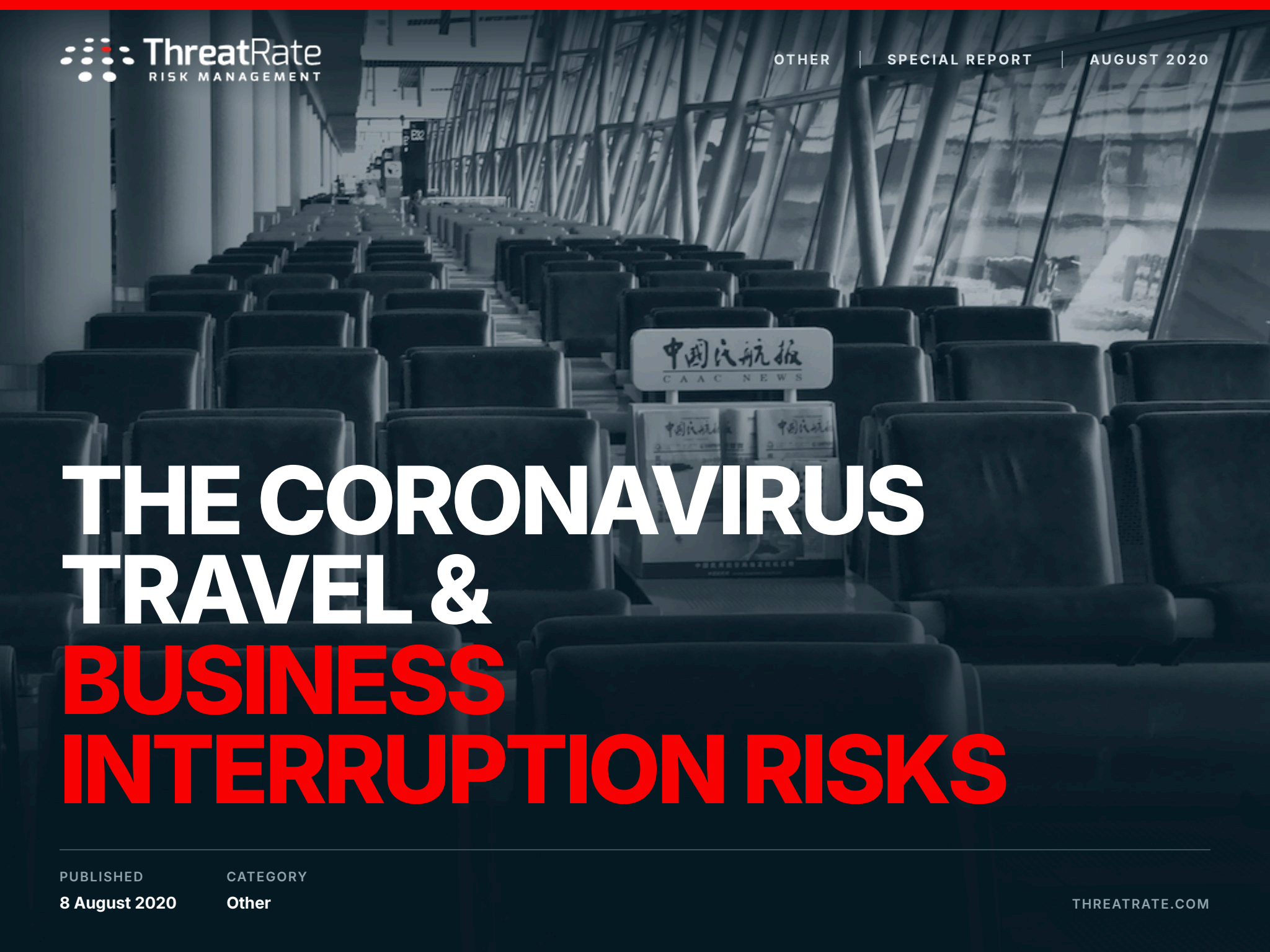


THE CORONAVIRUS TRAVEL & BUSINESS INTERRUPTION RISKS

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The Coronavirus Travel & Business Interruption Risks

On January 30, as widely expected, the World Health Organization (WHO) declared the China novel coronavirus (2019-nCoV) outbreak as a global emergency as the virus quickly spread throughout China and beyond.

Authorities are reasonably sure that the coronavirus originated in the city of Wuhan, the capital of Hubei province and has since spread to multiple countries via person-to-person contact. As of January 30, 2020, there have been over 9800 cases in China, 213 of which resulted in death, and more than 100 cases were reported in 24 other countries around the globe.

The transmission of the virus to humans seems to have occurred, according to experts, at the Huanan Seafood Wholesale Market in Wuhan where also exotic wildlife animals, such as snakes, bats, badgers as well as poultry and farm animals were sold. The animal species that transmitted the virus to humans is still unknown, and further testing must occur; however, according to Chinese researchers, snakes are the likeliest source.

As knowledge of the virus, its origins, and its eventual impact are still far from certain, a former Israeli intelligence officer, Lt. Col. (res.) Dr. Dany Shoham, who specializes in chemical and biological warfare in the Middle East and worldwide suggested that the deadly animal virus may have originated in the Wuhan Institute of Virology which is linked to China's covert biological weapons program. The laboratory is the only declared site in the country capable of working with deadly viruses. According to Dr. Shoham, certain laboratories in the institute have probably been engaged, in terms of research and development in Chinese biological weapons, which is conducted as part of a dual civilian-military research which is "definitely covert".

Notably, China's leader Xi Jinping has warned that the virus spread is accelerating, and the government is in the process of beginning an emergency hospital to care for 1,300 patients, and another – which can care for 1,000 patients – is already under construction.

Following the WHO announcement, the US Department of State issued a travel advisory advising American nationals to "Do Not Travel" to mainland China and called on its nationals currently in the country to consider departing.

In attempt to minimize the spread of the deadly virus, the Chinese authorities have taken extreme measures, including the cancelation of the Lunar year celebrations and extension of the holiday to stop people from going to work. Schools were suspended and road, air and rail travel in and out of Hubei and surrounding areas were stopped, effectively quarantining some 60 million people.

The economic costs of the virus are beginning to be determined as well. Fear alone is likely to lead to a significant impact primarily in China and the Asia Pacific, but the world as a whole is not immune to negative impacts. Economists fear that the outbreak impact will likely be greater than the 2002-2003 Severe Acute Respiratory Syndrome (SARS) epidemic, which killed about 800 people and cost the global economy over $40 billion. The International investment bank, Morgan Stanley, warned that the outbreak was likely to hurt global growth in

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the near-term and could reduce by 1% the projected Chinese growth in the first quarter of 2020 and reduce the global economic growth by 0.15% to 0.3%.

Tourism to and within China, has declined due to fears of contagion and foreign governments warnings. While China is known as a manufacturing country, tourism accounts for more than 10% of the country's economic growth and is responsible for employing more than 25 million people.

The government has also closed theme parks – including Disney in Shanghai and Hong Kong – and many movie theaters. Domestic and international travel and leisure have also been affected as numerous local and international airlines have suspended their flights to and within China. The U.S. cruise operator, Royal Caribbean Cruises, Ltd, which canceled cruises on its China-based ship, announced that its 2020 overall financial performance might be affected if the travel restrictions continued for extended period of time.

Arrivals to the special administrative region of Macau-- the only location where casino gambling is legal in China-- have dropped by 69% and gaming revenues are expected to decline by at least 30% for as long as visiting restrictions are in place.

The decline in Chinese travelers abroad will likely to impact luxury brands who are accustomed to affluent Chinese tourists. Shares of luxury goods companies have already dropped.

International companies operating and manufacturing in China warned of supply chain disruptions and business continuity. Apple Inc has issued warnings that the virus could affect its sales in the first quarter of 2020. The company has closed one store thus far in and "a number" of its retail partners have also closed their locations. Tesla also stated that its profitability may be affected. The company has also shut its Shanghai factory as ordered by the Chinese government to stem the spread of the virus. Starbucks has closed more than 2,000 stores at the direction of local government officials as well as "proactively," to limit the spread of the virus among workers and customers. McDonald's have also closed some 3,300 stores. Other chains such as KFC, H&M and Levi Strauss have also been closing stores.

The outbreak is also likely to affect the global auto industry as Wuhan is a major hub for the auto industry where numerous auto plants supplying the world's largest market for cars. Nissan, Honda, Renault and the PSA Group-- makers of Peugeot and Citroen– as well as GM's partner SAIC and Dongfeng Motor Corporation are among several automaker companies that have large manufacturing plants in the city. While most employees are on vacation until early February due to the Chinese New Year, the plants could stay closed even longer, postponing car manufacturing and sales amid already domestic slowing economy.

Tesla, Apple, Starbucks, H&M, Disney and McDonald's are some of the global brands that shut down their China-based operations, as a result of the pandemic, temporarily or quasi-permanently.

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Soundbite analytics

- The Coronavirus is expected to result in much bigger losses than the SARS $40 billion losses
- Wuhan ranked 43rd out of more than 1,000 for competitiveness in a recent survey.
- The city of Wuhan is roughly five times the size of Chicago.

SOURCES

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