



## The Big Picture: Restoring Global Supply Chains

One of the lessons to be learnt from the novel coronavirus pandemic is that nations should build supply chains inside the country, even US President Donald Trump stressed this aspect. Trump's remarks assume significance amid the disruption in the supply chain and the World's dependence on other countries on items of basic necessities and pharmaceuticals, including anti-malarial drug hydroxychloroquine that has been considered to be a viable therapeutic to the deadly COVID-19.

### Coronavirus: Impact on Global Supply Chains

Even as the virus continues to take a toll on human life and livelihood and the governments around the world focus on food security and availability of essential commodities, the impact of the crisis on economies has come in sharp focus due to supply chain disruptions.

- **China- the production hub:** The COVID-19 pandemic **has caused closures of business, the stoppage of factory outputs, and the disruption to global manufacturing industries and their supply networks**
  - This is a result of China becoming the production hub of the entire world in the last two decades. China represents about 16% of the world's GDP.
  - The closures of assembly and manufacturing facilities has caused major supply disruptions.
- **Global Trade slowdown:** The World Trade Organization has said that the global trade — which was already slowing in 2019 due to the U.S.-China tariff fight — is projected to plummet by 13% to 32% in 2020.
  - According to the IMF, the global economy is projected to contract sharply by 3 percent in 2020
- **Increase in protectionism:** Governments around the world will turn increasingly protectionist in the near term as they try to limit the economic damage from the coronavirus pandemic.
  - The international trade order will see a reversal globally and there can be a thrust towards self-sufficiency.
  - Every country will now try to build manufacturing units of at least essential commodities including medicines.
- **Crude-oil prices:** The spillover effect of the present economic lockdown will be felt over the next few months as this one is both a supply and demand crisis
  - For the first time in history, the crude-oil prices have gone into negative territory.
  - Not only the supply chains but the plumbing of these chains have also been disrupted due to complete lockdown across the globe.

### Reviving Supply Chains Post Lockdown

The present is an unprecedented crisis and it may bring upon a much worse economic recession than the one in 2008. The world today is too integrated in terms of manpower, resource allocation, and finances, however the future of international trade has now been put in uncertainty.

- Once the coronavirus pandemic gets over and countries go back to opening up their shut economies the primary focus will be on reinstalling the supply-chains within the country itself. As of now, only the essential commodities are being transported.
- The pharmaceutical industry which has established its presence all across the world would need to fill in the gaps of Active Pharmaceutical Ingredients (API) towards achieving self-sufficiency.
  - According to Bloomberg, 70% of India's imports of APIs come from China.
  - India should work on a plan to supersize its own ingredient manufacturing to combat Chinese dominance in the market.

### Active Pharmaceutical Ingredients (APIs)

- APIs, also called bulk drugs, are significant ingredients in the manufacture of drugs. The Hubei province of China is the hub of the API manufacturing industry.
- India is heavily import-dependent for APIs from China. India's API imports stand at around \$3.5 billion per year, and around 70%, or \$2.5 billion, come from China.

### Way Forward

#### ▪ Role of Multilateral Institutions:

- WTO and IMF need to swing into action and produce a roadmap for the resurrection of global supply chains by initially pushing the production and create demand on both ends.
- These two do not have the capability of restoring the global economy all by themselves and thus might need to join forces and work together and with other organisations as well.

#### ▪ Hopes for India: India is the most viable country in terms of geographical size and diversity and the available labour force to emerge as the epicenter of the restart of production.

- India is known the world over for its generic drugs and the recent events related to anti-malaria drugs has made it more obvious.
- **India should work to become self-sufficient in developing APIs and bulk drugs instead of depending overtly on China for its supply.**
- The private and the public sector need to work together to generate self-sufficiency on that front.
- **Policy measures:** COVID-19 is the flash point which can tip us over the edge. India needs a reset towards resilience. We need better labour laws which are easy and flexible and fiscal incentives for the private sector, in order to create an enabling environment. It is important to identify and focus on certain sectors and then make sector-specific policies.
- **Get ASEAN and SAARC in force:** India took the initiative for the SAARC COVID Summit which culminated into a solution for the problem of funding. It is time for India to put greater trust in organisations like ASEAN and SAARC in order to build a regional action plan by the convergence of ideas from member nations.
- **Fix the domestic market:** India needs to get its domestic manufacturing sector in shape to actually take advantage of the global shift in production epicenter.
- Building SEZs can play a better role in reviving Indian economy.

As is famously said, don't waste a crisis, the lockdown is a great time for the government to formulate trade friendly and production-friendly. The present crisis of the global supply chain can prove to be a game-changer for India's future as the global hub of production and manufacturing.

