

Containing the economic fallout of Covid-19

By **Simon Tay and Jessica Wau**

AFTER many headlines of panic, the response to the Covid-19 outbreak is entering a new phase. One clear marker of this was the special Asean-China foreign ministers meeting convened in haste in Laos to boost cooperation.

A second sign is that beyond the health concerns, governments are beginning to assess the economic impacts. Some are already moving to counter this fallout while others must act quickly and smartly for the sake of their domestic economies and the wider region. The danger is that this outbreak will tip economies into recession.

NEGATIVE ECONOMIC IMPACT

A lot of attention has been on the health scare of the virus but what is coming clearer is that there is a widespread economic effect. Before the news of the virus broke, the World Bank had already predicted a moderate slowdown for China's economic growth, partially due to the lingering impact of the trade war. Now, economists are trimming forecasts even further to suggest China's GDP growth for 2020 could be revised downwards to below 5 per cent.

With uncertainty over how long the virus might last some dire predictions go as low as 2 per cent growth. A major economic hit for China would be a problem for the whole world.

Spillover effects are already felt in the region and major markets in the rest of the world. Japan's economy, already on the verge of a technical recession, must face falling exports to China, its largest trading partner. The eurozone will struggle as European carmakers in China encounter a slump in demand. Major global retailers are facing store closures and experiencing a plunge in sales with scant business activity in China and airline traffic is expected to decline for the first time since 2009 according to the International Air Transport Association.

Even the small economic benefits anticipated from the US-China Phase One trade deal may be on hold as Beijing finds difficulty in meeting its obligations.

CHINA AS PRODUCTION BASE

The negative reverberations also impact global supply chains. Although factories in China have resumed work, it will take time before they operate again at full capacity.

Apple has announced that it will miss first-quarter revenue targets due to a shortage of iPhones. This is similar to the impact from Sars but much worse because China today accounts for almost 19 per cent of manufactured goods in the world whereas back in 2003, China only took up 8 per cent of global production. This upends hopes for the predicted pick up in the global electronics cycle as key components may remain stuck at China's production facilities.

With its many linkages to China, Asean has often boomed in good times but is now in for a battering. Take Thailand, where tourism ac-

counts for 20 per cent of its GDP. With Chinese tourists as the largest source of this revenue, the country anticipates it will lose US\$8 billion this year. In Vietnam, hundreds of containers have been stalled at the border gates with China. Restrictions on cross-border trade will impact local businesses that rely on China as an export destination for various agricultural products.

Along the China-Myanmar border, plants and factories have shut down, causing Myanmar workers to return home. Across Asean, assembly lines have come to a standstill as businesses lack essential parts from China.

RESPONSE: FISCAL STIMULUS

How individuals and society react can make a difference for better or worse. Prudent measures in response to the virus outbreak are needed but result in economic losses. As a hub for meetings, incentives, conventions and exhibitions, Singapore has had to cancel multiple large-scale events or postpone them indefinitely. If there is panic, the situation can be even worse. As many avoid public spaces, shops and streets empty out and economic activity comes to a standstill.

Governments need to act. China and Hong Kong have pledged stimulus measures and the finance ministries of Thailand and Malaysia are currently working out economic proposals to mitigate the negative impact of the virus outbreak. Others have turned to financial levers and cut interest rates, such as Indonesia and China. However, analysts say monetary stimulus will have its limits especially since key interest rates around the globe are already at record lows.

Singapore has already moved in response to the virus outbreak in the release of its 2020 Budget. A stabilisation and support package worth S\$4 billion will help enterprises maintain cash flow and retain their workers. Tax rebates and credit schemes have been put in place for workers to upgrade their skills or for hotels to carry out upgrading work during this lull period. An additional S\$1.6 billion dollars will go to a special care and support package to provide direct help to households to manage their cost of living.

No one knows how long and how bad the Covid-19 outbreak will be. The first efforts from governments to shore up the economy are beginning and further measures may be needed if the outbreak is prolonged. It bears recollection that the world economy was not doing particularly well at the start of the year and the virus outbreak has dented hopes for recovery. Governments should come to a common understanding and coordinate better to prevent this health crisis from becoming a global economic one.

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