China's Economic Growth Strategy under the Covid-19

Yujin Feng
Dalian No.24 High School, Dalian, China

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Abstract: As the coronavirus sweeps the world, many places have experienced a different level of destruction and gave the corresponding solution. Some show significant improvement in spurring economic growth. The central role in the government's response has been to lower interbank interest rates. The one-year interbank rate fell to 2.25% at the end of March, the weakest since December 2009. This is a time when the effects of the Lehman crisis remain deep. The one-month rate fell to around 1.8%, down one percentage point from close to 3% at the end of 2019. To reduce the impact of COVID-19 on the national economy, the government has implemented a series of plans and actively implemented them.

1. Introduction

COVID-19 is a process of gradual spread. The development of the COVID-19 has the outstanding characteristics of long duration, rapid growth, and broad impact, which has had a significant effect on economic development and even the economic development of developing countries. Although current China's COVID-19 prevention and control war has achieved staged positive results, COVID-19 is still spreading globally. The enormous external impact it has on the world economy has not been fully released. The external imported risks facing China are still accumulating. Therefore, during the epidemic period, China must not only handle the domestic epidemic prevention and control but also provide related policies for economic recovery and development [1].

2. The Current Situation of China's Economy after the Epidemic

2.1 Economic Conditions Have Recovered Steadily

The economy recovered steadily, and some sectors of the tertiary industry provided strong support. According to the unified accounting results of the regional GDP, in the first half of 2020, Shanghai's REGIONAL GDP reached 1735.68 billion yuan, down 2.6 percent from the same period last year, and 4.1 percentage points less than that in the first quarter. Of this, the added value of the primary industry was 3.391 billion yuan, down 16.9%; The added value of the secondary industry reached 425.681 billion yuan, down 8.2% or 9.9 percent from the first quarter. The added value of the tertiary sector reached 1306.608 billion yuan, down 0.6% and 2.1% lower than that in the first quarter. The added value of the three industries accounted for 0.2%, 24.5%, and 75.3% of the GDP respectively. In the first half of the year, the city's tertiary industry steadily recovered, with some economic support. Related sectors that rely on the Internet, digitization, and scientific and technological innovation have developed rapidly. In contrast, industries such as information services, finance, health, and social work have bucked the trend. In the first half of the year, the value-added of the city's information transmission, software, and information technology services industry increased by 13.5 percent over the same period last year. The value-added of the financial sector increased by 7.4%. The added value of the health and social work sectors grew by 8.0%. Industries that have been hit hard by the outbreak are also steadily recovering. In the first half, the value-added wholesale and retail fell by 9.4%, 10.1 percentage points less than in the first quarter. Transport, warehousing, and postal services added value declined by 14.0%, a decline of 4.5 percentage points; The value-added of the real estate industry fell by 0.8%, narrowing the decrease by 9.5 percentage points.
2.2 Industrial Production

Industrial production recovered reasonably quickly, and emerging industries of industrial strategic importance grew well.

Since the second quarter, the city's industrial production has achieved monthly growth for three consecutive months, and the cumulative decline has narrowed month by month. In the first half of this year, the industrial output value of the city above designated size reached RMB 1501.475 billion, down 6.3% from the same period last year and 11.1% less than that of the first quarter. The total industrial output of the six key industries fell by 3.9% compared with the same period last year.

Among them, the output value of electronic information products manufacturing increased 7.2%, the output value of automobile manufacturing decreased 12.3%, the output value of petrochemical and fine chemical manufacturing decreased 6.0%, the output value of boutique steel manufacturing decreased 4.1%, the output value of complete equipment manufacturing decreased 5.4%, and the output value of biomedical manufacturing increased 0.5%.

In the first half of the year, the total output value of the strategic emerging industries of the city was 597.618 billion yuan, an increase of 5.5% over the same period last year, with a growth momentum better than that of the city's industries.

The output value of new-energy vehicles increased by 95.7%, that of new-energy vehicles by 22.8%, and that of new-generation information technology by 10.5%.

The output of smartphones, laptops, and integrated circuits rose 32.7 percent, 29.5 percent, and 20.2 percent.

2.3 Fixed Assets

Investment in fixed assets picked up, and investment in the manufacturing sector maintained rapid growth. In the first half of the year, the city's total fixed-asset investment increased by 6.7 percent over the same period last year. By sector, industrial investment increased by 15.0 percent, investment in real estate development by 7.0 percent, and investment in urban infrastructure by 2.2 percent. By industry, investment in the secondary industry increased by 15.5 percent and investment in the tertiary sector by 4.8 percent. The newly built commercial housing sales area of 6,444,300 square meters decreased by 12.6% compared with the same period of last year, and the decline narrowed by 14.8 percentage points compared with the first quarter. In the first half of the year, driven by some large projects, the city's manufacturing investment grew by 20.1 percent over the same period last year. Investment in six vital industrial sectors increased by 34.5%. Among them, the investment in electronic information products manufacturing increased by 78.8%, the investment in biomedical manufacturing increased by 26.8%, and the investment in automobile manufacturing increased by 24.6%.

2.4 Import and Export of Goods

The decline in imports and exports of goods narrowed, and foreign investment accelerated. According to Shanghai Customs statistics, the city's total imports and exports of goods in the first half of the year totaled 1581.391 billion yuan, down 0.7 percent from the same period last year and 3.3 percentage points less than in the first quarter. The total value of exports was 642.272 billion yuan, up 0.7%. Imports totaled 939.119 billion yuan, down 1.7%. In terms of trade, imports and exports in general trade totaled 841.354 billion yuan, up 0.5%. The import and export of processing trade totaled 331.171 billion yuan, up 4.8%. The import of high-tech products reached 31.20.9 billion yuan, up 12.3%. The export of new and high-tech products reached 269.304 billion yuan, up 6.5%. In the first half of the year, the actual amount of foreign direct investment in Tianjin reached US $10.282 billion, an increase of 5.4% over the same period last year and 0.9 percentage points higher than that in the first quarter. In the first half of the year, the actual amount of foreign direct investment in the tertiary industry increased by 13.2%, accounting for 95.3% of the city.

In other places like the US, fiscal policy is also used. America's long-term interest rate stood at 0.73 percent on 06-01-2020, up from 0.67 percent on 05-01-2020.

Us long-term interest rate data are updated monthly with an average of 5.16 percent between
04-01-1953 and 06-01-2020. A total of 807 observations were made. The record high was reached on 09-01-1981 at 15.32 percent, while the record low was on 04-01-2020 at 0.66 percent.

3. Policies Implemented by the Chinese Government to Promote Steady Growth

At the beginning of the pandemic, the comparison change of GDP dropped from 6.0% to -6.8%. Besides China, many places in the world have experienced the same situation of recession. It is a foregone conclusion that the global economy will experience negative growth in 2020. What is uncertain is the extent and duration of the downturn. According to the IMF April 2020 World Economic Outlook, global economic growth will decline from 2.9% in 2019 to -3.0% in 2020. In 2020, the economic growth rate of the US, the eurozone, Japan, Germany, France and the UK will fall to -5.9%, -7.5%, -5.2%, -7.0%, -7.2% and -6.5% respectively. Growth in China and India will also slow to 1.2 percent and 1.9 percent, respectively. In other words, in 2020, both the global economy and the major advanced economies will be in recession.

In recent months, the Chinese government has implemented many policies to restore and re-energize the slowing Chinese economy. From the start of the coronavirus, Chinese citizens have been locked in their own house. It could make the economy, which was already imperfect, even worse. Besides, in February, many enterprises were in a state of a shutdown and began to resume work and production in March.

However, cross-border investment, trade in goods, and personnel exchanges around the world have been significantly reduced, and many export enterprises are facing the predicament of sharp decline or cancellation of orders. The country has adopted a series of policies to inject certainty and risk-sharing to hedge against the uncertainty and risk posed by the epidemic.

In terms of fiscal policy, we will maintain a proactive fiscal policy and take adequate measures to ensure government spending, reduce taxes and fees, and discount interest on loans. Recently, the central government further proposed to appropriately raise the fiscal deficit ratio, issue outstanding national bonds, increase the size of local government special bonds, and other essential measures. These measures offset the negative impact of the epidemic on the smooth operation of the economy and society, highlighting the role of the financial emergency. On the monetary policy front, we have adopted a series of measures to keep liquidity reasonably ample. These intensive policies have provided good support for winning the battle against the epidemic and stabilizing economic operation.

According to the 2020 China street economy of industry research report definition, the street economy is to point to by street vendor of income sources and formed a kind of economic form; the main category includes morning and night snack food is given priority to, self-marketing agricultural products and all sorts of daily necessities such as three categories, participation body as mobile vendors and strong-arming street stores to give priority to.” Street-vendor / stall economy” - Many cities in China have explicitly encouraged the development of the street-stall economy by setting up standard stalls and loosening restrictions on street vendors.

Vendors along the streets were not allowed in China years before. As a marginal economy in the city, compared with the “counter economy”, street stalls have advantages such as a low threshold for starting a business, low risk of failure, and low commodity price. However, they also have disadvantages, such as influencing the urban environment and failing to supervise transactions. Smogs and toxic gases released by these businesses can dramatically increase the percentage of PM2.5 in the atmosphere. However, according to what happened in China several years ago, stopping these businesses did improve the air conditions and the city image. Belatedly, some cities have come to see the wisdom of a different approach: establishing a sanitized and regulated trade that protects the public. In 2017, Beijing required 300,000 street-food sellers to get a license, operate at fixed locations, and stop serving potentially hazardous fare, such as raw seafood. Inevitably, that effort has shrunk the street-vendor community - but also made it much safer for the public [2].

Nevertheless, reopening the economy is the priority of the Chinese government. The government cannot help companies with subsidizing as it will not be efficient in decreasing the unemployment
rate. Thus, using more places, like streets, for small business would be advisable. Low cost and a lot of customers could be two main advantages of these businesses.

According to statistics from the Industry Research Institute, by June 4, 2020, at least 50 cities in China have explicitly encouraged the development of the street stall economy by setting up standard stalls. It is mainly through setting up standard stalls, allowing street occupation and other ways to “loosen restrictions” on the activities of street vendors, and promulging regulations to clarify the time and scope of street vendors' outside laying, to encourage the “street stall economy” to return to the city. In terms of the number of regional support measures, they are mainly concentrated in central and southwest China.

At the same time, the public also holds a complimentary view of the role of the local economy. According to the Nandu Polling Center, 50 percent of respondents said they would like to consume, compared with 7.1 percent who said they would not, following the relaxation of regulations on mobile vendors. It can be seen that Chinese residents have a positive attitude towards the willingness of mobile vendors to consume.

3.1 The Voucher Program

When the COVID-19 outbreak first broke out in Wuhan, many people thought that as long as we quickly controlled the epidemic, we would surely bring about an explosion of consumption, which would increase people's desire for consumption and then drive economic development. However, at that time, we did not expect the COVID-19 epidemic to spread around the world. Moreover, it is still not fully contained in China, and many businesses and individuals are deeply affected. In this case, there is not much money in everyone's pocket, and a lot of people are living frugally. It is challenging for everyone to carry out retaliatory consumption. Before, everyone thought that there would be retaliatory consumption because, during the Spring Festival, the tourism and catering industry would have a considerable growth, so we felt that this consumption would continue after the epidemic was brought under control.

But right now, it's hard. So we need to get the government to issue all kinds of coupons to drive consumption growth. In short, if you have coupons that allow people to get a discount when they spend, that will encourage people to spend more. And these businesses, when people start to spend a lot of money, they will do better.

When they get better profits and usually operate, they will continue to act in a safe and orderly way. Taxes and fees will not be reduced, and the government will also benefit. In this case, these coupons only serve as a lever to stimulate public enthusiasm for spending.

Vouchers have unique advantages in China, where most people are willing to save rather than spend. So when governments try to give people cash, they are more likely to keep it in the bank than to spend it. When added to the money, the Chinese government is unlikely to have enough budget to give all 1.4 billion Chinese enough money to stimulate the economy. The importance of coupons is self-evident.

Besides, coupons have one feature: the time limit. People have to spend the coupons within a limited period, or the coupons become useless. This is very effective in stimulating the economy in the short term.

3.2 Other Policies

Chinese banks extended 992.7 billion yuan (US$142 billion) in new yuan loans in July, down sharply from 1.81 trillion yuan in June and falling short of analyst expectations, according to data released by the People's Bank of China (PBOC) on Tuesday. Analysts polled by Reuters had predicted new yuan loans would fall to 1.20 trillion yuan in July. The new loans were lower than 1.06 trillion yuan a year earlier. Household loans, mostly mortgages, fell to 757.8 billion yuan in July from 978.8 billion yuan in June, while corporate loans dipped to 264.5 billion yuan from 927.8 billion yuan [3].

A new app is developed to supervise the spread of the pandemic. Without any certifications, people cannot go into the market, take public transportation, or go to other cities. With the help of the app, even there is a case somewhere, the government can quickly trace the routine of the patients and
quarantine closed people. This police ensure the economy keep going and at the same time, the pandemic is controlled.

To help small businesses and the agriculture industry, the Chinese government has decided to reduce its interest rate. The People's Bank of China cut the re-lending rate for micro-SMEs and the agricultural sector by 25bp on July 1, 2020. After the rate cut is effective, these rates will now be 1.95%, 2.15%, and 2.25% for 3M, 6M, and 1Y, respectively. Separately, the central bank also cut the rediscount rate by 25bp to 2% [4].

The government expects to use that policy to improve the employment rate; however, sometimes it does not work, as some farmers may not be likely to borrow money from the bank even though the interest rate is that low. They need to consider if there is a market for them to take the risk.

4. Conclusion

Under the new crown epidemic, under the premise that China is doing an excellent job in prevention and control, all localities are fully supporting production enterprises to resume work and production and realize the regular operation of the economy. To ensure and promote the steady growth of the national economy, the Chinese government has proposed plans to lower interest rates and provide local governments with coupons. In short, the unexpected arrival of the new crown epidemic will have a particular impact on the Chinese economy. Still, its impact on Chinese funds is temporarily limited and will not affect the fundamentals of China's long-term economic growth and high-quality development. Through government regulation, we can effectively face the impact of the epidemic on the economy and believe that the trend of economic recovery and growth has always existed.

References


