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# World Economic Situation and China's New Development Pattern Against Background of COVID-19

**Summary:** The COVID pandemic has devastated the world economy, which has also caused serious slumps in Western developed countries. Although they have adopted “ultra-easy” monetary policy, the real economy did not emerge from recessions because of it and a global “liquidity bubble” was caused instead. The economic recession caused by the pandemic in developed countries may last for years. The governments of some countries in the United States and Europe have adopted strong state intervention methods to control the investment and trade behaviors of enterprises, then force them to „decouple” from China. Based on an objective analysis of the current international situation, China has actively taken countermeasures: on the one hand, it emphasizes mainly relying on the “domestic economic cycle” to maintain growth momentum. And on the other hand, it develops an “international economic cycle” that focus on China`s economy. Establishing a “dual circulation” new development pattern, in which domestic economic cycle plays a leading role while international economic cycle remains its extension and supplement, is a major strategic choice for achieving high-quality economic development.

**Keywords:** World economy; COVID pandemic; dual circulation; Belt and Road Initiative; new development pattern

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COVID-19 pandemic has severely impacted world economy. The US, EU and other developed economies have embraced “super-easing” monetary and financial policies, but unconventional economic policies like those cannot support a medium and long term recovery. Meanwhile, thanks to scientific and rigorous prevention and control, China succeeds in curbing the pandemic fast and resumes work and production soon to represent the major momentum for growth against the atmosphere of global recession caused by the pandemic. However, out of anxiety, jealousy or other complex, some western developed

countries continue to call for “decoupling” with China. Faced with this situation, China must clarify its own needs, adhere to its own international development strategy and avoid external disturbance.

## Reoriented Economic Policies of Western Economies Due to Covid-19

In front of the pandemic, neo-liberalism which was once a guideline for western countries' economic policies was questioned while state interventionism has quietly returned.

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52 | Firstly, western economy academic circle are departing from neo-liberalism and justifying state interventionism. Since the international financial crisis in 2008, voices in favor of state interventionism and industrial policies have been growing amongst western economy academic circle. Back to 1980s when neo-liberalism was on the rise, some western economists were criticizing the same industrial policies taken by emergent economies and even accredited them for developing countries' corruption and inefficiency of production. Ironically, in the international financial crisis of 2008, German economy performed quite well and maintained robust growth exactly because it relied on industrial policies which renewed its advantage in manufacturing.

Secondly, the US and European countries are manipulating laws to reinforce protectionism. On one hand, they exercise strict investigation upon foreign direct investments in the so called name of "national security"; on the other hand, they directly enact certain laws to prevent foreign enterprises from acquisition and merger of domestic companies which meet market norms. Western countries abuse legal means, especially the substantial increase in tariffs and other protectionist policies, which may cause global trade war between the blocs and finally lead to global economic depression.

Thirdly, they are putting government financial resources into supporting their enterprises. Although the US and European countries' financial incomes are insufficient to fund their enterprises facing drained liquidity and insolvency, debt monetization allows their central banks to buy government debt so that the latter have money to subsidize the enterprises. What's more, some European media even instigate nationalizing some enterprises to better protect certain industries in case the crucial industries fall into foreign hands.

## Developed Countries Used the Pandemic to Accelerate their "Decoupling" with China

Since the pandemic outbreak, China has been the first to resume work and production and has provided the international community including the US and European countries with a plenty of medical supplies on the basis of its first-stage success of pandemic prevention and control. However, some politicians of the US and European countries kept using the pandemic to stigmatize China and even groundlessly accuse China of using "mask diplomacy" to expand its geopolitical influence. Those right-wing politicians connect economic dependence on China with so-called "national security" to maintain and clamor for "decoupling" with China on economy as soon as possible. Meanwhile, the pandemic reminds the US and European countries of their dependence on China's medical equipment and medicine supplies. In order to lower the risk of supply disruption, related countries are continuously accelerating investment in domestic manufacturers, lessening the dependence on import from China.

As is shown by present international situation, the US has not only abandoned the principles of respecting market economy and protecting private property, but begins to uphold big government doctrines featured with state power intervention in market and bullying in international trade based on its dollar hegemony. Although the US and China have reached the first stage economic and trade agreement, the US government refuses to put aside the Cold War mentality and try to keep American enterprises and those rely on American technologies from exporting technologies to China

by long arm jurisdiction so as to suppress on China. Nevertheless, China and the US are still each other's most important partners of trade and investment, which means the so-called "New Cold War" waged by the US on China is impossible. In the process which the US stubbornly pushes forward "decoupling" with China, the opportunities for the US to acquire cheap industrial products are decreasing, the costs to establish new supply chain are rising, and the US economy is likely to be stagnant again.

As is pointed out by British magazine *The Economist*, due to the pandemic, flattened supply chain of global economy is evolving to regional integrated ones. Supply chains are forming in North America with Mexico as the manufacturing base, in Europe with East European countries as the manufacturing base, in East Asia with Southeast Asia China as the manufacturing base. In these circumstances, transnational corporations have to reconsider their investment strategies and supply chain arrangements. However, related enterprises can neither ignore Chinese industries' superiority in the global supply chain, nor give up mature Chinese market. It deserves notice that global transnational investment decreased by 40% in 2020, but foreign direct investment to China increased. Data show that China is still an attractive destination for investment in world market although some transnational corporations hope to resist risks by cutting investments to China.

## Constant Growing of China in Economic Globalization

China's opening and reform coincides with economic globalization led by western developed countries under neo-liberalism, which allows

China to participate in globalization quickly and tremendously improve the speed and quality of China's industrialization. It is safe to say that the opening of world economy and globalization have greatly promoted China's industrialization and growing exterior demands have supported China's constant economic growth.

However, the international financial crisis in 2008 led to a striking drop of exterior demands for China. But China turned to rely on its tremendous interior market to maintain economic growth. With relevant stimulus packages including domestic infrastructure investment and consumption market, China realized sustained economic development.

Economic globalization indeed largely boosted China's rapid development of industrialization, making it the economy with the most complete industrial categories in the world. According to statistics of the United Nations Conference on Trade and Development, China has become the only country that equipped with all industrial categories listed in the United Nations International Standard Industrial Classification (ISIC). During the pandemic, only China is able to timely provide the world with most needed medical supplies and daily necessities. In 2018, China's value of industrial output surpassed the sum of that of the US, Japan and Germany, undoubtedly becoming the greatest industrial good producer in the world. That's why western transnational corporation's withdrawal will not impede China's development, but make room and spare market for China's domestic enterprises. Besides, the perseverance, organization ability and resilience China has performed since the outbreak are unparalleled by any other country. So western transnational corporations did not leave China, but enlarged the scale of investment.

## “Dual Circulations” of China to Convoy Future Development

54 | Taking it into consideration that China’s traditional export market, the US and European countries are unlikely to control the pandemic and their economy will stay around low level, China needs to change its economic structure including export structure. In order to adjust to today’s international landscape, the Fifth Plenary Session of the 19th National Congress of the Communist Party of China has emphasized on accelerated construction of a new development paradigm with domestic circulation as the mainstay and domestic and international circulations reinforcing each other. For domestic circulation, on one hand, China needs to improve its low-income people’s skills and income to boost consumption within the domestic market; on the other hand, China needs to pay attention to self-reliant industrial ecology in case of adversity due to other countries’ containment. As is pointed out by President Xi Jinping, “The world is experiencing profound shifts unseen in a century, science and technology innovation being a crucial factor of it. To foster opportunities in the midst of crisis and shape a new situation among shifts, we must resort to science and technology innovation.”

To renew international circulation in the new situation is another important link for China’s future development. China not only needs to maintain the important position in global industrial chain, but also needs to climb to a higher position. In the new era, international circulation is about both how to efficiently “bring in” enterprises from developed countries like the US, European countries and Japan,

and how to facilitate Chinese enterprises “going out”. It should be noticed that the Belt and Road Initiative China put forward in 2013 was not only in order to cope with the problems of the slowed global economic growth caused by the international financial crisis, but a “come-in-hand” arrangement for anti-globalization. To some extent, China’s BRI and cooperation agreements with foreign governments represent China-style new-type globalization. Projects of BRI are those of centenary benefits and include high-level participation from both market and authority. As is shown by China’s experience in economic development, for most of the developing countries, a government is obligated to foster market for its country.

Today, China’s BRI has received active response from many countries and has become an important engine for global economic recovery after crisis. But a handful of politicians of the US and some other western countries try every means to offset China’s rising influence by selling African and Middle Asian countries on the possibility of funds and human resources investments, directly contesting with BRI constructions, or even by using propaganda machines to smear fruits of BRI constructions and instigate related countries’ people to sabotage BRI projects. During the pandemic, ASEAN became China’s biggest trade partner for the first time, China’s development mode of international circulation is bursting with vitality. With larger “circle of friends”, China’s industrial capacity can be fully released, which can not only improve China’s investment efficiency, but also enlarge market and facilitate more balanced world economic development.