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How the Covid-19 Pandemic Shaped China's Trade Policy



Containers stacked up in Shanghai waiting to be shipped.
Photo credit: SPC Logistics

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International trade faced a devastated impact due to the Covid-19 Pandemic. The Covid-19 Pandemic changed not only citizens' lifestyles, but also the economic environment worldwide. Under the impact of Covid-19, the global economy struggle by forcing countries to regress in many ways. China, being one of the major developing countries of the world which is extremely connected to global supply chains became vulnerable. As a world center of original equipment manufacturing (OEM) and a manufacturer of low value products, Chinese economic development heavily binds itself with international trade in global market. China's economic recession during this time period became increasingly obvious. Previously, under the influence of rising labor costs and the China-US trade war, China's original international market position has been challenged. The rise of Covid-19 Pandemic caused China's economic situation to further deteriorate. From January 2020 to February 2021, China's total import and export of goods was 6,176.8 billion yuan, a year-on-year decrease of 0.8%. China seems to have an urgency to modify the current import and export policies in order to ensure that the Chinese economy would get back on the right track. The Chinese Government Work Report pointed out that the main expected goals for this year's development are to promote the stability of international trade and quality of imports and exports in order to balance the government financial income and expenditure.

The change of the Chinese importing and exporting policy heavily impacted the demand of consumer goods and the national economic development. On the perspective of importing, the policy will be likely to be adjusted by Chinese government to decrease tariffs. From January 1, 2022, the overall tariffs on imported products decrease from 7.4% to 7.3%. The Chinese government still maintains a low tariff for anti-Covid medical equipment and products to avoid the public health hazards. Also, due to the impact of the Covid-19 Pandemic, a lockdown policy in China caused the disruption of agricultural product production activities, which caused the Chinese society to face an even more serious food self-sufficiency situation. In 2023, the self-sufficiency ratio of agricultural product fell from 93.6 to 65.8. Due to the decrease of self-sufficiency in agricultural products, the Chinese Government began to focus decreasing tariffs on agricultural products in order to ensure that imports in corn, soybeans, and cereals can be introduced to the Chinese domestic market.



Qu Dongyu, Director-General of the U.N. Food and Agriculture Organization
Credit: Foreign policy Illustration AP

In addition, under the impact of decrease on the self-sufficiency rate on agricultural products, the import and export policy which was established by Chinese government during the trade war might also had to be adjusted. The Chinese Government also considered the modification on the tariff type to decrease the tariff indirectly. According to Agricultural Work Report from Office of Agricultural Affairs, frozen chicken products from the US were no longer to be charged on weight of product but charged by the total import value. In addition, the tariff on the sunflower seeds,

cashews, and cooking oil from US might also be decreased by Chinese government to ensure the agricultural product production in China in 2023. In the other words, under the impact of Covid-19, Chinese government have no choice but to change the tariff which were established for China-US trade war. Its new policies were aimed to relieve China from the current food self-efficiency deficit.

The change on the tariff on the agricultural product will not be recognized as the only change which made by Chinese government on its import and export policies. In 2023, “expanding domestic demand” is still the keywords and long-term guideline for Chinese government to follow for the adjustment of import and export policy. The policy of expanding domestic demand is generally based on the development of domestic demand of consumer goods. The production capacities which were used to export to the foreign countries will be served for the domestic market needs. Before the Covid-19, Chinese domestic market demand on consumer goods was satisfied by international enterprises instead of domestic companies. In this circumstance, the domestic companies found it difficult to compete with the international firms. From this perspective regarding on consumer behavior patterns in China, the average Chinese consumer prefer using imported products since imported products usually maintained a high product quality compared with Chinese domestic products.

To improve the overall demand on the consumer products produced by domestic companies, the Chinese government seeks to improve the quality of their products. Huawei, BYD, and other leading companies in China are protected by Chinese government through adding tariffs on the importing products. The electronic components and other high-tech products which were imported from foreign nations received additional tariffs in order to block them from participating in the Chinese market. The current tariff applied to products which include aerospace, information and communication technology, medical devices, chemical applications, transportation, and robotics. By adding tariffs on these products, the Chinese Government directly decrease competition in the Chinese marketplace for the short term.

Leaving more time for domestic companies to develop their competencies on the production of high value-added products is the first step for Chinese government to change the position of Chinese companies in the global supply chain. Under the impact of Covid-19, the national income from the low value adding products is highly impacted by the decrease of demand from the foreign countries, since the CPI of foreign countries are rising which is weakening the foreign country consumers' purchasing power. For example, in Australia, the CPI rose to 49.05 which is the highest CPI index since 1950. The rise of CPI causes the decrease of purchasing power, since the disposal income from foreign consumers decreased significantly. The decrease of the disposal income leads to the decrease of the exporting activities in China. The Chinese government considered changing China's position in the global supply chain through the development of the high-tech industries in China. It became another reason for Chinese government to issue the tariff and quotas to limit importing foreign electrical products and other high value adding products. Through the limiting on the importing of foreign products, the Chinese Government will be able to decrease of dependance

of Chinese domestic company on the foreign product components and patents for the production of high-tech products in China.



Nanjing First Hospital implements citywide mass testing for the coronavirus disease (COVID-19) in the Jiangsu province, China. July 2021. Photo Credit: REUTERS/File Photo

Despite the change of tariffs under the impact of Covid-19, the Chinese Government also sought to modify the tariff to increase the resilience of business entities in China. Due to the lockdown policies in China and strict traveling policy, Chinese organizations were disrupted from manufacturing and business operating activities. The continuous rise in the number of organizations which are bankrupt caused an increase in the unemployment rate in China. In the current period, the Chinese Government is under a significant impact on the rise of unfavorable attitudes from citizens, which was caused by the impact of the personal income under zero strict lockdown policy. The social movement, such as the white paper movement caused a severe public relations crisis in China which impacted the Chinese Government's reputation and credibility.

In order to solve the business operation issue and relieve Chinese citizens from the unfavorable attitude to Chinese Government, the Chinese Government also considered limiting exporting raw materials which were usually sent to foreign countries. For example, in 2022, China started to limit the exporting of coal to Australia and increasing the production capacity for domestic mining companies. Other polices, such as setting quota for importing foreign jewelry products also implemented by Chinese Government after the Covid-19 to increase the company resilience and motivate companies to create more working opportunities for Chinese citizens. "The Chinese Government has made immense efforts to not let its economy slide into a recession and bring it back on track as soon as possible. The vast number of support policies are targeted, in particular, at

companies operating in industries crucial both during the outbreak (e.g., health care & medical supplies, transportation and logistics, agriculture) as well as for China's future economic development (e.g., information technology, communications, critical manufacturing, energy)" indicated by Engelhardt and Jackie Yang in 2022. The change of the import and export strategy is an important process to ensure the Chinese economy to be back on the right track in a brief period of time and increase economic stability for the Chinese society. Otherwise, the Chinese Government's authority would be challenged and questioned by the Chinese public in the future.

In general, the Chinese Government, under the impact of Covid-19 pandemic maintained a strong need to modify import and export policy. The decrease of the self-sufficiency on the agricultural product, providing opportunities for Chinese companies to achieve further development on manufacturing of high-tech products, and solving the public relationship crisis through the development of resilience became the key incentives for Chinese Government to consider changing import and export strategies for China.

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