



INDIA COVID-19 BRIEFING

SPECIAL REPORT

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THE BUSINESS YEAR

INDIA COVID-19 BRIEFING SPECIAL REPORT

From Mumbai to Delhi and Kolkata to Bangalore, the Indian economy has been on an explosive upward trajectory in recent decades. While the economy is widely diversified, the country is perhaps best known for its world-famous ICT sector, while sectors like the behemoth pharmaceuticals industry and ever-growing manufacturing landscape also enjoy strong success. Yet much potential exists elsewhere, none more so than tourism—the country attracts only around 10 million arrivals a year, far short of tourism giants like France, which enjoys nine times that number. And with the strength and variety of destinations evident, it seems only a matter of time until India begins to receive the numbers of visitors it deserves.

COVID-19, however, has put the breaks on Indian growth, having brought the economy to an uncomfortable

halt in March, with the impacts continuing to be felt despite the partial lifting of lockdown measures over summer, with welfare initiatives failing to benefit the majority of now out-of-work Indians due to the sheer scale of the informal economy.

This special report seeks to delve into the response of the federal government, contrast the impact of COVID-19 in India with other major economies, and cast a gaze beyond, with a deep dive into key sectors from pharma and ICT to tourism and more.

What could India have done differently? Which main economic hubs should we look to for recovery? And which sectors are the COVID-19 winners and losers? We seek to answer these questions over the following pages. ✖

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WINNERS AND LOSERS

Can Indian businesses not only survive the pandemic, but also turn the crisis into a growth opportunity? Some of them might!

NOT ALL SECTORS of the economy suffer equally in times of hardship, as one sector's loss may be another sector's gain.

This is true of India's economy in the wake of the COVID-19 pandemic: although lockdown initially shocked almost all sectors, some are experiencing a quicker recovery than others. And still other sectors—as we shall see—may even end up profiting from the fight against COVID-19.

Initially, the pandemic was fairly indiscriminate in wreaking its havoc. It is estimated that in the darkest days of the pandemic in April 2020, when lockdowns were in place across the country, three-quarters of India's mighty USD2.8-trillion economy was practically paralyzed, significantly affecting over half of all Indian businesses.

The pandemic and the first three-week nationwide lockdown, which was announced on March 25, also exacerbated the problems that the Indian economy was already struggling with long before COVID-19 made an appearance.

India's economic growth had been steadily slowing down since the fourth quarter of the fiscal year 2018, declining from 8% to 4.5% just before the outbreak.

Under such a scheme of things, it is not surprising that the pandemic also affected the labor market. According to the Centre for Monitoring Indian Economy (CMIE), unemployment jumped to 26% by mid April, though now it is returning to the pre-pandemic levels—just under 7%.

What is more, the economy's problems were by no means limited to its borders. In recent years, India has famously established itself as a hub for outsourcing, and the temporary dysfunction of its economic engine led to the breaking of many global supply chains.

Industrial giants such as Tata Motors, Larson & Turbo, UltraTech Cement, and Bharat Forge, among countless others whose output is in demand by Asian and international enterprises, shut down or reduced their activities during the lockdowns, bringing many business operations outside India to a standstill.

As a rising industrial powerhouse of the world, India is a massive consumer of energy. The nation is the third-biggest importer of crude oil after China and the US, and India's economic standstill during the lockdowns affected the energy sector in a big way.

The pandemic disrupted India's downstream oil sector and the country's world-famous petrochemical industry. By April 2020, India's demand for fuel had fallen by roughly half, which contributed to the oil crash of 2020, dealing a heavy blow to the global oil market.

In a roundabout way, however, India's challenged downstream oil industry also took advantage of the situation. Since May 2020, India has been topping up its strategic crude supplies, storing cheap oil both in on-land facilities and in oil tankers traveling at sea.

Minister of Petroleum Dharmendra Pradhan noted in May 2020 that India has already stored 20% of its annual demand for oil and is considering the possibility of setting up storage facilities abroad, including in the US.

India's oil-thirsty manufacturing sector and petrochemical industries may have found a way to cushion the blow and survive, but one vital sector's survival is still uncertain: that of micro, small, and medium enterprises (MSMEs).

MSMEs are the lifeblood of the Indian economy, but despite their massive contribution, they rarely have access to the kind of support that industrial giants enjoy. The government needs to come up with a solution to revitalize the nation's MSMEs to put the economy back on track, and such a solution may be underway.

By June and July, there were signs that the Indian economy is on its way to a healthy—if not full—recovery, as the Finance Secretary, Ajay Bhushan Pandey, pointed out on July 24, adding that the recovery was faster than expected. The Secretary of Economic Affairs, Tarun Bajaj, went so far as to describe the expected recovery as V-shaped.

A number of relief packages, meanwhile, were introduced

during different stages of the pandemic, directly and indirectly stimulating various sectors of the economy. In late March 2020, for instance, an INR1.7 lakh crore package (USD24 billion) was launched, targeting the poorer citizens.

The package is expected to also stimulate the retail and agrifood sectors, especially the smaller businesses that operate in less privileged areas.

In the same week, the Reserve Bank of India launched a package twice the size of the aforementioned poor relief package to save the country's financial system. It is hoped that the USD52-billion measure will breathe life into the nation's struggling banking system.

The largest package of all came on May 12, when Prime Minister Narendra Modi promised an all-inclusive relief package worth some USD280 billion. It was emphasized that the measure will particularly focus on local industries to increase India's self-reliance.

Softening the blow by devising relief packages is of course a reasonable course of action, but there are also those sectors that may thrive in the post-COVID economy, the most obvious of which is India's pharmaceutical industry.

The populous nation has a sizable local market for pharmaceutical products, valued at over USD18 billion. India also exports huge amounts of generic and brand medications each year, with generic drugs alone accounting for 20% of the nation's exports by volume.

Known as the largest manufacturer of generic drugs in the world, India's pharmaceutical sector will definitely play a major role in the mass production of the vaccine for COVID-19, whenever such a product finally becomes a reality.

In a speech delivered on August 15, 2020, Prime Minister Modi expressed India's readiness to mass produce COVID-19 vaccines whenever the scientific community gives the go-ahead signal, according to Reuters. ✖

THE IMPACT OF COVID-19 ON INDIA'S
MANUFACTURING SECTOR BY IHS MARKIT
BUSINESS ACTIVITY INDEX:

September 2019 to January 2020	
50-55	(Steady and rising)
January 2020 to May 2020	
50 to 27	(Sharply dropping)
May 2020 to present	
27 to 40	(Moderately rising)

(Readings of below 50 signal contraction, while those above 50 indicate growth)

THE IMPACT OF COVID-19 ON INDIA'S SERVICE
SECTOR BY IHS MARKIT BUSINESS ACTIVITY
INDEX:

September 2019 to January 2020	
50-55	(Steady and rising)
January 2020 to May 2020	
50 to 5.4	(Sharply dropping)
May 2020 to present	
5.4 to 20	(Moderately rising)

(Readings of below 50 signal contraction, while those above 50 indicate growth)

SOURCE: IHS/MARKIT

A grocery store owner wears a mask in Kolkata in late March 2020



WHERE THE GRASS IS GREEN

Here is a rundown of the eight metropolises that are the driving forces of India's economy.

AS THE WORLD'S BIGGEST MOSAIC OF CULTURES, India is famously difficult to understand. It is large, mystifying, and full of contrasts. But one thing has been certain about the subcontinental nation in recent years: it has become an ever-growing economic giant.

Historically, it is said that India has been the biggest economy in the world for at least two millennia. In more recent times, India was the world's fastest-growing economy between 2014 and 2018, replacing China.

And, with a 500-million-strong emerging middle class with a growing purchasing power, India's economic wonders are likely to continue in the coming decades.

A dozen colossal metropolises are where the country's economic magic really takes place, as some 65% of the nation's population live in rural areas, and their contribution is mainly agricultural.

Here is a list of eight economic hubs that make up the South Asian giant's economic engine.

MUMBAI

Located in Maharashtra, Mumbai is indisputably the economic capital of India. It is where most international businesses have a presence and also home to India's National Stock Exchange. The Reserve Bank of India, too, is based in Mumbai.

With an estimated GDP of USD310 billion, Mumbai singlehandedly accounts for 6-9% of India's economy.

Even those who do not know much about India, have surely heard of Mumbai and, quite probably, caught sight of the city's skyline in some Bollywood movie or another.

Thanks to the influence of Mumbai's media industry, the city is a trendsetter in terms of culture, lifestyle, and fashion. Quite conveniently, Mumbai also has a robust textile and apparel industry.

DELHI

Serving as the seat of the Central Government since 1911, New Delhi is also a major economic hub. The city was originally intended to be a quiet political capital without much hustle and bustle.

However, today New Delhi has grown to become a huge metrop-

olis. With a GDP just under USD300 billion, Delhi's economic significance is only second to that of Mumbai.

Delhi's economy stands out in India in that it is mainly service-based, unlike other economic hubs of India which are essentially industrial powerhouses. IT and telecommunications services, financial services, and tourism are currently the city's key money spinners.

KOLKATA

Famous for its offerings in terms of leisure and entertainment, the former colonial capital of India is still going strong.

In addition to its cultural attractions, Kolkata is the third-largest economic hub of India, especially focusing on the trade of tea and other agricultural commodities.

Kolkata's status as a commercial hub and port city in North-East India is comparable to that of Mumbai on the west coast of the sub-continent.

Thanks to the availability of a highly skilled workforce and high levels of fluency in English, Kolkata has established itself as a destination for business process outsourcing (BPO).

BANGALORE

Bangalore is the epicenter of India's IT and high-tech businesses, to which most foreign tech companies with operations in the subcontinent are inevitably drawn. The city is often compared to Silicon Valley in California.

In recent years, Bangalore has experienced an influx of internal immigration, including IT professionals from across the nation. The high-tech industry, alone, has created over 1.5 million job opportunities in the city.

Bangalore's high-tech industry is not limited to IT and software development. The city is also a forerunner in aviation and aerospace engineering, and home to R&D units owned by both Boeing and Airbus.

CHENNAI

Home to India's growing automotive industry, Chennai is where



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