

The United States and China's Different Responses to the Covid-19 pandemic and their impact on economic development

Leo Chang
lchang12po@hotmail.com
Portland, USA

Abstract

China and the United States have implemented two models to combat the Covid-19 pandemic, with the United States paying a higher price, especially in terms of the loss of human lives. These two models allow us to assess the way in which China and the United States responded to the crisis and its very different outcomes. The pandemic control models are diametrically opposed: China controls the pandemic and the U.S. vaccinates. That is, China prioritizes social prevention and control, and the United States emphasizes using science and technology to correct social disasters. Partially due to the different responses of the two countries, U.S. economy is probably to outgrow China's in the short term so it will take longer than expected for China's economy to overtake America's in size.

Keywords: United States; China; Responses; Covid-19; economic development

1. Introduction

In response to Covid-19 outbreak, China implements the policy of "early detection, early reporting, early isolation, and early treatment" and "centralized patients, experts, resources, and treatments" according to China's "Prevention and Control of Infectious Diseases Law" and "International Health Regulations". Comparing the measures of the United States and China, it is found that the nature of the response strategies is similar in that both countries start prevention and control from detection, isolation and treatment according to the characteristics of infectious diseases according to certain laws (Liu, Guo, Zhong, & Gui, 2021). Meanwhile, China uses a centralized treatment strategy for patients, while in the United States, each state decides how to accomplish the task of isolation and treatment. The differences in measures are subject to the national context. China's centralized system of government mobilization and organization allows the central government to lead all aspects of infectious disease prevention and control. The different powers of the U.S. government and state and county governments dictate that they take individual steps to respond. China imposed a province-wide, community-wide or unit building-wide closure and quarantine measures immediately after the outbreak emerged. In the United States, the denial of the pandemic by Trump and his followers led to irresponsible policies and behaviors that proved to be the direct cause of the ferocious pandemic.

The cumulative death toll of the Covid-19 pandemic in the U.S. in August 2021 exceeded approximately 600,000, while in China, it is around 5000 (Ross, 2021). China's containment and systematic tracking measures allowed the spread of the virus to be successfully stopped after only a few months. Wuhan reopened, social life resumed its rhythm, and the economy was set to grow at an average annual rate of 6%. This suggests that controlling the pandemic in the first place also benefits economic development. A key element of the Chinese model is the activities of the neighborhood committees. These Communist Party-driven bodies would be responsible for tracking cases and implementing containment measures. State policy, civic discipline, and community control extend to every household. Since Biden came into power, the United States has implemented its own model, declaring a state of emergency and unleashing the potential of science, technology, industry and organization to use vaccines rather than sequestration as a solution.

2. Differences in the US and China's responses to Covid-19 prevention and control

Since the beginning of the pandemic, China and the United States have had very different styles of fighting the pandemic, not only in terms of government initiatives, but also in terms of the attitudes of the public. Americans feel that China's top-to-bottom approach is unintelligible and shocking. This difference is attributed by public opinion to the political system. For example, the public in America, a democracy, disapprove China's policies or handling of Covid-19 are doctors, For example, Chinese doctors like Li Wenliang being convicted for his words, and the closure of Wuhan and the sacrifice of individual freedom for the collective goal of fighting the pandemic. And in the eyes of the Chinese, Americans' refusal to wear masks and vaccines in the name of freedom is also "freedom-induced" in a democracy. Within China and America, some public health measures have also been politicized. Recently Chinese doctor Zhang Wenhong's idea of living with the virus has been attacked by some Chinese as being under the spell of Western forces; in the United States, some have equated the attempt to promote masks with socialism.

This radically different style of fighting the pandemic in the United States and China is even more evident at the moment when schools are reopening in China and the US in September 2021. In many parts of the U.S., all students and teachers are back in school for the first time since the pandemic began with distance learning, and some states are “unfazed” and have even issued orders forbidding schools to require all students to wear masks, despite the fact that the average daily number of confirmed cases across the U.S. rose again to more than 160,000 in September 2021 as a result of the Delta strain. Some areas are showing signs of outbreaks just after the start of the school year, which health experts attribute to continued high levels of community transmission and a failure to implement basic precautions on school campuses.

In China, on the other hand, the national seven-day average of new Covid-19 cases for September 2021 is less than 50, with local cases now reached zero again, but there are still some places that are cautiously delaying the start of school and offering online classes. Areas where school has started as usual have also been strict in their pandemic prevention requirements, with the National Health Commission requiring primary and secondary school students who have traveled out of the country or to medium- and high-risk areas over the summer to provide negative nucleic acid test results within 48 hours before returning to school; in some areas, the requirements are even stricter, with some unified nucleic acid testing for the entire population and some requiring two consecutive tests, with long lines of students at some testing sites.

If at the beginning of the pandemic, the differences in countries’ strategies to fight the pandemic could be explained by their political systems. Nevertheless, as the pandemic continues, this ideological chasm has become increasingly blurred (Rong, 2021). The United Kingdom, a Western country, has lifted all restrictions, leaving its people free to bear the “price of freedom,” while Australia and New Zealand have adopted quarantine measures as strict as those in China. Even in the United States, there are measures in place to restrict the scope of movement of unvaccinated people through so-called “vaccine passports” and even mandatory vaccinations for specific groups of people, which previously seemed difficult to imagine in a “free country”. At the same time, in a country like China, which can easily use decrees to restrict the amount of time teenagers can spend playing online games, vaccination against Covid-19 has so far been voluntary, at least as stated government documents. At one point, the Changsha subway and other authorities were registering unvaccinated passengers, but the practice has been called off after causing a furor. Despite China’s phased success in fighting the pandemic with a zero-tolerance model, more and more people are beginning to lose patience with this practice as well.

China’s media are unanimously emphasizing the “advantages of the system,” but behind them are the cries for freedom from the individuals; the American news is full of bold declarations of individual freedom at anti-mask demonstrations, but behind them are the tearful accounts of the pain and helplessness of health care workers.

3. Stimulating Consumption and Stimulating Production - Different Responses to the Pandemic

It is interesting to review here the responses of countries, especially the macroeconomic responses. China’s economic stimulus policy was first and foremost in the production sector, while the U.S. policy was mainly a subsidy to consumption, according to Shen (2020), Ph.D. in economics from the University of Bonn, Germany, now teaching at the Business School of East China University of Science and Technology, Shanghai.

China, the first economy to suffer from the Covid-19 pandemic, had a severe decline in GDP in the first quarter of 2020, with real GDP, which had been growing for more than three decades, falling by 6.8%. But the drop was small compared to the later-rising United States. The U.S. GDP drop in the second quarter was 9.5%. Since then both of the world’s largest economies have launched stimulus policies and both economies have bottomed out. By the end of 2020, China’s economy is likely to be 70% larger (in terms of GDP) than the US. However, the economic policies of both economies have their own focus.

China’s economic stimulus is first in the production sector. Since March 2020, the resumption of work and production has been a top priority for governments around the world. For example, China’s Zhejiang Province launched a special train from Guiyang to Hangzhou to resume work. Whatever the flaws of these policies, they proved to be effective in stimulating the recovery of production. GDP growth turned from negative to positive in the second quarter, and gradually improved. The China Manufacturing Purchasing Managers’ Index, Non-Manufacturing Business Activity Index and Composite PMI Output Index in November were 52.1%, 56.4% and 55.7% respectively, with all three indices at yearly highs and above the threshold for nine consecutive months.

The Chinese government’s stimulation of consumption is relatively mild. In the second quarter 2020, many local governments had launched small-scale stimulus policies such as consumption vouchers, but none of them gave out direct cash subsidies on a large scale. Because the overall savings rate of the Chinese people is high, a drop in income

for a month or two does not affect people's ability to spend. As long as future income is expected to be positive (which is closely related to employment), then the government will increase consumption without giving out cash.

In contrast, the U.S. policy is mainly a subsidy for consumption, especially in cash. The most typical is the \$2.4 trillion CAREs bill passed in late March 2020, with key measures including a one-time benefit to residents, an additional \$600 per week in unemployment benefits, and expanded tax credits. Benefiting from massive federal transfers, disposable income for U.S. residents rose sharply from \$1.4 trillion in February to \$1.6 trillion in April. The massive direct subsidies drove a rapid rebound in U.S. retail sales, which bottomed out in April and returned to positive territory in June, and grew at a rate of 7.1% in September, even more than before the pandemic.

However, because the pandemic in the U.S. has not receded significantly, U.S. production has not recovered as much as consumption, which directly led to the spillover of U.S. consumer demand, manifested in data that U.S. imports to China accelerated significantly, and Chinese exports exceeded expectations in the third quarter, with exports to the U.S. being the main factor. For example, the growth rate of China's exports to the United States in July 2020 reached 12.6%, and the growth rate of China's exports to the United States in August and September was more than 20%.

The sustainability of the two short-term stimulus policies, as well as the medium- and long-term impact on economic growth, will be the focus of attention. After all, short-term stimulus tasks are easy to accomplish, especially on a cost-neutral basis. The two economies of China and the U.S. have shown before the pandemic that the U.S. consumes and China produces, a characteristic that has become an important target that the current U.S. administration has been trying to reverse. For example, one of the goals of the U.S.-China trade war was to reduce or even eliminate China's huge trade surplus with the United States. But due to the impact of the pandemic, the U.S. government has had to return to the old path of stimulating consumption, and the Chinese government has acted in such a way that the old pattern of placing extreme emphasis on production has further strengthened China's trade surplus with the United States.

The U.S. consumption stimulus has caused the U.S. fiscal deficit to exceed annual GDP for the first time ever under the pandemic shock, which will become an economic burden in the long run. This is an important cost of stimulating consumption that must not be ignored. The current global capital surplus, low interest rates, and many countries' treasury bonds are even issued at negative interest rates. Therefore, the U.S. government has also found that even though the balance of the national debt has skyrocketed, the burden of the national debt (in terms of the interest rate to be paid) has been reduced. Therefore, theoretically, with low and negative interest rates, increasing the national debt is a reasonable solution. But what about the long term? Is it possible to maintain a negative interest rate situation for a long time in the future? Once interest rates rise, then the current mountain of national debt may become the last straw that crushes the U.S. economy.

For China, the benefits of a stable production chain are slowly manifesting themselves. Thanks to the resumption of business activity, stable employment fundamentals and improved income expectations, domestic retail sales growth turned positive in August 2020, rebounded to 3.3% in September, up 2.8 percentage points from August, and grew 4.3% year-on-year in October, a further 1 percentage point faster than in September. In particular, the introduction of the double-cycle slogan reflects the current Chinese government's relentless pursuit of economic transformation. Even in the face of the pandemic shock, it did not restart the real estate market. And now that the pandemic shock has eased, the position of China's supply chain in the global market has further strengthened. In such a favorable situation, the emphasis on the double cycle, the attempt to create a situation where Chinese consumption leads production, and the efforts to relieve the pressure of technological bottlenecks in the production sector are important strategies with an eye on medium- to long-term economic growth. In this regard, the author is bullish on the growth potential of the Chinese economy in the medium to long term.

4. Economy growth

U.S. economy is probably to outgrow China's due to contrast in pandemic responses as a faster short-term U.S. expansion would delay the day when China's economy overtakes America's in size (Davis, 2021).

4.1 First quarter of 2021

In terms of the January-March 2021 gross domestic product (GDP), Economic recovery has accelerated in China and the United States, according to Bank of Japan (2021). This reflects the strengths and weaknesses of the two countries' Covid-19 outbreak responses.

Comparing the economic growth rates of the major countries and regions from January to March 2021, it is found that the difference in the response to the Covid-19 pandemic has led to a significant difference in economic growth rates. The U.S. grew at an annualized rate of 6.4% YoY, achieving growth for the third consecutive quarter. Personal consumption increased significantly by 10.7% due to the widespread vaccination and the activation of cash handouts as

part of the Biden regime's economic countermeasures. The economic recovery is expected to continue in the future due to the push-up effect of fiscal stimulus, etc.

China's GDP grew 0.6% YoY from January to March. According to the Japanese Cabinet Office, this translates into a 2.4% annualized growth rate on a chain basis. This is the fourth consecutive quarter of growth. Business activity remained firm while containing the spread of the Covid-19 outbreak.

On the other hand, the Eurozone's annualized growth rate decreased by 2.5%, with negative growth for the second consecutive quarter. Due to the spread of the mutated virus, European countries initiated city closures, resulting in low economic activity.

4.2 Second quarter of 2021

The U.S. and China are swapping places in the race for economic growth right now, according to The Wall Street Journal (2021). U.S. gross domestic product grew 12.2 percent in the second quarter of 2021, outpacing China's 7.9 percent increase. Economists believe the U.S. will continue to maintain this advantage over the next few quarters, marking the first time since 1990 that the U.S. has outpaced China in terms of economic growth. The report also noted that the U.S. growth rate outpaced China's, reflecting the difference in the two countries' response to the Covid-19 outbreak.

U.S. gross domestic product (GDP) grew 12.2 percent in the second quarter of 2021 from a year earlier, outpacing China's 7.9 percent increase. The Wall Street Journal said China quickly adopted mandatory quarantine measures after last year's outbreak, which quickly allowed the domestic economy to recover, while the U.S. did not implement such practices and its economy was hit hard. But the U.S. increased fiscal stimulus and near-zero interest rate policy, making the U.S. economy into the fast lane of growth, eventually overtaking China. In the short term, the reversal reflects differences in the two countries' responses to the Covid-19 outbreak. China had an earlier outbreak, and Chinese leadership quickly took quarantine measures in Wuhan, the epicenter of the outbreak, and elsewhere. China's GDP contracted 6.7% year-over-year in the first quarter of 2020, while U.S. GDP was growing modestly at the time.

China's assertiveness drove a domestic economic recovery that initially outpaced the subsequent pandemic-hit U.S. economy, which was largely spared mandatory quarantine measures. While the U.S. economy took longer to "right the ship" than China, the U.S. invested far more resources than China to drive the recovery. Vaccinations, combined with massive fiscal stimulus and near-zero interest rates, put the U.S. economy on a fast track to economic growth that outpaced China's. The different responses of the two countries to the Covid-19 Delta variant could once again have a significant impact on their respective growth prospects.

With the help of government aid, U.S. households have accumulated what Moody's Analytics (2021) calls \$2.6 trillion in excess household savings - a scale of savings that was beyond imagination before the outbreak. That size is almost seven times larger than China's. According to international ratings firm Moody's, the U.S. GDP growth rate will outpace China's for five consecutive quarters starting in the second quarter of 2021. Capital Economics and Oxford Economics also predict a similar trend, although they see a duration of three quarters. That is a year-over-year comparison, as China does not release seasonally adjusted, quarter-over-quarter adult-rate growth data; the U.S. economy grew at a 6.5% quarter-over-quarter adult-rate in the second quarter. Economists' expectations for quarter-over-quarter growth in China vary widely, but again, they suggest that U.S. growth will now outpace that of China. Based on the current situation, China's growth rate being overtaken by the U.S. is temporary, and China will eventually become the world's largest economy.

With a population four times that of the United States and decades of Chinese policy encouraging growth through savings and investment, it makes sense for China to be ahead of the United States. Economist Angus Maddison estimates that by 1870, China's large population made it the world's largest economy, though it was quickly overtaken by industrialized nations with far higher productivity per capita. The recent economic growth reversal has delayed China's achievement of the largest economy to some extent. According to economists, the Chinese government also faces a number of major problems that could push back the date for making the leap even further, including a crackdown on the private sector, a sharp increase in government debt and an aging population.

The size of China's labor force (ages 15 to 59) peaked in 2014 and has been shrinking ever since, including a 0.5% decline in 2020, slowing China's GDP growth to about 2% by 2030, according to Capitol Macro's forecast. This is roughly the same as the long-term expected growth rate for the United States. The U.S. also has many long-term challenges to economic growth, including a sharply polarized political system, rising health care costs and slow productivity growth. But the GDP race provides only one way to look at relative economic strength. As a measure of national output, GDP is not an accurate measure of strength. It is wealth that does. "It is the wealth of the country that matters, not the output of the country," According to IMF estimates, the GDP gap between China and the United States

narrowed by \$2 trillion between 2011 and 2021. But the U.S. wealth lead increased by \$13.5 trillion over the same period, according to estimates by Credit Suisse (2021). China's wealth is growing faster than the U.S. overall, but not fast enough to close the gap in dollar terms.

4. Conclusion

U.S. GDP grew at an annualized 6.5% YoY in the second quarter of 2020, already significantly below the 9.2% projected by some economists. In contrast, China's economy enters the second half of the year facing more uncertainty and downward pressure, but various endogenous dynamics remain strong. Fiscal policy remains active and prudent, with a very low deficit rate, and monetary policy remains generally conventional, with no major flooding. As a result, the subsequent growth force of China's economy is far stronger than that of the US, and it is estimated that there is a high probability of an annual growth rate of 5% or higher during the 14th Five-Year Plan period. Even a "reversal" in China's growth would be a minor fluctuation on China's path to eventually becoming the world's largest economy, although it may take longer than expected. This is actually a cross-sectional illusion. Because a single quarterly non-co-cyclical comparison does not indicate a "reversal". What the U.S. needs to do is put more effort into controlling the pandemic and fiscal and financial risks to ensure sustainable economic growth.

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