



Economic impacts of Wuhan 2019-nCoV on China and the world

Foster K. Ayittey¹  | Matthew K. Ayittey² | Nyasha B. Chiwero¹  |
 Japhet S. Kamasah³  | Christian Dzuor⁴ 

¹Department of Chemical Engineering, Curtin University Malaysia, Miri, Sarawak, Malaysia

²Agricultural Extension Office, Ministry of Food and Agriculture, Adidome, Ghana

³Medical Research Assistant, Kumasi Centre for Collaborative Research in Tropical Medicine, Kumasi, Ghana

⁴Department of Chemical Engineering, Monash University, Clayton, Victoria, Australia

Correspondence

Foster Kofi Ayittey, Department of Chemical Engineering, Curtin University Malaysia, CDT 250, 98009 Miri, Sarawak, Malaysia.

Email: Ayittey.FosterKofi@postgrad.curtin.edu.my

Uncertainties over the Wuhan 2019 Novel Coronavirus (2019-nCoV), which has killed at least 1,775 people and sickened more than 70,000 as of February 17,¹ has interrupted global trade and supply chains, depressing asset prices, and forced multinational businesses to make hard decisions with limited information.

Wuhan has been identified as a principal financial hub for central China. It is a significant transportation and trade center, hosting the headquarters of the nation's major local steel and vehicle makers. The city also serves as home to more than 300 factories of the world's best 500 companies, including Microsoft, German software company SAP, and French car maker Groupe PSA.² In recent years, its monetary development has been recorded to have surpassed China's national growth, with a GDP growth of 7.8% in 2019² as against the national average of 6.1%.³ After the spreading of the recent viral disease, numerous firms have now evacuated their expat workers from the city and temporarily halted business activities. The strict travel restrictions that have been enforced in Wuhan and different urban communities in Hubei are expected to have ripple effects throughout China and beyond, as far as trade is concerned. Among the industries that would be negatively impacted, retail, tourism, and hospitality sectors are likely to be most affected.⁴

With over 70 000 movie theatres closed down in mainland China,⁵ and several airlines canceling flights to and from China – disrupting tourism and other business activities – the economic impact of the novel coronavirus is already extending beyond the borders of Hubei. This impact is quite obvious in the rattled stock market.^{6–8} It is quite interesting how the lockdown of a province with a population just a bit less than that of France or the UK has threatened to be a blow to the global economy. This could be said to be amplified by the thorough integration of China, the second-largest economy behind

the US, with the rest of the world. During the SARS-CoV outbreak in China from 2002 to 2003, the global economy was estimated to have lost roughly \$40 billion.⁹ Currently, as China has an economy 8 to 9 times larger than it had during the SARS epidemic, and is even more connected to the rest of the world, experts believe that the total impact of the 2019-nCoV on global economy could be quite huge.⁴ As China now contributes approximately 16.3% of the world's GDP, the country has been the main growth driver worldwide, with the IMF estimating that China alone accounted for 39% of global economic growth in 2019.¹⁰ This implies that any slowdown in the nation's economy could likely send waves across the global economy.¹¹ Figure 1 presents the growth of China's GDP and its share of the global GDP from 2003 to 2018.

When China reopened its essential businesses on Monday, February 3, 2020, the markets dropped sharply in value due to the extended Lunar New Year holidays. The benchmark Shanghai Composite Index fell 7.7%, shedding about \$375 billion in market value in its steepest 1-day decline since August 2015. The Shenzhen Composite also experienced an 8.4% decline in value. Other business sectors, retail, consumer services, and transportation stocks too led the declines.¹²

According to IHS Markit Automotive, 11 of the Chinese provinces which are on strict lockdown account for more than two-thirds of vehicle production in the country. These provinces equally supply auto-parts to carmakers in the US, Europe, and South Korea. If the manufacturing companies remain idle until February 10, 2020, the experts believe that there could be production loss of about 350 000 units. This figure could skyrocket to over 1.7 million units if the outbreak situation continues until mid-March, equating to about 32.3% decline from precrisis expectations.¹³ Similarly, S&P believes

China's economic growth

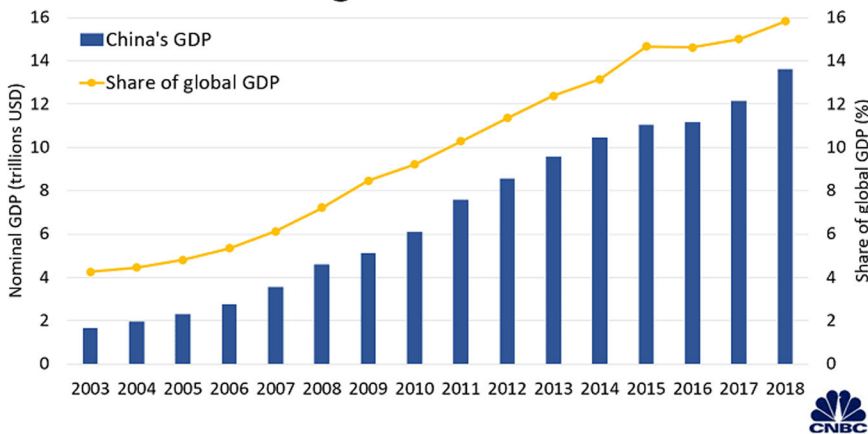


FIGURE 1 Growth of China's GDP and its shares in global GDP¹¹
Source: World Bank, OECD

the nation's auto-parts production could suffer up to a 50% decline. Some carmakers have already expressed concerns over the shortage of car parts. Hyundai has reported the shutdown of its domestic factories after running out of parts from China. The managers of various carmakers in the US and Europe have also expressed concerns over the likely disruptions in business if China does not resume a full supply of parts to them within a week.¹⁴ According to industry consultant LMC Automotive, China's auto market will shrink 3% to 5% in 2020 if the coronavirus outbreak continues into the second quarter.¹⁵

Aside the automotive industry, tourism across the world has been affected gravely due to the outbreak, as China is recognized by the United Nations World Tourism Organization (UNWTO) as a true leader in global tourism, both as a source market and as a leading destination.¹⁶ The China Outbound Tourism Research Institute observed that 6.3 million Chinese tourists traveled abroad during the 2019 Lunar New Year holiday, generating travel revenue of around \$73 billion, but the figures have reduced drastically in 2020.¹⁷ The impact on tourism beyond China is also significant, according to reliable sources. Due to Chinese tours being canceled and a general recession in domestic and international travelers,

Vietnam's tourist industry is expected to lose up to \$7.7 billion in the first 3 months of this year.¹⁵ As Chinese arrivals in Thailand are expected to decline by 80% in the first 4 months of 2020, the governor of the Tourism Authority of Thailand (TAT) estimates that the nation could lose \$3.1 billion in revenue.¹⁸ Aside Vietnam and Thailand, the tourism industries of Indonesia, Singapore, South Korea, Malaysia, Cambodia, Hong Kong, Japan, Australia, and many more countries across the world are expected to be hit by the outbreak.¹⁹

When the loss of commerce, trade, tourism, and major impacts on global supply chains are taken into consideration, the economic impacts of the outbreak will be vast both within China and globally. A market diagnosis completed by Bloomberg economists, concludes that China's first-quarter GDP growth may slip to 4.5% year-on-year. According to an estimated modelling by the same experts, to analyze the expected losses to different countries across the world, the global GDP is likely to decline by roughly 0.42% in first quarter of the year due to the outbreak. This is illustrated in Figure 2. That notwithstanding, the Bloomberg economists believe that it is too early to tell the full impact of the fatal disease since the infection has not attained its peak yet.²⁰

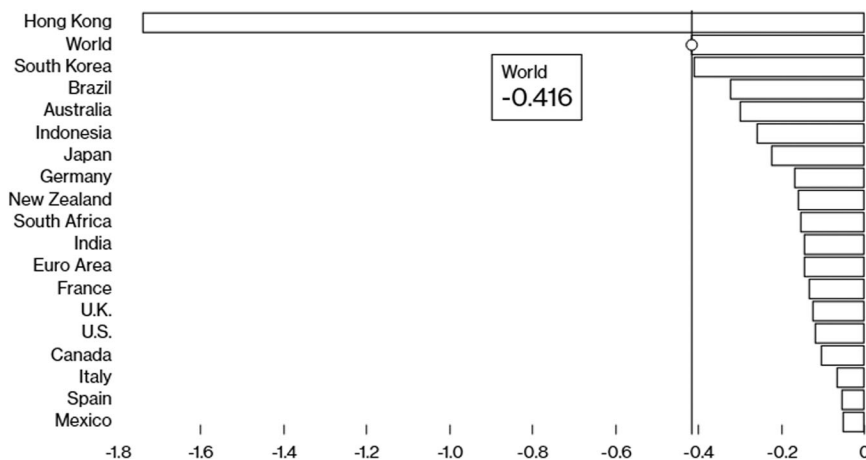


FIGURE 2 Percentage point deviation in year-on-year growth from Q1 2020²⁰
Source: Bloomberg Economics

Some capital economists, however, estimate that, without urgent global actions to curtail the Wuhan 2019-nCoV within the shortest possible time, China is expected to lose up to \$62 billion²¹ in the first quarter of the year, while the world is likely to lose over \$280 billion within the same period.¹⁵ This conclusion compares closely to the World Bank's estimation that even a weaker flu pandemic, such as the 2009 H1N1 viruses, could still wipe 0.5% off global GDP, which amounts to approximately \$300 billion.²²

ORCID

Foster K. Ayittey  <http://orcid.org/0000-0003-3129-2053>

Nyasha B. Chiwero  <http://orcid.org/0000-0003-2341-3548>

Japhet S. Kamasah  <http://orcid.org/0000-0003-0369-555X>

Christian Dzuor  <http://orcid.org/0000-0002-9109-051X>

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