CHALLENGES FOR THE CHINESE ECONOMY AFTER THE COVID-19 PANDEMIC

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Abstract

The covid 19 pandemic has had a strong impact on the global economy, including China. The covid-19 pandemic has plunged the Chinese economy into negative growth after nearly 40 years of continuous growth. Although the Chinese government has adopted many economic policies, this country still faces many challenges. This article analyzes and outlines domestic and foreign challenges facing China after the pandemic: the workforce hasn’t adequately recovered due to several factors; debt pressure; domestic demand decreased; the resurgence of the pandemic; the shortage of export orders.

Keyword: Covid-19, China, challenge, economy.

1. Introduction

January 20th 2020, Beijing confirmed to be dealing with a new strain of coronavirus, in 3 months, the sudden shock from the pandemic Covid-19 reduced 7 points % of the growth of China. The first quarter 2020’s GDP reduced by 6.8% compared to the same period’s figure of 2019107. China’s economy has officially experienced negative growth since 1992. Due to the rapid spread of the disease, China has to enact massive lockdown and nationwide quarantine. Factories in the world’s largest manufacturer have continuously been shut down. All economic activities ceased.

Only after announcing the lockdown lift of Wuhan, where the first case of Covid-19 was reported, at the start of April 2020, has China started to revive its economy. However, China’s economy still has to face numerous challenges aside from the risk of a second outbreak.

2. Methods

This paper uses an overall and comprehensive approach to collect and summarize the recent studies and reports which are related to this topic. All the data and figures are obtained based on the secondary data provided by some public organizations like Vietnam News Agency; General Statistics Office of Vietnam; The Ministry of Labour - Invalids and Social Affairs, etc.

3. Results

*Internal challenge*

Although China announced, as of mid-March 2020, more than 90% of businesses with annual revenue larger than 20 million CNY have reopened, except for the province of Hubei (province of China) – the center of the Covid-19 pandemic in China. Meanwhile, the central and local governments in this second-largest economy have announced multiple credit incentives to support businesses restart production. At the same time, China’s economy still faces these challenges:

*First, the workforce hasn’t adequately recovered due to several factors.*

According to official data, more than 50 million migrant workers haven’t been able to work. Some are still in quarantine. Others are unable to travel from rural areas – where transport services have ceased, or be deemed redundant by the original employers due to the lack of demand from customers and partners alike. Local governments are also under pressure from the effort to contain the spread of the pandemic, which makes them ever so nervous and cautious in allowing people to go back to work. Gaode, a traffic surveillance and online mapping service, estimated on Wednesday 11 of March, only about half the working population in coastal cities went back to work. Office workers are still working from home\(^ {108}\).

Alongside that, owners of big businesses, especially factories which export goods with low-profit margin also fear that if one worker is reported with the disease, the local government will force them to pay for 2 weeks of quarantine expenses for dozens or hundreds of workers. Therefore, requiring workers back to work is still limited.

*Second, debt pressure.*

China’s banking system will face immense pressure from the Covid-19 pandemic. Bad debt will spike if banks are to lend out massive amounts of money to rescue the economy. Household and corporate debt of China has inflated after a decade of growth, mainly the result of financial leverage.

According to the South China Morning Post, analysts warned if the government requested banks to lend out money to industries devastated by coronavirus, bad debt will skyrocket, threatening both the banking system and the economy.

Before the outbreak of coronavirus, China’s financial system was already in shambles. According to the Institute of International Finance (IIF), until the The first quarter 2019, gross debt of businesses, households, and government soared to over 303% of GDP figure, equivalent to 40,000 billion USD\(^ {109}\).

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The disease will probably negatively affect businesses and local governments more than it would households. Therefore, Chinese government will be more lenient concerning the debts of local governments. The government will allow localities to borrow more at lower interest rates. As a result, the debt volume will increase in the coming years.

By the end of the Q4/2019, the bad debt balance at commercial banks increased to 2,410 billion yuan (344.2 billion USD), 46.3 billion yuan (6.6 billion USD) higher than the previous quarter, according to the statistics of the China Insurance and Banking Administration. The bad debt ratio at commercial banks is 1.86%, equivalent to the third quarter of 2019110.

The People's Bank of China has said it will "back up" bad debts affected by the coronavirus. However, coronavirus remains to be a difficult test for the Chinese banking system. In 2019, the Chinese government had to intervene in the operations of three local banks, raising questions about the stability of the banking system in the country of 1.4 billion people. Baoshan Bank was subsequently acquired by the central government, while Jinzhou and Hengfeng Bank are, until now, partly guaranteed by the state and private investors.

Credit rating firm Standard & Poor (S&P) estimates that the NPL ratio in Chinese banks could rise to 6% if the COVID-19 pandemic continues111. Up to now, the People's Bank of China has pumped billions of dollars into the financial system to promote lending and reduce the cost of loans. The impact of the Covid-19, will put Chinese companies at risk of default in 2020.

Third, domestic demand decreased.

The increase of domestic demand is expected for Chinese businesses to be able to overcome the pandemic. However, the risk is, many businesses went bankrupt after two months of paralysis, causing the unemployment rate to increase from 5.2 to 6.2%, equivalent to 5 million people losing their jobs112, not to mention migrant workers who have not returned yet and workers who do not have formal contracts. This has made the domestic demand less bright.

Gavekal Dragonomics consultancy organization, based in Beijing estimates, Covid-19 will cause losses of about 115 billion cubic wages for migrant workers and the damage is permanent, because workers can not get back the 3 months they lost even if they work harder. This situation caused domestic demand to continue to decline, in the context of the retail industry's revenue decline of 20.5% in the first 2 months of 2020113.

Although the supply problem can be solved relatively quickly, the recovery of demand is the problem. Even people with no income loss tend to respond by limiting

112 http://www.pvn.vn/Pages/detail.aspx?NewsID=8b66d76c-b9f6-4561-8609-aa204c3fe2e7
spending and increasing savings amid the current pandemic.

According to a survey conducted by Rong360.com, a financial firm, 64.4% of participants will cut back spending after the pandemic ends and 31.4% of whom confirm that they have no plan to increase spending when the situation is better\textsuperscript{114}.

\textit{Fourth, the resurgence of the pandemic}

The reopening of the economy could put China facing the risk of a second outbreak. There are 2 main reasons that lead to this situation, one is China "imports" viruses from abroad; second is the possibility that pathogens have not yet been completely suppressed in communities. Chinese experts warn that the pressure of an economic recovery in fear of a pandemic outbreak will create a distorted economic picture in China.

The fact is that resuming factories in China is not easy. The Covid-19 pandemic is still spreading all over the world, so China could face the risk of a "second wave of infection" when many Chinese return home from abroad.

Besides, China has yet to completely quell the pandemic. Therefore, the risk of a second outbreak of disease is still lurking in China. The Chinese government recognizes that the continuation of economic activities has many risks. Covid-19 is still spreading around the globe, every day, China has dozens of new "imported" cases (Chinese people who get sick from abroad return home). Hong Kong also saw a surge in new "imported" infections. The fact that some businesses open their doors to workers too early makes it difficult for the anti-pandemic campaign. A large titanium factory opened in February and was immediately closed because many workers were infected with the virus.

The Chinese economy rescue plan is based on a series of policies and campaigns to encourage workers to return to work, improve domestic and foreign business confidence and save companies that are slipping to the brink of bankruptcy. However, some local governments and businesses worry that they will be severely punished by the government if the disease spreads. They, therefore, have chosen to delay the continuation of production.

\textit{External challenges}

\textit{First, the shortage of export orders:}

After more than 2 months, all economic activities, production has mostly stalled, many Chinese businesses are preparing to face the second economic shock of the Covid-19 pandemic, which originated from outside the country. This time it was not due to the lack of raw materials for production, but the sharp decline in demand for goods from international buyers. In the context of several countries with rapid outbreaks, global financial markets plummeting, consumers and businesses since the uncertainty the future holds, leading to a halt of global demand for Chinese goods.

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So far, China has partially recovered its supply chain after more than 2 months of lockdown, but now the Covid-19 pandemic has exploded globally, Europe, America, and Africa, all experienced a medical crisis. The impact of the Covid-19 pandemic on the global economy has caused the world demand to drop significantly. This has a direct impact on the export of China.

The state of the shutdown to prevent the spread of the pandemic of many countries in the world has made it difficult for the export segment, which accounts for 20% of China's GDP. China Customs data has just released show that exports of this country decreased by 17.2% in January and February 2020, compared to the same period last year. This is the strongest decline since February 2019. Many Chinese factories are running at nearly full capacity for foreign demand, but goods remain to be undesirable.

Currently, all of China's top four markets, the European Union (EU), the US, Southeast Asia and Japan are facing difficulties due to the COVID-19 pandemic, which limits orders from China. National. Therefore, the government cutting taxes, or subsidies, will not help if companies do not receive orders. The situation will only really improve once the pandemic is under control around the world.

Second, the risk of threatening China's global economic position

To date, the pandemic has infected more than 3 million people and more than 200,000 deaths globally. The world's wave of anger over the Chinese government's treatment of the pandemic is putting pressure on and threatening China's global economic position.

US President Donald Trump on April 27 said he could ask China to pay damages because of Covid-19. Meanwhile, British and German officials also want China to clarify information about COVID-19.

Whether or not China can maintain its position in the global economy or be isolated, will be one of the most important questions for China, after the pandemic is under control. There are many indications that Covid-19 has led the world to be less friendly with China. This affects the international environment that has helped China grow at an impressive rate in recent years.

One of the biggest pressures the Chinese government faces is that the global value chain is rapidly changing, which could affect the job market in China in the short term and undermine its long-term role. The country's term in the global economy.

Covid-19 is an opportunity for the West to reconsider its supply chain and global production chains, restructuring the world trade order, in which China is no longer the center of the world trade network.

Three leading economies in the world, the US, Japan and the European Union (EU) recently planned to encourage companies to relocate production out of China. Companies have been changing their supply chains before, due to rising costs and the impact of the US-

China trade war. However, Covid-19 is causing countries to accelerate the process. Although this is not an immediate threat to China, the pandemic itself can cause serious challenges in the long term.

Besides, Covid-19 also exposes the world's dependence on Chinese goods, especially on necessary medical equipment. The lack of personal protective equipment (PPE) also makes many people regret the lack of production in developed countries.

Three years ago, when the newly elected president of the United States, Mr. Donald Trump had a definitive view of reducing the level of economic dependence on China.

Continental Europe has demanded Beijing to rebalance bilateral economic relations. The Covid-19 pandemic further strengthened that stance. The most recent is Japan: not as brash as US President Donald Trump, but since March 2020, Prime Minister Shinzo Abe has continuously “encouraged Japanese business people to think about restructuring their investments in foreign countries, the destination could be countries in Southeast Asia”. South Korean car group Hyundai has a plan to divert investment from China to India\(^\text{116}\).

President of China Xi Jinping announced that maintaining a stable supply chain and value chain is one of the six priorities throughout the pandemic, and China should be prepared to deal with external changes. This announcement shows the determination of China in maintaining its position in the global economy.

**Efforts to revive the economy**

After loosening restrictions across the country, China entered a period of economic recovery facing both domestic and foreign challenges. The Chinese government has made efforts to restart the economy through macroeconomic policies, especially fiscal and monetary policy.

**Regarding fiscal policy:** The Chinese Government has implemented the following solutions:

*First, reduce taxes and lower taxes and fees for businesses.* China has launched a series of bailout packages such as tax reduction and the exemption for businesses. In 2019, China reduced taxes and fees by more than 2,300 billion yuan and by 2020, China will continue to reduce its large scale by over 1,000 billion yuan\(^\text{117}\). The reduction is mainly aimed at local businesses.

*Second, to expand the budget and increase government spending.* The Chinese government continues to promote the role of fiscal policy, by expanding capital investment through the issuance of special bonds of local authorities for large infrastructure projects.

The People's Bank of China (PBOC) has released data showing that the total value of bonds issued in China reached 5,300 billion yuan (about 748.6 billion USD) in


\(^{117}\) Vietnam News Agency: "China Economic Prospects", Special Reference, February 24, 2020
March 2020. The value of government bonds reached 370 billion yuan, while the value of bonds issued by local governments was 387.5 billion yuan. By the end of March 2020, the size of China's bond market was 103 trillion yuan. China has stepped up the issuance of municipal bonds this year to support projects aimed to minimize the impact of the Covid-19 pandemic. As of the end of March 2020, the debit balance of local governments stood at 22,500 billion yuan.\footnote{\text{http://thoibaotaichinhvietnam.vn/pages/quoc-te/2020-04-27/trung-quoc-phat-hanh-gan-750-ty-usd-tra-phieu-trong-thang-3-85954.aspx}}

Alongside the increase in the effectiveness of government investments, promoting the activeness of private investment, accelerating the construction of important projects. Concentrate funding on vulnerable businesses, however selectively rather than in discriminatorily.

\textit{Third, financial support to rescue the aviation industry.} The Chinese government injected billions of dollars into the aviation industry, allowing some state-owned airlines to acquire smaller airlines that have suffered heavy losses as a result of the plunges in the need for transportation services, consider debt waivers and offer more favorable aircraft rental terms. The government provides financial subsidies to airlines, along with assistance packages for international services, waives the responsibility to pay aviation development funds, airport and air traffic control fees for airlines.\footnote{\text{http://www.tapchicongsan.org.vn/web/guest/te-gioi-van-de-su-kien/-/2018/816019/kinh-te-trung-quoc-trong-boi-canh-bung-phat-dai-dich-covid-19.aspx}}

\textit{For monetary policy:}

Over the past four months, the People's Bank of China has made efforts to implement a series of stimulus measures to "prop up" the economy, increasing support for businesses and individuals affected by the pandemic. Such measures include:

\textit{First, cut interest rates on MLF and LPR loans}

The first cuts were made when China was at the focal point of the Covid-19 pandemic. On February 17, PBOC announced to lower the interest rate by 10 basis points on about 200 billion yuan (28.65 billion USD) worth of 1-year medium-term loans (MLF), or from 3.25% previously down to 3.15%. Following that, the 1-year basic lending rate (LPR) was lowered from 4.15% to 4.05% / year, the 5-year term rate was set at 4.75%, down from 4.8% / year.

On April 15, PBOC continued to cut the 1-year MLF rate, from 3.15% to 2.95% - the lowest level since this liquidity tool was introduced in September 2014. The PBOC's lowering of the interest rates helped push 100 billion yuan ($14.19 billion) into the financial market. As of April 20, PBOC continued to cut 20 basis points of 1-year LPR interest rate to 3.85% / year from 4.05% / year earlier, while LPR for 5-year term has cutting more modestly with 10 basis points from 4.75% / year to 4.65% / year.\footnote{\text{https://ndh.vn/quoc-te/trung-quoc-tiep-tuc-giam-lai-suat-cho-vay-trung-han-xuong-thap-ky-luc-1266855.html}}
Second, the injection of over 300 billion yuan through repurchase agreement (Repo)

Monday 17/2, the PBOC also injected 100 billion N please yuan (about 14.33 billion US dollars) into the financial system through the agreement to sell and buy back shares (repo) due in 7 days with an interest rate 2.4%. Two weeks earlier, on February 3, PBOC reduced the interest rate by 0.1% on the 7-day and 14-day repurchase contracts, thereby pumping about 170 billion USD into the financial system.

As of March 30, PBOC continued to lower the 7-day reverse repo rate again, from 2.4% to 2.2%, to ease the pressure on the already damaged economy, heavily caused by the Covid-19 pandemic. This is the third time reverse repo interest rate has been cut since November 2019 and the strongest drop in nearly 5 years. Through this tool, PBOC has injected 50 billion yuan (7 billion USD) into the banking system121.

Third, reduce the required reserve ratio

Since the beginning of 2020, PBOC has cut the required reserve ratio (RRR) 3 times to intervene in the economy. First, on January 6, PBOC lowered the RRR rate for commercial banks by 50 basis points (from 13% for large banks and 11% for smaller lenders applied previously) to reduce lending rates for businesses. This action by PBOC also means pumping into the financial system about 800 billion yuan (115 billion USD).

On March 16, the PBOC proceeded to reduce the RRR rate for eligible banks for the second time. The action will liquidate 550 billion yuan ($ 78.57 billion) from long-term reserves. This cut is aimed at comprehensive financial solutions, and banks that meet certain standards can get a discount of 50-100 bps.

By April 3, PBOC once again reduced the RRR rate for small and medium banks, thereby continuing to clear about 400 billion yuan ($ 56.38 billion) to help support the economy. domestic. Specifically, the PBOC will reduce the RRR rate by 100 basis points in two stages. Accordingly, the first reduction of 50 bps will take effect from April 15 and the next reduction of 50 bps will be effective from May 15. Also, according to the PBOC, interest rates on excess reserves of Chinese banks will decrease from 0.72% to 0.35% and take effect from April 7122.

Fourth, extending debts: The Chinese banking system has also extended debts worth nearly 3.34 trillion yuan ($ 477 billion) in January 2020, equivalent to total outstanding loans. Chinese bank credit in 2007. Money supply increased by 8.4%, exceeding 202 trillion Yuan, about 28.9 trillion USD (January 2020) - the highest level in history, nearly twice the size of the Chinese economy123.

Finally, loosen some regulations on bad debt rating standards: China is also taking

unprecedented measures to avoid bad debts such as extending the due date of loans to companies at risk of late payments and loosening regulations on delinquent debt classification. This measure is expected to help both banks and borrowers “breathing room”. However, it is likely to increase the level of risk for banks in the long term.

The latest S&P Global report estimated that the current pandemic could cause the bad debt ratio of the Chinese banking system to triple to about 6.3%, equivalent to an increase of about 5,600 billion people. bad. S&P Global also said that "suspicious" debts in this country could peak at 11.5% of the total debt after the pandemic ends124.

All the actions shown above indicate that the Chinese Government is making great efforts to restart the economy. However, analysts said that it may take several months for the economy to be able to return to pre-crisis levels, particularly economic recession worldwide will increasingly put pressure on efforts to revive the economy of China. As conditions for reemployment remain weak and commodity exports are constrained, it is predicted that the PBOC will continue to take more measures to boost the economy.

4. Discussion and Conclusion

Thus, it can be said that the measures taken from the beginning of February have helped to stabilize the Chinese economy. Despite disappointing The first quarter 2020’s GDP statistics, China's economic activity showed signs of recovery in March 2020. For example, growth in industrial production, fixed-asset investment and retail sales has increased and currently at -1.1%, -9.4% and -15.8%, respectively, from -13.5%, -24.5%, and -20.5% low between January and February 2020125. In addition, 99% of businesses have resumed work, while 84% of small and midsize businesses have reopened126.

The continuation of businesses and the return of workers to work in March 2020 has helped to partially reverse the decline in manufacturing activities, investment and consumption spending in the first two months of 2020. Even so, it is still too early to see the March growth data as evidence for China's economic recovery, because a series of uncertainties are still waiting ahead. Meanwhile, fears of a Covid-19 outbreak in China have prompted many economists to predict that China will experience a period of difficult and slow recovery, before the economy is in full swing. can grow strongly again.

According to the International Monetary Fund (IMF), China will maintain its growth rate of 1.2% in 2020127, while the world will experience a worse recession than the Great Recession of 2008. With this pessimistic outlook, China is unlikely to achieve the ambitious goal that the Chinese regime set out this year, which is double the figure compared to 2010.

In the following period, challenges for the world's second largest economy are yet to

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be over. The Covid-19 pandemic is accumulating many risks and disadvantages from China's geopolitical environment. A pandemic crisis is unlikely to end in a year or two. The impact of the pandemic will last much longer than the impact of the global financial crisis in 2008. The world trade picture and the global value chain will be impacted hard for many years to come. The geopolitical environment of China will increasingly deteriorate, and would be a great political challenge for China.

5. References