



## COVID-19: AS CHINA RECOVERS, WILL ITS ECONOMY FOLLOW?

BY DR. STEPHEN NAGY

*Dr. Stephen Nagy ([nagy@icu.ac.jp](mailto:nagy@icu.ac.jp)) is a senior associate professor at the International Christian University in Tokyo; a distinguished fellow with Canada's Asia Pacific Foundation; a fellow at the Canadian Global Affairs Institute (CGAI); and a visiting fellow with the Japan Institute for International Affairs (JIIA).*

President Xi Jinping's [visit to the epicentre](#) of the Covid-19 pandemic in Wuhan in mid-March should be understood as the end of the 1st-order problems associated with the outbreak. With the health crisis potentially under control, what lies ahead will further challenge the authoritarian regime as the 2<sup>nd</sup>- and 3<sup>rd</sup>-order problems associated with the [mismanagement](#) of the initial outbreak ensue and serious downstream consequences for China and the global economy emerge.

The draconian quarantining of Hubei Province, as well as nationwide measures to stem the spread of the elusive virus, have been costly. China's [exports plunged](#) 17.2% in the January-February period compared with last year. Imports fell 4%. On March 6, the China Enterprise Confederation (CEC) [released the results](#) of another survey assessing the Q1 performance of 299 large manufacturers, and more than 95% of companies saw revenues drop, while more than 80% saw operational costs go up.

The [purchasing managers' index](#), which measures China's service sector activity, fell by half last month and public transport in Beijing was at 15% capacity. Importantly, consumption fell significantly from 51.8 in January to 26.5 in February.

These are the 2<sup>nd</sup>-order effects of the Covid-19 pandemic. A [significant drop](#) in consumption in China,

a slow return to the full functioning of the economy, and the [slow return of migrants](#) and other workers to manufacturing centres and cities mean one of the engines of global growth is [running on half speed](#).

Beijing's anxiety over the reputational costs associated with the Covid-19 pandemic continues to mount. It has launched a [campaign of disinformation](#) domestically and globally, insinuating that the virus originated in the US. It has also proactively nurtured a narrative that the CCP's [response to the outbreak](#) has been comprehensive, effective, and systematic (unlike in [the US and other states](#)).

[Disinformation tactics](#), such as disseminating fake news about chaotic Covid-19 responses in foreign countries have come hand-in-hand with efforts to silence prominent critics of Xi and the CCP response to the outbreak, for example, the [recent disappearance](#) of Chinese tycoon Ren Zhiqiang.

Prominent scholars such as Tsinghua University's professor Xu Zhangrun have also disappeared from public life after releasing photos on social media (to avoid censors) of his hand-written critical essay "[Viral Alarm: When Fury Overcomes Fear](#)."

[Online censorship](#) by the state has also tried to suppress the voices of Chinese citizens most effected by the Covid-19 outbreak by censoring key words on WeChat, like factual descriptions of the flu-like pneumonia disease, references to the name of the location considered the source of the novel virus, local government agencies in Wuhan, and discussions of the similarity between the outbreak in Wuhan and SARS.

Some of these voices have been translated and preserved in the [Wuhan Diaries](#) blog by the political cartoonist and human right activist [Badiuchao](#), who has voluntarily translated diaries of Wuhanese in the locked-down mega-city. This has led to pursuit by the Chinese government.

These voices, critical of Xi and the party, suggest cracks are emerging in the Great Fire Wall and Chinese netizens [are not content](#) with the government's response, nor with the lack of freedom to share life-saving information.

As 2<sup>nd</sup>-order economic issues continue to put [downward pressure](#) on the Chinese economy, the CCP's bargain with its citizens, in which they retain political control in exchange for steady and stable economic growth, will become increasingly more difficult to sustain.

This is where the 3<sup>rd</sup>-order problems will aggravate domestic contradictions in the Chinese system.

Now that the Covid-19 virus has spread to North America and Europe, we see major economies around the world [adopting social distancing measures](#). These measures have [shocked stock markets](#) and unleashed uncertainty related to global growth and to the extent the Covid-19 will spread, impacting the health and dynamism of economies.

Supply chains have also been [negatively impacted](#) by the Covid-19 outbreak in China and the crisis has exposed the dangers of overexposure to the Chinese market, resulting in [calls to diversity supply chains](#). This is a wake-up call to states and businesses alike who have not built a diverse trade portfolio to insulate themselves from a shock in the China-centered global production network.

Perhaps more critically, now that Covid-19 has spread to rich, developed regions, China's ability to provide steady economic growth for its citizens will be strained at best. Facing a [demand shock](#), the question is not when the Chinese economy will be online again, but who it will sell its products to.

The demand shock and possibility of the virus' [reintroduction or re-emergence](#) in China are 3<sup>rd</sup>-order problems the Chinese government will not be able to manage as effectively as its initial wave of quarantine efforts.

Demand will only increase if North America, Europe, Japan, and other wealthy states effectively halt the spread of the virus and quickly return to normal socio-economic activities. [Initial estimates](#) suggest that Europe and the US have done poorly compared to Japan, Hong Kong, Singapore, and South Korea, suggesting the demand side of growth will not return anytime soon.

Preventing the [reintroduction or re-emergence](#) of the virus in China may already be past the point of no return due to skepticism about data on the outbreak in China and because many Chinese citizens are [returning home from abroad](#), based on the rationale that China has effectively contained the outbreak.

A return of Covid-19 in any form to China will accelerate the decoupling and deglobalization process beginning with President Donald Trump's trade war with China. It will also inculcate more instability into US-China relations, the global economy, and the global community's ability to deal with global issues such as climate change, transnational diseases, and the next Black Swan event.

How Xi and the CCP manage the ensuing 2<sup>nd</sup>- and 3<sup>rd</sup>-order problems associated with the Covid-19 pandemic will impact China, but also regional and global stability. Its initial reaction to the Covid-19 outbreak exposed the [institutional challenges](#) associated with calcifying authoritarian rule. It also demonstrated that its system can quickly marshal resources to suppress viral transmission.

Whether it can negotiate the demand shock side of the Covid-19 pandemic, as well as another possible outbreak are questionable. The answer to these lines of inquiry are unknown, but the potential repercussions are several.

A successful response may solidify Xi's and CCP rule in China and provide it domestic legitimacy, even increasing its political capital globally for effective governance.

While not impossible, this outcome is not likely, as China requires the global community to buy the goods produced in its [export-based economy](#). With that in mind, the options for the Chinese leadership are narrowing and it will be increasingly difficult to maintain stable, sustainable economic growth.

More crucially, without sustainable economic growth, the CCP's goals of "[socialist modernization](#)" by 2035 and a "[modern socialist country](#) that is strong, prosperous, democratic, culturally advanced, and harmonious" by 2049, are less likely than China finding itself in the [middle-income trap](#). This may

leave the party searching for a new source of legitimacy or purpose based on assertive nationalistic enterprises—such as forceful reunification with Taiwan—or other initiatives to maintain social cohesion under the guise of a nationalistic endeavour.

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