

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

March 2020



EUROPEAN CHAMBER OF
COMMERCE (SINGAPORE)

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EXECUTIVE SUMMARY

The outbreak of coronavirus (COVID-19) has disrupted the global economy. Even a contained outbreak would have led to significant economic impact in the short run. The evolution of the disease and its resulting effects across the economy is highly uncertain which makes it difficult for policymakers to formulate an appropriate macroeconomic policy response.

EuroCham Singapore conducted a second poll in March 2020 to map out the expected disruption across European businesses in Singapore. The first poll was conducted in February 2020. The purpose of the surveys is to address concerns to the Singapore government agencies and to seek ways that the government may provide support.

This March study analysed the feedback of 50 representatives of European organisations in Singapore to assess their projections on expected economic impact of the outbreak.

European Businesses in Singapore and ASEAN in this survey are seeing prolonged recovery period, with more than 50% asserting that it will take more than 6 months, or significantly longer, to recover from the outbreak. In a previous survey, over 50% believed less than 6 months would suffice to recover.

All of our respondents reported impacts on their business due to COVID-19 outbreak. 56.6% reported being moderately affected and 39.6% significantly affected in March 2020.

Introduction



The COVID-19 outbreak was triggered in December 2019 in Wuhan city in Hubei province of China. Currently the COVID-19 continues to spread across the world. As of 2 April 2020, more than 952,000 cases of COVID-19 have been reported in over 200 countries and territories, resulting in approximately 48,300 deaths. More than 202,000 people have recovered.

Efforts to contain the virus include travel restrictions, quarantines, curfews, workplace hazard controls, event postponements and cancellations, and facility closures. These include national or regional quarantines throughout the world, various border closures or incoming passenger restrictions, screening at airports and train stations, and outgoing passenger travel bans.

INTRODUCTION

The pandemic has led to severe global socioeconomic disruption, the postponement or cancellation of sporting, religious, and cultural events, and widespread fears of supply shortages resulting in panic buying. Schools and universities have closed either on a nationwide or local basis in more than 160 countries, affecting more than 1.5 billion students. Misinformation and conspiracy theories about the virus have spread wildly online, and there have been incidents of xenophobia and discrimination against Chinese people and people of Asian descent.

The World Health Organization (WHO) is cautiously optimistic about containing the virus. Unfortunately, fears of a coronavirus-driven recession have shaken confidence in the markets, and travel restrictions and quarantines are affecting hundreds of millions of people, disrupting just-in-time supply chains and business processes. Technology, automotive, consumer goods, pharmaceutical and other industries are struggling with the challenges of meeting demands during this crucial period and revenues have already suffered.

World Wide Spread

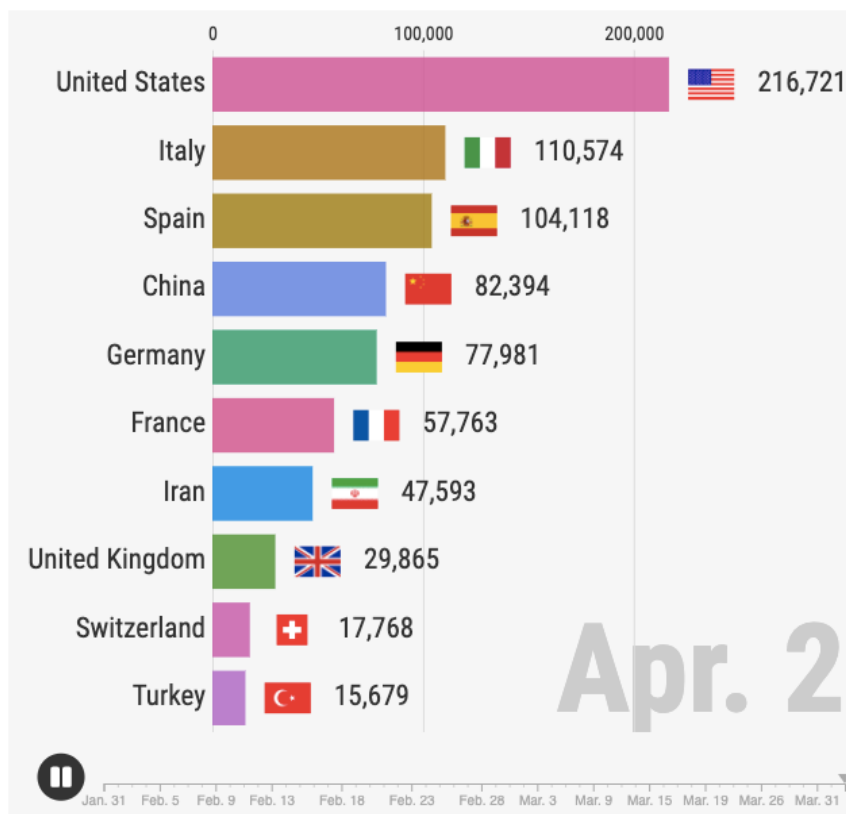


Table: The confirmed cases per country on 2nd of April 2020.

Source: Devex.com

INTRODUCTION

Global Financial Shocks

As the world grapples with the coronavirus, its economic impact is mounting. The G20 Finance Ministers and Central Bank Governors had a conference call on 23 March to discuss how to address the emergency.

The International Monetary Fund's Managing Director Kristalina Georgieva issued a statement following the call, in which she outlined the outlook for global growth: "For 2020 it is negative - a recession at least as bad as during the global financial crisis or worse." But she added: "We expect recovery in 2021. To get there, it is paramount to prioritize containment and strengthen health systems - everywhere."

The Organisation for Economic Co-operation and Development warned on 23 March that the shock from the virus is already bigger than the global financial crisis. OECD Secretary General Angel Gurría said many countries would fall into recession and countries would be dealing with the economic fallout of the COVID-19 pandemic for years to come.

"Even if you don't get a worldwide recession, you're going to get either no growth or negative growth in many of the economies of the world, including some of the larger ones, and therefore you're going to get not only low growth this year, but also it's going to take longer to pick up in the future."

This statement comes after the United Nations Conference on Trade and Development, the UN trade agency, warned of a slowdown of global growth to under 2% this year, effectively wiping \$1 trillion off the value of the world economy.

(Source: weforum.org)



SINGAPORE'S RESPONSE

Singapore draws on national reserves to fight COVID-19

On March 26, 2020, the Singaporean government launched its second stimulus package to counter the economic fallout of the COVID-19 pandemic. Named the Resilience Budget, the stimulus plan is estimated to be worth S\$48 billion (US\$33.7 billion), drawing on national reserves for the first time since the global financial crisis in 2009. The country's Finance Minister, Heng Swee Keat, has said the additional spending will widen the budget deficit to 7.9 percent of GDP, markedly higher than the previous target of 2.1 percent.

The budget aims to support local businesses through the deferment of taxes, tax rebates, and loan schemes, as well as supporting low-income workers and self-employed persons through new training programmes and cash handouts.

The government has laid out new incentives for specific sectors like the tourism and aviation industries, the two most impacted due to the pandemic. As of March 24, 2020, air traffic has fallen by 90 percent and the national carrier, Singapore Airlines (SIA), announced a 96 percent cut in its scheduled capacity up till the end of April. Singapore is a global connectivity hub with the airport and its adjacent industries contributing to more than 5 percent of GDP.

Aviation industry

For every local worker in employment, the government will provide a 75 percent wage offset for the first S\$4,600 (US\$3,205) in monthly wages through the Jobs Support Scheme. Under the Unity Budget, the government introduced the Jobs Support Scheme and the Wage Credit Scheme to help businesses through wage support. The government will also introduce a S\$350 million (US\$243 million) aviation support package in the form of rebates for landing and parking charges, and rental relief for airlines and cargo agents.

Tourism industry

The tourism industry will benefit from the Jobs Support Scheme, which is open for licensed hotels, travel agencies, tourist attractions, and purpose-built MICE operators, among others. There is also an additional S\$90 million (US\$62 million) in funding for the industry.

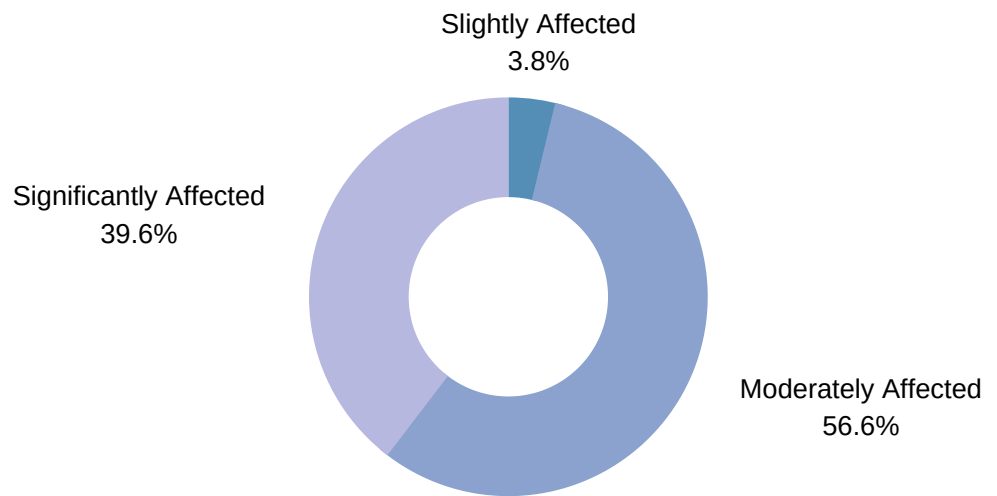
Food services

Firms in the food and beverages (F&B) industry are eligible to apply for the Jobs Support Scheme. For this industry, the government will provide a 50 percent wage offset for the first S\$4,600 (US\$3,205) in monthly wages.

IMMEDIATE EFFECTS

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

All of our respondents have seen an effect on their business by the COVID-19 outbreak. 56.6% reported being moderately affected and 39.6% significantly affected in March 2020.



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

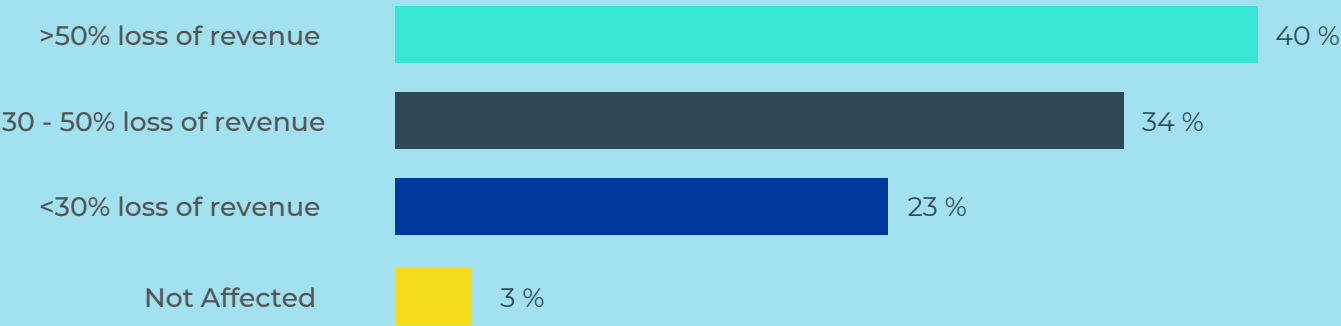
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Sales & Demand
Employee Availability & Mobility
Travel
Disruption of Supply Chain
Revenue
Meetings
Trading goods
Cash flow
All-round Operations

Business Development
Delay/Cancellation of projects
Organisation
Remote Working
Virtualisation
Resource Constraints
Risk Management/BCP
Store Closures
Business Slowdown

”

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



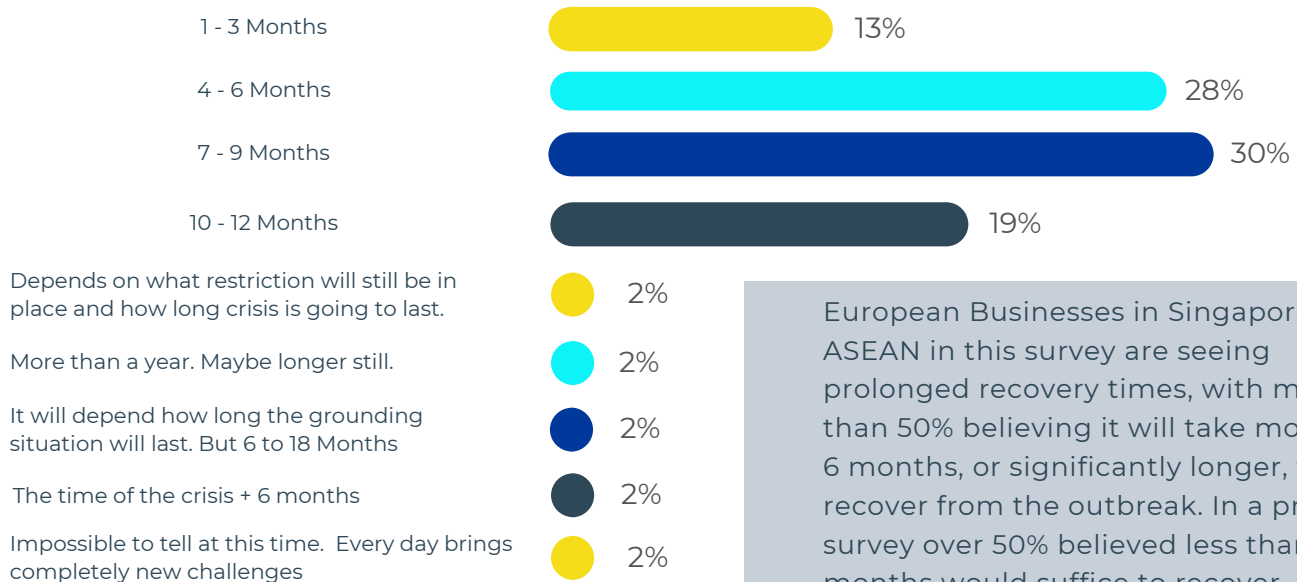
Revenue loss across company sizes

Expected cumulative impact on revenue in different sized companies



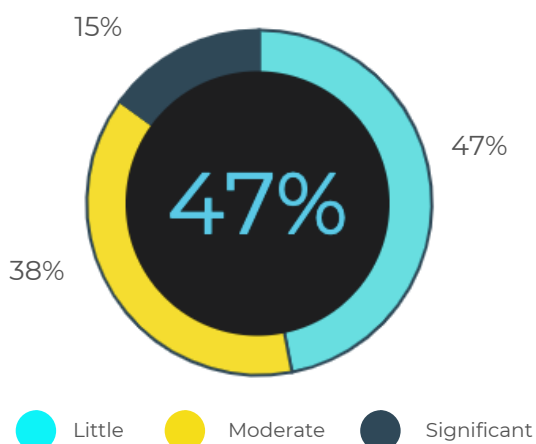
COVID-19 RECOVERY

HOW LONG WILL IT TAKE FOR YOUR ORGANISATION/INDUSTRY TO RECOVER FROM THE COVID-19 OUTBREAK? (ESTIMATE)

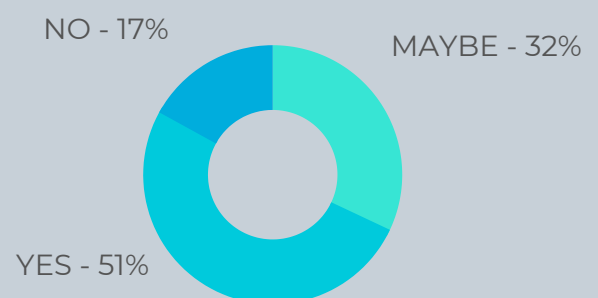


European Businesses in Singapore and ASEAN in this survey are seeing prolonged recovery times, with more than 50% believing it will take more than 6 months, or significantly longer, to recover from the outbreak. In a previous survey over 50% believed less than 6 months would suffice to recover.

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"?

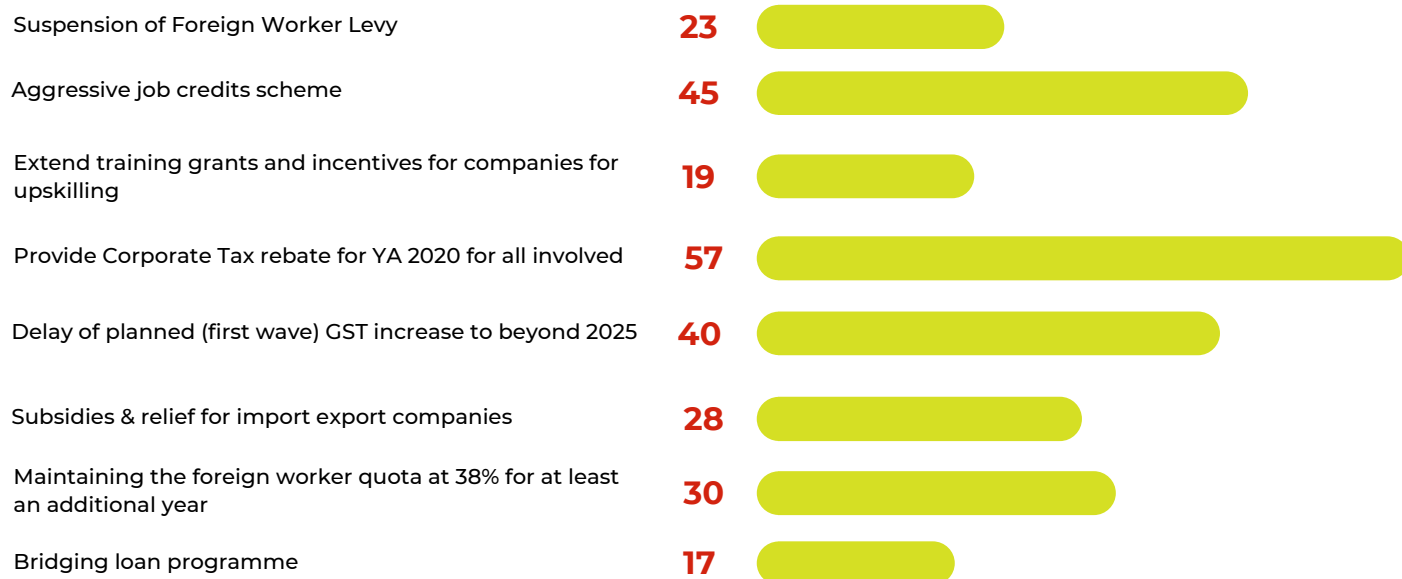


If the DORSCON status would change to "red", most believe to be able to cope, but with 17% stating they would not be able to manage. In a previous survey all respondents believed yes or maybe to be able to manage.

Our respondents have seen increases in their operating costs, with 47% experiencing little increase, 38% a moderate increase and 15% seeing significant increases in their organisation's operating costs. In a previous survey 0% had seen significant increases in their operating costs.

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?



57% of respondents agree that corporate tax rebates would still be helpful to combat the impact of the situation caused by the outbreak. An aggressive job credits scheme, a delay of the planned first wave of GST increase beyond 2025 and maintaining the foreign worker quota at 38% were also seen as beneficial suggestions with 30% or more of the respondents responding positively to those suggestions.

11%

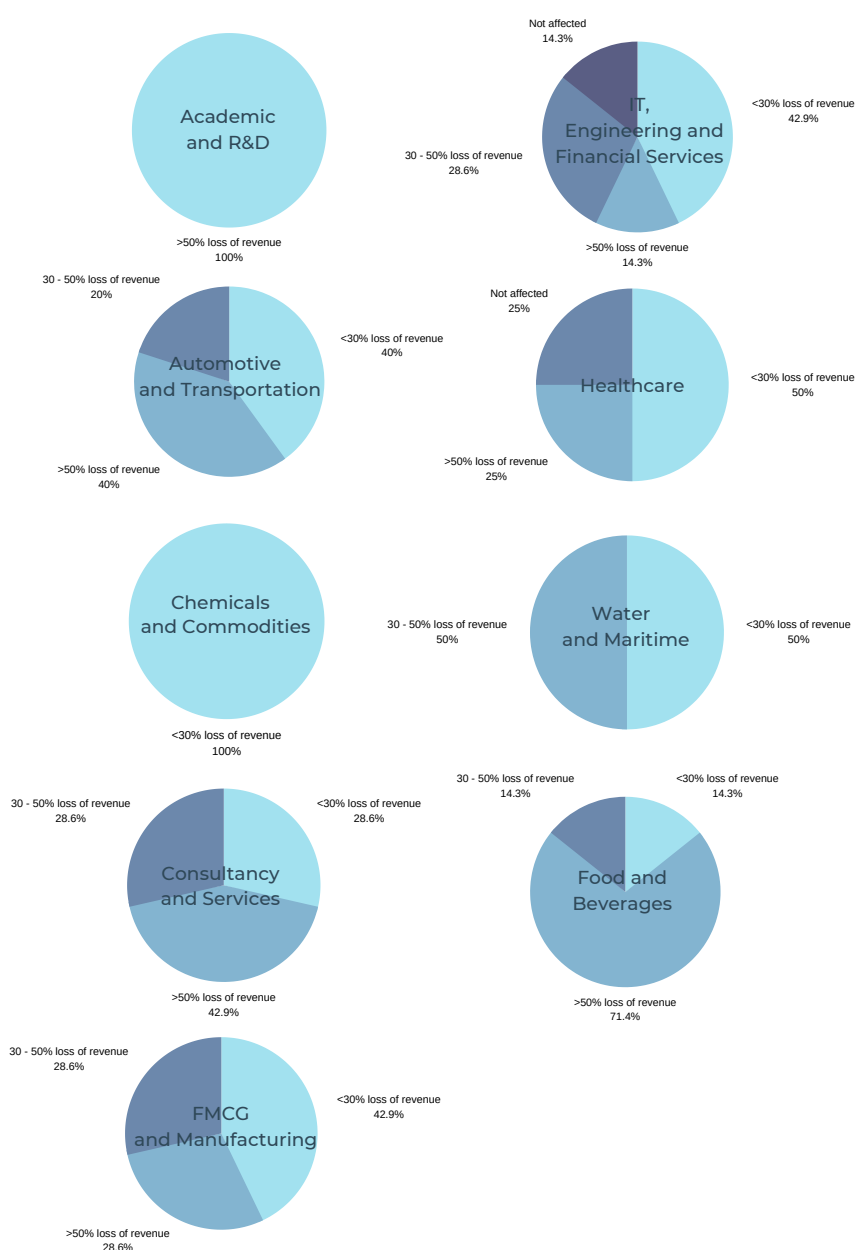
11% of respondents called for financial support from the Government in the forms of subsidies and grants to help with unprecedented staff costs, equipment costs, unemployment benefits, rent and more.

Other suggested support measures:

- Easier ability to recruit overseas talent
- Support for companies not owned by PR or citizens
- Micro loans to SME's
- Suspending impending tax increases that may affect sales post COVID-19 recovery
- Clear communication by Singapore Government
- Keep the schools open
- To implement job credits not only on Singaporean and PR employees (based on CPF) but to all
- All possible avenues to alleviate or obstruct progression / growth should be lifted

INDUSTRY IMPACT

Believed Potential Revenue Loss According to Industry Group



Out of the 9 industry groups, 7 groups report having companies with more than 50% of their revenues at risk due to COVID-19.

In a previous survey only one industry group, "Academic and R&D", reported believing more than 50% of their profits to be potentially lost.

The "Food & Beverage" industry believes it will be hit hard, with over 70% of respondents within this group reporting to lose over 50% of their revenues following COVID-19. Other hard hit industries include "Academic and R&D", "Automotive and Transportation" and "Consultancy and Services" with their biggest group reporting losses of over 50%.

Only within "Healthcare" are there companies claiming to be unaffected in terms of revenue loss. "Chemicals and Commodities" remains relatively stable with lowest reported believed revenue losses at below 30%.

QUALITATIVE FINDINGS

LACK OF CERTAINTY

"Depends on what restrictions will still be in place and how long the crisis is going to last."

"More than a year. Maybe longer still."

"It will depend how long the grounding situation will last."

"Impossible to tell at this time. Every day brings completely new challenges."