



INTERIM CHINA SHUTDOWN: HOW THE CORONAVIRUS COULD AFFECT YOUR BUSINESS

Summary: The World Health Organisation declared the Coronavirus as a global health emergency, urging that the global community should demonstrate solidarity and cooperation in responding to the outbreak. At time of writing this report, the coronavirus had infected close to 80,000 people, the vast majority of them in [China](#), killed more than 2500 and spread to almost 30 countries. In addition to the health risks, the virus could potentially poses various business risks similar to the SARS outbreak in 2003 which had a global economic impact of around \$53 billion.

Impact of Coronavirus: China is currently the world's second largest economy and central to a diverse range of global supply chains. In an effort to contain the spread of the virus, the Chinese government has imposed restrictions on the movement of people which has resulted in manufacturing disruptions, shipping restrictions and international travel bans. In South Africa the officials have responded by establishing a specialised task team to prevent the spread of the virus, heightening screening at national ports and issuing clinical guidelines for health workers and citizens.

Due to globalisation and the interdependency on China, which is a critical trade partner for Africa, leaders in Africa must understand how the pandemic will affect their organisations and put into place the measures to manage the impact. Risk management professionals must begin to engage their stakeholders and sensitize their boards on the impact of the outbreak (direct and indirect). Vodacom, a leading telecommunication provider with presence in over 50 countries offering services to 110 million customers, conducted a high-level impact assessment on how the consequential effects of the Coronavirus could have on South African businesses.

Exposure	Description	Impact
Supply Chain Management	<ul style="list-style-type: none"> • Unavailability of spares and consumables to carry out required maintenance and upgrades. • Failure to deliver on key strategic initiatives. • Delays or failure to import and export goods and raw materials. • Relying on 'force majeure' when 	<ul style="list-style-type: none"> • Inability to maintain equipment and/or vehicles. • Declining stock levels. • Slow-down and halt of production lines. • Negative customer experience. • Revenue loss. • Job losses. • Increase in bad debts due to inability to pay financial commitments.

	<p>contravening service level agreements.</p>	
Professional Services	<ul style="list-style-type: none"> • Inability to source professional services from affected regions due to travel restrictions. • Disruptions to international shared service centres. 	<ul style="list-style-type: none"> • Business disruption due to no or slower maintenance and /or support by international shared services. • Increased reliance on local shared services. • Increased cost. • Negative customer experience. • Reputational damage.
Sales and Distribution	<ul style="list-style-type: none"> • Inability to import goods, devices and accessories to meet market demand. • Inability to maintain competitive edge if organisation is dependent on imported items. • Inability to grow and/or maintain market footprint. 	<ul style="list-style-type: none"> • Declining stock levels. • Revenue loss • Negative customer experience • Job losses. • Reputational risk
Macro-economic Conditions	<ul style="list-style-type: none"> • Decreasing macro-economic conditions can weaken consumer spend. • Increasing operating costs and capital expenditure. 	<ul style="list-style-type: none"> • Revenue loss • Increased operational costs
Adverse Political Measures	<ul style="list-style-type: none"> • High global dependency on Chinese goods could potentially result in increased sanctions and trade controls. 	<ul style="list-style-type: none"> • Constraint movement of key equipment • Travel restrictions, visa and work permit limitations • Inability to source key skills that are obtained globally. • Xenophobia and social unrest.
Tourism	<ul style="list-style-type: none"> • Decline in South African tourism income because of movement restrictions (SA received 95,000 Chinese tourists last year) • Inability of informal / small business sectors to continue operations with a dramatic decline in tourist visitors. 	<ul style="list-style-type: none"> • Declining revenue in whole of hospitality sector. • Reduced economic growth. • Loss of income for SMEs and Entrepreneurs • Increase in unemployment

Global Economic Downturn	<ul style="list-style-type: none"> • Tough trading conditions constraining trade and investment. • Global slowdown in economic growth. 	<ul style="list-style-type: none"> • Slowdown in economic activities. • Potential economic crisis like in 2008. • Over-indebted consumers and companies. • Increase in bad debts due to inability to pay financial commitments. • Job losses.
Strained Monetary Policy	<ul style="list-style-type: none"> • Excessive capital/cash injection by central banks are required in order to sustain the economy. • Lower interest rates resulting in slower economic growth. 	<ul style="list-style-type: none"> • Potential economic crisis like in 2008 • Deflation (too many rands chasing too few goods) • Job losses.
Public Hysteria	<ul style="list-style-type: none"> • Unpredictable reaction of people when confronted with a crisis. • Deliberate or accidental spreading of fake news. • Deliberate bypassing of quarantine requirements. 	<ul style="list-style-type: none"> • Panic and fear (real or unfounded). • Endangering public safety by not adhering to quarantine or reporting requirements. • Riots and strike action. • Increase in xenophobia incidents. • Damage to property. • Loss of productivity due to staff remaining home. • Customer service impact. • Loss in revenue.
Labour restrictions	<ul style="list-style-type: none"> • Restriction on movements of "blue collar workers", especially in other African countries. • Restrictions on Chinese contract workers deployed to projects in Africa. 	<ul style="list-style-type: none"> • Delays in completing projects on time. • Increased cost due to delays and potentially having to source alternative contractors. • Work permits being revoked/expired due to restrictions on movement. • Negative perceptions and xenophobic behaviour against all Chinese people.

Potential Responses Strategies

- Prepare your organisations Pandemic Preparedness Plan along with your Business Continuity Plans
- Diversify multi-vendor ecosystem
- Alternative strategies to counter dramatic revenue losses
- Increase critical goods reserves
- Localise critical skills
- Awareness and information sharing
- Enhanced physical security measures against public hysteria

- Up to date media responses/statements for fake news
- Willingness to compensate affected parties

Created by Renisha Rajpaul, Executive Head of Business Risk, Vodacom Group

The Institute of Risk Management South Africa

Copyright © 2019 IRMSA - All rights reserved.

144 Katherine Street, Grayston Ridge Office
Park, Block A, First Floor, Sandton