



社会经济研究中心
SOCIO-ECONOMIC
RESEARCH CENTRE

**By the numbers: Potential economic impact of
China's novel coronavirus (nCoV)**

5 February 2020

By the numbers: Why China matters?

- The World Health Organization (WHO) has declared that the novel coronavirus (nCoV) that originated in China's Wuhan (China Mainland's ninth largest city and accounted for 1.6% of China's GDP) is a global public health emergency.
- This call for greater health preventive measures and stringent screening process at all checkpoints as well as adopt quarantine procedures to minimise the spread of disease to community and to contain the virus outbreak.
- While the global economy is showing tentative signs of stabilisation recently, **a prolonged coronavirus outbreak would create havoc and pose downside risk to the global economy and China**, which are now experiencing weaker growth trajectory. The easing trade tensions is overshadowed by the nCoV outbreak amid global central banks' monetary easing in 2019 to counteract the risks that could temper global growth.
- When compared to SARS in 2003, **China's contribution to the world economy is much bigger now and deeply connected**. China has contributed 15.8% of world's GDP in 2018 (2003: 4.3%); 11.7% of total trade (2003: 5.3%); China's outbound travellers made up 9.1% of total international travellers in 2017 (2003: 2.4%); and Chinese tourists' expenditure abroad accounted for 17.8% of total tourists' overseas spending (2003: 2.7%).

By the numbers: Why China matters? (cont.)

China's significance to the world

China (% share of world)	2003	2018
Nominal GDP (US\$ bn)	1,660 (4.3%)	13,608 (15.8%)
Total trade (US\$ bn)	851 (5.5%)	4,623 (11.7%)
Total exports (US\$ bn)	438 (5.7%)	2,487 (12.7%)
Total imports (US\$ bn)	413 (5.3%)	2,136 (10.7%)
International tourist arrivals (mil person)	33.0 (4.8%)	60.7 (4.5%)*
International tourist receipts (US\$ bn)	18.7 (2.9%)	32.6 (2.1%)*
International tourist departures (mil person)	20.2 (2.4%)	143.0 (9.1%)*
International tourist expenditures (US\$ bn)	16.7 (2.7%)	257.7 (17.8%)*

China's significance to Malaysia

China (% share of Malaysia)	2003	2018
Total trade (RM bn)	53.4 (7.5%)	314.6 (16.7%)
Total exports (RM bn)	25.8 (6.5%)	139.1 (13.9%)
Total imports (RM bn)	27.6 (8.7%)	175.4 (19.9%)
Tourist arrivals from China (mil person)	0.4 (4.0%)	2.9 (11.4%)
Tourist receipts from China (RM bn)	0.9 (4.2%)	12.3 (14.6%)
Gross direct investment from China (RM bn)		4.0 (2.8%)
FDI stock from China (RM bn)		17.0 (2.7%)
Gross direct investment to China (RM bn)		1.7 (2.6%)
ODI stock to China (RM bn)		9.6 (2.0%)

* Data as of 2017

Note: International tourist receipts= Spending of international tourist in China, International tourist expenditures= Spending of outbound China tourist in overseas

Source: World Bank; DOSM; BNM; Tourism Malaysia

Malaysia's economic structure

Ratio to GDP (%)	2003	2018
Services	50.5	56.7
Manufacturing	30.0	22.4
Mining and quarrying	10.3	7.6
Agriculture	8.4	7.3
Construction	3.8	4.9
Private Consumption	45.2	57.0
Public Consumption	12.8	12.5
Gross Fixed Capital Formation (GFCF)	22.9	24.6
<i>Private Investment</i>		17.3
<i>Public Investment</i>		7.4
Domestic Demand	80.9	94.1
Gross External Trade	170.6	129.7
Gross Exports	95.0	69.0
Tourism Receipts	5.1	5.8

Wuhan coronavirus compared to other major viruses

VIRUS	YEAR IDENTIFIED	CASES	DEATHS	FATALITY RATE	NUMBER OF COUNTRIES
Marberg	1967	466	373	80.0%	11
Ebola**	1976	33,577	13,562	40.4%	9
Hendra	1994	7	4	57.1%	1
H5N1 Bird Flu	1997	861	455	52.8%	18
Nipah	1998	513	398	77.6%	2
SARS	2002	8,096	774	9.6%	29
H1N1***	2009	1,632,258	284,500	17.4%	214
MERS****	2012	2,494	858	34.4%	28
H7N9 Bird Flu	2013	1,568	616	39.3%	3
Wuhan*	2020	20,626	426	2.1%	27

*As of February 3; **As of January 30, 2020; ***Between 2009 and 2010; ****As of November 2019

Source: CDC; UN; World Health Organization; New England Journal of Medicine; Malaysian Journal of Pathology; CGTN; Johns Hopkins University; The Lancet; Worldometer

Public Health Emergency of International Concern (PHEIC)

- The World Health Organization (WHO) declared that the outbreak of novel coronavirus (2019-nCoV) constitutes a PHEIC on 30 Jan 2020.
- Since 2009, there have been six (6) declarations for PHEIC, including 2019-nCoV:
 1. Swine influenza (H1N1) outbreak in Mexico and the US, declared on 25 Apr 2009
 2. Wild polioviruses in Middle East, declared on 5 May 2014
 3. Ebola Virus Disease (EVD) outbreak in West Africa, declared on 8 Aug 2014
 4. 2015-2016 Zika virus in Brazil, France, the US and El Salvador, declared on 1 Feb 2016
 5. 2018 Ebola virus disease (EVD) outbreak in the Democratic Republic of the Congo (DRC), declared on 17 Jul 2019
 6. 2019 Novel coronavirus (2019-nCoV) outbreak in China, declared on 30 Jan 2020



**World Health
Organization**



Economic effects of 2019-nCoV on China

- While Beijing authorities have imposed a lockdown in China's Wuhan, Hubei, Wenzhou, Taizhou, Hangzhou, Ningbo, etc., it is facing mounting isolations as countries worldwide have imposed travel restrictions, suspended flights and evacuated their citizens, risking worsening a slowdown in the world's second-largest economy.
- While we reckon that China and other governments' authorities are much more prepared to manage and contain the new virus compared to the SARs in 2003, **a temporary disruption to China and world economy in the short-term is inevitable**, and hopefully followed by a post-virus's stabilisation and rebound in 2H 2020.
- With China's Wuhan being the epicentre of coronavirus outbreak, the hub of transport, logistic, auto and technology manufacturing for central China (which accounts for 1.6% of China's GDP), **the first and second order economic impact of the virus will shave off between 1.0 and 1.5 percentage points from China's GDP in 1H 2020**, with the effects felt most keenly in transport, tourism and retail sales. Cautious consumers' sentiment and avoiding of crowded places would dent consumer spending. Factory production would be disrupted by the lockdown and extended holiday break.

Economic effects of 2019-nCoV on regional economies

- China and other Asian economies would face losses in **tourism, aviation, retail and entertainment sectors** due to the 2019-nCoV outbreak. The spillover economic effects on Asia-Pacific will depend on the extent to which the coronavirus spreads outside China. Countries with a weak health system will be more vulnerable to the 2019-nCoV.
- ASEAN became China's second-largest trading partner in the first half of 2019. By end-2018, China has been ASEAN's largest trading partner for nine consecutive years. China's market share of ASEAN exports is at 14% in 2018 compared to 6.5% in 2003. Chinese tourists in ASEAN have grown almost 10 times, from 2.9 million in 2003 to 27 million in 2018.
- Travel restrictions to China, China's move to ban outbound group tours along with entry restrictions imposed by some countries, suspended flights, cancelled tours and avoiding crowded places amid cautious consumer sentiment would have knock-on effects on the services sector in regional economies. Tourism receipts have been growing in importance as a contributor to domestic economy. Manufacturing and industrial activities will be dampened via the supply chains disruption in China and lower demand from China.

Potential economic effects of 2019-nCoV on Malaysia

By numbers, **China remains an important trade and economic partner of Malaysia.**

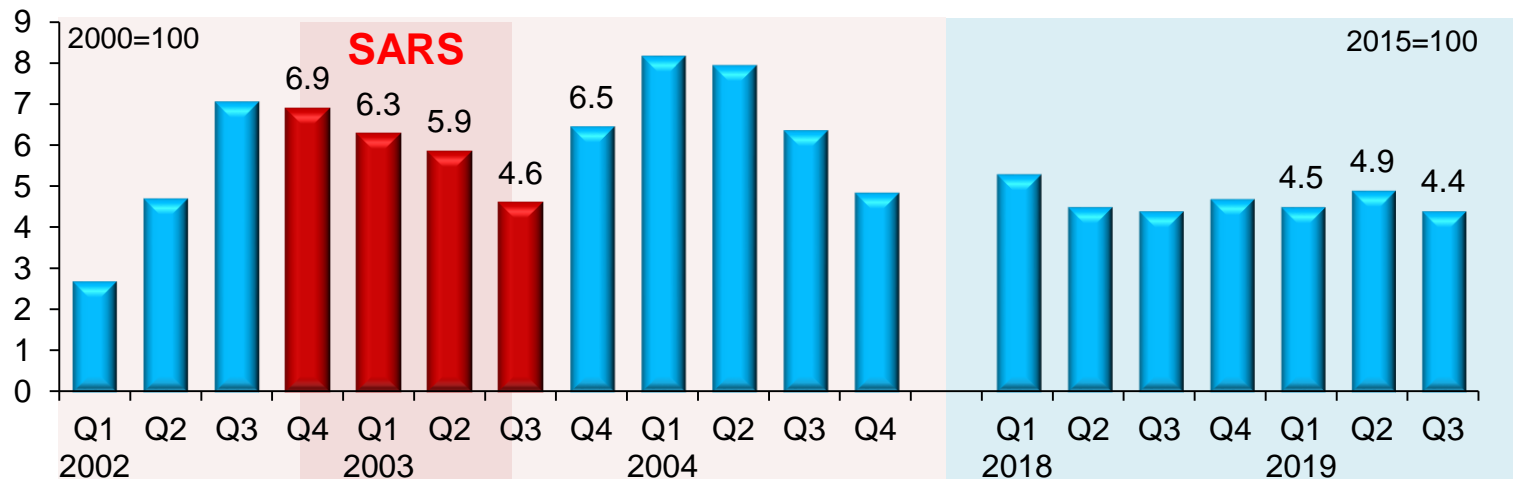
- a) **China is Malaysia's largest trading partner** (17.2% of Malaysia's total external trade); largest exporter (14.2% of total exports) and largest importer (20.7% of total imports) in 2019.
- b) **China was ranked as the 10th largest foreign investor in Malaysia.** At end-Sep 2019, China's FDI outstanding stock stood at RM18.3 billion or 2.7% of Malaysia's outstanding FDI.
- c) **China was ranked as the 11th largest Malaysia's outward direct investment destination.** Malaysia's outward direct investment stock in China amounted to RM9.9 billion or 1.9% of total.
- d) **China's share of Malaysia's tourism receipts has more than tripled to RM12.3bn or 14.6% of total receipts in 2018.** Chinese tourists of about 3 million made up 11.4% of total tourists in Malaysia in 2018. In Jan-Sep 2019, Chinese tourists increased by 5.7 % to 2.4 million or 12.0% of total tourist arrivals. It is now ranking as Malaysia's third largest tourist arrivals.

How bad can it get?

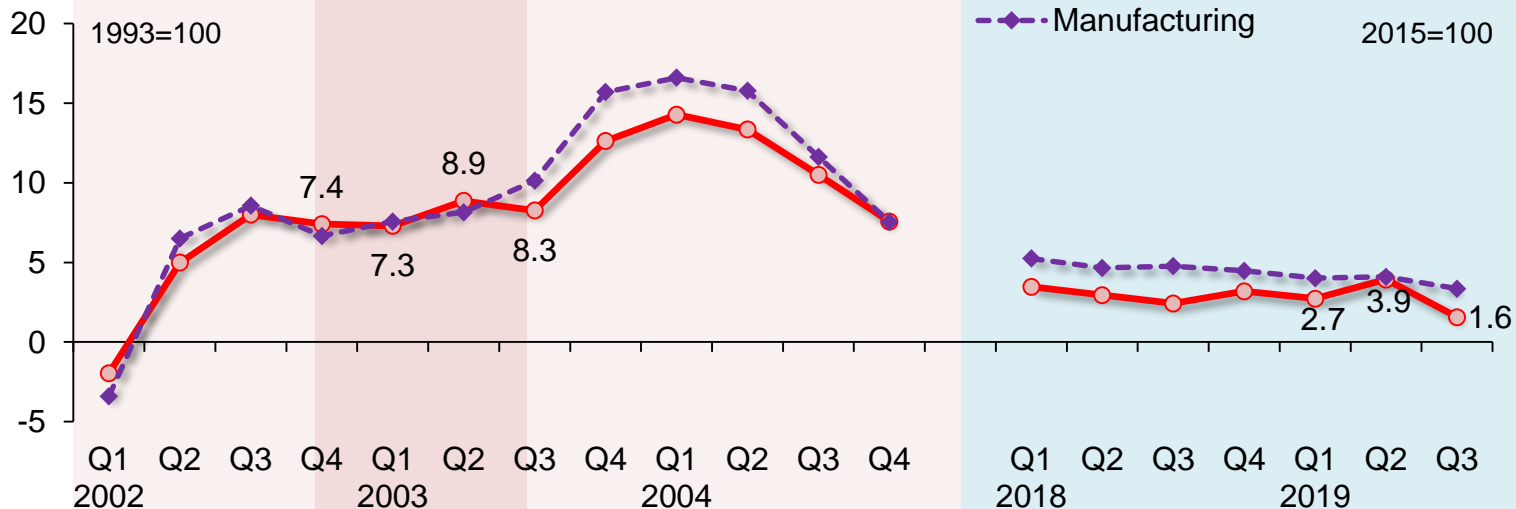
- Malaysia must be prepared to brace for economic fallout from the coronavirus outbreak. It is certainly expect that there will be **notable impact on our economy, business and consumer confidence this year**, especially as the situation is expected to persist for some time.
- The coronavirus outbreak will be **a bane to Malaysia's services and tourism-related sectors** as 2020 is Visit Malaysia Year (VMY). The Government targets 30 million tourists and RM100 billion foreign exchange earnings or 6.2% of GDP. We are setting a target of 3.48 million Chinese tourists in 2020.
- Reduced travel if prolongs along with cautious Malaysian households' sentiment would have **severe effect on transportation, including airline, travel, tourism, and hospitality sectors**. Domestic services subsectors such as wholesale, retail, hotel and restaurants as well as transport and communications will be the main casualties. **These services sub-sectors have a combined share of 22.3% of GDP.**
- During the SARS outbreak in 2003, Malaysia's **overall services sector suffered two consecutive quarters of a sharp slowdown or contraction**, with pronounced declines in wholesale and retail sub-sectors (+2.5% yoy in 1Q 2003 and -2.4% in 2Q 2003), hotels and restaurants (+5.7% in 1Q and -8.0% in 2Q), transport and storage (+2.3% in 1Q and -5.9% in 2Q). Number of tourist arrivals dropped sharply from 2.9 million in 1Q to 1.7 million in 2Q 2003 before rebounding to 2.5 million in 3Q 2003.

GDP growth was dampened during SARS (Nov 2002-Jul 2003)

Real GDP Growth (% YoY)

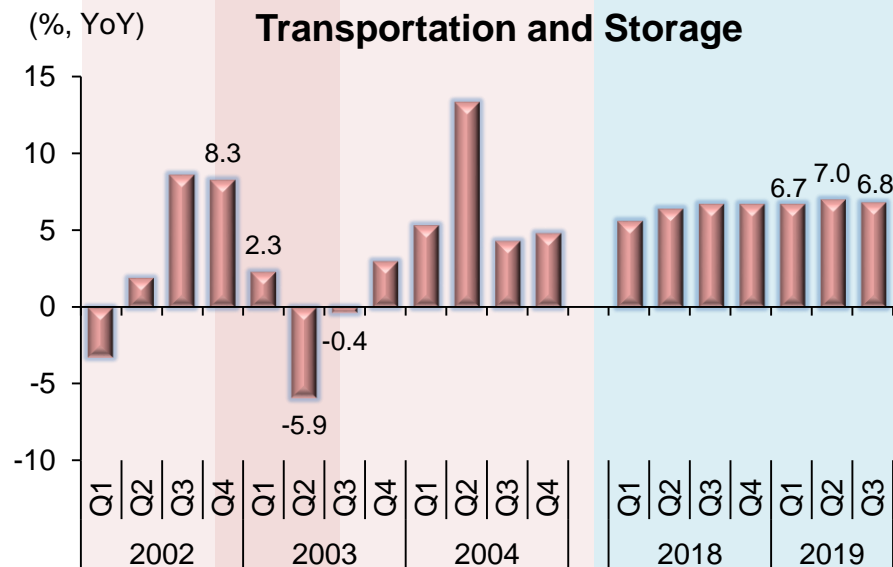
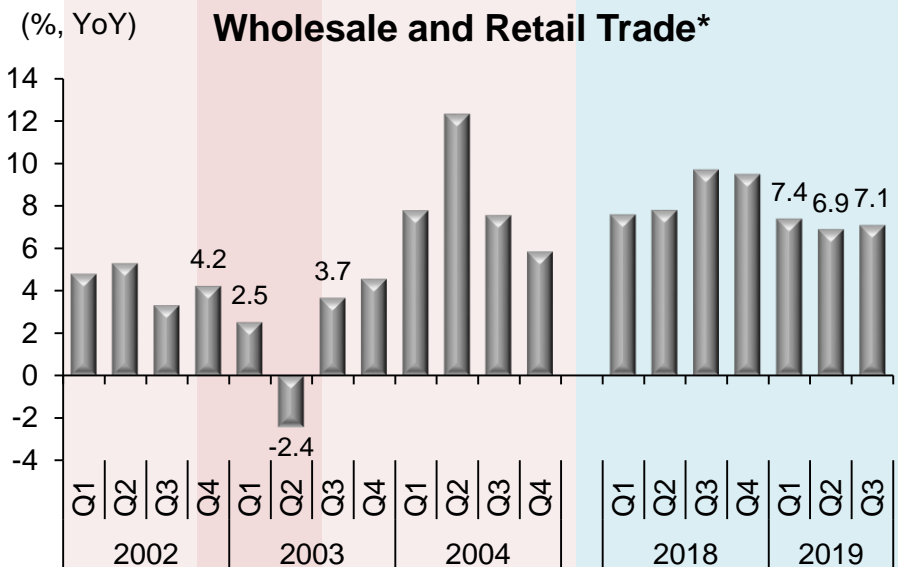
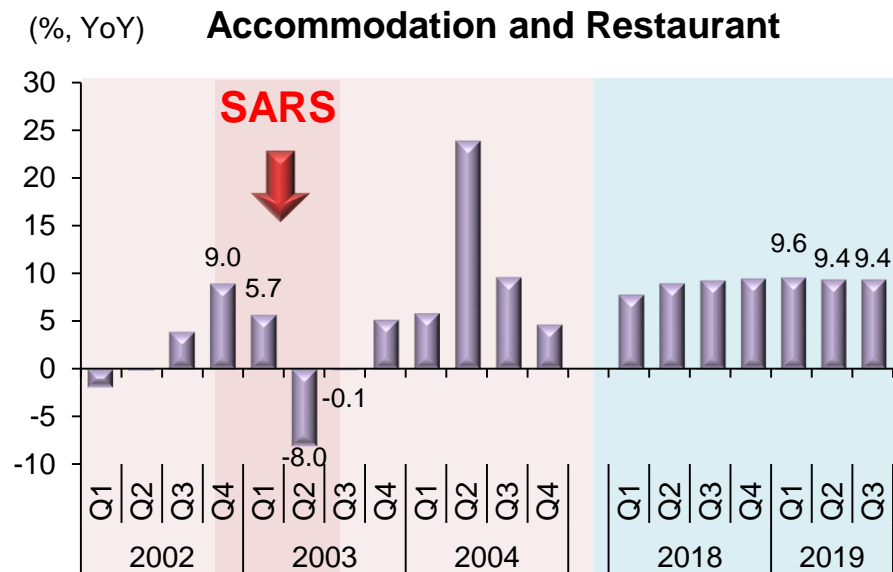
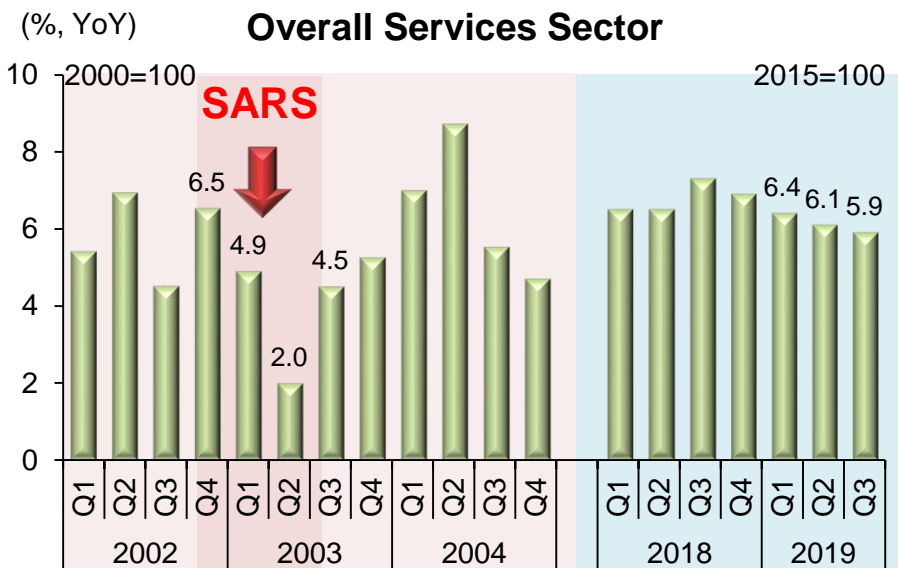


IPI (% YoY)



Source: Bank Negara Malaysia (BNM)

Services was the hardest hit sector

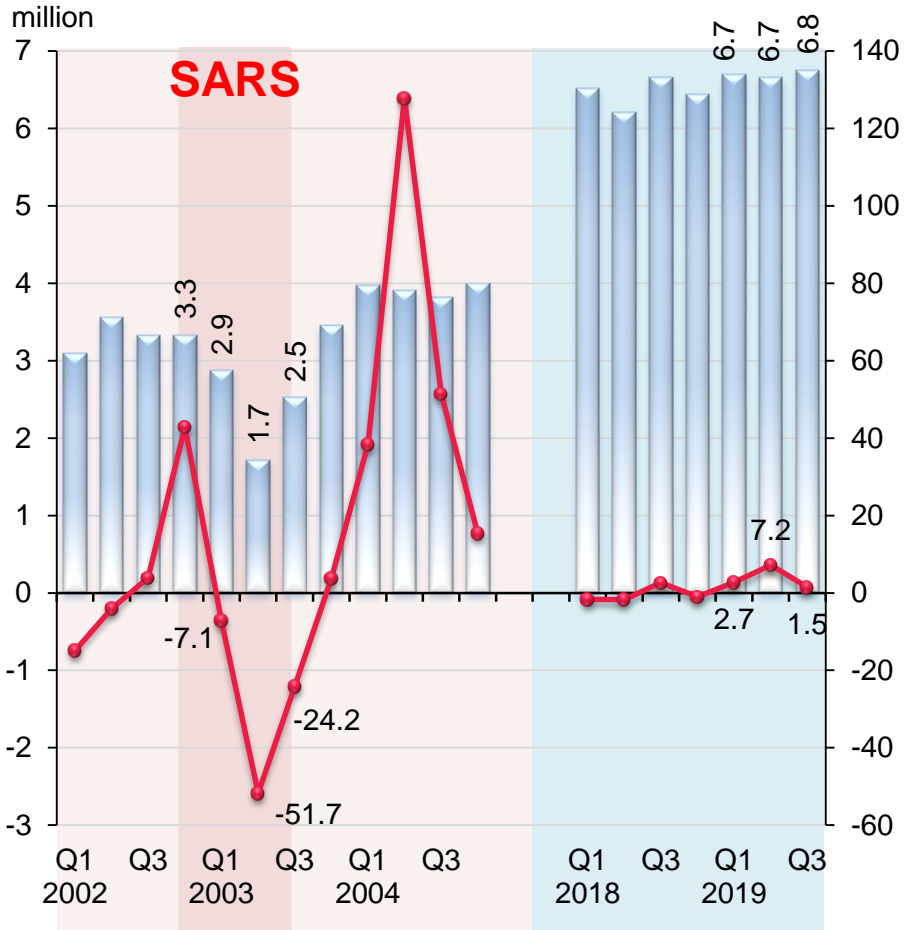


Source: BNM

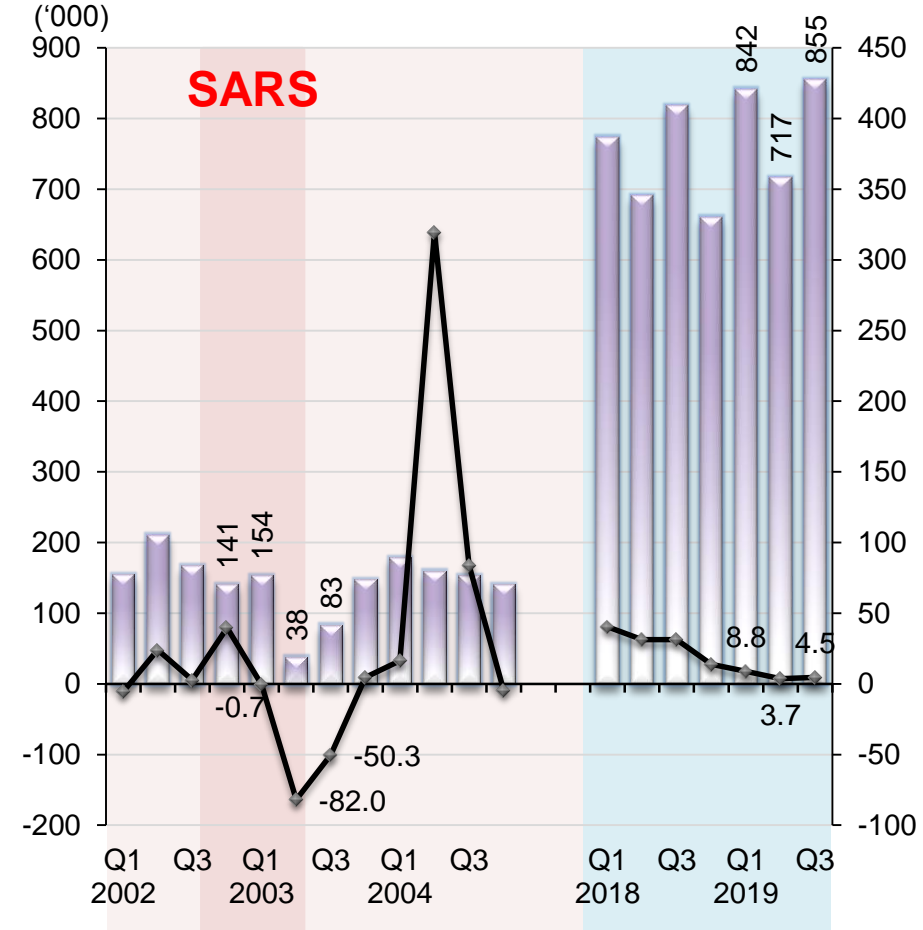
* Includes motor vehicles

Tourism was severely impacted as tourists restrained travelling...

Tourist Arrivals in Malaysia



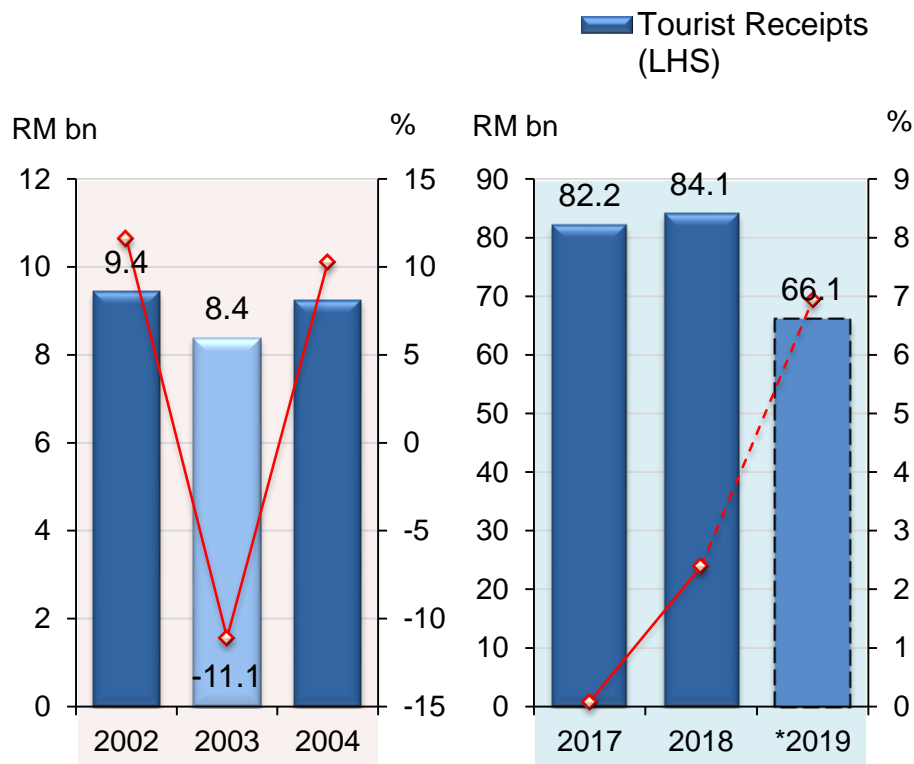
Tourist Arrivals from China



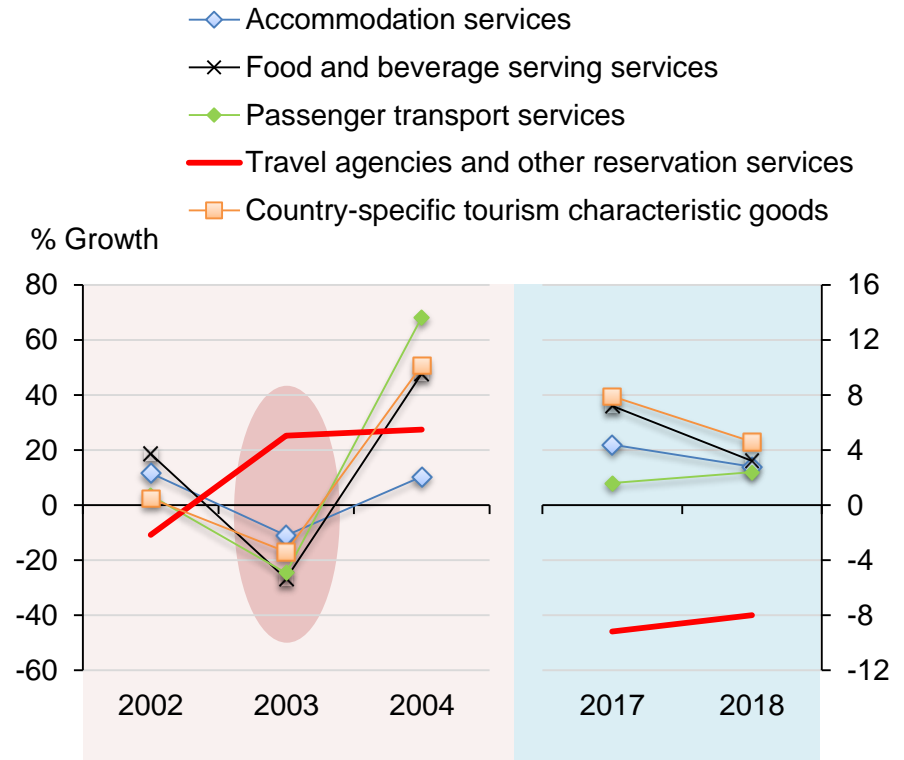
Source: Tourism Malaysia

... leading to lower tourists' foreign exchange earnings

SARS outbreak had caused Malaysia's tourism receipts to decline sharply by 11.1% from RM9.4bn in 2002 to RM8.4bn in 2003



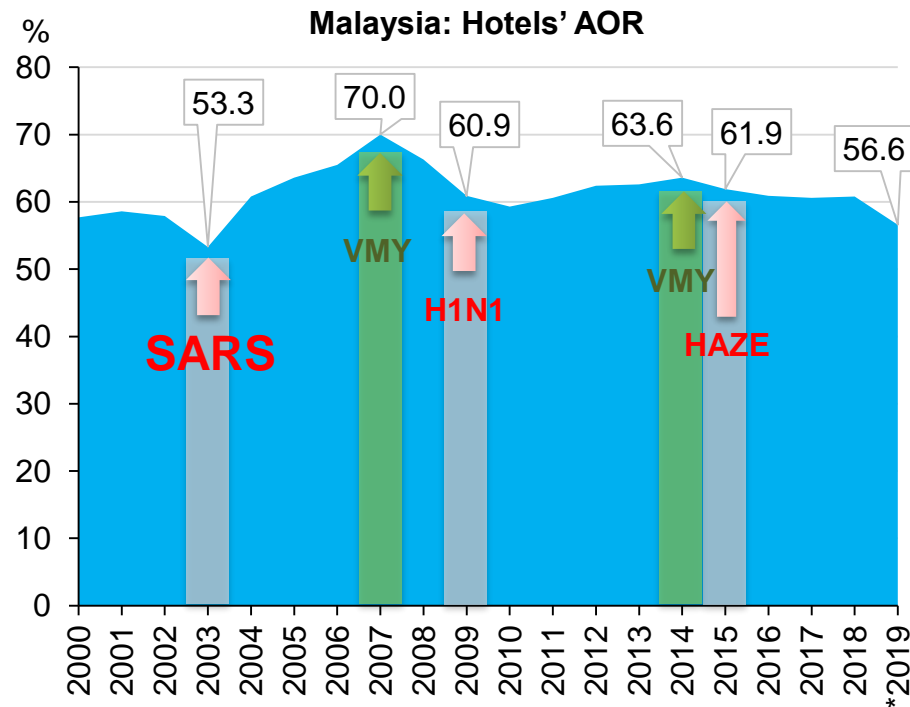
Most of the major sub-sectors in tourism industry were heavily impacted by SARS



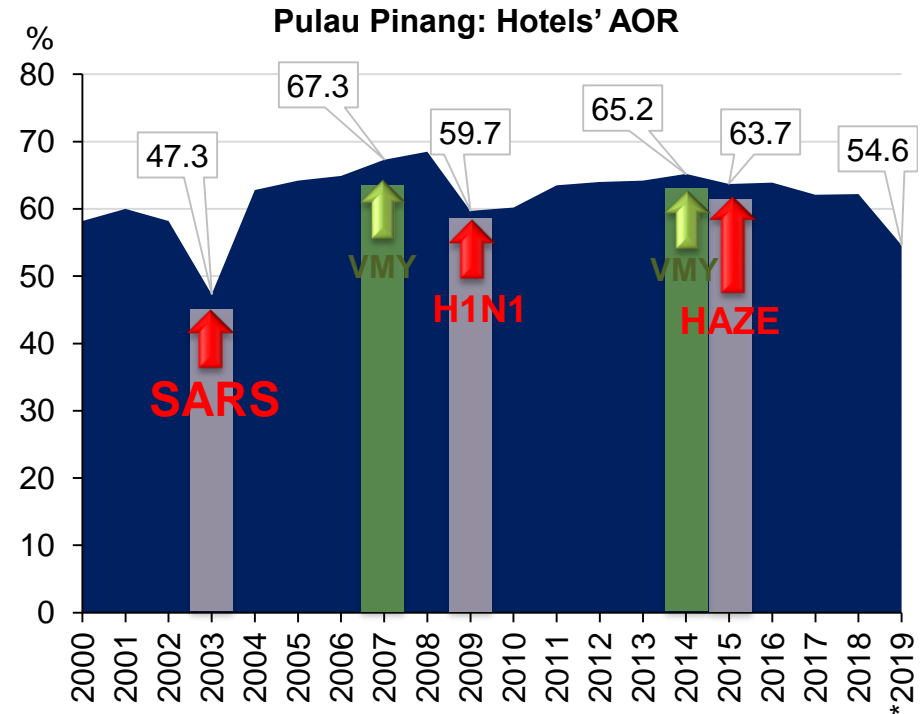
* Jan-Sep 2019
Source: DOSM; Tourism Malaysia

Hotels' average occupancy rates (AOR) will be affected

Disease incidents (e.g. SARS and H1N1) had far more greater impact on hotels' AOR than other incidents



By states, Pulau Pinang hotels' AOR had suffered the most



* Jan-Jun 2019

Source: DOSM; Tourism Malaysia

How bad can it get? (cont.)

- This time round, the drag from the anticipated slowdown in services sector on domestic economy will be more pronounced given **a higher share of services to GDP** (56.7% in 2018 vs. 50.5% in 2003) and **moderate growth in manufacturing, mining and agriculture sectors as well as a gradual recovery in exports**. The domestic economy is largely depending on private consumption (57.0% of GDP) amid still-sluggish private investment and public spending.
- Overall, **it is estimated that a 1% lower in China's economic growth and 1% decline in Malaysia's tourism receipts** (which accounted for 5.8% of total GDP in 2018) could potentially shave off a combined **between 0.5 and 1.0 percentage point** off SERC's baseline GDP growth estimate of 4.5% for 2020.
- **Another spillover channel is through financial markets**. Equity markets' volatility across the region has edged higher while the ringgit has depreciated against the US dollar, which is not surprising given the tendency to co-move with the Chinese renminbi. It must be cautioned that **a prolonged volatility in equity markets could lead to broader risk aversion, and could lead to a tightening of financial conditions**.

Pronounced impact on wholesale & retail, accommodation and transportation

- These sub-services sectors made up 22.3% of GDP in Jan-Sep 2019 vs. 14.5% of GDP in 2003 during the SARS outbreak.
- During 2003 SARS, **manufacturing, mining and agriculture sectors** were unscratched and helped to compensate the slowdown in services. This time round, these three main sectors are in weak growth trajectory.

(%)	2002		2003		2004		2018		2019 (Jan-Sep)	
<i>Real GDP</i>	Growth (YoY)	Share to GDP	Growth (YoY)	Share to GDP	Growth (YoY)	Share to GDP	Growth (YoY)	Share to GDP	Growth (YoY)	Share to GDP
Agriculture	2.9	8.3	6.0	8.4	4.7	8.2	0.1	7.3	4.5	7.3
Mining and quarrying	4.4	10.2	6.1	10.3	4.1	10.0	-2.6	7.6	-1.2	7.2
Manufacturing	4.1	29.0	9.2	30.0	9.6	30.7	5.0	22.4	4.0	22.3
Construction	2.3	3.9	1.8	3.8	-0.9	3.5	4.2	4.9	-0.3	4.7
Services	5.8	51.3	4.2	50.5	6.4	50.3	6.8	56.7	6.1	57.3
<i>Wholesale trade</i>	5.8	5.7	0.6	5.4	6.0	5.4	7.3	7.5	5.4	7.5
<i>Retail trade</i>	2.7	3.3	2.6	3.2	9.6	3.3	10.1	7.4	8.9	7.6
<i>Food and beverage</i>	3.8	1.5	2.0	1.5	7.7	1.5	9.7	2.7	10.2	2.8
<i>Accommodation</i>	0.6	0.7	-1.9	0.7	16.5	0.7	6.0	0.7	6.5	0.7
<i>Transportation and storage</i>	3.8	3.9	-0.2	3.7	6.8	3.7	6.4	3.7	6.8	3.8
<i>Others</i>	6.8	33.9	5.6	33.8	5.5	33.4	5.9	34.7	5.3	35.0
Overall GDP	5.4		5.8		6.8		4.7		4.6	

Source: Department of Statistics, Malaysia (DOSM)

Proposed measures to mitigate the impact of nCoV

Bank Negara Malaysia's combined 50 basis points reduction in interest rates in May last year and January this year to 2.75% would provide insurance to protect economic growth while the Government must speed up the implementation of fiscal spending and identify quick gain projects for fast track implementation.

We propose the following short-term measures to mitigate the impact of coronavirus on domestic tourism-related sectors.

- a) **Giving full, accurate and timely information is an essential part of building public awareness** of the infectious disease and facilitating early detection and prevention of the spread of disease.
- b) **Full screening of all arriving passengers from areas with recent transmission of coronavirus** to ensure effective control of virus transmission. Minimise risk of community spread of coronavirus through quarantine.
- c) **Set up a Tourism Relief Fund.**
- d) Provide **tax relief and allowance for the hospitality sector**, including tour operators and agencies.
- e) Banks to **provide 3-6 months debt servicing relief** to the hospitality sector, including tour operators and agencies.
- f) **Allow one-year tourism tax exemption.**
- g) The Government to **partner with the mall and tour operators to encourage inbound tourism, including family outing and shopping on Friday, Saturday or Sunday and on the eve of public holidays** and on public holidays. This can be effected through the giving out of tourism voucher or group package discounts.
- h) **Top-up the e-wallet** to encourage e-payment spending.
- i) **A voluntary 2% reduction in EPF's employee contribution.**



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谢谢
THANK YOU

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