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- COVID-19 and the US stock market rally series (3) Ironical that China's State Power is Winning the New Coronavirus War

It's possible that the new coronavirus contagion could be a link in the chain leading to the demise of China's totalitarianism. It is clear that China's totalitarianism bears a heavy weight of responsibility both for the original outbreak and for the initial response to the new coronavirus. But, as irritating as it may be to admit, the coronavirus problem is likely to work towards strengthening the iron fist of the Xi Jinping administration still further, and the eradication of the new corona virus is also likely to reinforce, at least temporarily, the foundations of Xi Jinping's powerbase.

Last week (the last week of February) brought three new developments in the Coronavirus problem. (1) The number of infected people is rapidly increasing in Korea, Italy and Iran. (2) The U.S. stock market plunged (the NY Dow fell -12% in one week, the fastest fall since Global Financial Crisis (-14% compared to its all-time high recorded on 2/12). The possibility of a global pandemic increased, and the market is showing signs that it is shaping up to create the worst possible scenario). (3) Peaking out in intensity of the numbers of infected patients in China. The world is afraid of the epidemic spreading outside of China but may also be finding hope from the signs of improvement within China itself.

There is no doubt that China's powerful regime will prove to be effective in the war to achieve the eradication of the new coronavirus and China will show off its superiority in its conduct of the Coronavirus Eradication War. Undoubtedly, the world will welcome the eradication of the new coronavirus in China. Once again, the global supply chain, with China at its core, will surely be rebuilt. And, naturally enough, once the peak-out in the outbreak in China is confirmed, the global financial markets, that had temporarily been factoring in the worst-case scenarios, are bound to regain their calm once again.

(1) The Irony is that Hope is China, Fear is Korea, Iran, Italy, Japan, etc.

New Coronavirus Infection Has Peaked Out in China

The World Health Organization (WHO) announced a risk assessment of the new coronavirus on February 28 stating that the risk of a pandemic* is very high but may yet still be averted. (* pandemic: A situation in which there is a possibility that all of the world's citizens may be infected for a certain period of time)

The key points are: (1) The number of countries still reporting that they have more than a few infected cases (there are 51 countries with confirmed cases) has stabilized at 23; (2) The first countries in Europe and the Middle East that reported infected persons were Italy from which it spread to 14 countries and Iran from which it spread to 11 countries, and it has been generally possible to track the infection routes and clusters in the countries affected by this development. (3) In China, the number of newly infected cases was 329 (as of 2/27), a decrease of 80% from the peak, and there was a halving in the number of non-China newly infected cases. (March 1 Financial Times)

Moreover, "excluding Hubei Province, about 90% of 31 provinces, autonomous regions and municipalities have only seen one newly infected person every day" (March 1 Nikkei). Some believe that this Chinese public data is completely unreliable, which may well be the case. But if false data were claiming that the situation is becoming more serious, then that would be a fatal development for China's Xi Jinping regime. Surely then, it must be safe to assume

Musha Research Co., Ltd.
President
Ryoji Musha
Tel +81-3-5408-6818
musha@musha.co.jp
<http://www.musha.co.jp>

901 Renai Partire Shiodome
2-18-3 Higashishinbashi,
Minato-ku, 105-0021 Tokyo

that the all-out war being waged against it will prevent the explosive Wuhan like chain of transmission. outside Hubei Province. The situation will subside within China's borders at the very least.

China has enormous control over its people's actions through the use of power and technology-based surveillance systems not found in democracies, and the effects of this seem to be becoming apparent now. In response to the spread of the coronavirus, Internet surveillance has been further strengthened. The progress being made with sealing off the infection in China has become a source of hope for people all over the world. China has an overwhelmingly large amount of clinical information about cases of infections and of effective measures to seal off the new coronavirus infection, which puts it right at the forefront of the war now being waged against the new coronavirus all over the world.

China's utmost Economic Tactics

China's February manufacturing PMI (according to the National Bureau of Statistics) number was a record low of 35.7 (-14.3 mm), coming in below even the 38.8 posted at the time of the Global Financial Crisis (2008/11). Furthermore, car sales in February (from the 1st to the 23rd of the month) were down 90% year-on-year (for a 40% decrease year-on-year on the January-February average). However, these are not surprising numbers, as they have been steadily deteriorating in response to the emergency after the Chinese New Year. If the number of infected people continues to decline, a sharp recovery in production from April to June can be expected. The Xi Jinping regime will put all the means it has available to try to make this happen, and the whole world is counting on them pulling it off. According to Bloomberg, "Occupancy rates at Chinese factories have been improving in the last few weeks, with Bloomberg Economics estimating that it is expected to reach 60-70% this week. According to the PMI survey, the resumption rate for medium- and large-sized companies is 78.9%, with this number being expected to rise to 90.8% by the end of March, while it is also reported that the rate for medium-and-large-sized manufacturers was 85.6% as of the 25th and estimated to be at 94.7% by the end of March."

It is likely, therefore, that a global supply chain with China at its hub will be restored. There are also some additional economic measures being taken. The budget deficit as a percentage of GDP is rapidly deteriorating to 6.1% in 2019, but the government debt balance is, at 55.6% of GDP, the lowest among the major countries, and there is plenty of room for further action to be taken. (Estimated by IMF in October 2019)

On the financial front, the comments of Ms Nana Otsuki of Monex Securities in *Gendai Business* have provided a helpful reference. China is also working on financial support measures in a "Total War". In the 20 days since the start of February, the People's Bank of China has introduced huge and immediate monetary easing measures. Private financial institutions are also providing loans and issuing corporate bonds to provide financial assistance to companies, and China's state-owned television reported on February 11th about the current state of emergency lending. The reported time to complete a new loan was just two hours, and China's non-performing loans were less than one-tenth of the level seen at the time of the SARS outbreak. Capital has also recently been increasing by about 30 to 50 trillion yen annually. Banks' annual profits, which used to be not much different from those of Japanese banks, have now reached more than ten times the size of those of the Japanese banks. It has now got to the point that the (Chinese) banking industry is gathering the momentum to generate the earnings of the entire Japanese banking sector in just one month. (Ms Nana Otsuki of Monex Securities in *Gendai Business*, 28th February, 2020).

In light of this, it seems very likely that China's powerful regime will be able both to block the spread of the infection and to curb economic recession in the short term.

Ostentatious Display of its Crisis Management Capabilities

Some signs have started to appear that there are moves afoot to show off China's ability to manage the crisis. It was reported (on 26th February) that Weihai City, Shandong Province, requires visitors from Japan and Korea to stay in their hotels for 14 days. China is hinting at controls on entering China for visitors from countries like Japan and South Korea that are unable to stop the spread of the disease.

(2) Fundamental Flaws in the Chinese System of Government Revealed by the New Coronavirus

Question Marks around the Sustainability of Chinese Economic Growth

From this perspective, one might think that, at the time being, the likelihood is that China's Xi Jinping regime's will win the war against the new Coronavirus infection, but taking a longer-term view, one might well think that there is also a strong possibility of the spread of this infection becoming a major turning point for the regime. In fact, one

might even be able to say that a process of economic depression → financial crisis → social unrest → regime change (bankruptcy and revitalization) has begun.

China, with a population of 1.4 billion and a GDP of nearly \$10,000 per capita, simply cannot sustain a growth rate as high as 6%. A very strong sense of suspicion about the sustainability of China's economic development model itself, including the accumulation of excess debt, government subsidies, and theft of intellectual property rights, has already built up and it is highly likely that the impact of the Coronavirus problem will make it doubly sure that the model breaks down.

China has a 60% share of cement and 50% of steel, it has become a global factory with a large worldwide share in many fields such as home appliances and smartphones, which only serves to underline the fact that there is a great risk of excessive dependence on China. What makes the situation even worse is that the United States is in the midst of a U.S.-China trade war that was itself triggered by a drive to reduce the US's dependence on China. Wilbur Ross, the US Secretary of Commerce, was heavily criticized for his somewhat insensitive comment that, with the spread of the new coronavirus, "companies can return their production bases to the United States", but even without this, the companies will still have to undertake a radical overhaul of their supply chains, all of which rely heavily on China. China's labor costs are already the highest among emerging Asian nations, and labour-intensive industries have been leaving China in a steady stream as a result. In the midst of the US-China trade war, high technology is now also being steadily driven to move out of China. It could well prove to be the case that the outbreak of the new type of pneumonia will be a watershed that will lower China's position in the global supply chain. Taiwan and ASEAN would then emerge as China's competitors, and the intensity of price competition between them will increase. China's trade and current accounts will worsen, and it will probably become more difficult to raise dollars in the foreign exchange market. This would, in turn, raise domestic financial tensions and set the stage for the bubble to burst. Moreover, repeated rounds of fiscal spending and private sector financing by the public sector (for example, the weakened HNA Group has been placed under public control by Hainan Province) would likely serve to rapidly deteriorate the state of the fiscal balance.

Question Marks against Eligibility as a Global Player

The new coronavirus problem has also raised questions about China's eligibility (suitability) as an international player. Pressure has been exerted on the WHO (the World Health Organization) which has been criticized for the delays in the initial control of infection due to information controls and delays in triggering the declaration of an emergency (WHO Director-General Tedros from Ethiopia, backed by Chinese monetary support, praised the decisive steps taken by China), etc, have greatly diminished China's international reputation. China has also obtained four positions of leadership in 15 UN agencies that should be fairly run (the FAO (the UN Food and Agriculture Organization), the ICAO (the International Civil Aviation Organization), the ITU (the International Telecommunication Union), and UNIDO (the UN Industrial Development Organization), and China is also likely to win the post of Secretary General of the WIPO (the World Intellectual Property Organization), for which the election will be held in March. With China accounting for 70% of the increase in global CO2 emissions since 2001, it may also be targeted for criticism by the international community.

Disasters Caused by the Chinese System of Governance

More than any of the abovementioned issues however, the problems caused by the new Coronavirus are now exposing some really fundamental doubts about the authoritarian governance structure of Xi Jinping. On the 27th of January, Mayor Zhou of Wuhan City told China's state-run TV that he was aware that "all parties concerned were dissatisfied with our disclosure." However, the mayor confessed that his own words and conduct were severely restricted by the provincial governments and by state leaders, and that even if local governments pass on information to me, I am unable to publish it without permission." On December 30th, 2019, the "Emergency Notification of Treatment for Unexplained Pneumonia" report published by the Wuhan Sanitation and Health Commission was disseminated on social network services (SNS). The report stated that an outbreak of pneumonia had been linked to the Huanan Seafood Market, with a series of a large number of unexplained cases of pneumonia appearing at many medical institutions in Wuhan. The notification called for rigorous reporting and emphasized that "no organization or individual is to recklessly release treatment information externally without permission." It suggests that authorities were aware of the infection and that they concealed information. Dr. Li Wenliang, who first reported the spread of the new type of pneumonia on the Internet, was exposed as having circulated false rumours and disinformation, and the information disseminated was subjected to control. Mr. Li subsequently died of the new type of pneumonia. Criticisms from academic professors including Peking University and Tsinghua University have emerged describing the spread of the Coronavirus as a manmade disaster that has blocked freedom of speech. The Xi Jinping administration has attempted to suppress such criticisms.

Furthermore, the authorities have also deemed that the source of the new Coronavirus was not even the Huanan Seafood Market in the first place. The Sankei newspaper reported that "According to the Hong Kong media and

other sources, Professor Xiao Botao of the South China University of Technology (Guangzhou, Guangdong) submitted a research paper in which he pointed out that samples and contaminated debris from the Wuhan Disease Prevention Centre which is just 280 meter away from the Seafood Market were responsible for the virus spill, but that the paper was subsequently removed from the site (27th February). Many observations about matters such as biological weapons theories, etc., have been posted on the Internet.

Might Turn Out to Be China's Chernobyl

The accident at the Chernobyl nuclear power plant (1986) led to: (1) loss of life due to information being concealed; (2) exposure of defects in technology, production systems and lifeline systems; and (3) the enormous cost of the process of returning to normality from the chaos and confusion caused by the disaster. In fact, the disaster turned out to be the fuse that led to the collapse of the regime (1991). The problem posed by this new strain of virus for Xi Jinping's authoritarian regime it may end up playing the same kind of role to that played by Chernobyl. FT Column "Xi faces China's Chernobyl moment" (Feb.11) is typical argument of this.

On the Internet, Gorbachev's comments were introduced as follows: "The accident at the Chernobyl nuclear power plant was a terrifying proof not only that our nation's technology is ageing, but also that the conventional system has exhausted its potential. At the same time, and this is an irony of history, it rebounded with tremendous weight on the reforms that we had begun, and literally sweeping the country out of its orbit.", (*Gorbachev's Memoirs, Vol. 1, Shinchosha, 1996, p.377*).