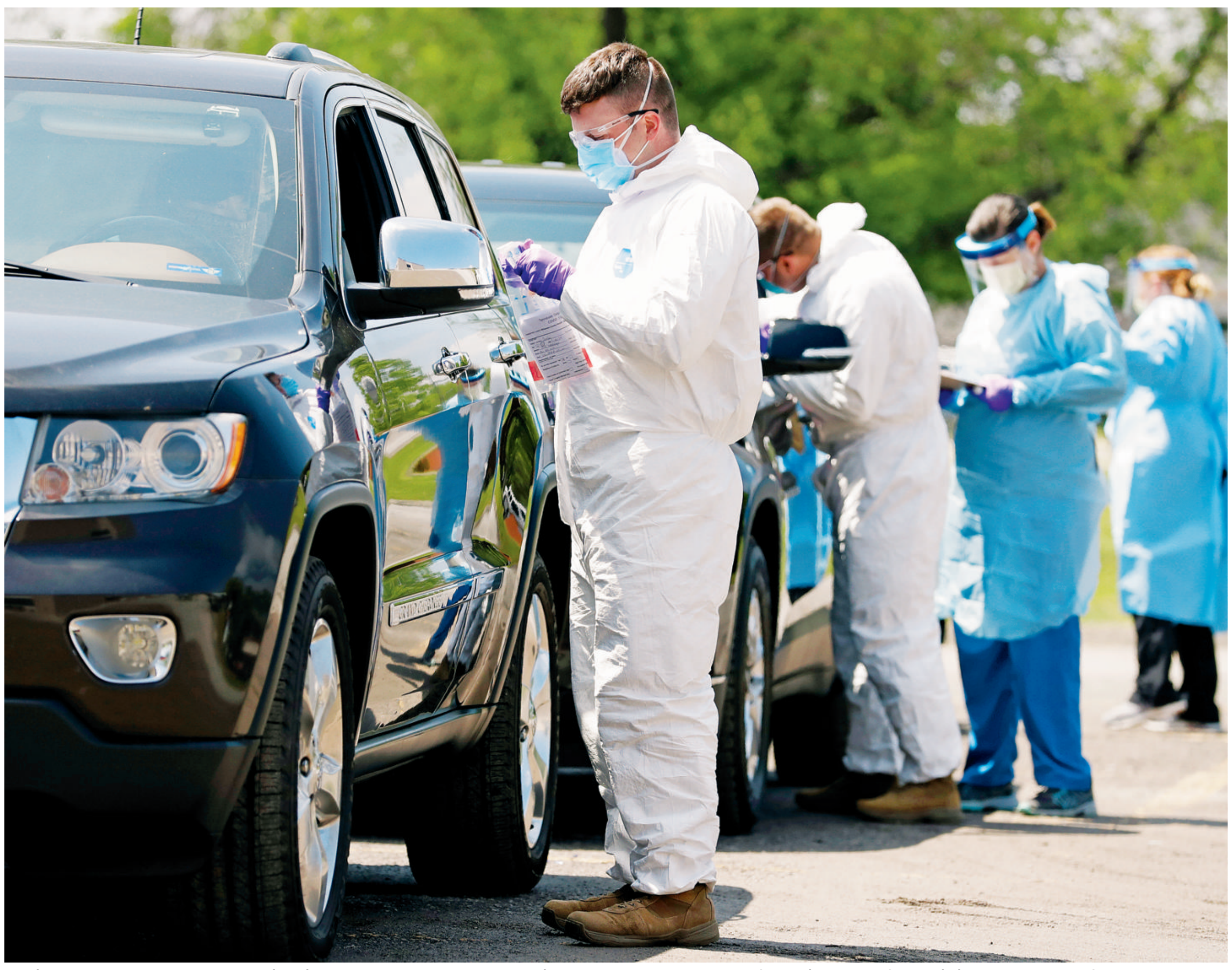
BACK TO BUSINESS

THE VIEW

DAVID A GANTZ AND BASHAR H MALKAWI

The strong will inherit

In a post-pandemic world it is likely only fittest companies will survive and wealthiest economies will keep poorer nations in recession longer



Covid-19 testers check on motorists in the US, where the coronavirus has closed shops and factories and left 15 million people out of work. Photo: AP

The pandemic is posing many challenges to governments, with millions affected and more than 160,000 dead. The world economy cannot significantly recover unless and until testing is widely available – so businesses can rehire those with immunity – and an effective vaccine is widely available, though this is probably a year off at least.

In the short term, with locked-down businesses and social distancing, economies are suffering major downturns. The impact will be severe, possibly into the medium term. Isolation measures are causing an enormous reduction in domestic demand in many countries, and a huge dip in savings.

> **Almost all regions will suffer double-digit declines in exports and imports this year**

Consumption of everything but the bare essentials will slow for at least several years. Many will have to borrow the maximum on their credit cards just to pay for food, clothing and shelter.

Once economies begin to recover, governments are expected to encourage domestic consumption. Manufacturing has fallen in many countries, with factories closed and workers furloughed. No economy is immune.

US macroeconomic data is showing negative growth. Italy, Spain and even Germany and France are sinking into recession. Optimistically, Germany's economy is expected to shrink by 1.9 per cent in the first quarter, and 4.2 per cent for the full year.

Almost all regions will suffer double-digit declines in exports and imports this year; the World Trade Organisation predicts a best-case reduction in world trade of 13 per cent, and a worst case of 32 per cent.

Africa, the Middle East and Commonwealth of Independent States could see exports decline this year and beyond. Demand for petroleum products is expected to fall precipitously because of the worldwide recession caused by Covid-19 and the Russian-Saudi Arabian tension over production.

In comparison, epidemics – such as the 1994 pneumonic plague in India, the 2003 severe acute respiratory syndrome, and 2009 swine flu outbreaks – seem to inflict a stronger but short-term economic downturn.

For example, China's economic downturn this year will be the most severe since the Great Depression, and recovery may take years.

Fortunately, there are now better safety nets in the US and European Union, and the world banking system, in most cases, is in far better shape. Still, Covid-19 has caused mass shutdowns of businesses and manufacturers throughout the US and Europe.

Faced with the coronavirus public-health emergency, some governments, such as in Singapore, Taiwan and South Korea, have responded promptly and effectively. Others are beginning to provide substantial funds to counter and control the spread of the disease, with measures designed to stabilise their economies and employment.

These include tax reductions, subsidies for certain sectors, lower interest rates and shoring up investment in infrastructure.

In the short term, these measures can help absorb the shock and may stabilise the economy. But even with trillions of dollars being poured into the US economy, it is difficult to offset a situation where most factories, shops and restaurants are closed, 15 million or more are out of work and many businesses are likely to fail if the shutdown lasts beyond the end of the month.

Tourism is dead, along with air transport and car traffic. There is no evidence in Europe or the US that financial stimulus is overheating the economy. Rather, it may well be insufficient, and US Congress is debating a second stimulus of about US$500 billion.

In the long term, virtually all economies will be affected, with the path to recovery long and complicated. Spending habits could switch towards saving, threatening domestic consumption in the medium, and perhaps long, term.

Major purchases such as cars and expensive travel may take several years to fully recover, as will a return to 2019 output levels. Businesses will find essential loans hard to obtain, particularly in developing countries, and many will go bankrupt.

Longer term, many countries, particularly the US, will diversify their supply lines to diminish dependence on a handful of countries, whether for pharmaceuticals, services or petroleum. Governments may well force enterprises to do so too.

Policies may be adapted to reform health care systems and educational sectors, or not.

Many countries will accelerate the adoption of industrial and import substitution policies despite possibly prolonging the worldwide reduction in trade, keeping poor countries in recession for longer.

Industrial policies could include localisation targets, such as setting advisory or mandatory domestic and international market shares to be held by local technology and production, or state funding for industry development – subsidies, tax breaks, government procurement favouring domestic suppliers, and governmental direction of foreign investment and technological imports.

In the longer term, such government interference does not bode well for the world trading system. It will favour large, rich countries able to extensively subsidise their industries, such as China, the US and even the EU, and where enterprises can obtain the funds to accelerate the replacement of human workers with robots.

Additional trade conflicts between countries seem likely, particularly among the US, China and India, and within regional groupings such as the EU and the United States Mexico Canada Agreement signatories.

Weak businesses such as traditional department stores and smaller restaurants in the US will disappear, and those dominant, such as Amazon, Apple, Walmart and Huawei, will emerge from the pandemic stronger than ever. Many services, including educational ones, will move even more rapidly towards delivering online. Inefficient manufacturers operating behind high tariff walls such as in India, Brazil and South Africa will find it even harder to compete.

A period of "economic Darwinism" may well follow. Of course, the accuracy of these depressing estimates is anyone's guess, but it is virtually certain that most world economies will never be the same.

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Connect Watch

Shanghai-Hong Kong Stock Connect

Northbound trading

Turnover (m yuan)	Buy	Sell	Total
	11,683.5	12,929	24,612.4

Southbound trading

Turnover (HK$m)	Buy	Sell	Total
	6,086.2	3,745.7	9,831.9

Top 5 most actively traded stocks

Northbound trading (m yuan)

Rank	Stock	Buy	Sell
1	**Kweichow Moutai**	882	751.9
2	**Ping An Insurance**	241.1	700.3
3	**Inner Mongolia Yili Industrial**	257.3	451.1
4	**Jiangsu Hengrui Medicine**	380.7	206.7
5	**China International Travel Service**	139.8	404.2

Southbound trading (HK$m)

Rank	Stock	Buy	Sell
1	**Tencent**	1,237.6	371.1
2	**Sino Biopharmaceutical**	546	58.2
3	**SMIC**	235	316.2
4	**China Life Insurance**	171.2	64.4
5	**Xiaomi**	78.3	142.2

Source: HKEX

Shenzhen-Hong Kong Stock Connect

Northbound trading

Turnover (m yuan)	Buy	Sell	Total
	16,408.7	17,915.7	34,324.3

Southbound trading

Turnover (HK$m)	Buy	Sell	Total
	3,995.1	3,270.1	7,265.2

Top 5 most actively traded stocks

Northbound trading (m yuan)

Rank	Stock	Buy	Sell
1	**Wuliangye Yibin**	472.5	433.5
2	**Contemporary Amperex Technology**	347.9	439.3
3	**Ping An Bank**	542.2	192.9
4	**Midea Group**	474	152.1
5	**Luxshare Precision Industry**	164.6	431.3

Southbound trading (HK$m)

Rank	Stock	Buy	Sell
1	**Tencent**	274	165
2	**SMIC**	154.4	178
3	**Ping An Good Doctor**	265.3	53.3
4	**Sino Biopharmaceutical**	152.9	121
5	**Koolearn**	70.6	94.5

SCMP

CURRENCY CALCULATOR

Figures are mid-price TT rates provided by HKAB

April 21, 2020	Aust	Britain	Canada	China	Euro	HK	India	Japan	Korea	Mal	NZ	P'stan	Phil	S'pore	S Africa	Switz	Taiwan	Thai	US
Australia $		0.5085	0.8941	4.484	0.5824	4.901	48.40	68.06	774.5	2.775	1.049	103.72	32.08	0.8993	11.888	0.6126	19.01	20.59	0.6323
Britain £	1.967		1.758	8.82	1.145	9.64	95.19	133.8	1523	5.456	2.063	203.97	63.09	1.768	23.38	1.205	37.39	40.49	1.244
Canada $	1.118	0.5687		5.015	0.6513	5.481	54.14	76.12	866.3	3.103	1.173	116.01	35.88	1.006	13.296	0.685	21.27	23.03	0.7072
China Rmb	0.223	0.1134	0.1994		0.130	1.0930	10.795	15.18	172.7	0.6188	0.2340	23.132	7.155	0.2006	2.651	0.1366	4.241	4.592	0.1410
Euro €	1.717	0.8732	1.535	7.699		8.415	83.11	116.9	1330	4.764	1.801	178.10	55.09	1.544	20.413	1.052	32.65	35.36	1.0858
Hong Kong $	0.2041	0.1038	0.1824	0.915	0.1188	1	9.877	13.89	158.0	0.5662	0.2141	21.164	6.547	0.1835	2.426	0.1250	3.880	4.202	0.1290
India R	0.0207	0.0105	0.0185	0.0926	0.0120	0.1013		1.406	16.00	0.0573	0.0217	2.143	0.663	0.0186	0.2456	0.0127	0.3928	0.4254	0.0131
Japan ¥	0.0147	0.0075	0.0131	0.0659	0.0086	0.0720	0.7112		11.38	0.0408	0.0154	1.524	0.4714	0.0132	0.1747	0.0090	0.2794	0.3026	0.0093
South Korea W	0.0013	0.0007	0.0012	0.0058	0.0008	0.0063	0.0625	0.0879		0.0036	0.0014	0.134	0.0414	0.0012	0.0153	0.0008	0.0245	0.0266	0.0008
Malaysia RM	0.3604	0.1833	0.3222	1.616	0.2099	1.766	17.44	24.53	279.1		0.3781	37.38	11.56	0.3241	4.284	0.2208	6.853	7.42	0.2279
New Zealand $	0.9533	0.4847	0.8523	4.274	0.5552	4.672	46.14	64.88	738.3	2.645		98.87	30.58	0.8572	11.332	0.5840	18.13	19.63	0.6028
Pakistan R	0.0096	0.0049	0.0086	0.0432	0.0056	0.047	0.4667	0.6562	7.467	0.0268	0.0101		0.3093	0.0087	0.1146	0.0059	0.1833	0.1985	0.0061
Philippines P	0.0312	0.0158	0.0279	0.1398	0.0182	0.1528	1.5086	2.121	24.14	0.0865	0.0327	3.233		0.0280	0.3705	0.0191	0.5926	0.6418	0.0197
Singapore $	1.112	0.5655	0.9943	4.986	0.6476	5.450	53.82	75.68	861.3	3.085	1.167	115.34	35.68		13.2195	0.6812	21.14	22.90	0.7032
South Africa rand	0.0841	0.0428	0.0752	0.3772	0.0490	0.4123	4.072	5.73	65.2	0.2334	0.0882	8.725	2.699	0.0756		0.0515	1.599	1.732	0.0532
Switzerland Sfr	1.632	0.8301	1.4596	7.320	0.9507	8.000	79.01	111.10	1264.4	4.530	1.712	169.32	52.37	1.468	19.406		31.04	33.61	1.0323
Taiwan $	0.0526	0.0267	0.0470	0.2358	0.0306	0.2578	2.546	3.579	40.73	0.1459	0.0552	5.455	1.687	0.0473	0.6252	0.0322		1.083	0.0333
Thailand Bt	0.0486	0.0247	0.0434	0.2177	0.0283	0.2380	2.351	3.305	37.61	0.1347	0.0509	5.037	1.558	0.0437	0.5773	0.0297	0.9234		0.0307
US $	1.581	0.8042	1.41	7.091	0.921	7.750	76.55	107.63	1225	4.388	1.659	164.03	50.74	1.422	18.80	0.969	30.07	32.56	

US$ MARKET RATES

	Bid	Ask
HK ($)	7.7496	7.7504
Japan (¥)	107.6600	107.6900
Euro (€) *	1.0866	1.0870
UK (£) *	1.2323	1.2327
Switzerland (SFr)	0.9679	0.9683
Canada (C$)	1.4188	1.4192
Australia (A$) *	0.6294	0.6296
China (yuan)	7.0924	7.0936
Indonesia (Rup)	15,400	15,510
Malaysia (RM)	4.3930	4.3980
Philippines (peso)	50.8200	50.8400
New Zealand (NZ$) *	0.5972	0.5977
Singapore (S$)	1.4300	1.4306
S Korea (won)	1,231.26	1,232.26
Taiwan (NT$)	30.0660	30.0960
Thailand (baht)	32.5000	32.5200
India (rupee)	76.9410	76.9470
S Africa (rand)	18.9080	18.9295

* per unit. Rates at 10.15pm.

KEY LENDING RATES

HK prime	5.000%	UK bank base	0.100%
US fed fund	0.250%	Euro prime	0.250%
US prime	3.250%	Tokyo prime	1.475%
Taiwan prime	2.616%	S'pore prime	5.250%

MACROSCOPE

NEAL KIMBERLEY

Chances of Beijing meeting US trade commitments dwindle

American factories are closed, leaving little for China to buy, so only farm produce purchases are likely to meet phase one deal terms

The phase one US-China trade deal was finally signed off in Washington in January. Participants left the ceremony to the tune of Louis Armstrong's *What a Wonderful World*. Well, in the grip of the Covid-19 pandemic, the world doesn't look quite so wonderful and the odds of China meeting its US$200 billion purchase obligations under that deal are lengthening.

That deal was signed pre-pandemic, before the world economy took a massive hit as governments across the globe followed China's lead and, to one degree or another, imposed economic lockdowns in an attempt to arrest the transmission rate of the coronavirus.

Back in January, people were still taking planes, countries were still buying and selling vast amounts of goods, and industries were operating at normal capacity and still needed tremendous amounts of energy to power their activities.

> **The odds of China meeting its US$200 billion purchase obligations are lengthening**

But that was then, and this is now. In China itself, gross domestic product contracted on an annualised basis by 6.8 per cent in the first quarter of this year, the National Bureau of Statistics revealed last week. Even if, as hopefully is the case, China is over the worst of the outbreak, the prospects for its economic recovery will surely be dented by the fact that the coronavirus has spread across the globe. Other major economies are in no position to restart purchasing goods from China on a pre-coronavirus scale even if the Chinese economy is heading back to a position from which it could meet overseas demand for its goods.

Over in the United States, including the most recent data for the week ending April 11, over 22 million people, representing some 13.5 per cent of the labour force, have made claims for jobless benefits since March 21, as US economic activity was severely affected by measures taken to try and limit the spread of the disease.

It's a similar tale of woe in Europe, Japan and other major economies.

With this in mind, there is a possibility that, in the coming months, China's energy import requirements might not be as huge as would ordinarily be the case, and indeed as were envisaged in January's deal. That deal, using 2017 as a baseline, envisions Chinese purchases of US energy rising by US$52.4 billion over the next two years.

Nor might US shale producers necessarily want to sell so much oil when the price of crude has fallen precipitately with Covid-19 spreading across the world and economic activity contracting. US shale production involves quite an expensive extraction process and requires a strong oil price to make it profitable.

It might well be that if the oil price remains too low for too long, even if Beijing wished to increase its US shale oil purchases, it might be uneconomic for US companies to accommodate China's needs. Indeed, if others follow Whiting Petroleum, which filed for Chapter 11 bankruptcy this month, some US shale oil firms may not even be around.

Over the next two years, China has also signed up to buy US$77.7 billion more US manufactured goods than it did in 2017, yet a large part of the US manufacturing sector is currently shuttered.

Additionally, this category includes aircraft. Given that aircraft are big-ticket items and that global air travel is not going to get back to normal any time soon, there has to be a question mark over how many US-built planes China might wish to buy in the two years covered by the trade deal.

On the upside, Beijing bought US$5.05 billion worth of American farm produce in the first quarter, an increase of 110 per cent compared to the same quarter last year, according to data released last week by the General Administration of Customs.

There's every chance that China could succeed in meeting its obligation to increase its purchases of US agricultural products by US$32 billion over the next two years, with 2017 again the baseline, but that's only one component of the trade deal.

Admittedly, Clause 2 of Article 7.6 of the deal allows for China-US consultations "in the event that a natural disaster or other unforeseeable event outside the control of the parties delays a party from timely complying with its obligations".

Meeting its phase one purchasing obligations was going to be tough for China in normal circumstances. Doing so, against the backdrop of a global pandemic, may be nigh-on impossible.

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