

## **The Effects of COVID-19 on the Production Industry, Trade, Development, and MSME sector in the Indian Economy**

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### **ABSTRACT**

The multifaceted impact of the COVID-19 pandemic on the Indian economy has been profound and interconnected, spanning disruptions in the manufacturing sector, negative repercussions on economic growth, a significant contraction in international trade, and a devastating toll on the Micro, Small, and Medium Enterprises (MSME) sector. In the manufacturing arena, supply chain disruptions, labour shortages, and reduced demand led to a substantial decline initially, followed by a phased recovery as lockdown restrictions eased. Economic indicators, including Gross Value Added (GVA), GDP, NDP, and NNI, reflected a stark negative impact on growth, prompting the government to advocate for counter-cyclical fiscal measures and a departure from fiscal rules to address the economic fallout. International trade faced notable contractions in both exports and imports, particularly in sectors such as mineral oils, gems and jewellery, and machinery, highlighting vulnerabilities in global supply chains and necessitating adaptive policy measures. A state-wise analysis illuminated the devastating impact on MSMEs in Maharashtra, Tamil Nadu, and Uttar Pradesh, revealing closures, labour issues, disrupted supply chains, and financial stress. The recommended policies aim to address these challenges comprehensively, advocating for targeted support, financial incentives, and measures to reignite economic activities, particularly in the worst-affected sectors. The crucial role of the MSME sector is underscored, emphasizing the need for financial incentives and holistic recovery efforts that involve collaborative initiatives from the government, industry, civil society, and other stakeholders. These policy interventions collectively aim to navigate the complexities of the post-pandemic economic landscape and ensure a resilient recovery for the Indian economy.

**Keywords:** COVID-19 Impact, Economic Downturn, Sectoral Contraction, Manufacturing, MSME Sector, Trade Decline, Fiscal Measures, Economic Stimulus, Recovery Strategies

### **1. INTRODUCTION**

#### **COVID-19 and its Global implications:**

The COVID-19 has triggered a worldwide crisis with far-reaching implications across various sectors. As the virus rapidly spread across borders, its impact on public health, economies, and daily life has been profound. This article explores the multifaceted consequences of the pandemic, ranging from the strain on healthcare systems to disruptions in global trade and the challenges faced by governments worldwide.

**Healthcare Strain:**

The most immediate and evident impact of COVID-19 has been on public health systems worldwide. Healthcare facilities faced unprecedented challenges in coping with the surge of patients and an urgent need for increased testing capabilities. It points out towards the loopholes and upcoming uncertainties in this segment.

**Economic Fallout:**

The economic fallout from the pandemic has been severe, with nations grappling to address the dual challenges of public health and economic stability. Lockdowns and restrictions to curb the virus's spread resulted in widespread business closures, mass unemployment, and disruptions in global supply chains.

**Global Trade Disruptions:**

The interconnected nature of the global economy meant that disruptions in one region had ripple effects worldwide. The pandemic led to significant disruptions in global trade, affecting both demand and supply. Lockdowns and restrictions on movement hampered production, while decreased consumer spending impacted demand. The resulting imbalance led to fluctuations in commodity prices, affecting industries ranging from manufacturing to agriculture.

**Social Impacts:**

The pandemic has also brought to the forefront social challenges, exacerbating existing inequalities and vulnerabilities. Vulnerable populations, including low-wage workers, migrant workers, and those in informal sectors, faced heightened economic insecurities. Educational systems were disrupted, with closures impacting millions of students and exacerbating educational inequalities. Mental health challenges also emerged as individuals coped with isolation, uncertainty, and fear.

**Government Responses:**

Governments worldwide responded with varying measures to contain the virus and mitigate its economic impact. Strategies ranged from strict lockdowns and travel restrictions to massive economic stimulus packages. The effectiveness of these responses varied, reflecting the unique challenges faced by each country and the evolving nature of the pandemic.

**Global Cooperation and Vaccine Distribution:**

There has been an efforts to develop and distribute vaccines highlighted the need for collaboration between nations, pharmaceutical companies, and international organizations. However, challenges in vaccine distribution, including inequitable access and logistical hurdles, highlighted the complexities of global health governance.

**Risk and Vulnerabilities of Indian Economy:**

The Indian economy, marked by its growth trajectory over the past few decades, has navigated through various risks and vulnerabilities. Understanding these challenges and their

historical occurrences provides valuable insights into the resilience and adaptability of the nation's economic landscape.

#### Currency Crisis (1991):

The BOP turmoil of Indian in early nineties resulted into an acute depletion of foreign exchange reserves. The situation necessitated drastic economic reforms, including liberalization, privatization, and globalization (LPG). The devaluation of the Indian Rupee and the subsequent economic liberalization were pivotal moments that addressed immediate vulnerabilities and set the stage for robust economic growth.

#### Global Financial Crisis (2008):

The global financial crisis of 2008 took a toll on India's Financial System. The interconnectedness of financial markets caused a slowdown in exports, declining industrial production, and a temporary dent in economic growth. However, India's monetary and fiscal policies contributed towards mitigating the impact, showcasing the economy's ability to withstand external shocks.

#### Twin Balance Sheet Crisis (2015-2018):

The period between 2015 and 2018 witnessed the emergence of the Twin Balance Sheet (TBS) crisis. It was characterized by stressed balance sheets of both banks (non-performing assets or NPAs) and corporations (high levels of indebtedness). The banking sector, burdened by bad loans, faced challenges in extending credit, impacting economic growth. The Insolvency and Bankruptcy Code (IBC) introduced in 2016 aimed to address these vulnerabilities by providing a framework for resolving corporate insolvency.

#### Goods and Services Tax (GST) Implementation (2017):

The rollout of the Goods and Services Tax (GST) in 2017 marked a significant structural reform in India's indirect tax system. While designed to streamline taxation and enhance economic efficiency, the initial phases witnessed implementation challenges. Small businesses struggled with compliance, and the complexities of the new tax structure created uncertainties, underscoring the vulnerability associated with swift policy transitions.

#### Global Trade Tensions (2018):

The escalating global trade tensions, particularly between major economies like the United States and China, had repercussions on India. As a significant player in global trade, India faced challenges such as disruptions in supply chains and fluctuations in commodity prices. The dependence on global demand for exports made the economy susceptible to external trade dynamics.

## **2. EFFECT OF COVID-19 ON PRODUCTION INDUSTRY**

The data illustrates the Monthly Index of Industrial Production (IIP) for the Manufacturing sector in India from February 2020 to September 2021. This period corresponds with the global COVID-19 pandemic, which has had a profound impact on various sectors, including

manufacturing. Let's analyse the trends and disruptions observed in different manufacturing sub-sectors.

Item Description	General Index	Manufacture of basic metals	Manufacture of chemicals and chemical products	Manufacture of coke and refined petroleum products	Manufacture of computer, electronic and optical products	Manufacture of electrical equipment	Manufacture of fabricated metal products, except machinery and equipment	Manufacture of machinery and equipment n.e.c.	Manufacture of motor vehicles, trailers and semi-trailers	Manufacture of other non-metallic mineral products	Manufacture of pharmaceuticals, medicinal chemical and botanical products
2020:02 (FEB)	134.2	169.5	121.7	125.5	137.7	102.8	94.6	113.6	100	133.5	228.1
2020:03 (MAR)	117.2	143	101.1	132.3	100.6	71.4	73.1	86.9	64.2	107.2	168.6
2020:04 (APR)	54	40.3	53	87.7	12.6	5.6	3.7	9.1	0.7	16.9	93.6
2020:05 (MAY)	90.2	103.2	95.9	95.9	64.5	31.6	44.2	44.6	20.7	91.2	234.3
2020:06 (JUN)	107.9	131.5	117.3	104.5	114.8	61.7	67.3	80.2	53.7	110.4	237.1
2020:07 (JUL)	117.9	153.1	122.2	109.4	144.9	82.6	82	85.6	73.5	105.4	243.1
2020:08 (AUG)	117.2	162.9	118.9	100.6	146.3	94.4	83.9	92.6	85	96.2	221.9
2020:09 (SEP)	124.1	160.5	125.5	103.2	167.2	126.5	92.1	108.9	99.5	103.8	236
2020:10 (OCT)	129.6	170.6	128	109.3	151.1	132.4	95.7	113.2	109.9	117.1	239.6
2020:11 (NOV)	126.7	165.4	120.4	124.8	115	114.4	81.8	105.4	99.2	112.7	226
2020:12 (DEC)	137.4	181.7	131.8	125	138.8	131.8	99	118.5	103.2	122.6	239.9
2021:01 (JAN)	136.6	179.8	131.6	129.3	155.6	109.7	93.7	110	107.8	127.2	205.4
2021:02 (FEB)	129.9	163.6	119	113.7	166.5	106.3	92.4	111.8	105.6	124.4	216.8
2021:03 (MAR)	145.6	184.7	127.9	130.9	206.2	110.1	102	130.5	114.9	140.3	230.7
2021:04 (APR)	126.1	168.5	118.1	118.5	119.2	84.5	78.2	94.4	102.2	128.1	202.3
2021:05 (MAY)	115.1	159.8	109.1	113.8	95.2	61.6	64.4	76.3	59.2	110.1	217.1
2021:06 (JUN)	122.8	163.5	116.3	110.1	125.6	84.2	79.7	96.3	87.8	119.2	226.9
2021:07 (JUL)	131.4	170	128	117.9	138.1	118.4	89.9	109.1	101.4	126.8	229.9
2021:08 (AUG)	131.3	174	124.7	112.1	139.4	129.4	91.3	109	93.6	122.3	233.8
2021:09 (SEP)	127.9	169.2	123.7	108.6	163.1	143.8	88	112.4	90.5	116.4	237.6

**Overall Manufacturing Sector:**

The General Index for the Manufacturing sector underwent a significant downturn in April 2020, marking the nadir of the initial pandemic-induced lockdown. This contraction was a direct consequence of disrupted supply chains, widespread labour shortages, and a sharp reduction in consumer demand. The unprecedented challenges faced by industries during this period contributed to a considerable decline in the manufacturing index.

However, from May 2020 onward, there was a discernible recovery within the manufacturing sector. This recovery can be attributed to the gradual easing of lockdown restrictions and the implementation of stringent safety protocols in industrial operations. As businesses adapted to the new normal, production activities resumed, albeit at a cautious pace. The recovery trajectory observed in subsequent months underscores the sector's resilience and ability to adapt to evolving circumstances.

The fluctuations witnessed in the following months serve as indicators of the manufacturing sector's sensitivity to external factors. Changes in consumer behaviour, global trade dynamics, and the ongoing uncertainties related to the pandemic have continued to influence the sector's performance. The manufacturing landscape remains dynamic, necessitating a proactive approach to navigate the challenges posed by external variables.

**Manufacturing Sub-Sectors:****Manufacture of Basic Metals:**

- Experienced a pronounced decline in April 2020, indicative of the sector's vulnerability to the initial shocks of the pandemic.
- The subsequent gradual recovery suggests adaptability to global commodity price fluctuations and responsiveness to demand dynamics.

**Manufacture of Chemicals and Chemical Products:**

- Demonstrated resilience during the early phases of the pandemic, characterized by a relatively moderate decline.
- Consistent growth in the later months underscores the essential nature of chemical products, which remained in demand even during challenging times.

**Manufacture of Computer, Electronic and Optical Products:**

- Witnessed a temporary dip in April 2020, reflecting the initial disruptions caused by the lockdown.
- Swift rebound in the following months indicates increased demand for electronic devices, aligning with the surge in remote work and digital reliance during lockdowns.

**Manufacture of Motor Vehicles, Trailers, and Semi-Trailers:**

- Faced a substantial drop in April 2020, highlighting the disruptions in automotive production caused by the pandemic.
- Subsequent months depict a slow recovery, mirroring the challenges in the automotive supply chain and the gradual resumption of production activities.

**Manufacture of Pharmaceuticals, Medicinal Chemical, and Botanical Products:**

- Maintained stability and exhibited growth during the pandemic, emphasizing the sector's critical role in healthcare.
- The consistent performance underscores the resilience of pharmaceutical manufacturing, which remained a priority amid global health concerns.

**Manufacture of Machinery and Equipment:**

- Notable contraction in April 2020 signified reduced capital expenditure and industrial activities.

- Gradual recovery in the following months suggests a revival in manufacturing investments, aligning with efforts to adapt to the evolving economic landscape.

### 3. EFFECT OF COVID-19 ON TRADE

Products	Apr-19*	Jan-20*	Mar-20*	Growth (%) Apr-19 to Mar-20	Growth (%) Jan-20 to Mar-20
<b>Exports</b>					
Mineral oils	3.69	3.28	2.58	-30.23	-21.52
Gems and Jewellery	2.89	2.89	2.03	-29.73	-29.86
Machinery and mechanical appliances	1.66	1.63	1.47	-11.69	-10.07
Organic Chemicals	1.69	1.49	1.25	-25.82	-15.79
Pharmaceutical products	1.20	1.41	1.23	2.39	-13.01
Total Exports	26.04	25.83	21.46	-17.56	-16.9
<b>Imports</b>					
Mineral oils	13.97	14.73	11.69	-16.35	-20.67
Gems and Jewellery	6.44	3.34	2.86	-55.57	-14.46
Electrical machinery and equipment	3.92	4.18	2.89	-26.26	-30.85
Machinery and mechanical appliances	3.56	3.74	2.56	-28.15	-31.53
Organic chemicals	1.87	1.74	1.26	-32.5	-27.68
Total imports	42.39	41.14	31.17	-26.47	-24.24

**Source: Ministry of Commerce and Industry, Government of India**

The above table reveals the significant disruptive impact of the COVID-19 pandemic on India's import and export sectors across various product categories. The analysis of key products reflects the contraction in trade activities during the specified period.

#### Exports:

1. Mineral Oils:
  - Experienced a substantial decline of 30.23% from April 2019 to March 2020.
  - The contraction intensified during January to March 2020, with a 21.52% decrease.
  - The decline suggests weakened global demand for mineral oils, possibly due to reduced economic activities globally.
2. Gems and Jewellery:
  - Witnessed a notable decrease of 29.73% in the year from April 2019 to March 2020.
  - The negative trend continued in the January to March 2020 period, with a 29.86% contraction.

- This decline is indicative of a slump in luxury goods demand and disruptions in the global supply chain.
3. Machinery and Mechanical Appliances:
    - Experienced an 11.69% decline in the year leading to March 2020.
    - The negative growth persisted in the January to March 2020 period, with a 10.07% decrease.
    - This contraction suggests a reduction in capital goods trade, reflecting a slowdown in investment activities.
  4. Organic Chemicals:
    - Witnessed a 25.82% decline from April 2019 to March 2020.
    - The negative trend continued in the January to March 2020 period, with a 15.79% contraction.
    - Reduced demand for organic chemicals may be attributed to disruptions in manufacturing and industrial activities.
  5. Pharmaceutical Products:
    - Showed resilience with a modest 2.39% growth from April 2019 to March 2020.
    - However, there was a decline of 13.01% in the January to March 2020 period.
    - The decline might be attributed to disruptions in the pharmaceutical supply chain and changes in global healthcare priorities.

**Total Exports:**

- Overall exports faced a considerable decline of 17.56% from April 2019 to March 2020.
- The negative trend continued in the January to March 2020 period, with a 16.9% contraction.
- The overall export contraction reflects the broader impact of the pandemic on India's trade activities.

**Imports:**

1. Mineral Oils:
  - Experienced a notable decrease of 16.35% from April 2019 to March 2020.
  - The negative trend intensified in the January to March 2020 period, with a 20.67% contraction.
  - Reduced imports of mineral oils indicate weakened demand and disruptions in the global energy market.
2. Gems and Jewellery:
  - Witnessed a substantial decline of 55.57% from April 2019 to March 2020.
  - The negative trend continued in the January to March 2020 period, with a 14.46% contraction.
  - The sharp decline in imports of gems and jewellery reflects a significant impact on the luxury goods market.
3. Electrical Machinery and Equipment:
  - Experienced a notable decrease of 26.26% from April 2019 to March 2020.

- The negative growth persisted in the January to March 2020 period, with a 30.85% contraction.
  - The decline suggests reduced demand for electrical machinery and disruptions in global manufacturing.
4. Machinery and Mechanical Appliances:
- Witnessed a substantial decline of 28.15% from April 2019 to March 2020.
  - The negative trend continued in the January to March 2020 period, with a 31.53% contraction.
  - The contraction indicates reduced imports of capital goods and a slowdown in industrial activities.
5. Organic Chemicals:
- Experienced a notable decrease of 32.5% from April 2019 to March 2020.
  - The negative growth persisted in the January to March 2020 period, with a 27.68% contraction.
  - Reduced imports of organic chemicals suggest a decline in industrial production and manufacturing activities.

Total Imports:

- Overall imports faced a substantial decline of 26.47% from April 2019 to March 2020.
- The negative trend continued in the January to March 2020 period, with a 24.24% contraction.
- The overall import contraction reflects the broader impact of the pandemic on India's trade activities.

**4. EFFECT OF COVID-19 ON DEVELOPMENT**

Sl. No.	Item	2018-19 (2 <sup>nd</sup> revised estimation)	2019-20 (1 <sup>st</sup> revised estimation)	2020-21 (provisional estimation)	Percentage change over previous year	
					2019-20	2020-21
1	GVA at basic prices	12744203	13271471	12453430	4.1	-6.2
2	Net taxes on products	1259114	1297797	1059310	3.1	-18.4
3	GDP (1+2)	14003316	14569268	13512740	4.0	-7.3
4	NDP	12392839	12822882	11874000	3.5	-7.4
5	GNI	13850857	14427632	13384612	4.2	-7.2
6	NNI	12240380	12681246	11745872	3.6	-7.4

The above data presents a comprehensive snapshot of India's economic performance over the years, with a focus on the negative impact of the COVID-19 pandemic on growth and development. The key indicators include Gross Value Added (GVA), Net Taxes on Products, Gross Domestic Product (GDP), Net Domestic Product (NDP), Gross National Income (GNI), and Net National Income (NNI). Let's delve into the analysis:



**GVA at Basic Prices:**

- In 2019-20, there was a positive growth of 4.1%, indicating a healthy economic expansion.
- However, the provisional estimation for 2020-21 reflects a significant contraction of 6.2%, signifying a severe negative impact on the economy.
- The decline in GVA highlights the disruptions caused by the pandemic, affecting various sectors and economic activities.

**Net Taxes on Products:**

- While there was a moderate increase of 3.1% in 2019-20, indicating some growth in tax revenues, the provisional estimation for 2020-21 shows a substantial decline of 18.4%.
- The sharp contraction in net taxes on products further emphasizes the economic challenges, as reduced economic activity and consumption lead to lower tax collections.

**GDP:**

- The GDP growth rate was 4.0% in 2019-20, showcasing a reasonably positive trend.
- However, the provisional estimation for 2020-21 demonstrates a substantial contraction of 7.3%, revealing the severe impact of the pandemic on the overall economic output.
- This negative growth rate is a clear indication of the economic downturn resulting from the pandemic-related disruptions.

**NDP (Net Domestic Product):**

- Similar to GDP, NDP reflects a contraction of 7.4% in 2020-21, reinforcing the adverse impact of the pandemic on the nation's economic well-being.
- The decline in NDP highlights the challenges faced in sustaining economic activities and maintaining income levels.

**GNI (Gross National Income):**

- GNI witnessed a positive growth of 4.2% in 2019-20, reflecting overall economic prosperity.
- However, the provisional estimation for 2020-21 portrays a significant contraction of 7.2%, underscoring the global economic challenges and the interconnectedness of India's economy with the international arena.

**NNI (Net National Income):**

- NNI, like NDP, experienced a contraction of 7.4% in 2020-21, aligning with the broader economic downturn.

- The negative growth in NNI indicates a reduction in the nation's total income after accounting for depreciation, reflecting challenges in maintaining the economic well-being of the populace.

## 5. EFFECT OF COVID-19 ON MSME SECTOR

Impacts	Maharashtra			Tamil Nadu			Uttar Pradesh		
	Micro	Small	Medium	Micro	Small	Medium	Micro	Small	Medium
	%	%	%	%	%	%	%	%	%
Business diversified	19.1	18.4	26.1	35.2	5.3	13.3	11.2	5.3	8.6
Temporarily closed	49.3	42.7	40.9	23.0	61.7	40.0	48.2	66.2	65.6
Operations suspended	10.0	3.2	1.7	24.9	77.2	56.7	6.8	9.9	3.2
Permanently closed	11.5	6.5	4.3	0.8	5.3	0.0	4.8	3.3	0.0
Reduced labourers	36.4	42.7	52.3	6.9	5.8	23.3	33.7	19.9	33.3
Reduced working hours	13.9	16.8	32.2	3.8	1.9	10.0	6.8	2.6	5.4
Increased working hours	8.1	3.2	1.7	4.2	1.5	3.3	1.2	2.6	1.1
Difficulty paying wages	15.3	21.6	24.3	8.0	7.3	10.0	34.9	20.5	36.6
Change in working arrangements	6.2	4.9	12.2	2.3	2.4	0.0	4.0	4.0	6.5
Difficulty in accessing supplies	7.2	7.6	12.2	7.3	3.4	13.3	17.7	5.3	9.7
Difficulty in accessing protective equipment	0.5	3.8	4.3	1.5	1.0	6.7	1.6	2.6	0.0
Reduced demand	15.3	10.3	14.8	18.0	5.3	16.7	36.5	25.8	28.0
Reduced export	1.9	1.1	0.9	0.8	0.5	0.0	6.4	2.6	3.2
Unable to pay loans	3.8	1.6	2.6	3.8	4.4	6.7	3.2	2.0	7.5
Inability to make business decisions	3.8	2.7	2.6	0.0	0.5	0.0	2.0	2.0	3.2
Inability to meet contracts	3.3	1.6	4.3	3.1	0.5	0.0	2.0	0.7	1.1
Increased logistics costs	1.4	1.1	1.7	23.4	2.4	3.3	0.8	0.7	0.0
Cash flow challenges	17.2	7.0	4.3	13.4	2.9	6.7	18.1	11.3	3.2
Production delays or cancellations	7.7	2.2	6.1	13.4	1.9	13.3	5.6	2.6	1.1
Service delays or cancellations	8.6	2.2	6.1	25.3	4.9	13.3	4.0	6.0	2.2
Travel restrictions	7.7	7.6	12.2	11.5	1.9	3.3	18.1	13.2	9.7

Source: ILO Research Paper

The data illustrates the profound and varied impact of the COVID-19 pandemic on Micro, Small, and Medium Enterprises (MSMEs) in India with a Case Study on the states of Maharashtra, Tamil Nadu, and Uttar Pradesh. The percentages represent the proportion of enterprises facing different challenges in each size category.

### 1. Maharashtra:

- Business Diversified: 19.1% of micro, 18.4% of small, and 26.1% of medium enterprises faced challenges in diversifying their business.
- Closure and Suspension: A significant percentage experienced temporary closures (49.3%), operations suspension (10.0%), and permanent closures (11.5%).
- Labor Impact: The reduction in laborers was observed across all size categories, with 36.4%, 42.7%, and 52.3% for micro, small, and medium enterprises, respectively.

- Working Hours: 13.9% to 32.2% of enterprises faced reduced working hours, while 8.1% to 1.7% experienced increased working hours.

## 2. Tamil Nadu:

- Closure and Suspension: The state saw a high percentage of temporary closures (61.7%) and operations suspension (77.2%), especially in small and medium enterprises.
- Labor Impact: Significant reductions in labour were reported, particularly in small enterprises (5.8%).
- Wage Challenges: A notable percentage faced difficulty paying wages, with 8.0%, 7.3%, and 10.0% for micro, small, and medium enterprises, respectively.
- Reduced Demand: Across all sizes, there was a considerable impact on reduced demand (18.0% to 36.5%).

## 3. Uttar Pradesh:

- Closure and Suspension: The state witnessed high percentages of temporary closures (48.2%) and operations suspension (56.7%), with a higher impact on small and medium enterprises.
- Labor Impact: Significant reductions in labour were observed, ranging from 19.9% to 66.2%.
- Wage Challenges: A high percentage faced difficulty paying wages, with 34.9%, 20.5%, and 36.6% for micro, small, and medium enterprises, respectively.
- Supply Chain Challenges: Difficulty in accessing supplies was evident, with 17.7% and 13.3% for micro and small enterprises.
- Export Impact: There were notable percentages reporting reduced exports (6.4%, 2.6%, and 3.2%).

## Common Challenges across States:

- Cash Flow Challenges: The MSMEs across all three states reported challenges in cash flow, ranging from 4.3% to 17.2%.
- Production and Service Delays: Production delays or cancellations (1.1% to 13.4%) and service delays or cancellations (2.2% to 25.3%) were prevalent.
- Travel Restrictions: Enterprises faced challenges due to travel restrictions, with percentages ranging from 7.6% to 18.1%.

## 6. CONCLUSION & POLICY RECOMMENDATION

The cumulative analysis of the manufacturing sector, economic growth, international trade, and the impact on MSMEs amid the COVID-19 pandemic underscores the pervasive and interconnected challenges facing the Indian economy. The manufacturing sector witnessed initial disruptions followed by a gradual recovery, reflecting its resilience and adaptability. However, the negative impacts on economic growth, as evidenced by a decline in Gross Value Added (GVA), underscore the severity of the crisis. International trade, a key driver of

the Indian economy, experienced significant contractions in both exports and imports, indicative of global supply chain disruptions.

The most vulnerable in this economic upheaval are the Micro, Small, and Medium Enterprises (MSMEs), as highlighted by state-wise data from Maharashtra, Tamil Nadu, and Uttar Pradesh. The MSME sector faces a myriad of challenges, from closures and labor impacts to supply chain disruptions and financial stress. While government stimulus packages aim to mitigate immediate concerns, sustained recovery requires targeted interventions and ongoing adaptability.

In conclusion, the multifaceted impacts of the pandemic necessitate a nuanced and adaptive policy response. The interconnectedness of these economic facets highlights the importance of holistic strategies that not only address immediate challenges but also foster long-term resilience and growth. Collaborative efforts across sectors and continual reassessment of policies are crucial for navigating the complex road to economic recovery in a post-pandemic landscape.

### **Policy Recommendations:**

- **Counter-cyclical Fiscal Measures:** The government is encouraged to adopt aggressive counter-cyclical fiscal measures, disregarding fiscal rules if necessary. This approach aims to mitigate the economic fallout and prevent further deterioration.
- **Targeted Support for Affected Sectors:** Focus on providing targeted support to severely affected sectors such as manufacturing, construction, travel, transportation, tourism, and hotels. This support could come in the form of interest-free working capital to cover wage costs and fixed expenses, aiding survival during the challenging times.
- **Stimulus for Worst-Affected Firms:** Firms in the worst-affected sectors, experiencing shutdowns, global demand collapses, order cancellations, and shipment delays, should receive financial incentives and credit uptake to facilitate their recovery.
- **Boosting Demand:** Ensure that stimulus measures are directed toward boosting demand, facilitating credit uptake, and supporting sectors heavily dependent on both domestic and international trade. This could include measures to reignite economic activities in key sectors.
- **Revival of MSME Sector:** Recognize the critical role of the MSME sector, which is labor-intensive and integral to India's manufacturing and trade. Besides financial incentives, initiatives should be undertaken to assist firms, businesses, and economic activities to resume operations effectively.
- **Holistic Recovery Efforts:** Acknowledge the magnitude of the economic impact and emphasize collaborative efforts involving the government, industry, civil society, and other stakeholders. A comprehensive approach is necessary to ensure a robust recovery for the Indian economy.

In summary, the policy recommendations advocate for bold fiscal measures, targeted support for affected sectors, and a focus on demand stimulation to navigate the economic challenges posed by the pandemic and facilitate a timely and robust recovery.

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