Analysis of China's economic response in the context of the COVID-19 pandemic

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Abstract. At the end of 2019, the COVID-19 pandemic broke out in a big way and soon spread across the world. Among other things, another pressing concern for the entire society is how the outbreak will affect the national economy. One of the main areas of study in today's society is how the epidemic will affect the economy. Researchers have investigated the significant impact of the Chinese economy on the New Crown epidemic, yet current explanations of the impact are rather scattered. Therefore, the effect of the epidemic on China's real economy serves as the study's central focus. In this paper, GDP data is collected and analyzed in a comparative manner. The results show that the real economy was severely affected by the decline in GDP due to the epidemic. At the same time, the article discusses fiscal and monetary policies and analyses how solutions can help people and businesses.

Keywords: COVID-19; China; Real economy; Fiscal policy; Monetary policy.

1. Introduction

1.1 Background

New crown epidemic has a big impact on the world economy. According to the Health Commission, there are already more than 6 million patients in the country, and in order to stop the continued spread of the new crown epidemic, the country issued a policy to implement home quarantine. This has led directly to the shutdown of many enterprises and the continued increase in the unemployed population. According to statistics, the per capita income of residents fell by 3.4% over the first half of the year. This paper will focus on the impact of the epidemic on the real economy. This will be followed by an analysis of how the government mitigated the impact of the epidemic from a monetary policy and fiscal perspective.

1.2 Related research

Song et al. found the COVID-19 pandemic outbreak has increased uncertainties in economic policy (EPU). Studying how EPU changes over time has important implications for how the central bank implements monetary policy [1]. This result shows the impact of monetary policy on the output gap and inflation gap. The new crown epidemic has had a significant impact on the global economy. He et al. studied in 2021 compares the macroeconomic impact of the epidemic in China and the US during the epidemic and Chinese government issued a series of strict preventive and control policies to control the economic downturn. At last, it found that the US economy is far more affected by COVID-19 than China is [2]. In addition, China is a major trading country. Whether the New Crown epidemic has changed trade relations between China and Africa and the US and Africa is also an international question. Ibironke finds that not only have trade relations not changed, but that China has a stronger trade base with Africa [3]. What's more, food prices in China have been affected to some extent by the epidemic. Yu et al. examined price data for four major food items (cabbage, rice, wheat flour and pork) in Beijing, Hubei and Shandong [4]. However, there are still problems with relatively few representative food items and cities, which merit in-depth. The impact of the New Crown epidemic and the global financial crisis on China's GDP growth rate is examined through Gunay et al., which is known to have had a significant negative impact on China. Furthermore, according to the precision test statistics, the MIDAS regression has better performance compared to other models (e.g. MRS) [5]. With the spread of the epidemic in multiple countries, its impact on the country's industry and economy has become a hot topic of concern for all sectors of society today. l.Tan.ed.al uses China as a benchmark and uses a quantitative approach to assess the potential impact of the epidemic on the economic system and industry [6]. They calculate the combined economic losses and give some recommendations. L Zhao investigates the measures taken by short sellers in the face of the epidemic in China. Numerous studies have shown that COVID-19 significantly affects economic and financial markets through index returns and that it also has a strong impact on short selling behaviour of companies whose financially weaker stocks have plummeted. Finally, support for short sellers is necessary in the context of the financial crisis [7]. Furthermore, according to Wu et al. individuals are found to be differently vulnerable depending on their socio-economic status. Individuals of higher socio-economic status are at lower risk of infection. This was mainly through three channels: daily necessities, employment status and community environment [8]. Wu, based on Chinese macroeconomic data and the IMF, suggests that the outbreak has pushed China's GDP growth expectations back to 2020, which has led to a recession and a decline in the labour force. Therefore, the more labour affected by the epidemic, the lower the income [9].

1.3 Objective

This paper focuses on the impact of the new crown epidemic on the Chinese economy and the effective measures taken by the government in response. Firstly, the essay analyses the impact of the epidemic on different sectors of the world economy, such as inflation and trade relations between the US and Africa. The paper then goes on to show that the impact on the real economy has been severe, with many businesses shutting down and employees losing their jobs. Finally, the government enacted monetary and fiscal policies such as interest rate and rate cuts to support small and medium-sized industries.

2. The new crown epidemic's effects on the Chinese economy

The outbreak of the epidemic during the Chinese New Year was at the peak of the consumption season. However, people were restricted from going out, which greatly reduced people's consumption levels, causing consumption, investment and exports to fall by more than 20% in a short period of time in China thus triggering a financial economic downturn [10]. During the epidemic, people's interest in consumption was also greatly reduced by the restrictions on transport, the rise in prices and the fact that people were out of work and at home. All things considered, the epidemic has had a significant impact on China's economic and social development. The first quarter of 2020 saw a 6.8% decline in GDP year over year, marking the first time since the quarterly data release that growth was negative, according to statistics.

As the epidemic spread, it had a strong impact on the Chinese economy, especially the real economy. During this period, the government issued policies and imposed 'home quarantines', shutting down factories and prohibiting people from gathering for meals and fun in order to stop the spread of the epidemic. This led directly to liquidity problems and even bankruptcy for some companies. For example, the country's construction industry was greatly affected. The National Bureau of Statistics said that GDP for the first quarter of 2020 was RMB 2,065.04 billion, a drop of 6.8 percent at comparable prices year over year, according to preliminary calculations, the lowest since quarterly GDP data was released in 1992. Secondary, sector GDP was RMB736.38 billion. Total construction output in the first quarter was RMB359.17 billion, down 16% year-on-year. According to statistics, the total construction output value in the first quarter of last year increased by 10% year-on-year. Among them, investment in infrastructure fell by 19.7% and investment in construction and installation works dropped by 17.6 % year-on-year. From the survey, it is clear that most construction companies will be affected by the epidemic and GDP will drop.

In addition, tourism, transport decline is also very serious, road closure people travel thin economic market depression, so some companies face layoffs, which led to a gradual rise in unemployment. As of 13 February, the logistics and whole vehicle logistics recovery rate is only0.9% and19%, much lower than the value of 92% and 87% in the same period last year.

3. Responses

The Chinese government has implemented "interest rate cuts": using a flexible monetary policy, using a reduction in rates, interest rates and loans to guide down market interest rates on loans. At the same time, the government has introduced the 'six guarantees', a policy of great significance and impact. It stands for safeguarding local residents' employment, peoples' fundamental means of subsistence, the major market participants, the industry's supply chain's stability, and food and energy security, and the functioning of the grassroots.

3.1 Individuals

The adoption of effective fiscal policy is a policy tool to help the economy smooth out the financial crisis Policy measures aimed at individuals. According to the Notice of the Office of the National Medical Security Bureau on Effective Medical Security for Prevention and Control of the Epidemic [14] and the Notice of the Ministry of Finance of the National Medical Security Bureau on Good Medical Security for Pneumonia Epidemic with New Coronavirus Infection [11], basic medical insurance covers the costs of treating patients with new coronavirus pneumonia. coverage for serious illness. The state will subsidize and reimburse them after medical assistance and other payments are made in accordance with the regulations. At the same time, the state will also adjust and optimize the relevant contents of the medical insurance in a timely manner considering the epidemic situation. The State has also introduced a subsidy policy for epidemic prevention workers. The State will provide a subsidy of 200 or 300 RMB per person per day. Depending on the level of risk. In the case of Hubei province, which is the hardest hit by the epidemic, the state will provide full subsidies and increase the salaries of frontline workers by two times. In the face of the severe situation of the new epidemic, the tax authorities have also issued a number of preferential policies, involving 12 policies in four areas: Provision of subsistence goods, active encouragement of charitable donations and restoration of production. Personal income tax would be exempt in bonuses and temporary work allowances. In addition, VAT will be exempted on essential goods delivery income, household services and public transport [12].

3.2 Enterprises

China has made comprehensive use of fiscal policy tools such as tax cuts and fee reductions, financial subsidies, loan subsidies and financing guarantees to reduce the burden on enterprises and society with practical and powerful measures. The country expects to reduce $200 billion for society for the whole year. In addition, the State has also increased its support through increasing the volume of SMEs' purchases, small and medium-sized businesses (SMEs) and by reducing rents for enterprises with certain financial subsidies. In addition, the tourism and catering industries, for example, which have been severely affected by the epidemic, will be assisted through interest and rent subsidies. In addition, the state has focused on subsidising the production of protective clothing, disinfection machines, goggles, disinfection items and other important medical supplies.

3.3 Tax

The implementation of monetary policy is also an important measure. As the epidemic progresses, national monetary policy must be adapted to the current economic trends. There are many companies that have gone out of business due to the epidemic and the state needs to introduce monetary policies to support them. In the case of some small businesses, tax policy was enacted by the state to change the value added tax (VAT) rate from 3% to 1% and has recently updated the policy so that the previous 3% rate is no longer subject to VAT. This policy will not only ease the economic situation of enterprises, but will also help China to overcome the economic difficulties by avoiding the deterioration of the industry. Under the current circumstances, the government needs to exercise appropriate control over credit allocation, currency issuance and, in particular, the inflow of hot money through a "prudent monetary policy". This approach to monetary policy can effectively control price rises and ensure a good living for the people.

4. Conclusion

This result focuses on the effect of the epidemic on China's real economy and analyses the impact on different industries, drawing the following conclusions.

1. most industries were severely affected such as construction, tourism, services, etc. China's gross domestic product (GDP) has fallen as a result of restrictions on the movement of people outside of the country and the shutting down of businesses. In general, the real economy has been severely affected. In addition, according to the data, the epidemic has had a major impact on small and medium-sized enterprises, which have had difficulties in obtaining financing from the market.

In response to these problems, this paper gives policy recommendations: China is helping individuals mainly by means of monetary and fiscal policies. Firstly, during the epidemic, the government subsidised health insurance and basic subsidies. Secondly, the state used interest rate cuts to lower taxes to indicate to enterprises

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