SARS-Cov-2: Impact on Kerala Economy

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Image source: Deccan Herald

The outbreak of SARS-Cov-2 Virus in China and across the world have already affected the global economy adversely. Corona is a Latin word which means 'crown'. The novel virus has a crown (long club-shaped projections that collectively resemble a crown) and hence termed 'coronavirus', designating the present one as SARS-CoV-2 (also known as 2019 nCov). The popular name is COVID-19; where 'CO' and 'VI' represent coronavirus, 'D' disease and 19 is the year in which it was first identified in China. As the world is grappling with the virulence, India is taking a cautious approach to arrest its spread. With Kerala having much more exposure to the world, the spread of the virus will have a severe impact on the State. With the State already dealing with a financial crisis, the pandemic may have severe repercussions on its economy. This article attempts to see the impact of coronavirus on the economy of Kerala.

Impact on Growth Trajectory

China is considered as the 'manufacturing hub' of the world (the largest supplier of many basic and intermediate goods) and the heavy dependence of Western economies on this country will put pressure on global economic growth. If the world economic growth shrinks to less than 2.5 per cent there is every possibility for a recession. The latest estimates show that global economic growth will come down to 1.6 per cent. If so, the recovery may be a 'U' form, not neglecting the chance of 'L' form recovery. The coronavirus outbreak in China and its widespread in the USA and Europe will adversely affect Kerala economy as the State heavily depends on these countries in one way or another.

As per the Economic Review 2020, the economic growth of Kerala is a satisfactory one. The economy expects 7.5 per cent growth rate during 2019–20 as against the 5 per cent growth at all-India level during the same period. Kerala's economy is highly dependent on the service sector as its contribution was more than 62 per cent during 2017-18. The secondary sector, consisting of the manufacturing and construction sector, contributes 27 per cent. The construction sector is in a slowdown for a number of years, especially after demonetisation, barring the lopsidedness of the manufacturing sector. There is nothing to mention about the agriculture sector as it needs a redressal with aggressive and innovative approach for its revival. Adding to this, coronavirus will reduce the growth rate to the extent of 0.5 to 1 per cent in the January-March Quarter 2019–20.

Tourism, Trade, and Hotels & Restaurants

It has been argued that Kerala's tourism sector was the greatest victim of the two floods that occurred in 2018 and 2019, and the outbreak of Nipah virus. The Sector was getting ready for a revival but everything has come into a dismal state with the arrival of coronavirus. No doubt that tourism, which contributes almost 10 per cent of the State Domestic Product (SDP), has been the worst hit sector. Already a loss of US$ 300 million is reported in the domestic tourism of the country. The ramifications of the disease are visible in Kerala as many of the hotels are closed down temporarily and others are not able to find sufficient revenue for their day to day operations. A segment of Hotels & Restaurants which depend on the tourism sector are the real victims of the present episode. A recent survey has made it clear that about 45 per cent of the households plan to reduce discretionary spending, which includes eating out, movies, luxury products, confectionery, fashion, etc. Consequently, the number of non-operational hotels & restaurants will be increased. What is more significant is that trade, repairs, and hotels & restaurants together contribute more than 17 per cent to the SDP. A serious setback will be for the daily breadwinners whose income comes from these sectors. Automobile sales were down even before the outbreak of the disease. The present situation points out the fact that the revival of automobile sales will be difficult. 'Financial, real estate and professional services' come under a single umbrella in the estimation of SDP which contribute a handsome figure of 21 per cent to the SDP. These sectors are also badly hit by the outbreak of the novel disease. Truly speaking, no sector is free from the ill effects of this new disease.

Small Enterprises

Small enterprises existing in the manufacturing, trade and service sectors together contribute a sizable amount to the SDP and provide employment to many people. The demonetisation implemented in 2016 was a great blow to them, followed by the flawed GST implementation in 2017. Small enterprises have been struggling for the last three years as demonetisation has forced them to close down their operations for many months for want of working capital. GST may be beneficial in the long run, but small enterprises face working capital constraints due to the cumbersome procedures of filing GST returns, delays in claiming input tax credit and the problems related to GST network operations. All these developments led to the shrinking of their working capital. Besides, two severe floods and the Nipah virus outbreak have also affected them badly. They also experienced heavy loss of physical assets due to the floods. Currently, the COVID-19 pandemic has disrupted the Chinese economy and increasingly the rest of Asia. As a result of this, disruptions in the supply chain of China have restricted the availability of auto spare parts, mobile phones and their spare components, toys, electrical items, etc, for small traders and industrialists. Both the difficulty to get products from China and dearth of working capital have put them in a panic situation.

Export and Employment Sectors

It is reported that there is a fall in export revenue to the extent of ₹6000 crore. Kerala has a good record in exporting certain products like tea, cashew, spices and marine products, etc. Marine products are mainly exported to China, Europe and the USA. There were cancellations of many orders placed for marine products from China in the month of January itself. The exporters in this sector are afraid of more cancellations from European countries as the situation in these countries is becoming severe day by day. Low export coupled with the adverse effects of coronavirus will lead to loss of employment, not only in the export sector but also in all other sectors.

Crude Oil, NRKs and Interstate Migrants

The widespread coronavirus has displaced many Keralites living abroad. Many are returning to Kerala as they feel that they will be more secure here than in their working countries, thanks to the public health system of the State. Adding fuel to the fire, the price of crude oil also fell by more than 50 per cent within a short span of time. The reasons for this are the price war between Saudi Arabia and Russia, fear of a global recession and drop in demand for energy. The price which stood at US$ 50 a barrel on March 4, 2020 came down to US$ 25 a barrel on March 18, 2020. This can be a bonanza for the central government as its import bill will come down drastically. Further, with an increase in excise duty the government is able to fetch an additional revenue of ₹39,000 crore. But the fall in crude price would affect the balance sheet of oil dependent countries adversely. Naturally, the employment opportunities in the Gulf countries will become scanty and thereby will affect Malayalees. Foreign remittance, which is a strong pillar of the State economy, will also come down.

Another sad and disquieting feature is that the prospect of not getting regular jobs in the context of the new environment and the fear about the disease compel the interstate migrants to return to their native states, which will be another blow to the State economy.

Crisis and Opportunity

The restriction of mobility and cancellations of visas will increasingly affect the trade and travel sectors. Everyone talks about the opportunity during crisis periods, though they are not able to clearly mention the areas of opportunity. The production of masks or sanitisers to meet the unprecedented growth in their demand is good but temporary; what we need is a viable and sustainable strategy for fetching income continuously. One area can be the utilisation of current disruptions in the supply chain through production in areas such as electrical, electronics, toys, etc. The ramping up of these areas are not easy considering the high cost of production due to high wages, but enhancing the competitiveness of small enterprises should be the right strategy towards this end. The thrust on the productive sector is a readymade slogan of the State but little efforts are made towards this. Experts have pointed out that the material producing sectors have not necessarily given the feedback effect to the growth of the service sector. There should be attempts for this, especially in the context of a resurgence of the manufacturing sector as per the data in the Economic Review 2019. The thrust should be given to modern service sub sectors with an intention of generating employment opportunities. The opportunities of 'online shopping' should be explored, recognised and promoted. Another area would be to explore new regions where our exports can be promoted. Compensating the number of working days and income lost due to the outbreak of the disease by reforming the work culture among manual/unskilled labourers, particularly those in the informal sector, can be a good start. The lazy nature of labourers, their reluctance to do duties on all days, frequent absence from the workplace, etc, need to be addressed. Finally, the present crisis should be viewed as a way out for the ongoing financial crisis of the State. If the State is able to devise strategies in the areas mentioned above there can be a revival; otherwise coronavirus will be a mounting threat to the State economy.

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