

“Economy, Pandemic and Revival Strategy: A Critical Review of Indian Economy During Covid -19”

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Abstract

The entire world is under an economic recession, and India has also stepped into it. The devastating virus spread made out country standstill. Due to long-lasting lockdown and other restrictions, people had to confine themselves in their own houses, and all the economic activities had stopped, which resulted in a nationwide economic recession and job loss. In this paper, the author has exhibited both negative and positive impacts of the recent pandemic with the help of secondary data. The paper aims to depict the present economic scenario of India aimed and post-pandemic period.

Keywords: Economic Impact, Indian Economy, COVID-19, Pandemic Effect on Indian Economy

Introduction

India is a developing country, and it is also considered as the fifth largest middle-income economy with nominal Gross Domestic Product. Our economy is also termed as “mixed economy” because both private and public sectors are coexisting in it and grasps international trade and commerce. The economy of India also ranks third in the world in term of purchasing power parity (PPP). India, being a developing country, GDP per capita is low, and the base of the economy is agriculture. Indian economic system bears all signs of being a developing economy as the country holds high population, low gross domestic product, the massive population comes under the poverty line, lower capital accumulation rate and significantly dependent on agro products. IMF predicted an economic growth of 6.1 % in 2019 followed by 7 % in 2020 for India but IMF, in June’2020 had forecasted a minimum decline of 4.9 % in 2020 due to the sudden attack of Coronavirus in this year. From its birthplace of China, COVID -19 came to India through infected international visitors, and the first case of Coronavirus was registered in Kerala on 30th January’20. The devastating effect of the virus was significantly noticed in India, and the country stood on the highest position in regards to the confirmed cases in Asia and holds the second-largest position in the world after the United States of America. Statistics confirm that

our country experienced about one crore COVID cases with a massive death in different states, especially our financial capital, Mumbai and country capital, Delhi. The existing Government had no clue about the spread of the deadly virus in the initial stage and had no proper infrastructure, equipment, medicine and trained medical staffs and doctors to handle the situation. So they were bound to impose strict law to prevent the infection. Central Government had to take a concrete decision for imposing nation-wide lockdown from 24th march’20 and had to bar all economic activities for saving Indian population from the Coronavirus infection. The country, immediately, gone into the massive economic loss which put us into a turmoil.

In this research paper, the author has focused on different aspects of the economic impacts of recent deadly pandemic on the Indian economy.

Objectives

The primary objects of the paper are to:

- i. Evaluate the effect of COVID – 19 in Indian economy.
- ii. Formulating a critical analysis of loss and negative effect of Coronavirus.
- iii. Account for a positive impact of COVID- 19 on the economy.

Literature Review

The term "economy" defines as a condition of a country with regards to its production and consumption of goods and services and inflow of money (Mitchell, T., 1998). The economy is a value-added method of making and selling. It is typically categorised into two parts, such as physical goods and services (Hill, T. P., 1977). It means that there is a means of trade that is a structure of finance in the modern world (Kiyotaki, N., and Wright, R., 1989). This makes it easier to trade. According to Oliveira, economy involves cluster activities of production and consumption which are interrelated and decides the process of distributing and allocating resources in it (de Oliveira, J. A. P., et al., 2013). Needs of human beings related to production and consumption is generally fulfilled by economic activities of any country (Andrews, E. S., 2009), and also operated by the same cluster of people (Jackson, T., and Senker, P., 2011). Holton (Holton, R. J., 2013) is of the opinion that the different activities carried out in the society has a profound impact on the economy, and social welfare is majorly interrelated with the scientific thinking of habitats of an economy (Joy, N. M., and Paul, S. K., 2020). Kenessey (Kenessey, Z., 1987) describes that any economy of the world includes four significant sectors such as primary, secondary, tertiary and quaternary sectors. Primary sector involves agriculture and mining sectors (Freudenburg, W. R., 1992). In contrast, secondary sector deals with industrial products such as construction, manufacturing and different processing units (Singh, B. et al., 2010), The third one accounts for financial institutions like banks, stock exchange, service industry like tourism and hospitality, the entertainment industry and retailer outlets (Berry, L. L., 1996), and the last sector comprises of research and development, consultancy services and education (Miles, I. et al., 1995).

After going through different kinds of literature, we can accumulate different characteristics of Indian economy. India's national and per capita income generation is impoverished (Cherodian, R., & Thirlwall, A. P., 2015). The economy is marked by so much reliance on cultivation and is thus the primary producer (Puri, and Misra, 2017). Our country is holding very high population growth since independence (Bongaarts, J., 2009). Growing unemployment is resulting deficiency of capital in Indian economy (Srivastava, V., 2006). Both the amount of capital accessible per capita and the current pace of capital accumulation in India is very poor (Beine, M., et/ al., 2008). Another critical aspect of our economy is the under-distribution of resources (Khodabakhshi, A., 2011). Kinra mentioned that (Kinra, N., 2006) the

presence of low technology levels is one of the main characteristics of an underdeveloped country such as India. Most of the natural resources of India are not accessible due to low connectivity (Bardhan, and Tewari, 2010). Besides, India is lacking the proper infrastructure to develop (Saxena, S., 2017) and lives a very low level of lifestyle in rural India (Reddy, K. S., et al., 2011). Even after putting massive efforts at the government level, the literacy rate of India is still not up to the mark (Nehru et. al., 1995). Thus, a sufficient supply of quality human capital is lacking. As per 2011 census, the average population density of India is 382 per Sq. Km, whereas the world's average population density, is around 41 per Sq. Km (DMS, M., 2015, January) and finally India suffers from the shortage of strong economic organizations which might lead our economy into the higher level (Puri, and Misra, 2017).

The Indian economy was undergoing through a critical and developmental stage since a decade, and it was taking proper shape. According to the World Bank, India's GDP growth in 2019 was 4.18 % year on year (Basheer, and Hassan, 2019)., and it was expected to grow with a much higher rate in 2020, but the sudden spread of Novel Coronavirus smashed the entire scenario. Though the first case of COVID-19 was registered in India almost after sixty days from the first case found in China (Andrews, M. A. et al., 2020) who returned to Kerala from Wuhan, and gradually the deadly virus spread over the country as population density is very high in India (Bhadra, A., Mukherjee, A., & Sarkar, K., 2020). First COVID case in Delhi and Mumbai was registered in the first week of March and Mumbai has become the Corona capital of India. Today, India ranks second highest among the COVID affected countries of the world (Feroze, N., 2020) just after the US. So the economy is also positively affected in 2020, and the growth rate is also relatively low. After the gradual recovery from the pandemic, the Indian economy is not showing a significant sign of recovery due to many significant reasons. Economists are expecting growth to rebound up to ten percent in financial year 20-21.

Effect Of Corona Virus In India Economy

Indian economy had been very slowly growing, and undergoing through different phases. From the study of the World Bank's National Account data, we can observe that the GDP growth was slowly going down since 2016 (Fig: 01). It is observed that the GDP slashed down for 8.256 % (2016) to 4.181 % in 2019. It was in -2.63 in 1965 due to Indo-China war and - 5.23 % in 1979 due to political instability, but 2020 – 2021 is - 9.6% as a devastating effect of pandemic COVID-19.

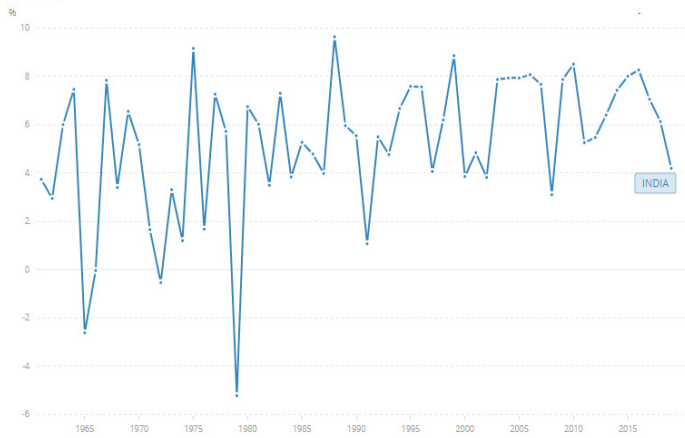


Fig 01: GDP Growth (Annual %) – India. Source: World Bank National Account data

Market Size of India and Impact of Pandemic

India is the largest democracy of the world and stands for the second-highest populated country too. India’s GDP growth was expected to Rs. 26.9 trillion in FY 2020 – 21 whereas it has decreased to - 23.9 % in the second quarter. According to the “Indian tech Start-up” report given by Nasscom- Zinnov, India is going to have ~ 100 unicorns and will create ~1.1 million direct employments by 2025. Even the economy was further affected by the pandemic, but India is able to keep a good FOREX reserve up to Rs. 39.64 million (data received by Reserve Bank of India published on 4th September’ 20).

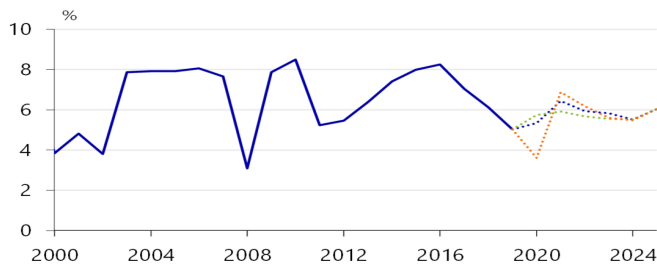


Fig 02: Expected GDP Growth Vs Affected Growth due to Pandemic

Besides, India incurred a massive loss in export as a decrease of 38% is registered from April to August’20. Another massive fall is also registered in PMI index as it stood at 46 in July and 47.2 in June’20. In February, 20, an annual budget for 2020-21 was declared where the total expenditure was kept at Rs. 37.14 trillion, which is considered as a 13 % increased than the last year budget, but the budget had gone up due to the incidental increment of medical budget due to COVID-19. CPI (consumer price inflation) also increased to 4.8 % this

year. It is also expected that India will become a country with USD 5 trillion by the end of Financial Year – 2025.

Loss in Agriculture Due to Pandemic

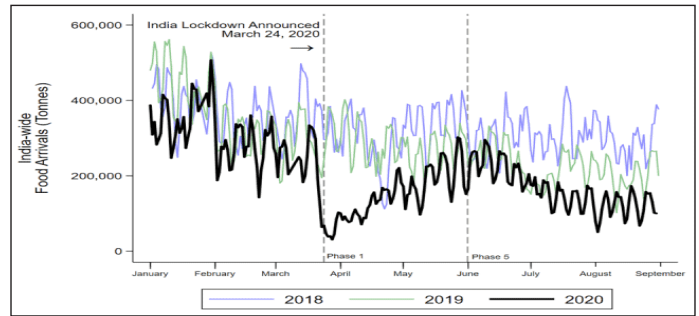


Figure 3: Graph of Food Arrivals in Different Mandis during Lockdown.

Source: <https://agmarknet.gov.in>

Due to country-wise lockdown, 50 % of the Indian farmers were unable to sell their harvested crops, and research reveals that about fifteen hundred farmers in two hundred districts in twelve states have faced massive loss. More than forty percent of labours were unable to cultivate and were unable to crop cutting due to shortage of labour, lack of storage and non-availability of transport during the lockdown.

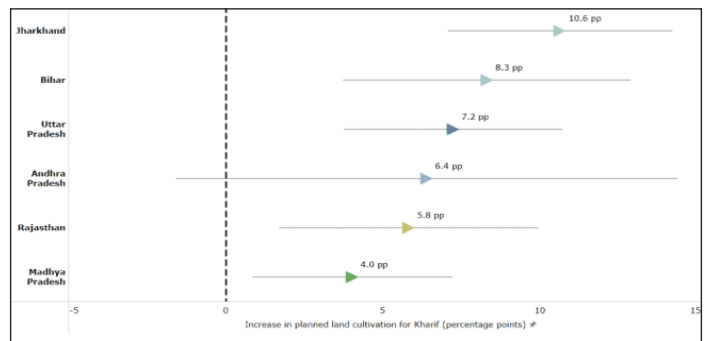


Figure 04: Change in 2020 planned land cultivation for kharif season (compared to 2019); data sourced from IDinsight survey

Only forty-four percent of farmers across India were able to sell their crops, but Sixty Three percent of farmers could not able to sell their products during March to June’20. Ten percent of the total vegetable producers could able to sell their products during the lockdown and suffered from severe loss. If livestock farmers are taken into account, Sixty Three percent of them incurred a decline in their income, which can be considered as a Thirty-Six percent average decline compared to the first two months of the year.

Loss in Different Manufacturing Sector Due to Lockdown and Pandemic

	Output change Q1 FY 2021 vs Q4 FY 2020, %	GDP share, %	Bank credit FY 2019, % ¹	Employment FY 2018, millions
Airlines and hotels	-70 to -75	2	1 ¹	8 ²
Auto and advanced industries	-50 to -60	2	1	*
Construction and real estate	-50	8	11	54
Textiles	-50	2	3	*
Freight and logistics	-40 to -45	8	2 ²	22 ²
Metals and mining	-35 to -40	7	7	*
Oil and gas	-20 to -25	7	2	*
Power	-20 to -25	2	9	3 ³
Consumer and retail	-20 to -25	11	11	47
Chemicals	-15 to -20	2	1	*
Agriculture	-15 ²	15	18	205
IT services	-10 to -15	5	0	4
Pharmaceuticals	-10 to -15	1	1	*
Telecommunications	0 to -5	2	2	1 ¹
Total		67²	89	402^{2b}

Figure 05: Loss in Different Manufacturing Sector Due to Lockdown and Pandemic

As India announced lockdown from the third week of March, most of the sector had face severe loss, as mentioned in Figure 5. Telecommunication suffered very little as that was the only medium of communication., but the biggest hit was in the aviation and hospitality industry (- 70 to - 75 %) as the human activities were deadlocked. Auto and advanced industry were in the second position with - 50 % similar to the construction industry as migrant labour had to either move to their home state or were in quarantine. Logistics also was slowed down due to lack of transportation facilities. Other sectors such as power, oil and natural gas, chemicals, Information technology and mining faced a temporary slowdown in their business. Agriculture segment has an instant loss (-5%) which was covered somehow once the ban was lifted.

Impact on Job Loss and Gain Due to the Coronavirus (Covid-19)

Virus effect has grown up and reached about one crore by the end of the year and caused colossal job loss in 2020. Retrenchment took place in both the private and government sector. The typical scenario was cut off in salaries and wages, unpaid leave for an uncertain period, Millions of people have lost their jobs since March’20, and the situation is not showing any improvement even India is mostly unlocked by December. A clear picture of job loss (Age group-wise date) is shown in Figure 06. Data shows that the significant job loss took place in between 20 – 39 years old age group and the majority of them had not much experienced and they were working in either entry-level or bottom level management. Besides, the age group between 40 to 60 years have not suffered much compared to young employees as they were associated with either middle-level management or were engaged in strategic planning for the organization.

It can be concluded that the youth of India has positively affected due to COVID – 19.

Impact on job loss and gain due to the coronavirus (COVID-19)

April and July 2020, by age group (in millions)

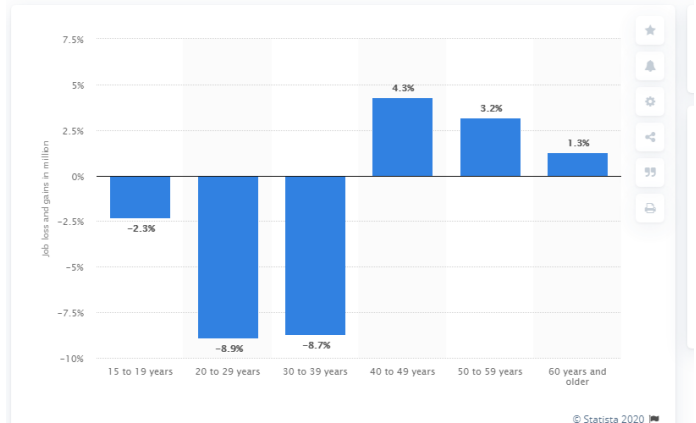


Figure 06: Age group wise Job Loss data for India.

Source: Statista.

Impact of Covid - 19 on Education Sector in India

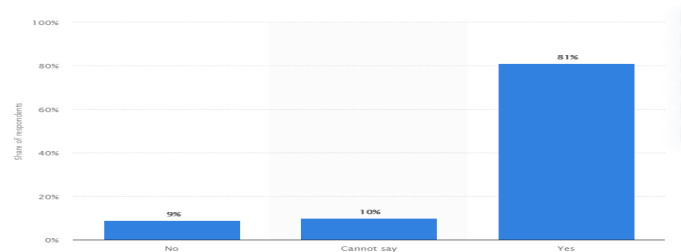


Figure 07: Opinion Survey Pole for Not Opening School till March’ 21.

Source: Statista

Education sector is large industry in India and it has been impacted due to pandemic. Our education institutions have been categorized by two different segments – Government schools, colleges and universities, and private schools, colleges, universities and institutions. Apart from these, many other training institutes and vocational centers are also found in India. Majority of these organizations are completely shut down since the third week of March when the pandemic stuck in India. Research states that 91 % of the Indian educational institutions run through offline mode. But they had to shift to online mode for one full semester including conducting examination through online mode which not only involved huge manpower but also a high degree of new investment was required for the sudden change in the education platform. Besides, a large number of parents either lost their jobs or received partial salary

which again indirectly impacted the revenue earnings of both private and the government institution as parents were unable to pay the semester fees for their children.

General Discussion on the Effect of Covid -19

In India, the economic effect of the 2020 coronavirus pandemic was mostly detrimental. According to MoS, India's development declined to 3.1% in the last quarter of the financial year '20. The spokesperson to the Central Government addressed that this decline is partly attributed to the pandemic impact on the our economy. The country has experienced a pre-COVID-19 recession. World Bank mentioned that the new virus spread has increased pre-existing risks to India's economic outlook.

The World bank and some more rating agencies had revised their developmental outlook and India's growth in the Financial year 2021 and estimated lowest growth since 1990. Though an economic package was announced in May by our Prime Minister , Narendra Modi, still growth figure was in negative.

In the month of May, CRISIL declared that India is going to face the worst recession since independence. SBI study predicts a negative growth of more than 40% of GDP in Quarter-1 This negative growth Won't be universal but will definitely vary as per the different criteria, like state and industry. The MoS published Gross Domestic Product estimates for Quarter-1 which is from April to June in the Financial Year 2021 on the 1st September '20, which indicated a negative growth of twenty four percent relative to the same quarter of the last year.

According to Nomura India Company Resumption Index, the economic activity decreased from 82.9 on 22 March to 44.7 on 26 April. On 13 September '20 economic growth was almost back to pre-locking. Unemployment grew from 6.7% on 15 March to 26% on 19 April and then back to pre-locking by mid-June. During the lock-down, an unprecedented 14 crore citizens lost their work, while wages were reduced for several others. More than 45 per cent of households across the nation registered a decrease in income relative to the previous year. The Indian economy was predicted to lose more than Rs.32,000 crore per day during the first 21-day full shutdown, which was announced after the COVID outbreak Under complete lock-down, less than a quarter of India's \$2.8 trillion economic movements was functional. Up to 53% of companies in the country is expected to be dramatically affected. Supply chains have been under tension with the lock-down controls in place; originally, there has been a lack of clarification in streamlining what is "essential" and what is not. Informal industries and daily wage classes have been at the most significant risk. A substantial number of farmers across the country have been at the most significant risk.

Positive Effect of Covid – 19

Though the deadly pandemic has ruined the Indian economy, it has left some positive impacts through structural changes made as a survival strategy by both the government and private sectors. Indian e-commerce was not getting a boost in recent days which has been geared up due to the pandemic. As per statistics, only 30 % of the Indian population used to shop online, which increased to 53 % during the pandemic. A reputed firm, Morgan Stanley speculated that Indian online shoppers would have a threefold increase from 190 million to 590 million and their spending will be almost double, amounting USD 318 per person at the end of 2020 and will continue further in the near future.

It is also a known fact that the global outlook is changed due to pandemic. Many countries were utterly dependent on China to import raw materials and other finished goods and invested heavily in China. It is expected that India will have its long waited to turn to grasp the opportunity of inviting investments in near future as a lot of blue-chip companies are turning their face from China and looking for better investment opportunities in countries like India. On the other hand, India's government has adopted a new policy called "Vocal for Local" to encourage Indian entrepreneurs to start their own "start up" companies after receiving financial benefits from the government.

Another positive effect of COVID-19 is the liquidity rush in India's capital market. Whole world banking segments have taken a farm imitative to cut interest rate and announced different collateral-free low-interest borrowing facilities for the investors. RBI has an appreciable initiative by supplying a 3.74 lakh crore liquidity in the Indian economy with a shallow interest rate that helps small, medium, and large-scale institutions and individuals in the business set up their new business.

Another significant positive impact is to change in work culture worldwide, so as in India. The new concept "Work from Home" has become very popular and invited a fair means of acceptance in Indian society. Except for manufacturing units, other industries have introduced this culture and running their show successfully and enjoying benefits out of it. The new culture has facilitated a different window for them which were never tested yet. Corporate houses are now able to reduce infrastructure cost in their budget.

Conclusion

The world has already encountered many great economic crises in the past including World War I & II, 1930's Great Depression, Oil stock issue in 1970, Recession in the 90s,

Lehman Brother's collapse, but again emerged positively. Though India has a mixed impact on its economy due to devastating Coronavirus, it has mostly balanced the same in recent days and turns into the positivity. With new conviction, Indian economy is leaping towards an equitable and sustainable development.

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