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Facing Coronavirus in China: Responses & Challenges

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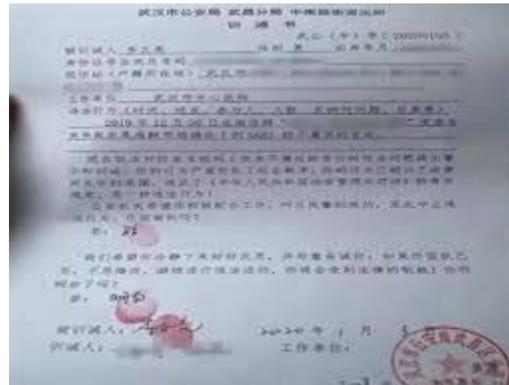
Outlines

- Responses
- Challenges facing small and medium enterprises (SMEs)

Part I Responses

Very slow initial responses

- Dr. Wenliang Li sent a message to his friends in WeChat (a social media app, similar to What is Up), warning that seven people in Huanan Seafood Wholesale Market in Wuhan city were diagnosed with SARs. But he was reprimanded by the police for spreading rumors on Jan 3, 2020. He died on February 7 from coronavirus.
- On December 31, 2019, China informed WTO of several cases of unusual pneumonia in Wuhan.



Life was normal in Wuhan

- Local People's Congress was held on January 12-17, 2020 as scheduled. Over the period, there were no reports on any new coronavirus cases.
- A big festival “Forty thousand family banquet” was held on January 18. Guinness Book of Records recognized the event as the “Most dishes on display in the world”.



Life was normal in Wuhan

- On January 20, after field investigation in Wuhan, a group of experts sent by China Health Commission announced that the new coronavirus did spread from people to people.
- Despite the warning, on January 21, Hubei Province government still held the Chinese New Year performance show. Both party secretary and governor attended it.



Wuhan Lockdown

- The central government announced to lockdown Wuhan city on January 23.
- At the time, about 5 million people had left the city for their hometown in celebration of Chinese New Year. About 9 million people remained in the city.
- A few hours later, other cities in Hubei Province were also lockdown.

Immediate responses after Wuhan Lockdown

- More than 40,000 doctors and nurses were sent to Hubei Province to help fight coronavirus.
- Two specialized hospitals (雷神山, thunder god mountain; 火神山, fire god mountain) were built up in less than 10 days and put to use in the early February. The two hospitals can take about 2,000 patients infected with coronavirus and in critical conditions.



The construction process was broadcasted live online.

But a more urgent challenge was to avoid cross-contamination. Since February 5, Wuhan has set up 20 temporal isolation centers for patients with light symptoms.



An administrative downtime problem (行政死机)

- Initially the government emphasized unified command, i.e. all the donations and aid must go through Wuhan Red Cross.
- But Wuhan Red Cross has only 10 employees and couldn't handle the large volume of donations. Medical supplies were stuck in the warehouse, while hospitals were in short supply. A few scandals were exposed. For example, 18,000 N95 masks were given to for-profit private hospitals owned by people from Putian in Fujian Province; by comparison the public hospitals in the front line received only 3,000.

An administrative downtime problem (行政死机)

- At a news conference held on January 26, Wang Xiaodong, the governor of Hubei Province read scripts and said that mask supply was abundant as Xiantao city of Hubei province could produce 10.8 billions of masks per year. His secretary then passed a note to him. Following the note, he corrected himself that the mask output should be 1.8 billion. Later he further adjusted the number to 1.08 millions of masks (apparently too low).
- At another news conference on February 4, Jiang Chaoliang, the party secretary of Hubei Province, just read scripts, apparently prepared for a totally different question, when answering a journalist's question.
- After the lockdown, the local leaders were overwhelmed with too much information. They suffered cognitive bandwidth (mental space) problem.

Central government's response:

Counterpart assistance system (对口援助)

- On February 7m the National Health Commission announced a new approach to relief that would pair each of 16 donor provinces with counterpart cities in Hubei province affected by COVID-19.
- Authority for resource allocation is delegated from the central government to local governments, allowing donors and recipients to communicate directly about specific assistance needs.
- Some provinces (such as Jiangsu) further delegate resource allocation after receiving their counterpart's request for support, with the administrative cities targeting the districts or towns receiving the aid in a two-tier counterpart assistance system.

	February 7, 2020 Counterpart assistance scheme (announced at State Council press conference)	February 10, 2020 Counterpart assistance scheme (<i>People's Daily</i>)
Aid Recipients	Donors 1	Donors 2
Xiaogan City	Jiangsu	Chongqing, Heilongjiang
Huanggang City	Shandong	Shandong, Hunan
Suizhou City	Henan	Jiangxi
Jingzhou City	Hunan	Guangdong, Hainan
Xiangyang City	Hebei	Liaoning, Ningxia
Huangshi City	Anhui	Jiangsu
Yichang City	Chongqing	Fujian
Jingmen City	Zhejiang	Inner Mongolia, Zhejiang
Ezhou City	Guangdong	Guizhou
Xianning City	Jiangxi	Yunnan
Shiyan City	Shaanxi	Guangxi
Xiantao City	Sichuan	Shanxi
Tianmen City	Shanghai	Shanxi
Enshi City	Guizhou	Tianjin
Qianjiang City	Beijing	Shanxi
Shennongjia Forestry District	Tianjin	Hebei

The counterpart assistance mechanism is not new

- It has been used in five out of seven major disaster reliefs in the past 20 years.
- The most recent one is Wenchuan earthquake.
- In recent years, China's Targeted Poverty Alleviation program—an approach that focuses poverty alleviation efforts on the household and individual level in poor regions—has adopted a similar counterpart model. Peking University is responsible for helping Midu county in Yunnan province.

Reflection by Wang Zhenyao, director general of the Department of Disaster Relief of China's Ministry of Civil Affairs at the time of Wenchuan Earthquake

When a catastrophe occurs, there will be an administrative “downtime” phenomenon. Since the traditional administrative management system, experience, and operating channels only handled daily affairs, once huge amounts of relief supplies arrived in Chengdu, it was impossible to follow the traditional method to mobilize the coordination. For example, Sichuan's Chengdu Railway Station's maximum receiving capacity was 300 freight cars a day. During the disaster relief period, 700-1,000 freight cars could be loaded and unloaded under emergency dispatch. However, during the first week of the emergency response, the entire country took action, and all kinds of supplies from the government and private donations were sent to Sichuan. Every day, relief supplies were delivered in more than 2,000 freight cars. Unloading and allocating the goods became a big problem. Disaster relief supplies piled up at the airport, railway stations and other places. (Wang, 2015)

Counterpart aid in Wenchuan Earthquake

- On May 22, 2008, the General Office of the State Council issued an Emergency Notice on Counterpart Assistance to the Massive Wenchuan Earthquake Disaster Area in Sichuan, requiring 21 provinces to provide assistance to 21 severely hit disaster zones, counties, or areas.
- This arrangement enabled the governors from the provinces providing aid to talk directly with the heads of districts and counties in the aid recipient areas.
- Additionally, the central government required each province to provide aid at a rate of no less than 1 percent of its fiscal revenues for the previous year.

Central government's other responses: Strengthening inspection and changing leadership

- Sun Chunlan, the vice premier, has stationed in Hubei as the leader of central inspection group since Wuhan lockdown.
- Chen Yixin, the former party secretary of Wuhan, was sent to Wuhan to help her as the deputy group leader.
- The central government replaced Hubei province's and Wuhan city's party secretaries on February 13.

Explanations to the institutional responses

- Authoritarian system with regional decentralization. The central government authorizes personnel appointments, while local governments enjoy relatively independent decision-making and enforcement powers in economic affairs.
- One key feature of the system is: 知难行易, i.e. it is easy to implement a decision but difficult to find the truth.

Hierarchical Structure

Central

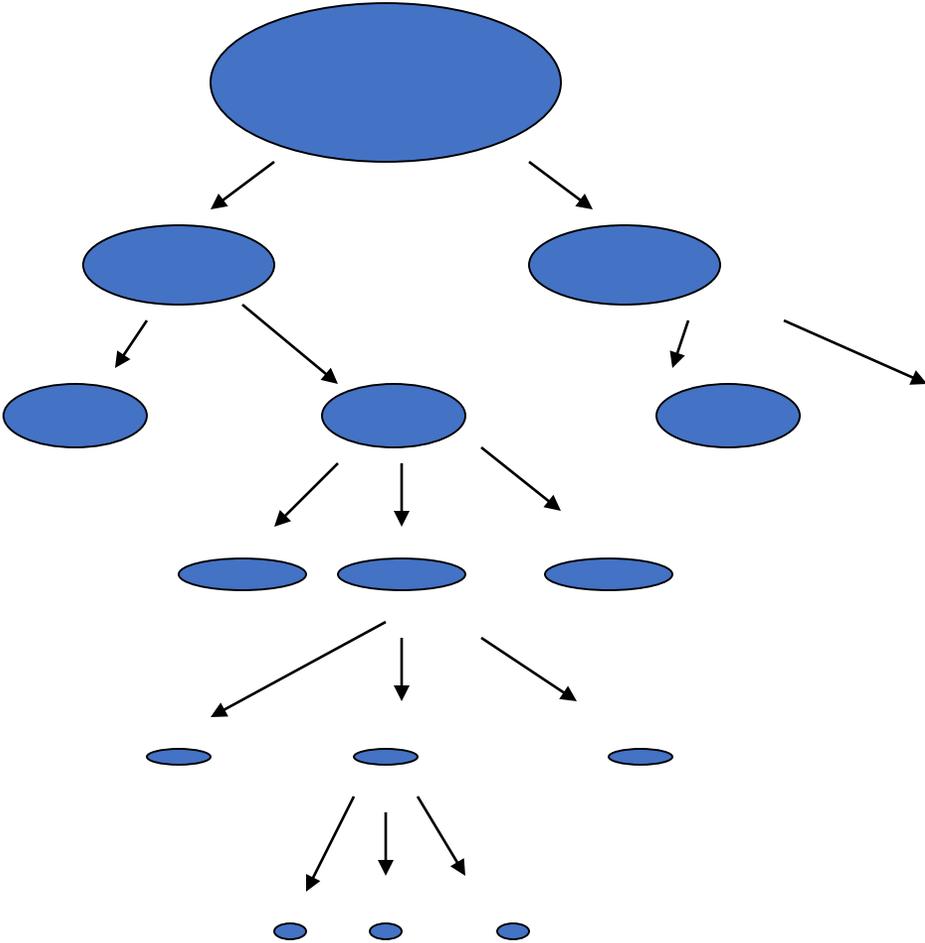
Province 32

Prefecture 333

Country 2862

Township: 41,636

Village: 300,000



Difficult to find the truth

- Because there are so many layers in government agencies, the promotion of officials depends on assessments from their superiors. The process of transferring information from the bottom up the decision-making pyramid is often filtered and delayed at each level. Distorted and untimely information is likely to cause delays in decision-making or even policy failures.
- The system is subject to “the emperor’s new clothes” problem. Whistle blowers’ voice (Dr. Li Wenliang’s case) is often suppressed.

Ways to overcome information asymmetry and identify truly capable officials

- Counterpart assistance program: solves the information overload problem of central dispatchers (such as the Wuhan Red Cross and Central Health Commission) and creates yardstick competition in disaster relief. The central government uses disaster relief efforts as an evaluation benchmark for local government competition.
- Through yardstick competition, it is much easier to identify truly capable officials. For example, Hui Jianlin, the leader in charge of the counterpart assistance program from Jiangsu Province outposted in Huangshi of Hubei Province was appointed as vice governor of Jiangsu.
- Central inspection team: With upper-level officials around, local officials have to work hard and show their performance.

Key takeout points on responses

- The initial response was slow because of information problem inherent in the authoritarian system.
- Once realizing the outbreak of coronavirus, the central government acted swiftly and figured out some indigenous ways to tackle the information problem.
- Although the counterpart assistance system is effective, it may also create some wastes in resources, as shown in our previous research published in *European Economic Review* (Bulte, Xu, and Zhang, 2018).

Part II Challenges facing SMEs

Importance of small and medium enterprises (SMEs)

- 90% of employment
 - 80% of export
 - 70% of GDP
 - 60% of tax revenues
-
- China accounted for 19% of GDP growth in 2019. China's SMEs contributed to 13.3% (19×0.7) of worldwide GDP growth.

Any impacts on SMEs?

- After Wuhu's lockdown, people all over China were called for taking two weeks of quarantine and canceling public gatherings during the Chinese New Year holidays (January 25-February 7) .
- Normally people return to work one week or two weeks after the Chinese New Year. Officially, February 10 was supposed to be the date of resuming production for most companies.
- How many SMEs had resumed production as of February 10?

Rapid follow-up survey on SMEs

- In the early February, we launched a rapid follow-up interview with a representative sample of private entrepreneurs from a database (Enterprise Survey for Innovation and Entrepreneurship in China, ESIEC) we gathered in 2017-2019.
- The ESIEC sample in 2018 is representative in six provinces, largely reflecting the national distribution of SMEs at the first-digit (standard industry classification code) industrial level.

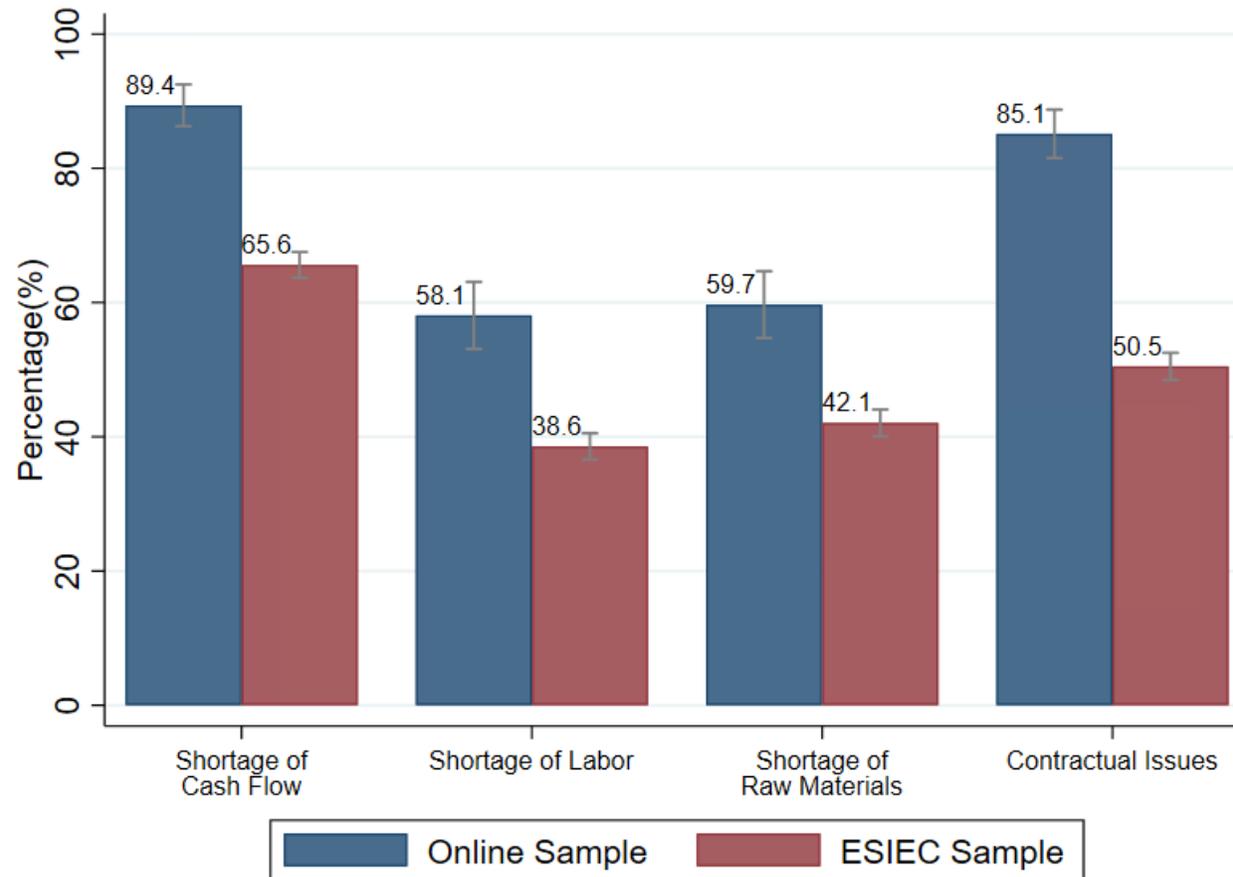
Implementation of the survey

- We hired previous enumerators, who are still college students and were confined to their homes, to call up entrepreneurs in our ESIEC sample.
- Among those with valid contact information and still in business, the response rate is almost 50%, very high for telephone interviews. We successfully interviewed 2,349 firms from the ESIEC sample.
- In addition, we posted an online questionnaire, encouraging entrepreneurs to fill in the survey online. We received 377 complete online surveys.

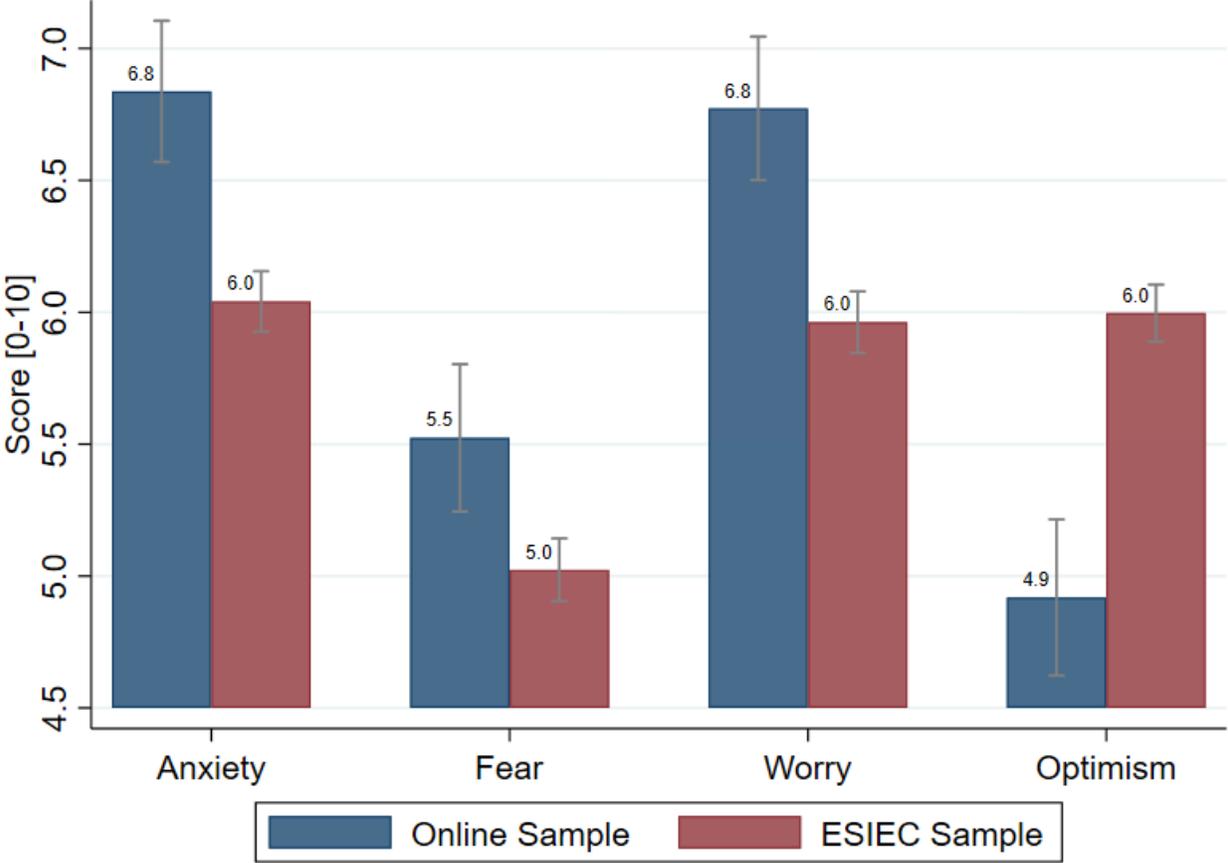
ESIEC versus online samples

- Our ESIEC sample is more representative than the online survey sample
- The online sample tends to be more pessimistic than the ESIEC sample. There is likely a sample selection problem: only those who really suffered were more likely to fill the online questionnaire.

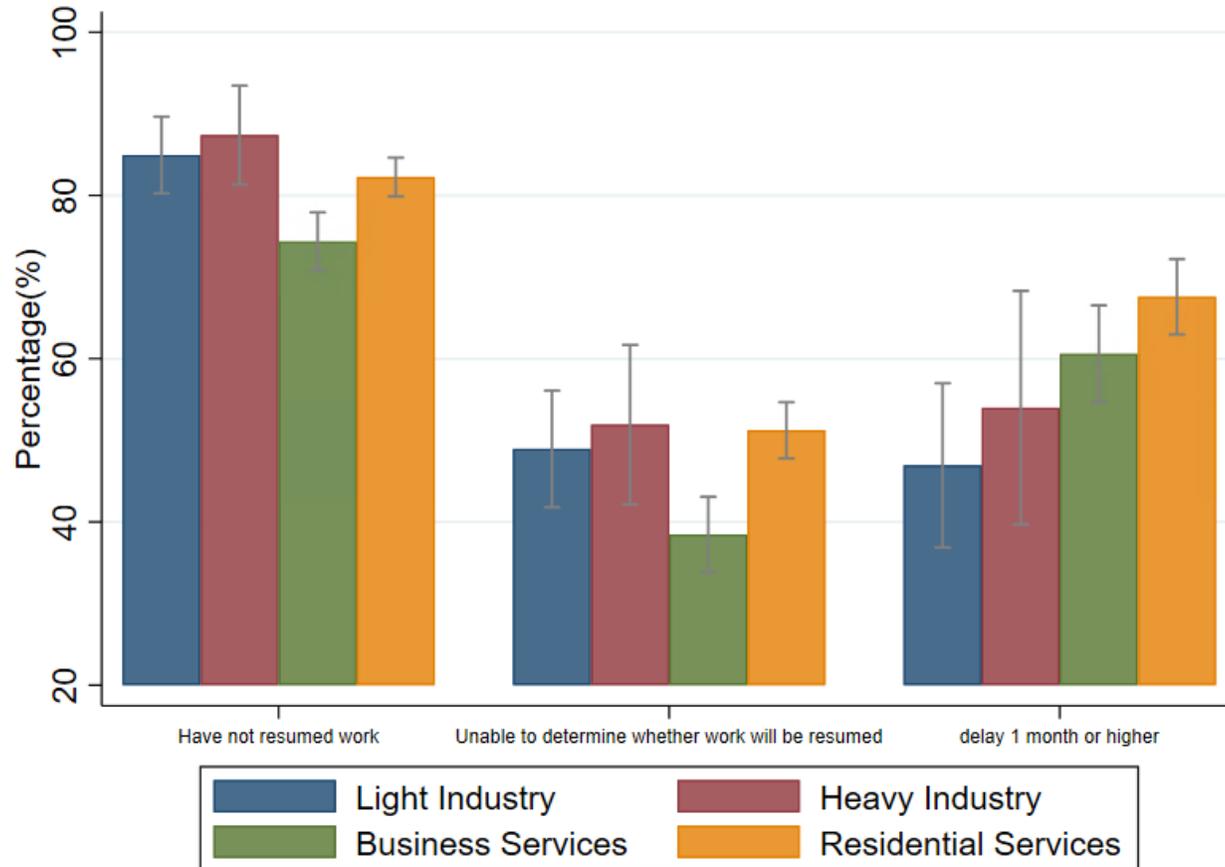
Online respondents reported more problems



They were more pessimistic



SMEs ground to almost still



As of February 10, about 80% of SMEs didn't resume production

Among them, more than half of them would delay 1 month or longer

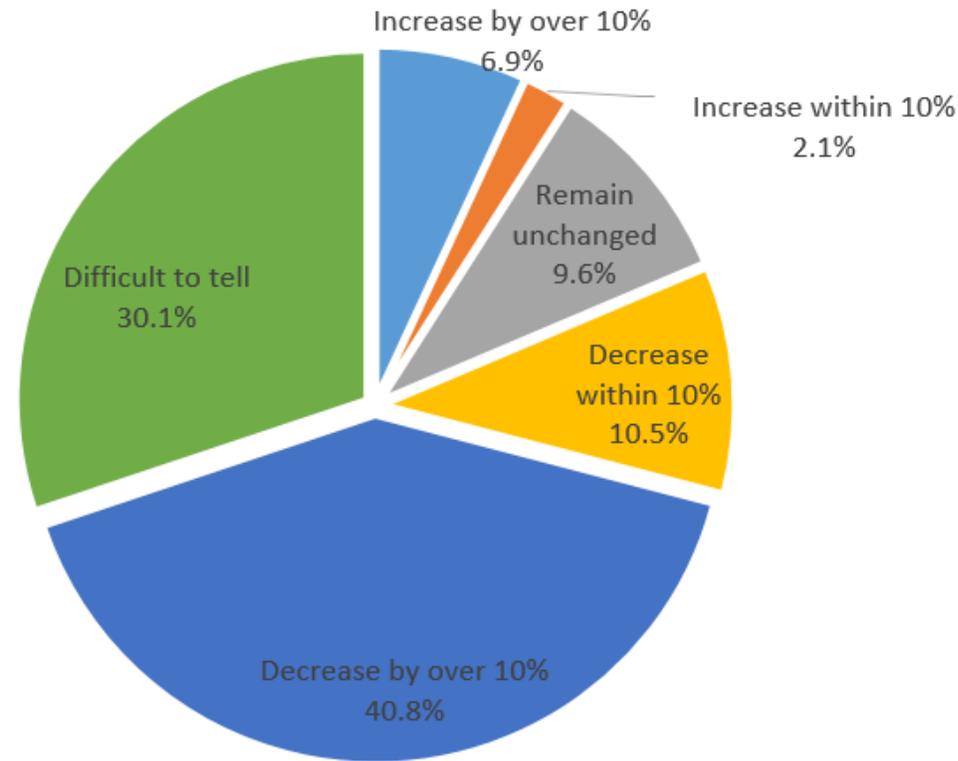
Direct loss of closing 80% of SMEs for a month:

0.66 trillion US dollars (14.2 GDP /12month *0.7*80%)

Or 4.6 trillion RMB

(larger than the 4 trillion stimulus package in 2008)

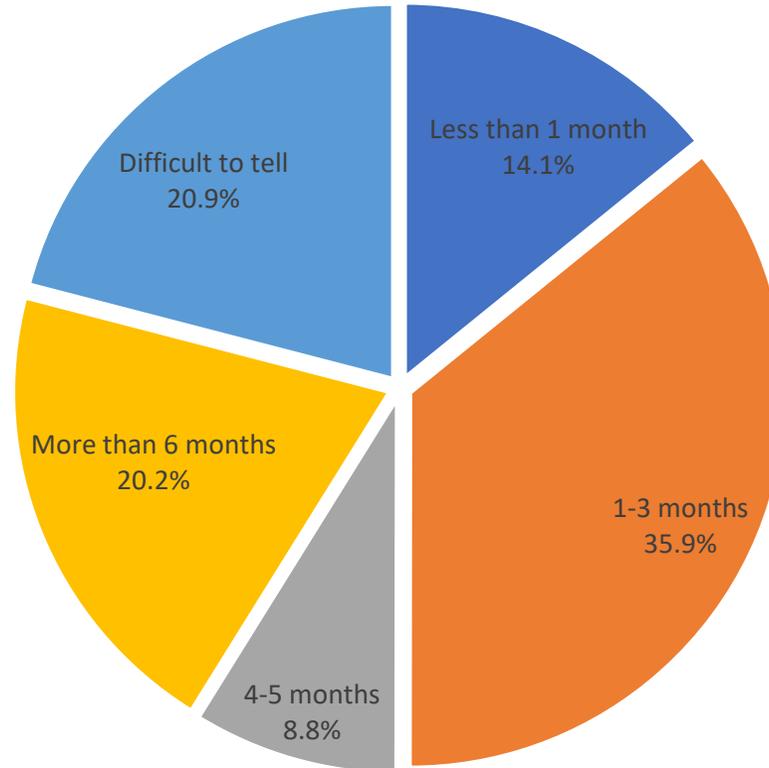
Changes in expected revenues in 2020 compared to 2019



Over half expect worse performance in 2020 than in 2019

Cash shortage

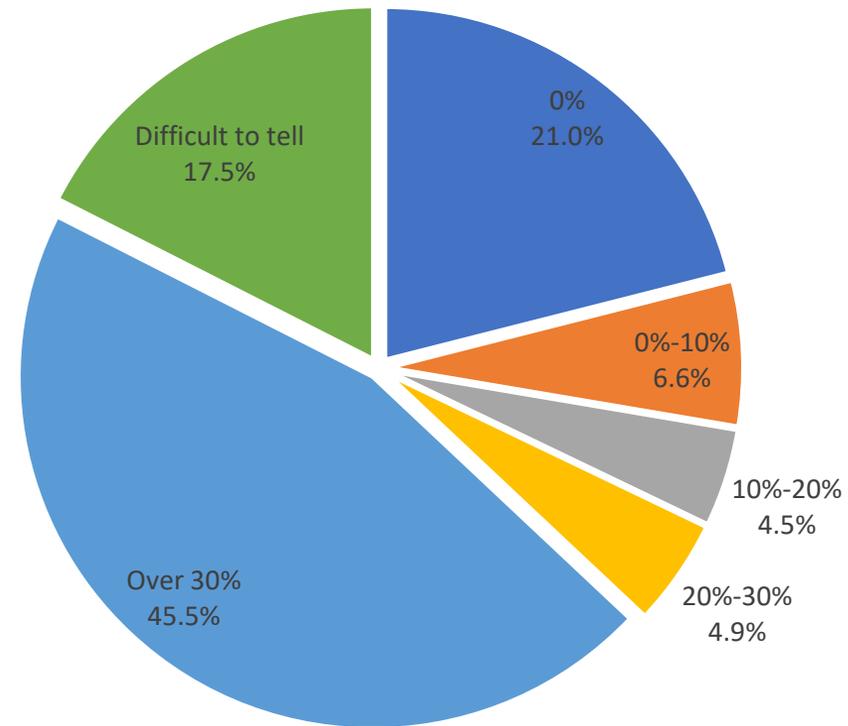
How long can the firm last with the current cash flow?



14 percent of enterprises would be unable to last beyond a month with their current cash flow, while 50 percent wouldn't be able to last beyond three months.

Labor shortage

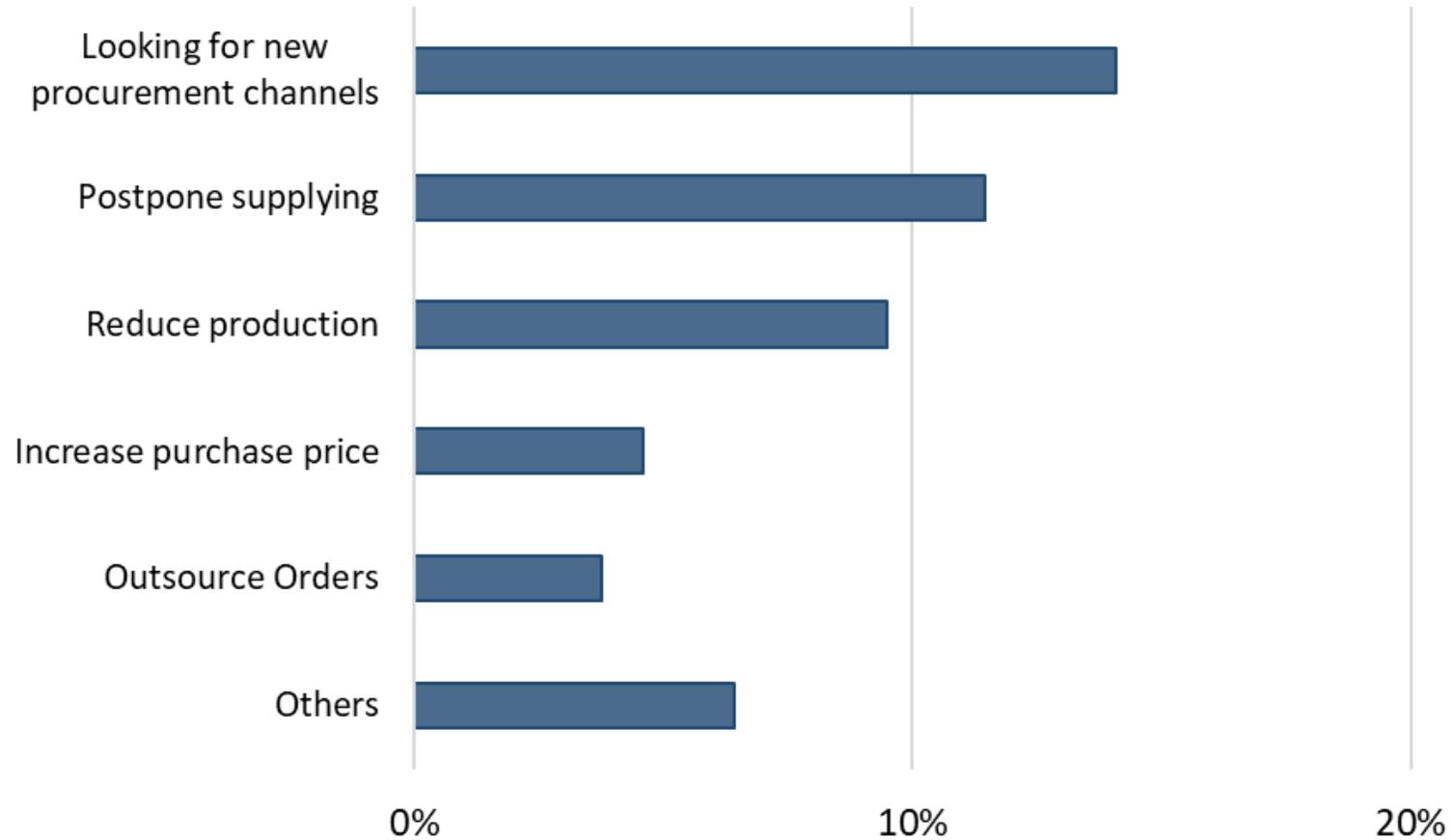
Proportion of employees unable to return to work



45% of SMEs reported that more than 30% of workers couldn't come to work due to coronavirus;
Only 21% of firms did not face labor shortage
15% of SMEs considered laying off workers in 2020

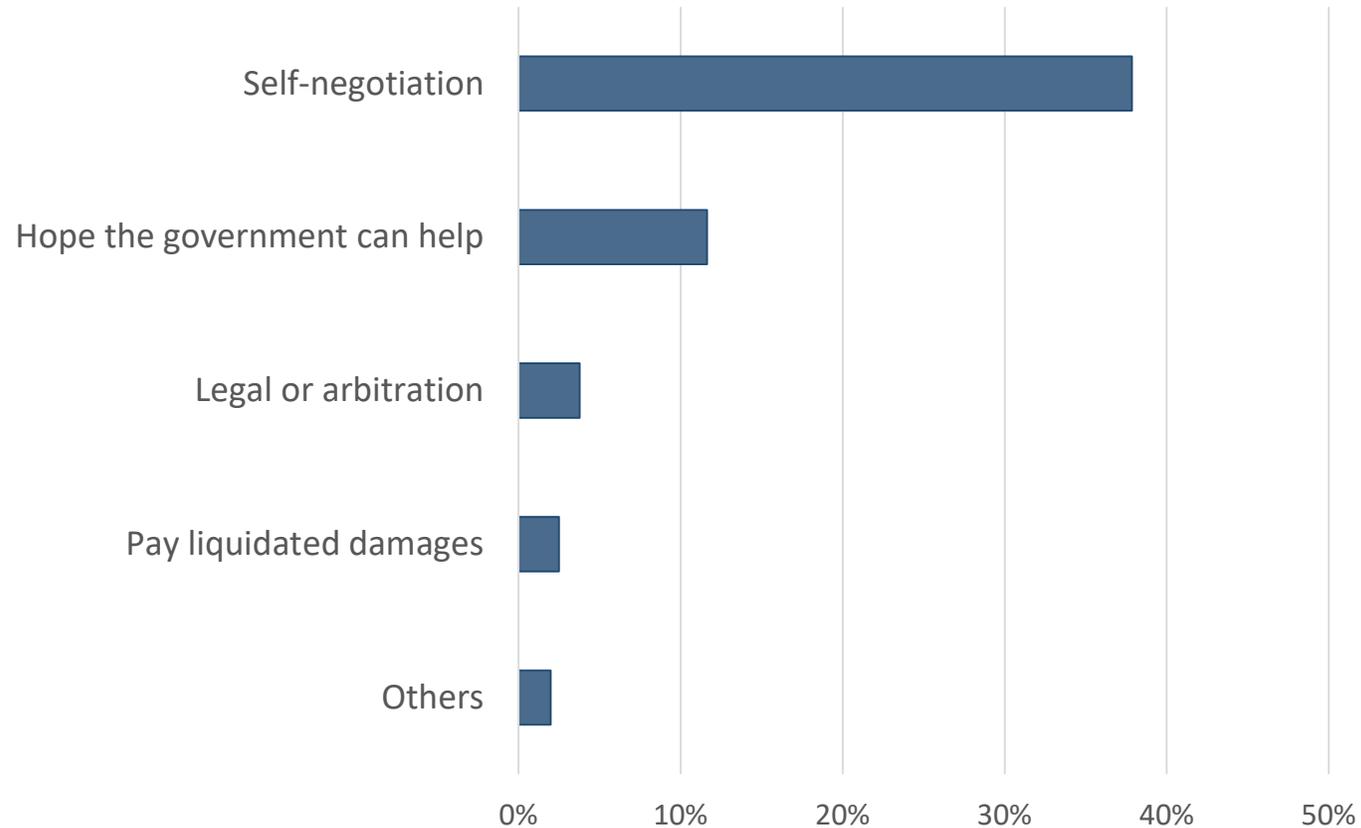
44% of respondents had shortage in intermediate inputs

Main Measures to Deal with Shortage of Raw Materials

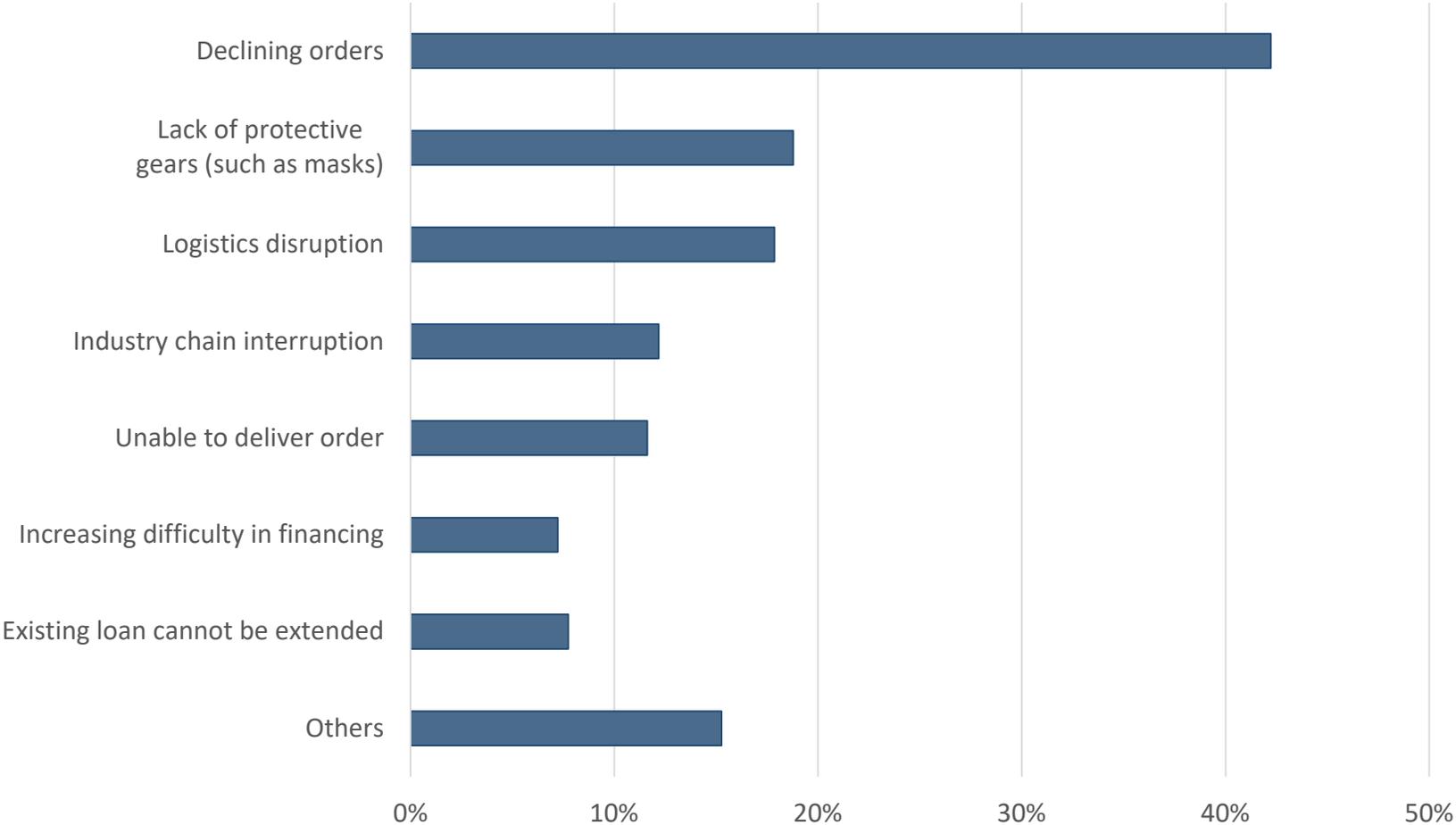


55.3% of firms faced contractual issues

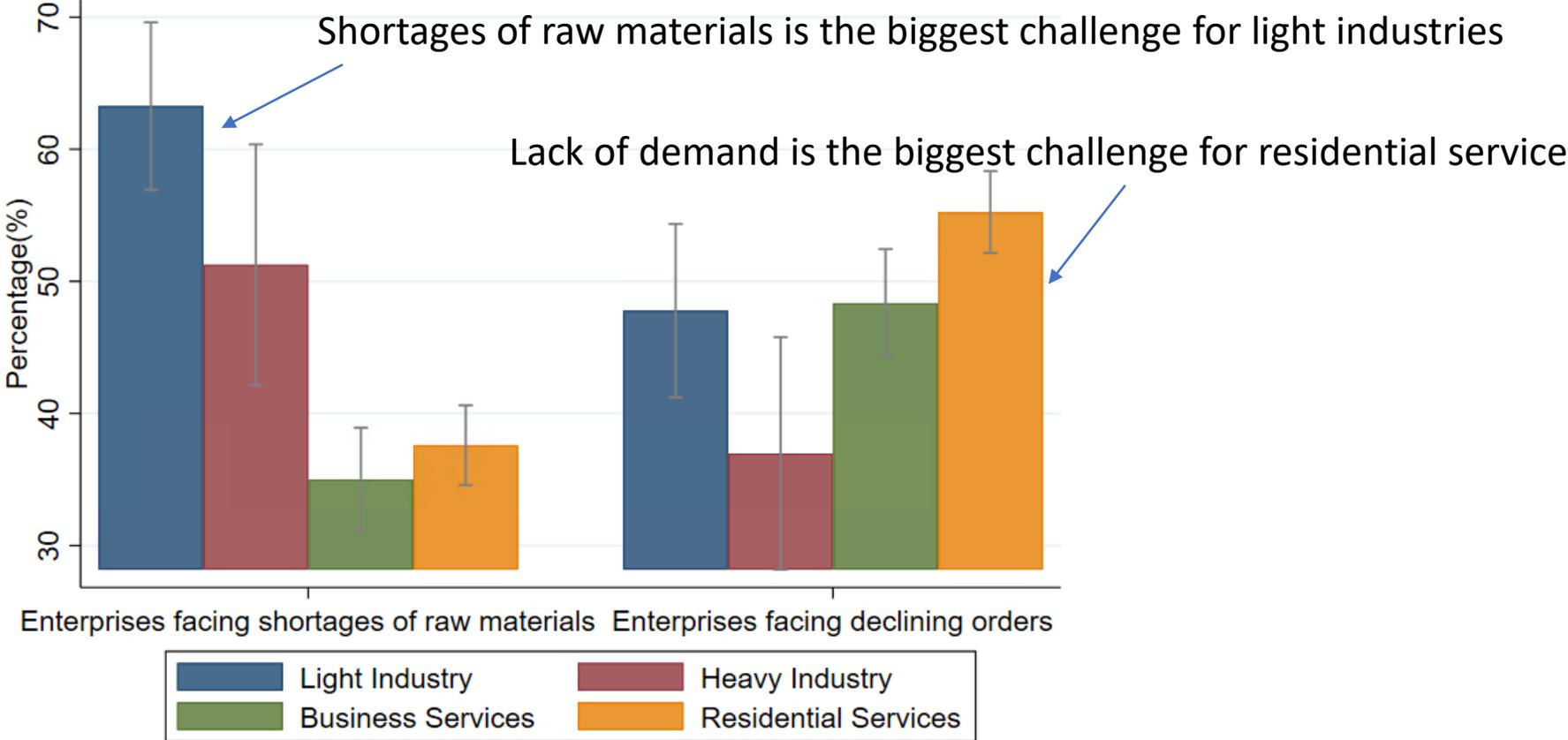
48% of them would rely on self negotiations, while 16% of them hoped the government could help.



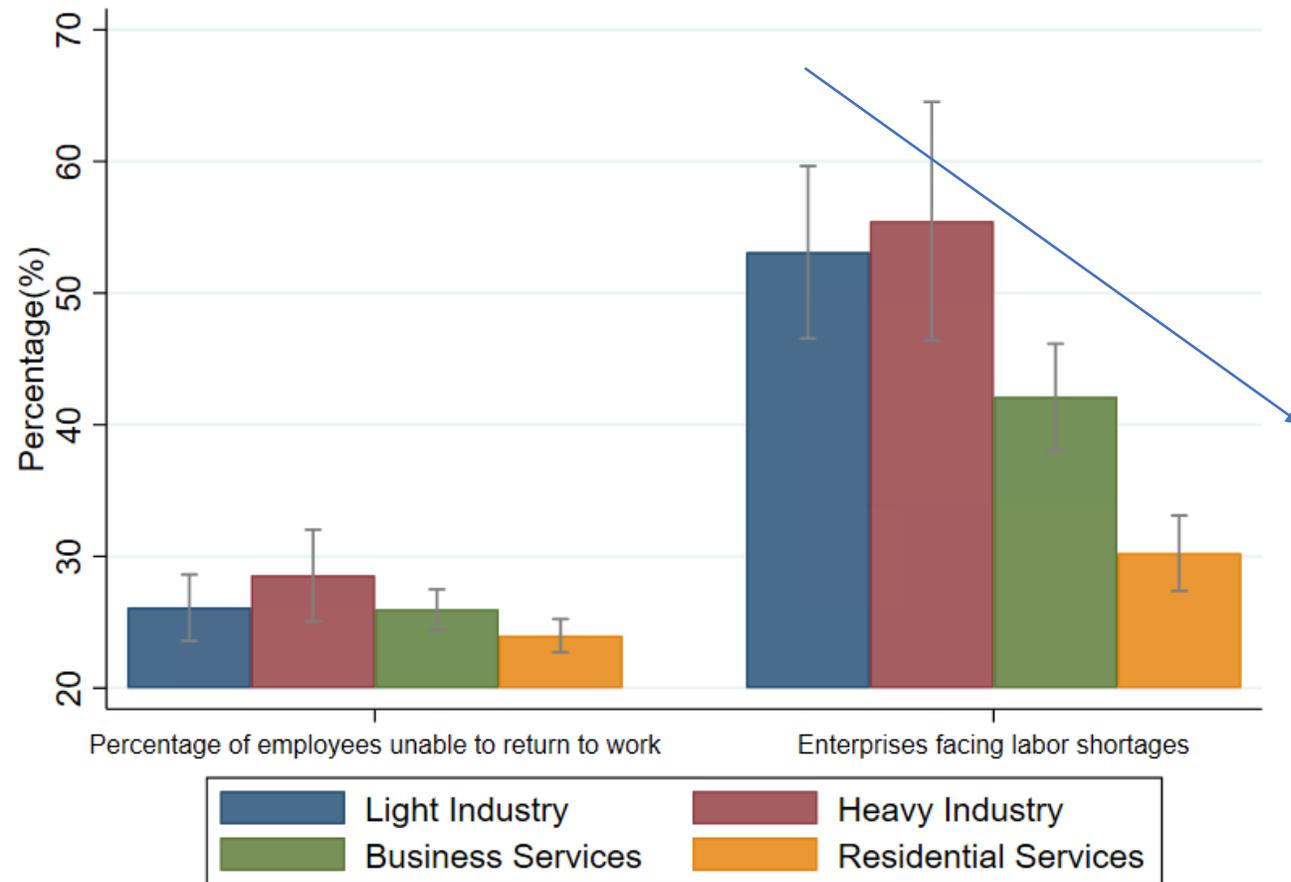
Other challenges



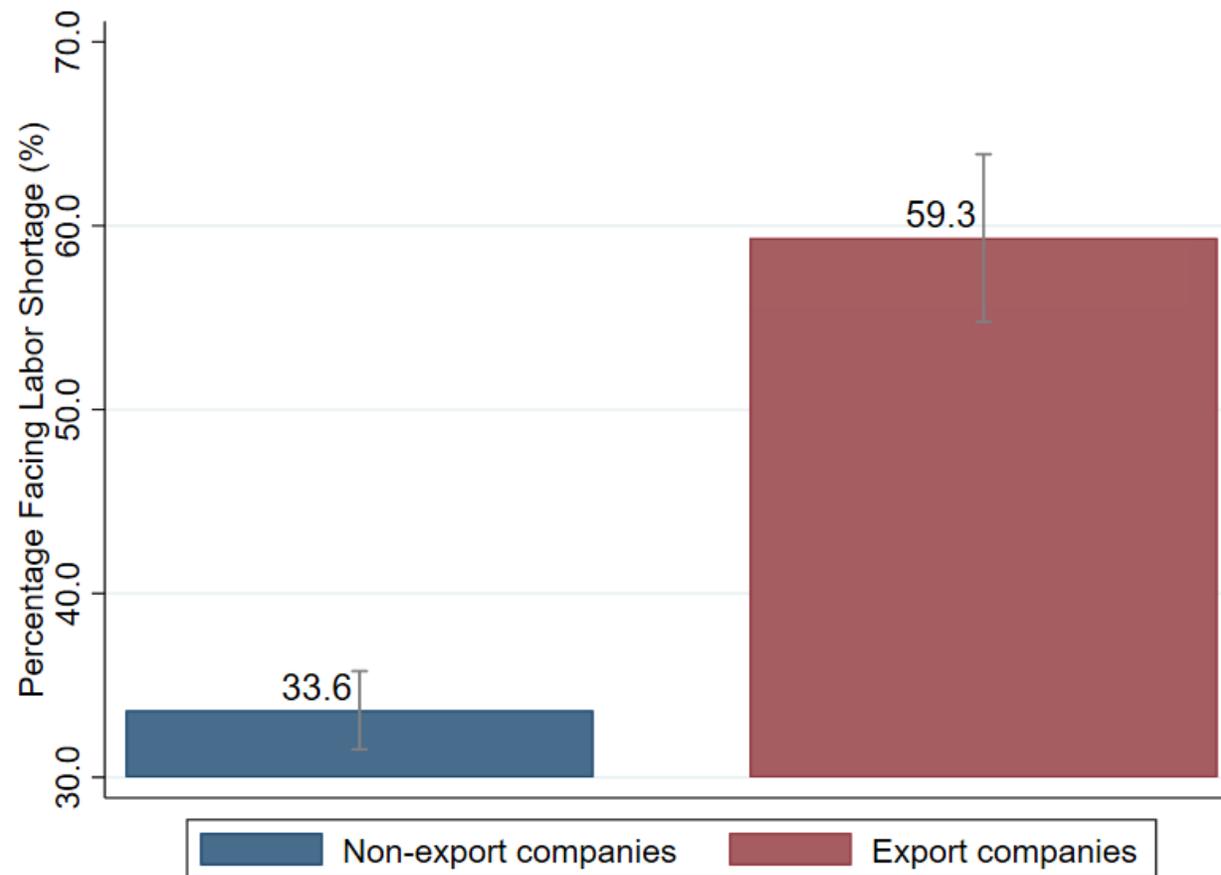
Different sectors faced different challenges



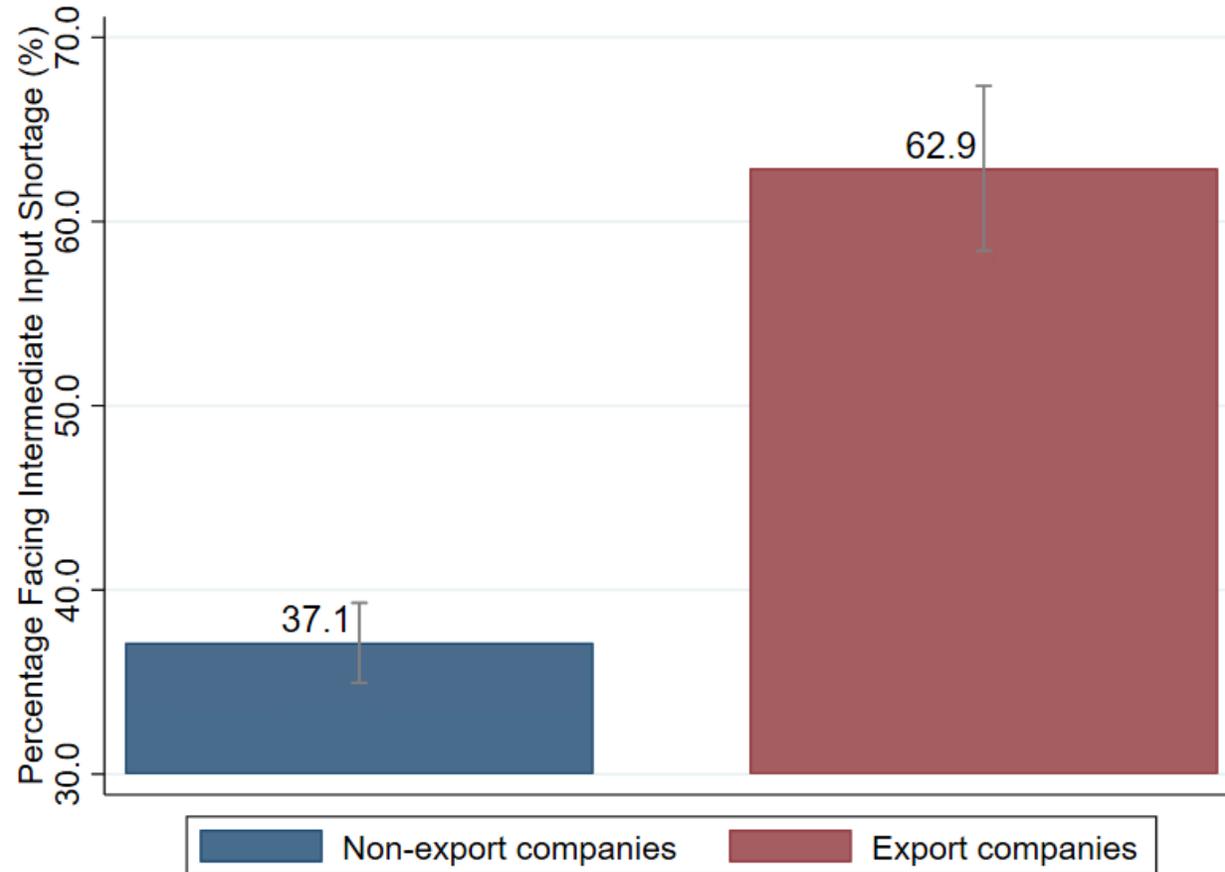
Labor shortages were more serious in manufacturing sector than in service sector



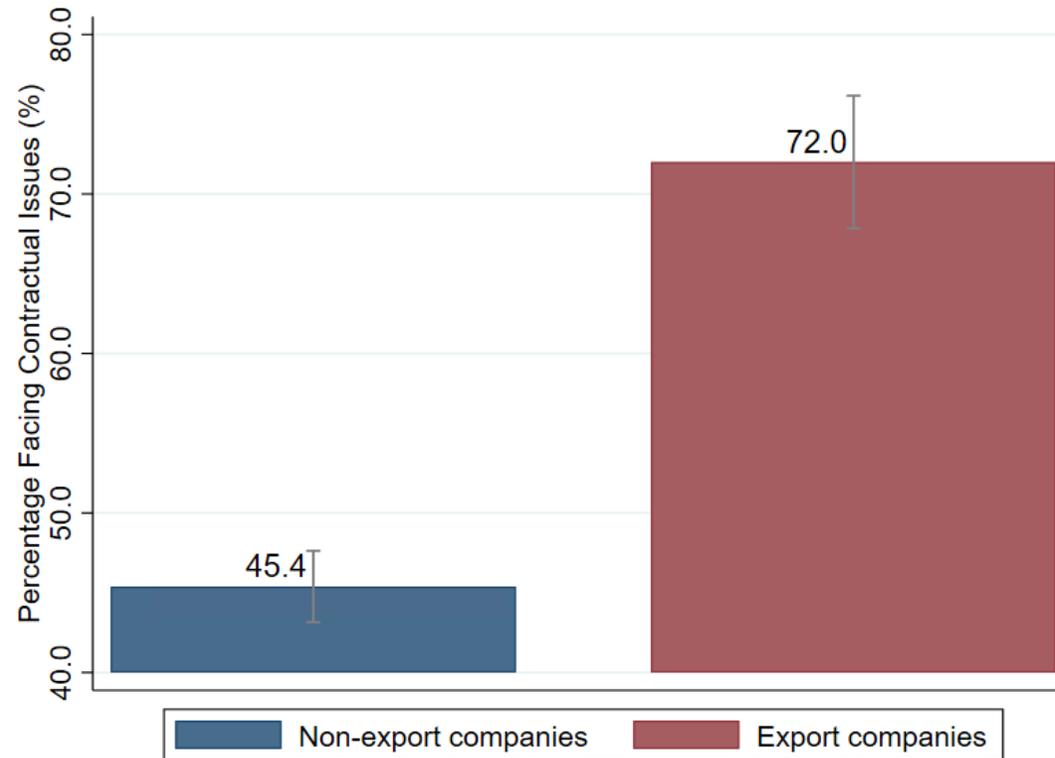
Export firms faced greater labor shortage



Exporters suffered more shortage in intermediate inputs



Exporters encountered more contract problems



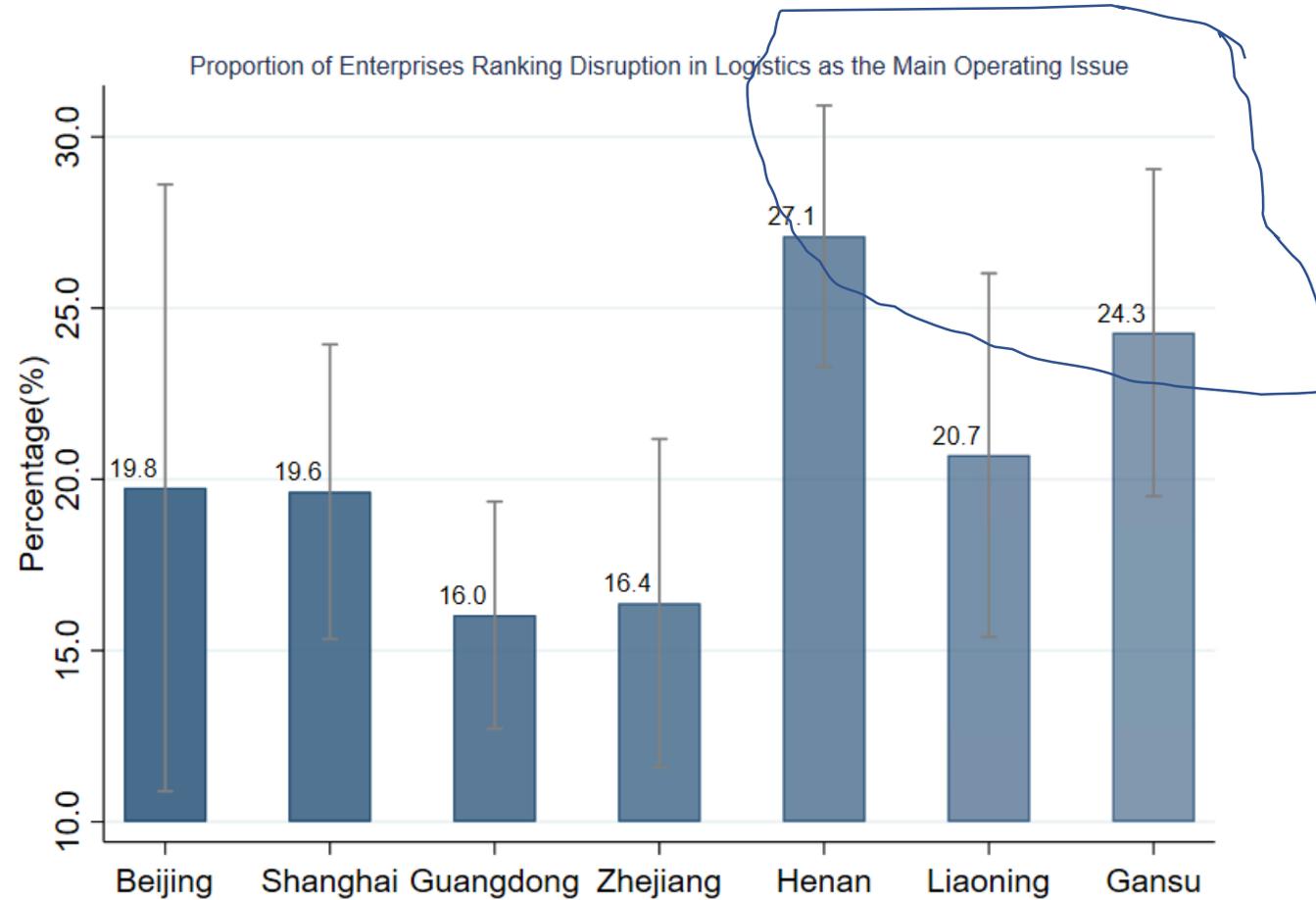
Because SMEs accounts for 80% of China's export, the slowdown of SME exporters in China has sent a shockwave to the global supply chain.

Regional difference: work resumption rate



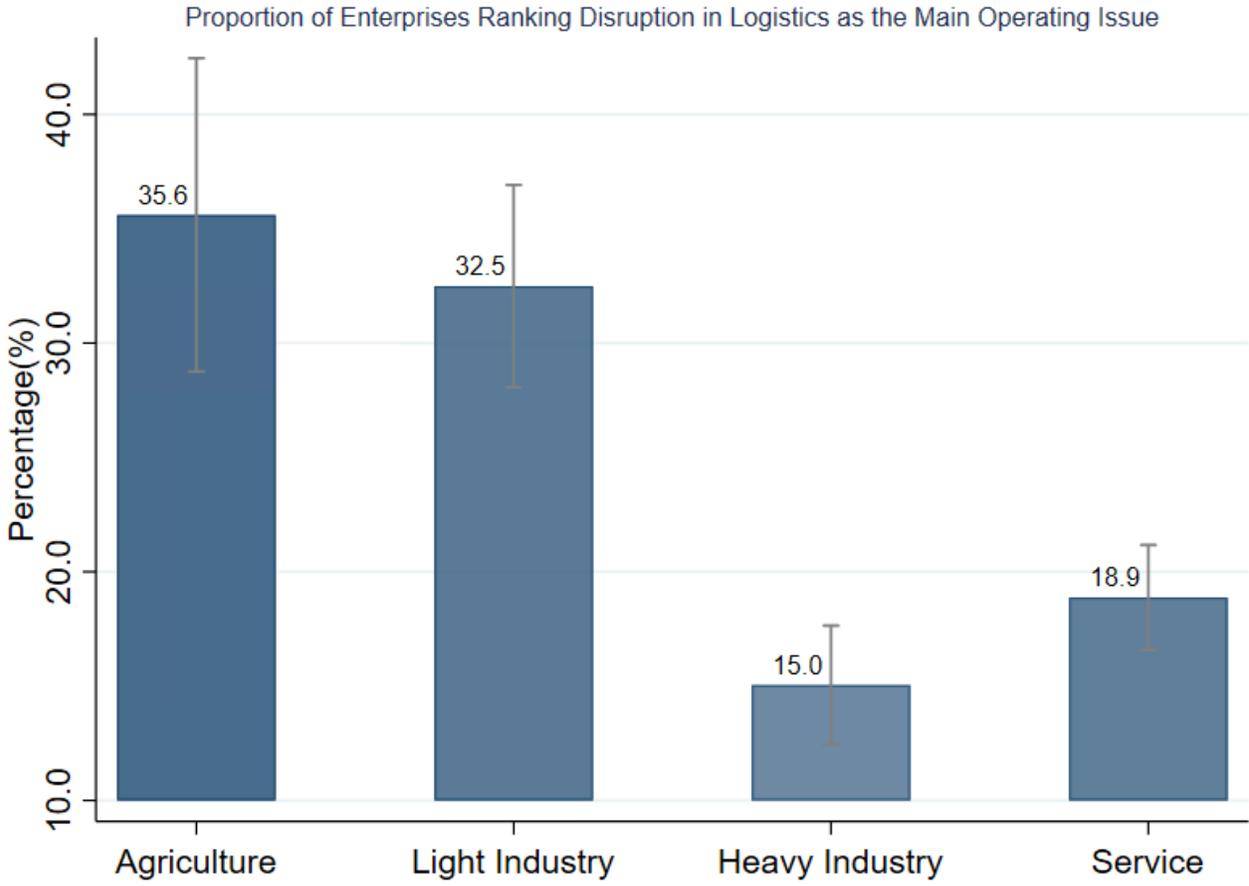
Given that Gansu had very few coronavirus cases, why was the rate so low?

Guansu and Henan faced more disruptions on logistics





Agribusiness suffered the most in logistic disruptions

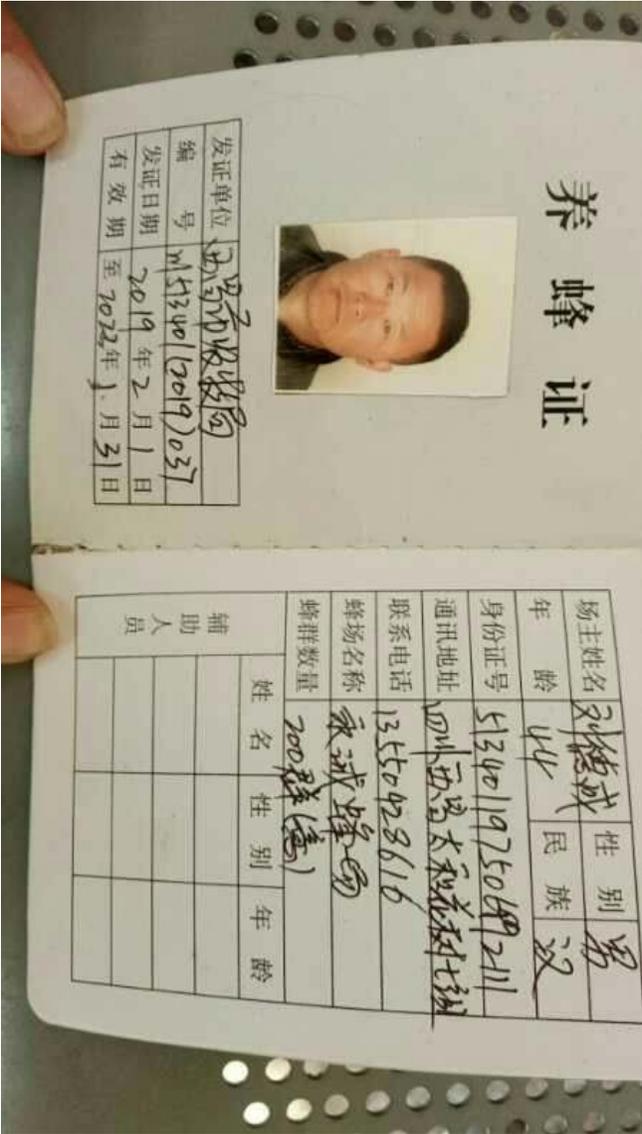


Liu Decheng, a bee keeper of 20 years, committed suicide on February 13
Because roads were blocked, bees were starving to death

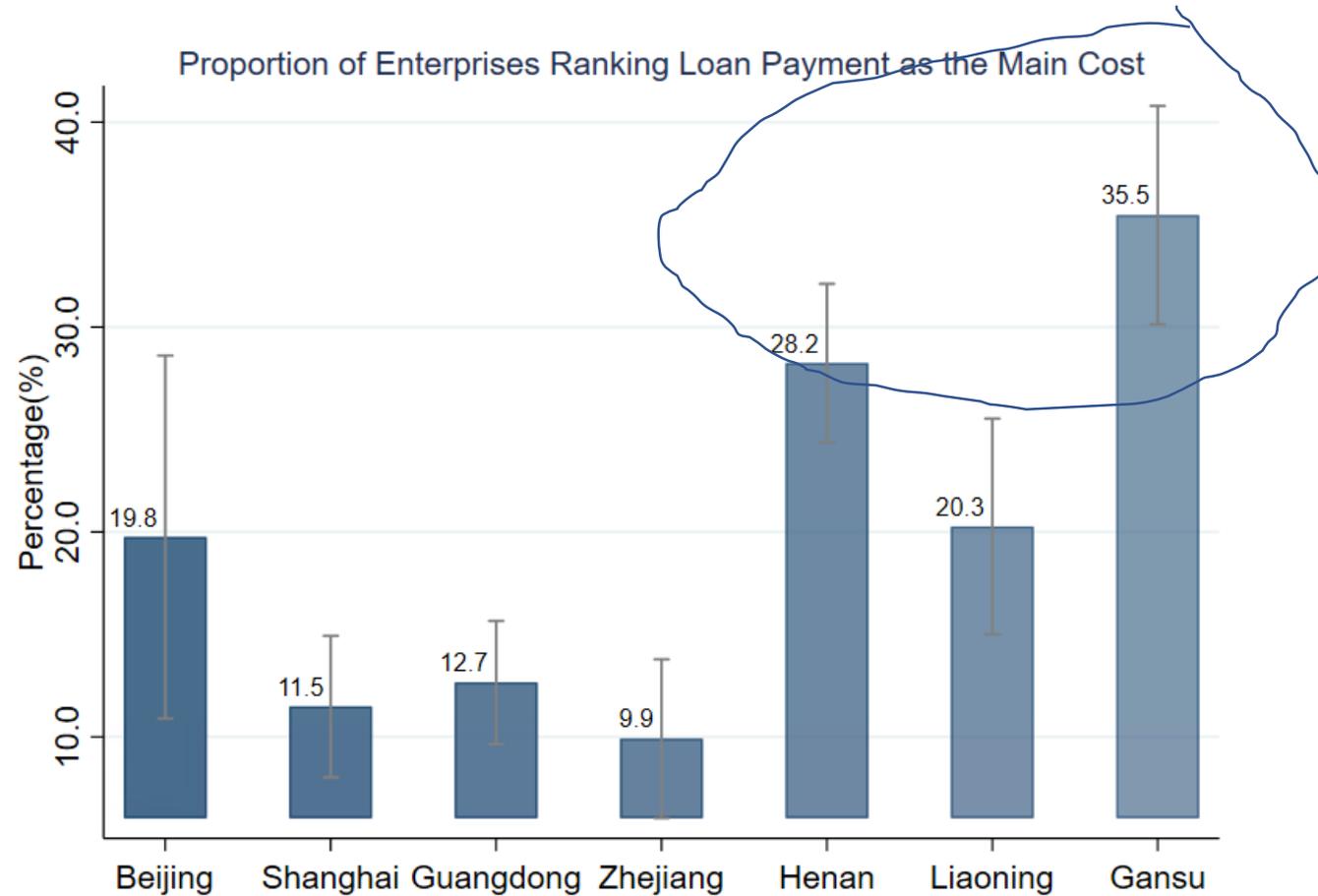
Without pollination, many crops' yields will decline.



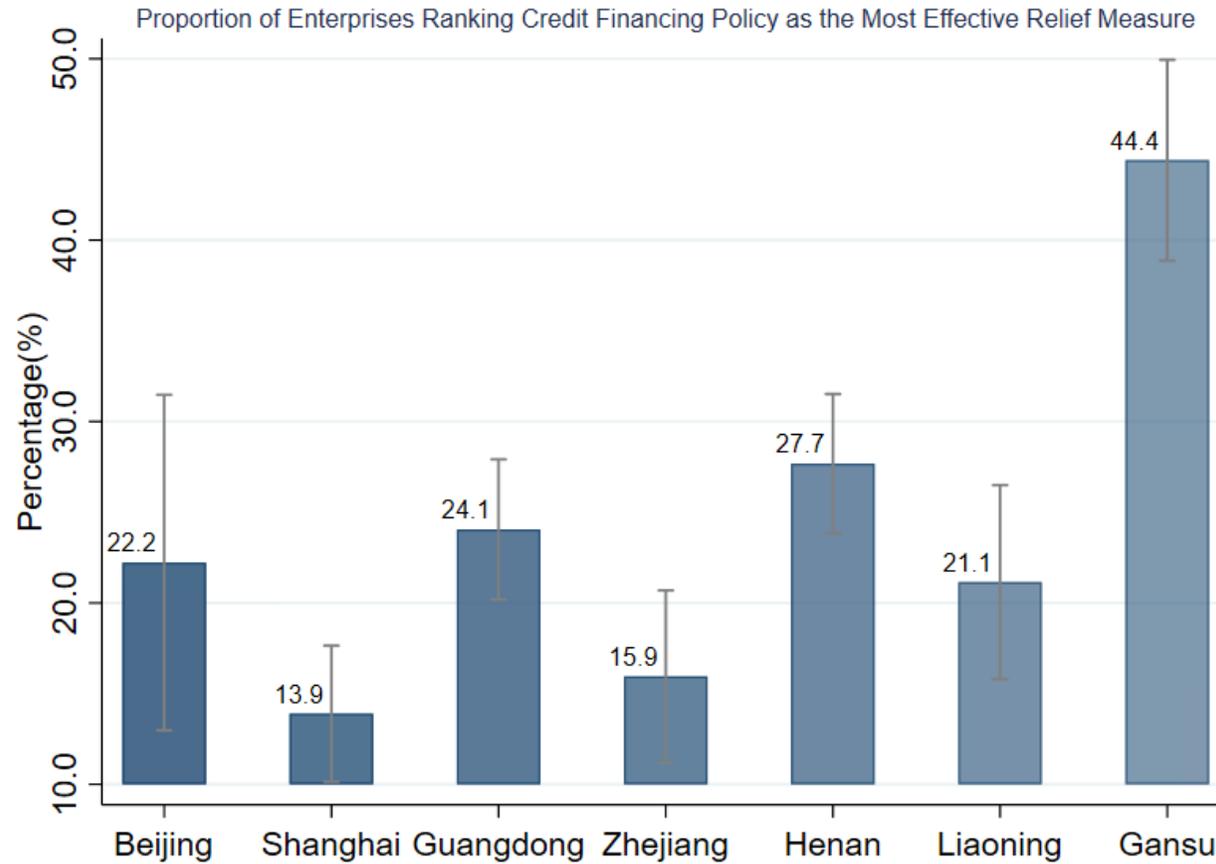
知乎 @秦岭一白



Gansu and Henan faced bigger loan payment problem

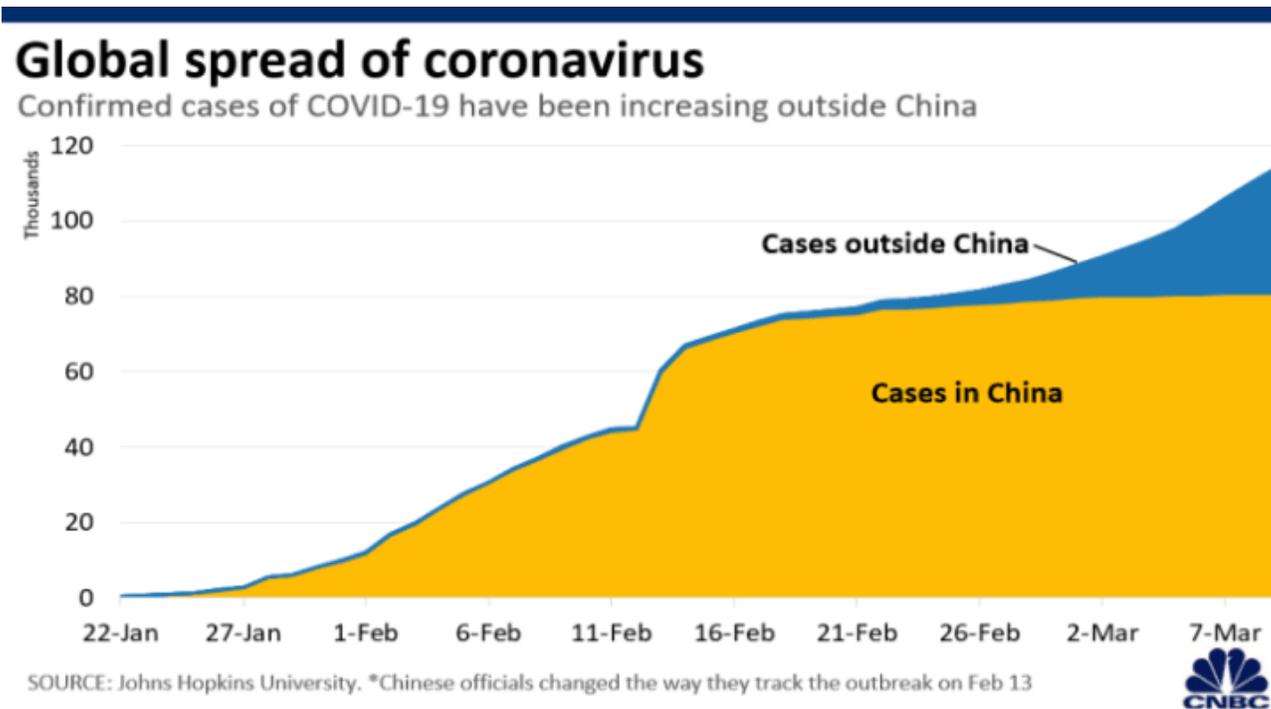


The demand for credit financing policy also varied across provinces



Conclusion

- Despite the initial slow response, the Chinese government has used various measures to contain the outbreak of coronavirus but at a heavy cost



Conclusion

- More than 3,000 people died from coronavirus in China, including 22 healthcare workers.
- Most businesses ground to a halt for several weeks, creating a big loss for the economy and disrupting the global supply chain.
- The impact for SMEs varies across sectors and regions. Therefore place-based policies that reflect local conditions offer the best approach to balancing SME production and public health concerns.

Implications for other countries

- Governments tend to overlook the epidemics problem in the beginning.
- When a country suffers epidemics, SMEs will be hit hard. The impact on SMEs in developed countries can be more grave as the share of service sector in total GDP is higher than in developing countries.
- One positive note: businesses have begun to reopen in China. The disruptions on global supply chain will likely lessen. However, there will be a lingering effect on service trade, such as tourism and studying abroad.

Merci!

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