

The impact of Covid-19 to Chinese Industrial Good Export: Solidifying Its Position in The Global Market

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Abstract:

The first Covid-19 virus seen in Wuhan in the last months of 2019 has been a harbinger of the start of disruptions in world trade. China wanted to buy back the surgical masks it exported to the world at higher prices, and restricted the exports of health equipment. In the first months of 2020, it additionally stopped production in industry and stopped production lines in order to combat the virus. Despite all these disruptions and the cessation of industrial production, the Chinese economy grew by 2.1% in 2020, while all countries in the world shrank economically. In this study based on literature review, the effects of Covid-19 on Chinese industrial product exports were examined. In this context, the research article aims to investigate how it achieved economic growth based on exports during the pandemic. According to the result, while all the world economies shrank during the pandemic period, the Chinese economy has successfully passed the biggest economic recession test since 1929 by producing and exporting products. By this result, the high demand of other countries for Chinese industrial products and the strong support of the Chinese government to this demand become the key to success.

Keywords: Macroeconomy, International Trade, Export, Economic Growth

JEL Codes: O40, B27

INTRODUCTION

China is an East Asian country with 3000 years of written history and a tradition of sustainable civilization. Thanks to thousands of years of civilization writing, it has survived to the present day without deterioration and has preserved its cultural existence by melting the modern way of life into traditional Chinese civilization (Boltz, 1986: 422). This country, which has continuously expanded its borders over a period of 3000 years, continues its existence today as the People's Republic of China (PRC), which was established in 1949. China's coming to an important place in world politics with the economic development program it has implemented along with the continuation of an ancient civilization of thousands of years has made it a country worth studying academically. The theses that China will continue to talk about himself in the near future and may even pose a threat to the hegemony of the USA make it important for China to be recognized in all aspects and to be read correctly.

In December 2019, the city of Wuhan in China was recorded as the first country and city where the disease caused by the virus called Covid-19 first appeared and the first quarantine application started and restrictions were strictly applied (WHO 2020). The virus was declared a pandemic by the World Health Organization (WHO) on February 11, 2020. Unlike the examples of similar pandemics, the dimensions of the impact of COVID-19 in terms of rapid spread and mass human losses, as well as the dimensions of the damage caused in all areas from transportation to communication, from economy to politics, from individual rights and freedoms to public services are gradually emerging. The COVID-19 outbreak has also caused many associated economic upheavals around the world, having far-reaching and severe impacts on financial markets, including the equity, bond and commodity (including crude oil and gold) markets. It has adversely affected many countries and caused economic and social deterioration. Unemployment figures have increased regardless of the country, and the health systems of countries have begun to give great alarms. This global crisis has required countries to act together to cope with the virus.

Many airlines have stopped their activities. British Airways, Lufthansa, Delta Airlines and Air Canada suspended their flights to China for various reasons. Turkish Airlines gradually reduced its international flights and then domestic flights. After a while, Airlines announced that they had stopped their activities completely. In most of the world's cities, planned travel has been reduced by 80-90%. The service sector has also been adversely affected by Covid-19. Restaurants, cafes, cinemas, theaters, museums were closed and their work was suspended. Many important factories around the world have stopped or suspended production. Three major car manufacturers in the USA have stopped all production. Many companies, including Renault

Group, Fiat, Maserati, Audi and Ferrari, suspended production at their factories in Italy, Spain, France, Serbia, Slovakia and Poland. Volkswagen stopped production at its factories for two weeks. New vehicle sales in the US decreased (expectation) 40% in 2020 (US Census, 2019). Shopping centers around the world have taken action due to the Covid-19 outbreak by reducing their working hours or temporarily closing them. Starbucks has closed more than half of its branches in China. Ikea has decided to close its stores in China.

Covid-19, which emerged with the pandemic and affected China economically at first, caused the world economy to shrink, but its impact on the Chinese economy was limited. As of 2021, this new type of virus, which has affected the economies and social life of the world countries first and foremost, has also affected China as the source of the virus. However, it is seen that China which is the center of the disease, did not experience a huge loss when compared with other countries, with the economic and foreign trade data of 2021 announced in the previous months.

The main point of the study is to investigate how China can reduce the impact of the pandemic. Although it has been proven in the reports of the World Health Organization that China is the source of the disease, how China has gained from this process while it has such a negative impact on countries and especially on the world economy. How could the foreign trade of the Chinese state give a surplus while other countries had foreign trade deficit?

AN OVERVIEW OF CHINA AND ITS ECONOMIC STRUCTURE

In the period before the industrial revolution, China has a very important place before both the countries of the region and the countries such as Europe, with its developed production capability and quality. So much so that even the cities and ports through which the trade routes used to transport these goods to the west and to Europe at the far end have been revived. According to estimated figures, China alone realized 23.1% of world GDP in 1700 and 32.4% in 1820. However, in the following years, China's share in world production started to decrease rapidly. The share of China in world GDP decreased to 13.2% in 1890, to 5.2% in 1952 and to 5% in 1978, the lowest level (World Bank, 1992).

With the economic development program initiated in 1979, the Chinese economy gradually developed, and with this economic development, China began to be mentioned politically as a regional and global actor. China's foreign trade regime serves the purpose of realizing socialist industrialization. Accordingly, export revenues were used to finance imports, and for this reason, foreign trade was constantly kept under control with "Foreign Trade Institutions". China's international trade has increased rapidly since the economy opened up in

1979. This process started relatively slowly after the relaxation of comprehensive and intensive import and export controls in the 1980s, but accelerated in the 1990s with more extensive trade reforms that included significant tariff reductions. Along with exports, imports have also increased continuously and China's share in world trade increased even more in the 2000s. China, which increased its place in world trade with America in 2019, is the second country with the largest share in the world economy with 16.2% after America. Today, China is the country with the highest gross domestic product after the USA with 15.38 trillion dollars.

China Rebound

Government's target is for a return to pre-pandemic trend growth

Annual GDP growth Government target (lower bound) Economists' forecast

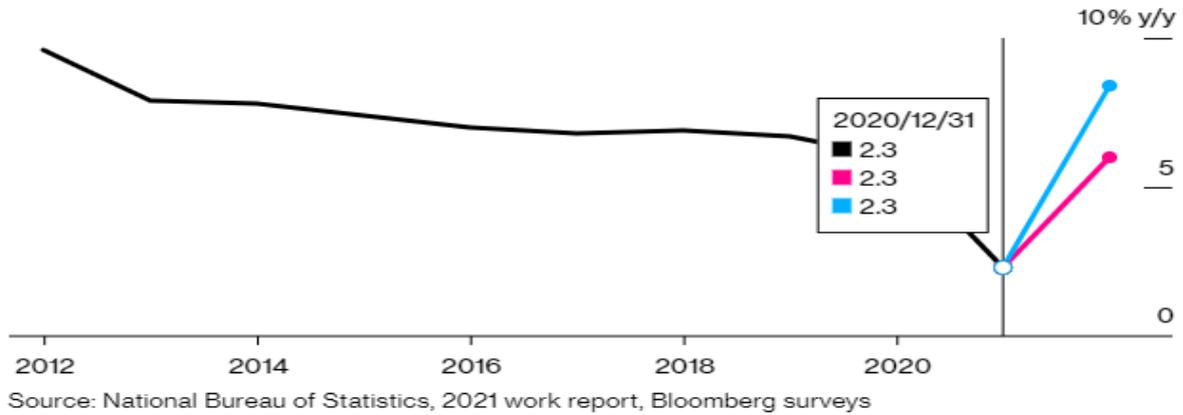


Figure 1: GDP Growth of China for 2020

At the same time, studies show that China is the world's most populous country with a population of nearly 1.6 billion today. While the People's Republic of China is currently ranked first as the world's largest exporter country, it ranks second after the USA as an importer. With this feature of China, its integration into the world economy, which has been increasing continuously in recent years and especially its membership to the World Trade Organization (WTO) in 2001, has naturally increased its weight in world trade.

The process of all these positive developments brought many gains for China. Although these gains were interrupted a little by the COVID-19 epidemic that hit the whole world, the Chinese economy was able to gather quickly. However, China's industrial production from January to February 2020 recorded the steepest decline in the last 30 years due to COVID-19 and the negative impact of the measures taken to prevent the spread of the virus. Industrial production decreased by 13.5% in the January-February period compared to the same period of the previous year. In December 2019, production increased by 6.9%. Industrial production decreased by 1.1% in March compared to the same period of the previous year. In the April 2020 period, industrial production increased by 3.9% compared to the same period of the

previous year. Retail sales decreased by 20.5% in the January-February period, when the epidemic was felt most clearly. Retail sales in China, according to the China National Statistics Office (CNBS) data, It decreased by 7.5% in April compared to the same period of the last year. In February 2020, the urban unemployment rate increased from 5.2% in December 2019 to 6.2%. In March 2020, the rate decreased to 5.9%. In April 2020, the unemployment rate increased to 6%. The rapid increase in China's exports has led to a continuous surplus in the foreign trade balance for the last 15 years, and as a result - with foreign direct investments in the country, foreign exchange reserves have significantly increased. As of July 2020, China's foreign exchange reserve has reached \$ 3.15 trillion (China Central Bank, 2020). China, which turned a significant portion of these reserves into US government bonds, has recently become one of the most important financiers of the US budget deficit.

CHINA AND EXPORT OF GOOD

In particular, the endless threats and hostile attitudes of the United States and Australia, as well as the global supply chain, which was interrupted by COVID-19, could not prevent the rapid progress of China's exports. Efforts to repair the Chinese supply chain caused the country's exports to grow by 3.6% in dollar terms in 2020, proving it to be a power tower from China's region and beyond in the world. Researchers reveal that the growth in exports is better than expected despite all the negativities experienced throughout the year, and that China's economic growth continues to increase in 2020, as well as in the published data. Despite the negativities experienced in 2020, it is thought that production and exports in the first quarter of 2021 may increase further due to the increase in demand that may be experienced with the spring months, and parallel to this, the need for workforce may increase.

Despite all these threats and obstacles, it has been observed that China's commodity composition in foreign trade has changed significantly, especially in terms of exports, compared to previous periods. In 2000, 5.4% of total foreign trade was unprocessed products export and 47.2% was processed products export. This situation started to take a different situation in the following years. When we arrived in 2019, the most exported products of the People's Republic of China were electrical machinery and devices within the scope of 85, machinery in chapter 84, boilers and nuclear reactors, furniture under chapter 94, lighting devices, illuminated panels and prefabricated structures, within the scope of chapter 39 plastic and items from them. As of December 2020, this product perspective changed slightly due to the impact of the pandemic, but the first three chapters remained the same. High and new technology products are seen more in the next chapter.

Considering the foreign trade data of China during this period, exports in March 2020 decreased by 6.8% compared to March 2019 and amounted to 185.2 billion dollars. Exports in March 2019 were worth \$ 198.7 billion. The country's March imports decreased by 1.1% compared to March 2019 and amounted to \$ 165.2 billion. China's level was 167 billion dollars in March 2019 (WTO, 2020). China's foreign trade in March 2020 decreased by 4% compared to March 2019 and amounted to 350.4 billion dollars. The data in question was realized as 365.7 billion dollars in March 2019. The exports of the country in terms of US dollars increased by 18.1 percent compared to the previous year and reached 281.93 billion dollars. According to the data announced in January 2021, exports for the whole of 2020 increased by 3.6 percent to 2.59 trillion dollars (GACC, 2021).

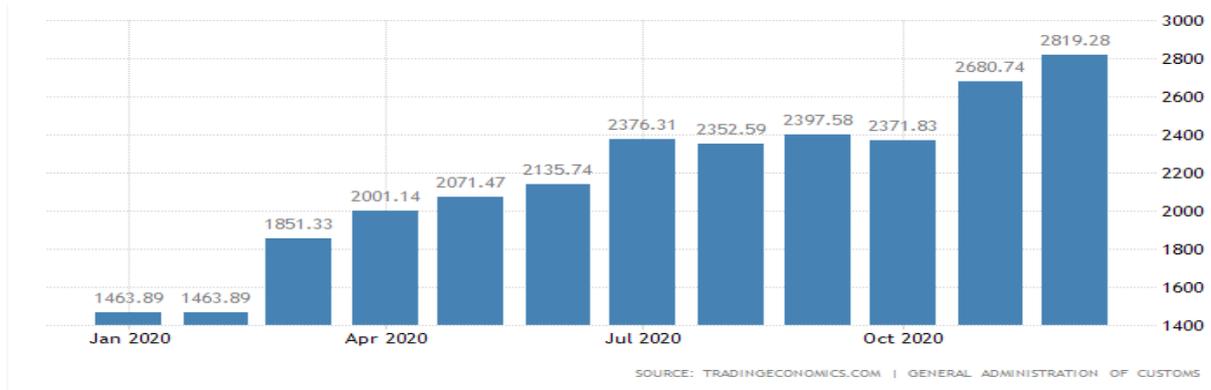


Figure 2: Export Value of China for 2021 (Trillion Dollar)

In December, imports increased by 6.5 percent to 203.75 billion dollars and the whole year figure decreased by 1.1 percent to 2.06 trillion dollars. China became the only country economy that achieved growth in positive commodity trade in 2020. China's total foreign trade volume increased by 1.9% with US \$ 4.653 trillion in 2020.

Table A: China's Foreign Trade in 2020 (Trillion Yuan)

Months	Export	Foreign Trade	Change in %
Jan-Feb	2,04	4,12	-9,6%
March	1,29	2,44	-0,8%
April	1,4	2,49	-0,7%
May	1,49	2,44	-4,9%
June	1,51	2,69	5,1%
July	1,68	2,92	6,5%
August	1,65	2,88	6,0%
September	1,66	3,06	10,0%
October	1,61	2,83	4,6%
November	1,8	3,09	7,8%
December	1,86	3,2	5,9%

Source: China Customs 2021

ECONOMIC PREVENTING OF WORLD COUNTRIES

The epidemic, spreading rapidly on a global scale, adversely affected the economies of the country. Countries have had to take various measures in order to minimize the effects of their economies and society from this epidemic. The Japanese Government has announced a massive aid package worth about \$ 1 trillion to help the country through one of its most difficult times in recent times. The UK Government has committed to pay 80% of workers' wages for several months to prevent companies from being fired. It also provided reimbursement to self-employed workers for lost wages, deferred tax payments, increased unemployment benefits, established a loan program for small and medium-sized companies, and provided donations to charities.

Historic actions of the Federal Reserve (FED) included measures such as reducing interest rates to zero, bank reserve requirements to zero, purchasing hundreds of billions of dollars in treasury bills and mortgage-backed securities, purchasing corporate and municipal debt, and urgent loans to non-bank loans. In order to minimize the impact of the US economy from this epidemic, a \$ 1.9 trillion stimulus package was announced (Nicholson, 2021). It also disclosed direct payments up to \$ 1200 to individuals, hundreds of billions of dollars in loans and grants to businesses, an increase in unemployment benefits, and support for hospitals and healthcare providers. The International Monetary Fund (IMF) has allocated \$ 100 billion to lend to member countries facing financial crises due to COVID-19, with a preference for developing economies (IMF,2020). In early April, more than ninety countries made bailout requests. The World Bank has spent more than \$ 150 billion on the bank against the effects of the epidemic. More than two dozen loan requests related to the virus were quickly evaluated.

The European Union has created a € 500 billion package to provide emergency lending and other assistance to member countries, businesses and workers. The European Central Bank (ECB) has stated this year that it will purchase up to € 750 billion in additional bonds to assist its members during the crisis. Germany, one of the largest economies in the euro area, announced a support fund of € 350 billion. This fund was created to provide unlimited loans to businesses struggling with COVID-19. In addition, this fund has ensured that the share buyers that can be used by public institutions to buy the shares of strategically important public companies and companies affected by the epidemic, preventing harmful and malicious share buyers and ensuring that the importance of protecting the local identity of strategically important companies. Turkey Government has announced 100 billion TL package (Can, 2020). Within the scope of this package, the tax liabilities, social security premiums and loan debts of employers in the service sector most affected by the crisis are deferred. In addition, the Credit

Guarantee Fund limit was increased, making it easier for companies that could not get loans due to collateral problems to access bank loans. In addition, providing temporary income support to employees in workplaces that have interrupted production with short-time work allowance, transferring a resource of 2 billion TL to families in need, facilitating loan conditions in housing purchases, increasing the minimum pension to 1,500 TL.

ECONOMIC PREVENTING OF CHINESE GOVERNMENT

The Bank of China has taken relatively modest measures, reducing the reserve requirements for banks. It plans to lend close to \$ 180 billion to businesses affected by the COVID-19 epidemic, and this loan amount corresponds to 9.3% of China's national income. In addition, the Chinese Central Bank cut interest rates by 10 basis points. In addition, unexpectedly, Chinese government cut the reverse repo rate by 20 basis points, making the reverse repo rate cut the biggest cut in the last 5-10 years. It has supported companies with key protection initiatives for epidemic prevention and control to give priority loans to businesses under the management system. For businesses that received credit support from the People's Bank of China, the Ministry of Finance provided financial interest reduction support. The Chinese government exempted small and medium-sized enterprises (SMEs) from donation insurance, unemployment insurance and industrial injury insurance until June 2020. At the same time, all needy people can apply before the end of June to delay payment of the business housing fund. During this time, it also decided not to introduce delayed treatment for contingency fund loans that employees could not normally repay due to the impact of the epidemic.

Tax reduction measures implemented by banks for corporate customers, retail customers, SMEs and insurance companies are among the measures taken. A wide variety of industries such as medical services, catering services, accommodation, public transport, delivery services are also exempt from VAT. VAT incentives have also been introduced for companies producing medical equipment used in conjunction with COVID-19. As a measure for employment, the finance ministry reduced social security payments by 1 trillion yuan to encourage companies to protect their employees. Payment of social security contributions has been delayed. Companies facing temporary difficulties due to the coronavirus epidemic in major cities of China and minimizing layoffs have been given the opportunity to reclaim their unemployment insurance premiums.

It is said that controlling the epidemic from the very beginning with these preventions taken by the state is one of the main reasons why China succeeded in this test. In addition, foreign trade figures, which have been showing a strong outlook for months in China's

economic growth, play an important role. However, perhaps the biggest success is their rapid adaptation to the change in demand that occurs with the epidemic. Max Zenglein Who is from the Berlin-based Merics China Institute stated that the strong export figures in China played an important role in the rapid adaptation of the Chinese economy to the changing demand situation in other countries. For example, significant shipments have been made for electronic and medical protection equipment required in home-office applications. Addressing this issue, the Bloomberg agency pointed out that the containment of the epidemic, monetary and financial incentives, increased exports with high demands for medical equipment and home-based devices from the world led to a rapid recovery of China in the V-shape. Similarly, Switzerland-based financial giant UBS Global Wealth Management Chief Economist Paul Donovan points out that foreign demand, in other words exports, is effective in China's economic recovery, not domestic demand. Chief Economist also states that while consumer consumption in Europe and the USA shifted from services to goods during the pandemic period, this situation benefits China, which stands out with its manufacturing industry.

CONCLUSION

The growth in trade was due to the effective prevention and control of the pandemic from the very beginning of the epidemic in China. With the global manufacturing industry stopping due to the corona virus, China's manufacturing industry took measures against the threats of the virus with a rapid maneuver, and with these measures, it came to the fore in the world trade. This situation, which caused global orders to return to China after the third quarter, resulted in an increase in China's economic growth and foreign trade. It is clear that China's exports have grown stronger than expected in 2020, due to the increasing demand for protective equipment and home products. Despite the pandemic, orders from the world caused a strong recovery in exports in the last two quarters of 2020 and compensated for this contraction for the rest of the year compared to the first quarter, when the economy contracted by 6.8 percent.

The economic damage caused by the epidemic has caught many decision makers unprepared. The method preferred by governments to combat the economic effects of the epidemic and the weight of the measures they have implemented differ from each other depending on their resources and budgets. However, China's policies and success against the pandemic show that; It is also important to overcome the negative effects of the pandemic, rather than trying to overcome this epidemic with conventional policies such as a financial crisis, to understand the current conditions created by the pandemic and to try to turn the deficiencies into opportunities.

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