

COVID-19: COULD NEW CORONA VIRUS INFLICT MORE PAIN ON SRI LANKAN ECONOMY

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Abstract : The new corona virus pandemic not only brings unpredictable uncertainties to human life, but also to the global economy. Although every countries over the world are trying to prevent infection by implementing social distance, health hygiene strategies, they are also trying to stabilize the national economic situation by formulating financial intervention measures. The disease, which originated in Wuhan, China, is now marked as a “pandemic” and its epicenter has been transferred to countries such as India, Brazil, UK and the United States. While the country’s main priority in the face of this crisis is people’s health, the economic consequences of COVID-19 must also be taken into account. Experts say this is the most serious economic shock in recent history, ironically unprecedented, and is not caused by any defect in the country’s economic growth. It is very important to be concerned about the ultimate economic impact of new coronavirus on Sri Lankan economy as the transmission dynamics of COVID-19 remain unclear. The paper was basically a desk study involving compilation and examination of information from national and international level research studies and media reports such as newspaper articles featuring the updates on COVID 19. Various Short term and middle term, direct or indirect economic shocks were identified in Sri Lanka due to COVID-19. It will significantly cause island implications on businesses, investments, tourism, education etc. According to the information of Central bank, the economic failure caused by the new corona virus pandemic will last until the end of 2022. Therefore, it is estimated that by 2023, the world economy will not recover earlier than it is now. Similarity, Sri Lanka can expect some economic growth after 2023. Moreover, recently the people can expect a positive output regarding their future economical chain with new coronavirus outbreak due to some measures and strategies have taken by the government. However, Sri Lanka as a middle income country, the upcoming economic issues cannot be escaped. This finding will important to clear understand of the economic impact of COVID-19 and researches and policy makers can identify and develop proper measures to minimize the future economic shocks of the country.

Index Terms - COVID-19, Economic Impact, Pandemic, Economic Growth

I. INTRODUCTION

“The human cost of the coronavirus outbreak have risen at an alarming rate and the disease is spreading across more countries” (Gopinath, 2020). Since December, 2019, new coronavirus which started from Wuhan City; the capital of Hubei province of China is rapidly spreading all over the world regardless of territorial boundaries. Although the new coronavirus was first detected from China, currently it has been infected to more than 9,000,000 people nearly in 213 countries (as records in 7th July 2020) around the world. Sri Lanka also recorded its first confirmed case in January 2020 and it has been increased up to 2,839 as at 7th July 2020. The key issue behind this is not just the number of cases of COVID-19, but the level of disruption that has been caused to the economy due to different containment measures around the world. According to Xi Jinping, the president of People’s Republic of China, “it is unavoidable that the novel coronavirus epidemic will have a considerable impact on the economy and society” (UNCTAD, 2020). It will significantly cause worldwide implications on businesses, investments, tourism, education etc. Also, current global economy seeming to flat line during COVID-19 outbreak causing disruptions in the global supply chain.

The new coronavirus has significantly impacted on the manufacturing and service sectors of China. This dramatic decline in manufacturing and services since February has marked a remarkable origin for the global economic crisis and collapses (Wei, 2020). Chinese factories, trades, services and international collaborations have been locked down due to rapid transmission of the new coronavirus causing a gigantic threat for global economy. The trade body for the global airline industry expects a downfall in passenger demand which could result in a loss of \$29 billion in 2020 which would be the recorded lowest since a decade (www.iata.org, 2020). Moreover, the global construction industry has also been disrupted due to the interruptions in supply of raw materials and labour services. Global stock market has also started crashing since February, 2020. The new coronavirus pandemic is paving the way for the world to move towards a serious disaster (Wei, 2020) inculcating the signs of a big economic threat in Sri Lanka as well. This study mainly focuses on direct and indirect impacts of COVID-19 on Sri Lanka’s economy reviewing literature and interpreting them in a theoretical and practical manner.

II. ECONOMIC IMPACT OF COVID-19 IN SRI LANKA

It is very important to be concerned about the ultimate economic impact of new coronavirus on Sri Lankan economy as the transmission dynamics of COVID-19 remain unclear. Various Short term and middle term, direct or indirect economic shocks can be expected in Sri Lanka due to COVID-19 outbreak as shown in figure 1 whilst globalization and liberalized economic policies are on a challenging situation which has led global trade to be disrupted. The economies of many countries including China are rapidly slowing down and the services sector which supports for more than half of the country’s GDP consisting of retail, production, supplies, tourism, hotels, and transportation are severely suffered. According to the information of Central bank, the economic failure caused by the new corona virus pandemic will last until the end of 2022. Therefore, it is estimated that by 2023, the world economy will not recover earlier than it is now. Similarity, Sri Lanka can expect some economic growth after 2023.

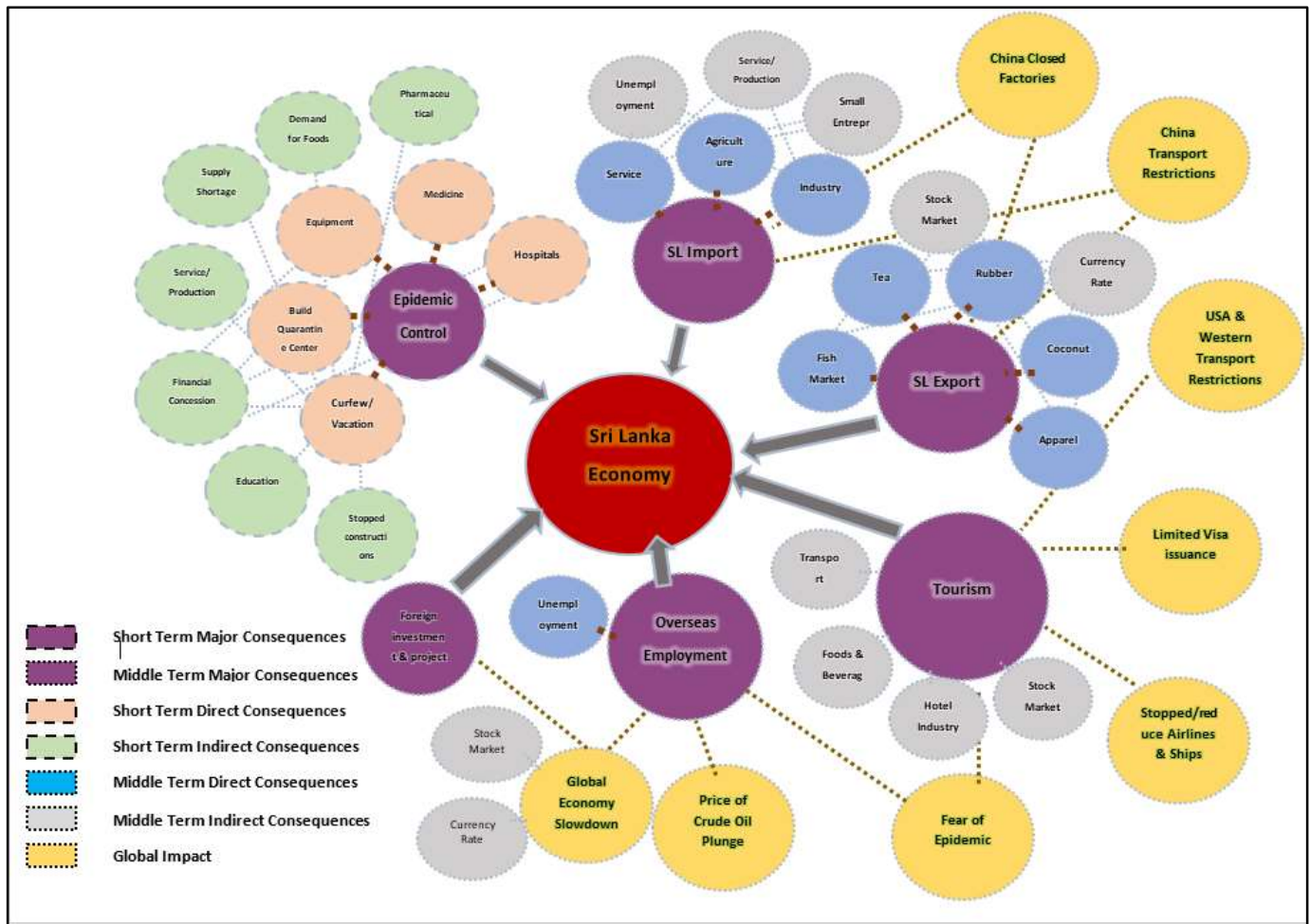


Figure 1: The linkage of various short term and middle term, direct or indirect economic shocks
 Note: Circles sizes decided based on the relative impacts of the concerns

III. GLOBAL EXCHANGE

As middle term direct consequences, Sri Lanka is currently experiencing different problems due to disruptions in global trade and it has currently led Sri Lanka also to experience different hitches in the economic sector. According to the central bank statistics, India is the Sri Lanka’s largest supplier (22%) and the second largest (20%) is China and the other important suppliers include Hong Kong, Singapore, Japan, United States, Taiwan and South Korea. The United Arab Emirates (UAE) is the 3rd largest supplier of Sri Lanka (UAE imports were \$1.56 billion in 2017). According to the Central Bank report 2019, 18% of consumer goods imports and 33% of investment good imports were taken place from China. Otherwise, Sri Lanka’s most important export markets are established in the United States, United Kingdom, India, Germany, Italy and Iran. In 2019, China was emerged as the major partner of Sri Lankan exports (21%). According to the predictions of Export Development Board, the total exports in Sri Lanka are expected to be dropped by 25% or by \$750million within next two quarter period. All trades are supposed to run under review over next three months due to the current traveling issues. Further, it highlighted a negative growth in top five export industries; apparel, tea, rubber, coconut and processed foods. (www.srilankabusiness.com, 2020). For example, the seafood exports from the country have dramatically declined with the spread of new coronavirus to Italy, which is the biggest European sea food market. Another salient example is the impact caused on Sri Lanka Apparels association due to the disruptions regarding the import of raw materials from China. China is the largest source of imported materials such as fabric, cotton, machinery, iron, steel etc. Those were highly affected with the closure of factories and with transport restrictions in China. (www.deccanherald.com, 2020). Sri Lanka being a developing country, may suffer a lot from economic collapses of other countries and from global transport restrictions during this epidemic outbreak.

IV. TOURISM

Tourism is one of the most important sources of revenue in many sectors of Sri Lanka. Travel and tourism contributed more than 12% of the Gross Domestic Production (GDP) of the country. As tourism plays a vital role in Sri Lankan economy, the sudden decline in tourist arrival by 17.7% in February 2020 in comparison to that of in February, 2019 has affected on the economy of the country to a considerable extent. Visitors from Europe record the largest amount (60.1%), while that of Asia Pacific accounted for 31.2% from total arrivals to Sri Lanka. However, in February 2020, a remarkable decrease is marked in the number of visitors who came to Sri Lanka from China (-92.5%), North America (-17.3%), the UK (-11.4%), Germany (-5%) and France (-33.9) (Sri Lanka Tourist Development Authority, 2020). The Sri Lanka Tourist Development Authority has attributed that China had dropped its position among the top ten tourist generating markets of Sri Lanka for the first time since 2012 due to new coronavirus outbreak (www.colombopage.com, 2020). Not only the tourist sector but also other minor sectors which are related to the tourism; hotels, food and beverage and transport have significantly been affected by the collapse of tourism industry. The taxi services like Uber, Pickme would face many financial difficulties with the less number of foreigners they get to earn the daily stipend especially in the tourist attractive areas in the country. The global transport restrictions have made a middle term direct impact from COVID-19 on tourism of Sri Lanka. As well as the government has temporally suspended the flight arrivals from any other country to control the spreading of the virus within the country. Definitely, these restrictions remain unchanged for a certain period, Sri Lanka's tourism sector which provides a significant contribution to the National economy would future attenuation.

V. JOB MARKET

Moreover, the overseas employment contribution which is more significant in Sri Lankan economy seem to be shrinking during this outbreak period. The Middle East countries, South Korea and Italy, provide the main foreign employment opportunities for over half a million Sri Lankans. According to the 2017 foreign employment statistics, the most popular departures of Sri Lankan job seekers were Kuwait (37,420), Saudi Arabia (37,900), United Arab Emirates (36,657), Qatar (56,644) and South Korea (5,805) (figure 2). Currently, most of the Middle East countries have imposed travel restrictions and closed their airports plunging down the price of crude oil due to the lower demand with the COVID-19 outbreak (Gunasekara, 2020). The Sri Lankan government has suspended the issuing of visa on arrival to 14 countries to control the spread of the virus in the country. Many international airlines have also either stopped operating or reduced flights to some countries which are highly suffering from new coronavirus. Therefore, most of Sri Lankans will tend to seek alternative jobs in future due to the fear for this epidemic outbreak. The global level slowdown of economies will result in the loss of jobs for most of the people in the middle and low income countries.

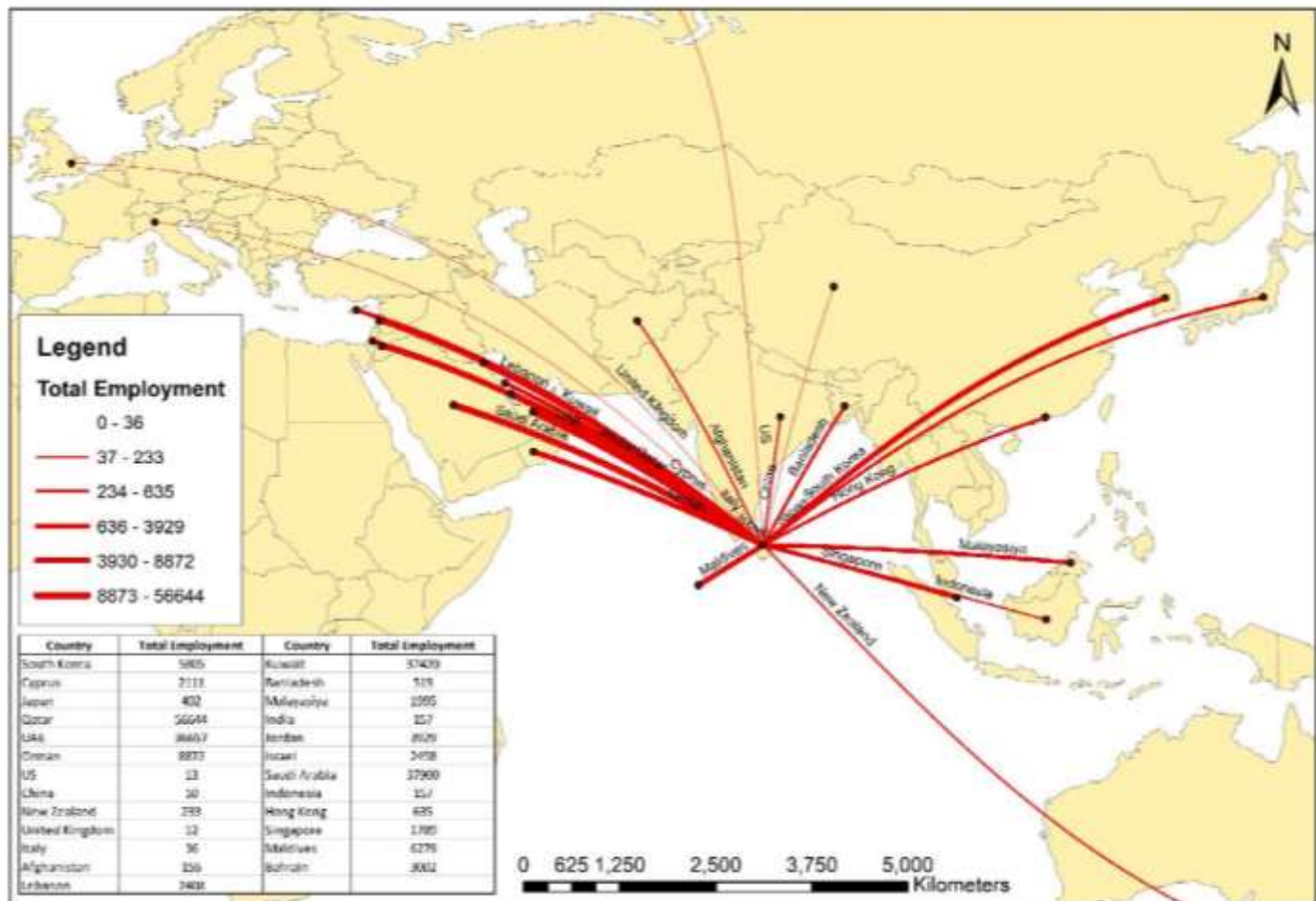


Figure 2: Total Foreign Employment by Country, 2017

Source: Foreign Employment Statistics Report, 2017

VI. CONSTRUCTIONS AND DEVELOPMENT

Further, more other future consequences related to the economic impacts of COVID-19 in Sri Lanka can be predetermined. During this epidemic outbreak period the economic collapses emerged in most of countries can negatively be influenced on Sri Lankan economy. Currently, Sri Lanka hosts a number of Chinese migrant workers, employed at various infrastructure development projects that are funded by Chinese government; such as Port city, the expressway project, and the housing and construction sector. Almost all these investment projects have temporary been suspended and it may adversely effect on the trading businesses of Sri Lanka in recent future (www.channelnewsasia.com, 2020).

VII. OTHER IMPACTS OF COVID-19

In addition, during this quarantine period, most of the government and private operations have been interrupted and country's economy is heading towards a very rough ride. Sri Lankan government is spending an additional finance especially for hospitals, medicine, quarantine and other facilities to control new coronavirus pandemic. This will be an additional burden for the country's economy and it would not allow any regional development measures to be taken place with this tight situation. All the international and national prospective meetings have been cancelled throughout the country. Public have to stay indoors and work from home due to quarantine vacation or curfew in the country. Almost all the shops have been closed down and the entire city is locked down resulting an employment loss which can head Sri Lanka towards an economic recession (Abeyratne, 2020). Most of the industries (fishing markets, constructions, hotel industry, restaurants and financial) are experiencing a massive slowdown during this special vacation period in the country. The limitation of interactions and transactions, would inevitably have an impact on economy machinery leading it to a limited production, consumption and trade and increment in unemployment in the country. The president of Sri Lanka government has announced a 6 month debt moratorium for most adversely affected five sectors; apparel exports, tourism, information technology, foreign employment and small and Medium enterprises. Also, the reduction of some food prices by the government to provide a relief for the people during this outbreak can highly impact on the government to workout with its tight finance schedule in future.

Also, with the sudden declaration of holidays for all the sectors of the country, supermarkets and other special grocery stores have met with an unexpected demand for their supply chain. As well as, face masks, sanitary items and pharmaceuticals have also become the items with high demand due to the panic buying. Endless queues have been formed in front of filling stations due to the unnecessary fear among the people regarding the breakdown of their usual daily routing with the spread of new coronavirus. "People react to that risk by reducing their consumption. The supply and demand effects work together to generate a large, persistent recession" (Eichenbaum & et al, 2020). However, unnecessary demand for food and food wasting will result in a food shortage as well as an insecurity in urban food supply in the country in near future. Finally the poorest will suffer to the death with lack of daily food essentials and the government will happen to provide supplements for them.

VIII. STOCK MARKET AND GROWTH

Due to these short term and middle term consequences, Colombo stock exchange reflects negative indications decreasing All Share Price Index (ASPI) by 5.01 % in March, 2020 which is the recorded lowest since 2008, giving alarming signals to the economic development of the country. "Stock market was halted three times within four days at the second week of March, 2020 to prevent a steep fall" (Gunasekara, 2020) due to withdrawal of foreign investments from Colombo stock market. The currency rate is also fluctuating by declining the exchange rate of Sri Lanka Rupee marking ups and downs from time to time in an unexpected manner during this time. For instance, the Sri Lanka Rupee exchange rate has declined on 19th March 2020. Finally, the current foreign debt situation in the country has been more serious than ever. Therefore, the new government's financing for current infrastructure drive and other projects would not going to be easy and it would be severe due to new coronavirus outbreak throughout the country (www.fit.lk, 2020).

IX. CURRENT MEASURES AND STRATEGIES AGAINST ECONOMIC IMPACT OF COVID-19

On the other hand, the Sri Lankan authorities have taken some measures to control new coronavirus outbreak since it has recorded their first case in the country. As well as, different financial benefits have been provided by both national and international level. For instance, China Development Bank and Sri Lanka's Ministry of Finance has signed a 500 million US dollar agreement which admits the COVID-19 (www.lankabusinessonline.com, 2020). The loan has been given to the Sri Lankan government for 10 year period along with a concessionary interest rate. Further, Sri Lanka has received a set of medical equipment worth Rs. 105 million from World Health Organization and Australian government to combat with COVID-19. Also, the Central Bank of Sri Lanka has introduced several measures to exert ease pressures on the exchange rate to prevent from the panics in financial market due to the COVID-19 (www.lankabusinessonline.com, 2020). Therefore, it would be helpful to uplift Sri Lankan economy in the recent future. As foreign news says, an influenza medicine has been developed by a Fujifilm Holdings company, Japan and it was reported to be effective against COVID-19 according to the clinical trials conducted on 200 patients at hospital in Wuhan, China. Therefore now the people can expect a positive output regarding their future economical chain with new coronavirus outbreak.

X. CONCLUSION

Various Short term and middle term, direct or indirect economic shocks can be expected in Sri Lanka due to COVID-19 outbreak. The new coronavirus has significantly impacted on the global exchange, tourism, job market, education and etc. in Sri Lanka. Almost all the trades in the country, investment projects, air flights and etc. have temporary been suspended and it may adversely effect on the economical growth of Sri Lanka in recent future. The president of Sri Lanka government has announced a 6 month debt moratorium for most adversely affected five sectors; apparel exports, tourism, information technology, foreign employment and small and Medium enterprises. However, Sri Lankan government with health sector and military forces have taken some measures to control new coronavirus outbreak since it has recorded their first case in the country. As well as, different financial benefits have been provided by both national and international level and it will be helped to uplift Sri Lanka economy in the future. However Sri Lanka as a middle income country, the upcoming economic issues cannot be escaped although the economic impacts of new coronavirus have still put all on a shadow.

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