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# Will the Coronavirus Cause a Recession?

The world's second-largest economy is coming to a near standstill.

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The rapid spread of the coronavirus is a tough blow for a world economy that seemed on the cusp of a modest revival. The extent of the damage, of course, depends on how soon and how effectively the outbreak is contained. Whatever the trajectory of the epidemic, this is a moment of serious reckoning for China's economy.

Hard as it is to envision, the world's second-largest economy is coming to a near standstill.Infections and fatalities are mounting. Many of my acquaintances and friends in China tell me they are increasingly concerned about the government's ability to control the epidemic and its economic fallout. Big urban manufacturing and financial centers remain on at least partial lockdown, migrant laborers are unable to return to work, and factories are unable to get raw materials or ship their goods out reliably.

Consumption has also been cut drastically, as people mostly stay indoors. Service industries such as tourism and restaurants are being hit especially hard. Companies in this sector, as well as small manufacturers, have been driving China's employment growth, but they tend to have little financial cushion.

Beijing does have room to increase public spending, cut taxes and provide cheap credit to bolster growth. China's central bank has already taken measures to loosen monetary policy. Flooding the economy with cheap credit will increase risks to the banking system, which the government recognizes, but these are desperate times.

In any event, none of these measures will have much impact until commercial activity picks up. Moreover, China's traditional banking system has been much better at funneling credit to large, state-owned enterprises rather than to the struggling smaller private companies

China's sheer size, along with its roles as an engine of global economic growth and a dominant player in commodity markets, means that a hit to China will have significant ramifications all over the world.Oil prices have tumbled as China's growth prospects weaken and international travel, particularly to and from China, decreases.

This episode will also add momentum to some changes in global supply chains that were already underway. Along with Chinese workers' rising wages and the prospects of further U.S.-China trade tensions, the epidemic is likely to cause multinational companies to reassess their supply chains and reduce their production footprints in China.

The coronavirus epidemic might have only a limited immediate impact on the U.S. economy, but by creating further uncertainty and disrupting supply chains in Asia, it will add to the long list of factors likel to hold back U.S. and global growth in 2020. The temporary boost in business sentiment and investment that could have been expected from the U.S.-China trade deal last month is going to be offset by this new cloud of uncertainty over global trade. A worldwide recession is not yet on the cards but, at a minimum, the added uncertainty will restrain investment and productivity, whichalready looked anemicin all major economies.

Another long-lasting impact is likely to be on Chinese citizens' confidence in their own government. The state and its people seem to have made an implicit bargain: good economic performance, higher living standards and the semblance of social stability in exchange for constraints on free expression, democratic rights and the free flow of information.

Yet even in an environment where it is accepted that the authorities will control what information is made public, the public grows skeptical about the competence of a government that systematically hides bad news. This issue is especially pertinent in the context of the Chinese government's initial attempts to play down the outbreak of swine flu last year. By the time the government admitted to the scale of the problem, China's pig herds had been decimated and pork prices had doubled.

Now, coronavirus is spreading fast in a country that was already experiencing a slowdown from the swine flu and an outbreak of avian flu that could reduce chicken flocks. Trust in information provided by the government and its competence to manage these problems are under question, both domestically and abroad.

The way the coronavirus epidemic is playing out might have lessons not just for China's government but perhaps for the United States as well. Once trust in the government and a free press are eroded by the government's desire to manipulate information, the costs can be great — especially in difficult times, whe that trust becomes crucial for maintaining confidence and stability.

If history is any guide, the coronavirus will eventually come under control and the Chinese and world economies will get back on track, perhaps after a painful period. It is the effects on how people and businesses perceive their governments that might prove to be longer lasting

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