The Cost Of A Pandemic

China's centrality to global economy makes coronavirus disruption more acute

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THE CORONAVIRUS, WHICH began as an epidemic across China, has affected more than 92,000 people out of which 80, 000 confirmed cases are in mainland China alone, with the death toll reaching 3,130 people. There is also an increasing fear that the pandemic will spread across other regions. The situation is a public health emergency and the global community is anxiously looking forward to an early solution and containment.

China is the second-biggest economy in the world. Any slip in its growth — the conservative estimate is 0.5 per cent as of now — would affect the global economy. There are estimates that the world economy will grow at 2.3 per cent this year — 0.2 per cent lower than earlier forecasted. However, the impact of the virus would be much more through trade routes and the shock to the global value chain. China is not only the world's factory but also a huge market. China's share in world trade is around 12.5 per cent — its imports are \$2.1 trillion (11.7 per cent of global imports) and exports \$2.4 trillion (13.4 per cent of global exports). Almost 45 per cent of China's exports comprise of electrical machinery and equipment, including computers, which would disrupt the global production network.

Australia, Singapore and South East Asian countries will be the worst affected, given the economic and market exposure to China. Australia and Singapore could face not just disruptions in the flow of goods and services but also a loss in reveneue from tourists and students from China. The ripple effects of the virus are being felt across the commodities market as well — crude oil is down by 15 per cent, affecting oil-exporting countries and there has been a fall in prices of metals like copper affecting Peru, Chile and Indonesia. China is the biggest consumer of these products.

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China is India's largest trading partner, accounting for 5 per cent of the country's exports and 14 per cent of imports. India is dependent on Chinese imports in healthcare and pharmaceuticals (active pharma ingredients), smartphones and accessories, solar cells and modules and many other products. India's solar power plants import about 80 per cent of components from China, thereby affecting the efforts in renewable energy. A supply crunch in components and finished products from China will increase the cost of production and general price level. This comes at a time when the Indian economy is sluggish.

The disruption to India's manufacturing supply chain may lead to shortages of finished products, higher prices and job losses. Indian exports to China will also be hit significantly in organic chemicals (17 per cent), yarn (21 per cent), metal ores (68 per cent), building material (31 per cent). India accounts for nearly 16 per cent of China's cotton imports and 13 per cent of its construction material imports.

There is a belief that this episode provides an opportunity for India to replace Chinese exports, similar to the argument that India would benefit from the tariff war between the US and China. However, it's not easy to improve export competitiveness and manufacturing in a short time. Many small businesses in India have been impacted due to their dependence on Chinese imports and also because they export components to Chinese factories. At present, the Indian economy, which is grappling with high inflation, would get an immediate respite from the falling crude prices.

Many compare the current coronavirus to the SARS epidemic in 2003. However, the economic strength and impact of China have significantly changed. China's share in world trade and GDP was 4 per cent and 5 per cent respectively in 2003; now they are at 16 per cent and 12 per cent. The coronavirus has thus far affected over 70 countries. China's lockdown and necessary curbs on the movement of people and resources are a big set back to the global value chain. India has been grappling with demand-side problems and corona is a supply-side shock.

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