Indian companies are bracing for a major supply shock as the rapid spread of the coronavirus infection in China has forced several factories there to extend a shutdown.

Background

- First reported in December 2019, the coronavirus has killed 811 people in China and two outside the country, eclipsing the global toll from the outbreak of SARS that started in China almost two decades ago. The accumulated number of infections in the country has risen to 37,198.

- While the spread of the infection to India has been low, with three cases reported in Kerala, the disruption at factories as well as travel curbs to contain the spread are bound to hit local businesses dependent on Chinese factories.

What is its impact on India’s imports?

- Typically, factories in China slow down production from late January due to the Lunar New Year holiday period, prompting many importers to stock up in anticipation of the closures. While this has muted the immediate business impact of the coronavirus outbreak, an extended disruption could derail the best-laid plans. Already many factories have deferred their plans to March 2020 amid fears that workers coming in close contact with those infected will lead to a spurt in cases of the disease.

- India’s economy has become highly dependent on China especially because of an exponential expansion in trade linkages over the past two
decades. Trade with the world’s second-largest economy has expanded more than 18 times to $87 billion in 2018-19 since 2002-03, when China was grappling with the SARS virus.

- Despite the government’s Make in India initiative, nearly 80% of components required for making phones in India come from China. Since orders to factories in China are placed months in advance, manufacturers there will not only have backlogs due to factory closures, but also won’t be in a position to take new orders unless the situation improves.

- A prolonged prevalence of the coronavirus in China would hurt India’s imports far more than exports.

- Indian importers were hoping that the situation would improve by mid-February, but the situation appears to be getting worse.

Impact on automobile sector

- If the virus threat goes out of control, then all major automakers and their suppliers worldwide would get affected. The automotive supply chain is so integrated that if the supply of one part stops, the entire vehicle assembly stops.

- Electrical and electronic parts such as sensors, power controls, engine control units, motors and batteries are imported from China.

- For the Indian automotive industry, the outbreak could not have come at a worse time as manufacturers are transiting to the stringent Bharat Stage-VI emission norms amid a sales slump. If there is a shortage of parts, manufacturers’ investments and planning to comply with the emission norms from 1 April would be disrupted.

- Chinese manufacturers supply to most of the top parts makers in India, which means production of vehicles may slow down in the next few months. Some of the product supplies that were in transit have already been hit due to port closures in China.
Impact on FMCG sector

In anticipation of the supply crunch, Indian retailers of consumer goods have started negotiations to source goods locally.

Impact on pharmaceutical industry

- One of the biggest concerns from the China lockdown is that it could lead to a shortage of medicines and a spike in prices. In 2018-19, Indian companies imported bulk drugs and intermediates worth about $2.4 billion from China, which was a majority of the total imports.

- There are reports of specific API (active pharmaceutical ingredient) prices having gone up. However, the situation is expected to ease in couple of months. The industry might have to prepare with alternatives otherwise.

Impact on global firms

Global firms too are feeling the heat. Facebook, for instance, has warned that it was expecting the coronavirus to impact production of its Oculus Quest virtual reality headsets. Some even expect delays to hit global icons such as Apple’s iPhone.