A Critical Comparison: Differences Between China and Germany's Pandemic Recovery

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Abstract. The COVID-19 epidemic has had a significant negative impact on the world economy of which export-oriented countries are particularly affected. Yet, the recovery speed of China's economy is significantly faster compared to Germany. This paper aims to compare and analyze the tendency of economic recovery and relative policies in China and Germany respectively after the epidemic. Under the different political systems and different financial policies, these two countries had their own strategies for the impact of the epidemic and both have their benefits and deficiencies. Through detailed study, this essay will compare and analyze these differences and draw a conclusion. This paper finally found that certain government intervention is better for economic recovery in the beginning and policy implementation should take the long-term effect into consideration.

Keywords: China, Germany, economic policies, fiscal stimulus

1 Introduction

This new Coronavirus had begun to turn into a global nightmare that changed primary life. To date, the impact of COVID-19 still cannot be completely overcome. Nearly all aspects of daily life had been affected from the national to the individual level. People only could limit their outdoor time and wear masks when going out. The economy has turned out to be the most directly affected sector. Under the strict long-term restrictions, many small and medium-sized businesses could not get over this tough time and went bankrupt. And some big companies chose to reduce the staff trimmers to ensure their profits. For those fortunate, they tried to accommodate online working, while those unfortunate persons had to face unemployment. In accordance with a recent report published by the International Labor Organization (ILO) of the United Nations in January 2021, it shows that the coronavirus epidemic has caused the loss of 255 million jobs worldwide, four times as many as were lost during the financial crisis of 2008-2009. And the jobs lost last year accounted for 8.8% of global work time due to epidemic prevention restrictions. International trade was severely damaged in such a particular historical period. For example, import and export, customs, logistics, supply chain, business travel, etc. In order to control the epidemic, the new customs inspections set

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by governments have been stricter for import and export. Some international exhibitions had to be canceled, and many imported and exported items had to be returned or left in warehouses. And for the manufacturing industries, the inability to obtain raw materials in time will greatly affect their production. Although all countries are struggling, they have all tried many ways to go through and fight the epidemic. To reduce the impact and achieve economic, many countries have begun to implement a variety of policies. By the second half of 2022, slight global economic recovery has been witnessed in some countries. But their recovery speed and level are quite different. This paper will choose two representative strong economies in Europe and Asia, Germany and China, to compare their different policies in the post-epidemic time and find out the reasons behind their distinctive economic recovery speeds. Finally, this paper will try to give inductive comparisons of both their pros and cons and conclude the practical suggestions facing unpredictable economic shrink.

2 Overview

The global economy has seen major damages during COVID-19, one significantly impacted sector is international trade. Due to the epidemic, imports and exports were delayed, trade costs increased in many countries, and the global supply chain took a hit [1]. Extensive literature has covered the negative impact Covid-19 has played in different global regions (e.g [2]; [3]). Most of the largest economies in the world witnessed a noticeable decline. While China became the only economy that realized economic expansion with a 2.3% increase [4]. During COVID-19, as international transport was blocked and limited, productions were restricted, and the transnational labor market was intermitted, the export-oriented countries especially had a serious shock. Facing such a global challenge, all countries have taken economic measures to reduce the impact and revive the economy as much as possible. Until today, some countries have slowed down their economic decline and witnessed apparent recovery. Among them, different countries' economic recovery speed is quite distinctive.

First, as the two countries studied in this paper both China and Germany are important and influential economies. The biggest economy in Asia and the second-largest economy in the world is China. It has a full range of industrial sectors and abundant natural resources. In recent years, China actively cooperated with other economies, being an essential member of the Asia-Pacific Economic Cooperation (APEC), Shanghai Cooperation Organization (SCO), Regional Comprehensive Economic Partnership (RCEP), and East Asian Community (EAC). China has a solid and deep multilateral economic cooperation with regional countries and has a significant contribution to global economic growth with 30% in 2020. Nowadays, China has become the most vital and influential economy in Asia. Meanwhile, Germany is also an essential economy in European Union. It has the largest economy in the EU and ranks fourth in the world. Germany has a long-honored industrial base and is famous for its high-quality manufacturing. As the core member of the EU, Germany created a 25% GDP of the whole EU in 2020. Additionally, the EU appears to be one of Germany's key markets as more than half of its overall exports go to other EU nations. These two countries are both comparative large economies in geopolitics. Second, although China and Germany both depend on exports, their economic systems are entirely different. China is led by a socialist market economy with vast public ownership and state-owned enterprises, which was pointed out in 1992 as economic reforms [5]. Most financial institutions in China are owned and governed by the state. Therefore, the government has more autonomy in economic strategy setting. In contrast, Germany is led by a mixed economic system with both personal freedom and governmental economic plans. It allows for a free-market economy, but the government also sets regulations to adjust the financial market, which is deemed as a dualism of public and private economy [6]. Compared with China, Germany has more freedom in the market economy. Even though China and Germany have different political and economic systems, both chose to impose the fiscal stimulus package during the epidemic. Their detailed policies in tax, national debt, and other sectors have differences. Still, these policies' main goal and orientation are the same: to reduce the impact and revive the economy.

However, under the similar fiscal strategies aimed at fiscal stimulation, China's and Germany's economic recovery trends are noticeably different, as China's recovery is faster than Germany's. In 2021, China's GDP grew by 8.1% compared to last year. And the average growth of GDP in 2020 and 2021 was up to 5.1%. In contrast, Germany's recovery is relatively slow. It witnessed a contraction of 5% in 2020 and only achieved 2.7% growth in 2021. Yet, the economy level was not able to return to pre-pandemic standards.

3 Fiscal stimulation

Both China and Germany have imposed fiscal stimulus, but the specificity of their policies are distinctive. As for China, it implemented tax abatement, issued treasury bonds, increased the deficit rate, and heavily invested in "new-type" infrastructure. Such as 5G infrastructure, AI, big data centers, industrial internet, and so on. Compared to "old-type" infrastructure like roads, ports, and airports, there is a time lag but a strong effect from "new-type" infrastructure investment on economic growth [7]. And all these policies are set for stabilizing exports, expanding domestic demand, and especially supporting small and medium-sized enterprises. One of the most noteworthy is new infrastructure investment as it can affect various aspects of the economy. First, the new type of infrastructure can be categorized in the information infrastructure that follows the international information trend. The most direct outcome is the internet emerging industries. Take 5G as an example, 5G is one of the core factors of the digital transformation of industries that could stimulate a potential new digital market. Meanwhile, 5G could empower other emerging industries, like the internet of things, the industrial internet, and AI. Such industry empowerment also can attract more investment that promotes capital flow.

Moreover, the new type of infrastructure can stimulate multifaceted consumption [8]. With the digital industrial development, the consumer market will expand later, following the expanded scale of digital consumers. From the information browsing to payment, the accuracy and speed of the dealing are improved. Followed such information infrastructure reform, a new commercial model will come up that opens a new window for economic development. At the same time, the infrastructure could also improve the development of logistics. Promoting the use of intelligent tools and technology will hasten the growth of China's logistics sector overall as well as increase the ability for emergency help during public health incidents and natural disasters [9]. This means the use of big data and other technologies could help people prevent cross-infection and improve efficiency during the epidemic [10]. Although logistics is affected by the epidemic, it could still contribute to the economic recovery. Because logistics has become an important chain in production and consumption. Strong and effective logistics are an indispensable factor in economic recovery. Only with forceful logistics, the circulation of production materials could be speeded up, the urban and rural economy could be stimulated, and more online consumption could be aroused. Therefore, infrastructure investment is an available policy for promoting consumption and economic recovery.

As for Germany, it also has imposed some policies to slow the economy shrinking. Up to 30 billion euros in compensation payments from credit insurers were guaranteed by the federal government. Meanwhile, it formulated a strategy of direct subsidies amounting to about 50 billion euros for the roughly 3 million owners of small firms, as well as an Economic Stabilization Fund managed by the German Finance Agency [11]. And Germany also allowed tax deferral, provided credit preferential and subsides and certain taxes were canceled. All these financial supports for individuals and companies are considered to encourage them to develop and reduce the impact of the epidemic. For small and medium-sized businesses, such policies could help them prevent going broke and going through this tough time. Tax deferral can accelerate the flow of funds. In terms of individuals, such tax policies could relieve their financial stress and stimulate consumption. Here Germany's series of tax policies are regarded as policies to bring instant effect infusing new power to economy in a short time.

In contrast, the infrastructure policies China took lead to long-term effects. Because the construction of these infrastructures takes time, money, and labor force. Therefore, the outcome of China's infrastructures is not instant as Germany's. But these policies can bring a long and profound benefit to various aspects that provide more energy to the economy. Germany's tax policies can slow down the financial shrink in a short time, but they cannot bring long-term benefits. Because the tax policies bring too much stress to the government, which may cause new financial problems [12]. It is impossible for the government to unconditionally implement tax abatement, tax deferral, and even tax exemption.

To sum up, China and Germany chose different paths of financial incentives, but the speed and influence of their outcomes are quite different. As for China, its policies cannot bring as many instant benefits as Germany's policies do, but their long-term effect looks favorable and is likely to drive new domains to develop. In the post-epidemic time, these policies could stimulate the economy and bring more opportunities for economic development. As for Germany, various tax preferential can help companies and individuals reduce financial stress, but its negative influences are obvious. The federal government should make practical adjustments to stabilize the finance and blunt the impact.

4 Government intervention

Government intervention is another evident difference between China and Germany. Due to the political system and economic system, the Chinese government took measures to respond to the epidemic in a short time. China was trying to weave an all-sided safety net to maintain social and financial stability. Facing the challenges of the new risks caused by the pandemic, the collaboration of the Chinese state and intermediary social welfare organizations has played a crucial role in providing both cash benefits and social services (benefits in kind) [13]. China has taken various fiscal measures from the microcosmic and macro levels to stabilize the economy and reduce losses. At the microcosmic level, China provided 9 measures to provide subsidies for individuals. Some subsidies aim at healthcare workers, jobless people, confirmed patients, etc. Moreover, there are 5 policies for different regions and 24 policies for enterprises. This is a national financial intervention to regulate the economy, and it aims to adjust the supply and demand, support production and consumption, and stabilize the price of goods. There are 5 policies for different regions and 24 policies for enterprises. At the macro level, fiscal policies include export tax rebates, subsidies, tax reductions, loan discounts, etc. The implementation of a tax and fee reduction policy will help alleviate the negative impact of COVID-19 [14]. At the same time, the Chinese government issued a special treasury bond to fight the epidemic which was worth 100 million yuan. According to the third session of the 13th National People's Congress, this special treasury will expand fiscal space and deal with the impact of COVID-19. And these treasuries are used in public health, infrastructure construction, primary-level governance, etc. Such positive fiscal policy fits the aim of economic recovery in the epidemic and avoids local debt growing too quickly. With the support of treasuries, specific monetary policies were also imposed on society. For instance, reduce the deposit-reserve ratio, and provide stable and long-term low borrowing costs for the financial institution [15]. These economic interventions provide energy for economic recovery.

In similar vein, another vital point for the Chinese success in economic revival is strong decisive healthcare intervention. Facing the high infection rate, the Chinese government chose lockdown, big data tracking, strict segregation policy, etc. Although such severe intervention has a negative influence on the economy in the beginning, it helps to guarantee further social stability and prevent further huge healthcare spending. The financial benefits it brought are also noticeable. Social isolation, testing, and contact tracing laws are examples of government intervention strategies that have had a favorable impact on stock market results [16]. Chinese robust government intervention is denied and criticized by international society at the beginning of the epidemic. But later its positive influence showed up, and other countries followed the lockdown to fight against COVID-19. This strict intervention has brought adverse effects to the economy at the beginning, but its further positive benefits excess the impacts and reduce the economic losses.

In direct contrast, Germany did not have such robust government intervention. The reasons behind this are political systems and cultural differences. Only a centralized society can impose strict interventions. Although Germany has lockdowns, its scale, relevant policies, time of duration, and data tracking are not as severe as China. Also, Germany did not take the same fiscal policy to intervene. As an export-oriented country, Germany spent more time dealing with the impact of its exports. However, problems like transportation and supply chain shortages can not be solved alone. Germany tried hard to encourage and help small and medium-sized businesses that contribute most to its export. At the same time, under the unified management of the EU, Germany is not as accessible as China to impose and adjust its fiscal policies. As a whole, the EU members need to work for their common interests. The European Parliament and Council passed the "Six Pack" of EU rules, giving the Commission broad authority to intervene in policy and impose sanctions, not only to handle the "excessive" budget deficits of EU member states while also ensuring the "proper functioning of economic and monetary union." [17]. As a core member, Germany cannot break these common rules and pursue its own development. It needs to face the epidemic with other EU members and work out a solution for the EU.

Hence, China's implement had more government intervention during the epidemic for its economic system and centralized governance. Germany did not take such measures, not due to its desire but political climate and uncontrolled international export factors. In other words, Germany does not have as much freedom in policy making as China. From Germany and China's economy performance, we can conclude that freedom in making policy is relatively more beneficial to economic recovery.

5 Eurozone

However, Germany is not at a distinct disadvantage under the guidance of the EU. Although it could not fit all members' best interests and different national conditions, the EU still provided practical help to its members and made various adjustments to deal with the epidemic, and ensured most members' rights. National governments have been on the front lines from the pandemic's onset. They have, however, been supported by European action primarily on three economic axes: (1) monetary and banking, (2) state aid and fiscal laws, and (3) funding more recently [18]. The EU wanted to imposes such policies to stabilize the economy in the euro zone. These policies damage certain countries' interests but as a whole regional economy, the EU had to help the most vulnerable members to confront economic shrinking at the expense of other countries. Besides, Measures adopted at the European level and approved by all nations are likely to be more successful than those adopted separately [19]. In this situation, unity among the EU members is necessary and vital. The pandemic is widening disparities in the EU, and Chancellor Merkel explicitly stated that cooperation and solidarity are now more crucial than ever. Germany has a vested interest in maintaining a robust single market and preventing the disintegration of Europe. It benefits from what is good for Europe [20]. Besides, Germany still can get financial subsidies for the EU. The commission approved Germany's scheme for companies damaged in the epidemic, which was worth 10 billion euros. Under the state aid rules of the EU, members could ask for financial help and even design their own aid programs with the existing state aid framework. Meanwhile, the EU set up a "green lane" to allow members to open the flow of goods in Europe and loosen restrictions on goods and personal checking. For the transportation industry, the EU also made adjustments to rail, road, aviation, and shipping sectors' management. Such policies asked to relief from certain infrastructure charges for different transportation companies and ensure a timely refund from infrastructure suppliers. Certain sectors were even asked to reduce the charges for infrastructure. These transportation measures benefited Germany's export to eliminate transportation blocks and avoid unnecessary losses. In terms of monetary policy, the European Central Bank released the 750 billion euro program for pandemic emergency purchases. Germany also received financial support from such high subsidies. In general, we argue that the Covid-19 crisis has highlighted these long-standing issues with European competition policy and opened doors for policy innovators in institutions and governments of EU member states to push for more internal market promotion and protection of European industry while strengthening supranational competition enforcement [21]. And its relative aids provide energy for Germany's economic recovery and chances to avoid some economic losses. The policy framework the EU proposes also provide a good model for Germany to set its own policies in the epidemic.

While China did not have such strong backing that offers policy and financial support. China has to confront the challenge itself and take the risks with all the measures it has taken. With the help of the EU, Germany could face the economic shrinking confidently. If its own strategies fall, the EU could provide its safeguard. Hence, as a member of a political economy, Germany lost certain decision-making power, but it can not only take the measures suited to its own situation but also receive the financial and policy benefit, which is good for its economic recovery.

6 Conclusion

This study found that even under the fiscal stimulus, economies are more likely to recover with more controls and government intervention when necessary. Through the comparison and analysis of relevant economic policies published in China and Germany, it found that certain government intervention is better adapted to the country's economic situation, allowing for quicker control and response to the economic situation in the case of an epidemic, which is more conducive to economic recovery. Hence, countries should implement certain interventions in the beginning when facing unpredictable events. Looking at China's successful recovery, it is noticeable that timely intervention is an essential condition in its economic recovery. Besides, this study also found that policies that led to instant economic results could deal with certain economic problems, but its positive feedbacks are limited. And the results of the earlier period may have a bad impact on the economy for the later period, exerting more pressure and more uncertainties. So this paper suggests that economies should not only focus on policies having instant outcomes but take more into consideration the long-term effects. In the meantime, this paper also provides a reference for China studies and public policy comparison. It sets a new perspective on economic recovery in different economies in comparison. But it is necessary to emphasize that there are no best economic policies suited to all countries and policy implementation should be based on countries' own situations. Finally, the conclusions of this study are not set in stone and we expect that future results will provide us with more material to analyze. It is expected that this paper will provide more practical solutions for humans to deal with new special situations in the future.

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