

Economic Development Problems In The Post-Pandemic World And Business Adaptation on The Example of A Chinese Company*

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Abstract

The global spread of the coronavirus infection COVID-19 has led to a global recession and destabilized global financial markets. The fall in global GDP in 2020 was the largest since the Great Depression. The crisis is accompanied by a sharp increase in unemployment in a number of countries, significant sectoral effects, a decrease in investment activity, and a deterioration in the credit quality of borrowers and bank portfolios. The situation in the global financial markets, despite some stabilization, remains unstable. In these conditions, regulators around the world are implementing large-scale support measures (fiscal, monetary, financial) to limit the economic damage from the pandemic. The capital and liquidity buffers accumulated over the past decade in the financial system make it possible to implement countercyclical measures carried out by the state. But these may not be enough to quickly recover countries' global growth. Crisis trends may intensify if the pandemic drags on or new outbreaks occur.

To date, only a small group of countries can overcome the crisis in 2021 in the event the coronavirus pandemic decays with the prospect of reaching sustainable GDP dynamics and high employment.

Keywords: Information Technology, Pandemic, Economics, Leasing, Financing, Leasing Portfolio.

THE ECONOMY OF CHINA IN THE PANDEMIC PERIOD

After the outbreak of the pandemic, China's economy was the first in the world to return to growth. But risks of volatility in economic growth, budget deficits and insufficient job creation still exist.

In the second quarter of 2020, China's GDP grew 3.2% percent. It can be argued that China's economy is gaining momentum. Since before that in the 1st quarter of 2020 there was a sharp decline of 6.8% [1].

We can say that China during the pandemic led a purposeful and effective policy. Government measures were aimed at supporting business and employment of the population. This laid the foundation for the country's rapid recovery.

This time, the Chinese government has applied measures that are different from those taken during the 2008 global financial crisis. In 2008, measures were taken to support the economy as a whole. Today, most of the support is aimed at reducing taxes and fees. China has relied on investments in new infrastructures, which are mainly related to technology projects. This means that China will import more digital equipment. Such a policy will benefit international technology providers rather than raw material exporters.

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Already today, the interest of foreign businessmen in the Chinese market is growing. China has many potential sources for domestic growth, for example, a large domestic consumer market, which can develop new sources. China is tackling current problems with greater flexibility and readiness than other countries.

Today, the World Bank predicts in its report that in 2021 China's GDP may grow by 7.9% [2].

Chinese President Xi Jinping at the Global Council of Chief Executive Officers said that the fundamentals of China's long-term economic growth have not changed despite the pandemic. The country remains committed to deepening reforms and further opening up its economy in order to provide a better investment environment in which both Chinese and foreign enterprises can develop effectively. [3]

Such a policy will make China an attractive investment destination once countries recover from the pandemic. The state advocates for the interests of the business community, which increases business confidence in China from both foreign and local enterprises.

China still has many potential sources for domestic growth.

Even before the pandemic, China passed laws that softened the conduct of business for foreign companies. For example, from the beginning of 2020, a new foreign investment law came into force, opening up new sectors for investment by foreign companies. Also, the law provided the same "national treatment" for foreign companies as for local businesses.

According to the World Bank, in terms of ease of doing business, China ranked fifth among 190 countries for the most improvements made since 2015. In the Doing Business 2020 report, China ranked 31st among the countries with the best business environment. For comparison, Germany ranked 22nd, Russia 28th and Spain 30th [2].

China's openness is particularly noticeable in financial markets. China is interested in liberalizing capital transactions, and Western asset managers are gaining ground in China's debt and equity markets despite political pressure from the United States. The lifting of restrictions on foreign ownership in the banking and insurance sectors and the rise of Tesla in China speak of the country's market opportunities.

Openness in financial markets will benefit China. This openness is essential as China and the global economy are striving for a rapid recovery.

Yet attracting international investment to the country remains a challenge. Global corporate investment is currently weak until the pandemic finally subsides. Many global corporations are trying to control the damage done to their financial position, so they will have fewer resources for long-term investments abroad.

Domestic consumption is important to China as its economy recovers. Domestic consumption could be a key growth driver for China.

ANALYSIS OF THE OPERATIONS OF A CHINESE COMPANY IN THE INTERNATIONAL MARKET

As an example of the functioning of an international financial organization in the context of global economic instability, consider the development of Zhejiang Construction Investment Group Co., Ltd.

Zhejiang Construction Investment Group Co., Ltd. is the largest group of enterprises in Zhejiang province. It has more than 60 years of development history [4].

As the first large provincial state-owned enterprise directly under the direct control of the provincial government to transform its system into a market-based system, it completed an overall system reform in 2009 and diversified property rights. After the diversification of the business, one of the most significant areas of the company's activity has become leasing operations in China and international markets where the company has its presence.

In 2020, Dagong Global Credit Rating Co., Ltd assigned a credit rating to the issuer Zhejiang Construction Investment Group Co., Ltd. in national and foreign currencies at 'AAA', the outlook on the rating is 'Stable'. According to Dagong, the company is able to maintain a high potential for capital accumulation [5].

Figure 1 shows the financial performance of Zhejiang Construction Investment Group Co., Ltd. As you can see from the figure, the company comes out with a positive profit every year. The company's comprehensive economic and technical performance has held the leading position in the industry for many years in various provinces, regions and cities across the country of China.

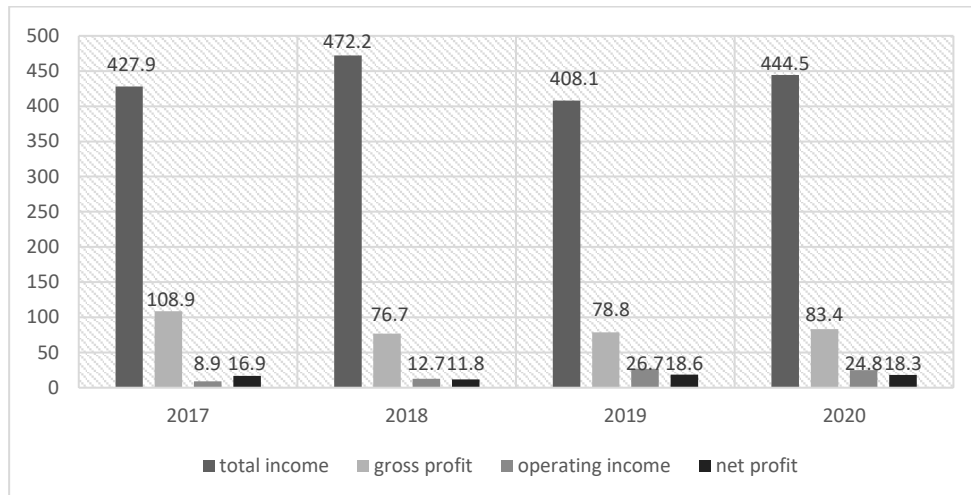


Figure 1 - Financial performance of Zhejiang Construction Investment Group Co., Ltd. (million \$) [4]

The technical performance of the company over the years and despite the economic crisis caused by the pandemic, has held the leading position in the industry in various provinces, regions and cities across the country.

The company has extensive experience and can provide loan guarantees and other support to leasing companies based on the real needs of the business. The authorized capital of the leasing company is formed at the expense of shareholders' own funds. In addition to the capital required for business development, the company has diversified financing channels.

The company finances the acquisition of any type of machinery, transport, equipment and real estate, helping the Chinese business to grow.

The company has over 2000 clients. Thanks to its clients, the company managed to achieve the status of one of the largest and most successfully developing leasing companies. The company has opened a network of branches in China and in some international countries and established partnerships with regional dealers.

The company has strong professional skills, successful industry experience, actively builds strong partnerships with banks and other partners, and continues to implement innovative financing models.

Competitive advantages for the company are [4]:

- the possibility of financing large transactions,
- availability of resources for long-term financing,
- the presence of a wide regional network.

Business of Zhejiang Construction Investment Group Co., Ltd. today it is in the fittest, healthiest and most competitive form, today the company is popular and profitable. The company is in a life cycle - stability. The stage of the life cycle of a company's stability can be ambiguous for the company. Business stability is the first step towards aging a company. The company's sales during the stability cycle are no longer growing, but they are not decreasing either, thanks to which the company is in a favorable financial climate. On the one hand, the management feels confident, as the profit remains at the same level, but on the other hand, it misses the moment of customer needs. It can be seen that the company is slowly beginning to respond to market changes. The company begins to dominate short-term goals and objectives. The company is in no hurry to implement long-term plans, investments in research and development are declining. This suggests that the company is starting to age.

At the stage of stability, so as not to grow old, for Zhejiang Construction Investment Group Co., Ltd. the main task should be to maintain its market share despite high competition.

During a pandemic, it becomes more difficult for a company to maintain its previous profit, and even more so to increase. In order to remain competitive, the company must look for innovative ways to make its product interesting for the consumer, surprise him with the latest technology, functionality and quality, which will increase the company's profit.

Thus, today the company is trying to build up the turnover lost during the pandemic.

COMPANY PROBLEMS DURING THE PANDEMIC PERIOD

During the pandemic, the company had to face problems in the financial market.

The most pressing problem was the decline in demand from customers, who have frozen plans for the renewal of fixed assets. For example, the construction industry suspended activities due to the introduction of isolation, due to the closure of borders, supplies of foreign equipment and technology were frozen, the export of raw materials and finished products abroad was suspended. At the same time, the company did not increase the percentage of refusals for incoming applications from customers, despite the deterioration in the financial condition of potential lessees.

The risks for the company in the market have grown. But, realizing the need of clients for financing, the company adjusted the conditions in such a way as to compensate for the risks, while not increasing the percentage of refusals. This primarily affected the levels of minimum advances.

The second negative factor that put pressure on the company's activities was restrictions on the work of suppliers of leased items, in particular, car dealers. The rise in arrears on the part of lessees was the third most important problem faced by the company.

As the least significant problem that affected the company's activities during the period of the restrictions imposed, one can single out the inability to operate the company remotely. The desire of an increasing number of companies to develop a remote work format is due to the general trend in the digitalization of financial services, including the introduction of an electronic document management system, which makes it possible to speed up the process of concluding a deal. Today, the company is still lagging behind the level of remote services provided by banks, therefore, the implementation of full online support for the transaction will become a serious competitive advantage for the company in the leasing market.

APPLICATION OF INFORMATION TECHNOLOGIES BY THE COMPANY DURING THE ECONOMIC CRISIS

In 2020, the business perception of the decision-making process has changed. It became obvious which operational information formats and approaches to work are most in demand, relevant and effective today. The competent application and use of modern information technologies has a beneficial effect on increasing the efficiency of the company's business processes, creating a strategic competitive advantage and systematizing business algorithms.

Conducting negotiations and meetings via video conferencing has become a new standard for the company, in the "blockchain" format. The company believes that this is a big plus for the entire business in the context of the development of information technology.

Today the company is rapidly rebuilding processes and communications, adjusting the business, which made it possible to smooth out the consequences of the pandemic. The company also revised and optimized financial flows. Now, the company is not intimidated by the crises caused by the pandemic, as it understands how to work in such an environment.

Since the company is engaged in large and long-term investment projects, the pandemic has not affected the business as much as compared to small and medium-sized businesses, where almost everything has stopped.

Car leasing demand began to recover when dealerships reopened and many restrictions were lifted. The company began to reach pre-crisis volumes of leasing transactions. At the same time, it is clear that deferred demand played a large role in this rapid recovery: those cars were bought that customers had not been able to purchase earlier. Also, the season of agricultural work, construction began, which also contributed to the acquisition of equipment.

Today, the company's leasing portfolio by type of property looks like this: 40% - special equipment, 30% - vehicles, 30% - equipment. This approach allows the company to diversify its business well, including in terms of risk management. Therefore, the company managed to fulfill the tasks set for 2020 almost in full. This was also facilitated by the growth of requests from the industries that were actively developed during the crisis.

For loyal and conscientious clients from the most affected industries, the company has provided various forms of deferred payments. And clients continued to make payments on schedule using leased items. The company implemented various options for reducing lease payments, and worked with each client individually. The most popular option was the combined one: credit holidays + prolongation - it was used in 50% of restructuring cases.

The company is always ready to offer various options for revising the payment schedule to bona fide customers who, due to circumstances beyond their control, face difficulties.

By the end of 2020, the company does not expect leasing portfolios to grow, but it is trying to buy as much equipment as possible.

Therefore, the company builds an effective IT infrastructure, which is in demand even in a crisis, and some - even more than in normal times.

Today, the company's readiness to work in a new remote mode for everyone, the ability to continue all operational processes have come to the fore. By introducing online leasing, the company expanded its presence.

The company renews the IT infrastructure of offices and develops technologies. Already some lessees have accepted the convenience of entrusting the solution of a number of issues online, for example, vehicle registration, no queues, no errors in documents. The company constantly has new services, and they can be obtained remotely.

CONCLUSION

China's modern economy is growing, less affected by the economic constraints associated with the pandemic, industries are showing good growth. These are agriculture, housing and communal services, road construction, medicine, industry. The same can be said about cargo transportation. Aviation, tourism, etc., all that have been directly affected by the pandemic, are showing strong reductions.

New players began to enter the Chinese market, competition in the segment and the struggle for customers began to intensify. The quality of the leasing portfolio and the stability of the leasing company's clients and their conscientiousness are becoming more important than usual. Today, the business advantage is trying to develop leasing using marketplace platforms.

At the same time, large leasing companies are making efforts to develop their own services. The company is developing its integrated catalog of cars and equipment, which now contains about 40 thousand items of new and used vehicles. The key rate has already been reduced to a record level, which should increase the availability and penetration of financial services for the population and business. The company changes business stereotypes and contributes to changing the current stereotype that leasing is intended only for legal entities. Leasing is a very flexible tool, its possibilities are enormous. But the wide audience that could use these opportunities does not yet know about them. The company can take advantage of this by increasing its competitiveness in the leasing market. The main advantage of leasing for the lessee is a real opportunity, even with limited finances, to partially or completely replace the outdated property of the enterprise (equipment or vehicle fleet). This means not only to reach a new technological and competitive level with all the ensuing consequences in the form of an increase in production and profits, but also to plan your business for years to come.

So, the positive dynamics in the leasing market directly depends on the financial stability of business representatives. Since a business will always have a need to update and expand its fleet of cars or equipment, regardless of the economic situation, companies will use the most effective tools to optimize their budget. Therefore, the popularity of leasing services will continue to grow, and more and more business representatives will choose leasing as the optimal mechanism for business development.

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