



ЭКОНОМИКА РАЗВИТЫХ И РАЗВИВАЮЩИХСЯ СТРАН ECONOMY OF DEVELOPED AND EMERGING COUNTRIES

DOI 10.22363/2313-2329-2021-29-3-575-586

UDC 338

Research article / Научная статья

What's happening to the locomotive of global economy, or The myths about the recovery of China

Marina S. Reshetnikova✉, Irina A. Pugacheva

*Peoples' Friendship University of Russia (RUDN University),
6 Miklukho-Maklaya St, Moscow, 117198, Russian Federation*

✉ reshetnikova-ms@rudn.ru

Abstract. The COVID-19 pandemic has caused irreparable damage to all economies. Coping with the consequences by the leading players in the global economy is only expected. However, the world's leading organizations have been trumpeting about overcoming the crisis in China. The aim of the research is to analyze the current state of the Chinese economy and answer the question whether it has overcome all the crisis phenomena. As part of the study, the authors analyzed indicators such as GDP, debt level, level of domestic demand, activity in the financial market and the M&A market, as well as technological and social policies of China and the structure of trade. For the analysis of quantitative indicators, a combination of comparison and classification methods, media scanning, and crowdsourcing was used. The information base was grounded on annual reference books published by official institutions in China, World Bank, International Monetary Fund, statistical data from international publications devoted to Chinese economy. The analysis showed the presence of trigger situations in the stock market, in the market for innovative investments and the banking sector. The state of the credit system is also a matter of concern. The authors have proven that enthusiastic statements about the rapid recovery of the Chinese economy are more an encouraging myth than a fait accompli. Today, China is only at the beginning of its recovery from the crisis caused by the pandemic. Will it be able to become the locomotive of global economic growth again, as in 2008? The answer to this question remains open.

Keywords: China, COVID-19, economy recovery, M&A, debt, trade balance, internal demand

Acknowledgements: The article was prepared with the financial support of the RUDN University Economic Faculty, project No. 060326-0-000.

Article history: received 10 April 2021; revised 1 June 2021; accepted 15 June 2021.

For citation: Reshetnikova, M.S., & Pugacheva, I.A. (2021). What's happening to the locomotive of global economy, or The myths about the recovery of China. *RUDN Journal of Economics*, 29(3), 575–586. <http://dx.doi.org/10.22363/2313-2329-2021-29-3-575-586>

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Что же происходит в экономике «мирового локомотива», или Мифы о восстановлении Китая

М.С. Решетникова✉, И.А. Пугачева

*Российский университет дружбы народов,
Российская Федерация, 117198, Москва, ул. Миклухо-Маклая, д. 6*

✉ reshetnikova-ms@rudn.ru

Аннотация. Пандемия COVID-19 нанесла непоправимый ущерб экономикам всех стран. Предполагается, что ведущие игроки мировой экономики только начинают справляться с ее последствиями. Однако ведущие мировые организации уже сообщают о преодолении кризиса в Китае. Цель статьи – проанализировать текущее состояние экономики Китая и ответить на вопрос, преодолела ли она все кризисные явления. В рамках исследования проанализированы такие показатели, как ВВП, уровень долга, уровень внутреннего спроса, активность на финансовом рынке и рынке слияний и поглощений, а также технологическая и социальная политика Китая и структура торговли. Для анализа количественных показателей использовалось сочетание методов сравнения и классификации, медиасканирования и краудсорсинга. Информационная база основана на ежегодных справочниках, издаваемых официальными учреждениями Китая, Всемирного банка, Международного валютного фонда, статистических данных из международных изданий, посвященных экономике Китая. Анализ показал наличие триггерных ситуаций на фондовом рынке, на рынке инновационных инвестиций и в банковском секторе. Состояние кредитной системы также вызывает озабоченность. Доказано, что возторженные заявления о быстром восстановлении китайской экономики являются скорее обнадеживающим мифом, чем свершившимся фактом. Сегодня Китай находится только в начале выхода из кризиса, вызванного пандемией. Сможет ли он снова стать локомотивом глобального экономического роста, как в 2008 году? Ответ на этот вопрос остается открытым.

Ключевые слова: Китай, COVID-19, восстановление экономики, M&A, госдолг, торговый баланс, внутренний спрос

Благодарности: Статья подготовлена при финансовой поддержке экономического факультета Российского университета дружбы народов, проект № 060326-0-000.

История статьи: поступила в редакцию 18 апреля 2021 г.; проверена 1 июня 2021 г.; принята к публикации 15 июня 2021 г.

Для цитирования: *Reshetnikova M.S., Pugacheva I.A. What's happening to the locomotive of global economy, or The myths about the recovery of China // Вестник Российского университета дружбы народов. Серия: Экономика. 2021. Т. 29. № 3. С. 575–586. <http://dx.doi.org/10.22363/2313-2329-2021-29-3-575-586>*

Introduction

It is not easy to make analytical reviews on national economies in the post COVID-19 period. Before the pandemic outbreak, “uncertainty” was more applicable to analysing theoretical global economic processes. Now, it can be safely used when assessing almost all participants in economic activity at all levels.

“Expected results” are the primary epithet of economic analysis today for nearly all indicators (GDP, capital investment, growth in household income). Unfortunately, analytical forecasts today are more like worrying predictions.

Overcoming the COVID-19 pandemic by the leading players in the global economy is only expected. However, this, for some reason, categorically does not apply to the analysis of the Chinese economy. Starting this year, the World Bank, the International Monetary Fund, and analytical agencies like Bloomberg have been trumpeting about overcoming the crisis in China.¹ From their perspective, the following image is appropriate: the locomotive of global growth, having stood for a while on a covid platform, rushed forward, dragging the entire world economic space with it.

However, such a hasty admiration for Beijing's achievements is surprising. First, only facts presented by the government and state institutions are used to compile victorious reports on the economy's recovery. There is an excessive utopianism in the assessment of Beijing's real economic achievements. Trigger situations on the stock market, the innovative investment market and the banking sector serving it, the state of the credit system are not considered. Moreover, their condition is complicated. It can hardly be called "fantastically successful." So, what is going on in the economy of the "white swan pulling the growth of the global economy?" Furthermore, what is the reality of the myth of its economic recovery? The aim of the article is to analyse the current state of the Chinese economy and answer the question whether it has overcome all the crisis phenomena.

Materials and methods

The main methods used in this study were the systemic and dialectical approaches to studying changes in economic trends in the development of the Chinese economy.

For the analysis of quantitative indicators, the authors used a combination of comparison and classification methods, media scanning, and crowdsourcing. The information base was based on annual reference books published by official institutions in China, World Bank, International Monetary Fund, statistical data from international publications devoted to Chinese economy, articles, and monographs of economists. The main scientific provisions of this work were developed by the authors independently.

Research results and discussion

Let us start with the positive factors. Knowing the peculiarities of Chinese statistics and, if we accept the condition that the data correspond to reality, then the results of the PRC on the post-like recovery of the national economy are awe-inspiring.

The National Bureau of Statistics of China, on January 18, 2021, published a report on the main achievements of the national economy. GDP growth in 2020

¹ World Bank. (2020). *From recovery to rebalancing: China's economy in 2021*. <https://doi.org/10.1596/35014>; International Monetary Fund. Asia and Pacific Dept. (2021). *People's Republic of China staff report for the 2020 Article IV Consultation* (Country Report No. 2021/006). Retrieved April 12, 2021, from <https://www.imf.org/en/Publications/CR/Issues/2021/01/06/Peoples-Republic-of-China-2020-Article-IV-Consultation-Press-Release-Staff-Report-and-49992>; Bloomberg News. (2021). *China joins U.S. as engine of global recovery with record growth*. Retrieved May 16, 2021, from <https://www.bloomberg.com/news/articles/2021-04-16/china-s-economy-soars-by-record-a-year-after-pandemic-slump>

amounted to 2.3% (about \$ 15.42 trillion). According to Bloomberg, the highest growth rate of the national economies in 2020 (Figure 1).

The volume of capital investment in the industrial sector increased by 2.9% compared to 2019. Investments in high-tech services increased by 9.1%, and in high-tech production – by 11.5%. Almost 12 million new jobs have been created, with 45% in the high-tech sector. The share of the tertiary sector in GDP reached 54.5%, which corresponds to an increase of 0.2% annually (Figure 2).²

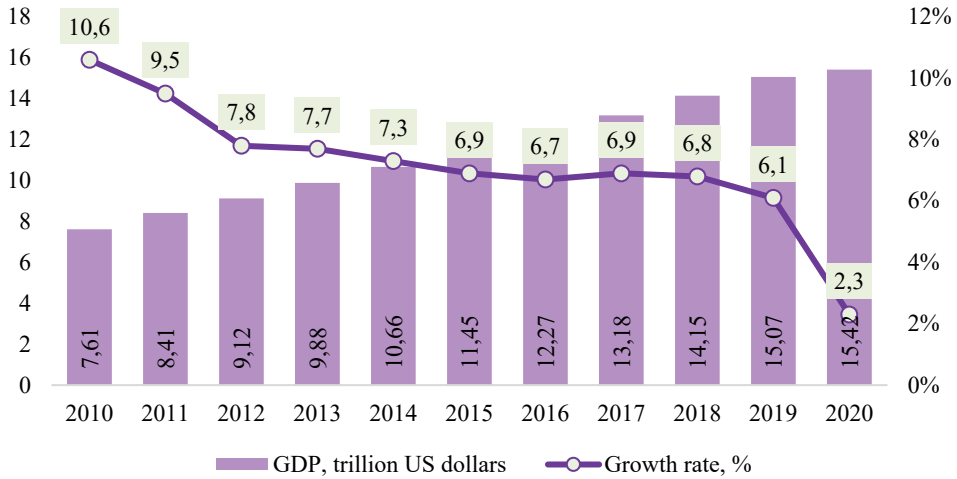


Figure 1. China's GDP dynamics 2010–2020

Source: compiled by the authors based on the data of the National Bureau of Statistics of China, 2021.³

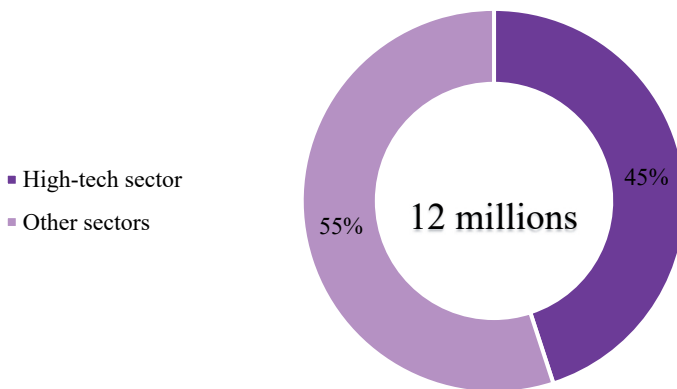


Figure 2. Structure of new jobs in the industrial sector in China

Source: compiled by the authors based on the data of the National Bureau of Statistics of China, 2021.⁴

² National Bureau of Statistics of China. (2021). *National economy recovered steadily in 2020 with main goals accomplished better than expectation*. Retrieved May 16, 2021, from http://www.stats.gov.cn/english/PressRelease/202101/t20210118_1812432.html

³ Ibid.

⁴ Ibid.

In 2020 for the first time in Chinese history, the Government made a social reform aimed at creating a social insurance and pension system. Today, the social insurance system covers almost 95% of the population, which is 1.36 billion people (Dong, Park, 2019). It is the world's most extensive social protection system for citizens. The pension system covers over 1 billion people and guarantees them monthly payments. For reference, this is one-third of the world's population covered by the pension system (Dong, Wang, 2016). Social reform began to be prepared back in 2009. Its main goal is to transform the behavior of the Chinese population. It is expected that its implementation will make it possible to reorient it from accumulation towards increasing consumption. According to experts, the Government intends to spend more than \$ 1.5 trillion annually on this social reform (Chen, 2017). Beijing has that kind of money.

The beginning of 2021 was also quite optimistic from the point of view of overcoming the crisis phenomena. According to the Ministry of Industry and Information Technology, industrial production growth in the first two months of 2021 amounted to 3.5% compared to the same period in 2019.⁵

The growth of industrial enterprises profits especially of small and medium-sized businesses in China in the first two months of 2021 amounted to 72.1%, compared to the same period in 2019. The profit of the largest state-owned corporations by the end of the first quarter showed an increase of 31.1% compared to the pre-crisis period Dec 2019 (Figure 3).⁶

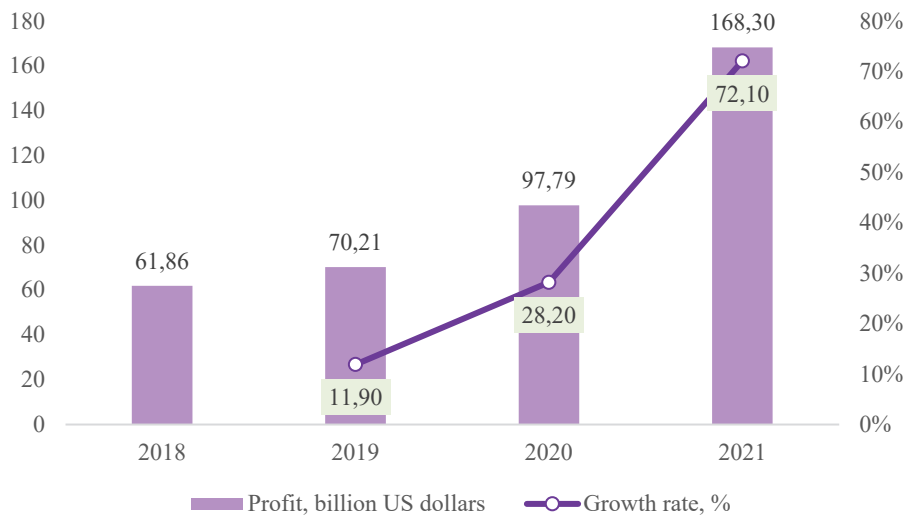


Figure 3. Profit of industrial enterprises, billion US dollars

Source: compiled by the authors based on the data of the State Council Information Office, 2021.⁷

⁵ State Council Information Office. (2021). SCIO briefing on development of China's industry and information technology in the first quarter of 2021. Retrieved May 16, 2021, from http://english.scio.gov.cn/pressroom/node_8023688.htm

⁶ Ibid.

⁷ Ibid.

The positive dynamics of economic recovery are also observed for several indirect signs. For example, electricity consumption in the first quarter increased by 21.2%, mainly due to small and medium-sized enterprises (SMEs).⁸ In addition, the growth in Russian gas exports through the Power of Siberia pipeline grew 3.2 times in annual terms.⁹

In March, according to the statement of the National Bureau of Statistics of China, the volume of domestic air transportation almost completely recovered.¹⁰

Since the beginning of 2021, Chinese companies have set a record for M&A transactions. Their volume, according to Refinitiv, amounted to an unprecedented amount of \$ 77.5 billion, which is almost three times higher than their level for the same period in 2020.¹¹ However, it should be noted that this behavior is not at all typical for Chinese companies. As a rule, the beginning of the year is not the most active period for Chinese M&A.

The main activity of M&A deals is in the high-tech sector, medicine, and logistics. Activity in the high-tech sector and medicine is expected. It builds on the launched import-substitution strategy aimed at reducing the dependence of the high-tech sector on foreign technologies and combating the consequences of the COVID-19 pandemic. These are the upward trends in Chinese M&A deals for years to come. In turn, the growth in the number of transactions in the field of logistics is a new trend in national M&A. An example is the recent takeover of Kerry Logistics by the Chinese courier service SF Holding. The deal was worth \$ 2.3 billion.¹² Equally impressive is the takeover of CJ Rokin, China's oldest logistics company, by FountainVest Partners, a private equity firm headquartered in Hong Kong, for \$ 2.1 billion.¹³ The rapid and massive growth in the popularity of e-commerce during the pandemic.

A particular surprise for the experts was a noticeable increase in M&A deals in construction companies. So, the cement manufacturer Xinjiang Tianshan ab-

⁸ Xinhua. (2021, February 6). *China's power consumption to increase 6–7 pct in 2021: Electricity council*. Retrieved April 16, 2021, from http://xinhuanet.com/english/2021-02/06/c_139726554.htm

⁹ Gazprom, Information Directorate. (2020, December 2). *Power of Siberia's first year: Reliable operation, increased supplies, above-target amounts*. Retrieved February 16, 2021, from <https://www.gazprom.com/press/news/2020/december/article519895/>

¹⁰ National Bureau of Statistics of China. (2021). *National economy recovered steadily in 2020 with main goals accomplished better than expectation*. Retrieved May 16, 2021, from http://www.stats.gov.cn/english/PressRelease/202101/t20210118_1812432.html

¹¹ Chen, N. (2021, February 10). *Wisdom to nurture ambition, data to enable the future – 2021 China financial market forecast*. Retrieved February 16, 2021, from <https://www.refinitiv.com/perspectives/future-of-investing-trading/wisdom-to-nurture-ambition-data-to-enable-the-future-2021-china-financial-market-forecast/>

¹² Baigorri, M., Chan, V., & Chan, C. (2021, February 10). *SF Holding to take over Kerry Logistics for \$2.3 billion*. Retrieved February 16, 2021, from <https://www.bloomberg.com/news/articles/2021-02-09/chinese-courier-sf-to-take-over-kerry-logistics-for-2-3-billion>

¹³ PitchBook. (2021, February 11). *FountainVest to acquire CJ Rokin in \$1.1B deal*. Retrieved February 16, 2021, from <https://pitchbook.com/newsletter/fountainvest-to-acquire-cj-rokin-in-1-1b-deal>

sorbed four regional competitors for 98 billion yuan (\$ 15 billion).¹⁴ True, it is not very clear why this became so unexpected, since, from the second quarter of 2020, the development of national infrastructure projects has been recognized by Beijing as one of the primary triggers of economic recovery. By the third quarter, analysts at the CCID Think Tank Electronic Information Institute, a government think-tank, and Haitong Securities, a major Chinese securities firm, valued government investment portfolios associated with new infrastructure projects at \$ 1.43 trillion.¹⁵ This amount is expected to rise to \$ 2.51 trillion by 2025.¹⁶ Twenty-five provinces are actively involved in the development of infrastructure projects, implementing their local plans. Most impressive is Shanghai's plan, which has set an overall investment target of \$ 38.7 billion over the next three years.¹⁷

The question involuntarily arises: “Where will the government of China get such colossal financial resources?” Indeed, according to the Ministry of Commerce of the PRC, budget revenues in 2020 fell by 3.9%, which is \$ 2.8 billion, including tax revenues of individuals, decreased by 2.3% (\$ 1.7 billion). Revenues from value-added tax, the primary source of budget income, fell by 8.9% (to \$ 6.4 billion), consumption tax by 4.3% (\$ 3.1 billion).¹⁸ Yes, of course, the Government can turn on the printing press again. Neither state financial regulators nor the Central Bank, which do not play an independent role, will prevent this. However, it is impossible to print yuan indefinitely. There is already too much of it since 2015.

The result of such a difficult economic situation was an unprecedented debt increase in China. By the end of 2020, it amounted to 58.7% of GDP (Figure 4). A debt of the non-financial sector (industry + government + households) reached 280.3% of GDP, which is very close to that of the United States.¹⁹ However, there is also the so-called “hidden debt” – the local debt of the state, hanging on the balance sheet of state financial institutions. Financial regulators estimate its value at \$ 12.9 trillion.²⁰ At the same time, for some reason, analysts predict prosperity for the Chinese economy and the US economy – a quick death.

Perhaps the world leaders of economic growth will again come to China's aid. First, the US economy and some EU countries, despite the apparent difficulties, are beginning to overcome the crisis phenomena.

¹⁴ Refinitiv. (2021). *China mergers & acquisitions review. First quarter 2021*. Retrieved March 10, 2021, from <https://thesource.refinitiv.com/TheSource/getfile/download/a9f4db7f-f799-4539-9c29-1803b8e4a581>

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ Kawakami, T. (2021, January 21). China to pump \$1.6tn into tech infrastructure through 2025. Retrieved March 10, 2021, from <https://asia.nikkei.com/Business/China-tech/China-to-pump-1.6tn-into-tech-infrastructure-through-2025>

¹⁸ Ministry of Commerce of the People's Republic of China. (2021, June 4). *MOFCOM Regular Press Conference (June 3, 2021)*. Retrieved June 12, from <http://english.mofcom.gov.cn/article/newsrelease/press/202106/20210603069409.shtml>

¹⁹ Lee, A. (2021, June 5). *China debt: Has it changed in 2021 and how big is it now?* Retrieved June 12, 2021, from <https://www.scmp.com/economy/china-economy/article/3135883/china-debt-has-it-changed-2021-and-how-big-it-now>

²⁰ Ibid.

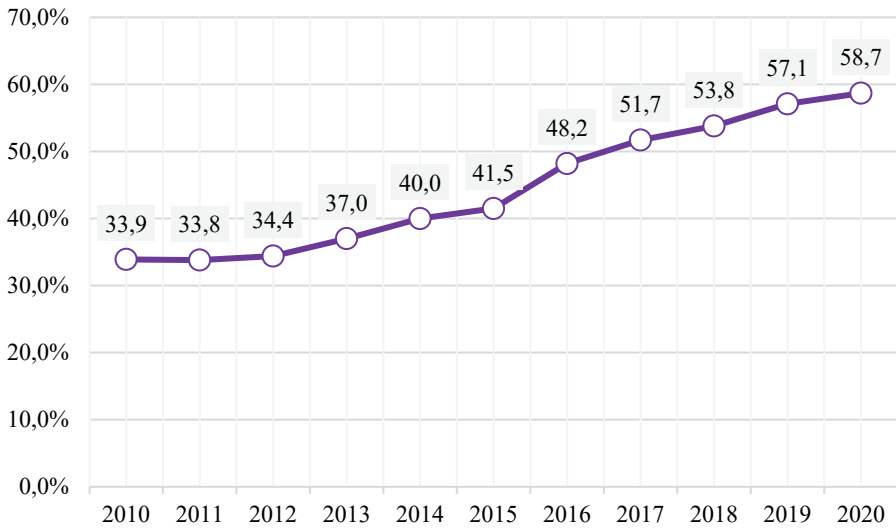


Figure 4. China's public debt, % of GDP

Source: compiled by the authors based on the data of the State Council Information Office, 2021.²¹

The trade balance is traditionally an essential factor for the Chinese economy. Export earnings since the beginning of Deng Xiaoping's economic reforms have been the cornerstone of its growth. For many years, China's stability has relied on exports, on large-scale production of cheap and not very high-quality consumer goods, and then medium-quality products of the high-tech sector. Unfortunately, the COVID-19 pandemic has hit significant buyers of Chinese products. In the first two months of 2020 alone, China's foreign trade fell by 11% (\$ 591.9 billion).²² Moreover, now salvation has come for Beijing's economic recovery plan.

According to The National Bureau of Statistics of the People's Republic of China, there is a sharp increase in the volume of foreign trade in the first quarter. It reached 41.2%, which corresponds to \$ 834 billion. For the entire 2019, it amounted to \$ 662 billion.²³

There is a specific recovery in domestic demand, primarily due to the growth of online trading volumes. The first quarter alone exceeded \$ 1.81 trillion, which is 10.9% more than the same indicator of the pre-crisis level. At the same time, the situation in the offline trading sector is not yet so optimistic. The fall of 12% that happened in 2020 has not yet been won back (Figure 5).²⁴

²¹ State Council Information Office. (2021). SCIO briefing on development of China's industry and information technology in the first quarter of 2021. Retrieved May 16, 2021, from http://english.scio.gov.cn/pressroom/node_8023688.htm

²² Ministry of Commerce of the People's Republic of China. (2021, June 4). *MOFCOM Regular Press Conference (June 3, 2021)*. Retrieved June 12, from <http://english.mofcom.gov.cn/article/newsrelease/press/202106/20210603069409.shtml>

²³ Ibid.; National Bureau of Statistics of China. (2021). *National economy recovered steadily in 2020 with main goals accomplished better than expectation*. Retrieved May 16, 2021, from http://www.stats.gov.cn/english/PressRelease/202101/t20210118_1812432.html

²⁴ National Bureau of Statistics of China. (2021). *National economy recovered steadily in 2020 with main goals accomplished better than expectation*. Retrieved May 16, 2021, from http://www.stats.gov.cn/english/PressRelease/202101/t20210118_1812432.html

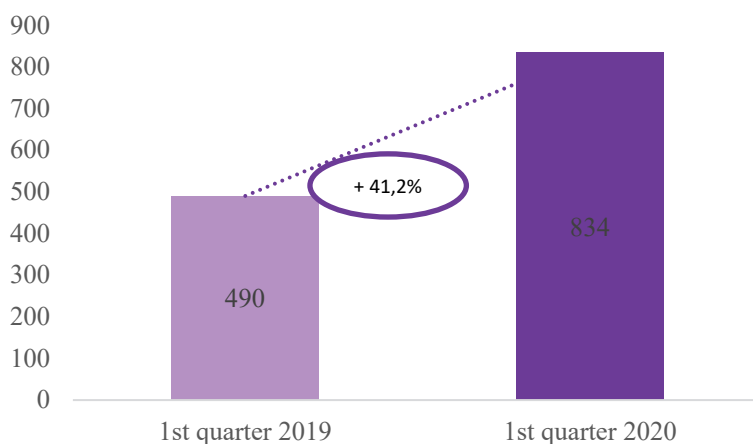


Figure 5. China's foreign trade growth, USD billion

Source: compiled by the authors based on the data of the Ministry of Commerce of the People's Republic of China, 2021 and the National Bureau of Statistics of the PRC, 2021.²⁵

First, due to the decline in sales of the automotive and electronics industries. With cars, perhaps everything is clear. Where will you travel with the permanent possibility of announcing the subsequent covid lockdown? With the sinking of the sales of electronic gadgets with the all-consuming love of the Chinese population for their purchase, the question is open. Is everything all right with the finances of the population of the “recovered” economy? The cotton trade war that engulfed the internal market of China looks strange against the same background. The boycott of the purchase of textile products from H&M, Converse, Adidas, and Calvin Klein due to their refusal to use Xinjiang cotton is too large-scale, supported by the state. Maybe in this way, the Government is trying to disguise another drop in sales on the domestic market.

Nevertheless, the growth of the trade balance had a positive effect on the state of the economy. As mentioned earlier, the first quarter saw positive changes in the Chinese industrial sector. There is also a significant increase in the inflow of direct investment, primarily in the high-tech sector. In the first quarter, it was 4%.²⁶

Here the first fiddle is played by the US stock market. We can say that the situation with Chinese companies is wild. In the first quarter of 2021, the growth of investments in companies from China amounted to 440% compared to 2020, almost a record \$ 11 billion.²⁷ The question involuntarily arises: “What is this – a sign of confidence of American investors in the completion of the technological confrontation between the two countries against the background of overcoming post-like economic difficulties by Beijing?” Nope.

²⁵ Ministry of Commerce of the People's Republic of China. (2021, June 4). *MOFCOM Regular Press Conference (June 3, 2021)*. Retrieved June 12, from <http://english.mofcom.gov.cn/article/newsrelease/press/202106/20210603069409.shtml>

²⁶ Ibid.

²⁷ Handley, L. (2021, May 31). *Chinese consumers are spending. UBS picks the stocks to cash in*. Retrieved June 12, 2021, from <https://www.cnbc.com/2021/05/31/china-stock-picks-chinese-shares-to-buy-as-consumers-get-richer-ubs.html>

The confrontation has not yet been canceled. On the contrary, Biden extended actions taken by the Trump administration in May 2020, changes to the Foreign Direct Product Rule (rules for controlling goods manufactured abroad, but having American-made components, technology, or software). Moreover, this is the continuation and consolidation of the blow to Chinese production, first, of semiconductor-based products. Thus, Beijing's dream of becoming a world center for the development of artificial intelligence in 2030 remains under attack. Furthermore, the utopian belief of American investors in Beijing's ability to be the first to overcome difficulties in the economy has nothing to do with it either. Undoubtedly, this is a consequence of the unprecedented pumping of the US economy with new tranches by the Biden government, which began in the new year. “Baydonomics” – this is how analysts defined this style of overcoming economic difficulties, a definition quite humiliating for the world's first economy. However, these are the problems of the US leadership, and at first glance, they have nothing to do with the topic of our research.

However, is it so? In China, there is an alarming situation in the stock market, in the market for innovative investments and the banking sector serving it, and the state of the credit system. By the first quarter of 2021, the capitalization of the Chinese stock market reached a 5-year high. Its growth amounted to 318% of GDP. This is a colossal amount, 85% of which is a private investment like in 2008. True, then the growth amounted to “only some” 140% of GDP. In 2008, Beijing was able to flood the overheated stock market with unsecured yuan. Now the situation is entirely different. In 2021, we are seeing more than just overheating. There has never been a “bubble” of this magnitude in the history of the world economy (Figure 6).

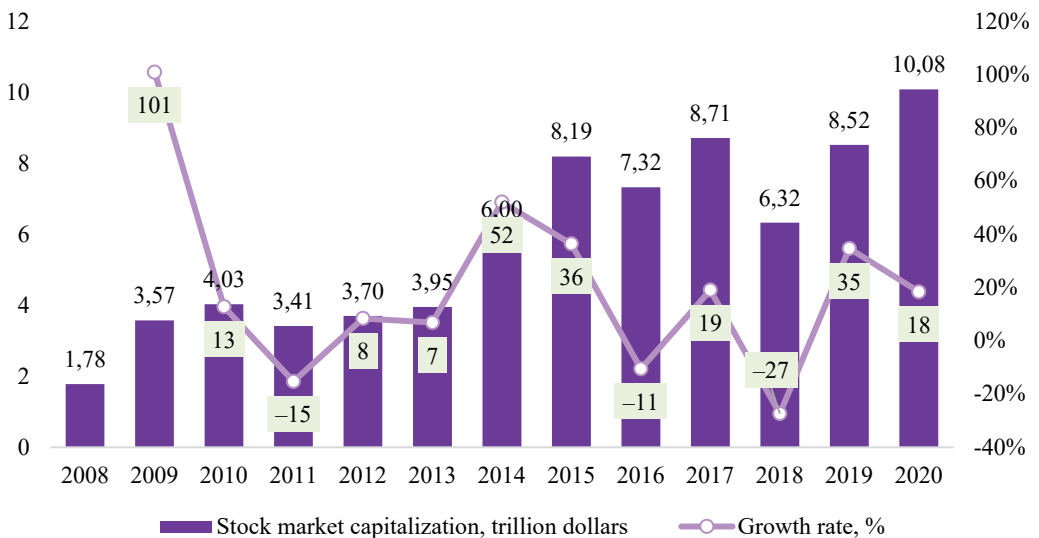


Figure 6. China stock market capitalization, 2008–2019

Source: compiled by the authors based on the data of the Ministry of Commerce of the People's Republic of China, 2021 and the National Bureau of Statistics of the PRC, 2021.²⁸

²⁸ Ministry of Commerce of the People's Republic of China. (2021, June 4). *MOFCOM Regular Press Conference (June 3, 2021)*. Retrieved June 12, from

Where do the funds that feed this “bubble” come from? Yes, all from the same place (Reshetnikova, 2020). Only the Government of Xi Jinping singles them out. For post-coronavirus recovery, Beijing sent \$ 785 billion to the economy. Some of it was to help industrial enterprises and banks, and some – to the previously mentioned development of infrastructure facilities. It seems that almost all of them went to warm up the stock market. So maybe we will help predictive analysts and introduce a new term characterizing the current state of the Chinese economy – “Xijin Pinoeconomics.”

The situation with private loans also complicates the situation. In 2020 alone, Chinese banks issued them for \$ 3 trillion, with 20% of them accounted for by inclusive financing, including lending to small and medium-sized businesses. Considering previous loans, the total debt burden in the Chinese economy reached \$ 30 trillion, and most of this money leaked into the Chinese stock market.²⁹ Complicating the situation is that the bulk of these funds belong to unqualified investors and refer to short-term loans. They are directed not at the development of the real sector of the economy but at short-term auction speculations, which, out of political correctness, are called “portfolio investments.” This money is fueling the bubble, supporting the insanely overbought and inflated stock prices of Chinese companies. All segments of the Chinese population are keen on gambling on the stock market. In anticipation of quick returns, both students and retirees rushed to investors. If the wave of bankruptcy will cover the economy of the Celestial Empire, it is difficult to imagine the level of the social explosion that will cover it.

Furthermore, they have already begun. So, the giant HNA Group Co., Ltd, the conglomerate which owns Hainan Airlines, the world’s fourth airline, in February 2021, filed for bankruptcy. The Government has made incredible efforts to halt this process. The next blow was the 14% drop in the stock market, which coincided with the start of the National People's Congress.³⁰ Not a very good moment.

Conclusions, proposals, recommendations

Beijing again flooded its economy with money. However, if bankruptcies start to roll in all the time, the yuan’s printing press may not hold up. Moreover, the only way to overcome the social explosion is the launch of sectoral bankruptcy by the Government. What will it choose? A social explosion of a scale that is difficult to imagine or a loss of face in the global reports on the success of China’s economy? Are these prospects a sign of a healthy economy? Probably not quite.

The COVID-19 pandemic has caused irreparable damage to all economies of the world, it has become not just a black swan, but a major global challenge,

<http://english.mofcom.gov.cn/article/newsrelease/press/202106/20210603069409.shtml>; National Bureau of Statistics of China. (2021). *National economy recovered steadily in 2020 with main goals accomplished better than expectation*. Retrieved May 16, 2021, from http://www.stats.gov.cn/english/PressRelease/202101/t20210118_1812432.html

²⁹ Handley, L. (2021, May 31). *Chinese consumers are spending. UBS picks the stocks to cash in*. Retrieved June 12, 2021, from <https://www.cnbc.com/2021/05/31/china-stock-picks-chinese-shares-to-buy-as-consumers-get-richer-ubs.html>

³⁰ Stevenson, A. (2021, February 6). *HNA was once China’s biggest dealmaker. Now it faces bankruptcy*. Retrieved June 12, 2021, from <https://www.nytimes.com/2021/02/06/business/hna-was-once-chinas-biggest-dealmaker-now-it-faces-bankruptcy.html>

the consequences of which the world will have to assess and overcome for a long time to come.

So what about the question of the complete restoration of Chinese economy? This myth is very far from reality. China is only at the beginning. If we return to the image of a locomotive, then it only cares about itself and still cannot pull out the entire world economy, as it was in 2008.

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Сведения об авторах / Bio notes

Решетникова Марина Сергеевна, кандидат экономических наук, доцент кафедры экономико-математического моделирования, экономический факультет, Российский университет дружбы народов. E-mail: reshetnikova-ms@rudn.ru

Marina S. Reshetnikova, PhD, Associate Professor of Economic and Mathematic Modelling Department, Economic Faculty, Peoples' Friendship University of Russia (RUDN University). E-mail: reshetnikova-ms@rudn.ru

Пугачева Ирина Алексеевна, выпускник магистратуры кафедры экономико-математического моделирования, экономический факультет, Российский университет дружбы народов. E-mail: 1032196331@rudn.ru

Irina A. Pugacheva, master graduate, Economic and Mathematic Modelling Department, Economic Faculty, Peoples' Friendship University of Russia (RUDN University). E-mail: 1032196331@rudn.ru