

Coronavirus and the Connector Industry – A View from Hong Kong

A Bishop associate in Hong Kong shares with us his views on the virus's impact in China and its economic partners. The writer has lived and worked in Hong Kong for over 20 years assisting manufacturing companies with setting up operations in China.

The coronavirus will affect the global economy for quite some time, but I believe, less than most people are forecasting. Mankind can only stay in a state of panic and paralysis for so long, until the desire to return to daily life prevails. This is already apparent in China. Restrictions on shops have been removed and people are back out in the streets. Supported by announcements from the government, the population feels that the situation is under control, that the implemented measures are effective. People in China are more compliant to federal regulations. Government implementations, i.e., wearing masks in public and in the workplace, being geo-tagged, having temperatures checked multiple times are fully accepted by the people. Without a new outbreak in China, it is my expectation that by April/May China's manufacturers will resume operations as normal. There are fears among some experts that China may have removed these restrictions prematurely and new outbreaks will result.

Production in China was slower in January and February while the country observed the Chinese New Year. While the public holiday lasted only one week, companies extended the holiday two to three weeks to accommodate the travel requirements of staff. Due to COVID-19, this year the situation became exponentially more challenging. The government kept companies closed for an additional three weeks and tightly controlled the workers' return from neighboring provinces. The returning staff had to report any contact made with travelers from Hubei or Hunan, the two provinces with the highest number of recorded infections. If contact had occurred, they were required to remain quarantined for an additional two weeks. The government verified information by accessing the geo-location data provided by cell phone carriers. Workers who travelled to the exposed provinces have yet to be allowed to leave the province.

Are connector industry bookings and billings being immediately impacted? In January and February, as the world observed the events unfold, concern for product availability grew and related stock orders were placed. Numbers confirm increased order intake, with a solid backlog. Because of the extended factory closures and the shortage of operators, billings fell short and will for the coming weeks. It is my expectation that by the end of March or beginning of April most of the backlog will have been worked off. At the same time, the domestic China demand will have picked up and will have returned to close to normal levels. But a new and significant threat looms on the horizon. We will see a substantial reduction of demand from Europe and the US as similar measures are implemented to curb the spread of the virus. Orders will be pushed out or canceled in the upcoming two months. The manufacturing industry will start seeing the burden of these disruptions in the final week of April through most of May. Europe and the US will be living with significant disruptions to daily life for about two months, and by the end of May matters will settle.

Below is a short comment about the Chinese government's fiscal and monetary measures implemented to mitigate the economic impact. To alleviate the population's anxiety, they have instructed companies to pay salaries for the period of the extended factory closure. In return the government offered companies and individuals:

- relief on payments for social contributions
- suspension of rental payments
- suspension of loan payments

The current perception is that the economic implications for all stakeholders are acceptable. A group which will disagree is the travel, restaurant, and entertainment industry. Here it needs to be assumed that numerous businesses will not survive the crises.

The long-term consequences will be significant. Countries and companies will review their global supply chains and reassess their dependence on China for raw material, components, sub-assemblies, and equipment. The simplified approach will be to bring the supply chain home which will also speed up the meeting of demand. We will see a significant part of the manufacturing industry departing China. China will have to offset this by driving local demand, an objective which has been on China's strategic agenda for some time.