Research Paper
Impact Factor: 6.462
Peer Reviewed & Indexed Journal
www.ijmsrr.com

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

IMPACT OF CORONA VIRUS ON THE GLOBAL ECONOMY WHAT HAPPENS TO INDIA AND CHINA TRADE RELATIONS?

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The dynamic changes that are going to take place in the Economic, Trade, Technological, Social and Political Environment around the World is immense and not known. In this modern world all the economies of the world are closely integrated. That is if anything happens in any part of the world it would have medium to high level of impact throughout the world. So effect on one of the biggest economies like China would significantly impact all the economies of the world. China is the 2nd biggest economy of the world, worth $13.6 trillion. Its position is just after USA. About 16% of the total World's GDP is contributed by China. Many companies around the World are dependent on China for forward & backward linkage. Due to the factory closures of China the production of many important companies has stopped. China is not only important for its supply of goods & service it has also great deal of Consumers with significant purchasing power, due to which many international brands have its base in China. Due to the effect of Corona Virus people are not coming out of home & not purchasing as much as before so these international companies are facing the heat of the situation as sales got reduced. Apple told its investors that they won't be able to reach their revenue target due to fall of sales in China. A prominent car maker Jaguar Land Rover commented that they would be run out of Car parts for their factories if Corona Virus prevails for another few weeks. Hyundai has already shut-down its operation in South-Korea for not getting supply of parts from China. According to the S&P global rating this outbreak will force Chinese companies to cut 15% of their total Car Production. Starbucks is also having bad times because it has about 4,000 outlets there & most of them are kept closed due to the outbreak. Chinese travellers are significant to the Asian countries, in last 12 months they made about 173m visits & spending about quarter of trillion dollars. Due to the travel ban and lockdown the airlines & hotels in the Asian region are facing trembling times. Japan is highly integrated to china as China imports Japan's Cars, Trucks, other technological goods & industrial machineries.

It is notable that China is one of the top importers of Oil. Due to the Corona Virus outbreak China has reduced oil import which resulted to decrease of international price of oil. There are lots of students in China who seeks to study in foreign universities. Recently due to the virus outbreak lots of the Universities are facing shortfall of students. The International Luxury goods makers are also facing the heat. A luxury goods maker, British brand Burberry has closed 24 out of their 64 stores in China.

The world's biggest chip makers for smart phones Qualcomm stated that this outbreak is creating uncertainties in demands for smart phones & the supplies needed for production. In the first quarter of 2020 China's Economy is expected to slow to 4.5% which is the slowest pace after the financial crisis.

In this scenario China is trying its best to keep the business confidence, The People's Bank of China is recently cutting the interest rates & planned to inject huge amount of cash into the Economy. In recent few years China tried its best to keep its debt under control, analysts said that that effort might be abandoned & China might be forced to pump money directly into the Economy.

Oxford Economics has warned that Corona Virus could wipe out $1trilion if it results in pandemic. If the virus remains contained like now it would cause to lower global GDP growth by 0.3%. As many countries are suffering from the shortfall of supplies from China, the production in those country would get reduced they might suffer slight inflation. It might be an opportunity for new suppliers to take itself into the market as most of the countries would look to diversify its supply chain.

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Trade Impact of corona virus (COVID-19) on Indian Economy

The trade impact of the coronavirus epidemic for India is estimated to be about 348 million dollars and the country figures among the top 15 economies most affected as slowdown of manufacturing in China disrupts world trade, according to a UN report. Whereas according to Asian Development Bank (ADB) the Covid19 outbreak could cost the Indian economy between $387 million and $29.9 billion in personal consumption losses. For India, the trade impact is estimated to be the most for the chemicals sector at 129 million dollars, textiles and apparel at 64 million dollars, automotive sector at 34 million dollars, electrical machinery at 12 million dollars, leather products at 13 million dollars, metals and metal products at 27 million dollars and wood products and furniture at 15 million dollars. China has seen a dramatic reduction in its manufacturing Purchasing Manager's Index (PMI) to 37.5, its lowest reading since 2004. This drop implies a 2 per cent reduction in output on an annual basis. This has come as a direct consequence of the spread of corona virus. When we see the China's Share in total import to India, India's total electronic imports account for 45% of China. Around one-third of machinery and almost two-fifths of organic chemicals that India purchases from the world come from China For automotive parts and fertilisers China's share in India's import is more than 25%. Around 65 to 70% of active pharmaceutical ingredients and around 90% of certain mobile phones come from China to India.

Sector-wise impact on Indian industry Chemical Industry: Some chemical plants have been shut down in China. So there will be restrictions on shipments/logistics. It was found that 20% of the production has been impacted due to the disruption in raw material supply. China is a major supplier of Indigo that is required for denim. Business in India is likely to get affected so people securing their supplies. However, it is an opportunity. US and EU will try and diversify their markets. Auto Industry: Its impact on Indian companies will vary and depend upon the extent of the business with China. China's business no doubt is affected. However, current levels of the inventory seem to be sufficient for the Indian industry. If the shutdown in China continues then it is expected to result in an 8-10% contraction of Indian auto manufacturing in 2020. Electronics Industry: The major supplier is China in electronics being a final product or raw material used in the electronic industry. India's electronic industry may face supply disruptions, production, reduction impact on product prices due to heavy dependence on electronics component supply directly or indirectly and local manufacturing. Foreign Trade: China has been India's largest source of imports since 2004-05, shows data from the Centre for Monitoring Indian Economy (CMIE) database. In 2018-19, the latest period for which annual data is available, it had a share of 13.7% in India's total imports. Any major disruption in the Chinese economy can disrupt these imports and hence both production processes and supply of consumer goods in India.

Effect on Poultry: The poultry industry in different parts of the country has been hit hard amid rumours that the novel corona virus can transmitted through consumption of chicken, the prices of which have fallen considerably as a result. about two crore people employed in the poultry industry across the country have been impacted. People were avoiding consumption of meat, fish, chicken, and egg etc. Due to the fall in demand, wholesale price of chicken had dropped by as much as 70 per cent.

The corona virus outbreak, according to the UN Conference on Trade and Development. Its potential impact on the Indian economy is not yet known, but several sectors are already feeling the pain, Here's a look at the sectors most impacted by the outbreak.

What happens to the bilateral trade agreement between India and China

Bilateral Trade

The rapid expansion of India-China bilateral trade since the beginning of this century propelled China to emerge as our largest goods trading partner by 2008, a position which China continues to hold today. Since the beginning of the previous decade, bilateral trade between the two countries recorded exponential growth. In 2011, bilateral trade reached US$ 73.9 billion, before dipping to US$ 66 billion in 2012 and rebounding to US$ 71.65 in 2015. For last three years, the bilateral trade has registered robust two-digit growth. For the year 2018, bilateral trade increased by 13.34 % year-on-year to reach US$ 95.7 billion, with India's exports rebounding to US$ 18.83 billion registering positive growth of 15.21 % year-on-year after 3 years' continuous decline and growth of

IJMSRR
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39.11% in 2017. In 2018 India's imports from China grew by 12.89% to US$ 76.87 billion while the trade deficit widened to $ 58.04 billion. Trade figures for the past few years are as under:

INDIA CHINA BILATERAL TRADE (Figures in $ Bn)							
Year	**India's Export to China**	**%Change**	**India's Import from China**	**%Change**	**Trade Imbalance**	**Total Trade**	**%Change**
2014	16.41	-3.72	54.24	11.95	37.83	70.65	7.88
2015	13.39	-18.39	58.26	7.42	44.87	71.65	1.42
2016	11.75	-12.29	59.43	2.01	47.68	71.18	-0.67
2017	16.34	39.11	68.1	14.59	51.76	84.44	18.63
2018	18.83	15.21	76.87	12.89	58.04	95.7	13.34
2019 Jan-Nov	16.32	-4.6	68	-3.5	51.68	84.32	-3.72

(Source: General Administration of Customs, China)

iIndian Exports	Indian Import
Organic Chemicals; Ores, Slag and Ash; Natural Pearls, Precious stones and Precious metals; Cotton, Including Yarns and Woven Fabrics thereof; Fish and Crustaceans, Molluscs and Other Aquatic Invertebrates	Electric Machinery, Sound Equipment, Television Equipment and parts thereof; Nuclear Reactors, Boilers, Machinery and Mechanical Appliances and Parts; Organic Chemicals; Plastics and articles thereof; Articles of Iron and Steel

(*Source: General Administration of Customs, China*)

Trade Deficit: While flourishing trade has brought with it all the advantages such as the availability of low-priced items in India, it has also led to the biggest single trade deficit we are running with any country. Our trade deficit concerns are two-pronged. One is the actual size of the deficit. Two is the fact that the imbalance has continuously been widening year after year to reach USD 58.04 billion in 2018.

The growth of trade deficit with China could be attributed to two factors: a narrow basket of commodities, mostly primary, that we export to China and market access impediments for most of our agricultural products and the sectors where we are competitive in, such as pharmaceuticals, IT/ITeS, etc. Our predominant exports have consisted of cotton, copper and diamonds/ natural gems. Over time, these raw material-based commodities have been overshadowed by Chinese exports of machinery, power-related equipment, telecom, organic chemicals, and fertilizers.

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Bilateral Investment

Growth in bilateral investment has not kept pace with the expansion in trading volumes between the two countries. While both countries have emerged as top investment destinations for the rest of the world, mutual investment flows are yet to catch up. According to the Ministry of Commerce of China, Chinese investments in India between January-September 2019 were to the tune of US$0.19 billion and Cumulative Chinese investment in India till the end of September 2019 amounted to US$5.08 billion. Cumulative Indian investment in China until September 2019 is US$ 0.92 billion. However, these figures do not capture investment routed through third countries like Singapore, Hong Kong, etc. especially in sectors such as start-ups etc. which has seen significant growth in Chinese investment.

Institutional Bilateral Economic and Commercial Dialogue Mechanisms

India-China Economic and Commercial Relations are shaped through various dialogue mechanisms. Recently during the Informal summit held at Chennai, both leaders agreed to set up a High-Level Mechanism on Trade and Economic Cooperation. The following are the existing dialogue mechanisms.

A. Joint Group on Economic Relations, Science and Technology (JEG), led by the Commerce Ministers of both sides. Joint Economic Group (JEG) was established in 1988 during the visit of Prime Minister Rajiv Gandhi to China, to discuss trade cooperation issues. So far 11 JEGs were held with the last one held in Delhi in March 2018. During the 9th JEG, the two sides also set up three working groups on Economic and Trade Planning Cooperation (ETPC), Trade Statistical Analysis (TSA) and Service Trade Promotion (or Trade in Services – TIS).

B. Strategic Economic Dialogue (SED) was established during the visit of Chinese Premier Wen Jiabao to India in December 2010, to discuss macro-economic cooperation. So far 6 SED meetings have taken place with the last one held in Delhi in September 2019. There are 5 Working Groups under SED: Infrastructure, Environment, Energy, High Technology and Policy Coordination. The SED is co-chaired by Vice-Chairman NITI Aayog and Chairman of the Chinese National Development and Reform Commission (NDRC). During the 5th SED both sides agreed to create one more working group on Pharmaceuticals. Accordingly, the first working group on Pharmaceuticals met in Beijing in May 2019.

C. NITI Aayog – Development Research Center of China (DRC) Dialogue was established pursuant to the MoU signed during the visit of Prime Minister Narendra Modi to China in May 2015, to discuss global economic cooperation issues. Vice-Chairman NITI Aayog leads the India delegation while President (Minister-level) of DRC of China leads the Chinese delegation. The fifth dialogue was held in Wuhanin November 2019.

D. India-China Financial Dialogue is held in accordance with the MoU signed during Chinese Premier Wen Jiabao's visit to India in April 2005. The Ninth India-China Financial Dialogue was held in New Delhiin September 2019 which was co-chaired by Secretary DEA.

E. Other Institutional Mechanisms

Some of the other institutionalized dialogue mechanisms between the two countries include the JWG on Collaboration in Skill Development and Vocational Education, Joint Working Group on Information and Communication Technology & High-Technology, Joint Working Group on Industrial Park Cooperation, India-China Joint Working Group on Agriculture, India-China Joint Working Group on Cooperation in Energy (under the process of constitution).

Banking Sector Cooperation

Indian Banks in China:Many Indian banks have established their presence in mainland China in the last few years. At present, the State Bank of India is the only Indian bank having the authorization to conduct local currency (RMB) business at its branch in Shanghai, while the branches of other banks conduct business in foreign currency. However, except SBI, ICICI and Axis Bank in Shanghai, all other bank branches and representative offices are in the process of closure for commercial reasons.

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Chinese Banks in India: In early 2011, the Industrial and Commercial Bank of China(ICBC) secured a license to start banking operations in India. ICBC inaugurated its Mumbai branch on September 15, 2011. This marked the opening of the first branch of a mainland Chinese bank in India. In July 2018 Bank of China (BoC) received the banking license from RBI. Recently, ICBC has applied for its second branch in New Delhi, which is under consideration with the Department of Financial Services.

Multilateral Development Banks

Asian Infrastructure Investment Bank (AIIB) is headquartered in Beijing and India became its founding member by signing the Agreement of Association (AoA) along with 57 other prospective founding member countries on 29th June 2015. India is one of the founding members and is the second-largest shareholder with approx 8% shareholding and has a single-member constituency in the Board. The bank conducts its business through quarterly BoD meetings and annual AGMs. India hosted the third AGM in Mumbai in June 2018. The fourth annual meeting was held in Luxembourg in July 2019 while the fifth meeting is scheduled to take place in Beijing.

New Development Bank (NDB) is headquartered in Shanghai and Mr. K.V.Kamath is the current President of the NDB. The 2nd Bank of Governors meeting was held in New Delhi in 2017. The fourth Bank of Governors meeting was held in South Africa in April 2019. The initial authorized capital of the Bank is USD100 billion of which USD 50 billion would be subscribed initially by founding members (BRICS) who shall initially have an equal shareholding.

Tourism & Films

China has the world's largest outbound tourism industry. In 2018, more than 140 million outbound tourists traveled to different parts of the world. Tourism to India, however, is still below potential. In 2018, India received around 225,000 Chinese tourists. The renewal of the bilateral MoU on Cooperation in Tourism Sector was completed in May 2015. India Tourism has established an office in Beijing. In 2018, Mr. KJ Alphons, Minister of State for Tourism visited China in August 2018 and held roadshows in Beijing, Wuhan, Guangzhou and Shanghai. The roadshows were highly attended and generated a lot of interest from Chinese Tour operators.

India-China MoU on Audio-visual coproduction was signed during Chinese President Xi Jinping's visit to India in September 2014 and two Indian movies (PK and Dhoom3) were released in 2015. "Xuan Zang" was the first co-production film between India and China, featuring popular Chinese Huang Xiaoming. This film released in 2016 was submitted as a contender to represent mainland China for Best Foreign Language Film at the 89th Academy Awards in 2017. In 2017, "Kungfu Yoga", featuring Jackie Chan and "Buddies in India" was released. In recent years, Indian movies such as Dangal, Secret Superstar, Bahubali, Hindi Medium, Toilet, Andhadhun etc, registered great success at the Chinese box office.

Other Economic and Commercial Issues

Cooperation in the Oil and Gassector- India and China are working on the areas of cooperation in the oil and gas sector to leverage upon the sheer size of the market of two countries. The Petroleum Secretary visited Beijing in October 2018 followed by the visit of Vice Minister of NEA to New Delhi in February 2019.

Double Taxation Avoidance Agreement (DTAA)- India and China signed the DTAA on 18 July 1994 and the Agreement came into force on 21 November 1994. Both the countries have agreed to revise the DTAA in its entirety. The revised DTAA has been signed in May 2018.

Social Security Agreement – With the steady increase in the number of personnel/professionals that are being employed both in India and China, ensuring social security assumes an important role. In view of the growing importance, both sides held negotiations on the Social Security Agreement from November 13-15, 2019 in New Delhi.

Cooperation in Railway Sector- A MoU on cooperation in the railway sector was signed in September 2014 during the visit of China's President to India. Subsequently, two action plans were signed in 2014 and 2015. Accordingly, cooperation commenced in areas such as (i) feasibility studies for speed raising, (ii) feasibility studies for high-speed rail, (iii) station redevelopment and (iv) training. 320 Indian railways officers got trained in South West Jiaotong Technical University in Chengdu with the last batch completing its training in August 2019.

Other agreements such as the Bilateral Investment Treaty, MOU on Civil services are under negotiations.
Indian Companies in China- With the growth in bilateral trade between India and China in the last few years, many Indian companies have started setting up Chinese operations to service both their Indian and MNC clientele in China. Indian enterprises operating in China either as representative offices, Wholly Owned Foreign Enterprises (WOFE) or Joint Ventures with Chinese companies are into manufacturing (pharmaceuticals, refractories, laminated tubes, auto-components, wind energy, etc.), IT and IT-enabled services (including IT education, software solutions, and specific software products), trading, banking and allied activities. While the Indian trading community is primarily confined to major port cities such as Guangzhou and Shenzhen, they are also present in large numbers in places where the Chinese have set up warehouses and wholesale markets such as Yiwu in Zhejiang. Most of the Indian companies have a presence in Shanghai, which is China's financial center; while a few Indian companies have set up offices in the capital city of Beijing. Some of the prominent Indian companies in China include Dr. Reddy's Laboratories, Aurobindo Pharma, Matrix Pharma, NIIT, Bharat Forge, Infosys, TCS, APTECH, Wipro, Mahindra Satyam, Dr. Reddy's, Essel Packaging, Suzlon Energy, Reliance Industries, SUNDARAM Fasteners, Mahindra & Mahindra, TATA Sons, Binani Cements, etc.

Chinese Companies in India- According to information available with the Embassy of India, more than 100 Chinese companies have established offices/operations in India. Many large Chinese state-owned companies in the field of machinery and infrastructure construction have won projects in India and have opened project offices in India. These include Sinosteel, Shougang International, Baoshan Iron & Steel Ltd, Sany Heavy Industry Ltd, Chongqing Lifan Industry Ltd, China Dongfang International, Sino Hydro Corporation, etc. Many Chinese electronic, IT and hardware manufacturing companies are also having operations in India. These include Huawei Technologies, ZTE, TCL, Haier etc. A large number of Chinese companies are involved in EPC projects in the Power Sector. These include Shanghai Electric, Harbin Electric, Dongfang Electric, Shenyang Electric etc. In recent years, Chinese mobile companies have achieved remarkable growth in India. Xiaomi, became largest mobile handset selling company in India. Today, Chinese mobile handset companies Xiaomi, Vivo and Oppo, Realme occupy nearly 50% of Indian mobile handset market.

How to deal with the above mentioned bilateral trade agreements is a big question mark after the corona how the dynamics are going to change the businesses around the world no one knows but major economies will be divided among the groups some stand with China and most of the countries stand with the US in fighting for the reasons why such a deadly virus is developed which made the World standstill so this goes on and on even if the vaccine is developed some other virus will come again into this World the great lessons need to be learned is any country which goes against the humanity it should be isolated, another important lesson is we need to develop a strong base in the health sector , service sector , small scale industries, we should develop our human resource to be employable in leading sectors.

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