

IIPPE China Workshop 2020

The Political Economy of Crisis Management of COVID-19: China and the US

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22 August 2020

This talk is mainly based on the following paper: Dic Lo and Yuning Shi (2020) “China versus the US in the pandemic crisis: the state-people nexus confronting systemic challenges”, Economics Department Working Papers no.237, <https://www.soas.ac.uk/economics/research/workingpapers/file148894.pdf>

Theme

- The comparative performance of China vs. the US in controlling COVID-19 has been stark. This calls for explanations. One line of investigation is to focus on comparative political economy – i.e., the nature and functioning of the respective governance structures, and therefore of the basic political-economic systems.
- The issue of information transparency has been highlighted ([Amartya Sen...](#)). Yet, in the perspective of the theory of “exit, voice, and loyalty”, these views might have confused information with knowledge ([Albert Hirschman...](#)). They have failed to recognise the far more important role of active co-operation in the endeavours of coping with the epidemic.
- Regarding governance, it can be argued that China’s “tough model” of coping with the epidemic is associated with a virtuous circle of the state-people interaction, whereas the US “lax model” entails a vicious circle.
- Pointer for comparative political economy: the accountability-representativeness of the state vis-à-vis the people needs rethinking. The “democracy vs. authoritarianism” dichotomy needs to be scrutinised in conjunction with the rival theory of “liberal democracy vs. people’s democracy” ([Lenin...](#)).

Suggested Readings

- Au, Loong Yu. 2020. “When bootlicking overrides fighting epidemic”, *International Viewpoint*, no.544, 2 May. <http://www.internationalviewpoint.org/spip.php?article6594>
- Lo, Dic. 2020. “State-owned enterprises in Chinese economic transformation: institutional functionality and credibility in alternative perspectives”, *Journal of Economic Issues*, 54 (3): 813-837.
- Yong, Ed. 2020. “How the pandemic defeated America”, *The Atlantic*, September 2020, <https://www.theatlantic.com/magazine/archive/2020/09/coronavirus-american-failure/614191/>
- Zhou, Xueguang. 2020. “Organizational responses to COVID-19 crisis: reflections on the Chinese bureaucracy and its resilience”, *Management and Organizational Review*, 16 (3): 473-484.

The Epidemic Strikes

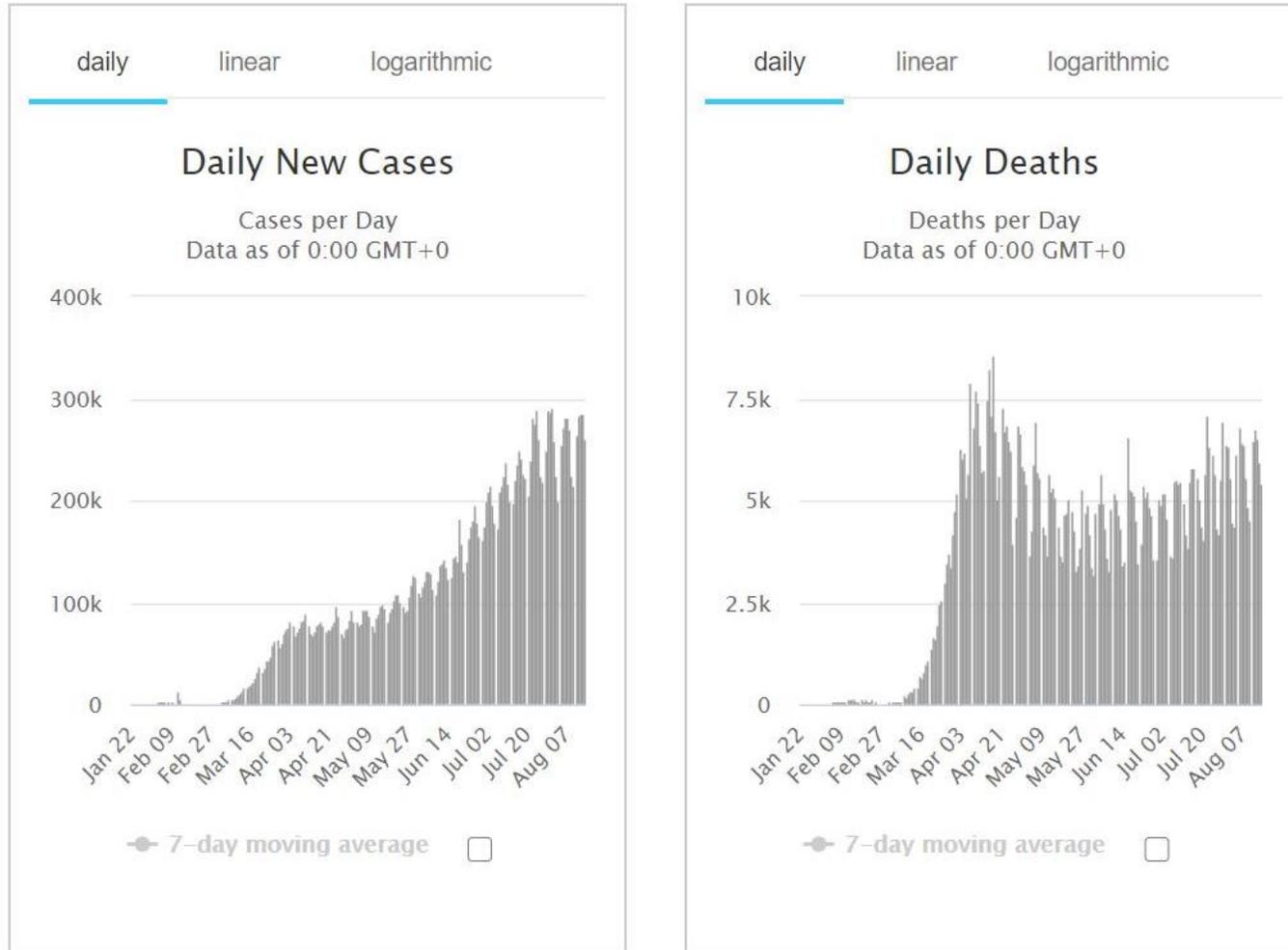
- **Worldwide:** as of 11th August, almost 200 days after China confirmed the outbreak of COVID-19 and five months after the WHO declared it a pandemic, the number of confirmed infections worldwide exceeded 20 million and the number of deaths approached 740,000. No sign of the pandemic subsiding: on 15th August, the number of daily new cases exceeded 260,000, while the number of daily deaths exceeded 5,400 ([Figure 1](#)).
- **The China-US comparison:** as of 15th August, the US's number of infections and deaths was 65 times and 37 times, respectively, of China's.

The number of confirmed infections in the US reached 5.53 million while that of deaths reached 170,000 – accounting for 26% and 22%, respectively, of the world totals. The corresponding figures for China were 84808 and 4634, which accounted for 0.4% and 0.6%, respectively, of the world totals ([Table 1](#)).

- China's population is 4.35 times of the US's. [Adjusted for population size](#), the scale of infections and deaths in the US would then become 283 times and 174 times, respectively, of that in China.

Put in the broader context, the US's number of confirmed infections and deaths per million population is 6.02 and 5.28 times, respectively, of the world average – compared with China's 0.02 and 0.03 times, respectively.

Figure 1. World Totals of Daily New Cases and Daily Deaths



Sources: *Worldometer*, accessed on 16th August 2020, <https://www.worldometers.info/coronavirus/>

Table 1. Confirmed Cases and Deaths of COVID-19 as of 15th August 2020

	China	US	World	China/World	US/World	US/China	US/China adjusted for income levels
Total cases	84808	5529789	21605509	0.39%	25.59%	65	
Total cases/per m population	59	16694	2772	0.02	6.02	283	1114
Total deaths	4634	172606	768226	0.60%	22.47%	37	
Total deaths/per m population	3	521	99	0.03	5.28	174	683

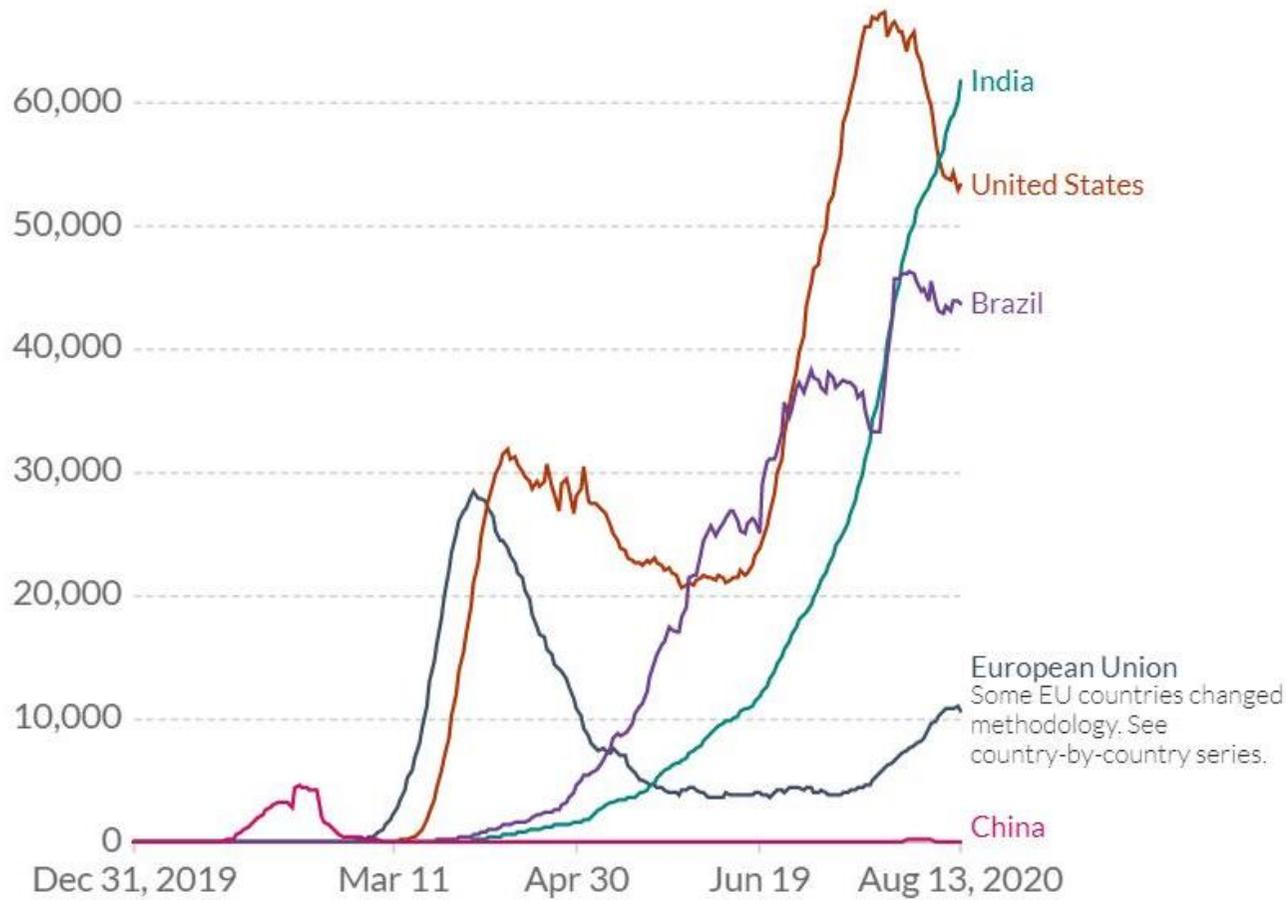
Sources: <https://www.worldometers.info/coronavirus/>, accessed on 16th August 2020.

Sources: According to World Bank, *World Development Indicators*

(<https://databank.worldbank.org/reports.aspx?source=world-development-indicators>, accessed 16th August 2020), for the year 2019, the Gross National Income per capita at purchasing power parity (current international US dollar) was 16740 for China, 65880 for the US, and 17591 for the world average.

- The US's GNI per capita (at PPP in 2019) is 3.94 times of China's, and 3.75 times of world average. Thus, **further adjusted for income level**, as of 15th August, the US's rate of confirmed infections and rate of deaths could be 1114 and 683 times, respectively, of China's – and is 23 and 20 times, respectively, of world average.
- Income levels reflect **the material conditions** available to different countries for fighting the epidemic. In the 2019 *Global Health Security Index* report, the US was ranked number one (score 83.5) regarding its preparedness for health emergencies, while China was ranked the 51st (score 48.2). In general, rich countries score high: the average of high-income countries is 51.9, compared with the world average of 40.2.
- The US-China contrast of performance in controlling the epidemic is likely due to **policy-institutional reasons**, far more than the difference in the necessary material conditions. Hitherto, China has clearly out-performed the world average, while the US has clearly under-performed.
- **Durations of the epidemic**: in China the number of daily new cases fell basically to zero by mid-March (i.e., two months after the outbreak), in contrast to the case of the US where the number continued to stay in the peak region by mid-August (i.e., after five months of the outbreak in US territories) (**Figure 2**).

Figure 2. Daily Confirmed Cases in Major Countries/Regions (7-day average)



Sources: *OurWorldInData*, accessed on 16th August 2020, <https://github.com/owid/covid-19-data/tree/master/public/data>

- **Economic cost.** China recorded -6.8% in economic growth year-on-year in Q1 2020, but the growth rate then rebounded to 3.2% in Q2. The US growth rate was -9.1% in Q2, and it was poised to remain negative in Q3 and probably further on.

The devastation to the Chinese economy appears to be far more short-lived than that to the US economy.

- Along with the worsening of the pandemic, the IMF has continued to adjust downward its predictions of economic growth for China, the US, and the rest of the world in 2020 and 2021.

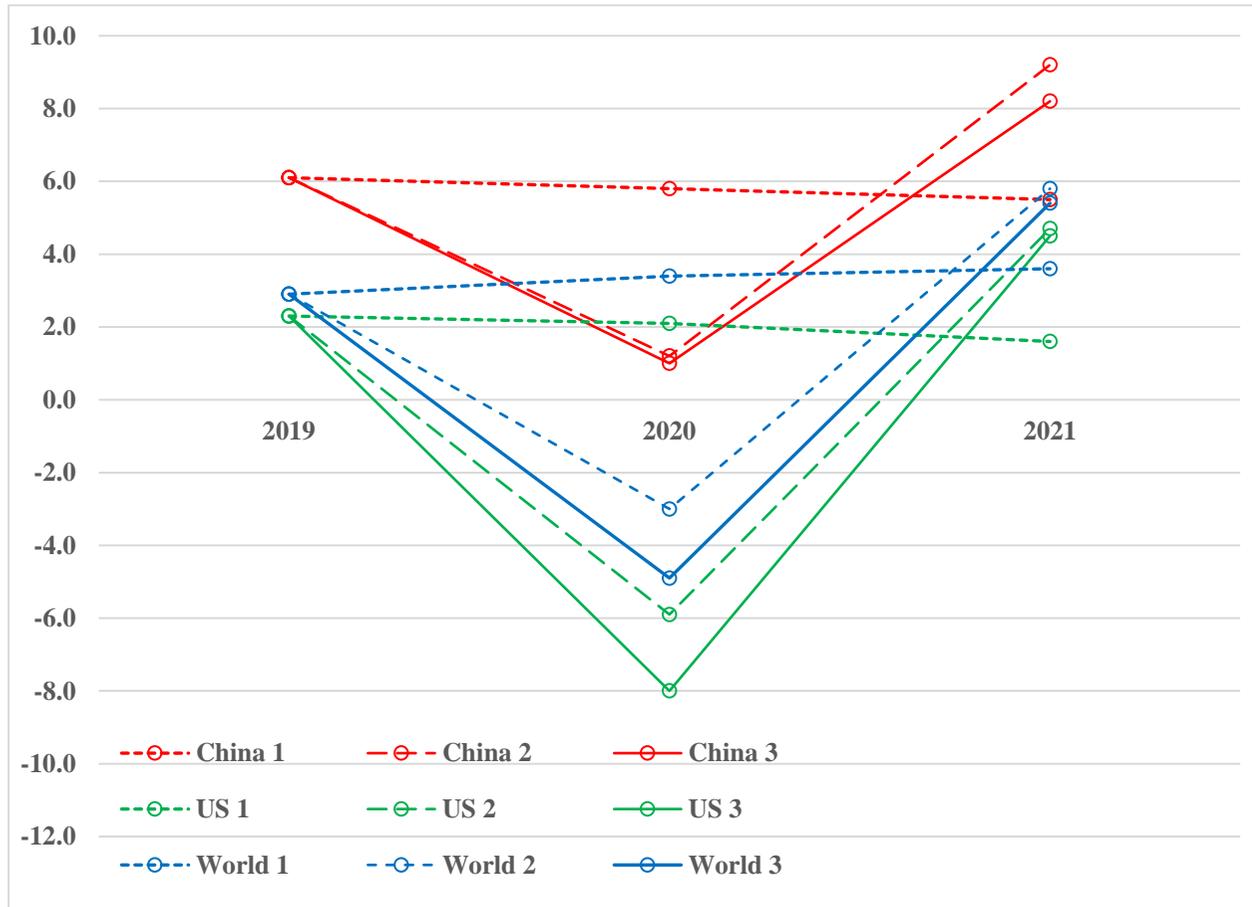
It can be seen that the predictions for China are far more optimistic than the world average, while that for the US are far more pessimistic ([Figure 3](#)).

- **Social cost:** balance between individual rights and collective values – it is thus related to the broader context of the collective-individual, and hence state-people, relationship.

- **China:** discernible resentment to excessiveness caused by the “tough model” of contact tracing and social distancing, but, on the whole, no anti-state, anti-establishment feelings of a systemic scale.

US: the anti-lockdown and anti-racist movements exhibited a strong anti-state, anti-establishment character, reflecting resentment to the “lax model” where the poor and vulnerable of the society bear the brunt of the epidemic.

Figure 3. IMF Projections of GDP Growth Rates (%) in 2020 and 2021



Sources: IMF, *World Economic Outlook*, October 2019; *World Economic Outlook Update*, April 2020; and, *World Economic Outlook Update*, June 2020.

Notes: 1 = projections in 2019 October; 2 = projections in April 2020; 3 = projections in June 2020.

The Two “Models”

- China is the first country to have discovered and reported the outbreak of the coronavirus. Its response to the initial outbreak, before 20th January 2020, has remained a topic of controversy. Still, it is defensible to say that:
 - (a) There were certain degrees of malfeasance on the part of the bureaucratic system, both local bureaucrats and public health professionals;
 - (b) There was a parallel process of functioning by the public health system as a whole – in terms of scientific investigation and state action – that basically fulfilled its duty; and
 - (c) The functioning of the health system was insufficient for preventing and controlling the epidemic, and this was worsened by the malfeasance of the bureaucratic system.
- Once the epidemic was confirmed, the state-society adopted tough measures in response. Mobilisation of healthcare resources was systematic – to provide testing and medicating for free for everyone (deemed) in need.

For two months, major cities and regions of the country were virtually locked down, in order to suppress the spread of the virus.

There were comprehensive testing and medicating, together with almost universal contact tracing and social distancing.

(Post-lockdown, these measures remain readily available to apply if needed.)

A state-led system of supply of basic necessities for people under lockdown was basically adequate to sustain their living.

- The US was in a state of inaction for almost two months after the detection of the first in its territories on 22nd January.
When the epidemic did subsequently strike, the US's response was erratic. Testing, tracing and social distancing practices were slow to catch up. The lockdown measures were then largely loosened whilst the epidemic was still in full swing.
There have been no reasonable alternatives – other than testing, tracing and distancing – in place to combat the epidemic.
- The immediate cause of the mishandling is the (mis)behaviour of the Trump presidency. If anything, it has been mostly to undermine the efforts needed for controlling the epidemic. Whatever the adequacy, or otherwise, of the existing public health system, it has been curtailed in capability and obstructed in functioning by the presidency.
- The fact that this (mis)behaviour has been allowed to persist, without corrective forces setting in, suggests the failure of the relevant governance structures.
- The epidemic is now an “expected quasi-known” in character, in the sense that knowledge has been built up about its rate of transmission and mortality whilst the precise mechanisms of transmission remain uncertain.

China was mainly confronting an “unexpected unknown” in the initial outbreak, before acquiring the knowledge to turn it into an “expected quasi-known”. In contrast, the US has been confronting an “expected quasi-known” all the way from the start.

The comparative performance in controlling the epidemic should have been in favour of the US, as opposed to what have actually happened.

“Exit, Voice, and Loyalty”

- Theoretically, the three options:
 - (a) “Exit”: pure market relationships that are arm’s-length in nature. The product being traded is well-defined and clear to both sides.
 - (b) “Voice”: long-term relationships that are still market exchange. They are necessary to safeguard the exchange, when information incompleteness or asymmetry could fundamentally undermine the exchange.
 - (c) “Loyalty”: also long-term relationships, but requires co-operation, not competition, for yielding the desirable outcomes. The problem with defining the product is one of lacking knowledge, rather than information.

The “product” refers to state/collective-led endeavours, based on sufficient information flows and/or knowledge acquisitions, for combating the coronavirus crisis as initially an “unexpected unknown” and later an “expected quasi-known”.

- What has happened in the US is the predominance of the “exit” options exercised by both the state and individuals – existing from the endeavours of combating the epidemic.
“Exit” is a non-option, in the face of the epidemic as an objective existence entailing compulsoriness for individuals, rather than an ordinary good or service where individuals are free to choose.
But why did it happen? The lack of trust – between the state and the people, and among individuals – is the immediate answer, if only superficially.
- What has happened in China is two-fold.
The initial bureaucratic mishandling suggests certain degrees of blocking information flows (“voice”) and/or knowledge acquisitions (“loyalty”).
The subsequent drastic measures that succeed in controlling the epidemic can be interpreted as embodying the “loyalty” option – the measures would not have been effectively implemented, let alone achieving the objectives, without the co-operation between the state and the people.
- The experiences in both cases point to the issue of the accountability of the state to the people, and the representativeness of the state for the people. Ultimately, the prevailing view on “democracy vs. authoritarianism” is in question. It needs to be examined in connection with the alternative view on “liberal democracy vs. people’s democracy”.