‘CHINA’S ECONOMIC REVIVAL WILL FACE SERIOUS HEADWINDS’

by JAYADEVA RANADE

1. Quite apart from the huge tragic cost to human life caused by the Coronavirus (COVID-19) pandemic, mishandling of which by China’s leadership has angered and frustrated the country’s citizens as evidenced by the riots at the border check-post between Hubei and Jiangxi provinces on March 28, the pandemic has severely impacted China’s economy. The epidemic virtually stopped China’s economic growth for nearly three months and rendered millions jobless. Unemployment has risen to over 6 per cent. China’s services sector alone suffered an estimated loss of US$ 144 billion each week. Financial services assess a 30 per cent contraction of Chinese economy and Chinese economists had estimated that, if the epidemic was not contained by mid-February, China’s growth rate could drop by 2%. Recovery has been slow prompting, according to a Hongkong-based Chinese magazine, leading Chinese businessmen like Ma Yun (‘Jack’ Ma) and Liu Chuanzhi, founder of Lenovo, to sign a 9-point letter addressed to Chinese President Xi Jinping reviving demands for comprehensive reforms, including the economy.

2. Economic losses have been widespread and adversely affected almost all sectors. Bloomberg financial services reported a contraction of 9.9 per cent in incomes of central and local governments in the first two months of the year compared to the previous year and called it the “deepest fall since February 2009”. It said “Tax revenue declined more than 11 per cent, with drops in value-added taxes, corporate income taxes and car purchase taxes”. It noted that “Spending also dropped, but a surge in outlays on health-care and social security kept the decline to 2.9 per cent from a year ago.”
3. Already because of the economic slowdown and US-China Trade War, Reuters had reported on January 22, that about two-thirds of China’s provinces, regions and municipalities had cut their 2020 growth targets from the previous year. These included Beijing, Guangdong, Zhejiang, Henan, Hainan, and Fujian. Beijing, Shanghai, and the southern export hub of Guangdong -- all economic high performers -- dropped their targets from 6-6.5% growth to “around 6%” in 2020, in line with the expected change to the national target. According to preliminary statistics released by local governments, at least 11 provincial-level regions missed their 2019 GDP targets.

4. Detailing the extent of damage, Lu Hai, Professor at Peking University, on March 25, said that a joint survey by Peking University’s Guanghua School of Management and China’s largest hiring platform Zhaopin, revealed that job openings in China for the first two months of 2020 dropped more than 30 per cent as the coronavirus epidemic severely disrupted economic activity. Hardest-hit were the media, entertainment, sports and services sectors, all of which saw recruitments fall more than 40 per cent over the past year in the first two months of 2020. The IT, telecom, and internet sectors followed with advertisements for new jobs dropping by over 30 per cent. The survey revealed that smaller firms suffered more. Companies with staff strengths of more than 10,000 advertised 15 per cent fewer new jobs, companies with between 20 and 99 employees advertised 30 per cent fewer recruitments and firms with less than 20 personnel advertised 40 per cent fewer job openings.

5. China’s leadership, and particularly Chinese President Xi Jinping, has been straining to revive the economy because they consider it domestically and geo-politically important to achieve the ‘China Dream’ by the hundredth year of the founding of the Chinese Communist Party (CCP) in 2021 and keep China on track to become “a major world power with pioneering global influence” by 2049 – the centenary year of the establishment of the People’s Republic of China (PRC). The former includes doubling of incomes by 2020 and the latter implies acquiring the capability to rival the US and be able to influence and create world organisations. Failure to achieve these goals and bring growth back to a reasonable level would impact adversely on their authority and legitimacy. However, despite their efforts economic recovery is slow.
6. As early as February 3, when there was still no easing of the Coronavirus epidemic in China, Xi Jinping told local officials during a meeting of the Politburo Standing Committee -- the CCP’s apex body -- that some of the actions taken to contain the virus were harming the economy and urged them to refrain from “more restrictive measures”. He said some of the steps had sown fear among the public. Separately, China’s provincial-level governments were permitted to issue a further 290 billion yuan (US $41.6 billion) of special-purpose bonds (SPBs) adding to the 1 trillion yuan of such debt approved in November to boost infrastructure spending amid an already slowing economy now hit also by the epidemic.

7. On February 23, Chinese President Xi Jinping directly exhorted over 170,000 officials across the country to “prevent the economy from slipping out of a reasonable range”. He expressed concern about China’s role in global trade and said: “[We] need to secure the smooth operation of foreign trade supply chains and stabilize [China’s] share in the international market.” In a bid to push these efforts, Xi Jinping claimed at a meeting of the Politburo Standing Committee (PBSC) on March 4, that there had been overall improvement in the epidemic situation across China and in the resumption of economic activities. He stressed the need to promote international cooperation and maximise China’s role as a “responsible great power”.

8. Chinese Premier Li Keqiang convened a State Council Executive Meeting on March 10, to call for more efforts to stabilise foreign investment. The meeting decided to: (i) Shorten the negative list of sectors restricting foreign investment and expand the list encouraging foreign investment; (ii) Refund all export tax rebates in full and on time, except for those for energy intensive, polluting, and natural resource-related products; and (iii) Encourage financial institutions to increase foreign trade loans by deferring principal and interest payments. On March 11, the National Development and Reform Commission (NDRC) published a policy focusing on stabilising foreign investment. Stating that it wants to boost foreign investment, the NDRC said big investments will get some benefits and it will coordinate with other ministries to iron out problems for investments of over US$ 1 billion in the manufacturing and high-tech sectors.

9. China has kept its strategic interests in mind. Chinese companies have stepped up production of medical equipment and supplies like respirators, masks and gloves, to
take advantage of the urgent global demand and simultaneously expand their markets. China also took benefit of the drop in oil prices to an 18-year low and OilChem China purchased almost 1.5 million tons of commercial crude oil to add to their strategic oil stockpiles on March 7, the day after talks between OPEC and Russia collapsed and prices began to plummet. A manager at a Chinese oil storage company said “All of China’s coastal storage tanks and those near rivers are all booked, wherever they are in the country”. The total quantum of oil in OilChem China's “strategic storage” is now 29.45 million tonnes.

10. To ameliorate distress, China decided to provide medium-term funding to banks and cut the interest rate. More than 300 Chinese companies including Xiaomi, China’s ride-hailing company Didi Chuxing, facial recognition company Megvii Technologies and Internet security company Qihoo 360 are seeking bank loans totalling at least US $8.2 billion to ease the impact of the coronavirus epidemic. This has been accompanied by efforts to revive economic activity and resume production. Transport authorities waived toll taxes and village cadres encouraged workers to return to their work place. Xinhua Daily, reported on March 14, that to encourage the service industry’s recovery the Nanjing government has begun handing out coupons worth 318 million yuan (US $45 million) each with a monetary value of 50 yuan or 100 yuan. They include a dining coupon, book coupon, village tour coupon, living subsidy, labour union coupon etc. Among the cities resorting to such monetary encouragement it listed: Macao issuing electronic coupons worth MS $3000 (US $375) to each resident; Hong Kong announcing financial support totalling HK $120 billion (US $15.4 billion), including giving HK $10,000 to each person over 18 years old; Ji’nan City, Shandong Province issuing 20 million yuan worth cultural consumption coupons; De City, Zhejiang Province issuing 10 million yuan in travel coupons; Zhejiang Provincial Culture and Tourism Department providing 1 billion yuan to stimulate cultural and tourism consumption and 100 million yuan in gifts directly to people; and Ningbo City, Zhejiang Province issuing 100 million yuan in coupons. In Jiangsu Province several senior leaders went to restaurants or stores to encourage people to go out and spend money.

11. Despite these efforts China's Ministry of Industry and Information Technology (MIIT) disclosed that by March 24, only 71.7% of small and medium-sized enterprises had resumed operations. Another National Business Activity Index said the next day
that the economy was operating at 73.9 per cent, or less than three-fourths of normal levels. Identifying transportation and energy as two pertinent indicators, the New York-based Rhodium Group observed there were 82 per cent fewer trips in the 25 days following the Lunar New Year in 2020 compared to 2019, signalling that workers were not returning from the countryside. It observed that coal consumption by the six largest power plants in China fell over 40 per cent, property sales in major cities were near-zero till March and that government and private surveys had recorded major contractions in manufacturing and services. Economists have observed that if the economy doesn’t get rebooted quickly, the damage will be intense and long-lasting.

12. A gradual improvement was reported by end March 2020. The official 'The Paper' stated that businesses are re-opening and observed that “Big data from Baidu searches shows that, at present, over 50% of offline [businesses] have resumed work nationally.” It said “The percentage of offline [businesses] that have resumed work exceeds 63 per cent in Xining, Dalian, and Changchun, which lead the country in this respect.” Separately Xinhua reported that less than half of small and medium enterprises are back at work. It cited MIIT figures to say “Around 45 percent of China's small and medium-sized enterprises (SMEs) had resumed work” by March 6, up from the 32.8 percent of February 26. A magazine reporting on the coal industry, however, said “The capacity utilization rate as of March 3 [of coal mines was] 83.4 per cent, according to official data from China’s National Energy Administration”, which marked a two-fold increase on that recorded on February 1. The Paper observed, however, that the economy remains “severely depressed”.

13. The economic damage to the economy caused by the Coronavirus epidemic has adversely affected private businessmen and entrepreneurs who have been complaining since mid-December 2018 that private businesses are being denied opportunities and expressed a lack of confidence in the system. Their dissatisfaction could well hamper China’s efforts to rebuild and revive its economy.

14. In mid-December 2018, Renmin University Prof. Xiang Songzuo at a public function questioned China’s real rate of growth -- declaring that a "research group of an important institution" had released an “internal” report stating China’s GDP growth in 2018 was about 1.67 percent -- poor state of private businesses in China, and a lack of
confidence. Within days, Chen Hongtian, Chairman of the Cheung Kei Group and member of the Chinese People’s Political Consultative Conference (CPPCC), warned nearly 150 tycoons based mainly in Shenzhen and Hong Kong that China’s private business entrepreneurs should prepare for a “winter colder and longer than expected”. The group included Tencent Chairman Pony Ma, the Chairman of carmaker BYD, Wang Chuanfu, and the Chairman of courier service SF Express, Wang Wei. They asserted that contrary to assurances the State owned Enterprises (SoEs) have expanded to enter virtually every sector of economy activity. Supermarket tycoon and founder of Wumart Stores, Zhang Wenzhong, on November 1, told entrepreneurs at a forum that the courts had released him and returned his property after 5 years of imprisonment and cautioned this could happen to any of them. He said this is because “Our basic economic system has been written into the country’s and the party’s constitution. It won’t change.” These complaints continue to be occasionally voiced.

15. As China tries to revive growth, the Chinese businessmen have now again taken up their demand for reforms. Coincidentally they have increased pressure on Chinese President Xi Jinping and the CCP. On March 26, 2020, the Hongkong magazine ‘China in Perspective’ claimed that prominent Chinese businessmen had signed and handed over to Chinese Premier Li Keqiang a letter addressed to Xi Jinping stipulating nine comprehensive demands, including discarding of China’s aggressive foreign policy. These are: (i) adhere to the Deng Xiaoping line; (ii) negate the Cultural Revolution; (iii) start the political reform; (iv) do not discriminate against private enterprises; (v) protect entrepreneurs; (vi) establish the national discovery fund; (vii) accountability for the Coronavirus (COVID-19) epidemic; (viii) Release Ren Zhiqiang; and (ix) re-investigate the Li Wenliang incident. The magazine mentioned that five senior veteran Chinese communist leaders, namely Li Ruihuan, Wen Jiabao, Li Lanqing, Tian Jiyun, and Hu Qili had also signed the letter. Interesting was the magazine’s disclosure that Chinese billionaire tycoon and ‘princeling’ Ren Zhiqiang has been detained at the Changping Mangshan Base of the Beijing Municipal Commission for Discipline Inspection. The timing of this news comes at a difficult time for Xi Jinping and appears to confirm that, at the least, a group of powerful ‘princelings’ are opposed to Xi Jinping.

16. As China strives to energise growth and rebuild economic growth, a lot will depend on the global economy and attitudes of other countries. US-China rivalry will probably
escalate. As US, Europe and other countries grapple with the Coronavirus pandemic, trade will be limited and low on their list of priorities. China may hope to capitalise on distractions and plummeting stock markets to acquire hi-technology, pharmaceutical and other technologies and companies, but suspicions and its negative image could be major impediments. Current reports of Chinese companies stepping up production to meet global demand for respirators, masks, gloves and other urgently needed medical equipment, many of poor quality, will add to reservations about China. There is likely to be resistance to China’s efforts to enlarge its global market share.

17. Countries will introspect and re-examine current trade policies, as should India, with priority on eliminating dependence on a single source of supply especially in vital sectors of national importance like pharmaceuticals, precision engineering, communications etc. With the possibility of biological warfare now a reality, serious complications for China will be its image, suspicions of its role in the pandemic and whether it shared pertinent information on the Coronavirus epidemic fully and in time. China is likely to face a tough economic and political climate in the time ahead. China blocking discussion on the pandemic at the UN Security Council only heightens suspicions.

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