

# The Economic Impact of the COVID-19 Outbreak on European companies in Singapore and ASEAN

February 2020



EUROPEAN CHAMBER OF  
COMMERCE (SINGAPORE)

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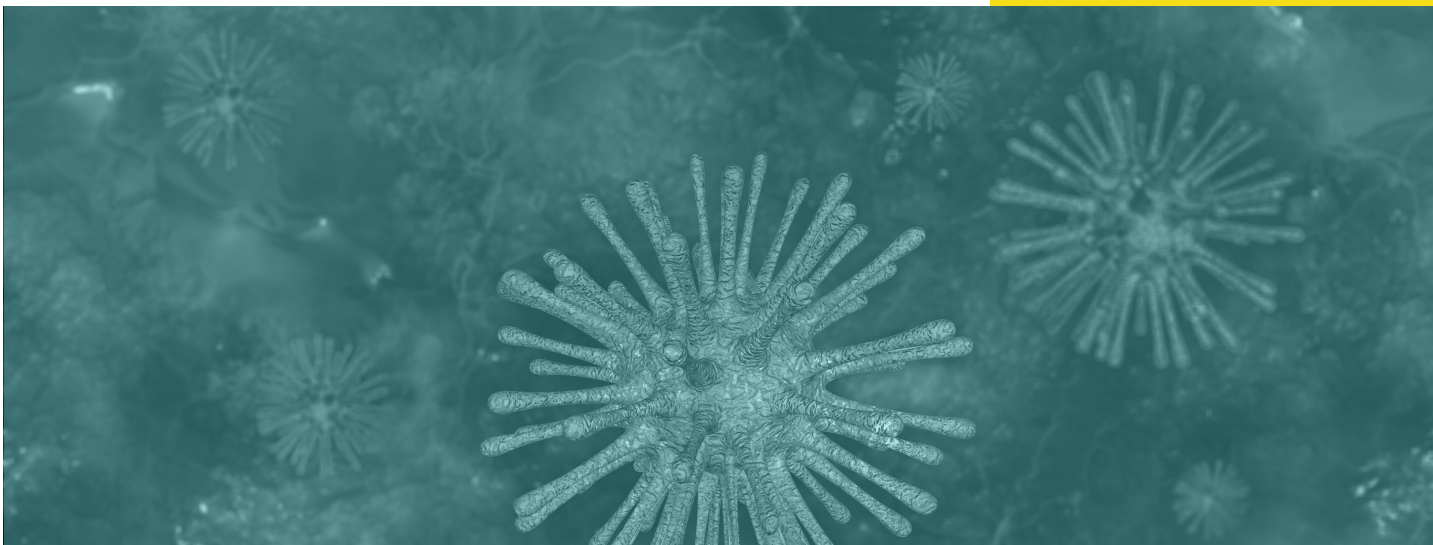
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# EXECUTIVE SUMMARY

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.

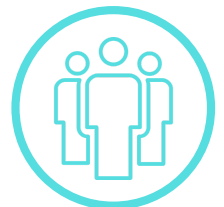
The evolution of the disease and its economic impact is highly uncertain which makes it difficult for policymakers to formulate an appropriate macroeconomic policy response.

In the month of February 2020, the European Chamber of Commerce, Singapore (EuroCham) conducted a poll to map out the expected economic impact with European businesses in Singapore. The purpose of the survey is to address concerns to the Singapore government agencies and to seek ways in which the authority may provide support.

This study surveyed 50 representatives of European organisations in Singapore to assess their rate of expected economic impact of the COVID-19 outbreak. Despite the majority of respondents asserting that there will be an effect on their organisation, 60 % of the European companies surveyed reported that they will be able to manage if the Disease Outbreak Response System Condition (DORSCON) status changes to red and 56 % of the respondents believed that they are able to recover from the outbreak within 6 months.

## Introduction

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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.

At the time of writing this report, at least four further epicentres have been identified: Iran, Italy, Japan and South Korea. Even though the cases reported from China are expected to have peaked and are now falling (WHO 2020), cases reported from countries previously thought to be resilient to the outbreak, due to stronger medical standards and practices, have increased. While some countries have been able to effectively treat reported cases, it is uncertain where and when new cases will emerge. Amidst the significant public health risk COVID-19 poses to the world, the World Health Organization (WHO) has declared a public health emergency of international concern to coordinate international responses to the disease. It is, however, currently debated whether COVID-19 could potentially escalate to a global pandemic.



# INTRODUCTION

## Comparison with SARS

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Severe Acute Respiratory Syndrome (SARS) is also a coronavirus but with a much higher mortality rate (10%) compared with 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 concern. 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). During the SARS experience in Singapore, the DORSCON status was Orange.

## Disease Outbreak Response System Condition (DORSCON)

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When there is an outbreak resulting in the spread of an infectious disease worldwide, Singapore puts in place prevention and response plans. As part of this plan, the 'Disease Outbreak Response System Condition' (DORSCON) is a colour-coded framework that shows the current disease situation. The framework provides the public with general guidelines on what needs to be done to prevent and reduce the impact of infections.

There are 4 statuses – Green, Yellow, Orange and Red, depending on the severity and spread of the disease. For each status, it details the impact on the community, such as the measures to be taken in daily life (e.g. temperature screening, border measures), and advice to the public (e.g. to look out for travel advisories).

At the time of conducting the poll, the DORSCON status for COVID-19 was Orange, meaning the disease was severe and spread easily, but still contained.



# INTRODUCTION

## The Economic Impact

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Prime Minister Lee Hsien Loong said on Friday, 14 February 2020, that the economic impact of Covid-19 will likely top that of the Severe Acute Respiratory Syndrome (SARS) outbreak of 2003, which resulted in reduced commerce and travel across East and South-East Asia and saw Singapore's wealthy, trade-based economy shrink by 0.3% during that year's second quarter.

Lee said that Covid-19 will have a bigger impact as "economies of the region are much more interlinked." "China, particularly, is a much bigger factor in the region," Lee added. China accounted for 17% of Singapore's exports and 19% of visitors in 2019, more than double the numbers during the SARS crisis, when China's gross domestic product was roughly one-eighth its current size.

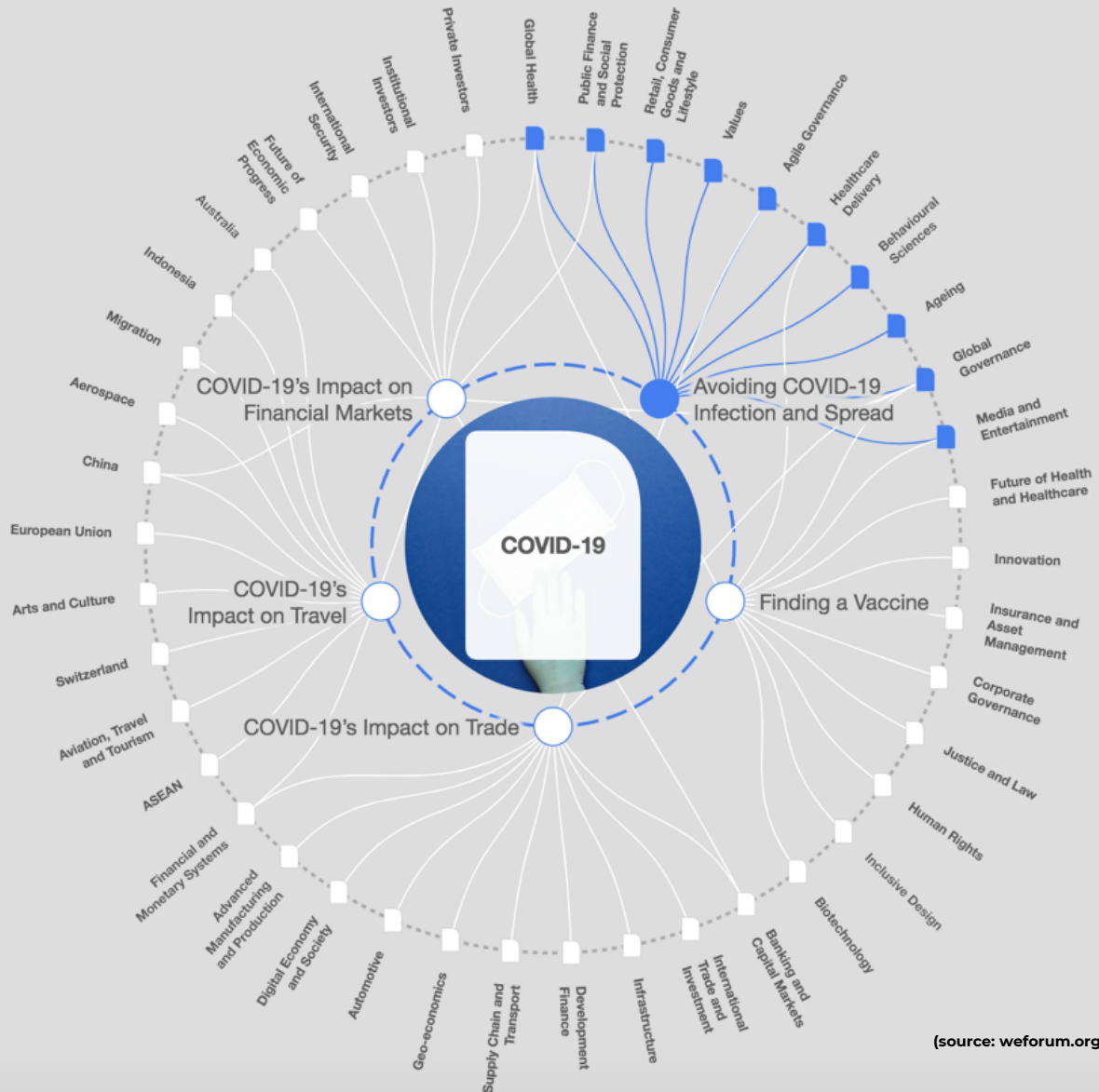
Companies across the world, irrespective of size, which are dependent on inputs from China have started experiencing contractions in production and the global economy has been slowing down with interruptions to the functioning of global supply chains.

Transport being limited and even restricted among countries has further slowed down global economic activities. Most importantly, some panic among consumers and firms has distorted usual consumption patterns and created market anomalies. Global financial markets have also been responsive to the changes and global stock indices have plunged.

This paper attempts to quantify the potential economic impact experienced by the European companies operating in Singapore, and the East and South-East Asia region. The goal is to provide guidance to policy makers on the economic benefits of globally-coordinated policy responses to tame the virus.

At the time of reporting, the Finance Ministry already pledged targeted support to the sectors that are more directly affected and additional measures are expected to counter the likely impact of reduced trade with and tourism from China.

# COVID-19 DEVELOPMENT



(source: weforum.org)

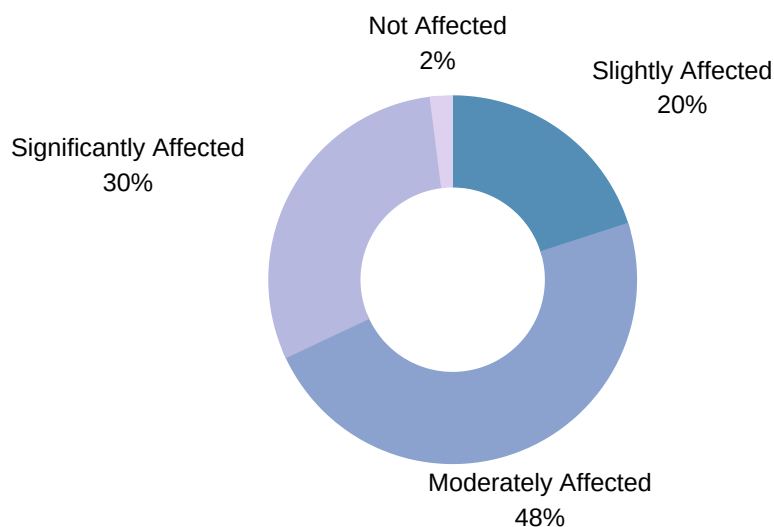
“According to the World Economic Forum, the coronavirus epidemic has had a greater economic effect than SARS. Wall Street has joined a global sell-off; the S&P 500 index of US companies fell by 11.5% the week commencing on February 24, the worst week since the 2008 crisis. China has effectively been 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)

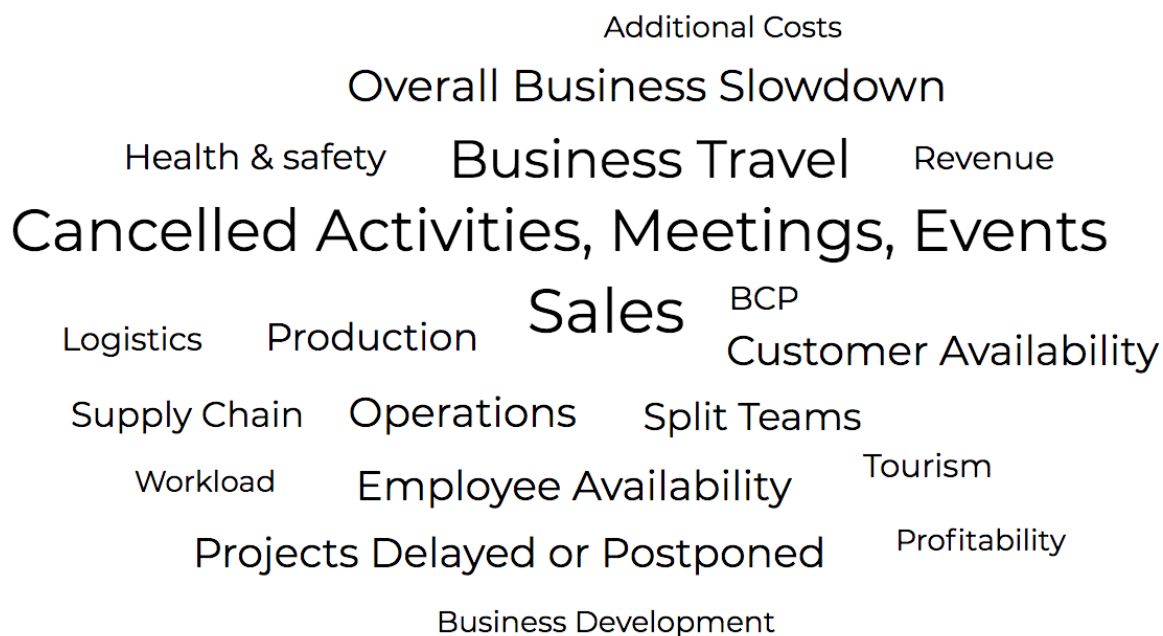
# IMMEDIATE EFFECTS

## HOW IS YOUR ORGANISATION CURRENTLY AFFECTED BY THE COVID-19 OUTBREAK?

Our respondents immediately saw an effect on their organisation upon the outbreak of COVID19, with 30% reporting significant effects already in the early stages of the outbreak, and the majority reporting being moderately affected.

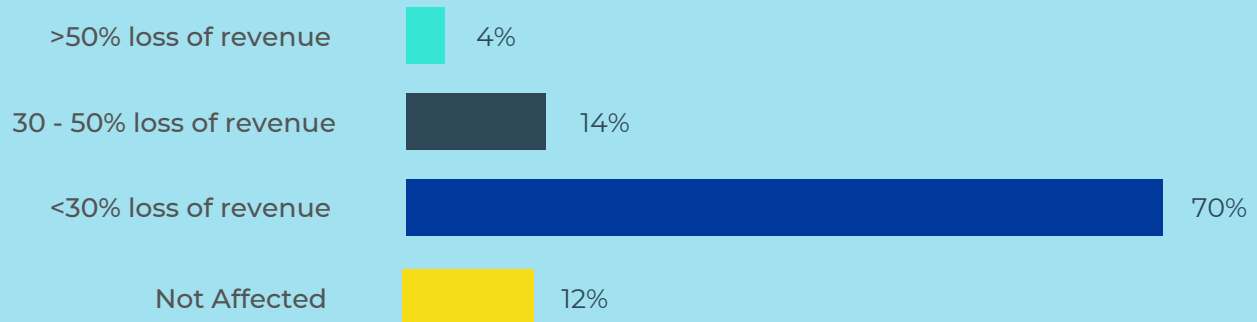


## WHAT ASPECTS OF YOUR BUSINESS ARE AFFECTED BY THE COVID-19 OUTBREAK?





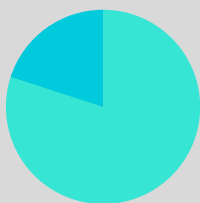
# What do you think would be the estimated cumulative impact of the COVID-19 outbreak on your organisation?



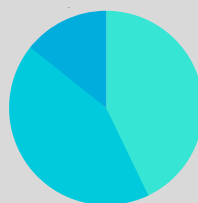
## Revenue loss across company sizes

Expected cumulative impact on revenue in different sized companies

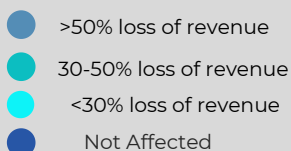
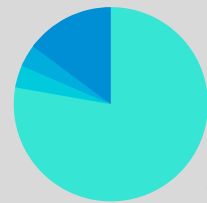
Fewer than 20 Employees



20 - 500 Employees



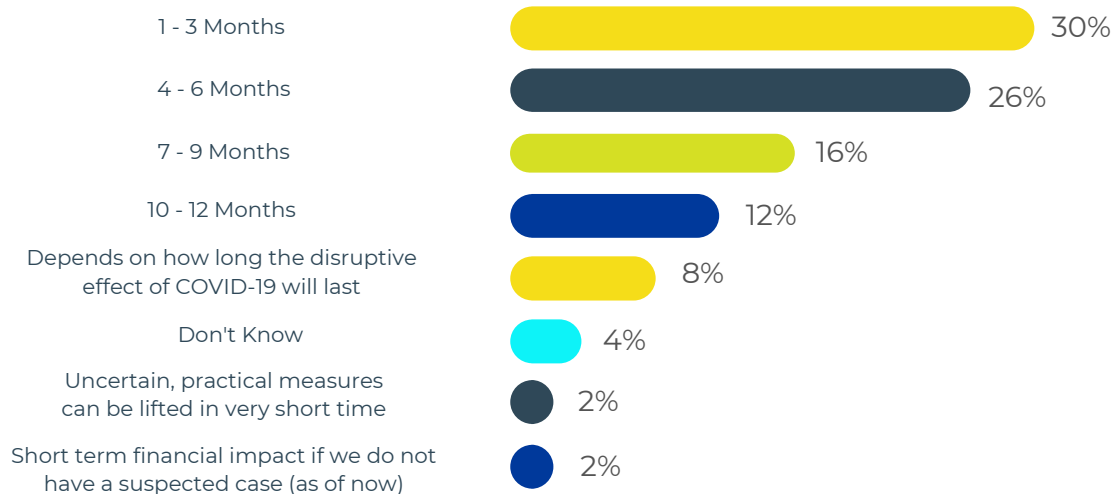
500+ Employees



Small and large companies are expecting to lose up to 30% of revenue due to the COVID-19 outbreak, whilst medium sized companies believe more could be at risk.

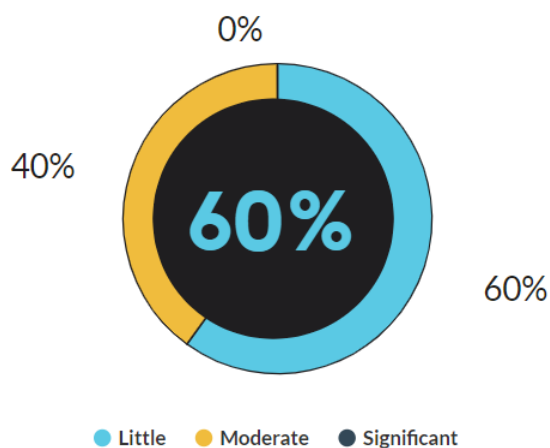
# COVID-19 RECOVERY

## HOW LONG DO YOU EXPECT IT WILL TAKE FOR YOUR ORGANISATION/INDUSTRY TO RECOVER FROM THE COVID-19 OUTBREAK?



At this early stage, 56% of respondents believe that their organisation is be able to recover from the outbreak within 6 months. 28% believed their industry or organisation would need more than 6 months to recover. Some expressed uncertainty on how the outbreak would develop, stressing the variability of the situation.

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?



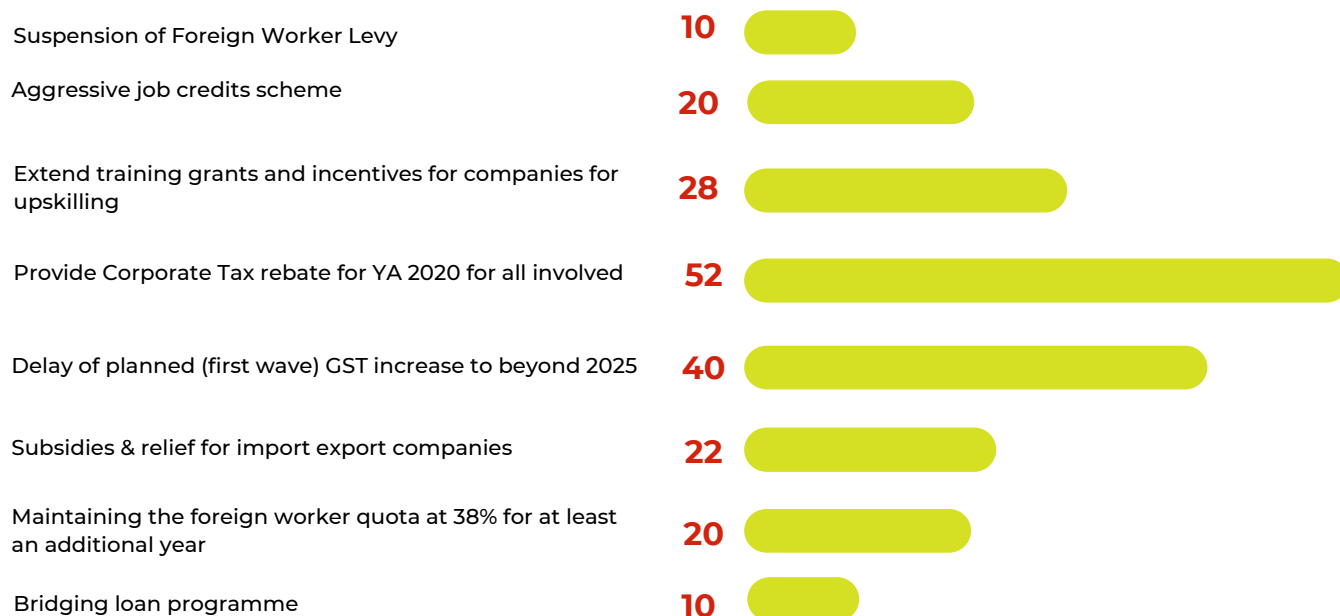
Do you think your organisation will be able to manage if DORSCON status is changed to "red"?



None 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 with a DORSCON "red" status.

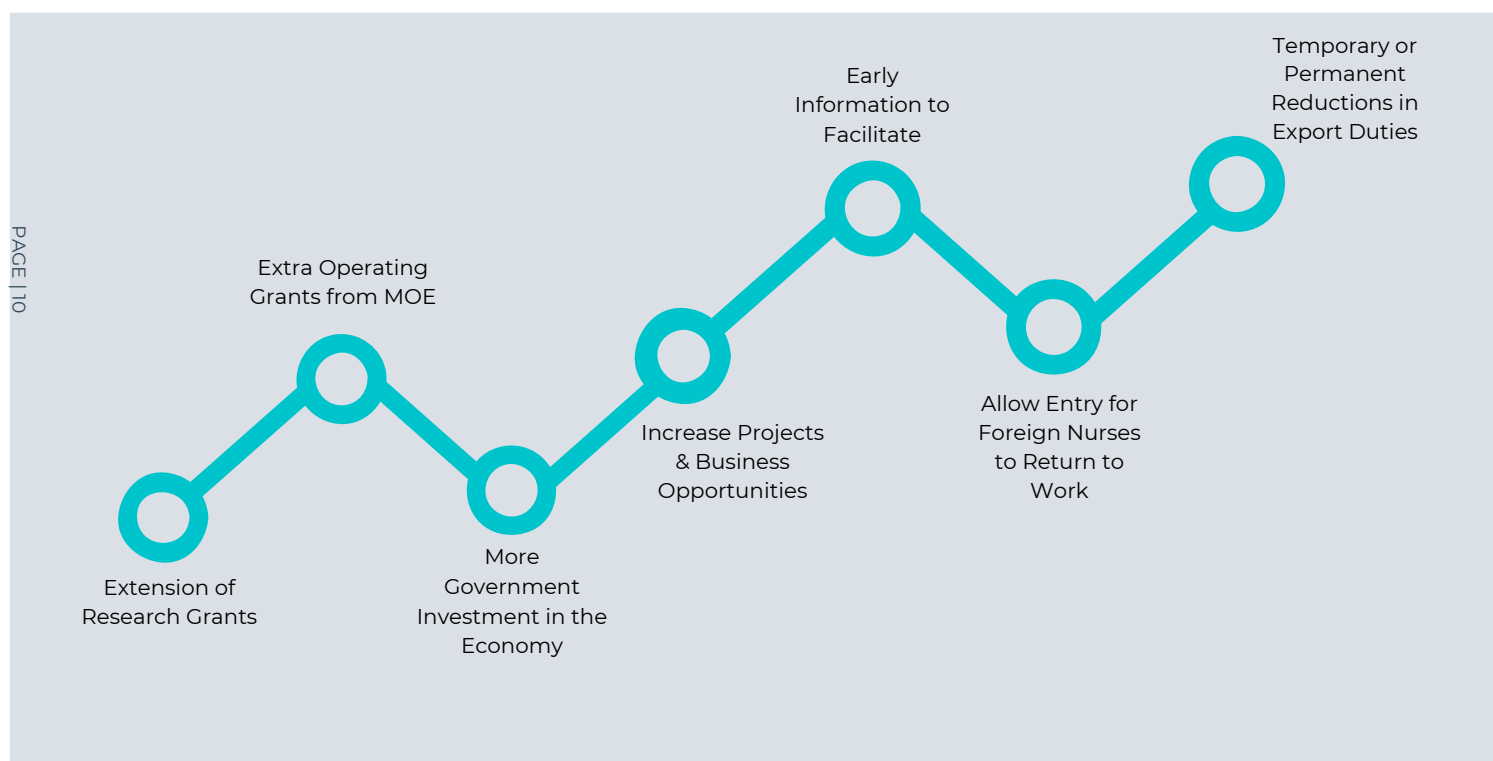
# AID MEASURES

WHAT KIND OF MEASURES/ SUPPORT WOULD YOU LIKE TO HAVE IN PLACE BY THE SINGAPORE GOVERNMENT TO CUSHION THE IMPACT OF THE SITUATION ON YOUR ORGANISATION/ INDUSTRY?



52% of respondents agreed that a Corporate Tax Rebate would be appropriate to help combat the effects from the virus outbreak. Delaying the planned GST increase as well as extending training grants and other incentives were also seen as beneficial measures.

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





# INDUSTRY IMPACT

## Believed Potential Revenue Loss According to Industry Group



Out of the 9 industry groups, only within "Academic and R&D", were there companies with concerns that 50% or more of their revenues could be lost due to COVID-19.

The majority of companies across industries believe less than 30% of their revenue is in jeopardy.

The largest variability among companies within the same industry group is seen among the "IT, Engineering and Financial services", and among the "Academic and R&D" industries, suggesting the threats may be more company specific within these groups rather than industry wide.

In contrast, there are more converging views within "Chemicals & Commodities" and "Consultancy and Services", with complete heterogeneity in "Healthcare" and "Water and Maritime", where the majority see a less than 30% loss in revenue as a consequence of the virus outbreak.

# QUALITATIVE FINDINGS

## PREPAREDNESS

"Singapore is well equipped and well prepared after the SARS epidemic. The transparency in reporting and steps taken demonstrates (the) competence of the Singapore authorities in managing the situation well."

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## OPPORTUNITY

"Besides training and upskilling, more research opportunities and projects should be provided to companies to equip companies to become more competitive after the Covid-19 situation is over."

"We are taking this opportunity to venture into Europe."

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## ROOM FOR IMPROVEMENT

"A great emphasis is placed on protecting clients and customers but more emphasis should be placed on looking after the wellbeing of employees."

"More lead time should be given to employers for the change of DORSCON from yellow to orange, and communications should be better."

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