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China's Policy Experience in Responding to Covid-19 Shock

Abstract

Since the outbreak of Covid-19, China has been actively adopting various policies, measures and actions to respond. Through the joint efforts of the government, enterprises, and individuals, China became one of the few countries that achieved economic growth in 2020. This research paper focused on analysing the key challenges, main policy measures, and their effects in China during the pandemic shock in the year 2020. The analysis covers the policy issues including public health policy, fiscal policy, monetary and financial policy, employment policy and others. The paper has also summarized the key experiences of China's policy in responding the pandemic shock to the economy.

Key words: China, Covid-19 pandemic, economic policy, policy sharing



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1. Introduction

The year 2020 witnessed the largest recession of the global economy since the 1930s. According to *Trade and Development Report 2020* of UNCTAD, world income was estimated to be 7.3 percent below its pre-Covid-19 projection for 2020 and would still be 6.4 per cent below for 2021. China's economy dropped by 6.8 per cent in the first quarter of 2020 while achieved a growth of 2.3 per cent in terms of the whole year. Although China was one of the few countries that achieved economic growth, it has been the lowest growth speed for China since the reform and opening-up that started in 1979.

This crisis was caused by the rapid spread of microscopic pathogens around the world. It is not only a health crisis, but also an economic crisis. Responding to this crisis, all countries have been making efforts from two aspects, to prevent and control the epidemic and to implement loose fiscal and monetary policies. These efforts have been made by China as well. China was the first country that implemented lockdown and quarantine. And in order to respond more scientifically to this health crisis, China has been strengthening Nucleic Acid Tests (NATs), accelerating the development and production of vaccines, and vaccinating the population. To reduce the economic impact of the epidemic, China has also adopted a series of fiscal, monetary and financial policies, such as setting up special fiscal funds to increase investment in the production of anti-epidemic materials, reducing taxes and fees for industries and enterprises that are heavily affected by the epidemic, increasing money supply in order to improve market liquidity, and deferring repayment of capital and interest on loans for small and micro enterprises. These measures helped companies overcome difficulties, stabilized market supply and demand and growth prospect accordingly. For China, 2020 was all the more difficult, because it needed to not only cope with the Covid-19 shock, but also achieve the goals of the 13th Five-Year Plan, including winning the fight against poverty, improving the ecological environment, and building a modern infrastructure network and so on. To this end, China has made significant and sustained efforts in structural reform.

China's policy measures responding to Covid-19 shock have played a positive role. Between the end of February and early March of 2020, companies operating in mainland China gradually resumed production. The capacity utilization rate of China's industrial sector reached 78 per cent in the fourth quarter, exceeding the level of the same period in 2019. With the shift of consumption methods from offline to online, the consumption scale has recovered gradually, while the total retail sales of consumer goods have achieved growth since the August of 2020. Moreover, the recruitment situation improved significantly in the third quarter. The unemployment rate fell month by month, and the cumulative number of new jobs created throughout the year was only 1.66 million fewer than that in 2019. Exports began to rebound significantly during the second half of 2020, with a year-on-year increase of more than 10 per cent in the fourth quarter.

The remainder of this report is structured as follows. Firstly, we analyzed the main challenges faced by the Chinese economy at the beginning of the epidemic. These challenges made China's economic growth in 2020 much lower than the level expected before the outbreak of Covid-19. Secondly, we studied China's specific measures responding to Covid-19 from five aspects: public health policies, fiscal policies, monetary and financial policies, employment policies, and structural transformation policies. Then, we analyzed the effects of policies from aspects including enterprises' restoration of production, employment and recruitment, consumer demand, and export growth. Based on the analysis mentioned above, we summarized China's policy experiences responding to Covid-19, with an aim to provide useful references for other developing countries.

2. China's Economic Growth Trend and Key Challenges

2.1 China's economic growth forecast and actual performance before and after Covid-19

In the first half of 2019, International Monetary Fund (IMF), World Bank (WB), Organization for Economic Co-operation and Development (OECD), Asian Development Bank (ADB), and other organizations all predicted that China's economic growth rate in 2020 would reach 6 per cent -6.1 per cent . Although the forecast in the second half of 2019 dropped, it was only within a small scale by 0.1-0.3 percentage points. China's domestic institutions like Chinese Academy of Social Sciences (CASS) and China Macroeconomic Forum (CMF) predicted that China's economic growth rate of 2020 would be 6 per cent and 5.9 per cent respectively. Although some of these predictions were released in the December of 2019, Covid-19 was not reported till the end of December.¹ Therefore, it can be concluded that the forecast made by the above organizations and institutions in the second half of 2019 was not affected by Covid-19. Based on these forecast data, it is not difficult to see that at that time, both within and outside China were generally optimistic about China's economic growth in 2020.

As the effect of Covid-19 manifested in the first half of 2020, the forecasts began to diverge significantly. OECD's forecast in June was the lowest, supposing that China's economy would contract by 2.6 per cent in 2020. China Economist's forecast in March was the highest, thinking that China's economy would grow by 5.4 per cent in 2020, but lowered its forecast to 2.5 per cent in June. In the second half of 2020, the forecasts of most institutions began to converge to around 2 per cent, indicating that views of those institutions on the impact of Covid-19 on China's economy began to be more identical.

Table 2.1 Forecast of China's economic growth in 2020 (Unit: per cent)

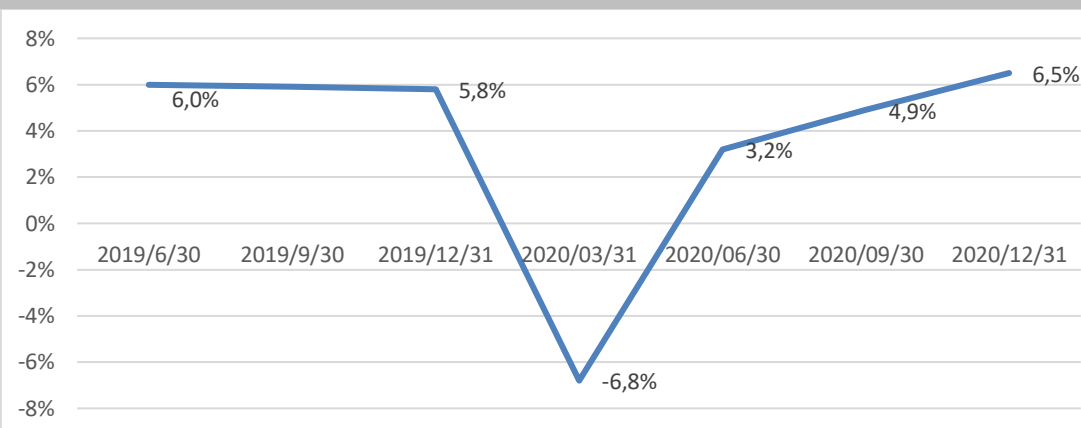
Institution	Time			
	The first half of 2019	The second half of 2019	The first half of 2020	The second half of 2020
IMF	6.1 (2019.4)	5.8 (2019.10)	1.2 (2020.4)	1.9 (2020.10)
WB	6.1 (2019.5)	5.9 (2019.12)	1.6 (2020.7)	2 (2020.12)
OECD	6 (2019.5)	5.7 (2019.12)	-2.6 (2020.6)	1.8 (2020.12)
ADB	6.1 (2019.4)	6 (2019.9)	2.3 (2020.4)	1.8 (2020.9)
CASS		6 (2019.12)		2.2 (2020.12)
CMF		5.9 (2019.11)	2.9 (2020.6)	2.3 (2020.11)
China Economist			5.4 (2020.3)	4.1 (2020.9)
			2.5 (2020.6)	3.7 (2020.12)

Notes: (1) The *Economic Blue Book* published annually by CASS predicts economic growth of this year and the next year. (2) CMF belongs to the Institute of Economics of Renmin University of China, regularly (semi-annual report) releasing forecasts on China's macroeconomics. (3) *China Economist* is a journal of the Institute of Industrial Economics of CASS. It conducts questionnaire surveys every quarter and forecasts the current year's economy every quarter, without forecasts for the next year.

¹ On December 27 of 2019, Hubei Provincial Hospital of Integrated Chinese and Western Medicine reported pneumonia cases of unknown reason to the Center for Disease Control and Prevention of Jiangnan District, Wuhan City.

In fact, China's economy showed a deep V-shape recovery in 2020. The economic volume of the first quarter of 2020 of China contracted by 6.8 per cent, but quickly rebounded to 3.2 per cent in the second quarter, and continued to rise steadily later. The economic growth rate in the third quarter and fourth quarter reached 4.9 per cent and 6.5 per cent respectively. China's economic growth during the whole year of 2020 was 2.3 per cent, which was in line with ADB's forecast in April and CMF's forecast in November, better than the forecasts of IMF, WB, and OECD.

Figure 2.1. Quarter on quarter growth of China's GDP



Source: NBS of China

2.2 The main challenges to Chinese economy owing to Covid-19

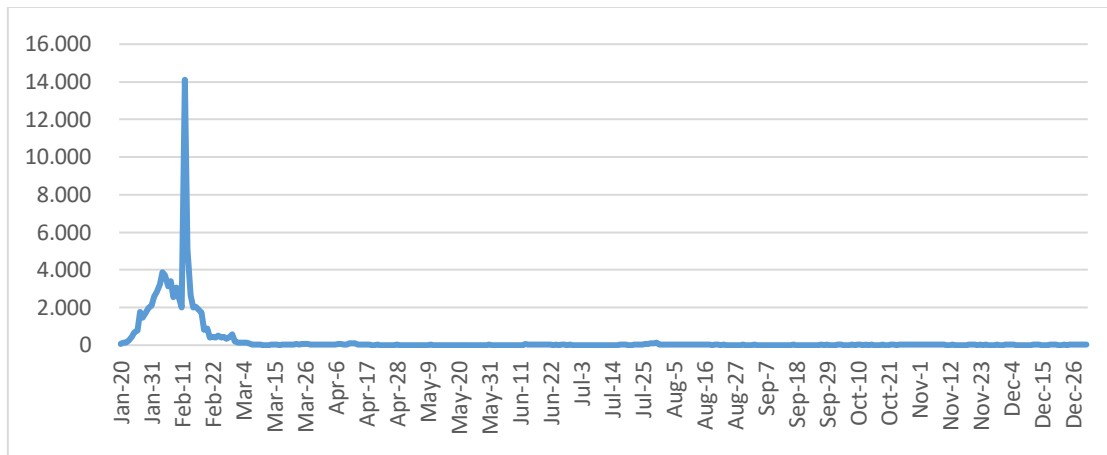
The better-than-expected pace and magnitude of China's economic recovery does not mean that Covid-19 only has a small impact on China's economy. Otherwise, China's GDP in the first quarter of 2020 would not have shrunk deeply by 6.8 per cent. This has been the only negative growth of China since the quarterly GDP growth rate started to be announced in 1992 by China's National Bureau of Statistics (NBS). The main challenges faced by China's economy encompass new challenges brought by Covid-19, and challenges that have existed before but which have been aggravated by Covid-19.

- ◆ Market panic intensified with the number of domestic infected cases increasing sharply

On January 27 of 2020², although the number of newly infected people daily with the Covid-19 virus exceeded 1,000, reaching 1,771, it seemed that it was not until the end of Spring Festival holiday of 2020 that most people living in China clearly realized that this was a highly contagious epidemic that has swept across the country. The number of newly diagnosed infections reached a peak on February 12, exceeding 14 thousand and leading to obvious panic in the society. The government extended the Spring Festival holiday, advocated reducing the movement of people across regions and gatherings in the public places, while advocating telecommuting and so on. In fact, Hubei Province had always been the hardest hit area relating to Covid-19. According to the White Paper called *Fighting Covid-19: China in Action* issued by the State Council Information Office in June 2020, on February 14, the number of new cases in China's provinces except Hubei Province dropped for 10 consecutive days. However, since the number of new cases did not drop to two digits until March 6, the panic continued until the end of March.

² January 24th of 2020 witnessed the Chinese New Year's Eve.

Figure 2.2 Daily new cases infected with Covid-19 virus between Jan 20th and Dec 31st of 2020



Source: Wind Database.

- ◆ Strict internal prevention and control measures disrupted normal economic activities

Lockdown was proved to be an effective method to stop the spread of the epidemic. As Wuhan was an area with a high incidence of Covid-19, it experienced the most stringent lockdown from January 23 to April 8 in 2020. According to the risk level of the Covid-19 virus infection, other regions of China implemented quarantine measures of varying degrees. Until the beginning of May in 2020, people who returned from other provinces or cities to their places of residence would generally be required by the community to isolate themselves at home for 14 days. For enterprises that resumed production at the end of February and early March, the local government generally required them to control the number and flow of workers.

Controlling the epidemic, lockdown as a double-edged sword also disrupted normal economic activities to a certain extent. Obvious signs that could be observed within a few months included construction projects under construction were basically suspended, new projects and company recruitment activities were postponed, almost all scheduled tourist projects and business trips were cancelled, theatres were closed, restaurants did not allow customers to dine-in and so on.

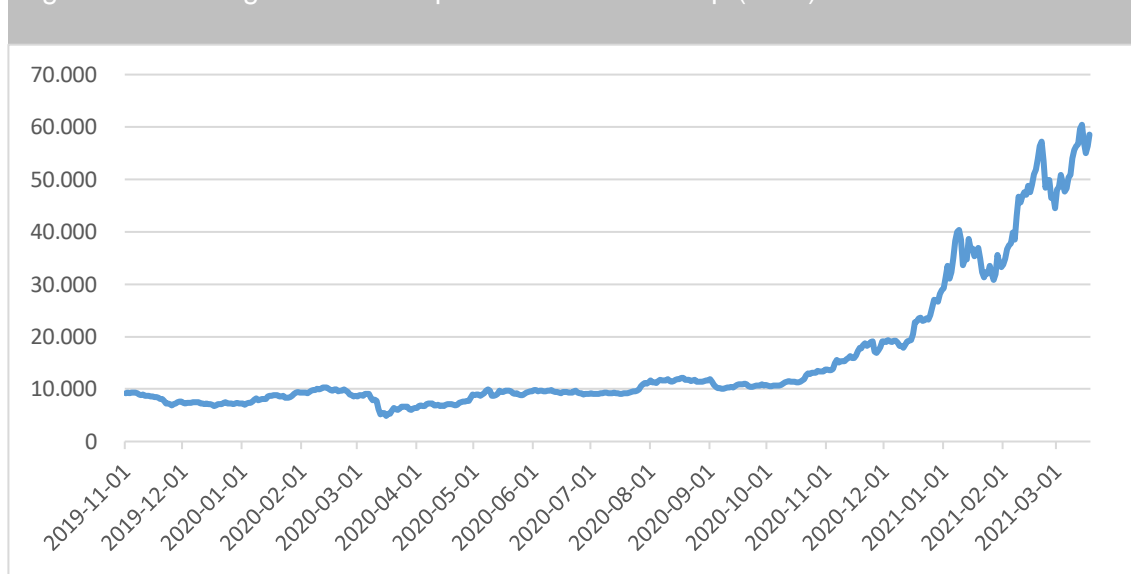
- ◆ The uncertainty of the external environment increased

The global spread of the epidemic has made all countries including China in a rather more difficult external environment. For a relatively long period of time, the global cross-border movement of people and goods was stagnant. Although the cross-border flow of goods improved in the second half of 2020, it had not returned to the state before the epidemic.

While playing an economic rescue role, the globally loose economic policy also raised prices of various assets with investment or speculative value in the international market, increasing the vulnerability of the world economy. After a brief stock market crash in the middle of March, the US stock market quickly recovered and hit new highs consecutively. However, on the occasion of the 30th anniversary of the 1987 stock market crashed in the United States in mid-October 2017, there were widespread concerns about excessively high stock asset prices in the US market. At that time, the Dow Jones Industrial Average in the United States was only around 23,000 points. At the end of 2020, the index had exceeded 30,000 points. The highly speculative Bitcoin price had soared since the end of October in 2020. The average transaction price per Bitcoin even exceeded USD 60,000 on 14th March in 2021, which was more than six times compared to that of mid-2020.

In addition, achieving global epidemic prevention and control, solving the serious debt problems of developing countries, and restoring the world economic order urgently required all countries to seek common ground while reserving differences in order to achieve more efficient cooperation on a larger scale. However, it seems that the action taken was not thoroughly enough.

Figure 2.3 Average transaction price of BTC: Bitstamp (USD)



Source: Wind Database.

- ◆ The shock of Covid-19 increased the difficulty of achieving established development targets

2020 was a critical year for China. Being the ending year of China's 13th Five-Year Plan, the year of 2020 also was a key node for laying a solid foundation for the development of the 14th Five-Year Plan and achieving China's second centenary goal.³ According to China's 13th Five-Year Plan, by 2020, China's GDP and per capita income of urban and rural residents would be doubled compared to that of 2010, a moderately prosperous society would be built in all respects and the first centenary goal would be achieved.

The most difficult task was to win the fight against poverty. To end poverty in all its forms everywhere is the first goal of 2030 Agenda for Sustainable Development adopted by all UN member states in 2015. China has always attached great importance to poverty eradication. According to China's poverty eradication progress, 5.51 million rural poor people must get out of poverty in 2020. If the original development trajectory had been followed, China's economy in 2020 would have achieved a growth of about 6 per cent as predicted by international organizations so that China would have no problem in achieving those established goals. However, the sudden Covid-19 shock made the improvement of economic growth and poverty alleviation face even more difficulties.

³ The "Two Centenary Goals" were put forth by the Communist Party of China (CPC) at its 18th National Congress in November 2012. The first centenary goal is to complete a moderately prosperous society in all respects by the centenary of the CPC founded in 1921. The second centenary goal is to build China into a modern socialist country that is prosperous, strong, democratic, culturally advanced, and harmonious by the centenary of the PRC founded in 1949.

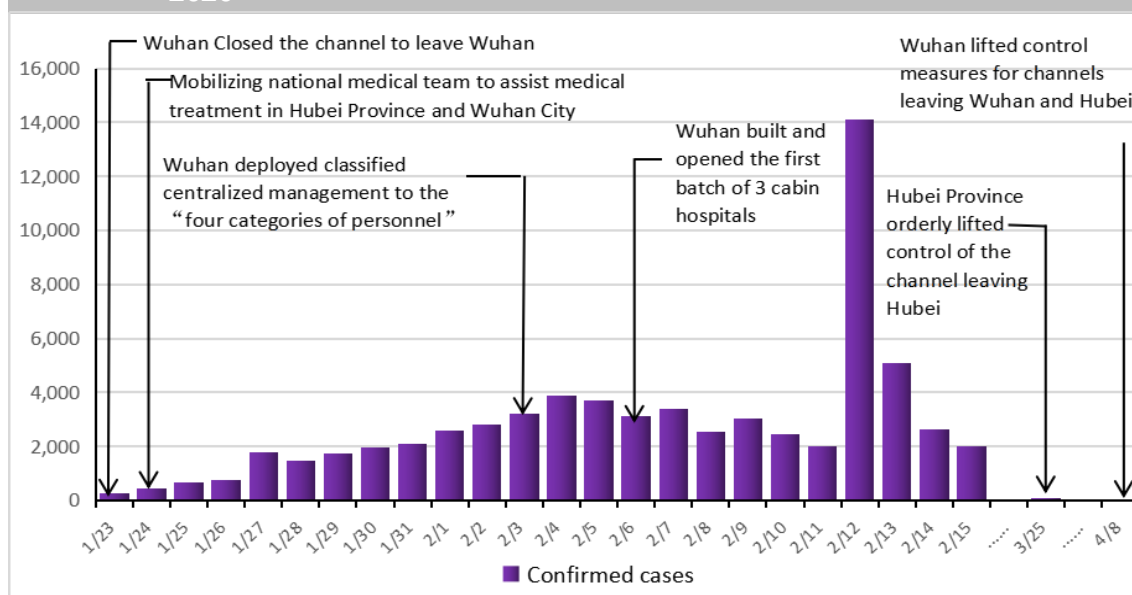
3. China's Main Policy Actions

3.1 Public health policies to prevent the further spread of Covid-19

◆ Strict isolation and active treatment

Around one month after the formally reported cases of pneumonia with unknown causes, key areas such as Wuhan quickly adopted the measure of lockdown. From 10 o'clock of January 23, the airport and railway stations temporarily closed the way to leave Wuhan. At the same time, China mobilized national medical teams from various places into cordoned areas in order to strengthen local anti-epidemic forces. For solving the problem of shortage of medical resources, it took just 10 days to build two specialized hospitals for infectious diseases named as Huo Shen Shan and Lei Shen Shan, each with a capacity of more than 1,000 beds. After expanding some appointed hospitals, the number of beds for critically ill patient increased rapidly from around 1,000 to more than 9,100.

Figure 3.1 Main treatment measures and confirmed cases during Wuhan lockdown in 2020



Source: Drafted by authors.

From January 23 to 29, provinces across the country successively launched provincial first-level emergency response to major public health emergencies. According to this mechanism, provincial governments blocked key infection control areas. On-site isolation, on-site observation, and on-site treatment were adopted for confirmed and suspected patients, and observation at designated site or home-based medical observation were adopted for close contacts according to specific situations. With the lifting of the blockade of Wuhan on April 8, China's epidemic prevention and control entered a normalized stage. During the normalized prevention and control period, quarantine was mainly enforced at high-risk areas and for the key communities.

◆ Nucleic acid test (NAT)

Reliable and convenient detection is the key to achieve "early detection" of the epidemic. In the initial stage of the epidemic, essential door-to-door testing was conducted in high-risk areas. Moreover, the bottom line was founded through door-to-door "pull-net" investigations to ensure that every infected person could be tracked thoroughly.

After the epidemic prevention and control has become normalized, with the improvement in the supply of NAT materials and capabilities, except for the special screening of key populations such

as workers for cold chain food and service industry all regions realized “testing all that should be tested and testing all that want to be tested”. Individuals could inquire about testing points online and made appointments for testing time. The cost of testing was basically between 80 to 100 RMB and was included in the reimbursement of provincial medical insurance. After the test, the results could be checked online as late as the day after tomorrow of the test, and as early as the same day of the test.

- ◆ R & D, production and vaccination of vaccines

Vaccines are the fundamental solution to the Covid-19 epidemic. On February 3, 2020, the Chinese government mobilized scientific researchers across the country to participate in scientific researches, strengthening the research and development of effective drugs and vaccines. By mid-May of 2020, China had a recombinant adenovirus vector vaccine and four inactivated vaccines, which were successively approved by the State Food and Drug Administration to carry out phase I and phase II clinical trials. By March 2021, 5 vaccines in China had been approved for conditional marketing or emergency use. China implements free COVID-19 vaccination, and online registration for vaccination is available in the community where people work or live. Till March 23 of 2021, a total of 82.846 million doses of vaccination had been reported nationwide. In terms of output, the Ministry of Industry and Information Technology of China believed that the annual vaccine output in 2021 could fully meet the vaccination needs of the people across the country, and vaccines with other technical routes would be launched one after another.⁴

3.2 Fiscal policy

Since the outbreak of Covid-19, China has implemented a much more positive fiscal policy to maintain economic stability. China’s fiscal deficit reached RMB 3.76 trillion in 2020 with RMB 1 trillion higher than 2019, and the fiscal deficit ratio increased from 2.8 per cent to over 3.6 per cent. The central government issued RMB 1 trillion special anti-epidemic bond mainly spending on infrastructure construction related with local public health and other expenditures related with anti-epidemic. New increased local special bonds were RMB 1.6 trillion higher than that of 2019. The following four measures were taken to better utilize fiscal policy.

- ◆ Establishment of direct fiscal fund allocation system

Prior to the COVID-19 outbreak, China’s central government funds were transferred to local governments at various levels through layers of approval. During the epidemic, a direct fiscal fund allocation mechanism was established to save time. The main feature of this mechanism is that central fiscal funds can be allocated quickly and directly to the departments using the funds. RMB 1.7 trillion of funds were distributed directly in 2020, with more than 90 per cent of these funds being dispatched within about 20 days. Of the departments receiving funds, prefecture and county governments accounted for over 96 per cent. Among them, RMB 837.9 billion was spent on supporting enterprises to alleviate their difficulties, benefiting 950,000 market entities of all kinds.

In 2021, the system of direct fiscal fund allocation became a regular mechanism to further benefit enterprises and the public. The fiscal funds directly allocated included not only new increased funds but also part of the stock of funds, i.e., funds issued by the central government for various livelihood subsidies. Direct fiscal funds had increased to RMB 2.8 trillion in 2021. By the end of April, the central government had confirmed the release of RMB 2.6 trillion, of which over RMB 2.2 trillion had reached the users’ accounts.

- ◆ Tax and fee reduction

In 2020, China introduced 28 new tax and fee reduction policies in batches based on the implementation of institutional policies such as lowering the value-added tax rate, special additional deductions for personal income tax and lowering the corporate pension insurance rate

⁴ Source: National Health Commission of China, <http://www.nhc.gov.cn/>

so that the burden of market entities was reduced by more than RMB 2.6 trillion. The main measures included: ⁽¹⁾ Phased reduction and exemption of fees related to corporate on employee pension, unemployment, work-related injury insurance and basic medical insurance contributions. ⁽²⁾ The lower limit of the personal payment base of social insurance in 2020 could continue to implement the lower limit of the personal payment base of 2019. ⁽³⁾ Individual industrial and commercial households and various flexible employees who participate in the basic endowment insurance for enterprise employees on an individual basis could voluntarily postpone their payment in 2020. ⁽⁴⁾ Postponement of income tax payment for small and low-profit enterprises and individual business in 2020. ⁽⁵⁾ Eligible small-scale taxpayers and individual industrial and commercial households could be exempted or deferred from value-added tax. ⁽⁶⁾ Extending the implementation period of the inclusive finance tax preference policy, which originally expired on December 31, 2019, to December 31, 2023. ⁽⁷⁾ Increasing the export tax rebate rate for export products other than the exports of resource products and the products whose production consumes large quantities of energy and resources or is highly polluting. ⁽⁸⁾ For goods declared for export from January 1 of 2020 to December 31 of 2020, due to the force majeure caused by Covid-19, goods that were re-transported into the country within one year from the date of export would not be levied on import duties, import value-added tax and consumption tax, if export duties had been levied at the time of export, export duties shall be refunded. ⁽⁹⁾ Reducing the value-added tax on the sale of used cars by second-hand car dealerships, and extending the period of vehicle purchase tax exemption policy for new energy vehicles for 2 years in order to promote automobile consumption.⁵

◆ Increasing expenditure on anti-epidemic and epidemic prevention

Governments at various levels allocated over RMB 400 billion special funds for the procurement of Covid-19 treatment, prevention, and control materials in 2020.⁶ Taking Beijing municipality as an example, Beijing's actual expenditure on "medical devices" in 2020 was RMB 12.12 million, an increase of RMB 4.16 million or 52.3 per cent compared to the adjusted budget, mainly due to the increase in expenditures for the purchase of protective emergency inspection equipment. The actual expenditure for "food safety supervision" was RMB 159.25 million, an increase of RMB 59.25 million or 59.2 per cent compared to the adjusted budget, mainly due to the increased expenditure on the purchase of food testing equipment for the prevention and control of the epidemic. The actual expenditure of "public hospitals" was RMB 10.78 billion, an increase of RMB 870.56 million or 8.8 per cent compared to the adjusted budget, which was mainly used for the prevention and control project expenditures such as the renovation of fever clinics, the renovation of hospital wards and the operation funds of designated hospitals for municipal hospitals. The actual expenditure on "public health" was RMB 1,885.15 million, an increase of RMB 316.29 million or 20.2 per cent compared to the adjusted budget, which was mainly used for the purchase of Nucleic Acid Testing equipment.

⁵ Source: Ministry of Finance of China, Report on the Implementation of the Central and Local Budgets in 2020 and the Draft Central and Local Budgets in 2021.

http://www.mof.gov.cn/zhengwuxinxi/caizhengxinwen/202103/t20210314_3670203.htm

⁶ Source: Ministry of Finance of China, Report on the Implementation of the Central and Local Budgets in 2020 and the Draft Central and Local Budgets in 2021.

http://www.mof.gov.cn/zhengwuxinxi/caizhengxinwen/202103/t20210314_3670203.htm

Table 3.1 Main fiscal expenditure dealing with Covid-19 in Beijing in 2020 fiscal year

	<i>Adjusted budget</i>	<i>Actual expenditure</i>	<i>(Unit: million RMB)</i>
Medical devices	7.96	12.12	
Food safety supervision	100.00	159.25	
Public hospitals	9,913.05	10,783.61	
Public health	1,568.86	1,885.15	

Source: Beijing Municipal Finance Bureau, *Beijing's 2020 Budget Implementation and 2021 Budget*, <http://czj.beijing.gov.cn/zwx/czsj/czyjs/202102/P020210210537126940832.pdf>

◆ Subsidies to consumers and enterprises

Subsidies to consumers were mainly issued in the form of consumer vouchers. Up to 8th May of 2020, more than 170 cities had issued a cumulative total of over RMB 19 billion consumer vouchers to compensate for the drop of people's income caused by the layoffs and boost consumer demand.⁷ From April 19 to July 31 of 2020, Wuhan government successively released RMB 500 million of consumer vouchers to the market, which could be used for catering, shopping malls, supermarkets, and cultural, sports and tourism consumption.⁸ Since June of 2020, Beijing had issued 39 million pieces of coupons mainly including food, beverage, and smart product, totally realizing sales of RMB 13.52 billion.⁹ Residents of Beijing could apply for those coupons online directly, or made deductions on designated platforms during consumption.

The subsidies to enterprises were mainly for enterprises that were greatly affected by the epidemic. Due to the differences in the development of industries in different regions, enterprises that received subsidies were chosen with different priorities in different regions. For example, the film industry in Beijing and Shanghai were given special subsidies. During the epidemic, Sichuan province provided subsidies on logistics expenses for shopping malls, supermarkets and other commercial circulation enterprises that participated in the guarantee of living materials. Jilin province subsidized some of the loan guarantee fees of finance security instrument.

3.3 Monetary and financial policies

To cope with the highly uncertainty brought by Covid-19 shock, China's monetary and financial policies mainly focused on three directions. The first is to maintain the monetary aggregate at an appropriate scale, the second is to significantly reduce the cost of financing, and the third is to support the real economy. On the one hand, the People's Bank of China (PBC) provided sufficient liquidity to the market by lowering the statutory reserve requirement ratio, relending, and rediscounting, etc. On the other hand, banks were encouraged to provide credit support to enterprises by deferring debt repayment and issuing credit loans to small and medium-sized enterprises. It also further leveraged the role of finance in supporting economic stability through measures such as increasing bond market financing and developing supply chain finance and so on.

◆ Providing sufficient liquidity for the market

PBC launched a total of more than RMB 9 trillion of monetary support measures in 2020 through tools such as reserve requirement ratio (RRR) cuts, the Medium-term Lending Facilities (MLF), central bank lending and discounts. Among these measures, RMB 1.7 trillion of short-term liquidity

⁷ Source: MOFCOM: Over RMB 19 billion of consumer vouchers have been issued since the outbreak of Covid-19, <https://baijiahao.baidu.com/s?id=1666097140103598781&wfr=spider&for=pc>

⁸ Source: Wuhan will issue 500 million yuan of consumer coupons from April 19th, <https://baijiahao.baidu.com/s?id=1664173805178363603&wfr=spider&for=pc>

⁹ Source: A total of 39 million consumer vouchers issued at the end of the 2020 Beijing consumption season, <http://finance.sina.com.cn/stock/relnews/hk/2021-01-05/doc-iiznezxt0704762.shtml>

was provided to the financial market when it reopened after the Spring Festival holiday, which effectively stabilizing market expectations. The PBC lowered the deposit reserve ratio three times in order to provide long-term liquidity of RMB 1.75 trillion.¹⁰

◆ Credit support to enterprises

In 2020, the PBC arranged totally RMB 1.8 trillion within three batches to support banks issue preferential loans to enterprises, including RMB 300 billion of special central bank lending, RMB 500 billion quota of central bank lending and central bank discounts and RMB 1 trillion quota of central bank lending and central bank discounts. The policy of deferred the principal and interest repayments on loans was implemented. Till the end of 2020, banking financial institutions across the country had deferred the principal and interest repayments on loans of RMB 7.3 trillion.¹¹

The banking financial institutions are always encouraged to issue inclusive small and micro credit loans. In 2020, banking financial institutions issued a total of RMB 3.9 trillion in terms of inclusive small and micro credit loans, an increase of RMB 1.6 trillion compared to that of the previous year. The deferred repayments policy and inclusive credit policy were initially postponed to March 31 of 2021, and then postponed to the end of 2021. During the policy extending period, the bank and the enterprise shall negotiate and determine if the bank defers the enterprise's principal and interest repayments by themselves independently in accordance with the market principles. For inclusive small and micro enterprise loans with an extension period of no less than 6 months issued by locally incorporated financial institutions, the PBC provided incentive funding of 1 per cent of the loan principal. And according to the extension of inclusive small and micro enterprise credit loan support policies, eligible locally incorporated financial institutions that issue new inclusive small and micro enterprise credit loans will continually obtain preferential fund support from the PBC at a rate of 40 per cent of the loan principal.¹²

◆ Other financial support measures

Financing support relating with bond market was strengthened, including guiding the company's net financing of credit bonds to increase by RMB 1 trillion over that of 2019, and supporting large enterprises to issue more debt financing and releasing credit resources to support small and micro enterprise loans. Furthermore, the approval process for special financial bonds for small and micro enterprises was optimized. The policy also supported financial institutions to issue RMB 300 billion of special financial bonds for small and micro enterprises.¹³

Supply chain finance was vigorously developed. The policy guided large companies and leading companies in the supply chain to make advance payments, improving their payment efficiency to upstream and downstream companies, to provide financing facilities for small and medium-sized enterprises in the chain based on orders, warehouse receipts, inventory, accounts receivable. Banks and other financial institutions were guided to actively connect with the accounts receivable financing service platform, reducing the time and cost of receivable confirmation, and supporting efficient financing of small, medium and micro enterprises. The data showed that in 2020, financial institutions issued RMB 2.3 trillion of pledged loans for accounts receivable to small, medium and micro enterprises in the industrial chain and supply chain.¹⁴

¹⁰ Source: *China Monetary Policy Report (Fourth Quarter of 2020)*. <http://www.gov.cn/xinwen/2021-02/09/5586209/files/0a68f9d82d6e480e953540a05b1367d8.pdf>

¹¹ Source: *China Monetary Policy Report (Fourth Quarter of 2020)*. <http://www.gov.cn/xinwen/2021-02/09/5586209/files/0a68f9d82d6e480e953540a05b1367d8.pdf>

¹² Source: *China Monetary Policy Report (Fourth Quarter of 2020)*. <http://www.gov.cn/xinwen/2021-02/09/5586209/files/0a68f9d82d6e480e953540a05b1367d8.pdf>

¹³ Source: Executive Meeting of the State Council (March 31, 2020). <http://www.gov.cn/guowuyuan/cwhy/20200331c12/mobile.htm>

¹⁴ Source: *Deputy Governor of the Central Bank: Continuity, Stability and Sustainability of Macro Financial Policies in 2021*. <http://www.chinahightech.com/html/hotnews/yaowen/2021/0311/5586162.html>

Credit guarantees were increased. The policy gave full play to the role of local government financing guarantee institutions, gradually increasing the guarantee magnification, and reducing the average guarantee fee rate of government financing guarantee and re-guarantee institutions to less than 1 per cent. The policy promoted the acceleration of the operation of the national financing guarantee fund, developing batch-guaranteed business with banking financial institutions, increased the risk responsibility sharing ratio in the batch cooperation business to 30 per cent. The exemption of re-guarantee fee for single-account guarantee business of cooperative institutions of RMB 1 million and below was adopted. And the whole year of 2020, the re-guarantee fee was halved for guarantee business of more than RMB 1 million. The policy encouraged insurance institutions to provide loan credit guarantee insurance, expanding export credit insurance scale and reducing premiums for foreign trade enterprises, and encouraging insurance companies to explore innovative and effective methods of claim settlement during the epidemic prevention and control period.¹⁵

3.4 Employment policy

Employment in China has been heavily influenced by the epidemic. For the first quarter of 2020, 2.29 million new jobs were provided in China's cities and towns, decreasing 950,000 year on year. As deterioration of employment would make a direct impact on people's daily life and social order, Chinese government has emphasized putting employment as policy priority, launching a series of unconventional and time-limited measures such as "point-to-point transportation of migrant workers back to work", "widening employment channels for college graduates", and "expanding the range of enterprises that allow workers to work while training skills", etc. Some of these policies have been continued in 2021.

- ◆ Helping migrant workers to return to work smoothly through point-to-point transportation

If migrant workers¹⁶ had not changed their working positions or found newly established jobs and needed help to return to work, they could sign up for the point-to-point migrant worker special vehicle (special train) transportation service through online and offline channels. The chartered vehicles for returning migrant workers to work were included in the scope of green channel, with no parking, no inspection, no charge, and the priority to facilitate these cars' traffic. According to the information released by the Ministry of Human Resources and Social Security (MHRSS) of China, till March 18 of 2020, the "point-to-point" transportation services to assist migrant workers' returning to work had organized 160,000 special train routes, 309 special trains, 1,292 chartered carriages (train carriages) and 514 chartered flights. A total of more than 4.1 million migrant workers were transported.

- ◆ Broadening efficient employment and higher education channels for graduates

In 2020, 8.74 million college students graduated in China, a year-on-year increase of 400 thousand. As a result of the epidemic, the normal business activities of many companies were disrupted and recruitment was scaled down or postponed. Many universities postponed the start of the academic year, and campus recruitment activities, the main channel for fresh graduates to find job, were greatly reduced.

¹⁵ Source: People's Bank of China, etc., Guiding Opinions on Further Strengthening Financial Services for Small, Medium and Micro Enterprises, http://www.gov.cn/zhengce/zhengceku/2020-06/02/content_5516693.htm

¹⁶ Migrant workers are a new type of workforce that has emerged during China's reform and opening up, industrialization, and urbanization. Their residential identity is still registered in rural areas but they work mainly in non-agricultural industries. Some of them go out to work during the agricultural leisure season and are both workers and farmers. This group is highly mobile, and some of them have been employed in cities for a long time and have become an important part of the industrial workforce. In 2019, China's migrant workers totalled 290.77 million, making them an indispensable force in China's labor market.

According to the *2020 College Student Employability Report*¹⁷, the number of college students in demand for recruitment in the first quarter of 2020 decreased by 16.77 per cent compared to the same period the year before, but the number of job applications increased by 69.82 per cent .

China mainly adopted the following measures to solve the employment problem of college graduates during the epidemic:

- 1) Organizing projects such as the “Special Post Program” to guide graduates to work in the grass-roots of government, to be employed or start up business in modern agriculture, social public services and other fields, and to recruit more people to teach in high schools and kindergartens where teachers were urgently needed.
- 2) Expanding the enrolment scale of postgraduate students in 2020.
- 3) Carrying out “24365 Campus Recruitment Service” to provide college graduates with online campus recruitment services 24 hours a day and 365 days a year.
- 4) Appropriately extending the graduates’ time on career choice. If a student passed the graduation thesis defense but did not found a job, the student is permitted to keep his or her residence registration and files in his or her college for two years as policy regulated, and the college would continue to provide employment services to the student.
- 5) National scientific research projects were encouraged to hire college graduates as scientific research assistants, and their labor costs and related social security subsidies would be disbursed from the project funds according to regulations.
- 6) Organizing millions of graduates to participate in internships in order to enrich their practical experience and enhance their employability and market competitiveness. For companies that provided trainee positions openly, policy subsidies were given.
- 7) Encouraging enterprises to expand recruitment.

◆ Strengthening transfer vocational training

The policy further improved vocational training and employment services, and helped enterprises to stabilize production and the people’s employment by opening up training online platforms, increasing online vocational skills training and other measures. According to the “Notice on Implementing the Special Support Plan for Stabilizing and Expanding Posts for Enterprises” issued by the MHRSS and the Ministry of Finance, industries like the foreign trade, accommodation and catering, cultural tourism, transportation, wholesale and retail that were greatly affected by the epidemic could be subsidized with different scales based on actual conditions of different places. The subsidy funds were mainly utilized for work-for-training, employee living allowances and other expenses, while the maximum subsidy period did not exceed 6 months.¹⁸

3.5 Structural transformation policies

Although the epidemic disrupted normal market operations for a time, it did not interrupt China’s efforts to advance economic structural transform through reform. In addition, to mitigate the risks posed by the epidemic, Chinese government has adjusted its policies accordingly to reduce poverty and inequality, improve the ecological environment, and develop new infrastructure.

◆ Poverty and inequality reduction

In order to prevent those who have gotten out of poverty from returning to poverty and prevent low-income groups from becoming poor due to the epidemic, China coordinated government, market, and social resources in March 2020 to establish a monitoring and assistance mechanism.

The monitoring covers families whose disposable income per capita is less than about 1.5 times the national poverty alleviation standard, as well as families whose essential expenses caused

¹⁷ The report is jointly released by China Institute for Employment Research (CIER) of Renmin University of China and Zhaopin.com, a leading Chinese recruitment website.

¹⁸ Source: MHRSS of China. <http://www.mohrss.gov.cn/>

by illness, disability, disaster, or the epidemic significantly exceed the previous year's income and those whose income has shrunk significantly. Families at risk of falling into poverty have been assisted through measures such as industrial development, employment, social assistance, and social security.

Local governments have paid particular attention to innovation in poverty alleviation methods. For example, governments in the western region of China have actively promoted the identification and sale of poverty alleviation products, and as of mid-May 2020 had identified more than 40,000 poverty alleviation products and realized sales of RMB 32.3 billion. Sales channels include government procurement, offline market transactions, online e-commerce sales, and activities of social welfare organizations, etc.

In addition, China has placed particular emphasis on strengthening assistance and protection for children who are without guardianship due to the impact of the epidemic and for elderly people in special difficulties, including simplifying the procedures for reviewing and approving assistance, and encouraging elderly service providers to meet the basic needs of elderly people in special difficulties who are unable to take care of themselves, etc.

◆ Eco-environment improvement

Despite the impact of the epidemic in 2020, China has not relaxed its requirements in terms of ecological and environmental protection. The following three main measures are taken. Firstly, the "two 100 per cent" targets are ensured. The "two 100 per cent" targets include 100 per cent coverage of environmental supervision and services for all medical institutions and facilities nationwide, and 100 per cent implementation of timely and effective collection, transfer, treatment, and disposal of medical waste and wastewater. Secondly, a white list for environmental assessment, approval, supervision and enforcement is developed to facilitate the resumption of production under the premise of ensuring environmental standards and improving management efficiency. Thirdly, emphasis is placed on the management of pollutants such as PM2.5 and Ozone to ensure basic indicators such as the proportion of days with good air quality.

In September 2020, during the 75th session of the United Nations General Assembly, Chinese President Xi Jinping first proposed China's "30-60 Goal" for addressing climate change, which is to reach peak CO2 emissions by 2030 and work towards carbon neutrality by 2060. On 12 February 2021, President Xi Jinping further announced at the Climate Ambition Summit that by 2030, China's CO2 emissions per unit of GDP will drop by more than 65 per cent compared to 2005, the share of non-fossil energy in primary energy consumption will reach about 25 per cent, forest stock will increase by 6 billion cubic meters compared to 2005, and the total installed capacity of wind and solar power will reach more than 1.2 billion kilowatts.¹⁹

◆ New infrastructure development

At the end of 2018, the Chinese government for the first time explicitly introduced the concept of "new infrastructure construction" including 5G, artificial intelligence, big data centers, and industrial internet, etc. The shift of many offline economic activities to online during the epidemic has created an important opportunity for the rapid development of new infrastructure, and the *Government Work Report 2020* suggested that new infrastructure construction will be one of the directions of China's economic restructuring in the 14th Five-Year Plan and the mid-to-long term.

The new infrastructure development policies at the local government level have come to fruition one after another. According to incomplete statistics, as of July 2020, 23 provincial governments have issued relevant policies.²⁰ For example, Shanghai released the *Action Plan for Promoting New Infrastructure Construction (2020-2022)* in May 2020. According to the plan, the first batch

¹⁹ Source: <https://baijiahao.baidu.com/s?id=1685922566039650951&wfr=spider&for=pc>

²⁰ Source: https://www.sohu.com/a/408175084_458292

of 48 major projects with a preliminary estimated total investment of about RMB 270 billion will be implemented in the next three years. Shenzhen released the *Plan on Accelerating the Construction of New Infrastructure (2020-2025)* in July 2020, proposing the completion of 50,000 5G base stations in total by 2025 and the full deployment of 10G Passive Optical Network (PON), etc.²¹

4. Impact of China's Policy Actions

China's epidemic prevention and control policies achieved remarkable results. The number of newly confirmed cases of Covid-19 virus infection outside Hubei Province plummeted in the February of 2020. On March 5, Hubei Province, except for Wuhan, had no new cases added. The severe cases in Wuhan were "cleared" on April 24. Under such circumstances, China's economic policies have been playing very positive roles in keeping the market stable in 2020, especially for stabilizing enterprises and investment, demand and consumption, import and export, and employment. Finally, China succeeded in realizing the targets of 13th Five-year Plan.

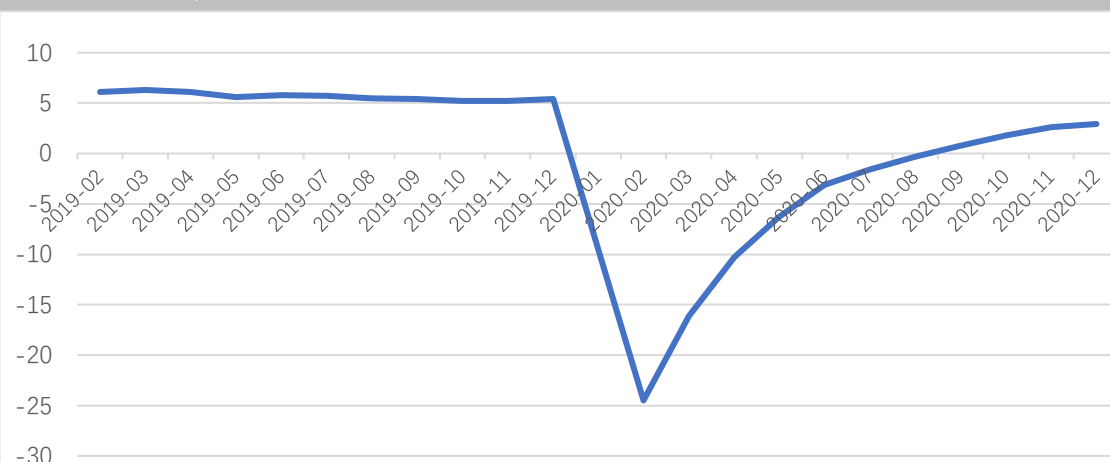
4.1 Market entities remained stable and investment recovered quickly

First, there was no massive wave of business failure during the epidemic. From February to April of 2020, the total number of business cancellations was 378,700 in terms of enterprise number, which was lower than the total of 665,600 from February to April of 2019; the number of newly registered companies was about 1.65 million, of which 830,300 were registered in April, the first time in history to have more than 800,000 companies newly registered in a single month.²²

Second, most industries resumed normal operations in a short period of time. In April of 2020, more than 76 per cent of China's key foreign trade enterprises had a capacity recovery rate of more than 70 per cent, and the resumption rate of small and medium-sized enterprises reached 84 per cent, while the resumption rate of work and production in various regions showed a trend of moving forward in parallel. The rate of resumption of work in 25 provinces exceeded 80 per cent. In terms of industries, as the epidemic was brought under control nationwide, the film and television industries and tourism industries that had been hit harder by the epidemic also recovered steadily. Since the reopening of cinemas on July 20th, the national theatre resumption rate reached 77.2 per cent on August 12th, and the average ticket price basically returned to the level of 2019.²³ The quarterly data of the tourism industry also showed a narrowing trend of decline, from a year-on-year decline of 83.4 per cent in the number of domestic tourists in the first quarter to a year-on-year decline of 32.9 per cent in the fourth quarter.²⁴

With the recovery of production, investment improved significantly. In 2019, the monthly year-on-year growth rate of China's cumulative fixed asset investment ranged from 5.2 per cent to 6.3 per cent. In 2020, this indicator had been negative until the August, but the contraction amplitude continued to narrow, beginning to turn to positive growth in September. China's fixed asset investment of 2020 was RMB 51.9 trillion, slightly lower than the RMB 55.1 trillion of 2019.

Figure 4.1 Monthly cumulative fixed asset investment over the same period last year (per cent)

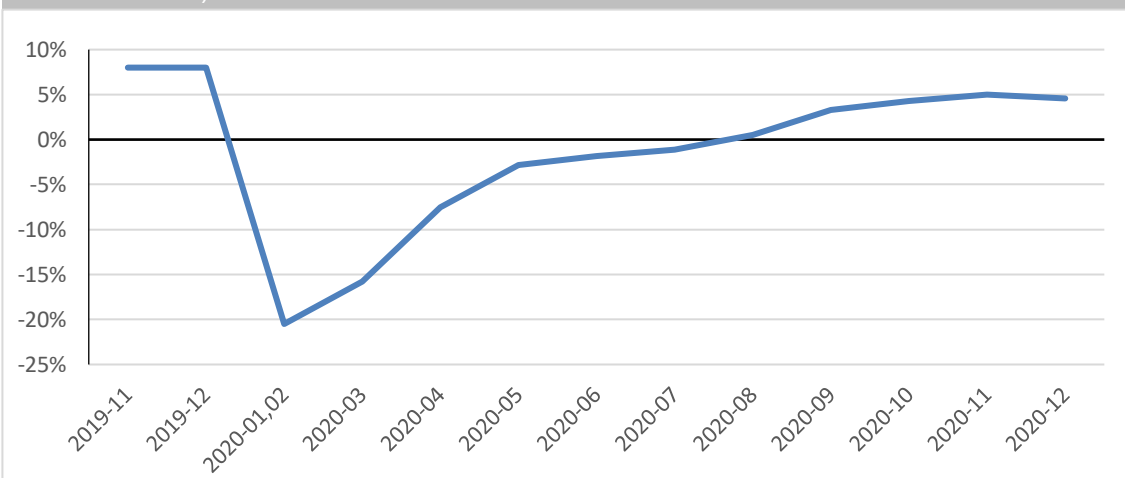


Source: Wind database.

4.2 Stable consumer demand and rapid adjustment of consumption patterns

The total retail sales of consumer goods in August 2020 were RMB 3,357.1 billion, a year-on-year increase of 0.5 per cent, achieving positive growth for the first time since the break out of the Covid-19, and keep maintaining a steady growth trend. In 2020, the total retail sales of consumer goods in China were close to RMB 40 trillion which was only nearly RMB 2 trillion less than 2019.

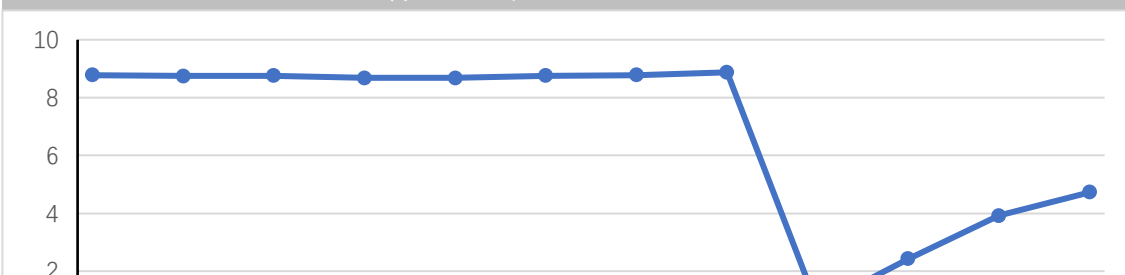
Figure 4.2 The year-on-year growth rate of total retail sales of consumer goods (per cent)



Source: NBS of China, http://www.stats.gov.cn/tjsj/zxfb/202101/t20210118_1812428.html

The faster recovery of consumption in China mainly benefited from two pillars, one was from the demand side, and the other was from the supply side. In terms of demand, the consuming ability of Chinese residents was not greatly impacted by the epidemic. Statistics showed that although the cumulative year-on-year growth rate of the per capita disposable income of urban and rural residents since 2020 had fallen from the levels of around 8.7 per cent in 2019, it still maintained a positive growth and rebounded since the second quarter of 2020. In the fourth quarter of 2020, it recovered to 4.74 per cent.

Figure 4.3 The year-on-year growth rate of cumulative disposable income per capita of China's residents (per cent)



Source: Wind database.

Moreover, Chinese residents' willingness to consume was still strong. For example, owing to overseas epidemics that made them impossible to go abroad for consumption, as the epidemic in China was brought under control, the consumption of duty-free goods in Hainan Province grew rapidly. In 2020, the total sales of four duty-free shops in Hainan were RMB 27.48 billion, a year-on-year increase of 103.7 per cent.²⁵ The average consumption per shopping passenger was more than RMB 6,000.

In terms of supply, the Covid-19 shock forced companies to be proactive in making adjustments to meet market demand, and digital transformation was the main strategy adopted by most companies. Types of business operation such as online education, online office, and remote consultation experienced rapid expansion. Statistics show that in 2020, the high-tech industry had maintained a relatively rapid growth since the cumulative sales revenue in April turned positive year-on-year, with a year-on-year increase of 14.7 per cent, which was 8.7 percentage points higher than the overall level of national enterprises. Among them, industries related to the digital economy grew faster, and sales revenue from e-commerce credit services, internet platforms, and information technology services increased year-on-year by 45.7 per cent, 29.4 per cent, and 24.5 per cent respectively.²⁶

In order to deeply analyze the performance of the digital economy segmentation field, the "Digital Economy Development Situation Analysis" research group of China's Development Research Center of the State Council (DRC) utilized data mining technology to analyze the data selected in 12 fields including "online office", "online medical" and "Fresh Food Delivery" with a total of 135 typical applications (APPs) from the mobile phone application in 2020. They found that in the first quarter of 2020, the digital economy recovered quickly after being hit by the Covid-19 shock, and exceeded the level of development before the epidemic at the end of the quarter; the second quarter continued to maintain a growth trend, while some areas that were hit harder recovered noticeably. For example, the number of new users of car-hailing, online shopping and e-commerce, and mobile payment increased by 44 per cent, 51 per cent, and 28 per cent respectively; the third quarter generally maintained a stable development trend. Among them, the slowest recovery of "online travel" among the 12 fields was recovered in July. Since then, the number of new users had grown steadily, with a clear upward trend at the end of September owing to the approaching of the National Day holiday; in the fourth quarter, fields like online shopping and e-commerce made the market active, achieving substantial growth. In 2020, new active users of the digital economy increased by more than 35 per cent. This strongly spurred the growth of online consumption. From January to April of 2020, the national online retail sales reached RMB 3.07 trillion, a year-on-year increase of 1.7 per cent, while that of the whole year increased by 10.9 per cent in 2020.

4.3 Import and export gradually stabilized

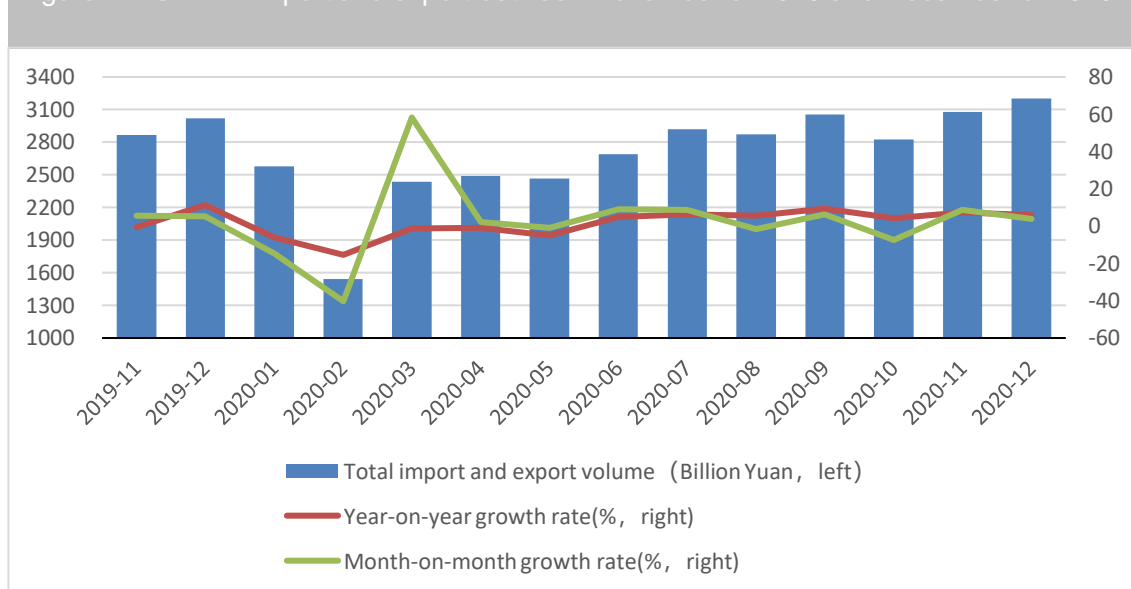
China's imports and exports stabilized in the second quarter after the shock in the first quarter, achieving positive growth for 7 consecutive months since June of 2020. The total value of imports

²⁵ Source: finance.people.com.cn/n1/2021/0204/c1004-32023050.html

²⁶ Source: <https://baijiahao.baidu.com/s?id=1689397666723066036&wfr=spider&for=pc>

and exports in 2020 hit a record high, and the international market share also hit a record high. China became the only major economy in the world that achieved positive growth in goods trade.

Figure 4.4 China's import and export between November of 2019 and December of 2020



Source: General Administration of Customs, P.R. China.

The rapid recovery of foreign trade benefited from the quick implementation of various supporting policies since the outbreak of the epidemic. In June of 2020, the Financial Research Institute of the DRC and the China Export Credit Insurance Corporation (SINOSURE) jointly organized and conducted a questionnaire survey on 2,878 small, medium and micro enterprises engaging in international trade across the country, in order to evaluate the implementation effectiveness of 14 financial support policies. Those policies were divided into 5 categories, including loans, securities, commercial credits, guarantees, and export facilities. The survey results showed that the highest proportion of companies surveyed already benefited from policies relating to the loan and guarantee, and such policies were also strongly anticipated to be implemented further in the future by companies surveyed with the greatest proportion. For example, “credit loans”, “deferred repayment of principal and interest (including loan extensions, renewals, etc.)”, “development-oriented and policy-oriented bank preferential interest rate special loans”, “expanded export credit insurance scale and reduced premiums” covered all the companies with a percentage of more than 10 per cent, while the average proportion of enterprises surveyed that wanted to be supported by loan and loan-related support in the future was 22.4 per cent, and the proportion of enterprises that wanted to gain export credit insurance support policies was about 30.9 per cent. This showed that loan and guarantee policies played an important role in supporting foreign trade companies, and these companies hoped that the coverage could be further increased. In addition, companies interviewed were relatively more willing to obtain commercial credit policies in the future. On average, 15.7 per cent of the companies surveyed hoped to obtain commercial policy support such as “advance payments from large companies and leading companies in the supply chain”, “orders, warehouse receipts, inventory financing”, and “accounts receivable financing”.

Table 4.1 Questionnaire on the Implementation of 14 Financial Support Policies (Ethiopian Fiscal year, July-June)

No.	Category	Measures	Proportion of enterprises actually	Proportion of enterprises not covered but

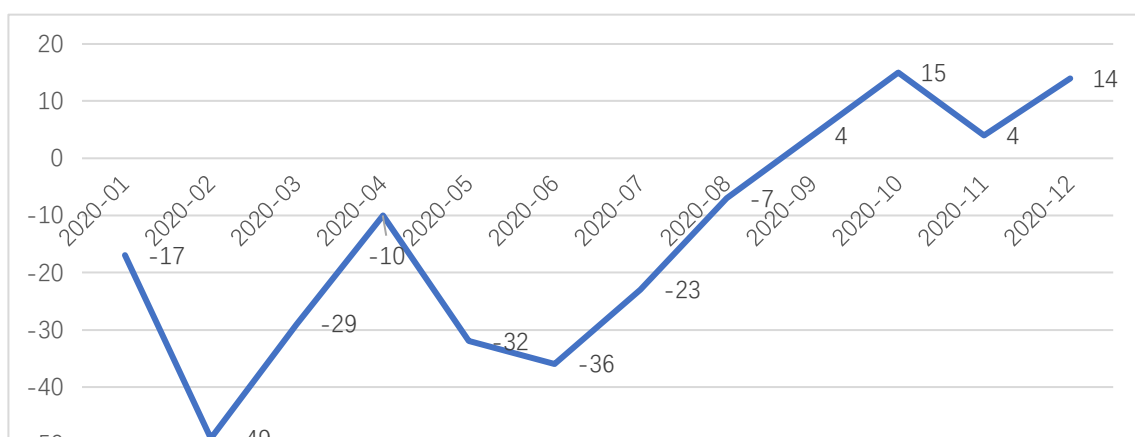
			covered by the policy	wanting to apply for the policy
1	Credit	Delayed payment of principal and interest (including loan extensions and renewals)	12.8 per cent	25.5 per cent
2		Credit loans	19.1 per cent	29.4 per cent
3		Loans of more than 1 year	9.1 per cent	24.1 per cent
4		Special loans with preferential interest rate from policy and development banks	10.2 per cent	26.6 per cent
5		Banking financial institutions prohibited to raise the cost of financing through illegal fees, cost-shifting, and other disguised acts	7.1 per cent	6.3 per cent
6	Securities	Credit-type bond financing	1.5 per cent	3.6 per cent
7		Equity financing (including listing, VC, PE)	0.9 per cent	2.8 per cent
8	Commercial credit	Advance payment from large and head enterprises in the supply chain	4.6 per cent	10.5 per cent
9		Financing based on orders, warehouse receipts, inventory	6.3 per cent	20.2 per cent
10		Financing based on accounts receivable	5.6 per cent	16.5 per cent
11	Guarantees	Guarantee insurance for loans provided by insurance institutions	9.3 per cent	11.7 per cent
12		Expansion of export credit insurance scale and reduction of premium	33.7 per cent	30.9 per cent
13		Governmental financing guarantee support	8.0 per cent	23.8 per cent
14	Export Facilitation	Facilitation of foreign exchange cross-border payment	10.2 per cent	20.6 per cent

Source: Questionnaire survey conducted by Financial Research Institute of DRC and SINOSURE, which was presided over by Liping ZHANG and Fei SUN.

4.4 The employment situation was generally stable

Judging from Figure 4.5, although the monthly increase in newly created employment changed significantly, it did not return to a positive growth until September of 2020. However, the annual employment and unemployment data showed that China's employment maintained an overall stable trend during the epidemic. Nearly 12 million new urban jobs were created in 2020, and the nationally surveyed urban unemployment rate averaged at 5.6 per cent throughout the year, which was a little lower than the expected rate of around 6 per cent .

Figure 4.5 Monthly job creation over the same period last year (per cent)



Source: Calculated by authors based on the cumulative monthly job creation between Jan. of 2019 and Dec. of 2020 released by the MOHRSS.

The Financial Research Institute of DRC and Beijing Jinxin Wangyin Financial Information Service collected data related to recruitment in 19 industries from more than 200 recruitment websites and conducted continuous follow-up analysis. It was found that in the third quarter of 2020, the number of recruitment companies and the number of recruitment positions both rebounded significantly. The number of companies that released recruitment information in 19 industries was 28 thousand and the number of recruitments was 194 thousand in the third quarter of 2020, with a year-on-year increase of 3.6 per cent and 45.1 per cent respectively, indicating that the employment stabilized and rebounded smoothly. In terms of industries, the number of recruitment companies in 14 industries witnessed a year-on-year increase, and the number of recruitment positions in 16 industries witnessed a year-on-year increase. The number of financial institutions and the number of recruitment positions increased by 53.7 per cent and 88 per cent year-on-year respectively, while increased by 50.5 per cent and 36.1 per cent month-on-month respectively. This was mainly owing to the expansion of autumn recruitment by some financial institutions. The number of manufacturing recruiting companies and the number of recruitment information released by them increased by 120.4 per cent and 383.6 per cent year-on-year respectively, and 12.7 per cent and 4.4 per cent month-on-month respectively, indicating a strong recovery in the manufacturing sector. In terms of macro data, the growth rate of manufacturing investment continued to rebound, which to a certain extent drove the improvement of manufacturing industry's development expectation. Both the scientific research and technical service industry and the information transmission, software and information technology service industry showed a year-on-year decrease in the number of recruitments but a month-on-month increase, indicating that they were also in recovery.

5. Main Policy Experience of China's Response to Covid-19 Shock

5.1 Policies were timely implemented

China's first experience obtained in responding to the Covid-19 shock was the timely introduction of policies. Thanks to the timely implementation of the following policies, the public panic caused by the Covid-19 shock could be effectively controlled in a relatively short period of time, which was an important prerequisite for the steady and rapid restoration of social and economic order.

First of all, the epidemic response policy was timely. Wuhan was "lockdown" on January 23rd of 2020. It was less than a month after Hubei Provincial Hospital of Integrated Traditional Chinese and Western Medicine reported cases of pneumonia of unknown cause to the local Centers for Disease Control on December 27th of 2019. During this period, the prevention and control of Covid-19 measures or actions was updated nearly every day.

Secondly, the emergency measures for people's livelihood were timely. On February 5th, the Standing Committee of the State Council of China put forward clear requirements for ensuring the needs of key medical prevention and control materials and medical personnel, fully guaranteeing the supply of daily necessities and products such as "vegetable basket" and strengthening security of transportation. For example, local governments were encouraged to adopt methods such as deferring payment of social insurance premiums to promote the stability of enterprises' jobs. The key medical prevention and control materials produced over demand by enterprises were all purchased and stored by the government. There was the focus on ensuring the transportation of epidemic prevention and control materials and daily necessities in key areas.

Thirdly, the economic responsive policy was timely. The Committee also decided to introduce a new series of fiscal, taxation and financial policies to support supply guarantees on the basis of various measures that had been introduced in the early stage for epidemic prevention and control. These measures were implemented from January 1st of 2020. According to the deployment, in the early February of 2020, China's central and local governments intensively launched fiscal, monetary, financial, social security and employment policy instruments in order to respond to the downward pressure of the economy.

5.2 Economic policy highly focused on dealing with structural issues

The core principle for every economy during the epidemic should be prioritize life-saving and enhance economic resilience. China's economic policies follow this principle very well by focusing on dealing with two structural issues. One is to ensuring the supply of epidemic prevention materials and daily necessities, the other is to place special emphasis on supporting industries, companies and people badly affected by the epidemic.

Within two months of the outbreak of the epidemic, not only Wuhan was in need of more doctors and medicines, but it was also very difficult for other parts of the country to buy medical masks and disinfection alcohol. All pharmacies were out of stock. In some places, the supply of daily necessities was out of stock due to traffic interruptions. If there was a serious shortage of epidemic prevention materials and daily necessities, the social panic caused by the epidemic would be catastrophic. Fortunately, the Chinese government and market entities acted in a timely manner. On the one hand, the government encouraged enterprises to resume work and production through policies such as tax and fee reductions, deferring debt service and interest payments, and helping migrant workers return to work, as well as implementing green channel management for the transportation of key materials to ensure market supply. On the other hand, enterprises also took

the initiatives to adjust the product structure according to changes in market demand. For example, some fabric and garment processing factories have transformed their production conditions and started producing medical masks. The production of masks and disinfectants increased on a large scale, and the supply of daily necessities quickly returned to pre-epidemic levels. As a result, market tensions calmed down soon.

In the course of any crisis, not all industries, companies and individuals suffer. Some industries, companies and individuals would get new opportunities instead. Large enterprises and high-income earners are more capable of overcoming difficulties than small and micro enterprises and low-income individuals. Under the impact of the epidemic, there were obvious signs of K-shaped development. Online platforms, Internet companies, computer professionals and food delivery gained more customers due to the shift of offline consumption pattern to an online one. However, the operation of theaters, tourism, offline catering and shopping malls were in difficulties. Therefore, China's policies focus on strengthening the basic living security of needy groups, including taking those who were in difficulties owing to the epidemic and illnesses into the scope of assistance; focusing on promoting tax cuts and fee reductions, reducing financing costs and office rents, increasing the ability to survive and develop of the industry and small and medium enterprises that were seriously affected by the epidemic; promoting the coordinated resumption of production and production of the industrial chain so as to maintain stability and competitiveness.

Box 5.1 How could CDHT realize 100 per cent return to work by the end of February 2020?

Located in Chengdu of Sichuan Province, Chengdu Hi-tech Industrial Development Zone (CDHT) is one of the first national high-tech zones in China. CDHT was one of the first areas fully resumed work and production at the end of February 2020. In the first half of 2020, the industrial added value of CDHT reached RMB 119.14 billion, with a year-on-year growth of 7 per cent . Responding to the COVID-19 shock, not only did CDHT earnestly implemented policies required and provided by central and local government, but also made efforts in the following three aspects.

Firstly, after the outbreak of the epidemic, CDHT immediately reduced or exempted the rents of small and medium-sized enterprises in the park, and provided social investment projects with a resumption subsidy of up to RMB 200 thousand, reducing the burden of enterprises to resume work and production and promoting the steady growth of investment.

Secondly, CDHT allocated special funds to support innovative enterprises to carry out scientific and technological research in four areas, including prevention, testing, treatment and Internet medical treatment. Till June of 2020, a total of RMB 5.47 million was awarded to 22 enterprises and 3 medical institutions, and the supported projects made positive progress in the short term. In March of 2020, HC Scientific Technology Co., Ltd. successfully developed the world's first high-throughput Covid-19 nucleic acid detector, which could screen more than 20,000 samples per day. In April of 2020, Maccura Biotechnology developed the first Covid-19 test kit in Southwest China, which was authorized by the US FDA for emergency use.

Thirdly, CDHT provided precise support for promoting an explosive growth of new business such as online games, telecommuting and online education and so on. In the first half of 2020, the revenue of the Internet and related services, software and information technology service companies in the CDHT increased by 23.8 per cent .

Source: Authors' survey.

6. Conclusion

Covid-19 is a global challenge. To a large extent, a country's performance is closely linked to its fiscal and monetary policy space, industrial capacity and structural resilience of the economy, as well as governance capacity, which are critical for the country to deploy its economic stimulus program. Judging from the results of 2020, China's performance is excellent. This is in line with China's efforts and dedication. However, the global test results depend on the depth and efficiency of international cooperation in epidemic prevention and control.

Responding to Covid-19 shock, China always maintained cooperation with other countries in the world. Starting from January 3rd of 2020, relevant Chinese authorities timely and actively reported the epidemic information to the World Health Organization (WHO) and other countries and regional organizations at regular intervals. From January 11th, China reported the epidemic information to WHO and other organizations on a daily basis. The official website of WHO also issued a statement stating that China had already shared the results of genome sequencing, enabling more countries to diagnose patients quickly. At the end of March of 2021, Phase III clinical trials conducted by China National Pharmaceutical Group Co., Ltd (SINOPHARM) covered 125 countries, and the population for putting into the market and emergency use covered more than 190 countries; SINOPHARM's Covid-19 inactivated vaccine was available in 50 countries and regions across the world.²⁷

Apart from preventing and controlling the epidemic, resolving debt crises in developing countries, and helping them improve their policy space and economic resilience also required international cooperation to be strengthened further. Early before the outbreak of the Covid-19 epidemic, nearly half of low-income economies were in debt distress or faced high debt risks (WB, 2020). The Covid-19 epidemic caused severe damage to the natural resource export industries and tourism industries that some developing countries were highly relied on. All these resulted in very limited fiscal policy space that developing economies could adopt. In 2020, the scale of fiscal measures in developed economies reached an average of 24 per cent of their GDP, while it was 6 per cent for emerging economies, and even less than 2 per cent for low-income economies (IMF, 2021). In this regard, UNCTAD put forward many new suggestions in the *Trade and Development Report 2020*, such as increasing the lending capacity of Multilateral Development Banks (MDB), expanding SDR allocation and improving the balance of payments in developing countries. These recommendations are valuable and worthy of being further studied. Countries need to strengthen communication and form consensus on those issues as soon as possible and putting them into actions in order to achieve the United Nations 2030 Sustainable Development Goals.

²⁷ National Health Commission of the People's Republic of China,
<http://www.nhc.gov.cn/xcs/yqfkd/202103/b8e12b9385b44813af117faad928b7d3.shtml>

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