

Regulating for Globalization

Trade, Labor and EU Law Perspectives

China catches a coronavirus and the global economy and its trade may get very ill

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As I write this article, news of the spread of the ‘coronavirus’ becomes worse on a regular basis. According to today’s media, nearly 60 million people in China’s largest cities are in lockdown, there are 2700 confirmed cases and 80 people have died.

There have been cases reported in all 60 provinces in China and around the world. The Chinese Government has already extended the annual Lunar New Year holiday period until 3 February 2020. Other manufacturing hubs have already indicated further delays until resumption of work.

There have been some immediate global impacts including general falls in the US and Australian stock markets but the purpose of this article is to consider possible impacts on trade and the

industry which implements that trade. The most recent relevant example is associated with the 2002 – 2003 Severe Acute Respiratory Syndrome (**SARS**) which also originated in China and also around the Lunar New Year. 8000 people were infected around the world, of whom nearly 800 died. The global effect of SARS was relatively limited, probably less than \$US 100 billion and perhaps as little as \$US30 billion although the world economy was about two – thirds of its current size. Importantly though, SARS had more impact on China and Hong Kong. In the current environment though, Hong Kong is already suffering from a recession due to local political protests. Further, China is far more important to Australia (and the world) compared to 2003 and is already under significant pressure due to its trade ‘war’ with the US, for which the ‘Phase One’ agreement only represents a minor advance

Some examples of the impact of the current ‘coronavirus’ can be summarised as follows:

- There are likely to be additional biosecurity measures at the airports adding to travel times which will apply to all travellers. Crew on ships originating in China or passing through affected areas may be confined to quarters. Those biosecurity measures may then extend to goods originating from China if it believes that those goods may somehow have been infected.
- The extension to the ‘Lunar New Year’ will further extend the ‘low season’ conditions in sea freight and may well further delay shipments of goods to Australia. That may affect the manufacturing industry needing Chinese inputs to manufacture or affect those awaiting ordered finished products, especially consumers or retailers.
- There is bound to be a significant impact on travel between Australia and China. Not only will this affect tourism and the provision of education for Chinese students in Australia. The likely reduction in air services may also have an unexpected effect on shipping. It is less – known that during the cancellation of air services during an Icelandic volcanic event years ago, the shipping trade was held up as original bills of lading, which usually were moved by air services were delayed at point of origin. Of course, with the reliance on such original bills of lading, containers and other goods could not be unloaded.
- The most immediate impact is in Wuhan, the capital of the Hubei province which could amplify the wider effect in China as it is one of the country’s main manufacturing, transport and logistics centres. The effect on the wider economy could be very damaging with production and supply chains being affected throughout China and therefore throughout the world.
- The extent of the wider effect is currently hard to calculate. While there is a larger world economy and more personal international travel than at the time of SARS, it appears that medical intervention here and overseas may be quicker and more sophisticated. However, unlike 2003, the services economy is now a major part of the Chinese and Hong Kong economies so the inability to move people will have a bigger impact than before.
- There are a number of looming legal consequences. The expedited movement of goods and services guaranteed by various Free Trade Agreements (**FTA**) may now be compromised as countries invoke emergency or safeguard measures. Similarly, if there are delays in the movement of goods that could invoke claims for penalties under contracts and claims for consequential damages by those further down the supply chain. That could also trigger the question of whether the events represent a ‘Force Majeure’ allowing for contracts to be cancelled without penalty. Insurance policies would be reviewed to determine if claims could be made for delays or delivery failures. Australian suppliers to Chinese customers may find demand for their goods and services reduced by the combined effect of the ‘phase one agreement’ with the US and reduced domestic demand in China. Lawyers will be called on to review provisions of contracts drafted well before these events arose.

While it is true that the Chinese economy recovered relatively quickly after the SARS epidemic and the world economy is now much larger, the fact that China is so fully enmeshed in the world economy and already stretched by its obligations under the ‘phase one’ agreement with the US may well limit the ability of China to develop an economic stimulus package to aid recovery

We will start to see adverse impacts increase in the near future. Best to watch developments closely and start warning clients, customers and others in the supply chain that things may take time to recover their earlier strength.

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