

ScARyS Economics

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Severe Acute Respiratory Syndrome has been taking the whole world into a tizzy for the past few months. According to World Health Organisation, 3,861 cases with 217 deaths have been reported from 25 countries till mid May.

The economic ramifications of the virus have been far more extensive than it was initially thought to be. Standard and Poor's said the outbreak of SARS was more damaging to economic activity than the Iraq war. The Asian Development Bank (ADB) estimated that losses would range from \$12 billion to \$27.7 billion for East and Southeast Asia should SARS extend into the third quarter of 2003. The World Bank has warned that the virus and the Iraq war can dwindle almost one-sixth economic growth in Asia and cut the expansion rate in East Asia to 5% from 5.8% this year.

The World Trade Organisation (WTO) has voiced similar fears, saying that growth in trade would remain below par after having already shrunk in 2001. While the tourism industry worldwide has suffered significantly ever since the World Trade Centre bombing in the US in 2001, effects on Asian tourism were moderated by an increasingly healthy rise in intra-regional travel as Asian tourists opted for destinations perceived-safer. But the SARS crisis has cut a swathe through East Asia including Thailand, Japan, China, Taiwan and South Korea forcing companies such as airline Cathay Pacific and trading house Swire to cut their dividends and, in Cathay's case, shut down many of its intra-Asian routes.

Investors dumped shares of Asian retailers and exporters to China such that the international air travel body IATA sent word that the impact was devastating for airlines operating in the area as investors have stopped travelling to these areas and fired fears that SARS may stall the region's economic formula. It was also reported that Japanese carmaker Toyota Motor Corp plans to withdraw most of its Japanese staff and their families from Beijing due to the virus tightening its grip.

The SARS virus is wreaking havoc not only on airlines but also hotels, businesses and industries far removed from its epicentre - China, such that companies in Canada, Europe, New Zealand, Australia and the U.S. are experiencing the effects of this worldwide outbreak. Canadian hotels and restaurants are showing a sharp decline in domestic and tourism business. World conferences in Asia and Canada are being cancelled, affecting the local economy that was previously a mainstay of such cities as Hong Kong and Toronto.

The backlash from cancellations of trade shows impact retail shops, restaurants, hotels, airlines, cab companies and electronic parts production houses in Taiwan.

European, Australian, Canadian, American and other world ports are cautious about deliveries coming in planes and ships. Delays in shipments mean delays in customer satisfaction and sometimes payroll checks.

Fishing industries in New Zealand are also feeling the financial effect; Rock lobster fishermen are idle, as their Chinese buyers remain reluctant to buy for a drastically reduced clientele. The Rock lobster market is usually worth \$90 million a year.

It is becoming evident that SARS is causing the worst economic crisis in Southeast Asia since the wave of bank failures and currency devaluations of 1988. The effects ranged from a near-meltdown of South Korea's corporate infrastructure to a massive rise in poverty in Indonesia.

The stock market index took a nose-dive to almost 5% with the revelation of nine new cases in Taiwan in a single day. The Singapore Prime Minister Goh Chok Tong alerted the state that it might be facing the worst crisis in its 37-year history due to the virus. Investments have also been affected by reduced overall demand, heightened uncertainties and increased risks.

According to economists, SARS has dealt a blow to the Indian economy as India's exports, which have grown steadily to Southeast Asian countries suffered losses. Indian corporate houses have cancelled trips to several business fairs across East and Southeast Asia. CII has called off its participation at the Canton Fair - one of the largest in China's Guangdong province. Shares of Infosys Technologies, India's largest listed software exporter, plunged over 25 per cent in April after it projected a conservative business outlook for the current fiscal year on expected delay in commercial deals, partly due to SARS.

While SARS had caused serious disruption to short-term economic growth of South Asia in particular its long-term effects largely depended on whether the governments of these countries could speedily implement effective public health policies.

If there is a positive note, it's for companies involved in teleconferencing. Two Silicon Valley companies, PlaceWare and WebEx, are getting a boost from companies that don't want to travel. "Businesses are looking for any way to get around these obstacles," said WebEx Vice President David Thompson. "We're seeing the level of interest in teleconferencing go up dramatically." The industry slump in China has evolved as a boon to India and textile exports have stepped up.

As the world reels under the pressure of industry fluctuations and volatility, India has been declared a SARS free zone and takes SARS in its stride. ■