A setback to the ‘China Dream’

Virus-hit: The pandemic has aggravated China’s economic troubles and its social challenges

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Domestic tourism revenues have dropped by over 60% in the first quarter of this year, with an estimate decline of over 20% for the whole year. (Credit: Sajith Kumar)

On a visit to his home province Shaanxi from April 20-23, President Xi Jinping expressed concern over the impact of the Covid-19 pandemic on China’s economic growth targets, unemployment, food and energy security, supply chain stability and others and called for accelerating the country’s efforts on 5G, Internet of Things, artificial intelligence and others. He was also critical of some Communist Party cadres’ “weak leadership” and “insufficient abilities, unreliable style” in tackling the epidemic.

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Clearly, “economics is at the centre” of China’s dynamics. China’s leaders have pitched fast economic growth as the goal since Deng Xiaoping launched the reform and opening up policies in 1978. In fact, doubling or quadrupling the GDP every few years is outlined as the key goal to achieve at all costs. Official statistics suggested that China grew 10% on average in the first three decades of reform but entered the “new normal” in this decade of averaging 6%. The outbreak of Covid-19 has upset the Chinese apple cart, including the national strategic goal of ushering in a “well-off society” by next year.

The Caixin General Manufacturing Purchasing Managers Index (PMI) slumped to its worst -- 40.3 points -- in February when Wuhan and the neighbouring Hubei province were locked down to contain the Covid-19 outbreak. While the PMI rebounded to 50.1 in March, it again slipped to 49.4 in April, suggesting that as the domestic and global demand is weak, China’s growth rates are likely to slip drastically in the coming months. In the first quarter of this year, China’s economy fell by 6.8%. It is estimated by the International Monetary Fund that if all things go well, China may scrape through with a 1.2% growth rate for the whole of 2020.

A second major concern is the mounting unemployment rate that threatens social stability and hence the communist party’s legitimacy. Li Xunlei of Zhongtai Securities estimated that China’s current real unemployment rate is over 20.5% – as against the official estimate of about 6% in March -- resulting in an estimated 70 million jobless. China every year targets to generate over 10 million jobs. However, this year, achieving such a target is going to be near impossible given, among other factors, the restrictions on social mobility and the mandatory quarantining of the migrant workers returning from the Spring Festival family reunions.

A third area of concern is agriculture, which constitutes about 7% of China’s GDP but on which over 40% of its people are dependent. Lockdowns and restrictions on transportation led to disruptions in supply of vegetables, fruits and poultry, leading to food inflation. Pork, a staple diet in China, also was already reeling under price hike (over 116%) due to the African Swine Flu in 2019, which wiped out 40% of piggery in the country. As a result, the consumer price index rose to 5.4% in January and to 6.1% in April.

Other non-manufacturing sectors are also reeling under stress although the lifting of the lockdown in Wuhan on April 8 has led to some relaxation in transportation and travel sectors. Retail and real estate have suffered the maximum as panic-stricken people amassed daily groceries, sanitary items and non-perishable items but home sales suffered a

40% decline, although in some cities like Beijing, there’s still demand. Office properties are increasingly coming under strain as work from home has become the norm.

Millions of Chinese eat out every day but with the lockdown, the closure of restaurants has come as a rude shock, although mitigated by e-commerce platforms like Taobao and Jingdong that also began “no touch” technologies and delivery keeping in mind consumers’ fears of the virus spreading. The spring festival time in China generally witnesses a slump in the restaurant business by almost 90%, according to China Cuisine Association estimates. However, the lockdown has extended that disruption in the food and beverage sector.

Both domestic and international travel has been restricted and a compulsory quarantine imposed for 14 days after travel. Domestic tourism revenues have dropped by over 60% in the first quarter of this year, with an estimate decline of over 20% for the whole year. Despite incentives provided by local governments by slashing entry fees, and the opening up of parks and museums, etc., only slow progress is expected in domestic tourism. Some 160 million Chinese travelled abroad as tourists every year, but the complete ban on such travel has hit the tourism industry in China and abroad.

However, one bright area of growth in China during this depressing Covid-19 situation is the increase in sales volumes of e-commerce platforms like Alibaba, Tencent and others. With further improvements in the delivery of products by taking care of the sanitary concerns of the customers, these e-commerce platforms have increased sales, specifically in food, retail, electronics and medical equipment.

The government has been making several efforts to put China back on the growth track. One is the administrative mechanism to address the crisis. On January 21, the State Council set up a Joint Prevention and Control Mechanism, which prepared 40 policy documents on epidemic prevention and control, medical treatment, scientific research, publicity, foreign affairs, logistics support and others.

Secondly, China is considering a stimulus package. China had extended stimulus packages during the 1997 Asian Financial Crisis and the 2008 Global Financial Crisis, spending resources on building a wide network of infrastructure facilities across the country. However, this has burdened China with a high debt to GDP ratio. Hence, this time, Beijing is being reluctant to open its purse strings wide and to put all its eggs in the infrastructure basket, instead choosing what has come to be known as a “half-way stimulus”, partly doing what it did in 1997 and 2008 but shifting more to reliance on monetary and fiscal tweaks.

The People’s Bank of China, the country’s central bank, for instance cut repo rates to infuse $250 billion liquidity into the banking system. The government announced a $80 billion stimulus package mainly aimed at propping up the small and medium enterprise sector, which is in distress. It has also instituted a Yuan 300 billion (about $42 billion) to lend to selected companies in distress at a discounted interest rate of 3.5%.

Critics say, however, that that’s not enough to stave off the Covid-19 crisis as much of the dole has gone to State-owned enterprises. The challenges brought up by Covid-19 are testing the rise of China, and more specifically the rise of the Communist Party. The practice of reporting “mass incidents” – Chinese-speak for anti-government protests and riots – has been discontinued, but it is expected that they will rise in the months to come. How much of a setback the pandemic’s effects prove to be for the ‘China Dream’ and the country’s rise to global power, and whether Xi Jinping will successfully overcome them, remains to be seen.

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