

The Geopolitics and Economics of COVID-19: Views on China and the World

A Report Summarizing the Webinar

Key Points

1. The expected shrink in the global merchandise trade
2. Renewed multinational cooperation
3. Cusp in the global order post-pandemic
4. India dominating China as a global production network
5. Deteriorating US, China relations

Summary

Many monolithic questions are popping around the world like “Is China gonna take over the world?”, “Is China going to collapse” or “Is it going to produce an entirely new model for the community?” etc. The main factors that make the Chinese proposition different from that of most of the world are its authoritarian one-party system of government, consumer-driven economic model, move towards globalization, and its recent progress as a technological innovator. The multidimensionality and the interaction of these factors gave China, the ability to crack the problem that defeated Soviet Russia. It has great standards of living. The consumer needs, holidays, health, safe work, etc have improved a lot in the last decade. It has an enormous labor force. Being one of the most self-sufficient countries, it was thought to remain isolated, contrary to that China opened a whole new market for large scale production of consumer goods. Until the 2000s the innovations were restricted to silicon valley and some parts of Europe but recently China has become a major contributor in e-commerce, A.I., and new consumer goods. Chinese companies, having most of their supply chain completely inside, might have an advantage over many MNCs. All these factors support it to be the next dominant nation but it lost its reputation in other nations as the origin of COVID-19. On another note, it seems to do good with Chinese, by handling pandemic in a better way. It's still a question that will China gain back the reputation by a major innovation, something like a vaccine to COVID-19. Even after the increased influence of China in multilateral organizations, it is aggressive towards public diplomacy. This says that China might not care much about its reputation outside.

Globalization has made countries borderless but due to COVID-19, some aspects of it have rolled back like a decrease in world trade, closing boundaries even in an integrated unit like the European Union, etc. The post-COVID global economic order will be bluntly based on how countries tackle pandemic and how equipped they are. Aggressive investments will be reduced. Policymakers are now questioning whether global supply chains have been stretched too far. Export bans have been imposed over concerns about inadequate domestic production of medical equipment, personal protective equipment, and pharmaceuticals. Many countries are moving towards protectionism and rethinking trade dependence. Some say this is deglobalization. Even before the pandemic, we have seen these trends due to technological advancements in automated manufacturing which mean factories no longer hinge on where the labor is the cheapest but one can say COVID-19 accelerated this effect. This retreat will not mark the end of globalization, a process that has reached a historically high level but it can be reversed partially.

The crisis will also be changing coalitions in the western world. The economic integration of China and the USA provided opportunities for the entire eastern countries to grow. The recent tensions might badly affect these countries. Until recently we were in the golden period of multilateralism but now there is a thought that we might see a cold-war scenario again. Contrary to that thought now no nation, neither US nor China is trying to impose its political views on the world. The economies of the US and China are intertwined in a complex manner differing from the US and Soviet Russia in the past. The trade war between the countries, like both imposing tariffs on others and the US blaming China for intellectual property theft, was present even before the pandemic. The conclusion is that the US and China relations will undergo some adjustments but will not be torn completely.

The economic challenge posed now is similar to that of the Great Depression. Take the USA for example, the unemployment rate touched 15% and around 4 million people are out of jobs. The banking industry around the world seems to be stable, they are capitalized, so we won't be having a full-blown financial crisis. The air travels, hotels, entertainment centers are the ones hit badly. We have seen the growth of Alibaba in China after the SARS epidemic, similarly industries related to e-commerce, online shopping, digital communication will grow significantly during these times. Domestic growth rates might take some time to pick up. Our GDP growth rate fell by 6% in the first quarter this year; this is the biggest since 1992. Governments around the world should restart economies by investing a lot, especially in the tech market. The immediate impact of COVID-19 may be devastating but in the long term, it would help the countries in altering policies and might direct the investment in the right direction. We can see a transformation from labor-intensive and resource consumption markets to technology-intensive and innovation-driven ones.

The next big question is that will India be able to bounce back, even before COVID-19 for 6 quarters the progress is slowed, unemployment was at a high all time, the real fiscal deficit is 5%. India not being a big exporter compared to dominant nations will

get a little less affected in the crisis. Even after having a GDP growth of 9% for 15 subsequent years, India's per capita income will be around half as that of the US, so our goals of development should be different. India will not be replacing China in global production networks post-crisis. The reason is that India lacks Infrastructure organizational effectiveness and singular efficiency like China instead we can continue to be a service provider to the world. This creates employment with less carbon footprint. The diverse and original thinking people are a great resource for the country. We can increase FDI in our dominant service sector by the strategic partnership and goodwill from the host countries. The follow-up question is how to kickstart the economy post-crisis. One posed idea is to provide cash support to the lower 60% of the population, agribusinesses, small and macro industries but we lack enough funds to do that. Getting funds from foreign exchange is away. We have a lot of gold in our households If women around the country invest it in small businesses we can manage the crisis.

The political views of people also might change due to pandemic. In these times of economical and social strain the powerful authoritarian, strong party governments will have a special appeal. The credibility of leadership around the world is checked. The surveillance on people and the tough measures taken to reduce movement looks like a convergence of major systems of governments across the globe even though they have different political philosophies. On another hand, there is a thought that this crisis is a challenge at human level and will not be changing the geopolitical order of the world.

Now, putting aside the questions pertaining to what happens post-crisis, we need to think whether we are prepared for COVID-19 or not? China with its bold approach of mandatory quarantine contained the spread of the virus and has changed the course of this deadly epidemic. Similarly, the rapid testing and tracing of diverse people in South Korea helped it to relax lockdown. Others can take lessons of handling of the pandemic from these countries. Not just government orders, acts like self-quarantine, social distancing, working from home, etc from the public will affect the nation's dynamic directly.

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