

3. Coronavirus: Impact on Trade

Prelims Syllabus: Economics

Mains Level: GS-III Indian Economy and Issues Relating to Planning, Mobilization of Resources, Growth, Development and Employment.

Context:

- Recently, the OECD in its Interim Economic Outlook, has warned that the coronavirus presents "greatest danger" to the world economy since the times of the financial crisis. Businesses are dealing with lost revenue and disrupted supply chains due to China's factory shutdowns, lockdown in dozens of cities and other countries extending travel restrictions.

Impact on Trade and Commerce:

- With many companies and countries depending on the health of China's economy, here are a few ways the outbreak is sending ripples around the world.
- Predicted slump
 - ✓ China is the world's second-largest economy and leading trading nation, so economic fallout from coronavirus also threatens global growth.
 - ✓ Experts predicted China's economic growth to slump to 4.5% in the first quarter of 2020, down from 6% in the previous quarter – the slowest pace since the financial crisis.
 - ✓ However, the economists were optimistic China's economy would recover quickly if the virus could be contained.
- Falling oil demand
 - ✓ China is the world's biggest oil importer.
 - ✓ With coronavirus hitting manufacturing and travel, the International Energy Agency (IEA) has predicted the first drop in global oil demand in a decade.
- Disruption to Commerce
 - ✓ The shortage of products and parts from China is affecting companies around the world.
 - ✓ Apple's manufacturing partner in China, Foxconn, is facing a production delay. Some carmakers including Nissan and Hyundai temporarily closed factories outside China because they couldn't get parts.
 - ✓ The pharmaceutical industry is also bracing for disruption to global production.

- ✓ Many trade shows and sporting events in China, Asia and across the world have been cancelled or postponed.
- Travel and Tourism
 - ✓ The travel and tourism industries were hit early on by economic disruption from the outbreak.
 - ✓ Global airline revenues are expected to fall by \$4-5 billion in the first quarter of 2020 as a result of flight cancellations, according to a report from the UN's International Civil Aviation Organization (ICAO).
 - ✓ ICAO also forecasts that Japan could lose \$1.29 billion of tourism revenue in the first quarter due to the drop in Chinese travellers while Thailand could lose \$1.15 billion.

Impact on India

- India's reliance on China is spread across almost all the sectors.
- Indian pharma industry is dependent on Chinese imports to make medicines – the APIs (active pharma ingredients) come from China.
- The \$30 billion domestic smartphone market, the world's second largest now, will see major disruptions as it is heavily dependent on imports.
- Solar power parks are dependent on Chinese imports. More than 80% of solar cells and modules used in India are imported from China-based manufacturers.
- Apart from these, sectors such as toys, furniture, computers, cars and white goods are dependent on China.
- A supply crunch in smartphones, TVs and electronics will impact ecommerce sales dearly.
- These items comprise about half of the gross merchandise value of \$31 billion ecommerce sales.

A hidden opportunity for India:

- The dependence on China has decreased, though only slightly, over the last five years.
- From importing finished products, India is now assembling products and developing the ecosystem here as well.
- Investments from Chinese companies are helping boost the local ecosystem by expanding their manufacturing facilities in India.
- India shall also accrue benefits from the lower oil prices, which have fallen as the virus attack brought down demand across the world.

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- Through this, longer-term benefits can accrue to us if India can take advantage of supply chain disruption as many suppliers will try to shift their manufacturing base from China to the rest of the world.
 - The Indian exporters of electronics, pharmaceuticals, speciality chemicals and automobile segments depend on China for raw material and are facing supply constraints, but there are several areas where there are increased opportunities for domestic traders.
 - ✓ The coronavirus can be used as a catalyst in driving India's course correction towards a global export pathway or towards self-subsistence. Through this India can improve its global presence and as an additional benefit can generate employment opportunities to its citizens, where India's unemployment rate is at 45 year low.

