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Coronavirus could hurt global growth

Slowing Chinese consumption demand will hit the world economy even as it's trying to recover from the US-China trade war

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THE WIDER ANGLE

It was Great Monday for Elon Musk, one of the maverick geniuses of our time. In one day, the share price of Tesla, his innovative electric car company leapt by an eye-popping $129. That means the stock has risen over 70 per cent since the year's start (and we're only in February). E-commerce star Amazon is also back in the exclusive trillion-dollar club after reporting fourth-quarter earnings of $3.3 billion, way beyond the $1.97-billion consensus forecast.

Is there anything out there that could turn this bull-market stampede into a rout? Well, yes. While Tesla's pelting along the highway, an entirely different story is playing out in China. The coronavirus could be debilitating enough to put the entire world economy onto the sickbed. Brent Crude oil prices fell to $54 on Monday, down 20 per cent from the year's peak. Given that the coronavirus' effects could last until April, the virus marks a "clear, new downside risk to the global economy," says an ING Bank report, as slowing Chinese consumption demand will hit the global economy just as it's trying to recover from the US-China trade war's impacts.

Economic impact

Go back to the 2003 SARS epidemic. China was then just a newly-signed member of the WTO, whose global economic presence was only starting to be felt. Now, it plays a role at least equal and probably greater than the US in the world's financial health. One estimate is it contributes 33 per cent of global growth, far more than the US. (India kicks in 16-18 per cent). ING, comparing the situation to the SARS epidemic, says: "The global economy has become more integrated" since 2003 and Chinese consumers play a more outsize role in driving it. In addition, global air traffic is over twice as big as in 2003 and so the virus' spread could be much faster.

Global commodities right now are the largest losers from the virus as China is the commodities' demand kingpin, accounting for 70 per cent of global iron imports and 50 per cent of global copper imports. Commodities have seen a big sell-off since the coronavirus outbreak. Copper prices are already down 8.5 per cent from the mid-January peak. In Singapore, iron ore prices have fallen 6 per cent.

The Chinese may have been late to crack down on the epidemic. But once in action, they've moved with ruthless, typical efficiency. Wuhan, a city of 11 million, has been effectively put under quarantine and so have 11 other Chinese cities — even Macau's casinos have shut. In fact, the entire Hubei province, home to Wuhan, has been mostly closed, which is going to have a heavy toll on several global companies based there. GM has a partnership with SAIC Motors and a plant employing 6,000 people in Wuhan.

Similarly, Honda, which has a plant in the city, has said it will allow employees an extended Chinese New Year holiday and they will return to work on February 14. German company Bosch, the world's largest auto-components supplier, has two plants in Wuhan. It's already warned its global supply chains could be disrupted.

Containing the outbreak

Indian entrepreneur Amit Raj Singh, who gets parts for his Goreen E-Mobility electric scooters from China, says he expects normal business to resume when they return from holidays. But China's taking no chances on containing the virus. Most malls in China are virtually empty and household products giant IKEA, which was just getting ready to take a big bet on the country, has shut all its stores. Similarly, Starbucks has closed 100 outlets, mostly in Hubei. Japanese retail giant Uniqlo has shut a similar number while companies in Hong Kong and the US are ordering staff who've been to China to work from home for 14 days.

Maximum impact The tourism and hospitality industries are the first to take a hit in such situations AFP

The tech industry is also sending out warning signals, because a huge number of components are made in China, though some have shifted to countries like Vietnam in the last couple of years.

Tech-heavy countries like Vietnam and South Korea could also face a rush of virus cases in the coming weeks. All of this means local and global supply chains could suffer. Apple has already cited possible supply-chain disruptions for its wider-than-normal Q1 earnings outlook.

In an effort to reduce contagion risk, many world airlines have already cancelled services into China while the US government is contemplating a ban on flights into China. Air India and IndiGo have suspended services. Even Hong Kong-based Cathay Pacific has cut half its flights into China while Hong Kong's closed its border with China. Overall, the global transportation industry accounts for around half of world crude demand, according to ING, and the travel restrictions are already affecting demand.

Global growth

The tourism industry, along with airlines, hotels and restaurants are first on the frontlines in such times and first to take a hit. And consider this fact: Chinese tourists are on the move in greater numbers and spending more money than any other country in the world. The UN World Tourism Organization reckons Chinese tourists spent $277 billion globally in 2018. Americans, by comparison, spent just under half that — $144 billion.

During the SARS epidemic, Thailand and Singapore were the two most affected nations outside China. Says Ing: "For some global hotel chains or companies of luxury goods China and Greater Asia accounts already for 10 to 20 per cent of their annual sales.".

How will all this hit global growth? Goldman Sachs estimates growth might fall 0.1-0.2 per cent in 2020, if the Chinese clampdown swiftly halts the disease. If no Goldman forecasts a 0.3 per cer slowdown and says growth won pick up till 2021. Some economis are eyeing a grimmer picture am worries the coronavirus could b come a pandemic and say th could be the first global slowdow led by China, not the US.

India slots into all this in variou ways. Chinese companies have i creased their bets on India in a b way in the last few years and ther are more people travellin between the countries. Some firm have already stopped employee coming from China.

India has always benefited fro being more inward-looking tha the rest of the world in the past. 1998, we came out of the Asia Crisis fairly unscathed when othe parts of Asia took a huge hit. Sim arly, we missed the worst of th SARS epidemic. But the world's smaller place now. Many India students are studying in China an 20,000 live in or travel frequent to the Guangdong region.

India's vulnerable to an ou break given its vast, congeste population and inadequate healt infrastructure, and how damagin that could be in terms of the hu man and economic toll is anyone guess.