Natural Disasters Do Present a Threat for Emerging Markets in Asia

Modern society, despite the achieved technological progress, remains powerless in the fight against natural disasters.

At the end of March 2016 the British advisory firm in the sphere of business risk analytics Verisk Maplecrof published a report, which presents data on the countries’ global vulnerability to 11 types of natural disasters, including tropical cyclones, floods, storms, earthquakes, forest fires, tsunamis and others.

This parameter has brought such Asian countries as India, Pakistan, Bangladesh, China, Indonesia and the Philippines into the list of 10 countries most affected by natural disasters in 2015. Quantitative calculations of the population exposed to at least one type of natural disaster, and living in areas with shortage of resources for the recovery of their consequences, put India (1 billion people) to the first place in the world, China (677 million) to the second and Indonesia (230 million people) to the third.

In South Asia, natural disasters pose a risk to four out of five people.

Thus, the greatest human and economic losses are related to floods, which in India alone threaten the existence of 113 million people (9% of the population).

Heavy monsoon rains that hit the south of the country in November and December 2015 brought the floods most terrible in the past 100 years, which cost $3 billion to the Treasury.

The fourth largest city in India, Chennai, the centre of the automobile industry and computer technology, was under the threat of flooding.

100 million people were affected.

In Bangladesh, 76 million people were affected by the similar situation, in Pakistan - 10 million people.

South Asian cities are at the top of the list of 10 cities that are at increased risk of natural disasters.

These include Dhaka, the capital of Bangladesh, in which textile companies are localized, and Delhi and Kolkata, being the high-technology centres.

A similar situation reigns in Manila, Jakarta, Taipei, and Foshan, Dongguan, Wenzhou in China, which play an important role in the economic development of the East Asian countries.

Due to natural disasters in Year 2015 the Asian economies suffered a loss of $45.1 bn.

In the Philippines the GNP decreased by 0.8%.
And though it may seem paradoxical at first glance, the richer the country, the greater the amount of its losses. According to the International Bank for Reconstruction and Development, Vietnam is losing 1-1.5% of its GDP every year due to natural disasters, which makes it difficult to achieve social and economic progress.

Forest fires in Indonesia, lasted for almost the whole year and cost the country $16.1 bn, or 1.9% of its GNP, were recognized as the most expensive natural disaster in 2015.

Although these figures of losses to national economies due to natural disasters do look very impressive, nevertheless, they do not fully reflect all the losses incurred by the domestic and foreign markets, interconnected by the production chains due to globalization processes.

Successful operation of such rigidly designed systems is only possible in the absence of factors that could affect their work.

Such risk factors include natural disasters.

As a result of floods in 2011 in Thailand, not only domestic, but the regional and global markets were affected.

About 19% of the industrial companies of the country are part of the global production systems.

Enterprises of the world’s leading companies engaged in the production of computers and cars were among 10 thousand flooded factories.

Such corporations as Apple, Honda, Toyota and Western Digital have been forced to cease production, which affected many countries, including England and Brazil.

Thailand is the second largest HDD producer in the world, with a 25% share of this global market.

Closure of a number of enterprises as a result of flooding has led to the fact that the global price of hard drives has increased by 20%.

Expenses of Western Digital due to the floods were estimated at $225-275 million.

Sony Corporation was forced to delay launching of new digital cameras due to suffered damage in the amount of $1.2 bn.

Japan was among the countries, which suffered most due to the flooding in Thailand. Such Japanese Companies as Toyota, Honda, Hitachi and Canon have their branches in the country, which since the 1990s has become the production centre for Japanese cars.

The role of Thailand in this production chain may be assessed at least by the following fact:

due to the floods Toyota was forced to scale down its activity at the enterprises in Indonesia, Japan, Malaysia, North America, Pakistan, the Philippines, South Africa and Vietnam.

Honda, which suffered the greatest losses, has curtailed its production in some countries.

Using Thailand as a sample makes it possible to assess the scale of the disaster risks to national economy and global markets.

Destructions of industrial facilities and logistics centres, as well as supply disruptions pose a threat to foreign companies, involved in the emerging markets, which, in turn, lose their competitiveness.

The choice of the market, which a Company takes for itself, largely depends on the assessment of risks, including natural disasters, and that often becomes an additional factor for decision on withdrawal of foreign investments from the country.

In 2014-2015 developing countries lost $1 trillion of foreign investments.

Large losses incurred by the developing countries in Asia due to natural disasters are related to poor management, underdeveloped infrastructure, poverty and corruption.

However, given the fact that foreign companies operating in these countries are also among those affected, Verisk Maplecroft in its report came to the unequivocal conclusion on the need for their active cooperation with the local
authorities to counter the threat of natural disasters and overcome their consequences.

Also, this conclusion is supported with the argument that by investing heavily in emerging markets in Asia and extracting great profit from them, foreign companies must hold responsibility for these countries.

Natalia Rogozhina, doctor of political science and senior research fellow at the Institute of World Economy and International Relations, the Russian Academy of Sciences, exclusively for the online magazine “New Eastern Outlook.”