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Impact of Epidemic on Emerging Markets and Relevant Countermeasures

- A Case Study of Emerging Markets in China

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Abstract: The new coronavirus epidemic has brought great obstacles to China's economic development. Faced with the impact of the epidemic, the Chinese government has used fiscal and monetary policies to accelerate economic recovery. This paper, through a method of literature review, explores the impact of COVID-19 on China's economy and economic recovery under policy support. The paper finds that the outbreak of the new coronavirus disease has had a significant impact on China's economy and financial markets but also brought great pressure to China's enterprise financing. In an environment of weak domestic and foreign demand and increased international environmental uncertainty, the outbreak of the new coronavirus has intensified the pressure of the economic downturn and added new uncertainty to economic development. Many people's income levels have declined. Apparel, shoes and hats, gold and silver jewelry industry consumption fell sharply. The epidemic has a great impact on the consumption part of the economy, so it is a good choice to develop an economy based on exports. With the help of fiscal policy, monetary policy, and stimulus measures, China's exports have grown rapidly and PPI levels have risen, making it the most foreign-attractive country in emerging economies.

Keywords: China, monetary policy, epidemic, economic stimulus

1. Introduction

The accelerated spread of the new crown pneumonia epidemic around the world has had a huge impact on the global economy and global financial markets. As China has taken relevant epidemic prevention and control measures, the work to prevent the spread of the epidemic has achieved initial results. However, from the perspective of China's economic development, the COVID-19 epidemic mainly affects the development of China's macro economy from both sides of supply and demand.

As few papers focus on this side in detail, this paper, through a method of literature review, explores the impact of COVID-19 on China's economy and economic recovery under policy support. This paper summarizes some existing research results on China's economic development after the outbreak and points out that China's economic recovery is stable and good.

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2. The Impact of Epidemic on Chinese Economy

Although the spread of the epidemic has been effectively controlled, the various effective measures taken by the Chinese government to prevent the spread of the epidemic and the epidemic itself have had a relatively serious impact on the Chinese economy and have had a greater impact on the supply and demand sides of the Chinese market. The impact has brought unprecedented challenges to China's economic development.

2.1. Economic Recession

The "Great Lockdown" caused by the new crown epidemic has plunged the global economy into a severe recession characterized by high unemployment" [1]. The severe economic recession caused by the new crown epidemic is mainly due to the strict quarantine measures adopted by various governments to effectively prevent the spread of the epidemic, as well as people's worries that the epidemic cannot be controlled in a short time. The epidemic has profoundly affected and changed people's lives. People around the world have experienced different degrees of "blockade and isolation". The world economy has experienced the largest decline since "World War II," and economic activity in major economies has generally suffered setbacks. The new crowned pneumonia epidemic has a significant short-term impact on the Chinese economy. Since the outbreak of the epidemic in early 2020, China's economy has been hit hard, with GDP falling by 6.8% year-on-year in the first quarter. Since the second quarter, with China's normalized epidemic prevention and control, the promotion of the resumption of work and production, the resumption of business and the market, and the government's implementation of a series of unconventional policy measures, the potential of domestic demand has gradually been released, and the economy has recovered steadily. In the second and third quarters, China's domestic demand The growth rate of GDP was restored to 3.2% and 4.9%, respectively. For the whole year, China's GDP increased by 2.3%, becoming the only major economy in the world to maintain positive growth [1].

2.2. Government

Since the outbreak of the epidemic, the Chinese government has taken measures to vigorously increase public health spending and soon implemented a policy of expanding social welfare spending in response to the sharp economic downturn and increasing unemployment. The ratio of the fiscal deficit to gross domestic product (GDP) has risen rapidly.

Without considering the impact of the epidemic, the estimated ratio of the fiscal balance of payments to GDP in April 2019 was about -6.2%, while the actual data in April 2020 was -11%, and the deficit rate increased by about 6% [1].

2.3. Price

The outbreak of the new crown pneumonia epidemic has had a negative impact on Chinese prices, but the overall impact is not large. Wuhan, as the epicentre of the outbreak of COVID-19, has seen a significantly higher decline in overall prices than other cities in China. The negative shock to prices in other Chinese cities was not significantly different due to the severity of the COVID-19 outbreak, nor was it reduced by distance from Wuhan. Provinces and cities with large income gaps have a greater negative impact on overall prices and food retail prices; cities with a high degree of trade dependence have a greater negative impact on the prices of industrial production means; cities that issue consumer vouchers in a timely manner; the recovery of food retail prices is faster than other cities [2].

The "Great Lockdown" and economic recession caused by the new crown epidemic are much worse than the 2008 global financial crisis. To mitigate the huge impact of the COVID-19 pandemic on economic activities, policymakers around the world have spared no effort to adopt large-scale, unconventional and targeted fiscal, monetary, and financial measures to provide support and assistance to businesses and households affected by the pandemic [1].

3. Countermeasures of Fiscal Policy

China's fiscal policy in response to the epidemic can be divided into two categories: tax cuts (fees) and spending increases. From 2020 to the first half of 2021, the Ministry of Finance and the State Administration of Taxation issued a total of 28 tax and fee reduction policies in seven batches, covering various fields such as epidemic prevention and control, supply guarantee, assistance to difficult industries, and resumption of work and production for enterprises. In 2020, the new tax reduction and fee reduction amounts will exceed 2.6 trillion yuan, and the new tax reduction and fee reduction in 2021 are expected to exceed 550 billion yuan [3].

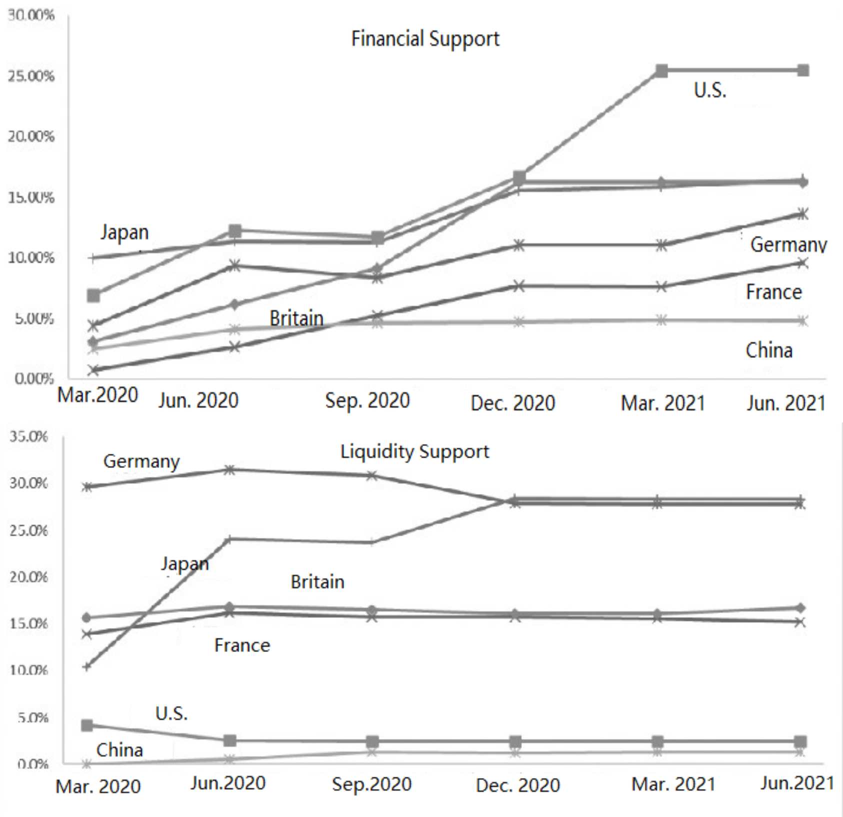

Figure 1: Changes in fiscal policy support for major economies in response to the epidemic.

Since 2020, the scale of China's financial support to deal with the epidemic has accounted for about 4.9% of GDP, which is 20.6% lower than the 25.4% of the United States. This is low compared to the 8.8% average support for G20 economies. The scale of China's financial support is relatively small. In the early stages of the epidemic, fiscal policies were introduced intensively and implemented quickly. Combined with the rapid epidemic prevention and control measures, the spread of the epidemic was contained earlier, the economy returned to the pre-epidemic level faster, and the fiscal policy was relaxed.

In terms of fiscal expenditure, China's fiscal support policy is mainly reflected in the investment in public health, tax reduction for small enterprises, and increasing the scale of infrastructure investment expenditure.

In response to the new crown epidemic, in the case of the cumulative negative growth of fiscal revenue year-on-year, by increasing the deficit rate and increasing the scale of debt issuance, the epidemic risk can be effectively hedged. Through the phased tax reduction policy, the unemployment rate has steadily declined, and the negative impact of the epidemic has been basically controlled. On the other hand, China has increased investment in infrastructure. In addition to traditional infrastructure construction, the construction of 5G base stations, intercity high-speed railways and urban rail transit, and new energy vehicle charging points are also being accelerated. In this way, economic development has been stimulated in the short term. The massive fiscal support policy has saved the country from a deeper recession and greater unemployment.

4. China ' s Monetary Policy or Financial Regulatory Policy Adjustments

COVID-19 is spreading around the world. The global financial market fluctuates greatly, global trade slows down significantly, and the world's economic growth is impacted. China's regulatory policies adhere to counter-cyclical adjustment based on supply-side structural reform. Besides, it is important to face the complex economic situation, and China's macro-control policy also needs to be changed accordingly, on the basis of adhering to the main line of supply-side structural reform [4]. The purpose of China's monetary policy has the following four points.

First, improve the loan prime rate formation mechanism and reduce the financing costs of the real economy. Under the influence of the epidemic, domestic and foreign demand fell sharply. accelerate the improvement of the new operating mechanism of Loan Prime Rate, improve the efficiency of interest rate transmission, and effectively alleviate the survival costs of small and micro enterprises, foreign trade enterprises, private enterprises, and other affected enterprises.

Second, expanding the scope of operation of structural monetary policy, such as directional medium-term lending facilities, re-discount loans, and mortgage supplementary loans, in order to accurately guide the flow of credit funds to more urgent departments. Increase investment in key industries, especially foreign trade enterprises whose cash flows have been significantly reduced as a result of the outbreak, in order to cope with external shocks, insufficient domestic demand and global competition and ensure the stability of the labor market and financial markets.

Third, watchful financial markets and leverage to avoid liquidity risk. In a low interest rate environment triggered by the new coronavirus outbreak, many financial institutions use term mismatches to borrow short-term funds to configure longer-term bonds for arbitrage. Considering that the economy in 2020 will be greatly affected by the new coronavirus epidemic, liquidity will remain in a reasonable and sufficient state before the economy fully recovers, so the leverage of financial markets such as bonds will continue for a period of time. However, excessive high leverage may accumulate extrusion pressure, resulting in a decline in the ability of the financial system to absorb exogenous shocks and may induce extensive liquidity risks in serious cases. Therefore, while maintaining reasonable liquidity, we should pay close attention to the bond market and be alert to the high leverage of the bond market.

Fourth, China, as a positive promoter of globalization, should unswervingly expand opening up in various ways. Central banks should take the initiative to coordinate monetary policy, actively cooperate, and find common interests in cooperation to prevent the transnational spillover effect of competitive monetary policy from causing a secondary crisis. In addition, in order to cope with the economic recession caused by the epidemic, countries should give full play to their comparative advantages, turn their attention to the global optimization of industrial chain layout, and strengthen technical cooperation in order to form a benign international competition order.

5. Impact of China's Economic Stimulation Measures on Major Industries

An epidemic shock is a comprehensive structural shock with both attack and demand. Demand shocks lead to a decline in current preferences, and the decline in current preferences mainly changes consumers' choice of intertemporal consumption savings, so that consumers reduce current consumption and increase future consumption, thereby increasing short-term savings and reducing long-term savings. This tends to reduce current consumption, thereby increasing short-term savings and investment. The decline in productivity leads to a sharp rise in the price of final goods, and the negative income effect is very obvious. Families will reduce consumption and save at the same time. It said that in order to stimulate economic recovery, the Chinese government can use the means of large-scale infrastructure investment, encourage state-owned enterprises to invest to increase investment growth, the implementation of more than half a year of extremely loose monetary policy to protect the "housing market," and large-scale financial subsidies for household appliances and automobile consumption to support the rapid and stable growth of consumption [5].

Positive monetary policy growth and tax cuts for SMEs play a key role in stimulating economic recovery. In terms of stabilizing consumption, structural tax cuts are only slightly better than stable growth monetary policies, but for stabilizing output, employment, and investment, structural tax cuts are significantly better than monetary policies. When an epidemic shock occurs, i.e., a productivity shock for SMEs and a demand shock for end products at the same time, interest rate cuts can produce intertemporal substitution effects for households, increasing consumer demand and thus expanding output and employment; structural tax cuts partly offset the negative effects of declining productivity in SMEs, reducing production costs and increasing consumption. One important difference, however, is that structural tax cuts have contributed to financing both large and medium-sized enterprises, while interest rate cuts have worsened financing for small and medium-sized enterprises while promoting large corporate lending [6].

The value of capital and land as durable goods is sensitive to interest rates, and the credit stock of large enterprises is much larger than that of small and medium-sized enterprises, so interest rate cuts will reduce the investment cost of large enterprises and increase the value of their mortgage assets, resulting in greater financing capacity for large enterprises. And the recovery of small and medium-sized enterprises' financing ability to help less. Due to the lack of collateral assets, the financing of small and medium-sized enterprises is greatly affected by operating income and cash flow, and the epidemic impact has a direct impact on their operating income and cash flow, which seriously damages the financing ability of small and medium-sized enterprises. Therefore, while the credit of large enterprises has increased significantly, the credit of small and medium-sized enterprises has decreased. Through the above analysis, it is obvious that the effect of structural tax reduction policies on economic stability and the optimal allocation of resources is better than interest rate reduction [7-8].

6. Conclusion

Although the outbreak has had a huge negative impact on China's economy, the fiscal policy, monetary policy, and economic stimulus measures adopted by the Chinese government are helpful for China's economic recovery. The new coronavirus epidemic has an impact on both supply and demand in China, which is the main reason for the sharp decline of China's economy. With the support of fiscal policy, monetary policy, and economic stimulus measures, China's economy has recovered substantially in the short term. While economic recovery faces many challenges in the long term, the overall trend is stable. The dissolution of the city, consumption recovery based on export economy, and tertiary industry recovery improve the trend of economic recovery.

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The deficiency of this paper is that it uses the method of literature review, but the author did not personally establish the financial model. The situation of China's economy is only studied at the epidemic stage, not comprehensive enough. The author will do further research in this area in the future.

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