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A tale of how Corona virus stalled the growth engines of the world

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ABSTRACT

Covid 19 differs from all previous catastrophes in several dimensions. The geographical extent, the duration and the population affected traverse across continents and is suggestive of a global pandemic. The growth forecast made by the International Monetary Fund for 2020 indicated that there will be a 3 per cent contraction in the global economy and is heading to the steepest downward slope since the Great Depression. All the economies have resorted to lockdowns of varying proportions to contain the pandemic caused by the novel Corona virus. As lockdowns are gradually lifted and countries try to restart their economies, it is imperative to analyze the impact of Covid 19 so as to design specific policies to mitigate the impact of the same. This paper is a study on the economic shocks of the pandemic on specific economic activities, namely, trade and manufacturing of the two major growth engines of the world China and India. This robust assessment is a report on the economics of the pandemic on the developing economies in general and on the two major players of global trade in particular and how it could create a new norm in the global economic order.

Keywords: Emerging Economies, Covid 19 impact, trade, manufacturing, India, China, Developing economy

Introduction

First detected and reported officially in China by December 2019, Covid 19 was initially dismissed as a local issue or just Wuhan flu. But within a month it has been declared as a global pandemic by the World Health Organization. The threat is assuming more proportions day by day and has become the most difficult test faced by humanity in near future. Unlike the other previous disasters, there is a looming uncertainty about how long this threat will prevail. The International Monetary Fund has forecasted that global economy will contract to its lowest levels since the Great Depression. The World Trade Organization has predicted that global trade could decline by as much as 32 per cent on account of Covid 19.

The impacts of Covid 19 on advanced economies differ very much from that on a developing economy. Advanced economies are affected badly by the pandemic because of their inherent fragilities in the financial system caused due to highly leveraged and unsustainable corporate loans built up over the years much before the incidence of Covid 19. Major developed countries have announced stimulus packages which are unprecedented in scale and scope as a response to the present crisis.

A developing country is a country with low developed industrial base and less human development index compared to other countries. Covid 19 thus would have a serious impact on these countries compared to the developed countries of the nation.

Developing countries do not issue or hold large international cash reserves. Hence these countries rely largely on their exports to meet their needs. To export something, they need significant amount of inputs to be imported. The crisis has already triggered sharp currency devaluations in the developing countries (UNCTAD Report, March 2020).This pandemic has affected the entire world on a large scale, affecting the global supply and demand chain. But the effect of the pandemic on developing countries is nothing short of devastating. Export and import restrictions could create serious destructions in the global supply and demand chain and could also increase the prices of products. These countries may find it difficult to meet the medical essentials to handle the crisis and thus would rely on imports. Trade restrictions can thus cost lives as the domestic supply reduces and the demand increases and following this price rises. Thus trade protectionism will cost lives and the government should call for open market in this situation.

Scope of the study

The outbreak of COVID 19 has slowed down the global economies with interruptions to production, trade, tourism, global supply chains, transport, economic activities, market forces and also consumption patterns in the global markets. Developing countries face their own distinct sort of pressures and constraints making it harder for them to survive the crisis as compared to advanced economies. The developing countries are yet to get the full hit of the pandemic and there have not been signs of the 'beginning of the end' of the corona virus shock. The scope of this study is limited to the study on economic shocks of pandemic on the developing economies in general and on the two growth engines of the world, China and India in particular.

Objective

The objective of the paper is to find out the multidimensional impact of corona virus on the lives, livelihoods and industry in the developing countries of the world. The economic fallout from the impact of corona virus on developing economies is expected to be worsening in months ahead. Many of the positive conditions that produced a strong recovery for developing economies in the earlier global financial crisis are conspicuously absent this time. The study aims to unravel the stark realities of the impact of Covid 19 in developing economies both in the short run and long run. The study further enquires how the two giant developing economies of the world, China and India are taking the toll of the pandemic. The paper enquires specifically the impact of pandemic on the aspects of manufacturing and trade in the manufacturing hub of the world China and the most sought after contender to that race India and how COVID 19 is reshaping their policies.

Research Methods

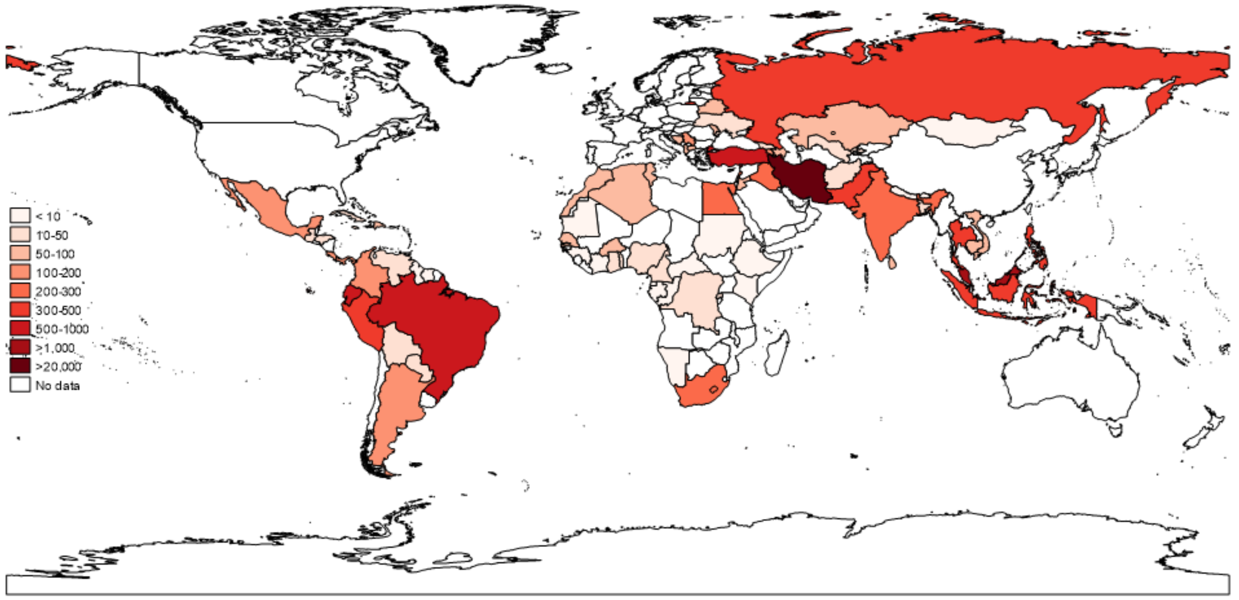
The study is conducted by incorporating secondary data extensively. The study covers the impact of Covid on trade and manufacturing sectors of the two major global competitors China and India. The major sources of study includes reports of global agencies like WTO, UNCTAD, WEF, whitepapers, research-papers, news blogs and government organizations reports. The report is expected to serve as a source for 360-degree analysis of the Covid impact on developing economies with special focus on China and India.

Discussions

The Impact of Covid 19 on the Developing Economies

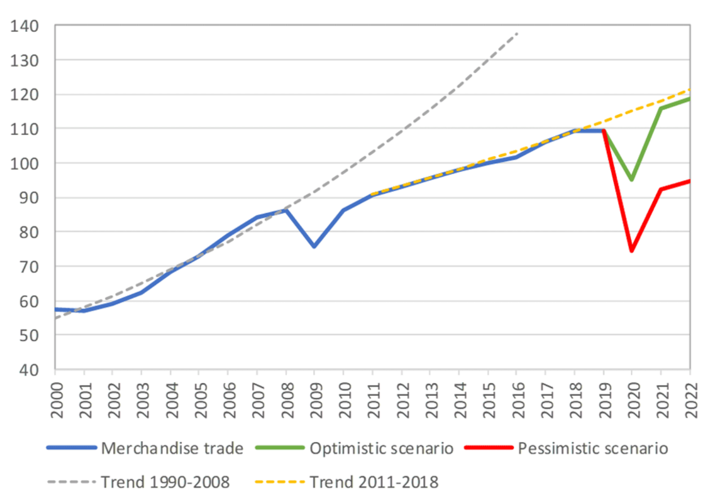
Covid 19 is expected to increase the financial pressures of the developing economies mainly through three transmission channels as identified by UNCTAD. The first channel is pressure on government resources on account of the public health hazard. The total shut down of economic activities caused by social distancing has caused economic woes already in the developing economies. A steep fall in unemployment is already happening. In contrast to the advanced economies which are buttressed by sophisticated administrative machinery and fiscal capabilities, the developing economies have tightened fiscal reserves, weaker health care and social protection schemes, making them highly vulnerable to both human and financial toll. The second channel is through the reduction in international trade. Even though the advanced economies along with China have injected $ 1.4 trillion stimulus packages, it will not suffice to prevent the slowdown of international trade of developing economies. UNCTAD March 2020 projection is that developing countries (excluding China) will lose nearly $800 billion in terms of export revenue in 2020. And the third channel is due to capital flight from developing economies. Many of the developing and emerging economies are witnessing record outflows of capital to safer shores causing their currencies to depreciate sharply. Developing countries which are exposed to external debt obligations are putting enormous pressures on their debt sustainability. The developing country debt is presently 193 percent of their combined GDP.

Figure 1 Most Affected Developing Countries Due To Covid 19



Source: World Health Organization Coronavirus disease (COVID-2019) situation report – 62 of 22 March 2020.

Figure 2: World Merchandise Trade Volume



Source: WTO Secretariat.

The economic consequences of the current pandemic on developing countries are expected to be more severe than any of the previous instances due to several reasons. The pandemic has not yet retreated from the globe and there is uncertainty about how long the pandemic will hold grip on the economies. The developing economies have not yet faced the full impact of the pandemic because the spillover effects of the pandemic from the advanced economies are not yet over. Many of the conditions in developing economies that caused a strong and quick recovery from the global financial crisis of 2008 are absent this time. The massive stimulus injected by China in 2009 had led Chinese economy to faster recovery last time and created strong demand for exports in other developing economies too. There was strong trade links between developing countries at that time giving a notion that developing economies are decoupled from the global financial crisis. But now China has built a strong domestic logistic and supply chain management system that its dependence on other developing countries are less. Hence the recovery of developing countries could not take place that easily even if China injects huge stimulus packages this time.

In addition, developing economies are confronted by challenges of tightening of fiscal space, rising of illicit financial flows into their economies and weakening of state capacity. There has been very little of diversification in the economic activities of developing economies in the recent years, making them more vulnerable to economic shocks. Further the financial interdependence between developed and developing economies has drastically altered the composition of capital market in the developing economies. There is an increased presence of nonresident investors, foreign banks and other financial institutions in the domestic capital markets of emerging/developing economies. This has further exposed the developing economies to the vagaries of global crisis. All this drives home the point that the crisis will leave an indelible game changing impact on the developing economies and post covid world will never be the same as before.

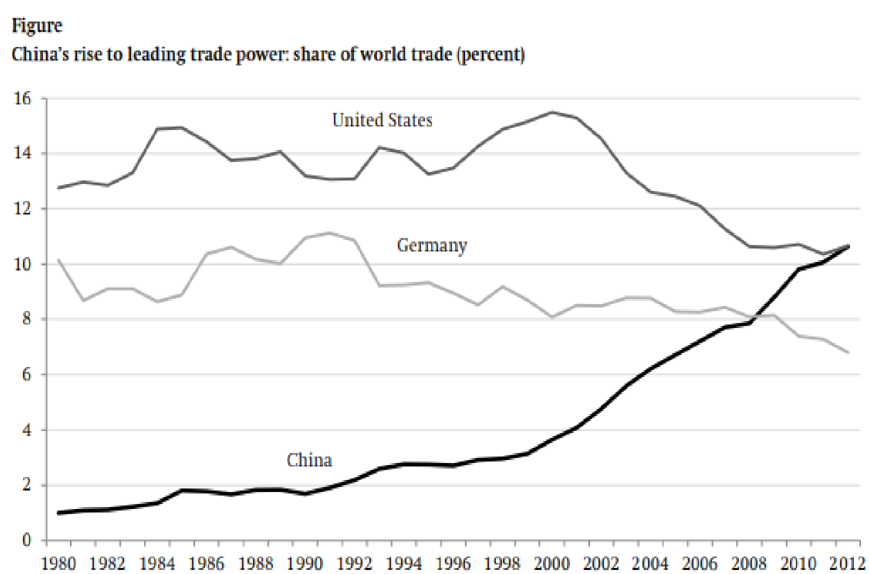
Impact of Covid 19 on its epicenter - China

China is often referred to as world’s factory due to the large number of global manufacturing that takes place there. Over the last thirty years, China has converted millions of acres of hinterland into massive manufacturing units. The world stood stunned at the Chinese hegemony in consolidating the global supply chain. China began to grow in its manufacturing prowess largely because of the power of their economy of scale. Almost every country and every industry in the world is dependent upon China for every imaginable manufactured component such as iron, steel, aluminum, textiles, cement, cell phones, personal computers, shoes, chemicals, toys, electronics, rail cars, and ships. No other country has enjoyed this much domination in the global manufacturing pie.

China, officially the People's Republic of China is an East Asian country and is one of the few existing socialist states. Chinese economy has been one of the world's fastest growing economies. China is the one among the world's largest exporter and second largest importer of goods. Currently, China makes up 16 per cent of global GDP. Trade has become an important part of China's economy and the mode of foreign trade patterns of China have shifted since early 1950's. The top exports of China include broadcasting equipment, computers, cars etc. The top export partners of China include USA, Japan, South Korea, Germany and Hong Kong. The top import destinations of China include Other Asian countries, USA, Germany and South Korea. China stands at the center of many trade conflicts and plays a major role in developing and shaping the international trade relations and structure.

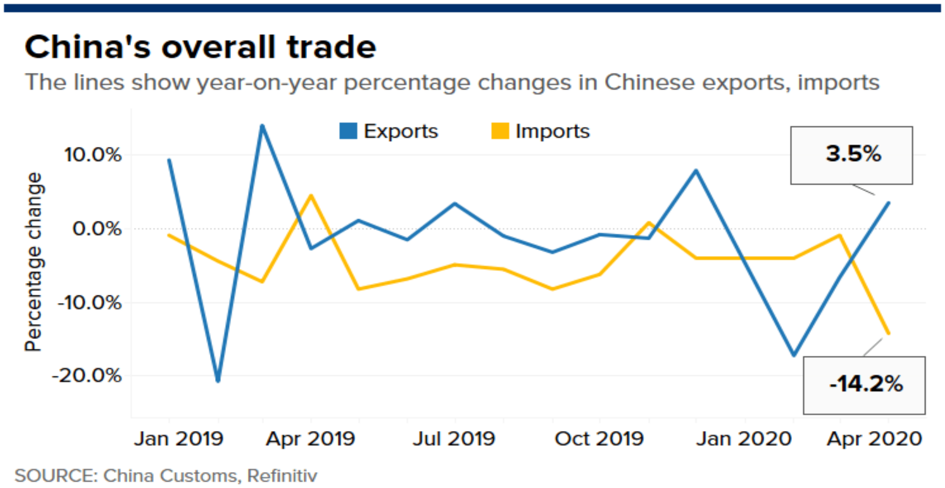
The growth of China's economy to its present status is astounding. China was only a marginal figure in World Trade during 1980's. Twenty years later China made a massive growth in its trade by representing 3.7 percent of the World Trade. By 2012 exports and imports became $3,869 billion that is around 10.6 percent of the World Trade. China has thus almost come up to the level with the United States in 2012 and took the lead in the global economy since 2013.

Fig 1. China's rise to world's leading trade power



Source: SWP Berlin China's Trade Policy: Dominance without the Will to Lead January 2014

Fig 2. China's overall trade



Source: China Customs, Refinitiv

Export has been a major activity helping China in its rapid growth and economic expansion. In 2019 China's exports increased by 0.5 percent, slowing sharply from a 10 percent rise in 2018. Machinery and transport equipment accounted for 48 percent of total exports, other major exports included iron and steel, chemicals and related products, and food and live animals. China's economy has faced a double digit drop in industrial production, retail sales and investment during the beginning of 2020. Corona Virus has taken its roots in China in December 2019 itself and later got spread all over the world. The Chinese economy has shrunk in the first quarter of the year and it is the first contraction of the economy after the global crisis in 1976.

The knock-on effects for the world due to a contraction in China's economy are significant. China depends on Angola, Chile for oil and other items for its factories and the construction sector of China depends on Brazil or Australia for steel often made from iron ore. Thus this has affected the import activities of Chinese trade since the spread of the Virus has impacts on other nations as well. When the virus was intense in China, the Chinese economy announced lock down throughout the country, imposing restrictions on the people in their movements and daily routine. The economy was ground to stop. Thus now after the crisis there arises the problem of lack of workers and buyers at the same time in the economy. China has sent back many of their migrant workers from their factories. The consumers aren't buying either. There came a shift in their preferences and buying patterns as well. Car dealerships have gone down and the number of shoppers is far below than normal. Improvisation can be brought in to settle back the problem of supply wherein the problem of demand still remains unsolved.

Covid 19 has not only affected the import activities of China's economy but affected the export activities as well. German automakers highly dependent on Chinese markets have seen their markets wither due to this pandemic. Middle East energy producers face difficulties as the Chinese economy has closed their shipments of liquefied natural gas. Retail sales, industrial production and fixed investments slipped by 20.5 per cent, 13.5 per cent and 24.5 per cent respectively during this period. Economists are uncertain about how much growth does the Chinese economy require for being back on the trade chain and to achieve this year's target. The pandemic forces the economy to adjust its economic goals on a large scale.

Can India leverage the pandemic impact to its advantage?

Home to the second largest population in world and as one of the fastest growing economies of the world, India aspires to catch up with China and become a manufacturing hub of the world. The ambitious 'Make in India' project of the government of India has given a significant push in this direction. There are speculations that India can find better opportunities for its supply chain industries by luring multinational companies looking to diversify from China and emerge as a natural leader to create dialogues for a multi polar global order, in the post covid scenario.

India is the most populous South Asian country and the most populous democracy in the world. Foreign trade in India includes exports to and imports from others parts of the world to the country. India is the seventeenth largest export economy in the World and is the 45th most complex economy according to the Economic Complexity Index 2017. In 2017 India exported \$292 billion, thus India became the 17thlargest exporter in the world. Taking into account the five year data i.e. from 2012 to 2017, India has increased its export rate by 1.2% (\$273 billion in 2012 to \$292 billion in 2017). The recent exports of India constitute refined petroleum which accounts for 10.3% of the total exports and diamonds which accounts for 9.1% of the total exports of India.

India holds on for more of import activities compared to its export activities. India became the 11th largest importer in the world in 2017 by importing $417 billion. Taking into account the five year data i.e. from 2012 to 2017, India has decreased its import rate by -1.6% ($449 billion in 2012 to $417 billion in 2017). Major imports include crude petroleum which accounts for 17.9% and gold which accounts for 9.3% of the total imports of India. According to 2017 data India witnessed a negative trade balance of $125 billion in net imports as compared to their trade balance in 1995 wherein India had a positive trade balance in net exports. The major exports of India include refined petroleum, diamonds, packaged medicaments, jewelry and rice. The major imports of India include crude petroleum, gold, coal and petroleum gas. The top export destinations of India are USA, UAE, China and Germany. The top import destinations of India include China, UAE, USA and Saudi Arabia. In India, exports and imports are regulated under The Foreign Trade Development and Regulation Act 1992. The current provisions relating to exports and imports are handled under The Foreign Trade Policy 2015-2020.

Due to the outbreak of COVID, India's trade deficit narrowed by $9.76 billion in March 2020 from $11.0 billion compared to the same month last year. Exports in March2020 were $21.41 billion as compared to $32.72 billion in March 2019, thus exhibiting a negative growth of (-) 34.57%. The slumping of exports is due to the current pandemic affecting the entire world. This has caused serious interruptions in the supply and demand chain. Except iron ore, all other commodities showcased negative growth in March 2020. Imports in March 2020 were $31.16 billion which was 28.72% lower in Dollar terms over imports of $43.72 billion. Transport equipment sector witnessed a growth rate of 11.94% over March 2019 which shows a rise in the import sector. Pearls, machinery, electronic goods, petroleum, coal etc. witnessed negative growth during this pandemic.

Due to the corona outbreak, India announced 21 days total lockdown throughout the country. This caused a major interruption in the movements and practices of the people. India's 21 day lockdown brought down the country's growth from 4.5% to 2.5%. The demand market has collapsed and it would be difficult to restore the situations prevailed before the crisis. The global pandemic has brought in unpredictable pause to the trade and economic activities across the globe and India is no exception. It will take some time to restore back its trade deficits and smooth functioning.

Post Covid Business Opportunity for India

The corona virus pandemic is influencing many foreign firms to shift operations out of China. Many countries including India are sprucing up domestic business environment to take advantage. The pandemic has taught new lessons to world. If India can learn lessons from this, it could be a game changer in the global economic order. The world has seen the disaster in concentrating the entire global manufacturing activities in one country that is China. It has proved to be a costly mistake in the event of a breakdown as this. When MNCs are considering next best locations, India has an opportunity, provided there is a proper policy and strategy framework.

Pharmaceutical sector presents tremendous opportunity for India. India, with its large pharmaceutical sector base, could evolve as a major manufacturing base for vaccines, provide facilities and training for many developing countries, and establish R&D for early detection, prevention and monitoring of similar situations in future. At the same time India needs to spend strengthen its public health care system. It is not just about reimbursing costs to the poor, which can only give temporary results. The focus should be to maintain primary health care system that requires in the first place clean water, clean air, green spaces, proper housing, and drainage systems. There should be a realization that these are no longer welfare spending, they are part of economic growth.

India should also be a forerunner in promoting green economy in the post covid world. The dependence on fossil fuels and non renewable sources has to be checked and brought down. Public transport systems should be revolutionized and encouraged. India also has a great opportunity to promote agriculture for its self reliance and self sufficiency goals to be achieved. Unless a country is self sufficient in their food grains, full social security cannot be ensured to its citizens. India also is in the cu1sp of a demographic dividend which could be transformed productively to contribute to the economy

Conclusion

According to the analysis of UN Department of Economic and Social Affairs, the global economy could shrink up to 1 per cent in 2020 due to the corona virus pandemic. Outbreak of Covid 19 has disrupted the global supply chains and international trade. There are symptoms that the global economy could plunge into a deep recession. The worst case scenario is that the global output could contract up to 0.9 per cent instead of 2.5per cent growth in 2020. This is in regard of the demand side shocks of different magnitudes to China, Germany, South Korea, US and the decline in oil prices by 50 per cent. The severity of the economic impact will largely depend on two factors i.e. the duration of restrictions on the movement of people and economic activities in major economies and the actual size and the efficacy of fiscal responses to the crisis. Developing countries especially those depending on tourism and commodity exports have higher economic risks and the global manufacturing thus would contract to a greater extend. The post pandemic measures will of course depend on how the countries deal with the crisis now.

Growth of economies in the post pandemic era will depend on factors such as quality leadership, quality health care units, new investment proposals etc. For example in India, the Make in India flagships will emerge as a key catalyst for attracting more investments highlighting more reforms in the areas of land, labor and liquidity. India has also announced for more economic packages which will concentrate on all sectors such as agriculture, taxation, infrastructure etc. not only to attract investments but also revive demand in the economy. Thus India requires a strong policy to take country forward.

At present China is fast recovering and is leaving the traces of pandemic behind. China has come up with the slogan “six guarantees” which includes employment, livelihood, business employment, food and energy security, supply chains and the operations of local government and it would keep its domestic companies engaged in manufacturing within China rather than chasing the companies leaving the country.

World was totally unprepared for Covid 19. But the world, developing economies, developed economies, China and India has enough lessons to draw out from the unpleasant experiences and turn it into positive one. Let us hope that a new thinking process will dawn upon the world leaders leading to better policies that help us come out as a stronger and more resilient economies and health systems.

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