

Corona Scare, Scar And Care

This crisis offers a suitable opportunity for the country to test its new found capabilities and emerge as a stronger economic power in the world.

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by VP Singh

The humanity is scarred and humans are scared as Covid 19 infectivity spreads across nations. The care taken to curb Corona has chopped the global supply chains emerging from China. There are varied estimates of the economic impact on the global economy that will prolong the pain to the mankind even after the virus has been quelled. Big fiscal and monetary stimulus announcements have been made. With US announcing \$1 trillion; UK \$400 mn; Germany \$600 mn; IMF \$1 tn, the world is expecting to see more than \$ 4 tn spend in response to curb the agony of the people. The impact on Chinese population is going to be quite severe and prolonged despite such stimulus as many of those establishments, which have been nursing the global supply chain, may not ever revive again. In order to save rest of the world from prolonged agony, the supply chains will get relocated to other parts of the world. In pursuit of low-cost manufacturing the world had transformed China into “the World’s Factory”, ignoring the basic tenet of risk management – don’t put all eggs in the same basket, diversify. We might see this anomaly getting corrected now.

For last 30 years China has been the undisputed hub of manufacturing but off late its prowess in manufacturing has weakened as exhibited by the slowing GDP growth rate. One had a glimpse of opening trade opportunities through the US – China trade conflict witnessed last year. Export opportunity worth \$550 bn opened for other countries to step in, India being one of them. Mexico, Eastern Europe, Southeast Asia and India, all vied to gain the maximum share of this opportunity. The exports to US from India during 2019 increased by just around \$3.3 bn which is a miniscule part out of the \$550 bn opportunity. All the efforts made to capture the trade deals in absence of Chinese exports may now be seen as a preparatory to the current prolonged absence of Chinese exports from the global market. India might have competed in terms of cheapness of labour but the state of logistics and scale of manufacturing have been found to be grossly inadequate to capture any such opportunity.

Mexico, Bangladesh, Korea, Taiwan and other South East Asian nations benefitted more. Indian government and manufacturers had very little time to raise the necessary infrastructure to get a decent share. In addition, US kept India out of the Generalised System of Preference (GSP), where about 10 per cent of US imports from India was given duty free status. Despite all this, time is ripe for India to step in and build strong supply chain network to boost manufacturing and exports to rest of the world. The recent visit of Donald Trump to India has eased lot of concerns about restrictive trade policies perceived by each side. As bureaucratic hurdles get removed, the physical infrastructure to deliver the trade requirements will get tested. Modi government has already spent more than Rs 50 lakh crore on infrastructure in the last 6 years. There is a plan to invest Rs 103 lakh crore on infrastructure and transport in the coming five years. This should give a significant boost to 'Make in India' campaign and substantially increase our propensity to supply to the world.

It is to be noticed that the south-east Asian (SEA) nations have a much larger exposure to the Chinese economy as compared to India's exposure to China. Hence, SEA nations' ability to supply is also expected to significantly reduce during this period. Low crude oil price is another big advantage that India has to fuel the export growth. The interest rates are going to low globally which will reduce the financing cost. India is in a much better situation in terms of debt-to-GDP ratio in comparison to other large economies. US debt-to-GDP ratio stands at 106%; Japan 236%; UK 85%; Italy 133%; Spain 95%; India 69% and Germany 57%. In nutshell it can said that economic activity due to the COVID-19 scare is going to be low – both supply as well as demand.

Governments across world are announcing big spends to maintain the consumption in their respective economies. Fiscal and monetary stimulus can boost demand but not the supply in short run. China and southeast Asian nations ability to supply has been disrupted to a large extent. Many nations are not large enough and cheap enough to supply. Energy and other commodity prices are low. India has been investing on enhancing its prowess in manufacturing and logistics for the last several years. Skill building initiatives have been there for quite some time now. India's image and bargaining power in the global economy has improved over the last few years. Hence, this crisis offers a suitable opportunity for the country to test its new found capabilities and emerge as a stronger economic power in the world.

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