

SARS outbreak deepens economic decline in South East Asia

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Governments across South East Asia are counting the mounting economic costs of the outbreak of severe acute respiratory syndrome (SARS) and nervously awaiting the results of their containment efforts. While the number of cases is relatively small compared to other disasters that have struck the region, the character of the disease and the uncertainty it has generated have had an economic impact out of all proportion to the immediate effects of SARS on public health.

World Health Organisation (WHO) figures show that, as of May 24, Singapore has been the worst hit, with 206 reported cases and 31 deaths. Indonesia has reported two cases and no deaths; Malaysia eight cases and two deaths; the Philippines 12 cases and two deaths; Thailand eight cases and two deaths and Vietnam 63 cases and five deaths.

The WHO has declared the SARS outbreak has been brought under control in Vietnam and the Philippines. Strict containment measures are in force in all countries, particularly in Singapore. The disease does not appear to have spread to the less developed countries of Burma, Laos and Cambodia, where containment would prove near impossible with the limited health resources available.

However, the impact has already been severe. Singaporean Prime Minister Gok Chok Tong warned in early May in an interview with the *Far Eastern Economic Review*: “I think the problem could be worse than the (1997-98) Asian financial crisis ... the economy is going to be hit very badly.”

Like the Asian financial crisis, the SARS epidemic has underscored the degree to which the countries of the region are integrated with, and dependent upon, each other and the rest of the world economy. The areas hardest hit have been those immediately connected with travel and the airline industry.

For many countries in South East Asia, tourism is, after manufacturing, the most important foreign exchange

earner. In Thailand, for example, which has not been severely affected by the disease itself; tourism contributes 6 percent to GDP. The Thai Chamber of Commerce estimated in April that the country would lose up to \$US1.63 billion this year from the downturn in tourism. From March, when the SARS outbreak began, to the end of April, tourist arrivals had fallen by 12 percent. At the same time the Thai Finance Ministry has revised its estimate for annual growth down by one percentage point.

Malaysia earns seven percent of GDP from tourism and stands to lose around \$1 billion. Airline bookings were down 40 percent by the end of April, tourist arrivals had fallen by 36 percent and hotel occupancy had dropped to 42 percent.

In Singapore, tourism contributes 10 percent to the GDP and many visitors are Chinese. In 2002, 670,000 arrivals came from China—the source of SARS and the worst affected country. In the first 22 days of the crisis, the hotel occupancy rate fell by 65 percent, and by late April arrival rates were down 70 per cent. Retail sales fell by 50 percent, wiping out many small traders. The government estimates a decline of at least one percentage point in GDP, or \$875 million, is due directly to the SARS crisis.

While the WHO has declared the Philippines to be SARS free, its economic position has not improved. Taiwan, for example, is the fourth largest source of tourists to the Philippines and the fifth most important source of foreign investment, but it has imposed travel restrictions as a result of SARS, which have affected both countries.

The region's vital manufacturing industries have also been hit. Many regional business conventions have been cancelled, raising the danger of undermining confidence and threatening future business contracts. Singapore plays a vital role in these events with 15,000 people employed in the business convention sector. In April, all 15 tradefairs scheduled for Singapore were called off.

Hanging over the region like a dark cloud is the impact of the disease on economic activity in China and Japan. Investment and economic growth in China, much of which is still generated from the moribund Japanese economy, are the driving forces for much of the trade within South East Asia. Any failure to contain the SARS outbreak in China could have catastrophic economic consequences for the entire region.

By the end of April, the WHO had estimated the worldwide cost of the SARS outbreak to be \$30 billion. Other analysts put the figure far higher. According to the *Far Eastern Economic Review*, the health and biotech consultancy firm BioEnterprise Asia has calculated that the real cost to the East Asian region as a whole, taking into account increased health expenditures, will exceed \$50 billion out of a worldwide total of at least \$150 billion. These estimates assume that the outbreak will be contained.

Nevertheless, a closer examination of trends in Malaysia and Singapore, two of the region's strongest economies, makes clear that the economic effects of the SARS outbreak are simply compounding an economic decline that was already well underway—a decline bound up with the global economic downturn.

After the 1997-98 Asian financial crisis the South East Asian economies were able to recover relatively quickly, despite continuing stagnation in Japan, because of the stock market-generated boom in the United States. Malaysia and Singapore, in particular, benefited from continuing strong demand in the US for electronic components.

But the US economy is fast approaching Japan's deflationary position. In the first quarter of 2003, non-residential fixed investment in the US fell at an annual rate of 4.2 percent—indicating falling business investment as a major factor in the reported annualised growth rate of just 1.6 percent. At the same time, Europe offers no alternative for ASEAN exports. The continent's most powerful economy, Germany, grew by only 0.2 percent last year, with the government predicting growth of just 1 percent this year.

Well before the SARS outbreak, these factors were having a dramatic effect in South East Asia, with both Singapore and Malaysia suffering declines in vital export manufacturing sectors.

In March, Malaysia's exports of electronic and electrical goods fell for the fourth month in a row and exports as a whole grew at the slowest rate in 10 months. The government had been planning an economic stimulus

package, the third since 2001, prior to the SARS crisis, but delayed its implementation until the effects of the outbreak were clearer.

The current package, which includes a six-month wages bonus for public servants, is aimed at sheltering the economy from the slump in manufacturing and trade, as well as from the immediate effects of SARS. The government anticipates an unfavourable response from financial markets, however, because the extra spending undermines its pledge to balance the budget by 2005 and eliminate the deficit, currently running at 5.6 percent of GDP.

The Singaporean government has taken a different approach, using the crisis created by SARS to launch a major attack on workers' wages. Singapore's Manpower Minister Ng Eng Hen declared on May 24 that it was necessary to impress investors with a more flexible system linking wages to performance and profits, instead of seniority, and by increasing what he called the "variable component" in the wage structure.

Ng said workers should eventually receive 70 percent of their wages as a "fixed component" and 30 percent as a "variable component" that could be cut according to economic conditions. Current levels could not be sustained, he declared, saying: "We have arrived at the [wages] levels of some developed countries and we cannot continue that." It would be difficult to convince workers of the benefits of the new wages policy, he noted, but it would position Singapore to attract investment in the event of an economic upswing.

The wages of senior civil servants have already been slashed by 10 percent, while the remainder have been frozen.

If South East Asian governments have responded rapidly to the SARS epidemic, it is because of the impact of the disease on the region's already weakening economic activity. Millions of people continue to suffer and die from other readily treatable diseases—the victims of inadequate health services and government indifference, compounded by endemic poverty and unemployment.



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