

THE COST OF DICTATORSHIP : A
POLITICAL ECONOMY OF THE NOVEL
2019 CORONAVIRUS EPIDEMIC

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AN EPIDEMIC IS LIKE A FIRE :

ITS ORIGIN AND CONDITIONS OF DEVELOPMENT
DETERMINE ITS HARMFUL IMPACT

Scientists suspect that the new coronavirus
passed to humans from bats via pangolin

A small ant eating mammal in high demand for its meat & chinese T.M



Some of the earliest infections were found in the South China Seafood wholesae market in Wuhan, were bats, civets and other wild animals were sold. After the SARS outbreak the ChinesForestry Administration licensed the legal farming of 54 wild animals and approved breeding of endangered species including bears, tiigers and pangolin for environmental and conservation purposes. Situated in poor and remote areas the licensed farms were used as a cover for illegal wildlife trade , where animals are bread for food or medecine rather released into the wild. Global willd life trade is worth 25 billion US \$ (U.N). China is by far the largest market Reuters, Feb 17 & 18/2020.

**CIVET CATS SEIZED IN GUANGZHOU IN 2004 AT THE
HEIGHT OF THE SARS EPIDEMIC** *Financial Times, 23/02/20)*



« RAISING WILD ANIMALS IS MORE PROFITABLE THAN GROWING CROPS » Financial Times February 23, 2020

- Proponents of traditional Chinese medicine believe that eating civet cats, e.g. can help strengthen the body and improve male sexual function.
- According to the China Forestry Yearbook, wild life farming generated RMB 56 billion (US\$8 billion) in 2017, a fivefold rise from RMB 9.6 billion (US \$ 1,37 billion) ten years earlier.

The Chinese Center for Disease Control and Prevention analyzed all cases

- 72,314 cases reported by Feb 11 (44,00 confirmed cases, 16,000 suspected cases, 10,000 clinically diagnosed cases and 900 cases of positive tests without symptoms.
- 105 INFECTIONS had occurred BEFORE Dec.31, the date that Wuhan's health commission first acknowledged an « unexplained illness » in just 27 patients. *Source* : Sixth Tone and the first team of experts from the National Health Commission arrived in Wuhan (a second team of experts was sent between January 8 and 16), (China News Weekly Feb 5, The Regret of Wuhan, China Change, February 2020)

- 5,500 of Hubei's confirmed cases might have fallen ill before Jan 20/ 20 (the date when the reality of human to human transmission was admitted).
- Officially, the provincial health commission had reported just 270 cases, suggesting a diagnosis rate of less than 5 %.
- The Chinese Govt. refuses a delegation from the Washington CDC, while the Chinese scientists succeed on January 5th the genome sequencing of the coronavirus and post it the 10th on a website.

THE LAW ON THE PREVENTION & TREATMENT OF INFECTIOUS DISEASE

- Amended on December 1, 2004, requires that « the sudden outbreak of unidentifiable infectious disease must be reported to higher authorities ».
- « The health department under the State Council shall be responsible for announcing information about infectious disease when there is an outbreak and an epidemic ». The China CDC can collect data, but it is not a decision making agency, contrary to other CDCs. China News Weekly Feb 10

THE COMMUNIST PARTY'S COVER UP

- Instead of focusing on the fire, the local government, approved by the central authorities, arrested and threatened the firemen :
- The ophthalmologist Li Wenliang and seven other Wuhan hospital doctors were accused of forging fake rumors on December 31, for discussing among themselves through social media about the emergence of cases of an atypical pneumonia. National T.V. programs repeatedly denounced them as rumormongers, without mentioning their expertise. (China Change February 7th)

CCTV NEWS ABOUT 8 WUHAN RUMORMONGERS DID NOT MENTION THAT THEY WERE DOCTORS !



THE COVER UP ENHANCES THE SPREAD OF THE EPIDEMIC

- Xi Jinping's speech to top leaders on January 7th (published one month later) proves that he was aware of the dire situation.
- While the Wuhan hospitals face hundreds of new cases of « pneumonia », and some people ruined themselves financially to be taken in charge, the local authorities from Hubei province and Wuhan city (11 million), focused mostly not on the containment of the epidemic, but on the suppression of information about the disease.

- The focus of the cover up was to prevent the truth of human to human transmission.
- The Hubei provincial agenda between January 12 and 17 was centered on the two sessions of the local Assemblies. Until January 17th tourism authorities issued hundreds of thousands of free tickets to attract tourists from all over the country during the new year vacation (China Media Project, 20/01/20)
- On January 18th, the leadership organised a banquet for ten-thousand families, beating the Guinness Book of Records.

WUHAN'S 10.000 FAMILIES BANQUET: A WORLD RECORD !



FIRE AND SILENCE

- Due to the lack of testing kits in some Wuhan hospitals, samples had to be sent to a laboratory in Beijing, a process that took 3 to 5 days to get results.
- From Jan. 11 to 16, the Wuhan Health Commission, as well as Beijing, announced no new cases... Hospitals in the city even reduced the number of people under medical observation. (Reuters January 27th)

CORONAVIRUS OR BUREAUCRATIC VIRUS ?

- To mock the cowardice of provincial and local officials staying away from the front line of hospitals as well as their cover-up, a game of words/characters circulated in Wuhan :
- 冠状病毒 “guanzhuangbingdu » (the term for coronavirus) was changed into its homonym
- 官状病毒 “guanzhuangbingdu” which means bureaucratic or official virus .

XI JINPING's 180 degree shift

- Between January 20-23, after the official admission of the human to human transmission, Xi Jinping triggers a general mobilisation and radical measures to launch a « people's war » against the « devil », and locks down Wuhan and Hubei province on the 23rd.
- But by January 26th, 5 million people had already left Wuhan either for vacations or to flee the epidemic. On Jan 20th, the Chinese delegation to WHO refuses to allow that the epidemic be considered a global health emergency, before accepting it ten days later...

« WHEN PEOPLE'S FURY OVERCOMES FEAR »

- On February 4th, XU Zhangrun, a well-known Tsinghua Professor and critic of Xi Jinping's autocracy, posted an essay on fear and fury.
- « Ours is the system where the Ultimate Arbiter (an imperial term) monopolises power...that turns every natural disaster into an even greater man-made catastrophe. The coronavirus has revealed the rotten core of Chinese governance »

XU Zhanghrun's critique

- The level of popular fury is volcanic and a people thus enraged may, in the end, cast aside their fear.
- The ubiquitous bureaucratic apparatus, responsible for the unfettered outbreak of the coronavirus in Wuhan, repeatedly hid or misrepresented the facts about the dire nature of the crisis.

- Regardless of how good they are at controlling the Internet, they can't keep all 1.4 billion mouths in China shut.
- Tyranny ultimately corrupts governance as a whole and undermines the technocratic system that has taken decades to build...The bureaucratic system we see now is one that values the mediocre, the dilatory and the timid.
- With the technologies being deployed to create China's big data totalitarianism, we are now experiencing a 1984-style of total surveillance and control.

Feb 7th : THE LI WENLIANG STORM

Dr Li Wenliang's death, at 34, on February 6th was closely tied with many aspects of the mismanagement of the coronavirus epidemic :

- Lack of transparency of information, denial of human to human transmission;
- Slowness in revealing the situation to the public;
- Neglectful treatment of medical personnel.

On February 7th the country's top anti-corruption body dispatched an investigative team to Wuhan to conduct a « full investigation into public complaints about problems related to Dr Li Wenliang ». This announcement gave the Chinese news media a justification to cover the incident.

OFFICIAL VISION : THE WHITE ANGEL OF SACRIFICE

Li Wenliang on CCTV 1 Feb 8





PLEASE CLEAR THE
NAME OF WUHAN 's
RUMOR-MONGER !

« A healthy society should
not have only one kind of
voice ! » (Feb. 1 Interview
with Caixin online)

THE RIGHT TO FREEDOM OF SPEECH STARTS TODAY !

On Feb. 7th, in an online open letter to the National People's Congress and the NPC Standing Committee, Prof XU Zhangrun, ZHANG Qianfan and 5 other intellectuals argued that:

- Dr Li Wenliang was not only the victim of the coronavirus but of speech suppression which allowed the virus to proliferate.
- For thirty years, the Chinese have been made to surrender their freedom of expression in exchange for safety, and now they fall prey to a public health crisis and are less safe than ever.

- They demand that the NPC implement the right to freedom of speech guaranteed by Article 35 of the Constitution.
- On February 10, another open letter signed by 10 professors in Wuhan, request that authorities apologise to the whistleblowers and « refrain from any measures that limit freedom of speech ».
- Internet users are reported to have clicked on Li Wenliang's name 1.5 BILLION TIMES in 24 hours. The hashtag #IWantFreedom of Expression# was reportedly clicked 3 million times before disappearing. (Godement, Institut Montaigne, 17 February 2020)

CORONAVIRUS CRISIS CHALLENGES BASIS OF XI JINPING'S DICTATORSHIP

- Before Li's death, the Supreme Court took his side, saying that authorities should have heeded his warnings.
- This challenges Xi Jinping's proclamation that « North, south, east, west and center- the party is the leader of all. »
- The liberty of expression, and the liberty of expertise, are no longer felt as an individual luxury threatening the collectivity, but in this case, as a collective and life-saving value.

THE CORONAVIRUS CHALLENGES TO CHINESE AND GLOBAL HEALTH SYSTEM

- The transmission of the virus is still unclear : some asymptotically or subclinically symptomatic infected persons may transmit the virus. It is still uncertain whether persons who show no sign or symptoms of respiratory infection can transmit the virus. (New England Journal of Medicine February 18th)
- The potential mutations of the virus are still unclear.

THE CHINESE CHALLENGE

- The lockdown of Wuhan and Hubei province, and the restrictions of mobility concerning half of the Chinese population (700 million) has limited the expansion of the epidemic to other provinces.
- The Chinese health system is completely centered on big hospitals that generally receive nearly half of all patients. Medical personnel are not well trained in smaller hospitals (2 or 3 years of training).

Addressing bottlenecks in China's hospital system

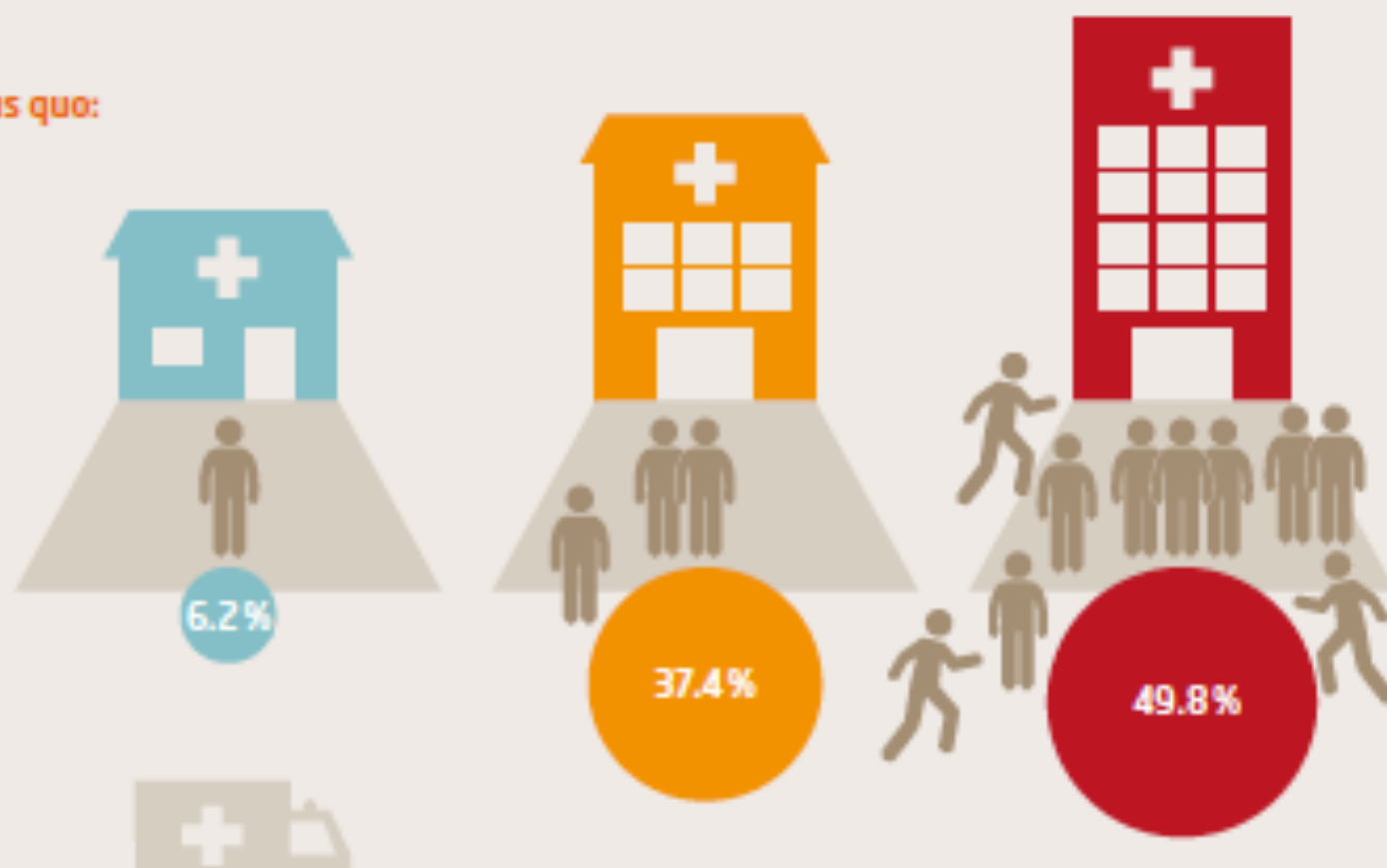
A referral system aims to distribute patients more evenly



- Primary hospitals 一级医院 (up to 100 beds)
Preventive care, limited medical and rehabilitation services
- Secondary hospitals 二级医院 (100-500 beds)
General health services
- Tertiary hospitals 三级医院 (more than 500 beds)
Specialist health services

● Share of patients
(January to April 2018)

Status quo:



THE CHINESE CHALLENGE

- Despite sending 30,000 health workers to Hubei province, and the local extension of work and school suspensions from February 21 to March 11, there are less than 20,000 beds in Wuhan hospitals for more than 40,000 confirmed cases.
- Some test kits are unreliable.
- Changes in diagnostic criteria : people who have tested positive but who have no symptoms are excluded. Statistics are more or less reliable.
- 14 % of recovered patients in Guangdong tested positive again (Caixin, Feb.26)

A BROADER MEASURE OF DIAGNOSIS IS NECESSARY F.T 25/02



THE GLOBAL HEALTH CHALLENGE

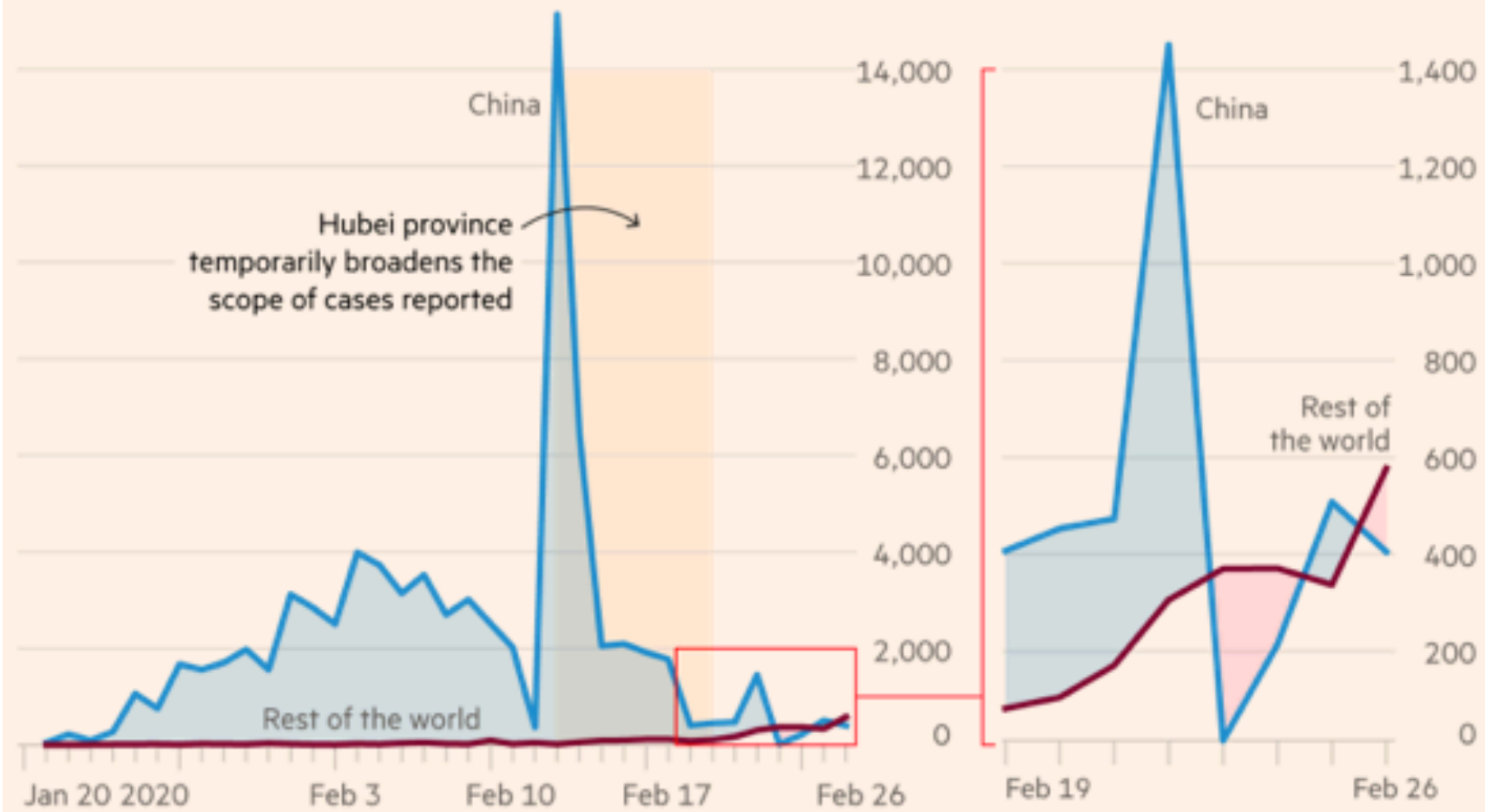
- Although new patients and victims of the epidemic appear to have diminished in China since mid-february, the globalisation of the coronavirus is under way, in Asia, Africa and Europe.

OFFICIAL DATA ON THE CORONAVIRUS IN CHINA



Coronavirus is now spreading faster outside of China

New cases each day ('000s)

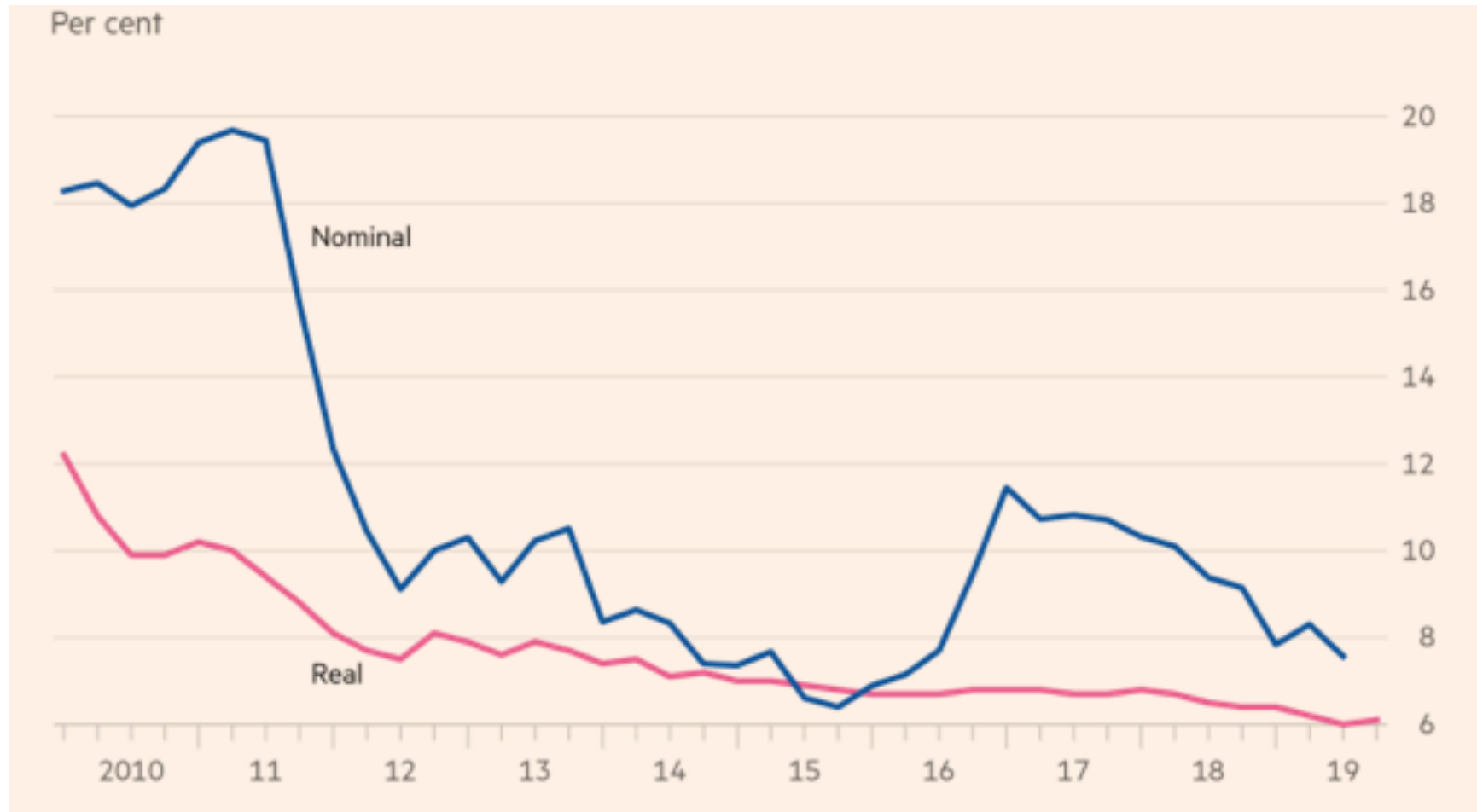


Source: CSSE at Johns Hopkins University
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THE THREAT OF A GLOBAL RECESSION

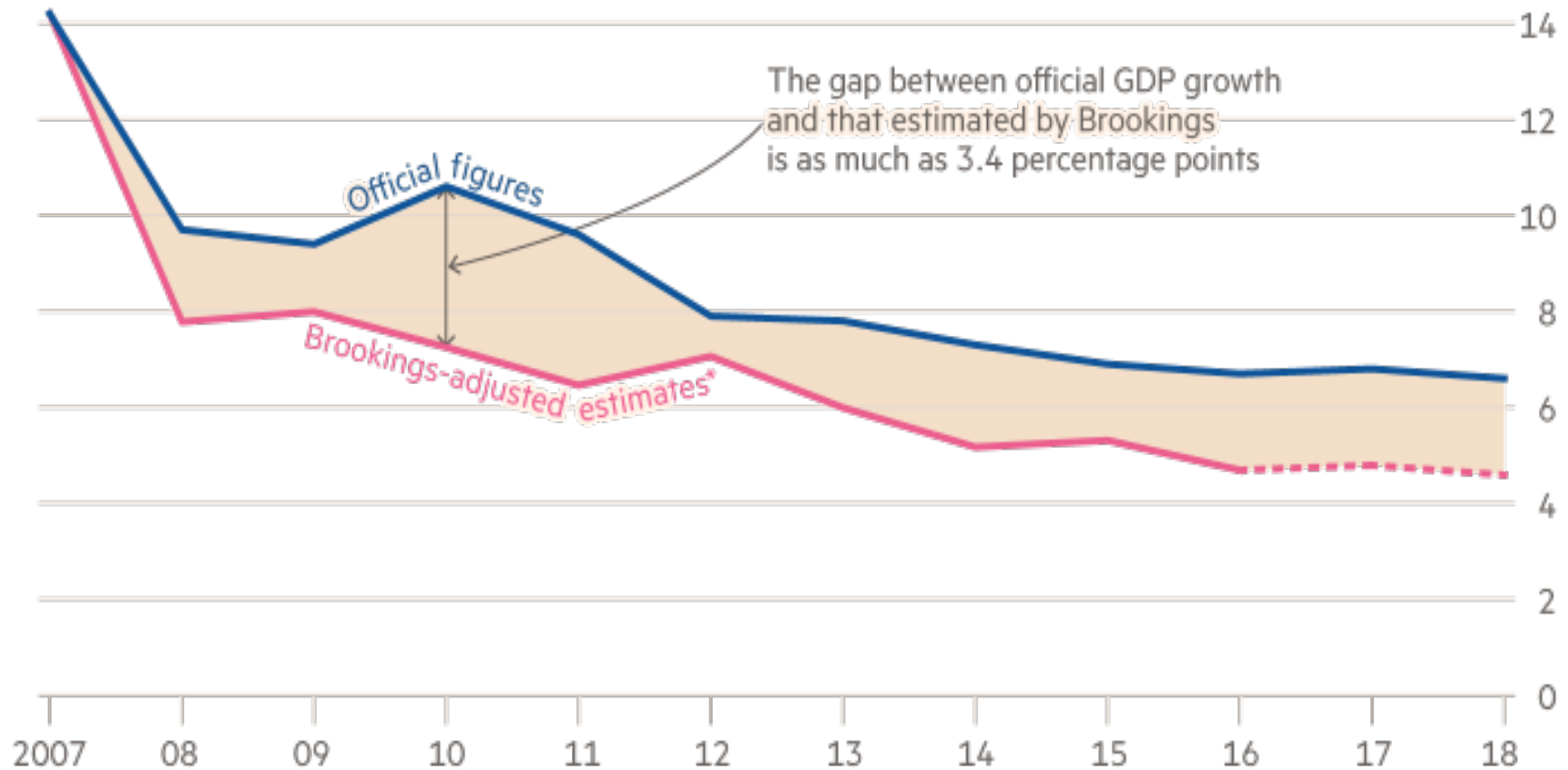
- The Chinese economy accounts for 30 % of global growth. It has already suffered the slowest growth rate in 30 years, at 6 %. These data may be overstated by 2 points = 4 %
- The slowdown of world growth (2,9 % in 2019) may accelerate with the diffusion of the China shock on world demand and on world supply.

CHINESE ECONOMIC SLOWDOWN: IN 2019 THE SLOWEST GROWTH RATE IN 30 yrs



OFFICIAL DATA MAY BE OVERSTATED

Annual GDP growth (%)



FALL OF DEMAND

- Although 95 % of supermarkets and convenience stores are open, half of China's shopping malls have been closed for most of February.
- As half of the population has been subjected to mobility restrictions, the restaurant, retail, leisure, tourism, real estate, entertainment, and even e-commerce (logistic disruptions) sectors have plunged.
- Public bus systems and interprovincial buses have been completely or partially halted (Nikkei Feb. 13)

- The private sector (60 % of GDP, 80 % of employment) has been hit the hardest. Hiring has all but come to a halt. Job resumes submitted in the first week after the January outbreak are down 83 % from a year earlier. 85% of businesses may close if the outbreak lasts 3 months (Tsinghua, Beida survey)
- Fall of tourism : 80 %; Fall of the luxury goods market.. Fall of Chinese air transport : 70 %. Global carriers stopped 80 % of their China flights. The disruption has reduced China's aviation market to the size of Portugal's (Bloomberg, February 19)

High exposure to SMEs will hurt Chinese banks during the outbreak

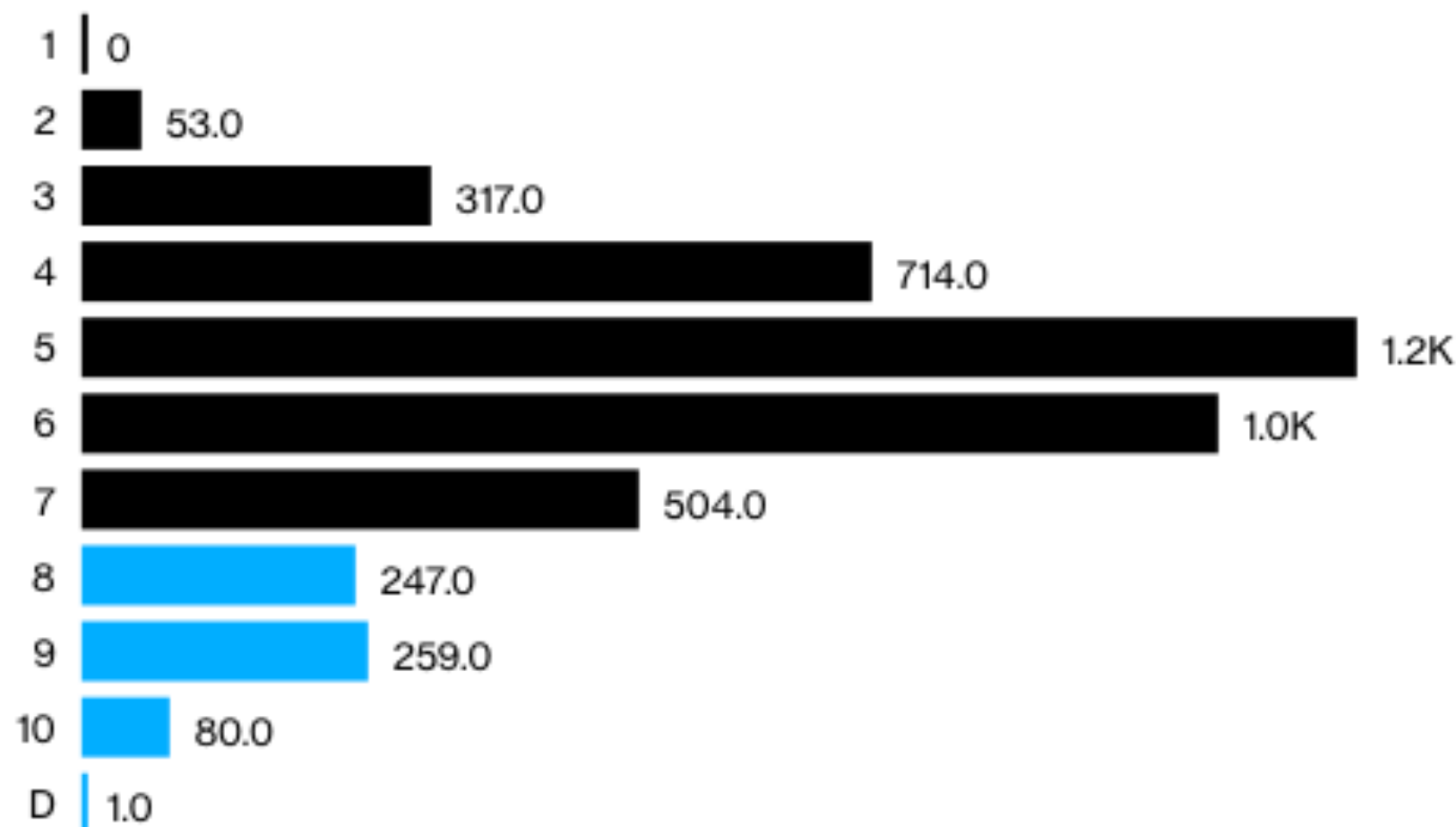
Inclusive SME loans as % of gross loans



Sources: company data; Morgan Stanley Research
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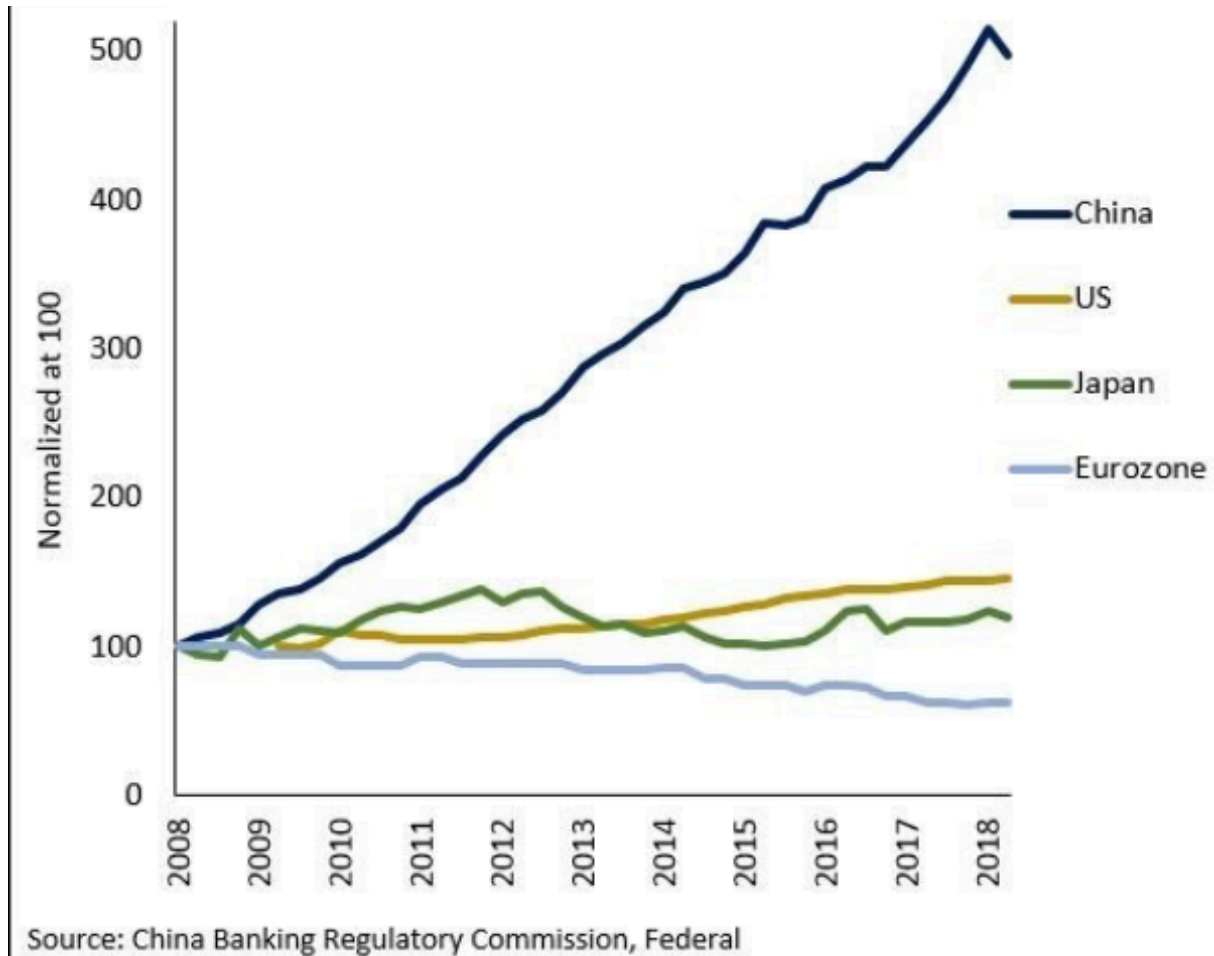
More than 13% of China's banks were rated "high risk" by the central bank

■ Number of Banks



Source: 2019 China Financial Stability Report

CHINA'S BANKING SYSTEM ASSETS HAVE GROWN MORE QUICKLY IN THE LAST TEN YEARS



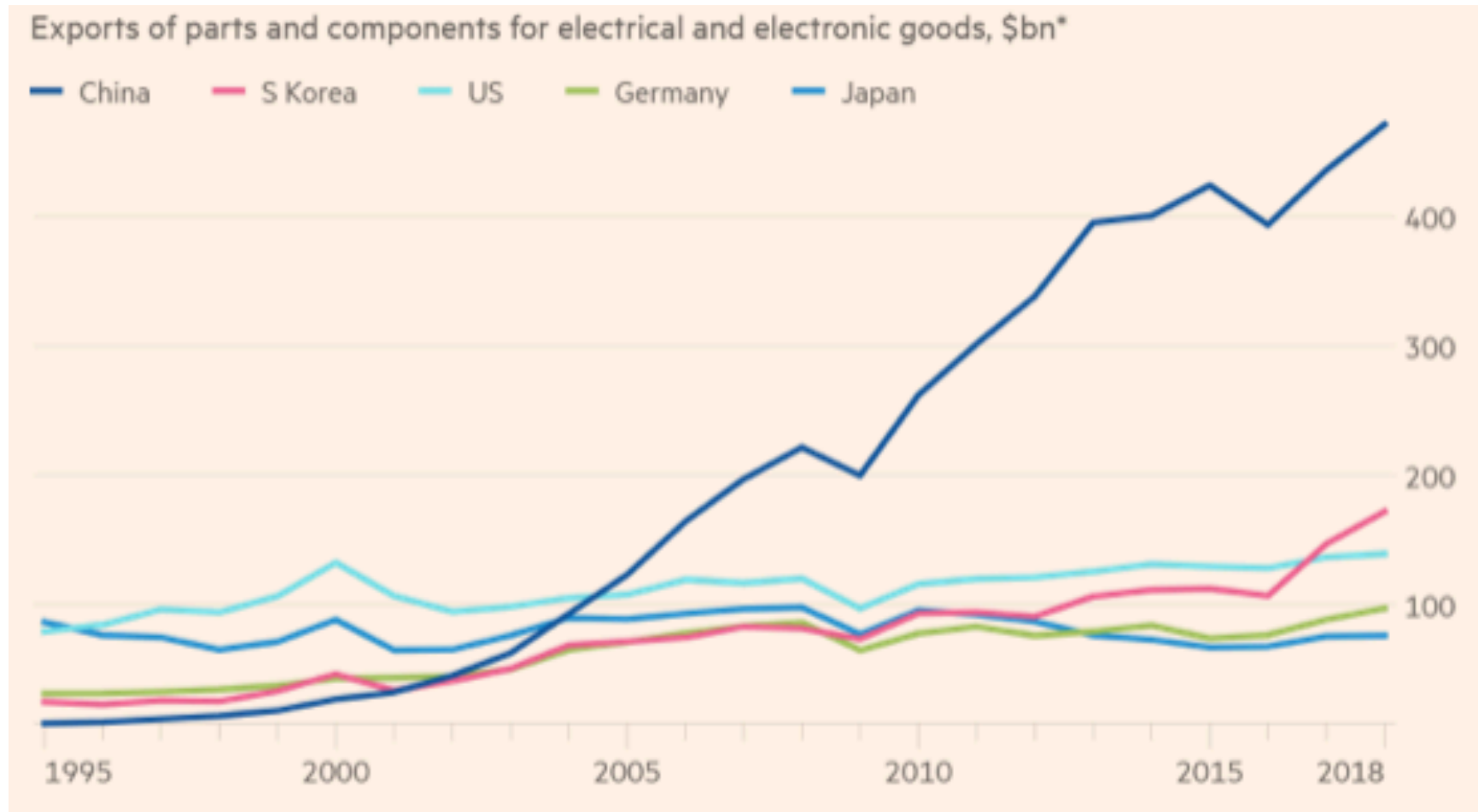
MAJOR DIFFERENCES IN COMPARISON TO THE 2008 GLOBAL CRISIS AND THE 2003 OUTBREAK OF SARS

- Chinese banks do not have the same capacity to replenish capital now given that their profitability has decreased in recent years
- Despite an aggressive bank-led stimulus, RMB 800 billion or US\$114 billion Trivum Feb 27, to help distressed enterprises, banks have a high exposure to real estate.
- Inflation trends are likely to limit the capacity of the Central Bank and the Big Four Public Banks to inject capital.

ON THE SUPPLY SIDE

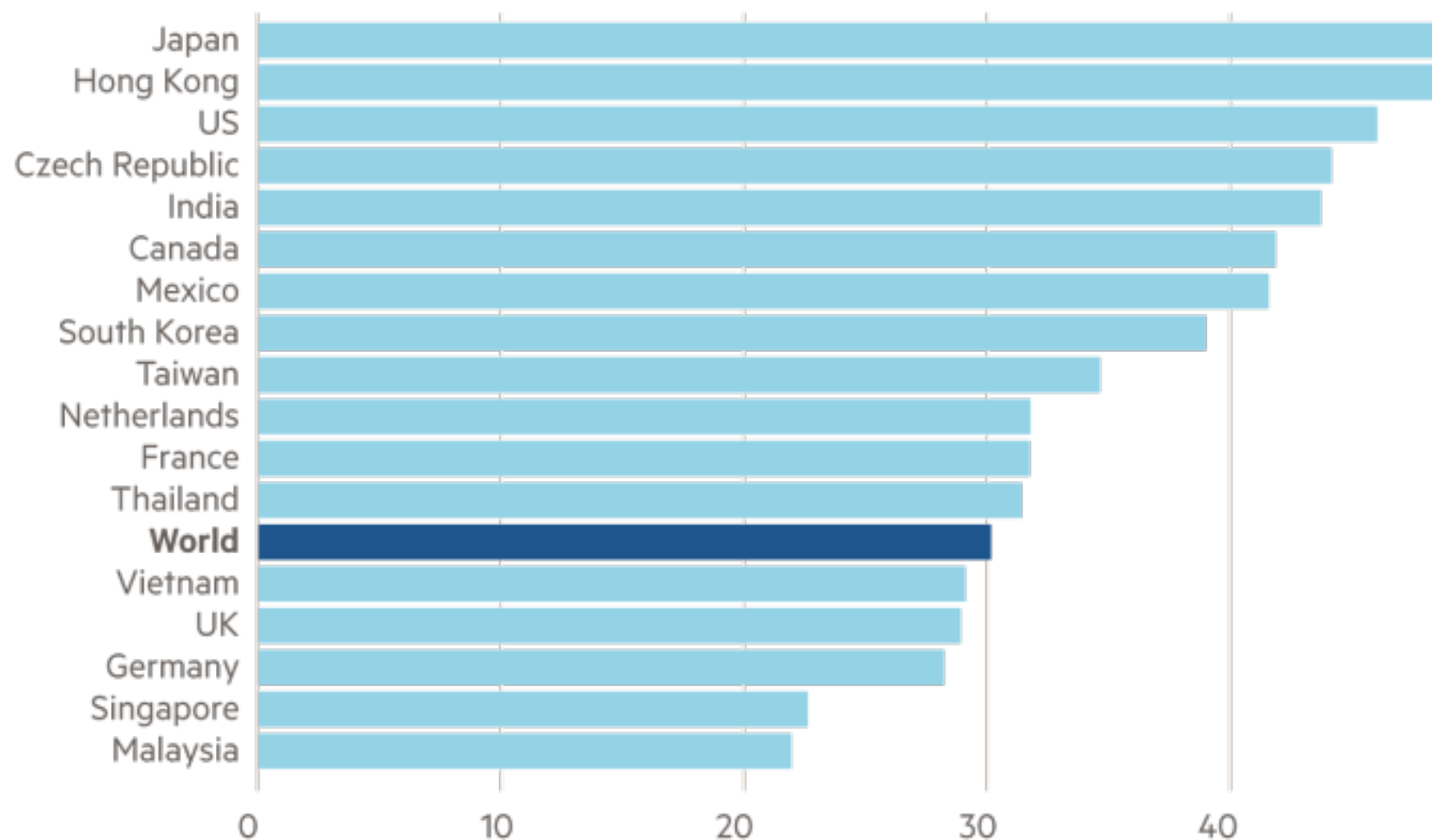
- Disruption of the world's supply chains for electrical and electronic goods (China produces 70 % of smartphones, and is the main assembler for computers, etc.)
- Disruption of the world's supply chains for the automobile industry, textile industry
- Disruption of the world's supply chains for the pharmaceutical industry. China is the main supplier of active ingredients. 70 % for India's generic industry. It also produces 90 % of the world's penicillin, 60 % of paracetamol and 50% of ibuprofen (Le Monde, 18/02/20; F.T, 12/02/20) The coronavirus epidemic threatens shortages of about 150 drugs in the U.S (FDA, Axios)
- The coronavirus is likely to keep the global manufacturing sector in recession for the first half of 2020 (Financial Times Feb. 12)

CHINA IS THE LEAD EXPORTER FOR ELECTRIC & ELECTRONIC GOODS



Many countries depend on China for their industries' supply chains

% parts and components for electrical and electronic goods imported from China, 2018



Sources: FT research, Unctad

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Machinery and transport equipment imports from China

Share of domestic imports, 2018



Most dependent on Chinese imports among those importing more than \$10bn from China

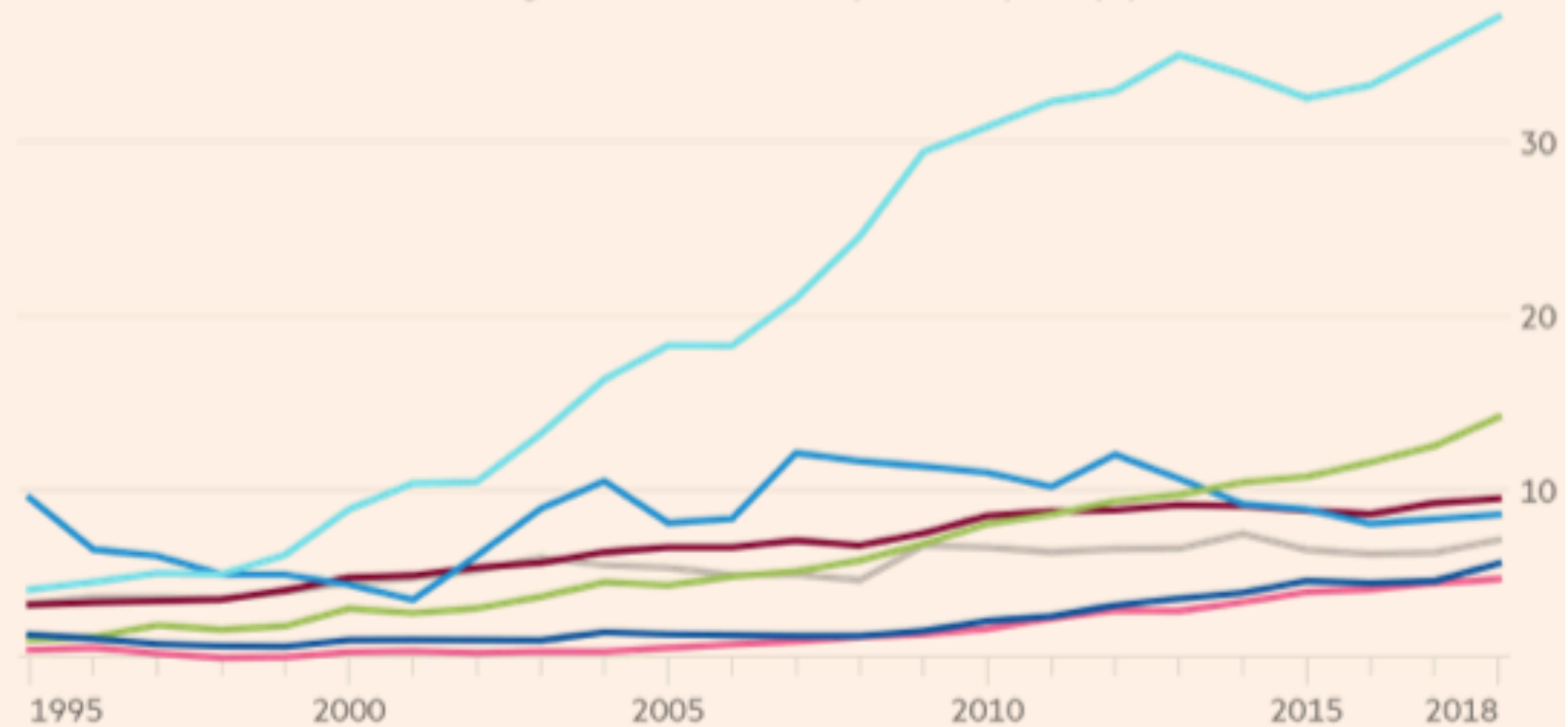
Source: Unctad

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China imports a large share of the world's raw materials

Share of global imports, %

Food Beverages Raw materials Mineral fuels Animal and vegetable oil
Chemicals Manufactured goods Machinery and transport equipment Other



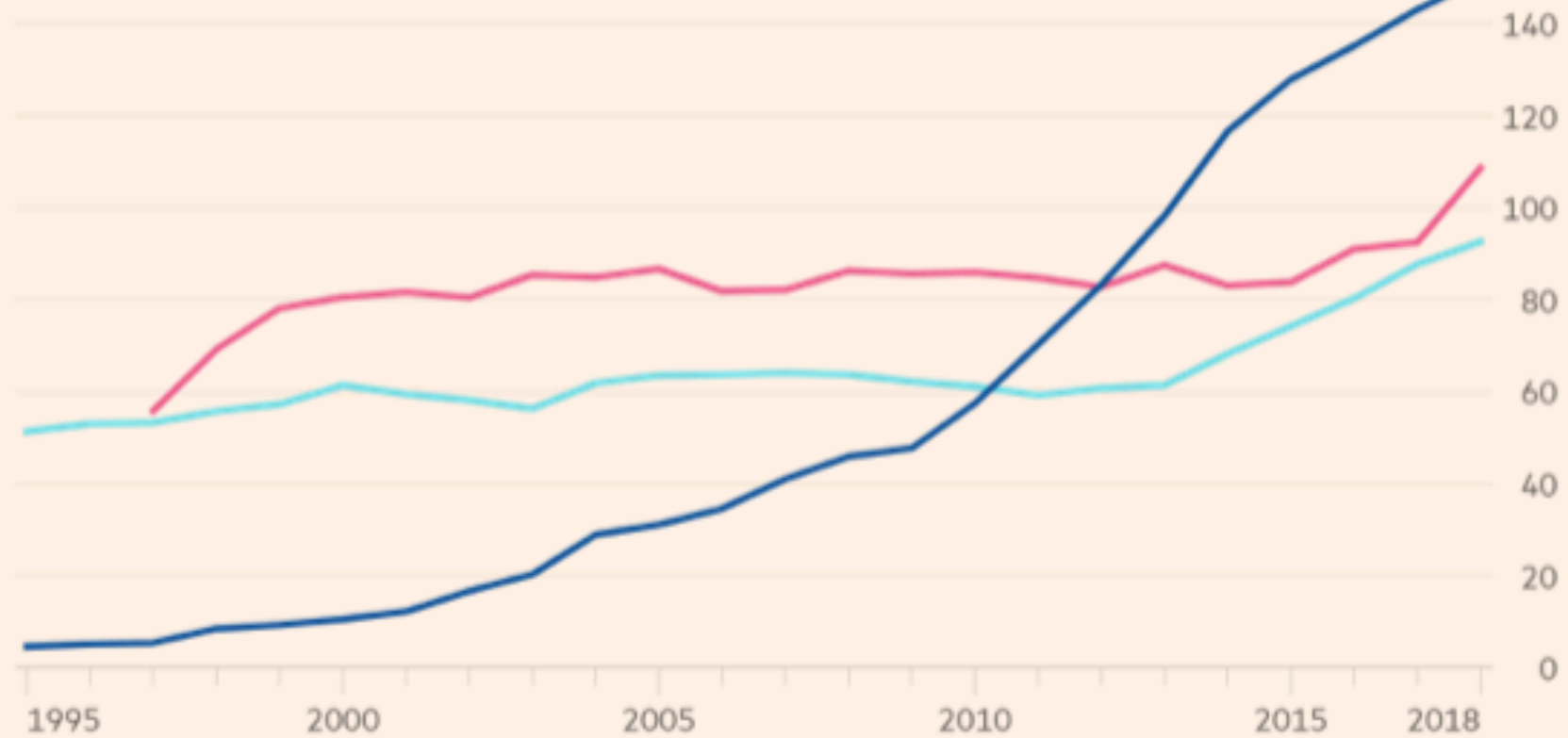
Source: Unctad

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China is home to the world's largest number of tourists

Millions of outbound departures for overnight visitors

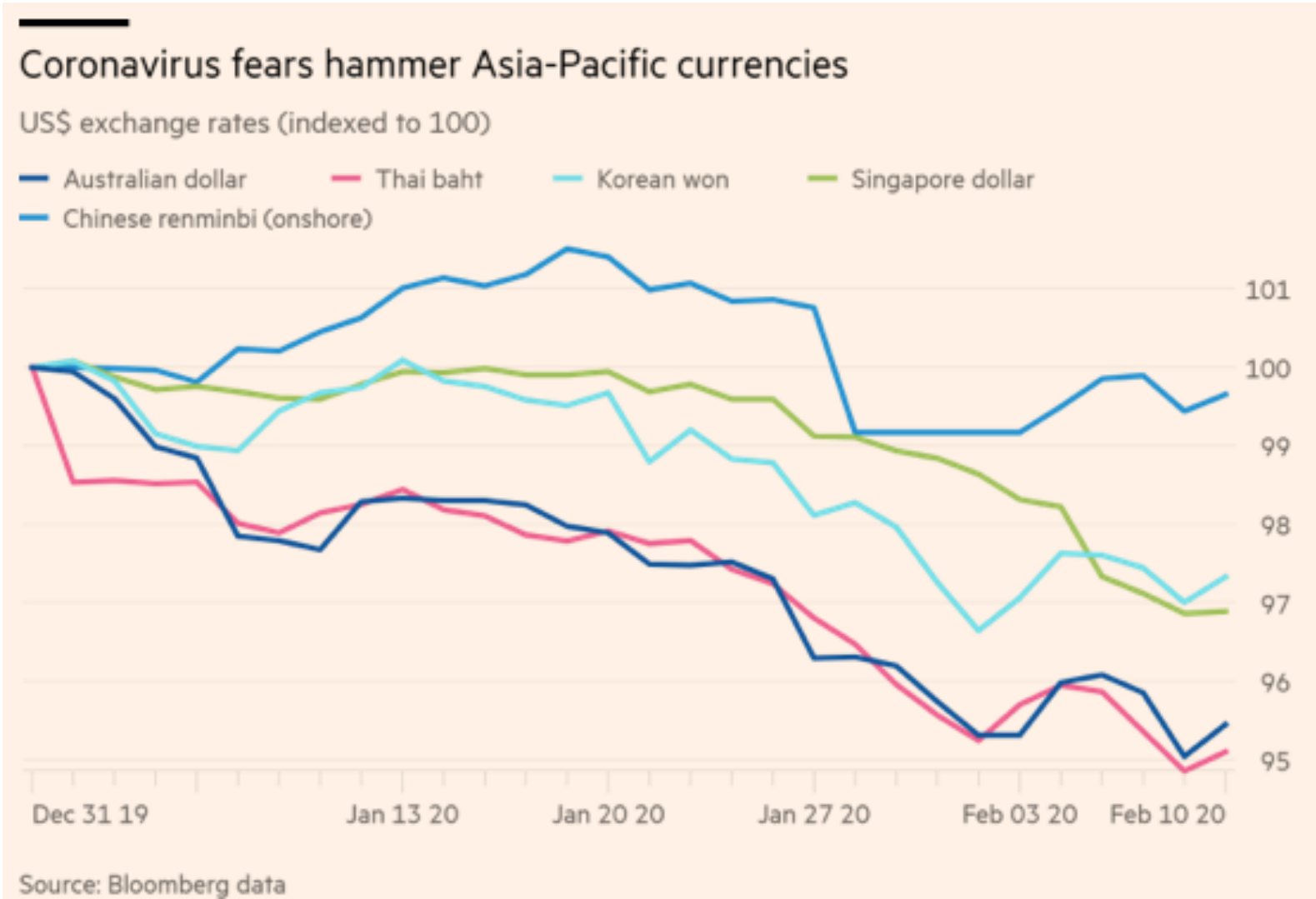
China Germany US



Source: UN World Tourism Organisation

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DISRUPTED SUPPLY CHAINS & WEAKENED CHINESE TOURISM IMPACT ASIAN CURRENCIES



GDP & FLOWS OF PEOPLE: THE MAGNITUDES ARE INCOMPARABLE TO THOSE OF 2003 (SARS CRISIS)

- Chinese GDP in 2003 (SARS) = 4,3 % of World GDP; in 2020 = 16,9 % of World GDP (IMF)
- Foreigners travelling in China, 2003 = 20 M, in 2019 = 60 M
- Chinese travelling abroad, 2003 = 20 M, in 2019 = 150 M (Le Monde, 1/02/20)

CHINA'S INCREASING SHARE OF THE GLOBAL ECONOMY (in US \$)



Expected impact of the coronavirus on global growth

Revision GDP's annual % change in Q1 2020, % points



Source: Deutsche Bank
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- The Eurozone, whose growth has only been 0,1% in the last quarter of 2019, (0,9 % year to year) may fall into recession as it has become more dependent on the China market after the 2008 global crisis.
- Exports to China represent 1,3 % of Eurozone GDP, but much more for Germany (2,8 %) than for France (0,9%) or Italy (0,7 %). (Le Monde, 16-17/02/20)
- World growth (2,9% in 2019) may fall to 2,5%, the level the IMF considers as a global recession, or even to 1,5 % (OECD)

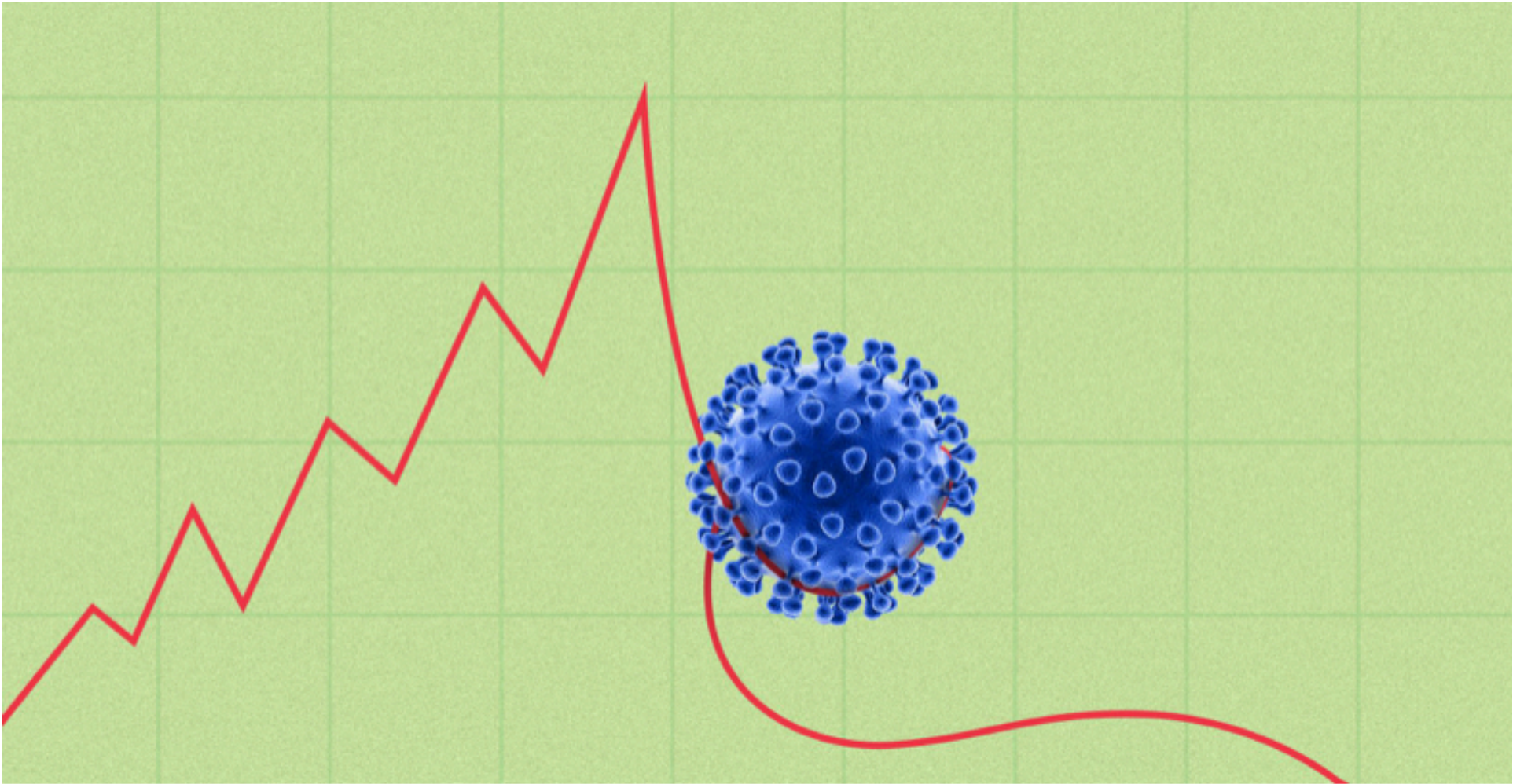
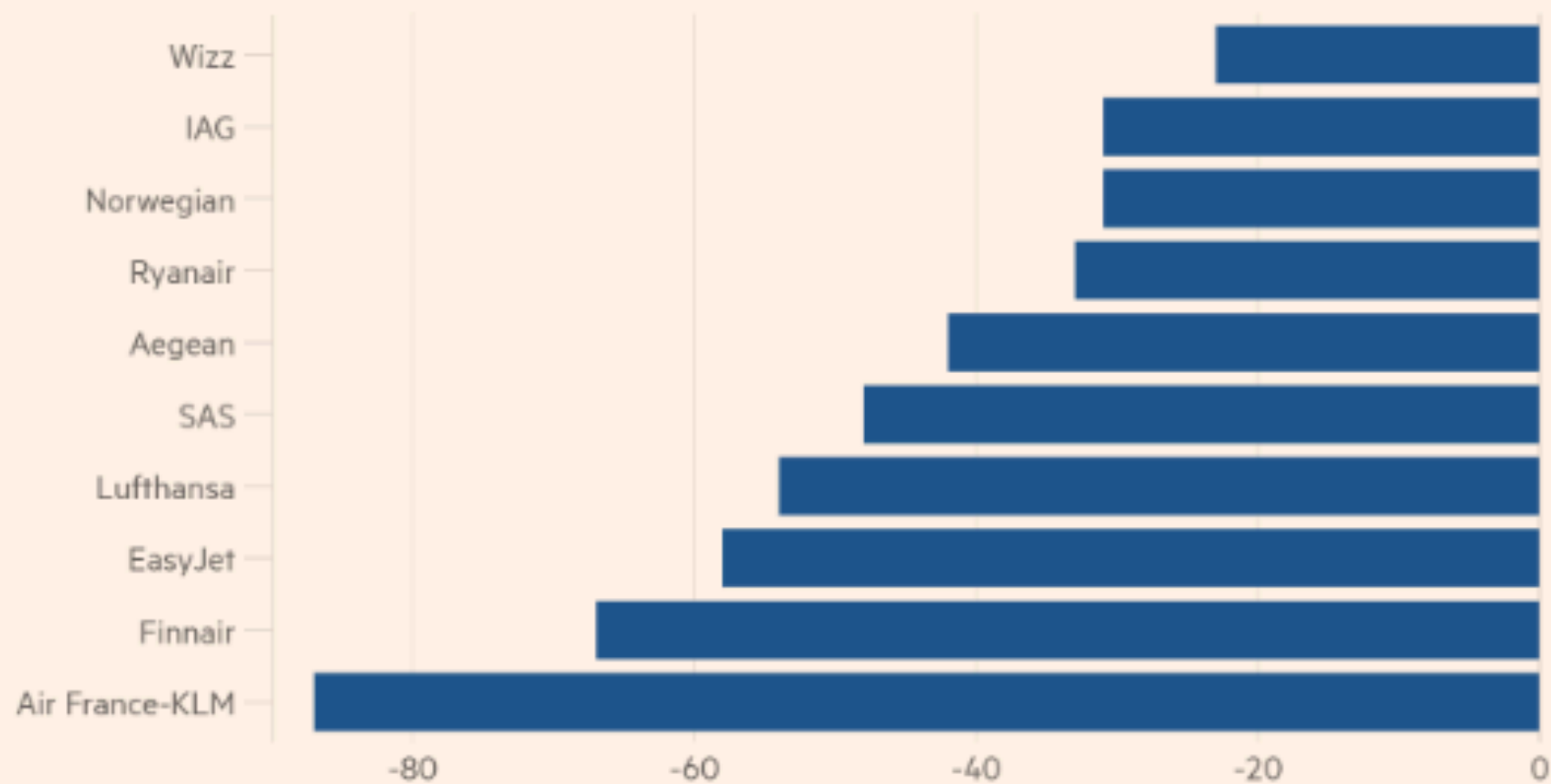


Illustration: Aida Amer/Axios

Coronavirus fallout may hurt airline earnings

Estimated impact on 2020 profits (%)



Source: HSBC

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THE STOCKMARKETS : MINUS 10 % , THE WORST FALL SINCE THE 2008 GLOBAL FINANCIAL CRISIS

