

TRADE-OFF BETWEEN HEALTH AND WEALTH?

Photo: Ejército del Aire Ministerio de Defensa

Recent statistics released by the IMF (Figure 1) provide a comparative on the significant impact that COVID-19, and the lockdown in fighting and containing the pandemic has on global economies. The IMF forecasts that the impact is expected to be more devastating than the growth experienced in the aftermath of the Global financial crisis in 2009. The Euro area is where the most severe impact is envisaged, with estimates of economic contraction at almost 8%. This is followed by the United States with an estimated contraction of 6% and Japan contracting slightly more than 5%. China and India are expected to post positive growth at 2% and 1% respectively.



By Research Management Center,
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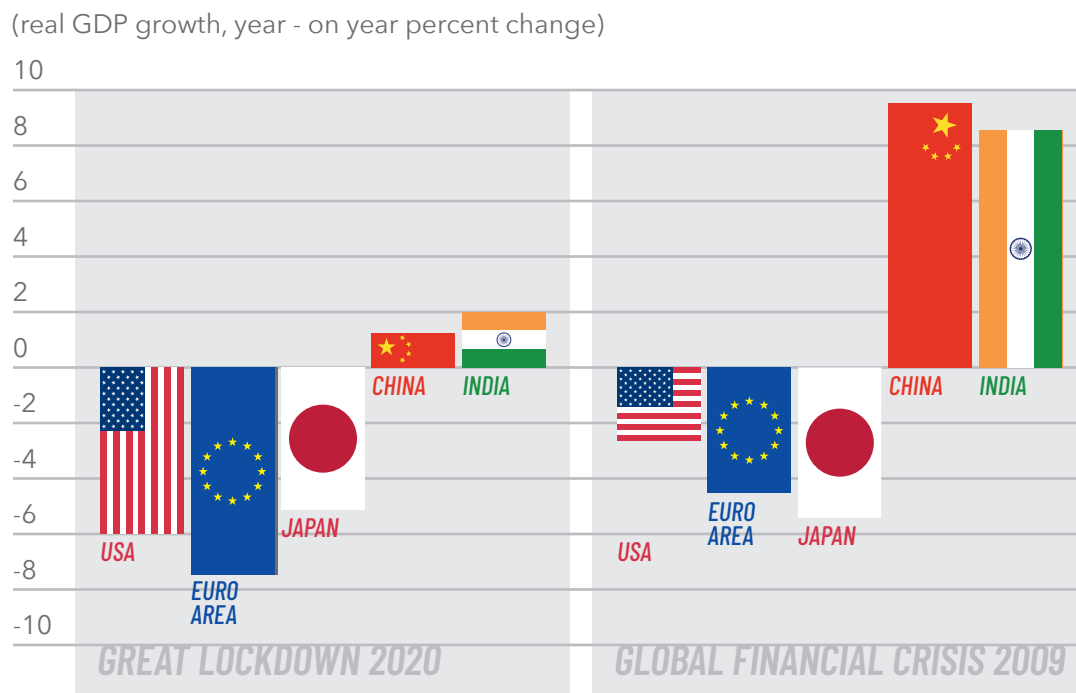


Figure 1: Real GDP growth impact comparing Lockdown with Global Financial Crisis¹

It is undeniable that the COVID-19 pandemic has delivered a killer blow to almost every nation on earth. The success of humanity's technological advances and medical breakthroughs have certainly constrained the impact, making interventions arguably the most effective in recorded history. Yet, the fragility of economies in the wake of such shocks has been devastating for developed, developing and least developed countries alike.

The Movement Control Order (MCO) or lockdown, has brought the global economy to a grinding halt. Ambiguity on the level of response of economies in facing the pandemic is visible. On one hand, some nations have been prioritizing health and the wellbeing of their citizens and have executed either partial or complete lockdowns. One of them is Malaysia. Other economies are prioritizing their economy, denouncing over-reaction to the pandemic based on statistics, and either avoiding lockdown or lifting any restrictions early.

An extended, or strict MCO suggests that containment would be easier. Concurrently however, constraints on economic activities would mean substantial losses of revenue and failing economies. What then would be the best approach that would ensure good health for citizenry and protecting from starvation or poverty at the same time? Is there a trade-off or can health and wealth be kept in balance? These would be the vexing questions raising weighty concerns of governments, medical and social scientists, with the impact of decisions pervading billions of lives.

Therefore, it is expected that there would be collateral damage due to MCOs. However, the extent in terms of magnitude and speed of recovery can only be conjecture at best. Four possibilities present themselves in how economies would react in the horizon, as illustrated below: V shape, small U or glass shape, or big U (bowl shape), and in the worst-case scenario, L shape, not recovering for a protracted period due to the too crippling effect delivered by the pandemic.

¹ Source: International Monetary Fund (IMF)

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Figure 2: Possible Economic Reaction²

Observing the staggering figures of potential loss of source of income on a weekly basis, the aggregated macro-level loss of income due to loss of employment would be astonishing. While total infections reach millions, the number of people who stand to lose their livelihood is substantially larger. The recent jobless claim data in the US indicates that an additional 5 million filed jobless claims last week. The numbers accumulate in the last month (since the lockdown started in few states) to over 20 million.³

2 Illustration: Research Management Centre, INCEIF

3 <https://www.theguardian.com/business/live/2020/apr/16/markets-us-jobless-claims-covid-19-recession-imf-bank-of-england-business-live?page=with:block-5e97f02a8f08ea7431f43b8a#block-5e97f02a8f08ea7431f43b8a>

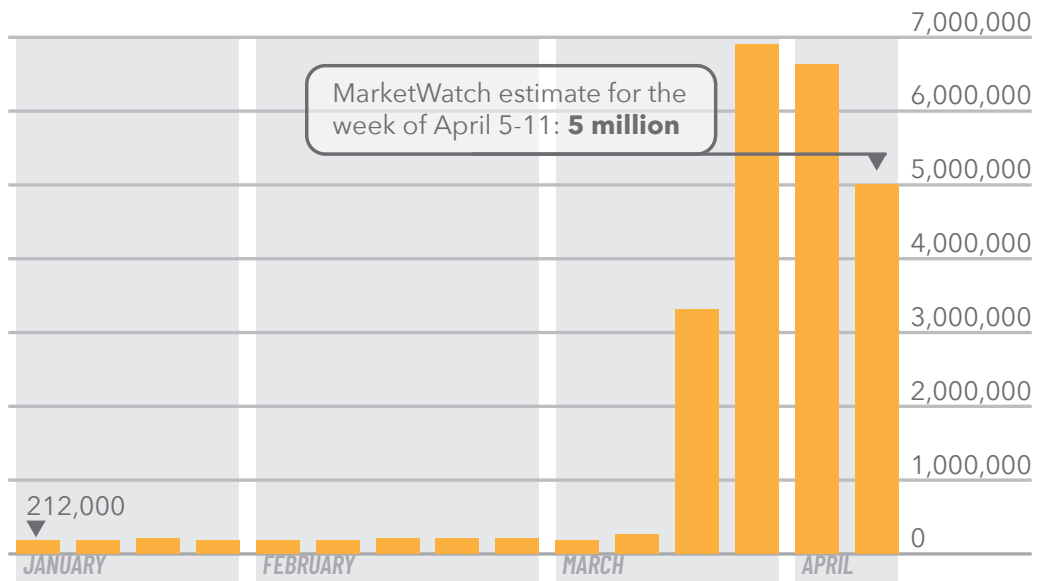


Figure 3: Coronavirus- Related Job Losses Set to Top 20million in a Month⁴

It does not appear much better in Malaysia. According to World Bank data, the self-employed constituted 25% of the total workforce in Malaysia in 2019⁵. This is 3.75 million of 15 million⁶ employed persons in Malaysia. The most recent survey findings by the Department of Statistics Malaysia (DOSM) on April 10, suggests that 46.6% of those self-employed have lost their jobs. If this finding is generalized, it means that almost 1.75 million self-employed could have lost their jobs. Unfortunately, the numbers could be much worse. EPF Chairman Tan Sri Samsudin Osman said 62% of the 22 million (this is 13.6 million) working-age Malaysians are self-employed and not covered by any formal social protection.⁷ If we estimate based on this number, then 6.3 million have lost jobs, mostly not covered by any formal social protection.

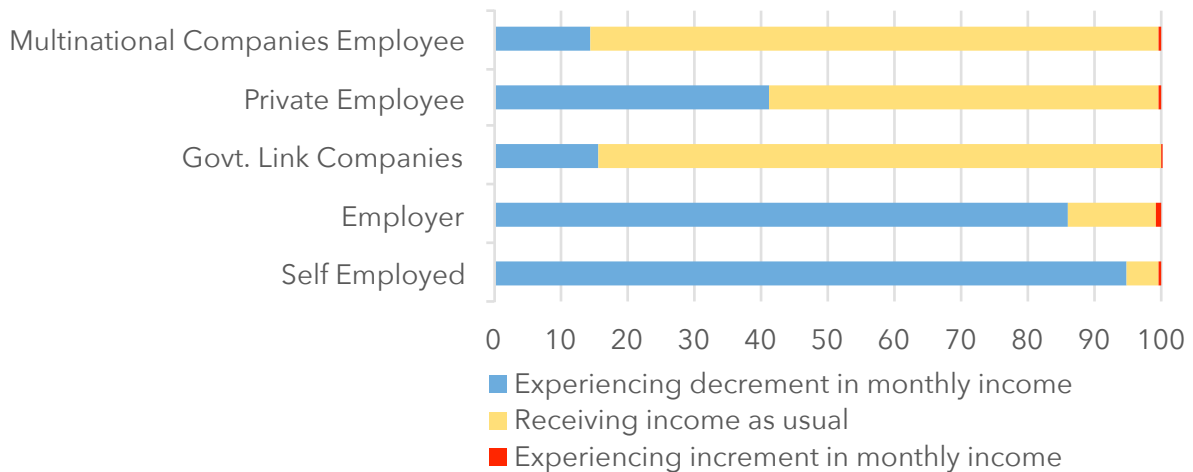


Figure 4: Effect of COVID-19 Towards Income by Employment Status⁸

4 Source: Bureau of Labor Statistics

5 <https://data.worldbank.org/indicator/SL.EMP.SELF.ZS?locations=MY>

6 https://www.dosm.gov.my/v1/index.php?r=column/cthemByCat&cat=124&bul_id=dXIIODRFL1RMd3hlenBSOFRSallPQT09&menu_id=U3VPMldoYUxzVzFaYmNkWXZteGduZz09

7 <https://www.nst.com.my/news/nation/2018/08/399278/epf-urges-housewives-informal-workers-be-members>

8 Source : Department of Statistics Malaysia, March 2020, Illustration : Research Management Centre, INCEIF

Losing sources of income or experiencing job loss is a disturbing statistic. This is even worse so, when coupled with a significantly larger group of people receiving a reduced income due to the MCO. Again the worst affected group is the self-employed, followed by employers, whereby 95% and 86% respectively are indeed suffering from reduction in income flow. Please refer to figure 4 above.

At the aggregated micro level, forecasts from Bank Negara Malaysia show that there might be a contraction of 2% (worst case scenario) or a growth of 0.5% (best case scenario), helped by the stimulus package worth RM250 billion. Figure 5 refers.

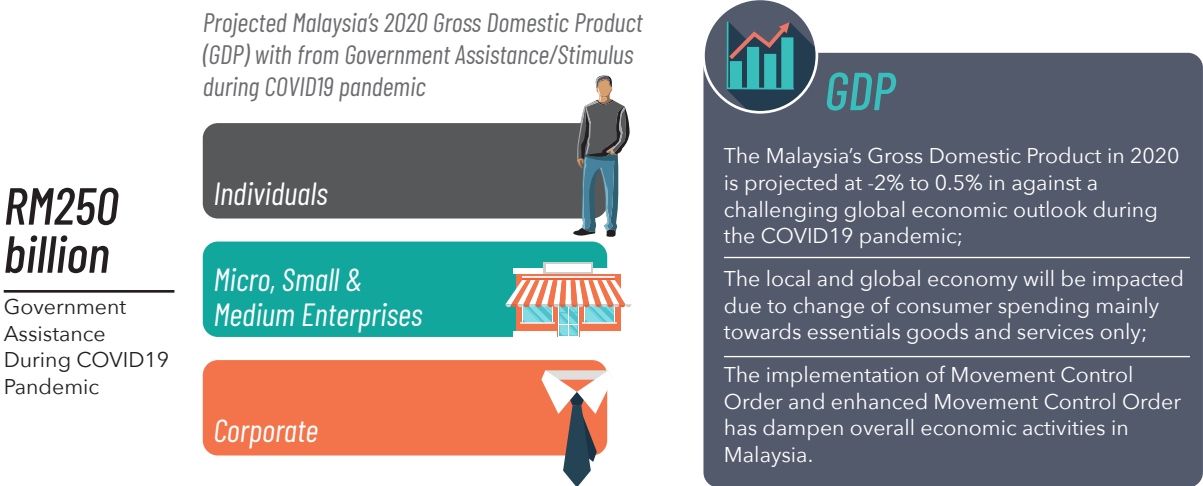


Figure 5: Projected Malaysia's 2020 Gross Domestic Product (GDP) with Government Assistance/Stimulus during COVID19 pandemic⁹

The first phase of the MCO began on the 18th of March 2020 and has now been extended to the 28th of April 2020. If losing the source of income is a setback, more concerning is news on the savings behavior of Malaysians. More than 70% of self-employed only have savings sufficient to last them for less than 1 month¹⁰ and another 18% have savings up to 2 months¹¹. Figure 6 below shows the level of savings of Malaysians across different segments, self-employed, employers, government employees, private employees as well as those employed by Multinational companies. Another extension of the MCO may have a serious impact as "more than 75% of Malaysians find it difficult to raise even RM1,000 of immediate cash for emergencies"¹².

9 Source : Bank Negara Malaysia, Illustration : Research Management Centre, INCEIF

10 https://www.dosm.gov.my/v1/index.php?r=column/cthemByCat&cat=124&bul_id=dXIIODRFL1RMd3hlenBSOFRSallPQT09&menu_id=U3VPMldoYUxzVzFaYmNkWXZteGduZz09

11 https://www.dosm.gov.my/v1/index.php?r=column/cthemByCat&cat=124&bul_id=dXIIODRFL1RMd3hlenBSOFRSallPQT09&menu_id=U3VPMldoYUxzVzFaYmNkWXZteGduZz09

12 https://www.bnm.gov.my/index.php?ch=en_speech&pg=en_speech&ac=806&lang=bm

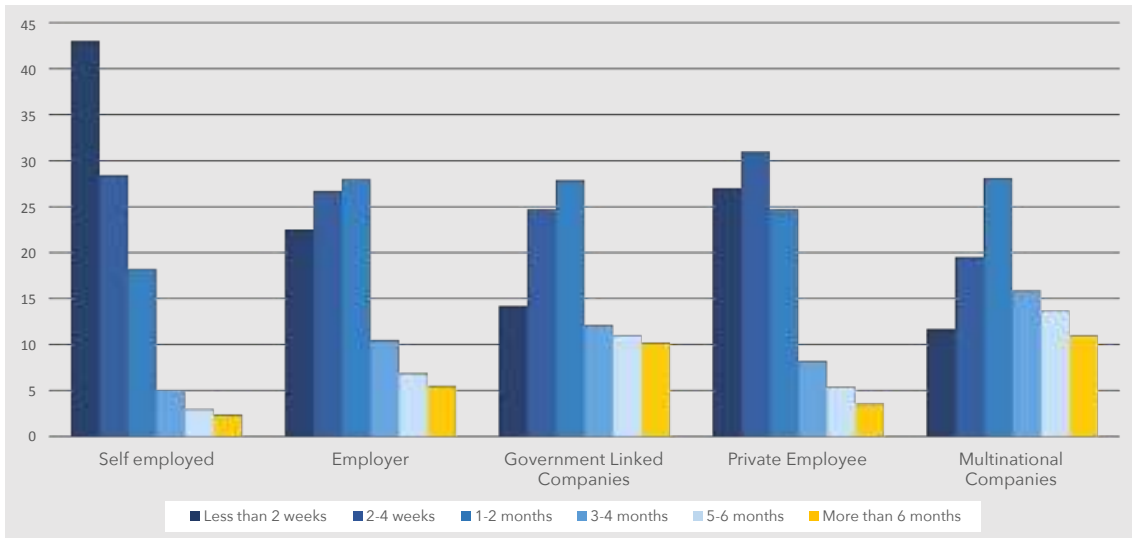


Figure 6: Financial Savings Durations by Employment Status¹³

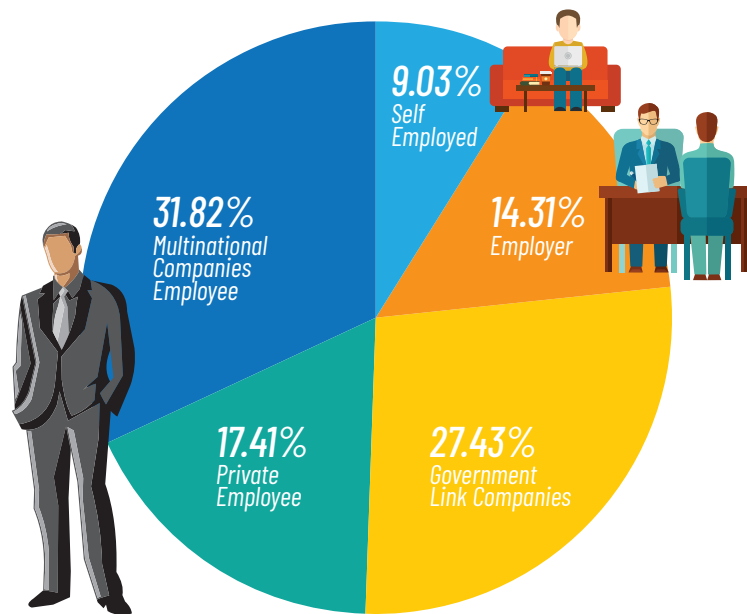


Figure 7: Financial Readiness during Extended Movement Control¹⁴

The statistics based on the survey by DOSM also show the low preparedness among the different segments; the most unprepared being the self-employed, and the best prepared are the MNC employees (even then, only 31.82% of them prepared).

On a positive note, Malaysia has so far successfully managed the health concerns emanating from the pandemic. The curve seems to be flattening as a lower number of cases have emerged compared to what was predicted, and a significant drop in the number of new cases was achieved on 18th April 2020 (69 cases). Refer to Figure 8 below:

13 Source : Department of Statistics Malaysia, March 2020, Illustration : Research Management Centre, INCEIF

14 Source : Department of Statistics Malaysia, March 2020, Illustration : Research Management Centre, INCEIF



Figure 8: Malaysia COVID19 Current Statistics¹⁵

Hence, the dilemma in deciding to extend MCO or not, may therefore expose the nation to a 'health versus wealth' conundrum. To contain COVID-19 and sustain the gains made on containing the virus and maintain good health, the MCO would need to be extended. However, this decision would mean an inverse impact on wealth with the self-employed as the most vulnerable group. An alternate option would be a gradual opening of economic activities. Such a suggestion may work well by controlling the number of cases and simultaneously reviving the economy. However, if this arrangement backfires, and causes new clusters of COVID-19, we might have to reconsider MCO all over again.

For the sake of perspective, presented at the end of this brief report are events unfolding with our closest southern neighbours, Singapore, on the level of infected, recovered, fatalities and concise details on the financial assistance/ stimulus package offered by the government to mitigate the economic impact.

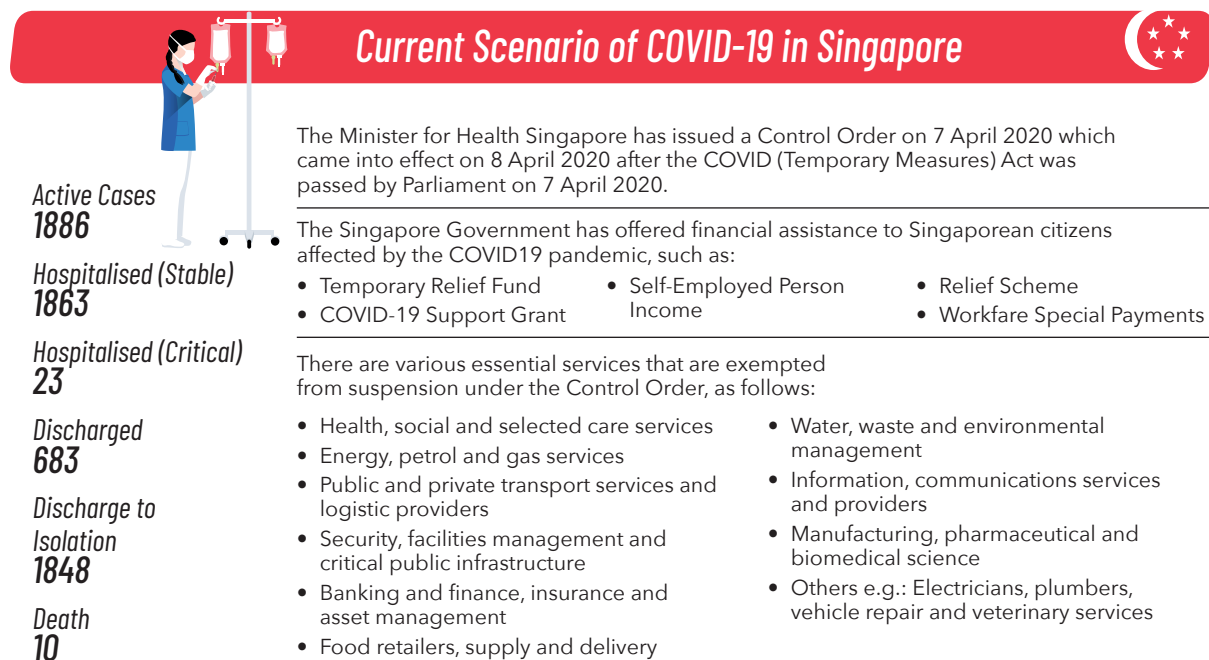


Figure 9: Current Scenario of Covid-19 in Singapore¹⁶

15 Image retrieved at: <https://www.coronatracker.com/country/malaysia/18th April 2020>

16 Source : Ministry of Health Singapore Illustration : Research Management Centre, INCEIF