

V-shape vs U-shape: Sabah's Covid-19 recovery

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THIS article is my personal opinion with regard to Covid-19 pandemic, its effects on the economy and potential recovery process that may take place.

The article shall answer some pertinent questions like: What is the effect of stimulus package by the government? What is the pattern of recovery shape that may take place? V shape or U shape? Those are the things that I shall discuss in this article.

The year 2020 has been chosen as Visit Malaysia Year that becomes a tool to promote Malaysia for tourism purpose. The first month of the year has shown promising numbers looking from number of tourists' arrivals.

However, at the end of January 2020, the Coronavirus Covid-19 outbreak presents the tourism and other sectors in the economy with a major challenge. My study for the month of February 2020, immediately after the restriction of entry for tourists from certain countries have affected businesses in Sabah.

The study found that hotel business is among the one that being affected the most. I remember during my stay at a hotel in Kota Kinabalu, prior to movement control order (MCO) which was the first two weeks of March 2020, hotel business was in decline from my observation, especially the hotel occupancy. I remember my chat with a hotel's reception staff which revealed that for that particular day, less than 20 rooms were occupied in comparison with the number of rooms which is over 100 rooms.

Realizing the threat of Covid-19, the World Tourism Organization (UNWTO) has strengthened its collaboration with the World Health Organization (WHO). UNWTO calls for solid international leadership and for tourism to be included as a priority in future recovery efforts. Having said that, tourism is one of the most seriously affected sectors.

Since mid-march 2020, Malaysia is having a movement control order (MCO). This has affected the performance of all sectors adversely with exceptions to medical, health service and food related sector on which the effects are smaller. Following the MCO, stimulus package has been announced by the government. Pakej Rangsangan Prihatin Rakyat and Pakej Rangsangan Ekonomi (Tambahan-for SMEs) and Pakej Bantuan Covid-19 Kerajaan Negeri indeed help in cushioning the impact of Covid-19 and MCO on the economy.

In this regard, in my personal opinion, stimulus package does affect the economy by providing a relief, hence, minimizing the impact. It is like when you play football and being tackled. How you position yourself before you fall down determines how bad will you be impacted by the incident. It cushions the impact.

At this point of time, I am not looking at the aim of achieving higher growth. Most likely, growth will be lower than 3% or even negative growth. What we want to see is that the impact is not too bad.

I like to share the analogy made by world's renown Economist who is also the Nobel Laureates of Economics some years back, Paul Krugman. He said, the key thing to realize is that we are not facing a conventional recession, at least so far. For now, most job losses are inevitable, indeed necessary: They are a result of social distancing to limit the spread of the coronavirus. That is, we are going into the economic equivalent of a medically induced coma, in which some brain functions are temporarily shut down to give the patient a chance to heal. This means that the principal job of economic policy right now is not to provide stimulus, that is, to sustain employment and G.D.P. It is, instead, to provide life support.

Having said that, how long will recovery process take place which bring back the economy to a normal mode. What is the shape of the recovery curve?

Before I answer the question, let me discuss briefly few different types of potential recovery pattern. V-shaped recovery is a type of economic recession and recovery that resembles a "V" shape in a curve. A V-shaped recovery involves a sharp de-



Figure 1: Sabah's unemployment rate

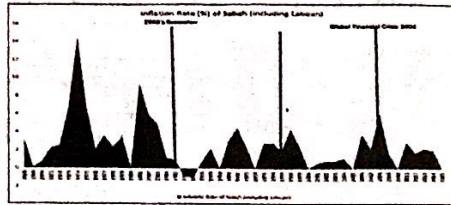


Figure 2

cline in economic activities followed by a sharp rise back. On the other hand, U-shaped recovery means recession and recovery curve that looks like U in shape, such as GDP or other macroeconomic indicator that gradually decline and gradually rise back and typically over a period of 12 to 24 months. In addition, L-shaped recovery is a recovery that being characterized by a slow rate of recovery, with persistent unemployment and constant economic growth. L-shaped recoveries occur following an economic recession characterized by a steep decline in the economy, but without a steep recovery.

For the case of Sabah, will it be a V, U, or L-shaped recovery? We hope it is going to be V shape not L shape. I am quite pessimistic however; it is to be a V-shaped. It might be a U-Shaped. Covid-19 indeed is very different from earlier disturbance that the world face such as Great Depression (1929-1930s), Asian Financial Crisis (1997/98) and Global Financial Crisis (2008).

Figure 1, 2 and 3 attempts to give an overview of Sabah's economic position during economic crisis, recession or slowdown through its experience facing few major economic events such as 1985's economic recession, 1997/98 Asian Financial Crisis and the 2008's Global Financial Crisis.

Figure 1 shows Sabah's unemployment rate in the past 25 years. Figure 2 shows Sabah's inflation rate, while figure 3 depicts cargo handling in Sabah. Figure 4 shows Sabah's trade volume from 1995 to 2014 and figure 5 Sabah's Gross Domestic Product (GDP).

Figure 1 shows that unemployment rate was at increasing trend, during and after economic recession or crisis. The graph clearly indicate that unemployment rate continued to rise and most of the time the rate was slightly above 5% level.

Figure 2 shows that in all those three time periods, there is an obvious trend of increased inflation rate during Asian Financial Crisis 1997/98 and Global Financial Crisis 2008. The effect is not that obvious in the mid-80's recession.

Figure 3 shows that during all those three periods of affliction, there is a notable decline in port-cargo handling. In other words, a general case can be made that cargo handling is negatively affected by economic crises and recession.

Figure 4 shows that Sabah's export and import were affected in the period during the Asian Financial Crisis 1997/98 and Global Financial Crisis 2008. Both export and import decline before it bounced back in 2009. In addition, figure 5 depicts that GDP value was affected in those 3 events. GDP reduction is seen to be the sharpest when the world faced the Global Financial Crisis.

Having said that, in general, most of the indicators selected were found as affected when the economy is facing a crisis or recession. However, the economy eventually recovers and bounce back within few years.

In the case of Covid-19 will the pattern be the same? Will there here be a V-Shaped or U-shaped recovery curve? In my opinion, it can be a U-shaped. However, it depends on how soon Malaysia can contain the pandemic so that domestic economy can restart again even to a new normal. It also depends on how soon the whole world can control the pandemic so that the economy can start moving again so that there will more international trade and foreign direct investment take place like before. Furthermore, it depends also on policies in place whether or not it is business friendly.

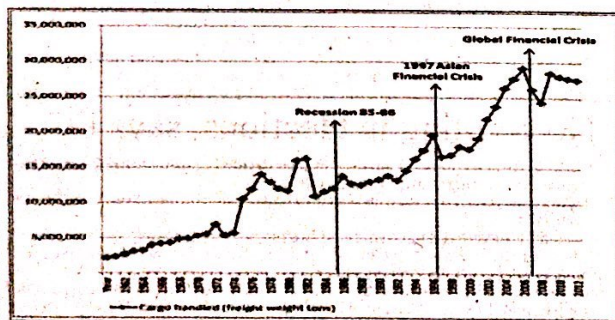


Figure 3: Cargo Handling (freight weight tons)

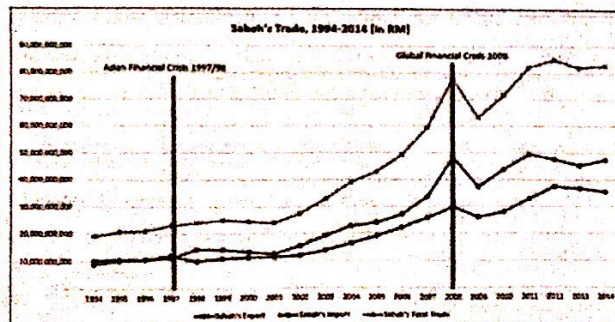


Figure 4: Sabah's Trade 1994-2014 (in RM)

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