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DOLLAR & SENSE  
How will the Chinese economy rebound from COVID-19?  
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**DOLLAR:** Hi, I'm David Dollar, host of the Brookings trade podcast "[Dollar & Sense](#)." Today my guest is Dexter Roberts, the former Bloomberg Businessweek China bureau chief and the author of the new book, "The Myth of Chinese Capitalism." We're going to talk about how the Chinese economy is bouncing back from the coronavirus, but we're also going to talk about more general features of the Chinese economy. So welcome to the show, Dexter.

**ROBERTS:** Thank you.

**DOLLAR:** So let's start. Migrant workers play a big role in your book, they've played a big role in the Chinese economy, and I think they've played a role in the spread of the coronavirus. So let's start with a general question. Can you explain to the listeners about the special role of migrant workers in the Chinese economy?

**ROBERTS:** Well, I would say that the migrant workers have been a critical element of the Chinese economic model for the last few decades. And what model am I talking about here? I'm talking about the factory to the world export-led model, which was based on largely producing free exports, and it was very much reliant on low-cost wages. And that model really only thrives when China had those low-cost wages, and very low – particularly in the manufacturing sector – very affordable wages competitive to other countries.

So that's been their role for so many years now. As you know, that's been changing. China's wages have been going up. I believe average manufacturing wages in China are higher than in Mexico or Malaysia now. So as we've seen in recent years, there's been a big push to diversify the supply chain by many multinationals out of China. And at the same time, the future role of these migrants has become a little bit in question. Now, I do think that we still have a good idea of what role they can play in the future of the Chinese economy, or at least what role officials in the leadership hope that they play. The next step for China really is to move from this factory of the world to a much more consumption-driven economy, a much more service economy. They still want manufacturing, but many of the factories are automating and they want to automate more. And as China makes this transition, I think the next real role for them, and it's not going to be easy, is to convert them into the middle class and make them become part of this future domestic consumption driver.

**DOLLAR:** Right. It seems possible that the response to the coronavirus could help with that. Why don't we start with the development of the coronavirus? I mean, we were learning about it right as the main Chinese holiday season was coming on and the response of the Chinese authorities initially was to bury the information, to continue on. My understanding is most of the migrant workers who were working in Hubei, in Wuhan's province, they went ahead and went home even though the virus was emerging. Is that right?

**ROBERTS:** I think that's correct. And actually, I think many of them went home before they were even aware of the virus because, as you say, in the early days the leadership was not being open about the severity of the brewing crisis. So a lot of them did go home. This was sort of an unusual situation in that this epidemic really spread and it became public knowledge in China when many of these migrants already were back in their villages. This is typically, as you know, sort of a once-a-year thing. Lunar New Year is often their one opportunity to go back and to their villages, see their relatives, even see their children who often don't accompany them to their jobs in the cities.

**DOLLAR:** Right. So when they lock down Hubei Province, for example, a lot of the migrants were back at their villages, right? And often in other provinces around China?

**ROBERTS:** That's correct. Yeah. So they were already back there. They were planning to have a holiday from work. But what happened was that holiday from work became forced absence with huge implications for their wages, the money they were earning. In many cases, they were simply unable to return to the cities or very, very commonly, they knew that their factories or the construction sites or the service industries that they were working in had not restarted. So many of them spent a far longer time in their villages. The reality is there's still many migrants that have not returned as of today.

**DOLLAR:** Do you think the majority of migrants have returned at this point? I should add that, you know, China posted some breathtakingly negative economic numbers for February. So clearly this has had a devastating effect on their economy in February. Their retail sales were down something like 24 percent. Industrial value added was down. But I think it's hard to get a sense of what's actually happening on the ground. Do you think a majority of migrants are back now, even if not all of them?

**ROBERTS:** I actually don't think it's a majority. And I've been talking to some friends, including migrant friends, throughout this crisis. The government, of course, has released figures, not on how many migrants are back, but what proportion of businesses are back in operation. So they told us, I think last Friday, that 90 percent of large-scale or large-sized enterprises were in operation. I believe with SMEs, or small- and medium-enterprises, many of which would be the employers of the migrants, they said that 60 percent were back in operation. That's somewhat encouraging, but what they did not tell us – I mean, that's only part of the picture – what they did not tell us was at what level of operation are they at. So we don't know whether, for example, a factory is back in operation but it's only got maybe several of its of it of its production lines operating but most of them still are idle. It's the same thing with service companies as well. “Back in operation” could be defined in many different ways. My understanding is many of them are running way below capacity. For service industries, they may be doing reduced hours and they're operating with far fewer staff than usual.

So I think the reality is many of the migrants have not come back. Obviously, a large number have, but I would wager that it's actually under half now.

**DOLLAR:** Right. China's exports were also down very sharply in February, which is not surprising. I think they were down 17 percent. China is starting to get back to work as you just described, but now the rest of the world is really having an escalating crisis: Europe, the United States. So a question for China: even if it can start to recover, is there going to be an external market for all those Chinese exports? Are we actually going to get the demand to get those factories restarted?

**ROBERTS:** Yeah. I think that's a huge issue. And as we well know, this epidemic is hitting both demand and supply. And so I think the reality is as China starts to get back to work – and particularly in the cities we're seeing something akin to normalcy again; not fully back, but things are becoming a little more regularized – but the rest of the world, as we know, is in the midst of shutting down its economies. And the idea that there's going to be demand like we saw before for Chinese products later this year is extremely suspect. It's just not going to happen. So I think China's in for a real challenge, sort of a next-wave challenge, as demand globally dries up for its product.

**DOLLAR:** If we could just step away from the coronavirus for a moment and come back to your book – what do you recommend for Chinese policy in terms of integrating migrants and things China needs to do to create a more equitable, sustainable economic growth path?

**ROBERTS:** Well, obviously, as you well know, they make huge progress in basically spending money and financing improvements in rural education, in rural health care. And that's very admirable. They're moving close to eliminating absolute poverty, which again, is quite an amazing feat. But I think, and I argue in my book, what they haven't done, which very plausibly is a far more significant move, is start to actually liberalize some of these legacy policies that are holding back migrants. And the two policies that I see as the most critical: number one, of course, is the household registration or the hukou policy, which makes it very difficult for these people to actually fully integrate themselves into cities, as you well know. And so they go to the cities, they do their work, but they always are looking back to their village. Their children are usually there. Their elderly parents are there. In most cases there, they're not able to move them to the cities. So this is this is a very, very key reform. It also, potentially, could start to solve some of the great variances in education if you actually had cities trying to integrate the children of migrants into their schools as well.

The other big, big one is the dual land system. So what is a dual land system? It's this legacy policy that continues to designate land in the countryside as officially owned by the collective. What does that in practice mean? It means that it's very, very difficult for migrants who typically do have plots of land back in the countryside tying them back to their villages. And farmers find it extremely difficult to actually profit in a serious way from the land that they hold, either by renting or by selling it. And, of course, this stands in marked contrast to what's happened in the cities where we've seen an explosion of wealth based on mainly the sale of apartments. So here we have the dual land system which is tying these migrants like the hukou policy to their villages, but also making it very difficult for them to make a go of it back there. Those two policies are crucial – reform of those two policies.

**DOLLAR:** That all seems very well-analyzed. The way I think about this is when China was having a big export push, there was a certain economic advantage in having the migrants come to the cities in the way that they do without their families. They were a very low-cost source of labor. You can raise ethical issues about it, but it had a certain economic efficiency. But now that China is the largest exporting nation, you're not going to see it increasing its share of the world market very much in general. And then you add the coronavirus, the effects could linger on easily for a year or more. So now they really need those people to be urban citizens demanding services and providing consumption demand.

So the issues you raised, bringing your family to the city, selling your land in the countryside – the Chinese have this phrase that selling the land could be the first pot of gold that the migrant brings to the city to give them some capital so they can start a business. So all of that really seems like the next generation of economic reform for China. So, I guess, the question I would then ask: is it likely the authorities will use this crisis to accelerate that? They're going to need stimulus to the economy. They could do their old trick of investing in infrastructure – which, they frankly have built up a lot of infrastructure – or they could put a lot of money into social services so that migrants can bring their families. More housing, different levels of housing for the city so migrants can potentially buy an apartment. Then they'd have to change that land policy. So do you think this crisis might stimulate more of that reform?

**ROBERTS:** Well I certainly hope that it does. And as you pointed out earlier, it's not just an economic imperative, it's a real human rights question as well for China. So I really do hope that that's the case.

The early signs haven't been promising at all. The response by urban residents towards the migrants, certainly in the first month or two of this virus, has been to try to force them from returning to the cities. And there's many anecdotes of some extreme measures taken, in some cases actually buildings shutting down the heat, the electricity, the water of migrants in their apartments to prevent them from moving back in. And I think a big part of this is fear about the migrants somehow bringing the disease back. As you know, I think almost every housing compound in China now has a guard at the gate and it's become much more difficult to go in and out of apartment blocks. Which is a good thing in terms of controlling the disease's spread.

My fear is that these sort of almost nativist attitudes towards the outsiders, which is how migrants have long been viewed, is only going to become stronger. Certainly the Chinese government also has an added interest in not seeing what they would characterize as an uncontrolled flow of migrants around the country. Or it's been called the "blind flow" back in Chinese history. When there were famines and migrants were traveling around to try to basically find food and coming into the cities they referred to it as this "blind flow" that needed to be stopped. So I'm concerned that they actually could move in the other direction.

There's the issue, of course, that was already there which is, whether or not it's true, this perception that it's going to cost an enormous amount of money to better integrate the migrants into the cities. As you know, I mean, there's a counterargument where some officials in China believe it could actually be a real economic plus with hardworking migrants moving in and eventually paying taxes, and that it doesn't necessarily have to be a burden. But the early signs are not encouraging to me. And, you know, frankly, we've been hearing since the 2013 Third Plenum, the important party meeting, that the leadership knows

exactly where they need to go on the land system, on hukou and on household registration, and the direction they need to go is rapid reform. And we've seen very, very little progress in the intervening years. So I very much hope that they see this reality and they see the benefit of moving towards a real liberalization of these policies going forward, but I can't say I'm very hopeful right now.

**DOLLAR:** I like your point that potentially this is a very good investment. In this kind of crisis situation, the Chinese government is definitely going to spend more money to stimulate the economy, and they're going to borrow to finance a lot of that. And they've got some debt issues to worry about, but in this emergency situation, it makes sense to borrow and spend. But then there's the crucial question of what you spend on. And I think their traditional instinct is to build more infrastructure, but if they don't really need that it's not going to generate future growth and they're going to have debt problems. And I hear what you're saying is actually a big push in health and education in general, but particularly reaching the migrants in the rural services but also making urban services available to migrant families, that's potentially a very good economic investment for China in the future because they need that labor. They're going to increasingly need that labor in a more modern economy. If they don't have it, it's actually going to slow them down. So that's a good argument.

**ROBERTS:** Yeah, I think so. And I certainly hope that more and more officials in China recognize that fact and move in that direction. That would be the right way to go – both from an ethical perspective and sort of redressing the way they have treated migrants over the years – and also a key move to bolster the economy going forward.

**DOLLAR:** Yeah, I mean, the U.S. is going to face analogous problems in a totally different situation. We're going to end up spending a lot of money to try to stimulate the economy. That's good Keynesian economics. The question is, do you spend it on things that are also addressing other issues in society – inequality or infrastructure – or are you just wasting the money?

**ROBERTS:** Absolutely. As you know, there's been a tendency for localities to sort of raise their hand and put forward all their pet projects. Too often those are more infrastructure or more development, and there's a lot of reasons for that, but one big one is that it's easier for local governments to more quickly see returns on something like that as opposed to spending on education for migrant kids. Another big issue on spending on the local level on education for migrants has been this perception and actual reality that these people are likely to migrate. To do what they do and leave the city. So this idea that you spend all this money to give them a good education and then they go spend their lives traveling in other parts of China and using their skills there, I guess some localities say "what's the return for us?" If they're coming back there's obviously a real return – if they're coming back to the villages, coming back to the interior.

**DOLLAR:** Yeah. When I worked for the World Bank in China, we had a lot of rural development projects and we would run into that issue all the time, that local government would like to do big infrastructure projects. And our experts would often say, well, there's not really going to be any return to this. You know, industry is not going to come to your remote rural area. Why don't you put money in health and education? And the response is exactly what you were just saying. If you provide...basically build up the human capital of people, a lot of them are going to then migrate away and that local government is not going to get the benefit. So, yeah, I think that was a big obstacle.

I want to shift gears while we still have time and talk a little bit about the U.S.-China trade deal. We look back now, about two months ago Vice Premier Liu He and President Trump signed this so-called phase one deal. From my own point of view, I think I just learned about the coronavirus in the next few days after that deal. So I wonder what the virus crisis on both sides of the Pacific means for this trade deal and for U.S.-China relations?

**ROBERTS:** The thing about the phase one trade deal is, as you know, it was largely a series of purchase agreements. So the tough stuff – the coercive tech transfer, the intellectual property rights problems, the subsidies hidden and overt – all those things have been saved for an eventual phase two deal, which, of

course, we have no idea when that's going to happen now. But the phase one deal was mainly about China committing to make purchases, for example, agricultural purchases. And from my conversations with people that know agriculture far better than me, from the very beginning the size of those purchases and the ability of China to actually fulfill them was suspect. What China committed to was a substantial hike in what they had been doing in previous years in terms of buying agricultural goods from the United States. And so agricultural trade analysts I was speaking to were saying, "I don't know how they're going to do this." This was before the coronavirus. I think now with the coronavirus it's quite clear, and we've heard this as well the recognition of this fact from some U.S. officials, there's no way that they're going to get remotely close to meeting these purchase promises that were made in the phase one deal. So even as the Chinese economy starts to recover they're just not going to get there. And of course, they just lost a quarter. I think Goldman is saying now they expect negative 9 percent growth in the first quarter of the year for China.

So I think that's phase one. All along we heard from the Trump administration that phase two would follow and they would deal with the harder parts then – [the parts] that I mentioned earlier. And I don't see that likely to happen either when we're dealing with the pandemic. I think people are distracted, obviously, by the crisis that's in their faces right now. Longer term, I've actually been skeptical that we can expect a real enforceable phase two deal anytime soon at all. And there's a lot of reasons for that, but one key one is, I believe that a lot of those policies – tech transfer policies and the subsidy system in the Chinese economy – are actually a really integral part of China's goals of becoming a globally competitive country with globally competitive companies.

So these policies that we object to, which are seen as unfair trading practices and investment practices, they were there when I arrived in the mid-90s in China. The first thing I was writing about was China's use of forced technology transfer, bad IPR, and subsidies. And, you know, fast forward more than two decades and those exact same things are what we're arguing with the Chinese about. And there's a reason for it. I think that those policies ultimately are very important for China. In the path that it's chosen to pursue, its technological upgrading, I think those policies are important.

**DOLLAR:** Last question, Dexter. The virus obviously hit China first — both the health issue and the economic downturn. Now they seem to be starting to recover, but the crisis is hitting the U.S. So are there lessons, either negative or positive, the U.S. could draw from China's response to the coronavirus?

**ROBERTS:** I see the response as a two-part one. In the first part, of course, was this cover-up and this downplaying of the growing crisis, which, frankly, caused many people to get sick and people to die as well. There's research that has come out that suggests that if China had had recognized the severity of the crisis three weeks earlier and been open about it, they could have stemmed ninety five percent of the infections. One week earlier would have reduced it by 60 percent. So this is the first stage and the tremendous blundering that characterized the Chinese response is now one that the world, frankly, is dealing with. So that's a very negative example, of course. The second part is something very, very different. The latest numbers coming out of China, they're almost hard to believe. Zero new infections. Maybe it isn't zero new infections, but it does seem clear that they have made tremendous progress in controlling this disease and bringing it down. The trend lines seem very, very obvious. They seem to be bringing it under control.

So I think in that second phase there are things we should learn from. The most obvious one, and the one we've done so badly at so far in the U.S., is widescale testing of people, which we're finally starting to do but we're way behind the rest of the world and we're way behind China. I think the dramatic moves to quarantine, to shut down the economy, to halt transportation, I think those are all things that would be a value for us to do more quickly here in the United States.

I guess I'd just say one more thing. So that's the things that China did that we should learn from. I'd just note as well that it's interesting to look at some of the other countries and regions in Asia and look at the example of Taiwan. They, as you know, did very, very well themselves, but with a little bit less of an authoritarian hand to it. They dusted off their emergency response that they had in place from dealing with

SARS in 2003. They coordinated data they were getting from immigration and health. They used monitoring of the population through the mobile phone system. And they basically held the virus at bay. So that's another positive example for us here in the United States, along with this second phase in China.

**DOLLAR:** I'm David Dollar, and I've been talking to Dexter Roberts, the author of "The Myth of Chinese Capitalism," a book that will give you a lot of insight into features of the Chinese system and help us also understand how the virus has spread and what the economic impact is. So thank you very much, Dexter.

**ROBERTS:** Thank you.

**DOLLAR:** Thank you all for listening. [We at Brookings are working at home now](#), working remotely in response to COVID-19, but we'll continue to record new episodes and publish episodes of [Dollar & Sense](#). If you haven't already, please subscribe and stay tuned. Send any questions about the podcast or episode suggestions to [bcp@brookings.edu](mailto:bcp@brookings.edu), and until next time, I'm David Dollar, and this has been Dollar & Sense.