# The Cost of SARS: $11 Billion and Rising

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*The Sars outbreak is hitting economies hard across the region. Hong Kong has been the biggest casualty--but no country is immune. The financial cost runs into billions of dollars, while regional growth is under threat. Tourism and commerce, in particular, are ailing and it could get worse.*

CORRECTIONS
In **The Cost of Sars: $11 Billion and Rising [Apr. 24],** we should have noted in our ticker chart that the estimated cost of Sars to Vietnam's GDP is $111 million.

**HOTELIER WICHIT** Na-Ranong doesn't have the virus that causes Severe Acute Respiratory Syndrome nor do any of his hotel guests or staff. But the concern about the disease that has washed over the southern Thai resort island of Phuket has turned his business into a big casualty.

The cost per country:

- China: $2.2 billion
- Hong Kong: $1.7 billion
- Indonesia: $400 million
- South Korea: $2 billion
- Malaysia: $660 million
- Philippines: $270 million
- Singapore: $950 million
- Taiwan: $820 million
- Thailand: $490 million
- Vietnam: $15 million
- Japan: $1.1 billion

Occupancy rates at his four-star Pearl Village Resort have fallen by more than 30% since the news about Sars broke in March. To cope, he's shut down three wings--or 80 rooms--in his 250-room hotel and slashed rates by as much as 40%. Staff that used to serve guests have been redeployed to renovate and refurbish rooms. Display lights that adorn the resort's palm trees and buildings are going unplugged and housekeeping staff have been instructed to do laundry on alternate days to save electricity. Other employees are being encouraged to take extended leave without pay. "It's as though Thai tourism has been put in quarantine," he moans.

At a time when the region was already reeling from a prolonged economic downturn, falling global capital expenditure, anxiety over terrorist attacks and the U.S.-led war in Iraq, Sars has dealt a severe blow. Hong Kong has been the worst hit, but it's causing hardship around the region--from Vietnamese workers finding it impossible to take up jobs overseas to international businessmen hit by grounded flights.

Assessing a cost in dollars for a disease that has leapt to four continents and at least 18 countries--infecting thousands and killing more than 150--is not easy. If it gets worse, the costs could soar. At this stage Sars looks less lethal than annual influenza outbreaks--initial estimates put the death rate from Sars at roughly 4%. But it's causing that much more disruption because so little is known about it at this stage. And there's still a chance that the economic damage could be minimized, outside Hong Kong at least, if the illness fades away or a cure is found soon.

In a bid to nail down a figure, the REVIEW looked at government statements, where available, and reports from as many as eight financial institutions--depending on what was available--to find out how many percentage points they expected Sars to carve off of GDP growth this year for each country affected by the virus or its economic impact. (Institutions included Merrill Lynch, Goldman Sachs, JP Morgan, Lehman Brothers, Morgan Stanley, ING Financial Markets, BNP Paribas Peregrine, Standard & Poors, and IDEAGlobal.) From there, an average was found and applied to the International Monetary Fund's nominal GDP figure for 2002. This straightforward calculation, which does not account for inflation, produces a total of $10.6 billion.

Others put the loss higher. Andy Xie, a managing director at Morgan Stanley in Hong Kong, estimates that Sars will this year shave 0.6% off real GDP growth for Asia--minus Japan, Australia and India--at a cost of $15 billion. The World Health Organization, meanwhile, estimates that the global cost of Sars to date is nearing $30 billion.

Factor in public-health outreach efforts, quarantines, patient screening, and health education coupled with the impact this new disease has had on retailers, airlines and the tourist industry, and the final bill could be enormous. If the disease continues to spread, quarantines could close factories and slow trade, affecting manufacturing--a sector which one senior economist says accounts for about 30% of Asia's GDP, minus Japan.

Add to those figures the costs of premature deaths of income-earners, lost work days of sick employees, higher hospitalization and treatment costs. Last year Hong Kong's government spent 12% of its budget, or 2.7% of GDP, on health care, according to a report by Citibank. A 5%-10% increase in health-care spending would increase the government's deficit by 0.2-0.3 of a percentage point of GDP, the study found.

One expert, Gurinder Shahi, chief executive officer of BioEnterprise Asia, a health and biotech consultancy, estimates that the eventual bill for the region could be around $50 billion and the global cost in excess of $150 billion. "These are back-of-the-envelope numbers that are likely to be gross underestimates," he warns.

Another way of measuring the potential cost of Sars is to look at what seasonal outbreaks of the flu cost economies around the region each year. The annual cost of flu to the Thai economy, for instance, is about $450 million in direct medical costs and an additional $1.6 billion in lost productivity due to time off work, according to Shahi. In Singapore, lost work days from flu cost the economy more than $300 million annually.

Now governments and brokerage houses around the region are downgrading their full-year economic growth estimates. In Singapore, Prime Minister Goh Chok Tong forecasts Sars could shave as much as a half to one percentage point off GDP growth this year, or up to $875 million, according to Singapore government data. The Thai Ministry of Finance has trimmed its GDP forecast a full percentage point to 3.6%-4.1%--a loss of as much as $1.3 billion.

Given the imprecision of Chinese statistics and the time it takes to collect them, any attempt to place a figure on the economic hit to China--including GDP and tourism statistics--is largely guesswork. But some foreign economists have tried, cutting forecasts for 2003 by between 0.1 and 0.5 of a percentage point. In Hong Kong, GDP growth forecast has been cut by one percentage point, clipping $1.7 billion out of previously forecast economic activity, according to REVIEW research.

Clearly Sars will be a serious threat to regional growth--with the highly tourist-dependent economies of Hong Kong, Singapore, Malaysia and Thailand the most vulnerable. The spillover effect will also dampen private consumption. The Thai Chamber of Commerce estimates Sars will cost the tourism industry--which makes up about 6% of the country's GDP--50-70 billion baht ($1.16 billion-1.63 billion) this year.

A recent announcement that China is banning all outbound tour groups to Southeast Asia will further hurt the sector--particularly heading into the week-long May 1-7 holiday, one of the year's busiest times for Chinese tourism. In Singapore where tourism accounts for about 10% of GDP, tourists from China jumped 35% last year to 670,000. Meanwhile, China Eastern Airlines cut 5% of its capacity on its important Shanghai-Hong Kong route in March and 15% in April. It plans a 10% cut in May. Inbound tourism to China has been hurt too, particularly from Asia and the United States, airline executives say.

Malaysia, meanwhile, where tourism revenues constitute more than 7% of GDP, could lose about $960 million in potential tourism income, warns economist Wong Chee Seng of DBS Research. Occupancy rates in Malaysia have dropped to as low as 30% in some cases, while airline bookings have dropped 40%.

And the lucrative convention business has suffered around the region, with major conferences cancelled in popular destinations such as Singapore, Bangkok and Shanghai. The World Economic Forum's China summit, which was to have been held in Beijing in early April, was also cancelled. Hong Kong's Trade Development Council decided to combine its April Houseware and Gifts & Premium fairs, which normally attract up to 80,000 visitors, into two optional sessions--one in April, the other at the end of July. Some 3,500 exhibitors chose only the summer event, and 900 withdrew altogether. "For those who opted to continue in April a paramount concern was not to miss buying seasons at this time," says the TDC's director of exhibitions, Benjamin Chau.

Some governments around the region are scrambling to cushion the blow. Thai Prime Minister Thaksin Shinawatra recently authorized an additional 36 billion baht in government spending this year, of which 20 billion baht has been earmarked as an "emergency budget." In Singapore, which has set up a ministerial task force to deal with the economic fallout, the government was due to unveil an aid package for victims on April 17. It should provide some relief for small businesses, taxi drivers and kindergarten operators but won't be a fully fledged off-budget package. In Hong Kong, which already faces a budget deficit, Chief Executive Tung Chee-hwa has pledged measures to aid the four hardest-hit sectors--entertainment, tourism, retail and restaurants.

Help is sorely needed in Hong Kong. Last year the special administrative region reaped $8.2 billion from tourism alone--about 5% of its GDP. Hong Kong retailers are reporting that sales have fallen by half since mid-March on the back of a 75%-80% drop in tourist arrivals from mainland China.

After four weeks of living with Sars, cautious Hong Kong residents are still avoiding public places. Private consumption--which by some estimates fuels 60% of Hong Kong's economy--has fallen through the floor. The city's entertainment and restaurant industries have seen business drop by as much as 80%. "We've never seen anything like it," says Karin Joffe, managing director of the Lan Kwai Fong Group, which runs 17 bars and restaurants in the city.

The Hong Kong box office has been hit, too. In the last week of March, box-office receipts plummeted between 30% and 55%. Cinemas are cutting shows and distributors are pulling films from Easter release schedules. The city's karaoke parlours haven't been spared. At the V-Mix Karaoke Box, Hong Kong's largest with 150 rooms, business is down 30%, despite management's claims that the microphones are being cleaned by both a UV-ray machine and disinfectant spray.

Hong Kong-based Cathay Pacific Airways--facing what its chief executive officer David Turnbull calls the worst crisis in the carrier's history--has cut 184 flights or 37% of its weekly capacity. Hong Kong Dragon Airways has also slashed capacity by 136 flights per week, about 44% of the airline's capacity.

Only Hong Kong's hotel industry has suffered worse: Occupancy rates at the best hotels have fallen to single digits and the three- and four-star hotels are faring only marginally better. Three of the restaurants at the Grand Hyatt have closed and the cancellation of trade shows has driven occupancy rates at the city's Park Lane Hotel to below 30%. Across town at the internationally renowned Mandarin Oriental, where occupancy rates have fallen below 10%, management has closed two restaurants, cut promotional campaigns and put staff on furlough.

Simon Clennell, a spokesman for the Hong Kong Tourism Board, says arrivals to the territory were down 10.4% year-on-year in the second half of March. "None of us are under any illusion that April's numbers won't be much worse," he says. Meanwhile, the U.S. ban on all American military personnel visiting Hong Kong and China due to Sars will also hit the economy hard. A typical visit by a big American ship in 2001 brought about $3.8 million to the city's businesses, according to the Tourism Board.

In the restaurant trade, about 50 eateries in Hong Kong have temporarily closed, according to the Hong Kong Federation of Restaurants and Related Trades. And if the Sars outbreak lasts another three months, the agency predicts one-third of the city's 10,000 restaurants might be forced to close. That would be a huge blow to the economy; last year residents and tourists spent $6.8 billion-- or 2% of GDP--eating in restaurants.

For many retailers, Sars has been devastating. "People don't dare go out," says Hanspeter Pieth, managing director for Hong Kong for Golay, a wholesale jeweller. His business, which extends to China, Taiwan, and the Philippines, is down 50%, he says. Giordano, a regional casual-clothing retailer, saw March sales drop around 30% in Hong Kong and Taiwan.

The epidemic has also thrown Hong Kong's health-care industry into disarray. The government recently announced it was allotting $26 million to fighting the disease. But medical industry watchers say that figure will be dwarfed by mounting costs in equipment, medicine, training and personnel as the number of cases rises.

If the outbreak lasts much longer, Hong Kong's small businesses are likely to go to the wall in increasing numbers, say financiers. "There is going to be a crunch in the next 60 days," warns Ming Siu, chairman of Hong Kong-based SME Loan. That would be bad news for Hong Kong banks and would also further hurt the territory's battered property market.

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