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THE IMPACT OF THE COVID-19 PANDEMIC ON THE MANUFACTURING SECTOR IN INDIA: A SPECIAL REFERENCE TO AURANGABAD DISTRICT



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ABSTRACT

The present paper looks into the impact of COVID-19 virus on the overall Manufacturing Sector and its tremendous Impact on Aurangabad and Indian economy at large. The outbreak of Coronavirus Pandemic has brought stagnation in all the sectors of the economy causing unemployment and loss of jobs, threats of recession and annihilation in industries across the world. The impact is severe on trade, industrial

sector. The likely impact (deceleration) of COVID-19 from best case scenario to the worst scenario is as follows : manufacturing sector may shrink from 17.3 to 25 per cent. The economy is heading towards a recession and the situation demands systematic, well-targeted and aggressive fiscal and monetary policy stimulus measures.

KEYWORDS

Pandemic COVID-19, Economic Impact, Unemployment, Manufacturing Sector

RESEARCH PAPER

Introduction

India is a developing country despite normal changes in global economy. It has a direct and indirect impact on Indian economy. In March 2020, there was a Corona virus outbreak (COVID-19) which infected almost all the countries in the world. The Covid-19 Pandemic has probably given the biggest blow to the world economy after the great depression of 1930s. Indian being densely populated country with inadequate medical facilities was left with no option, but to follow the policy of lockdown. World economy is heading for a recession and India is no exception. The current pandemic is working its way through a highly globalized world with interconnected production networks. The Manufacturing sector is a major part of the economy as it accounts for nearly 16% of the global GDP in 2017. As a result, the government across the countries primarily focuses on encouraging the manufacturing sector. Here is an assessment of the likely fall out of lockdown and restrictive policy measures owing to the Pandemic on Aurangabad and India. Industrial sector, trade, micro small and medium enterprises (MSME) Sector all lead to a collapse in pandemic.

Objectives

- Analysing the influence of Pandemic Covid-19 on the manufacturing sector business.
- Evolving situation of Covid-19 on the Health, Education and Unemployment.

Research Methodology

The study is based on secondary data obtained from various resources such as recently published a report addressing the impact of COVID-19 on the global manufacturing Industry. Secondary research has been conducted to refine the available data. The sources are reports of National Account Statistics, a Publication of ministry of statistics, Programmes. Implementation (MOSPI), Hand book of statistics on Indian Economy and monthly Bulletin, Ministry of commerce, Reserve Bank of India Report, Export-Import Data base, Annual Survey of Industries, Ministry of micro small and medium enterprises and Varies issues on Annual Report.

Industrial Performance of India

The Index of Industrial Production (IIP), one of the core economic indicators, is a short-term indicator for measuring growth of industrial production in the country. Based on the production data sourced from various Ministries / Department including DPIIT, the present series of IIP with base year 2011-12 is released by National Statistical Office, Ministry of Statistics & Programme Implementation every month. DPIIT collects production data of more than seventy percent of total item-groups from industrial establishments.

Table 1. : Annual Growth of IIP since the year 2017-18
(figures in percent)

Industrial Sector/Categories	Weight	2017-18	2018-19	2019-20	2020-21
Sector					
Mining	14.37	2.3	2.9	1.6	-13.3
Manufacturing	77.63	4.6	3.9	-1.4	-19.7
Electricity	7.99	5.4	5.2	1.0	-5.6
Use-Based Category					
Primary Goods	34.05	3.7	3.5	0.7	-12.7
Capital Goods	8.22	4.0	2.7	-13.9	-34.5
Intermediate Goods	17.22	2.3	0.9	9.1	-19.6
Infrastructure/ construction goods	12.34	5.6	7.3	-3.6	-20.8
Consumer durables	12.84	0.8	5.5	-8.7	-31.7
Consumer non-durables	12.33	10.6	4.0	-0.1	-5.9
Overall IIP	100.00	4.4	3.8	-0.8	-17.5

Source: National Statistical Office *Provisional

As per the IIP growth indicated in Table 1, it can be seen that annual industrial growth hovered between 3.3 and 4.6 percent during 2017-18 to 2018-19. Industrial output decelerated abruptly by 0.8 percent in 2019-20 to October 2020. The contraction in industrial growth was due to disruption caused by the COVID-19 pandemic in the country.

Manufacturing sector is a process that is the part of a branch of industry that uses a number of modern equipment such as industrial machinery, a regular and measured management program to transform raw goods into finished goods and is worth selling. The stages in the manufacturing industry require a process for producing and integrating the various components used. Manufacturing companies are the main pillars of industrial development in a country.

In order to find the impact at industry level, we rely on Annual Survey of Industries (ASI) data for registered manufacturing firms. Here, we take the average values of net value added for FY 2016, FY 2017 and FY 2018 as base values for estimation. We have the wage expenses as well as fixed cost components, viz. interest and rent expenses across industries. First we compute the loss for each scenario using the base net value added (NVA) of each industry. We also compute the cost component (wages as well as fixed cost, assuming these costs to remain with the firm even if without operation amid lockdown) and calculate the cost for each scenario for each industry. Here, we have excluded two industries: food products and the pharmaceutical products. We add on the loss of NVA to the cost during lockdown for a particular scenario, and thereby compute the total loss for each industry.

Impact on Micro, Small and Medium Enterprises

There are Micro, Small and Medium enterprises, which have created more than 90 per cent of the jobs in India. Employing over 114 million people and contributing 30 per cent of the GDP, are at the risk of having a severe cash crunch if the lockdown is extended to 8 weeks. Many of these MSMEs have loan obligations and monthly EMIs to pay. The impact on MSME sector is based on two step processes. First we compute the GVA for

manufacturing and services sectors by applying the weights of shares in the number of total establishments under the two segments (manufacturing and services). After computing the GVA of these two sectors we find the percentage share of each in the national manufacturing and services GVA. Then, we compute the loss by apportioning the percentage decline in these two sectors obtained in the first section. The aggregate impact on MSME is computed through weighted average of MSMEs’ manufacturing and services sectors’ losses. It is evident from the figure that the GVA of MSME sector has grown with more than 7 per cent during 2015–2017 and taking the triennium average ending in FY 17, the MSME sector would have grown with the rate 6.74 per cent in the normal case scenario. However, with the COVID-19, the growth can come down to the level of 3.14 under most likely scenario B, and can go further lower to 1.7 per cent in case of pessimistic scenario (Figure 1). As per estimation, India’s MSME sector can expect a decline of 2.1 per cent under scenario A and this loss can increase to 5.7 per cent in case of scenario D. The loss is more skewed in manufacturing sector to the tune of 3.5 per cent in scenario A and 8.3 per cent in the scenario D. MSMEs dealing in trade and other services activities can bear the decline in GVA in the range of 1.4–4.5 per cent (Figure 2).

The lockdown affected these small firms from both domestic demand and supply side. The sudden collapse of trade also affects MSME sector. India’s top exports include labour intensive products starting from gems and jewellery to garments/apparel or sea food is mainly supplied by MSME sector. Similarly, the lockdown affected the imports of raw materials and intermediates which affect the supply chain of MSME sector.

Figure 1. Growth Rate of MSME GVA(%)

Source: Authors computations based on MSME Annual Report 2018-19, Ministry of MSME.

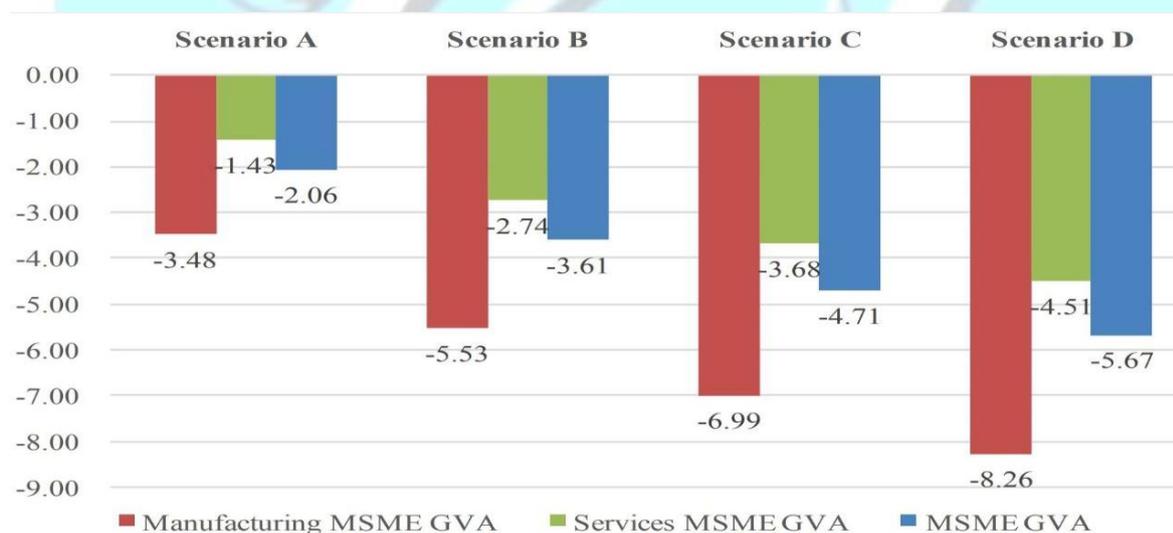
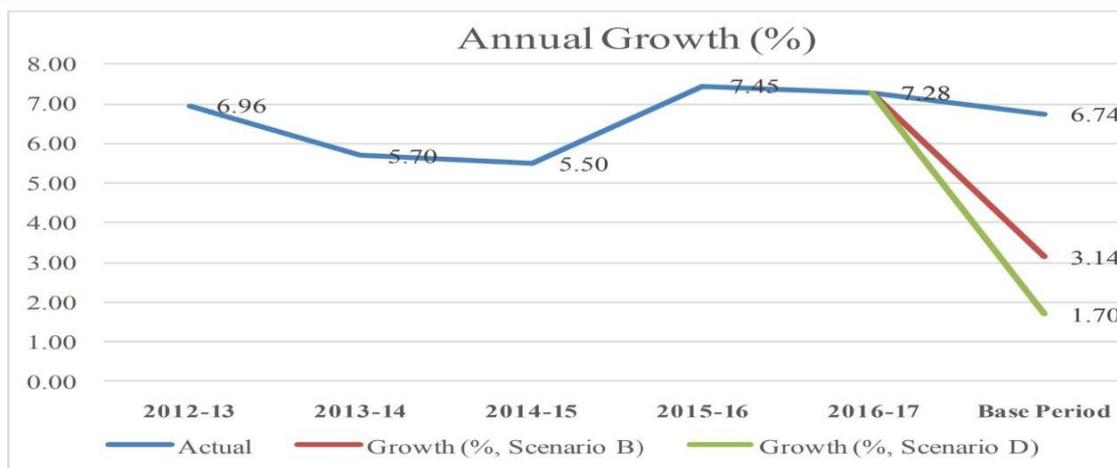


Figure 2. Decline (%) in GVA of MSME Sector

Source: Authors computations based on MSME annual report 2018-2019, Ministry of MSME



Therefore, the COVID-19 is going to affect MSME sector and millions employed in this sector. In fact, if the situation gets worse and prolongs for a few months, many small and tiny firms may cease to exist as it would be difficult for them to survive and hold onto their men and machines.

Industrial Profile of the Aurangabad District

Aurangabad district industrial area which has a concentration of various kinds of industries is situated in the whole district. There are many types of industries in this area including chemical industries like petroleum, dyes and intermediate, pesticide and insecticide, heavy organic and inorganic, pharmaceutical, Sugar and engineering etc. Aurangabad city during the last 3 decades has emerged as a major industrial hub, perhaps only after Mumbai and Pune. There is a clear formation – golden quadrangle consisting of Mumbai – Pune – Aurangabad; Nasik belt clearly increasing the Importance of this historical city. Earlier, some Centres in Aurangabad were well known for their specialized items of production. e. g. the Himroo and Mushru Shawls and Tapestry were famous in national and international markets. With evolving industrial location policy, the rapid saturation of the previously attractive locations, support from the large home-grown industries such as Bajaj and Videocon the entrepreneurial Spirit of the people, Aurangabad has grown into an industrial area of repute.

According to the latest available information and data, there are about 79 major industrial units with foreign direct Investments and export – oriented Products. Before COVID-19 Pandemic, Total Numbers of industries in Aurangabad District is 13820. And out of this, 1 lakh 42 thousand 555 people are getting employment.

COVID-19 Impact on Aurangabad Manufacturing Sector

According to the latest available information and data, there are about 79 major industrial units with foreign direct Investments and export – oriented Products. Before COVID-19 Pandemic, Total Numbers of industries in Aurangabad District are 13820. And out of this, 1 lakh 42 thousand 555 people are getting employment. The sector contributes to approximately 18% of the GDP and provides employment to almost 20% of the country's workforce. During the first wave of the pandemic, lockdown imposed restrictions on the movement of goods and people severely impacted workforce capacity and disrupted supply chains, bringing nearly all manufacturing activity to a stand-still.

When the first wave did not go away, the second wave came to an end in the 2020 financial year. The country's optimistic recovery was thrust into further uncertainty as cases increased far more rapidly than the first wave. The fatality rate amongst individuals increased as several States introduced restrictions and curfews to mitigate the loss of life in the second wave. Healthcare infrastructure in the country faced a total collapse as citizens ran helter-skelter in search of beds, oxygen cylinders, and resources to survive the second wave.

- *The Manufacturing sector was affected in several ways due to the pandemic leading to low-scale operations, and eventually, a negative impact on production volumes. Over a period, this adversely affected the turnover and revenue.*
- *The Index for Industrial Production (IIP) also fell to a negative growth of 9.6% indicating that core manufacturing activity also suffered setbacks resulting from the first and the second wave.*
- *The complete lockdown and partial lockdowns had demand-side and supply-side impacts on the manufacturing sector. On the supply side, the limited movement of goods, services, and personnel affected the production network.*

Index for Industrial Production (IIP), Financial Year 2018-2021

Manufacturing (%)



- *The downturn in economic activity and the overall slowdown in production caused employment loss. These supply impacts were further compounded due to the demand-side facing issues such as reduced disposable income, saving, and increased uncertainties.*

Aurangabad small businesses and retailer bore the brunt of the initial impact of the second wave as they faced liquidity crunches and stretched working capital. It is expected that once the second wave stabilizes, businesses will see 70% of pre-covid revenue. Healthcare infrastructure was the most impacted as systemic issues led to an inability to accommodate the exponential rise in cases during the second wave. All Covid-19 positive case in Aurangabad 153083 and 3809 was death in Pandemic 2020-2021 .

Conclusion :

The impact of the COVID-19 pandemic is able to paralyze the global Economy that occurs in all the parts of the world, one of the sectors by Covid-19 is Manufacturing sector. Some industries reduce imports of raw materials, some of them decrease sales. Some

employees leave and work alternately, reducing production capacity, order demand has declined and sales turnover has also decreased dramatically. Other company decline in sales, difficulty in sending distribution of goods, our working hours are divided into two shifts. Some of industries have orders are decreasing some of their employees are on vacation and get 70% salary. Some of them having trouble distributing goods, some employees have been dismissed, orders have declined and turnover has decreased. The Covid-19 pandemic impacts on the economy in country, increasing unemployment resulting from termination of employment, increased crime rates, reduced public purchasing power of market, so that this will make it difficult for a country to run its economy. On the whole, it does affect global economy.

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