

**THE COVID-19 OUTBREAK AND
ITS IMPLICATIONS FOR
CHINA'S ECONOMY**

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EAI Background Brief No. 1522

Executive Summary

1. It has been more than nine weeks since the Chinese government locked down the city of Wuhan, the centre of the COVID-19 outbreak, now a global pandemic. While China reported a drop in the number of new confirmed cases to below 100 since the second week of March, those in the rest of the world have begun to surge since early March, bringing the global total to more than 630,000 as of 29 March.
2. The public health crisis is a humanitarian tragedy and a threat to China's economy and the world economy. On 27 March the chair of the International Monetary and Financial Committee and managing director of the International Monetary Fund declared that "we are in an unprecedented situation where a global health pandemic has turned into an economic and financial crisis".
3. China's economy has been badly affected since 23 January with the lockdown of Wuhan. From the demand side, consumption plunged particularly after bans on travel and other holiday-related activities. The Lunar New Year (LNY) holiday, from 23 to 30 January, was extended to restrict the population's mobility at the peak of the outbreak. The measure was further strengthened and remained in place till early March.
4. From the supply side, business resumption was delayed by the extension of holidays or slowed as a result of labour shortages related to travel restrictions, difficulties in meeting the requirements for businesses to restart, and gaps in securing input for production due to logistic bottleneck.
5. To assess the impact of the COVID-19 outbreak, the loss of effective working days in the first quarter of 2020 was compared to that of 2019. Several sources of the loss are considered, including extended holidays, consumption reduction due to fear, restriction on mobility and delays in the resumption of economic activities.
6. These assumptions led to a 16.2% loss in the first quarter of 2020, year on year. Assuming growth in productivity is 6.4% for the quarter, the same as that of 2019,

gross domestic product growth would end up -10.8%, year on year for the first quarter, a record low since China started reporting quarter figures.

7. Uncertainties remain for the rest of the year, including the surge of the pandemic outside China, a global slowdown in production, trade, investment and damages to global value chains. For China, under three scenarios of sharp recover, modes recovery and slow recover, annual growth will be between 1.0% and 3.3%, way below the targeted 5.6% to achieve the centennial goal of a “comprehensively welfare society”.

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Rapid Spread of COVID-19

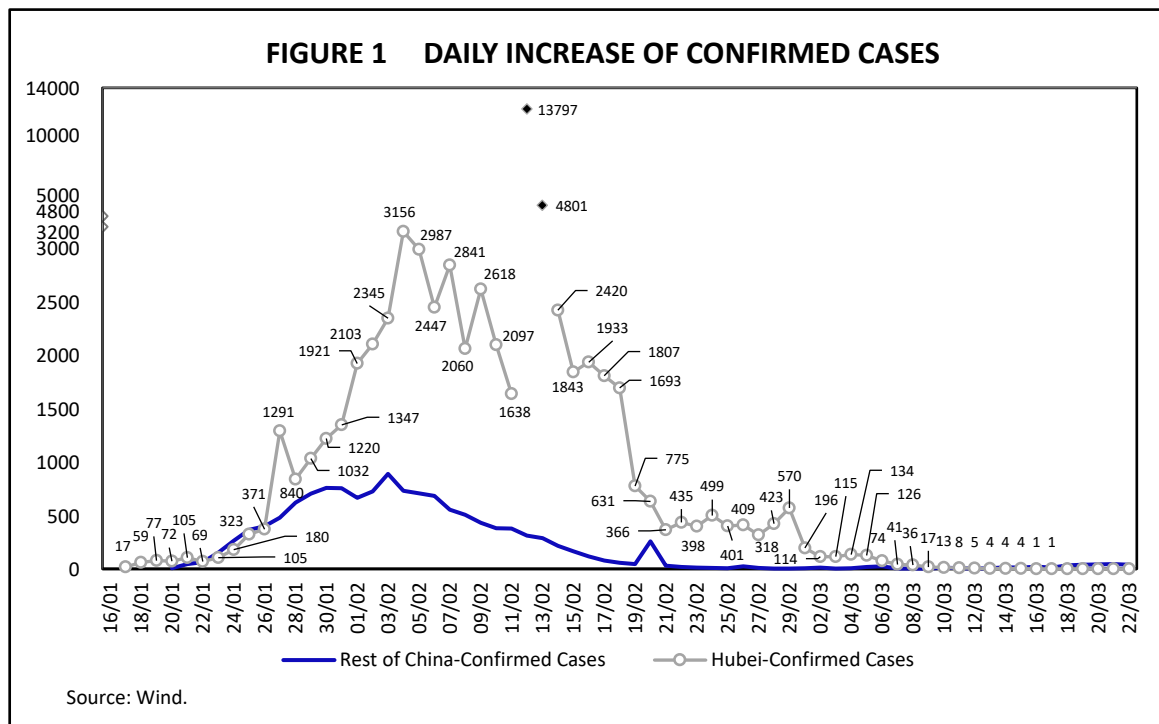
- 1.1 Since late January 2020, a novel coronavirus (officially called COVID-19), has led to the lockdown of the city of Wuhan in Hubei province, China. What is more unprecedented is the domino effect it has generated on cities, provinces, regions and countries the world over. Indeed, the outbreak has spread far and fast, across China and around the world. As of 29 March, there were 82,356 confirmed cases in China and another 552,479 in 200 countries and territories outside China, according to the World Health Organisation (WHO).¹
- 1.2 For two over months, economic activities ground to a total halt in the world's second largest economy. At the time of writing, the Chinese authorities have eased lockdown measures in nearly all regions to bring the economy humming again. While the travel ban for coronavirus epicentre around Wuhan was lifted on 25 March, Wuhan where the outbreak began would continue to be under lockdown till 8 April.²
- 1.3 Since the second week of March, the total number of new confirmed cases in China has remained below 200, while that for the rest of the world began to surge in early March, in Europe and in the Americas (see Figure 1 for daily new cases in China). In China, the focus has shifted, from controlling the outward spread from Hubei to

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¹ https://www.who.int/docs/default-source/coronaviruse/situation-reports/20200329-sitrep-69-covid-19.pdf?sfvrsn=8d6620fa_2, accessed 30 March 2020.

² http://www.xinhuanet.com/politics/2020-03/24/c_1125760271.htm, accessed 26 March 2020.

promoting business resumption and preventing a second wave of outbreak from imported cases.



People's Mobility and Economic Activities Disrupted

- 2.1 Comparing the COVID-19 outbreak this year and the SARS outbreak of 2003, both took place around the Lunar New Year (LNY) holiday season. COVID-19 witnessed a rapid increase of confirmed cases and a slew of drastic measures adopted by the government as the lockdown took place just days before the LNY, whereas SARS erupted months after the holiday season in 2003.

- 2.2 The disruption to the economy caused by COVID-19 was much greater as first, the outbreak and the government measures made an immediate and significant impact on holiday and travel related consumption. Second, travel restriction prevented migrant workers from returning to cities after the holidays, while in 2003, the outbreak took place after the return of migrant workers. China's economy in 2003 was on a much different trajectory as it was booming with growing external demand; its manufacturing sector was the main driving force and it was less dependent on supplies to other countries through global value chains.

2.3 Reducing the spread of the virus was the key objective during the early days of the fight against the COVID-19 outbreak. The measures include most significantly the suspension of various modes of transportation, within Wuhan and those linking Wuhan to other parts of China, as announced by the Ministry of Transport (MOT) and the Wuhan government on 23 January (Table 1). A week thereafter, on 30 January, additional measures were announced to suspend all interprovincial chartered buses across the country and interprovincial passenger routes to Hubei.

TABLE 1 MAJOR CENTRAL GOVERNMENT MEASURES TO LIMIT THE CORONAVIRUS SPREAD

Type	Lead Issuing agencies	Date
Launch Class II emergency response: disinfection, temperature check, ventilation and waive refund fee for cancelling trips to or from Wuhan by train, bus, ferry or air	Ministry of Transport	21 Jan
Ensure that patients diagnosed with COVID-19 do not have their medical treatment delayed due to cost issues such as subsidy, adjustment of reimbursement process and drug catalogue of medical insurance, and prepay part of medical insurance	Ministry of Finance, Medical Insurance Bureau	22 Jan
Suspend transportation to and from Wuhan by train, bus, ferry or air.	Ministry of Transport	23 Jan
Hold off group travel businesses and “ticket plus hotel” travel products by travel agencies	Ministry of Culture and Tourism	26 Jan
Resume the health declaration system, temperature check, medical inspection and investigation	General Custom Authority	26 Jan
Extend Lunar New Year holidays	The State Council	27 Jan
Postpone travel endorsement for mainland residents to Hong Kong and Macau	National Immigration Authority	28 Jan
Suspend interprovincial chartered buses across the country and interprovincial passenger routes to Hubei	Ministry of Transportation	30 Jan
Control the occupancy rate of transportation vehicles (no more than 50%) and separate seats for passengers.	Ministry of Transportation	6 Feb
Provide guidance on prevention and control for the resumption of work and production: inspection, observation, management, submit reports on the health status of employees, limit the number of people entering and exiting workplaces, lower density, clean and disinfect, impose group activity restriction, manage garbage disposal, mandate personal protection such as mask wearing	The State Council	21 Feb

Source: <http://finance.people.com.cn/n1/2020/0204/c1004-31570620.html> and http://m.xinhuanet.com/zj/2020-02/11/c_1125557513.htm, accessed 25 March 2020.

2.4 As the outbreak evolved, additional policies were put in place in succession. On 26 January, the Ministry of Culture and Tourism requested the suspension of group travel businesses and "ticket plus hotel" travel products. On 28 January, the National

Immigration Authority suspended the issuing of travel endorsement for mainland residents to Hong Kong and Macau. Health declaration has been reinstated, along with temperature checking, and medical inspection and investigation.

2.5 Restrictions have been put in place at various localities since late January to restrict people's movement. Notably, Zhejiang, Guangdong and Hunan provinces were the first three to implement restrictive measures. The three were also the first few to raise alert level to the highest on 23 January, ahead of Hubei and other provinces (Table 2). Zhejiang and Guangdong are among China's most developed coastal provinces and Hunan is a central province bordering Hubei.

TABLE 2 MAJOR MEASURES TO LIMIT THE CORONAVIRUS SPREAD BY LOCAL GOVERNMENTS

Type	Cities/Provinces	Date
Suspend public transportation	Wuhan (Hubei)	23 Jan
Raise alert level to the highest level	Zhejiang, Guangdong and Hunan	23 Jan
	Shandong, Hubei, Tianjin, Anhui, Beijing, Shanghai, Chongqing, Jiangxi, Sichuan, Yunnan and Guizhou	24 Jan
	Hainan, Xinjiang, Henan, Heilongjiang, Gansu, Liaoning, Shanxi, Shaanxi, Jilin, Ningxia and Inner Mongolia	25 Jan
	Qinghai	26 Jan
	Tibet	29 Jan
Close cultural and entertainment venues	Dongguan (Guangdong)	23 Jan
	Hangzhou (Zhejiang)	25 Jan
Mandate the wearing masks in public places	Guangdong	26 Jan
	Shanghai	8 Feb
	Beijing	9 Feb
Closely manage residential communities and villages	Hangzhou (Zhejiang), Nanjing (Jiangsu) and Harbin (Heilongjiang)	4 Feb ^(a)
	Shanghai	8 Feb
	Beijing	9 Feb ^(b)
Impose 14-day quarantine for those who have been to the high-endemic area or have contact history	Beijing	9 Feb
Close recreation entertainment venues and public places for non-essential activities such as sports	Beijing	9 Feb
Impose quarantine based on Health QR code for those from outside of the city	Hangzhou (Zhejiang)	11 Feb

Note: (a)-<http://www.bjnews.com.cn/news/2020/02/06/685216.html>; (b)-https://www.guancha.cn/politics/2020_02_10_535364.shtml, all accessed 26 March 2020.

Source: <http://finance.people.com.cn/n1/2020/0204/c1004-31570620.html>, http://m.xinhuanet.com/zj/2020-02/11/c_1125557513.htm and http://www.zj.gov.cn/art/2020/2/19/art_1228996604_41944949.html for Zhejiang, all accessed 26 March 2020.

- 2.6 Although the highest level of alert has been declared at all provincial levels by 29 January, there are considerable gaps across localities with respect to the policies and the implementation. For example, the emergency plan of Hubei is rather similar to the National Overall Emergency Plan, mainly on general principles and organisational matters. In contrast, those of Guangdong and Jiangsu seem more specific and functional.³ Depending on the level of development and governance capacity of localities, there are also likely gaps in the implementation of government measures, especially between coastal and inland regions. One example is the use of Health QR Code for quarantine management, first adopted by local government in Hangzhou on 11 February. As an effective and less costly approach, it was later introduced to other provinces.
- 2.7 Due to the vagueness of the emergency plans and the serious concern for the coronavirus spread, some local governments announced additional measures to restrict the movement of the population.⁴ These include the closure of cultural and entertainment venues, wearing of masks in public places and enforcement of closed management of residential communities and villages which effectively forced residents to stay home around the clock as leaving and returning home require a cumbersome exercise of obtaining necessary permit from neighbourhood committee or alike.
- 2.8 Large metropolitan areas, which are most vulnerable to community spread due to the high mobility of people from China's other regions or abroad, have in place the stringent measures. In particular, Beijing announced various additional precautionary measures on 9 February, including a 14-day quarantine for people returning from high-endemic areas and those with close contact history. As of 27 March, alert level in four provincial level administrative regions remained at the

³ Further details of national and regional emergency plans of Hubei, Guangdong and Jiangsu may be found in the following websites: http://www.gov.cn/yjgl/2005-08/07/content_21048.htm, http://www.hubei.gov.cn/zhuanti/2018zt/xfxcy/201811/t20181106_1365438_4.shtml, http://www.szpsq.gov.cn/xxgk/yjgl/yjya/201611/t20161123_17781001.htm and http://www.360doc.com/content/10/1204/23/3477225_75096099.shtml (all accessed 26 March 2020).

⁴ There was also on-line discussion about extreme measures taken by some local communities to stop people (from affected areas) from entering their localities by digging holes on the roads, or preventing returnees from leaving their home by sealing their apartment doors.

highest level, including Beijing, Shanghai, Tianjin, three of the four provincial level municipalities under direct central administration, and Hubei.

- 2.9 Both the restrictions and the fear of contracting the virus have seriously constrained people's movement in many parts of the country, during and since the LNY holidays, directly affecting relevant economic activities and consumption. For many businesses, revenues during the LNY holiday are simply the largest ticket for the year, such as box office revenues. According to the Hollywood Reporter, China's total box office revenue for the 20 days following the eve of LNY 2020, was \$3.9 million, compared to the \$1.52 billion for the same period last year.⁵
- 2.10 Restaurants and retail sales in the seven days of the LNY were estimated to have dropped by half from more than RMB\$1 trillion in 2019.⁶ Property sales came to a virtual halt immediately after the outbreak, and even as at end-February, sales were only at 25% of last year's. Likewise, car sales for February 2020 were only 21.5% of last year's.⁷
- 2.11 Some key high frequency data show a consistent picture.⁸ Daily passenger trips were already down 73% over the 2020 LNY compared to that of 2019⁹ and one month thereafter they were still down 80% compared to a normal situation. Traffic congestion, normally a daily chore for commuters, has virtually disappeared in the 100 major cities of China: the ratio of peak to non-peak travel time across 100 major cities of China fell from 1.64, when the 2019 LNY ended, to 1.14, when the 2020 LNY ended.¹⁰ By early March, the transportation department of China was still

⁵ Source: <https://www.hollywoodreporter.com/news/chinas-film-industry-hopes-bailouts-as-coronavirus-crisis-worsens-1278939>, accessed 12 March 2020.

⁶ For more details, please refer to <https://asia.nikkei.com/Spotlight/Caixin/Coronavirus-costs-China-service-sector-144bn-in-1-week>, accessed 12 March 2020.

⁷ Source: <http://m.16888.com/news/2020/0310/16415569.html>, accessed 12 March 2020.

⁸ Capital Economics, an economic advisory firm, and several investment banks including UBS, Barclays and Deutsche Bank are keeping track of these data on a daily basis.

⁹ Source: http://www.mot.gov.cn/zhuanti/2020chunyun_ZT/gedidongtai/202002/t20200203_3329387.html, accessed 12 March 2020.

¹⁰ Source: <https://www.ft.com/content/21f3fccc-5a10-11ea-a528-dd0f971febbc>, accessed 12 March 2020.

trying to orderly restore highways, waterways and passenger services and other services by region and by administrative level.¹¹

Policies to Support the Economy and Business Resumption

- 3.1 As early as late January, the move to impose measures to contain the virus was initiated in tandem with efforts to sustain businesses and help resume economic activities. Since then, numerous policies have been announced by different levels of government. Initially, government policies focused on ensuring logistics for emergency supplies, such as those announced by MOT and the Ministry of Industry and Information Technology (MIIT), both on 24 January, and that by the General Administration of Customs (GAC) on 26 January.¹²
- 3.2 To stabilise employee-employer relationship and further ensure social stability, the MHRSS released a document on 24 January to guide employers and employees, as well as local governments on employment related issues (Table 3). This is the first economic supporting policy released at central government level during the outbreak.
- 3.3 The document provides guidelines on four aspects. First, for employees affected by the outbreak due to infection and mandatory quarantine, employers are required to pay salaries and extend their employment contracts till after the outbreak. Second, firms experiencing difficulties due to the coronavirus outbreak are encouraged to adjust their business practices, through consultation with employees, such as salary adjustment, rotating shifts and shortening working hours to stabilise employment. Qualified firms may also receive subsidies. Third, labour-related arbitration cases affected by the outbreak would be suspended. Fourth, human resources and social security departments are required to strengthen guidance for local business, reinforce supervision and protect the legitimate rights of local workers.¹³

¹¹ Source: http://www.gov.cn/zhengce/zhengceku/2020-03/06/content_5487954.htm, accessed 12 March 2020.

¹² <http://finance.people.com.cn/n1/2020/0208/c1004-31577513.html>, <http://finance.people.com.cn/n1/2020/0124/c1004-31561977.html> and <http://travel.people.com.cn/n1/2020/0126/c41570-31562783.html>, all accessed 25 March 2020.

¹³ http://www.mohrss.gov.cn/wap/zc/zcwj/202002/t20200227_360811.html, accessed 26 March 2020.

TABLE 3 MAJOR MEASURES RELATED TO BUSINESS RESUMPTION BY CHINA'S CENTRAL GOVERNMENT (AS OF 21 MARCH 2020)

Type/Title	Main Points	Lead Issuing Agencies Date of Issuing
Supporting Employment		
Notice on the proper handling of labour relations during the prevention and control of coronavirus outbreak	Guidance to stabilise employment related to COVID-19 patients, suspected patients, close contacts, seriously impacted companies and arbitration, including issues such as contract, salary payment, working schedule and so on	Ministry of Human Resources and Social Security 24 January
Notice on improving labour relations during the prevention and control of the coronavirus outbreak	Coordinate and ensure labour supply to key enterprises during the anti-epidemic period, including providing point to point transportation and subsidies; preparing for resumption of business such as gathering information collection and exchange, providing virus protection materials and ensuring a safe working environment; arranging special support for workers from Hubei, the epicentre, including subsidies, psychological intervention, employment assistance; special support to SMEs, including easing layoff rate requirement for unemployment insurance return policy, expanding subsidy targets, extending recruitment schedule for graduates; and increasing online recruitment activities	Ministry of Human Resources and Social Security 5 February
Opinion on stabilising labour relations and supporting resumption of businesses and production during the prevention and control of the coronavirus outbreak	Stabilise employment by working out a flexible work schedule, ensuring salary payment, lowering burden of firms, revising employment contract based on negotiation and so on	Ministry of Human Resources and Social Security 7 February
Support for Business Operation		
Notice on helping foreign trading enterprises to overcome epidemic-related difficulties and reduce business losses	Provide legal and information services for international trading enterprises	Ministry of Commerce 5 February
Notice on ensuring the smooth operation of highways and smooth traffic of personnel and vehicles	Ban the closure of entrances and exits of expressways, blocking of national highways, digging of rural roads to cordon off areas, obstruct the path for the use of emergency transportation vehicles. Ban the setting up of epidemic prevention and control quarantine points or testing stations without authorisation at provincial boundaries and national and provincial trunk roads. Gradually restore road transport services	The State Council 8 February
Notice on improving services for foreign investment firms and strengthening efforts in attracting investment	Pay more attention and strengthen service to FIEs	Ministry of Commerce 10 February
Notice on helping outbreak response and providing supporting for service outsourcing enterprises	Pay more attention to firms with FDI outflows and domestic outsourcing firms, and provide information services and coordination services	Ministry of Commerce 11 February
Notice on land use provision during the prevention and control of the coronavirus outbreak	Grant flexible land supply for epidemic prevention and control	Ministry of Natural Resources 11 February
Notice on using next-generation information technology to support the prevention and control of the outbreak, and reinforce the resumption of businesses and production	Build a data exchange platform; standardise introduction, display promotion, systematic training and precise guidance for the utilisation of new-generation information technology; improve and safeguard digital infrastructure; and provide early business resumption support	Ministry of Industry and Information Technology 19 February

Guidance on prevention and control measures for the resumption of work and production of businesses and organisation	Inspect, observe, manage, report employees' health status; record staff mobility, lower density of workplace, clean and disinfect, restrict group activity, manage garbage disposal and ensure staff adopt personal protection habits such as mask wearing	The State Council 21 February
Liquidity and Other Financial Support		
Notice on optimising tax payment services in support of the prevention and control of the coronavirus outbreak	Extension of statutory monthly tax declaration period for February and other adjustment to tax collection service	State Administration of Taxation 30 January
Notice on supporting finances and improving services to help the prevention and control of the coronavirus outbreak	Financial support such as provision of adequate and appropriate liquidity and special loan; subsidise, defer or reduce interest or other financial fees; maintain normal domestic and international financial services, and implement special policies for SMEs	PBOC 31 January
Notice on further strengthening finances to support the prevention and control of the coronavirus outbreak	Subsidy to loan interest, discounted interest on start-up secured loans and financing guarantee services for SMEs	MOF 1 February
Announcement on PBOC Web ¹⁴	RMB1.2 trillion liquidity released through its open market reverse repo operation	PBOC 2 February
PBOC's video conference ¹⁵	Liquidity released (RMB300 billion through relending facility)	PBOC 7 February
Notice on corporate bonds issuing during the prevention and control of the coronavirus outbreak	Bond financing of companies: relax some regulations such as revenue coverage requirements, bond financing for loan payment, collective bond, entrusted loan and new loans.	NDRC 15 February
Cost Reduction		
Notice on the duty-free policy on imported materials for the prevention and control of the coronavirus outbreak	Duty free for import of materials for anti-epidemic related matters	General Custom Authority 1 February
Notice on taxation measures to support the prevention and control of coronavirus outbreak	Longest loss carryover period extended from 5 to 8 years	State Administration of Taxation 10 February
Operating guidelines for free tolls on highways during period of coronavirus outbreak prevention and control	No vehicle tolls nationwide from 17 February to 30 June	Ministry of Transportation 15 February
Notice on implementing a supportive two-step electricity price policy to reduce firms' utility during the outbreak	Relax restrictions on the use of low-priced electricity	NDRC 15 February
Notice on reduction and exemption of pension, medical insurance, unemployment and work injury insurance paid by firms	Reduction and exemption of pension, medical insurance, and unemployment and work injury premium paid by firms	State Administration of Taxation 24 February
Guiding opinions on increasing support for individual industrial and commercial businesses	VAT reduction for self-employed business	State Administration of Taxation 29 February

Sources: <http://finance.people.com.cn/n1/2020/0204/c1004-31570620.html>, http://m.xinhuanet.com/zj/2020-02/11/c_1125557513.htm (for Zhejiang) and http://www.zj.gov.cn/art/2020/2/19/art_1228996604_41944949.html; <http://www.chinatax.gov.cn/chinatax/n810341/n810755/c5145868/content.html>, all accessed on 30 March 2020.

¹⁴ Source: <http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3966122/index.html>, accessed 30 March 2020.

¹⁵ Source: <http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3969065/index.html>, accessed 30 March 2020.

- 3.4 Measures to support businesses and business activities were initiated shortly. On 30 January, the State Taxation Administration (STA) announced the extension of statutory monthly tax declaration period for February and other adjustments to tax collection service during the COVID-19 outbreak. Two days thereafter, China's financial authorities, including the People's Bank of China (PBOC), Ministry of Finance (MOF), Banking and Insurance Regulatory Commission (BIRC), Securities Regulatory Commission (SRC) and Foreign Exchange Bureau (FEB), issued a joint document, titled "Notice on Further Strengthening Financial Support for Prevention and Control of New Coronavirus Infected Pneumonia".
- 3.5 The document represents a concerted effort to safeguard the financing of businesses and the security of the country's financial infrastructure. It has four main elements, including (a) provide adequate and appropriate liquidity for those who are either badly hit by the epidemic or essentially in the fight against it; (b) safeguard the provision of normal financial services, defer the borrowers' payment of interest or principle for both impacted firms and individuals; (c) ensure the security of financial infrastructure and maintain normal operation of the financial market; and (d) improve efficiency of foreign exchange and cross-border RMB transactions, particularly anti-epidemic related activities.
- 3.6 Since the beginning of February, government policies have become more targeted, first to help shield firms from short-term liquidity difficulties and later to facilitate business resumption. Several dozens of measures were issued by financial authorities in early February to extend financial reliefs to firms, particularly small and medium-sized enterprises (SMEs).
- 3.7 On 3 February, PBOC released RMB1.2 trillion in liquidity through its open market reverse repo operation¹⁶ and on 7 February set up a special RMB300 billion (~US\$40 billion) relending facility to enable banks to extend preferential credit to

¹⁶ http://www.xinhuanet.com/fortune/2020-02/03/c_1125525825.htm, accessed 30 March 2020. This is an unusual operation by the PBOC. In normal years, there is sufficient financial liquidity in the market at the beginning of the year, since (1) loan quota for the year has just been released; (2) during the LNY holiday, there is a large inflow of cash into the banking system; and (3) demand for liquidity is low during the holidays. Therefore, the PBOC normally suspends the open market reverse repurchase operation and withdraw liquidity through the expired reverse repurchase. PBOC's open market reverse repurchase operation this year, in response to the epidemic, has in fact released liquidity equivalent to more than 0.5% reduction in required reserve ratio.

companies hit by the outbreak. PBOC also lightly lowered interest rates of its discount facilities. Meanwhile, MOF announced an interest rate subsidy to halve interest costs for affected companies. Further on 11 February, MOF issued a RMB848 billion new local government bonds quota, earlier than initially planned.¹⁷

- 3.8 Besides financial authorities, numerous other central government branches and local administrations have issued documents to help businesses overcome difficulties and resume operation. According to Wind, a financial information service, between 1 and 24 February, a total of over 370 policy documents were issued, including 24 by central government, 58 by provincial-level governments, and over 280 by governments below the provincial level. Following central government policies, announcement by local government can be classified into four polity areas, including those to stabilise employment, support businesses and business resumption, provide financial support, and help reduce business costs.
- 3.9 To safeguard employment, governments at the central and local levels announced policies to defer or exempt payment for social security and housing fund contribution. Some provided employment subsidies to firms with no layoffs or very few layoffs during the epidemic. There are also subsidies to encourage public and private employment service agencies to hire new college graduates. To increase enrolment for graduate studies in 2020 is another measure to reduce employment pressure for graduating colleague students.
- 3.10 To strengthen financial support to businesses, the government requires financial institutions to extend loan terms, lower interest rate, waive interest or other financial service fee, increase loan amount and shorten loan approval time. In some localities, local governments also provide subsidies for loan interest or other financial service fee payments.
- 3.11 Several policies were issued to reduce business costs of firms, particularly those of the SMEs. On 25 February, the State Council further reduced VAT rate for SMEs. Meanwhile, state-owned enterprises (SOEs) were asked by local governments to

¹⁷ Source: <http://money.people.com.cn/n1/2020/0213/c42877-31584845.html>, accessed 30 March 2020.

defer, reduce or even waive rent payment by SME tenants or extend contract terms of their SMEs business affiliates. SMEs and those in seriously affected sector also enjoy a cut on water, gas and electricity fees by state-owned utility providers.

3.12 Measures were also taken to reduce transportation cost for firms. As of 4 February 2020, 18 state-owned port companies have extended the free storage period, reduced port operation fees and demurrage fees.¹⁸ On 15 February 2020, MOT announced a nationwide toll waive until 30 June. Further on 13 March, MOT's Maritime Bureau further announced the reduction or exemption in payment of port construction fee and for the Ship Oil Pollution Damage Compensation Fund.

3.13 On 25 February, NDRC announced a change in travel restrictions from provincial wide policies to a county-by-county one, indicating relatively lower risk of the COVID-19. Since then, governments at central and local levels shifted their focus largely to restarting businesses, resulting in more sector specific policies. On 26 February, the Ministry of Commerce (MOFCOM) issued a notice to help international trading firms that were hit hard by the outbreak. On 7 March, MOF and China's Civil Aviation Authority issued a notice to help alleviate financial difficulties of airlines. On 16 March, NDRC and the Ministry of Agriculture and Rural Affairs announced policies to support pig farmers.

3.14 Many local policies to help restart businesses were issued. In some localities, governments offered financial assistance for firms to buy masks and other supplies to resume businesses, provided transportation for returning migrant workers, and subsidised firms' rental payment to help attract and keep talent, or to help fulfil the 14-day quarantine.¹⁹

3.15 During this period, the government has to balance two often contradictory policy priorities, especially at the local levels. While it has to maintain effective control and prevent the further spread of the virus, with and across localities, it needs to help

¹⁸ Source: <http://www.port.org.cn/info/2020/204710.htm>, accessed 25 March 2020.

¹⁹ Source: <http://www.shanghai.gov.cn/nw2/nw2314/nw32419/nw48614/nw48616/nw48629/u21aw1424010.html>, accessed 16 March 2020.

businesses and people resume their economic activities. These made both the policy formulation and implementation difficult.

- 3.16 Due to different development stages, the launch, implementation and measures of local policies deviate. First, while most local policies follow corresponding central government policies with some localisation measures, Guangdong acted even earlier than the central government in some aspects. For example, the financial authorities of Guangdong released their policies to safeguard financial security one day earlier than PBOC. Likewise for its tax reduction policies.
- 3.17 Coastal region governments also issued supporting policies for SMEs earlier than other regions. Wind documented the first 10 cities to implement such supporting policies as coming from coastal provinces such as Jiangsu, Shandong and Fujian.
- 3.18 Second, even for the same policies, implementation is not across the board. For example, SOEs under the local State-owned Assets Supervision and Administration Commission (SASAC) implemented rent reduction and/or exemption policies for SMEs in regions such as Hubei, Beijing, Shanghai, Chongqing and so on. In other regions, such as Heilongjiang, Ningbo and Dalian, SOEs are only encouraged to implement these policies. This could be due to the varying profitability and affordability across regions.
- 3.19 Third, the policy foci also diverge across regions depending on the economic structure of the area. For example, Guangdong was the first region to launch policies to safeguard financial security because of the importance of the financial sector in the development plan of the Guangdong-Hong Kong-Macao Greater Bay Area. Jiangsu was the first province to release supporting policies for SMEs as it has more SMEs than most other provinces.
- 3.20 Similarly, Hainan was the first province to issue policies for the tourism sector. In Jiangsu, Taizhou became the first local government to launch policies for firms engaged in international trade. Similarly for Fujian on policies for the recovery of fishing industry and Beihai for real estate developers.

- 3.21 Fourth, for the same target, the measures selected by local governments could also vary. While Nanjing, Hefei and Jinan governments have distributed consumption vouchers to stimulate domestic consumption, Jiangxi and Zhejiang governments encourage 4.5 working day per week to encourage consumption. Apparently, the direct cost burdens caused by these different measures are borne by different parties.
- 3.22 While it is clear that economic performance has weakened and tax revenue dwindled, how to select effective, affordable and sustainable policies and implementation measures is challenging for Chinese governments at all levels.

First Quarter 2020 Economy Likely the Worst on Record

- 4.1 Despite the many measures announced by the government, China's economy in the first quarter is likely be the worst since 1992 when quarterly figures were first reported. For 2020 as a whole, economic growth may be pushed down to below 4%, similar or below that of 1990, the lowest since 1978.
- 4.2 Economic activities during the first three weeks were slower than those of 2019. However, this is not out of the ordinary since the LNY for 2020 was on 25 January, 11 calendar days ahead that for 2019, and holiday mood kicked in earlier and businesses slowed down. The outbreak of the coronavirus near the LNY was evidently the main contributor. Travelling and other holiday-related consumption were brought to nearly a complete halt for seven to eight weeks as LNY holiday was extended. Concerns of another wave of the spread and remaining restrictive measures prevent or delay the resumption of businesses, even after the end of the holidays.
- 4.3 In particular, with the restrictions on travelling, migrant workers were unable or slow to return to jobs in the cities. Official holidays ended in early February and though the NDRC expected two thirds of the migrant workers (around 200 million) to go back to work by the end of the month, only half return to their work places until early March.²⁰

²⁰ Source: <http://opinion.people.com.cn/n1/2020/0311/c1003-31627441.html>, accessed 12 March 2020.

- 4.4 Industry was severely affected, due in part to the lack of workers and to logistical challenges and plunging demand. Major power generation plants that report their daily coal use slipped by half as at end-February compared to that a year before. Pollution, a good indicator of industrial activities, was down some 40% compared to normal at the end of February. Shipping along the Yangtze River, a major industrial belt, was down by more than 30% compared to last year's, some three weeks after LNY.²¹
- 4.5 Morgan Stanley, an investment bank, estimated that production in industries was only 30-50% of normal by mid-February, with expectations of a rebound to 60-80% by the end of February and a return to normal by end March. A European/German Chamber of Commerce in China survey reported that almost 60% of respondents reported high impact from the epidemic, while 30% indicated medium impact and none opted for zero impact.
- 4.6 While some large companies have reopened their doors, many small businesses are facing great difficulties in complying with the strict health rules that are now required for reopening. A survey of 995 SMEs released on 5 February found that roughly two thirds had sufficient financial reserves to sustain operations for only two months.²² Some 30% expected annual revenues to shrink by at least half from that of 2019. To survive, these SMEs need to resume business and receive cash inflows.²³
- 4.7 To assess the impact on China's first quarter economy due to the rapid spread of the virus and the harsh measures adopted to fight the outbreak, the loss of effective working days in the quarter of 2020 was compared to that of 2019. The loss in effective working days, includes official extension of LNY holidays, reduction in

²¹ Bloomberg, 17 February 2020 (updated 23 March), "The Data Show China is Still Struggling to Get Back to Work", <https://www.bloomberg.com/news/articles/2020-02-18/how-fast-can-china-s-economy-bounce-back-from-virus-lockdown>, accessed 30 March 2020.

²² For more details, please refer to <https://cj.sina.com.cn/articles/view/1908759833/71c55d1901900m365>, accessed 12 March 2020.

²³ China's small, medium and micro enterprises account for over half of government tax revenue, more than 60% of GDP, over 70% of technological and innovative activities, above 80% of urban employment and over 90% in the number of enterprises. Source: http://www.xinhuanet.com/2019-12/16/c_1125349663.htm, accessed 12 March 2020.

consumption due to mobility restrictions, and delays in business and production resumption activities due to travel and logistic bans.

- 4.8 Several assumptions (Table 4) are made: (i) economic activities on weekends and New Year Holiday were about 40% of a normal workday, while that for LNY holiday in China was about 20%, for any year; (ii) normal activities for the days around but excluding official LNY holidays from 23rd of the 12th month to the 15th of the first month in the lunar calendar, a three-week LNY holiday by traditional practice, were about 50%; (iii) activities after the lockdown of Wuhan, the start of travel restrictions, were 30% of normal activity from 23 January to 9 February, due to government's holiday extension and intensive effects of the coronavirus outbreak; and (iv) activities from 10 to 16 February were 45% when holiday was officially over but business had yet to resume. Dividing the last month and a half into three two-week sections, businesses were gradually starting, from 60% to normal, 75% to normal and 90% to normal.

TABLE 4 EFFECTIVE WORKING DAYS FOR Q1 OF 2019 AND 2020

Assumptions of Per cent of Normal Activity	
	Sharp down
Weekend/New Year Holiday	40
LNY Official Holidays	20
For 2019: 4 - 10 Feb	
For 2020: 25 - 30 Jan	
Official working days around LNY	50
For 2019: 28 Jan - 3 Feb	
For 2020: 17 Jan - 22 Jan	
Corona intensive (23 Jan – 9 Feb)	30
Corona intensive (10 Feb – 16 Feb)	45
Corona recovery (17 Feb - 1 Mar)	60
Corona aftermath (1-15 March)	75
Corona aftermath (16-31 March)	90
Normal	100
Quarter 1 Results	
Effective working days Q1 2019	63.6
Effective working days Q1 2020	53.3
Per cent of effective days lost	16.2
Growth projection for Q1 2020 (taking into account a 6.4% upward trend)	-10.8%

Source: Computed based on assumptions by the authors.

- 4.9 While the government has not provided comprehensive information on the rate of business resumption, reports from various sources suggest that the resumption of businesses has been slow and incomplete, especially for SMEs. On 28 February, business resumption by SMEs reportedly was one third that of 26 February and that for industrial SMEs was somewhat higher, at about 43%.²⁴ On 20 March, official source stated that the rate of work resumption for industrial firms above designated sizes was about 80% outside Hubei, and 80% or 100 million migrant workers had returned to the cities.²⁵
- 4.10 Estimates by non-official sources were less optimistic. Since mid-February, an index for business resumption for industry provided by a Wealth Management company²⁶ shows that the rate had risen slowly from around 40% in mid-February to over 50% in late February and further to around 70% in mid-March.²⁷ A study by Evergrande Research Institute, using traceable mobile phone signals, shows that while the rate of returning migrant workers had reached over 80% by early March, the rate of work resumption was considerably lower, at around one third.²⁸
- 4.11 Based on assumptions in Table 4, there was a 16.2% loss in effective working days in the first quarter of 2020, relative to 2019. Assuming that each day is 6.4% more productive in 2020 than in 2019, an upward trend for Q1 2019, it would mean a 10.8% contraction for the economy in the first quarter, year on year.
- 4.12 In late February, based on such assumptions, a 6.3% contraction in a sharp down case for the first quarter of the economy was projected. In retrospect, it seemed a reasonable estimate. In fact, after China's National Bureau of Statistics (NBS) announced its official figures for China's economy in January and February, on 16

²⁴ http://www.xinhuanet.com/fortune/2020-02/28/c_1125639191.htm, accessed 24 March 2020.

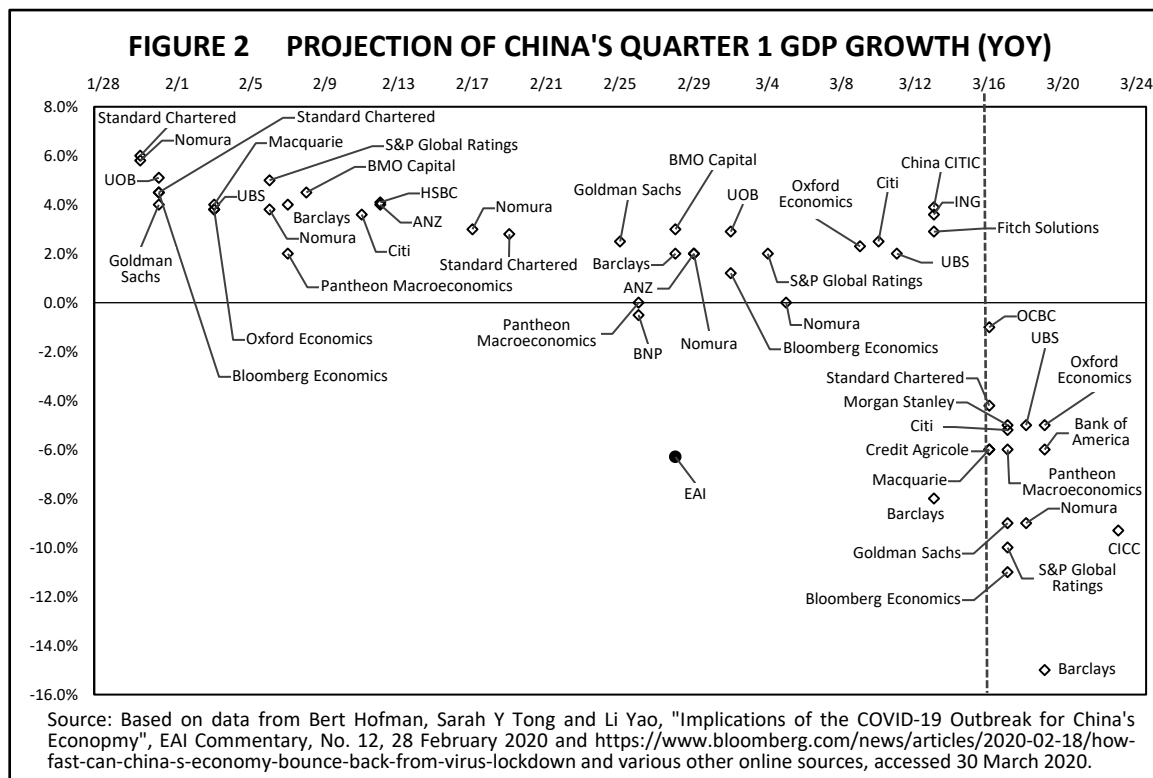
²⁵ http://www.gov.cn/xinwen/2020-03/20/content_5493403.htm, accessed 24 March 2020.

²⁶ The index is calculated by the Wealth Management LLC of China Commercial Bank. They adopted a higher-frequency luminous data of satellites of 143 industrial parks across China to build a daily index for industrial activities. By comparing the changes of the index before and after the LNY, they track the rate of business resumption for the industry (<http://finance.jrj.com.cn/2020/02/29062928918556.shtml>, accessed 24 March 2020).

²⁷ Source: WIND.

²⁸ <https://www.chainnews.com/articles/353881005060.htm>, accessed 24 March 2020.

March, many analysts had substantially revised their Q1 growth downwards (Figure 2), at an average of about -7.0%.



4.13 Based on revised calculation for the economy in the first quarter, three scenarios for the economy of the year (Scenarios A to C, Table 5) could be drawn, assuming different speed of economic recovery for the second quarter, namely, faster, back to normal and slow. In all three cases, the assumption is that businesses return to normal in the second half of the year. In Scenario A, the economy rebounded quickly, achieving a 10% expansion year on year, while in Scenario C, business resumption is 95% in the second quarter. The results are 3.3%, 2.3% and 1.0% annual growth, respectively.

TABLE 5 SCENARIOS FOR GDP GROWTH YEAR ON YEAR

	2019 (actual)	2020 (Scenarios)			
		Sharp down, sharp recovery (A)	Sharp down, modest recovery (B)	Sharp down, slow recovery (C)	Sharp down, catch up to the annual target (D)
Q1	6.4	-10.8	-10.8	-10.8	-10.8
Q2	6.2	10.0	6.2	0.9	10.2
Q3	6.0	6.0	6.0	6.0	10.2
Q4	6.0	6.0	6.0	6.0	10.2
Annual	6.1	3.3	2.3	1.0	5.6

Source: Computed based on assumptions by the authors.

4.14 Notably, 2020 is an important year for China's Communist Party as it aims to build the country into a comprehensively well-off society. Translated into numbers, this requires the doubling of the economy between 2010 and 2020, or growth of about 5.6% in 2020. In each of the three scenarios, growth would fall far short of the 5.6% target. In Scenario D, to fulfil the annual target, year on year growth rate that is needed for quarters two to four is over 10%, an almost impossible endeavour.