Analysis the Economic Recovery Strategies in China in the Post-Epidemic Era

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Abstract. The outbreak of novel coronavirus pneumonia has seriously damaged the global economy. Blockades and quarantine measures have caused the country's production activities to almost halt, supply chain disruptions, business closures, and reduced employment. Globally, nations have implemented monetary easing and fiscal stimulus measures to boost their economies. However, these measures may lead to inflation and debt crises. The tense geopolitical situation has exacerbated the dilemma of global governance. This article takes the post pandemic era as a research perspective and focuses on discussing complex economic measures. Taking the application strategies of countries during the Great Depression as an example, this study explores the relevant policies for China's economic recovery in the post pandemic era. The research results indicate that addressing economic recession requires a thoughtful combination of historical lessons and innovative solutions unique to contemporary challenges. The research results of this article have important practical significance for future economic development.

Keywords: Great Depression; Economic; COVID-19.

1. Introduction

1.1. Research Background and Motivation

The Great Depression of 1929 ended the prosperity of the 1920s, and the rise of fascist forces eventually triggered World War II. Major changes happening in the world now haven't been seen in a century. The ongoing new crown pneumonia outbreak has had a significant negative impact on the world economy; making the world economic vulnerability more prominent. In addition, escalating geopolitical tensions have exacerbated a critical deficit in global governance. At the same time, multiple crises such as food and energy have also brought great pressure to human beings, making us face major challenges.

As China grapples with the economic fallout from the COVID-19 pandemic, there is a need to explore strategies that can effectively address the recessionary challenges. The policy response to the Great Depression in the early 20th century serves as a valuable lesson for countries facing similar crises. By analyzing the initiatives implemented during that period and adapting them to the current context, China can navigate the path to recovery with better precision. This article outlines the impacts on China's economy and caused by the COVID-19 and key policy measures implemented during the Great Depression and explores how China can utilize them to tackle the economic challenges caused by COVID-19.

1.2. Literature Review

Lu et al. explore the social policy responses implemented in reaction to the COVID-19 situation in China. The researchers employ a systematic review methodology, collecting data from various sources, including government documents and media reports. The study focuses on analyzing the social policy measures taken by the Chinese government to combat the crisis and protect vulnerable populations [1]. The study by Pan et al. examines the short-term influence of the COVID-19 pandemic on China's economy, taking into account various scenarios. The authors focus on analyzing the impact of the pandemic on different sectors of the Chinese economy and discuss potential strategies for mitigating the economic consequences. This review aims to summarize the key findings and contributions of the study, highlighting its relevance considering the COVID-19 situation [2]. A thorough investigation into the effects of the COVID-19 pandemic on rural poverty in China was carried out by Luo et al. in 2020. The authors talked about the difficulties that rural areas encountered during the pandemic, such as reduced income, limited access to healthcare services, disrupted supply chains, and increased unemployment rates. Additionally, the study highlighted that following the market crisis, many economic sectors were unable to maintain prior spending, which resulted in a gradual drop in GDP over the following years [3].

The COVID-19 pandemic has led to significant setbacks in rural China, exacerbating poverty levels among rural populations [4]. Among the most affected nations, China, being the epicenter of the virus, has experienced significant disruptions in various sectors. Sectors such as retail, tourism, and transportation were severely affected due to lockdown measures and reduced consumer spending. In contrast, the healthcare and pharmaceutical industries experienced growth due to increased demand for medical supplies and services. The goal of this literature evaluation is to assess COVID-19's potential effects on the GDP, trade, and overall health of the Chinese economy. Several studies have examined the economic implications of the COVID-19 pandemic across various industries in the Chinese economy. For instance, Habibi, Habibi, and Mohammadi (2022) highlight that lockdown measures and social distancing policies have led to a decline in consumption and investment activities, consequently impacting the GDP growth of China. Their findings suggest a substantial reduction in economic growth, with potential long-term effects on the country's overall development [4]. The COVID-19 pandemic has also significantly disrupted China's international trade. Research by Habibi et al. demonstrates that the implementation of measures aimed at reducing the spread of the virus, such as travel restrictions and quarantine protocols., have severely impacted China's export-oriented manufacturing [4].

This literature review utilizes a qualitative approach, drawing on secondary sources such as academic articles, reports, and news articles. The search was conducted from September to November 2021, using keywords such as "COVID-19", "food security", "policy response", and "global". Articles were selected based on their relevance to the topic and quality of their analysis. The COVID-19 pandemic exposed the vulnerability of the world's food supply chains., with disruptions at various stages, from production to distribution. The policy responses to these challenges varied widely by country, depending on the level of preparedness and available resources. In some countries, such as China and South Korea, governments acted quickly to increase food imports, support small-scale farmers, and invest in food processing and storage infrastructure. Other countries, such as the United States and India, faced significant challenges

1.3. Research Content and Framework

This article is going to describe the COVID-19’s impacts on Chinese economy including some industries and sectors. And then compare the economy situations between the Us in1920s and People's Republic of China throughout the COVID-19 pandemic. Last but not least is how to utilizing the Policy Response to the Great Depression to Tackle China's Recession during the COVID-19 Pandemic.

2. Case Description

In today's world, due to the development of modern transportation and communications, more and more people travel frequently around the world, making it easier for viruses to spread across borders. The second reason is the negative public health environment. Public health infrastructure and medical resources are very scarce in many countries and regions. The most important reason is that the global health governance mechanism is not effective enough and lacks sufficient coordination and rigidity, resulting in a lack of consensus and collaboration among countries in health protection.Based on the above factors, when the COVID-19 broke out in December 2019, China, being the initial epicenter of the outbreak, immediately adopted a closed policy, and other countries adopted the same policy a few months later. The world economy and China's economy have been severely hit. The policy of restricting entry and exit and closing the border has made it more difficult for China to export goods. Therefore, China's export volume fell sharply in February 2019.For instance, a reduction in its exports by 3.7% [5].

The Figure 1 represents the trend of the Chinese economy's export from December 2017 to November 2020. During the COVID-19, China's export problem also encountered a huge impact. Especially from January to February 2019, China's export volume experienced a significant decline. Subsequently, Chinese policies began to implement active epidemic prevention policies, and exports began to gradually recover, especially at the end of 2020, when exports reached their first peak [6].

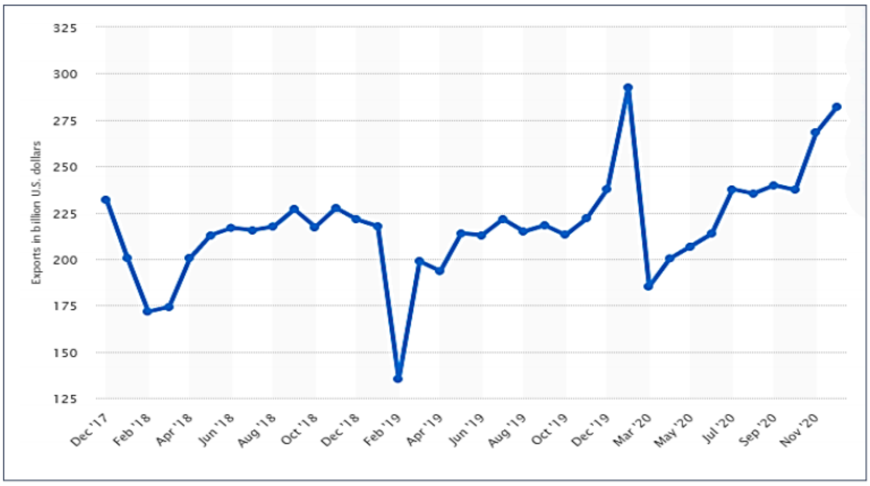
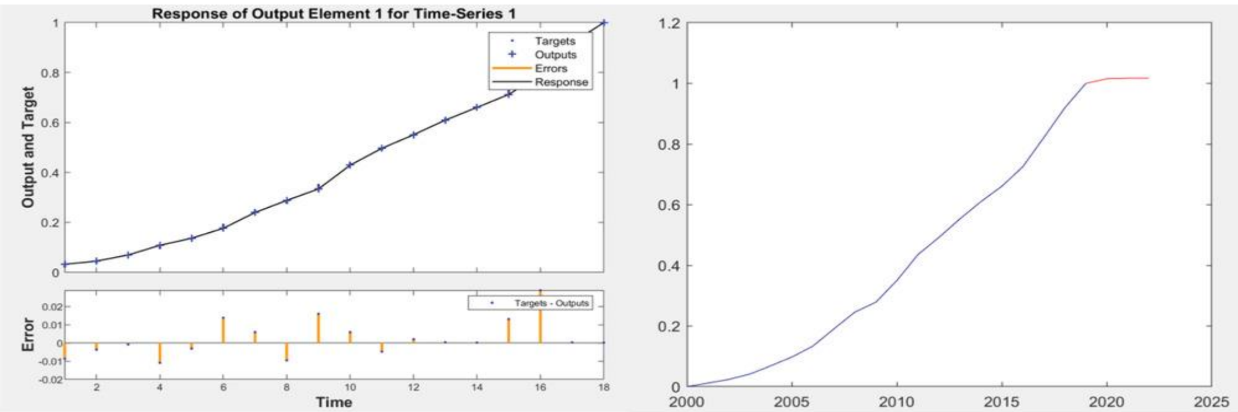


Fig 1. Exports of China [6].

3. Analysis on the Problems

GDP is the most intuitive index to measure economic conditions, Luo et al. studied COVID-19's impacts to Chinese's economy. According to the study, in 2020, the world's GDP decreased by 3%, and developing nations lost about 4 to 7% of their GDP [3]. The line of expansion and contraction for the PMI, which is 50%, is typically used to gauge the economic growth of different industries. When the index is greater than 50%, the economy is expanding; when it is lower than 50%, the economy is contracting; when it is close to 40%, the trend is toward economic depression; when it is slightly higher than 50% and slightly lower than 50%, the economy is slowly heading towards recession. In February 2020, the PMI output index released by the National Bureau of Statistics was 28.9%, a decrease of 24.1% compared to the previous month. In addition, the manufacturing purchasing managers' index was 35.7%, a decrease of 14.3% compared to the previous month. So, during the period of COVID-19 pandemic, China's economy was experiencing a recession in many ways, including GDP, the volume of export and the PMI index.



a Fitting error *chart* *b Forecast trend chart*

Fig 2. Short term impact trend of different scenarios on the Chinese economy [2].

Examining several scenarios, the tendency of short-term influence on China's economy are shown in Figure 2. During the COVID-19 pandemic period, Chinese authorities adopted numerous emergency measures. As an illustration, social isolation and distance have a detrimental impact on domestic demand for products and services.

In the first stage all the shopping malls were closed temporarily during the spring festival due to the strict lockdown measures. Meanwhile, all forms of offline activities were restricted at the same time, which means that people were unable to going out to for consumption, the consumption of commodities and the revenue of retail sales decreased remarkably. In addition, some tertiary industries; such as tourism, catering industry and transportation had also suffered a lot from the pandemic; about 93% of the catering companies closed their business due to the low demand for their goods and services; the total number of passenger transports throughout the year was 8.3 billion, a decrease of 14.1% from 2020. Passenger transportation turnover volume was 1.9758 billion person-kilometers, an increase of 2.6%.

The workers had to return to work following the spring festival, which marked the start of the second stage. However, the isolation strategy makes this pretty hard, so there was a reduction in the production of commodities. In another hand, as the pandemic spread globally, many countries implemented lockdown measures and restrictions on international trade disrupting global supply chains. China, being a major exporter and a key player in global supply chains, experienced a decline in demand for its products, leading to a decrease in manufacturing activity and exports. The trend of industrial production of China are show in Figure 3.

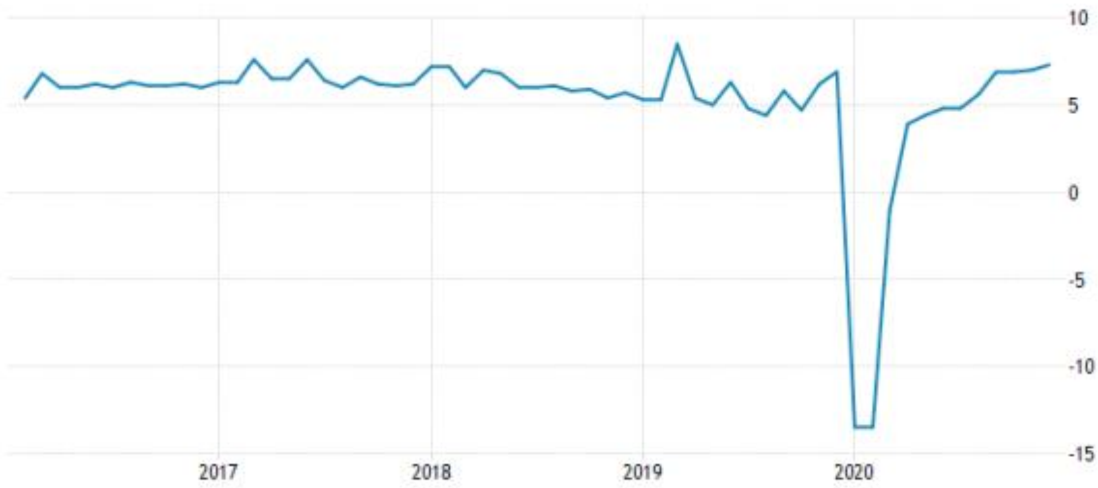


Fig 3. Industrial production of China [3].

In June 23, 2023, the central banks of many countries announced interest rate hikes to curb inflation, which aroused the attention of the global market. For example, the Swiss National Bank revealed an increase in interest rates by 0.25% to reach 1.75%. On the same day, the Bank of England, the central bank of the United Kingdom, announced a 50-basis point rate hike, raising the benchmark interest rate from 4.5% to 5%, which exceeding the market expectation. Also, the Central Bank of Turkey announced a substantial interest rate hike of 650 basis points, raising the benchmark interest rate from 8.5% to 15%. Actually, after the COVID-19 pandemic, the world economy recession has begun to take shape. So, in order to minimize the impact of COVID-19 on the economy. The policy response to the Great Depression may been used to improve current economic conditions.

One of the important indicators for measuring economic development is the level of unemployment, which can to some extent reflect the severity of economic recession. Figure 4 shows the changes in the unemployment rate after the stock market crash in 1929. From Figure 4, it can be seen that the unemployment rate reached a maximum of 25%, indicating an unhealthy macroeconomic situation at that time, which was exacerbated by insufficient production caused by low demand. The economic difficulties of the United States have further dragged down the economic decline.

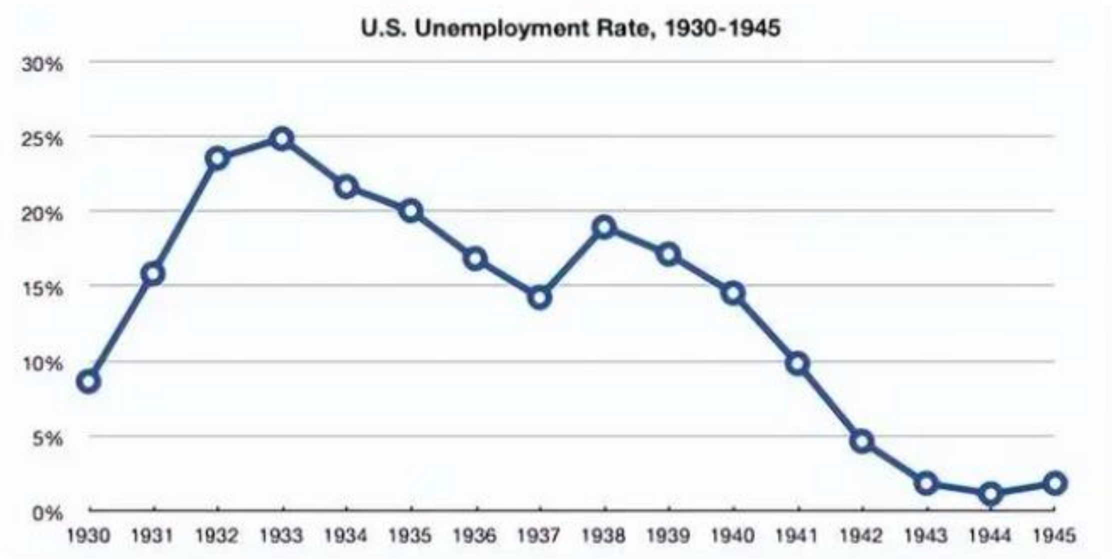


Fig 4. U.S. unemployment rate.

After the Wall Street crash, business failures, a downturn in the economy, and a sharp drop in GDP ensued. In the early days of the Great Depression, the decline in GDP was largely due to a sharp drop in total investment (see Figure 5). The total investment comprises both company and household living expenses as well as construction and equipment purchases. Following the market crisis, many economic sectors were unable to maintain prior spending, which resulted in a gradual drop in GDP over the following years.

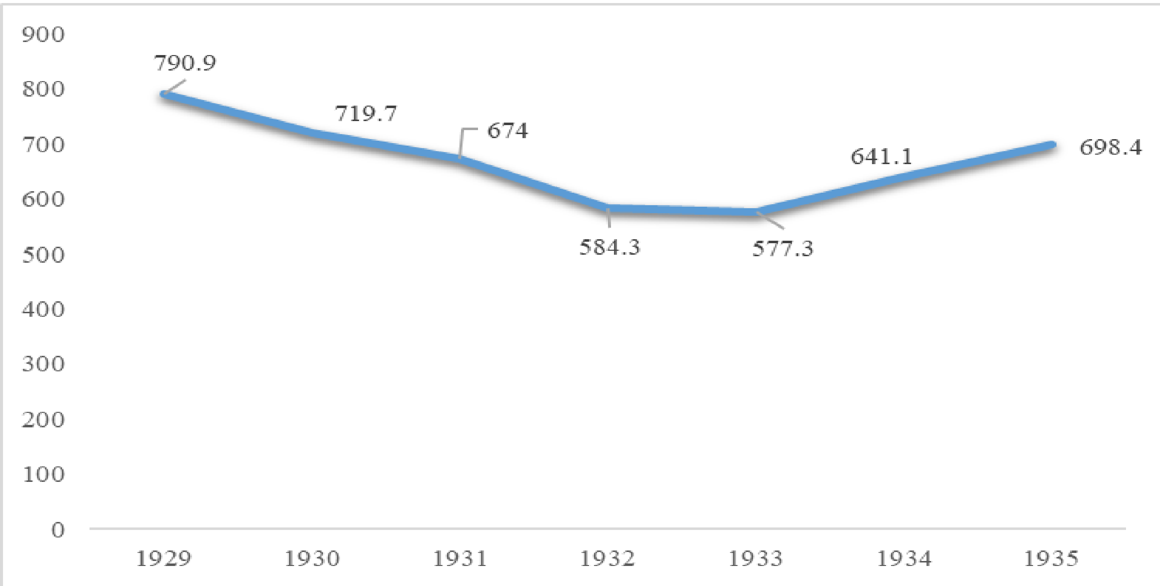


Fig 5. The GDP from 1929-1935.

4. Suggestions

4.1. Increase Government Spending

A key lesson from the Great Depression is the importance of increased government spending in reviving an economy. This is particularly pertinent to China's current economic situation. John Maynard Keynes suggested using government spending to stimulate the economy, which the US followed during the Great Depression. In the same vein, China could boost government spending to stoke domestic consumption, providing a lifeline to devastated sectors such as retail and tourism, thus stimulating economic recovery [7, 8].

4.2. Implementing Monetary Policies

The Great Depression saw significant changes in monetary policy. The aftermath necessitated the establishment of a central banking system that could regulate the money supply and control inflation. China's reply could include loosening monetary policy: reducing interest rates and reserve requirement ratios, providing more credit for small and micro enterprises, industries with high added value, and entities serving the needs of the people, hence awakening its slowing economy.

4.3. Strengthening Social Safety Nets

The Great Depression underscored the significance of robust social safety nets in safeguarding vulnerable populations against economic upheaval. The New Deal in the US led to the establishment of Social Security, unemployment insurance, and other public welfare programs. China needs to strengthen its social safety nets, enhancing unemployment benefits and welfare programs providing a buffer to those worst hit, thereby mitigating the fallout of the pandemic in the long run [9].

4.4. Enhancing International Cooperation and Trade

The Great Depression identified the crucial role of international cooperation and free trade to combat economic difficulties. The Smoot-Hawley Tariff Act of 1930 exacerbated the Depression by encouraging retaliatory tariffs, thus reducing global trade substantially. China, with its significant role in global trade, can benefit from promoting international trade cooperation, minimizing restrictions, duties, and encouraging a globalized approach to economic recovery [10].

4.5. Fiscal Stimulus

Countries facing the Great Depression used fiscal stimulus in the form of higher public spending and tax reductions. The purpose was to put money directly into the hands of the public, benefiting both individuals and businesses. Application in China: Implementing targeted fiscal stimulus packages, such as infrastructure projects, assistance to affected sectors, and direct financial support to households, can bolster consumer spending and revive economic activity in China. Tax cuts for businesses could encourage investment and expansion.

4.6. Support for Small and Medium Enterprises (SMEs)

During the Great Depression, small businesses were hit the hardest. Governments implemented measures such as loan guarantees, targeted subsidies, and streamlined regulatory processes to protect and support SMEs. China’s government can consider SMEs as vital components of the economy, China should offer targeted financial assistance, simplified bureaucratic processes, and regulatory relief to help these businesses recover and contribute to economic revival. This can be achieved through favorable loan terms, grants, and tax incentives.

5. Conclusion

Nevertheless, it's essential to remember that distinct aspects that differentiate the current crisis from the Great Depression, such as China's GDP composition and the digitalization in economics today, make the translation of historical policy solutions a challenging task. While the lessons from the Great Depression provide a guide, the effective application necessitates subtle adaptations suitable to China's socioeconomic realities and the unique nature of the COVID-19-induced recession. In response to COVID-19's ongoing effects on the economy, navigating the recession will require a thoughtful combination of historical lessons and innovative solutions unique to our contemporary challenges. By integrating knowledge from the Great Depression-era policy responses, China can design a recovery roadmap that not only addresses the immediate financial crisis but prepares the country for a more stable, resilient financial future.

However, there are some limitations about this article. It didn’t take account of the rise of online services; the E-commerce boom and contactless payments and digital yuan.

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