Business Standard
NEW DELHI, FRIDAY, 21 FEBRUARY 2020

Turning a threat into opportunity

Special measures required for sectors affected by coronavirus

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The impact of the Coronavirus, now named COVID-19, is being felt globally as it has started disrupting trade, supply chains, and commodity demand, causing fears of a possible economic slowdown. The International Monetary Fund stated that while it was too early to assess the full impact of the coronavirus epidemic amidst great uncertainties, the virus may damage global growth in 2020. There are significant consequences of the outbreak for the Indian economy across various sectors, given India's high import dependence on China. At the same time, we must be careful to avoid overreaction and panic, as the outbreak is confined largely to China.

To assess the impact and stress points across sectors, Confederation of Indian Industry (CII) undertook an extensive consultation exercise with its members and affiliated associations and our office in Shanghai conducted a quick survey of Indian companies operating in China. We found that with many Indian companies spread across major Chinese cities and provinces, supply chain disruptions and restrictions on people are strongly impacting Indian companies based in China.

Further, in India, industries and markets across the board are in a difficult position. The sectors most likely to be affected by the outbreak include shipping and aviation, pharmaceuticals, mobiles, electronics and solar power, among others.

Tanking freight rates due to the epidemic have impacted cargo movement service providers in the Indian shipping industry, with dry bulk cargo movement registering a sharp drop since January 2020. Further, realisation per day per vessel has declined by more than 75-80 per cent in dry bulk trade. In addition, cargo is stalled as ships are not being permitted to dock and unload. The government should consider issuing an official advisory so that shipping companies can put up their position as a genuine case of delay in goods delivery with clients.

The Indian aviation sector is likely to lose out on its gross revenue targets as the outbreak has led to cancellations and temporary suspension of flights operating from India to China and Hong Kong. To deal with the potential tourism losses, providing a limited period open skies policy to western bound destinations till October 2020 could encourage more inflows from that direction.

The Indian pharma industry is heavily reliant on imports of bulk drugs such as APIs and intermediates. In FY 2019, India imported around ₹249 billion worth of bulk drugs, accounting for 40 per cent of domestic production. The outbreak continues to disrupt supplies of pharmaceutical ingredients which has led to shortages and increased prices for generic drugs in India.

Fast and close coordination between various ministries and concerned departments to expedite approvals, active measures by the government to procure key starting materials (KSMs) and APIs, permitting brown API units/firms with limited capacity utilisation to produce APIs which are being imported are some recommendations that could help the sector. Registration certificates already issued for imports may be extended for delayed deliveries. Some factory units which have been shut down could be permitted to restart operations on provision of self-certification for environmental clearances.

The Indian solar components market is dominated by Chinese companies, which supply around 80 per cent of the requirements, including solar cells and modules. Indian developers are faced with shortages of raw materials required for solar panels/cells due to delayed supplies by Chinese vendors. Many upcoming solar projects may be stalled while output may also suffer. An extension of the timelines of projects would provide relief to renewable energy companies. It is also suggested to utilise the green cess to offer incentives for domestic manufacturers of these modules till the crisis tides over.

For the electronics sector, enhanced availability of credit and relaxation in NPA regulations can help avoid enterprises defaulting on their obligations. RBI can play an active role to reduce financial stress by calling on lenders to adopt a sympathetic stance. Additionally, it is suggested that the borrowing limits should not be reduced.

While there is uncertainty about the duration of the current crisis situation, we believe that the disruption can continue for two quarters or so. Meanwhile, it is essential to avoid price rise owing to restrictions in supply of critical goods for consumers. Once shipments are restarted, the government must ensure that all paperwork is conducted at great speed to clear goods at the ports to alleviate stress on enterprises.

The coronavirus crisis is also a chance for India to make progress on its Make in India aspirations and also export for the world. Business conditions must be conducive to position India as a viable competitive alternative to China which Indian industry is fully capable of.

In the medium run, we must ensure that Indian manufacturing can reach close to the price points that Chinese manufacturers provide. Indian industry enjoys the capability inside the factory gate but outside-the-fence factors such as ease of doing business, cost of capital, land availability, and others need to be competitive. Right-pricing of transport and energy will make Indian goods more competitive in global markets.

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