

China's Chernobyl...

... or the Dawn of the Asian century?

The Corona crisis may well be "China's Chernobyl", suggested a columnist in the journal *The Diplomat*. Will China face a similar fate as the Soviet Union did five years after the nuclear disaster in the Ukraine?

by **Uwe Hoering**, July/August 2020

They say that history does not repeat itself. But in fact, the Corona crisis is a serious challenge for the Beijing government. It is jeopardising its ambitions to transform the People's Republic into a full-fledged world power by 2049, the 100th anniversary of its founding. The geopolitical confrontation with the USA has escalated in this process. With its initial handling of the outbreak, Beijing has delivered a narrative to US President Trump that China is to blame for the Corona crisis, and hence for the worldwide economic recession and human suffering.

Image problems

As with the Chernobyl disaster, the first few weeks of China's Corona policy have been, to put it mildly, bumpy. There were allegations that the state reacted belatedly, ignored and concealed warnings, as well as reports of discontent and popular anger. There was the threat of a breakdown of legitimacy in domestic politics. This made measures such as the total blockade of the industrial megacity Wuhan all the more draconian, which initially earned the government considerable praise: on 24 January, Trump thanked China's President Xi Jinping for his achievements to contain the virus: "The United States appreciates the efforts and transparency.

As governments in other countries realised - again with some delay - that the virus was globalising, lockups, shutdowns, and travel restrictions à la Chinese became the frequently imitated blueprint. Now the motto was: "Learning from China...". And with the control of the spread of the infections, that was officially declared two months later, Xi Jinping succeeded in restoring his image as a successful virus tamer.

The economic consequences of the measures taken are more profound and prolonged. They too fuelled speculations of a loss of legitimacy, because the government is dependent on high rates of growth to achieve the promised "modest prosperity for all". During the first quarter, China's gross domestic product fell by 6.8 %, as opposed to the 6 % growth targeted for 2020. Data from the German research institute MERICS reveal production slumps of almost 20 per cent in the construction sector, of up to 30 per cent in the automobile and textile industries and of 10 per cent in the manufacturing industry on the whole. Exports dropped by 13.3 per cent and retail sales by 20 per cent.

However, in the meantime there are first signs of a recovery: industrial production has been increasing again since March, as well as exports and investments. The daily *NZZ* of May 15 reports that the rebound is particularly

strong in the high-tech sectors and in "new infrastructure" such as digitalisation. Apparently it paid off that the government had taken early measures to support the economy.

China as a major creditor

Whether this will translate into a restoration of pre-crisis growth rates depends heavily on the development of the global economy. For China to once again become the engine of growth, logistics, manufacturing and retail chains will have to recover. The developments in the industrial countries will be a crucial factor here. But the economic performance of the more than 100 countries of the Belt&Road Initiative (BRI), which account for an increasing proportion of Chinese trade and foreign investment, is also essential. Along the so-called "Silk Roads", the freight transport and shipping routes between China, Africa and Europe, as well as between Asia and Latin America, Beijing has invested hundreds of billions into infrastructure and industry in recent years, supported by an offensive of "soft diplomacy".

By accessing markets and investment destinations, its own economic difficulties, such as overcapacities in core industries and stagnant export markets, are to be mitigated. The partner countries can also meet China's mounting appetite for more energy and provide the supplies of commodities like lithium, cobalt and copper necessary to modernize its industries ("Made in China 2020"). These agendas and the strategic alliances and political bonds that have emerged along the Silk Roads would be jeopardized by economic difficulties in the countries involved.

One of the potential detonators for this flagship project, which is strongly associated with Xi Jinping's name and policies, is the indebtedness of many countries, which has become prohibitive with Covid-19. The flight of capital and decreasing revenues from commodities or from tourism has affected these countries severely. Therefore there are demands for debt relief worldwide. And China, which has become the most important bilateral creditor for the countries of the Global South in recent years, cannot resist these demands. It has been estimated that since 2013, the year BRI started, Chinese banks have pledged 461 billion US dollars for various projects in 138 countries, though these funds have most likely not been fully disbursed yet.

As a major donor, the Chinese government is caught in a dilemma. It has to accommodate large debtors, particularly as the debates over the Chinese "debt trap" are already damaging its reputation. Furthermore, it is important to keep its partner governments on board. In the past, Beijing has already granted debt relief to several debtor countries. Moreover, China is obviously also more than willing to comply with their requests for continued industrialization - in their mutual interest. A first, small sign of responsiveness is Beijing's involvement in the G20 initiative to suspend bilateral interest payments and repayments for low-income countries until the end of 2020. BRI projects in financial difficulties are to be helped by state development banks.

However, on the other hand, even China has not unlimited financial reserves at its disposal. The indebtedness of the central government, of provincial

authorities and state-owned banks has already reached very high levels. There are persistent rumblings from some of the government's policy advisors and in the Chinese Internet about too much money being squandered on dubious schemes and on corrupt regimes, money that is badly needed in the country itself. The Financial Times of April 30 quoted a Chinese finance analyst saying problems with 20 per cent of the portfolio are manageable, "but we cannot accept that half of it is going down the drain".

The crisis management of the Strong State

In a parallel effort, China is engaged in "mask diplomacy": When medical equipment was supplied and teams of health professionals were sent to Italy in mid-March 2020, President Xi Jinping highlighted the close collaboration on a "Silk Road of Health" that had been agreed with the World Health Organisation (WHO) three years before. Many other countries, especially in Asia and Africa, are also receiving support from China in their fight against the Corona epidemic, including tracing apps and digitalisation in the healthcare sector. Beijing skilfully made use of the weakening of the WHO by governments of industrialised countries to strengthen its standing in international governance structures - for which WHO is now scolded as "China's accomplice" in the spread of the pandemic.

On the whole, it seems that China is far better equipped to weather the current crisis than many of the Western industrialised countries. Its advantages are the extensive capacities of state capitalism to regulate and support the economy and the society, substantial financial resources, its lead in modernising its infrastructure and industries, and the huge domestic market. As the biggest importer of crude oil, China benefits from the dumping prices on the world market. And the International Monetary Fund (IMF), in its April 2020 World Economic Outlook, considers the prospects for growth in emerging markets, many of which are BRI partners, more favourable than for developed countries.

This would enable China to consolidate on its position in the global systemic competition and to score well as an autocratic regime when compared to liberal democracies and established industrialised countries. Any speculation regarding China's descent or the expectations that the government would lose its legitimacy would be mere pipe dreams. Rather than causing a collapse, the Corona crisis is more likely to foster the already announced entry into the Asian century. And the global campaign triggered by Trump, which is intended to raise doubts among China's partners and allies about China's credibility and raises fears of a further escalation of economic warfare, only illustrates the panic that the prospect of China's rise is triggering.

First published in iz3w 379 - July/August 2020: **Chinas Tschernobyl ... oder Eintritt ins Asiatische Jahrhundert?**

https://www.iz3w.org/zeitschrift/ausgaben/378_uno_am_ende/hoering

Translated with deepl.com