# SE Asia Service Economy Blown Apart by SARS

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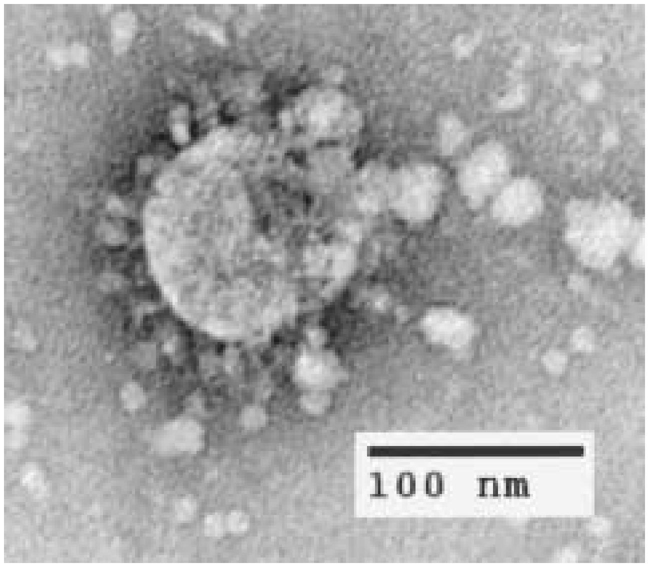


*The SARS outbreak, caused by a new coronavirus confirmed in late April, has hit the Southeast Asian economies at their weakest point—their dependence on the globalization "viruses" of exporting cheap-labor and of tourism. The impact is greater already than that of the Sept. 11, 2001 events, or the war in Iraq.*

Those Southeast Asian nations that clung to the assumption that one could have an economic recovery without massive, long-term investments in hard and soft infrastructure, are now seeing the death of their axioms—and their people—virtually every day, thanks to the outbreak of severe acute respiratory syndrome (SARS). Singapore Prime Minister Goh Chok Tong said on April 20, "If we fail to contain SARS in Singapore, it may well become the worst crisis that our country has ever faced. . . . SARS will knock you backward, it may even kill you; but I can tell you, SARS can kill the economy, and *all of us will be killed by the collapsing economy.*" This was the message from the Prime Minister of the state with some of the best hospitals in Southeast Asia.

A reflection on the seriousness of the situation, can be gleaned from the unprecedented steps Singapore is taking to contain the outbreak. On April 21, a day after the Prime Minister's warning, Singapore's Health Minister announced plans to quarantine 2,400 persons, all because they might have come into contact with three infected persons. The 2,400 persons are tenants and workers at a wholesale market where the infected trio worked. This is in addition to 740 persons already under quarantine. A person under quarantine is not allowed to leave home, and has to undergo daily health checks until certified not to be a carrier. To enforce the quarantine, Singapore has resorted to using remote cameras and electronic tags. Violators face fines and prison time.

## SARS Doing What 9/11 Could Not

As of April 23, SARS had killed at least 250 people worldwide, and infected more than 4,000. In global economic terms, it could not have hit a worse location. According to Morgan Stanley chief economist Stephen Roach: "Unfortunately, the SARS effect is concentrated on Asia, . . . the one area that had basically been keeping the global economy afloat." Most SARS cases have come from certain areas of China, Hong Kong, and Singapore.

The health infrastructure in the major epicenters is being strained to the breaking point. In Hong Kong for example, as of April, authorities are only able to handle a worst-case scenario of 3,000 patients. Hong Kong had around 700 people hospitalized with SARS as of April 8, with dozens of new cases being reported daily.

The economic impact has been most severe in Hong Kong and Singapore, due to their heavy reliance on the service sectors. Retail sales in Hong Kong have plunged 50%, with local residents shunning shopping malls, restaurants, and other crowded places, and with tourists avoiding the place altogether. About 50 eateries in Hong Kong have temporarily closed, according to the Hong Kong Federation of Restaurants and Related Trades. And if the SARS outbreak lasts another three months, the agency predicts that one-third of the city's 10,000 restaurants might be forced to close.

Hong Kong may have China to fall back on, in an extreme economic emergency; but in the case of Singapore, a nation three-and-a-half times the size of the District of Columbia (and it has no hinterland), SARS could kill everyone, by killing the economy—or more specifically, the service economy.

Travel agents in Singapore point out that SARS has done what Sept. 11, 2001 failed to do—bring travel to a screeching halt. After Sept. 11, travel agents complained of a 40% drop in sales. Now, the drop is 50-90%. People are not traveling due to fear, and the hassle of tight health screenings at airports. Thousands of cab drivers in Singapore undergo temperature checks to qualify for a daily "fever-free" sticker. Even with a sticker, taxi earnings are down 40-75%. There are 23,000 taxis in Singapore.

With the drastic fall in travel, the airlines of Southeast Asia are facing bankruptcy. Singapore's Changi Airport—a major hub for Southeast Asia—saw a slump of 280,000 passengers for March this year, down 11% from March of last year. While March was bad, the worst is yet to come. For the first week of April, passenger traffic fell 38%, compared to the same week last year. The number of scheduled flights at Changi fell nearly 20% in the month, from 3,428 at the beginning of this March, to 2,754 at the beginning of this April. This far exceeds the 7% fall in flights at Changi after Sept. 11, 2001.

Elsewhere, South Korea's Incheon International Airport reported a 36% dive in the number of passengers on overseas flights in the first half of April, against the same period last year. Hong Kong's number-two airline, Dragonair, will cut 50% of its services. Cathay Pacific, Hong Kong's number-one airline, has so far slashed flights by 37% to save money in light of falling passenger traffic, besides suspending all flights between Kuala Lumpur, Malaysia and Hong Kong. Garuda, Indonesia's international airline, saw its load factor drop from 80% to 60% for routes to and from Singapore, Vietnam, Hong Kong, and China. Under normal conditions, Indonesia receives about 2,000 visitors per day from those four locations. Even domestic travel has been hit. Indonesia's domestic airline Merpati saw a 5% drop in load factor, and Vietnam's second airline, Pacific Airlines, plans to suspend its Hanoi-to-Danang service due to a 30% fall in bookings.

## Spreading Effects Hit All in Region

A number of countries in Southeast Asia, in the face of the collapsing economy of the U.S. "importer of last resort," and collapsing foreign investments, had hoped for an economic boost from well-to-do Arab tourists avoiding the United States, Britain, Australia, etc., and from mainland Chinese. Last year, 670,000 Chinese tourists visited Singapore. Tourism contributed 10% of Singapore's GDP, 7% of Malaysia's, 5% of Hong Kong's, and 4% of Vietnam's. SARS has ended that avenue of escape from economic reality. As of early April, Malaysia Airlines saw 600 flight cancellations *daily*. Thai Airways reported 300,000 passenger cancellations so far.

Other than the major epicenters of Singapore, Hong Kong, and parts of China, even countries with a relatively small number of SARS cases are finding it difficult to cope with the impact of the disease. The main public hospital in Penang, Malaysia's second largest city, reported that its blood bank is drying up, because donors are staying away. Malaysia's poultry exports to Singapore are down by 20%, and its fruit and vegetable exports to Singapore have been interrupted, with hundreds of trucks, loaded with fresh farm produce, being turned away at the border. Rail travel between Malaysia and Singapore has fallen by 42%. Hotels in Malaysia are reporting a drop in business of 30-40%. The Malaysian state of Sarawak discouraged 20,000 Sarawakians who were working in SARS-affected places from returning home during a recent public holiday. Vietnamese workers are being barred from seeking jobs in Malaysia, as well as in Singapore.

The Malaysian National Economic Action Council (NEAC) set up ten special committees in February to formulate a national economic restructuring package, in response to the onrushing Iraq War. These special committees are now reviewing their proposals in light of the outbreak of SARS, according to NEAC Executive Director Datuk Mustapa Mohamed. Mustapa said that those sectors which had already felt the impact of the war and the SARS outbreak account for about 100,000 jobs to Malaysians.

Thai Prime Minister Thaksin Shinawatra recently authorized an additional 36 billion baht in government spending this year, of which 20 billion baht has been earmarked as an "emergency budget."

The SARS epidemic indirectly threatens the banking system, with more businesses expected to go bankrupt, and threatens to worsen the already desperate fiscal deficits of affected countries. In the Philippines, the government posted a whopping one-month $557 million deficit in its balance of payments in March, after a $55 million surplus for January-February.

As even the more developed nations of Southeast Asia struggle with SARS, the fate of the Philippines and Indonesia—the two nations most destroyed by the speculative assault on their currencies in 1997-98, and by the International Monetary Fund dictates which followed—are in the greatest danger. Large numbers of their people are laboring overseas. There are 240,000 domestic helpers in Hong Kong, and most of them are Filipinos. Philippine airport authorities have been placed on alert to monitor Filipinos returning for holidays. Indonesia has hundreds of thousands of laborers in Malaysia and Singapore, and is now confronted with the prospect of their return due to the falling Malaysian and Singaporean economies, possibly bringing the SARS virus with them.

A number of Indonesian business associations plan to hold talks with the state-owned electricity company PLN, to ask for lower electricity charges to help ease the burden on companies hard hit by the war in Iraq and the outbreak of SARS. Furthermore, the hotel occupancy rates in Indonesia had already declined by about 40% due to a combination of the generally slow economy and terrorism, particularly since the Bali terror bombs last October. Now, occupancy in many hotels has fallen to 30%. Last year, Indonesia earned $3.4 billion from tourism, hard currency desperately needed to keep the nation afloat.

Three emergency meetings of Asian officials have been set up, beginning on April 26, to address the SARS crisis. Public health ministers will meet in Kuala Lumpur, while airport and immigration officials meet in Manila; both lead to a heads of state and government summit in Bangkok on April 29.

Only international health infrastructure can stop this or any other future epidemic. And only in a physically developing global economy, can this be achieved.