

Economic threats in the time of corona



WHAT will be the impact of Covid-19 on the Bangladesh economy? Overall, it seems inevitable that the GDP gains that were expected to be realised in the current fiscal year are likely to be wiped out. The threat of a recession—

two subsequent quarters of negative growth—looms large, especially if the current situation is not resolved before the end of the fiscal year on June 30, 2020. Prime Minister Sheikh Hasina, addressing the nation on March 25, clearly recognised this when she said that the coronavirus has created a crisis throughout the world and that no country has been spared.

Covid-19 is bound to severely impact the global economy. Businesses across the globe are temporarily halting production and many may even face bankruptcy. Global supply chains are critically dependent on imported intermediary inputs from China and other countries currently under lockdown. Large transnational companies do not simply rely on East and South Asia for their inputs but also as a lucrative market for retail sales—Samsung and Apple, BMW or Volkswagen are coveted brands for the emerging markets' middle-class consumers.

As the Center for Policy Dialogue noted at its timely briefing (March 21), the global uncertainties will transmit through both production and trade channels to the domestic economy of Bangladesh. Export demand will decrease as buyers postpone or cancel their orders. Inward foreign direct investment is bound to decrease and portfolio investments may also shrink, aggravating the bear market already gripping the country's stock exchanges. Remittances are bound to be affected negatively due to job cuts, putting further pressure on Bangladesh's current account and its exchange rate. Last but not least, official development assistance inflows may suffer, putting downward pressures on the Annual Development Programme's public investment.

Domestic uncertainties will cause entrepreneurs to postpone private investment, impacting employment and earnings in both formal and informal sectors. Supply chains will be disrupted and higher prices will be demanded. Most fundamentally, people will have less money to spend and consumer demand will contract.

The pressure on public expenditure will also increase. First, health expenditures will need to be beefed up dramatically. But equally, income support measures will be required for low income households and the poor. Simultaneously, public revenues from imports, value added taxes and advance income taxes will be reduced—in this fiscal year and into the next. What will happen to Bangladesh's economy? One approach to estimate the impact of Covid-19 on the

economy of Bangladesh at this early stage is to project the likely trajectories of macro-economic aggregates such as public and private consumption and investment, as well as imports and exports. Another approach would be to look at the sectoral balances—based on what is happening to the economy on the ground—and aggregate the likely output losses over the coming months ahead. The Asian Development Bank, for its March 5 briefing on the impact of Covid-19 in the Asia-Pacific region, opted to follow the sectoral approach, reconciling the country estimates across the region. It identified several scenarios, depending on the duration that the virus would thwart economic activity

(BGMEA) reported that 385 factories had work orders cancelled worth USD 1.05 billion. Three domestic airlines, Regent, US-Bangla and Novoair, each said that their losses for March alone would range between Tk 25 and 40 crore (USD 3 million to 5 million). Major city hotels, which had reported a healthy occupancy ratio of 70 percent, saw this plunge to near-zero. All public and private functions are cancelled. The Civil Aviation Board, operating airports that have ground to a halt, is said to be losing Tk 1 crore in revenues per day. International airlines serving Bangladesh have cancelled their flights: Qatar through to end of April and Emirates till end of June. The Dhaka Stock Exchange had its lowest

20). These were both linked to travelers coming from Wuhan. Just two days before the Chinese New Year of the Rat (on January 25), when everybody is on holiday for seven days and travel mania grips the country, Chinese authorities ordered the complete lockdown of Wuhan—an 11 million industrial city. Soon after, the whole of Hubei Province with its 59.8 million people followed suit. When John Hopkins University started its tracking, cases infected in Hubei were reported to have reached 444 with 17 deaths (January 22). In a single week, infected cases went up eight-fold, with deaths rising more than seven-fold. One month into the pandemic, infected cases stood at 33,366, with 1,068 deaths (February

manufacturing and utilities sectors during three months, as well as a 40 percent output loss in hotels, restaurants and transport services sectors for six months, starting from March 2020. This will cause aggregate GDP for this fiscal year to contract by 9.6 percent, mainly in the fourth quarter. Sectors which will take more time to recover—hotels, restaurants, transport and tourism—will throw a shadow over the prospects for the next fiscal year. Temporary employment loss in the formal and informal sectors may affect 8.5 percent of the total work force, that is, up to 6 million persons.

These extraordinary challenges will require extraordinary responses. The economic toolbox consists of measures to stimulate the macro-economy, to lower interest rates and ensure liquidity; to provide soft loans and grants to businesses and households; to reschedule or write-off debts; to boost public expenditure in priority sectors such as health and food security; and—last but not least—to provide direct income support to persons and households. Some measures are unlikely to work in our extraordinary situation. Macro-economic stimulus—à la Keynes—is one of these. While we have massive underutilised resources in the labour market, we cannot bring them together for work at this time. In her address to the nation, the Prime Minister announced a Tk 5000 crore package for the business sector (nearly USD 600 million), explaining that this is to ensure that businesses will remain solvent and can continue to retain and pay their workers, even if facing less demand. Lowering interest rates will help to sustain the already fragile banking sector, but not address the real challenges of people's incomes and livelihoods. Rescheduling or debt write-offs have a dismal record—those that don't need it seem to benefit, whereas those that do are often deemed ineligible. Drastically boosting public expenditure to beef up health facilities, execute large-scale testing and train personnel for treatment of the infected, should definitely become a top priority. Ensuring food availability in the markets at affordable prices throughout the corona crisis period will be equally vital. But it will be most important to sustain people's livelihoods. Low-income households, old-age pensioners, vulnerable groups and other registered poor should all be granted basic monthly income support and food rations at the current poverty line income.

None of the above will stop the juggernaut of slowdown and recession hitting the country. However, it will help to ensure that the health-crisis-turned-economic crisis will not also become a full-scale social crisis, wiping out the gains of reduced poverty which have been achieved over the last decade.

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By last week, these vendors were seen sitting idle on Dhaka streets as city-dwellers increasingly opted to stay home and practice social distancing. The streets are now totally empty of these informal sector workers as a result of the ten-day lockdown. PHOTO: PRABIR DAS

as well as the resulting output losses. Its assessment of the impact of Covid-19 on Bangladesh in a hypothetical "worst case" scenario was a reduction of 1.1 percent of GDP, or USD 3 billion, using 2018 prices. Output loss in the business and trade sector would be the largest, in excess of USD 1.1 billion. Agriculture would stand to lose in excess of USD 600 million. Some 900,000 workers, in formal and informal employment, are at risk of losing their jobs.

With the impact of Covid-19 unfolding as it does, these estimates may need to be thought of as a "best case" scenario. Just over the last few days, the Bangladesh Garment Manufacturers and Exporters Association

turnover in more than five years, with earnings of companies plummeting and price-earnings ratios too high for buyers to venture into the market.

The economic impact will critically depend on the timing, duration as well as intensity of the crisis as it unfolds. The Hubei province of China offers some pertinent insights. On Dec 31, 2019, Chinese health officials reported a cluster of 41 suspect cases of pneumonia to the World Health Organization (WHO). Within a week, Chinese authorities identified the novel coronavirus (nCoV, January 7, 2020). On January 11, the first death occurred in Wuhan, whereas the first cases were identified in Thailand (January 13) and the US (January

11.) Another month later, the number of cases shot up to 67,336 with 3,046 deaths. Only in the ninth week of the epidemic, the number of cases stabilised at 67,800 and 3,152 deaths (March 23). Some semblance of normality is slowly returning to Wuhan after more than two months of complete lockdown, rigorously enforced.

Assuming a two-month complete lockdown for Bangladesh provides a preliminary basis for some corrective computation to arrive at a credible assessment of the economic impact of Covid-19 in Bangladesh. We compute the impact of a 40 percent output loss in the business and trade sector as well as the light/heavy

The centrality of reason

The key lesson of the coronavirus pandemic



IT is one of the less salubrious facts of life that at times of profound concern and insecurity, charlatans, cranks and confidence tricksters come out of the woodwork. As the world cowers with fear at what the global threat of coronavirus will wreak, hucksters and snake-oil salesmen ply their trade with abandon. Whether it's colloidal silver or chloroquine in the West or cow's urine in India, reports are trickling in from all over the world about how a vulnerable public is being gullible into buying into myths that have no basis in fact.

It turns out, however, that nothing quite clears the public mind like a good old pandemic. Gradually, slowly, a consensus is growing around the world that at a time of crisis, our most critically important tool is fact—and by extension, a scientific temperament founded on rationality.

What's surprising is that it's taking this long. You would think that faced with what is one of the most dangerous, enigmatic

pathogens in recent history, people would instinctively look to the most dependable, factual sources to figure out how to deal with this existential threat.

Alas, you would be quite wrong. Science can take a back seat for all sorts of reasons. While the whole world scrambled to put in place social distancing to ward off coronavirus transmission, extraordinary images appeared of over 50,000 people huddling in Lakshmipur, Bangladesh, for a religious prayer. In the US, evangelical leader Jerry Falwell Jr, is welcoming students back to Liberty University while universities and schools—and in many cases whole states—are closing down.

Obsessive ideological bias is another enemy of common sense. The US and UK are now ruled by parties whose faith in markets is close to doctrinal. It's almost as if the Bible had opened with: "And God said, Let there be markets." Anything run by the government is anathema.

Now that push has come to shove, free market ayatollahs have been obliged to swallow their pride. Britain's chancellor of the exchequer Rishi Sunak has presented a budget that's given free marketers short shrift.

"Even during the second world war, the role

of the government did not extend to funding jobs across every sector of the economy," The Guardian observed. "Rishi Sunak ... revealed that the government would establish a coronavirus jobs retention scheme for all employers, large or small, that will cover 80% of wages, up to £2,500 a month. The scheme will initially be open for three months, but could be extended, and will be backdated to 1 March."

The United States has the redoubtable President Donald J Trump at its helm, who on a given day has the ability to show the middle finger to science, fact, and even coherence and common decency. His daily press meet has been a clown show of breathtaking mendacity, self-contradiction and incoherence. His chums at the Republican Party and the friendly choir at Fox news have been only too happy to egg him on.

Yet surprise, surprise! After the standard kabuki dance and nail-biting drama of Congressional negotiations, the US Senate has passed at press time (which the House is expected to pass and Trump sign in double quick time) an unprecedented USD 2 trillion bill that looks straight out of a Soviet five-year-old plan.

"The legislation would send direct payments of \$1,200 to Americans earning

up to \$75,000 ... and an additional \$500 per child," according to the New York Times. "It would substantially expand jobless aid, providing an additional 13 weeks and a four-month enhancement of benefits, extending them for the first time to freelancers and gig workers and adding \$600 per week on top of the usual payment."

In addition, the law provides USD 350 billion in federally guaranteed loans to small businesses, establishes a USD 500 billion government lending programme for distressed companies and gives USD 100 billion to hospitals on the front lines of the pandemic.

Of course, the Republicans tried to pull a fast one—the initial plan had a USD 500 billion fund to bail out companies that was entirely at the discretion of the Department of Treasury, essentially a no-strings-attached slush fund for Trump in an election year, but Democrats cried bloody murder. Now, no companies controlled by Trump, Vice President Mike Pence, members of the cabinet or Congress will be eligible for bailout funds.

This is not to say that the battle on behalf of science and reason is over. In the US, Trump is already getting antsy about the lockdown. He said he might open up businesses by Easter, which is less than three

weeks away. Experts are aghast, warning that that could be catastrophic for public health, but respect for science, alas, has never been Trump's strong suit.

Nonetheless, for all of Trump's antics, it is Dr Anthony Fauci—an immunologist who is the chief of the US National Institute of Allergy and Infectious Diseases—who has become the most trusted voice in the federal government (rumour has it that this is annoying the perennially thin-skinned Trump). In the absence of clear federal leadership, states are taking aggressive measures to mitigate the coronavirus disaster. Democratic governors are leading the way, but many Republican governors are not far behind.

The upshot is clear. As the global pandemic continues to wreak havoc, the public mind is getting focused on how science is the only way to understand, address and mitigate one of the biggest public health challenges we have witnessed in our lifetime.

We are finding out the hard way that when push comes to shove, there is no alternative to reason and facts. May this sober realisation endure.

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QUOTABLE Quote

FRIEDRICH NIETZSCHE
(1844-1900)
German philosopher, cultural critic, poet and composer

There are two different types of people in the world, those who want to know, and those who want to believe.

CROSSWORD BY THOMAS JOSEPH

ACROSS

- 1 Cavalry sword
- 6 Urban oasis
- 10 Want badly
- 11 Vigilant
- 13 Valentine's Day flowers
- 14 Cookout spot
- 15 French friend
- 16 Rink material
- 18 Powerful people
- 19 Resort city of California
- 22 - loss (confused)
- 23 Stubborn animal
- 24 Songs like Ella Fitzgerald
- 27 Velocity
- 28 Top-notch
- 29 Take in

DOWN

- 1 Tussle
- 2 Kitchen come-on
- 3 Pesto herb
- 4 Genesis woman
- 5 Stands up to
- 6 Origami need
- 7 Chicken - king

30 Cheer-leading stunts

35 Woods-man's tool

36 Sandwich meat

37 Objective

38 Fashionably dated

40 Martini garnish

42 Friend of Threepio

43 Work of fiction

44 Uses a needle

45 Wasn't thrifty

8 Following

9 Kris - (Santa)

12 Flung

17 Busy one in Apr.

20 Beat at chess

21 Louvre entrance designer

24 African expanse

25 Smooth-talking sorts

26 Bening of "Captain Marvel"

27 Church speeches

29 Relaxing retreat

31 Chases off

32 Ingenuous

33 Donated

34 Do refinery work

39 Join the crew

41 Cut off

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BEETLE BAILEY by Mort Walker

BABY BLUES by Kirkman & Scott

YESTERDAY'S ANSWERS

P	A	I	R	S	P	A	T		
D	A	N	C	E	T	A	M	E	R
U	R	G	E	S	E	L	E	N	A
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