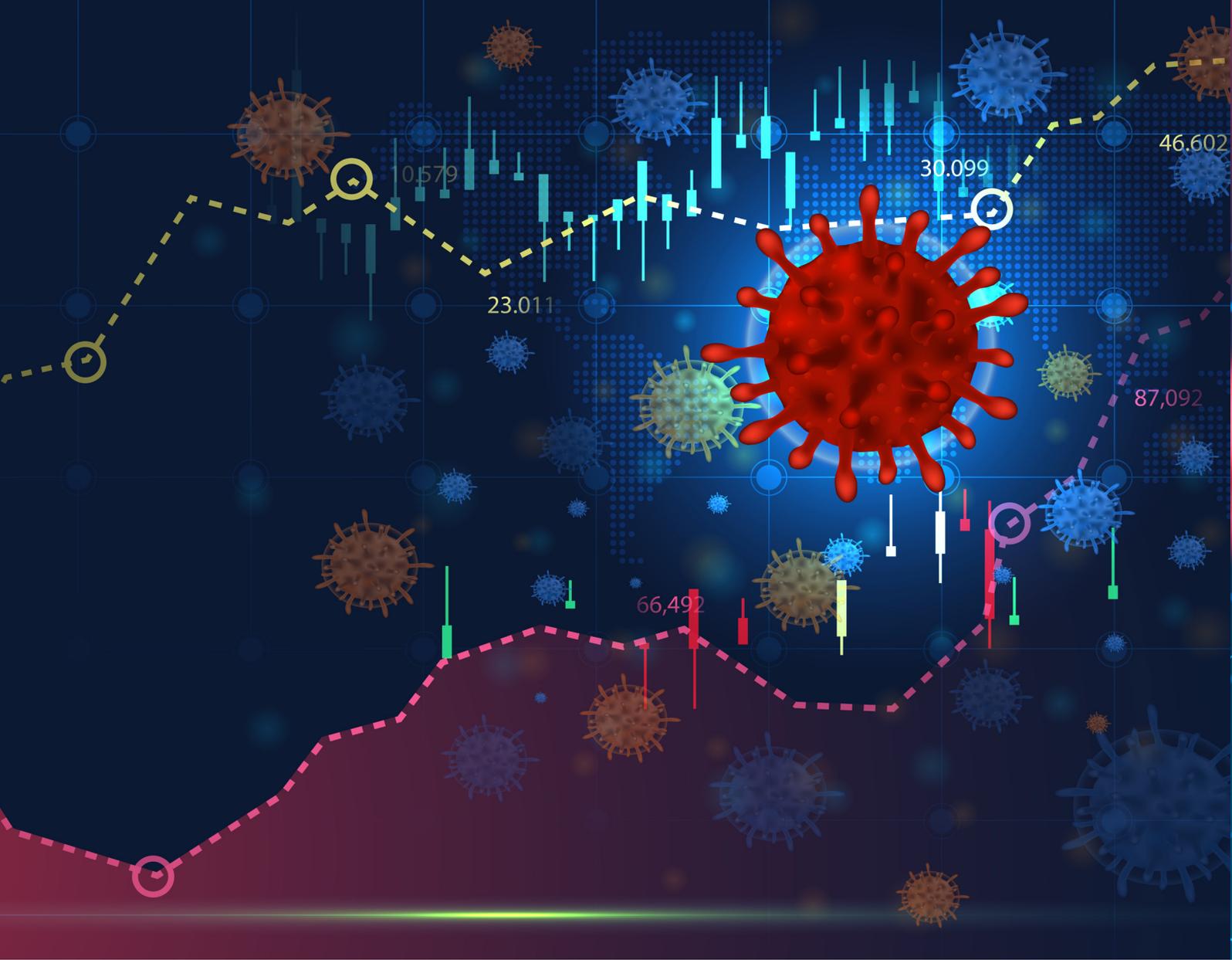


COVID-19 AND THE ECONOMIC STRUGGLE: AN INDIAN PERSPECTIVE

APRIL 2020

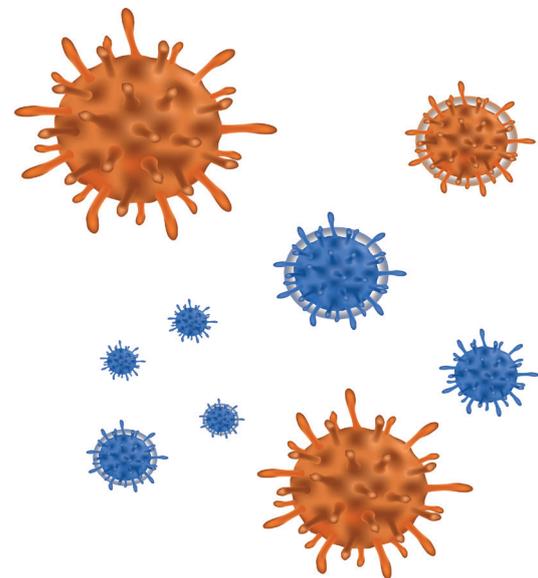




INTRODUCTION

The COVID-19 pandemic has spread globally with alarming speed, resulting in most nations closing their borders to ward off the disease. This has drastically affected the global economy, supply chain and travel. China, the largest exporter and the second largest importer, was first affected. With the country imposing lockdown to contain the infection, the economy suffered. This led to a cascading effect on global economies. And though we now

see China recovering, the outbreak has registered exponential growth in other parts of the world. Hence, China's resumption of economic activities is likely to be nullified by lockdowns & restrictions being imposed elsewhere, resulting in economic disruption from the demand side. Additionally, the outbreak has also led to changed behavioural dynamics from consumers, workers and employers globally.



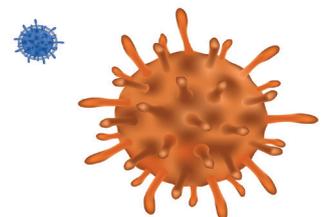


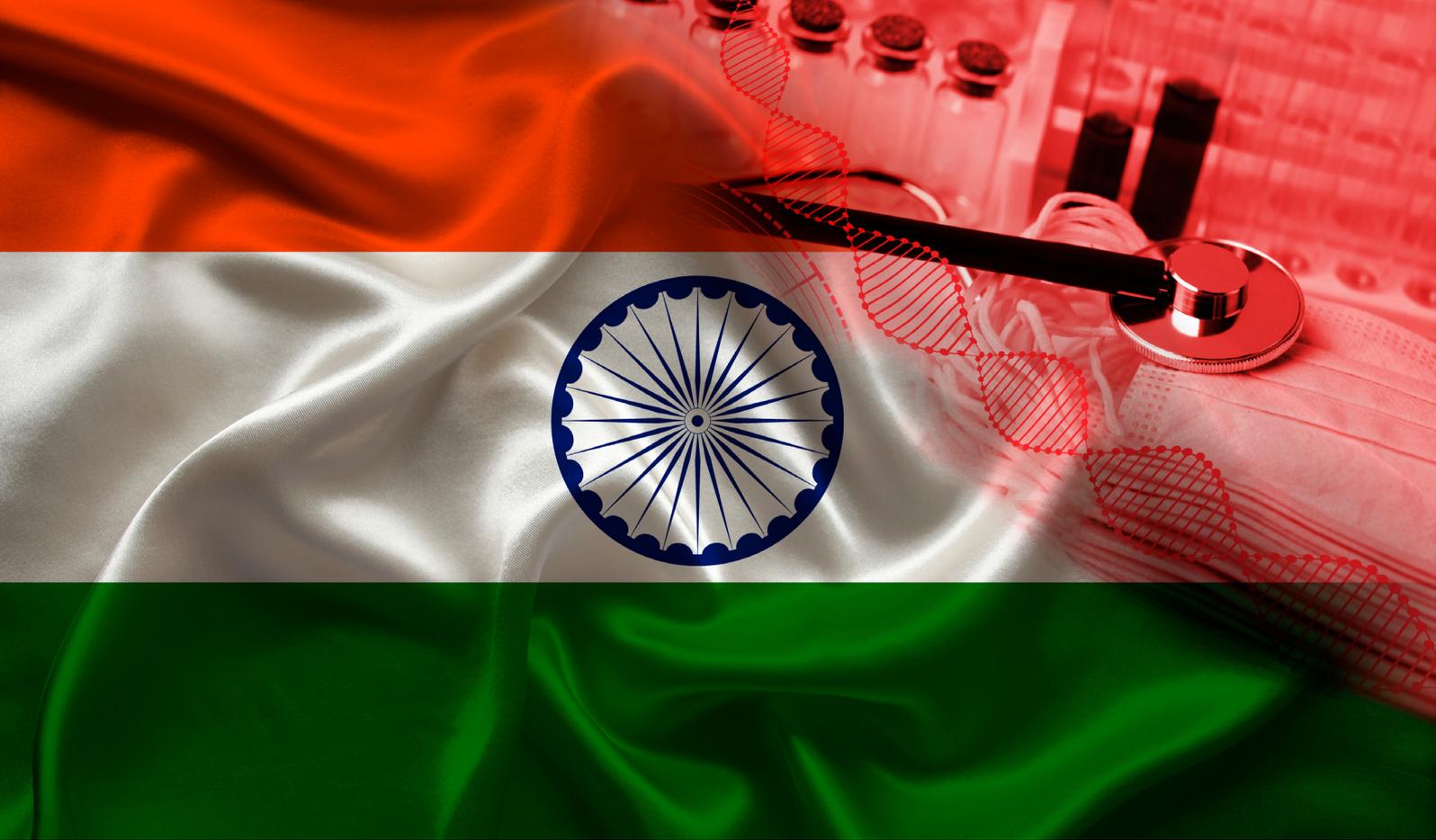
THE WORLD

The slowdown in Chinese manufacturing is likely to cost the world US\$ 50 billion in exports, according to UNCTAD. As China is the leading manufacturing hub in the world, this is likely to impact several world economies. Additionally, the spread of the outbreak in several other regions is worsening the situation. With agencies like OECD, Moody's and Fitch downgrading the GDP outlook for the global and most

national economies, things don't look good at the outset. Fears of a global recession are increasing as the disease and its impact spreads across.

Some of the major industries impacted globally are travel and tourism (lack of mobility), manufacturing (supply chain impact) and healthcare (health precautions).





INDIA

India, like the rest of the world, is also facing the challenges arising from the COVID-19 outbreak. In the Indian context, the economy is losing through various means.

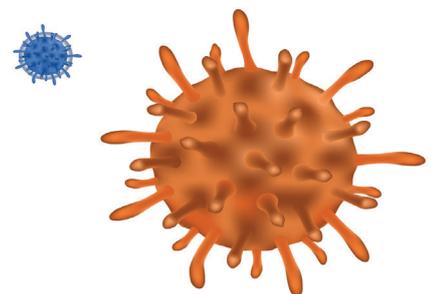
The first means of losing money is the closed international borders. This impacts trade flows, and has a domino effect on India's supply chain for key sectors which start bleeding money. As per UNCTAD's estimates, India's trade is likely to take a hit to the tune of US\$ 348 million due to global supply chain disruptions. The country majorly imports electronics, organic chemicals, automotive parts, fertilisers, textile raw materials and pharmaceutical ingredients. Along with these, the shipping & freight industry is also affected. The move also impacts India's tourism and hospitality industry, as the number of tourists and their spending falls drastically.

Another means is the lockdown imposed on the nation, with all non-essential sectors to remain close for at least a month. Even essential services are likely to feel a pinch down the line if

the lockdown persists past the current 21-day period. Additionally, in terms of employment, corporate employees are likely to continue with few disruptions, their biggest change being the adoption of flexible workplace. However, daily wage workers & the self-employed, which comprise 81% of the Indian workforce, are likely to have severe effects as they're unable to work due to travel restrictions. As per estimates of the National Sample Survey, about 136 million jobs across non-agricultural sectors would be at risk due to the outbreak.

Additionally, GDP growth estimates have also been downgraded by leading agencies, such as Moody's and Fitch, to rates at 2-5% for FY20 indicating a steeper downfall than expected. People are also likely to undergo serious savings deficit – perhaps even going deep into debt – should expenditures continue without revenue.

The above factors are likely to show affect across sectors in the country. Some of the impacted industries are discussed in the next section.



TOURISM & HOSPITALITY

Indian tourism has stalled as both international and domestic movement is restricted. Destinations like Rajasthan, Ladakh and Goa are seeing a downturn. Goa alone expects an INR 1000 crores (US\$ 141 million) loss of revenue. Even weekend destinations, in the vicinity of the country's commercial capital Mumbai, are deserted as people are house bound. The current national lockdown has resulted in a complete shutdown to all travel activities, bringing the industry to a grinding halt. Earlier, the industry might have

had hopes that business travel would continue and support the industry, but the lockdown has shattered that as well. However, with this break to the environment allowing nature to recover, tourists may return in large numbers once the situation resolves. Hence, the way forward would be to ensure continuation of essential operations till the tide turns. Authorities would likely have to provide a lending hand by way of policies such as simplification of visa requisites, tax breaks, infrastructure improvements, etc.

AVIATION

The first industry to be hit was aviation, with authorities calling for a stop to international travel. With the spread of infection, domestic travel also closed down. Accordingly, all airlines have tightened budgets, with some going so far as lay-offs. The aviation industry is likely to collapse without serious government intervention. IATA estimates that the global airline industry would need

almost US\$ 200 billion to survive this maelstrom. In case of India, the government is considering an intervention of about US\$ 1.6 billion. The package is likely to include temporary suspension of taxes, with possible interest free taxes paid in the next cycle. Regardless of government input though, airlines would likely find shrinking their operations a prerequisite for survival.



PANDEMIC

COVID-19

CONSTRUCTION

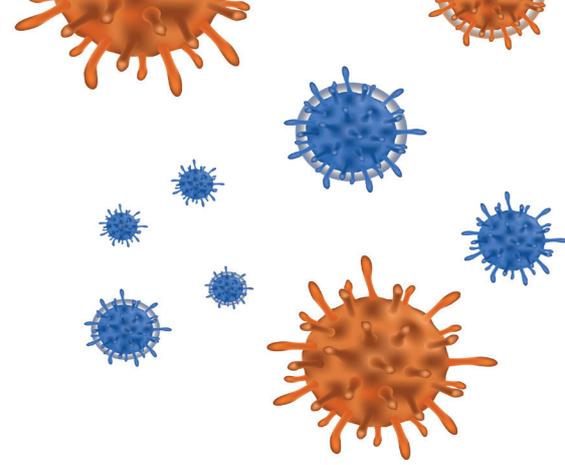
With around 20,000 construction sites in India and 18,000 in development, the construction industry employs 8.5 million. However, most construction sites would actually be closed down amid the national lockdown. Construction companies would likely face higher cost due to immediate unavailability of raw materials and workforce. To reduce this impact, Credai is seeking to extend the project completion

and penal exemption under RERA. However, additional initiatives, such as financial support & supply chain continuity, are needed for ensuring recovery. Firms associated with the development of critical infrastructure may need to coordinate with the public sector to help forge plans central to public safety and solvency of their workforce, while ensuring continuity of operations.

TRANSPORT

The transport industry is looking at a loss in billions. In early March with the first outbreak of the coronavirus, Delhi-based travel operators faced a loss of around INR 200-300 crores (US\$ 28-42 million). Now, with railways and road transport impacted all over the country, the losses are only likely to increase in magnitude. Railways alone are likely to face INR 450 crores (US\$ 63 million) in losses. The same can be seen in case of goods transport, with both imports & exports getting hampered

due to transport restriction across the country, coupled with international shipping disruptions. To be able to survive, alternative transport channels are a necessity. Government needs to promote and develop waterways, which can be a viable alternative. Additionally, moves such as reduction in freight documentation, reduction in toll charges and identification of express lanes, can be done to further support the industry.



AUTOMOBILE

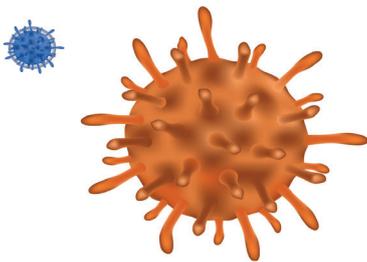
Indian automakers have largely suspended operations in line with national restrictions. The estimated production decline in March alone is likely to be of 100,000 cars, 15,000 trucks and over a half-million two-wheelers. The revenue loss for this period is estimated at US\$ 2 billion. However, a hidden opportunity also lies amidst the ongoing chaos. The supply chain de-risking that

occurred in the wake of the US-China trade war is likely to further grow and evolve post the recovery from the virus outbreak, which can be capitalized by India provided appropriate government stimulus is provided. Firms would also need to come-up with contingency plans, assess risk & track global trends so as to ensure gains.

TEXTILE

With imports disrupted, the textile industry may need to locally source raw materials like cotton and synthetic yarn, increasing costs by 3-5%. This is in addition to increased manufacturing costs & production restrictions arising from the lockdown. While manufacturing costs shoot up, India also has an

opportunity. International buyers are likely to seek India as an alternative to clothing export. To truly capitalise on this opportunity though, Indian textile manufacturers will need to expand their scale and improve their cost competitiveness, in addition to braving the ongoing crisis.



CONCLUSION

Diversifying is likely to be the name of the global game going forward. The economies of the world are already seeking to reduce their dependence on a single country to ensure no further impacts as this recur. India can step in to fill some of the supply needs of countries seeking diversification, if attention is given to production capacities, trade expansion and aggressively following the 'Make in India' mandate.

Before capitalizing on opportunities, however, business will need to stabilize & survive during this tumult. They will need to adapt to changing conditions to work around social-distancing and the lockdown. Measures such as flexible working conditions, continuous & effective

communication, and additional work support provisions are some moves that businesses must adopt to survive.

Once the health scare passes, the government will need to step in to help the affected industries recover. Losses would be too high and far too widespread for the industry to recover without monetary injections. The Confederation of Indian Industry (CII) is already urging the government to support the economy by providing around INR 200 Cr (US\$ 28 Mn) and tax breaks. Action from the RBI to decrease the repo rate has provided some relief, but there needs to be further official intervention in terms of business stimulus package & policies to facilitate economic recovery and growth.

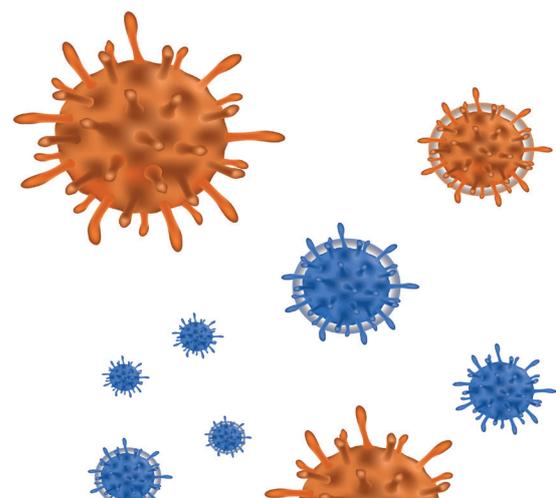
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