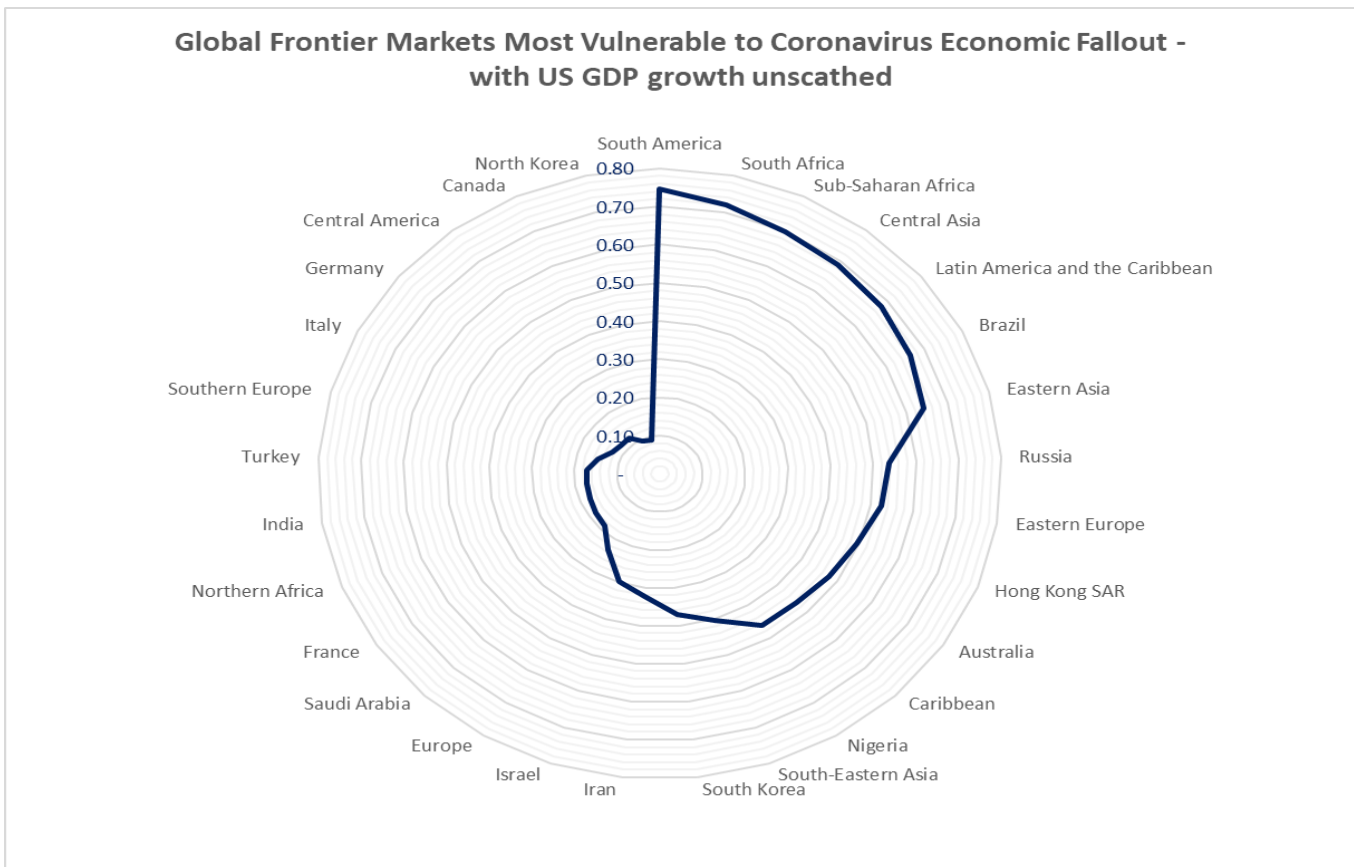


China's coronavirus pandemic to hit key frontier markets GDP and multinational profits, but spare US economic growth

By: Sebastian Spio-Garbrah & Lars Henriksson

While the epidemiological trajectory of China's recent corona-virus epidemic is yet to be fully mapped out – the economic fallout of the disease is increasingly discernible. With China contributing nearly 35% of total global economic growth over the past 20 years, the variance in sensitivities of key regions and major economies to changes in Chinese economic growth trends strongly suggest that while certain 'China-economy sensitive' regions such as Latin America, the Caribbean, East Asia and, Sub-Saharan Africa and Eastern Europe are poised to suffer the greatest economic fallout from the epidemic, other nations such as Japan, the US, Italy, Germany are poised to largely escape any discernible slowdown in economic activity. 'DaMina's Corona-virus Economic Growth Sensitivity Index,' which seeks to measure the sensitivity of aggregate economic growth in key regions and states to changes in Chinese GDP growth over a 20 year period indicates that the US will largely escape any negative GDP growth fallout while several key frontier markets in Africa, Latin America and Central Asia (including Russia) will suffer GDP declines if the epidemic accelerates.

While several publications and analysts in China have prematurely forecasted an impending end to the epidemic, other credible indications are that the epidemic is accelerating within China.



| DaMina's Coronavirus Economic Growth Sensitivity Index | |
|---|--|
| Regions/ Key States | GDP Growth Sensitivity to 1% Decline in Chinese GDP |
| South America | 0.75 |
| South Africa | 0.72 |
| Sub-Saharan Africa | 0.70 |
| Central Asia | 0.69 |
| Latin America and the Caribbean | 0.68 |
| <i>Brazil</i> | <i>0.66</i> |
| Eastern Asia | 0.64 |
| <i>Russia</i> | <i>0.54</i> |
| Eastern Europe | 0.52 |
| <i>Hong Kong SAR</i> | <i>0.50</i> |
| <i>Australia</i> | <i>0.48</i> |
| Caribbean | 0.46 |
| <i>Nigeria</i> | <i>0.46</i> |
| South-Eastern Asia | 0.41 |
| South Korea | 0.37 |
| <i>Iran</i> | <i>0.32</i> |
| <i>Israel</i> | <i>0.30</i> |
| Europe | 0.23 |
| <i>Saudi Arabia</i> | <i>0.19</i> |
| <i>France</i> | <i>0.18</i> |
| Northern Africa | 0.17 |
| <i>India</i> | <i>0.17</i> |
| <i>Turkey</i> | <i>0.17</i> |
| Southern Europe | 0.15 |
| <i>Italy</i> | <i>0.12</i> |
| <i>Germany</i> | <i>0.12</i> |
| Central America | 0.12 |
| <i>Canada</i> | <i>0.10</i> |
| North Korea | 0.09 |
| <i>Japan</i> | <i>0.08</i> |
| <i>UK</i> | <i>0.08</i> |
| <i>Mexico</i> | <i>0.08</i> |
| <i>US</i> | <i>0.01</i> |
| <i>Source: UN Stats/ DaMina Advisors</i> | |

Since the Coronavirus (Covid-19) was detected in Wuhan, China in January 2020, local authorities have sought to downplay its potential lethality. On 7 February, Dr Zhong Nanshan, head of the China's National Health Commission expert panel, stated that "the turning point is still a few days away."

There are reasons to be skeptical about the truthfulness and accuracy of the local reporting about the epidemic. China is ranked 177 out of 180 countries in 2019 World Press Freedom Index (WPF). Essentially, China is an extreme outlier in terms of ability for the press to its job to accurately report what is going in the country. It is

near impossible for the public to know the true picture of the situation in Wuhan and other cities. Since official Chinese data and information are less reliable, some observers have started to use alternative data.

One such data set is the “Baidu Migration Index” (BMI) which tracks the return rate of workers from the hometowns to work following the end of the Lunar New Year. Another is Gaode Congestion Index (GCI) which tracks the traffic flows in major cosmopolitan area. According to Nomura, the BMI for 15 sample cities increased to 20.7% on 12 February, or less one-quarter of the 81.3% registered in 2019. The GCI for 100-city sample was 1.2 (11 Feb) which can be compared with 1.6 recorded in 2019. Even with support of more reliable economic indicators there is scant evidence that normalcy is resuming anytime soon and, subsequently, the economy will revert to its normal vigour and met the official GDP target of 6.0% for 2020. China’s GDP 2020 growth projections are likely to be revised significantly downwards.

The Coronavirus and its impact on the economy might also jeopardize the completion of ‘Phase One’ of US-China 2020 Trade Deal which according to its official communique can be varied “in the event that a natural disaster or other unforeseeable event outside the control of the parties delays a party from timely complying with its obligations under this agreement, the parties shall consult with each other.” While China had pledged over the next two years to increase its imports of US products and services by at least \$200bn compared with its imports in 2017 – of which \$40bn annually would come from agricultural purchases, this pledge could effectively be subject to ‘force majeure’ as the Coronavirus diminishes state fiscal capacities to undertake the purchases. This reversal will dent the re-election fortunes of President Trump in the US mid-west.

Chinese officials have already asked US for some leeway given the Corona Virus outbreak. President Trump claimed at a rally in New Hampshire in late January that the Corona virus debacle would “miraculously” go away by April ‘in theory’ when the weather warmed up.

If the consensus is wrong and the coronavirus epidemic accelerates it could impact the US presidential election in November and Chinese centenary anniversary of the Chinese Communist Party (CCP) in 2021.

Contact DaMina for a more detailed briefing from our risk analysts:

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