DOI: 10.54254/2753-7048/27/20231153

Impact of COVID-19 on the Economies of China and the United States

Xuan Li[1,a,*]

[1]*The Faculty of Art and Social Sciences, the University of Sydney, Sydney, 2006, Australia*
a. shena0312@163.com
**corresponding author*

Abstract: Against the background of the global economy facing anti-globalization, the new crown epidemic and geopolitical tensions, the economies of China and the United States continue to diverge. One of the bulkiest reasons is the differences in the economic fundamentals of the two countries, which make the two countries face different economic challenges. In this context, China-US relations are facing the double impact of the spread of the epidemic and the severe damage of economy caused by the epidemic, showing a deteriorating trend. This article studies the impacts of COVID-19 on the economies of China and the United States, and also the relations' changes between these two regions, which has a certain practical importance for the study of public emergencies in the world. Based on the analysis of 21 existing papers, the article finds that the COVID-19 epidemic has had a weighty impact on global economic development and cooperation, especially on China and America, such as rates, macro policies, and trades, China and the United States still demand to continue to explore ways of economic coexistence.

Keywords: COVID-19 epidemic, economies, China, the United States, China-US relations

1. Introduction

The economic relationship between China and US is extremely delicate. The U.S. strategy of comprehensively controlling China in terms of politics, military, economy, and science and technology has been formed and started to implement. This strategy isn't going to change anytime soon depending on who takes the stage, and the trade war is only a small part of executing the strategy. In China-US relations, both countries have to surface reality, deposit their fantasies, take pains and plan for the worst. Proper preparation for the structural shake-up of the industrial chain will further create brand-new opportunities and threats to Chinese and American enterprises [1].

The sudden and rapid spread of the COVID-19 in early 2020 has had a huge brunt on the lives of all souls. As a result, the international economy has experienced a sharp collapse, which may even surpass the Great Depression that occurred in the 1930s. The present stress on the international economy will extend. Judging from the historical occurrence of human progress, the painful valuation paid by humans in preceding crises is precisely the worth of "scaling up" after the crisis, the so-called crisis opportunity [1]. The general has reignited the Trump administration's reliance on China to lessen its dependence on China, and reinvigorated efforts to relocate production of pharmaceuticals and medical supplies, but these measures have does more than disrupt global supply chains and create more jobs. likely to create. Automation will accelerate as businesses will

DOI: 10.54254/2753-7048/27/20231153

need to cover rising labor prices. The "separation" assisted by Trump commit see an increase in the share of manufacturing done in mechanical industries. In the course of time, what is called "desinization" has limited effectiveness [2]. According to the principle of long haul provisional advantage, a highly profitable and stable manufacturing corporation has been composed by China. The character of "Made in China" in the global economic chain cannot be easily replaced [3]. This article attempts to explore the impact of COVID-19 on the world's 1st and 2nd largest economies, as well as the ensuing economic globalization and its impact.

This article studies the impact of the COVID-19 epidemic on the Chinese and American economies, which has practical policy research significance. This article follows the logic of the Prisma guideline, using keywords such as "COVID-19" and "China-US economy" on Google Scholar, searching for articles from 2010 to the present, and analyzing 20 articles through screening, and studying the sudden impact of events on international relations provides practical significance for realistic policy practice.

2. Literature Review

The economies of China and the United States are showing a clear trend of differentiation, including both policy choices during the COVID-19 epidemic and feedback after policy implementation [3]. From a structural point of view, the main sector that increases leverage in China is the government, while the United States still adheres to the policy tone of free competition after the outbreak, and the leverage ratios of the government, residents, and enterprises have both increased and decreased. The different directions of inflation pressure in the two countries lead to differences in monetary policies. The United States faces certain inflationary pressures, while China's core CPI hovers at a low level from the first months of 2023, which is lower than the pre-epidemic level. This divergence has led to divergent monetary policies in the two countries, with the Fed raising interest rates and China's loose monetary policy. The trend of macro leverage ratios between China and the United States has also diverged significantly after the epidemic. The non-financial leverage ratio of the United States has continued to decline, and economic policy flexibility is relatively high, while China's non-financial leverage ratio has increased [4]. It bears a large economic cost and is the main body of increasing leverage. The surge of the COVID-19 has further highlighted the contradiction in China-US relations, increasing the risks of Sino-US agricultural trade and manufacturing trade to some extent, limiting the progress of cooperation. advertisement. service industry and other adverse effects [5]. However, trade between the US and China is integral to the development of both countries.

3. Impacts

3.1. Differences in Inflation Between the US and China

In April 2023, the U.S. announced a year-on-year CPI growth rate of 4.9%, continuing the downward trend in the past ten months, and inflationary pressures have begun to gradually ease. However, since the core CPI year-on-year has been at a high level of 5.5% for five consecutive months, inflationary pressures still exist. China's CPI in April, which was announced almost on the same day, was 0.1% year-on-year, which was at a low level. If energy and food are put aside and the core CPI trends of the two countries are observed, a more obvious differentiation can be found. Before the outbreak of the COVID-19 epidemic, the trends of the two were closely related. After the outbreak, the chain trend value of core CPI in the United States has risen to a high level of 0.5%, and it is significantly higher than the central level before the epidemic. central level [5].

China and the United States are the two largest economic entities in the world. One of them is still suffering from high inflation, while the other is already facing the risk of low inflation. One

DOI: 10.54254/2753-7048/27/20231153

central level has risen sharply, and the other central level has decreased significantly, and the resulting monetary policies have been different. Since 2022, the Federal Reserve has raised interest rates ten times, and the cumulative rate of interest rate hikes has reached more than 500BP [6]. In 2022, China will cut interest rates 2-3 times, of which MLF will cut interest rates twice, accumulating 20BP, and 5-year LPR will cut interest rates three times, accumulating 35BP [7]. But until now, the inflationary pressure in the United States has not been relieved, and the inflation in China is still falling.

As a result, the current economic differentiation between China and the United States is primarily for the sake of the large difference in the consumption behavior of residents of the two countries. American residents are consuming their savings, while Chinese residents are increasing their savings. U.S. residents are willing to spend their savings because their income growth is stable and their confidence is strong. The three-year COVID-19 has had a momentous impact on China's residents' balance sheets, which have been severely damaged, the leverage ratio remains high, and the decline in income growth has caused residents to start defensive savings [8].

3.2. Differences in Macro Leverage Ratio Between the US and China

When the epidemic broke out, the United States and China joined hands to fight the epidemic. In order to recover the economy from the impact of the epidemic as soon as possible, both countries have implemented active macro policies. The most notable is that the macro-leverage ratios of the two countries have increased significantly, and they have remained almost the same. Until the second half of 2021, the macro leverage ratios of the two countries started to diverge [9]. The non-financial leverage ratio of the United States continues to decline, while China's continue to rise.

From a structural point of view, the main sector that increases leverage in China is the government. Opposed to the scenery of the global COVID-19 pandemic, China's "people first" policy has required the government to bear a substantial economic cost [10]. At the same time, high leverage has had an inhibitory effect on the private sector. Before the outbreak of the epidemic, China had already begun to implement the deleveraging policy. Therefore, in the past three years, the leverage ratio of Chinese residents and enterprises has remained stable, and the pressure to stabilize growth has concentrated on the government sector. In the United States, both before and after the outbreak, the policy tone of "free competition" has been adhered to, and the leverage ratios of the government, residents, and enterprises have risen together [11]. The disadvantage of the U.S. policy is that it sacrifices the interests of a large number of U.S. residents, while the advantage is more flexible, and the leverage ratio has declined steadily during the economic recovery period, without causing too much negative impact on the economy. It can be seen from the high-frequency indicators from 1995 to 2018 that this economic differentiation is still continuing.

In the process of stabilizing the economy and deleveraging, China and the United States have different manifestations, which are also reflected in the banking system. As the Fed continues to raise interest rates starting in 2022, asset-liability management for commercial banks, especially regional banks, has been severely challenged [12]. Thus, the United States conducted acquisitions and mergers of banks with poor management. Similar regional bank incidents will also occur in China in 2022 [9]. With regard to resolve the risks of local small and medium-sized banks, the executive meeting of the State Council of China decided to allow local governments to issue special bonds, and through qualified capital replenishment tools, to provide reasonable support so that small and medium banks can replenish their capital and strengthen their real economic capacity and risk resistance [13].

DOI: 10.54254/2753-7048/27/20231153

3.3. Increasing Trade Friction Between China and the US

Since the official establishment of trade relations between the United States and China, their improvement has been fraught with friction. The continued rise of China has intensified the recurrence of US-China trade frictions. As the trade friction between China and the US continues to escalate, commerce between China and the U.S. has been hit hard. However, the sudden spread of COVID-19 has further soured China-US relations.

The outbreak has severely impacted the Chinese and US economies. China took the lead in controlling the epidemic in just two months, while the U.S. government's negative attitude towards the COVID-19 and ineffective measures to combat the epidemic have caused irreparable damage to the domestic economy [13]. The epidemic has brought a turning point to the trade relationship between China and the United States. Under the continuous consultations between China and the United States on the trade between the two countries, the two sides finally reached an agreement on the main issues and made staged progress. The two sides jointly signed the "The China-U.S. Phase One Economic and Trade Agreement" stipulates that China needs to purchase 200 billion U.S. dollars in U.S. goods in the next two years. Affected by the epidemic, China's 2020 agreement to increase imports became difficult. Therefore, the "force majeure" treaty in the terms of the agreement has become more controversial. In accordance with statistics released by the General Administration of Customs of China at the end of 2020, the total trade volume between China and the United States reached $586.72 billion, a surge of 8.3 percent from the previous year [14].

Although the COVID-19 pandemic and the China-US trade war have affected bilateral trade relations, China stands one of the bulkiest trading partners of the United States, and the United States is China's third largest trading partner [9]. There is huge potential and complementarity in the growth of trade between the two countries, but the epidemic has also brought adverse effects on trade cooperation between China and the United States in agriculture, manufacturing, and service industries [12].

4. Suggestions

From the standpoint of China, toward deal with the subsequent influence of China-US trade friction and the COVID-19 epidemic, the following suggestions are put forward.

Faced with the complex and severe situation where the United States continues to increase taxes on China's import and export commodities and the impact of the epidemic on the international supply chain, China can use the "Belt and Road Initiative" to expand the import and export market of domestic aquatic products and agricultural products. At the same time, continue to promote consumption in the domestic aquatic product market ability. Form a new development pattern of domestic and foreign double cycles with domestic cycles as the main body [10]. Adhere to the strategy of promoting import and export diversification, reduce the dependence on the current major import and export markets, open up a broader market space, and avoid the risks brought about by the centralized import of key products.

In the field of manufacturing, it is necessary to accelerate and encourage enterprises to resume work and production, increase investment in mid and advanced manufacturing technologies and reduce the risk of supply chain disruptions [3]. Under the situation that the United States continues to suppress Chinese manufacturing companies, if Chinese manufacturing companies do not want to stay in a passive state, it is obvious that they can only achieve further development through independent innovation and technological progress, gradually master the core technology of high-end manufacturing, and improve their own capabilities.

In the process of developing service industry trade between China and the United States, it is essential for both sides to attain an agreement on crucial affairs in the field of commerce in services between the two countries, further expand the scope of bilateral service industries, and resume China-US service industry trade cooperation as soon as possible, such as finance, insurance, and cloud services, etc. Expand the business scope of foreign capital without affecting national information security, increase the service industry trade quota, and reduce the service industry trade deficit. At the same time, increase the trade cooperation between the two sides in medical and health services. Taking this opportunity to expand logistics and transportation collaboration between the United States and China, we can not only assure the efficient transportation of infectious materials, but also speedily restore logistics business before the outbreak of the epidemic [2].

5. Conclusions

The US government initially ignored and downplayed the epidemic, and promoted economic reopening early in the later period, weakening the efficacy of epidemic avoidance and management and increasing uncertainty in the economic outlook. In the course of time, the remarkable rescue measures could aggravate the structural contradiction of the real recession and the financial structure, rise the risk of public debt and reduce the hidden for economic expansion in the medium and long term. It is undeniable that the structural policy has to some extent relieved the pressure on corporate and household cash flow and reduced the extreme risk of massive household and corporate bankruptcy due to technological failures. The most prominent problem of this policy is that the policy focus of the US government is rescuing the market rather than saving people.

Against the background of the global economy facing anti-globalization, the COVID-19 epidemic and geopolitical tensions, the economies of the United States and China maintain to diverge. The reasons for this differentiation trend come from many aspects, including the different policy choices of the two countries during the epidemic, the effect feedback after the policy is implemented, and the differences in the economic fundamentals of the two countries, which make the two countries face different economic challenges. The unforeseen explosion of the epidemic has made the contradiction between China and the United States more visible, which has increased the risks of China-US agricultural trade, manufacturing trade, and trade cooperation in service industries, but trade between the US and China is integral to the development of both countries. The impact of the COVID-19 pandemic on the domestic economy of China and the United States and the economic relationship between China and the United States should be considered objectively, and finding the optimal solution to deal with the relationships from different angles.

References

[1] *Boylan, B. M., McBeath, J., & Wang, B. (2021). US–China relations: Nationalism, the trade war, and COVID-19. Fudan Journal of the Humanities and Social Sciences, 14, 23-40.*

[2] *Wang, Z., & Sun, Z. (2021). From globalization to regionalization: The United States, China, and the post-Covid-19 world economic order. Journal of Chinese Political Science, 26, 69-87.*

[3] *Dow Jones Institutional News. (2020, July 3). With a Few Covid-19 Adjustments, Chinese Factory Gets Back to Work. http://search.proquest.com/docview/2419788928/.*

[4] *Barua, S. (2021). Understanding coronanomics: The economic implications of the COVID-19 pandemic. The Journal of Developing Areas, 55(3), 435-450.*

[5] *Ozili, P. K., & Arun, T. (2023). Spillover of COVID-19: impact on the Global Economy. In Managing inflation and supply chain disruptions in the global economy (pp. 41-61). IGI Global.*

[6] *Ali, H., Aysan, A. F., & Yousef, T. (2023). From Tech Hub to Banking Failure: Exploring the Implications of CBDCs on the Destiny of Silicon Valley Bank. Available at SSRN 4411360.*

[7] *Liu, J., Liu, M., & Liang, W. (2022). Persevere in the dynamic COVID-Zero strategy in China to gain a precious time window for the future. China CDC Weekly, 4(18), 393.*

[8] *Cope, A. L., & Chestnutt, I. G. (2023). The implications of a cost-of-living crisis for oral health and dental care. British Dental Journal, 234(7), 501-504.*

DOI: 10.54254/2753-7048/27/20231153

[9] Ma, C., Guo, P., & Zhang, Z. (2022). Structural Deleveraging: Evidence from China. China & World Economy, 30(6), 137-162.

[10] Tian, W. (2021). How China managed the COVID-19 pandemic. Asian Economic Papers, 20(1), 75-101.

[11] Jaworsky, B. N., & Qiaoan, R. (2021). The politics of blaming: The narrative battle between China and the US over COVID-19. Journal of Chinese Political Science, 26, 295-315.

[12] Furman, J. (2021). What the Federal Reserve Should Do Now: An Elaboration. Peterson Institute for International Economics.

[13] Bown, C. P. (2021). The US–China trade war and Phase One agreement. Journal of Policy Modeling, 43(4), 805-843.

[14] Zeng, S., Li, F., & Zhong, Z. (2022). Research on Influencing Factors of the Leverage Ratio of Non-financial Enterprises in the GBA. Journal of Applied Finance & Banking, 12(1), 141-168.