Research on China's economic model changed since the COVID-19 epidemic

Xiaocheng Kang1, Lirui Liu2, Jiahe Chen3, Yiting Gao4

1School of Business, George Washington University, 20052, US
2Ranney School, New Jersey, 07724, US
3Art and Science School, University of California, Los Angeles, 90095, US
4Byron College, Athens, 15344, Greece

Abstract. The Covid-19 pandemic of 2019 was a global public health emergency, resulting in millions of deaths worldwide. The origin of pandemic was in China, where the disease was first reported in 2019 and in 2020, it became a global pandemic. Because of the economic and social effects caused by COVID-19, changes were made to China's economic model. The Chinese government wanted to protect their economy and people from the virus, so they invested a lot of money into combating the pandemic. Economic development is when a country's economy becomes more advanced than other countries. If it has good infrastructure and employment opportunities, it will become richer (McBryde et al., 2020). An economy can advance quickly through technological advancement, education, and increasing demand for goods and services. When China first experienced the pandemic, it had a rich economy and grew quickly. China was rapidly developing in terms of technology, education, and infrastructure. China's economic model took a turn for the worse when the COVID-19 pandemic hit it. The virus spread quickly, causing millions of deaths in China (Dhar, 2020). The Chinese government was forced to invest billions of RMB into research and to treat those affected by the virus. After COVID-19, China's economy fell into a slight recession. This could have been caused by a drop in exports, an increased mortality rate, and the government spending billions on stopping the pandemic. This paper will first give an overview of previous economic models that China used, then it will discuss how the COVID-19 pandemic changed China's economic model, and finally, this paper will look at the impact that COVID-19 had on China's economy.

Keywords: Economic model; COVID-19; UNEMPLOYEE.

1. Introduction

The occurrence of Covid-19 has made China's economy face a huge mode change, and also has a huge impact on China's economy. Especially for China, a big exporter, various influences after the outbreak of the epidemic, including the shutdown of domestic factories due to the epidemic prevention and control and the decrease of exports, led to the decline of foreign trade enterprises' trust in Chinese enterprises, so that China's export trade had to make some changes. At the same time, due to the epidemic prevention and control, imported products cannot arrive in China smoothly, or due to the strict procedures leading to the extension of the arrival of the world, or due to the strict testing, the products do not enter China smoothly. Therefore, China also needs to make some adjustments and changes in import. Unemployment is also a problem facing China's economy at present. The emergence of the epidemic has accelerated the unemployment problem in China. Unemployment is a common phenomenon for market economy, but for China with developed consumer service industry, it is necessary to pay attention to the emergence of this problem.

2. China's previous economic model

2.1 Command Economy & Planned Economy

The first economic model that China used was the command economy. The command economy is similar to a socialist economy. This model was mainly used during Mao's Great Proletarian Cultural Revolution (McBryde et al., 2020). It was used again in the 1980s when Deng Xiaoping initiated economic reforms. During this time, the government took control over state-run enterprises and allowed private entrepreneurs to take part in foreign trade. The private sector grew quickly and developed rapidly after this move, and this led to faster growth of China's economy than in previous decades.
Planned economy was implemented when New China was founded. Most of the factories and enterprises were state-owned and allocated by the state. The state makes an economic plan every five years, and according to this economic plan unified provisions for the output of each industry, quality indicators and a series of issues. At the same time, the state also through distribution, how much each family needs by the state uniform distribution. This economic model greatly helped China's economic development in the early days of the founding of New China. Due to the unified deployment of the state, a small amount of domestic resources could be pooled together to better carry out economic construction, and resources could be distributed to everyone in a more reasonable way. During this period, China's economy began to recover and rise.

2.2 Investment-based economy
After the command economy ended, China moved into an investment-based economy. Based on this model, private companies were allowed to invest in Chinese companies, and foreign firms were able to invest in China as well. This model was used through the 1990s. The investment-based model led to an increase in foreign direct investment, which is when foreign companies invest directly into a country (Wang & Zhang, 2021). China's economy started to grow rapidly and became one of the fastest-growing economies in the world. This economic model has greatly stimulated foreign enterprises to invest in China, and more and more foreign companies have entered China, such as KFC, Panasonic, Apple and other companies have entered China at this stage. During this period, China was dominated by the secondary industry, with processing and export trade as the main export mode, and a large number of cheap labor made a large number of labor-intensive industries transfer to China, and automobile processing factories and sneaker processing factories were moved to China at this time. At the same time, it has also greatly stimulated the vigorous development of local enterprises in China, based on the secondary industry, and the rapid development of the tertiary industry is the characteristic of China's economy at this stage.

2.3 Market Economy.
After Investment-based economy, China moved into a market economy. This model still allows private firms to invest in business ventures, and the government still has control over large sectors of industry, but there is more emphasis on markets and exports than there is on state control over the economy. This stage is the stage of China's economic take-off, with the gradual opening of the economic system and the demographic dividend, China's status in the economy and society has gradually risen.

3. The impact of the pandemic on China's economic model

3.1 The epidemic has led to an increase in unemployment in China
The unemployment caused by the epidemic is what we attribute to frictional unemployment depending on the cause of the occurrence. Since the epidemic, many industries in China, such as manufacturing, services, etc., have fallen into a state of shutdown, and the decline in income has led to a large number of layoffs, and because the epidemic is in the graduation period of Chinese college students, a large number of unemployed people have poured into the market, so that China's unemployment rate has risen again and again. The rise in unemployment has forced China to start macro-control, and in the context of the epidemic, there is an urgent need for personnel for epidemic prevention and control workers, as well as material deliverers. Therefore, unlike the previous fine-tuned macro-control measures, including lowering bank interest rates, encouraging loans, guiding employment, etc., vigorously creating major projects to attract college students to employment, while isolating government departments and increasing the recruitment of young people to civil servants. Therefore, the emergence of the epidemic will make China's employment encouragement policies more radical and increase support for small and medium-sized enterprises.

3.2 Under the epidemic, huge external demand turned into domestic demand
Under the impact of the epidemic, the volume of China's entry and export has dropped sharply. For imports, stricter testing conditions lead to too long storage of goods, on the one hand, the quality of goods cannot be guaranteed, and the transaction volume and business reputation decline, and the cost rises, so that more and more foreign exporters need to consider the type and quantity of goods exported to China. On the other hand, for foreign exporters, due to strict epidemic prevention testing, to a large extent, foreign exporters are likely to face the risk of being returned if the test is unqualified, which is not only a failure to recover the payment for the enterprise, but also needs to pay freight, insurance, manpower, time and other costs. Therefore, the import value has also fallen sharply after the outbreak of the epidemic in China, forcing China to shift more domestic demand to domestic supply, carry out supply-side reforms.
For exports, the impact is even greater. On the one hand, due to the above-mentioned epidemic, most factories, logistics and other employees have stopped work and have no way to produce, which has led to many export orders that cannot be delivered on time, which means that many factories that focus on export trade face losses without income and need to pay a lot of liquidated damages. In addition, it also loses the credibility of Chinese exporters, and the failure to deliver on time will not lead to China not being the primary consideration in subsequent orders, which is not a temporary revenue reduction problem, but more likely a long-term income reduction, or a problem that needs to be paid a larger price to make up. Therefore, China is facing the problem of a large number of export factories without orders, China began to shift from external demand to domestic demand, formulate a large number of policies to stimulate domestic demand, send vouchers, reduce savings interest rates and so on. China's future economic model will also change to domestic demand-led economic growth.

3.3 Other effects did COVID-19 have on China?
COVID-19 in addition to China will cause unemployment and increase the influence of domestic demand, mixed ownership economy in China's economic model, this mode, both national participation, also have individual participation, belong to the state and individuals, in most cases will be held by the individuals as management, and countries will give some opinions on the system and strategic development. Such a model will reduce the risk of investment and have a certain income guarantee for enterprises. Similarly, for the country, such a model can maximize the allocation of enterprise resources. During the outbreak, this pattern was more common in the biomedical industry. This model, which can quickly regulate corporate resources and ensure personal benefits, will be more widely used after the outbreak. At the enterprise level, a large number of enterprises will take the way of reducing efficiency to improve efficiency, and enterprises will pay more attention to the psychological recovery industry, the routine virus detection industry, the short-term, small and medium-sized commodity tourism industry. In the post-epidemic recovery stage, enterprises will need a period of recovery period. In terms of bank loans, banks will still adopt the policy of low interest rates, so as to help enterprises to survive the recovery period, stimulate investment and stimulate consumption. At the same time, for a large number of people, they will experience a difficult period of recovery, restoring income and reducing consumption desire, but at the same time, they will also increase consumption due to the good consumption expectations brought by the recovery of the epidemic.

3.4 How did COVID-19 affect the relationship between China and other countries?
Furthermore, COVID-19 led to a decrease in exports of goods and services. This was due to the fact that many companies pulled out of China because they felt that the Chinese government did not have adequate control over their country's economy. The U.S., in particular, is one of China's major trade partners. They had an export deficit with imports from China which led to economic problems for both countries. Another problem with China's exports was the damage to China's economy caused by COVID-19. This meant that China's exports were reduced, and this led to a faltering economy (Vasiev et al., 2020). As a result, Western countries such as the U.S., Britain and Germany did not want to trade with China for fear that their economies would be affected in the same way as China's. In addition, due to the fact that this was a new disease, many countries did not know how to deal with it and how to prevent it from spreading. This led them to restrict travel from areas of the world where COVID-19 was prevalent so that no one would bring it into their country. This also stopped visitors from countries that had not been affected by the disease from visiting China.

4. Conclusion
In a word, the occurrence of COVID-19 will change China's economic model to some extent. One is that the economic model will change from the original free economy to the mixed ownership economy that is more inclined to the planned economy. Of course, this will occur in some core areas. At the same time, for the people's livelihood industries, in order to stimulate the economy, but it is the monetary policy or the fiscal policy, it will become more relaxed to stimulate the economic development. In the direction of economic development, it will be more domestic consumption to stimulate domestic demand growth, so as to drive economic development. The epidemic has caused layoffs, a large number of unemployed, and new employment promotion policies will emerge. In terms of imports and exports, China's relations with other countries will be strained after the epidemic, and the import and export economy will also be affected. Therefore, China's economic model to increase domestic demand is mainly the development trend.
References


