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# The Worrying Global Economic Bubble in the Post-Pandemic Era

With Reference to the Public Management Reform Measures in the UK and the US

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## Abstract

As two high-income economies with long-term stability and the largest gap between the rich and the poor, Britain and the United States have a more mature market mechanism, legal structure, supervision departments, intermediary organizations and high-quality civil servants; at the same time, they also have similar problems such as bloated institutions, centralized rights, bureaucratic style and low efficiency. In the face of the current new pandemic, both countries have been exposed to the problem of public budgets in the short term and the inability to balance the public interests in the long term. Therefore, based on the New Public Management (NPM) theory, this paper draws on the responses of the United Kingdom and the United States during the NPM period, and explores the patterns of these responses to provide some insights into the potential economic risks in the post-pandemic era.

Keywords: New Public Management Theory, Britain, USA, post-pandemic era, Covid-19

## 1. Introduction

At the end of the 1970s, around the globe, economic stagflation began to emerge, and social issues concerning unemployment, public safety, environmental pollution and social security were increasingly exposed. To address the ‘government failure’, the Thatcher cabinet in the UK and the Reagan administration in the US pioneered a new model of public management for the public sector different from the limited government doctrine and the use of the market. The model, regarded as a large-scale movement of government reform on a global scale, spread to some developed countries and eventually to many developing countries and countries in transition (Nemec, 2010). In a sense, the American administrative system originated from Britain, and its reform is a microcosm of historical development (Peters, 2018a). As two high-income economies with long-term stability and the largest gap between the rich and the poor, Britain and the United States have a more mature market mechanism, legal structure, supervision departments, intermediary organizations and high-quality civil servants; at the same time, they also have similar problems such as bloated institutions, centralized rights, bureaucratic style and low efficiency (Keeler, 1993). In the face of the current new pandemic, both countries have been exposed to the problem of public budgets in the short term and the inability to balance the public interests in the long term (Mazzucato and Kattel, 2020). Therefore, based on the New Public Management (NPM) theory, this paper draws on the responses of the United Kingdom and the United States during the NPM period, and explores the patterns of these responses to provide some insights into the potential economic risks in the post-pandemic era.

## 2. Comparative Case Study of the United Kingdom and the United States

### 2.1 The NPM reform period – an administrative reform model (1970s~1990s)

In the process of industrialization and urbanization, traditional public management emphasized political-administrative dichotomy (Audette-Chapdelaine, 2016). In terms of politics, traditional public management relied on the democratic procedures of the legislative mechanism to gather and express citizens’ will; in terms of administration, it relies on the traditional bureaucratic management apparatus to achieve state and democratic will (Guo, 2019). And the government’s emphasis on efficiency and effectiveness in its management process has, at the same time, greatly increased the size of the government (Jr, 2001). On the one hand, economic instability has reduced government revenues and, as the middle class has become the mainstay of society, it is no longer feasible to rely on taxation to solve the fiscal crisis (Drucker, 1994). On the other hand, social security spending has risen sharply and the government is in financial difficulty as it cannot make ends meet (Roubini and Sachs, 1989). Meanwhile, the ever-expanding size of the government has made its inefficiency and bureaucratic shortcomings evident, the image of the government is constantly damaged, and the public has lost confidence in the government (Khan, 2016). Consequently, the government suffered a financial crisis with increased government functions and responsibilities, and subsequently a crisis of governance and trust (Christensen and Lægread, 2007). To

overcome those crises, Britain took the lead in launching the NPM reform. In 1979, the British Thatcher government came to power and took measures to marketize the UK government; during the 17 years when the Conservative Party was in power, the new government examined the success and failures of the previous government and consolidated the reform achievements, brought forth new ideas, constantly debugged the policies, and steadily pushed forward the reform, as shown in Table 1 (Holliday, 2002). Until the end of the 20th century, Blair's government, which represented the interests of the Labor Party, came into power, and then the marketization of public management took another big step forward (Kelly, 2007). The United States, though following the course of British administrative reform, acted slightly slower than Britain (Gualmini, 2008). The country adopted the radical reform, which has the following features: using managerialism as the theoretical guidance, being market-oriented, streamlining government, reducing government employees, relaxing regulation, reflecting the competition mechanism, implementing performance management and reshaping the image of the government, as shown in Table. 2 (Pollitt and Summa, 1997). In terms of the content of the reform, although both Britain and the United States chose to introduce marketization and adjust the relationship between the government and the market, enterprises and society, the British government (led by the Prime Minister and the Cabinet) mainly promoted the top-down self-reform, while the United States implemented a bottom-up reform that started from the local government and then continued to the federal government (Caperchione, de Mirag and Grossi, 2017; Massey, 2019). From the perspective of the reform process, under the influence of the traditional Weber bureaucracy, Britain as a unitary country emphasized reconstructing the functional relationship between governments and improving the efficiency of government affairs (Connolly and Zwet, 2020). The United States, as a country with the separation of powers (the Checks and Balances system), focused on deregulation so that excessive regulation within government would not undermine government performance (Aberbach, 2001). From the perspective of the effectiveness of the reform, Britain mainly optimized the government functions and organizational structure, improved administrative efficiency, the quality of civil servants and the relationship between the central and local governments. Meanwhile, there are still phenomena such as fragmented institutions and unbalanced performance (Lapuente and Walle, 2020). However, the reform in the United States mainly reformed the rules and regulations and did not achieve outstanding results in simplifying government functions, and the final performance results were obviously inferior to those in the United Kingdom (Bryson and Edwards, 2017).

Table. 1 Reform in the UK during the NPM period <sup>1</sup>

Period	Implementation reasons	Measures	Implementation effectiveness
<b>Premiership of Margaret Thatcher (1979s ~ 1990s)</b>			
<b>Rayner's Efficiency Scrutiny Program (1979)</b> <sup>2</sup>	To adopt a solution-oriented approach to investigate, study, review and evaluate administrative reforms in government departments so as to improve administrative efficiency and reduce administrative costs.	Sir Rayner was appointed as the prime minister's efficiency administrative adviser, and an "efficiency team" was set up in the Cabinet Office to conduct a comprehensive investigation, study, review and evaluation of the operation of various departments of the central government. In view of the many problems existing in the administrative departments, practical improvement measures and specific programs were put forward, and the subjective initiative of the departments was encouraged and brought into play, thereby increasing the level of organizational economy and administrative efficiency of the sector.	The step-by-step approach helped the government make tangible progress; it was the most critical step and the first important stage of the Thatcher government's administrative reform in the next 20 years.
<b>Ministerial Management Information System (1980)</b> <sup>3</sup>	The aim was to keep senior management informed of the work of their staff and to monitor it effectively.	For a period of years, the person in charge of each department was supposed to submit a work statement to the minister for review, so the effectiveness of its implementation could be monitored and progress could be reported regularly.	The combination of target management and performance evaluation provided more up-to-date information on internal affairs and work processes.
<b>The new Financial Management Initiative</b>	To enable all levels of government, as well as the administration, to understand the fundamentals of administrative objectives and measuring administrative	The Cabinet Office and the Department of Finance jointly established a Financial Management Steering Group to guide the implementation of the new program and departmental coordination.	The administrative efficiency improved significantly, but the initiative aggravated the problem of using resources to maximize benefits.

<sup>1</sup> Obtained from relevant literature.

<sup>2</sup> Source: Warner, N. (1984) 'Raynerism in practice: anatomy of a Rayner scrutiny', *Public Administration*, 62(1), pp. 7-22.

<sup>3</sup> Source: Likierman, A. (1982) 'Management Information for Ministers: the MINIS system in the Department of the Environment', *Public Administration*, 60(2), pp. 127-142.

(1982) <sup>4</sup>	performance, and obtain the information needed to enhance administrative effectiveness and reduce administrative costs.		
<b>The Next Steps Initiative (1988)</b> <sup>5</sup>	To promote rational reform within the public sector and made further efforts to improve public services. The initiative, together with the “citizen charter” movement and the “competition for quality movement”, constitutes the general framework for public administration reform in the UK.	The survey published by the Ibbs Review Panel stated that 1) The internal management system of the administrative department was not conducive to providing convenient public services to the public; 2) Most civil servants lack training in public services and management skills, and lack enthusiasm and creativity; and 3) Ministers and senior civil servants are overloaded with their daily work.	It has reduced the workload of ministers and senior civil servants, allowing them to devote more energy to revising and innovating public policies and improving the efficiency of policy implementation, but its effectiveness has been controversial, leading to a strike by tens of thousands of civil servants in 1993 and the removal of the head of the project team.
<b>Premiership of John Major (1990s ~ 1997s)</b>			
<b>Citizen’s Charter (1991)</b> <sup>6</sup>	To introduce private sector management, technology and methods to improve administrative efficiency and reduce public expenditure as an attempt to alleviate the fiscal crisis faced by the government.	The dominance of public services in the monopolistic public sector was changed to provide service users with the opportunity to review their public services, both in terms of their commitment to citizens and in terms of the system for practicing that commitment.	The quality of public services and the satisfaction of citizens were greatly improved, while at the same time the international standing of the UK was enhanced and other countries followed the example of the campaign.
<b>Competition for Quality Movement (1991)</b> <sup>7</sup>	To further strengthen the concept of competition, introduce the market and competition mechanism into the public sector, and gradually institutionalize it.	By means of market test, the internal and external service providers were compared to test the value process of funds.	Through market pressure, the quality of public services was enhanced to ensure the maximum efficiency of public funds.

Table. 2 The NPM Reform in the US<sup>8</sup>

Period	Implementation reasons	Measures	Implementation effectiveness
<b>Presidency of Ronald Reagan (1981s ~ 1989s)</b>			
<b>Deregulation (1975)</b> <sup>9</sup>	To remodel the role of government, relax the regulation of government self-management and implement decentralization.	A number of government agencies were streamlined and abolished; outdated elements were eliminated through the implementation of a rigorous legal review system; the budget system was reformed to increase the flexibility of the budget in terms of timing; and organizational departments maximized their efficiency at a minimal cost.	Outdated regulations were repealed, government agencies were streamlined, and abolished, financial expenditure has been reduced, and government departments have become more results-oriented.
<b>Economic Policy of “Small Government, Small Tax, Less Expenditure” (1981)</b> <sup>10</sup>	To focus on the market and limit the scope of government functions.	Continuously enacting reform of practical guidelines and policies, controlling the money supply, and raising interest rates.	The level of fees fell significantly, services were diversified, and the amount of money spent by the government on economic control of administrative expenditure was reduced. Negative effects such as financial speculation were brought in at the same time.
<b>Presidency of Bill Clinton (1993s ~ 2001s)</b>			
<b>End Welfare</b>	To link social welfare to the market to achieve greater effectiveness.	The marketization of welfare projects to reduce the budget expenditure of administrative departments; Adopting the three-level management system of the government to shift the financial burden of the federal, state and local governments, and allowing the grassroots government to have	The social assistance system entered the era of workfare, easing the ballooning welfare bill and increasing economic activity and growth by encouraging production and consumption.

<sup>4</sup> Source: Fry, G. K. (1988) ‘The Thatcher government, the financial management initiative, and the ‘new cml service’, *Public Administration*, 66(1), pp.1-20.

<sup>5</sup> Source: Greer, P. (1992) ‘The Next Steps initiative: an examination of the agency framework documents’, *Public Administration*, 70(1), pp. 89-98.

<sup>6</sup> Source: Pollitt, C. (2013) ‘The evolving narratives of public management reform: 40 years of reform white papers in the UK’, *Public Management Review*, 15(6), pp. 899-922.

<sup>7</sup> Source: Kingdom, J. (1999) ‘Centralization and Fragmentation: John Major and the Reform of Local Government’, in Dorey P. (ed.), *The Major Premiership*. London: Palgrave Macmillan, pp.45-67.

<sup>8</sup> Obtained from relevant literature.

<sup>9</sup> It according to Mikva (1990) and Moore (2000).

<sup>10</sup> Source: Reagan, R. (1982) *Public Papers of the Presidents of the United States, Ronald Reagan: 1981-1988-89*. Government Printing Office.

<b>Policy (1996)<sup>11</sup></b>		greater decision-making power of the welfare bureau; Changing social welfare into work welfare with an appropriate share of personal responsibility.	
<b>Remodeling government movement (1993)<sup>12</sup></b>	A series of adjustments aimed at creating a highly efficient government maximizing the usage of funds, in response to the bloated structure of the bureaucracy and the inefficiency and slow response to emergencies under a hierarchical system.	Streamlining organizations, cutting the number of employees, deregulating, introducing competition and promoting performance management, emphasizing on being results-, performance- and customer-oriented, learning from and incorporating advanced ideas from other countries.	The results are mainly reflected in the streamlining of government, the rebuilding of institutions, the popularization of the customer-first principle, the application of market mechanisms, and the building of performance-based organizations, which has led to an accelerated transformation in the way the US delivers public services and has driven a strong momentum in the purchase of post-social services by the US government.

2.2 Post-NPM reform period - the new public service model (1990s ~ Present)

In the 30 years of the NPM movement, its corporate management model struggled to fully adapt to changes in public organizations (Lindberg, Czarniawska and Solli, 2015). The gradual marketization of public sector business also led to the exclusive benefit gain of the relevant stakeholders in cooperation, the imbalance of competition, and the fragmentation of the public sector structure system (Christensen, 2012). Therefore, the second round of government reform, the Post-NPM, as opposed to the NPM reform, was launched in the late 1990s (Christensen and Lægheid, 2011). The focus of the reform shifted to the entire government from the following: structural decentralization, institutional reduction and the establishment of a single-function institution (Klenk and Reiter, 2019). In recognition of the NPM's focus on efficiency, more attention was paid to the public interest and democratic management including citizen participation, and information technology was provided to break down the barriers of cooperative organizations, enabling stakeholders to achieve a multi-win situation (see examples in Table 3 and Table 4) (Mathiasen, 1999).

Table. 3 Post-NPM Reform in the UK<sup>13</sup>

Period	Implementation reasons	Measures	Implementation effectiveness
<b>Premiership of Tony Blair (1997s ~ 2007s)</b>			
<b>Joined- Up Government (1997)<sup>14</sup></b>	While the NPM movement reduced the cost of public service delivery, it also provided the means for significant privatization, outsourcing and competition to hollow out government capacity, and with the divisions reinforced, the organizational landscape became more fragmented, making it difficult to handle social problems related to employment and crime.	Bringing together public, private and voluntary organizations; achieving a collaborative model of government that works across organizational boundaries to achieve common goals.	A rare sustained economic growth after World War II, was achieved and the unemployment rate was kept at a certain low level, making it quite capable, but it was still lagging behind the bottom-up, network-governed model.

<sup>11</sup> Source: Carcasson, M. (2006) 'Ending welfare as we know it: President Clinton and the rhetorical transformation of the anti-welfare culture', *Rhetoric & Public Affairs*, 9(4), pp. 655-692.

<sup>12</sup> Source: Campbell, C. and Rockman, B. A. (2001) 'Third Way leadership, old way government: Blair, Clinton and the power to govern', *The British Journal of Politics and International Relations*, 3(1), pp. 36-48.

<sup>13</sup> Obtained from relevant literature.

<sup>14</sup> Source: Cope, S. and Goodship, J. (1999) 'Regulating collaborative government: towards joined-up government?', *Public Policy and Administration*, 14(2), pp.3-16.



Table. 4 Post-NPM Reform in US <sup>15</sup>

Period	Implementation reasons	Measures	Implementation effectiveness
<b>Presidency of George W. Bush (1997 ~ 2007)</b>			
<b>Collaboration Governance (2002)</b> <sup>16</sup>	To establish a citizen-centered one-stop service system in state and local governments.	Bringing stakeholders together in public institutions in the search for policy coherence to participate in outcome-oriented decision-making and emergency collaboration.	The high costs of adversarial policy regimes were avoided, democratic participation was expanded, effective links with stakeholders were established and more rapid development was prompted, but stakeholders' involvement could also lead to uneven access to the benefits of affairs.

As the NPM reform evolved to the Post-NPM reform, the development of public management measures was adjusted in line with different economic conditions and political service environments. The specific measures of reform comparison are shown in Table. 5 (Bach and Bordogna, 2011; Cohn, 1997). The following section further summarizes the characteristics of the two countries' responses to the public management reform, identifying the most typical changes in public management practices and their theoretical explanations in the UK and the US over the last half-century.

Table. 5 A Comparative diagram of specific models of public management reform in the UK and the US <sup>17</sup>

	<b>The United Kingdom</b>	<b>The United States</b>
Depth of reform	Substitution type	Substitution type
Strength of reform	High	Medium
Privatization	High	Low
Marketization mechanism	High	High
Deregulation	High	High
Output orientation	High and systematic	High and unsystematic
Decentralization	Delegation of authority to central government agents	Delegation of authority mainly to local governments and communities
Customer orientation	Emphasize consumer rights	Emphasize citizen participation
Traditional reconstruction	Low	Low

### 3. Conceptual Framework and Literature Review

#### 3.1 Government goal-oriented management efficiency and public value

Most of the NPM measures<sup>18</sup> focused on performance and neglected democratic values such as fairness, justice and citizen participation (Bellon and Goerl, 2016). The Post-NPM reform rationally recognized the principle of efficiency first in NPM, and placed greater emphasis on the public responsibility, public interest of the government, and its civic orientation and responsiveness (O'Flynn, 2007). In the existing literature, it has been argued by some scholars that the administrative role derives from the civic role and that the responsibility of administrative officials must surely come from the involvement of citizens in the overall work, and that encouraging civic engagement becomes one of the essential tasks of the civil service role (Cooper, 1987). In the UK government's White Paper, it is emphasized that individuals, groups, families, and enterprises affected by the policy should be fully considered in all aspects of public service policy formulation, and various channels should be broadened and improved to allow stakeholders to participate and communicate with each other to improve the quality of the policy (Rhodes, 2000). Citizens were seen as customers constantly rating their satisfaction, and when they showed good positive feedback, it reflected, to a certain extent, their trust in government, and such an assessment also represented an innovation in the democratic values of public administration (Kelly, Mulgan and Muers, 2002).

<sup>15</sup> Based on relevant literature.

<sup>16</sup> It according to Ansel and Gash (2008) and Hall (2002).

<sup>17</sup> It according to Bach and Bordogna (2011) and Cohn (1997).

<sup>18</sup> Note: performance usually refers to the performance in the 3E (Economy, Efficiency and Effectiveness) theory for performance evaluation (Helden and Reichard, 2013).

3.2 The responsibility dilemma, from market competition to mutual trust

The Post-NPM reform improved administrative efficiency through cross-sectoral communication and cooperation, bringing together organizations of different nature and management styles (Goldfinch and Wallis, 2010). It did not apply orders and instructions; rather, it communicated and made cooperation through trust, creating an environment of information exchange, knowledge sharing and collective and efficient cooperation (Olsen, 2009). And fostering interdependence, the spirit of sharing responsibility, and a common vision of a cross-departmental organization with shared rules and regulations have become one of the main tasks in improving performance, requiring a gradual process of communication and bonding (Andrews *et al.*, 2009). According to Fig. 1, as collaboration skills and trust between departments increase (left side of the figure), the performance of the organizations' cooperation will gradually improve (right side of the figure) (Goldsmith and Eggers, 2005).

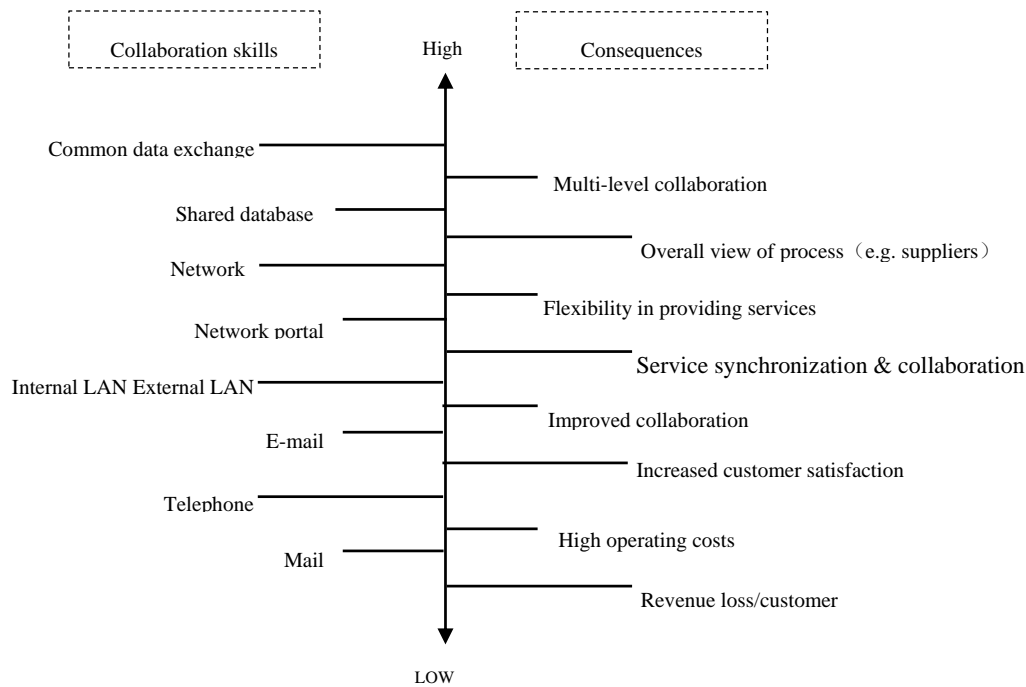


Fig.1 Technical model of public sector collaboration<sup>19</sup>

3.3 Sectoral structure, from single-organization development to overall collaboration

In the NPM, the flattening and decentralization of bureaucratic organizations through decentralization and marketization has, however, led to poor communication and coordination between those who give orders and those who implement them, and an increasing lack of integration and collaboration between agencies, leading to the fragmentation of government institutions (Bouckaert, Peters and Verhoest, 2016; Goetz, 2008). In comparison, the Post-NPM department attempted to create a cross-organizational, citizen-centered organization, which united the entire institution of social governance, including public organizations, private organizations, and volunteer groups (Kalimullah, Alam and Nour, 2012). Therefore, some scholars summarized the practice and experience of Post-NPM reforms in a number of countries, as shown in Figure Fig. 2 (Ling, 2002). However, on the other hand, cross-sectoral cooperation, which integrates various organizations into one large institution, tends to create a bloated structure; it can also be seen that the NPM model has not developed a standardized and systematic system of governance until today (Hood and Peters, 2004; Peters, 2018b).

<sup>19</sup> Source: Goldsmith, S. and Eggers, W. D. (2005) *Governing by network: The new shape of the public sector*. Washington, DC: Brookings institution press.

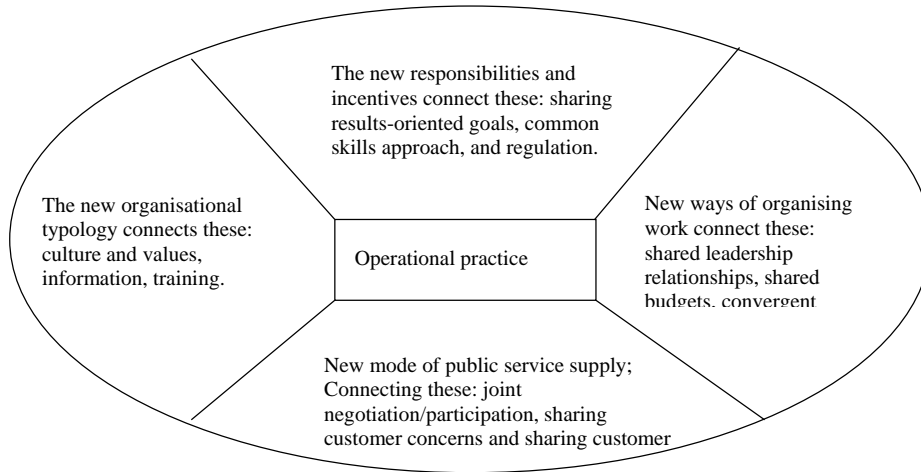


Fig.2 Best practical cooperative government organization model<sup>20</sup>

### 3.4 Unified management, from simple decentralization to moderate centralization

In the NPM reform, the implementation of structural stratification and the decentralization of some central powers to regulatory agencies, public service organizations or state-owned enterprises often lead to ineffective regulation and delay in information transmission, thus weakening the central control ability (Kettl, 2000). The subsequent public administration reforms recognized this and increased moderate centralization to strengthen the decision-making powers of the executive leadership (Gray and Jenkins, 1995). During the Blair administration in the UK, the government was allowed to act as the glue in cross-sectoral communication and collaboration, responsible for bringing together the forces of different organizations, motivating them, yet keeping them within a certain level of control (Grimshaw, Vincent and Willmott, 2001). Therefore, the central government needs to strengthen the communication and cooperation between departments horizontally, and at the same time, strengthen the level control between vertical levels (Gelders, Bouckaert, and Ruler, B.V., 2007; McGuire, 2006).

### 3.5 In the new era, from being exposed to the shortcomings of capitalism to taking measures to reform moderately and improve

The ultra-high transmission rate and death rate of Covid-19 have turned the pandemic into a global public health disaster, which also quickly triggered an economic crisis and exposed further flaws in the structure of the capitalist economy (Cairney and Wellstead, 2020). For the past decade, many countries have implemented austerity policies that have weakened the finances of public institutions for handling pandemics like Covid-19 (Dunlop, Ongaro and Baker, 2020). Since 2015, the UK has cut the public health budget by nearly 8.5 million pounds, reducing the long-term investment funds for patient safety, advanced technology and complete personnel facilities. Similarly, the United States has never had a well-funded public health system, and the Trump administration has been endlessly trying to cut the funds and capacity of important institutions such as the Centers for Disease Control and Prevention (Maani and Galea, 2020). Moreover, before the outbreak, the total household debt in the United States was \$14.15 trillion, which was \$1.5 trillion higher than that in 2008 when the economic crisis broke out in the United States, and the financial crisis was triggered by high private debt<sup>21</sup> (Marte, 2020). Therefore, this paper analyses the most representative and influential public management changes in the United Kingdom and the United States, and compares the correct judgments made by the two countries based on the historical background of the development of their governments, in order to identify the patterns of their responses to the changes (see Fig. 3 for details).

<sup>20</sup> Source: Ling, T. (2002) 'Delivering joined-up government in the UK: dimensions, issues and problems', *Public administration*, 80(4), pp. 615-642.

<sup>21</sup> Note: the dotcom bubble crisis of 1999-2001; then the international financial crisis of 2007-2009 triggered by the sub-prime mortgage crisis; and then the global economic recession of 2009, the world capitalist crisis has erupted several times (Thakor, 2015; Vries and Block, 2011; Wade, 2009).

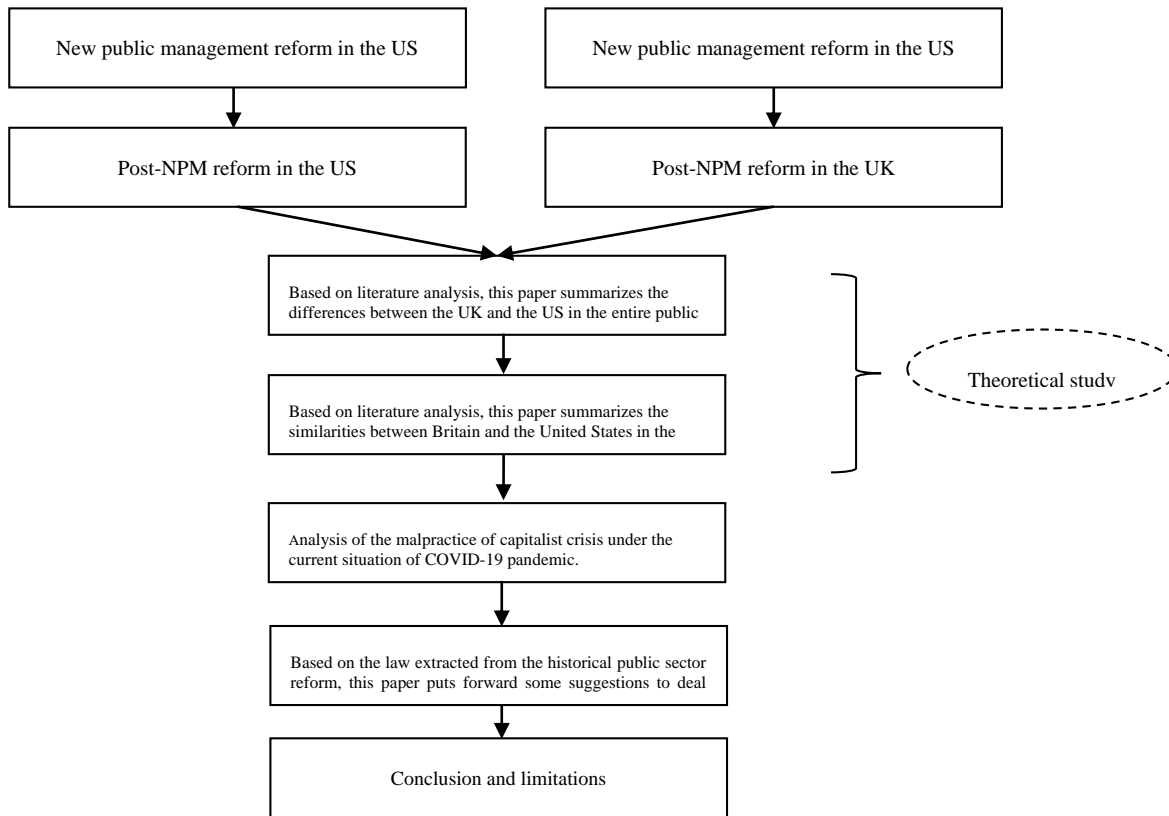


Fig.3 An analysis model from public management reform measures in Britain and the United States

#### 4. Analysis and discussion

##### 4.1 Adjusting economic policies to narrow the gap between rich and poor

The United Kingdom and the United States are both developed economies with a large gap between the rich and the poor. Among the world's most developed countries, the US exceeds the UK in terms of the severity of this indicator, as detailed in Fig.4.

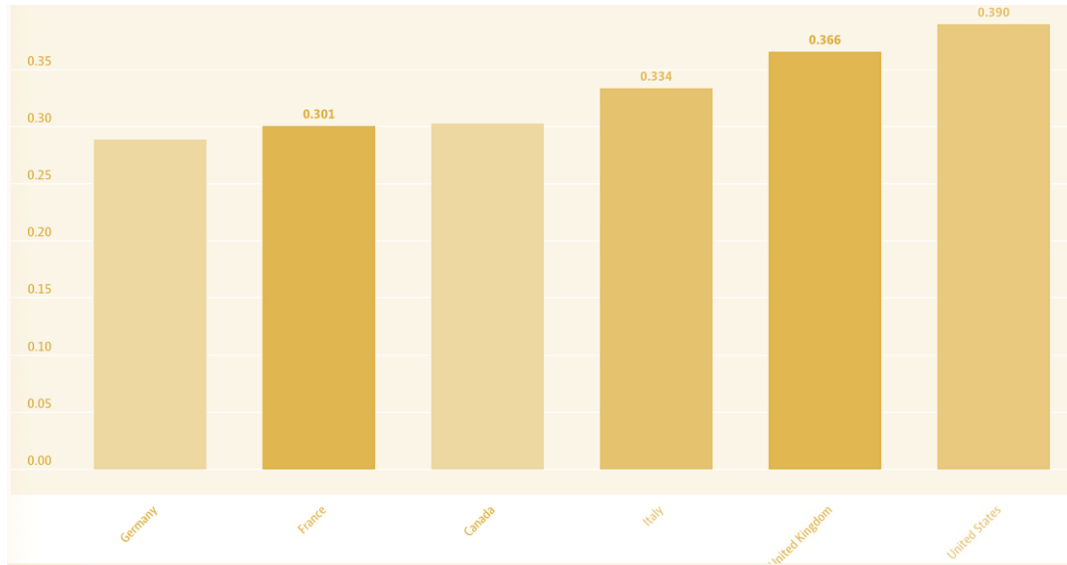


Fig. 4 Income inequality from 2016 to 2018 in five countries <sup>22</sup>

According to statistics, the richest 10% of Britain’s population owns 54% of the country’s total wealth, while the bottom poor, who accounts for 20% of the total population, only owns 0.8% of the country’s total wealth (Advani, Bangham and Leslie, 2020). One more mind-boggling fact is that in the US, the richest 10% of Americans now controls mainly 70% of America’s wealth (DeCambre, 2019; Swaminathan, 2019). Even the top 650 billionaires in the US increased their wealth by \$1.2 trillion during the new pandemic; in the same period, more than 20 million Americans lost their jobs, and a record 7 million people became homeless (Beer, 2021; Sherman, 2020). The pandemic has exacerbated the social divide between rich and poor, which the economists call a “K-shaped” economic recovery<sup>23</sup> (Burkhauser, Corinth and Holtz-Eakin, 2021; Molnar, Horváth and Regós, 2021). The UK government announced an unprecedented financial bailout to stem the tide of job losses in industries hit by the Covid-19 pandemic<sup>24</sup>(GOV.UK, 2020; Scally, Jacobson, and Abbasi, 2020). And some authorities have warned that the UK cannot force cuts in government spending for the increased expenditure of the pandemic, suggesting growth/investment policies, progressive tax increases and central bank monetary policy as an alternative to austerity, tackling the debt problem, significantly increasing capital requirements for banks’ intermediary business while reducing regulatory interventions and, crucially, removing tax credits for interest costs, thus making debt financing equivalent to equity financing (Chris, 2021). Meanwhile, the US passed a new round of pandemic relief legislation<sup>25</sup>, however, the amount of relief for the population was cut in half compared to previous years’ policies and there was doubt about its ability to meet the immediate needs of the population (Warner and Zhang, 2021). It implemented an unprecedented uncapped quantitative easing policy to avoid panic selling of assets by financial institutions due to lack of liquidity and its negative impact, but it may eventually have led to serious economic and financial risks and also laid the groundwork for a new round of global economic crisis (Hensher, 2020).

#### 4.2 The market-oriented mechanism, flexibly adjusted with the current situation

Privatization, contraction, and service contracting have generally been on the decline since the 1990s, and the phenomenon of reverse privatization has become increasingly evident, with “contracting back in” <sup>26</sup>coexisting with “contracting” as one

<sup>22</sup> Note: Gini Coefficient is presented in data, 0 = complete equality; 1 = complete inequality (OECD Data, 2021).

<sup>23</sup> A “K-shaped” recovery: one group recovers quickly from the economic impact of the epidemic, an upward trend in K, while the other group falls into long-term economic distress, a downward trend in K (Molnar, Horváth and Regós, 2021).

<sup>24</sup> Specific scheme: to pay 80% of the salary to employees who cannot work due to the epidemic, and using 1 billion pounds to subsidize tenants so that they will not be homeless during this time. In addition to the bailout for individuals, the UK government also announced £330 billions of aid loans to individual businesses, with interest-free periods extended from six months to 12 Months (HM Treasury, 2020),

<sup>25</sup> Key elements of the Federal Coronavirus Economic Relief Plan: allowing individuals and businesses to defer taxes, a one-time \$600 emergency relief provision for the vast majority of American adults, and providing emergency loans and employee payroll protections to businesses severely affected by the epidemic (BBC News, 2020).

<sup>26</sup> “Contracting back in” means that the government takes back public services that were previously contracted out and reintroduces them to the government. This reverse trend of privatisation, where contracting back in is the main form of contracting out, is called Reverse Privatization (Hefetz and Warner, 2004).

of the most prominent features of the Post-NPM era (Casady *et al.*, 2020). Nowadays, on the other hand, competition in the United States has weakened to a very serious degree, deregulation has not strengthened it, leading companies are firmly established, profit margins are too high, and big technology companies and many other increasingly concentrated industries allow large companies to make their own arrangements to their advantage (Shapiro, 2019). In addition, this lack of competition harms the interests of American consumers and workers: it leads to higher prices, lower investment and slower productivity growth (Philippon, 2019). It is therefore not feasible to rely on regulation alone in order to be spared the consequences of short-sighted business practices, especially when a business uses the vast resources at its disposal to lobby another party, and new laws are needed to bring about the required changes (Durand and Gueuder, 2018).

### **5. Social welfare policies in line with the current level of fiscal**

After the Second World War, the British government aimed to extend social welfare to everyone through various welfare measures, with social security funds being borne by the state to maintain a normal standard of living for people, forming a network of safety and security services with wide coverage and a comprehensive welfare system (Mulgan, 2002; Rose and Miller, 1992). The “British Disease” of welfare excesses grew, and policy adjustments had to be made to reduce spending until the mid-1970s, but both the Labor Party and the Conservative Party remained supportive of the welfare system, in large part because of Britain’s democratic politics and cultural history (Williams, 1989). Different from Britain, the United States is a country with a high degree of marketization (Michelon, Rodrigue and Trevisan, 2020). The country’s concept of social service is based on the historical foundation of market economy, democratic politics and civil society, and the country has always pursued the concept of “small government, big society” with its controversial welfare policy (Blank, 2002). The universal health care policy reform was opposed after the Obama administration’s brief implementation attempt (Galea, Ettman, and Abdalla, 2020). The main purpose of the abolishment is to reduce the system cost and improve the efficiency of enterprises, and medical insurance expenses became the first costs to be cut (Vogue, Luhby and Mucha, 2020; Xu and Basu, 2020). Therefore, it is important to be cautious about welfare-enhancing and risk-resilient programs, taking into account various factors such as the existing national conditions, the level of economic and social development, the relationship between short-term and long-term welfare, etc. It is also undesirable to have a high level of welfare that is simply detached from the reality of a country’s social and economic development (Rezende, 2008). In general, reform seems to proceed in a circular fashion, with decentralization being pursued first, followed by centralization, then again, by a new round of decentralization. The government reform in the Post-NPM era was also a measure to correct, remedy, facilitate or improve the NPM reform (Talbot and Johnson, 2007). The trajectory of public administration reform in the UK can be seen to have varied at different stages, with different reform focus and objectives pursued, but the different stages were interlinked, and each major reform initiative was evaluated independently. The following has become a permanent and difficult task for contemporary governments and practitioners: to discover measures for making use of bureaucratic, market and non-profit mechanisms in order to make reform policies efficient, democratic and liberal, to better respond to the imbalance between economic growth and social development, and to develop a market economy while protecting the disadvantaged from social exclusion (Bevir, Rhodes and Weller, 2003).

### **6. Conclusion**

The NPM reforms, from the Thatcher and Reagan administrations onwards, have initially helped most countries to withstand the stagflationary crisis of the inflationary era (Linsi, 2020). While the relevant policies have to some extent revived the economy and promoted rapid development, they have also further exacerbated the ills of the capitalist system, and the current outbreak of the Covid-19 pandemic is bound to deepen the crisis (Ansell, Sørensen and Torfing, 2020). Therefore, this paper first reviews the background of NPM and Post-NPM, compares and analyses the specific reform measures and related theories in the UK and the US, identifies the similarities and differences between the two countries’ approaches, and summarizes five patterns in the two countries’ public sector reforms: 1) switching from government goal-oriented management efficiency to public values; 2) the responsibility dilemma, from market competition to mutual trust; 3) the sectoral structure, evolving from single-organization development to overall collaboration; 4) the unified management, switching from decentralization to moderate centralization; 5) in the new era, from being exposed to the shortcomings of capitalism to taking measures to reform moderately and improve. And in the context of the current pandemic outbreak leading to the intensification of the ills of capitalism, this paper has identified the following adjustments that may follow the pandemic: 1) adjustment of economic policies to reduce the gap between the rich and the poor; 2) market-based mechanisms flexibly adjusted to the forms of the times; 3) social welfare policies that do not exceed the current level of fiscal. Due to the limitations of my research scope and time, the specific measures taken by the two countries in the context of the pandemic were not explored in depth; meanwhile, for future studies, the brief prediction of the next round of reforms in the new period can be further researched and improved.

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# Developing segments with high-profit margins – the Case of Gap Inc. in the United States

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## Abstract

Gap Inc., a popular clothing and apparel brand, has expanded its operations around the world through company-owned as well as franchised stores in more than 30 countries. The case study concludes that Gap Inc. faces the threat of being left out in the US market due to their inability to exploit their resources to the full extent when competing with their industry rivals. Based on a hybrid analysis approach, this study recommends that the group should keep their focus on developing segments with high-profit margins and updating their existing resources and capabilities so as to fully harness the opportunities and protect themselves from threats.

Keywords: Gap, developing segments, high-profit margins, United States

## 1. Introduction

Gap Inc. is a popular clothing and apparel brand founded in 1969 and headquartered in San Francisco, California, US (Gap, 2021a). The first store of the Gap Inc. was opened in 1970 and since then the group has expanded its operations around the world through company-owned as well as franchised stores in more than 30 countries including Canada, United Kingdom, China, Hong Kong and Mexico (Annual Report, 2019, pp.44). The group owns brands including the Old Navy, Gap, Banana Republic, Athleta, Intermix, Janie and Jack, and Hill City (Du, 2019). As of 30<sup>th</sup> January 2021, the group had 3,100 company-owned stores and 675 franchises across 45 countries (Gap, 2021b). The group sells their products not only in-store but also online. During the five decades of operations, Gap Inc. has faced several ups and downs. For example, they were market leaders in the US during the initial years of their establishment enjoying high brand loyalty. However, their various strategic issues have continuously affected their competitive position in the market, for example, the appointment of a chief executive officer with exclusive and robust experience in the field of retail and merchandising, and the appointment of new designers for redefining their existing image and streamlining the costs. The group continues to address these issues using different measures (e.g. closing down unprofitable stores in North America and other regions), but their operating margin has kept on declining, from 9.6% in 2015 to 3.5% in 2019 (Annual Report, 2019; pp.18). More recently, in 2020, the company announced plans to close around 350 stores in North America (Gap, 2020). Despite these challenges, their e-commerce business seems to be a promising domain (Daim, 2019). So, the main question here is: how can Gap increase the profitability of their products within the home market and achieve a differentiated position?

This case study applies Porter's five forces model to analyse the competition and competitive position of Gap in the United States. This model belongs to the positioning school of thoughts. To identify the competitive advantages of the firm, the cultural school and the widely accepted set of model VRIN (Valuable, Rare, Inimitable and Non-Substituable) are integrated in this research to analyse the data collected from the company's website and Annual Reports. To ensure the validity and reliability of the theoretical arguments, this research selected and analyzed literature from academic databases in the form of published papers, journals and articles. To take a critical approach to the case study, the researcher also gathered data about the company from news articles.

## 2. Theoretical approach

Among different schools of thoughts on the strategy formulation, the positioning school and the cultural school have been chosen for the current case study. By choosing a hybrid approach, the limitations of both the approaches could be minimized and a greater understanding of the organization and its strategic position could be acquired.

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### *2.1 The positioning school of thoughts*

The positioning school of thoughts has a descriptive outlook for strategic management, focusing on the content of strategy which requires the management to determine their product position, product features, and target market to gain higher profitability (Iyer, et al., 2019). To achieve this, a company needs to explore the market competition and its current competitive position. Accordingly, the central focus of the positioning school is the industrial and economic angle for determining competition and competitive positioning. Based on this analysis, strategies for improving the position of the firm, its products and services can be improved (Mackelprang, et al., 2018).

For this case study, using Porter's five forces model to analyze the external environment (i.e. competitive rivalry) of Gap Inc. in North America will allow us to gain a better understanding of the factors currently driving the profitability in the clothing and apparel industry of the chosen region and the same can be then integrated with the strategies of the group. The analysis of the external environment using the five forces model would facilitate differentiating the group's market position and creating higher value in the market (Bruijl, 2018). However, there have been debates on the applicability of Porter's five forces model in the modern industrial environment with rapid changes in terms of consumer preferences and technological advancements. The model fails to explain the expansion of the factors affecting the industry attractiveness beyond the five competitive forces (Slattery, et al., 2016). Still, Porter's five forces model simplifies the market structure and evaluates the interactions among industry participants in a structured manner to assess the main causes of profitability in an industry (Grundy, 2006; Porter, 2008), and this assessment currently seems to be the prime strategic goal of Gap.

### *2.2 The Cultural School*

The resource-based view of strategy or the cultural school describes strategy systems as social interactions that are based on the beliefs, traditions and understandings shared by the individual members of an organization. This school suggests that strategy formulation is influenced by unique values, decision-making style and overall organizational culture (Bromiley and Rau, 2016). Thus, a positive culture helps in innovations and promotes growth and sustainability. Taking an inside-out approach to strategy formulation, this school suggests that strategy formation is based on collective intentions and is reflected in the manner whereby the resources and capabilities of an organization are used for a competitive advantage (Rockwell, 2019). Thus, it can be said that using RBV of strategy, this study will be able to recognize key resources and capabilities of Gap which are unique to them and are not possessed by anyone else in the industry (sustainable competitive advantage). These unique factors can be used to reduce the competitive forces as identified in Porter's five forces model giving more profitability and long-term sustainability to Gap. However, since resources and capabilities are embedded in the culture followed by an organization, making changes to it based on external analysis may make its people resistant to the shift in the strategic perspective and create challenges for Gap (Hattangadi, 2017).

The VRIN framework, useful in measuring the competitive power of the resources and capabilities owned by an organization, covers various types of key resources (factors) as the acronym indicates: valuable (value to customer), rare, inimitable and non-substitutable. The value factor of the framework determines whether or not the resources and capabilities will help the organization to cope with the threats and opportunities presented by the environment (Gamble, et al., 2019). The rare factor represents those resources can only owned by a small number of firms in the entire industry. The imperfectly imitable factors denote resources that provide the organization with a cost advantage over the rival firms and are exclusively owned by the organization itself. The last factor, 'non-substitutable' refers to those resources that cannot be replaced by other low cost or reliable or faster form of resources of other firms (Alexy, et al., 2018). If Gap does not possess any resources related to these factors, then the group can be considered to be at a competitive disadvantage; and if all those factors are present, then the group can be considered to possess a sustainable competitive advantage.

## **3. Environment analysis**

In general, the industry environment in North America offers a low to medium threat of new entrants, no threat of substitutes, high bargaining power of buyers, low bargaining power of suppliers and high competitive rivalry. This study discusses in detail the two key competitive forces influencing Gap; buyers and competitive rivalry.

The bargaining powers of buyers depend on the number of buyers, the number of retailers, presence of substitute products, switching cost and intangible factors related to the brand as perceived by the buyers such as reputation, equity and loyalty (Luttgens and Diener, 2016). In this regard, although China has emerged as one of the largest fashion markets in the world due to its huge population and expanding middle class (Cavusgil, et al., 2018), the US remains in the market with the keenest buyers for clothing and accessories (Wang, et al., 2019). Meanwhile, the number of manufactures and retailers is also large in the USA with many small and medium scale importers and sellers operating in the industry. However, the

number of companies (for example, Primark, Zara, H&M, Inditex) enjoying similar economies of scale, market presence and brand awareness as Gap remain low. Here, it can be argued that the switching cost of buyers will remain low considering there are different other reputed and higher equity brands catering to the needs of the American consumers. Hence, it can be said that buyers constitute a moderate force in the US. When analyzing the buyers' power, the five forces model does not take into account the changing shopping preferences and patterns of the consumers and the rapid growth of the technological environment in the industry (Jin and Shin, 2020). Therefore, in regard to helping researchers gain the understanding of industry's growth mechanism and its future prospects, this model has its limitations.

Analyzing the competitive rivalry factor, can, however, to some extent overcome the above limitations. The analysis is dependent on four factors: industry competitive structure, demand conditions, cost conditions, and exit barriers (Khan, 2015). In this context, the apparel and clothing industry of North America is consolidated with the market dominated by a small number of large firms such as Nike, Levis Strauss, Under Armor (Statista, 2020). All of these brands have established their own customer base with high-quality products matching the lifestyle needs of American consumers. More importantly, these brands have focused on research and innovation more than Gap, and offered new products and channels of marketing and communication to satisfy consumer needs. Therefore, the price within the industry will be determined by this group of sellers and a differentiated price will only pay off if Gap is able to offer unique and innovative product and experience. In terms of demand conditions, it is observed that the customers' demands have been increasing in 2018. North America including the US is considered as the most optimistic region for fashion sales; however, it is also discovered that consumer preferences have significantly shifted with consumers now seeking value and small brands due to their authentic narrative (McKinsey & Co., 2019). Hence, it can be said the declining demands of traditional clothing and apparel products such as fast fashion has increased the rivalry in the market and with firms battling to maintain their share and revenues, those able to cater to the emerging needs of the consumers will be the only survivors.

New entrants, namely Gap's competitors, adopt disruptive business models to further enhance the competition. For example, one newcomer, Ba&sh, a French label offering free rental services for clothes in New York, is expanding quickly in North America (McKinsey & Co., 2019), suggesting the threat of new entrants is moderately high as the disruptions such as sharing economy and digital innovations have reduced the profit margins of existing firms in the industry. Other such firms like Rent the Runway also pose a moderate threat to the profit margin and competitive position of Gap in the US (Business Insider, 2018). The third and fourth factors - cost structure and exit barriers - are interrelated. The fashion retail industry is based on high fixed costs of setting up manufacturing units, physical stores and establishing back-offices for managing the operational work, so the profitability will be mainly driven by sales number (Schrewentiggies, 2018) and the intensity of rivalry in the US is high. Now, since, high cost is involved in setting up the business and achieving economies of scale, the exit barriers of the industry are high. In particular, just like Gap, other known brands such as Nike and H&M tend to remain in the market as exiting the market is not economic to them. In the current industry fashion industry of the US, existing retailers have adopted different strategies for increasing the intensity of competition. For example, Gap itself has switched from a brick-and-mortar store only business model to an Omni-channel strategy, now focusing on further improving its digital presence and consumer experience (VMware, Inc., 2021). H&M also adopted a circular approach to shopping which promotes eco-friendly habits among consumers (H&M Group, 2021). This strategy puts competitors under pressure to adopt further differentiating approaches to enhance in-store and online shopping experiences, thus, increasing the competition intensity.

#### **4. Evaluation of Gap's competitive advantages**

This section utilizes the cultural school's model to analyze the key resources and capabilities that help Gap to differentiate itself from other companies in the US. In this context, through an analysis of the external environment (industry analysis) using Porter's five forces model, it was found that Gap, as a household name in the US, has high brand awareness mainly because the company has operated in its home market (USA) for the last 51 years and despite lower profit margins, the group has maintained its sales steadily (Annual Report, 2019; pp. 44). Although this intangible resource (inimitable corporate culture & history) can be useful in creating value for the firm, brand equity is an inimitable and non-substitutable factor because it would require high costs for producing and selling high-quality products and years of work for developing a brand reputation with years of work. It is not rare as other companies such as Nike also enjoys the same status, so it cannot be classified as a sustainable competitive advantage for the group (Rahman, et al., 2018).

The Omni-channel presence of the brand through physical stores in the US and presence on online platforms is a valuable intangible resource (Gap Inc., 2015), but is not rare because in the contemporary industry environment all the major competitors of Gap are selling through online channels and the products of other small brands and disruptors are also available on e-commerce platforms. The group has developed trust among the American consumers by providing them

price-competitive, variety of quality products (Nisar and Prabhakar, 2017) which is a rare and intangible resource useful in reducing the threats from the new entrants. However, Gap does not seem to have the competitive edge over larger firms: the company does not have a core luxury brand or offer specific fast-fashion products of low quality at cheaper rates; and its products are outdated and do not match with the demands of the consumers or the frequent innovations that similar companies such as Nike have been doing frequently. It can be said that when Gap entered the US market, the market was blue ocean (the uncontested market space) with several opportunities, low competition and static demands of the consumers. After Gap entered the market, technology has advanced, disruptive models of business have emerged and the existing fashion retailers have continuously invested in identifying market needs (Jin and Shin, 2020). Gap Inc. is identified as a late adopter, mainly in the context of research and innovation and if they do not innovate their existing business model, they may face the consequence of losing their rare resource “customer satisfaction” (Forbes, 2020). It is important that Gap Inc. evolved its core value proposition to acquire a sustainable competitive advantage.

## 5. Limitations, recommendations and conclusions

### 5.1 Theoretical limitations

The study adopted a hybrid approach using Porter’s five competitive forces framework and the VRIN framework to analyze the case of Gap Inc. in the US. Nevertheless, the approach does have certain theoretical limitations. First of all, both the five forces model and VRIN model are static models, and they are both time-sensitive. Using them to analyze this case study of Gap, a large medium enterprise, it is difficult to evaluate and judge the environment and information in real time. Therefore, those limitations may have hindered the understanding of the competitive position of the firm and the drafting of suitable strategic recommendations. For future studies, the Design and Planning approach and the tools such as Ansoff’s Matrix and PEST analysis can constitute a multi-dimensional approach to the analysis of the external environment of Gap and their strategic response to them (Shtal, 2018). Furthermore, using PEST, environmental factors can be identified and by studying their impact on the five competitive forces, the competitive strength of Gap with respect to the industry could be demonstrated in a robust manner (Helmold, 2019).

### 5.2 Future strategy for Gap

Based on the industry analysis and the understanding of the resources and capabilities providing a competitive advantage to the group, two strategies are recommended to Gap to regain its competitive position in its domestic market. First, Gap should focus on identifying ‘blue ocean segments’ (Karaoulanis, 2018) in the US such as the online sales and sharing business model, which will increase barriers to entry for new entrants as well as existing firms. The aim is not to reduce but beat the competition by focusing on the core value proposition and delivering the household name value which Gap enjoys in the US. The company should improve the experience of customers both within stores and online shopping stores. Thus, the key to future success lies in exploiting existing markets with unexploited potential through differentiation in products or communication or delivery chain domains (Omar, et al., 2019). This will assist the company in preserving valuable resources of brand awareness, loyalty and satisfaction and converting them into a sustainable competitive advantage.

Second, Gap should improve their resources and capabilities by analyzing the existing ones and identifying those requiring appraisal using the VRIN framework. Although it may encounter resistance from employees (Che, et al., 2019), the change can be swiftly executed by using appropriate communication transparency.

## 6. Conclusion

The case study concludes that Gap Inc. faces the threat of being left out in the US market due to their inability to exploit their resources to the full extent when competing with their industry rivals. Based on a hybrid analysis approach, this study recommends that the group should keep their focus on developing segments with high-profit margins and updating their existing resources and capabilities so as to fully harness the opportunities and protect themselves from threats.

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# Reflections on the Latest e-CNY Pilot Test in China

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## Abstract

In August 2021, China started a new round of pilot test of its digital fiat currency in Shanghai and Suzhou, during which a total of RMB20 million in digital currency was handed out to residents. This pilot test has become a heated topic in China recently and also caught attention all over the world. This paper starts with the definition of e-CNY and its benefits over cryptocurrency and mobile payment systems. It focuses on the pilot tests of China's digital currency and the new characteristics emerging, and anticipates the future trend of the pilot test of China's digital currency.

**Keywords:** digital fiat currency, e-CNY, benefits, pilot test, new characteristics, future trend

## 1. Definition of e-CNY

China's central bank digital currency (CBDC), previously named Digital Currency Electronic Payment (DC/EP), now is often called digital yuan by some press. However, according to a white paper released by the People's Bank of China (PBOC) recently, China's digital fiat currency is called e-CNY, which is a provisional abbreviation following international practices (Kharpal, 2021).

"E-CNY is the digital version of fiat currency issued by the PBOC and operated by authorized operators. It is a value-based, quasi-account-based and account-based hybrid payment instrument, with legal tender status and loosely-coupled account linkage" (PBOC, 2021).

The definition makes it clear that e-CNY is the virtual form of Chinese fiat currency, renminbi (RMB), issued by the PBOC and is legal tender, with the three-legged functionality of money, unit of account, medium of exchange and store of value (Kshetri, 2021).

E-CNY is backed by the sovereign credit of China via the PBOC and is a result of the natural evolution of currency technology and economic activities. PBOC will issue e-CNY and financial institutions will distribute it under the regulation. PBOC will also manage this asset, setting the ground rules for wallet design as well as collecting any data thrown off by transactions. However, e-CNY is not meant to replace physical RMB, and physical cash will exist in parallel for the foreseeable future. Physical RMB is still seen important in a diversified payment system of China considering multiple needs, habits and ages, therefore, the PBOC will neither stop supplying nor replace physical RMB via administrative order (Jiang, 2021).

## 2. Benefits of e-CNY

E-CNY is fundamentally different from cryptocurrencies like Bitcoin, because e-CNY is a fiat currency issued and governed by a central bank rather than relying on a decentralized system managed by users around the world. The technical details of how it works are not public, but PBOC officials have stated that it does not run on a blockchain. By contrast, cryptocurrencies such as Bitcoin are a type of decentralized private money running on a blockchain, produced by solving complex mathematical proofs and governed by disparate online communities instead of a centralized body. E-CNY is a legal tender, but cryptocurrencies are not; one can reject cryptocurrencies as a form of payment. The value of e-CNY, like existing fiat currency, is influenced by policymakers, whereas the value of cryptocurrencies is determined entirely by the market or the expectation of the network and thus is highly volatile.

E-CNY is also different from existing mobile payment systems such as Alipay and WeChat Pay. Alipay and WeChat pay are platforms used as wallets for mobile payments. Alipay is owned by Alibaba and was first used for payments on their website, then grew to become a payment method for different services as well. On the other hand, WeChat pay is a digital wallet featured in the messaging app WeChat.

### *2.1 Benefits of e-CNY over Alipay and WeChat Pay*

E-CNY will have benefits over Alipay and WeChat Pay in the following manners.

First, E-CNY is a legal tender, but Alipay and WeChat Pay are payment tools, which means they still have to operate through commercial banks. Although Alipay and WeChat Pay have been widely used in China, one can still legally refuse to accept payment made via WeChat Pay or Alipay but cannot legally refuse to accept e-CNY because e-CNY, just like cash, is a legal tender backed by the state.

Second, e-CNY is backed by the state and is more trusted by people. The settlement parties of e-CNY and mobile payment are different. The PBOC is responsible for the settlement of e-CNY transactions because e-CNY is a fiat currency. Alipay and WeChat Pay are digital platforms operating on top of existing settlement systems, so their settlement still goes through commercial banks. That means e-CNY is backed by the state unlike Alipay and WeChat pay. This makes the currency more trusted in China as it is very unlikely for a state backed currency to default on its obligations while Alipay or WeChat could possibly go bankrupt.

Third, technological and operational differences exist between them. For instance, e-CNY allows for offline transactions while Alipay and WeChat Pay heavily rely on an Internet connection to process transactions. E-CNY does not need to be associated with a bank account to make payments while Alipay and WeChat Pay do.

Fourth, e-CNY transactions require only having a digital wallet, whereas Alipay and WeChat Pay require the availability of an active bank account to withdraw money from. What's more, Alipay and WeChat Pay charge fees for withdrawing money from the wallet, usually 0.1%, while it is free for merchants to transact with e-CNY, therefore merchants potentially have the economic motivation to switch to e-CNY.

### *2.2 Combating economic crimes and frauds*

Compared to a fiat currency, digital currencies are difficult to counterfeit. China's e-CNY employs asymmetric cryptography to enhance security. The PBOC has stated that transaction records are encrypted, and unauthorized parties cannot access them.

Governments are also likely to use CBDCs to combat economic crimes. At a BIS seminar, the director-general of the PBOC's digital currency institute Mu Changchun proposed global rules, which emphasize the importance of synchronizing the flows of information and funds so that regulators can monitor the compliance of transactions. (Wilson, 2021) A PBOC official noted that the e-CNY's "controllable anonymity," rather than full anonymity, is based on international consensus to satisfy anti-money laundering, anti-terrorism financing, and anti-tax-evasion requirements. By tracking and recording the details of all transactions, the government is in a better position to prevent and control illegal transactions (Zhao, 2021).

## **3. e-CNY pilot tests in China**

China is arguably leading the world in currency digitization because it's one of the world's most digitized payment markets. By December 2020, the number of online payment users in China reached 854 million, accounting for 86.4% of the total number of Internet users. According to "The Overall Operation of the Payment System in 2020" released by the PBOC, 235.225 billion transactions were paid via electronic payment in 2020, with a total transaction value of RMB2711.81 trillion. Among them, there were 123.220 billion transactions paid via mobile payment, worth RMB432.16 trillion, a year-on-year increase of 21.48% and 24.50% respectively. (PBOC, 2021) These statistics make China a great candidate for digitalization of the monetary system. In other words, the Chinese market is already very advanced in electronic payments. The e-CNY would be a way to speed that process up.

### *3.1 The Timeline of e-CNY development and pilot tests*

In 2014, the PBOC set up a special team to conduct a research on digital fiat currency with the scope covering the issuance framework, key technologies, issuance and circulation environment, and international experience.

At the end of 2017, under the organization of the PBOC, some commercial banks and relevant institutions jointly carried out the research, development and testing of the digital fiat currency, e-CNY. On the premises of double-layer operation, cash substitution and controllable anonymity, the top-level design, standard formulation, function development, joint commissioning and testing of the DC/EP system have been basically completed.

In 2020, China started the pilot test of its digital fiat currency. At the preliminary step, "4+1" pilot regions were selected to carry out e-CNY pilot tests — Shenzhen, Suzhou, Xiong'an, Chengdu, and the future winter Olympic scenario. In October, 2020, another 6 pilot cities and provinces were added to the list including Shanghai, Hainan, Changsha, Xi'an, Qingdao, and Dalian.

In October, 2020, the e-CNY pilot test was firstly launched in Shenzhen. The municipal government in Shenzhen carried out a lottery to give away a total of RMB10-million worth of the digital fiat currency. The winners can download a digital currency app to receive the e-CNY and spend it at over 3,000 merchants in a particular district of Shenzhen.

During the previous Lunar New Year, the municipal government of Beijing also handed out RMB10 million in a digital currency pilot test to its residents.

The latest e-CNY pilot test, the “Shanghai-Suzhou Joint e-CNY Pilot Test on JD.com”, was launched on August 6, 2021. In the new pilot test, the Bank of Communications cooperates with JD.com and hands out digital currency worth of RMB 20 million via a lottery on JD.com, one of China’s biggest e-commerce players, to residents of Shanghai and Suzhou. Those who receive the e-CNY can spend it on JD.com’s online shopping platform as well as in real-world scenarios.

According to the white paper published by the PBOC in July, 2021, “as of June 30, 2021, e-CNY has been applied in over 1.32 million scenarios, covering utility payment, catering service, transportation, shopping, and government services. More than 20.87 million personal wallets and over 3.51 million corporate wallets had been opened, with transaction volume totaling 70.75 million and transaction value approximating RMB34.5 billion” (PBOC, 2021).

### *3.2 Characteristics of the new e-CNY pilot test*

The “Shanghai-Suzhou Joint e-CNY Pilot Test on JD.com” was launched by the Bank of Communications, one of China’s major state-owned banks, with the collaboration of JD.com. Together they distributed 500,000 red packets to the residents of Shanghai and Suzhou, with each packet including RMB20 in e-CNY and RMB20 in JD consumption coupons.

Although it is not the first time that China is handing out a large sum of its digital fiat currency, the new round of e-CNY pilot test is not like the tests before. It shows several new characteristics.

#### *3.2.1 The initiative of financial institutions*

Different from the previous rounds of e-CNY pilot tests led by the municipal governments of the pilot cities, this new pilot test is completely led by the financial institution, the Bank of Communications. In other words, e-CNY pilot tests in the past were paid by the local finance; however, this new pilot test in Shanghai and Suzhou is paid by the financial institution.

Some professional in finance says that e-CNY has become a new channel for banks to attract customers and keep them hooked, which helps banks to cater to the enterprises who have special need for e-CNY.

At present, there are many financial institutions engaging in e-CNY businesses. E-CNY has become the trend for future development, and all parties are eager to seize the development opportunity. The six major state-owned banks, including the Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, Bank of Communications, and Postal Savings Bank of China all have begun to promote digital currency wallets. China Merchants Bank was officially approved by the central bank to participate in the research and development of the e-CNY system. Besides that, other banks that have not been selected into the pilot test list are also actively laying out for e-CNY related systems, which has become a “new fashion”. Minsheng Bank has recently begun to publicly recruit relevant talents for e-CNY operation, and has opened an e-CNY portal in its mobile app. In addition, Bank of Beijing, Guangdong Development Bank, and several other banks have also built relevant systems to undertake e-CNY businesses.

#### *3.2.2 The shift from offline to online scenarios*

A major focus of this round of digital currency pilot test lies in the shift from real-world scenarios to online shopping.

In the e-CNY pilot test in Shenzhen in October, 2020, the government distributed a total of RMB10 million worth of the digital fiat currency, and the residents who received the e-CNY were allowed to spend it over 3,000 merchants in a particular area of Shenzhen, mainly local supermarkets and pharmacies such as Walmart.

The previous e-CNY pilot test carried out in Suzhou in December, 2020, handed out 100,000 red packets of e-CNY to its residents. Besides the more than ten thousand offline merchants participating in the pilot test, JD’s online shopping platform was also included in the pilot test. It was a breakthrough for the e-commerce platform to enter digital e-CNY pilot tests. However, the pilot test was only restricted to a limited extent in Xiangcheng District of Suzhou City.

In the latest “Shanghai-Suzhou Joint e-CNY Pilot Test on JD.com”, the online shopping scenario has been greatly expanded. The new pilot test is co-launched by Bank of Communications and JD.com, who hand out 500,000 red packets of digital currency in a giveaway worth a total of RMB20 million to residents of Shanghai and Suzhou. Each red packet, set to be distributed through a lottery system, contains digital currency worth RMB20 and a JD.com coupon worth RMB20. The RMB20 e-CNY can be used in all online and offline scenarios that support e-CNY, including JD.com, real-world merchants (stores), scenic spots, restaurants, and supermarket chains supporting e-CNY cashier in Shanghai and Suzhou. The RMB20 JD.com coupon in the red packet can be used on the JD app when a customer buys JD’s self-operated goods over RMB200 and pays via the e-CNY wallet of the Bank of Communications. In this way, the scope of online shopping scenarios of e-CNY has been greatly expanded.

### *3.2.3 The cross-regional use of e-CNY wallet*

A more important characteristic of the latest “Shanghai-Suzhou Joint e-CNY Pilot Test on JD.com” is the cross-regional use of e-CNY.

Zhao Guangbin, senior economist of PWC China, explained in an interview that in the previous pilot tests, the e-CNY red packets issued by governments of pilot cities could only be used locally, so they could not really replace the monetary function of RMB. “In the previous pilot tests, the e-CNY wallets of residents of Shanghai could only be used in Shanghai, and they couldn’t be used in Suzhou. But what is under testing now? It is that the residents of Shanghai now going to Suzhou can use their e-CNY wallets there, or in another case, they can stay in Shanghai and do shopping online on JD.com. In both of the cases, cross-regional payment of e-CNY is involved. That’s what under testing. If the enterprise is located in Suzhou, it should be ensured that cross-regional payment of e-CNY is feasible.” Zhao Guangbin said in the interview (Yu, 2021).

If the cross-regional use of e-CNY works well in the test, it will mean a lot to the integration of the Yangtze River Delta, as the integration of finance is of great significance to the integration of the Yangtze River Delta. After passing the test of cross-regional use, e-CNY will take a substantial step toward full-fledged launch.

## **4. The future trend of e-CNY pilot tests**

### *4.1 To expand test scenarios*

Building on the experience from the previous pilot tests and taking into account the development plans and local circumstances of pilot places, the PBOC will further expand test scenarios to cover all possible scenarios in selected pilot regions.

The latest e-CNY pilot test has shown that more and more offline and online scenarios have been integrated in the test covering more and more fields. The e-CNY pilot tests in the future will cover almost all fields of payment in people’s life including fee collecting, catering services, transportation, shopping, and government services and so on. Among them, retail is still the focus of the current e-CNY pilot tests.

Besides the further expansion of the coverage of pilot scenarios, the PBOC will also expand the scope of participating institutions and pilot regions based on the reality of the R & D of the pilot work.

### *4.2 To balance software and hardware wallets*

There are software and hardware wallets, depending on the choice of carriers. A software wallet provides services through mobile payment apps, software development kit (SDK), and application programming interface (API). A software wallet is very convenient and it is welcomed by a lot of people. However, for those people with special needs, the elderly or the disabled, it may be impossible for them to properly use mobile phones. A hardware wallet may be a better choice for them. A hardware wallet uses security chips to support the function of e-CNY and it is supported by IC card and wearable objects. Considering the actual needs of specific groups, the development of software wallets and hardware wallets should be balanced in order to further improve the inclusive nature of e-CNY system. A variety of technical means should be used to reduce the difficulty of using e-CNY.

### *4.3 To strengthen the protection of personal information.*

Laws and regulations related with e-CNY administration should be formulated or revised to enhance protection of personal information. The PBOC will improve the rulebook and technical codes. Additionally, it will improve security management for the e-CNY operational system throughout the entire lifecycle of e-CNY, covering password security, financial information security, data security and business continuity, so as to ensure safe and stable functioning of the system.

## 5. Conclusion

The latest RMB20 million e-CNY pilot test in Shanghai and Suzhou in August, 2021, has shown three clear characteristics when compared with the previous tests. First of all, it is launched and financed by a financial institution, Bank of Communications, instead of local governments. Secondly, the application scenarios of e-CNY have been greatly expanded, especially in the case of online scenarios. Thirdly, the e-CNY wallets of Shanghai residents can be used in Suzhou for the first time. Judged from the new characteristics of the latest e-CNY pilot test and combined with the white paper released by PBOC, it is safe to anticipate that e-CNY pilot tests in the future will focus on the expansion of application scenarios, the balanced development of software and hardware wallets, and the protection of personal information.

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# A Review of the Studies of Narrative Information in Corporate Annual Reports

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## Abstract

The narrative information is an integral part of corporate annual reports (CAR) and offers complementary insights into the operations of the reporting company. In recent years, investors have come to realize that the narrative information in corporate annual reports should be worthy of special attention with the frequent occurrences of financial fraud cases. Researchers of accounting, finance, management and linguistics have increasingly focused their efforts on investigating the narrative information and it is now recognized that there is an urgent need to develop an interdisciplinary approach to the study of narratives in corporate annual reports. This paper responds to this call and conducts a review of the studies on the narrative information in the CAR, and we find that (a) most previous researches are one-dimensional, (b) systematic comparative and empirical studies are far from enough. Our findings contribute to a systematic understanding of the literature of narratives in the CAR and have useful implications for the relevant research and Business English (BE) pedagogy in the context of China.

**Keywords:** narrative information, corporate annual reports, review, Business English, interdisciplinary

## 1. Introduction

### 1.1 Introduce the Narrative Information in CAR

Information is the investor's most reliable tool to make investment decisions. The function of accounting narrative information in corporate annual reports (CAR) is to amplify quantified accounting information. Most accounting narratives in CARs are not subject to external auditing, which makes it easier for managers to manipulate the information disclosed therein. For example, the scope of auditors' opinion in the CAR is limited to the financial statements and the notes. At best, other narrative accounting information is only monitored by external auditors for consistency with the financial statements.

Narrative reporting information is usually defined as all the annual report content published by companies other than the financial statements, notes, and the auditor's report (Rowbottom, N., & Lymer, A., 2010). This definition of narrative reporting covers all language information that accompanies the financial statements. Financial information is frequently communicated through written narratives which are largely qualitative in nature and which are sometimes referred to as "soft" or unquantified information. Accounting narratives can be found in annual reports, as well as financial statements, accounting textbooks, official pronouncements by accounting bodies, and legal judgments concerning accounting issues (Jones, M.J. & Shoemaker, 1994).

According to the ASB (2006) narrative information reported in the OFR should *complement* as well as *supplement* the financial statements, to enhance the overall corporate disclosure which means that the narrative information should play either a complementary or supplementary role to the financial statements. Tauringana and Mangena (2006: 73) define

complementary narrative information as that information that refers to specific accounting numbers presented in the financial statements. The objective of such information is to inform the reader why such numbers are lower, the same or higher compared to the previous period. On the contrary, supplementary narrative information is defined as additional narrative information that does not refer to specific accounting numbers presented in financial statements. This includes non-specific narrative information on prospects, the reporting company's strategy, and the operating environment. The importance of supplementary information in assisting the investment decision process is also supported by many researchers (Wilson & Allison-Koerber, 1992; Milne & Chan, 1999). In this dissertation, the focus will be on the MD&A reporting in the annual reports from the publicly listed companies in the U.S.A. and China.

### *1.2 Describe the Narrative Disclosures in CAR*

The narrative disclosures in the CAR include the Chairman's Letter, Auditor's Report, notes to the financial statements, and Management's Discussion and Analysis of financial condition and results of operation, commonly referred to as "MD&A", which is an integral part of the CAR (named as "Form 10-K" with SEC) and quarterly reports (named as "Form 10-Q" with SEC) filed with the Securities and Exchange Commission (SEC). MD&A can also be found in the registration statements filed under both the Securities Exchange Act of 1934 (Form 10) and the Securities Act of 1933 (Form S-1).

The CAR usually starts with an introduction and a Chairman's Letter, primary owner or the CEO of the company to the shareholders providing a snapshot of the significant developments in the past year, company initiatives and a summary of the financials. Key elements included in this section are the challenges that the business faced, its successes, and the prospective growth of the company.

An Auditor's Report is a written letter from the auditor containing their opinion on whether a company's financial statements comply with generally accepted accounting principles (GAAP) and are free from material misstatement. The independent and external audit report is typically published with the company's annual report. The auditor's report is important because banks and creditors require an audit of a company's financial statements before lending to them.

MD&A requires analyses and discussions from officers and directors of a company and, due to the many components of the required information, SEC reviews and comments are often generated. Item 303 of Regulation S-K clarifies the required information for MD&A. The discussion in MD&A for quarterly reports on Form 10-Q is abbreviated from the requirements for the CAR on Form 10-K and registration statements and should concentrate on updating and supplementing the annual report discussion. Although quarterly reports must discuss each item enumerated below, the discussion is expected to be more focused, concentrating on the most relevant and material items. The SEC in the U.S. issued detailed interpretive guidance concerning the narrative disclosures, which facilitates the understanding of the required content.

### *1.3 Explore the Importance of the Narrative information*

The importance of narrative information to readers of CARs is discussed in the previous studies (Beattie, 1999; Rutherford, 2002; Beattie, McInnes & Fearnley, 2004). The researches in the U.K. (Lee & Tweedie, 1981; Bartlett & Chandler, 1997) show that narrative disclosures in CAR, including the Chairman's Letter, MD&A, and the notes to the financial statements, are widely used by both professional and non-professional stakeholders. Similar results are also found in the empirical researches in the U.S. and Canada. For example, Abrahamson and Amir (1996) found that information disclosed in the chairman's letter was useful in confirming firms with better than expected future business performances. Rodgers and Grant (1997) documented that the MD&A disclosure of the CAR provides a large proportion of information used by sell-side analysts in their reports, providing much more information than the financial statements. Thomas (1997: 47) investigated the president's letters to shareholders in a period of declining performance and realized that "as the news becomes more negative, linguistic structures suggest a factual, 'objective', the situation caused by circumstances not attributable to any persons who might otherwise be thought responsible". In addition, Clarkson, Kao and Richardson (1999) found that MD&A narratives of CARs offer a source of new and useful information to sell-side financial analysts and institutes, arguing that narrative information is significant to professional investors and institutes as well as nonprofessional investors. Similarly, Barron & Kile (1999) revealed that high-quality MD&A narratives and the dispersion in the analysts' earnings forecasts are closely related.

In a word, it is generally agreed that the narrative disclosure in the CAR is regarded as the crucial element in reaching the desired goal in the quality of financial reporting. As a major carrier of narrative information in the CAR, the narrative disclosure carries some importance accordingly and deserves more attention from researchers in the world.

## 2. Studies of the Narrative Information in the CAR

### 2.1 Approaches to studies of the narrative information

A variety of approaches have been adopted by different researchers to analyze the financial narratives in the CAR. Although focuses and perspectives vary across approaches, the ultimate objective of all the related studies is to improve the quality of narrative disclosure in the CAR and reveal the underlying motivation for the language use.

#### 1) Subjective ratings

In the U.S.A., subjective ratings are first used to measure the disclosure quality of narrative information in the CAR. Many studies resort to the analyst scores of disclosure quality offered by the Association of Investment Management and Research (AIMR). The reports of subjective ratings provide an overall picture of corporate communications with stockholders. Usually, an average of 27 industries is included in each year, and an average of 17 companies is rated by 13 analysts in each industry. Annual published information, quarterly and other published information concerning investor relations are separately assessed. However, the disclosure rankings were discontinued in the U.S. in 1997.

Lang and Lundholm (1993) argue that the ratings measure the information level of disclosure informativeness". They acknowledge that the data are based on analysts' perceptions of disclosure rather than direct measures of actual disclosure. Healy and Palepu (2001: 34) criticize these rankings for three reasons: the lack of clarity as to whether the analysts on the panels take the ratings seriously, the unclear basis on which firms are selected for inclusion, and the potential biases that analysts bring to the ratings.

In the other countries, it is another case with the subjective rating. Publicly subjective ratings are not routinely available and so researchers have had to approach analysts directly for the needed information (Clarkson, Kao & Richardson, 1999). Later, a variant on the use of analyst ratings emerges in the form of SEC ratings of the CAR compliance, which is a measure is used by Barron, Kile and O'Keefe (1999).

#### 2) Disclosure index

It is quite difficult to examine the disclosure quality directly, so some researchers propose the concept of disclosure index and it assumes that the amount of disclosure on specified topics reflects the quality of disclosure. Usually, they use a simple binary coding scheme, and the presence or absence of an item is recorded. Other coding schemes incorporate ordinal measures (often three levels), to allow for the 'quality' of the specific disclosure to be assessed. Generally, quantified disclosure scores 2, qualitative disclosure scores 1, and no disclosure scores 0. This is the approach adopted by Botosan (1997), who acknowledges that the disclosure quality is significant but quite difficult to check. Therefore, researchers tend to assume quantity and quality are positively related.

Robb, Single and Zarzeski (2001) carried out a topic-based analysis of non-financial disclosures in Australia, Canada, and the U.S. There the non-financial disclosure was defined as the qualitative information included in the CAR, excluding the four financial statements and related footnotes.

#### 3) Theme-based counts

Jones and Shoemaker (1994) study the literature on the information of accounting narratives and they believe that the recording unit for most researches is "themes" (which can be longer or shorter than a sentence), and words are the next most common unit used in the studies.

Smith and Taffler (2000) from the U.K. count both the words and themes in the chairmen's letters and both word- and theme-based counts relate specifically to the forecast of financial distress. The authors try to set up a powerful model to forecast the corporate failure based on the frequencies of some specific words in the chairmen's letter, like *overdraft*, *loans*, *disposal*, etc.

In the U.K., Rutherford (2002) finishes a detailed line-by-line coding of the OFR texts from 10 listed U.K. companies, according to the topic categories in the ASB guidance (ASB, 1993). Just over half of all disclosures are found to cover either the operating result for the period (38%) or investment for the future (13%).

#### 4) Readability

Jones and Shoemaker (1994) review 32 readability researches (26 of which address the narratives in the CAR). The readability test is designed to quantify the cognitive difficulty of texts and usually a readability formula, e.g. the Flesch index is adopted. Generally, the readability test is based on a statistic calculation of sentence length and word syllable count.



The computed score is compared to some benchmarks to assess the degree of reading difficulty of the text. It is generally agreed that narratives in the CAR are difficult or very difficult to comprehend. The readability of the financial narrative in the CAR can be an important index to decide the quality of narrative disclosure in the CAR.

#### 5) Genre analysis

Most linguists approach the CAR as a genre. Swales (1990: 45-47) first regarded the CAR as a specific genre, which shows “a shared set of communicative purposes as the principle feature that turns a collection of communicative events into a genre”. Bhatia (1993, 2004) defines genres as organized, structured, communicative events, motivated by various communicative purposes and performed by specific discourse communities.

Rutherford (2005) claims that the Operating and Financial Review (OFR) is a genre of accounting narrative, employing word frequencies to identify genre rules. A corpus of 419 narratives from CARs is built to study lexical choices based on word frequencies of all the narratives combined. He believes that less successful companies tend to use words with positive connotations more often than successful companies (pp. 349-375). Evidence of rhetorical ploys within the genre and of differences in word frequencies is also found, which suggests the existence of subgenres, related to the rhetorical situation in the CAR. Evidence of subgenres includes the differential propensity to employ positive language and differences in the rhetorical ploys adopted concerning marketing strategy, corporate recovery, self-reference, comparative analysis, and gearing (leverage). This research also sheds light on the value of a corpus linguistics approach in analyzing accounting narratives.

#### 6) Impression management

Impression management originates from social psychology, and then attracts the attention of researchers from different disciplines. In the study of narrative disclosure in the CAR, it refers to management’s attempts to manipulate the interpretation of disclosed data. Johnson, Rice and Roemmich (1980) first studied impression management in the CAR and they considered the issue of distortions in graph construction as a kind of impression management. They examined 50 CARs randomly selected from Fortune 500 companies in the U.S. These corporations included 423 graphs in their CARs over the period 1977-1978. Their findings suggested that at least one graph was incorrectly constructed in 42% of the CARs and 29.5% of all graphs reviewed were organized incorrectly.

Impression management in the CAR suggests that managers opportunistically take advantage of information asymmetries and use discretion in corporate narrative reporting by manipulating the presentation and disclosure of narrative information to “distort readers’ perceptions of corporate achievements” (Godfrey et al., 2003: 96). Just like the earnings management, impression management is taken as forming an inconsistency between the manager’s view of operational performance and the public view conveyed in corporate narrative disclosures (Healy & Wahlen, 1999: 368). Corporate narrative files are viewed to be potential vehicles for impression management and they can be used by the manager to present a self-biased view of corporate operational performance (Beattie & Jones, 2000; Clatworthy & Jones, 2006). Impression management covers emphasizing positive organizational results (enhancement) or obfuscating negative organizational performances (concealment), like by including more favorable earnings numbers in corporate narrative documents or by presenting positive organizational results more prominently than negative organizational results through positioning or highlighting. Negative organizational outcomes result in conflicts of interest between managers and stockholders, so managers are motivated to manipulate outsiders’ perceptions of the operational outcomes and the decisions made based on financial performance and prospects and engage in impression management (Aerts, 2005). Managerial motives mainly involve benefiting from increased compensation, especially via managerial stock options (Rutherford, 2003; Courtis, 2004).

Some impression management researches are explicit while some are implicit from the social psychology perspective. Impression management is regarded as a self-serving bias, and managers usually attribute the positive organizational results to internal factors and take responsibility for good performance but the negative organizational outcomes are attributed to the external factors and assign blame for bad performance (Clatworthy & Jones, 2003).

#### 2.2 *Studies of Financial Narratives in China*

During the recent decades, many western scholars, most of who are from accounting and management disciplines, have conducted some analyses on the accounting narratives in different approaches. However, there are not many scholars in China who have studied the narrative sections in CARs, and even fewer of them have studied this specific genre from the perspective of corpus linguistics. On the contrary, much work has been done on the studies of financial statements and statistical information. The government regularly offers directions and guidelines for the drafting of the CAR, but the narrative sections are seldom touched upon in the regulations. The related studies of narrative disclosures in the CAR are mainly undertaken by two categories of researchers, namely accounting and linguistic ones.

### 2.2.1 Accounting Researchers' Efforts

In China, researchers from accounting background are trying to analyze the CAR of Chinese listed companies and explore the features of each section in the CAR. Wang Xiao (2002) reviewed the MD&A system in the United States and summarized the major features of MD&A and then offered some suggestions for China's narrative disclosure system. Sun Manli (2005) studied the CAR from the perspective of impression management. Ge Weiqi (2007) analyzed the readability of 40 sample annual reporting narratives randomly selected from both 2001 and 2005 annual reports (Chinese and English versions) of the companies listed in Shenzhen Stock Exchange.

### 2.2.2 Linguistics Researchers' Efforts

The development of study on the narrative information in CAR by linguistic researchers is rather limited in China, because not only the number of researches is small, but also the research scope is very limited. The previous studies of the narrative section in the CAR can fall into two types.

The first type focuses on the genre analysis of Chairman's Statement or CEO's Letter, trying to explore the linguistic or rhetoric features. And the second type extends the researches into the field of readability of the narrative disclosure in the CAR with the help of statistics or corpus linguistics.

Hu, C. & Tan, J. (2017) studied the culture-specific metaphors in Chinese letters to shareholders. The investigation of Letters to Shareholders (2006-2015) of the Industrial and Commercial Bank of China indicates that the culture-specific metaphors in these letters have ideational, interpersonal, and textual metafunctions. In the field of the functional grammatical system, Li H. & Zhao Y. (2008) carried out a research on the CAR in terms of functional grammar and found out the specific lexico-grammatical features and how these lexico-grammatical features realized its context Chairman's Statement in the CAR. Not many linguists are found in the research and studies of the narratives in the CAR. Some master candidates have tried to explore the language features in the CAR. For example, Wu Jie (2007) conducts a descriptive and explanatory study of 80 CARs downloaded from the SEC website. After analyzing the communicative purposes within the framework of the Swalesian School, she comes up with its generic structure along with the obligatory and optional moves in the CAR, adopting the qualitative analysis approach. Then, the function of each move is analyzed and the rationale behind it is specified. The strategy analysis adopts the quantitative analysis involving the Wordsmith 4.0 software package, and the analysis concentrates on the lexical strategy after investigating the information and rhetorical strategies applied in the reports. Shang Kun (2013), taking the classification of conjunctions by Halliday and Hasan and corpus linguistics as the theoretical framework, compares the conjunctions in the self-built corpus of the CAR and Brown Corpus employing quantitative and qualitative research methods to explore the features of usage. He mainly analyzes conjunctions in the following aspects: the overall frequencies, the frequently used conjunctions, the patterns and positions of some individual conjunctions and tries to discover the underlying causes of the differences. In terms of high-frequency conjunctions, the high-frequency conjunctions account for more than two-thirds of the total conjunctions used in annual reports. As for the individual conjunctions, *and*, *however*, *as a result (of)* and *previously* are the four most frequently used conjunctions in each category and they can be put either at the beginning or in the middle of the sentences. The Chi-square tested results reflect that there are significant differences in the frequencies of most conjunctions used in CARs and Brown Corpus. Finally, this paper also makes initial research on the archaic words and the implicit conjunction used in the CAR.

## 3. Discussion of the Previous Studies

### 3.1 Comments on the Studies

Based on the previous review, the present paper argues that the extant research of narrative disclosures in the CAR can be expanded in the following two aspects.

First, they are essentially one-dimensional researches, but narrative disclosure is a complex, multi-faceted concept. The focus is generally centered on classifying the topic to which the information item refers to and often only the presence or the absence of a specific disclosure on a given topic is discussed. In general, little consideration is given to the complex nature of the narrative disclosures in the CAR. Researchers of accounting, finance, management, and linguistics have increasingly focused their efforts on investigating the narrative information and it is now recognized that there is an urgent need to develop an interdisciplinary approach to the study of narratives in corporate annual reports. Therefore, it becomes increasingly clear from the review that an interdisciplinary approach should be taken to analyze the language used in the CAR, which is related to management, linguistics, accounting, and so on. It is urgently necessary to set up a comprehensive and hierarchical framework to look at the language used in the CAR.

Second, most extant studies are partial in some sense, either because they examine only the MD&A systems or because they merely focus on the MD&A disclosure in one country. According to the review, not many researchers have undertaken a detailed comparative study of the narrative content of the MD&A from an interdisciplinary perspective.

A review of the achievements in relevant research fields does show that very few researchers have undertaken the comparative studies of MD&A texts from the perspective of corpus linguistics. Especially, the interdisciplinary and comparative analyses of this specific discourse are far from enough. Last, very few researchers in China have attached sufficient importance to the study of narratives in the MD&A. Therefore, this study is to conduct empirical and comparative studies on the MD&A of listed companies to explore their differences in the light of corpus linguistics, to help the MD&A producers and users prepare and read the MD&A effectively and efficiently, and at the same time make some pedagogical contribution to ESP teaching and learning.

### 3.2 Implication for the Business English

After World War II, English became the major communication language among different countries due to the American dominance in the world economy (Ren, 2016). Similarly, in the academic field, western scholars began to conduct researches on BE at an early time. In China, we started to pay attention to BE only because of the increasing number of trade and economic activities after the policy of “Reform and Opening Up”. Accordingly, universities and colleges have also begun to admit students to study BE as a major. Because of the complexity of the research background, the definitions of BE from different scholars at home and abroad are divergent. BE is the product of the interaction process of business communication. BE carries the information of business theories and practice; without the information of business in the language, it cannot be called BE.

In China, the major of BE is getting increasingly popular among the students and colleges. Against this background, the Ministry of Education issued a document of guidelines to direct the development of BE education in China. The author tentatively proposes a Double-winged model for BE in China, enlightened by the requirements on BE education from the Ministry of Education.

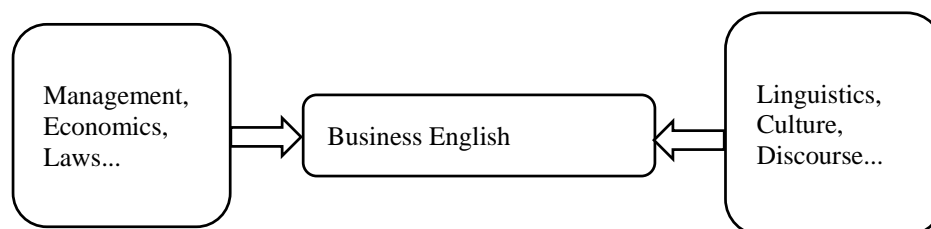


Figure 3.1 Business English Model (Double-wing Model)

Obviously, the linguistic competence is a necessity for BE majors. Besides the language courses, it is also important for the BE students to take courses concerning management and economics. With the double wings, the BE learners should fly high up in the sky of BE world.

## 4. Conclusion

CARs are widely read by various users for different purposes, and well-regulated or standardized reports with adequately arranged information exposition may be greatly beneficial to the users. However, the narrative information is currently less regulated than financial statements, and the management enjoys many more advantages on the narrative information than the other stakeholders. Previous studies are mainly carried out from a single perspective because most researchers are either linguists or accounting scholars or management researchers. Therefore, an integrated approach of linguistics, finance, and management will be of great significance.

Besides, the interdisciplinary analytical model for BE studies will be quite referential further studies. It could result in improvements in the studies of BE. And the results of the interdisciplinary investigation concerning different uses of linguistic resources across the different varieties of English narratives of CARs will be instructive for Chinese ESL/EFL writers and readers to compose and read the English narratives. The findings can also shed light on the teaching of BE

as an ESP (English for Special Purpose) in the Chinese context and narratives in CARs are useful and reliable first-hand resources for teaching and learning BE in China (Ren & Lu, 2021).

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

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## 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-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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