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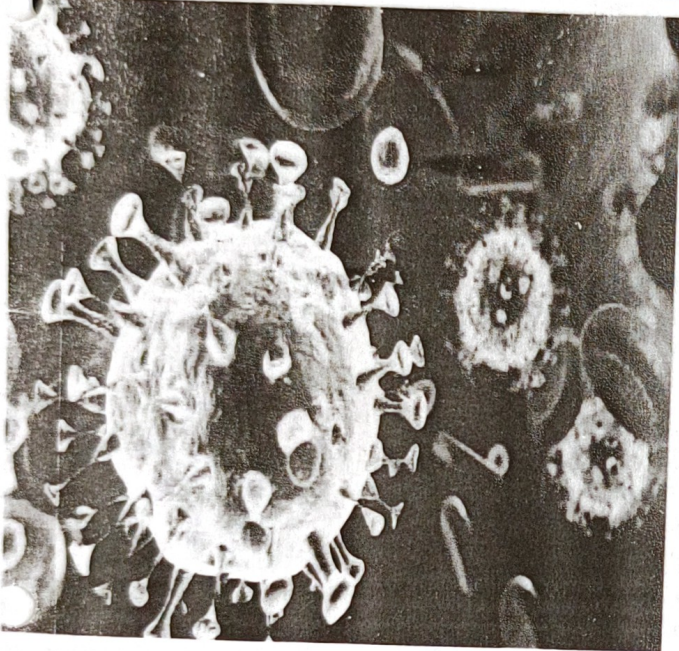
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Impact of COVID-19 on Indian Economy



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A Study Impact of COVID-19 on India's Trade.

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Abstract

The study aims to make an assessment of COVID-19 on Indian economy by analysing its impact on growth, manufacturing, trade and micro, small and medium enterprises sector, and highlights key policy measures to control the possible fallout in the Global economy.

Keywords : COVID-19, lockdown, India's Trade.

Introduction

The COVID-19 pandemic has created havoc in the global economy and international trade is no exception. In fact, the disruption to trade is so huge that it is likely to surpass the damage brought about by the global financial crisis of 2007-08. According to the WTO, world merchandise trade is set to plummet by between 13 and 32 percent in 2020 due to the COVID-19 pandemic. The chances of recovery in 2021 also remain bleak as there is no cure to the disease and it may take a while before the vaccine hits the market and a lot also depends on the stimulus packages and policy responses by various governments to revive their respective economies. All the regions are facing setbacks to their exports led by the United States and Asia with the worst affected sectors being electronics and automotive products in the complex value chains. Services are also expected to incur heavy losses due to restrictions on transport and travel. India has been experiencing a downturn in its exports for a long time now, even before the pandemic hits the world economy. 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.

Shrinking Trade

According to a report brought by CRISIL in March 2020, India's total exports dropped 34.6 percent y-on-y 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 percent y-on-y basis. 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. The labour intensive industries across the world are facing job losses in sectors such as gems and jewellery, handicrafts and carpets.

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 percent and electronic goods by 21.5 percent. Also, core (non-oil and non-gold) exports dropped by 34.2 percent in March 2020, while such imports fell by 29.1 percent.

Post-Pandemic Scenario

However, the situation is expected to improve in the third and fourth quarters of the ongoing 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.

The government has extended serious attention to the external sector as most of the issues being faced by India's exporters and importers have prevailed for several years including before the pandemic. The pandemic has only aggravated the problems. For instance, India's foreign trade policy (2015-20) is outdated and needs a major overhaul and restructuring, which is long overdue. Last year, all the export incentive schemes under the FTP were ruled to be WTO non-compliant by the global trade regulator. Though the government is negotiating with the multilateral body, it is given that India needs to do away with subsidies given to the export sector in the form of various schemes, which are WTO non-compliant. Recently, the government abandoned the Merchandise Exports from India Scheme (MIES) and replaced it with the Remission of Duties and Taxes on Exported Products, which is called the RoDTEP. However, whether the scheme is better than MIES and more beneficial it is too early to say. The Indian exports scenario certainly looks bleak. With more and more countries becoming protectionist and India largely into the export of intermediate goods and raw materials and with manufacturing in a slump across the world, the demand scenario is not encouraging. During the FY 2020-21, India's exports contracted by 4.8 percent to US\$ 314.3 billion, while imports declined by 9.1 percent 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 epicenter 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. The MSMEs, which are the backbone of India's external export contributing nearly 49 per cent to the country's exports, need urgent attention to get back on track.

Conclusion

India needs to restructure its trade policy and bring about radical changes to give a boost to its exports and also make the exporter community, especially the MSME sector competitive and on par with international firms in the global supply chains. The exporter community will need to be given big incentives and stimulus to overcome the challenges in tough times. Many of the export industries need some serious handholding. Incentives could include pre- and post shipment credit, relaxation in duties, support for increasing market access, etc. But strangely, the government has extended the current FTP to the end of the FY 2021-22. Possibly, the government would be better able to assess the situation and announce the policy taking the global trade scenario into consideration once the pandemic stabilizes. However, it may be too late by then. The government must be urged that the new Foreign Trade Policy (FTP) needs to be revised and adjusted as per the current state of affairs and at



the earliest possible. Mere export incentives are not enough, and therefore, some major stimulus packages need to be extended to various export sectors to help them overcome the loss caused by the pandemic. It is said that a good trade policy begins at home. If the government focuses on the sector, a quick turnaround would be possible by the end of 2020.

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