

## **The Wuhan coronavirus: the outbreak's political and economic repercussions**

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China's economy was supposed to have got back on track after the Chinese New Year break on Monday, 10 February. Originally, the break was planned to start on 24 January and end on 2 February, but was extended for one week due to the coronavirus outbreak originating in Wuhan. Restrictions on the movement of Beijing and Shanghai residents were imposed on 10 February. Furthermore, the Supreme People's Court of the People's Republic of China ruled on 15 February that concealing coronavirus cases, failing to report them and knowingly infecting others should be qualified as "endangering public security by dangerous means", for which imprisonment of at least 10 years and even the death penalty can be imposed. The same court announced on 17 February that manufacturing medical equipment (including surgical masks) which fails to meet national standards can be punished by imprisonment, even up to a life sentence. It was officially announced on the same day that 1772 people have died as a consequence of COVID-19 in China, and the number of sick people has reached 70,000.

The first cases of viral pneumonia caused by the previously unknown coronavirus were reported in Wuhan (the capital of Hubei province) at the beginning of last December. During the first few weeks the local authorities insisted that everything was under control, and the 2019nCoV virus (identified as COVID-19 by the World Health Organisation as of 12 February) could not be spread from person to person. At that time repression was used against doctors and other individuals who made attempts to inform their superiors and warn the public about the scale of the epidemic. The delayed response was due to inertia among public officials, and also the fact that Wuhan was the venue of a provincial people's congress on 12 January. Had the congress been cancelled, the local government would have lost face and the political calendar of the Communist Party of China (CPC) would have been upset. The annual session of China's parliament, the National People's Congress, had been scheduled to commence on 5 March, and each delegation was supposed to formally receive instructions from the electoral bodies of the respective provinces before that. Finally, the commencement of the session was postponed on 24 February. It was only on 20 January that Beijing lifted the information blockade. It was then revealed that the virus could also be spread from person to person. Wuhan was quarantined on 23 January, but this move came too late because people had been migrating on a massive scale for several days in connection with the Chinese New Year celebrations. Around 5 million people might have left the city by that time.

The central government adopted a different policy on 19 January; it was admitted that the situation was serious and required drastic moves. A Leading Small Group for Countering the Coronavirus Epidemic, led by Prime Minister Li Keqiang, who is formally number two in the party hierarchy, was established inside the Central Committee (CC) of the CPC. In fact Sun Chunlan, a member of the Politburo of the CC CPC who serves as a deputy prime minister also responsible for healthcare, is directly in charge of the action in Wuhan. However, her political position is weak. For this reason Chen Yixin, the General Secretary of the Political and Legal Affairs Committee of the CC CPC, who is a protégé of the General Secretary of the CPC, Xi Jinping, was sent to Hubei on 12 February to discipline the CPC's local structures there.

A number of cities in Hubei province, which contains a total of around 60 million people, were quarantined expeditiously after 23 January. The same restrictions were imposed in other provinces soon thereafter. Other measures taken include restricting the possibility of movement between the provinces, banning foreign group trips, closing museums and other places popular among tourists, and establishing checkpoints measuring body temperature in all possible locations, from housing estates to transport centres. Besides that, isolation and quarantine centres have been established. Four groups of people are being compulsorily directed there: (1) those with confirmed COVID-19 infection, (2) those suspected of being infected, (3) those who have had contact with categories 1 and 2, (4) anyone who has fever. On 17 February the holiday break for university and school students was extended indefinitely. It has been announced that the costs for treating COVID-19 will be refunded, and the construction of two prefabricated container field hospitals has commenced in Wuhan. Some of these moves have been criticised by specialists as being superficial (such as building new hospitals instead of adapting existing office buildings, which would have taken less time) or counter-productive (transport restrictions prevent supplies reaching hospitals).

On 10 February, government media reported that the criteria for qualifying new COVID19 cases had changed. Those who tested positive for the coronavirus but did not develop the symptoms were no longer included in the group of the sick. As a result, the virus growth rate in official statistics fell significantly overnight. However, as broader criteria were introduced on 12 February in Hubei province, a rapid increase was seen in the statistics the next day. On 20 February more narrow criteria for qualifying COVID-19 infections were introduced nationwide, which resulted in a sudden drop in daily reports of new cases. As of 26 February, official statistics declared that there were 78,064 infections and 2715 deaths in China.

Zhang Jin, the CPC secretary of Hubei Province's healthcare commission, and Liu Yingzi, the chairman of the commission, were removed from their posts on 11 February. On 13 February, Jiang Chaoliang, the CPC secretary in Hubei Province, was replaced by Ying Yong, the mayor of Shanghai and a trusted associate of Xi Jinping. Ma Guoqiang, the party secretary in Wuhan, also lost his position; he was replaced by Wang Zhonglin, the CPC secretary from Jilin, the capital of Shandong Province.

## Commentary

- The government's firm and extensive response did not prevent widespread discontent among the Chinese public, who gave vent to their feelings on 7 February after Li Wenliang died due to COVID-19 infection. Li was one of the doctors who had reported the new virus and was repressed towards the end of last year. Regardless of its well-developed censorship and internet control apparatus, the CPC were initially unable to shut down the negative posts (which number exceeded 800 million, or – if shares and comments are counted – several billion, with repeated demands for freedom of speech). What also provoked criticism is the fact that the prime minister, who had been marginalised for years, has been put in charge of the leading small group and that Xi Jinping, who has the real power, has withdrawn from public activity. It took the government several days to remove the negative posts from the Chinese internet; however, it did not manage to prevent the manifestation of widespread public discontent. Much publicity has also been attracted by an essay written by Xu Zhangrun, a former law professor at Tsinghua University, who claims that the 'culture of suppression' has led to 'systemic impotence'. He was detained by the security services and is currently isolated under house quarantine. However, the most serious problem for the government is that the Chinese public have become aware of the fact that the discontent is widespread and shared by others.
- The COVID-19 epidemic and its perception among the public is probably the greatest political challenge the Communist Party has faced since the Tiananmen Square democratic protests in 1989. The unwritten agreement that was imposed on the Chinese people by the government assumed that the CPC would guarantee the continuous improvement of the economic situation and conduct a modernisation programme to build a modern state which would effectively prevent crises. In return, the public would not question the party's authoritarian rule. However, it has become clear that the party has been unable to prevent the crisis. Moreover, it is responsible for the scale the crisis has reached due to the politicisation of the decision-making system, which affects even such basic questions as countering the epidemic. The CPC is also blamed for the malfunction of the healthcare system, which has in fact collapsed in Hubei Province and is on the verge of crisis in other regions of China. All this is accompanied by a sense of omnipresent corruption and pathological restrictions, which impeding the effective operation and functioning of state institutions due to excessive bureaucracy. In effect, public legitimacy of the CPC's rule is weakening, and the scale of negligence committed by the party apparatus disproves the propaganda claims about the meritocratic nature of the CPC's rule. The personal skills of Xi Jinping, who has been able to concentrate the key instruments of state power in his hands since 2013 thanks to the strong centralisation of the political system, have also been questioned in the comments. The epidemic has resulted in a crisis of confidence in the government; this concerns the motives behind the CPC's moves and, above all, the trust in the competence of the party apparatus on all levels. It has also revealed the limitations of the CPC's information policy as formed at the CC's Publicity Department.
- The central government in Beijing has made a number of moves in response to the widespread criticism, in the hope of regaining the initiative. Since 23 January, the censorship has been eased, and several private media organisations were given access

to Wuhan and allowed to give relatively unrestricted accounts. However, total information control was gradually reinstated a few days later. In this way, a false impression of openness and transparency regarding COVID-19 was created to add credibility to the government's narrative after a few days of information freedom. The CPC has also been attempting to show greater interest in the everyday problems of the Chinese public. Xi Jinping's visit to a residential district in Beijing was widely publicised in the government media on 10 February. This move is not typical of China's political culture and reveals the government's desperation. Propaganda has been intensified to show high morale among the people in the isolation centres and the medical personnel, and to prove that the healthcare system is operating seamlessly, not only in Hubei but also everywhere across China.

- Increasingly tight control of the information policy can be expected. The ruling class will make efforts to suppress all signs of disobedience, resorting not only to censorship but also the traditional forms of repression: cases of detaining and persecuting journalists, civil society activists and commentators who have criticised the government's moves are being revealed daily. The measures used to prevent the epidemic from spreading are also being used to a great extent for political control. There are signs that some individuals have been put under house quarantine to restrict their public activity. It is also likely that the CPC will use the epidemic to further centralise and tighten its control of the regional party apparatus. It is already clear that Beijing will blame the irregularities on local authorities and will attempt to focus the public discontent on them. If the situation gets worse, a show trial of their representatives cannot be ruled out.
- If the epidemic ends in a relatively short time, it is very likely that the CPC will successfully use its control of the coercion apparatus and tools for shaping the public discourse to turn the crisis into a political success, and perhaps thus even to strengthen the regime. However, a longer-lasting epidemic would generate further internal tension, not only between the public and the government but also within the party apparatus. This gives rise to the concern that the ruling class will downplay the size of the epidemic to encourage migrating workers to return to the industrial centres, put economic activity back on its normal track, and minimise the reputational losses of the regime. This will risk another wave of infections. The government's moves are dictated by concern about the negative economic consequences of the continuing crisis; and this, in the decision-makers' opinion, will pose an even higher risk to the CPC's rule.
- As regards the economy, the short-term adverse consequences of the epidemic were limited because of the Chinese New Year break; production was suspended for 15 days (companies in China and their foreign customers increased stocks in the last quarter of 2019 like every year). However, the government's present moves (the *de facto* extension of the holiday break) will affect the prospects for growth in the medium term. Migration has made it easier for the virus to spread across the country; workers have been quarantined in rural regions, and cannot or do not want to return to the industrial centres. As of 10 February, the regions affected by some form of restrictions on the movement of people accounted for around 80% of China's economy. Nevertheless, the migration of workers and the related downtime are seen every year at this time, in connection with the Chinese New Year holiday, and are considered in the business plans. In normal

conditions higher stocks prevent the disruption of supply chains inside China and to foreign customers. However, the epidemic has upset the operation of the transport sector and disrupted the circulation of goods inside China and the country's exports, and this has adversely affected the production capacity of numerous companies abroad. In this situation, the chaos and uncertainty in the business environment are being escalated by contradictory internal signals coming from the government in Beijing. On the one hand, a recommendation has been issued to postpone the resumption of production where possible. At the same time, it has been announced that the central government will counter any tendencies among local officials to withhold the movement of workers and further limit production. Foxconn, the manufacturer of the iPhone, is a symptomatic example. Initially, it was not allowed to resume production. However, it contested the decision and was able to reopen two factories (in Shenzhen in Canton province and Zhengzhou in Henan province). Only 10% of the crew came to work on the first day. Regardless of this, the company has promised to resume production towards the end of February.

- The information chaos has been aggravated due to further restrictions being imposed on the movement of people in other cities (Beijing and Shanghai). At the same time, the restrictions were gradually lifted in Zhejiang province (bordering on Shanghai), but were partly reintroduced several days later. The State Council has also appealed to the key sectors of industry (e.g. aircraft and semiconductor manufacturers) to resume production on 10 February. Some vehicle manufacturers did so (including Ford, Daimler and Tesla), but many others, including subcontractors, still have not. This is escalating the crisis in a sector which has been affected by falling car sales in China for several years. Additionally, Xi Jinping has claimed that the economic problems caused by the epidemic may not lead to massive redundancies; however these will be difficult to avoid, unless industry resumes production in mid-February. Local authorities have appealed to people to work online from their homes, but this is impossible in the case of industry and most services. Nevertheless, the largest technology companies (such as ByteDance, Tencent, Alibaba and Meituan) have extended the holiday break until 17 February or later dates. So far, the epidemic has affected the retail and the tourist sectors worst of all. The Chinese New Year holiday break, along with the 'golden weeks' starting on 1 May and 1 October (the anniversary of the founding of the People's Republic of China) are vital for boosting domestic consumption, which the CPC expects to become the new driving force of the country's economy. These two sectors are unlikely to make up for the losses before the end of the year.
- Another problem concerns the export sector. A major part of production in China is synchronised with the Chinese New Year. The period after the holiday break is usually a time when production contracts for the next year are signed. Since many airlines have suspended flights to China and travel restrictions have been imposed by numerous countries (including the US), it is impossible to sign contracts, send samples, conduct inspections before shipment, etc. If this situation continues, Chinese manufacturers will lose at least some of their contracts. Hence Beijing's pressure on international partners to resume air traffic to China. Chinese diplomats in many countries have resorted to addressing more or less veiled threats to carriers and host countries in their public

speeches. It can also be suspected that Beijing has used its influence inside the World Health Organisation to make its experts criticise the restrictions on traffic to China as impeding the containment of the epidemic.

- Serious restrictions have also affected railway traffic between China and Europe. Some connections were suspended until the second half of February, not only from Hubei province but also from other locations, such as Yiwu (Zhejiang) and Hefei (Anhui). This is because the transport paralysis is preventing the delivery of products to the loading terminals. The epidemic itself has also forced international companies to consider what advantage is gained by locating so many supply chains in China. It appears that when one section of the production, especially the one targeted at the local market, remains where it is, the tendency to diversify supply chains will intensify, regardless of how the epidemic develops. This fits in with the US pressure on American and international companies to move their production out of China, as well as the growing trend among European manufacturers to at least partly reduce their dependence on links with the Chinese economy. However, it should be noted that these are long-term trends and, even though the COVID-19 outbreak may accelerate such decisions, this process will be spread out over several production cycles, each of which will be counted in years.
- If the epidemic continues until the end of February or beyond, which is likely, this will have serious economic consequences. On 10 February China's National Bureau of Statistics announced that the rate of inflation in January measured by consumer price index would reach 5.4% (year-on-year) and would be higher than expected by most observers. This has to a great extent been caused by food hoarding among panicking residents, upsetting the supply chains. If the situation continues, inflationary pressure on the Chinese economy will grow. Under normal circumstances, the People's Bank of China would have responded by reducing money supplies, but in the present situation the central bank's room for manoeuvre may have been restricted by the need to ease the country's financial policy. According to Reuters agency reports, over 300 large companies are already looking for opportunities to take out additional loans (totalling US\$8.2 billion) due to the negative impact of the COVID-19 outbreak on their condition. This will make the problem of indebtedness in the Chinese economy even worse, and the scale of the phenomenon will depend on the manner in which the epidemic develops. Real estate prices have also fallen. Some provinces (e.g. Guangxi) have suspended sales of new apartments. In other provinces, sale centres have been closed, and potential buyers cannot see the apartments offered for sale anyway. The Chinese New Year is traditionally a period when many new buyers decide to finally strike a deal, and unless restrictions are lifted soon, the sector will find it difficult to make up for the losses.
- If COVID-19 is prevented from spreading by early March, the Chinese economy will be able to recover within six to twelve months. Should the negative consequences of the epidemic continue after mid-March, the country's economic situation will be seriously affected, which will also have an impact on the global economy. If this is the case, the party apparatus and state-owned companies will increase pressure on the government to launch an incentive scheme. This will make it difficult to shift away from the present economic model based on boosting GDP growth through infrastructural investments, stimulating the construction sector, developing production capacity and reducing



consumption among Chinese residents. Considering the decreasing potential of the existing model, which is increasingly driving the Chinese economy into debt, the government has for years been promising a switch to domestic consumption, services and the development of new technologies, although this has met with resistance from influential elements within the regime. A continuing crisis linked to the COVID-19 epidemic will make the systemic change more difficult in the short and medium term, and the political dispute inside the CPC between those who want the economic stimulation to be continued and supporters of a model of developmental reform may lead to a deadlock among the decision-makers, thus provoking a more serious political crisis within the party in the longer term.

*(updated 26 February 2020)*