[5].

The need of the hour are policy actions to deal with both supply- and demand-side problems. The supply side has been reeling under three pre-existing shocks:

- (i) Demonetization of 2016,
- (ii) Goods and services tax (GST) since 2017,
- (iii) Slowdown in credit growth.

The pandemic is creating additional disruptions due to the following factors:

- Mass exodus of migrant workers from urban areas: Many firms will not be able to find the required number of workers, and hence production will be constrained even if they do not face a demand shortage. This will be acute in sectors such as construction, logistics (last-mile delivery of goods), unskilled manufacturing, etc., where large number of migrant workers are employed.
- Non-availability of financing: Finance is the backbone of business and the banking sector, especially public sector banks (PSBs), have been operating under high levels of risk aversion^[6].
- The future prospects of borrowers have become more uncertain in the ongoing crisis. This will further affect credit availability. Bond markets have also become risk averse. Credit spreads on corporate bonds are the highest since 2009.
- Restrictions on international trade: The pandemic has disrupted global supply chains. To the extent that international transport of goods is adversely affected, importing firms will face supply constraints.

- Logistics issues: The lockdown has imposed restrictions on intra- and inter-state movements. This has made transportation of raw materials and finished goods difficult even within the national boundaries^[7].

EFFECT OF THE FIRST AND SECOND WAVE ON INDIAN INDUSTRIAL SECTOR'S GROWTH:

COVID-19 outbreak and global FDI to choked those companies which have been operating with excellent operational parameters, like, high quality, high productivity, well trained workmen, well maintained machines, etc., will take off faster than the others. Thus, for well managed companies, the period after lockdown could be an opportunity, while, for others, it could be an uphill struggle. During the period of nationwide lockdown the good companies must develop recovery plans, while the not so good ones will develop survival plans. In the SME sector, if banks are not able or willing to provide the necessary credit, However, after the outbreak of corona virus, the global FDI inflows has witnessed a sharp decline. Manufacturing in India is standing idle The results of the survey indicate that manufacturing in India has stopped, except for the rice milling sector where production has reportedly dropped by half. In several sectors, including automotive components, MSMEs were already experiencing a prelockdown decline in business, due to a stagnating economy and market demand and the disruption of international supply chains due to the lockdown in China. Some communications, sales, administrative and other support activities are being undertaken from home but on a rather limited scale^[8]. Migrant workers, particularly semi and unskilled workers, have returned in large numbers to their hometowns. One bicycle-parts manufacturer has succeeded in innovating and got involved in the manufacture of ventilators, although it only retains a small fraction of its regular workforce. A First wave of India's manufacturing sector had gone through various phases of development in recent times. The sector contributes to approximately 16-17% of the GDP and provides employment to almost 20-25% of the country's workforce. During the first wave of the pandemic, lockdown-imposed restrictions on the movement of goods and people severely impacted workforce capacity and disrupted supply chains, bringing nearly all manufacturing activity to a stand-still. The manufacturing industry was affected in several ways due to the pandemic leading to low-scale operations, and eventually, a negative impact on production volumes^[9].

Over a period, this adversely affected the turnover and revenue. The IIP also fell to a negative growth of around 9.5- 9.6% indicating that core manufacturing activity also suffered setbacks resulting from the first and the second wave. The complete lockdown and partial lockdowns had both demand-side and supply- side impacts on the manufacturing sector. On the supply side, the limited movement of goods, services, and personnel affected the production network. The downturn in economic activity and the overall slowdown in production caused employment loss. These supply impacts were further compounded due to the demand-side facing issues such as reduced disposable income, savings, and increased uncertainties. A positive outlook was witnessed in the manufacturing sector after the stabilization of the first wave due to an easing in COVID-19 restrictions and the resuming of full-time work in factories, which was supported by a surge in new work and exports. However, with this recovery and subsequent gradual reopening of the economy, the country succumbed to a second wave of the virus as focused are as under^[10].

Table -1

Index of industrial Production (IIP) Vs (Manufacturing (%))

Year	2018-19	2019-2020	2020-21	2021-22
Manufacturing (%)	3.9	-1.40	-9.6	3.1

The impact of the post-covid did have a telling affect on the Indian Industrial sector. In the face of global turmoil the Gross Domestic Product growth of India's economy was reasonable. The above table-1 shows that the Index of industrial Production (IIP) (Manufacturing (%)) negative growth from 2018-19 to 2020-2021^[11]. Both decline in exports and as a result fall in domestic demand resulted in slowdown in industrial sector. The impact of global turmoil and associated factors also badly affected growth in industrial sector. A second wave was witnessed towards the end of the 2020 financial year. The country's optimistic recovery was thrust into further uncertainty as cases increased far more rapidly than the first wave. The fatality rate amongst individuals increased as several States introduced restrictions and curfews to mitigate the loss of life in the second wave. Healthcare infrastructure in the country faced a total collapse as citizens ran helter-skelter in search of beds, oxygen cylinders, and resources to survive the second wave. Small businesses and retailers bore the brunt of the initial impact of the second wave as they faced liquidity crunches and stretched working capital. It is expected that once the second wave stabilizes, businesses will see 70% of pre-covid revenue. Healthcare infrastructure was the most impacted as systemic issues led to an inability to accommodate the exponential rise in cases during the second wave. Age groups within the range 18-44 can now book a vaccination which is aimed at vaccinating nearly 90-92% of the Indian workforce. Manufacturing is expected to pick up activity in the second quarter after core sector production begins to reach the levels of early-March 2020.

Companies that have consolidated their business and organized their supply chains/processes are likely to have increased opportunities after the country recovers from the second wave. We expect ample opportunity to arise for those entities anticipating and planning their business efforts in line with the government's plans for a healthy economic recovery. Restarting business is a mega-challenge For the MSMEs participating in the survey, the main challenges for restarting business are: COVID-19 will remain around and create a high degree of uncertainty in all aspects of business. In particular, the need to avoid the further spread of COVID-19 in the workplace or through the movement of people and materials may result in further restrictions and a potential return to lockdown. Overcoming the cash crunch The most immediate concerns currently on the minds of MSMEs are cash flow and working capital. Most are concerned that survival is only possible with a substantive financial and/or fiscal support package from the government specifically for MSMEs. Some MSMEs believe that a financial stimulus will be enough, but others are recognizing that COVID-19 is a wake-up call to change and improve different aspects of MSME operations as well as the MSME ecosystem and the value chains in which they participate^[12].

CONCLUSION:

As the COVID-19 crisis continues many global industrial products companies are facing challenging times including production stoppages, due to supply chain disruption, cost escalation and workforce dislocation. What impacts industrial products companies can expect in the long-term and the next steps that can be taken to help keep them agile and mitigate risk in the future. The COVID-19 fallout is unprecedented. With more than half of the world's population forced into lockdown and countries struggling to get a grip on the fast-evolving health crisis, the economic implications of the pandemic have started emerging in the form of muted

growth projections and unemployment levels unheard of since the Second World War. It is observed that the impact of the post-covid did have a telling affect on the Indian Industrial sector^[13]. Both decline in exports and as a result fall in domestic demand resulted in slowdown in industrial sector. The impact of global turmoil and associated factors also badly affected growth in industrial sector. Manufacturing is expected to pick up activity in the second quarter after core sector production begins to reach the levels of early-March 2020. Companies that have consolidated their business and organized their supply chains/processes are likely to have increased opportunities after the country recovers from the second wave. We expect ample opportunity to arise for those entities anticipating and planning their business efforts in line with the government's plans for a healthy economic recovery.

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