

COVID-19's Impact on America's Small Businesses: The Fear Factor

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Introduction

COVID-19, which originated in China, continues to [spread rapidly worldwide](#). As of March 7, there are more than 102,000 confirmed cases and nearly 3,500 deaths. While most of the cases and fatalities occurred in mainland China, the virus has already led to more than 21,000 cases and 532 deaths in other countries. The U.S. has more than 340 cases and 14 deaths. Governors of [Washington State](#), [Florida](#), [California](#) and [New York](#) have declared state of emergency. Although the WHO has [indicated](#) it will not declare the outbreak a pandemic, which it did during the 2009 H1N1 outbreak, the sustainable community level outbreaks in China and South Korea (WHO Western Pacific Region), Iran (WHO Eastern Mediterranean Region), and Italy (WHO European Region) clearly suggest that [all the conditions](#) have been met to declare the outbreak a global pandemic.

A Dread Risk

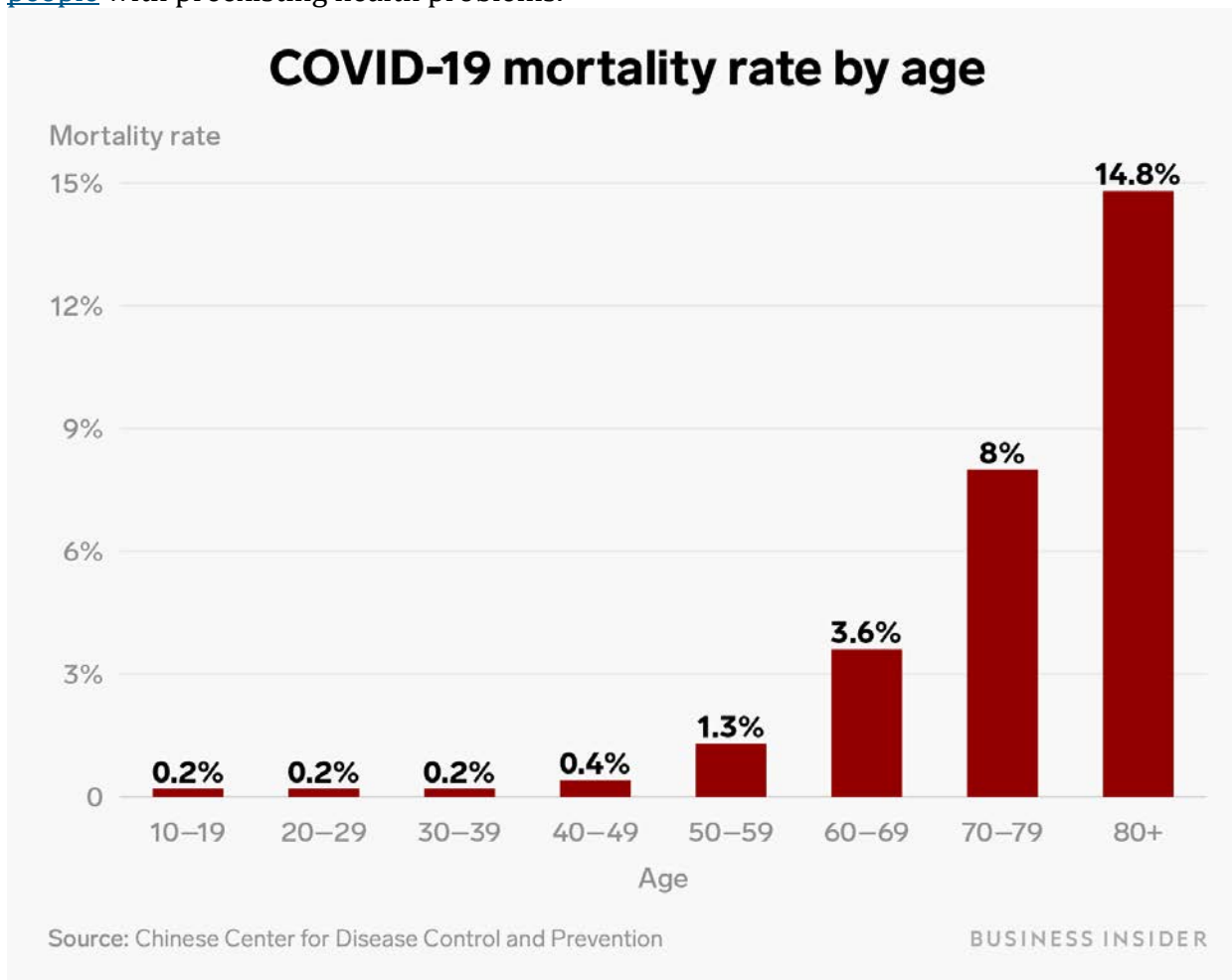
Unlike SARS, which also belongs to the coronavirus family, there have been many unknowns about COVID-19. Scientists and researchers still do not have a consensus on the [origin](#) of the outbreak. They still do not have a clear idea of the virus' transmissibility and virulence. They do not understand why the incubation period could last up to [24 days](#), even though [most estimates](#) range from 1 to 14 days. They also do not know how the virus is transmitted and why asymptomatic people can shed virus. They also do not understand why some patients [tested positive](#) a second time even after they seemingly recovered.

Bombarded and oversaturated every day by news on this seemingly mysterious virus, people increasingly perceive COVID-19 as a "[dread risk](#)", characterized by "involuntary exposure, unfamiliarity, invisibility, uncontrollability, and indiscriminate effects." Unlike risks that are routine (e.g., commuting to work) or voluntarily accepted (e.g., driving on the highway), issues that fall in the category of dread risks tend to be high profile yet pose a lower aggregate risk to human health. Based on the current epidemiological data, we very likely overestimate the health risk posed by COVID-19. According to the World Health Organization (WHO), global case fatality rate for COVID-19 is [3.4 percent](#), higher than that of the seasonal flu, which kills about 0.1 percent of those infected. According to Harvard epidemiologist [Marc Kipsitch](#), some 40 to 70 percent of the people worldwide could be infected with the virus within the coming year. Even if we adopt the lower end of the prediction interval, three billion people could be infected. With 3.4 percent mortality rate, COVID-19 could wipe out 102 million people from this planet, twice the number of deaths from the 1918 Spanish Flu.

Existing risk assessment is heavily influenced by developments in China, which has more than 83 percent of the COVID-19 deaths and a mortality rate of 3.7 percent. But it is widely known that official data from China is subject to reliability problems – for a time, mortality rate in China stood at [2.1 percent](#) so much so that people could accurately predict what the government would report the next day. But aggressive testing in South Korea allows us to give a more accurate and optimistic picture of how lethal the virus actually is. By March 5, with 140,000 people tested for COVID-19, the country's case fatality rate (CFR) is [just over 0.6 percent](#). That number is much lower than WHO estimate but closer to the mortality rate reported in China excluding Hubei (0.8 percent). It is still higher than that of the seasonal influenza (0.1), but lower than that of the Spanish Flu (>2.5 percent) or SARS (9.6 percent). In that sense, the massive coronavirus outbreak in South Korea and the sheer scale of its testing for the virus likely reveals a major silver lining, that is, COVID-19 may not be as virulent as we thought.

An alarmist approach also tends to overlook the fact that [81 percent of COVID-19 cases are mild](#) (i.e., do not need to receive hospital care). Indeed, many mild cases are not included in the data as confirmed cases because they are not going to go the doctor or hospitals seeking testing or treatment. Also, studies

have shown that COVID-19 deaths increase with age, with virus [most seriously affecting older people](#) with preexisting health problems.



This is not to say that we should adopt a Pollyanna attitude toward the outbreak. If we agree with Benjamin Disraeli, a 19th century politician, that “[the care of the public health is the first duty of a statesman](#),” the rapid spread of the virus justifies actions outside the normal bounds of political procedure. Declaring emergency measures allows the mobilization of needed resources and capabilities to address the challenge. Keeping the public informed about the spread of the disease, the consequences of the outbreak as well as the practical steps to undertake (e.g., routine handwashing) will be very important to protect people from getting infected.

The Impact of Panicky Response

An alarmist approach, however, can elicit a disproportional level of fear among the population, which may distort government and public response. Fear of scarcity associated with the spread of the virus has already led to panic buying in many localities, which [can result in real shortages](#) because people buy more than they need. By creating a shortage (and [a surge in price](#)) for facial masks, hand sanitizers, disinfecting wipes at a time when demand is unusually high, it also reduces the ability of American people to protect themselves and their families from COVID-19.

Fear and panic also has led to calls for the government to undertake more aggressive actions in confirming cases, isolating patients and tracking down close contacts. The effectiveness of these

measures, however, is subject to debate. According to a study published by *Tropical Medicine & International Health* in November 2009, while China's anti-SARS measures (e.g., quarantine and social distancing) might have played a role in speeding up the disappearance of SARS or preventing the outbreak in yet unaffected regions, they "[contributed little to the factual containment of the SARS epidemic.](#)"

The cost of implementing such measures nevertheless can be immensely high. As Nicoll and Coulombier have [noted](#) in examining Europe's response to the 2009 H1N1 pandemic, the question was whether there was enough manpower to deliver the necessary response seven days a week and what else could not be achieved when the limited resources were fully committed to case-finding, contact-tracing, testing, and treatment. These measures therefore are hardly sustainable. Worse, they may further raise the panic level, which in turn undermines the government surge capacity in addressing the outbreak. During the 2009 H1N1 pandemic, Singapore was said to have used up half of its stockpile of face masks in the first three weeks of the pandemic. As we have seen in Wuhan in the current outbreak, the government decision to lock down the city on January 23 prompted anybody with flu-like symptoms to flood hospitals seeking COVID-19 testing and hospitalization, which not only encouraged cross-infection but also quickly [overwhelmed](#) the healthcare system.

Driven by panic and fear, countries pursuing aggressive domestic containment measures may also prompt other countries to impose stringent restrictions on travel and trade. Unlike Japan, which limits tests to the most obvious and serious cases, South Korea wages "all out" response to COVID-19, which involves screening more than 260,000 members of a secretive church linked to around half of the country's cases. The ensuing increase of cases make South Korea the second largest infected country after China. In response, the U.S. Department of State [raised](#) its travel advisory on Daegu, where most of South Korea's novel coronavirus cases are centered. By the same token, while there is no evidence supporting that COVID-19 can be spread via cargo or packages from Italy, "[unjustified documentation](#)" had been requested from importers of aged cheese in Greece, lettuce exported to Poland and fruit to Kuwait, while Italian-grown apples are refused by Ukraine.

This is certainly not the first time that unnecessary trade and travel restrictions are imposed to an affected country. During the 2009 H1N1 pandemic, many countries instituted trade and travel restriction measures not based on WHO recommendations or a legitimate public health justification. Despite the WHO statement that pork products handled in a hygienic way were not a source of the H1N1 virus and would be safe to consume, China, South Korea, Thailand, the Philippines, and Indonesia all instituted a [ban](#) on fresh pork and/or pork products from North America. The discrimination against Mexican citizens and the ban on pork products from North American countries sent a signal to other countries that those complying with IHR and honestly reporting diseases in their territories would not be rewarded but punished by other countries. Worse, many measures instituted in the outbreak (e.g., cancelling flights or shutting down borders) tend to be "sticky" and not so easy to rescind. China, for example, [did not lift its ban](#) on pork product from Canada until November 2009, [four months after](#) the H1N1 swine flu activity declined in most countries.

The WHO has urged the government and public against over-reacting to COVID-19. Indeed, the International Health Regulations or IHR, which was revised in 2005 and is legally binding to all State Parties, makes it clear that countries can adopt health measures based on their national law, but such measures "shall not be more restrictive of international traffic and not more invasive or intrusive to persons than reasonably available alternatives that would achieve the appropriate level of health protection" ([Article 43](#)). Unfortunately, rather than allowing the WHO to effectively coordinate international response to the outbreak, many member states driven by fear have rushed to roll out

containment and restriction measures that violates the IHR. The uncoordinated and chaotic response at the international level takes an even heavier toll on the economy and society.

Government and public responses informed by fear can cause huge damage to world economy. The shutdown of factories in Wuhan and beyond [threatens](#) the global supply chain for the automotive, electronics, pharmaceutical and fashion industries. Due to U.S. dependence on China and India for active pharmaceutical ingredients and generic drugs, closure of Chinese factories has also raised serious concerns about [potential drug shortages](#) in the United States. Meanwhile, in order to minimize chances of getting infected, people would turn to social distancing measures—refraining from spending on current items, such as travelling or going to restaurants and theaters. The shift in consumption patterns would deal a serious blow to aviation and tourism industries. According to a World Bank estimate, 90 percent of economic losses during any disease outbreak are caused by “[uncoordinated and irrational efforts](#) of the public to avoid infection.” If a COVID-19 pandemic lasts more than a year, it may lead to widespread business failures, mass unemployment, and further decline of consumer demand, which may throw the world into a global recession.

These responses can be particularly devastating to small businesses. Like big businesses, small businesses (e.g., local restaurants and retailers) during the COVID-19 outbreak face problems on the supply side (e.g., disruption of the supply chain, absenteeism due to widespread illness or fear about getting infected) and on the demand side (drop in customer numbers due to growing fears about the virus). But unlike big businesses, which typically have more resources or other businesses to cushion the economic downturn, many of these small businesses have very little slack to absorb reduced demand or staffing shortages because they tend to “[operate leanly, with tight profit margins and just enough people on staff.](#)” While encountering slow business, they might also struggle to provide sick pay to their employees. If the pandemic continues for one year or more, the economic slowdown and possible recession may force them out of business.

Unnecessary social distancing measures would also fuel discrimination against certain population groups or businesses. The fear has triggered [anti-Chinese sentiment](#) in some countries, [including the United States](#). As far as this is concerned, Asian-American-owned businesses is subject to an additional risk: discrimination. It was reported that in one district of Southern California, “[dangerous misinformation and xenophobia](#)” have led to a 60 percent drop in Asian-owned businesses.

Policy Recommendations

Given the downside risks associated with the fear factor, it is imperative to ensure the revulsion invoked by the outbreak does not push us to undertake measures with unacceptable adverse impacts on public health, civil liberties, trade and economy. Rather than focus solely on emergency mobilization, it is equally important to emphasize prevention, precaution, and risk management by politically neutral professionals. In doing so, we should avoid having the government response politicized. The reason is very simple: when health is placed in the realm of realpolitik, it runs the risk of “[being dependent on the logic of such politics](#)”—which is not based on science but on the Machiavellian instincts of those in power. Instead of provoking fear and panic, governments should provide the public with a more balanced picture of the nature and spread of the virus. Solid information that is not driven by fear would help the public prepare for the outbreak in a more rational and reasonable way.

Last week, President Trump signed an emergency package to combat the coronavirus, which offers low-interest [Small Business Administration loans](#) for companies that are struggling to deal with the repercussions of the outbreak. That is an important step, but not enough. After all, the need for such

targeted loans may not be so strong given current low costs of borrowing. The U.S. government may consider following the example of Italy to provides tax cuts and credits for small businesses. Government measures may also include a national approach to paid leave that can protect both workers and businesses.

Equally important, rather than focusing on aggressive containment measures like treating all infected cases and tracking down all their close contacts, the U.S. should consider rolling out a strategy that aims to slow down the spread of the virus in the community and minimize the societal and economic impact of the outbreak. This strategy involves rapidly identifying cases and treating those who are severely ill or have a higher risk of complications (e.g., the elderly people, people with certain chronic conditions). In order to minimalize the damage caused by the supply chain disruption and unjutstifiable travel and trade restrictions at the international level, the U.S. should consider using the existing multilateral mechanisms such as the G20 or the WHO to organize a special meeting on coordinating international response to the COVID-19 outbreak.