

Indian Industry and Self Reliant India – Vision and Prospects

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ABSTRACT

Covid pandemic has drastically affected every sector of the economies all over the world. The industrial sector is drastically affected, that would also impact production, employment and revenue generation in the economy. Indian industry is largely dependent on the exports and major industries heavily reliant on the inputs from the other countries for the production. Owing to the lockdown, supply chain operations were disturbed with the imposed restrictions. In a globalised world, supply chain is interconnected among different nations. It resulted into enhanced supply chain disruptions across the globe. The Indian trade scenario also got shocked in this unprecedented situation. In order to revive out of this crisis, it is recognized to strengthen domestic supply chain with less dependence on exports. The Government of India initiated various measures in this regard to make Atmanirbhar Bharat- Self-reliant India. In this context, the present paper focuses on the on the trade scenario with special reference to supply chain disruptions in the light of challenges and policy measures.

Key words: Covid Pandemic, Indian Industry, Supply Chain, Atmanirbhar Bharat.

About the Author

Dr. Navdeep Kumar is serving as Assistant Professor in Commerce, Lyallpur Khalsa College, Jalandhar. His teaching experience is 21 years. He has published one book and around twenty papers in journals. He has also participated in more than sixty seminars/conferences of national and international levels. He has successfully completed a research project sponsored by UGC, New Delhi.

I. Introduction

The Covid-19 pandemic is causing large-scale loss of life and severe human suffering globally. The OECD indicates that the impact of the lockdown could be a decline in the level of output in many economies as well as the decline in consumers' expenditure. The connotation for annual GDP growth is anticipated in a decline of up to two percentage points for each month that strict containment measures continue, although this impact will depend on many factors, including the duration and magnitude of national shutdowns, the extent of reduced demand for goods and services in other parts of the economy, and the speed at which significant fiscal and monetary policy support takes effect. This is a much more negative outlook than foreseen just a few weeks earlier (OECD, 2020).

Indian industry is largely dependent on the exports and major industries heavily reliant on the inputs from the other countries for the production. With the alarming depression owing to the Covid-19 pandemic, the high debt scenario can deepen the financial pressures to the economies and contribute to the meltdown in financial markets. India's recent economic slowness would be susceptible to the impact of the pandemic. The commotion in the supply chain, limited access to raw material, shutting down of factories and unavailability of the full strength of employees could lead Indian companies towards financial crisis (ASSOCHAM, 2020). MSMEs are likely to be strictly impacted if the lockdown continues for a longer duration. A large number of MSMEs could incur business losses and may also face stern cash flow disruption, which in all likelihood will have an adverse effect on the livelihood of several people working in this sector. Moreover, from economic outlook, it is particularly significant to ensure the flow of money into the working capital of such enterprises otherwise there will be a risk to the survival of these enterprises (FICCI, 2020).

Against this backdrop, the present paper focuses on the impact of COVID-19 on the Indian industry with special reference to disruptions in supply chains in addition to the challenges as well as suggestive measures. The data used in the paper is secondary, which is mainly obtained from the published reports of the various research agencies, government publications, newspapers through the internet. Besides Introduction in Section I, the impact of COVID-19 on the Indian industry has been discussed in Section-II. Section III explains the supply chain disruptions due to the COVID pandemic. Section IV concludes the paper with suggestions.

II. COVID-19 Impact on Indian Industry

The Indian economy has been witnessing economic slowdown over the past few quarters. In the third quarter of the current fiscal year, the economy grew at a rate of 4.7%. Investment and consumption demand had been suffering and a number of stimulus measures have been taken to bring back the economy on a growth path. There was a strong hope of recovery in the last quarter of the current fiscal year. But, the COVID-19 epidemic has made the recovery awfully difficult in the near future. It has posed huge challenges for the Indian economy on demand and supply fronts. The supplied front has been impacted owing to the closing down of the factories in China, US and other markets of Asia and Europe (FICCI, 2020).

The Indian economy is likely to experience a lower growth during the last quarter of the current fiscal. In case the spread of corona virus continues, growth may remain in the first quarter of the next fiscal year. Various agencies have therefore revised their 2020 and 2021 growth projections for India keeping in view the negative impact of COVID-19. ADB has projected that Covid-19 outbreak could cost the Indian economy alone between US\$ 387 million and US\$ 29.9 billion in personal consumption losses. The projections have been made by ADB under four different scenarios: best-case, moderate-case, worst-case and a hypothetical worst case. In the same way, in a moderate case, the losses will be about US\$ 640 million while in a worse-case scenario when the precautionary measures continue for six months, personal consumption expenditure in India can decline by US\$ 1.2 billion. The forecast by OECD has revised down India's growth forecast by 110 basis points to 5.1% for 2020-21 and by 80 bps to 5.6% for 2021-22. OECD has also estimated that global growth in 2020 could come down by 50 bps as compared to what was projected earlier. Fitch has also cut its forecast for India's economic growth to 4.9% for 2019-20 from 5.1% projected earlier, as it expects weak domestic demand and supply chain disruptions due to the corona virus outbreak to affect the manufacturing activities adversely. Moody's Investors Service has revised down its growth forecast for India to 5.3% for 2020 from its earlier estimate of 5.4%.

Further, MSMEs are suffering severe problems including shortage of labour, interruptions in the supply chain of intermediate goods in addition to the decline in demand, revenue, liquidity crisis etc. MSMEs occupy a vital role in the industrial sector of the nation in terms of employment, exports and revenues. This segment is adversely affected all over the world. Various countries have announced several measures to ensure the least impact of the present slowdown on this vital sector as follows (OECD, 2020).

A survey by the FICCI (2020) reveals that:

- The effect on demand and supply of goods and services, businesses are also facing reduced cash flows due to slowing economic activity.
- 53 % of the Indian businesses point out the marked impact of the Covid-19 pandemic on business activities at early stages.
- It has significantly affected the cash inflows.
- Supply chain has been poorly affected.
- Organisations have focused on hygiene aspects.
- About 30% organisations have initiated Work-from-Home policies for their employees.

Supply Chain Disruptions

As per the UN report, India is among the top 15 nations affected by the slowdown of manufacturing in China. It is also estimated the trade impact of around 348 million dollars. Further, this outbreak could also huge loss in respect of consumption losses, as per the report of Asian Development Bank (www.livemint.com). For India, the trade impact is estimated to be the most for the chemicals sector at 129 million dollars, textiles and apparel at 64 million dollars, automotive sector at 34 million dollars, electrical machinery at 12 million dollars, leather products at 13 million dollars, metals and metal products at 27 million dollars and wood products and furniture at 15 million dollars. China has seen a dramatic reduction in its manufacturing Purchasing Managers Index (PMI) to 37.5, its lowest reading since 2004. This drop implies a 2 per cent reduction in output on an annual basis. This has come as a direct consequence of the spread of corona virus (CII, 2020). China accounts for close to 30% of global exports of electronics and electroinic components. India's total electronic imports account for 45% of China. Around one-third of machinery and two-fifths of organic chemicals 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 (Kumar et. al., 2020 and Business line, 2020).

Further, the disruption in the global supply chains due to lockdowns and business closures have affected the economies all over the world and it is estimated that it will decline the global trade of all nations. The Covid pandemic has enhanced the problems and challenges of already slowdown of global trade growth due to USA and China trade war; increase in protectionism and non agreement among G-20 and G-7 countries to enhance global trade. The covid-19 outbreak is global in nature and severely affected the economic structure as it is intensely interrelated. It has widely disrupted the supply chain in every nation including India. As discussed above that Indian industry is heavily dependent on imports. Such imports are also essential for exports apart from domestic production. Thus, supply chain disruptions have far reaching impacts on exports earnings, employment and MSMEs which are heavily dependent on imports (Sahoo, P. 2020-book). According to the Ministry of Commerce and Industry, Government of India, the dollar value of exports reduced by 12.76 per cent in the January-March 2020 quarter, compared to the same quarter in 2019, where as in case of exports of 2019 to US\$ 21.41 billion in March 2020 with a negative growth rate of 34.57 per cent. Further, imports also declined from US\$ 43.72 billion in March 2019 to US\$ 31.16 billion in March 2020. The covid outbreak would largely affect manufacturing sector where the production process is globally fragmented. The share of global value chain based trade in total world trade augmented astoundingly during the 1990 – 2000. Developing countries dependent on global value chain trade would be negatively affected due to the lockdown at global level (World Development Report, 2020 and Veeramani, C.2020-book).

Conclusion and Suggestions

There is an urgent need to take immediate steps to not only contain the spread of the virus but also to address the key pain areas of the industry which can help in minimising the impact of the outbreak on the Indian economy. Supply chains have become highly sophisticated and vital to the competitiveness of many companies. But their interlinked, global nature also makes them increasingly vulnerable to a range of risks, with more potential points of failure and less margin of error for absorbing delays and disruptions. A decades-long focus on supply chain optimization to minimize costs, reduce inventories, and drive up asset utilization has removed buffers and flexibility to absorb delays and disruptions. COVID-19 illustrates how many companies may not fully appreciate their vulnerability to global shocks through their supply chain relationships. India needs to move away from an input base system to a more support base system that would promote participation in the supply chains. Domestic firms must develop its own local sourcing units and

adopt alternative strategies for reducing dependency on China. The government must support domestic manufacturers to enlarge capacities, venture into new geographies and reach out to global manufacturers, making it attractive for them to invest in the country. COVID-19 has taught corporate decision makers that in formulating future supply chain design, apart from cost, quality and delivery they would also need to stress-test the chains on new performance measures including resilience, responsiveness and reconfiguration.

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