



ECONOMIC IMPACTS OF COVID-19

Introduction

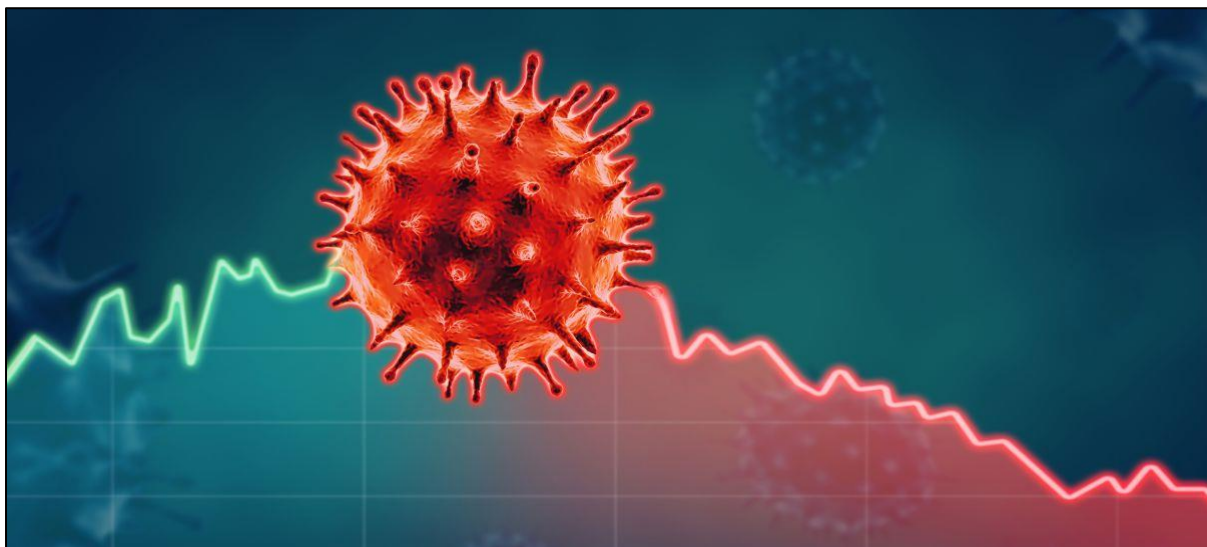
The new SARS-CoV-2 virus, which causes the disease COVID-19, first arrived on Malaysian shores on 25 January 2020. A month later in February, case numbers inched up to 22 positive cases. By mid-March, case numbers had ballooned 20-fold to 428 cases. In response, Malaysian authorities issued a two-week Movement Control Order (MCO) on 18 March to 31 March 2020 and extended to 1 April to 14 April 2020. Businesses and services deemed to be non-essential were shut down. Interstate travel was curtailed. Public sporting, religious events and gatherings were cancelled.

By now, this pandemic will have intensely damaging effects on both the Malaysian macroeconomy as well as on the economic welfare of the rakyat. The main sources of economic damage in Malaysia are twofold: the first is the knock-on effect from the impacts of the coronavirus abroad, the second is generated domestically due to the newly imposed movement control measures.

First, long before the partial lockdown measures in Malaysia, the outbreak of the new coronavirus in China had created wide-ranging supply and demand shocks that have reverberated across the globe. Commodity exporters around the world braved lower prices as Chinese demand collapsed, while global manufacturers faced production cuts as Chinese factories are locked down.

In Malaysia, the effects of these China shocks may be dire. The Malaysian economy is amongst the most highly exposed economies in the region to both Chinese demand and supply. China is Malaysia's number one trading partner, a large source of foreign investments, and its top tourist source outside of ASEAN. The extent of the damage will depend on how quickly the virus is contained, the steps authorities take to contain it, and how much economic support governments are willing to deploy during the epidemic's immediate impact and aftermath.

Additionally, over the past decade, Malaysian firms have become amongst the most deeply integrated in the global production networks. This is compounded by the fact that regional supply chains have become increasingly China-centric. Indeed, more than a quarter of Malaysia-China trade (about US\$20 billion in 2018) is made up of intermediate components—exactly the kind of products that gets affected the most when global supply chains are disrupted.



Second, the MCO measures, while essential in impeding the outbreak of the new coronavirus in Malaysia, will have devastating economic costs too. On a macro level, the closure of businesses and services, along with the travel and movement controls will have outsized impacts on private consumption and business investment. Its adverse effects on individual livelihoods and businesses will be even more pernicious. Individuals and businesses affected by the temporary closures will be at high risk of facing immediate cash flow constraints as their earnings dwindle.

Critically, this liquidity squeeze will be disproportionately felt by small-and-medium enterprises (SMEs), and vulnerable groups such as lower-income individuals, and part-time and unemployed workers. This can have knock-on effects on the entire economy—leaving businesses insolvent, individuals bankrupt, and the financial system saddled with non-performing loans.

Impact on Aviation Industries

The International Air Transport Association (IATA) updated its analysis of the revenue impact of the COVID-19 pandemic on the global air transport industry. Owing to the severity of travel restrictions and the expected global recession, IATA now estimates that industry passenger revenues could plummet \$252 billion or 44% below 2019's figure. This is in a scenario in which severe travel restrictions last for up to three months, followed by a gradual economic recovery later this year. IATA's previous analysis of up to a \$113 billion revenue loss was made on 5 March 2020, before the countries around the world introduced sweeping travel restrictions that largely eliminated the international air travel market. The airline industry faces its gravest crisis. Within a matter of a few weeks, our previous worst-case scenario is looking better than latest estimates. But without immediate government relief measures, there will not be an industry left standing. Initial reports showed local airlines have had many flight cancellations. Malaysia Airlines, for one, had about 63% cancellation while AirAsia suffered about 70% cancellation due to Covid-19, while Malindo Air suspended 510 flights.



Government Preventive Measures

Malaysia's economic policy response to the coronavirus pandemic should comprise **two** separate stages. Stage one measures should be implemented when quarantine/partial lockdown measures are imposed to safeguard the income and liquidity of affected businesses and individuals. Stage two measures should comprise a hefty fiscal stimulus component and should be implemented as soon as the outbreak shows signs of subsiding and movement controls are lifted.

Stage one measures: safeguarding employment and livelihoods

Stage one measures should primarily involve supporting the welfare of the rakyat through income and liquidity support. As economists Steven Hamilton and Stan Veuger note, this would enable individuals and businesses to temporarily suspend work without adverse impacts on their ability to remain solvent. As much as possible, the goal should be to allow them to be able to pick up where they left off after the pandemic subsides. For individuals, stage one measures should primarily aim to cushion the impact of the outbreak on the livelihoods of the rakyat—particularly vulnerable groups such as the lower-income and the unemployed, and part-time/gig economy workers.

Stage two measures: supercharging economic activity

Subsequently, once the pandemic has passed its peak and movement controls are lifted, stage two measures need to kick in immediately. Stage two measures can complement stage one measures by adding in an expansionary component with the primary aim of helping the businesses and individuals bounce back. Economic policy should now shift gears to focus on boosting the economy via proactive fiscal stimulus.

Conclusion

Certainly, none of this will be easy. For starters, it will be costly. Difficult decisions will need to be made to ensure sustainability. There will be huge financial pressures on demanding action from our monetary policymakers. The current COVID-19 crisis will eventually be conquered through vigorous public health efforts, but without a sufficiently large and forceful fiscal response, the economic scars it leaves behind will be viciously long-lasting. Galaxy Aerospace is no exception to this implication. Therefore, we must always be prepared for the mental, physical, and economic challenges that come with it. Hoped that what we have built up over the years will continue to be well driven by whatever challenges we may face. Commitment from all parties within the company is essential at the present time for the all good.

