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Revitalize China's Economy

Winning Another Battle Against COVID-19 Epidemic

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China Is Confident in Revitalizing Its Economy
Amid the COVID-19 Outbreak

With increasing effect of China's efforts to fight against the COVID-19 epidemic, the Chinese government has made timely readjustment in order to balance the counter-epidemic endeavor with economic and social development, which helps minimize the impacts of the epidemic and accomplish the national goals in all walks of life set for 2020. As a result, economic and social activities are starting to revive in most parts of the country except for Hubei province and Wuhan city.

While the dynamics of China's ongoing battle against the epidemic continue drawing people's attention, the international community has been ever more concerned about the economic impacts of the epidemic on China and the world at large. For instance, what risks and potential opportunities will the epidemic bring to China's and world economy in the short run? How effective are the policies and measures adopted by the Chinese government to minimize its economic impacts? To what extent will the epidemic spur China's reform of its economic system and further opening-up in the mid- and long-term? And what are the spill-over effects of the epidemic on world economy?

Obviously, China is very different from what it was 17 years ago (when the SARS epidemic broke out) in economic weight, position in global industrial and value chains, and its contribution to the world economy. The political and economic situations of the world have also undergone substantial changes. Thus, the historical analogy can only offer limited insight. We need a more comprehensive and dynamic perspective in answering the above-mentioned questions, which is seen in the latest report by the task force on world economy at Shanghai Institutes for International Studies.

The report points out that the multitude of the economic impact from the COVID-19 outbreak depends on how long it takes to keep the virus under full control. Although the situation in Hubei and Wuhan remains grim, things are looking up in other parts of China, where local authorities are trying to strike a balance between fighting the epidemic and reviving economic life with tailored measures. Therefore, the epidemic is very hopeful to be kept in check within the first quarter, with controllable impacts on China's economy for the whole year -- despite its severe short-term damage. Nevertheless, the report warns of the difficulty for small and middle-sized enterprises (SMEs) to resume full operations and the potential long-term effects of indefinite restoration of industrial production in worst-hit epidemic areas on the global supply chains. Meanwhile, it is believed that the epidemic will bring new opportunities for health-care, online services, and some other industries.

This report suggests observing how effectively the Chinese government's counter-epidemic economic policies will turn out, so as to assess the short-term impacts of the epidemic on China's economy. There are two kinds in China's economic policy toolkit: one is for short-term relief (such as various fiscal, financial, monetary and tax policies, and reduction of costs of labor), in order to help enterprises, including SMEs, to overcome the temporary difficulties in capital and labor caused by the epidemic. The other is aimed to provide lasting policy support for enterprises. A number of policies -- such as purchasing emergency supplies with China's foreign exchange reserves to reduce government spending, further opening China's capital market, and fostering a new capital-labor consensus through social mobilization to facilitate enterprise operation -- are recommended in the report.

This report believes that China's fight against the epidemic will generate fresh momentum for its further reform. First, it helps foster a national consensus on high-quality development. Second, it helps enhance China's national governance capacity and comprehensive capabilities in countering social and economic risks, since the country's weaknesses in prevention and control of major public health emergencies -- as exposed during the COVID-19 outbreak -- need to be mended through deeper reform on all fronts. Third, it helps strengthen China's digital economy, optimize its economic structure, and generate new momentum for economic growth. To meet the many new demands created by the epidemic, China's digital economy is expected to "fast-forward" in the near future.

Based on the estimates of leading international economic institutions, **this report also explores the potential impacts of the epidemic on the world economy and China-U.S. economic relations.** Given China's economic size and key position in global industrial chains, the immediate spill-over effects of the epidemic do not only lie in falling prices of global commodities as well as declining services trade such as in tourism and international education, but also in unexpected disruption of global supply chains.

It is necessary to note again that happiness and hazards are shared by all nations in the era of economic globalization. As Kristalina Georgieva, Managing Director of the International Monetary Fund (IMF), recently remarked, "Global cooperation is essential to the containment of the COVID-19 and its economic impact, particularly if the outbreak turns out to be more persistent and widespread." In all, the actual impacts of the COVID-19 epidemic on the world economy depend on how soon China can tame it and how closely the international community will bind together in the face of this common challenge to mankind.

Chen Dongxiao

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Revitalize China’s Economy:

Winning Another Battle Against COVID-19 Epidemic

The novel coronavirus outbreak in the lead-up to the 2020 Chinese Spring Festival has inflicted great pain on tens of thousands of patients and their families, involving countless courageous Chinese citizens -- who otherwise would have spent the holiday with their families and friends -- in an unprecedented anti-virus war. Although normal economic activity and social order have been disrupted, the good news is that the growth of new confirmed cases has been on a steady decline since February 3 across the country (including the epicenter province of Hubei). On current trends, health experts predict, the peak is expected to arrive in one to two weeks. Seeing optimistic signs, people now have begun to contemplate how to restore production to normal levels in the aftermath of the epidemic. This report reflects on the economic impacts of this public health emergency on China and the world and puts forward some policy recommendations on how to contain the fallout.

Photo by Xinhua News agency

Economic Impacts: Local and Transitory

The epidemic first deals a severe blow to tourism and consumption. Less fatal but more contagious than the SARS outbreak in 2003, the novel coronavirus is more widespread, triggering Hubei lockdown on January 23, followed by highest alert levels activated all across China. As a result, the world’s largest seasonal population movement has come to a sudden halt; new year film releases are suspended and reunion dinners canceled; and the Disneyland mascot Mickey Mouse are left alone in deserted theme parks greeting the Year of the Mouse. According to China’s Civil Aviation Administration, air passenger traffic between January 27 and February 12 plummeted by 70% compared with last year’s Spring Festival travel rush. Thirty-two of the forty-one trains running between Beijing and

Shanghai have also been suspended.

The impacts have spilled over to supply chains on the supply side since early February. Businesses and factories had been scheduled to reopen on February 10 after an extended Lunar New Year holiday. But with many workers and employees unwilling or unable to return to quarantine regions, the resumption of routine operations in many workplaces has been delayed. In a few cases where business and production are restored, raw material shortages, logistical difficulties, and cash crunches are straining normal operations. Already affected by deleveraging policies, producers of farm exports and fast-moving consumer goods are facing shrinking demands as importers impose additional restrictions. Densely populated provinces with high spending power like Zhejiang in the Yangtze River Delta and Guangdong in the Pearl River Delta are also among the hardest-hit regions. Virusonset in these manufacturing, trade, and financial centers has darkened China's overall economic outlook.

Photo by Internet

The magnitude of the economic impact ultimately depends on how long the epidemic lasts. The impact will not be far-reaching if the outbreak can be brought under control by the end of March. After a near 8% dive in the Shanghai benchmark index on February 3, China's stock markets rebounded in the next few days, showing a deep "V" pattern which represents growing market optimism. At present, economists are most concerned about two challenges.

The first is how to get small and middle-sized enterprises (SMEs) back to work. Compared with deep-pocketed multinationals enjoying preferential policies like Tesla, which are better positioned to resume production, smaller companies that account for 90% of Chinese enterprises have less financial flexibility to withstand long-lasting disruptions. SMEs contribute over 80% of the country's jobs, 70% of indigenous innovation, 60% of GDP, and more than half of tax income. The impact of SME shutdowns or bankruptcy due to worker and cash shortages or logistical interruptions may well go beyond China's GDP numbers.

The second is the indefinite production shutdown in epidemic areas where supply chain disruptions may have far-reaching effects. With the growing prospect of the virus being under full control outside Hubei by the end the first quarter, the economic impact on both supply and demand sides is likely to be limited. White collars in Beijing and Shanghai who have returned to work since February 17 are now pleased to share photos of traffic jams in rush hours (see Figure 1 for business resumption in different regions). Given that the hundreds of daily new confirmed infections in the country are mostly reported from Hubei and tens of thousands of patients remain in hospital, no one can tell when production and consumption can be restored to normal levels in the epicenter. A transport hub and advanced manufacturing center in central China, Hubei produced 9% of the country's automobiles and 13% of sulphuric acid in 2018. Wuhan, the capital city, ranks 7th by GDP among major Chinese cities, higher than Hangzhou, the capital city of Zhejing province. With its Optics Valley -- a high-tech industrial park -- producing world-class fiber optic equipment, Wuhan is ranked 13th by Bloomberg among more than 2,000 Chinese cities in terms of their importance for supply chains.

Figure 1. Business Resumption Levels (State-Owned Enterprises)

Provinces/Municipalities	Resumption Levels
Beijing	As of February 12, 99.7% had resumed business or productions, with the construction work of three projects (theater, library, and museum) in the urban sub-center fully resumed on February 9.
Shanghai	700,000 employees of municipality-managed enterprises have returned to work, including 100,000 working from home (80% resumption).
Shanxi	As of February 11, 28 provincially-owned enterprises at 1,000 sites had resumed business.
Liaoning	53 provincial-owned companies and their subsidiaries have resumed operations with 90,000 employees on duty each day; 89 city-owned enterprises and their branches in 14 cities have resumed operations with 89,000 on duty daily.
Zhejiang	As of February 12, 79% of provincially-owned enterprises essential for the anti-virus combat had resumed production.

Anhui	As of February 13, with 164,000 employees having returned to work, 25 out of the 26 provincially-owned enterprises had resumed operations, including 242 branches (60% resumption).
Fujian	As of February 12, 790 enterprises have resumed operations with 117,000 employees returning to work (77.9% resumption).
Shandong	As of February 10, 39 provincially-owned companies had resumed business and major construction work had been accelerated.
Henan	As of February 10, 15 provincially-managed enterprises (47%) had resumed production with 44.4% employees back to work; 88% employees at 2 provincial commission-managed companies had returned to work; and altogether 180,000 had been back at work.
Guangdong	18 provincially-owned companies have resumed business.
Guangxi	All the 17 state-owned companies had resumed operations as of February 11.
Gansu	As of February 11, 29 provincially-owned enterprises had resumed business and 85% of the 425 subsidiaries had resumed operations.
Central Enterprises	80% of the 20,000 manufacturing subsidiaries under central enterprises have resumed operations.

Source: State-owed Assets Supervision and Administration Commission of the State Council

Some sectors have found business opportunities amid the unfolding coronavirus crisis. For example, the health-care industry and providers of online services like telecommunications, education, and entertainment have expanded. According to the Shanghai Municipal Education Commission, primary and secondary school students in Shanghai will attend online classes starting from March 2 as schools will remain closed indefinitely, so that their learning progress will not be significantly affected.

Compared with the SARS outbreak, the COVID-19 epidemic will have far greater economic impacts on China, not only because this new virus is more contagious, but also because China's economic integration stands at a much higher level today and is thus more vulnerable to complex internal and external risks. Given the robust regulatory measures expected to be taken by the government, if the economic fallout can be confined in Hubei and substantially contained by the first quarter, the epidemic's overall impact will be manageable. A summary of the views of leading economists and research institutions shows that, even affected by the epidemic, China's GDP growth rate in 2020 will drop by no more than half a percentage point (Figure 2).

Figure 2. Forecasts of COVID-19 Impact on China's GDP Growth in 2020

Sources	Chinese GDP Growth Forecasts	Extent of Impact on GDP Growth
Stock Market Weekly [证券市场周刊]	4.5%-6.2%	0.3%-0.5% drop for first quarter GDP growth; no impact on whole year's growth
Wei Shangjin, former chief economist at the Asian Development Bank	n/a	0.1%
The Securities [大风证券]	5.3-5.7%	First quarter GDP growth rate drops to 1.4%-2.3%
Zhang Ming, Chief Economist, Pingan Securities	5%-5.7%	0.2%
Scott Kennedy, Senior Fellow, Center for Strategic and International Studies	5.8%	0.2%
Boston Consulting Group	4.5-5.7%	n/a
Peng Wensheng, Chief Economist, Everbright Securities	n/a	0.4%-1.0%
Jason Furman, former Chairman of White House Council of Economic Advisers	n/a	0.3% or 0.4%
PwC China	5.2%-5.3%	n/a
Commercial Bank of China	n/a	First quarter GDP drops to 3.9-5.0% and uncertain afterwards.
Zhang Yansheng, Chief Analyst, China Center for International Economic Exchanges	n/a	0.2%-1.0%
Roland Rajah, Director of International Economy Program, Lowy Institute	n/a	1%-2%

Source: compiled by the authors

Sweeping Pro-Business Policies in Place

President Xi Jinping's declaration of China's strong resolve to contain the virus on January 20 prompted the central government and local authorities into instant response. A whole range of emergency measures have been taken, including stringent travel restrictions, regular information disclosure, and sustained material supplies. The strengths of China's system have been fully demonstrated in this "people's war." Sixteen pairs of relationship have been set up involving 19 provinces coming to the aid of 16 localities other than Wuhan in Hubei. Countless brave local government officials and volunteers have rushed to the battlefront, working non-stop to deliver supplies to affected regions. Thanks to mobile payment, tens of millions of Chinese citizens under quarantines or travel restrictions are able to buy fresh food and daily necessities.

Since early February, with things looking up outside Hubei, the struggle to revive the economy has begun. Government action to help enterprises get through this difficult time includes four targeted policies. ***The first is increasing liquidity and financial resources through monetary and fiscal policy.*** The "flexible and moderate" monetary policy adopted at the Central Conference on Economic Work in December 2019 indicates a more permissive financial environment in 2020. In support of the nationwide anti-virus combat, starting from February, China's central bank has improved market liquidity through several rounds of open market operations to drive down interest rates and stabilize the capital market. As the consumer price index (CPI) growth rate of 5.4 percent in January is largely due to rising pork prices, overall inflation is manageable and there is still room for maneuver in terms of aggregate monetary policy. Ma Jun, a member of the central bank's monetary policy committee, has recommended further lowering benchmark lending rates. On February 11, much earlier than previous years, the Ministry of Finance announced that 1.848 trillion yuan ($264.9 billion) of a new local government bond quota had been allocated to stabilize the economy amid the COVID-19 epidemic. Experts forecast that fiscal deficit may exceed the alert level of 3% in 2020.

The second is moderate deregulation to increase the accessibility of financial resources. Increased market liquidity cannot directly help enterprises overcome their difficulties. On February 1, the central bank announced that it would issue loans totaling 300 billion yuan ($43 billion) at a preferential rate to policy and commercial banks via its re-lending program[1] as part of measures to finance the control of the COVID-19 outbreak. China will also raise the tolerance for non-performing loans to small and micro companies and set up a long-term mechanism to encourage more lending to small and micro-sized companies.

[1] The program is jointly supported by the central bank, Finance of Ministry, Banking and Insurance Regulatory Commission, Securities Regulatory Commission, and State Administration of Foreign Exchange.

According to Zhou Liang, vice chairman of the Banking and Insurance Regulatory Commission, non-performing assets worth 2.3 trillion yuan were resolved last year; and with the provision coverage ratio in the banking system reaching over 180%, China has sufficient resources to cope with possible increase in non-performing loans. The central bank has also called on financial institutions to make interest rate concessions to brick-and-mortar businesses, limit loan interests, and reduce financing costs for SMEs. Moreover, the government, law enforcement agencies, and trade associations are expected to provide *force majeure* remedy and credit repair for epidemic-affected enterprises that have failed to fulfill contractual obligations.

Photo by Internet

The third policy is cutting taxes and fees to lessen burdens on enterprises. Suzhou of Jiangsu province announced on February 2 ten specific measures to help SMEs weather through the epidemic, followed by other localities around the country that have adopted their own relief and remedy measures. Despite near-zero growth of government revenue in 2019, Shanghai has taken as many as 28 measures to help local companies, such as exempting corporate tenants from two months' rent. The State Council announced on February 18 that it had instructed local authorities to reduce or exempt companies' contributions to the pension, unemployment, and work-related injury insurance funds. To be more specific, small-, middle- and micro-sized enterprises in regions outside Hubei are exempted from the three categories of contributions for five months from February to June, while larger companies' contributions will be halved from February to April; companies in Hubei, regardless of their size, will be exempted from the contributions between February and June. Before the end of June 6, enterprises can apply to delay their contributions to housing provident funds; and housing provident loans that are not repaid due to the epidemic will not be considered overdue.

The Fourth policy is differential measures to maximize policy effectiveness. Many of the above measures are aimed at small-, middle- and micro-sized enterprises and give special support to worst-hit epidemic areas. Enterprises that are important in supply chains are prioritized in government policies. At present, travel restrictions and traffic controls remain the biggest obstacle to the resumption of business and production. Even so, Yangtze Memory Technologies Co., a memory chip supplier in locked-down Wuhan, is fully supported by government policies to ensure its normal output.

Future Course of Action

Tax cuts prove to be the most effective fiscal policy in Chinese history. In the reign of Emperor Qianlong of the Qing Dynasty, there were altogether five nationwide farm-tax exemptions, each lasting a whole year. But whether government subsidies or tax reduction, they all contribute to mounting government debt, to the contrary of the objective of China's supply-side reforms. Apart from tax relief, three macro-regulatory measures in the future are advisable.

First, using foreign exchange reserves as a quasi-fiscal tool for the purchase of emergency supplies to reduce government spending. China's high foreign exchange (forex) reserves are the cumulative result of long-running trade surplus since its accession to the World Trade Organization (WTO) nearly two decades ago. For quite a long time, trade surplus is an important contributing factor to inflation as they are used as funds outstanding for foreign exchange, a component of China's base currency. Using forex reserves as a quasi-fiscal tool will add to China's financial flexibility at this critical juncture while allaying the long-standing concern over China's holding of U.S. Treasury securities. Moreover, purchasing emergency supplies with forex reserves may also help reduce government medical insurance expenditure by listing some items under the price quota system, and promote external economies and sustained growth by achieving more balanced trade.

Second, widening capital market access to mitigate the epidemic's impact. The capital market has long been under strict control as China worries that greater openness may come at the expense of stability. But from a mid- to long-term perspective, taking in foreign investment by opening the capital market will drive China's sustained growth. Attracting foreign investment in science and technology innovation is a major reform measure adopted for the Lin-gang special area in Shanghai's pilot free trade zone. Until now, China's integration into the world economy has been achieved by utilizing foreign capital to develop its labor-intensive industries and participating in international division of labor. The time has come for China to use foreign investment to boost science and technology innovation as a way of strengthening domestic innovation capacity and creating indigenous impetus for economic growth. In addition, improved corporate liquidity resulted from capital market growth will enable Chinese companies to invest more in research and development. Public companies on the Shanghai and Shenzhen stock markets are usually enterprises above designated size. But China's depreciated stock market value has long limited public companies' share pledge financing capacity.

Photo by Xinhua News agency

Third, building a new labor-capital consensus through social mobilization. Sustained economic development is generating a social self-salvage sense. Even as some Chinese economists are calling for lowering minimum wages and abandoning housing provident funds, more and more employees have come to realize that their personal development is bound up with their employers' growth. In a people's war against the epidemic, everyone needs to pitch in and social relief and assistance needs to play a more important part. Rent reduction and exemption have helped bring down corporate operational costs. For manufacturers, in the future, operational costs may be further reduced by encouraging employees to work makeup days or work overtime unpaid for an agreed period of time.

Significance of the COVID-19 Epidemic to China's Long-term Reform and Development

Accustomed to dialectical thinking, the Chinese people tend to see positive impacts of the COVID-19 epidemic on China's reform and long-term development despite the many challenges it has brought to the country's economy and society.

First, it helps foster a national consensus on high-quality development. The notion of high-quality development had long been advocated in China before it was formally proposed at the 19th National Congress of the Communist Party of China (CPC) in 2017. However, the structural problems in China's economy have remained difficult to solve mainly due to parochial thinking of local governments and the inherent expansionist tendency of the market. In the fight against the epidemic, the Chinese government's strenuous efforts to balance public security with economic growth once again manifest the resolution of the central leadership to promote the building of a modern economic system, optimize the industrial structure, and achieve sustainable development. The negative economic effects of the epidemic also serve as an important catalyst for the formation of a national consensus on high-quality development, which paves the way for deeper social and economic reforms in China.

Second, it helps enhance China's national governance capacity and comprehensive capabilities in countering social and economic risks. To a country with a super-large population, a strong capacity for social organization and mobilization not only provides an institutional safeguard against various social emergencies, but it is also a key element of the national system's competitiveness. Admittedly, hardly any country can unite the whole nation for concerted policy implementation within such a short time like China. When the "pause" button was pressed on China's economy, the public responded spontaneously, trying to stay home all the time and keeping a good social order regardless of their personal wants, which demonstrates strong public trust in the government and recognition of its leadership in fighting against the epidemic. The Chinese government, in turn, has proven itself trustworthy by effectively mobilizing national resources for worst-hit areas, optimizing the work of such aid agencies as the Red Cross, building numerous makeshift hospitals within weeks, and promptly dismissing incompetent government officials, among other actions.

In the meantime, the epidemic indicates that there is much more to do before a modernized national governance system is fully established with adequate governance capacity both at the central and local levels -- as requested by the 4th Plenary Session of the 19th National CPC Congress held in October 2019. As a living organism would naturally develop antibodies to viruses, any natural disaster or epidemic will be a chance to improve the social governance system and help guard against future challenges. Indeed, with joint social efforts to combat the epidemic, China's national governance capacity and the social governance system have been further strengthened; profound reforms are launched in epidemic monitoring and control, disaster relief, mobilization, management and distribution of aid, and other areas; multiple policy innovations are also being made. For example, the e-government system and some business environment-improving policies, which the Chinese government has been pushing for in the past years, have been widely adopted during the epidemic, greatly facilitating the government approval process for enterprises and the public.

Third, it helps strengthen the digital economy and generate new momentum for economic growth. As a main driver of China's economic growth, digital economy accounted for 34.8% of the national economy in 2018;[2] and it has been employed by nearly 60% of Chinese enterprises, including those in the real estate sector. To meet the many new demands created by the epidemic, China's digital economy is expected to "fast-forward" in the near future.[3] For instance, large quantities of medical supplies and daily necessities were transported from JD.com's Renhe Branch to No. 9 Hospital in Wuhan by the company's intelligent robots on a "non-human contact" mode.[4] Likewise, application of such technologies as intelligent videoconferencing, long-distance medical treatment, e-learning, telecommuting, and big-data testing has been surging, all of which are conducive to the automation and intelligentization of enterprises.

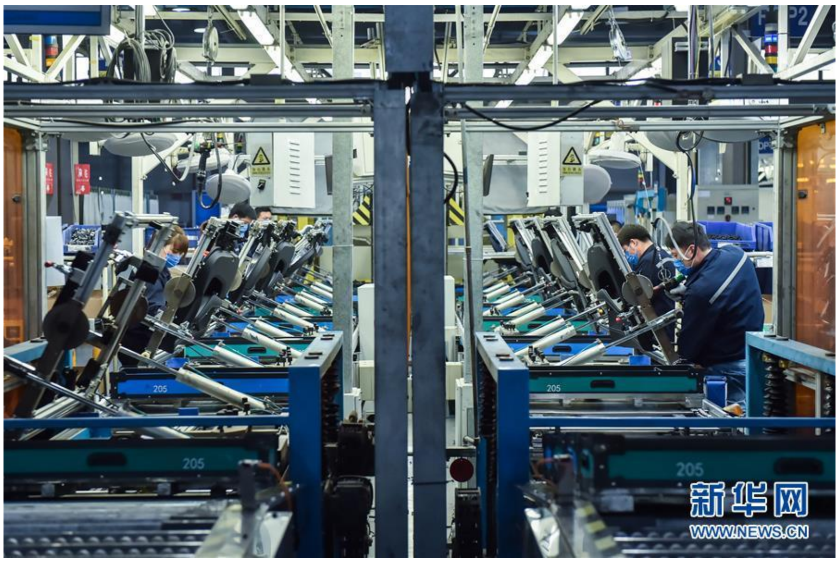


Photo by Xinhua News agency

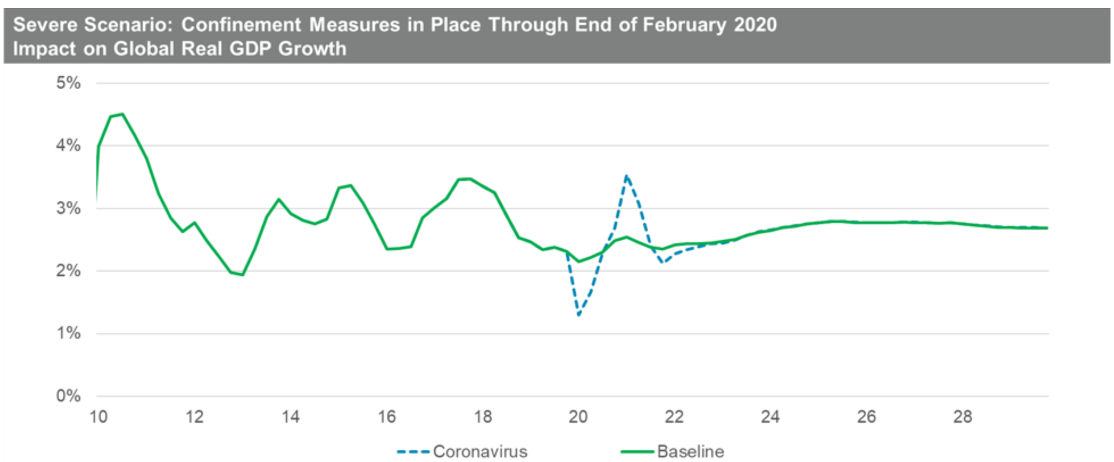
The epidemic also helps optimize China's economic structure and the public's asset allocation. For one thing, the widely-practiced "work-from-home" mode causes much pressure on commercial real estates, leading social capital away from the overheated sector; for another thing, because of the epidemic, enterprises and the public have developed a better understanding about economic uncertainties, and thus may start to pay more for insurance and invest in other sectors, by which China will lessen its decade-long dependence on "real estate economy."[5] Besides, since the transportation and logistics networks around China are heavily struck by the epidemic, Chinese enterprises have paid greater attention to the stability and smoothness of supply chains. With the rapid development of manufacturing in interior provinces, regional supply chains are likely to be further strengthened as more measures are taken to enhance their stability.

2 中国信通院：《中国数字经济发展与就业白皮书（2019 年）》
3 唐洪涛. 疫情凶猛，数字经济按下快进键[N].首席数字官，2020.02.17.
4 新京报. 京东物流在武汉投入无人配送车 实现医院无接触配送[N].2020.02.07.
5 Allianz Insurance Holding went into business in Shanghai on January 16, 2020, as the first wholly foreign-owned insurance company in China and a key step for the country to open its financial sector to foreign capital.

International Cooperation to Mitigate Spill-over Effect on the World Economy

As the second largest economy, China's GDP accounts for 16.3% of the world's total, contributing 38% of the world's economic growth in 2019. The great economic impacts of the epidemic are naturally spilling over across the globe. Judged from the current trends, most provinces and municipalities are likely to call off the unconventional lockdown and control measures for national economy to get back on track. According to IHS Markit estimates, if all economic activities are fully resumed by the end of February, world economy will not suffer too much, with a potential drop of economic growth of 0.8% and 0.5% in the first and second quarters, respectively, while the world GDP growth rate for 2020 might be 0.4% lower than previously estimated and could be 0.4% higher in 2021 than previous prediction (Figure III).[6]

Figure III



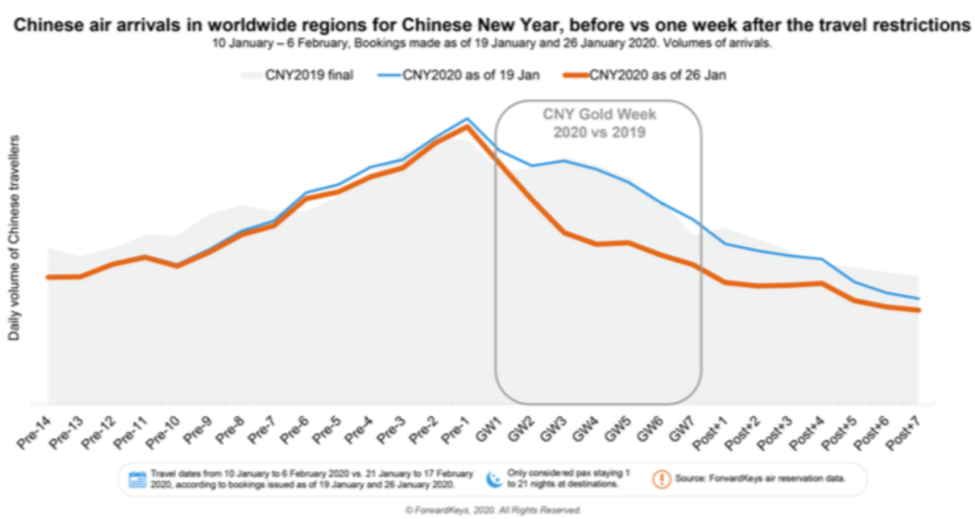
Source: IHS Markit, February 6, 2020.

In merchandise trade, since China's economy was almost in a pause for two to three weeks with minimum demands for raw materials, the global bulk commodity prices -- especially of crude oil -- have plummeted. At the same time, due to tight traffic controls and travel restrictions, the processing of goods imports in major economic centers and ports has slowed down, hindering the inflow of imported goods. For example, agricultural exporters in the United States, New Zealand, and Australia may need to dispose of their inventories originally prepared for China's Spring Festival holiday.

[6] Todd Lee and Elisabeth Waelbroeck Rocha, "Impacts of Coronavirus Containment Effort Ripple through Global Economy," IHS Markit, February 6, 2020, http://news.ihsmarkit.com/prviewer/release_only/slug/impacts-of-coronavirus-containment-effort-ripple-through-global-economy.

In services trade, a sharp plunge in the number of outbound Chinese tourists deals the heaviest blow to the economies of China's neighbors; other destinations that used to host ever more Chinese tourists -- such as Australia, New Zealand, the United States, and some European countries -- also feel the shock (Figure IV). For fear of the epidemic spreading to the United States, the Trump administration announced a temporary travel ban on February 1 on Chinese citizens, followed by Australia and scores of other countries. All these tourist destinations are hence subject to significant economic losses. Meanwhile, thousands of Chinese students studying abroad, especially in U.S. and Australian universities or schools, are unable to return after staying in China for the winter vacation, which leads to shrinking incomes of those universities or schools as well as the local societies.

Figure IV



Source: The Moodie Davitt Report, February 6, 2020, https://www.moodiedavittreport.com/coronavirus-the-travel-and-tourism-impact-in-asia-pacific/.

The global supply chains will face the biggest and most profound challenges. As China holds a key position in global production networks (according to IHS Markit, in 2019, China took up 30.5% of the world's total added value in manufacturing and 26.3% of that in high-tech manufacturing),[7] the slowing pace and even total stop of industrial production around the country has greatly disrupted the global supply chains. For example, Apple recently lowered its revenue expectations, for the epidemic has both limited iPhone

[7] Ibid.

production and curtailed the demands of Chinese mainland consumers. On February 2, a Wall Street analyst estimated a 10% drop of iPhone shipments for the first quarter.[8]

Possible Impacts on China-U.S. Economic Relations

The U.S. economic growth has begun to show a slowing trend, with a GDP growth of 2.4% in 2017, 2.9% in 2018, and 2.1% in the fourth quarter of 2019. Domestic consumption remains the biggest driver of the U.S. economic growth, constituting 68% of its total GDP of $27.1 trillion. Yet, the growth rate of domestic consumption was only 2.6% in 2019, as compared with 3% in 2018, while the actual disposable income increased by 3% in 2019, as compared with 4% in 2018. As U.S. Federal Reserve Chair Jerome Powell said on a press conference on January 29, the growth of personal consumption expenditures has fallen from "robust" to "moderate." Meanwhile, due in large part to its trade war against China, the U.S. private investment has been on a decline, further hindering its economic growth. Although the Phase One deal was signed by China and the United States, most of the extra duties levied by the Trump administration on Chinese exports will remain and continue to undermine the U.S domestic investment and corporate revenues.

On the whole, the COVID-19 epidemic may cause only limited impact on the U.S. economy thanks to its huge size and market power. Wall Street witnessed a slowing trend of major stock-market indexes like Dow Jones, Standard & Poor's, and Nasdaq during the first month of 2020, but seems to be gathering speed again as the epidemic is increasingly under control in the Chinese mainland. Meanwhile, to hedge against risks caused by slowing world economic growth, international capital is flooding to the United States, leading to appreciation of the U.S. dollar and falling U.S. Treasury yields in recent weeks. In this sense, the epidemic is beneficial to the U.S. economy.

However, the epidemic will to varying degrees harm American enterprises with large investments or close economic ties in China. At present, Starbucks, Apple, Disney, and a number of other American companies have suspended operations in China; Delta, United, and American Airlines have halted many flights between China and the United States; General Motors, Ford and Fiat Chrysler have also closed their factories in China. To those enterprises, losses of revenues from China will significantly decrease their total revenues of the whole year.

For now, the biggest impact of the epidemic on China-U.S. economic relations may be the delay in the implementation of their Phase One deal. Recently, the Chinese government has adopted many measures -- such as cutting punitive tariffs on $75 billion

8 " 'Crisis Mode': Coronavirus Disrupts the Heart of Electronics Manufacturing in China," *Hong Kong News*, February 9, 2020, https://hksar.org/crisis-mode-coronavirus-disrupts-the-heart-of-electronics-manufacturing-in-china.

worth of imported U.S. goods and expanding the scope of tariff exemption for U.S. goods -- to fulfill its commitment of increasing imports from the United States. Nevertheless, we should count in the uncertainties of the epidemic outbreak in the implementation. On the one hand, disruption of China's industry operation and expectation of further down-spiral economic growth in China, will reduce its demand for imported energy and electrical equipment in short run. On the other hand, American government's imposition of rigorous travel ban on China have already reduced transportation capacity between two sides. Worse still, the U.S. government is contemplating further restrictions on high-tech exports to China, which will make it even more difficult for China to fulfill its purchasing commitment. Therefore, it is necessary for both sides to strengthen consultation and negotiation during and after the epidemic, in order to facilitate the implementation of the Phase One deal.

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