

Chinese New Year 2020: The Year of the Coronavirus



By Alex Berezow, PhD and Phillip Orchard — January 27, 2020

The biggest political and economic effects of pandemics come, not from the disease itself, but instead from public panic and panicked government responses.



Credit: Geopolitical Futures [1]

Phillip Orchard is an Analyst with [Geopolitical Futures](#) [2]. This article was authored in collaboration with ACSH's Dr. Alex Berezow and originally published at [Geopolitical Futures](#).

Grappling with internal political pressures, a slowing economy, an open rebellion in Hong Kong and an unresolved trade war with the U.S., Chinese leaders may have already been in a less-than-celebratory mood heading into this year's Lunar New Year festivities, which begin Jan. 25. The last thing the government needed was an outbreak of infectious disease, particularly when hundreds of millions of people are expected to travel throughout the country and beyond. Not only is that exactly what happened, but the disease – a new type of coronavirus – is unknown to science.

The severity of the virus (known as nCoV or the Wuhan Virus) is uncertain, nor is it clear if it will mutate and spread. The World Health Organization has yet to label it a global health emergency. But it's certainly not yet contained. As of Thursday, there were more than 653 confirmed cases across seven countries, including the United States, and 18 people had died. And despite repeated assurances that it had matters under control, the government on Wednesday began locking down Wuhan, the provincial capital of Hubei, where the outbreak started, and three nearby cities. [Doctors in Wuhan are reportedly expecting the number of infections to exceed 6,000](#) [3], and local authorities are planning to build a special hospital in just six days to handle the epidemic.

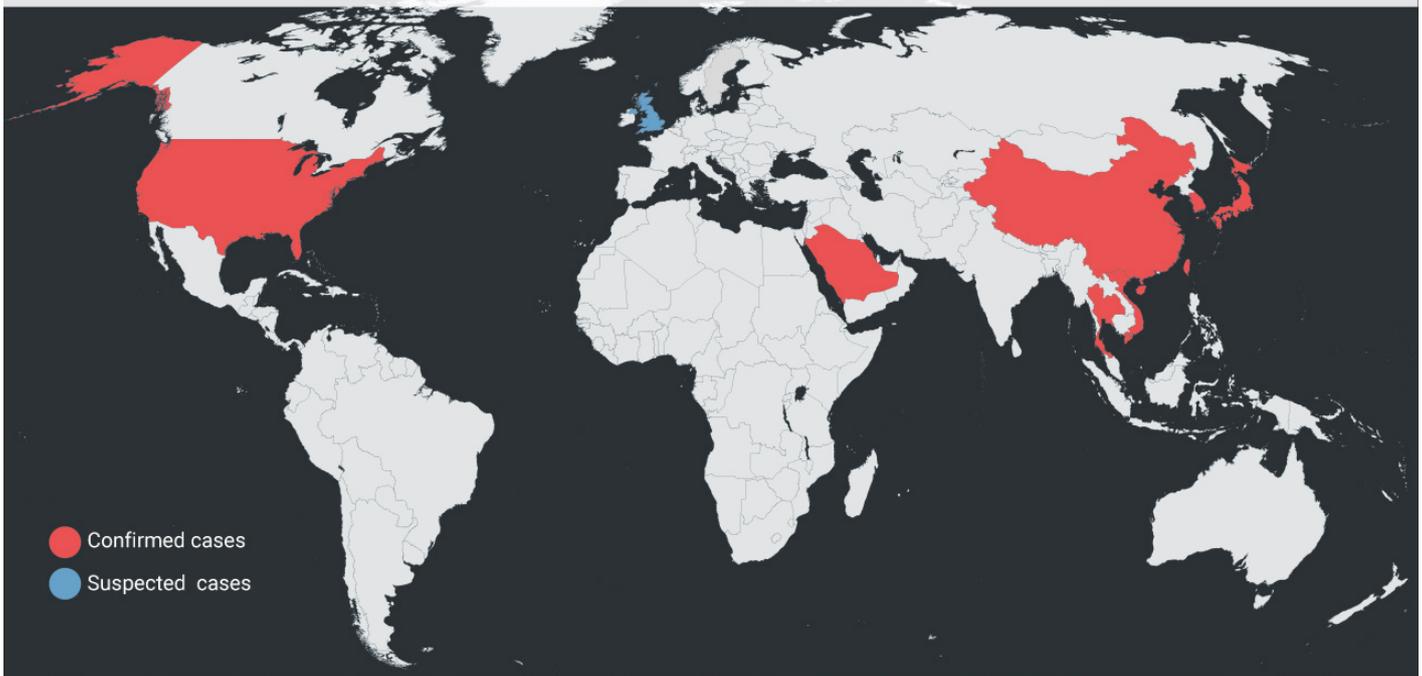
There's reason to believe the disease isn't nearly as big a threat to public health as the one posed by the SARS outbreak in 2003, which killed nearly 800 people. Inevitably, though, the biggest political and economic effects of pandemics come from public panic and panicked government responses, not the disease itself. And given Beijing's checkered track record for managing these sorts of emergencies over the past two decades, the Communist Party of China's very legitimacy might just prove to be on the line.

How Bad Is It?

Coronaviruses come in a variety of strains. Some, such as the one that's one of the many causes of the common cold, are relatively harmless. Others, such as those responsible for SARS and MERS, are potentially lethal. The dangerous coronaviruses seem to be linked to animals. SARS may have originated in bats and then spread to humans via civets, which are eaten as a delicacy in China. MERS also came from bats but spread to humans via camels, once again, perhaps through consumption of raw camel milk or meat. It is therefore reasonable to suspect that the new coronavirus is linked to animals that are eaten. Indeed, the reason China is always likely to be ground zero for the next influenza pandemic is that millions of people regularly come into contact with livestock. As Smithsonian Magazine wrote, "Many Chinese people, even city dwellers, insist that freshly slaughtered poultry is tastier and more healthful than refrigerated or frozen meat."

Whatever the source, it's now been confirmed to be capable of being transmitted from one human to another. Even so, the new coronavirus will have a limited direct impact on public health. SARS appeared in 2002, spread quickly around the globe in 2003, infected 8,096 people and killed 774. Then, with the exception of a handful of cases, it mostly disappeared. MERS has infected 2,442 people and killed 842. It still lingers throughout much of the world, particularly in the Arabian Peninsula. And though the reported case-fatality rates for both seem high – 9.6 percent for SARS and 34.5 percent for MERS – bear in mind that many mild cases probably went unreported. The real case-fatality rate is likely lower.

Worldwide Spread of Novel Coronavirus



The damage inflicted directly by the disease is therefore highly unlikely to have much long-term impact. But, particularly in China, the potential economic and political implications can't be dismissed.

Economic Impact

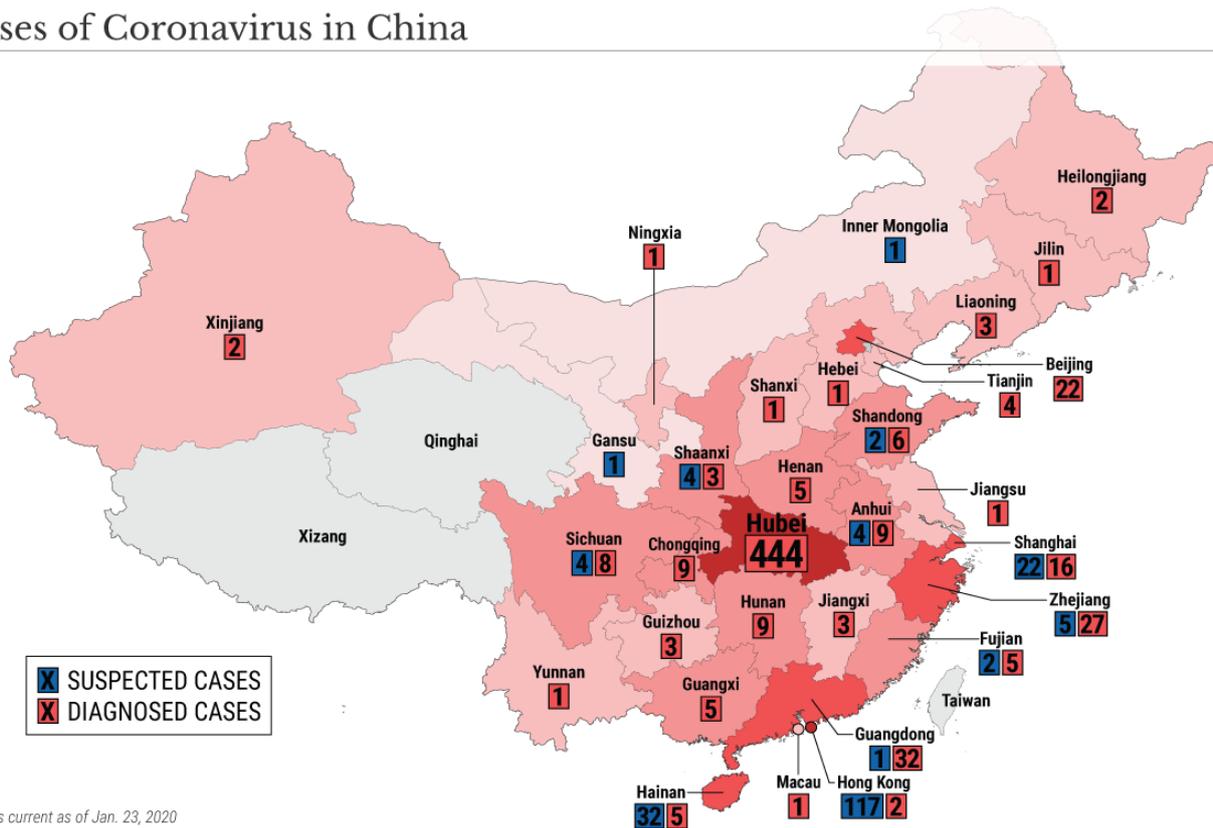
The problem with new outbreaks is that the public and public officials alike can't exactly wait until all the facts become clear before taking preventative measures. And it doesn't take much for fear of the unknown to grind public transportation systems to a halt, empty out shopping centers, movie theaters and restaurants, and, most important, persuade revelers to just stay put this year during the Lunar New Year rather than join the hundreds of millions of people who [take part in the world's largest annual human migration](#) [4].

The costs add up quickly. The SARS outbreak in 2003, for example, dented Chinese gross domestic product by as much as \$30 billion, [reducing annual growth by between 1-2 percent](#) [5]. Globally, the bill for the pandemic ran up to as much as \$100 billion.

Not all economic activity will be lost for good. Short-term hits to the sorts of sectors most exposed to the epidemic – mostly ones tied to consumer spending – often lead to supercharged recoveries. Chinese growth drivers where short-term disruption would have longer-lasting effects, such as manufacturing exports, industrial production and investment, stayed mostly intact in 2003. Indeed, while Chinese GDP growth dropped from 11.1 percent in the first quarter of 2003 to 9.1 percent in the second, it bounced all the way back to 11.6 percent a year later.

Still, even if nCoV proves more manageable than SARS, there are reasons to think the impact this year will be worse. For one, the SARS epidemic occurred on the heels of the dot com crash, when consumer spending across the region was already somewhat suppressed. (Incidentally, the resulting reduction of international travel may have helped contain the spread of the virus.) For another, locking down an urban area as large as Wuhan – a city at the center of one of China's most important internal shipping routes along the Yangtze – will be immensely disruptive.

Cases of Coronavirus in China



Note: Figures current as of Jan. 23, 2020

Sources: China's National Health Commission, The Economist Intelligence Unit

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Moreover, a substantial portion of the lost holiday spending will never be recovered. This is a problem for Asia Pacific nations that, unlike in 2003, are now highly dependent on Chinese tourists. All told, Chinese people took an estimated 130 million more trips abroad in 2018 compared to 2003, and before the outbreak, the China Outbound Tourism Research Institute predicted that more than 7 million Chinese people would head overseas during the Lunar New Year this year. In Thailand, which has already reported four cases of nCoV, foreign tourism accounts for as much as a fifth of economic growth. Around 57 percent of visitors to Thailand last year were Chinese, including more than 2 million in January and February alone. Japan, which hosts the 2020 Summer Olympics, is estimating an economic loss of nearly \$25 billion if the virus spreads as widely as SARS.

The biggest difference for China this time around is that the economy can't as easily shrug off a major shock. In the early 2000s, annual GDP growth was still climbing well above 10 percent. Today, with a long structural slowdown well underway, [Beijing is running up staggering debts](#) [6] just to keep growth from swan-diving below 6 percent. Add to this an unresolved trade war with its largest export customer – along with its scramble to implement critical but growth-sapping measures to stave off a financial meltdown before the next global slowdown strikes – and the epidemic starts to look like the sort of thing that could derail Beijing's best-laid plans for avoiding an economic reckoning.

Political Impact

The outbreak will also complicate a broader, existential challenge weighing on the CPC: preserving its very legitimacy with the public. Delivering steady gains in prosperity is, of course, at the center of this challenge. But breakneck economic growth has become impossible to sustain –

and was never going to be sufficient, anyway. The wealthier a country becomes, the more its citizenry demands quality of life that can't be sourced solely from rising GDP, things like clean air and water, medical services, social safety nets and responsive, corruption-free governance. This is why President Xi Jinping has encouraged the party to shift its focus to "high-quality growth," and it's why [he's put environmental and emergency management initiatives at the center of his sweeping reform agenda](#) [7]. No amount of propaganda or censorship can convince his people that a smog-choked sky is actually blue or make devastation from an earthquake disappear.

The 2003 SARS outbreak laid bare the political risks of mismanaging a public health emergency. The government came under withering public criticism for covering up the scale of the epidemic (inadvertently worsening panic), impeding the World Health Organization's investigation, and moving slowly to contain the outbreak. Bungled government responses to a number of other crises, such as the 2008 Sichuan earthquake, a high-speed rail accident in 2011, and a string of scandals involving tainted milk, tainted vaccines and fiery industrial accidents likewise prompted fierce public outcry. Beijing received higher marks in subsequent health scares, particularly the H171 bird flu outbreak in 2013. And this time around, initially at least, it received international praise for its improved transparency and swiftness in moving to contain the virus. Chinese authorities had isolated and published the nCoV genome by the second week in January, allowing foreign governments to develop critical testing procedures for the virus. Xi addressed the emergency personally last week, ordering "all-out prevention and control efforts." China's top political body responsible for law and order said officials who withheld information would be "nailed on the pillar of shame for eternity."

But facts on the ground are once again giving the public reason to doubt its government's candor and capability. Authorities have been claiming for more than a month that the virus is "preventable and controllable." Now, [they're taking extreme measures like locking down the Wuhan metro area](#) [8], home to some 19 million people, and making belated mea culpas. The government has also struggled to abandon its practice of reflexively cracking down on independent sources of information, despite commands to do so from on high. This has led to contradictory messaging and suppressed information that might have helped contain the virus. Chinese censors initially ordered local media outlets to stick to reprinting official reports, [according to the Financial Times](#) [9], effectively silencing independent reporting. And in early January, eight people were reportedly detained for posting information about the outbreak on social media. As also happened in the SARS outbreak, moreover, the government's rigidly enforced top-down decision-making structure has once again worsened matters by incentivizing, for example, hospitals to under-report cases and local authorities to go forward with high-profile public gatherings deemed politically important.

For all the criticism they are receiving, authorities in Beijing are trying to address a problem that would bedevil any government. China is very large and very dense. As happened with SARS, panic would almost certainly do more damage than the disease itself. And Beijing may reasonably conclude that resorting to drastic measures may truly be in the public interest, even if they're at odds with public sentiment. Perhaps more than any government, Beijing has given itself the power to surveil its citizenry, to shut down cities, to silence unfounded rumors on social media – all without permission. Such powers certainly could come in handy in this sort of crisis.

But by hoarding authority – by insisting on the right to micromanage the country – the CPC has raised the bar for what the public expects in response when the country is under attack, whether from foreign powers, [economic forces](#) [10] or viral mutations. This is a problem when tight centralization has also, paradoxically, created a rigid top-down institutional culture that's ill-suited to respond nimbly to public demand. When faced with a crisis, the machinery of the state is programmed to default to the tools it knows best. [Censorship, disinformation and problem-solving by brute force](#) [11] are hardwired into the Chinese system, often making it at once flat-footed and prone to overcorrection. Yet, the more pressure intensifies, [the more Beijing is doubling down on this model](#) [12]. And the stakes riding on its bet are getting higher.

Alex Berezow is Vice President of Scientific Communications at the American Council on Science and Health. Both he and Phillip Orchard are Analysts with Geopolitical Futures.

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[4] <https://geopoliticalfutures.com/reading-oct-3-3017/>

[5] <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6046118/>

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