The Current Social & Economic Impact of Covid-19 Upon the BRICS Nations

Op/Ed By Chris Devonshire-Ellis, Adam Livermore, Rohit Kapur, Maria Kotova and Patricia Varejao, Dezan Shira & Associates

Complete On-The-Ground Analysis from Dezan Shira & Associates Regional Offices

While global attention has been geared towards first towards China and Asia, followed by the EU and United States, little attention has been paid to other regions. The media imbalance is in part a reflection of the Western bias of the global media industry, however is also dangerous – countries and regions that are in desperate need are being drowned out of the overall picture by the constant discussions and debates largely taking place in Washington and Brussels. All other countries and regions have become secondary. This has the effect of presenting a biased look at the Covid-19 outbreak on a global scale.

The BRICS group of countries – Brazil, Russia, India, China and South Africa are important, not just because of their inter-continental ties but because they are 50% of global future GDP. The BRICS are expected to **reach that milestone within the next decade**. What happens there now impacts on future trade flows. So how are the BRICS nations coping with the Covid-19 pandemic?

As a basic introduction, we can summarize as follows:

Brazil: A delayed response may already decrease the ability for an already stressed economy to rebound. There is potential for the situation to get out of hand. The stock market and currency are at historic lows.

Russia: Russia is expecting to take a hit but has enough resources to overcome these. The state is now supporting industry and individuals although will need to do more. There is some confusion concerning differing regional approaches.

India: India also appears to have enough to ride out the economic impact and return to work. However there is possibility of racial tensions while poverty levels among the poor can be expected to increase.

China: China is largely ahead of the game and appears to be the most disciplined in terms of population management. However a second wave of infections cannot be ruled out. Businesses and public gatherings will remain only partially open for months with employees still expected to work from home at any given time.

South Africa: Underlying health issues with sanitation, access to clean water, malnutrition and high rates of TB and HIV are expected to create problems not just in South Africa but across the continent. Poor infrastructure and health care could decimate parts of the continental economy.

For detailed reports from our staff on the ground please see below:

Brazil – By Patricia Verejao, Dezan Shira & Associates Sao Paulo

Current Situation
Brazil has 1,123 deaths and 22,169 confirmed cases of coronavirus according to the Ministry of Health in a report released this Sunday (April 12). There is community transmission of the virus in the main cities of the country. The evolution of cases in Brazil follows a trend of European and North American failure.

The coronavirus pandemic caused the federal government, states and municipalities to announce several measures to try to contain the transmission of the disease in Brazil.

Commerce was closed, schools and colleges suspended their classes, Brazilian public transport redoubled attention, tourism trips were canceled indefinitely. In health services, holidays for health professionals were suspended, as well as leave. In all Brazilian states there was an increase in ICU beds, an increase in basic health units and the setting up of field hospitals. Cultural events have been canceled. Prison visits were prohibited. Home insulation is recommended for everyone. Public services are restricted with collective events canceled.

The Government has restricted the entry of foreign passengers on international flights, however this does not apply to Brazilians born or naturalized or to immigrants with a residence permit. Brazil's borders with neighboring countries in South America are now closed. Brazil entered the Easter holiday with falling isolation, rising deaths and pressures against quarantine. As the country faces the initial phase of the epidemic, Brazil is preparing to go through two holidays in a context in which Brazilians begin to relax their isolation and increase circulation on the streets in all Brazilian states.

The individual loosening adds to the scarcity, until now, of tougher measures by the government to reduce the flow of trips. This begins to be observed at a time when the country has not entered the most acute phase of the crisis when there is uncontrolled transmission of the disease, but the health system is already under pressure from the pandemic.

The relaxation of social distancing measures has divided government and specialists, putting on the one hand those who seek to avoid an economic recession, on the other hand those who prioritize saving lives in the midst of the new coronavirus pandemic. Social distancing measures are intended to prevent the Brazilian health system from becoming overburdened and collapsing. It is estimated that Brazil as a whole has not yet overcome the peak of the pandemic. Brazil faces increased social distance, where all groups of society must remain inmates to avoid uncontrolled acceleration of the disease. There are no cases of blockade in Brazil yet.

Economic Impact

Brazil's Business Confidence Index, which gathers data from Industry, Services, Commerce and Construction, is already impacted by the Coronavirus. The Business Confidence Index (BCI) fell 6.5 points in March compared to February. It is the lowest rate since September 2017. The coronavirus pandemic in Brazil has significantly impacted business confidence since March. It took BCI to its biggest drop since the 2008-09 recession. Expectations worsened significantly in all sectors, especially in trade and services. As long as the pandemic impacts on the country persist in the coming months, the declining confidence scenario should remain. The confidence of all sectors that make up the BCI has declined since March. The biggest falls occurred in the Service and Commerce sectors, with falls of 11.6 and 11.7, respectively. Confidence in the industry fell by 3.9 points and in construction 2.0. All sectors were influenced by this drop in expectations.

The scenario for the coming months is worrying, with a strong economic and social impact. Although it is difficult to imagine any recovery of confidence in the visible horizon, we hope that the success of the isolation measures to reduce the spread of the virus may at least contain part of the discouragement that will come with the drop in GDP and the increase in unemployment.

In the face of the Covid-19 pandemic, restrictive measures to contain the spread of the coronavirus that are being taken in Brazil at the national, state and municipal levels are impacting the economy and the routine of Brazilians. There are impacts on both the public and private sectors, with operating restrictions, suspensions, prohibitions and postponements.

Interruptions in economic activity and uncertainties about the future have caused shakes in the Brazilian market. The value of the Brazilian Real against the US dollar has surpassed US$5.30 for the first time in history. The main Brazilian stock exchange, the Bovespa, has lost 70,000 points, dropping more than 40% this year to date. In March alone, companies listed on the stock exchange lost R$1.1 trillion (US$540 billion) in market value.

Concerns about the impacts of the coronavirus have weighed down in the downward revisions to the projections for the growth of the Brazilian economy in 2020. The increased uncertainty generated by the fall in oil prices and the advancement of the coronavirus in Brazil contributed to the increase in pessimism in the future of the economy. There was a loss of confidence for consumers in all income classes, influenced by the increase in pessimism regarding the economic situation in the coming months.

In families with lower purchasing power (up to R$2,100 or US$396 per month) the fall was influenced by the strong reduction in purchase intentions, whose indicator fell by 9.9 points. Among the income classes, the biggest fall comes from families with monthly family incomes between R$ 2,100 and R$4,800, whose confidence index dropped 10.8

points. In this scenario of a more difficult economy in the coming months, consumers also foresee a reduction in the supply of jobs and a worsening of the financial situation of families.

In yet another measure to contain the impacts of the new coronavirus, the government announced the creation of an emergency credit line to pay the salaries of employees of small and medium-sized companies. It is a loan, and is exclusive to pay employees. The program will finance employee salaries for two months.

The Santander bank predicts that unemployment in Brazil will increase by 2.5 million people at the peak of the economic crisis caused by the coronavirus. The worst moment in the labor market will occur at the end of June. With the expectation of an improvement in economic activity as of the third quarter, the job market, according to the bank, should have some positive response, but the contingent of unemployed people will still end this year with an increase of 1.5 million workers. As a result, the average unemployment rate is expected to be 12.3%, above that observed in 2019, when it was 11.9%.

“We are going to leave with the economy hurt from this inevitable process to save the largest number of lives”, said the chief economist of Santander bank, Ana Paula Vescovi.

If social isolation has to be expanded to help contain the number of people infected with the disease and only start to be relaxed from mid-June, GDP may plummet 6%. The fiscal stimulus measures announced by the government to help mitigate the effects of the crisis and the drop in revenues caused by the economic slowdown should lead Brazil to end the year with a primary public sector deficit of R$452.5 billion (US$2.4 trillion). Brazil’s debt is expected to reach 83.9% of GDP.

All the Provincial capitals of Brazil have ordered all commercial activities to cease in order to contain the coronavirus. Mandatory quarantine allows only certain services to function. More than 30% of companies in all sectors have already felt the impacts of the coronavirus pandemic on their businesses, according to a survey by the Getúlio Vargas Foundation (FGV).

The institution included in its polls for the month special topics to research the effects of the crisis on companies and consumers. So far, Industrial manufacturing has been the most affected sector, with 43% of companies reporting impacts of the coronavirus on their business in March, followed by trade and commerce (35%) and services (30.2%). In all sectors, the negative effects are expected to increase in the coming months: 68.5% of industry, 59.1% of trade and 49.7% of services.

Regarding the impacts in the following months, 15 of the 19 segments surveyed by FGV had percentages above 50% of the companies projecting negative effects, with emphasis on electrical machines and materials (91.5%), oil and biofuels (90.5%) , cleaning and perfumery (90.2%) and information technology and electronics (89.4%).

In trade, most of the impacts reached resellers of durable and semi-durable goods in March. The sectors most affected were vehicles, motorcycles and parts (46.4%), construction material (39.9%) and fabrics, footwear and clothing (37.2%). Only 18.8% of hypermarkets and supermarkets reported problems so far.

With regard to the coming months, the sectors that expect the worst effects are clothing and footwear (74.7%), automotive vehicles (71.6%) and furniture and household appliances (71.5%). In the service sector, the greatest impact so far has been felt in information and communication services (35.9%), followed by services provided to families (35.2%) and transport and auxiliary services to transport and post offices (34, 0%). For the coming months, transport has the greatest expectation of negative effects (62.9%), followed by services to families (54.5%).

Potential Recovery

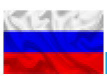
Predicting the end of this crisis in Brazil remains an unknown quantity. The economy may start showing signs of improvement in the second half of 2021. The country is already in a recession and a recovery had been expected in early 2021. The economic recovery, next year depends on the result of the containment of the pandemic and a reduction in the level of uncertainty.

The solution found by many small business owners has been to focus on virtual sales. Before the coronavirus pandemic, internet sales were already on the rise, mainly due to convenience and lower costs to tenants, but today the concern is different.

Online purchases prevent customers from exposing themselves to Covid-19 contamination, delivery companies, for example, have changed their delivery protocols to avoid physical contact with customers. Buying food in this way, in addition to avoiding a trip to the supermarket, helps local restaurants, which otherwise would have no way to keep working.

Many supermarkets that had applications for delivery as a complement to sales, today already have most of the revenue coming from digital sales. This type of service is so sought after that it already has long queues for delivery. Outside the food industry, the demand for health items, mainly alcohol gel and masks, also increased. Companies such as Mercado Livre, one of the main marketplaces (platform with third-party products) in Brazil, increased the number of logistics employees to speed up deliveries.

The increase in online time has also increased with the epidemic. Confined at home, people are accessing even more social networks and applications, favoring contact with brands that position themselves well in the digital environment. On the other hand, companies that sell durable goods (technology items for example) will face difficulties, even selling online.



Russia – By Maria Kotova, Dezan Shira & Associates Moscow

Current Situation

On March 28, most regions of Russia introduced ‘Recommended Restrictive Measures’ due to the situation with coronavirus. Cafes and catering establishments, shopping and leisure centers, cinemas and cultural institutions were closed. In some regions, a ban on visiting religious institutions came into force and public transport stopped working.

President Putin announced the week of 28th of March to 5th of April as paid, non-working week while asking citizens to keep self isolation regime and stay at home. Later he extended quarantine till the end of the month (30th April). The measures were imposed based on the analysis of the experience and measures in other countries. The government wanted to ensure that the increasing curve of the cases is not that sharp and the pressure on the medical institute is spread gradually and the system will have the capabilities and beds to take in people with the virus. If the curve was sharp, the system would not be able to cope as in many European countries. Although it is early to make conclusions. It is estimated that the hardest are 4-5 first weeks which means that Russia would have another 2-3 weeks before it may get to the peak and so called “plateau” where the daily number of cases stop to grow.

The total confirmed cases in Russia as at April 12th is 18,328, with 148 deaths. Most of the cases are in the Moscow region with 11,568, St. Petersburg with 557 and the Komi republic in Russia’s Northwest with 208.

The government of the Russian Federation, in order to prevent the spread of a new coronavirus infection in Russia, temporarily limited the entry into the Russian Federation of foreign citizens and people without Russian citizenship, including those arriving from the territory of Belarus, as well as citizens of Belarus, from March 18. The restriction will be valid until May 1, 2020.

On 27th of March, Russia suspended all charter and regular international passenger flights from and to any country. There were only export flights that were arranged by the government to evacuate Russians who could not return from other countries.

The Russian capital, Moscow is an international hub with thousands of people travelling through. This had the effect of bringing more cases of infection into the country. Moscow is in the most difficult position with the highest number of cases in the country (around 70% of total), with ambulance services operating at peak limits. Cases doubled over the past week and heavy cases increased (where 85% of virus infection caused pneumonia). Self-isolation now operates in the Moscow region for all residents. It is not allowed to leave the house unnecessarily. It is permitted to leave the apartment in cases of dog walking, going to work (for those who operate in special industries), going to a pharmacy, to a store (within 100 meters) and for taking out garbage. People returned from abroad or have been in contact with those as well as people older than 65 year are mandatory quarantined at home. Those who break the restrictions are fined.

This weekend government decided to lock down the capital completely. Transportation with the capital and suspended everyone who wants to drive a car or a bike within the city without online permit which will be granted if the applicant has specific reason (e.g. medical staff traveling to work). Domestic transportation flows between different regions have decreased, although varying federal government didn’t choose to close all transport, freight, passenger traffic between regions, massively restrict the work of enterprises when only isolated cases of infection are recorded in the region. It is instead suggested to carefully evaluate measures and damage and take a case by case approach.

However, to date 15 regions (of 85) of Russian Federations have now limited transportation within the region and between the regions. These may vary from one region to another, but in many cases it means that it is restricted to drive within/across the region without special documents issued to the workers of certain essential sectors (medical, housing and communal services).

Media control

To eliminate misinformation, the government proposed new measures that came into effect in the end of March that impose criminal liability and penalties for those who made public statements that government would consider to be “fake news”. These are identified as those that pose a threat to the life and safety of citizens, or about measures taken to ensure the safety of the population and territories, methods and methods of protection from these circumstances. Such acts are punishable by a fine of Rs.300,000 to 700,000 ($4,000-$9,500), disciplinary labor for up to 1 year, or detention up to 3 years. While these measures might work well specifically against publications on “miracle” drugs that can cure coronavirus, at the same time it can be used by local authorities who may try to take advantage of the situation and target unpopular individuals.

Measures

The Government already building sixteen additional hospitals across all the regions in Russia. By the end of the April, there will be additional 100,000 beds with required equipment prepared across the country. The hospitals are being built by the military working in 3 shifts each 24 hours.

The federal support to the medical care services has already been allocated and has arrived in the regions. In addition to all the additional features, infectious departments. Another 13 billion rubles was allocated for the purchase of medical equipment, including artificial ventilation and ambulances, which were initially received in the regions in exchange.

The government is forming teams of specialists capable of working with new equipment in the hospital, who were requalified to treat people with coronavirus infection. Last week additional payments were provided to doctors, nurses, medical personnel for special working conditions and increased workload fighting coronavirus. Funds from the federal budget for these purposes – more than Rs.10 billion (US$140 million) – are allocated to Russia's federal regions.

Additional monthly pay for medical staff will be Rs.80,000 (@US$1,000) per month to the doctors, and Rs.50,000 rubles (around US$676) for mid-level paramedical personnel and nurses, as well as ambulance staff. For junior medical personnel, paramedics, nurses and drivers of car crews – an additional salary of Rs.25,000 (around US$340) is payable.

Social Support

The Federal government imposed special procedures for the payment of sick leave due to quarantine. Payments of benefits to families with children aged from three to seven years will begin in June. A payment of Rs.5,000 (US$69) per child under three years of age for those who have the right to maternity capital will be paid in April-June.

Remote payments of benefits, including unemployment have been arranged, while the formation of a list of essential goods and operational monitoring of their availability in trade organizations is underway, as are the remote sale and delivery of over-the-counter drugs.

There is a moratorium on the calculation of fines and penalties for non-payment of utilities. It is forbidden to collect penalties for late or incomplete payment for housing, utilities and overhaul.

The number of qualified laboratories for testing the population has been increased, including through the involvement of private organizations. New regulations have also come into effect on the retail prices for medicines and medical devices to prevent profiteering.

Economic Impact

Russia's Federal government has proposed the following measures to support the economy:

- Deferred payments of budget loans, as well as compensation for losses of regional budgets;
- Deferral of tax collection for enterprises of the most affected sectors of the economy.
- A moratorium on business audits, including tax audits, with the exception of issues that pose risks to the life and health of citizens;
- Expansion of the soft loan program;
- Increase in the amount of subsidies for small and medium enterprises;
- Launching a service to help employees and employers on-line inspection;
- Facilitation of lending conditions for industries affected by coronavirus;
- Lower property taxes for lessors in exchange for lower rental rates or deferred payments for tenants of certain business categories;
- Green Corridor for the import of certain categories of goods at customs.
- On the regional level, each head of region of the Federation was authorized to form preventative norms for the spread of coronavirus in consistence with the specific situation in each region.

The Government also proposed deferred payments for existing credits and loans, however, the thresholds confirmed are relatively high in that less than 50% of the borrowers qualify to use it (and less in Moscow where mortgages etc. are higher).

Below are the threshold of the loans that can be deferred (if exceeding below amounts, the loans should be still payed on time)

- Mortgage loans – Rs.1.5 million (US$20 000)
- Auto loans – Rs. 600,000 (US$8 225)
- Consumer loans for individual entrepreneurs – Rs.300,000 (US$4,115)
- Consumer loans for individuals – Rs.250,000 (US$3,430)
- Loans for credit cards – Rs.100,000 rubles (US$1,370)

Each Federal region of Russia has its own regional list of enterprises that play an important, systemic role for the economy of the regions and will not be fully closed. The priority is to ensure their sustainability, maintain employment, and seek targeted solutions.

Current projections by Russia’s Center for Macroeconomic Analysis and Short-term Forecasting indicate negative 20% of GDP for Q1 2020 and up to 15 million unemployed.

According to the consulting company Finexpertiza, a week of self-isolation costs Russian businesses Rs.123.3 billion rubles. A full month of temporary closures will cost private sector businesses Rs.530 billion rubles. One months of self-isolation in April will cost Russia 1.5% – 2% of annual GDP. Business losses in terms of unrealised income are estimated at Rs.917 billion a week and Rs5.5 trillion a month, which is 5% of GDP.

Businesses have asked the State to provide cheap loans and tax holidays. Tour operators, hoteliers, airlines, restaurateurs and other industries are asking for help, whose turnover has fallen sharply due to the fact that people are sitting at home. The authorities have announced certain support measures, but small-medium business community believes that they are not enough. Entrepreneurs are preparing to fire employees.

Federal unemployment benefits will be paid on the upper bar – Rs.12,130 within three months (from April to June). If there is a minor in the family where the parent lost his job, an additional monthly payment of Rs.3,000 per child shall be paid.

In Moscow, those who lost jobs due to coronavirus, the unemployment measures will allow to obtain compensation in amount of Rs.19,500 rubles (US$220) starting from 9th of April till 30th of September (where Rs.12,130 rubles is from the federal allowance, and Rs.7,370 rubles from the Moscow city budget). The period of the application is simplified online and should not take longer than 3-5 days.

Russia will be under pressure from quarantine measures in the EU – the EU countries account for 43% of Russia’s foreign trade. In addition, the regime of self-isolation in Russia means the closure of all entertainment venues, restaurants and shopping centers. Alfa Bank analysts forecast unemployment in Russia at 5% by the end of the year.

At the end of March, the index of business activity in the services sector of Russia fell to 37.1 points from 52 points in the middle of the first quarter. IHS Markit, which calculates the index, explained that demand for Russian services fell at the fastest pace after the financial crisis.

There is no doubt that April will be the most disastrous month in the Russian economy in modern history.

In mid-March, authorities announced that Rs.300 billion rubles would be allocated to eliminate the consequences of the coronavirus. At a meeting with President Putin on April 1, Prime Minister Mikhail Mishustin announced that Rs.1.4 trillion had been reserved for this purpose.

At the same meeting, the head of the Accounts Chamber, Alexei Kudrin, said that most likely, it would be necessary to spend 5% of GDP or higher, that is, from Rs.5.5 trillion to support the economy. The economist believes that Kudrin's assessment is at the lower end of the anticipated need.

Western countries take the approach" no matter what it costs us "and are ready to spend 10-15% of annual GDP. In Russia, so far the amounts indicated are an order of magnitude less.

In case of loss of the main source of income, 42% of Russians will be able to pay expenses without the help of loans only for one month, a survey of the NAFI analytical center showed. The results of the study show that most Russians did not make savings and did not have the necessary financial cushion in case of job loss. Today's crisis will force a significant part of citizens to apply for loans. This is especially true for vulnerable categories. Another survey commissioned by Rosgosstrakh Life and Otkritie Bank showed that 63.6% of Russians have no savings at all.

Experts at the HSE Institute for Social Policy in the study predict a decline in payments to social funds in connection with the expected cuts in salaries, rising unemployment and falling real incomes of Russian citizens. Payments to the Pension Fund, as well as social and health insurance funds, already began to decline in March 2020. Depending on the development of the situation, the number of workers in Russia may be reduced by 2.6-10.2 million, the payroll will also decrease as will taxable income for the treasury and State budget.

In the most positive scenario, payments to state funds will collapse by Rs.200 billion (2.5% of contributions in 2019), and in the most negative scenario, by Rs.2.3 trillion (30% of contributions).

Potential Recovery

According to bank economists, in a positive scenario, the global economy will quickly recover, and Russia's GDP will grow by 1.5% in 2020, while the Ruble will rebound to 75 against the US dollar by the year end. However, this basic scenario assumes that Russia's GDP will fall by 0.8%, and the dollar will be 79 rubles. In the basic scenario, the bank assumes that the quarantine will last 2 months, after which the slow recovery of the world economy will begin (based on Renaissance Capital's economic analysis).

The bank's negative scenario suggests a 2.5% decline in the Russian economy and an increase in the exchange rate to 82 rubles per dollar. The underlying forecasts of other analysts are generally similar. Standard & Poor's predicts economic decline of 0.8% in 2020. The economic downturn will lead to an increase in bad loans from 8% at the end of 2019 to 15% at the end of 2020. The accumulated capital, state assistance and weakening regulatory requirements will allow banks and other organizations to withstand stress (based on S&P analysis).

According to Alexei Kudrin, Chairman of the Accounts Chamber, even in a fairly moderate version, the fall in GDP this year could be from three to five percent. "But the situation may be similar, as it was in 2009, when GDP fell by almost 8%," he said at a meeting with President Putin on April 1.

If the global economic recovery begins in the third quarter of 2020 and is accompanied by an increase in the price of oil and other Russian export goods, then most likely the economic growth this year will be slightly higher than zero. This appears more likely as a truce has now been agreed between Russia and Saudi Arabia to fix the price of oil.

However should the negative effect of the spread of coronavirus turns out to be deeper, and foreign government support programs are not effective enough, then the National Wealth Fund will require significant additional funding, but even with this a decline will be at least 3%.

The Russian government is counting on a quick quarantine. The Russian authorities believe that the shock state of the world economy will not last long, and in the second half of the year a quick recovery will begin. Alfa bank believes that protection from a deeper failure in the structure of the Russian economy, where the share of small and medium-sized enterprises is small; that Russia is a net importer of services and its financial sector does not suffer from a liquidity crisis and from rising interest rates. On the positive side, Russia is one of the least-indebted countries in the world, has the worlds fourth highest foreign reserves, and possesses 30% of global natural resources. It is fiscal prudence and sound management in the face of sanctions and Covid-19 that will see how quickly Russia can rebound. At present it is hard to call.

India – By Rohit Kapur, Dezan Shira & Associates New Delhi

Current Situation

The first case of COVID-19 in India was reported on 30 January 2020. As of 11th April, confirmed cases of COVID-19 stand at 7529. While 653 patients have recovered, 242 have died.

Most of the cases in India are from local transmission, where people had travelled to COVID-19 infected countries or had come in contact with people having travel history to such countries.

Government believes that the stage of community transmission of COVID-19 has, so far, been avoided by virtue of the steps taken.

The Health Ministry has said that as per a “statistical rate of growth-based analysis” by the Indian Council of Medical Research (ICMR):

- Without a lockdown and containment measures, COVID-19 cases could spiral to 200,000 by April 11 and 820,000 by April 15.
- Without a lockdown but with containment measures, COVID-19 cases could spiral to 44,000 by April 11 and to 120,000 by April 15

The immediate challenges facing the Government at this time are:

1. Building up the medical care facilities even in the remotest corners of the country to meet the rising number of cases in the event of an uncontrolled outbreak.
2. Ensuring that the lockdown is implemented successfully throughout the country
3. Keeping the supply chains of essential commodities robust and working in every situation to keep the 1.2 billion citizens fed.
4. To ensure that the 450 million migrant workers rendered jobless by the lockdown and trudging on the country's highways to return to their villages, are stopped in their tracks and housed, clothed and fed at shelters put up on the state borders

Whilst armed with an arsenal of food grains reserve of 80 million tons and foreign exchange reserves of USD 475 Billion, the Government is well equipped to deal with the situation, it is important that it utilise these resources in a prudent and effective manner to alleviate the situation and at the same time, in the post-COVID-19 situation, ensure that India continues to be seen as an attractive destination for global investors.

The Government has taken the following steps:

1. On 25th March the Government invoked the Disaster Management Act, 2005 and imposed a 21-day nationwide lockdown to prevent the spread of COVID-19.
    - All International flights suspended, except for very few granted permission to evacuate foreign nationals. All existing visas, except for a few certain categories have been suspended till 15 April.
    - All domestic flights suspended except those carrying essential goods across the country.
    - All bus, train, metro services suspended
    - Inter-state movement within the country stopped with borders sealed.
    - Migrant workers stopped from walking back to their villages. Camps set up at state borders to provide them with shelter, food, basic amenities and medicare. More information on this is available at https://indianexpress.com/article/explained/coronavirus-india-lockdown-migran-workers-mass-exodus-6348834/
    - Several states have identified COVID-19 hotspots and have taken measures to seal and sanitize such high-risk zones.

Some state governments have already announced an extension of the lockdown beyond 14th April. As on 12th April it is widely believed that the Central Government will extend the lockdown till 30th April but will permit activity in certain sectors in a graded manner. An announcement on this is expected in the next 24 to 48 hours (April 14-15)

1. Dedicated COVID-19 quarantine sites set-up. Hotels and Railway wagons being considered for such purposes in the event need arises.
2. 586 Hospitals and 100,000 Isolation beds designated exclusively for treatment and care of COVID-19 patients. This number is continuously increasing with the measures being taken by the Health Ministry together with the State Governments
3. INR 170,000 Crore (USD 24.3 Billion) relief package in the form of food grains, cash transfers for the poor and vulnerable sections of the population announced to deal with the hardships caused by the lock down. Further fiscal measures are expected to be announced in the coming days
4. INR 15000 Crore (USD 2.14 Billion) will be spent to set up isolation wards and intensive care units (ICUs), procure ventilators and personal protection equipment (for doctors), and train health workers to fight COVID-19.
5. Finance Ministry has extended several compliance deadlines under the various corporate, mercantile and taxation laws, and allowed individuals to make partial withdrawals from their provident fund accounts.
6. PM-CARES fund launched to provide free food and care to the poor. Donations being sought to augment resources for this fund
7. The Reserve Bank of India too has taken a number of steps to ease the stress caused by COVID-19. These include easing of interest rates, relaxation of Cash Resee Ratio and other liquidity improvement measures, moratorium on repayment of loans by businesses and EMIs by individual borrowers. Details at https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=49582
8. ADB working on a USD 2.2 Billion relief package for India to help it combat COVID-19
9. Aarogya Setu App launched by the government to disseminate information related to COVID-19 and to provide a platform for the population to reach out to the government.

Economic Impact

The Indian Economy was, as it is, going through a sluggish phase ever since demonetisation and GST was implemented. GDP forecast for 2019-20 was revised downwards from an optimistic 7% to 5.4%. In view of this, the Government had announced deep tax cuts for businesses in August 2019 to bring the Economy back on track. Indeed, the impact of these initiatives were seen in an uptick in the Purchase Managers Index (PMI) and Manufacturing Index for January and February 2020.

However, COVID-19 has put paid to all hopes of revival of the Economy in the near term.

- Amidst nation-wide lockdown, country’s growth is estimated to have dipped below 5% for FY 2019-20.
- Around 400 million workers employed in the informal economy are at risk of falling deeper into poverty during the crisis, as per a report by ILO.According to estimates by Centre for Monitoring Indian Economy (CMIE), unemployment has risen from 8.4 percent in the week ended 22 March to 23.4 percent as of the week ended 5 April.
- Bombay Stock Exchange Sensex fell from 40,363 points on 24th February to 25,981 points on 23 March it has now recovered to 31159 as on 9th April. The valuations look attractive and unless another shock rattles the market, this is a good time to start making cautious and calibrated investments

Sector Wise Impact:

1. Agriculture – The lakhs of migrant workers streaming to their home villages due to the COVID-19 pandemic and the subsequent lockdown have left many farmers across the country bereft of agricultural labour just before the crucial harvesting season of the rabi or winter crop. Farmers also worry about government procurement and their ability to sell their crops, given that many mandis or agricultural markets are still closed, despite fresh Home Ministry orders to exempt all such farming activities from the shutdown. Unless the Government acts rapidly, farmers in India face a bleak future leading to bankruptcies and suicides. This will severely dent India’s ability to revive its Economy since there will be a sharp decline in consumption in the rural sectors leading to impairment of industrial activity
2. Textile – Production halts in China and lockdown in India have had an impact. Mainly because of dependence on China for textile raw materials including

synthetic yarn, synthetic fabric, buttons, zippers, and hangers. India also exports cotton yarn to China in bulk quantity – poor demand in China has caused cotton prices to come down in India.

3. Apparel – Payment of at least USD 2 billion is stuck with foreign buyers because of deferment or cancellation of orders. Closure of retail stores across the country is adding to losses.
4. Automotive – Sector was already witnessing a sluggish demand for past one year, the present situation has aggravated the problem and compounded the situation with an acute liquidity crunch. China accounts for 27 percent of India's automotive part imports. With Wuhan being a major auto hub, the supply chain of this sector has been hit significantly.
5. Travel and Tourism – Global lockdown has had an obvious impact on this sector. Globally travel is suspended. Airlines are looking at bankruptcy and bloodbath in this sector is inevitable unless the Government bails them out
6. Hotels and Restaurants – Demand has declined substantially with owners struggling to recover the fixed costs. Pre-lockdown, hotel occupancy rates of 70% declined to 20% with restaurants losing 30-35% of their business.
7. Poultry – Baseless Rumours regarding transmission of virus through chicken have impacted the sales and prices of poultry items. Sector is facing a loss in range of USD 20 million per day.
8. Chemicals – Dependence on China for active ingredients and shortage of essential chemicals amidst lockdown in the country have resulted in a reduced production of organic and inorganic chemicals across the nation.
9. Consumer Durables – Electronic appliances like fans, television and the entire range of white and brown goods are experiencing a slowdown due to lack of demand reduced economic activity and supply chain dependencies with China and other impacted countries. India imports around 50% of its completely built units of consumer durables from China.
10. Entertainment and Sports – Places of gathering like cinema halls, malls have been closed. Promotional and sport events are also being called off. One of the major cricketing events in the country – Indian Premier League (IPL) has been deferred for the time being – its cancellation can alone mean a loss of at least USD 500 million to the organizing body.
11. FMCG – After the announcement of nation-wide lockdown, the demand for essential FMCG products spiked up owing to hoarding and panic buying by consumers. Grocery items, milk, staples, hygiene products have seen a surge in

demand while supply chain constraints have limited the manufacturing capacities.

12. Pharmaceuticals – India imports around 85% of its total requirement of active pharmaceutical ingredients (APIs) from China as per Trade Promotion Council of India. Dependencies on China have impacted the manufacturing operations in India. However, demand for essential medicines and safety equipment has gone up. Government has restricted the export of certain medicines and pharma products and is monitoring the overall inventory on regular basis.
13. E-commerce – Several e-commerce players are unable to service existing orders and are not accepting new orders, even when there is a surge in demand for home delivery. However, companies are trying to service essential and day-to-day items on priority basis.
14. IT and ITES – Slowdown in markets have reduced the influx of IT projects from international markets. Remote working has given rise in demand for communication tools, conference platforms, cyber security apps, among others. These software tools are being used across sectors such as education, finance, HR to ensure business continuity. Streaming services and apps are also witnessing a surge in daily user activity

Potential Recovery

The Investment bank Goldman Sachs expects a strong sequential recovery in India in the second half of the fiscal year. The Economist Intelligence Unit has forecasted the GDP growth rate for 2020-21 for India* at +2.1% when compared with China at +1%, and USA at -2.8% (*Fiscal year ending March).

- S&P Global Ratings has forecasted the GDP growth rate for 2020-21 for India* at +3.5% while +2.9% for China and -1.3% for USA (*Fiscal year ending March).
- Former RBI governor Raghuram Rajan says recovery will vary from industry to industry. It can be a U shaped (slow comeback) or V shaped (sharp rapid growth) recovery curve depending upon how organizations reform their work practices and the change in consumption pattern of consumers post lockdown.

India’s management of the COVID-19 outbreak has been closely watched and appreciated by WHO, UN, IMF ADB and also the advanced economies like the US, UK, Italy, Germany, Spain, Japan. The post-COVID-19 world is going to look quite different from what it has been so far. The “advanced economies” will have to come to terms with their fragility and inability to cope with and manage the outbreak. Also, wealth in these countries is going to look for viable, lucrative and dependable avenues of investment. An inevitable comparison with China will show India up as a very viable alternative investment destination. However, having said this, India will have to demonstrate its ability to deal with the resultant economic situation in the post-COVID-19 scenario

- Immediate and urgent steps are needed to harvest the rabi crop and secure the farmers. The government is seized of this and is allocating transport and other logistical support to move the crops from the fields to the warehouses directly and with the involvement of the private sector. If this is done as planned by the Government, it will have addressed its greatest challenge between the country and a quick economic recovery.
- It is likely that India may run into a mild current account surplus in FY 2021 with declining oil prices. This will be a positive contributor to the macro-economic stability of India.
- Government needs to ensure that all the measures and stimulus packages which are doled out during the outbreak are channelised and utilised effectively. Every Rupee is made to count. This will contribute towards minimising the damage to the Economy by reducing the impact on the Fiscal Deficit. Such an approach will inspire confidence in the foreign investors who will, then, not hesitate to invest in the country.
- The Banking and Financial Services Sector has, as it is, been in a bad shape owing to high levels of NPA accumulated over the preceding years. The Government has had to bail out the banks and non-banking financial companies (NBFC) in order to keep them afloat. It is likely that post-COVID-19 the banks and NBFCs will face the brunt of a surge in NPAs owing to business failures and defaults by individual borrowers due to job losses. The Government will have to adopt a prudent strategy to deal with this situation to ensure that the banking system does not collapse.
- Banks should be encouraged to support viable businesses and allow closures of the non-viable ones.
- Flexibility will need to be adopted in restructuring loan and EMI repayments.
- The Reserve Bank of India has announced a number of measures to help industry. Cut in CRR etc to increase liquidity with banks, reduction in lending rates, rescheduling loan repayments, etc. Banks have to be nudged to pass

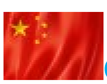
these on to the borrowers to kick-start the Economy, instead of using these to fortify their own balance sheets

- Recapitalise viable banks and strengthen their balance sheets to make them viable and dependable. These measures were already on the cards prior to COVID-19
- Government should work with banks, NBFCs, insurance companies and large corporates for lending purposes and increasing the liquidity in the market.
- Large corporates can support the vendors in their supply chain by giving them financial support to keep them afloat.
- Sectors which have been directly and immediately impacted by the lockdown are Aviation, Travel & Tourism, Hotels, Shopping Malls, Entertainment, Sports and other Leisure industries. These will face the brunt of bankruptcy and closures unless the Government gives relief and relaxations, allowing them to recoup and recover. Restaurants, Cinema Halls, Entertainment, Sports and Leisure will bounce back faster if the people have confidence that the threat has passed.
- Automotive and Automotive Components and Parts – As per a report by Fitch Solutions, vehicle production in India is likely to go down by a further 8.3% in 2020 following an estimated 13.2% decline in 2019. Demand will remain sluggish in medium term with postponement of purchase decision and uncertainty surrounding the demand of commercial vehicles. This sector, which employs a large workforce, the Government will, in all likelihood, want this sector to get going quickly. Liquidity support, reduced interest rates moratorium on loans, reduction in GST rates could be some of the measures on the cards to revive this sector quickly and generate employment. This sector may also see enhanced foreign investment particularly in components and parts.
- Consumer Durables – This sector is likely to pick-up sooner than Automotive since consumers are likely to restart spending with smaller doses of expenditure on White and Brown Goods.
- FMCG – Typically, this sector is a supplier of essential commodities. They are already facing supply chain constraints due to the lockdown. Once things normalise it is expected this sector will be amongst the first to expand capacities. This sector could also see an increase in foreign investment to take advantage of the burgeoning demand in India
- Pharmaceuticals –This is an all-season sector. With little possibility of decline in demand. Supply chain management and price control are the challenges faced by this sector. R&D is likely to receive a boost. Reduction in dependence on

China to be expected for APIs. Government may mandate minimum capacity installation for certain critical drugs.

- E-Commerce – Surge in orders for e-commerce companies as people may prefer contactless, home deliveries. Government may also encourage and facilitate e-commerce operations to minimize the risk of Coronavirus. This could essentially mean employment opportunities in logistics sector with improvisations in distribution mechanisms. May also prompt small scale players to go online.
- IT and ITES – If Indian IT and ITES companies are able to continue uninterrupted services to clients in the US and Europe during this time, then in the post-COVID-19 situation, they will be secure and will continue to flourish. However, if there is a breakdown in delivery of service at this time, then the overseas clients are likely to set up their own infrastructure to meet their demand for these services leading to failures in this sector in India. IT companies providing software and IT enabled services to severely impacted sectors such as hospitality, aviation, automotive sector are likely to see a cut in their existing business. However, due to headwinds of COVID-19 outbreak, digital is likely to see a push with adoption of cloud, cyber security, process automation, remote working, and digital payment services.

COVID-19 outbreak has dealt a blow to the global economy but as the situation stands, it seems like the course of economic recovery for India will be faster than several other advanced economies. India will also come out as a viable and dependable destination for foreign investors.

**China – By Adam Livermore, Dezan Shira & Associates Dalian**

Current Situation

As the first country to be engulfed in the Covid-19 pandemic, China is several weeks ahead of many other countries on the “curve” of the virus progression. As such, the changing situation in China is being monitored closely by many other countries. While statistical methods of counting infections and deaths have differed across countries, it is generally agreed that China has the pandemic largely under control at the current stage, with increases in new cases rising at a rate of less than 100 per day (although there was a spike to 108 on Sunday 12th April). Of course there is some concern that asymptomatic cases are not being identified effectively, but the fact that the number of new symptomatic cases is low (therefore the hospitals are not overwhelmed) is acting as a kind of proxy to provide confidence to the wider population that the situation has improved dramatically.

Indeed in China, the public mood moved on from one of fear to one of caution around late February. Since then, while many restrictions remain in place around the country, caution has morphed into mere habit. Having worn a facemask everyday for close to three months now, I feel slightly naked in public without one. People are adjusting to the "new normal" and seem to realize that there is a long battle ahead. While they realize it is going to be tough, there is a general sense among the population that China will be able to manage the adaptation process more effectively than most governments around the world.

The government response ramped up quickly after January 23rd, and restrictions became more and more onerous through February and most of March. Access to residential compounds was banned to people not registered as living within them. Restaurants closed for around 2.5 months, only recently re-opening. Much domestic travel required quarantine upon arrival at destination for 14 days, and a similar policy was introduced for international travel once the pandemic was confirmed as a global problem. Right now, even foreigners with valid visas and working permits are not allowed back into China. The concern now is focused on Chinese nationals returning to China from Europe and America. The draconian measures the government is implementing to take such people directly from airports to quarantine facilities shows how seriously the government is taking these potential "imported" coronavirus cases. Of the 99 new cases reported on April 11th across China, 97 were "imported" (Reuters).

Economic Impact

Meanwhile, confidence in the government response seems high. Nevertheless business people realize that many types of business are being seriously hit. F&B, retail, real estate and travel are the four biggest losers. A lot of people in these sectors have either been furloughed for a period of time or lost their jobs completely. Migrant workers in the constructions sector are hugely impacted. Many of these jobs don't show up in official government figures, so while there has been a significant uptick in the unemployment rate, it is likely that the real figure is much higher. A lot of lower-earning individuals will be suffering for a prolonged period of time.

Compared with other countries, the support measures that the government has put in place have been relatively limited. The most relevant benefit to businesses has been the partial waiving of the social security contribution made by employers on behalf of staff between the period of February to June. There are other programmes in place as well, but most of them require the companies applying to be involved in the effort to combat the virus spread. Loans have also been relatively difficult for many Chinese companies to obtain. The bankruptcy of many companies and major problems for account receivable collection for those that remain standing seems inevitable.

Potential Recovery

At the moment certain sectors of the economy are recovering. But not quickly. Malls are open, but sparsely populated. Restaurants are open, but with very few customers. There seems to still be a kind of reluctance from people to go out and enjoy themselves, perhaps worried about opprobrium from the many that are still struggling financially or that they will be accused of potentially spreading the virus. Habits may well have changed permanently. Unsurprisingly, people are reluctant to spend large amounts of money on cars, houses etc because of the overall uncertainty.

Certain sectors are definitely booming. This will be a worldwide phenomenon, and it in fact may play into the hands of China in the medium term. It is well-known that China is ahead in the “race to 5G”, which is all about “digital” and “remote”. During this pandemic, China probably pulled further ahead. Online teaching and conferencing has boomed. Delivery of goods rather than visiting shops has continued its transition to the mainstream. The economy has taken another step towards modernization.

A lot of the companies that have benefited from that shift will presumably be flush with cash, and keen to invest it overseas going forwards considering the knowledge and technology they have accumulated already in China.

One particular overall impression that I have been left with is that rather than “living”, people in China are choosing to just “exist” for a while. This may be easier for the Chinese population, many of whom remember the tough times before opening up of the economy in the 1980s and 1990s, compared with the baby-boomers and younger generations in the west who, in the eyes of the Chinese, have been living decadent lives since the 1950s. Nevertheless, this attitude will have severe repercussions for the economy as a whole. To what extent the Chinese government opts to encourage the return of a bit of that decadence that certainly existed in the last several years in China may have a big effect on the medium-term economic impact in the country.

South Africa – Dezan Shira & Associates Cape Town Correspondent

Current Situation

As at April 13, South Africa has reported 2,173 cases of Covid-19 and 25 deaths. Testing is taking place with over 80,000 individuals examined thus far. The majority of cases have been in Gauteng (865) the Western Cape (587) and Kawazulu Natal (443).

COVID-19 has shown its potential devastating impact elsewhere, but it is a particular cause for concern in South Africa. First, while public health strategies such as social distancing and regular hand washing are encouraged, such strategies are a privilege many cannot afford in the crowded informal settlements that accounted for 13% of all households, many of which may not have access to running water. Second, the high rate of TB and HIV among the population, in addition to the number of those not on treatment for HIV, have led to concerns that this could impact the severity of COVID-19 in South Africa and make its population more susceptible to the virus. Third, while health systems in high income countries (HICs) are being stretched, most South Africans rely on the public health care system that is under-resourced and will struggle to meet the demand of the epidemic. While the virus does not discriminate on the basis of race, sex or borders, it is likely that it will disproportionately affect the poor and those suffering from other co-morbidities. Although the number of cases as of 15 March 2020 in South Africa remained relatively low in comparison to the rest of the world (61 confirmed cases; 0 deaths) President Cyril Ramaphosa stated that ‘urgent and drastic’ measures were necessary to limit the spread of the virus and address this emergency. As such, a State of Disaster was declared by the President on 15 March thereby giving Dr Nkosazana Dlamini Zuma, the Minister of Cooperative Governance and Traditional Affairs power to limit certain rights and freedoms within South Africa.

Under this Act, a series of regulations restricting, among other things, the movement of persons, goods and the dissemination of information, were promulgated. These regulations include prohibiting foreign nationals from high risk countries (as defined by the WHO) from entering South Africa from 18 March 2020 and restricting gatherings to

100 individuals. A further series of restrictions, including a “lockdown” on the movement of its citizens from midnight on 26 March were announced on 23 March 2020.

In announcing these further restrictions, President Ramaphosa noted that COVID-19 is particularly dangerous for South Africa in light of high levels of poverty, malnutrition, HIV and TB. At the time of the announcements South Africa had the highest number of cases in Africa albeit a low number relative to countries worldwide. The restrictions introduced were at that time the most stringent in Africa, as South Africa was then the only country on the African continent to require all of its citizens to remain at home. The measures announced on 15 March and 26 March represent the most comprehensive limitation on the freedom of movement and assembly of all South Africans since apartheid. A failure to adhere to these measures may result in a fine and imprisonment of six months or more.

Freedom of Movement and Assembly

The initial restrictions on movement pertained to entry into South Africa and the limitation of gatherings. Initially gatherings of no more than 100 individuals were permitted, but as of midnight 26 March, all gatherings including congregating for prayer is prohibited, with the exception of funerals that are restricted to 50 people. Foreign nationals from high risk countries were prevented from entering South Africa from 18 March. As of midnight on 26 March, all but essential movement is prohibited. The leaving of a residence is only permitted to buy essential goods, seek medical attention, buy medical products, collect social grants, attend a funeral of no more than 50 people, or access public transport for essential services during specified times. Leaving a house for exercise or to walk a dog is not permitted. Movement between provinces and districts is prohibited. Cumulatively, these measures go further than any restrictions on movement under the apartheid government.

Any individual who is suspected of having COVID-19 or has been in contact with a person who has tested positive for COVID-19 cannot refuse to consent to be tested. If the test is confirmed positive, they cannot refuse to submit to treatment, isolation or quarantine.

Restrictions on Movement of Goods

As of midnight on 26 March, only essential goods may be sold. This includes any food and animal food products; cleaning and hygiene products; medical and hospital supplies; fuel, coal and gas, and basic goods, including airtime and electricity. The selling of alcohol and cigarettes are expressly prohibited. Price controls on certain goods have also been introduced, including toilet paper, hand sanitiser and some food products. Failure to comply can result in a fine, imprisonment of up to 6 months, or both.

Censorship

The South African Constitution guarantees freedom of expression and this includes “freedom of the press and other media” and “freedom to receive or impart information or ideas”, which are derogable rights. The COVID-19 regulations criminalise the intentional misrepresentation or publishing of a statement that a person or persons has/have COVID-19. The regulations also criminalise the publishing of a statement (including via social media) that intends to deceive another person about any measure taken by the government to address COVID-19. The focus is on disinformation and is aimed at preventing the spread of false cures that have been seen in the context of HIV. The risk of censorship that does not observe standards of necessity and proportionality in this time is that it may have the opposite effect and limit access to valuable and reliable information for public health. There is evidence within South Africa that this has already occurred as the Ministry of Health has stated that the dissemination of information is centralised to government, information requests by the press should be directed to the NICD and has it instructed other experts in South Africa not to talk to the press. Considering the NICD is currently overwhelmed, this has led to concerns that access to information has already been limited.

Enforcement of Regulations

Under the 2002 Act, financial, human and other resources may be released and during his 23 March address, President Ramaphosa announced that he had directed the South African National Defence Force (SANDF) to be deployed to support the South African Police Service (SAPS). The SANDF are now patrolling the streets enforcing the lockdown. Already there have been allegations of the use of rubber bullets and other abuse. While these regulations apply to the COVID-19 crisis only, it is unclear when this epidemic will be deemed to have passed, and whether they may be used as a template for other public health emergencies which include the current TB and HIV epidemics. While such restrictions, particularly restrictions on movement, are harsh and can be followed in other HICs, it remains to be seen whether these restrictions will ultimately be a near impossible balance between restricting the spread of COVID-19, and depriving many in South Africa of their access to food, water and basic hygiene.

While every place has problems because of the coronavirus crisis, countries like South Africa don’t have the capacity or resources to rebound on their own, unlike the United States, Britain and even China. They will need debt relief, budget supplements, and a commitment to get back to business as usual as soon as possible. South African companies that have built markets on the back of an integrated global trade network need to be aware of, and ready to act on, the vulnerabilities that their trade dependence creates. Recommended actions include: create a view of critical products and suppliers; have contingency plans in place; consider the financial and legal implications; communicate; and conduct scenario analysis.

Further reading of the Covid-19 impact on South Africa and Africa in general can be seen here:

- **South Africa: The Impact Of Covid-19 On Key Industries**
- **The Impact Of Covid-19 On African Economies**