China's Post COVID-19 Normalcy: Parallels for India

Speaker: Santosh Pai, Partner, Link Legal

Chair: Ravi Bhootalingam, Treasurer & Honorary Fellow, Institute of Chinese Studies

Date: 13 May 2020

Venue: Zoom Meeting

In this presentation, the speaker examined the current situation relating to the COVID-19 pandemic and the policy measures taken by the Chinese government to stage an economic recovery, and how they are relevant to the situation in India. He opened the session by describing the differences in the lockdown in China from the one in India, the least of which is the varying degrees and duration in various provinces as compared to a nationwide one in India.

Highlighting some of the differences between the Chinese and Indian economy, he noted that unlike India, a large part of the Chinese economy is based on exports, as well as 30% of the economy is contributed by the state-owned enterprises (SOEs), which allows the government to start recovery by directive. Labour laws are also much more flexible in China than in India, in addition to which a large amount of flexibility is currently being allowed to companies in reducing working hours of laborers and rotation of shifts, so that layoffs could be prevented.

According to the speaker, one huge challenge faced by the Indian government that the Chinese government did not have to face was that because the lockdown began just after the Chinese New Year, by when most of the migrant laborers were already at their homes. One of the factors that helped China stage a quick reopening of industrial parks was because workers stayed in access-controlled dormitories near industrial zones, which were extremely helpful in containing the spread of the virus. He noted that no such options exists in India.

The speaker outlined the major categories of measures taken by the Chinese government which included fiscal and monetary policy measures by the central banks, which modified some reserve ratios and freed up some credit restrictions. He also noted that enterprises are receiving favourable debt and aid packages to help mitigate cash flow hit. There was a phased reopening of factories in which factories that manufactured equipment necessary in handling the pandemic and the factories that have export orders pending have been given priority. All these were following the guidelines for reopening workplaces prepared very promptly by the Chinese government, including measures for social distancing and quarantining the workers.

He mentioned that the interdepartmental cooperation within the Chinese government led to a highly efficient implementation of these measures. For example, the tax department cooperated with the banking system to ensure that the aid package was not being abused. He remarked that this should serve as an inspiration for the Indian government. The speaker also gave some examples of innovations that are being used by the Chinese government that include intellectual property being

allowed to be used as a collateral for loans instead of real estate. Labour-related measures included a 'borrowing' system for labour in which workers from particularly hard-hit industries are being absorbed by other sectors for some fixed number of hours.

One indicator that China might not be able to stage a full recovery very quickly is that they are still trying to understand the impact of the pandemic, as evidenced by the fact that all Chinese SOEs are required to submit a report about meeting their targets for this financial year by the end of June. Due to the extensive push on reopening the economy led by the SOEs, the role of the state in the economy might even grow.

According to the speaker, the situation certainly presents a potential long-term opportunity for India as it could lead to companies moving their supply chains out of China into neighbouring countries, but the situation in the short term is quite unclear. India's measures indicate that the government is beginning a big push for manufacturing in India, something akin to a 'Make in India 2.0' as labour laws are being suspended in some states, similar to what China did 25-30 years ago to attract FDI.

The speaker pointed that China also faces a unique challenge in which they do not really have much room for government spending and infrastructural investment as some reports show that they might even have excess infrastructure capacity. Companies will face a huge burden in trying to move manufacturing away from China as they also depend on the Chinese market and the Chinese supply chains for some of the materials for their products. Moreover, China will also try to make FDI as lucrative as possible at this time to preserve its position as the top FDI destination, so leaving China will be especially hard for companies.

Defining the new 'normal' post-COVID, the speaker said that the gap between various sectors of the economy which are linked to technology are set to face a much better path to restored normalcy as compared to traditional manufacturing-based sectors. In his opinion, the export-focused companies, especially those producing upscale items are set to face the biggest hit because of a setback in demand.

The discussion touched upon India-China relations, and a hypothetical scenario was discussed where India was part of the RCEP, where the speaker said, that could have helped boost the economy of India and the South-east Asian countries in the short run, but could have potentially elongated the time for Indian manufacturing to attain normalcy. Regarding the new Indian legislation for the screening process for Chinese investments in India, the speaker believes that this could end up impacting Sino-Indian relations, if it ends up delaying or refusing a significant number of these investment proposals. According to the speaker, the long term impact of COVID-19 on China will at least mean that their export dependency will have to be reduced, how well they are able to restructure their manufacturing and also on how well they are able to stimulate domestic demand. China had already been focusing on expanding consumption in the rural areas, as the trade war with the US had already been brewing. They are taking the crisis on its head by encouraging companies to replicate their success in rural areas.

The report was prepared by Arnav Batra, Research Intern, Institute of Chinese Studies.

Disclaimer:

This report is a summary produced for purposes of dissemination and for generating wider discussion. All views expressed here should be understood to be those of the speaker(s) and individual participants, and not necessarily of the Institute of Chinese Studies.