

China's Economic Rejuvenation Policy Adjustment in the Post-Epidemic Period

--Against the Background of Local Financial Problems, Rapid Aging of Society, and Sino-US Trade Tension

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Abstract: Since China officially lifted the nationwide blockade and entered the post-epidemic era, various problems have gradually surfaced. The real estate industry is suffering, unemployed people have reached a new high, medical insurance reform has been hindered, import and export trade has shrunk, and economic growth has slowed sharply. There are many reasons behind it, but they are all related to three major backgrounds: local financial difficulties, a rapidly aging society, and Sino-US trade frictions. Judging from the current situation, China's economic downturn will not change in the short term. There is an urgent need for a response to the question of how to stop economic decline as much as possible, lessen the burden on the populace, manage this crisis effectively, and use it as a chance to release risks, upgrade industrial capacity, and set the groundwork for a future economic revival. Based on the obtained secondary documents, this paper mainly uses Japan, which has a similar cultural background and economic development process, as a comparison object to study the relevant policies and regulations newly promulgated by the Chinese government in the fields of local debt, social aging, and Sino-US trade frictions. Through the analysis of this paper, the current Chinese government should not continue the active and loose economic policy it adopted after the Reform and Opening in 1978, but rather should weaken government operations, cut spending, loosen market economy restrictions, and eventually reform the economic system.

Keywords: chinese economic policies, government management, local debt issues, aging society, Sino-US trade frictions

1. Introduction

On December 7, the People's Republic of China's National Health Commission issued a circular outlining 10 prevention and control measures to optimize the COVID-19 response further. The circular emphasizes that in order to maximize nucleic acid testing, individuals won't be subjected to mass testing based on administrative regions, and the range and frequency of testing will be further diminished. People will no longer need to present negative nucleic acid test results and go through health

code checks to enter public spaces or travel to other regions, except for nursing homes, medical institutions, primary and secondary schools, kindergartens, and other specific sites. With this announcement, pandemic prevention policy is moving quickly from a tightening to a loosening approach.

On December 12, the "Travel Card" WeChat official account released the Announcement on the Offline "Travel Card" Service. One of the important tools for epidemic prevention and control disappeared in people's eyes. On December 26, the National Health Commission of the People's Republic of China implemented "Category B management" for novel coronavirus infection, which officially brought the curtain down on the prevention and control that had lasted for three years. Although the COVID-19 epidemic has disappeared from the government's official announcements, its impact is still far-reaching, especially for the economic society.

Due to the multiple pressures of local financial difficulties, rapid aging of society, and Sino-US trade frictions, how to lessen the negative effects of policy and economic instability during the epidemic in the post-epidemic era is a crucial issue to improve enterprise investment confidence, speed up the upgrading and transformation of various industries, increase consumer confidence, restore normal economic and social order, and achieve economic revitalization.

2. Literature Review

China's economic policies are frequently studied and predicted by domestic and international scholars through comparisons to the economic policies of other nations, with Japan and South Korea garnering the most attention due to their shared cultural heritage and economic development process with China. The 1990s' foam economy, brought on by the Japanese government's overestimation of development potential and flexibility, was viewed by Zhou, Lu, and Zhao as a warning sign for the Chinese government's upcoming macro-control [1-3]. Since 2000, the rapid appreciation of the RMB against the U.S dollar, the rapid foam of China's economy, and the violent turbulence of the financial market inevitably make people see Japan's past glory, which confirms the necessity and urgency of its research.

Zhang, Shen, Liu, Ji, and other scholars put forward many constructive proposals for China's response to the aging of the population based on the policies of technological progress, scientific and technological innovation, employment policy, digital economy, and other aspects under the background of Japan's aging society: actively, scientifically and comprehensively respond to the aging of the population, and need to rely on technological progress to achieve industrial transformation, so as to build a modern economic system and support more sound Perfect high standard social security system [4-7].

The causes, nature, and possible solutions to Sino-US trade frictions were also thoroughly discussed by Chen and other scholars. They noted that, in the context of global value chain reconstruction, China should speed up the process of seeking new value chain closure, optimize its internal economic structure, strengthen its position in the global supply chain, and actively respond to trade frictions with strong advanced manufacturing capabilities and sound economic principles [8-10].

Although the previous scholars' research is thorough and trustworthy, and their opinions are constructive, the interconnected local financial difficulties, the rapid aging of society, and Sino-US trade tensions make the economic situation in China's inherently uncertain post-epidemic era more complex and changeable, and the previous research results show varying degrees of limitations. As a result, it is essential to analyze how to adapt policies to new circumstances.

3. Method

This paper will use the comparative analysis method, which examines two or more things or objects to identify their shared and distinctive characteristics. Because of its comparable cultural background,

significant aging population, prior real estate bubble, and protracted economic collapse, this essay will mostly use Japan as an example. This study will assess China's economic policies in the post-epidemic era and offer suggestions for their change based on comparing and analyzing its policies with those of Japan.

4. Result

There are important concerns with China's economy right now. The three topics of the local debt crisis, aging society, and external sanctions will be primarily discussed in the following, along with any pertinent recommendations that can be made on China's current policy adjustment. It should be emphasized that the three elements of the problem are merely separated for the sake of storytelling. In actuality, the three components interact and are intricate.

4.1. Severe Local Debt Issue

The national government's budget revenue for 2022 was 7787.9 billion yuan, a 20.6% decrease from the previous year. The budget income of the central government-funded funds, however, was 412.4 billion yuan, up 3% from last year. In contrast, the budget revenue of the local government funds, at the same level, was 7375.5 billion yuan, down 21.6% from the prior year. According to the Ministry of Finance information, the combined fiscal deficit of the 31 provinces, autonomous regions, and municipalities directly under the Central Government in the first half of 2022 could reach 5 trillion yuan. The smallest fiscal deficit was recorded in Shanghai, at 1.8 billion yuan, followed by Tianjin at 44.1 billion yuan, and Sichuan at 369.4 billion yuan in the last place. The local governments must rely entirely on their economic development to meet the enormous financial gap. Despite the severe local financial crisis, the central government has refused to provide financial support. Local governments used to rely on selling land to businesses to raise money. Still, this strategy is no longer viable, given how quickly the real estate market and local infrastructure construction are cooling. One of the most important steps in China's economic revival is how to handle this problem.

Figure 1 shows that the local fiscal issues can be linked to the GDP's slow expansion and the significant fiscal costs associated with long-term, stringent epidemic prevention. According to Ministry of Finance data, the gross domestic product is still expanding. Still, the annual growth rate has been declining since 2021, and by the fourth quarter of 2022, it was at the same level as during the same period in 2020. Growth of GDP has been slow and trending downward since 2021. Figures 2 and 3 illustrate that PPI and CPI have abnormal inversion, with CPI increasing but PPI decreasing. The primary cause of the inversion of the CPI and PPI, according to Chen Jianqi, is the asymmetric structure of the Chinese consumer market, which coexists with excess supply and scarcity [11]. A three-sector dynamic stochastic general equilibrium model (Three-Sector DSGE) developed by Lv, Jie and Wang Gaowang demonstrated the contribution of the expansionary monetary policy to the escalation of the problem [12]. The possibility of stagflation keeps rising for China, where manufacturing and industry still hold a disproportionate amount of the country's economy, and a slump is certain. Concerns are that the short-term recovery in GDP growth won't be very strong. The local government can only share a small portion of the financial budget, which the central government has long dominated. Various building initiatives and local bonds must pay for the remainder. As a result, once GDP growth slows, the fiscal revenue received by the central government from provinces and cities won't change much. In contrast, the growth of total fiscal revenue will be constrained, local governments' fiscal share will be reduced, and the fiscal gap will continue to widen due to rising debt.

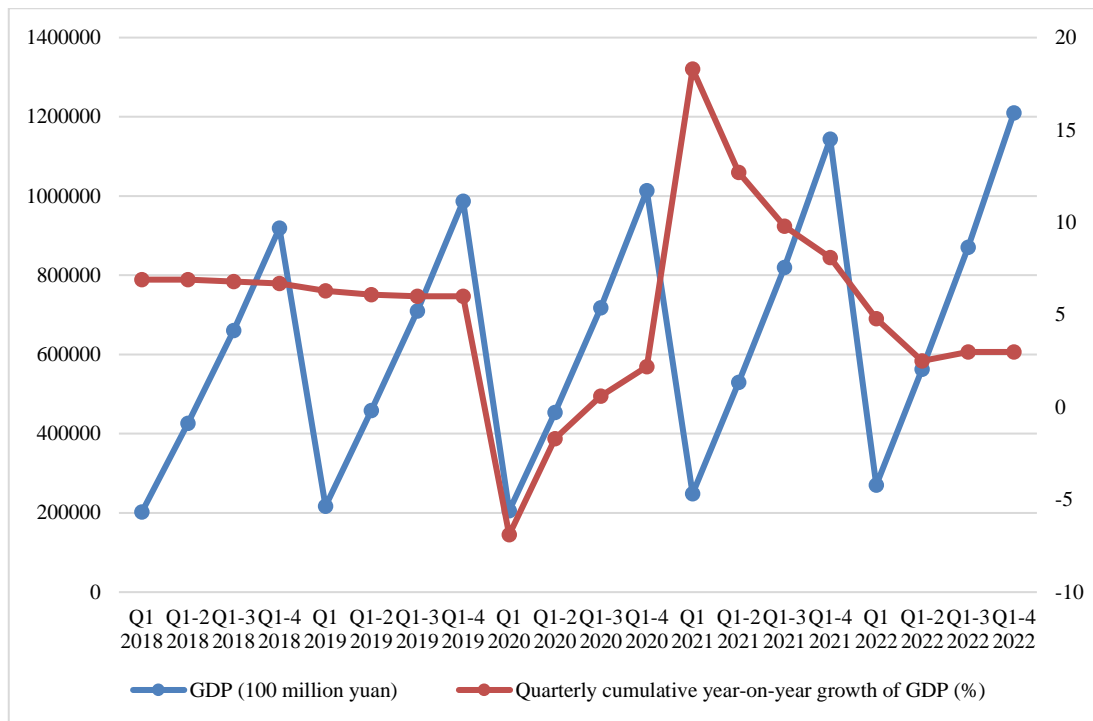


Figure 1: GDP and quarterly cumulative year-on-year growth (National Data: stats.gov.cn).

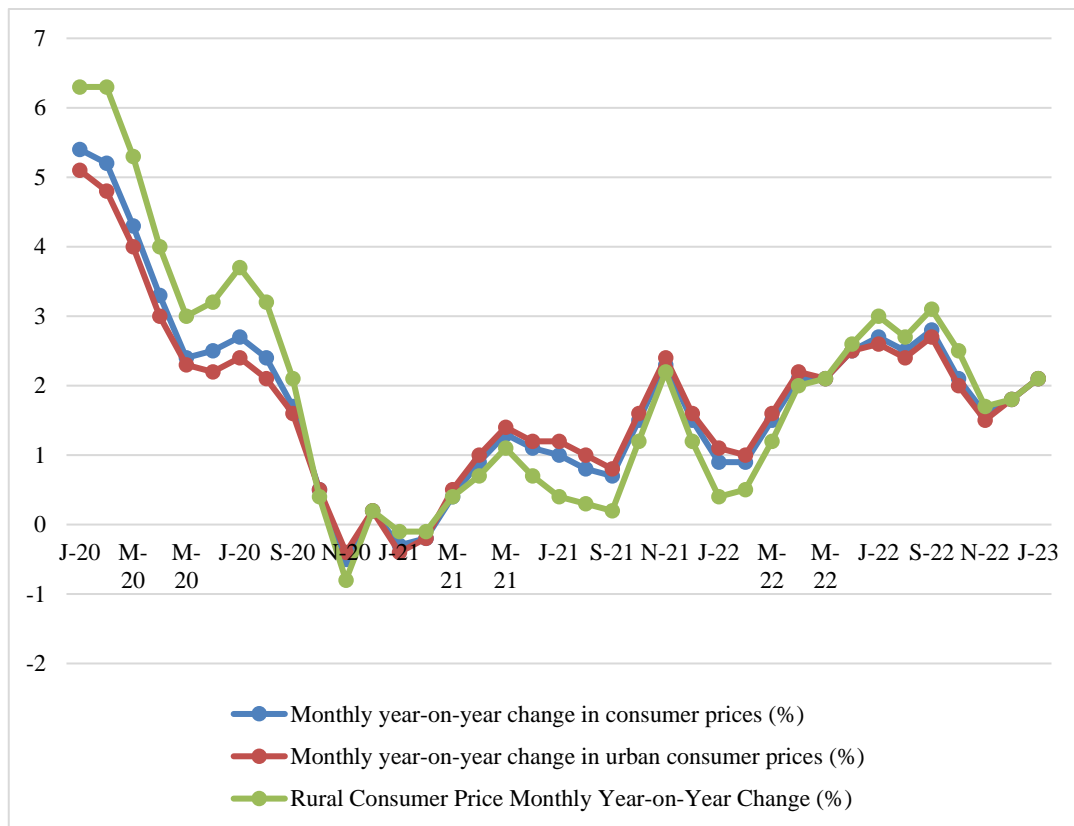


Figure 2: CPI and monthly year-on-year change (National Data: stats.gov.cn).

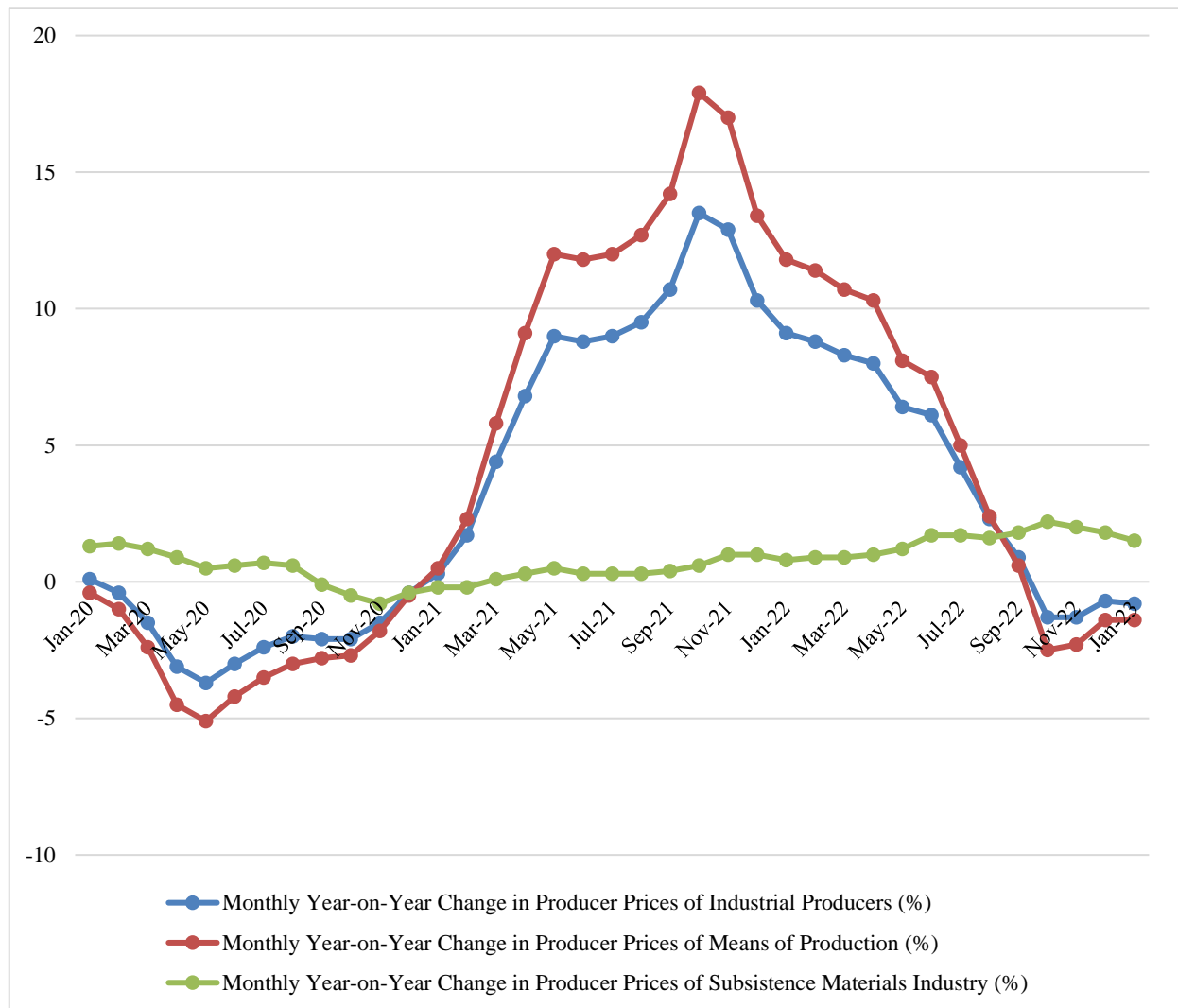


Figure 3: PPI and monthly year-on-year change (National Data: stats.gov.cn).

In addition, one of the key factors impeding economic growth is the unpredictability of domestic economic policy throughout the epidemic. As Li and Yang proved, when the government wants to influence enterprises' investment by changing the current economic policies, it should also pay attention to the negative impact of policy uncertainty caused by frequent changes in economic policies on the investment of enterprises [13]. The epidemic began in 2020, and the two economic uncertainty indices kept at a high level, according to Scott R. Baker, Nicholas Bloom, and Steven J. Davis's economic uncertainty index (EPU), which was based on two statistical methodologies. The arithmetic represents the following Figure 4 and 5 means of 12 months indexes. Although due to the relatively modest epidemic scenario and both indices being comparatively low in 2021, the value was still high. Later, in 2022, the pandemic deteriorated again, and both indices increased significantly compared to last year. Economic policy uncertainty during the epidemic undoubtedly increased business operations' risks. It decreased their efficiency and led to significant closures of enterprises and cancellations of individual businesses. Therefore, implementing stable and effective economic policies and creating a stable and secure economic environment are also important in China's economic revitalization.

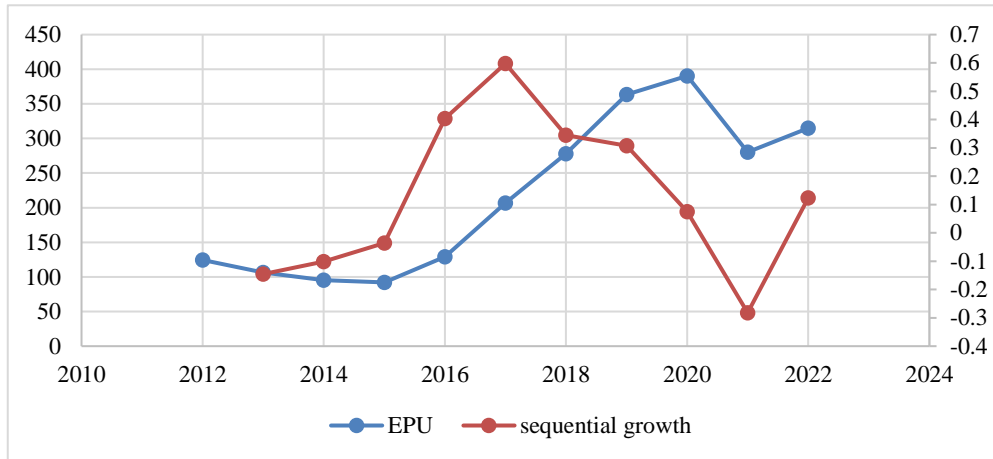


Figure 4: EPU based on China mainland paper.
(Source: https://www.policyuncertainty.com/china_monthly.html)

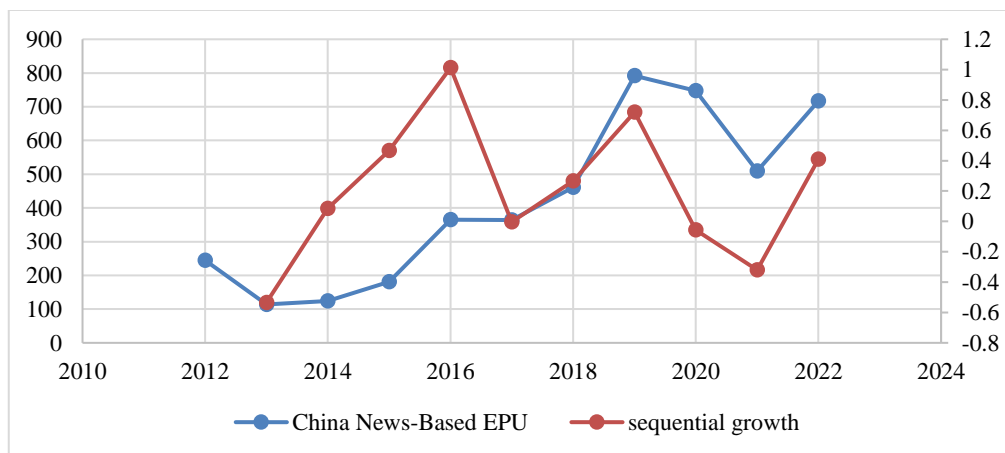


Figure 5: EPU for China based on the South China Morning Post.
(Source: https://www.policyuncertainty.com/scmp_monthly.html)

4.2. Aging Population

The Chinese-born population will be 9.56 million in 2022, and the birth rate will be 6.77 ‰; The dead population is 10.41 million, the death rate is 7.37 ‰, and the natural growth rate of the population is -0.60 ‰, entering the negative growth range. From the perspective of age composition, according to Chinese standards, the working age population aged 16-59 is 87.556 million, accounting for 62.0% of the national population; The population aged 60 and above is 28.04 million, accounting for 19.8% of the national population, of which 209.78 million are aged 65 and above, accounting for 14.9% of the national population. [National Bureau of Statistics]. According to international standards, China's population aged 65 and above accounts for more than 14% and has entered a deeply aging society. The working population aged between 16 and 64 accounts for 66.9% of China's total population, so the current total dependency ratio of China's population is 49.48%, approaching the critical point of 50%; the demographic dividend on which China's past economic boom depends will no longer exist in a few decades. The younger generation is generally low in fertility desire, and the working-age population is decreasing. On the other hand, the aging population is increasing, and the

speed of social aging is accelerating, putting great pressure on the income and expenditure of pension and medical insurance funds.

The newly implemented medical insurance reform is to reduce the government's medical expenditure by increasing the proportion of medical funds deposited in the national pooling account to the medical funds paid by enterprises, establishing the outpatient reimbursement threshold, and the minimum payment line, and decreasing the upper reimbursement limit.

The decline of the working population has also led to a decline in the growth rate of consumption, a reduction in the real income of residents, a decline in residents' consumption, and cold consumer psychology. The lack of a working population has a major impact on all industries, especially the real estate industry [14], which depends on local finance and population base. In 2022, the national real estate development investment will be 13289.5 billion yuan, down 10.0% from the previous year. Among them, residential investment was 10064.6 billion yuan, down 9.5%. The commercial housing sales area nationwide was 1358.37 million square meters, down 24.3%. The sales of commercial housing reached 13330.8 billion yuan, down 26.7%. [National Bureau of Statistics]. The real estate inevitably entered a severe winter.

4.3. External Sanctions

The external circulation was affected by the joint sanctions of the United States and other countries and the unstable international situation. After the epidemic, especially in 2020 and 2022, the growth of the import and export value of the same kind showed a negative value. As Figure 6 shows, since 2020, although the year-on-year growth rate of gross import and export value has gradually increased, it has declined after reaching the maximum value of 67% in February 2021 and fell to a negative value in October 2022. Until December 2022, there is no sign of growth, which is still at a low - 8.9%.

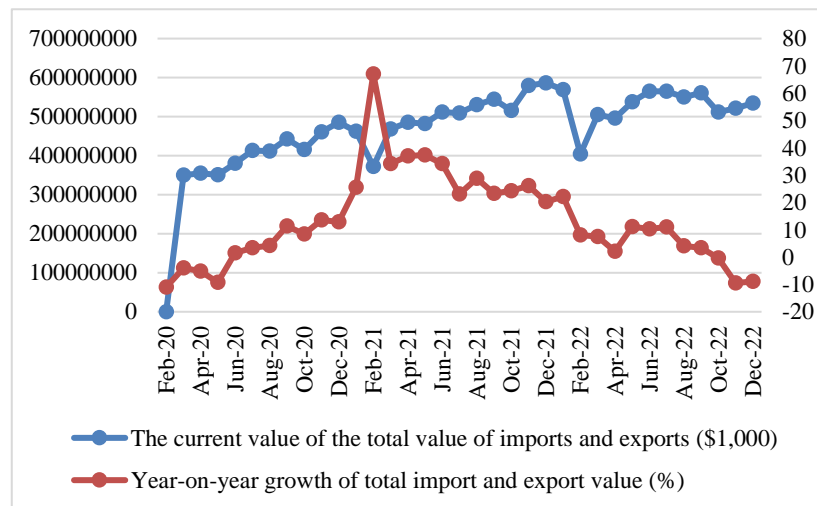


Figure 6: Total value of import and export (National Data: stats.gov.cn).

Since 2016, trade frictions between China and the United States have escalated. After the outbreak, the United States imposed more severe sanctions on China's high-tech enterprises, cracking down on important industries such as semiconductors and aerospace, severely impacting China's economic transformation.

In 2023 alone, the United States imposed a number of crackdowns on China on "military-related" and semiconductor industries. On January 27, the United States, Japan, and the Netherlands agreed to restrict the export of semiconductor equipment to China. On February 10, 2023, the United States Department of Commerce added six Chinese entities to the United States Export Control "Entity List".

In the foreseeable future, the United States will not reduce its restrictions and crackdowns on China-related fields and will certainly curb China's development in semiconductor and military industries. China needs to adjust its strategic policies in time to minimize the negative impact of the United States sanctions.

5. Discussion

5.1. Local Debt

As Zhao et al. have revealed in their research on the relationship between local government debt and regional economic development in China based on provincial data, there is an ideal optimal value of local debt. When the debt scale exceeds a certain level, reducing private investment and public expenditure will inhibit economic growth [15]. Many provinces have reached the optimal level, and some western provinces have even exceeded the optimal level. Continued efforts to raise debt may be counterproductive.

By turning loans into tangible projects and creating job relief, local governments hope to encourage a well-managed economic recovery. The post-epidemic era's capital, however, has insufficient faith in real investment because of the environment in last three years

On the one hand, it is a relatively quick way to save the employment market in the short term under the current motivation of saving the unemployment rate. On the other hand, the desire for low-end industries is unavoidably suspected of excluding advanced productivity, which opposes the industrial transformation and upgrading. In addition, local government debt is endorsed by government credit, which makes it more favored by social capital compared with corporate bonds. Therefore, the issuance of additional local bonds will inevitably squeeze the share of corporate bonds, which is not conducive to the recovery and development of private enterprises during the crisis.

There are two key points at present. First, reduce fiscal expenditure and accelerate the reform of the fiscal system. Yang & Xiao once pointed out that the Japanese government has ensured the reconstruction and recovery of local finances through measures such as implementing the "Trinity" fiscal system reform, improving the transparency of fiscal information, and reducing central government guarantees [16]. In recent years, the reform measures of the China government have also followed a similar path. but still have shortcomings. 1. The financial transparency of the government and state-owned enterprises is still insufficient. It is not uncommon for government officials and employees of state-owned enterprises to not disclose their benefits and benefits to public or disclose the source of funds. In Japan, local governments and state-owned enterprises regularly disclose financial information to the public, which is convenient for the public to supervise local governments and state-owned enterprises, and ensure the rational use of local finances to the greatest extent. 2. The central government has too much power, and the local governments lack autonomy. The targets issued by the central government often ignore the particularities of each locality and cannot adjust fiscal quotas in light of the actual conditions of each locality. Despite the financial transfer payment system, due to the flaws in the system design and the information asymmetry between the central and local governments, the use of transfer payment funds is inefficient and inhibits the development of local economies.

Second, look at the essence and avoid the continuous loose macroeconomic policy. This crisis continues the 2008 4 trillion subsidies that distort the normal market rules. Blindly expecting to stimulate the market by increasing the fiscal deficit may cause counterproductive results. Under current circumstances, the government's visible hand continues to lead the market, which is likely to increase the uncertainty of economic policies. The central government should increase the degree of streamlining administration and delegating power so that the market in the socialist economy with Chinese characteristics can play a greater role and unleash the market's potential. Take advantage of this crisis

to untie the market. Realize the elimination of backward productivity and backward industries, support the training of emerging industries, promote the transformation of talents, and guide industrial upgrading.

5.2. Aging Population

A comparison between China and Japan reveals that the period from 2010 to 2035 will be an accelerated phase of population aging in China, similar to Japan's population aging process from 1990 to 2010 [5]. Japan is thus again an appropriate model.

In the 1960s, Japan began to formulate policies to address the issue of aging. It delayed the retirement age to 65 years old in 50 years, used preferential policies to encourage the employment and entrepreneurship of the elderly, and provided subsidies to companies that employ the elderly. At the same time, an active birth policy was implemented to increase the number of newborns. Today China is following a similar path by promoting delayed retirement, gradually postponing the retirement age, actively implementing the two-child and three-child policy, etc. In general, the current policies on aging align with the actual situation, which is conducive to China's active, scientific, and comprehensive response to population aging.

Particularly, the status quo of real estate is not only the consequence of aging and declining birth rate but also, to a large extent, one of the causes of the predicament. It is vital to avoid losses caused by the collapse of real estate. As a pillar industry connecting the upstream and downstream of the industry, the real estate industry has reached the point where there is no market for the price. This industry, which was hot in the past, has become a hot potato because of decades of excess capacity and huge debts. Real estate is not only related to government finances but also to the reality of people's lives.

While the current government is stimulating the real estate market, it should also formulate policies to prevent overheating and reduce housing prices. At the same time, take positive measures to establish a complete real estate risk prevention system and properly dispose of non-performing real estate assets. Learn the lessons from Japan's real estate bubble burst in the 1990s and minimize losses.

5.3. External Sanctions

During a period of time in Japan's history, high-tech industries were also suppressed by the United States. However, through a series of institutional reforms, Japan has improved the education and skills of R&D personnel. At the same time, providing sufficient funds for public research institutions and universities, provides good conditions for scientific and technological R&D. In addition, a good interactive bridge has been created between enterprises and R&D institutions through system reform. Through the above measures, Japan has maintained a very high level of innovation, and its high-tech industries are still among the best in the world.

Zhang et al. discovered that despite China's increased influence, the U.S continues to have a commanding position in every market. Based on the strong economic uncertainty spillover from the U.S., the findings of U.S to China and major international markets imply concerns about China's rivalry with the U.S, in establishing the international order, are more likely to be motivated by political than economic considerations [17]. Therefore, if China wants to minimize the negative impact of U.S sanctions, it needs to start from both internal and external aspects. Internally, China should avoid directly increasing investment and incentives in scientific research, such as research grants, corporate subsidies, etc. The government is supposed to improve the R&D supervision system and ensure the rational use of scientific research funds, allowances, and subsidies, which will promote the release of innovation potential. More importantly, promotes the reform of the education and scientific research systems, cultivate new talents, and secure good R&D environments. Provide a strong mechanism for

protecting small businesses from market monopolization and innovation-stifling huge technology companies. Externally, the Chinese government should prioritize economic development, look for areas of consensus while reserving differences, promote cooperation, and pursue development to minimize political factors' impact on the Sino-U.S conflict.

6. Conclusion

From a short-term perspective, China's economic policies in the post-epidemic era are reasonable. However, short-term recovery cannot reduce long-term risks. On the contrary, they will plant greater hidden dangers in the future. The protection of backward enterprises and the retention of low-quality labor will undoubtedly hinder the pace of industrial upgrading. Rescuing the real estate market and the continuous increase of local debt will distort the normal market laws. Therefore, in the long run, the underlying system reformation is essential.

The current Chinese central government needs to reject the consistent policy paradigm of forcefully promoting consumption and producing demand in the last few decades and take measures in light of the impending economic collapse. The government should lower economic development expectations from optimistic bullish to cautiously bearish, create the environment for industrial upgrading, loosen the ties for enterprises, and free resource allocation in the market economy. The central government is supposed to shift the center of power downward, streamline administration and delegate power, giving local governments more autonomy. The focus of diplomacy is also necessary to be shifted, from political differences and ideological confrontation to global correlation, economic development, and technological upgrading experience learning.

This paper mainly uses officially announced secondary data instead of primary data. Hence the possibility of insufficiency and inaccuracy to reflect the current reality and reveal the seriousness of the problem. In addition, this paper mainly evaluates and gives suggestions on the policy's general direction, while seldom analyzing specific policies and the implementation in various regions of China. For the above reasons, the analysis of Chinese policy in this paper may appear general to some extent. In the future, it is expected to obtain more reliable primary data through on-the-spot surveys and interviews and analyze it in combination with more detailed regulations and policies of various provinces and cities to improve accuracy and practicability.

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