

Spotlight: Econ Op-eds in Summary

Week ended 5th February '20

In Summary

The underneath contains summaries of the articles given above, including key extracts from these articles.

1. Asia will have to brace for a tough year ahead

By: Dinesh Weerakkody

- The recent viral outbreak from China is bound to have global consequences, with the Asia Pacific region is expected to be impacted heavily. China's significant influence in retail trade, manufacturing, tourism and investment flows in the Asia-Pacific has increased the region's vulnerability. Proactive measures the Chinese government implements could help to contain the outbreak.
- Today, the rise of emerging markets, the impact of technology and other trends have changed the business world. The biggest challenge for businesses now is how disruptive such trends will be for organisations and how they must change their model to deliver unique customer experiences where users have grown to expect the best.
- Thus, understanding the disruption and reinventing oneself is an absolute necessity. The speed of change caused by these crises is faster than what it was five years ago. While crisis isn't a new concept, today it has become more significant and frequent, causing massive disruptions to the traditional economy and companies.

The World Health Organization has warned all governments to 'take action' over the SARS-like virus that originated in Hubei China. Top economists estimate that 90% of the economic impact from health epidemics stems from people's fear of the unknown. If that's right, the world economy should brace itself for the full impact of the Wuhan coronavirus.

As countries suspend flights and set aside islands for quarantine, the disruption in China will have global consequences. Last year retail sales in China topped 1 trillion yuan (\$ 144 bn) during the lunar new-year holiday week, a third more than an average week. That now seems very unlikely in 2020 because Chinese people are cancelling trips in numbers. Spending on domestic tourism over the period exceeded 500 bn yuan in 2019, 8% of the annual total. The closure of Chinese factories will also cascade through the global economy.

The coronavirus is a powerful reminder to business that a workforce base that is adaptable to any crisis is now a good insurance. China has been forced to halt all group tours both domestically and to other countries to contain the spread of the coronavirus. The outbreak will therefore hit Asia Pacific economies, particularly in retail, restaurants, conferences, sporting events, tourism and commercial aviation. Travel-related sectors in Thailand, Japan, Sri Lanka, Maldives, Vietnam and Australia will be particularly impacted.

The rapid rise in household incomes in China in the last five years triggered a boom in Chinese tourism visits abroad, which have risen from 25 mn in 2005 to 155 mn in 2018. Consequently, the dependence of many Asia-Pacific economies to a slowdown in Chinese tourism visits has increased significantly in the last three years. China's growing importance in Asia-Pacific trade and investment flows has also created considerable

vulnerability for the Asia-Pacific region from this type of unpredictable black swan events currently hitting the Asian economy. But the latest developments indicate the regular disruptions to regular economic activity. This may just be the beginning of a new norm in the Asian region.

Challenge for businesses

The rise of emerging markets, the accelerating impact of technology, epidemics, new talent demands, an ageing population, and the easy flow of capital and knowledge are having a transformative impact on business, leaders and economies. By 2025, a single regional city in China will have a GDP equal of Sweden (22nd largest economy in the world). We have never had more data and advice at our fingertips – literally. Yet, we work in a world where top CEOs are routinely caught unawares.

Therefore, today the biggest worry for leaders is how disruptive will accelerating global crisis due to war, disease, environmental degradation and technology be for organisations in the future and how they must change their old models and processes to deliver customer experiences that can set themselves apart from their competitors.

For decades, businesses have deployed technology to save lives, management time to reduce costs and complexity, offer better service, make better products, and develop new business models. Today users have grown to expect best in class experiences from all their online and mobile interactions and demand the same on most offline services. Moreover, the new potential of global wars, epidemics, artificial intelligence, drone technology and advanced robotics poses major new challenges for leaders as they seek to reset their strategies for the new age.

Therefore, the question that needs to be asked is: are we at a turning point in how we do business? Today, understanding the disruption is an absolute necessity, and leaders would therefore have to reinvent themselves all the time to remain current and relevant. What's new is the speed of change and it is dramatically faster than what it was five years ago.

However, crisis in whatever form isn't new. What is different is that in the last few years the crisis has become far more significant and much more frequent, causing havoc to the traditional economy and companies. In the coming weeks the proactive measures the Chinese government implements will determine and help to contain the outbreak. If the action is bold and decisive it can help to push up the pent-up demand for travel to the pre-January era once the deadly virus is under control.

[For the full article – Refer Daily FT](#)

2. Coronomics – Plan your eggs and the basket!

By: Prof. Ajith de Alwis

- Despite the ability of the novel coronavirus to have significant impact on the world economy, the impact of such pandemics on human lives has been contained due to technological advancements. Therefore, the direct impact might end up being limited.
- As China is deeply integrated with global supply chains, the Chinese economy will recover quickly once the situation has normalised. However, the lockdown on the region at the epicentre of the pandemic, which contributes 4.5% to China's economy will likely mean that economies dependent on China for production are left worse off.

- This suggests that distributed production sources are better than a single source enjoying benefits of scale, since the ripple effects of a crisis will be severe and far reaching. Therefore, looking at integrating within such sources and expanding them will be helpful for countries.

'Coronomics' has been coined to explain the economic fallout of the coronavirus.

Today, a microscopic virus that caught authorities unawares has the capability to take economies to ransom.

A global emergency

WHO has declared a global emergency due to the rapidly-spreading coronavirus. The epicentre of the outbreak is Wuhan city in the Hubei province of China, with a regional population of 59 mn.

Despite similar periodic outbreaks such as SARS, MERS, the bird-flu virus and swine-flu, their severity has been decreasing thanks to science and technology. In 1918 the Spanish flu caused the deaths of 50 million people across Europe. This was just after World War 1, which claimed 30 million lives. SARS infected 8,000 causing 800 deaths. MERS had much worse casualty while being less contagious as SARS.

The current infected figure for the coronavirus stands at around 20,000 with 400 reported dead. Its exponential growth phase is worrying. However, there is much more confidence today in tackling these situations.

Understand our fragility

However, we must still understand our fragility. When the norm is that majority of what is consumed in an economy has been produced externally, there is no resilience.

In such situations, disrupted supply chains carry heavy consequences, as evidenced by the price of surgical masks skyrocketing when a few cashed in on the opportunity. The virus has shown the vulnerability of many economies with China's role as the 'factory of the world.' Once the situation is under control, China will rebound faster than the economies that are dependent on it, due to the Chinese role in manufacturing.

Economies depending solely on tourism related cash flow would have suffered non-reversible setbacks during this period. Today, China provides the biggest outbound tourist numbers to the world in addition to being the biggest spender.

Our economy has only few eggs and most of them are in one basket and the situation thus is quite dicey. If rains are on time, we can get 2-3% GDP without much of an effort. If tourists do not come, eight people are affected per tourist. The 'woes factor' dominates the 'wow factors' in Sri Lanka.

China, the factory to the world

The SARS outbreak in 2003 affected growth in China but it rebounded once the situation normalised. China's contribution to the global GDP was 4% then, but today it stands at 16%. It is anticipated that this episode may go on up to April this year.

With China having placed 60 million in locked-down mode, a region with 4.5% contribution to the Chinese economy, it has global implications.

Over the years China has assumed the mantle of factory to the world, and manufactures a wide array of products. Wuhan hosts the world's largest production facility for fibre optics – Yangtze Optical Fibre and Cable, and is also home to China's steel industry.

China has managed integrate with global supply chains more successfully than any other nation. When it is ground zero for a crisis, ripples are felt everywhere. It suggests distributed production is better than pushing for the greatest scale and planning logistics thereafter.

Placing the eggs in a number of places surely offer better insurance to ensure some offspring to support the future. That is a simple lesson that nature offers us and is certainly worth revisiting.

[For the full article – Refer the Daily FT](#)

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