

Introduction to the Special Section:

The Impact of Covid-19 and Post-pandemic Recovery: China and the World Economy

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Abstract

It is indisputable that the Covid-19 pandemic has shaken the world economy and indeed panglobal society in many dimensions. In this Introduction to our Special Section, we examine the dynamics involved, particularly in relation to China and the world economy, and the response policies utilised for post-pandemic recovery based on detailed and critical comments and summaries of the excellent papers collected in this volume. We highlight the impact of the pandemic on global supply chains with a particular focus on China's trade, foreign direct investment, digitalisation and innovation, its cooperation with its major trade partners, as well as the economic outlook of the Chinese economy against the backlock of the pandemic and US-China tensions. How other countries responded to the pandemic is also brought in so as to understand China's response in a broad context and the role of culture and institutions in the process.

Keywords: Covid-19 Pandemic; Trade; Foreign Direct Investment; Digital Technology; Innovation; Cooperation; Economic Recovery; China

1. Introduction

The Covid-19 pandemic is a global crisis with profound impact for all aspects of the economy and society, some of which are irreversible. The shock of the pandemic has resulted in a unique global recession which is the deepest in eight decades (World Bank, 2020). The International Monetary Fund forecasts a 4.4% contraction in global GDP in 2020 (IMF, 2020) and the World Trade Organization forecasts a 9.2% decline of world trade volume (WTO, 2020). UNCTAD estimates foreign direct investment (FDI) flows to decrease by 30-40% in 2020-2021 (UNCTAD, 2020). The lockdowns and social distancing restrictive measures also resulted in the shutdown of some businesses, reduced working hours and mass job losses in many countries. Although economic and labour market indicators showed improvement from May 2020 when some restrictions were lifted, most of the affected countries, except for China, have not returned to normal (IMF, 2020). Governments in these countries, at different levels, are still seeking effective measures to control further spread of the disease and to restore their economy.

What is the impact of the Covid-19 pandemic on the global and the Chinese economy? In particular, as the pandemic and the countermeasures have cut off the mobility of people and goods and broken the global supply chain and the production systems, what is the impact of the pandemic on China's international trade, inward and outward FDI, and its economic relationship with its major partners? Given the anti-globalisation wave and the trade conflicts that have already taken place, will the global value chain be re-structured, and if so, in what ways and at what speed? What are the response strategies of China for economic recovery, and how effective are they? Will China become an engine of the world economic recovery again as happened in the 2008 global financial crisis? Given China's important role in the global economy as the 2nd largest economy by GDP and as a significant player in the global production system as the world's manufacturing plant, these are important questions that have far-reaching implications for the rest of the world.

In this special section of the *Journal of Chinese Economic and Business Studies*, we focus on the impact of Covid-19 and post-pandemic recovery in China and the world economy. The selection of ten short perspective articles, contributed by a group of prestige scholars, cover different angles and touch on various aspects of the impacts of this pandemic on the world

economy and China, China's response and recovery strategy, as well as the outlook for the economic recovery.

2. The Impact of the Covid-19 Pandemic on Trade, FDI and Global Value Chains

At the beginning of the outbreak, the surges of demand for medical equipment and drugs and the shortages in supplies, exacerbated by increased trade restrictions, disruptions to labour and transport, raised concerns of the fragility of the current global value chain (GVC) model which greatly relies on interdependencies between leading firms and suppliers located across the globe. Moreover, given the impact of the rising protectionism and the anti-globalisation wave as well as the rapid development of the 4th Industrial Revolution which makes the re-shoring of some of the production activities back to the industrialised countries economically feasible, there are also increasing questions about the direction and speed of change of the GVCs.

Jovorcik (2020) in this special section argues that the geographic reshaping of global supply chains will take place, but it will not happen fast. She points out the pandemic led to calls for increasing resilience and diversifications of suppliers, such as the "China +1" sourcing model. However, the reshaping of GVCs depends on the type of chains. For producer-driven GVCs that are centred on a few global oligopolies producing advanced products, the re-structuring of GVCs in the near future is unlikely before the recovery of global FDI flows. However, for buyer-driven GVCs where larger retailers and branded marketers and manufacturers play the pivotal roles, Chinese suppliers to Europe and the US may be respectively replaced by Eastern European and Mexican suppliers, and this trend will be reinforced by the US-China trade war and EU's climate policy. Discovering new suppliers from a location previously not used is a more complicated process and also usually is led by large multinationals, indicating the importance of FDI flows in shaping future GVCs. Given that global FDI flows remain subdued, reshaping of GVCs will be a matter of years. This paper provides policy implications for promoting investment, and more importantly, to the top leaders of China about future challenges in participating in the buyer-driven GVCs and the shifting of its industrial strategies.

The Impact on China's Trade and FDI

Following the outbreak of Covid-19 in Wuhan, Hubei Province, China was the first country to adopt nationwide restrictive measures in late January, and this resulted in an enormous shock

to its production and exports. Two months later, Covid-19 became a global pandemic and more than 3.9 billion people, about half of the world population, in 90 countries and territories were under lockdowns (Euronews, 2020). The spread of the disease and responding countermeasures further suppress global production, consumption and investment, which in turn further hit both supply and demand sides of China's international trade and cross-border capital flows. *Duan, Zhu and Lai (2020)* take a deep dive into the impact on China's trade and outward FDI. They find that China experienced a dramatic decline in exports and imports, as well as outward FDI, in the first quarter of 2020. From the second quarter, when restrictive measures were eased in many countries, China's trade and outward FDI indicators show improvement and achieve a positive growth rate in the third quarter. Therefore, the impact of the pandemic on trade and FDI is short and limited. Furthermore, they analyse the differences of the impact on trade across regions, sectors and trade partners, and those on outward FDI across capital sources, sectors and destinations. Trade and FDI with countries along the Belt and Road remained relatively strong. They propose a number of countermeasures to promote China's trade and outward FDI in the post-pandemic era, related to risk mitigation, innovation, opening up, e-commerce and development of logistics systems.

3. China's Responses to the Pandemic and Strategies for Post-pandemic Recovery

After a dramatic shrinking of the economy by 6.8% in the first quarter of 2020, China's economy returns to strong growth in the second quarter (3.2%) and a continuous recovery in the third quarter (4.9%) (National Bureau of Statistics of China, 2020). China has been the first major economy to recover from the pandemic, and its V-shaped recovery provides an encouraging outlook of post-pandemic recovery for the rest of the world. This special section contains a set of papers that analyse and evaluate China's responses to the pandemic from different viewpoints with related proposals for post-pandemic recovery strategies.

Accelerated innovation and digital transformation

The restrictive measures have revolutionised the traditional ways of working and doing business and pushed transition and innovation in several sectors, particularly through using digital technology. A report suggests that the pandemic has accelerated digitalisation at both organisational and industry levels all over the world (McKinsey & Company, 2020). The leap in Asia has been the greatest, equivalent to a ten-year increase in the average rate of adoption

from 2017-19. Across sectors, although the level of digitalisation is relatively low in consumer packaged goods, automotive and assembly, there has been a jump in providing digital products in healthcare, pharma, financial services and professional services.

In line with the global trend of digitalisation, Jiang (2020) observes that the use of digital technology has been boosted during the pandemic in China. New opportunities are fostered, including new technologies, new demand and new consumption habits. Digital technologies have been widely used in pandemic prevention and control and other areas, such as online education, food and beverage delivery, co-working, and e-commerce. She identifies that the future digital economy in China contains “5G related industry” and “Industry + 5G”. In the mid-and long-term, digital technology will serve as a technological foundation for the Industrial Internet of Things and Consumer Internet, and the integrated development of manufacturing industries and services. New technologies will also promote further demand for growth and innovation. She calls for proper policy support for the development of the digital economy, with an opening for more application scenarios but with better supervision and technology governance.

Ba and Bai (2020) also agree that Covid-19 is an accelerator of China’s digital economy with a special focus on its impact in the financial sector. They find innovation in digital technology to support inclusive finance and supply chain finance has ensured companies would quickly resume their production and become the key to a rapid economic recovery. They highlight the importance of further reform and opening up of the financial sector in the post-pandemic era. Given the potential automation and re-shoring trends reinforced by the pandemic, China is expected to place less reliance on export-oriented development strategy (or external circulation) but more focus on boosting domestic demand (or domestic circulation), i.e. the so-called dual-circulation development strategy. Ba and Bai (2020) argue that Covid-19 has accelerated such economic transition, through, for example, enhancing domestic industrial chains and more investment in innovation.

International economic and innovation collaboration

Science, technology and innovation play a vital role in achieving development goals, but international collaboration will enhance the effectiveness and maximise the outcome of innovation efforts. Sun (2020) focuses on the science and technology collaboration between

China and the UK to solve some common challenges in people's livelihood shared by the two countries, such as resource and environmental problems, aging and health, and public safety and disaster prevention. He points out that there are collaboration opportunities in areas such as artificial intelligence technology and gene technology, as well as developing governance guidelines in promoting and supervising the development in these technologies. China and the UK have established platforms of collaboration and achieved fruitful results. Looking forward, he calls for deepening cooperation in basic research and experiments, more extensive exchange and interactions between university, research agencies and enterprise, setting up flagship projects, and further enhancing the capabilities of key cooperation platforms and mechanisms.

The Covid-19 pandemic is the context that will shape the ongoing competition and collaboration between major political and economic powers in the world. Given that the tensions between the US and China have been intensified since the outbreak of the pandemic, the EU has become a vital cooperative partner for China to address important issues and challenges, like the rise of protectionism, and deglobalisation which would be essential for the recovery and growth of its economy. Wang and Li (2020) reviewed the negotiation of the Comprehensive Agreement on Investment (CAI) between the EU and China and assessed its potential impact in the post-pandemic era. The CAI, convened over 34 rounds since 2014, is destined to become one of the major pillars of EU-China economic relations and the most important agreement between the EU and China ever. Once the EU-China CAI is signed, economic cooperation and bilateral investment between the two parties would reach historic heights in the post-pandemic era. To some considerable extent, the authors believe that it could be seen to be more important to global economic recovery than the Regional Comprehensive Economic Partnership (RCEP), which aims to lower tariffs and reduce non-tariff barriers for a common Asian market. The further elimination of investment and trade barriers between China and Europe should lead to the steady recovery and growth of the global economy in a formerly unseen narrative.

Regional economic recovery

In addition to the measures taken by central government, actions and policies taken by local government also play a critical role to ensure an effective economic recovery. Zhang (2020) pays close attention to the recovery of the early epicentre, Hubei Province. He points out that a series of countermeasures was strictly adopted in Hubei from late January 2020, including

immediate lockdown, early diagnosis, tracking and tracing, and treatment, so that the spread of the disease was effectively controlled within a few months. However, Hubei's economy and social life had been affected in an all-round way. He considers that Hubei then carried out a package of countermeasures to resume work and production, which gave priorities to ensuring employment, livelihood and food and energy security, supporting enterprises, stabilising industrial production chains, and providing public services. He concludes that an obvious V-shaped recovery has been observed in Hubei but there are new challenges ahead to return its economy to the pre-outbreak trajectory. Zhang's article provides lessons of responding to a similar public health crisis in the future and useful implications for the virus containment and economic recovery in other epicentres in the world. He concludes that effective coercive measures that control the spread of the epidemic are inevitably at the expense of economic activities, however, such negative impact is short term and the economy can achieve rapid recovery with precise policies.

China's growth prospect after the pandemic

Having discussed the impact of the Covid-19 pandemic on China and the world economy and China's responses to the pandemic in terms of internal and external policy, Lin (2020) in this special issue provides a provocative yet insightful discussion about China's growth outlook. The paper holds an optimistic outlook for China's growth in the next decade, even though China is facing the backdrop of the Covid-19 pandemic and the US-China tensions. He finds that the pandemic slowed down China's economic growth but its swift and effective response has brought a V-shaped rebound, so that by 2021, China will achieve its first centenary goal of doubling its 2010 GDP and per capita income. He also argues that the accusations and restrictions by US government against China is a pretext to contain China. The trade deficit of the US is driven by comparative advantages in international trade and is a result of its over-consumption and low domestic savings. The technology transfer of US multinational firms in China has been a voluntary choice of these firms to maximise their profits, rather than an option forced by the Chinese government. Therefore, he suggests that China should stay calm and pursue forward-looking policies to continue its reform and opening up, capture latecomer advantage, maintain stable growth to confront natural and geopolitical challenges. He predicts that by the middle of this century or earlier, China will overtake the US to be the largest economy if it maintains certain levels of growth and then China and the US should live in peace for common development.

4. Causes and Effects of Different Reactions between China and Other Countries

Looking back at the year 2020, many countries adopted containment measures, whereas there have been differences in their speed of reactions, the degree of the restrictions, the stringency of the regulations, and hence the effectiveness of the measures. Under its centralised epidemic response system, the speed of response, strict lockdown, mask-wearing, contact tracing, and isolation using Fangcang hospitals (mobile field hospitals) are all crucial factors for China's success in controlling Covid-19 (Burki, 2020; Kok and Woo, 2020). However, many other countries, even though they had a longer time to prepare and better public health services, failed to respond in time and lost control of the spread. Besides the differences in the health system and epidemic curve, what are the other factors that affect the cross-country differences in reactions?

In this special section, Kok and Woo (2020) review national responses to Covid-19 and find most countries adjusted their methods of management in light of experiences at home and abroad. Compared to China that adopted effective measures and achieved positive GDP growth, Sweden attempted to attain herd immunity in the community and this resulted in high death rates and more economic loss. Then, Sweden changed its management with strict social distancing measures put in place in November 2020. Kok and Woo (2020) consider the US as an exception under the presidency of Donald Trump, who refuses to promote mask-wearing and social distancing. They also point out that Trump's team is against the strengthening of multiculturalism in the US society and has national security anxiety about the inevitability of a multipolar world order. They predict that under President Biden, both US public health policy and economic policy will cease to be outliers from the best international practices.

Hou, Main and Liu (2020) explain the causes of cross-country differences from a historical aspect. They argue that historical pandemics shape the culture and institutions and hence affect public health management. Some stringent approaches to combat Covid-19 exist at the expense of social capital (trust) and institutions (checks against government power), which can hold back long-term development. They suggest that witchcraft and antisemitism in history associated with the Black Death have an adverse effect on today's social capital and economic development. Their paper shows that institutions and culture have larger explanatory power than health system quality on cross-country differences in infection rates.

5. Conclusions

Taken together, the papers collected in this special section provide an extensive assessment of the impact of Covid-19 and post-pandemic recovery strategies of the world economy with a focus on China. These papers suggest that with the rising protectionism and anti-globalisation wave that already existed before the pandemic, this global public health crisis will reinforce the re-structuring of GVCs, but the geographical reallocation may not be swift. Chinese suppliers are more likely to be replaced by other suppliers in the US and EU markets in buyer-driven production chains. On the other hand, we should not under-estimate China's increasing efforts in innovation and enhancing the stickiness of some of the GVCs to China's production system and the large Chinese market. Although the pandemic hit the world economy and China significantly, its impact on China's GDP, trade and FDI is short term, mainly due to the swift and effective responses by the national and regional governments. China has observed a V-shaped recovery in all areas of the economy with appropriate national and local stimulus policies, and its economic outlook in the next decade is optimistic. Digitalisation has been accelerated during the pandemic, which has both significant short- and long-term impact on China's economic growth and sustainable digital transformation. Science, technology and innovation have played an important role in pandemic control and in resuming production, business, work and social life, and will contribute to further growth in the post-pandemic era, and their effects would be maximised through international collaboration in innovation and investment. China's response and recovery provide useful lessons for some countries. We shall, however, notice that due to differences in culture and institutions between countries, China's experiences may not be replicated in others countries.

Based on the above findings, a set of future research questions also emerge from this set of papers, for example:

- What will be the characteristics of the re-structuring of international production, including geographical relocation, automation and digitalisation, diversity, and heterogeneity between different types of supply chains; and how will China and other developing countries cope with such changes?
- What is the impact of Covid-19 on international collaboration in innovation? Will the pandemic accelerate and strengthen collaboration in the international innovation system,

or will the trade tensions between China and the US and economic nationalism result in a division in the international innovation system; and how will the GVCs and international innovation systems interact with each other during their evolutions?

- With the reshaping of the GVC, more in-depth analyses are needed on the impact of Covid-19 on global trade, FDI inflows and outflows; China's outward FDI, particularly in countries along the Belt and Road and African countries, and the transmission mechanism of Chinese FDI in these countries on post-pandemic recovery.
- How will China's post-pandemic policy related to dual-circulations, opening up, deep market reforms impact on the relationship with the US, UK and EU in the post-Covid-19 pandemic era?
- Are the changes caused by the pandemic reversible? What are the permanent and irreversible changes and hence how shall countries, regions and firms respond to them?

The *Journal of Chinese Economic and Business Studies* looks forward to receiving submissions of papers on these topics in the future.

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