China's Coronavirus Fallout

Hong Kong and Singapore take big hits.

BY FRIEDRICH WU

A decade ago, economists used to quip that "when America sneezes, the world catches a cold." Now that cliché seems more applicable to China, as the country currently accounts for 18 percent of global economic output (purchasing power parity basis), 28 percent of world manufacturing production, 13 percent of global exports, and 11 percent of world imports. It is also the globe's second-largest recipient country of foreign direct investment inflows, and its third-biggest FDI exporter. China is not only the largest trading partner of over 125 countries, but it also holds a central place in the networks of global supply chains. As the planet's most voracious consumer of commodities, fluctuations in Chinese demand have an out-sized influence on world commodity prices. Last but not least, Chinese outbound tourists, at 150 million yearly, are the world's biggest traveling tribe who collectively spend US$279 billion annually. In short, China has been the most powerful growth engine for the world economy in a decade. Hence, for better or for worse, whatever happens to the Chinese economy will have significant and inescapable rippling effects on the rest of the world.

As the COVID-19 virus continues to spread unabated, not only the industrial city of Wuhan and Hubei province are in physical lockdown, but the rest of the country is also caught in a self-imposed economic lockdown over fears of contagion and the still-rising infection and death rates.

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Factories are idle because millions of migrant workers are stranded by travel restrictions. Almost the entire economy is grinding to a near halt. Bloomberg estimates that provinces accounting for nearly 69 percent of China's GDP are closed for business. It is impossible to predict when factories (and the logistics companies that transport their goods) can resume full operations, as it all depends on how the virus situation evolves. Should the outbreak be successfully contained by end of the first quarter, national GDP growth for that quarter would probably fall to 0.0–1.0 percent. However, with a recovery and then stabilization in the second half, full year GDP growth would likely decelerate to 2.5–3.0 percent, which is not an unmitigated catastrophe. But should Beijing's mandarins fail to bring the epidemic under control, the world might just get to suffer the first "Made in China" global recession, with the attendant loss of confidence in the competence of the Chinese government.

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Champions of globalization have long preached the benign benefits of economic interdependence among nations. However, such benefits can swiftly turn into devastating costs when things go wrong. This is especially so in a context of asymmetric interdependence, when a big core economy suffers a sudden calamity and sends shock waves to smaller peripheral economies which have become overly reliant on the core, as in the present scenario of Hong Kong and Singapore *vis-à-vis* China.

For the Hong Kong Special Administrative Region, even before the COVID-19 outbreak, the China-U.S. trade war, together with the months-long violent protests and riots, had already exacted significant damages on the local economy, dragging it into a 1.2 percent GDP contraction last year. Now COVID-19 is dealing the Hong Kong economy a third, perhaps even more severe, blow, the impact of which is too early to be quantified. But Financial Secretary Paul Chan has recently warned that "the epidemic will greatly increase the risk of continued economic contraction this year." Already, Swiss bank UBS expects a steep year-on-year GDP fall of as much as 6.0 percent in the first quarter, while a Bloomberg survey of financial economists has yielded a consensus forecast of 1.2 percent contraction for all of 2020. Although the HKSAR government is dishing out a US$3.86 billion relief package to bail out struggling industries and fund the fight against the virus, the financial aid is deemed insufficient to rescue the economy from sinking into recession.

Politically, the government is beset by an authority crisis. There has been a huge loss of trust between a majority of local residents and the administration, which will hamper the latter from putting in place effective public policies to combat the territories' economic, health, and social malaises. This mistrust is amply illustrated by a recent week-long strike by seven hundred public hospital workers and explosions of home-made bombs by activists who demand a complete closure of the border with the Mainland, even though its travelers account for 78 percent of Hong Kong's inbound tourists. Going forward, we can only see more government paralysis punctuated by the absence of bold action, amidst mutual bickering and acrimonious accusations among contending political groups. Though it would be too early to declare "The Death of Hong Kong," as *Fortune* magazine prematurely did in 1995, the HKSAR is inexorably drifting into irrelevance in slow motion.

As for Singapore, China is the Republic's largest trading partner (in both exports and imports). Singapore's exports to China account for 12.5 percent of total exports and 9.7 percent of GDP. The city-state is also host to US$50 billion of Chinese FDI stock, 3.6 million Chinese visitors yearly, and tens of thousands of students from China. Singapore companies and government have significant investments in China, to the tune of US$5.3 billion in 2018 alone. So Singapore is extremely vulnerable to any sharp downturn in China.

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Dampened by weaker global trade and slower economic expansion in China, the city-state registered dismal growth of 0.7 percent in 2019, weighed down by contraction in the manufacturing sector (mostly electronics, partially on account of the China-U.S. trade war). The government has already implemented a ban on visitor arrivals (regardless of citizenships) from China, and raised its Disease Outbreak Response System Condition to "Orange"—just below the highest level of "Red." The travel restrictions and the public health alert will have serious adverse repercussions for the conference, exhibition, and tourism industries. For example, more than seventy exhibitors pulled out of the annual Singapore Air Show, which earned the city-state US$247 million last year. The Singapore Tourism Board has predicted that tourist arrivals will fall by 30 percent or more in the current year. This is an industry that contributes up to 10 percent of the country's GDP. Before the full outbreak of COVID-19, private sector economists had forecast 1.0–1.5 percent growth for 2020. But this is unlikely to be achievable after the outbreak. Like Hong Kong, the government has unveiled a US$4.6 billion financial aid package to cushion the adverse impact of the coronavirus on the economy, and has realistically revised downward its 2020 GDP growth forecast to -5 percent to 1.5 percent. Most private sector economists and industry captains consider the lower bound of the range would be a more likely outcome, as it would take a miracle for Singapore to avoid sliding into a recession this year.

As small city-economies, Hong Kong and Singapore have long embraced globalization and the resulting economic interdependence, and have indeed profited from their openness to cross-border trade, investments, and financial and human flows. However, as the COVID-19 tsunami tragically illustrates, economic interdependence is a double-edged sword, which can confer enormous benefits as well as exact incalculable costs to their champions. As such, it is imperative for government and business leaders to devise contingency Plan Bs to mitigate the downside risks of globalization and economic interdependence. ◆