

# ***The Impacts of COVID-19 on the Chinese Economy and the Related Countermeasures***

**Jizhi Chen<sup>1,a,\*</sup>**

*<sup>1</sup>Adcote Shanghai, Shanghai, China, 201600*

*a. 2973201071@qq.com*

*\*corresponding author*

**Abstract:** The COVID-19 pandemic has resulted in a huge impact on the Chinese economy in all industries. Many people lose their jobs because of the epidemic situation and related policies of self-isolation and the restriction of travel. This paper aims to research the impacts of pandemics on the Chinese economy and how the government imposes expansionary policies and firms respond to these impacts by transformation. The results will be drawn by analyzing cases and documents. This paper indicates that firms could transform to solve the problem of shortage of finance and innovate to take up more market share in international markets.

**Keywords:** COVID-19, Chinese economy, countermeasures, international trade

## **1. Introduction**

COVID-19 brings detrimental effects to the primary sector which include industries extracting raw material such as fishing, the secondary sector which includes the industries of producing finished goods, and tertiary sectors which include industries of providing services and international trade in China. Many countries impose restrictions on travel and quarantine which causes some fears of economic crisis and recession. This paper will discuss the impacts on the economy which were brought by the pandemic such as the quarantine policy and the solution of government and firms to recover production effectively. It provides enlightening significance to the future development of firms.

## **2. Analysis of the Influences of the Pandemic on the Chinese Economy**

Until July 27, 2022, the situation of COVID-19 in China has been controlled well and compared to the year 2020, the anti-epidemic measures make remarkable progress. The main challenge of the epidemic prevention and control comes from outside the country, but China has developed effective measures by using the internet and the advantages of the Chinese system. Most people have returned to work and the economy starting to recover.

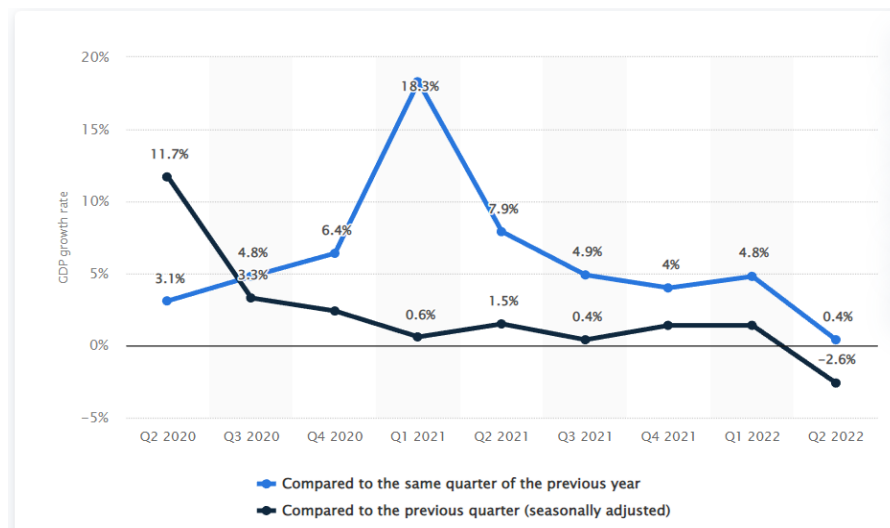


Figure 1: Quarterly gross domestic product (GDP) growth rate in China from 2nd quarter 2020 to 2nd quarter 2022 [1].

From the macro economy aspect, the GDP of China still shows an increasing trend when the government implements more serious traveling restrictions and quarantine here are some reasons.

First, China has a developed infrastructure and industrial base. China is the country that has all industrial categories of ISIC, so it has a strong ability to support materials to a certain industry from other industries, which means substitutes can be found immediately in China if an industry has difficulty with raw materials shortage. This ensures that the industry chain could work at high efficiency when the pandemic is under control.

Second, the aggregate demand in China is large when the GDP because the living standard of the Chinese is improving and in 2019 the per capita gross domestic product reached 10 thousand dollars [2]. So citizens are more willing to spend money to purchase goods and services.

Third, the government in China could deal with the potential risks which are brought by COVID-19 when the size of foreign exchange reserves had reached three trillion dollars and the grain output reach sixty million kg [2]. So the government has a lot of solutions to develop the economy. To illustrate, the government could give subsidies and decrease the rent to domestic firms to decrease the financial burden. In addition, the government does not need to be concern about grain reserves.

## 2.1. Industrial Structure

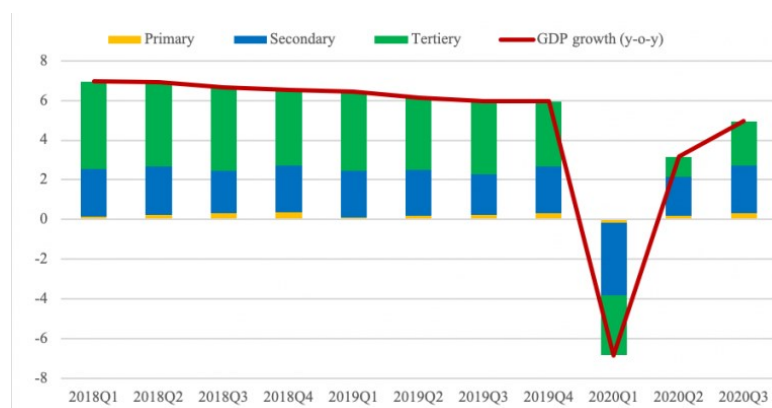


Figure 2: Growth rate based on GDP series at constant 2015 prices (Source: National Bureau of Statistics of China).

**Primary Sector.** Until April 17, 2020, there was only a tiny decline in the primary sector which had a slight impact on three sectors.

*Agriculture.* There are only a few impacts on the agriculture industry, the Beidahuang Group is a representative firm in the agriculture industry in China. The operating income for the first quarter increased 8% compared to the last quarter [3]. During the pandemic, the demand for agriculture is stable and the grain output in the last five years was more than 65 thousand kilograms, which means the grain reserve is sufficient, so the price of grain is steady [3].

*Animal husbandry.* Muyuan Food Co., Ltd and Wenshi Foodstuff Group Co., Ltd are responsive firms in animal husbandry which include pig breeding and pig slaughtering. These two businesses have no remarkable decrease during the pandemic because the demand of consumers is stable. The government set up “green channels” to make sure these goods can be conveyed successfully which solves the problem of restricted transportation.

*Fishing.* There is a relatively large impact on the fishing industry because these firms get marine food outside of China. The firms such as Shanghai Kaichuang Marine International Co., Ltd have seen a decline in quarterly revenue which is -18.85% because of the traffic restriction and epidemic prevention and control measures.

**Secondary Sector.** The pandemic has had a great impact on the secondary sector. At the end of 2018, the number of employees of legal entities is 210.667 million [10]. To illustrate, in the real estate industry, because of the quarantine, the workers cannot go back to their workplaces which influences the businesses directly. Furthermore, the cost of antiemetic and transportation increases as well because of pandemic prevention and control after workers go back to work. So costs of running a business increase and the salary of workers decrease.

On the other hand, a lot of firms cannot produce when lacking raw materials when the suppliers located are blockaded. So productivity will decrease.

**Tertiary Sector.** The pandemic has a great impact on the tertiary sector as well and this sector can be regarded as a services industry which means the profit of these firms will decrease when quarantine decreases the mobility of consumers, which impacts the operation of business negatively. Next, there are many employees who work in the tertiary sector. So, the salaries in this sector may decrease. According to the data from the National Bureau of Statics in China, the unemployment rate in February had also increased to 6.2 while the rate is only 3% in January.

The foodservice industry is an important part of tertiary and takes Tricon Global Restaurant, Inc. From its financial statement in 2020, the revenue had decreased by 6% compared to last year.

However, the middle and small-sized enterprises are influenced by the pandemic in these three sectors. First, most of the middle and small-sized businesses are concentrated in the service industry such as the retailer and foodstuff companies. These companies are impacted by the pandemic directly. Next, middle and small-sized enterprises are inherently fragile, they have little capital and the period of turnover of capital is short. So most middle and small-sized enterprises can only maintain one month running and only a few businesses could maintain for two or three months and only a few businesses can survive for more than four-month when they are not functioning properly [2].

## 2.2. International Trade

The pandemic brings many difficulties to China in the international trade aspect. First, the increase rate per year decreased which was 1.9% in 2020 compared to 3.4 in 2019. As COVID-19 spreads and mutates, the trade barrier in each country had increased. First, the purchasing power of consumers in other countries is decreased. This means the demand for imported goods and services is decreased.

In the Chinese trading system, the manufacturing industries take up a large proportion, so these firms get a massive loss, especially those labor-intensive firms, So the profit of firms and salaries of workers has also decreased. In addition, the international logistics capability is reduced because of

COVID-19. More and more ships park at the ports which rise the costs of parking and transport fees. To illustrate, many countries impose more serious quarantine measures and require ships to accept inspections which is time and money costing. So these exported firms will get higher pressure because they will face uncertainty in the future.

### **3. Analysis of the Countermeasures of the Chinese Government**

After the outbreaking of the COVID-19 pandemic, the Chinese government took action immediately and it is under control now.

By 2020, the government spending on the fiscal policy takes up 4.8% of total GDP, compared to the other countries in G20 which take up 8.8% on averagely, the Chinese government spending is set at a low level. From the international comparison, there are some differences between different countries. The reason is that the Chinese government introduce suitable policies and controlled the pandemic at the beginning, so less time is needed to recover the economy.

#### **3.1. Fiscal Policies**

First, the government introduces the policy to decrease the burden on individuals and firms by cutting tax and administrative fees. For example, decreasing the endowment insurance, the water, electricity costs and the tax rate. From 2020 to the first half of 2021, the government published 27 policies, and the amount of money exceeded 260 million. In addition, the government exempted the tax of related goods of COVID-19 such as masks to and gave instructions of reinforcement about the prevention and control of the pandemic which helped firms return to work.

Next, the government provides financial support to firms. On February 14, 2020, China Banking Regulatory Commission announce that supporting the firms to improve their productivity and return to work, helping small and middle-sized businesses, and innovating the mode of financial services. On February 25, 2020, the State Council encouraged financial institutions to provide temporarily deferred repay the capital and interest services and added prime-based loans.

#### **3.2. Supply-Side Policies**

The improvement of infrastructures plays an important role in the development of the Chinese economy. The cost of transportation had decreased, and the efficiency of allocating resources improved. Since the breakout of the pandemic, the Chinese government started a new plan to overcome the deficiencies in the past.

First, the main problem of Chinese infrastructure is lack of investment, from the scale aspect, there are still differences between a developed country and China [5]. To illustrate, the health care resource is insufficient. On the other hand, other than the traditional development of infrastructure, the aim of the new plan is to develop 5G, artificial intelligence, the internet, and other new types of infrastructures based on developing traditional infrastructures such as railways.

### **4. Analysis of the Countermeasures of Enterprises**

During the pandemic, there are some problems occurring to the firms, especially the middle and small-sized businesses and it is important to find solutions to deal with these problems such as enterprise transformation.

#### **4.1. The Problems of Enterprises**

The first problem is a lack of finance. During the pandemic, the revenue of firms decreased, and some businesses stopped producing. However, these firms still need to pay for fixed costs such as the rent,

water, electricity fee and the daily salary of workers. Furthermore, upstream firms have a close relationship with the downstream firms, so if the upstream business stopped producing, the downstream businesses will be affected [8]. Next, firms may be suffered from the pandemic in other countries directly and indirectly which decreases the profitability of those firms while their suppliers and customers from overseas. Furthermore, banks are usually not willing to loan their money as they have no guarantees and good credit [9]. Although the government has policies to support businesses, it takes a long time to make decisions and publish suitable policies. Hence a lot of businesses fail before the publishment of these supporting policies.

## 4.2. The Countermeasures of Enterprises

**Digital Transformation.** Because of the strict epidemic prevention and control, traditional firms have a lot of limits on the trading palace, customers, and trading channels. Fortunately, with the development of the internet, and the 5G network, firms could have a chance to transform, and the market becomes larger. Take-out service is the main part of Meituan. As of 2021, the total revenue of Meituan was 179.13 billion which increased by 56% compared to last year. This means the demand for takeout is increasing, and more and more people are willing to order food on the internet. In addition to the food industry, the companies of education and shopping become popular now. So digital transformation is completely accessible to most industries and it becomes a necessary choice for firms while the demand for digital services keeps increasing.

**Product Diversification.** COVID-19 decreased productivity worldwide. A lot of firms that have no key technology are heavily damaged. To illustrate, FOXCONN, a company that relies on APPLE, experienced some difficulties such as the decline in orders, redundancy and salary cuts [5].

This shows the necessity of developing new technologies and products horizontally, which means companies could design goods and services in different sectors to satisfy different demands and it may improve the ability of anti-pressure. A successful example of diversification is GREE ELECTIRAC APPLIANCES, at the beginning of the pandemic, the firm started to produce masks which reduce the pressure of the shortage of masks.

**Technological Innovation.** The main part of exported goods of China is the goods that are produced by labor-intensive industries with low scientific and technological levels, this means the risk of replacement is high [7]. So firms should innovate and create differentiation to raise the competitiveness of Chinese firms. On the other hand, firms should innovate their technology to improve productivity and reduce the costs of production so the competitiveness of domestic products will increase.

## 5. Conclusion

The paper researches the Chinese economy and the policies issued by the Chinese government. So the firms could use these policies to eliminate the negative effects which were brought by COVID-19 and enterprise transformation is important for most Chinese firms. Furthermore, it may be an opportunity for China to take up more market share in the international market while firms in other countries still suffer from the pandemic. This paper could research some specific industries and gives a targeted solution, in the future the research could focus on the impacts brought by 5G and how firms use the 5G technology.

## References

- [1] *China: quarterly GDP growth 2022* | Statista
- [2] *Peng Jianguo, China Development Observation, 2020 (Z2), China's economic trend and enterprise development countermeasures under the epidemic*

- [3] *Pei Kaixin, Yang Xiaodan, Industrial & Science Tribune, 2021, 20(18), Study on the impact of COVID-19 on China's economy*
- [4] *Zhou Zixuan, Cao Yongdong, Hao Huanrong, CAI ZHENG JIAN DU, 2021, (23), China's fiscal policy response and policy effect evaluation since the epidemic*
- [5] *Liao Maolin, Zhang Mingyuan, Fujian Tribune, 2020, (04), The impact of COVID-19 on China's economic growth*
- [6] *Li Han and Zhai Yifan, Co-Operative Economy & Science, 2020, (24), Thinking on enterprise transformation under the impact of COVID-19*
- [7] *Ma Wanqing, Journal of Hubei University of Economics (Humanities and Social Sciences), 2020, 17(09), Analysis of the impact of COVID-19 on China's macro economy*
- [8] *Huang Qinghua, Zhou Zhibo, Zhou Mi, Journal of Southwest University (Social Sciences Edition), 2020, 46(03), Impact of COVID-19 on small and medium-sized enterprises in China and countermeasures*
- [9] *Zhou Yuxi, Journal of Hubei University of Science and Technology, 2022, 42(02), Discussion on the financing problems and countermeasures of small and medium-sized enterprises under the COVID-19 epidemic*
- [10] *Wu Liyuan, Liu Yanzhao, Contemporary Finance & Economics, 2021, (11), The impact of structural shocks on the Chinese economy*