

Weijian Shan: China Must Immediately and Fully Resume Work

Article | By Peng Ren, [Barron's Weekly](#), 11 March 2020

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Editor's Note: Weijian Shan, Chairman and CEO of PAG, has been closely monitoring and studying the outbreak of the new coronavirus (Covid-19) and the measures adopted to fight it. He thinks that there is no need for panic and different countries must adopt their own strategies to fight the disease in accordance with their own capabilities and feasibilities. In China where the outbreak is being brought under control, he thinks that full-scale resumption of work has become an urgent priority and cannot be delayed for another moment. Otherwise, no policy measures to stimulate the economy will be adequate to offset the damages to the economy from long-term shutdown of businesses and production. He thinks that the volatility in the US stock market triggered by the double whammy effects of the new coronavirus and oil prices marks the end of the longest economic expansion in the US history and the bull market. The trade negotiations between the United States and China will be influenced by two competing forces in the United States, being the need to help the economy from the damages of the trade war and the political need to be tough on China in an election year.

Our Interview with him is as follows

Barron's Weekly China: You were interviewed by the media shortly after the outbreak of Covid-19, just about a month ago. At the time, you predicted that both the Chinese and the world economy will be affected by the outbreak, but the Chinese economy is expected to rebound after the disease is contained. Now one month has passed, has the spread of the new coronavirus been consistent with your expectations? Do you have any fresh views on its effect on the Chinese economy?

Shan: Covid-19 has caused extreme panic. I wrote an article about one month ago in which I compared the outbreak of Swine Flu (H1N1) in the United States in 2009 with Covid-19. In fact, the number of deaths caused by the former was far greater than the

latter. Swine Flu was first identified in April 2009. By the end of 2009, 12,000 people died in the United States alone. The WHO declared the pandemic over in August 2010. By then, 284,500 people had died worldwide. There wasn't panic at the time and therefore people have largely forgotten about it.

In China, to date (March 10, 2020), there have been 80,924 confirmed cases of infection, of which 59,982 are fully recovered and 3,140 are dead. However, outside of the epicenter of Hubei Province, the number of deaths is only 116 out of a population of more than 1.3 billion people. This suggests that Covid-19 isn't as deadly as feared. Neither is the mortality likely to significantly increase because the rate of full recovery has now exceeded 94%.

On average, 60-65,000 people die from traffic accidents in China each year, or no less than 5,000 per month, or about 167 people per day. In other words, the total number of deaths from Covid-19 in three months is smaller than the number of people who die from traffic accident in a single day.

Nonetheless, Covid-19 has caused a nationwide panic. The measures taken to fight the disease has crippled the economy as businesses throughout the country have been shut down, either fully or partially. The country still hasn't fully resumed work. The impact on the economy is huge and wide-ranging. For some sectors, such as airlines, hotels and restaurants, the damages are disastrous.

By my estimate, there will be significant negative growth in the Chinese economy in the first quarter. But the virus is nearly brought under control in China. Therefore, full-scale resumption of work nationwide is currently an urgent priority. If resumption is timely, the economy will rebound. The longer the delay is, the greater the long-term damage will be, making recovery and rebound very difficult. For examples, for airlines, restaurants and hotels, if they go under, there will be no chance for rebound. Therefore, full-scale resumption cannot be delayed one moment further.

Barron's: The quarantine measures have severely affected consumption and services. In order to help the economy, the government has proposed measures such as tax cut and expansion in infrastructure investments. We know that you have advocated a consumer oriented economy and warned against the economy relying too much on investments. Do you have any policy proposals on how to pull up the economy after Covid-19?

Shan: All the measure which you have mentioned are of course helpful to the economy. Banks providing grace periods to corporate customers will be very helpful to businesses as well. However, if full-scale production is not resumed, all these measures won't solve the fundamental problems and their effect will be a drop in a bucket.

China's GDP per month is about \$1.2 trillion, or \$3.6 trillion per quarter. If production is cut by 1/3, then the economic loss in a quarter will be \$1.2 trillion. If production is cut by 1/2, the economic loss in a quarter will be \$1.8 trillion. If the country does not fully resume work, what kind of stimulus measures can offset such losses?

Barron's: It seems that after China has basically brought the virus under control, other countries are facing the problems China faced about a month ago and the spread of the virus seems to be at a faster pace globally than earlier expected. What is your view on Covid-19 in other countries and the measures taken to fight it in the United States, Europe, Japan, Korea and other countries? Do you think Covid-19 will seriously affect the economies of these countries?

Shan: It depends what strategies they adopt to deal with the contagion. After the outbreak of Swine Flu (H1N1) in April 2009 in the United States, the US strategy wasn't containment [as China's], but to prepare for "surge capacity," making sure that there is enough medical supplies and provisions to deal with peak outbreak. Therefore, although the pandemic lasted 16 months, it didn't have a major impact on the economy. The strategies to fight the disease differ across countries. There is no right or wrong strategy, they are different because the capabilities and feasibilities of different countries differ.

The United States or any other country cannot afford to adopt the strategy that China has adopted, which is to contain the virus at all costs. For example, it is unthinkable for the United States to close off a major city with several million people. Therefore, it can only adopt the strategy to prepare for "surge capacity" to make sure that there is sufficient capability to provide medical care at the peak of the outbreak. Such strategies will have a milder adverse effect on the economy than absolute containment, but the effectiveness to control the spread of the virus will be weaker too.

Barron's: Lately there has been great volatility in the US stock market. It seems that the 10-year bull market is at risk of ending. Are you worried that Covid-19 will be the fuse to end the US bull market, leading to global economic crisis? Why?

Shan: I think the probability is very high. I published a number of articles last year, suggesting that the US economic expansion has been the longest in history and the downturn will inevitably come, and it would just be a matter of time. I further suggested that the trade war, if not resolved, may trigger such a turning point.

It seems that the double-whammy effects of Covid-19 and oil prices have finally broken the back of the camel and triggered the downturn in the stock market. The stock market is a reflection of the underlying economy which is likely entering a down cycle.

Barron's: Other than Covid-19, there are other “black swan” events in the world lately. For example, the more radical candidate Bernie Sanders once led in the Democratic primary, causing worries in the capital market and it, coupled with Covid-19, has caused major volatility in the stock market in the US. Comparing the effect of US politics, Covid19 and oil prices, which of these factors has more of a negative impact on the world economy and is more likely to cause new crisis?

Shan: As previously mentioned, the market has been searching for an excuse to correct itself since the second half of last year. Therefore, any major negative news is likely to trigger a slide. It is hard to say which of the factors is more important. In a strong bull market, almost none of the negative factors could cause a fundamental change in the market direction. When the bear market is at the door, almost any negative factor can trigger a downturn. The key issue is that the economic fundamentals have changed. For example, the US GDP growth has fallen from about 3% in Q1 to about 2% in Q4 last year.

Barron's: These “black swan” events have overshadowed the US/China trade war which used to be the focus of attention. I have read your recent article, *A Delicate Truce in the US-Chinese Trade War*, published in *Foreign Affairs*. You think that the phase one agreement does not represent a breakthrough for either side, nor has it resolved the fundamental problems between the two countries. Do you think therefore that when Covid-19 is over and the two sides resume trade talks, there will be renewed tensions? How will investors be prepared?

Shan: I have been of the view that when the US economy and the stock market are both overheated, it is difficult to cut a deal in trade negotiations because the United States doesn't feel the pain of the trade war. Even though the costs are significant, economic growth and low unemployment rate offset the harm of the trade war. Therefore, the US can take a strong stance. But when the US economy goes into a

down cycle, the cost of the trade war becomes harder to bear and negotiations will become easier.

It will probably be a while before the next phase of trade talks to resume. The US position will be influenced by political consideration now that the United States has already got into the election cycle. China bashing has been a theme in every presidential election since 1980. The candidates who don't do it are considered weak or unpatriotic. Of course, another main theme of the election is the economy. Any policy that negatively affects the economic performance will hurt the chances of the incumbent candidate. Therefore, the direction of trade negotiations will be determined by which of the two policy choices will increase the chances of the incumbent presidential candidate: the need to bash China on one hand and the the need to protect the economy from the ill effects of the trade war on the other.