

# ***Reflections on China's Economic Law Triggered by the Economic Crisis and COVID-19 Epidemic***

**Xiaohan Zhang<sup>1,a,\*</sup>**

*<sup>1</sup>International Business School of Jinlin International Studies University,  
Changchun, Jinlin, China, 130000*

*a. ruochener@163.com*

*\*corresponding author*

**Abstract:** The 2008 U.S. subprime mortgage crisis had a significant effect on the global economy, particularly on China's real economy. The subprime crisis has caused turmoil in China's financial market, which is evidence of weaknesses in China's financial regulations and legal framework. China needs to strengthen its financial supervision, establish a risk prevention system, and improve its economic legal framework in response to the shocks brought on by changes in the global financial market. Beginning with the economic challenges brought by the two distinct causes of the subprime mortgage crisis and the Corona Virus Disease in 2019, this paper will concentrate on the difficulties the Chinese economy is experiencing. Then, the paper will examine China's economic situation in light of the overall economic climate, look at the opportunities and challenges presented by China's economic law in light of COVID-19, and offer a prognosis for the future development of China's economic law.

**Keywords:** economic crisis, COVID-19, economic law, legal changes, financial regulation

## **1. Introduction**

China's economic system and financial laws have been hit by the subprime mortgage crisis in 2008 and the outbreak of COVID-19 in 2019. Another market failure and the outbreak of the Corona Virus Disease in 2019 saw the imbalance between supply and demand, another market failure, and a renewed downturn in China's economy. Restoring market order and safeguarding the public interest of society will become the primary goals of future developmental changes in economic law. The financial crisis brought on by the post-epidemic era is long and multi-risky. The state should improve its supervision of the market in a timely manner according to the current market situation and ensure that the current economic law is forward-looking and well-planned so that it can create a balanced and harmonious economic environment that reflects efficiency and fairness.

Beginning with the economic challenges brought on by the two distinct causes of the subprime mortgage crisis and the Corona Virus Disease in 2019, this paper will concentrate on the difficulties the Chinese economy is experiencing. Then, we'll examine China's economic situation in light of the overall economic climate, look at the opportunities and challenges presented by China's economic law in light of COVID-19, and offer a prognosis for the future development of China's economic law. The negative consequences of the two crises are examined, and recommendations are made for

modifications to economic law for the post-epidemic period. It supports the gradual improvement of China's economic system by learning from the localization of Western experience.

## **2. Causes of the Subprime Mortgage Crisis**

The financial regulation policy of the United States cannot fully adapt to the rapidly evolving financial market transactions. The U.S. financial macro policy focuses on efficiency more than safety. The U.S. financial policy encourages the establishment of a market-led financial system, and the proportion of transactions in direct financing instruments such as stocks and bonds is much greater than the proportion of transactions in the credit market. The development of such direct financing activities has put forward higher requirements for the macro-control ability of financial authorities. This loose monetary policy and lax financial supervision policies sowed the seeds of crisis, leading to a shift in economic operating cycles and laws [1].

The subprime mortgage crisis set off the current financial crisis in the United States, which is a reflection of the serious flaws in the country's financial regulatory system. Financial regulation in the United States combines both institutional and functional regulation, with regulators forming a vertical and horizontal cross-net regulatory pattern. However, there are still traces of institutional regulation in the functional regulation of mixed businesses in the United States, which has led to a number of problems. That is why some scholars believe that panics in banking occur more frequently in the United States than in any other country [2]. Because in the most financially powerful countries, the more frequent and severe financial crises occur, the more frequent and drastic legal changes follow.

## **3. Impact of the Subprime Mortgage Crisis on China's Economy**

The 2008 subprime mortgage crisis had the greatest impact on China's economy out of all the economic crises. China's export trade suffered as a result of the subprime mortgage crisis, which also slowed the growth of the US economy and the global economy. Second, China was also under the double pressure of a slowing economic growth trend and a dire domestic employment situation. The industry is under a lot of pressure because the real economy has been hit. And the unemployment situation has gotten worse with the closure of a large number of small and medium-sized processing businesses. The subprime crisis will also increase China's capital market and exchange rate risk. The United States adopted an accommodating monetary policy and a weak dollar exchange rate policy to combat the negative effects of the subprime crisis. The sharp decline in the value of the dollar at that point exposed China's foreign exchange market to significant exchange rate risks.

In the face of the virtual economy form, which is very different from the real economy in 2008, the lack of adaptability of the economic legal system was exposed. From the perspective of the factors leading to the financial crisis, various financial institutions and other market players were blindly pursuing the maximization of individual interests in the large number of financial transactions they engaged in, especially for financial derivatives, regardless of social costs and potential risks, thus leading to market failures [3]. The current domestic economic legal system lacks relevant laws and regulations, which makes the regulations narrow and light to avoid the huge risks brought by innovative financial products.

## **4. The Impact of the COVID-19 on the Chinese Economy**

The COVID-19 has been widespread, and tourism in China and abroad has been hit hard. The restaurant industry, transportation industry, agriculture, and other industries with a high density of people and high labor demand were also affected by the epidemic's prevention and control, and the whole industry was in a state of shutdown. As a result of the traffic control, the express delivery industry was in a passive development position, the enthusiasm of the population for consumption

was seriously affected, and the efficiency of e-commerce transactions was greatly reduced. As a result, the demand for orders from processing industries such as garment and textile industries has decreased, and workers are at risk of losing their jobs. China's total import and export of goods totaled \$6.57 trillion in the first quarter of 2020, down 6.4%, according to the National Bureau of Statistics, with imports increasing by 0.7% and exports falling by 11.4% [3].

Overall, foreign trade declined overall. After the outbreak of the epidemic in China, workers fought the epidemic at home, and a large number of factories stopped work and production, resulting in the stagnation of work and the loss of a large number of customers by companies. After the epidemic was under control in China, factories slowly started to produce again, but as the disease spread internationally, import and export trade had to be drastically reduced. International markets experienced a sharp decline, and businesses were forced to choose between canceling orders and receiving no orders. Data from the General Administration of Customs and the China Merchant Industry Research Institute shows that from January to May 2020, the total volume of Chinese imports and exports was lower than it had been during the same time period.

At the same time, nucleic acid detection-related industries, masks, and other medical product processing factories have enjoyed the dividends brought by the epidemic. In addition, there are emerging electronic technologies such as unmanned cooking and unmanned food delivery during the Winter Olympics that are developing rapidly. The definitions of 5G, artificial intelligence, the industrial Internet, and the Internet of Things were first made at the Central Economic Work Conference on December 19, 2018, and "strengthening the construction of a new generation of information infrastructure" was later added to the 2019 government work report [4]. Undoubtedly, the "new infrastructure" will emerge as a significant new engine for China's economic growth.

## 5. Discussion and Countermeasures

### 5.1. Discussion

Since the financial crisis in 2008, China's financial market has seen chaos such as regulatory loopholes, gaps, and arbitrage. And the emergence of emerging financial technology has changed or even disrupted the financial system. Financial regulation is also facing the challenges brought by big data, blockchain and AI at the same time. Therefore, some scholars suggest that China's financial regulation should shift from risk regulation and institutional regulation to functional regulation and behavioral regulation. In 2018, in order to maintain the stability of the stock market and foreign exchange market, China introduced a policy to merge the Banking Regulatory Commission and the Insurance Regulatory Commission. A unified regulator sets the regulatory standards for the relevant institutions and is responsible for promoting them under the same authority. In order to strengthen the management of financial institutions, thus ensuring financial stability and preventing systemic financial risks. The establishment of the CBRC breaks down the barriers between regulatory authorities and helps improve regulatory efficiency and transparency to find the source of financial risks.

Thus, targeted risk prevention and control measures can be formulated to achieve full regulatory coverage. This systematic and dynamic financial regulatory mechanism is the basis for ensuring the smooth progress of financial reforms in other directions.

Almost every high-impact financial crisis will bring corresponding legal changes, which are no longer limited to the country where the crisis occurred and will affect other countries. Such changes can be divided into three categories: laws to close regulatory loopholes; laws to deal with problematic financial institutions; and laws to revitalize the economy. Legal changes will not stop until the financial crisis is eliminated. The more severe the financial crisis, the more intense the legal changes. The development of financial regulation theory and law has followed a crisis-oriented route [4].

## 5.2. Countermeasures

The government should strengthen the supervision of domestic and foreign rating agencies. As China's financial market continues to converge with the world financial market, the awareness of credit in finance is gradually increasing. After the subprime crisis, society has become increasingly demanding of the quality of credit products, and a variety of high-risk subprime loans similar to those that emerged in 2008 should be restricted from trading by rating agencies. The central bank can continue to implement some targeted credit support measures, such as enhancing differentiated preferential financial services for regions, industries, and businesses that are more adversely affected by the epidemic, but it should also guard against the unchecked abuse of financial easing tools like preferential interest rates and online financing. To lessen the risks associated with online microfinance companies, the state announced the Interim Measures for the Management of Online Microfinance Businesses in 2021 [5]. As a result of the program, Ant Financial was compelled to cancel. The risks associated with this use of small amounts of money to leverage high leverage are huge, so the new bill came out with a limit on leverage multiples and the regulatory side addressed known risks in advance. Therefore, the quality of rating agencies' ratings is one of the most important factors in determining the stability of China's economy. Under the Corona Virus Disease 2019, the regulatory side should strengthen the supervision of all rating agencies, and the establishment of a rating system with Chinese characteristics and a regulatory system that has been adapted to today's economic environment is essential.

For China, with the opening of the gate of China's financial innovation and mixed business, new financial consumer subjects and new financial service relationships have emerged. Therefore, the intrinsic value system of financial law should be reconstructed, not only to make the protection of financial consumers the basic goal of financial law but also to ensure the fair price formation function as the core goal of the intrinsic value system of financial law to be established. Since the lack of the inner value system of financial law in China will affect the structure of the outer normative system, the value objectives of ensuring the fair price formation function and the risk prevention and utilization function should be added to the inner value system of the existing banking law, securities law, and insurance law [5]. To maximize the reorganization of financial law, the government should close the loopholes in the existing financial law, and reduce the risks and losses that may be caused by the financial crisis.

The focus of economic law is on social and substantive justice [6]. To clarify the content of the government's rights in special times. During an epidemic, when the market is in a state of failure and the allocation of the market is inefficient, the regulatory role played by the government is bound to be stronger than in normal times. However, even if the market fails, government intervention cannot completely replace the role of the market. Therefore, it is particularly important to know what instruments the government uses to intervene in the economy [7]. For example, the government implements temporary, structural tax cuts and fee reductions for epidemic prevention and control and for industries severely affected by the epidemic. For example, some administrative fees and government funds were waived for tourism, catering, or transportation. In addition, the government has provided interest-free or subsidized loans to some of the severely affected enterprises or micro-and small enterprises. The government's appropriate controls safeguarded the basic interests of micro and small enterprises, the general public, special industries, or other financially vulnerable groups affected by the epidemic. In the general environment of the new crown epidemic, the government should focus on balancing the relationships and interests of all segments of society at the legislative and policy-making levels. The mutual coordination of interests among the social governance community will facilitate the implementation of the new economic regulations.

As we all know, while emphasizing its stability, the law should also strengthen its adaptability. Therefore, this requires economic laws to be flexible and dynamic with an emergency protection function. Therefore, the government cannot replace the market completely but should be the "rule maker" and the "promoter" of public services [8]. In the case of epidemic prevention and control, the government's issuance of special government bonds and local government bonds has obvious adaptive characteristics [9]. As for biomedicine, medical equipment, 5G communication, cloud computing, artificial intelligence, robotics, industrial internet, and other emerging and digital economy industries that are enjoying the dividends of the epidemic, the government should promptly innovate and update relevant laws and regulations to limit unknown risks and regulate their development path. In the face of the impact brought by the epidemic, the pre-epidemic policy falls short of stabilizing and restoring economic order in an orderly manner. As the epidemic was effectively controlled, the focus gradually began to shift to restoring social production and people's living standards. Focus on the implementation of work and production resumption, business and market resumption, and other work to promote. Stimulate the rebound of residents' consumption and appropriately increase public consumption. At the same time, steadily promote income distribution reform, increase residents' income, and promote unemployment relief and compensation. The government gradually relaxes and lifts the relevant restrictions during the epidemic and restores normal public order.

Whether affected by the lack of a financial regulatory system resulting in the subprime crisis or the direct impact of the Corona Virus Disease 2019 on the economy, the results have proven that China's economic laws need to be changed and updated to reflect the changing environment. The government needs to help vulnerable financial subjects out of their predicament to relieve social pressure, realize the emergency protection function of economic law, and promote a solution to the negative impact of the epidemic. The Internet and the digital economy have seized the rare opportunity to develop under the epidemic. Therefore, the government should take steps to strengthen supervision and improve relevant laws and regulations. In the future, China's economic laws will be gradually improved in one change, forming a set of sound, fair, and efficient economic systems in line with China's national conditions.

## 6. Conclusion

Starting from the analysis of the subprime mortgage crisis that swept the world in 2008 and the Corona Virus Disease that hit different parts of China's economy in 2020, this paper considers the economic crisis caused by various factors in the existing economic law system in China. The final conclusion is that China's economic law system needs to keep pace with the times, and that while economic activities and economic subjects are constantly updated, they should also take the initiative to change the relevant regulatory system and welfare policies to maximize the common interests of society in order to ensure social equity. Since detailed financial data were not investigated, the research results are not comprehensive enough, so this thesis focuses on the macro policy level to analyze how to solve part of the existing crisis in China's economic law. By combining big data and internet technology, we will investigate more specific data on the hit and benefited industries in the future to ensure a more comprehensive and complete analysis of the current economic situation and the way to innovate in the economic law system.

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