

The Big Read Chinese economy

China's economy: the risk of a second coronavirus

wave

Hopes for a strong recovery from a disastrous first quarter are at risk from new infections and a collapse in exports

Tom Mitchell and Xinning Liu YESTERDAY

On the same day that Chinese authorities began to relax a 77-day [quarantine](#) on Wuhan, the city that [exported coronavirus](#) across China and ultimately to every corner of the world, a small town on the country's border with Russia was locked down for the second time in three months.

On April 8, residents of Suifenhe in northeastern Heilongjiang province were ordered to stay at home, with only one member of each household allowed out every three days to buy food and other supplies. Train services to Harbin, the provincial capital, were suspended. Like Wuhan, Harbin is a major industrial city with a population of about 11m people.

Most of the Chinese cities, towns and villages that were locked down at the peak of Wuhan's epidemic in January and February were relatively unscathed by the first outbreak of [coronavirus](#). At the time, Suifenhe was reported to have had no official cases.

But now Suifenhe faces a real crisis, after Chinese nationals returning home from Russia triggered a much-feared "[second wave](#)" of infections. The city has more than 320 confirmed cases and almost 1,500 people in centralised quarantine facilities.



eer holds a sign with a QR code to indicate health status in Suifenhe, where only one member of usehold was allowed out every three days to buy food and other supplies © Huizhong Wu/Reuters



Suifenhe: 'Lots of small businesses here did not make it to March,' says Lin Xianfeng, who runs a renewables company in the city © Huizhong Wu/Reuters

"Lots of small businesses here did not make it to March," says Lin Xianfeng, who runs a renewables company in the city that turns biomass, such as scrap lumber and forest debris, into energy. "They just closed for good. Now we face a very tough time as well. I worry about my business every day."

The situation in Suifenhe typifies one end of an extremely diverse spectrum in China, as President Xi Jinping's administration struggles to restore the world's second-largest economy to something approaching normality.

At the other end of the spectrum, many large cities across the country appear to have bounced back from the lockdown, with the only reminder of the crisis being the number of people wearing masks on the streets, on public transport and in their offices.

US sportswear company Nike said this week that 80 per cent of its China stores were open in cities such as Shanghai, which shows few visible signs of the pandemic. Car factories in Chengdu, capital of southwestern Sichuan province, have [restored operations](#) with little disruption, other than the use of face masks and other protective gear and social distancing in the canteen.



Chinese workers and health officials wear protective white suits as travellers from Wuhan gather to be taken into 14 days of quarantine after arriving in the capital © Kevin Frayer/Getty



Travellers gather in Hankou railway station in Wuhan after travel restrictions on leaving the city were lifted recently © Reuters

“Companies are all back to work and working without restrictions [although] wearing masks in the office is normal and wearing masks outside is normal,” says Paul Sives, head of the European Chamber of Commerce in south-west China, of the situation in Chengdu.

Whether Suifenhe's relapse — or Chengdu's relative vibrancy — is the more accurate harbinger of China's near-term future has enormous implications for both its economy and the rest of the world. The first country to have a significant outbreak of the virus, China is also the first large economy to try to reopen after a lockdown. How Beijing fares in trying to [restart economic activity](#) without sparking a new round of infections will shape the response in much of the rest of the world.

On Friday, the National Bureau of Statistics reported the first official year-on-year decline in economic output in more than 40 years. First-quarter gross domestic product [fell 6.8 per cent](#) — something unimaginable in the pre-coronavirus era. However, a range of other indicators, formal and anecdotal, suggest China's economy may have at least hit bottom in the first quarter. Coal consumption at large power plants has recovered to 90 per cent of 2019 levels. China's official unemployment rate also improved slightly in March, falling to 5.9 per cent from February's all-time high of 6.2 per cent.

George Lau, who runs an inspection and certification business in southern Guangdong province, says “the traffic jams are almost as bad as before”.

Eswar Prasad, a China expert at Cornell University, says Friday's GDP numbers are “a bellwether of what the data for other major economies will reveal in the coming weeks”. He adds that while the “apparent stabilisation” in recent indicators has provided “grounds for at least mild optimism, the magnitude of this collapse makes it even more puzzling how China's economy seems to be getting back on its feet despite the government's relatively modest stimulus measures thus far.”



wearing face masks, walk near a shopping complex after the lockdown in Wuhan was lifted © Aly Gutters



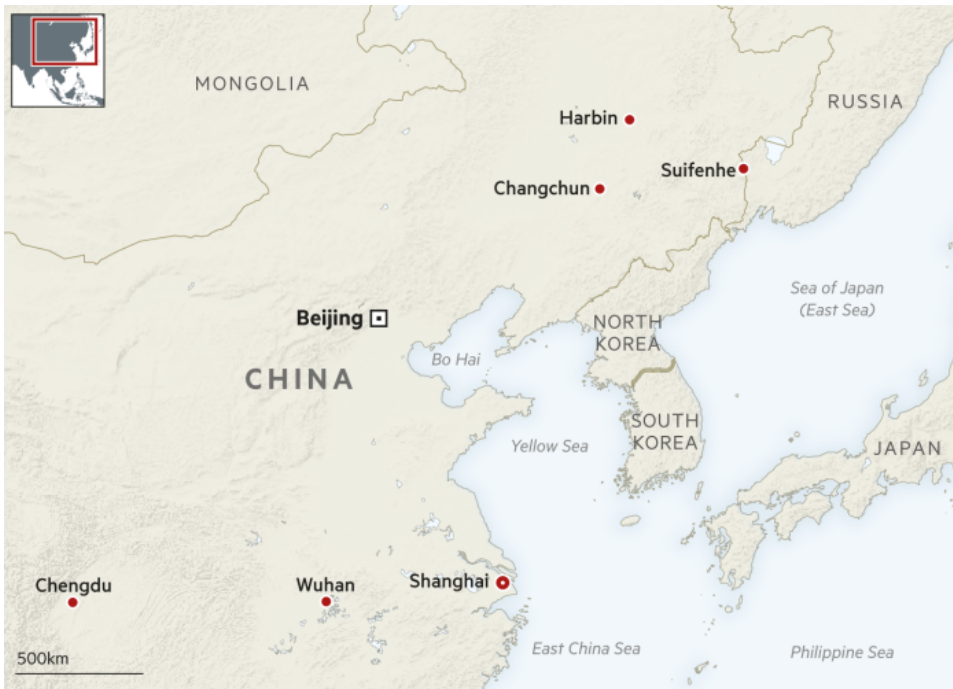
Workers assemble cars at the Dongfeng Honda factory in Wuhan. President Xi Jinping's administration is now struggling to restore the world's second-largest economy to something approaching normality © Ng He Guan/AP

For Mr Xi, there are two main dangers to this incipient recovery as China starts to go back to work. First, a resurgence of the pandemic in the world's most populous country. And second, a collapse in demand in the US and EU.

On Tuesday, the IMF predicted the US economy would [shrink](#) 5.9 per cent this year because of its even greater struggles with coronavirus, while China will manage 1.2 per cent growth for the full year.

Chinese exporters are already bracing themselves for a fall in many of their main markets, wary that a [modest recovery](#) in shipments last month was flattered by orders that did not make it on to ships in January and February.

“External demand is one of three major economic headwinds ahead which will cause the recovery to be W-shaped instead of V-shaped,” says Larry Hu, chief China economist at Macquarie. The other two challenges, he notes, are [falling property](#) prices and deflation.



Ding Shunlian, whose company makes machine tool components in eastern Shandong province, describes the Catch-22 that Chinese exporters have experienced over the first four months of this year. “First we had orders but no workers to fulfil them,” he says. “Now our workers are back but we don’t have any orders.

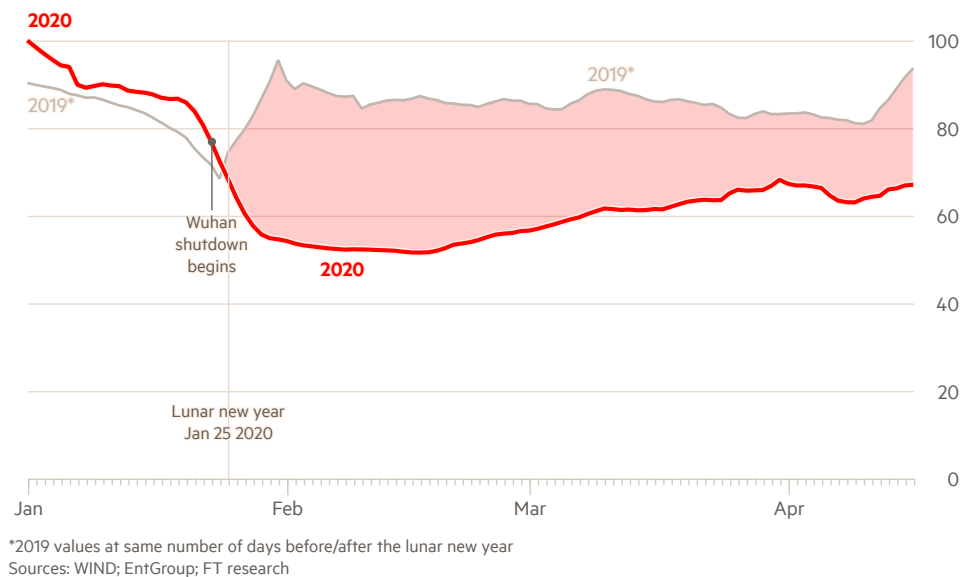
“My only goal is survival, to make it through this year,” Mr Ding adds. “Hopefully after the virus, orders will come back to us.”

The Chinese government’s rapid reaction to the new outbreak in Suifenhe, and its extremely cautious management of cities such as Wuhan and Beijing over recent weeks, highlights just how worried it is about any new outbreak. That in turn is an indication of the even greater challenges that will confront New York, London and other metropolises when they too try to jump-start their economies.

Some 68,000 of China’s confirmed 84,000 cases, or 80 per cent, were in Wuhan or surrounding Hubei province, with no other region recording more than 1,600 infections. The US, by contrast, is well on its way to having multiple Hubeis, with nine states having more than 20,000 cases each.

Covid 19's impact on the Chinese economy

FT China Economic Activity Index (Jan 1 2020 = 100), last updated Apr 16



For many people, including US president Donald Trump, China's infection count seems too low to be true. The Chinese government waited at least a week before first publicly acknowledging that the disease could spread by human transmission. And Wuhan's mayor said publicly that at least 5m people left the city, many of them flying overseas, before the city was locked down on January 23.

Yet, while most experts agree a large number of infections and deaths went unrecorded either intentionally or accidentally in the weeks and months before Wuhan's lockdown, there has been no compelling evidence that outbreaks are currently being hidden or overlooked. While Wuhan on Friday raised its death toll by 50 per cent, the Chinese government remains on high alert.

"Containing infection remains a daunting task, with imported cases and sporadic local infections entwined," a Chinese Communist party coronavirus task force headed by Premier Li Keqiang said on Thursday. "The situation demands full attention and allows for no slackening of efforts."



commuters in Beijing. Authorities in the capital are enforcing strict quarantine rules that make s travel to or from the capital impossible © Kevin Frayer/Getty



How Beijing fares in trying to restart economic activity without sparking a new round of infections will shape the response in much of the rest of the world © Nicolas Asfouril/AFP/Getty

The nervousness is particularly evident in Wuhan. The city's "liberation" has in reality been only a partial one. Residents from other areas of China who were trapped there when the city was quarantined have been allowed to leave — provided they pass medical checks. It is even harder for native residents of Wuhan and other areas of Hubei province to travel within China.

Min Zhou, a Hubei native, had hoped to resume her life as a migrant factory worker in southern Guangdong province after her hometown, Ezhou, reopened on March 25.

In the end, she says, she chose not to use her return train ticket to Guangdong, fearing it would be difficult to find factory jobs as overseas orders dried up and that workers from Hubei might be shunned by employers because of more stringent health checks and quarantines required by local authorities. Ms Min has instead found work at an electronics factory in Ezhou, which is near Wuhan.

For their part, authorities in Beijing are enforcing strict quarantine rules that make business travel to or from the capital impossible. Anyone arriving from other parts of China must obey a strict 14-day quarantine, sometimes enforced with door sensors to ensure they do not leave their hotel room or residence.

The Chinese government also took the extraordinary step of banning foreign residents who possess valid residence permits from entering the country, even though the vast majority of recent "imported" infections involved returning nationals. This has complicated efforts by many multinational companies and smaller companies reliant on foreign investment to restart their operations.

"I worry that [the ban on foreign residents] is going to be for quite some time," says Mr Sives. "There will be a second wave of issues that companies will be affected by very soon."

Many analysts believe that, for now, the resumption of normal work and life routines in Chengdu is more indicative of the current state of the Chinese economy than the continuing disruptions in Suifenhe, Wuhan and Beijing.

A business activity index created by Trivium, a Beijing-based consultancy, estimates the Chinese economy is currently operating at 83 per cent of “typical output”, compared with 66 per cent in mid-March. That is welcome considering China’s predicament in February but still represents a devastating drop from what might have been expected.

“If we get stuck at this level of output for much longer, there is no way the economy can expand this year compared to last year,” says Trivium co-founder Andrew Polk. “It was impressive to get to where we are, but now comes the hard part.”

Additional reporting by Qianer Liu

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