

China's management of looming economic crisis

Łukasz Sarek

Unlike the governments of many Western countries, which are reserving huge resources to combat the economic impact of the SARS-CoV-2 pandemic, the CPC leadership has been so far cautious in its implementation of relevant economic actions. However, the state of the Chinese economy and the increasing pressure from external and internal factors have forced Beijing to take more decisive steps, despite its increasingly limited resources. The analysis of the type of measures taken by China, their effects and the steps envisaged for the next stage of the anti-crisis action plan can be useful for other countries to select appropriate tools needed to mitigate the adverse economic effects of the pandemic. The example of China also shows that excessive restrictions imposed on business activities combined with inadequate monetary and fiscal measures can lead to serious economic problems. They may also delay the return to stable growth.

The CPC has used both monetary and fiscal policy tools. Open market operations, interest rate cuts and reductions of the required reserves' rate have increased liquidity in the financial sector and allowed banks to grant low-interest loans to companies. Entrepreneurs have been also provided with solutions to delay the repayment of loans and interests. The classification of delayed repayments as bad loans has been withheld, which also helped companies to stay afloat. On the fiscal side, the exemptions from social security contributions and tax reliefs have been the key component of the support for the supply side. On the demand side, the implementation of infrastructural projects has been accelerated with the prospect of an increase in the number and value of projects in the coming months. The actions aimed at stimulating household consumption have been very limited, however. The drastic restrictions on the movement of people and goods and the operations of enterprises – especially in the service sector – have led to a sharp drop in economic activities. Chinese authorities are fully aware that prolonged restrictions on business life can lead to an economic collapse. As a result, state policies to revive the economy have been centred around the fast and full restoration of business activities by the widest possible group of economic entities.

The actions taken till now have been by far insufficient, however. Most companies have resumed work but the service sector is still struggling. Economic indicators for March, although much better than for February, still indicate that the rate of economic recovery is low. The troubled restart of business activities has been accompanied by falling foreign demand and still weak domestic demand, which means that the businesses in China have to operate in a hostile economic environment and under increased pressure from unfavourable external and internal factors. The CPC leadership will be forced to take more decisive actions in the coming months. The new crisis management plan includes a greater use of the monetary policy tools than those applied so far. The government is planning to increase the volume of available credits and liquidity in the financial system and to enhance the role of the state as a guarantor of corporate credits. It has been announced that infrastructure projects have been intensified and their development is being supported by the increased budget deficit and by special bonds issued by the central and local governments. However, support for household consumption will remain fairly limited, mainly reduced to an increase in social transfers for the poorest and possible extensions of the voucher scheme.

Considering the scale of challenges facing the Chinese economy, it is doubtful whether these measures will prove to be fully sufficient. The scope of the envisaged fiscal expansion is still much smaller than the one implemented during the global financial crisis of 2008. A more active fiscal policy may turn out to be risky due to structural weaknesses of the Chinese financial system and the country's social security system, as well as the inherent faults in the Chinese economic model. The main disadvantage of the adopted solutions, apart from the still limited support for enterprises, seems to be their focus on activities almost exclusively related to the supply side, combined with stimulating the demand by means of infrastructure projects (while these will also be implemented with much more limited resources than in the past). The lack of decisive actions which would increase the degree of consumer confidence and the level of household consumption may result in a situation where many social groups will be deprived of work or will have a significantly reduced income for several months to come. Without being provided with significant additional support, these groups will significantly restrict their expenditures and shore up

the remaining financial resources. It will lead to an increased willingness to save, while limited consumption will not be the engine of stabilising the economy.

Active substances, inactive export. Restrictions on API exports from India and their implications

Krzysztof Iwanek

On March 3, the New Delhi government has restricted the exports of some active pharmaceutical substances (otherwise called active pharmaceutical ingredients, henceforth: API). The decision was caused by two factors: (1) a fall in API imports from China (the city of Wuhan, where the SARS-Cov-2 pandemic started, is one of the major hubs of pharmaceutical production) and (2) a lockdown enforced by the Indian government to fight the epidemic. These conditions forced India to limit its exports to make sure there was enough API stock on the domestic market.

While this will likely prove to be a temporary situation, it has also affected the Polish pharmaceutical market and showcased the extent to which the country has been dependent on API imports from China (much more than from India). This is apparent in Poland's 2018-2019 import statistics. When it comes to API recently restricted by India in terms of exports and at the same time imported by Poland, erythromycin (including salts its and formulations based on it) was the only substance purchased predominantly from India rather than from China. Other API on this list were mostly imported on a much bigger scale from the PRC (these were: vitamin B₁, B₆, B₁₂, progesterone and chloramphenicol as well as their formulations). Thus, Poland is not only much more dependent on the API imported from China but, as the present situation has demonstrated, a sudden drop in Chinese exports of these substances may affect the Indian market, temporarily reducing Indian API exports to third countries, such as Poland.

A large part of global production of API takes place in China but India is also one of their larger manufacturers. At the same time, India is highly dependent on API imports from the PRIC. In 2017-18, 68.38% of API imported by India came from China. In 2018-2019, the