

# COVID-19's Impact on the Economy and Countermeasures

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**Abstract:** The impact of the novel coronavirus pneumonia on the economy is short-term and will not affect the long-term trend of global economic development. Sooner or later, the epidemic will be brought under control, production and business activities will eventually return to the normal track, and economic growth will remain at a medium high speed. However, the short-term impact of the epidemic on economic activities is significant, especially in export, consumption and investment. Novel coronavirus pneumonia should be brought about by the short-term impact of the epidemic. On the one hand, we should play a macro regulatory means, increase the balance between emergency responses and counter cyclical adjustment policies, and use financial and monetary policies to iron out the short-term economic fluctuations that are disturbed by the new crown pneumonia epidemic. On the other hand, we should strengthen the support for enterprises and other main bodies, and introduce and implement relevant preferential policies to help enterprises tide over the difficulties.

## 1. Introduction

### 1.1 Economic globalization

Since the 1990s, economic globalization, through trade liberalization, capital flow internationalization and production integration, has promoted the interdependence of countries in economic and trade. At the same time, it also makes countries more vulnerable to the chain reaction of international emergencies. Globalization is closely related to the rapid development of global value chain, global supply chain. Global value chain makes production process more detailed. With outsourcing, offshore production and foreign direct investment as the main path, the intermediate products of each product come from different economies. The value of final product often includes the value-added of different links, and has become the real sense of made in the world. Meanwhile, the quick development of international direct investment has promoted the qualitative leap of economic globalization. Investment surpassing trade has brought about historic changes in the world economy, resulting in the effects of investment replacing trade and investment creating trade, and forming a deeper level of globalization. This will further promote the rapid expansion of global value chain. With the globalization of 1990s, the intra industry trade and inter industry trade dominated the global trade situation. Multinational companies distribute R&D, production, processing and sales in different countries or regions with comparative advantages through global value chain, forming a cross regional or cross-border production sales chain. The proportion of intermediate goods trade in world trade is constantly increasing, the competitiveness of multinational companies and their leading ability in the global market are unprecedentedly improved, and the prevalence of intra trade, and even intra company trade has become a prominent feature of the rapid expansion of globalization in the last stage.

From the establishment of the World Trade Organization (WTO) in 1995 to the global financial crisis in 2008, it can be said that globalization has experienced a period of rapid progress. Since the beginning of the financial crisis, trade openness has been in a backward state. The novel coronavirus has also been the first to be regressed since world war two. The global epidemic of the new crown pneumonia epidemic will further promote the retrogression of globalization.

## **1.2 Economic uncertainty**

The global economy in 2020 begins with uncertainty. Due to the COVID 19, the world economy and global value chain are facing unknown challenges, and the global economic uncertainty is increasing and will affect the future globalization process. Until now on, the situation of COVID 19 prevention and control is still grim. There are not only differences in the degree of epidemic prevention and measures among countries, but also great uncertainty in itself. However, it is the common policy goal of all countries to achieve economic recovery as soon as possible.

The hit of COVID-19 In the world in 2020 caused major disturbances to the world's economy, raising many questions about the uncertainties and future trending of global economy. One of the questions would be what sort of changes would the COVID-19 to the already established economic structure? As we know the most direct impact of the virus would be the sudden interruption of the supply and demand globally. With factories shutting down, major cities in China like Wuhan closing down, and people forced into quarantine there's not only a huge loss of production and demand there's also a huge rise in unemployment as well. It is uncertain to know how the economy will transform and heal. The virus also brought globalized economy into a halt, with China and America having a trade war, low production, and trade restrictions, brings uncertainty to global economy. Raising the question of However, because of this it also promoted the economic and trade independence amongst the countries.

## **2. The impact of the COVID-19 on economy**

### **2.1 Export**

China as one of the biggest exporters in the world is also deeply affected alongside with everyone by the corona virus. The production of the big provinces is 60% of China. The Chinese government took action by closing down some major cities and jobs temporarily, this meant there no longer was the labor needed for production which led to the production quantity of china fell to 40% due to the corona virus. Different areas have different labor times, the production rate is lower and production chain broken, and for example Wuhan was a big province which has been shut down entirely due to the massive outbreak of Corona this meant there was close to 0 production made. Furthermore private companies holds the bigger part of share of China's exports, they were also deeply affected, unlike government owned companies who are sufficient in resources and subsidies given by the government, many private owned companies had to shut down and postpone original contracts due to bankruptcy and lack of labor leading to supply not meeting demands globally. The action of closing down factories, jobs, schools was eventually suspended, however the changes which it had brought amongst the people and the economy stays. Also, the period of time which the lock down was put into place was also quite considerable. Other than decreased exports as a whole for China. On the other hand countries which has previously relies on China made good, however during corona virus China was insufficient to supply to all the foreign demands. On the short run the demands of many people could not be met, on the long run other countries would realize that they should have more production of their own so they do not need to rely too much on other countries.

### **2.2 Consumption**

#### **(1) The situation on consumption**

The main characteristics of the consumption situation in the early stage of the epidemic are as follows. Firstly, there was a serious shortage of emergency medical and health supplies, such as masks. At that time, the total production capacity of the country was 180 million pieces per day. Many of them ere from cross industry transformation, and the production cycle was at least seven days. However, the most conservative estimate of the total demand was 500 million pieces per day, and the gap was at least 320 million pieces. According to the production capacity, priority could only be given to the supply of front-line workers, and the daily needs of the people could not be taken into account at all. This was a serious shortage of consumer products, including various disinfectants and

sanitary products in addition to masks. Secondly, basic living security consumption, such as food, tobacco and alcohol, is just needed and not affected by the epidemic and reduce shopping frequency, people generally hoard goods, which poses great challenges to production, storage, logistics, door-to-door distribution, and will inevitably lead to price rise. This kind of action also directly leads to the CPI in the first quarter are still very high, and there is also the risk of further rapid inflation. Thirdly, non daily necessities consumption, especially service consumption, will shrink on a large scale during the epidemic period, including catering, accommodation, tourism, real estate, communication equipment, clothing, cosmetics, etc. This is the main part to support the upgrading and expansion of China's consumption. As the epidemic situation continues, it is difficult to gain momentum. The traditional Spring Festival Golden Week consumption has been completely lost. To sum up, the impact of the epidemic on consumption is obvious. At the beginning of the epidemic, service intensive consumption was temporarily suspended, but the consumption of basic living security and medical supplies expanded.

However, since April 29, the prevention and control of the epidemic in China has been normalized, and the overseas import has been basically controlled, and the catering transportation, tourism and other industries have gradually recovered. Only entertainment industry is still in a difficult situation, but also with the ease of the epidemic gradually began to recover. In the offline entertainment industry, concerts, theater performances and movies are still suspended. However, with the outbreak in the early stage of the epidemic, it also brings new opportunities for offline practitioners from another aspect. Correspondingly, a large part of people's offline trading needs have been met online.

(2) The consumption style changed due to the COVID-19

1) Further development of online sales and services in the market

Before the epidemic, the power of online sinking market has begun to emerge. The mobile e-commerce platform, represented by JD, focuses on the sinking market. With the cultivation of people's consumption patterns and habits in the sinking market during the epidemic period, more people who have not been activated before will start to purchase products and services online.

2) The choice change of fresh products consumption place

In the past, the main channel for most consumers to buy fresh products such as vegetables was the farmers' market near the residential area. However, after this epidemic, more consumers may choose to patronize the fresh supermarket rather than the farmers' market. The traditional mode of farmers' market has great potential safety and health hazards, whether it is the source of fresh goods or preservation are not guaranteed, the stall owners' health awareness is not strong, there is no habit of wearing gloves and so on, farmers' market has become the hiding place of the virus. The outbreak of the epidemic in south China seafood market is an example. After this battle, consumers will be more worried about the health problems of farmers' markets.

At present, through the industrial production and distribution of vegetables, its cost can match the farmers market, farmers market price advantage no longer exists. The gradual development of new areas in cities will also lead to the rise of urban construction level. Dirty and poor farmers' markets will be gradually banned, and replaced by clean and tidy community fresh supermarket or large chain fresh supermarket, as well as online ordering and distribution platform. Compared with the vegetable market, the way to buy vegetables on the fresh platform is more healthy and hygienic. There is basically no slaughter and kill now. Many of them are semi-finished products, and there is no wildlife. Through the habit cultivation in the epidemic situation, and the chinese people pay more attention to personal and family health, it can be predicted that consumers' consumption mode of fresh products will change from place and offline to online.

### **2.3 Investment**

Because of the long duration of covid-19, frequent cases of infection, and its transmission and prevention are more complex, it can not be completely eliminated in the short term. The long term shutdown and sluggish market performance make the development of domestic and foreign enterprises worse, and enterprises generally face the difficulties of starting and ends meet. In the face of an exceptionally long lasting epidemic, this will undoubtedly lengthen the cycle of market

recovery, restrain market investment and seriously impact the development of market economy. Protection and resumption of work have also affected the normal recovery of investment. The epidemic also forces investors not to go out, which virtually increases the difficulty of investment and is not conducive to the recovery of the investment market as soon as possible.

The epidemic will delay investment, but it cannot restrain it. The impact of the epidemic on consumption and exports will also affect investment. Affected by the expected epidemic situation, some investment will be delayed or hesitant. Affected by the lag of returning to the city, the investment in the construction industry may be delayed. But the original investment will not be canceled because of the epidemic, and the improvement will be accelerated to complete the investment. In particular, due to the need to fight against the epidemic, some medical infrastructure investment is speeding up. Counter cyclical adjustment will also increase investment. Investment will be affected, but the growth rate will not decline. From the supply side, the epidemic will contribute to the development of digital economy, promote china's economic transformation and upgrading, and promote the supply side structural reform. The most direct impact of the epidemic on china's economy is to stimulate the supply of medical products, strength the reform of the medical system, increase supply and efficiency.

### **3. Countermeasures to overcome the epidemic situation**

#### **3.1 Fiscal policy**

Firstly, fiscal policy should be more effective to support and promote china's economic growth. In order to support the growth of consumption, investment and export, finance should play an important role. It includes not only increasing government expenditure, but also increasing financial support for the epidemic, especially continuing to promote tax reduction and fee reduction. For this reason, the fiscal deficit ratio can be moderately relaxed, and it can be considered from 2.8% to 3% this year. And then, the scale of local special debt should be further increase, and promote the recovery and construction of areas with serious epidemic situation.

#### **3.2 Reduce the reserve rate and interest**

Secondly, while maintaining a stable and neutral monetary policy, it is necessary to appropriately reduce the reserve rate and interest rate, maintain a reasonable and sufficient liquidity, and effectively reduce the real interest rate level on the basis of continuous reform of LPR. Also, inclusive finance and financial technology should be fully used during the development, and implement digital inclusive finance. The credit support should be strengthen to epidemic areas, in order to achieve the goal of the first five year plan. In addition, the financial support for private enterprises should also be improved, appropriately increase tolerance, and enhance financial support for small and medium enterprises. The opening up policy should be steadily promoted to attract more funds, strength the structural reform of the supply side, and improve the efficiency of financial supply.

#### **3.3 Industrial policy**

Thirdly, the industrial policy should strengthen the support for intelligent manufacturing. It is necessary to strengthen the support for 5g technology and infrastructure investment, and take this opportunity to coordinate development and enhance digital economy. Strengthen the cooperation between the government and social capital, strengthen the support for the construction of medical infrastructure, and strengthen the support for the protection of public health and emergency equipment. Especially, in the digital industry, it is necessary to promote enterprises to accelerate development of digital economy, promote enterprises to accelerate development and seize digital opportunities, provide practical support for enterprises' digital transformation, especially support for the development of digital industry, digital trade and digital finance, and promote the investigate of digital currency. In addition, take 5G infrastructure investment and construction as an opportunity to achieve innovative development and coordinated development, and enhance the digital economy.

### **3.4 Taking various measures to simulate consumption, investment and export**

Fourthly, with the gradual improvement of the epidemic situation, it is necessary to further reduce taxes and fees to stimulate consumption. Meanwhile, it is necessary to encourage various forms of consumption, to reduce the restrictions on the purchase of automobiles and real estate in some cities. If necessary, it is also a way to stimulate consumption by means of government financial subsidies, so as to drive consumption growth. In terms of investment, the government should strengthen the investment in the service industry including medical treatment, strength the government investment support, strength the cooperation between the government and social capital, and strengthen the financial support for investment. In terms of export, the support for export enterprises should be enhanced, and promote the import led export to the US. Additionally, it is also important to strength the construction of dual multilateral FTA, and strengthens trade with the European Union, ASEAN and Australia.

### **4. Conclusion**

Because of its wide spread range, long duration and far-reaching influence, COVID-19 has been affected by multiple factors such as the international complex environment since 2019, and the slowdown of domestic economic development. The market economic system is facing major challenges, which are mainly manifested in the dual pressure of supply side and demand side, the general downturn of import and export trade, the recurrence of market chaos of individual materials, and the long-term parallel of protection and resumption of work. In the face of many challenges of market economy, effective measures should be taken to realize real-time disclosure and effectiveness of information, explore and support of new economy, unified storage and deployment of emergency materials, and comprehensive support of enterprises, so as to promote the simultaneous progress of epidemic prevention and economic recovery. The measures taken by the government to deal with the challenges of market economy under the background of major epidemic situation reflect the new breakthrough made by the government in straightening out the relationship between the government and the market. It not only gives full play to the decisive role of the market in the allocation of resources to the greatest extent, but also makes up for the problems existing in the market time.

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