growth rate for the first two quarters of this year down to a very low range of 2% to 3% year-over-year. In the second half of 2020, recovery will gear up, partially thanks to the timely fiscal stimulus and monetary support announced by the government. However, for reasons mentioned above, and given the unfavorable global economic and financial conditions, it is highly unlikely that growth in the second half of the year could be sufficient to bring the full year of GDP growth back to a "normal" level of 6%. Don't expect a V-shaped recovery like in 2003.

Fan Gang, President of CDI, Yuwa Hedrick-Wong, Chief Economics Commentator, Forbes Asia

Opportunity for China, Japan and South Korea to build joint mechanism against COVID-19

During the early stages of COVID-19 pandemic, East Asian countries exhibited great support among each other, as medical supplies in large quantities travelled back and forth. In an era where trust between major countries is running low, such mutual help and aids in combating COVID-19 is an uplifting sign that China, Japan and South Korea could upgrade their cooperation on health issues to a new level.

First, peoples in the three countries share a common cultural heritage and tend to sympathize with each other in the face of natural disasters. Recently, aid workers in the three countries printed classical verses from The Book of Odes (China, 1046-700 BCE), poems composed by Prince Nagaya (Japan, 685-729 CE) and Choe Chiwon (Korea, 857 CE) on packages of medical supplies as a unique way of expressing solidarity. Looking back at history, we can see the three nations had also proactively come to each other's help during massive disasters such as the 2008 Sichuan earthquake and the 2011 Tohoku earthquake and tsunami. Warm memories like these provide an optimal starting point to pool the three countries' resources toward disease prevention.

Second, China, Japan and South Korea's respective responses to the pandemic bear similarities, which is conducive to a consensus on how to deal with a large-scale health emergency. In fighting COVID, the Chinese government showed strong determination, carried out the lockdown, reversed the trend, stopped the contagion and restarted the economy. Meanwhile, with mass testing, the use of big data and contact-tracing technology, South Korea implemented a nuanced approach that flattens the curve without shutting down the entire economy. On the other hand, Japan has been exploring a softer approach and trying to keep COVID's disturbance to the national economy to the minimum. Despite their differences, China's 'hard' solution, Japan's 'soft' approach and Korea's 'middle way' are all based on effective leadership of the government, the values of collectivism and the proper state intervention. These shared traits of the three nations' responses to the coronavirus could facilitate their collective actions to tackle infectious diseases.

Third, the close economic ties and frequent movement of people between the three countries makes joint mechanism against infectious diseases an absolute necessity. In 2019, China was the biggest trading partner of both Japan and South Korea; while Japan and South Korea were China's 2nd and 3rd largest trading partner, respectively. China is also South Korea's biggest export market and its largest origin of imports. As of 2018, Japan remains the largest cumulative investor in China, with US$ 112 billion in investments. Chinese visitors to Japan

increased tenfold in the recent ten years, reaching 9.59 million in 2019. Similarly, Chinese visitors to South Korea numbered 8.07 million in 2016. According to the statistics of The Embassy of Japan in China, about 140,000 Japanese citizens live in China, while the number of Chinese citizens residing in Japan amounts to 674,000.

To sum up, China, Japan and South Korea have a shared destiny in the face of contagious diseases. The three countries are so near to each other, their economies are so intertwined, and travelers between them are so numerous, that a disease outbreak in one country will quickly spread to the other two nations. The SARS in 2003 was the first strain of coronavirus posing a threat to entire East Asia. Later, in May 2015, only eight days after Korea reported to the WHO the first domestically confirmed case of MERS, China had seen the first imported case, which incurred as many as a hundred contacts. Although MERS did not spread widely in Japan and China, it did show the weakness in the disease prevention system in East Asia. The current COVID crisis should serve as a 'wake-up call' that the three countries should join together to fight the virus and build a joint mechanism to tackle future epidemics:

1. China should continue to ramp up its support to Japan and South Korea to stop the pandemic in East Asia. Although China had contained COVID's spread within its boundary, its national safety will be under continuous threat so long as Japan and South Korea are troubled by the coronavirus crisis. The wisest strategy for China is to aid the two neighbors and make East Asia free of COVID as soon as possible. Therefore, China should provide more protective gears and medical supplies to Japan and South Korea, send experts and volunteer teams to the affected areas and provide infrastructural support should it be convenient.

2. The three countries could explore new ways to resume international travel between them. The pandemic had locked borders and crippled international travel. The reopening of the closed borders still poses hard challenges for most countries. In light of this, the immigration departments of the three countries should carry out joint inspections at each other's border, stopping high-risk persons from boarding planes and ships. Moreover, the three countries could share their screening and testing results, create 'health passports' for international travelers. By using smartphone apps and Bluetooth technology, the three nations could offer travelers an option to isolate themselves at their own homes before travel, which significantly reduces the cost of mass quarantine.

3. China, Japan and South Korea should build a long-term joint mechanism to deal with future outbreaks of contagious diseases. They should make full use of the goodwill accumulated in fighting COVID and turn the temporary measures during the crisis into long-term institutions. For example, the three parties could maintain a permanent green channel for crucial medical supplies. To ensure swift and proper treatment of each other's citizens, governments should also negotiate the mutual recognition of medical insurance regarding epidemics. Last but not least, the three countries should take collective actions to secure the supply chain in East Asia, relieve the tax burden of companies and protect the industries of the region from future disasters.

Fu Yongjia, Postdoctoral Research Fellow, CDI

Based in Shenzhen, Guangdong Province, China Development Institute (CDI) is a non-governmental and market-oriented think tank which was founded in 1989 on approval from the Chinese State Council. CDI was designated as one of the 25 China Top Think Tanks in 2015.

CDI develops solutions to public policy challenges through broad-scope and in-depth research to help advance China's reform and opening-up. CDI is committed to providing proactive, innovative and practical research and consultation for China's central and local governments and businesses at home and abroad. Its research and consultation is centered on macro strategy, regional economy, urbanization, industrial development, business strategy and decision-making.

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Event >

COVID-19's impact on Chinese economy : Challenges and solutions

The global pandemic has abruptly halted almost all human activity and subsequently created serious challenges to the revival of economy. On April 29, CDI organized an online meeting where academics around the country debated on possible solution.

Insights >

China's economic recovery from COVID-19 will be slower than it was for SARS

China's economic recovery will be unlike the V-shaped rebound from the SARS outbreak in 2003. The structure of the Chinese economy today is very different from 2003, and China will also face global headwinds as the economies in North America and Europe are slowing down because of COVID-19. Expect a more gradual recovery.

Opportunity for China, Japan and South Korea to build joint mechanism against COVID-19

Confronting the deadliest virus in a century, China, Japan and South Korea demonstrated remarkable solidarity. The three nations in East Asia are giving helping hands to each other in hard times. In early February, when China's confirmed cases were climbing, Japan and South Korea provided China with urgently needed protective gears, though they also face the danger of domestic transmission.

Event Highlights >

Cao Yuanzheng, Chairman, BOCI Research Ltd.

Due to the economic shutdown around the world, global trade is shrinking rapidly and the industrial chain is in the risk of a short-term disruption. The longer the pandemic persists, the harder the global economy will be hit. Therefore, controlling the pandemic has become the top concern for economic policies which are aimed at sustaining the current growth rate.

China's economic recovery faces many challenges ahead. First, under the dual impact of economic downturn and the pandemic, employment growth dropped by 6 percent compared with the last quarter, which indicates a gloomy prospect of the labor market. Second, household consumption is declining at a faster rate than the residential income growth, imposing pressure on domestic consumer market. Third, overseas demand has been shrinking and Chinese foreign trade companies have got stuck in the mire of "shortage of orders".

The policy responses should be based on "bottom-line thinking", in other words, ensuring people's livelihood should replace economic growth stimulation as the primary goal. In the long run, the focus should be on domestic demand expansion, which needs to be fueled by reform. In the medium term, response-based contingency mechanisms should be established with more attention to food security. In the short term, China's GDP growth must be kept at a certain rate, which is vital for employment, fiscal revenue and financial risk prevention.

Event Highlights >

Huang Yiping, Vice President, National School of Development, Peking University

Unconventional economic policy responses are needed in times of crisis. Governments and central banks should adopt stronger monetary and fiscal policy measures that go beyond conventions. In addition, when we design unconventional policy responses, exit mechanisms should be taken into account to the extent possible. At the same time, we should be fully prepared for the possibility that the global easing cannot exit in the long run.

For micro, small and medium-sized enterprises (MSMEs) and ordinary households affected by the pandemic, maintaining some liquidity and a relatively healthy balance sheet is very critical. The biggest risk at the moment is the possible cash flow break for MSMEs. Although the Chinese Government has introduced a number of measures to bail out businesses, more direct financial subsidies households and businesses are needed.

Once the pandemic is brought under control, more focus should be given to reconstruction and the monetary policy should be further eased. At the current stage, the pandemic is under initial control and a moderately easy monetary policy should be of relevance. The fiscal policy should play a bigger role in reconstruction. Many things can be done on the fiscal front, such as reducing taxes and fees, supporting investment, and increasing spending on people's livelihood.

Zhang Xiaojing, Deputy Director, Institute of Economics, Chinese Academy of Social Sciences

The Chinese government may consider giving cash subsidies to low-income groups so as to directly stimulate consumption. Compared with consumption coupons, cash subsidies are more inclusive and non-discriminatory. As the low-income groups have a higher marginal propensity to consume, cash subsidies to low-income groups will not only help ease their survival pressure and boost domestic consumption, but also facilitate poverty alleviation, a crucial target set by the central government in this year.

Leverage is an important tool for government to pull the economy out of the woods. The leverage ratio in China's public sector is much higher than that in private sector, which to some extent reduces the efficiency of leverage in resources allocation. But at the current stage of China's development, there is a greater need to stimulate the vitality of the private sector. This requires more resources be allocated to the private sector through leveraging. The active participation of private capital will facilitate market-based risk-sharing and mitigate the risks imposed by the high leverage ratio in public sector.

Feng Qiaobin, Deputy Director, Macroeconomic Department, Development Research Center of the State Council

The policies are aimed at creating a "protective cushion" and "buffer zone" for the economy and society in order to prevent social unrest and the collapse of the economic system after the pandemic. How to deal with the huge debt left behind by stimulus policies and address the fragility of the economic system in the later stage remains an issue that governments need to address.

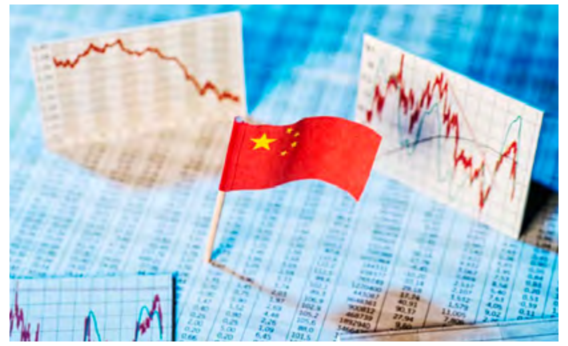
China's fiscal policy in the next stage should focus on "reform bailout" rather than "stimulus bailout" only. Priority should be given to the following aspects in the process of policy implementation. We should strike a balance between meeting short-term needs and ensuring long-term development. At present, China has entered into the "mitigation stage" of the pandemic, so the policy is mainly aimed at medium-and-long-term recovery. Compared with the acquisition of assets in Europe and the United States through setting up SPVs, China also has the need to directly purchase corporate assets. However, with

large SOEs as a stable anchor, China can focus more on some key industries and private enterprises. Even if fiscal policy can be implemented to increase the deficit and debt, fiscal funds should be increased for financing.

Guan Lixin, Deputy Director, Circulation and Consumption Research Institute, Chinese Academy of International Trade and Economic Cooperation

The pandemic has had a significant impact on both consumer demand and production supply in China. Traditional consumer industries such as catering, accommodation and tourism have all suffered a significant impact, but some new forms of online consumption have emerged. Meanwhile, the surge in the purchase of pandemic prevention supplies and life necessities has experienced a short-term price hike.

Given the complex and severe external situation, expanding domestic demand as the key to economic stability has become a consensus. To boost the domestic consumer market, both "short-term policies" and "long-term mechanisms" should be put in place. On the one hand, short-term measures should be taken to revitalize consumption, such as enhancing consumer confidence, speeding up revitalization of traditional consumption, unleashing the potential of the new forms of consumption, and ensuring people's basic livelihood. On the other hand, efforts should be made to continue to improve the long-term mechanisms for boosting consumption. Specifically, on the basis of ensuring the consumption capacity of different income groups, measures should be adopted to cultivate new engines for income growth. Besides, multi-level carriers of consumption in rural and urban areas should be improved to ensure a more diversified market supply, so as to unleash huge domestic market dividends.



CDI Macro Outlook >

Focusing on "six stabilities" while struggling to grow

The Chinese economy was hit hard by the coronavirus in Q1, and GDP fell -6.8% y/y. Because the virus is almost contained in China, economic activities have since March been gradually picking up, and there were clear signs of recovery. Industrial output was down -1.1% y/y, up 12.4 pps from January-February.

Consumption has been hardest hit, largely due to quarantining. Retail sales of social consumption goods fell -19% y/y in Q1, and -15.8% y/y in March, up 4.7 pps from January-February. Trade has so far been largely unaffected. Exports in March were up 2.8% y/y after adjustment, down only 1.4 pps from Q4 2019. Imports were up 2.4% y/y, down 2.8 pps.

Fixed asset investment has been left as the only major factor to keep the economy afloat, because of future weakening overseas demand, and of domestic consumption demand. By March, investment had not recovered to normal levels, falling -9.5% y/y, up 15 pps from January-February.

CPI eventually fell, and was down -0.6% m/m after adjustment, and up 4.3% y/y in March, down 1 pps from January-February. The ex-factory price index of industrial goods fell -1% m/m, and was down -1.5% y/y. PPI fell -1.1% m/m, and was down -1.6% y/y. Major financial indicators are the only ones not negatively impacted. M2 rose 10.1% y/y, and M1 rose 5% y/y, up 1.4 and 0.2 pps respectively from the previous month.

On April 17th, President Xi Jinping chaired a major meeting of the Politburo, China's highest policy decision making body, which promised to step up the magnitude of policies to achieve the country's goal of "six stabilities:" stable employment, trade, financial markets, investment, foreign capital and expectations, on the condition that the virus has been effectively controlled. We believe there will be expansionary monetary and fiscal policies, such as interest rate cuts and accelerated infrastructure construction, but not a mass flooding to the market, per the approach of the Fed. Unlike in other major economies, China has been saving for rainy days to make these policies feasible, with its still-sizable gap with a zero interest rate, low central government debt, sizable state-controlled economy meaning non-cyclical unemployment, implicit social security system meaning unemployed migrant workers still possessing agricultural lands, and a high household saving rate.

Insights >

China's economic recovery from COVID-19 will be slower than it was for SARS

Since the SARS outbreak in 2003, China's economic structure has become more domestic consumption-led in an expanding service sector, and less dependent on infrastructure investment and manufacturing. It is ironic that this positive development is a key reason why the Chinese economy is hit harder this time by COVID-19 than it was by SARS. An epidemic's economic impact stems from the need to isolate people, which instantly restricts their movement, hence their ability, let alone desire, to spend in terms of entertainment, shopping, travel, socializing, and so on. In 2003, investment counted for about 55% of China's GDP, and with investment/construction projects having kept going, economic growth continued and the recovery was very quick. Although the GDP growth rate was down by about 5% in the second quarter, the annual growth of 2003 still ended up higher than 2002 by 1%. In contrast, investment in 2019 accounted for less than 40% of GDP, while consumption had risen to 60%. Corresponding to the rise of the weight of consumption in the economy is the expansion of the service sector, which now account for 54% of GDP.

In a recovery from an epidemic like COVID-19, restarting activities in private consumption is much slower than restarting investment and manufacturing. This is indeed corroborated by a slower "restart ratio" in consumption and services compared with the "restart ratio" in investment and manufacturing. As a result, the preponderance of consumption and services in the Chinese economy today means that we will not see a sharp V-shaped recovery from COVID-19 as in 2003 as illustrated below.

Furthermore, COVID-19 is a much trickier virus because it can be spread by people who are showing no symptoms at all. It therefore requires longer periods of quarantine and social distancing, which in turn makes the restart of economic activities even slower compared with SARS. The speed and extent to which COVID-19 became global is yet another key difference with SARS. Even as the Chinese economy is returning to normal, Chinese companies have to prepare for a "second wave" of breakdowns of their global supply chains due to the shutdown of foreign factories and international transportation. At the same time, China has to tackle "imported infections" as thousands of Chinese nationals are returning home to "safe-heaven" to escape COVID-19 that is raging in other countries.

It would come as no surprise to see China's GDP