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COVID-19 – A Push towardsMade-in-India Initiative

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ABSTRACT

Even before the onset of this pandemic, this region's economy was confronting turbulence on an account of disruptions in trade flows and attenuated growth. Things are moving fast with the COVID-19 virus. One thing is sure that COVID-19 is the quintessential 'black swan', as two highlighting features of black swans are that their occurrence is highly unlikely and the impact they lay down is enormous, which was evident in the case the global financial crisis of 2008/2009. The situation has now been aggravated by the demand, supply, and liquidity shocks that COVID19 has inflicted. International, national and regional firms have found out the hard way just how vulnerable their globally integrated supply chains are. The paper focuses on, addressing the issues lying ahead as we look forward to a smooth course of economic recovery in India.

KEYWORDS:COVID-19, Manufacturing Industry, Indian Markets

I. INTRODUCTION

Post-independence, the Indian economy was heavily dependent on the agricultural sector. It contributed to more than 50% of the GDP. Over

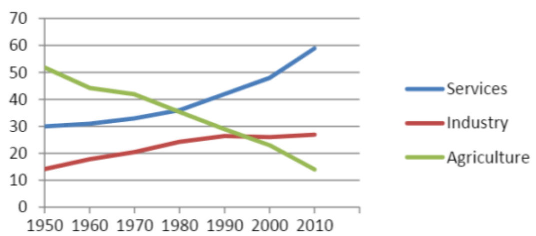

Figure 1: Sector-wise contribution to GDP

the years India gradually shifted to the service-based economy from an agriculture-based economy. Many economists believe that skipping the secondary sector is the main reason why the Indian economy has not developed as fast as other economies of the world[1].

The manufacturing sector has great potential in job creation, especially for the semi-skilled and unskilled labour force. Though the majority of the Indian population is engaged in agriculture there is a huge amount of disguised unemployment. [2]Therefore the manufacturing sector is seen as a key to India's economic growth. The growth performance of manufacturing industries can employ a large pool of surplus labour employed in low-productivity work in agriculture otherwise. In manufacturing sector, every firm has to choose its technique of production between labour-intensive and capital-intensive technique and aims to follow the efficient technique which minimizes the costs of a given output or maximizes the output from given inputs.The Manufacturing sector in India includes establishments engaged in the physical, mechanical, or chemical transformation of materials, substances, or components into new products. The Manufacturing sector is one of the important sectors both in terms of its spread over the economy and its contribution to the generation of income, employment and foreign exchange earnings.

In recent years the manufacturing sector has been the major focus for the government of India. Realizing the importance of the manufacturing sector and the amount of employment it can generate, many initiatives are being taken up by the current government to foster the growth of this sector. Having the benefit of a high amount of educated population & skilled labor, there is enough scope for the manufacturing sector to further develop in the country. The 'Make in India' campaign started by the current government is one of the biggest initiatives taken by any government in order to attract foreign investors to invest and start manufacturing in India. The government is providing adequate infrastructures like electricity and a strong network

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of roads and railways for easy transportation of goods and services. Many laws

Source: Reserve Bank of India (RBI), Aranca Research

Figure 2: Use-based classification of India's manufacturing sector

favouring the labourers and land acquisition are being implemented so that it is easier for foreign investors to start their business in India. Their main motive is to manufacture goods with zero defects so that none of the exported goods are returned back to India. With the 'Make in India' campaign, the government doesn't want to compromise on the environmental standards. They want to follow a sustainable and environmentally sensitive path to prosperity. Some of the major industries which are on a high rise are the automobile industry, electronic & semiconductor industries, machinery, chemical, pharmaceutical industries, and aviation industries [3]G.S.Dangayach et.al (2007). Many foreign investors are looking to invest in the defence sector of the country as well. Along with foreign investors, domestic companies having good leadership and manufacturing technology are also encouraged to invest, so that they can compete with the global leaders. [4]

II. RESEARCH METHODOLOGY

The study has been done mainly on the basis of secondary data and information available from books and published works and reports.

III. IMPACT ON INDIAN ECONOMY

It does not require a subject expert to remind that a complete social and economic lockdown in India would[5]definitely have severely impacted the supply side of the economy, that is, production and distribution of goods and services. In an economy which was already tottering under a demand slowdown, growing unemployment, and lowering of industrial yield and profits, [6]all of which were appearing together for several quarters now, a supply-side constraint delivered a big setback, jeopardizing growth possibilities and social and economic wellbeing of an extended number of people.

Rating agencies, both global and indigenous, were unanimous that the COVID-19 pandemic was to be an economic tsunami for India. Even though the country might not slip into a recession,[7] unlike the Eurozone, the United States of America, or Asia-Pacific that had stronger trade ties to China, analysts believe the impact on India's GDP growth had to be significant.[8]

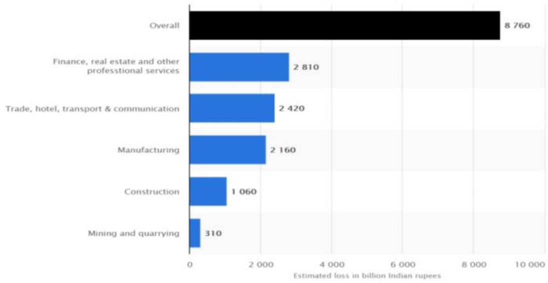

Figure 3: The estimated loss of Indian Industry

In India, GDP growth was already at a decadal low and any further dent in economic output will bring more pain to workers who have seen their wages erode in recent times. In its Global Macro Outlook 2020-21, Moody's cited severe liquidity constraints in India's banking and non-banking sectors as hindrance to growth. [9]On March 26, the Indian finance minister announced a USD 23 billion package aimed at cushioning the disruption. India's principal bank joined the fight a day following with sharp interest rate reductions and a slew of alternative measures aimed at making credit available to beleaguered industries.

To prevent GDP from shrinking in the opening quarter, there had to be a lot of recovering in the 10 weeks following the shutdown. Two factors that will have to aggressively drive this recovery are government investment and banking reforms, both expected to augment credit to all the sectors and industries. Growth could be lower at 1.5-2% if this does not happen.

China-India bilateral trade has been a topic of concern in recent times due to a number of factors varying from difficulties due to import dependence in some areas to the trade possibilities

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as the global supply chain likely shifts from China to the remainder of the globe including India.

To insert it in perspective, China is India's one of the principal trade associates and forms 9% of India's total export and 18% of total commodity imports.[10]

Import dependency on China for a range of raw materials (Agro-intermediates, APIs, basic chemicals,) and critical components (Capital goods, Durables, Auto,) is skewed. To give a flavour, out of the respective imports, 20% of the auto components, and 70% of electronic components come from China. Similarly, 45% of consumer durables, 70% of APIs, and 40% of leather goods imported are from China.

China-India bilateral trade -2019

India's overall merchandise imports	$484 bn	India's overall merchandise exports	$325 bn
Merchandise import from China	$85 bn	Merchandise export to China	$29 bn
	% imports from China		% exports to China
Electrical machinery	34%	Gems/Jewellery	36%
Nuclear reactor	18%	Minerals/Ores	15%
Organic chemicals	10%	Organic chemicals	11%
Gems/Jewellery	6%	Aquaculture	5%
Iron & Steel	4%	Electrical machinery	4%
Plastic goods	4%	Cotton	4%
Fertilisers	2%	Plastic/Polymers	3%
Medical equipments	2%	Nuclear reactor	3%
Auto components	2%	Iron & Steel	3%

Figure 4: Indian Dependence on China- Source: Ministry of Commerce, CRISIL, Moneycontrol Research

India requires going past being just self-reliant; if it requires the Made-in-India tag to stretch global. Common sense delivers the world appearance at alternate centers of manufacturing and sourcing, away from China. While that might not be feasible instantly, countries like India can step up to the hurdle.

Figure 5: Indian Manufacturing Setup

The Atmanirbhar Bharat scheme could give the much-needed fillip to the country's disrupted business operations by promoting Make in India manufacturing, encourage the substitution of imports of low-technology goods from other countries, especially China, and support local produce at cheaper prices.[11]

The Rs. 20 lakh crore incentive package declared by the government concentrates on tax opportunities for small enterprises, as well as grounds for indigenous manufacturing. The Rs. 3 lakh crore parallel supports handed out to MSMEs will help crank up their assistance. This move could help recover India's factory yield, which plummeted to record lows in March, with the Index of Industrial Production contracting 16.7%. Manufacturing sector manufacturing collapsed 20% in March, while electricity generation narrowed almost 7%. All divisions of manufacturing industries showed a shortening in production in March, with the poorest affected being auto and computer & electronic outputs sectors.

IV. WAY AHEAD

India's growing economy and strong middle class present a fruitful market while its plentiful skilled and semi-skilled labour attaches to the country's capacity to support bulk manufacturing, assembly, and processing.

In addition, India's cost advantages come alongside its democratic framework, with an emphasis on clarity and rules-based global regulation. India's eagerness to meet its supplier obligations without weaponizing trade provides the global trading community with predictability and ethical trade. [12]

The government of India should choose a phased approach, prioritizing some immediate, communications, and long-term segments.

- *Get down to grassroots*: In the near term, the government should announce eye-catching schemes to invite companies to manufacture in India's eastern coast and established manufacturing clusters. To set the right tone, the government should ascertain effective communication through business-friendly channels to convey easy availability of land in mega special economic zones (SEZs), ready-to-move-in facilities, sector-specific business-friendly regulations, a simple labour code, tax breaks, and other incentives aimed at bringing its manufacturing competitiveness on par with the most competitive destinations in Asia.

- *Aim the low-hanging fruits*: India should aim at targeting low-hanging fruits in the coming half a year, winning major financing deals in sectors where the economy has indigenous supply chains. Moving up the value chain is far easier when there is an underlying ecosystem. Targets could include pharmaceuticals, mobile phones, machinery, and other sectors where there is a robust network of small and medium-sized enterprises (SMEs).

- *Establish continued-term economic statesmanship*: For the rest of his second term, the government should place special stress on India's commercial diplomacy, extending diplomatic strength in key missions to engage business leaders with progressed vigour. Often, India's commercial offices in prominent professions are understaffed. To this end, the government must look forward to enabling the lateral entry of some of India's most reliable private sector professionals with sectoral and allocating expertise into the diplomatic troops.

V. CONCLUSION

It is habitually said that India improves with a crisis, as it did in 1991 with the Balance of Payments crisis, and numerous other times. While the administration this time around is in a significantly more reliable state, the government has a chance to leverage the developing geopolitical vortex to catapult India's manufacturing.

It's time to remodel the "Made in India" reference from tag-line to manufacturing and present rise to the latest industries and create a bunch of new jobs. Therein lays the hope for India.

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