ISSN: 2710-0170

Suggestions on China's Financial Development based on the Actual Situation in the Late Epidemic Period

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Abstract

The epidemic has led to a sharp decline in the global economy. The World Bank predicts that the global economic growth will reach 5.2% by 2020, which is the worst recession since World War II. The International Monetary Fund lowered its global growth forecast for 2020 from 1.0% to 4.9%, including 8.0% in the United States, 10.2% in the Eurozone and 4.5% in India. The economic recovery of major industrialized countries, Latin America and even Africa may take five to ten years. The US subprime mortgage crisis and European debt crisis in 2008-2009 have made many countries' economies not recover to the level of 2008 or 2013-2014 until 2018-2019. Latin American countries reflect that Latin America may face another lost decade.

Keywords

Late Epidemic Period; Financial Development; Policy Suggestion.

1. External Environment for China's Economic Development

1.1. The Economic Losses Caused by the Epidemic May Require a Recovery Period of 5-10 years

The economic crisis caused by this epidemic is unprecedented. Although the United States, which was most affected by the epidemic, provided substantial and comprehensive financial support, major developed countries continued to implement quantitative easing policies, while developing countries continued to implement moderately loose monetary policies. Increased public investment may lead to increased production and supply, which cannot be achieved if these measures are aimed at increasing production and supply. Excessive use of fiscal and monetary policy tools will lead to inflation and asset prices, leading to more uneven income distribution. It is worth noting that asset values in global financial markets are rising. Despite the high innovation rates in the United States, Europe and Asia in recent years, developing countries are still facing inflationary pressures.

It is estimated that the global economy will effectively recover to the level of 2019 between 2021 and 2022. The longer and slower this process lasts, the greater the possibility of a global multilateral financial and economic crisis.

ISSN: 2710-0170

1.2. During the Post Epidemic Recovery Period, The International Space for China's Economic Development Will be Greatly Reduced

By 2020, the global spread of COVID-19 virus will lead many countries to stop production, and China will take the lead in combating the epidemic. Therefore, global demand for China's exports may be relatively stable. It is estimated that China's exports will continue to grow by 2% by 2020. It is estimated that China's exports will decline after 2022. Long production chains, such as mobile phones and automobiles, will affect China's production and export, thus reducing China's export scale. With the growth of China's advantageous industries and products, labor and land costs are rising, overcapacity and low profit margins, enterprises will accelerate overseas investment, expand overseas production and seek overseas industrial network cooperation, which will have a significant impact on China's future exports and industrial chains.

2. China's Economic Growth Trend

2.1. Economic Growth Will Continue to Decline

In 2019, the economic growth rate was 6.1%, a decrease of 0.5% over the previous year. Due to the impact of COVID-19, it is estimated that the economic growth rate in 2020 and 2021 will reach 2.5% and 7.5% respectively. Given China's huge economic foundation, the future economic growth will continue to decline, so we need to be prepared.

China's economy has entered the final stage of industrialization and urbanization. In general, the increase of production capacity and the decline of growth rates of exports, consumption and investment have promoted economic growth. According to the absolute changes of China's economic growth rate and growth rate from 2009 to 2011 and the historical experience of various countries, in the medium and long term, China's economic development prospects are not expected to exceed the 6% growth period. If the technological base remains unchanged, it is estimated that the economic growth will decline by 0.3% annually from 2020 to 2024, and by 1.5% and 4.6% respectively in 2024. By 2030, if the development of the world's major populous countries or Africa does not rise, China's economic growth may decline and recover at a speed similar to that of Japan and European industrialized countries.

2.2. Absolute Overcapacity Makes it Difficult for the Economy to Reproduce High Volatility Growth

As a country with the largest production capacity, we cannot believe that the world market is unlimited, but we must admit that it is limited: the United States, which manages the global system, is cooperating with other major countries to reduce pressure, and the world must eliminate this surplus. In the future, the main driving force of China's economic growth and market growth will mainly depend on the domestic market rather than the international market, while the international market will mainly depend on the improvement of quality rather than quantity. Politically, the central government proposed to accelerate the formation of a new development model based on the vicious circle of national and international development. In the future, action must be taken simultaneously at the national and international levels.

2.3. The Power of Economic Growth is Limited

In terms of national average exports, the average export growth has also declined. It is estimated that China's exports in 2019 will not exceed those in 2025, and consumption is the largest growth potential. China has a large population, but the increase in production has brought benefits. Many people believe that China's economy will be consumer centered and economic growth will be core centered, but this is not the case. Consumption is the most

ISSN: 2710-0170

important driving force for (non structural) economic growth, which can only be achieved in various countries. The United States and Europe, while other countries disagree, because the United States, the United Kingdom and some euro area countries must accept reserve currencies, and other countries must also accept them. These factors lead to consumption playing a leading role in the economy.

3. Impact on the Economy in Several Aspects

3.1. In Terms of Demand, the Flow of Personnel has Decreased Sharply, and the Consumption Demand has been Greatly Suppressed

In the first quarter, due to spring break, seasonal changes, climate and other factors, it is an important time window and peak season for China's tourism service retail industry. In 2019, the number of tourists and tourism income of some major provincial capitals increased by more than one third over the previous year. However, with the spread of COVID-19 and the improvement of public awareness of the epidemic, as well as the government's administrative control over transportation, tourism and trade, the population flow this year has decreased sharply, mainly serving the tourism industry, hotels and restaurants. This will have a serious impact in the first quarter.

3.2. In Terms of Supply, The Circulation Sector is Seriously Hindered, and the Difficulties in Production and Supply are Gradually Increasing

At present, the focus is on core economy, portal economy and liquidity economy. However, with the continuation of the COVID-19, Xi'an has become a closed river transportation hub. The economic impact of the epidemic extends from demand to supply. As far as the flow of goods, goods and people is concerned, due to the comprehensive impact of the factors related to the guest environment, the passenger and freight traffic volume will be greatly reduced in the near future; At the enterprise level, due to the extended holidays, some enterprises were temporarily closed, and the total output in the first quarter decreased significantly compared with the same period last year.

3.3. In Terms of Investment, Some Investment Projects Will be Delayed, and New Investment Will Decline in the Short Term

At present, the COVID-19 happens in part during the traditional Spring Festival, which has little impact on investment. However, as the epidemic continues and spreads, some ongoing and ongoing investment projects will be suspended due to the impact of transportation, labor and supply, new projects will be postponed, and some investment projects under discussion will also be postponed or suspended. Therefore, new investment and infrastructure will be partially affected during the epidemic. The investment experience of SARS shows that if the epidemic is effectively controlled in the short term, the investment and investment will resume growth after the outbreak of the epidemic.

3.4. In Terms of People's Livelihood, Employment Pressure is Increasing, and Income Growth of Residents May Slow Down

Business and commercial services are most affected by COVID-19, labor-intensive and flexible labor demand. Although these sectors have not experienced any contraction in the short term, their employment opportunities and indicators will certainly decline, leading to an increase in the quarterly employment rate. On the other hand, due to the decline in activities and efficiency in these sectors, workers are almost unemployed and wages have fallen sharply. At the same time, the road problem has increased the connection cost, leading to the rise in the price of consumer goods. Under the dual pressure of declining income and rising prices, people's lives,

ISSN: 2710-0170

especially those of those whose main source of income is agriculture, will depend on it to a certain extent.

3.5. In Terms of Real Estate, the Transaction in the Real Estate Market was Dismal, and the Construction Progress was Affected

Real estate is an important industry and an important source of income in China. With the outbreak of pneumonia again, the China Real Estate Association also called for a nationwide moratorium on sales on the evening of January 26. Therefore, the real estate market in different regions will basically remain vacant in the first quarter. It is expected that the real estate transaction volume will be relatively low in the next two to three months. The epidemic also affected the progress of real estate construction. Many workers are unable to return to work on time. Some projects are expected to be delayed. At the same time, some small and medium-sized real estate companies further tightened their cash flow, which will have a negative impact on the normal operation in the future.

4. Policy Suggestions for China's Economic Development

In the late epidemic period, China's economy was at a high level of development. In order to achieve sustainable, stable and sustainable economic growth, China must take macroeconomic measures during the period of rapid growth to maintain national economic growth.

4.1. Financial Subsidies to Industrial Enterprises Should Move Towards R&D Subsidies

With the completion of industry and manufacturing, the Chinese market has entered a higher level of competition, and the government plays a leading role in promoting development. At the stage of transformation and modernization, the economic function of public finance must be weakened, because only by making more use of market competition can we promote real innovation. In this regard, tax policies need to pay more attention to public functions and equity, strengthen the effectiveness of tax incentives and subsidies, improve the monitoring, monitoring and evaluation of tax incentives and subsidies, and strengthen the role of tax policies in promoting innovation.

4.2. Establish a Transparent, Supervision, Inspection and Evaluation Mechanism for Preferential Reduction and Exemption of Scientific and Technological Innovation Enterprises

We need to reconsider the current 15% tax rate preference for scientific and technological public enterprises, as well as the tax preference for some companies. Any company applying for 15% tax exemption must be recognized by domestic peers and experts, as well as international scientific and technological innovation and regulatory agencies. The Ministry of Science and Technology and the Ministry of Finance formulate standards for scientific and technological enterprises or innovative enterprises, technologies and products, and conduct regular and irregular supervision. In the future, there will be no financial subsidies and benefits (companies and business entities, managers), and no bank loans. Tax incentives in science and technology should be open and transparent, including monitoring, evaluation and punishment mechanisms.

4.3. Establish a Fund Mechanism for Reduction and Exemption of Financial Subsidies

The financial subsidy and interest rate reduction of science and technology projects can take the form of participation plan, which means that the Ministry of Finance has set up an operating fund to increase the proportion of projects applying for funds. The interest is deducted from the scientific project fund, which means that the state supports commercial projects free of

ISSN: 2710-0170

charge as funds or investments for research projects. If a project has been successfully realized, generated profits, and converted into products, it should at least gradually share part of the profits or profits. Therefore, a sustainable financial support mechanism will be established so that the company will not innovate at will or reluctantly. However, the State and state-owned enterprises can enter into such agreements without ownership. Other forms may also eliminate the attempts of many institutions and individuals to obtain public funds in order to avoid government corruption.

4.4. Increase Big Data Supervision on Fiscal Expenditure and Tax Reduction

Subsidies and investment in traditional industries are decreasing, but investment in new industries and technologies (such as laboratories and jobs) is increasing. Avoid duplication and waste of resources. We need a lot of data to track past exemptions and subsidies, and analyze efficiency, invalidity and reasons. We need to change the mechanism of subsidies and free subsidies. Research and development must achieve results, analyze and monitor the impact of emission reduction, and recover the unrealized impact. Companies must be under pressure, not just to make money. We also need a lot of income and expenditure data to understand which industries and companies have really increased their income, which industries and enterprises have cost-effectiveness, which have not, and cost-benefit comparison of different expenditure purposes.

5. Summary

With the completion of industrialization and urbanization, the Chinese market has entered a higher level of competition, and the government plays a leading role in promoting development. At the stage of transformation and modernization, the economic function of public finance must be weakened, because only by making more use of market competition can we promote real innovation. In this regard, tax policies need to pay more attention to public functions and equity, strengthen the effectiveness of tax incentives and subsidies, improve the monitoring, monitoring and evaluation of tax incentives and subsidies, and strengthen the role of tax policies in promoting innovation.

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ISSN: 2710-0170

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