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# The Impact of COVID-19 on China's Private Sector

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Professor of Economics  
CKGSB  
May, 2020

# COVID-19 Status

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A fact of life: we depend and thrive on social interactions

Once in a lifetime Event

- 4.7+ million diagnosed in 177 countries, 316K+ killed

Mitigation strategies implemented worldwide

More drastic strategies save more lives, incur higher economic costs

- Economic activity cratered
- Strong and swift policy responses

Almost 4 month after Wuhan lockdown, China enters a new normal

# Monthly BCI Survey

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## Sample

Cheung Kong Graduate School of Business Alumni  
Controlling shareholders/operators of private businesses  
More competitive than average industry peers

## Defusion indices

$$0.5 + 0.5 * [(\% \text{ improving}) - (\% \text{ deteriorating})]$$

# 企业竞争力指数 Corporate Competitiveness index

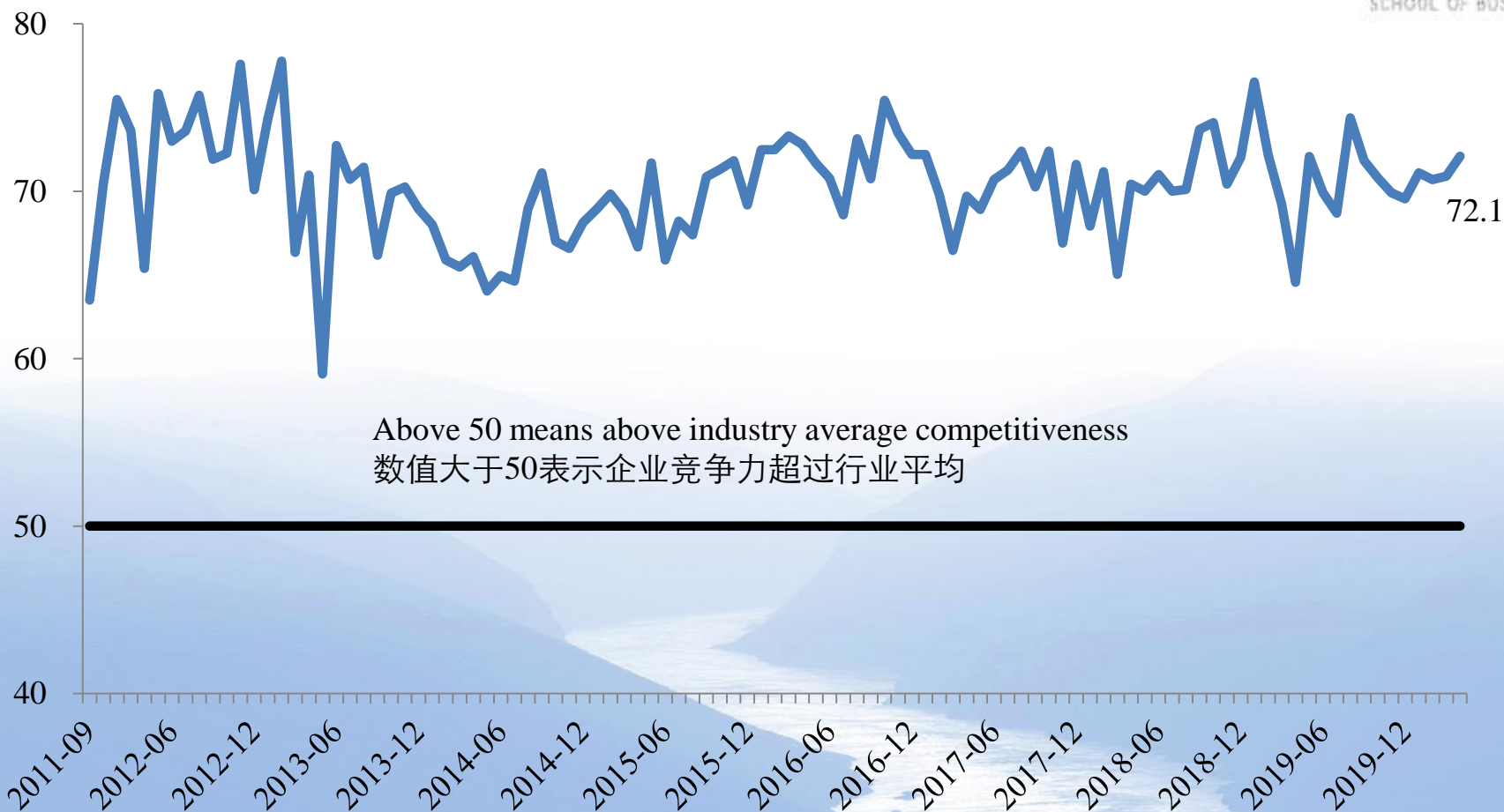
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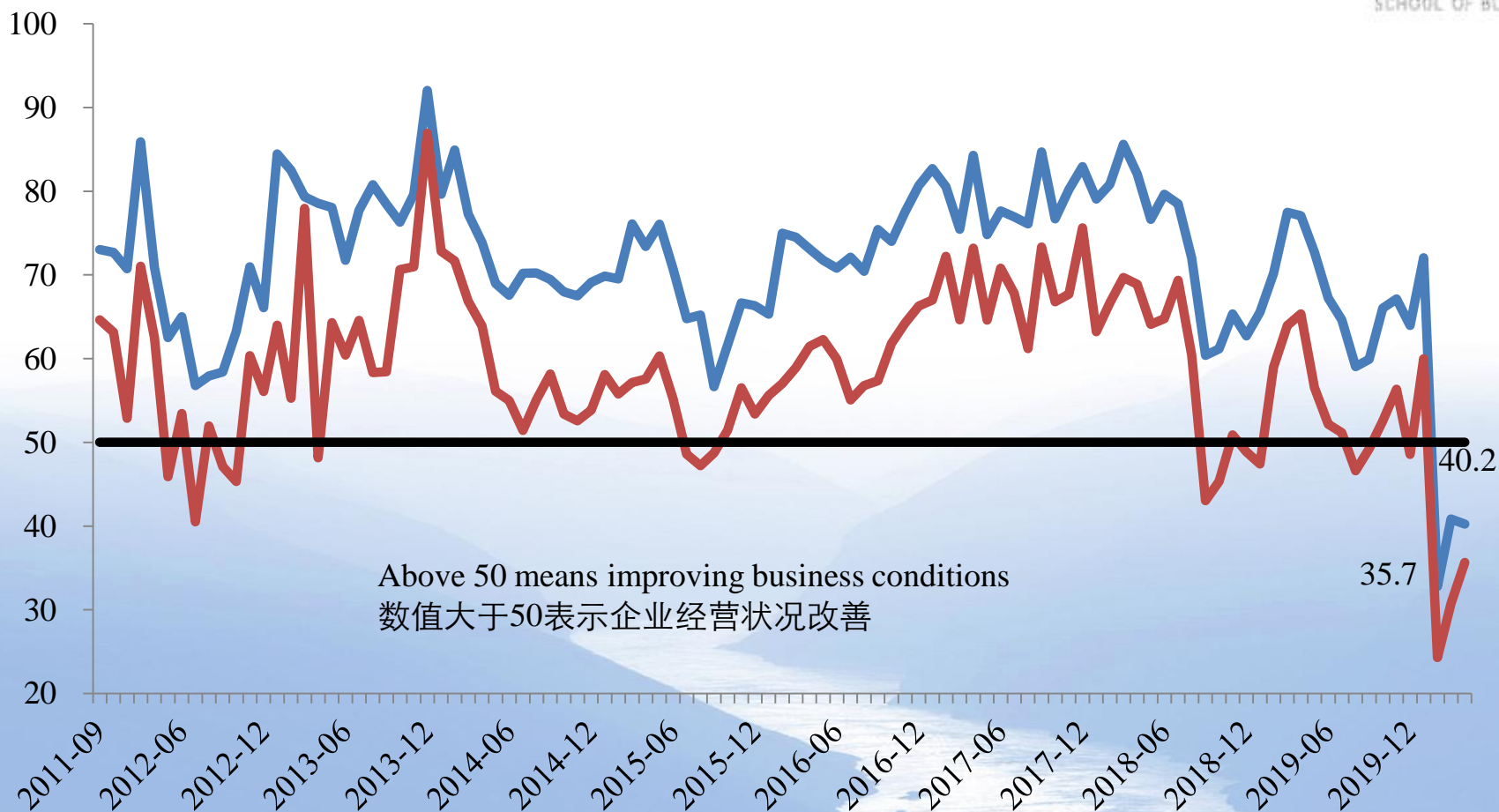
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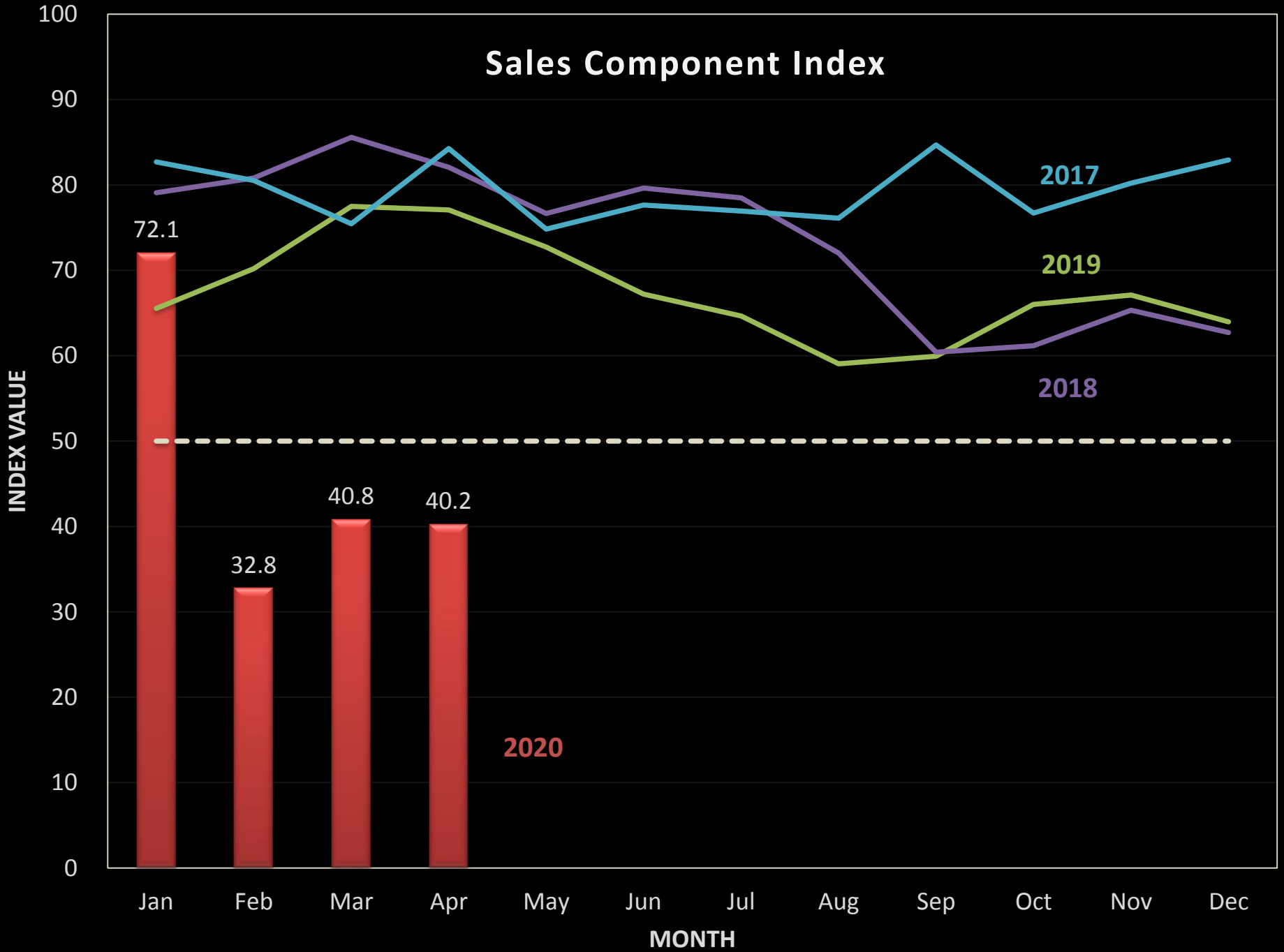


数据截至2020年4月  
资料来源: 长江商学院



数据截至2020年4月  
资料来源: 长江商学院

# Sales Component Index





# BCI分指数/BCI Components: 融资和库存状况指数

## Financing and **Inventory** Conditions Indices

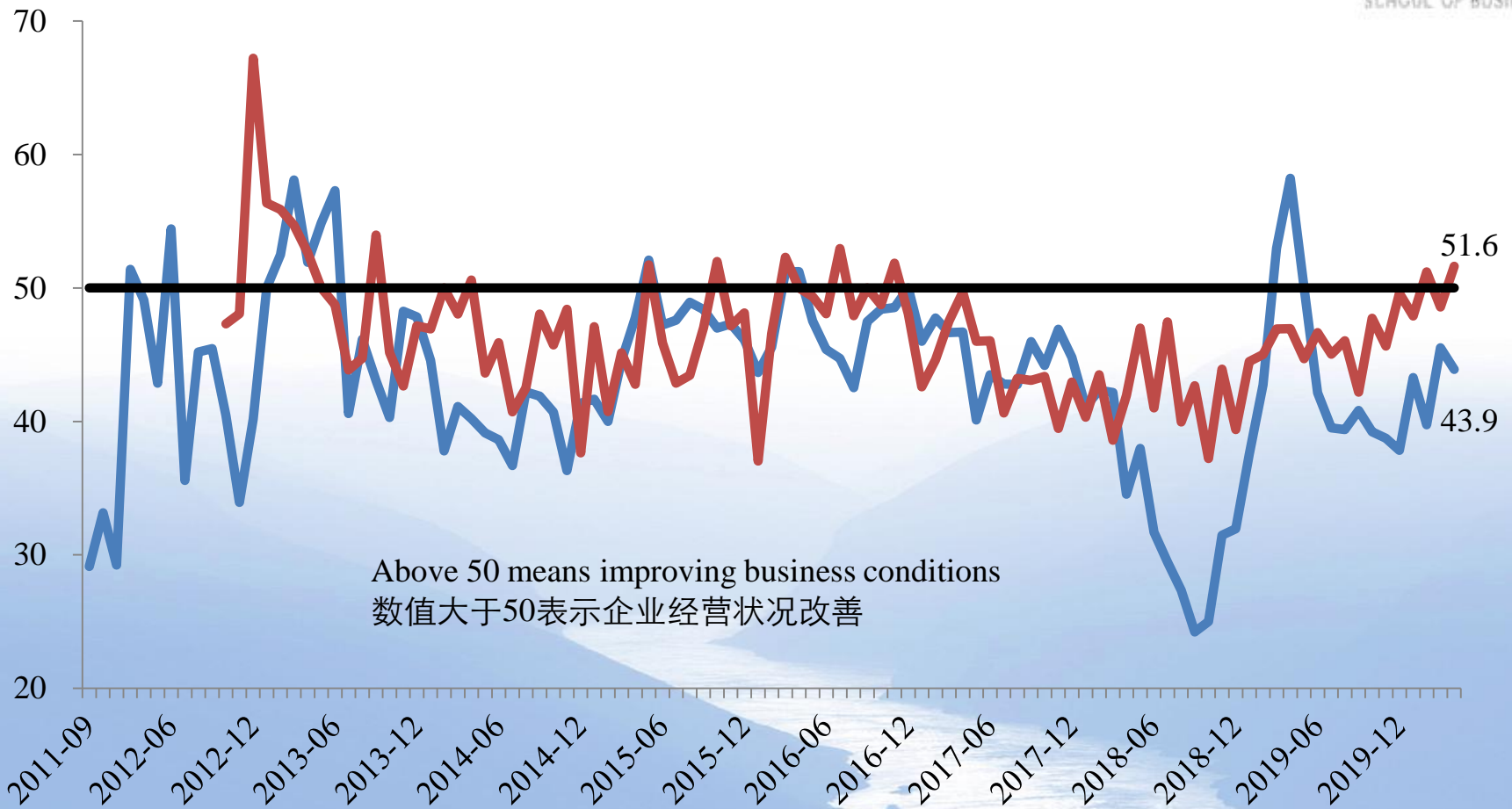
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# 企业经营状况指数 Business Conditions Index (BCI)

BCI是四个分指数的算数平均

BCI is the simple average of its four components.

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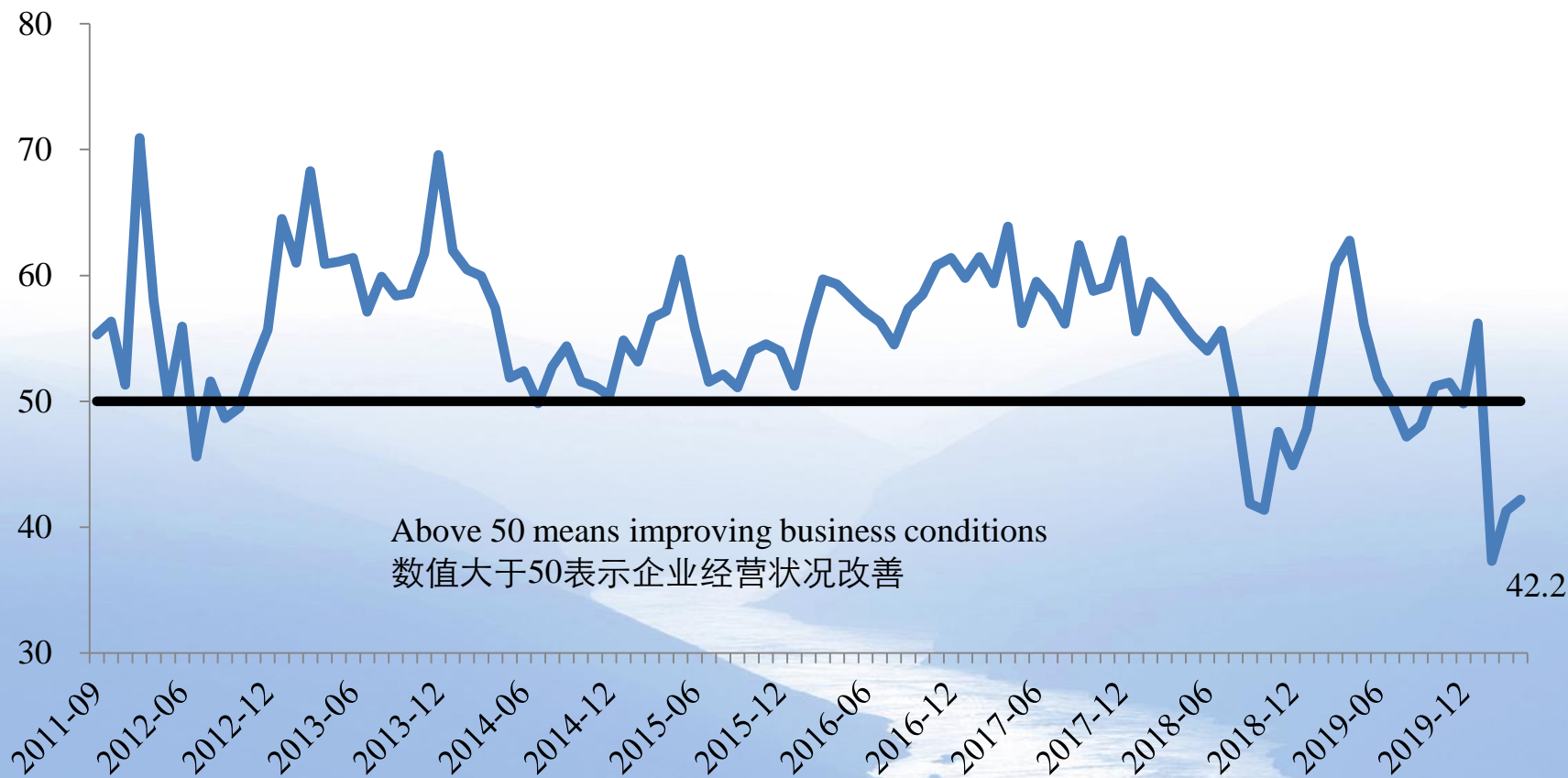
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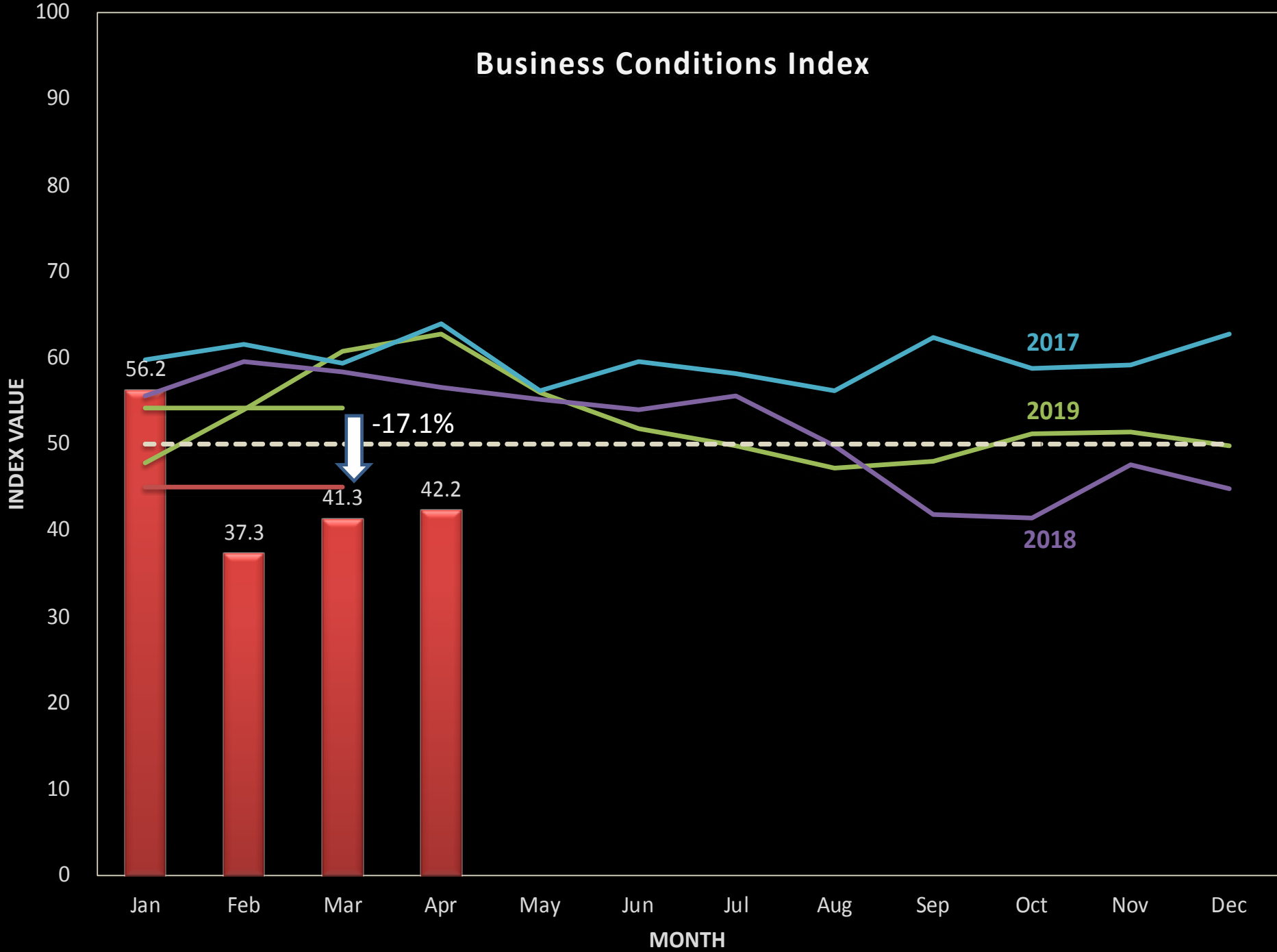
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— 长江商学院BCI — 分水岭



数据截至2020年4月  
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# Business Conditions Index

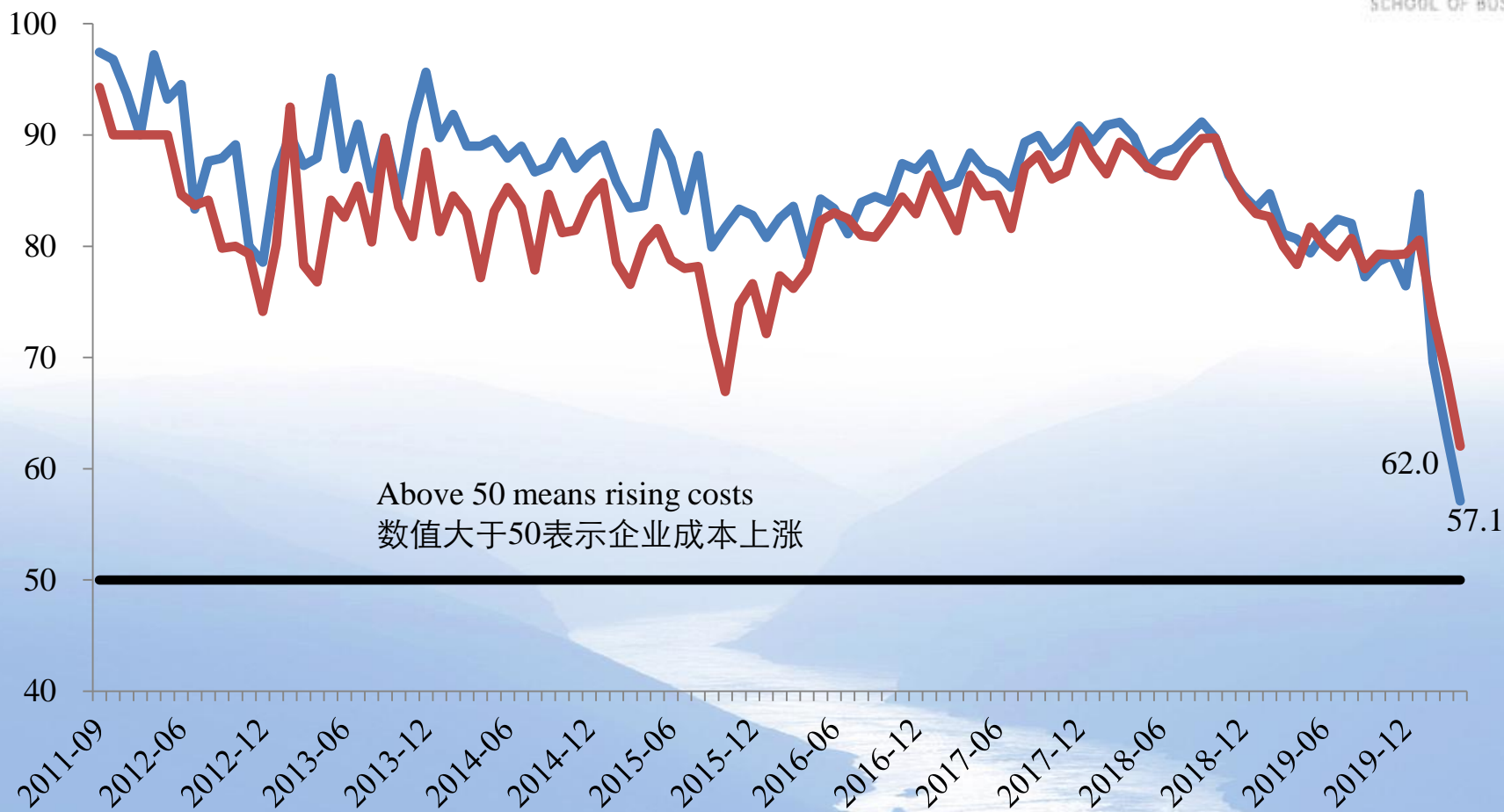


# 劳工成本和总成本指数 Labor Cost and Total Cost Indices

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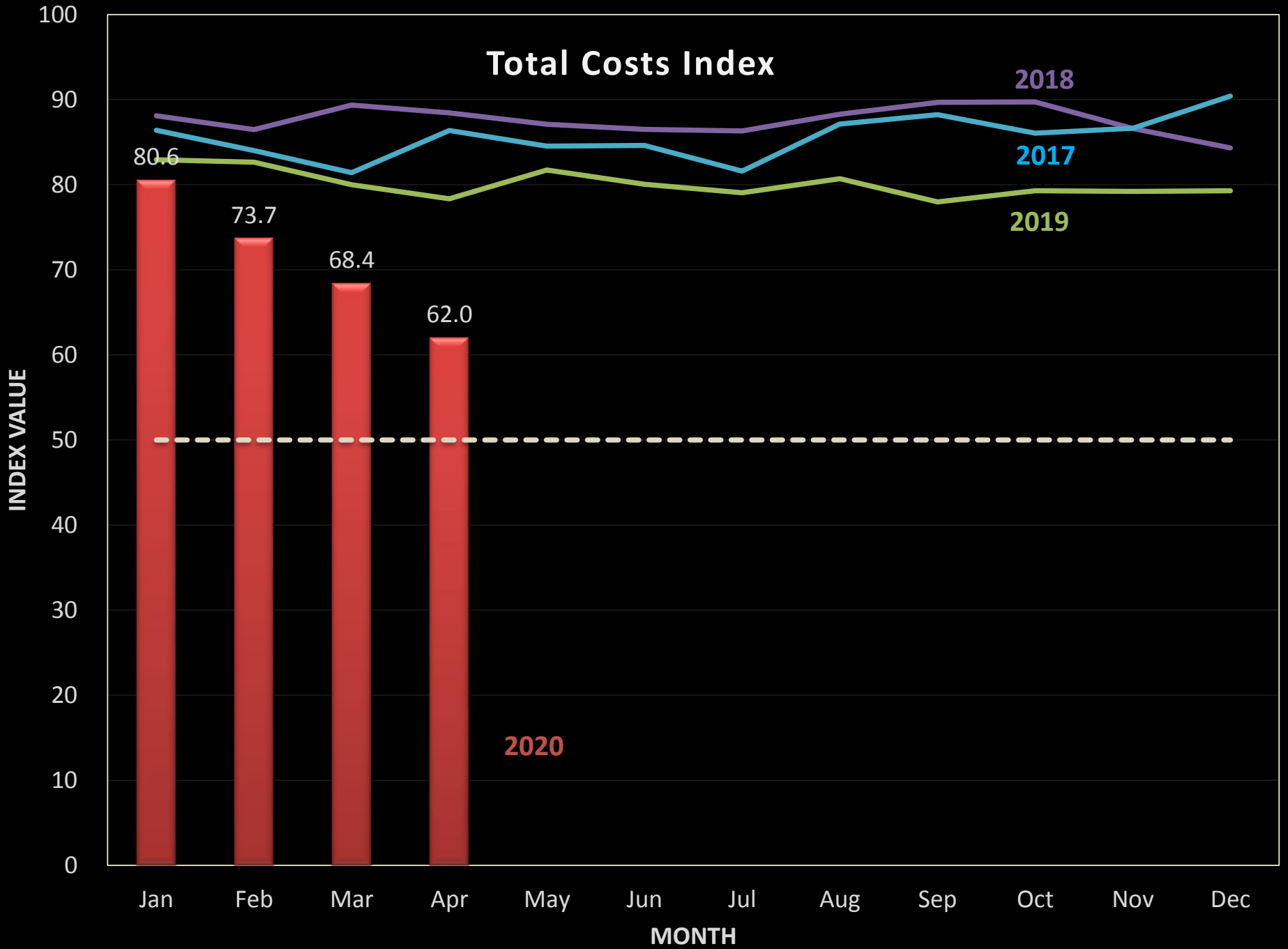


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数据截至2020年4月  
资料来源: 长江商学院

# Total Costs Index



# Official SOE Survey

## Q1 2020 Compared to Q1 2019

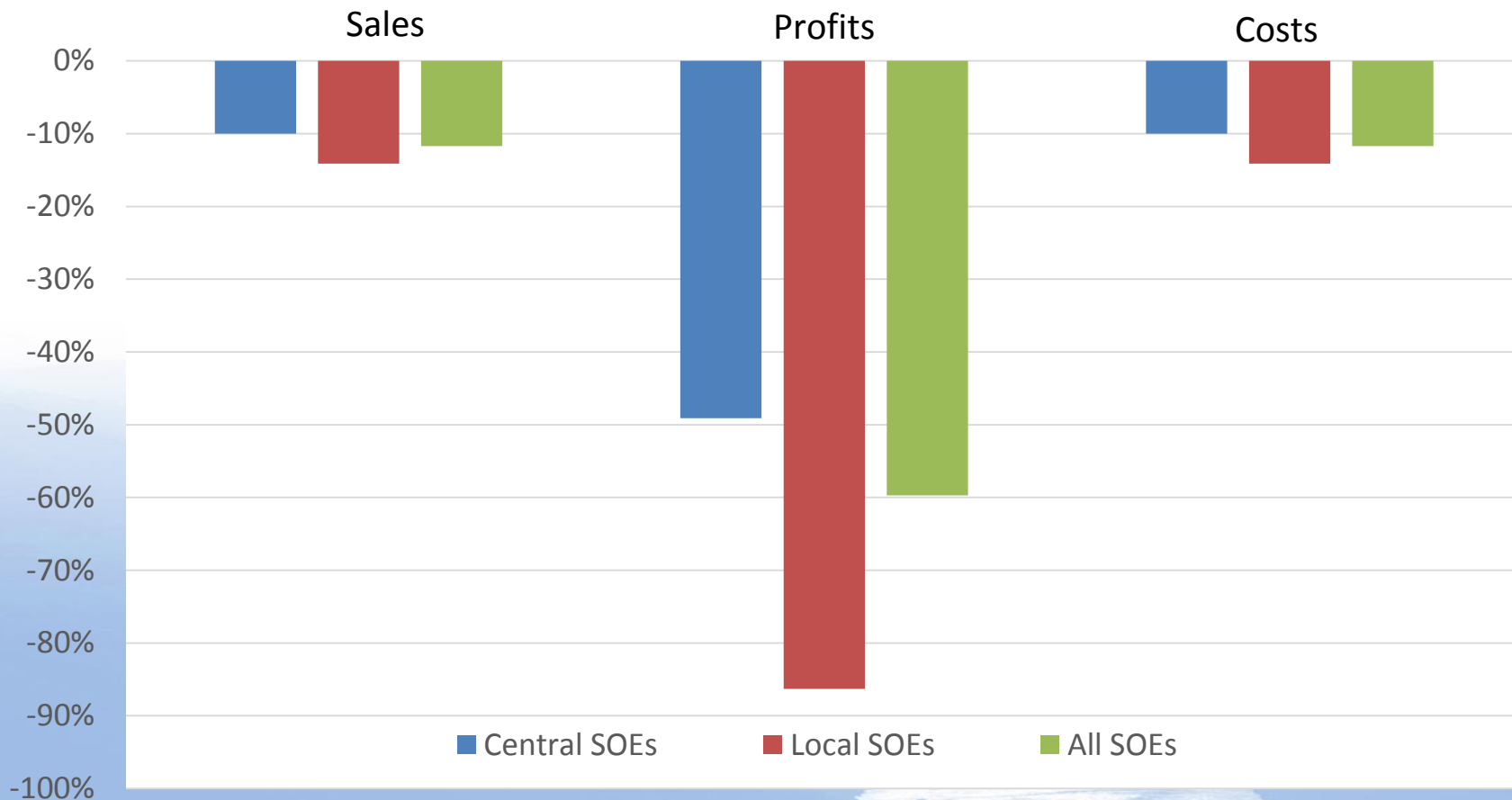
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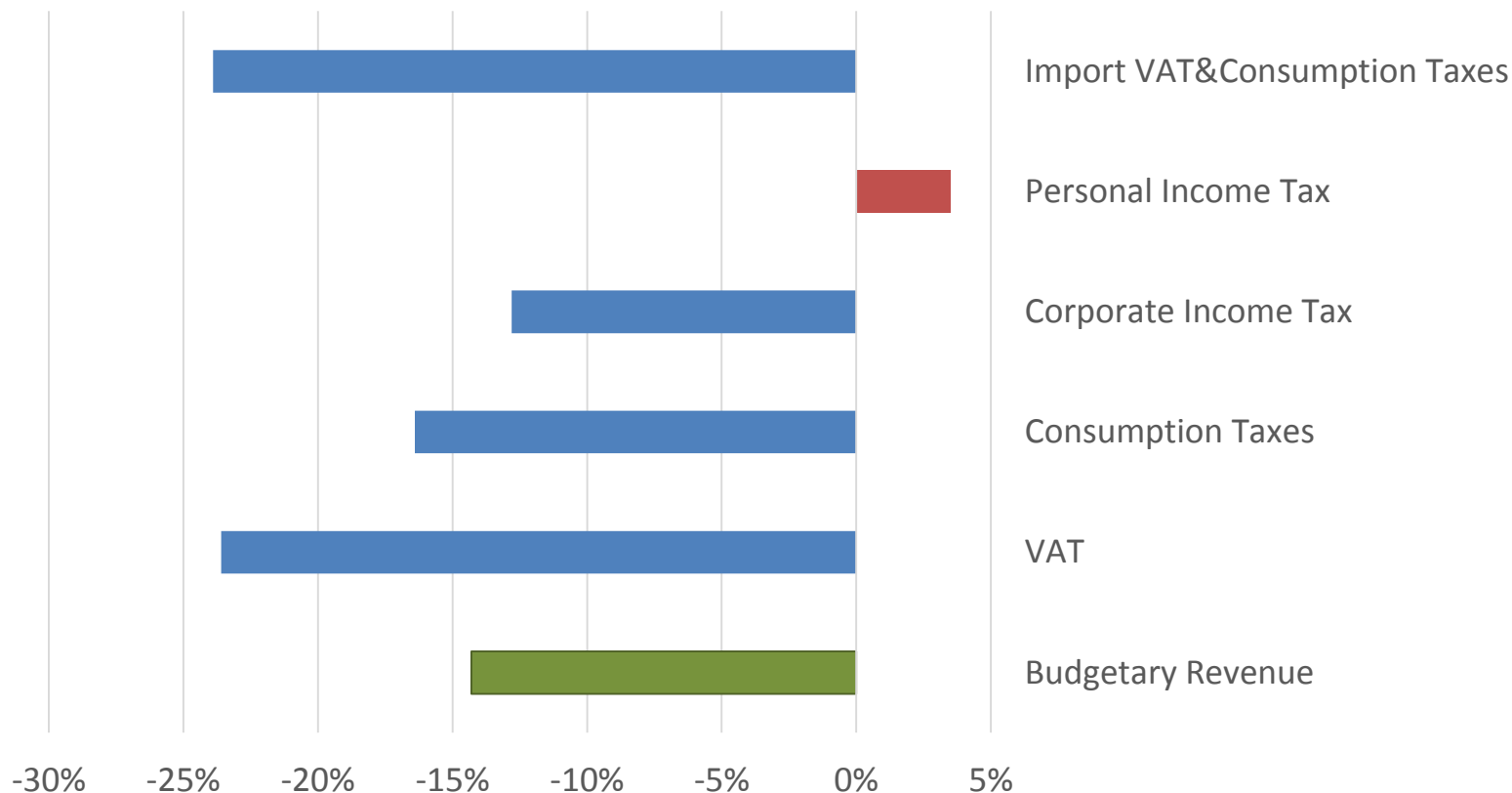


Data source: Ministry of Finance, PRC

## Budgetary Rev and Selected Taxes, Q1 YOY Changes



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Q1 reduction in taxes and fees: 742.8 billion yuan

- 3.6% of Q1 GDP
- 16.2% of Q1 government revenue

318.2 billion yuan is attributable to Q1 fiscal stimulus policies

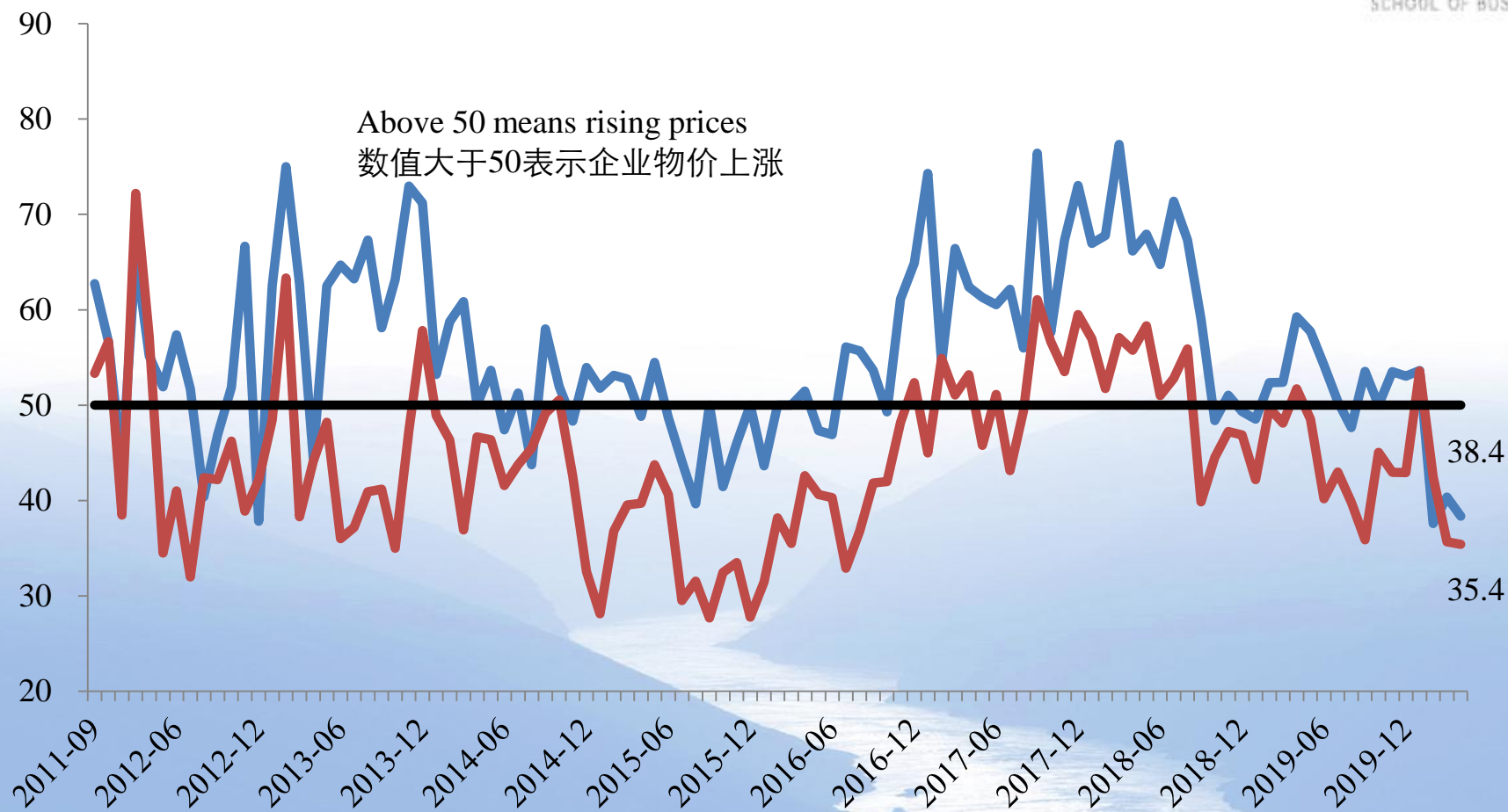
Data source: Ministry of Finance, PRC

# 消费者和生产者价格指数 Consumer and Producer Price Indices

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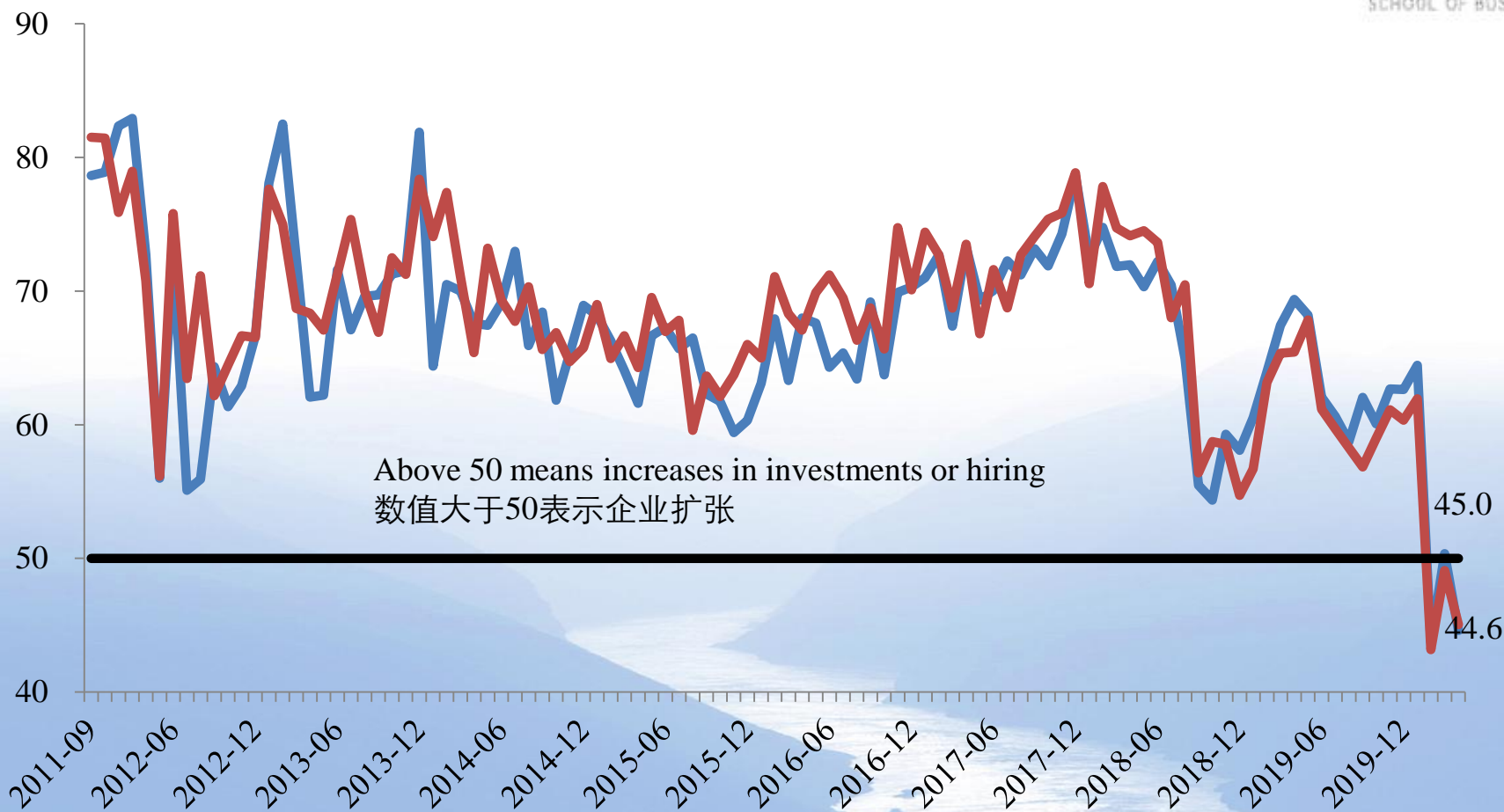
数据截至2020年4月  
资料来源: 长江商学院

# 投资与招工指数 Investment and Hiring Indices

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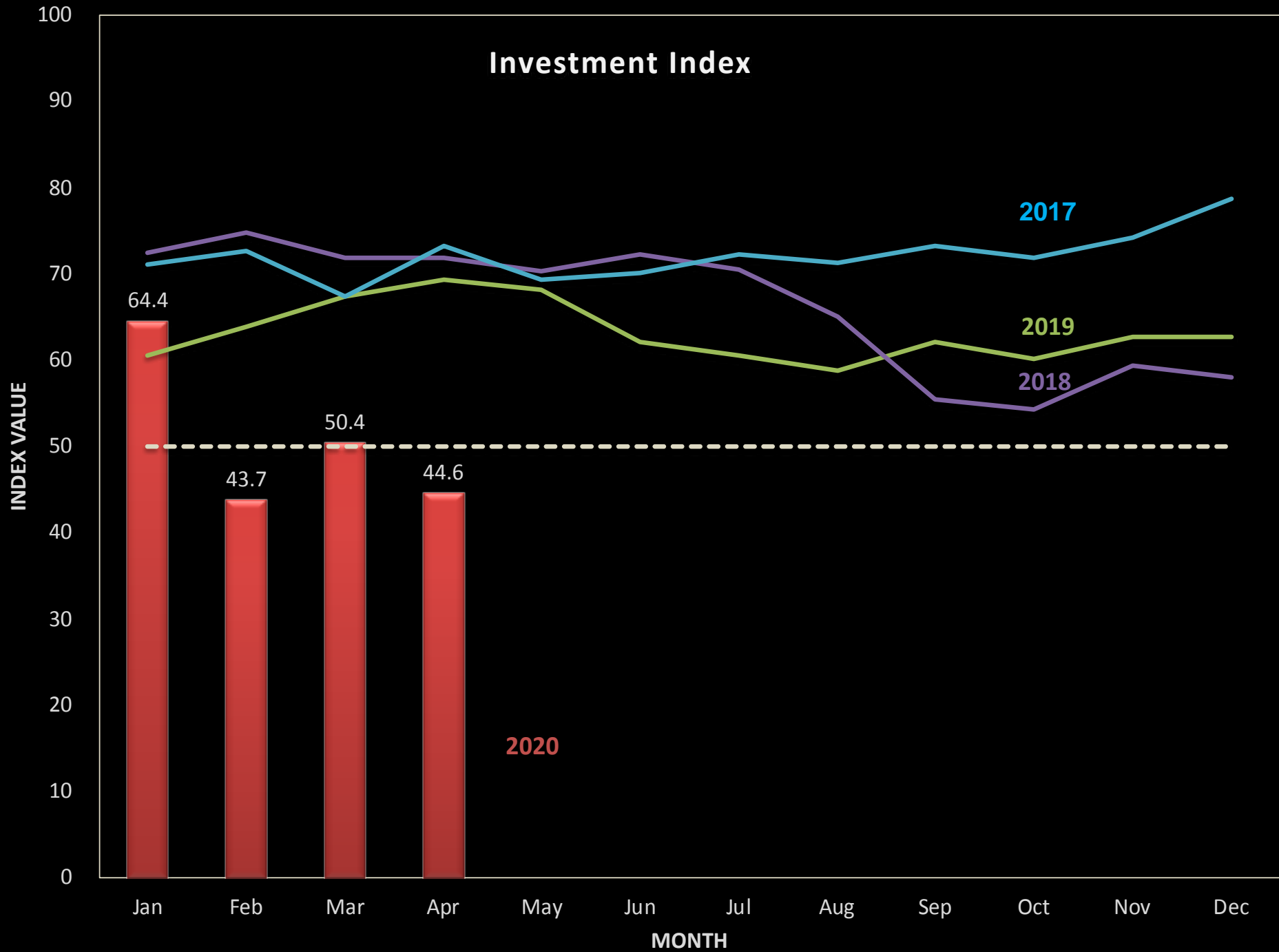


数据截至2020年4月  
资料来源: 长江商学院





# Investment Index



# Lessons from China

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- Social distancing/containment measures work
- Economic impact is huge
- Broad range of policies:
  - Public health, fiscal, monetary, social insurance, industrial, financial, trade...
- Resumption of production is not as easy as pushing the start button
  - Uncertainties (disease, diagnosis, therapeutics, vaccines; resurgence)
  - Contingent liabilities (firms and local officials face)

# Fiscal Stimulus

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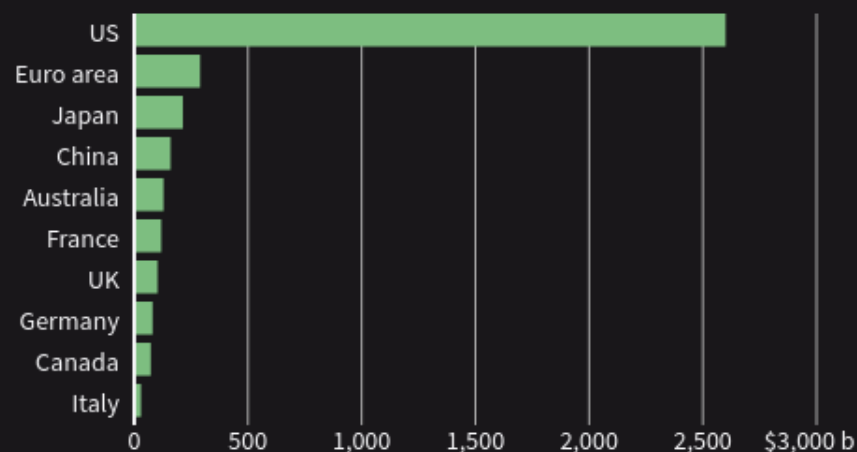
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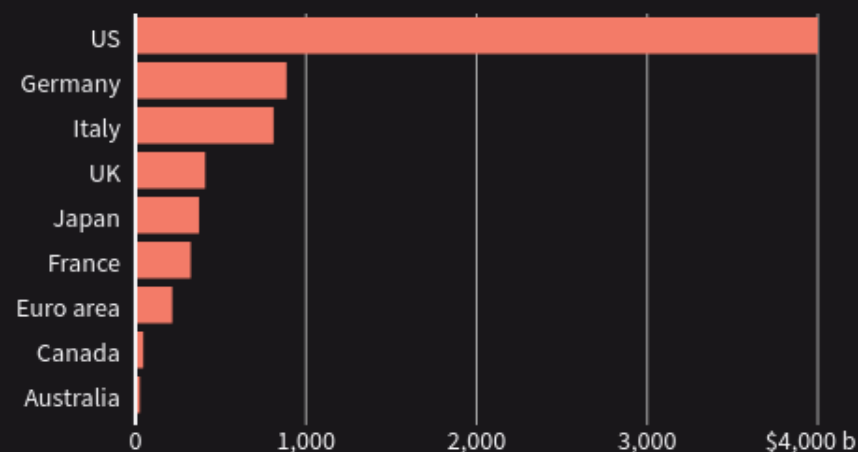
## Fiscal firepower

Fiscal stimulus and loan guarantees made by governments in response to COVID-19. \$ billions

### FISCAL STIMULUS



### LOAN GUARANTEES



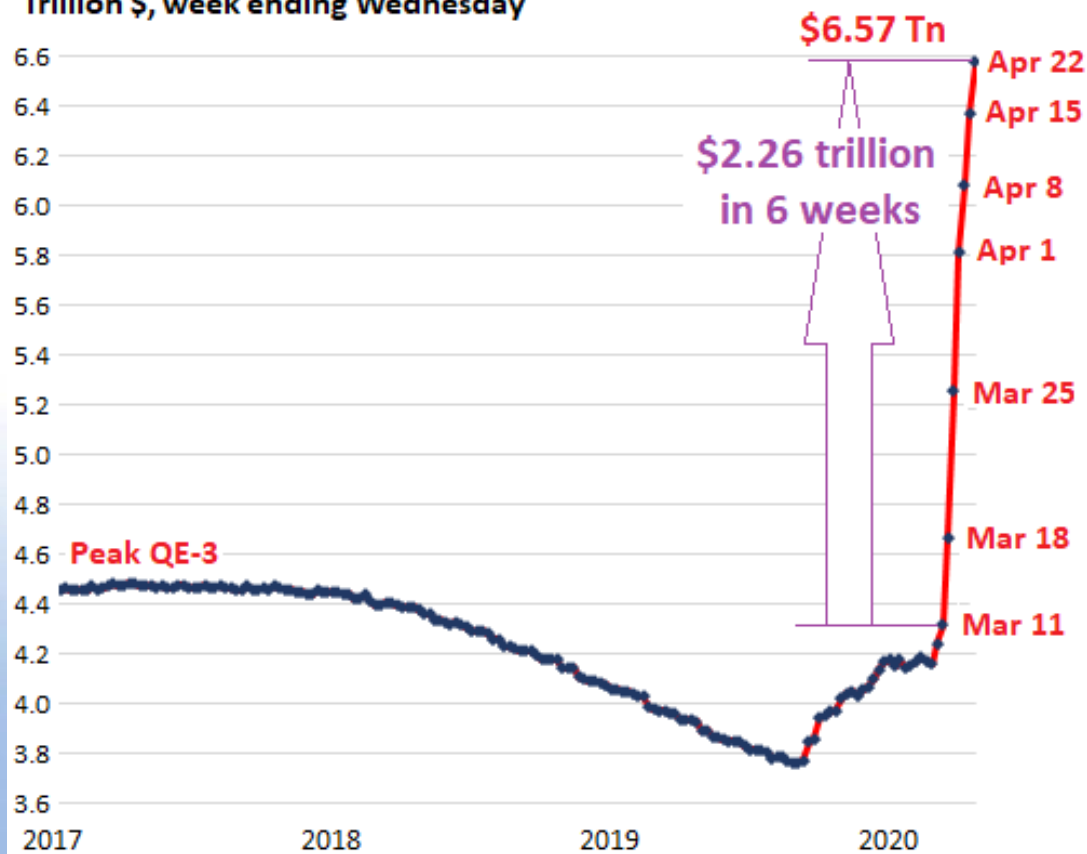
Source: Goldman Sachs, J.P. Morgan, Morgan Stanley, IMF, Reuters calculations

Ritvik Carvalho, Tommy Wilkes | REUTERS GRAPHICS



## Total Assets on the Fed's Balance Sheet

Trillion \$, week ending Wednesday



Source: Fed Board of Governors, St. Louis Fed

WOLFSTREET.com

# Total Social Financing Rose by ¥5T in M1-M4 2020 (over the Past 3 Years)

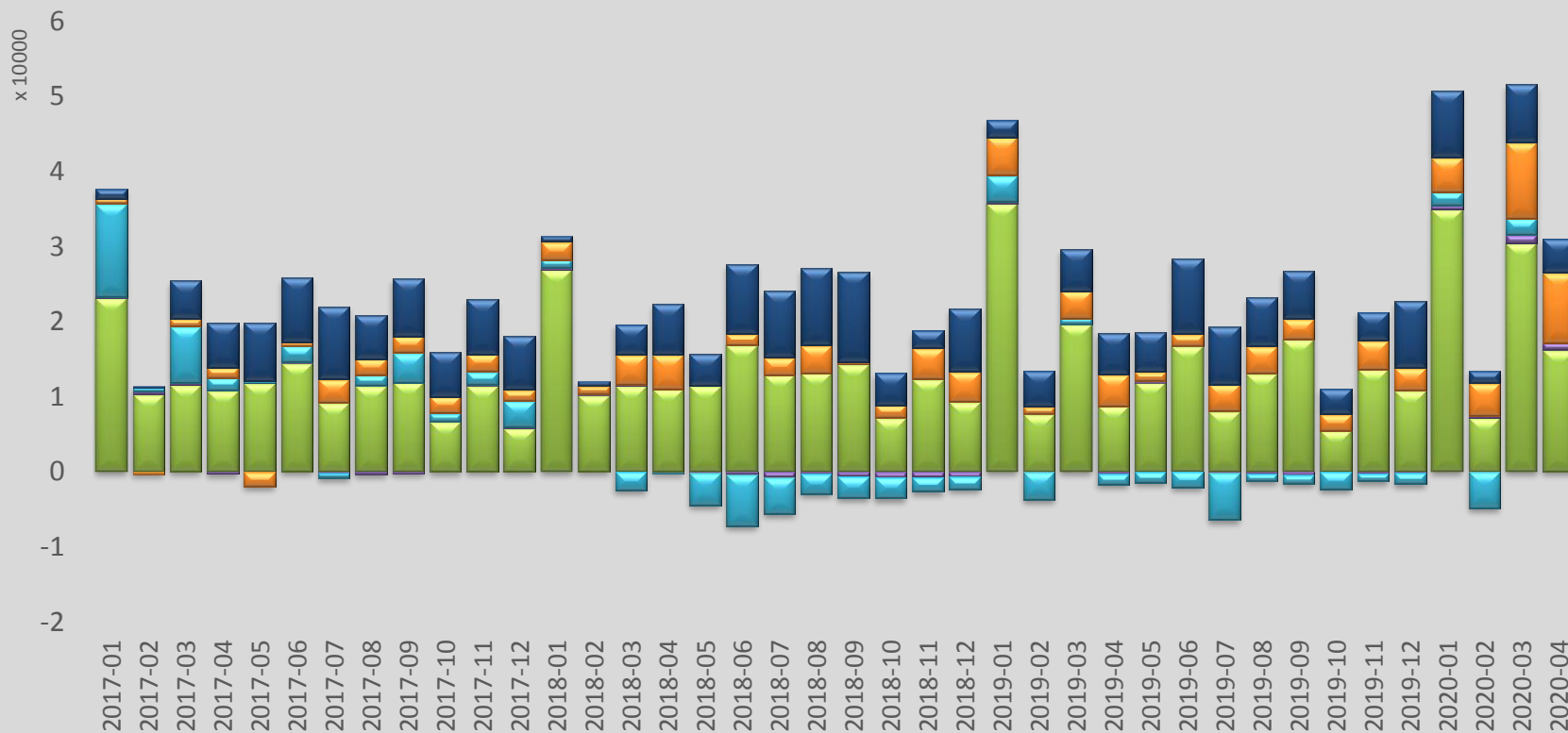
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## Total Social Financing (CNY, Trillions)

■ RMB Loans ■ FX Loans ■ OBS Financing ■ Direct Financing ■ Other



# Stimulus Policies

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- China's stimulus policies have been much weaker
  - Financial markets calmer: deleveraging in 2017-18 reduced financial fragility
  - Demand for unemployment assistance weaker: migrant workers returned home where cost of living is lower
  - How about keeping corporations and banks afloat during lockdown?
    - Socialization of finance and of corporations? Little need since China already a lot of SOEs and SOBs
    - Loan forbearance for SMEs important
  - Preserving options for the future
- Future
  - Fine tune stimulus policies as needed
  - Get serious with structural reforms

# Structural Reforms

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- Internal market integration
  - Local protectionism/Competition policies
- Capital
  - Marketization of interest rates
  - Exchange rate flexibility
- Labor
  - Freer movement of labor across regions
- Land
  - Property rights
- Local governments as suppliers of local public goods



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THANK YOU

