

Coronavirus & Impact on Economy: RSTV – Big Picture

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What's in the News?

- The recent outbreak of [Coronavirus](#) in China has claimed multiple lives. It has also had an impact on the economic activities in China and other parts of the world.
- The economic damage is in part not due to the virus itself, but due to the efforts taken to prevent it from spreading.
- There are strict restrictions on moving out of Wuhan.
- The lockdown has now extended to other parts of Hubei province.

Larger Background:

Wuhan, in China, has been the epicenter of the Coronavirus outbreak. The epidemic has posed serious constraints from the perspective of health. The virus epidemic broke out during the Lunar New Year in China.

- The initial cases were reported in December 2019. 38,043 people have currently tested positive for the virus infection.
- There is not much known about the new Coronavirus, which has been designated as 2019-nCoV, as the virus strain is supposed to be novel.
- The current death toll has reached 1018 people.

China's significance in the Global Economy:

- It is one of the world's fastest-growing countries and is the tenth-largest exporter.
 - China plays a growing role in the world economy.
- **Today, it is the world's second-largest economy and produces 9.3 percent of global GDP.**
 - China is also the largest exporter of goods in the world, with 9.6 percent of the global share and an 8.4 percent share of goods and non-factor services.
- It also forms a very important trade element in other countries.
 - India's pharmaceutical industry depends on the imported active ingredients from China.
- China's vast and growing domestic market has encouraged thousands of foreign businesses to open their own factories on the mainland, and join local distribution networks.
- The country is also the centre of a diverse range of supply chains. Most of the raw materials are shipped to China before being converted into a manufactured product.

Global impact of the outbreak on China's economic activities:

A 2017 paper by economists Victoria Fan, Dean Jamison and Lawrence Summers estimated the expected annual losses from pandemic risk to be about \$500 billion, or 0.6% of global income per year, accounting for both lost income and the intrinsic cost of elevated mortality.

- Wuhan, which was the centre of the outbreak, is a large industrial hub, a regional hub, an important cog in the automotive industry and a magnet for foreign firms.
- The outbreak has caused economic activities in China to come to a standstill. This has also affected economic activities on a global scale.
- GDP growth in the first quarter of 2020 could be about 5% and the possibility of falling below 5% could not be ruled out, according to the Chinese Academy of Social Sciences. Certain analysts have warned that the worst-case scenario could result in an economic contraction.
- Most industries in China shut down over the two weeks around the lunar new year. The lockdown in the country prevents business-related travel as well as the movement of goods and workers.
 - The time around the lunar new year usually is when most of the economic activities increase in China.
 - There is a growing concern about the **integrated international supply chains**.
- The shut down of business in China also affects the economic activities on a global scale. **Economists are speculating that perhaps 0.3 percentage points may be shaved off global growth.**
 - Bangladesh derives 85% of its Foreign Exchange revenue from the garment and clothing industry. They, however, import the cloth from China.

The vulnerable industries:

- China is a leading supplier of auto parts, electronics, and mobile phones. Travel companies, automobile industry, and luxury product outlets are among the most volatile sectors.
- **Automobile:** The automobile executives in the USA and UK have warned that they're very close to the shortage of parts.
 - Meanwhile, Hyundai, of South Korea, has suspended its car production because of problems with the supply of parts from its operations in China.
- **Electronics:** Many global companies rely on suppliers based in China.
 - For example, 290 of Apple's 800 suppliers are based in China and the country is also responsible for 9% of global TV production. However, Apple stores have been closed in the wake of the epidemic.
 - The downstream industries which utilize chips made in China would also be suffering a setback.
- **Education:** Wuhan is also the third-largest education and scientific base in China, with two of the top ten universities. However, the Universities are closed down currently, to control the virus from spreading.
- **Travel and tourism sector:** The travel and tourism sector will be affected badly.
 - Several overseas airlines have stopped flights to China and international hotel chains have also been offering refunds.
 - Most of the Chinese citizens are avid travelers, hence the tourism in other countries might feel the ripple effect.
- **Shipping Industries:** Shipping companies are reporting a sharp drop in container volumes.
- **Food and Beverages:** China also has a huge domestic market for retail and food and beverages. Starbucks alone has around 4000 outlets in China, however, half of them were closed due to the outbreak.
- **Pharmaceuticals:** API China is China's leading exhibition for the pharmaceutical manufacturing sector covering the complete spectrum of products. However, due to the lockdown, business has been moving at a snail's pace.
- **Stock Markets:** The Asian stock markets are enduring volatile weeks. It had initially gone down due to a slump in the retail, consumer services, and transport businesses before it recovered back again in the hope that the virus outbreak would be contained.
 - Despite the disruption to the wider economy, virus outbreaks have tended to benefit

pharmaceutical stocks, while tourism and travel-related stocks such as hotels, airlines, luxury, and consumer goods, tend to get punished.

- **Oil prices and other Commodities:** China is the world's largest crude importer and also a big consumer of metals such as copper and iron ore. The oil prices have fallen sharply along with the spread of the virus.
- China's central bank has begun to pump extra funds into the economy to maintain borrowing while the virus takes hold, mainly to boost business investment. However, the funds, although cheap and plentiful, are mainly used to keep zombie companies from getting washed out.
- China has also agreed to slash the tariffs on \$75 billion of U.S. goods.

SARS (Severe Acute Respiratory Syndrome) outbreak Vs the Coronavirus epidemic:

- The novel Coronavirus is being compared with the SARS (Severe Acute Respiratory Syndrome) outbreak in 2002-03 which infected around 8,000 patients and claimed nearly 800 lives.
- More than 1000 people have died from the new virus, a greater number than those who died from severe acute respiratory syndrome (SARS) in the 2002-03 epidemic.
- A paper by Jong-Wha Lee and Warwick McKibbin estimates the global economic loss due at SARS at \$40 billion in 2003.
- After Chinese authorities reported the outbreak of SARS to the World Health Organization (WHO) in 2003, the MSCI China index of shares decoupled from its global peers – but made up the lost ground in only six months.
- The coronavirus is spreading at a rate six times faster than SARS, mostly through human contact between people not yet showing symptoms.
- China is a much more open economy than it was even in 2002, and hence the disruption is expected to be greater than that caused by SARS.

Which countries would be the most affected due to the China slump? Is it an opportunity for India?

- It isn't exactly an opportunity for India, however, there will be a positive effect on India's external balances.
- The ASEAN (Association of Southeast Asian Nations) countries will be affected on a large scale as they are very closely integrated with the value chain of China.
- Japan, although possessing a stable economy, would still be affected, as China is a big buyer of Japan's industrial machines, its cars, trucks, and technologically advanced consumer goods.
- India would be impacted as China is one of India's largest trading partners.
- The USA and the UK rely heavily on China for its automobile parts and other electronic goods.
- Tourism in most countries will also be affected, as Chinese tourists would not be allowed to travel for quite some time to come.
- Thus an economic slowdown in China would affect most of the countries in the world.

Could activities in China have a bearing on the USA elections?

- The lockdown on the manufacturing of goods and products in China could indirectly influence the Presidential elections in the USA.
- As the US companies would find it difficult to access components for their manufactured goods, many factories could be closed down in the states of Ohio and Pennsylvania. These are the heartland states of the USA.
- This could influence the Trump re-election campaign heavily as it relied on bringing industrial jobs to these states.
- However, the situation could change if the spread of the virus is brought into control soon.

Way Forward:

- India and the other countries should be prepared to face the effects both in terms of the spread of the virus and in dealing with the economic slowdown which can occur.
- The public should not panic and the spread of misinformation should be regulated.
- The affected countries could try to look for alternate options while taking this opportunity to strengthen their domestic markets.
- Try to help the people in China by not making the situation harder for them than it already is.

Conclusion:

Given China's huge importance to the global economy, the ripple effect could be choppy and lasting. However, with greater cooperation among the rest of the countries, the intensity of the effects could be minimized. China is also a highly organized country, thus it is expected that the country could make a fast recovery from this epidemic.