



Impact of COVID-19 on Defence Industry with Special Reference to India

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Abstract

This paper is an attempt to understand the impact of COVID-19 on Defence Industry. Starting with China's Wuhan, the coronavirus has caused havoc in India as well. This has led to a lock-down in India, this has significantly affected the industries and has weakened India's economy. Companies related to defence sector have also been affected and defence equipment manufacturing is almost closed. This research also studies what will happen to the defence industry after the lock-down ends. Because this area is not connected to the basic needs of humans, therefore its direct impact on humans is not visible but this sector has a huge contribution to the economy. The poor economy can be managed by enriching this industry.

Keywords: COVID-19, Defence Industry, Economic Crisis, Lockdown.

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1. INTRODUCTION

The coronavirus disease (COVID-19) pandemic, which originated in the city of Wuhan, China, has quickly spread to various countries, with many cases having been reported worldwide. The Ministry of Health and Family Welfare of India has raised awareness of the recent outbreak and has taken the necessary measures to control the spread of COVID-19. The central and state governments are taking several steps and formulating several wartime protocols to achieve this goal. Besides, the Indian government introduced a lockdown across the country, which began on March 25, 2020, to reduce virus transmission. This outbreak is related to the nation's economy. After all, it has significantly impeded manufacturing sectors because people around the world are generally wary about engaging in business in the regions affected.

Severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2), which causes coronavirus disease (COVID-19), was first identified in December 2019 in Wuhan city, China, and later spread to many provinces in China. On January 30, 2020, the WHO declared COVID-19 a Public Health Emergency of International Concern. The first SARS-CoV-2 positive case in India was reported in the state of Kerala on January 30, 2020.

The effect of the global coronavirus pandemic is every minute changing. Looking everywhere is almost impossible and not seeing a hint of the epidemic that has infected our lives, our places of work, our neighborhoods, and homes. With many unknown elements to this outbreak and the situation continuing to unfold, predicting what the future may bring is difficult. There were strong and immediate implications for the global aerospace and defence (A&D) industry. Widespread industry awareness is that commercial aerospace has had the longest growth streak in decades, and defence spending has been increasing globally in the years following The Great Recession. Historically, until a downturn in the market, commercial aerospace boom periods experienced an annual increase of 300 percent in revenue from the industry. After World War II, spending on defence has alternated over 20 years between 10 years of growth and ten years of decline. Inevitably, the A&D industry was heading for a reset early, and COVID-19 could very well have accelerated the change.¹

India's aerospace and defence industry is a strategically important sector in the country. It has a total of over 1.3 million active personnel. This makes it the second-largest military force in the world, after China's People's Republic. Besides, it also has the most massive volunteer army in the world. The defense sector has expanded exponentially over the last few years. From 2008-2016, it rose at a CAGR of 9.7%, reaching current rates of USD 42.83 billion in 2017-18. India's aerospace and defence industry is expected to gross about \$70 billion by 2030. India's defence industry currently accounts for around 1.6 percent of GDP.

However, India has the world's fifth-largest defence budget. Defence allocation in India's 2017-18 Union Budget stood at USD 41 billion. Of all this, USD 13.3 billion is spent on capital purchases, i.e., 31.7% of the defence budget. Budget 2017-18 has seen a 5.3% rise in the allocation for defence relative to the 2016-17 bill. Also, the overall Indian military budget for the 2018-19 financial years stood at USD 62.8 billion. This represents 12.1 percent of the overall budget of the Union Government for 2018-19. India's military budget is around 1.49% of the total 2018-19 GDP. Imports meet approximately 70% of the security requirements. Imports account for a significant

¹ CYIENT, "The Impact of COVID-19 on the Industry and Its Recovery and Regrowth", 2020, Retrieved from <https://www.cyient.com/blog/aerospace-defense/the-impact-of-covid-19-on-the-ad-industry-and-its-recovery-and-regrowth> (Accessed on 28 May 2020).

portion of defence-related conditions, and this gives international investors a tremendous opportunity. The government's goal in the coming years is to step up local procurement to that by a large number the defence budget. Currently, the government is following the target of a USD 25.5 billion turnover of military goods and services by 2025.²

2. IMPACT OF COVID-19 ON DEFENCE INDUSTRY

At present, the focus of the Government of India is on improving athletic facilities. Still, at the same time, there is a need to pay attention to defence industries as this industry has a considerable contribution to the Indian economy. India supplies arms and defence equipment to many countries, which brings foreign money into India, but all trades are closed due to lockdown. If we compare India with its rival nation China, then we see that China has started all its industries and has started exporting defence equipment, medical equipment, and everything. This will strengthen China's economy day by day, and India will lag behind China in the economic war.

This is very important to remember that while the effect of the pandemic in the short term would be very pronounced for certain types of companies, the results that take longer to manifest for others. The latter is especially true of industries that are exposed to many externalities-political, cultural, and social. The Defence Industry falls into this category. The increase in the magnitude of the prevalent health crisis slowly compels governments across the globe to seriously introduce lockdowns. Few experts predict an imminent period of unsustainable recession. Not only is the adverse effect on the global economy, but the COVID-19 also has a negative influence on the common defence and security apparatus. The deployment of many troops with the main task of managing the modalities of pandemic relief has added more to their responsibilities.³

There are a few regions where output is steeply declining, especially economic output, as freight and deliveries are at a standstill. The aircraft manufacturing sector is already feeling the sun, as in the last few days, there has been hardly any demand for aircraft and fighter planes. Significant debates have taken place about the imminent burden on resources that may culminate in the form of defence budget deprioritization. In addition to this, the postponement of essential things on the list, travel bans resulting from social distancing and lockdowns, and transfers of products relevant to defence procurement effectively halted the cycle of aggressive growth.⁴

Business development insecurity is not quite the same as that of various other undertakings, characterized by lengthy exchange times, prolonged engagement, high risks, government to government (G2G) relations, comprehensive testing and evaluation, and intimate and informal meetings. Right now, the situation is not looking ideal for company advances. Remember that various high-value acquisition projects are being investigated and resolved in the process of safeguarding; with planned occasions, for example, EUROSATORY 2020 is still unclear, roads for improving business are being reduced. While meetings and conversations that continue to take place through remote coordination, ultimate conclusions regarding high-esteem achievements are not likely to be drawn via this technique. Another point to remember here is that unless an

² Maeir Vidorno, "Aerospace and Defence Sector Overview-2020", Retrieved from <https://www.maiervidorno.com/industry-expertise/aerospace-defence/> (Accessed on 30 May 2020).

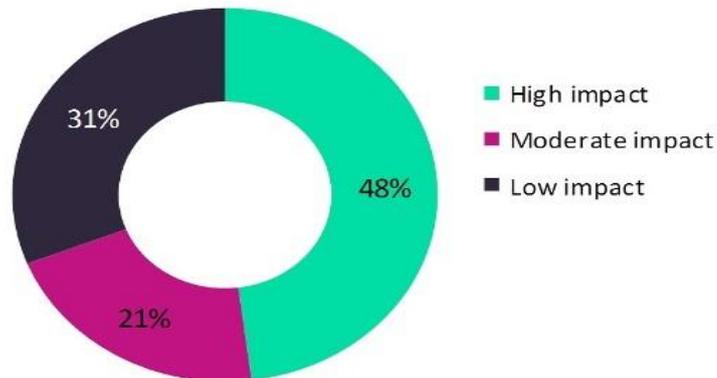
³ Laxman Kumar Behera, "COVID-19 and India's Defence Spending", *IDSA Comment*, 2020.

⁴ Manvi Hindwan, "India's War Against COVID-19: Impact on Defence and India's Emergence as a Global Manufacturing Hub", *Indian Defence Review*, 2020, Retrieved from <http://www.indiandefencereview.com/news/in-dias-war-against-covid-19-impact-on-defence-and-indias-emergence-as-a-global-manufacturing-hub/> (Accessed on 26 May 2020).

immunization or remedy is developed and driven, we can not prevent future COVID-19 resurgences and related trends of quantifying moderation or concealment that could crash business development throughout the defence sector. The dimension of unusual market growth in defence is military action. Such practices expose administrators and leaders of subsequent buyer countries to remote gear and their skills. In the off chance of the pandemic intensifying, it is difficult to prevent further severe retractions or rescheduling. As military forces, as a rule, are correlated with attempts to lower disease rates, the situation may be wrought by the thump on impact. Similarly, a suspension or decrease in military operation would further diminish the ideal opportunity for cooperation and casual testing and hardware evaluation, reducing the capacity for inert business development of an organization, particularly with the ongoing trend of using activities to diminish event acquisition courses.⁵

According to a survey conducted by a website, namely Army Technology, there will be a high impact of COVID-19 outbreak on the revenues of defence companies (See figure 1).

How much of an impact will the COVID-19 outbreak have on the revenue of defense companies?



[Figure 1]

(Source: <https://www.army-technology.com/news/covid-19-impact-defence-companies-revenues-poll-global-data-pwc/>)

Due to the spread of COVID-19 and related actions to curtail the contagion, the effects on the defence industry can be condensed into five major impact points:

- It could affect production/manufacturing facilities and supply chains.
- Efforts to grow company may be affected-some may fail, some will win.
- The demand for equipment for the defence and related services could go down.
- Companies may have to make tough choices that could affect finances and skills.
- Declines in stock prices will bring side effects.⁶

Each of the above major impact points will have different effects based on the size of the defence companies, business nature, product portfolios, chain management dependencies, and business plans. Supply-side shocks are perhaps some of the most noticeable impacts on the defence sector

⁵ Market Data Forecast, "Impact of Coronavirus on Defence Industry", 2020, Retrieved from <https://www.marketdataforecast.com/blog/impact-of-coronavirus-on-defense-industry> (Accessed on 26 May 2020).

⁶ Arjun Sreekumar, "How COVID-19 Will Impact the Defense Industry", *The Diplomat (Online)*, 2020, Retrieved from <https://thediplomat.com/2020/03/how-covid-19-will-impact-the-defense-industry/>.

from the consequences of the pandemic. The immediate victims of the epidemic are companies that are located in countries severely affected by the virus or those dependent on supply chains located in the affected countries. Technological influences and paradigms of manufacturing also play a part in recognizing the extent of the effect. For example, social distance is likely to affect defence firms with highly automated plants less.

Similarly, those companies that have not completely transformed into certain manufacturing paradigms, such as just-in-time production, may just have a higher inventory level, and therefore may be capable of dealing with supply-side crises for an extended period. While the defence industry is not currently impacted as much as many other industries, we need to bear in mind that defence contracts are very high-value contracts and a potential loss of business due to a worst-case scenario linked to COVID-19 could result in companies losing out on hundreds of millions of dollars of anticipated sales. Industries will have to make difficult choices on how the company should be run in the future.⁷

3. IMPACT ON DEFENCE INDUSTRIES POST COVID-19

Covid-19's unleashing on humanity is probably the case of the century. It has caused massive turbulence in the world. It has had a profound effect on how businesses are going to be operated after this time. The financial markets dived and acted in the most bullish way. There are a rise and fall every day, which leaves a growing investor confused. China has gained a bad name, and its prestige and reputation have been tarnished. The bribery is now an open secret. Nations are now hostile to China and filled with pain and rage and want to avenge themselves. In the scenario of multi-nationals moving their industries out of China, other nations are faced with a glorious opportunity to galvanize their political and economic efforts to make it conducive to transfer these investments to their countries. India is the front runner for these undertakings. India's government has also relaxed its FDI policy to ensure there are appropriate monitoring mechanisms in place.⁸ So now is the time to shore up our so-called corridors of security that were set up with a lot of fanfare. India is currently the world's only vast country that is heavily dependent on outside sources for its defence requirements. According to the Stockholm International Peace Research Institute (SIPRI), the latest data on global weapons transfer shows that Indian weapons imports have fallen dramatically (by 32%) since 2015, suggesting that the 'Make in India' campaign is gaining ground, but the country is still ranked second most significant buyers of arms in the world, only behind Saudi Arabia. The silver lining for India was the entry into the list of exporters along with the 32% fall in imports. The exports shown are currently small – they represent just 0.2% of the global arms market – but the start is essential. India's largest customers are Myanmar, which accounts for 46% of exports, 25% of Sri Lanka, and 14% of Mauritius.⁹

⁷ OMMCOM NEWS, "Indigenous Defence Industry Seeks Govt Help", 2020, Retrieved from <https://www.ommcomnews.com/india-news/indigenous-defence-industry-seeks-govt-help> (Accessed on 25 May 2020).

⁸ Aaron Mehta, "How Coronavirus Could Impact the Global Supply Chain", *Defense News*, 2020, Retrieved from <https://www.defensenews.com/industry/2020/03/20/how-coronavirus-could-impact-the-defense-supply-chain/> (Accessed on 25 May 2020).

⁹ Rajan Kochhar, "Preparing Defence Sector for Post COVID-19 World: Time to Treat Private Sector as Equal Partner", *ETGovernment.Com*, 2020, Retrieved from <https://government.economictimes.indiatimes.com/news/governance/opinion-make-in-india-a-dream-or-reality-for-the-armed-forces/75552970> (Accessed on 27 May 2020).

This dependency on weapons imports is a clear reminder of how little India has aspired to since the early days of independence from the goal of substantial self-reliance in defence production. India's government had established 25 sectors like defence manufacturing to continue its 'Make in India' program, which was launched nearly four years ago. Since 2014, the Indian government has actively supported the country's establishment of a Defence Industrial base. Many policy directives have been released to encourage Make in India and actively support the development of two corridors in Uttar Pradesh and Tamil Nadu for the Defence Industry. Yet, this initiative has to realize its full potential. The defence and aerospace industry, as is well known, is mostly based on government orders.

Moreover, the sector is characterized by long periods of growth and acquisition and substantial investments. The industry is also characterized by a tiered structure in which small and medium-sized enterprises form the backbone of the structure of Tier 1 and Tier 2 and sometimes, rarely, primary contractors. The Indian industry had just begun to develop as a result of some initiatives taken in recent years when COVID-19 gave it a body blow. A significant number of players in the industry may not survive the crisis unless any immediate measures are taken to rise "Make in India."

There are several 'Lockdown' consequences for the private security industry, and the private sector is likely to suffer higher losses and financial pressure due to:

- Responsibility to bear salaries of all workers during the lockdown and beyond, while there is no output (for both domestic as well as for exports).
- Discontinuity in the business cycle due to disruption of the contracting and tendering activities. There might be little business in the early stages of lockout post-lifting;
- Enhanced capital expenses, capital investment over extended project length, and LDs;
- Working capital problems are pressing for MSMEs (no significant surplus cash reserves to pay salaries and benefits, and the financial pressure of holding inventories).¹⁰

COVID-19 also provided many possibilities from the viewpoint of defence. One of the significant ones is that it has given great motivation for domestic innovation. Either developing pandemic equipment/devices or developing patient diagnosis or disease vaccine research, the pandemic has seen much higher adoption of new technology and solutions than ever before. Acceptance authorities have reacted tremendously to the positive approach by the innovation ecosystem in the country. Large numbers of projects are coming in from both sectors and start-ups. Defence secretary Dr. Ajay Kumar speaks to The Indian Express "Our efforts to promote indigenous production in defence and aerospace, both for the domestic market and exports, are ongoing and will also continue post-COVID-19. We have many ongoing measures." He also mentioned a few points as "(a) Transfer of technology from DRDO is available at zero cost for indigenous production. This is a great opportunity for the industry to come forward and start manufacturing for the domestic/export market. (b) The industry has free access to DRDO patents, which can help them with new technologies/products in India. (c) Department of Defence Production has approved a new scheme for the development of testing infrastructure, and the same is being implemented. This will provide dedicated testing infrastructure for the aerospace and defense industries. (d) Efforts are underway to promote investment in industrial corridors in the Defence Sector. Many expressions of interest, worth thousands of crores, were received during Defence Expo 2020. Those are likely to generate substantial investment in these defense corridors. (e) The

¹⁰ Nitin A. Gokhale, "What Indian Defence Industry Needs Post-Covid-19", *Bharat Shakti*, 20 April 2020.

order for 83 LCSs is in the pipeline and will give the domestic aerospace industry a major boost. Since the order goes to HAL, there are hundreds of businesses that support HAL by providing different components and parts, and this will give the industry a major boost. (f) DPSUs and OFB's indigenization initiative has received a boost based on Indigenization Policy 2019, and it is planned to indigenize at least 1000 components per year in five years to come."¹¹

4. CONCLUSION

The COVID-19 pandemic in today's context is defining the global health crisis and the world's biggest humanitarian challenge since the Second World War. The virus has spread widely, and the number of cases is increasing every day as governments work to slow its spread. India has moved swiftly, implementing a proactive, nationwide lockdown to flatten the curve and use the time to effective implementation and resource responses. As well as an unprecedented human toll, COVID-19 has triggered a profound economic crisis. The global economic effect may be broader than any after the Great Depression. Instant action is required to tackle the problem of short-term liquidity, but also to solve cost and profitability, and to generate funding to invest in new possibilities. Actions taken now can have an immediate impact on the survival of the company, how quickly it rebounds from the global downturn, and its financial health and sustainability are going forward. Actions taken now will have an enormous effect on the viability of the Defence Industry, how easily it recovers from the global downturn, and its financial stability and sustainability are going forward. Some state governments have allowed local defense manufacturers to restart manufacturing activities with immediate effect to counter the situation. The situation is less urgent on the defense side of the market, with demands assured by expected government expenditure and an inventory network with an insignificant presentation to hard-hit wards. The revelation of a vaccine or COVID-19 solution and successful control during personal time could make the business less influential. A few deals, barrier occasions, and market improvement initiatives may yet be pushed back. At the same time, the resistance segments may display a level line or even minor growth at the end of the year due to repressed interest.

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¹¹ Sushant Singh, "Defence Secretary Dr Ajay Kumar: COVID-19 Has Also Offered Several Opportunities From Defence Perspective", *The Indian Express (Online)*, New Delhi, 30 May 2020, Retrieved from <https://indianexpress.com/article/india/defence-secretary-dr-ajay-kumar-covid-19-has-also-offered-several-opportunities-from-defence-perspective-6410427/>.

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