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Analysis of the Different Policies of China and the United States against the Potential Financial Crisis in the Context of Covid-19

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ABSTRACT

The sudden outbreak of COVID-19 in 2020 has brought about major changes in the world landscape; this crisis is unprecedented and has great uncertainty due to its duration and intensity. The global economy is likely to experience its worst setback since the Great Depression, along with massive physical lockdowns in many countries around the world. This paper will briefly analyze and compare the different response strategies adopted by China and the United States in response to the epidemic under the severe test brought by COVID-19, as well as the positive or negative impact of different strategies and policies. The paper finds that with the continuous impact of Sino-US trade friction in 2019 and COVID-19 in 2020, the United States has suffered from a huge impact on the market demand and job market; in order to stimulate the economy, the United States has adopted an "unlimited" quantitative easing policy. The theory of this policy and its specific implementation plan is elaborated in the paper; this policy has relieved the pressure on the United States in the short term, but it has also laid many hidden dangers for the future. In comparison, China has developed a thorough and efficient strategy for the spread of Covid-19, which has brought about a turning point in economic recovery despite the impact of the global economy; through further expansion of domestic demand policies, the Chinese economy has a good prospect.

Keywords: *COVID-19, China, United States, Economy, "unlimited" quantitative easing policy, expansion of domestic demand*

1. INTRODUCTION

The sudden outbreak of the new coronavirus pneumonia in 2020 has spread to more than 200 countries and regions in the world. Up to now, the total number of patients in the world has reached a terrifying 393 million, with a total of 5.73 million deaths, and the world economy has suffered a severe recession. Many economists around the world have begun to compare the potential economic crisis caused by the virus to the subprime mortgage crisis of 2008[1]. However, the two crisis are essentially different. The principle of 2008's international financial crisis was a financial liquidity crisis caused by the collapse of financial institutions; while the Covid-19 crisis was a real economic crisis caused by the physical blockade[2]. The production of enterprises was forced to be interrupted, and the industrial chain and supply chain were broken. The simultaneous decline in supply and demand led to economic downturns in various countries. In the April 2021 World Economic Outlook report, Steven Alan Barnett, chief representative of the International Monetary Fund (IMF) in China, said that the epidemic has brought about major changes in the world landscape; this crisis is unprecedented, and because of its ongoing situation, the timing and the resulting intensity are highly uncertain, and the formulation of relevant policies will be even more difficult; the global economy is likely to experience the worst setback since the Great Depression[4].

In the context of COVID-19, the two major countries, China and the United States, have adopted many different strategies for the possible economic crisis according to their different national conditions, and each country has caused different degrees of impact. As rare analysis focused on the economic situation of China and the United States at the same time, this paper will briefly analyze and compare the different response strategies adopted by China and the United States in response to the epidemic under the severe test brought by COVID-19, as well as the positive or negative impact of different strategies and policies. The main methods for the study are combining the theory with practice and widely referring to the domestic and foreign literature material. The analysis of the different strategies and outcomes of the two countries can greatly help the world to formulate a more rational coping plan for the crisis[3].

2. RESEARCH ON THE UNITED STATES

2.1 The State of the U.S. Economy

As the world leader, the United States has been affected by the Sino-US trade friction since 2019. The PMI index has declined, and the manufacturing industry has also been negatively affected to a certain extent. Immediately after the outbreak of the COVID-19 in the United States in 2020, the confidence of the US market was significantly reduced[5]. There were four circuit breakers in the US stock market, which seriously affected the overall consumer confidence of residents, and the market demand dropped significantly. In terms of the job market, the United States has been facing unemployment problems since 2019, and the outbreak of this epidemic has also made the unemployment problem in the United States even more serious.

2.2 Theory and Measures of "Unlimited" Quantitative Easing Policy

In the above context, in order to stimulate the domestic economy, the United States adopted an "unlimited" quantitative easing policy, purchased government bonds through the Federal Reserve, and continuously put money into the market to maintain the normal flow of market funds[6]; Another 2 trillion rescue plan was launched; but the unrestrained easing policy has exposed the United States to a debt crisis, and as the epidemic continues to grow in the United States, this debt risk will continue to maintain an upward trend.

2.2.1 An outline of the theory of "unlimited" quantitative easing policy

The core of the policy is introduced in two aspects: First, "unlimited": unlimited purchase time, unlimited purchase quantity, and unlimited loan assistance. The specific embodiment is that the United States can purchase US treasury bonds and mortgage loans at any time, and use measures such as lowering the deposit reserve ratio and lowering the loan ratio without any restrictions and constraints to provide loans and assistance to US households, enterprises, financial institutions, and local governments. The second is the "quantitative easing policy": refers to the realization of monetary easing and the injection of more capital liquidity into the market, so as to promote the development of the country's investment, consumption, and other industries under the adverse environment, so that the economy can gradually recover. In general, the unlimited quantitative easing policy is to "print money" to the market without limit until it meets market demand[6].

2.2.2 Specific measures for the "unlimited" quantitative easing policy

The Federal Reserve announced in late March 2020 that it would implement an "unlimited" quantitative easing policy as a way to ease the unstable economy caused by COVID-19. In the first week of March 2020, the Fed's balance sheet was only 4.29 trillion, and as of May 13, 2020, the Fed's balance sheet will exceed 700 million. This act of putting a lot of dollars into the market in a short period of time is never seen before. In order to stabilize the U.S. economic environment, the Federal Reserve has made every effort to use various economic means that can be implemented to implement low interest rates and loose financial conditions for households, enterprises, financial institutions, and local governments. The economic means to achieve this policy are mainly reflected in the following aspects.

1.Backing securities market by buying Treasury bonds and mortgages	*Since the United States announced the implementation of the "unlimited" quantitative easing policy in late March 2020, the Federal Reserve said:"This week will buy $75 billion in Treasuries and $50 billion in agency mortgage—backed securities every day to expand the scale of money market liquidity facilities.*
2.Set up enterprises credit projects for enterprises of different sizes	*The Fed has launched two credit facilities for large corporations, totaling up to $750 billion: one is to purchase debt or loans directly from companies in the primary market, and the other is to purchase from the secondary market, including sub-investment-grade exchange trades fund. The Federal Reserve facilitates loans to small businesses designated by Congress. For financial institutions, the Federal Reserve has introduced a number of loan systems such as auto loans, credit card loans and student loans to help them realize short-term credit securitization.*
3.Set up new financing programs	*To strengthen the flow of credit to employers, consumers and businesses, the Federal Reserve has established a total of $300 billion in financing programs, and the Federal Reserve Treasury Department will use the foreign exchange stabilization fund to provide $30 billion in support.*

Figure 1 Unlimited quantitative easing policy

2.3 Policy Implications and Potential Crisis

In the short term, under the influence of the "unlimited" quantitative easing policy, the economic pressure in the United States will be eased, and the stock market and securities market will gradually recover; in the long term, due to the depreciation of the dollar, it may fall into a new round of financial crisis in the following aspects.

1. Dollar depreciation shrinks, triggering inflation	*The U. S. dollar is a global currency. The further implementation of this new policy will make the supply of U.S. dollars in the financial market exceed the demand, resulting in the sharp depreciation of the U. S. dollar and the rapid rise in U. S. prices, causing inflation and threatening the global economy and trade.*
2. Asset price bubbles	*Putting excess currency into the market can easily lead to asset price bubbles. The depreciation of the US dollar relieves the pressure of devaluation of other countries' currencies and makes them appreciate in disguised form. This situation makes foreign companies speculate, especially to increase investment in emerging industries in the United States. In the long run, the actual value of emerging industry assets will be much lower than the expected value, and a bubble economy will appear.*
3. The real economy and financial markets rely too much on quantitative easing policies	*Judging from the first three quantitative easing policies implemented in the United States, the longer this policy is implemented, the more difficult it will be for the Fed to cancel the policy. For example, in 2015, in order to stabilize the currency market, the Federal Reserve raised interest rates and caused the dollar to withdraw from the market.* *But until 3 years later, when the "shrinking of the balance sheet" ended, the scale of its liabilities was much higher than before the financial crisis.*

Figure 2 Potential crisis

3. RESEARCH ON CHINA

3.1 The impact of the epidemic on the Chinese economy

The main impact of China's international financial crisis in 2008 and the new crown pneumonia epidemic in 2020 is the deterioration of the external economic environment and the decline in domestic demand. The difference is that in the early stage, due to China's relatively high dependence on foreign trade, the impact of the 2008 international financial crisis on my country was mainly in foreign trade companies and exports[7]; by comparison, the impact of COVID-19 on China's economy in 2020 came from both sides of supply and demand, and now domestic demand has become the first driving force for China's economic growth.

3.2 Epidemic Response and Economic Recovery

3.2.1 Policies on epidemic control

In response to the sudden outbreak of the virus, the Chinese government launched an unprecedented people's war for the prevention and control of the epidemic in the world[8]. It only took more than four months to effectively control the epidemic. The Chinese government's prevention and control measures can be roughly divided into three stages.

1. Respond quickly to sudden Covid-19 outbreaks	*From December 27, 2019 to January 19, 2020, China has completed the rapid process from the discovery of pneumonia of unknown cause in Wuhan to the determination of virus genome sequence Information, from the emergence of local community transmission and clustered cases to nationwide epidemic prevention and control response. And on January 9, China notified the World Health Organization of the epidemic Information, and then provided the World Health Organization with the genome sequence Information of the virus.*
2. Curb the spread of the epidemic	*From 20 January to 20 February 2020, China has implemented the most comprehensive, strict and thorough prevention and control measures, including a one-month economic shutdown, which has Initially curbed the spread of the epidemic. From January 24th, 346 national medical teams, 42,600 medical personnel and 965 public health personnel have been mobilized from various places and the military to support Wuhan and Hubei province. February 14, in addition to Hubei Province, the number of newly confirmed cases in other provinces across the country has dropped for 10 consecutive days, which means that the peak of the epidemic has basically passed. On March 6, the number of newly confirmed local cases nationwide fell to less than 100, and on the 11th, it fell to Single digits.*
3. National epidemic prevention and control has become normalized	*From April 29, 2020 to present. The epidemic situation In China is generally sporadic, and the Imported cases are basically under control.*

Figure 3 Epidemic prevention stage

3.2.2 Economic recovery

China's high-speed and efficient means of controlling the epidemic is impressive to other countries in the world, which also lays a good foundation for China's subsequent economic restart. Under the condition that the epidemic is under control, China's economic recovery can be divided into the following four steps:

1. The economy is temporarily shut down	*Almost all economic indicators in China have fallen sharply year-on-year, reaching a low point. In particular, the service Industry has been greatly affected. Small and medium-sized enterprises are facing difficulties in production and operation. Investment has dropped by 24.5% year-on-year. The total retail sales of consumer goods has dropped by 20.5% year-on-year. From 5.3% in January 2020 to 6.2% in February, the number of unemployed people increased by nearly 4 million, and the electricity consumption of the whole society fell by 8.2% year-on-year.*
2. Reach the trough	*China's major economic indicators in the first quarter fell significantly, setting a record for the highest decline in history, down 6.8% year-on-year. Compared with the growth rate in the same period in 2019 (6.4%), the actual decline reached 13.2 percentage points, an actual reduction of 2.88 trillion Yuan, equivalent to 2.9% of GDP in 2019. The impact of the epidemic has caused China to pay a huge economic cost.*
3. Out of the trough and accelerated recovery	*The Chinese government promptly implemented a package of economic recovery plans to expand domestic demand, including a more proactive fiscal policy, a more flexible and appropriate prudent monetary policy, and a comprehensively strengthened employment-priority policy. Since March 2020, major economic indicators have rebounded. The declines in industry, services, investment, retail, imports and exports have all narrowed sharply. Exports have fallen by 11.4%, exceeding the 3% decline in global merchandise trade in the first quarter. The surveyed urban unemployment rate fell from 6.2% in February to 5.9% in March, the CPI fell from 5.2% in February to 4.3% in March, and the manufacturing PMI fell from 2 to 2, and the non— manufacturing business activity index rose to March's 52.3 from 29.6 in February, indicating that the most difficult period for the economy has passed. The main economic indicators turned positive year-on-year growth by the end of June. In the second half of 2020, the main economic indicators increased significantly year-on-year, and some indicators will return to the levels before the outbreak of the new crown pneumonia (the fourth quarter of 2019). Economic growth is expected to be around 2% in 2020.*
4 .Economic revitalization	*China will enter a big "V" shape in 2021. Its economic growth rate will reach more than 7%, showing a sharp rebound. It is expected to be between 7% and 8%, and then it will return to the growth potential of about 6.0%.*

Figure 4 Four stages of economic recovery

3.3 Policies related to expanding domestic demand

On May 22, 2020, in the "Government Work Report" delivered by Premier Li Keqiang at the third session of the 13th National People's Congress of the State Council, he made appropriate adjustments to the expected goals for 2020 and proposed China's third economic recovery plan package to expand domestic demand[9]. .The plan has very clear goals, and its investment scale far exceeds China's first plan to expand domestic demand in 1998 and the second plan to expand domestic demand in 2008. Compared with other countries in the world, China's plan is one of the largest economic stimulus plans.

3.4 Policy Results

Compared with the impact of the epidemic, China's strong epidemic management and controlling capabilities have successfully turned the crisis into a turning point. From the first quarter to the fourth quarter of 2020, the year-on-year GDP growth rate was -6.8%, 3.2%, 4.9% and 6.5. The Global GDP in 2020 shrank 4.36% to US$83.845 trillion. China controlled the development of the epidemic in the first quarter, becoming the only country among the major economies that could maintain positive growth, and its share in global GDP rose to 18.15%, an increase of 1.35 percentage points over the previous year[10].

3.5 Potential Threats and Recommendations

Although China's GDP is in good shape, China's over-reliance on debt-financed real estate sector raises concerns about systemic risks. In order to avoid systemic risks and achieve the long-term goal of common prosperity, the growth model must be changed. At present, China has always relied on the debt financing model to develop real estate. There are some alternative models that are more suitable for China and can bring sustainable, inclusive and high-quality growth. There are three main aspects to the alternative model: First, China can promote more equity financing to replace debt financing. At the same time, it needs to strengthen supervision and ensure the openness and transparency of information. Compared with debt financing, equity financing is less risky and can better maintain macroeconomic stability. Second, China needs to pay more attention to SME lending. As we all know, it is not easy to encourage the development of SME loans, and more information is needed to provide loans to SMEs. However, SMEs are the engine of economic development[10]. All multinational companies are developed from SMEs. Only some governments have done a better job in this regard. Third, China should increase public investment. As China's society is aging, the number of elderly people is increasing, and the industrial structure is shifting to the service industry, and the market is paying more and more attention to investment in education and health industries. In the era of knowledge economy, R&D investment, especially basic R&D investment, is the responsibility of the government. These public investments can promote economic development and upgrade old development models.

4. CONCLUSION

In conclusion, in response to the global disaster and potential financial crisis caused by COVID-19 starting in 2020, China and the United States have set different responsive plans based on their completely different national systems. On the one hand, under the combined influence of the Sino-U.S. trade friction in 2019 and the epidemic in 2020, the confidence of the U.S. market has decreased significantly, and U.S. stocks have experienced 4 circuit breakers; the U.S. has to face declining market demand and more serious business problems; in order to stimulate U.S. economy, the government has adopted an “unlimited” quantitative easing policy: purchasing government bonds and mortgage-backed securities markets, setting up credit projects for companies of different sizes, and setting up new financing projects. In the short term, the economic pressure in the United States has indeed eased. But in the long run, the policy has brought many potential threats. For example, the depreciation of the dollar will shrink, causing inflation, asset price bubbles, and the real economy and financial markets relying too much on quantitative easing.

On the other hand, China's economy has successfully achieved a "V-shaped rebound" under the effective control of the epidemic, and its institutional advantages have enabled China to concentrate on epidemic prevention and control. The rapid epidemic response strategy combined with China's third package of economic recovery plans to expand domestic demand proposed by Premier Li Keqiang in the "Government Work Report" in 2020 has enabled China's economy to usher in a rapid recovery and revitalization from a short-term suspension. However, it should be noted that the foundation of China's economic recovery is not yet solid, and it is still necessary to be vigilant against a series of structural problems concealed by the return of the economy to its potential growth rate.

It can be seen that in response to the similar financial crisis caused by physical blockade due to COVID-19, rapid control of the epidemic can bring more possibilities to the country's follow-up strategy. Although the measures to control the epidemic may lead to short-term economic suspension, the potential for continued economic recovery after the epidemic is brought under control cannot be ignored. On the contrary, the adoption of quantitative easing policies such as those in the United States can bring relief to the national economy in the short term, but it will also be dangerous seeds buried in the future.

The limitation of this paper is that it fails to describe all relevant policies one by one; in addition, we do not have a systematic analysis of the potential crisis caused by the Sino-US situation. In the future research process, we can focus on the aspects less discussed in this paper. For the US, it is also important to focus on fiscal stimulus other than monetary policy; for China, we need to think about GDP, is it a good measure of China's economic performance? The Chinese government can adjust investment to hit GDP targets, so the GDP numbers will normally be close to the targets, but investment and debt will fluctuate to hit those targets. For example, in 2020, GDP growth was positive, but debt rose sharply suggesting that the economy was not very healthy.

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