The Economic Impact of the COVID-19 Outbreak with European companies in Myanmar

March 2020
COVID-19 is an infectious disease caused by the most recently discovered coronavirus. The outbreak of COVID-19 has disrupted the global economy. Even a contained outbreak could result in significant economic impact in the short run.

The evolution of the disease and its economic impact is highly uncertain which makes it difficult for policy makers to formulate an appropriate macroeconomic policy response.

In March 2020, the European Chamber of Commerce in Myanmar (EuroCham Myanmar) conducted a survey to map out the expected economic impacts with European businesses active in Myanmar. The purpose of the survey is to address concerns to the Myanmar government and to seek ways in which the authority may provide support.

This study surveyed 33 representatives of European businesses active in Myanmar to assess their level of expected economic impact of the COVID-19 outbreak.

According to the respondents, more than 60% claim they are already either significantly or moderately affected; with a forecasted loss of revenue averaging from 30% to above 50%, small and medium companies would be the most impacted and automotive, FMCG, retail and manufacturing are sectors at the frontline.

2/3 of the European companies surveyed reported that the preventive measures taken by the Myanmar government have had little impact yet on their business and almost the same proportion forecast they will be able to cope if those measures would stiffen.

While 34% of the respondents answered that the recovery from the impacts of COVID-19 will depend on how the supply chain across all industries will react, another 51% of the respondents estimate a recovery within 6 months.

The 3 most awaited responses from the government to support the economy are:
1. Faster import procedures and customs clearance procedures to support the import/export industries cope with the sudden drop in trades.
2. Subsidies and relief for import and export companies to maintain a strong and steady supply chain.
3. Provide corporate tax rebate for the year 2020 to ensure sufficient treasury for concerned companies.
INTRODUCTION

The COVID 19 outbreak started in December 2019 in Wuhan, a city in the province of Hubei, China. Currently COVID 19 continues to spread across the world. Initially the epicentre of the outbreak was China with reported cases either in China or affecting travellers from China. Entire cities in China have closed and travel restrictions placed by countries on people entering from affected countries.

On 11 of March 2020, WHO characterised COVID 19 as a global pandemic. At the time of writing this report, the number of cases in Europe has surpassed China and France, Iran, Italy, Japan and South Korea are regarded as epicentres of the virus. As of 18 March 2020, the confirmed cases in EU and UK reported 70989 while the sum of death has been amounted 3309. While some countries have been able to effectively treat reported cases, it is uncertain where and when new cases will emerge. On 23 March 2020, Myanmar confirmed two first positive cases of COVID 19.

Comparison with SARS

Severe Acute Respiratory Syndrome (SARS) is also a coronavirus but with a much higher mortality rate (10%) compared to COVID 19 (between 2%-4%). On the other hand, COVID 19 is more contagious than SARS. There is still a great deal of uncertainty around COVID 19 which causes concerns. The 2003 SARS outbreak, which infected about 8,000 people and killed 774, cost the global economy an estimated US$ 50 billion. (Weforum.org)

Studies of the macroeconomic effects of the SARS epidemic in 2003 found significant effects on economies through large reductions in consumption of various goods and services, an increase in business operating costs, and re-evaluation of country risks reflected in increased risk premiums. Shocks to other economies were transmitted according to the degree of the countries’ exposure or susceptibility to the disease. Despite a relatively small number of cases and deaths, the global costs were significant and not limited to the directly affected countries (Lee and McKibbin, 2003).
The Economic Impact

On 10 March 2020, State Counsellor of Myanmar, Daw Aung San Suu Kyi, said that Myanmar’s economy was already suffering from the fallout of the COVID 19 outbreak that has already spread worldwide.

The State Counsellor stated that “we can't deny that decreasing border trade has affected our country's economy, but we have made arrangements to offset the damage. We are observing the situation closely and trying to overcome the healthcare, economic, social and international challenges with the power of the people.”

The President Office of Myanmar issued a statement to establish a National-level Central Committee for COVID 19 Prevention, led by the State Counsellor. The Committee includes 22 members: Union Cabinet ministers and permanent secretaries. The Committee will work for prevention and containment of severe pneumonia caused by COVID 19, monitoring quarantined patients and suspect cases, providing educational awareness to the public and travellers on this virus, disseminating news, prevention, monitoring and cure of this disease and supervising the work in this regard and for the importing of required medical equipment in time.

Companies across the world, irrespective of size, which are dependent on inputs from China have started experiencing contractions in production and the global economy has been slowing down with interruptions to the functioning of global supply chains.

Transport being limited and even restricted among countries has further slowed down global economic activities. Global financial markets have also been responsive to the changes and global stock indices have plunged.

This report attempts to quantify the potential economic impact experienced by the European companies operating in Myanmar. The goal is to provide guidance to policy makers on the economic benefits of globally coordinated policy responses to tame the virus.
According to the World Economic Forum, the coronavirus epidemic has had a greater economic effect than SARS. Wall Street has joined a global sell-off; the S&P 500 index of US companies fell by 11.5% the week commencing on February 24, the worst week since the 2008 crisis. China has effectively been in economic lockdown for a month since Chinese New Year, and the knock-on effect for global manufacturing has already been felt. While sensible precautions to avoid the spread make sense, it's all too easy for business and politicians to go into panic mode. The supply chain consequences are real, however, and affect some sectors and assets more than others, from commodities such as oil to supply chains vulnerable to such interruptions as those that cause problems for just-in-time auto manufacturing.

- World Economic Forum
(source: weforum.org)
IMMEDIATE EFFECTS

How is your organisation currently affected by the COVID 19 outbreak?

European businesses in Myanmar are gradually affected by the impacts of COVID 19 in terms of economic impact on their business operations. More than 60% of the respondents claim that they are either significantly or moderately affected.

What aspects of your business are affected by the COVID 19 outbreak?

Cancellation of Events and Expos
Cancellation of Orders from Client
Tourism
Projects Delay
Payment Delay
Finance
Low Demand
Work from Home
Sales Down
Supply Chain Disruptions
Raw Material Shortages
Logistics
Equipment Shortages
Foreign Employees Leaving
Supply Chain
Postpone Marketing Campaign
What do you think would be the estimated cumulative impact of the COVID-19 outbreak on your organisation?

Revenue loss across company sizes
Expected cumulative impact on revenue in different sized companies

Half of the small and medium companies expect to have a loss averaging from 30% to above 50% while large companies would better mitigate the impact with a majority estimating less than 30% loss.
In this section, 34% of respondents comment that recovery from impacts of COVID 19 depends on how the whole supply chain of global business will be impacted. 51% of the other respondents estimates a recovery within 6 months-time.

To what extent has the COVID 19 situation increased your organisation's operating cost, due to preventive and protective measures for staff, partners, and suppliers?

Only 3.8 % of our respondents believe to have significant increases in operating costs due to the virus outbreak. However, it is clear that all companies across industries will see, in some extent, an increase in operating costs as a consequence. Despite these increases, there is confidence to be able to cope if government takes more preventive measures.
AID MEASURES

What kind of measures/support would you like to have in place by the Myanmar Government to cushion the impact of the situation on your organisation/industry?

54% of respondents expect to receive subsidies and relief for import/export companies as the whole global supply chain is hugely impacted by COVID 19. 51% agreed that faster import and customs clearance procedures would be appropriate to support the import/export industries. 39% of respondents agreed that a Corporate Tax Rebate would be a beneficial measure to help combat the effects from the virus outbreak.

Other general and industry focused suggestions on measures of support included:

- Use SSP funds to pay partly compensation for the workers who lost the jobs
- Transport costs
- Consideration for expat travel
- Special import permit for drugs and medical supplies
- Support farmers financially
Among nine industrial groups, Automotive is the only group where half of the companies expect their revenue loss to reach over 50%. The FMCG, Retail, Manufacturing and the agriculture sectors are also among the most affected within the list.
QUALITATIVE FINDINGS

Preparedness

“The most highly priority for all of us in Myanmar is not to be infected by COVID 19 and if that so, try not to panic, learn/follow the instructions from the Government and WHO, also the countries which already affected and help out each other. We all must understand that this is not only our problems, this is global issue, so everyone has to stay strong and fight for it. Safety and precaution are the most important thing to do right now in Myanmar.”

“Early measure will be necessarily required. If the local public do not have self-hygiene and awareness of all preventive measure, all the efforts that the organisation is trying to put in place will be a waste.”

Opportunity

“Have special quarantine arrangements for incoming foreigners so we can bring in specialists.”

Room for improvement

“Government need to take initiative to discussion to trade union to support companies and partial share of wages and cost during non-operation period. Trade union need to accept long holidays on minimum wages without bonus and incentives. Minimum wages increase announcement need to postpone for next year, corporate tax holiday need to extend to one more year, personal tax of the expat / foreign employees to wave off for 6 months.”

“Reduce the amount of fake news, stronger control and issue harsh penalties on those who do spread fake news. Rumour incited panic is just as bad as the spread of the virus itself.”

Survey undertaken by EuroCham Myanmar from 16th to 23rd March 2020 among its members.