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CORONAVIRUS RISKS FOR BUSINESS AND POLITICS

RISK REPORT

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Coronavirus Risks for Businesses and Politics

Summary

The spread of the coronavirus in China and across the world is posing serious risks to global supply chains, business operations and revenues, and China's economy and government. This risk report will map out the coronavirus outbreak from a strategic, operational, and financial point of view. Global Risk Intelligence will give insight into the most vulnerable industries and relevant risk aspects, including black swan events.

Tags

CORONAVIRUS, PANDEMIC, HEALTH RISKS, BUSINESS RISK, FINANCIAL RISK, OPERATIONAL RISK, STRATEGIC RISK, CHINA, UNITED STATES, SUPPLY CHAIN RISK, BLACK SWAN EVENTS.



List of Abbreviations

<i>MERS</i>	Middle East Respiratory Syndrome
<i>OPEC</i>	Organization of the Petroleum Exporting Countries
<i>PHEIC</i>	Public Health Emergency of International Concern
<i>UN</i>	United Nations
<i>WHO</i>	World Health Organization



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Introduction & History of the Virus Outbreak

On December 31, 2019, The World Health Organization (WHO) was notified that several citizens of Wuhan City in Hubei Province, China, had been infected with a new virus and were showing pneumonia-like symptoms. On January 7, 2020, the novel coronavirus was confirmed by Chinese authorities. By January 30, 2020, the virus had spread so rapidly both in China and globally that the WHO declared it a Public Health Emergency of International Concern (PHEIC).¹ International travel had facilitated the spread of the coronavirus to the Asia-Pacific, the US, Canada, Europe, and the Eastern Mediterranean.² In Mainland China, at least 1,300 people have died and at least 64,000 people have been infected as of February 14, 2020. With 40 people infected, Japan is the country with the greatest number of cases after China, while the Philippines confirmed the first death from the virus outside of China on February 2, 2020.³

The novel coronavirus, officially known as COVID-19, belongs to the same family of coronaviruses as the Middle East Respiratory Syndrome (MERS) and Severe Acute Respiratory Syndrome (SARS). These coronaviruses typically cause a common cold or a lung infection, among other symptoms.⁴ No vaccine protecting against this new type of coronavirus had been developed, but it is anticipated that the human body will develop some degree of immunity over time.⁵

The novel coronavirus is not only a medical challenge but also a challenge for international markets and economies, affecting international equity, bond markets, commodities, prices, and currencies. While demand and hence prices for government bonds have risen because government bonds are considered relatively safe, demand and prices for natural oil and fuel have decreased as international travel is restricted. Many compare the economic impact of the novel coronavirus to the SARS pandemic of 2002/2003. The significant difference between the two pandemics, however, is that China was not yet the global economy in 2002/2003 that it is now – it is currently the world's second-largest economy. For this reason, it is important to examine how this new virus affects China's economy and politics as well as businesses and industries worldwide.

Impacting China: Domestic Politics & Public Opinion

In an unfortunate turn of events, the coronavirus outbreak coincided with the Lunar New Year holiday. Travel in China commonly increases during the annual Lunar New Year holiday season as citizens commute by airplane or train to visit their families. This accelerates the spread of disease

¹ World Health Organization [WHO] (2020): Novel coronavirus (2019-nCoV). Available at: <https://www.who.int/emergencies/diseases/novel-coronavirus-2019> (Accessed: January 30, 2020).

² WHO (2020): Novel coronavirus (2019-nCoV) Situation Report – 10. Available at: https://www.who.int/docs/default-source/coronaviruse/situation-reports/20200130-sitrep-10-ncov.pdf?sfvrsn=d0b2e480_2 (Accessed: January 31, 2020).

³ Al Jazeera (2020): Coronavirus: Which countries have confirmed cases, Al Jazeera. Available at: <https://www.aljazeera.com/news/2020/01/countries-confirmed-cases-coronavirus-200125070959786.html> (Accessed: January 31, 2020).

⁴ Ibid.

⁵ Ibid.



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and complicates the containment of it, which provides fertile ground for a national health emergency. Additionally, local and national authorities in China were slow to react to the emergence of the coronavirus. It took six weeks for the government of Wuhan to sound the alarm. The delayed reaction of the government provoked anger among Chinese citizens on social media. A central target of public outrage was Wuhan's mayor, Zhou Xianwang, who did not cancel a banquet for 40,000 on January 18, 2020, although the virus had been spreading for weeks at that point. Furthermore, about 5 million citizens had evacuated the city of 11 million before authorities quarantined Wuhan and adjacent cities.⁶ Wuhan's mayor, however, deflected responsibility onto the central government in Beijing, which allegedly took weeks to react to the mayor's notification of the virus.⁷

This led to a situation in which criticism against the Chinese government had reached even major news broadcaster CCTV. This is a relatively uncommon occurrence in China, as public discussion is usually controlled and supervised by the state government. CCTV broadcasted a segment displaying the inadequate emergency response of Huanggang city's health commission. The head of the health commission, Tang Zhihong, and the head of the local center for disease control and prevention, Chen Mingxing, both failed to give details on how many people were infected and how many hospital beds were available in the city. This resulted in public frustration since Huanggang is another pandemic epicenter after Wuhan. Consequently, social media platform Weibo, China's equivalent to Twitter, saw an increase in public discontent.⁸ Shortly after the broadcast was posted online, comments such as "Our taxpayers' money goes to support this group of good-for-nothings," emerged and received support, which eventually resulted in Ms. Tang's discharge from her post as head of Huanggang's health commission.⁹

Such civilian criticism over the Communist Party's management of the medical crisis not only harms the authority of local officials but also of the state government in Beijing. While the government is preoccupied with bringing the crisis under control, citizens have had the opportunity to voice their discontent, questioning the legitimacy of government officials and posing a risk to the stability of domestic politics. The coronavirus outbreak may therefore be one of the most significant challenges to the power of President Xi Jinping's administration since Xi assumed office in 2013.

⁶ McMorrow, R. (2020): Coronavirus cases in China exceed Sars as public anger rises, Financial Times. Available at: <https://www.ft.com/content/cb8d1e7e-43c1-11ea-a43a-c4b328d9061c> (Accessed: February 3, 2020).

⁷ Hille, K., Ruehl, M. & Shepherd, C. (2020): Coronavirus wreaks havoc on tech supply chain, Financial Times. Available at: <https://www.ft.com/content/af1cbfbc-4356-11ea-abea-0c7a29cd66fe> (Accessed: January 31, 2020).

⁸ McMorrow, R. (2020): Coronavirus cases in China exceed Sars as public anger rises, Financial Times. Available at: <https://www.ft.com/content/cb8d1e7e-43c1-11ea-a43a-c4b328d9061c> (Accessed: February 3, 2020).

⁹ Ibid.



*Coronavirus Risks for Businesses and Politics***Impacting China: The Economy**

Domestic political challenges are reinforced by the country's economic situation. China has been facing an economic slowdown, decreasing domestic demand, and the trade restrictions as a consequence of the US-China trade war. China reported its slowest economic growth in almost 30 years as GDP growth for 2019 fell to 6.1%. This constitutes a 0.5% drop from the 6.6% GDP growth of 2018.¹⁰ The fourth quarter of 2019 proved particularly weak as GDP growth sank to 6.0%.¹¹ The US-China trade war played a significant role in China's economic downturn. Giving hope for improvement, trade tensions somewhat eased in January 2020 as leaders in Beijing and Washington, D.C. negotiated a "phase one" trade deal to find common ground in the trade war.¹²

The coronavirus pandemic may prove an impediment to China's economic turnaround, however. According to projections, the COVID-2019 outbreak could lower real GDP growth in 2020 by 0.5-1%.¹³ Originally, estimations suggested that China's growth rate for 2020 would amount to 5.9%, but considering the severity of the coronavirus pandemic, China's GDP could fall to 4.9%.¹⁴

Several of China's industries will experience a setback following the pandemic, with the travel and tourism industries likely to be most severely impacted. Air carriers and travel agencies face a high risk of financial loss, as domestic and international travel has been restricted or suspended. Hubei province, which is home to an important river-port in China and the largest airport in Central China and is therefore a critical transportation hub,¹⁵ has also been seriously affected by the outbreak. Additionally, lockdowns in Wuhan city and Hubei province weaken China's economy because at least three crucial national development zones are located in the area:¹⁶

- Wuhan East Lake High-Tech Development Zone
- Wuhan Economic and Technical Development Zone
- Xiangfan High-Tech Development Zone

Hubei province is crucial for China's manufacturing industry, supplying the country with steel (as one of China's three largest steel producers), automobiles, and photoelectron information (as

¹⁰ He, L. (2020): China just reported its weakest annual growth in 29 years, CNN Business. Available at: <https://edition.cnn.com/2020/01/16/economy/china-economy-trade/index.html> (Accessed: February 3, 2020).

¹¹ Ibid.

¹² Borak, D. (2020): Trump signs first stage of trade deal with China, CNN. Available at: <https://edition.cnn.com/2020/01/15/politics/us-china-trade-deal-phase-one-signed/index.html> (Accessed: February 3, 2020).

¹³ The Economist Intelligence Unit China (2020): Tweet from January 22, 2020, Twitter. Available at: https://twitter.com/TheEIU_China/status/1219997734360367106 (Accessed: January 31, 2020).

¹⁴ Bari Urcosta, R. (2020): The geopolitical consequences of the coronavirus outbreak, The Diplomat. Available at: <https://thediplomat.com/2020/01/the-geopolitical-consequences-of-the-coronavirus-outbreak/> (Accessed: January 31, 2020).

¹⁵ Ibid.

¹⁶ Hubei Province Government (2020): General introduction to Hubei Development Zones. Available at: https://hubei.chinadaily.com.cn/gov/2010-06/21/content_14584080.htm (Accessed: February 5, 2020).



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China's industrial base for optical-electronic products).¹⁷ As factories and offices close in Hubei province and across China due to the spread of the virus, China will experience a significant loss of productivity in the short to medium term. China will also face a multi-billion-dollar financial loss as a consequence of the coronavirus pandemic, if the \$40 billion cost¹⁸ of the SARS pandemic in 2003 is any indication.

Lessons learned from the 2002/2003 SARS outbreak, however, suggest a less gloomy outlook. After China's industries and businesses suffered substantial losses in the first half of 2003, the country recovered quickly. Economic growth accelerated again after a few months. What remains unclear in the 2020 coronavirus pandemic is how long it will last. The SARS virus vanished almost as quickly as it had appeared, lasting mere months and leaving risk managers to wonder if history will repeat itself in 2020. While China may learn to manage and potentially contain the spread of the virus within the next few months, the duration of the pandemic is difficult to predict at present.

Impacting China: Geopolitics

Juggling the pandemic, public discontent, and economic challenges may divert the attention of the Chinese government from foreign affairs at the peak of the health crisis. Resources will primarily be invested into fighting the pandemic, which could compel the Chinese government to temporarily pull back from geopolitics. This could affect the balance of power between the US and China as well as regional Asia-Pacific politics. If China decides to alleviate pressure on regional actors, such as Hong Kong, Taiwan, or littoral states in the South China Sea, these regional actors may feel temporarily encouraged to push back against China. Certainly, the US will profit the most from China's health emergency in terms of political leverage. If China is weakened, China may struggle to support its allies Russia and Iran in exerting pressure on the United States, granting the US greater geopolitical leverage and military influence in critical regions, such as the South China Sea.

Impacting Business: Supply Chains

The US may view China's economic crisis following the pandemic a temporary victory, yet China's weakened productivity and international trade may also affect commodity supply in the US and global markets. The technology, electronics, and automobile industries will be particularly affected by the coronavirus outbreak.¹⁹ What competitors can benefit from in the short to medium term is

¹⁷ Hubei Province Government (2020): Industry in Hubei province. Available at: https://hubei.chinadaily.com.cn/gov/2012-02/13/content_14592524.htm (Accessed: January 31, 2020).

¹⁸ Lee, J. W. & McKibbin, W. J. (2004): Estimating the global economic costs of SARS, in: Knobler, S. et al. (eds.): Learning from SARS: Preparing for the next disease outbreak: Workshop summary, Washington, D.C.: National Academies Press. Available at: <https://www.ncbi.nlm.nih.gov/books/NBK92473/#ch2.s8> (Accessed: February 3, 2020).

¹⁹ Brown, R. (2020): The coronavirus threat to supply chains is a big risk, Forbes. Available at: <https://www.forbes.com/sites/andybrown/2020/02/10/the-coronavirus-threat-to-supply-chains-is-a-big-risk/#26a404f73d96> (Accessed: February 11, 2020).



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China's higher operational and reputational risk. International companies may try to obtain their products from non-Chinese manufacturers, if possible. Conversely, Chinese companies may struggle with imports of vital commodities like electrical equipment or fossil fuels while transportation systems are paralyzed due to the coronavirus.

A decrease in the production of intermediate manufactured goods in China will affect global supply chains. Approximately 20% of all intermediate manufactured product imports worldwide were sourced from China in 2015.²⁰ Asian trading partners are especially exposed to supply chain risks associated with the coronavirus outbreak in China. Japan, South Korea, Hong Kong, Vietnam, Cambodia, and India are among the largest importers of Chinese goods. The most important supply chain-related risks are the availability of traded products, the available volume of manufactured products, and the timeliness of delivery.

While January and February have been traditionally less productive months in China as compared to the other ten months due to the annual Lunar New Year holidays²¹, the coronavirus further slows down production speeds and decreases production levels. The medical emergency affects regions beyond Hubei province. Impacting global technology industries, the coronavirus outbreak decelerated operations in vital technology manufacturing hubs, including Shanghai, Jiangsu, Guangdong, and Chongqing. The governments of these provinces prompted the local industry to delay the resumption of work after the 2020 Lunar New Year holidays by a week to February 10, 2020. Hence, only essential industries continued operations as usual throughout the holidays and virus-induced delay.²²

Countrywide operation disruptions and delays in the working schedule have also impacted foreign companies like Apple or Hyundai. Approximately 290 of Apple's 800 international suppliers are located in areas affected by the delays.²³ Wuhan is home to some of Apple's iPhone suppliers, and following the spread of the virus, Apple estimates that the health emergency could reduce its earnings in the first quarter of 2020.²⁴ Similarly, car manufacturers like Honda, Nissan, Robert Bosch GmbH, and Hyundai rely on Chinese factories in affected regions. China could not deliver production parts to South Korean carmaker Hyundai due to the coronavirus.²⁵

²⁰ Cousin, M. (2020): How the coronavirus can infect global supply chains, Bloomberg. Available at: <https://www.bloomberg.com/news/articles/2020-01-31/how-the-coronavirus-can-infect-global-supply-chains-map> (Accessed: January 31, 2020).

²¹ Bird, M. (2020): Coronavirus quarantine will ripple through global manufacturing, Wall Street Journal. Available at: <https://www.wsj.com/articles/coronavirus-quarantine-will-ripple-through-global-manufacturing-11580458591> (Accessed: January 31, 2020).

²² Hille, K., Ruehl, M. & Shepherd, C. (2020): Coronavirus wreaks havoc on tech supply chain, Financial Times. Available at: <https://www.ft.com/content/af1cbfbc-4356-11ea-abea-0c7a29cd66fe> (Accessed: January 31, 2020).

²³ Ibid.

²⁴ Brown, R. (2020): The coronavirus threat to supply chains is a big risk, Forbes. Available at: <https://www.forbes.com/sites/andybrown/2020/02/10/the-coronavirus-threat-to-supply-chains-is-a-big-risk/#26a404f73d96> (Accessed: February 11, 2020).

²⁵ Ibid.



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In a world in which certain countries and regions specialize in the production of goods that are difficult to obtain elsewhere, supply chain risks are high. Consequently, not only specialized producers of goods but also global markets will experience losses during such crises. Furthermore, relying on only one country to manufacture products can pose a risk for foreign companies, as the example of the 2011 floods in Thailand demonstrate. The floods disrupted global supply chains for the electronics and automobile industries, after which these companies diversified their supply chains across Southeast Asia. Thailand's economy subsequently struggled to recover, even a year after the event.²⁶ In conclusion, globalized supply chains have become a necessity yet an inherent risk for businesses worldwide.

Impacting Business: Human Resources

Workplaces, like many other public places (trains, shopping malls, etc.), are particularly exposed to risks of contagion. Schools and offices have closed due to the spread of the coronavirus even beyond Hubei province. Hong Kong's chief executive Carrie Lam, for instance, mandated civil servants to work from home in order to reduce risks of infection.²⁷ Human resources risks cannot be disregarded in the context of a pandemic. Sick or deceased workers strain productivity levels within a company, organization, or government. Additionally, recruiting new staff will cost time and money. Therefore, it is important to maintain high safety levels for workers and employees in such crises.

Even during a health emergency, employers can find ways to protect workers and sustain moderate productivity levels. This is when modern technology proves especially useful, allowing workers to continue operations from home. Video chats, cloud computing, and project management dashboards can be convenient tools for office workers to maintain productivity outside the office, assuming that they possess a stable internet connection. By contrast, factories that require the presence of workers must either continue operations with increased infection risks or halt operations. In order to improve workplace safety in such cases, better or free access to sanitizers and face masks can be provided, information about the virus and instructions can be distributed, and facilities could be cleaned more frequently. Additionally, workplace canteens could be closed temporarily to reduce exposure and could be substituted by alternative lunch arrangements.

²⁶ Chu, K. (2012): After floods, businesses still wary of Thailand, Wall Street Journal. Available at: https://www.wsj.com/articles/SB10000872396390443493304578035823728376566?mod=article_inline (Accessed: February 11, 2020).

²⁷ McMorrow, R. (2020): Coronavirus cases in China exceed Sars as public anger rises, Financial Times. Available at: <https://www.ft.com/content/cb8d1e7e-43c1-11ea-a43a-c4b328d9061c> (Accessed: February 3, 2020).



*Coronavirus Risks for Businesses and Politics***Impacting Business: Transportation & Airlines**

Shortly after the coronavirus pandemic was reported in international media, numerous airlines suspended their international flights to Mainland China. Uncertainty among travelers about the situation in China and personal safety grew worldwide. Several countries have stopped granting visas to Chinese citizens, and Russia and North Korea, for instance, have closed their borders entirely.²⁸ Decreasing the volume of flights from and to China has a significant impact on the international travel market, since China is the world's largest outbound international flight market and the world's second-largest domestic flight market.²⁹ North American carriers like United Airlines, Delta Air Lines, American Airlines, and Air Canada source approximately 2%-6% of their revenue from flights to China. Meanwhile, European carriers can also expect losses due to decreased flights to China. About 7% of the revenue generated by Europe's largest airlines Lufthansa and Air France-KLM come from China-bound travel. For British Airways, flights to China only account for 3% of the company's earnings.³⁰ Considering these numbers, these companies must brace for a recovery phase of at least two to three months before passenger confidence will grow and air travel volume will rise again.

International air travel has been steadily growing during the last decades, and the Asian market is expected to continue to grow. Air travel in the Asia-Pacific is estimated to rise to 3.9 billion passengers by 2037.³¹ Yet pandemics can produce negative trends on the balance sheets of air carriers, considering the decrease in travel volume as a consequence of the pandemic. At the peak of the SARS outbreak in April 2003, global air traffic experienced a substantial drop of 19%. Among all air carriers, companies in the Asia-Pacific region suffered the most losses. Asia-Pacific air travel declined sharply by 45%, which resulted in a \$6 billion loss for regional air carriers.

Regional air carriers like Hong Kong's Cathay Pacific has undergone a particularly difficult time. Government protests in Hong Kong have impacted the air carrier in 2019, and the 2020 coronavirus outbreak is now further affecting Cathay Pacific's scheduled capacity. The company has cut about 50% of its flights to Mainland China until the end of March 2020. Australian carrier is prepared to decrease its international flights capacity by 20%. Similar cuts during the SARS outbreak resulted in financial losses amounting to around \$37 million for Quantas.³²

What is important to note is that, above all, regional low-cost air carriers will face the highest business risks in the case of a pandemic. This is because low-cost carriers oftentimes focus on

²⁸ McMorrow, R. (2020): Coronavirus cases in China exceed Sars as public anger rises, Financial Times. Available at: <https://www.ft.com/content/cb8d1e7e-43c1-11ea-a43a-c4b328d9061c> (Accessed: February 3, 2020).

²⁹ Freed, J. & Rucinski, T. (2020): For airlines, China boom now exposes them to risk as coronavirus slams market, Reuters. Available at: <https://www.reuters.com/article/us-china-health-airlines-analysis/for-airlines-china-boom-now-exposes-them-to-risk-as-coronavirus-slams-market-idUSKBN1ZS0P9> (Accessed: January 31, 2020). CHECK

³⁰ Ibid.

³¹ Whitley, A. & Park, K. (2020): Virus seen pushing some struggling airlines out of business, Bloomberg. Available at: <https://www.bloomberg.com/news/articles/2020-01-30/virus-outbreak-could-be-death-knell-for-several-airlines> (Accessed: January 31, 2020).

³² Ibid.



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frequent short-haul flights to a limited number of destinations. If a travel market as large as China is incapacitated by an event like a health emergency, these low-cost carriers have little alternative options, especially when most of their flights are to and from China.

Impacting Business: The Energy & Fuel Market

Risks for the energy and fuel market are directly interlinked with those for the air travel market. Consequently, natural oil prices have taken a hit due to restricted air travel and declining passenger numbers. International demand for fuel subsequently also declined, and so did the demand for energy bonds. The stakes are high for representatives of the Organization of the Petroleum Exporting Countries (OPEC) as they faced the largest monthly drop in crude oil prices in the last three decades in January 2020. In mid-February 2020, the price of Brent crude, the global benchmark, had decreased by 15% since the beginning of 2020.³³

As the largest importer of oil and gas in the world, China's influence on global oil demand is unequalled. Hence, the coronavirus outbreak is weighing down on global oil demand to the extent that the OPEC has lowered its global oil demand outlook from 1,220,000 barrels to 990,000 barrels a day. The annual global economic growth projection of the OPEC was also downgraded to 3%. The OPEC cites the coronavirus and the economic slowdown in the Eurozone and India as major factors behind this projection.³⁴

Impacting Business: Travel, Tourism & Insurance

In addition to airlines, travel agencies and travel insurance companies will experience setbacks as a result of the coronavirus. In particular, travel agencies with a strong focus on travel to China must anticipate financial losses. For instance, South Korea's largest tour travel company, Hana Tour Service Inc., disclosed that 90% of its China travel packages have been canceled by concerned customers.³⁵ As cases of coronavirus infection are announced not only in China but across the Asia-Pacific region, travel agency customers are considering avoiding Asian destinations entirely.³⁶ At the same time, travel insurance providers are receiving increased numbers of insurance claims for travel to Asia. One insurance company, April Travel Protection, compared data from January 2019

³³ Hodari, D. (2020): OPEC sees coronavirus weighing heavily on oil demand, Wall Street Journal. Available at: <https://www.wsj.com/articles/opec-sees-coronavirus-weighing-heavily-on-oil-demand-11581510949> (Accessed: February 12, 2020).

³⁴ Hodari, D. (2020): OPEC sees coronavirus weighing heavily on oil demand, Wall Street Journal. Available at: <https://www.wsj.com/articles/opec-sees-coronavirus-weighing-heavily-on-oil-demand-11581510949> (Accessed: February 12, 2020).

³⁵ Whitley, A. & Park, K. (2020): Virus seen pushing some struggling airlines out of business, Bloomberg. Available at: <https://www.bloomberg.com/news/articles/2020-01-30/virus-outbreak-could-be-death-knell-for-several-airlines> (Accessed: January 31, 2020).

³⁶ Palmer, E. (2020): Coronavirus disrupts travel plans across Asia, The New York Times. Available at: <https://www.nytimes.com/2020/02/07/travel/traveling-coronavirus.html> (Accessed: February 11, 2020).



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and January 2020 and found that insurance claims for travel to Asia have increased more than twofold in January 2020 compared to the year before.³⁷

In conclusion, travel agencies that focus almost exclusively on China are at risk of high revenue losses. Rearranging travel itineraries to alternative destinations outside the Asia-Pacific region in order to satisfy customer demand can curb travel cancellations. Similarly, travel insurance providers must brace for higher expenditures and likely lower revenues in the first quarter of 2020.

Impacting Business: Medical Supplies Manufacturers & Pharmaceuticals

While the coronavirus poses high risks to numerous industries, the medical supplies industry may view the coronavirus crisis as an opportunity. As demand for medical products like face masks, disinfectants, and other hospital supplies rises, medical supplies manufacturers will experience a surge in demand for their products. International media reports that China's demand for medical supplies, and particularly face masks, is rising so rapidly that factories and pharmaceuticals cannot keep up. The production capacity of China's face mask manufacturers amounts to about 20 million masks a day,³⁸ yet the United Nations (UN) reports that demand for face masks is up to 100 times higher and prices are also up to 20 times higher than usual. This has created a shortage of personal protective equipment and backlogs of four to six months.³⁹ Following medical shortfalls, China has announced that it will subsidize front-line medical staff with up to \$43 a day and ensure increased production of medical supplies and personal protective equipment.⁴⁰ While the circumstances created by the coronavirus are grave, revenues for medical supplies manufacturers are likely to rise in the coming months.

Impacting Business: Leisure Activities and Sports Events Organizers

Events like concerts, conferences, and sports competitions in China or Asia are at risk of being postponed, transferred to different locations, or canceled due to the coronavirus. These arrangements will lead to financial losses or higher costs for organizers and involved stakeholders.

³⁷ Ibid.

³⁸ Xinhua (2020): Workers make medical equipment to help fight novel coronavirus, Xinhua. Available at: http://www.xinhuanet.com/english/2020-02/02/c_138750134.htm (Accessed: February 3, 2020).

³⁹ United Nations [UN] (2020): Coronavirus: demand for face masks creates shortfall for those in real need. Available at: <https://news.un.org/en/story/2020/02/1056942> (Accessed: January 11, 2020).

⁴⁰ Buckley, C. & Qin, A. (2020): Coronavirus anger boils over in China and doctors plead for supplies, The New York Times. Available at: <https://www.nytimes.com/2020/01/30/world/asia/china-coronavirus-epidemic.html>

(Accessed: January 31, 2020).



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The World Athletics announced in a press release on January 29, 2020, that the World Athletics Indoor Championships in Nanjing will be postponed from 13-15 March 2020 to March 2021.⁴¹ Organizers of the Tokyo Olympic Games, which are scheduled to take place in Summer 2020, are highly concerned that the coronavirus may become a safety issue during the event.⁴² While the stakes are high in terms of financial profitability, logistics, and medical safety, the sports megaevent appears unlikely to be canceled by the organizers.⁴³

Similarly, cultural events and recreational activities may be affected by the coronavirus pandemic. Managers of musicians are canceling their international concert tours out of medical safety concerns. For instance, the agency of Korean pop group Seventeen announced that Seventeen's world tour with stops in Kuala Lumpur, Taipei, Madrid, Paris, London, and Berlin is being canceled.⁴⁴ Moreover, Shanghai Disneyland is suffering financial losses as the amusement park remains indefinitely closed until risks of infection in the park have minimized.⁴⁵ As a result, Disney must manage refunds of entry tickets into the resort and Disney hotel bookings. Other companies managing cultural events, hotels, and leisure activities in Asia must also brace for ticket cancellations, refunds, or the rescheduling of plans.

Second Layer Risks & Black Swan Events

A state which is struggling with the containment of a pandemic is more vulnerable to second layer risks. What would happen if another risk like a natural disaster occurred while the state is making ends meet in order to manage a global health crisis? Such events could further exacerbate risks to businesses, supply chains, economic development, and public confidence in the government. Additionally, the recovery time would extend, and the re-establishment of normal operations could be delayed by additional days or months.

If a tsunami, hurricane, or earthquake hit a region struggling with the effects of a virus outbreak, that region would face the following additional risks and challenges:

- Managing a lockdown to contain the virus

⁴¹ World Athletics (2020): World Athletics to postpone World Athletics Indoor Championships Nanjing 2020. Available at: <https://www.worldathletics.org/news/press-releases/indoor-championships-nanjing-2020-postponed> (February 11, 2020).

⁴² Takahashi, R. (2020): Tokyo Olympics organizers 'extremely worried' that coronavirus may hit games, The Japan Times. Available at: <https://www.japantimes.co.jp/news/2020/02/07/national/tokyo-olympic-organizers-worried-coronavirus/#.XkVQ8yNCc2w> (Accessed: February 11, 2020).

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- Simultaneously facing a disruption of infrastructure and transport due to the natural catastrophe
- Potential shortages of medical supplies and blocked transportation routes to deliver supplies due to disrupted infrastructure and health safety lockdowns
- Shelters for victims of the natural catastrophe will create high infection risks because many people will be gathered in relatively small spaces
- Supply chains and business operations would be severely disrupted
- Factories, offices, and other physical assets could be damaged or destroyed by the natural catastrophe and staff could be incapacitated by the health crisis, leaving business operations under serious threat

While it appears relatively unlikely that a state government and businesses would face a pandemic and a natural catastrophe at the same time, the economic, financial, and social impact of such an event would be very serious, particularly in a country that is either 1) politically and economically unstable or 2) highly important for the global economy (e.g. China). Such an occurrence could be labeled a “black swan event,” an event that is highly improbable yet highly impactful. Such a black swan event should not be entirely discounted, since climate change has resulted in increasingly frequent and intense weather events. This situation slightly increases the probability of a natural disaster coinciding with a health emergency.

Strategic Summary

Opportunities

- While many industries (oil and gas, aviation, travel and tourism, car and electronics manufacturing, etc.) are likely to experience setbacks from a pandemic, an industry that is likely to benefit from an increase in demand and revenue is the medical supplies and pharmaceuticals industry.
- Pandemics have the potential to influence public opinion of local or state governments. This, in turn, can influence foreign policies and leverages between competing states. China’s management of the coronavirus may weaken the state on the foreign policy front while officials are trying to contain the virus. This, for instance, can be a geopolitical advantage for China’s competitor, the US.

Risks

- Business operations, supply chains, and revenues within and outside of China will be negatively affected, as trade with China will be slowed down, factories, stores and offices of national and multinational corporations are closed, and prices fluctuate.



Coronavirus Risks for Businesses and Politics

- The novel coronavirus creates uncertainty regarding the length and impact of the crisis, since it is unclear how long the pandemic will last before it can be contained and how many people and parts of the world will be affected by then.
- While black swan events are highly improbable, stakeholders should consider the consequences of an occurrence of two impactful crisis at the same time. Such considerations can improve the crisis response strategy of governments and businesses.

Tactical Breakdown

Strategic

- Geopolitically, a pandemic like the coronavirus outbreak can threaten the domestic and international political stability of a country. The Chinese government has received backlash from Chinese citizens on social media and the news, although the Chinese government usually censors criticism from the public against the state. Domestic political instability can translate into a weakened position against international competitors. Competing states may use this weakness as leverage.
- Trade routes and global demand for central resources like natural gas and oil will be affected by a pandemic. Since the coronavirus outbreak, demand and prices for oil have dropped significantly since January 2020.
- Supply chains will be severely disrupted by a global health crisis, particularly when the world's second-largest economy (China) is affected.

Operational

- The production and delivery of goods are at risk of being reduced and/or delayed. Workers and employees may be sick and unable to work, which diminishes productivity.
- Factories and offices may have to close because of safety regulations mandated by governments.
- Medical supplies manufacturers and pharmaceuticals may have to temporarily increase production levels in order to keep up with the surging demand.

Financial

- A wide range of businesses and industries are likely to face financial losses as a result of the coronavirus: air carriers, travel and insurance companies, hotels, organizers of sports events and leisure activities, fuel and petroleum exporters, electronics manufacturers, or carmakers.
- Depending on the size of businesses, the coronavirus could create high financial losses for these businesses. In extreme cases, travel agencies or air carriers specializing mainly on the Chinese market may even be at risk of insolvency.
- The coronavirus is likely to result in a multi-billion-dollar loss for the Chinese economy. The SARS crisis in 2003 cost the global economy roughly \$40 billion in only six months,



Coronavirus Risks for Businesses and Politics

indicating that the coronavirus, which has now surpassed the death toll of the SARS crisis, may also create high costs for the global economy.

Conclusion

The coronavirus outbreak has become a political, economic, and financial challenge due to several reasons. First, a pandemic like the coronavirus outbreak is difficult to anticipate. Second, our globalized world provides fertile soil for a virus to spread quickly internationally and escalate risks. Third, it is difficult to anticipate when exactly the coronavirus will be contained, since it is a new type of virus and vaccines have yet to be developed. Fourth, in a globally interlinked and economically important country like China, a virus outbreak only increases the impact on the global economy, business operations, and supply chains. And finally, a health emergency can disrupt the political stability of a country if citizens begin to question the crisis response strategies and capabilities of their government.





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