



The Coronavirus Crisis: Rupturing Politics, Authority, and Economy

4th March 2020

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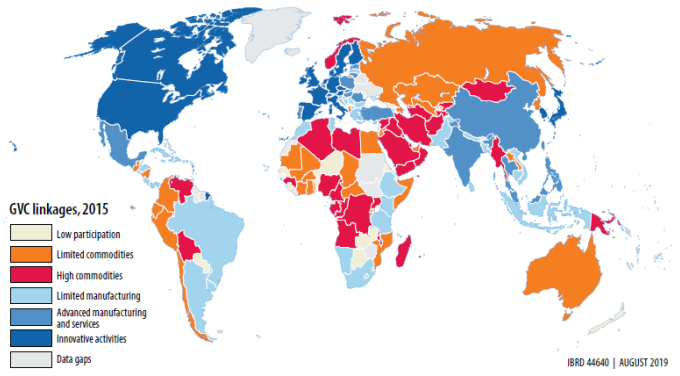
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3 key points

- 1 *From China's GVCs dominance to global economic impact*
- 2 *Chinese government's swift economic policy response*
- 3 *Governance capacity under test*

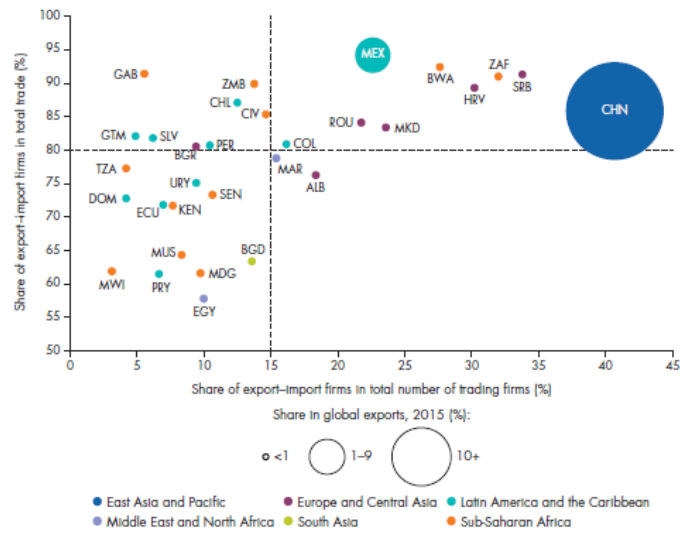
China's economy highly integrated in world economy...

Map O.1 All countries participate in GVCs—but not in the same way

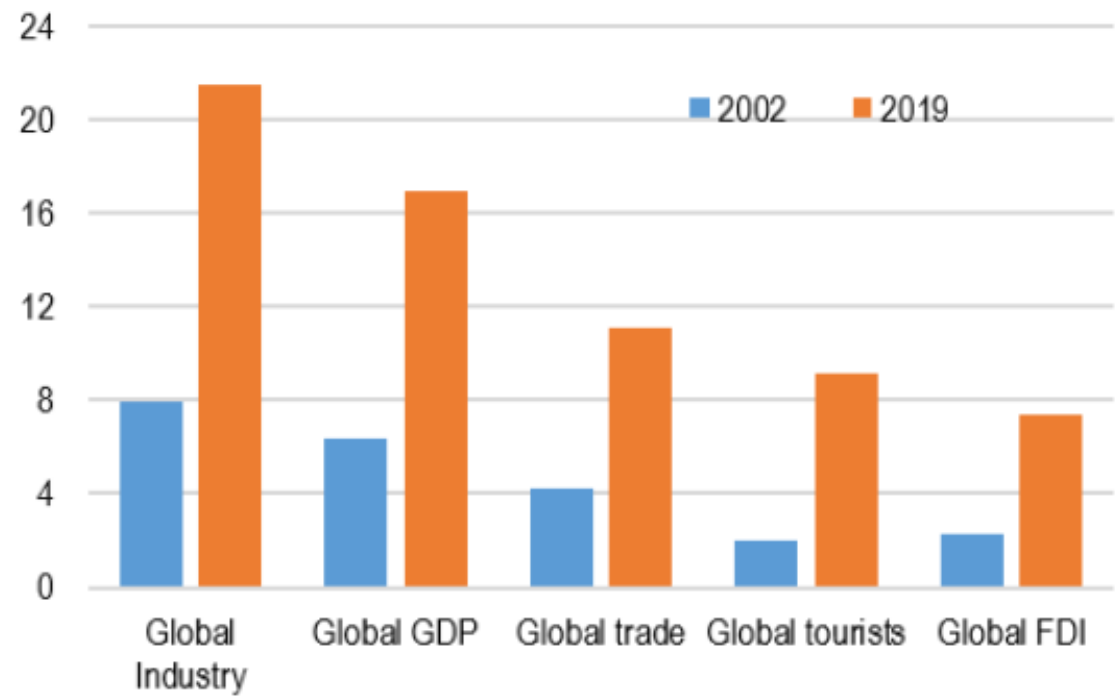


Source: WDR 2020 team, based on the GVC taxonomy for 2015 (see box 1.3 in chapter 1).
 Note: The type of a country's GVC linkages is based on (1) the extent of its GVC participation, (2) its sectoral specialization in trade, and (3) its engagement in innovation. Details are provided in figure 1.6 in chapter 1.

Figure 1.14 Firms that both import and export dominate GVC participation



A. China is more integrated in the global economy (% of world)



... which led to strong supply chain impact by COVID-19

Electronics, textiles, pharma and automotive industries will be severely affected by delayed production and logistics slowdown.

Computers

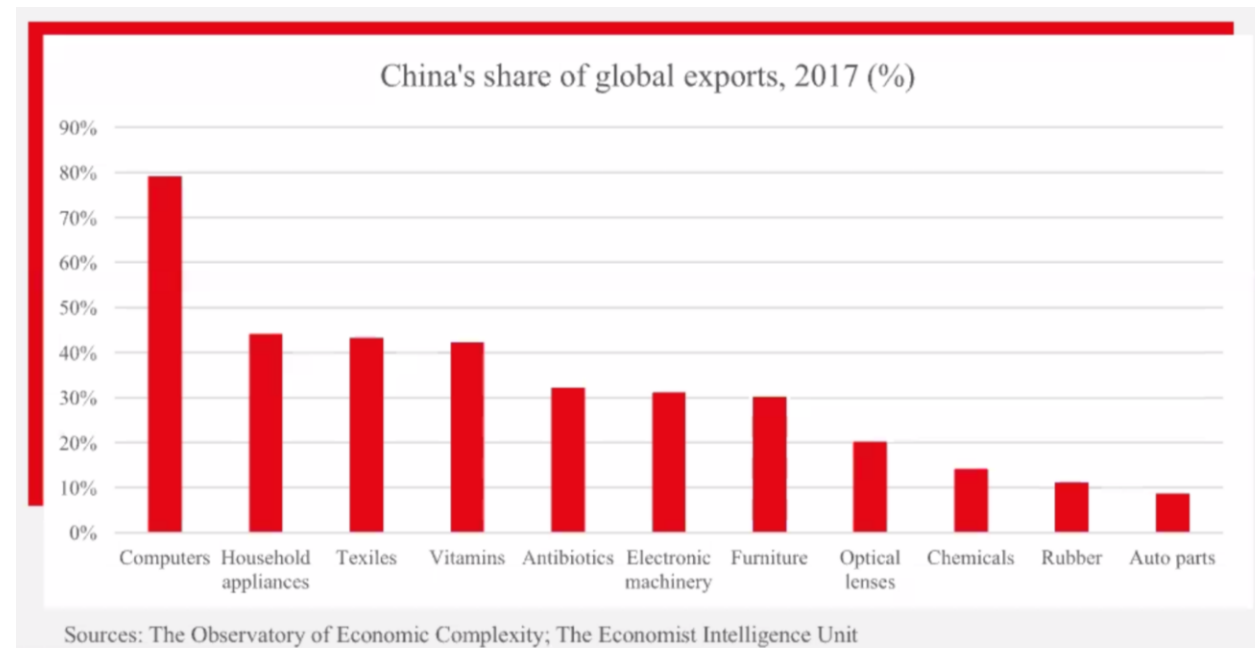
- Parts affected: memories, displays
- Companies affected: Apple; Microsoft;

Household appliances

- Parts affected: LCD panels, sensors, glass screens
- Companies affected: Apple; Samsung; Sony...

Electronics

- Parts affected: headsets;
- Companies affected: Apple; Facebook; Google; Sony; LG; Ericsson...



Antibiotics

- India started to have antibiotics shortage as 70% of raw materials are imported from China.
- Germany and US also import 90% of their antibiotics from China

“If the plants do not start by end February, then it will become a delicate situation not only for us but for the entire pharma industry.”

Upadhye at Cipla – India’s largest pharma producer.

Chemicals

- Parts affected: chlorine, acetic acid and derivatives,
- Companies affected: Eastman Chemical; ...

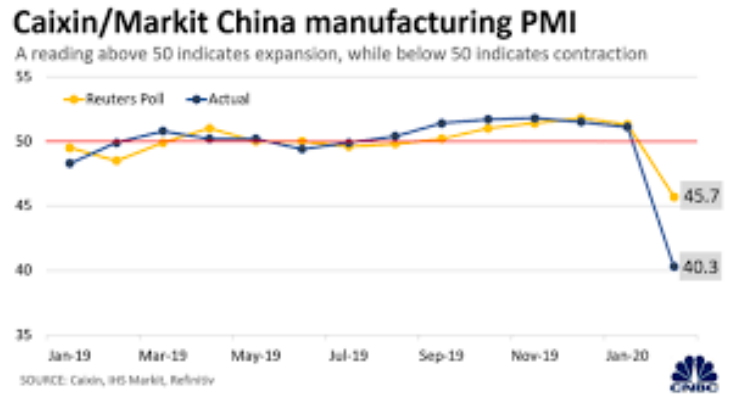
China’s chemical sector has seen declining value for a year and half before the coronavirus outbreak, leaving the industry less cushion if the virus cannot be contained soon.

Auto parts

- Parts affected: Wuhan alone is a major hub for car parts manufacturing, ranging from brakes, seating to front and taillamps
- Companies affected: VW; Tesla; Fiat Chrysler Automobiles; Toyota...

Caixin Manufacturing PMI

General Manufacturing Purchasing Mangers' Index (PMI)



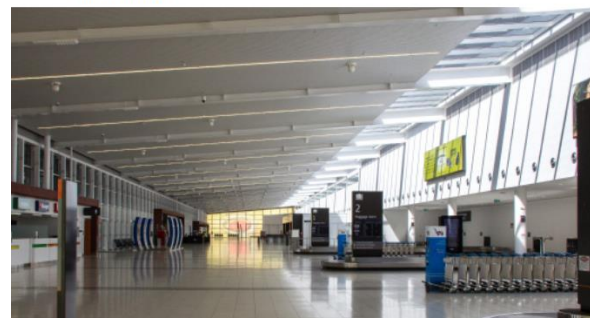
- Activity in China’s manufacturing sector contracted at **fasted pace in nearly 16 years** amid drop in new orders, output and employment
- **PMI plunged to 40.3**, lowest since the survey began in April 2004
- February 2020 **weaker than 40.9 in November 2008** amid global financial crisis

Source: tradeeconomics.com; reuters.com; Caixin; CNBC

OECD Interim Economic Assessment

OECD Interim Economic Assessment **Coronavirus: The world economy at risk**

2 March 2020

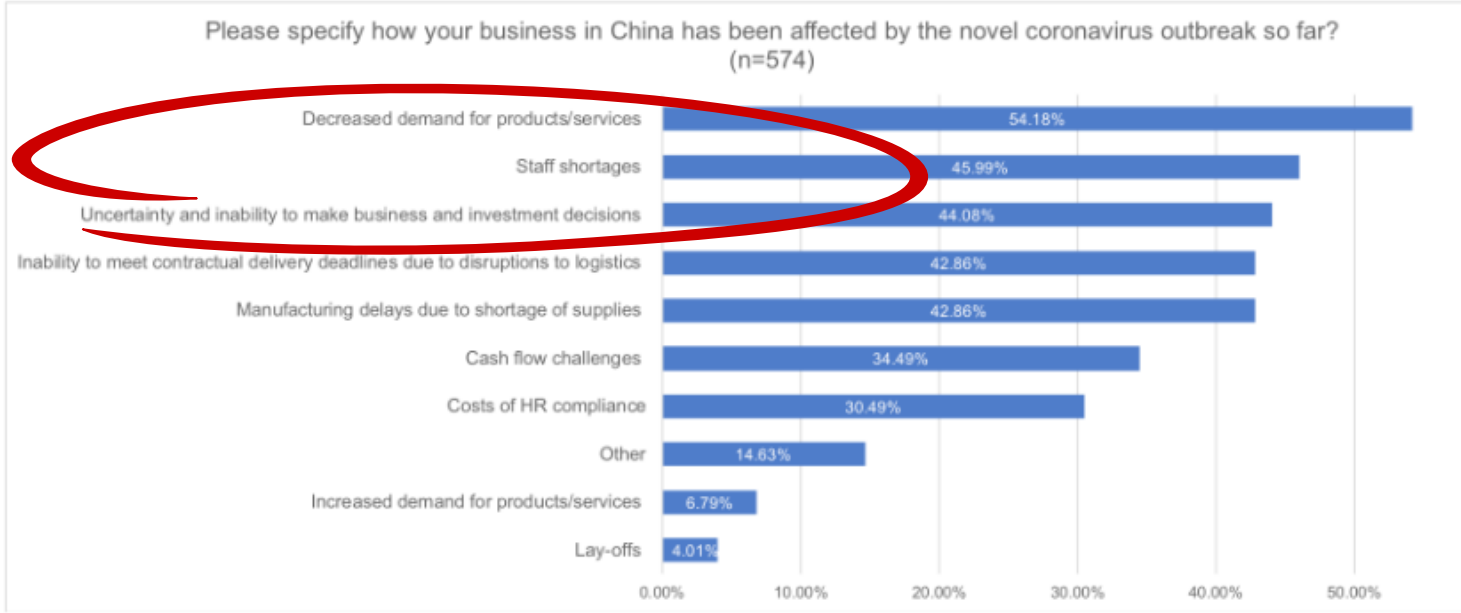
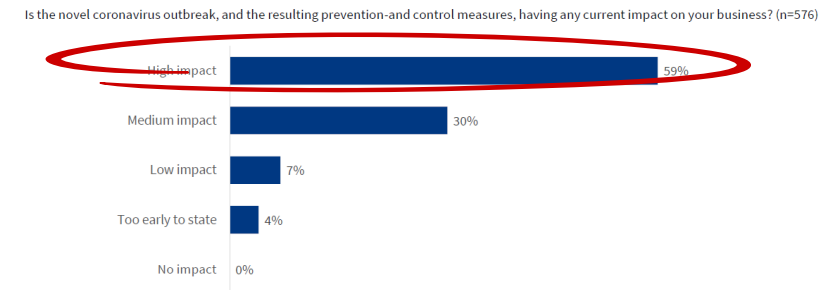


- If the epidemic peaks in Q1 2020, **global growth** could be lowered by about 0.5% vs. previous forecasts (3%)
- If the virus sweeps through globally, global growth could **plummet to 1.5%**; Japan and Euro area could enter recession
- **China’s GDP growth** has been revised to slip under 5%
- **Policy measures** should be taken to support firms with cash-flow problems:
 - providing sufficient liquidity
 - reducing or delaying tax/debt payments
 - lowering the costs of inputs such as energy leader
- Additionally, fiscal support for **health services** and, more broadly, **lower interest rates and stronger government spending** can help boost confidence

Strong impact reported by foreign companies in China

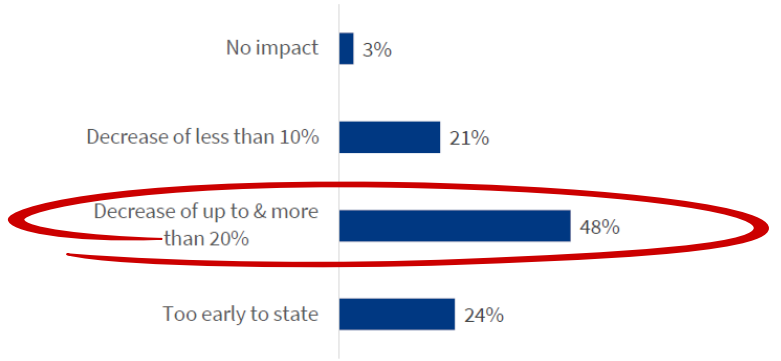


ALL RESPONDENTS ARE IMPACTED, AND THE IMPACTS ARE COMPREHENSIVE AND SEVERE: **CURRENT IMPACT**



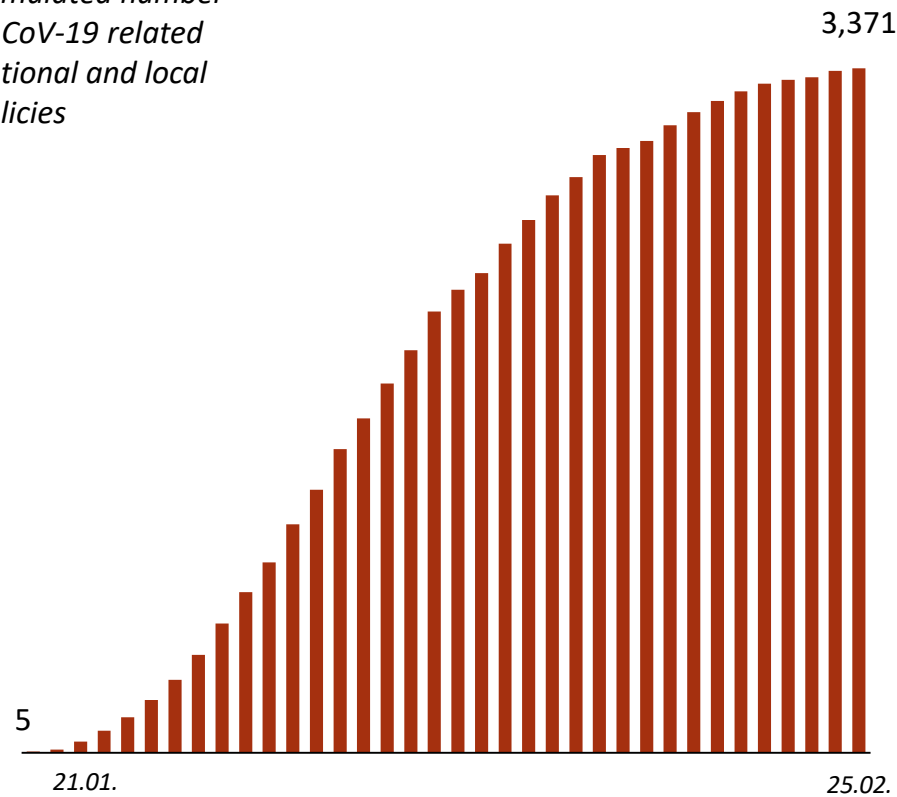
To what extent will the novel coronavirus outbreak and the resulting prevention- and-control measures impact your company's revenue in the first half of 2020? (n=566)

Expected Impact on Revenue in H1 2020



Policy dynamism in response to COVID-19

Cumulated number of CoV-19 related national and local policies



Main areas of activity

- Work resumption
- Support for SME/tech firms
- Loan extension
- Electricity price reduction
- VAT/personal income tax exemption, land use tax, esp. for medical suppliers
- Statutory deadline of tax declaration extended
- Subsidies to medical equipment companies, R&D activities
- Social insurance payment allowed/statutory deadline extended/exemption
- Refund/reduction of unemployment insurance premiums
- Housing fund contribution reduction
- Increased job training subsidies
- Deduction of Rent

Government takes action to control virus epidemic and provide short-term relief to individuals and companies, but effectiveness and underlying structural issues esp. for SMEs unclear

- **Challenges and early local reporting failure**
 - **Inaction:** fearing punishment, Wuhan local government seemingly covered up outbreak and failed at crisis alert and reporting; at the height of virus outbreak, Wuhan only declared 2nd level emergence response, while Zhejiang and Shanghai declared 1st level
 - **Over-reaction:** reinforced upward facing accountability, officials bidding up policy targets while ignoring on-the-ground resource capacity
 - **Meritocracy?** health/education departments supposedly filled with “无知少女” (“non-party members, intellectuals, ethnic minorities, and females”), e.g. Wuhan Institute of Virology Director and Huanggang Health Department Head
- **Successful nationwide mobilization**
 - **Effective lockdown** of Hubei – province with 2nd highest infection numbers after Hubei (Guangdong) with almost 60x less infections
 - Fast and effective **crisis management and public communication**, utilizing all channels from red banners, village broadcast to Wechat
 - **Neighborhood committees** (社区居委会) implementing quarantines on-the-ground – self-organized, unclear legal basis, party-guided
 - **Party-controlled disciplinary supervision** (National Supervisory Commission 监察委员会), fast replacements with focus on stability
 - **Campaign-style:** “people’s war” rhetoric, red banners, citizen reporting
 - **China Inc.**, mobilizing Chinese tech corporates to provide tailored tech solutions, e.g. Hangzhou health code platform by Alipay
- **However: SARS lessons?**
 - **Chinese Centre for Disease Control and Prevention (CCDC)** – with little administrative power and only offering technical guidance
 - **National Notifiable Infectious Disease Surveillance System** and **Public Health Emergency Event Surveillance System** not fully utilized
 - Fast **communication** with WHO, but domestic communication and transparency questioned

*China insights and judgment **at the nexus of business and policy***



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