

ECONOMIC CHALLENGES DURING AND AFTER COVID-19: A PERSPECTIVE FROM SOCIALISM WITH CHINESE CHARACTERISTICS

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(Received 28th March 2025; revised 13th June 2025; accepted 22nd June 2025)

Abstract. The economic achievements in socialist countries are often attributed to the implementation of market-oriented reforms. The socialism economic rise of China has changed the global economy. China has transformed from a low-cost manufacturing hub to an increasingly innovation- and service driven economy. However, China, being the initial country impacted by the onset of the pandemic, experienced economic losses more pronounced than those of other nations. Nonetheless, there is limited research examining the economic impact of COVID-19 in China. Therefore, this study aims to investigate the primary economic challenges caused by the pandemic within the framework of Socialism with Chinese Characteristics. This research adopted qualitative method by document analysis, the data was analysed by thematic analysis. Results show the socialism market is characterised with the public ownership predominance and also encourage private enterprises. The main economic challenges during and after COVID-19 in this study includes the stagnant industry transformation, the challenges of international trade, the challenges of state-owned enterprises, and the challenges of private enterprises. China must commit to reforms in technology and industrial transformation, adopt peaceful diplomatic strategies, and actively engage in international trade with Western countries. Key areas of improvement should include the clarification of property rights, the promotion of transparency and fairness for foreign investment and private enterprises, the implementation of competitive neutrality policies, and the establishment of legislation to safeguard employee wages and strengthen the social security system.

Keywords: *socialism economy market, industry transformation, international trade, state-owned enterprises, private enterprises, COVID-19*

Introduction

Bui (2020) highlights that the economic achievements in socialist countries are often attributed to the implementation of market-oriented reforms that tap into a great internal potential, a concept that is occasionally referred to as "market socialism" or "autocratic capitalism with unleashed internal power through market-based reforms." According to Xi Jinpings' thought on socialist economy with Chinese characteristics, it represents the interests of all people and determines the disciplinary attribute of the socialist political economy with Chinese characteristics, that is, people-centred economics (Hong, 2022). The socialism economic rise of China has changed the global economy. China has transformed from a low-cost manufacturing hub to an increasingly innovation- and service driven economy (Brühl, 2024). However, China, being the initial country impacted by the onset of the pandemic, experienced economic losses more pronounced than those of other nations. The COVID-19 pandemic significantly disrupted overall economic activity, with restrictions on human mobility, bans on social gatherings, and widespread business closures (Gong et al., 2023).

Moreover, the worsening global pandemic scenario is almost halting China's export sector and could make it hard for Chinese enterprises to acquire crucial inputs supplied

by firms outside of China; as a result, the economic impact of lockdown on China is huge, severe, and may still be growing (Chen et al., 2020). China's economic situation and its participation in international trade make it a significant player in the global economy. Disruptions to the global trade balance can result from changes in China's banking or manufacturing sectors. The present COVID-19 crisis has had a devastating effect on the Chinese economy and sent ripples throughout the global economy. Because the Chinese government has been soberly aware that the outbreak directly led to the shutdown of a large number of Chinese enterprises regardless of foreign enterprises, private enterprises, or state-owned enterprises. Confronted with shutdowns, production challenges, sales difficulties, and declining investments, alongside persistent pressures from fixed expenditures such as rent and interest, as well as additional factors like the expiration of accounts payable at year-end, the survival pressures on small and medium-sized enterprises, especially private enterprises, have intensified. Nonetheless, there is limited research examining the economic impact of COVID-19 in China. Therefore, this study aims to investigate the primary economic damages caused by the pandemic within the framework of Socialism with Chinese Characteristics, with particular attention to the specific areas of economic disruption. This research holds significant value for policymakers in China and other developing countries, as it contributes to the body of knowledge and supports efforts toward economic reform and development.

Materials and Methods

Qualitative research is multimethod in focus, involving an interpretative, naturalistic approach to its subject matter. This means that qualitative researchers study things in their natural settings, attempting to make sense of, or interpret, phenomena in terms of the meanings people bring to them (Aspers and Corte, 2019). In this research, qualitative method is adopted to elaborate the phenomena of damage of socialism market economy in China during COVID-19. The researchers apply document analysis as instrument to analyse the data, the data is from different databases such as Scopus, Web of Sciences, it also includes the papers, reports, thesis, and policies, and news. The researchers utilise thematic analysis to analyse the data based on the research objectives such as socialism economy, the damage of socialism market during COVID-19, stagehand industry transformation during COVID-19, the challenges of state-owned enterprises, and the challenges of private enterprises during COVID-19. This study didn't involve respondents' participation, while the researcher strictly obeys the ethical consideration, and do not involve sensitive topic.

Results and Discussion

Socialism economy market with Chinese characteristics

The overarching objective of "socialism with Chinese characteristics" is essentially centred around attaining national prosperity and strength, with the ultimate aim of saving China. Nevertheless, this aspiration for a robust China has manifested through a series of fluctuating actions and responses that oscillate between adhering to socialist principles and acknowledging the realities specific to China (Choi, 2011). In 1992, the then President Deng Xiaoping proposed "comprehensive economic reform" and "it

cannot be altered for a hundred years” (Hou, 2011). A planned economy is not unique to socialism, as Deng Xiao Ping noted that planning also exists in the capitalist system (Hua, 1993). Market regulation exists in both socialism and capitalism, not just in the later. Planning and regulating the market are two methods of regulating economic activity. The key difference between socialism and capitalism is not whether planning or market regulation is prioritised (Hua, 1993). Deng Xiaoping once pointed "Whether there is more planning or more market is not an essential difference between socialism and capitalism. A planned economy is not the same as socialism; capitalism also has plans; a market economy is not the same as capitalism; socialism also has markets. Plans and markets are both economic instruments. As socialism with Chinese characteristics enters a new era, the fundamental contradiction in Chinese society has transformed into the conflict between the increasing aspirations of the people for a higher quality of life and the imbalanced and insufficient progress in development (Hong, 2020). In the current phase of socialism, the focal point shifts towards economic construction, with the primary objective being the augmentation of societal wealth. The socialist political economy with Chinese characteristics aims to achieve this goal, emphasizing the advancement of all factors that contribute to wealth creation as a crucial research objective (Hong, 2020). The Chinese leaders like Deng Xiaoping, Jiang Zeming succeeded and updated the thoughts of Marxism, particularly the socialist market economy, also Socialist Characteristics Economy, which guide reform and opening up the door to the significant achievement (Cheng, 2018).

It shows the market economy is not a curse, and its advancement poses no threat as long as socialist public ownership maintains dominance in critical sectors, even amid the coexistence of diverse economic elements (Zhang et al., 2020). Deng Xiaoping once highlights (Gong and Cortese, 2017): We place our main emphasis on the planned economy, yet we also acknowledge the presence of a market economy. However, it's crucial to note that our approach is rooted in a socialist market economy framework. In socialist market economy, the private economy is also a major area of entrepreneurship and employment, an important mainstay of technological innovation, and an important source of national tax revenue. Developing and expanding the private economy has a bearing on the enterprises themselves, but also on the overall situation of China's economic development (Wei et al., 2017).

Stagnant industry transformation during and after COVID-19

The main goal of building China's modern socialist market economy is to ensure balanced progress in both social and economic development while improving people's well-being. Industrial upgrading not only accelerates capital growth but also enhances industry profitability and societal prosperity. Moreover, it facilitates the creation of higher quality employment opportunities, ensuring the efficient allocation of labor resources and a rise in workers' incomes and happiness (Cui et al., 2018). However, the findings indicate that industries in China with a limited level of digitalization, such as construction, traditional manufacturing, and services, are poised to experience more significant output declines due to the domestic COVID-19 outbreak. Conversely, sectors with advanced digitalization, like e-commerce, might experience comparatively lesser impact from the outbreak. This underscores the challenge posed by the insufficient digitalization in certain traditional sectors. Consequently, the outbreak should be viewed as an opportunity to drive the modernization of these traditional industries and expedite the attainment of high-quality development. Similarly, Han (2022) expresses that the

pandemic has expedited the structural transformation of the Chinese economy: Traditional growth sectors, such as petroleum and finance, have stagnated, while emerging sectors, including digital services and scientific research, have experienced rapid expansion.

The pandemic outbreak in China has led to the deferral of numerous orders owing to the cessation of logistical services and shutdowns, thus diminishing the demand for intermediate goods and exports to the U.S. and Europe (Dang and Anh, 2023). The global value chains of manufacturing have seen persistent upheaval. In addition to the United States and China trade war, China's structural transformation becomes more and more challenging (Dang and Anh, 2023). The industry's transition is accompanied by digital transformation; yet, China is confronting a deficiency in technology, insufficient investment in organizational technological advancement, and issues related to inadequate infrastructure (Kutnjak, 2021).

The challenges of international trade during and after COVID-19

In the span of the last four decades of reform and opening-up (1978-2018), China has made remarkable strides, transitioning from a low-income nation to firmly establishing itself in the upper-middle income category, with projections indicating a move towards high-income status in the near future (Ee et al., 2019). This evolution has brought substantial benefits, not only to China's domestic economy but also to the broader East Asian region, notably the economies of the Association of Southeast Asian Nations (ASEAN), through a surge in trade, investment, and tourism. China has emerged as a pivotal driver of growth for ASEAN (Ee et al., 2019). However, before pandemic, the international trade was adversely influenced by the US and China trade war. Nearly all sectoral imports into the USA and China are decreased as a result of the trade war between the two countries. While Chinese imports of agricultural products and transportation equipment are primarily impacted, US imports of metals, machinery, and electric equipment are declining significantly (Itakura, 2020). China's trade expansion has markedly diminished in the New Normal phase, exacerbated by declining foreign demand and the deterioration of Sino-US relations since 2019 (Fang et al., 2022). Subsequent to the trade war, China's overseas trade had considerable difficulties due to the imposition of tariffs and trade restrictions. Research demonstrates that the trade diversion effect resulted in a reorganization of global value chains, as certain nations pursued alternate suppliers to alleviate the consequences of tariffs.

Additionally, the pandemic adversely impacted global trade, rendering it more slow than previously experienced. The repercussions of the outbreak have adversely affected the industry's supply chain. A considerable number of consumers rescinded their orders, leading to a substantial decline in demand. Furthermore, as COVID-19 intensifies trade protectionism and de-globalization trends, an increasing number of countries choose home production over international investment and trade, contributing to global economic instability. In the post-pandemic, trade protectionism, geopolitical tensions, and the trend towards de-globalization have placed significant pressure and threats on the world economy and the international trade system. The effects of the pandemic on trade have garnered considerable attention (Fang et al., 2022). This insight has been supported by empirical research, which has demonstrated that antagonistic political relations can result in increased protectionism for peaceful countries or the total cessation of trade or severe trade restrictions for those in such an environment. For years, China has depended on exports, particularly labor-intensive goods, as a catalyst

for economic growth. Since the onset of the pandemic and the trade conflict between China and the U.S., uncertainties in the global economy have significantly escalated. Simultaneously, international trade protectionism has increasingly targeted China, partly due to the evolving political landscapes both within and outside the country. These conflicts present threats to international trade and foreign direct investment (Ma et al., 2021), in particular, manufacturing operations ceased when COVID-19 proliferated throughout nations. The social distancing regulations result in the underutilization of labor and capital in China, hence elevating production costs. Furthermore, the closure of international borders and other transportation limitations impeded China's exports, resulting in significant losses, including a 3.7% decline in export volume (Habibi et al., 2022). Trade wars cause downstream companies to have higher tax burdens, inventories, and accounts payable while also lowering employment. By limiting the scope of investments and operations for upstream firms through supply chain transmission, this shrinkage of downstream enterprises lowers employment of upstream firms. Amidst the ongoing downturn in the global economy, a resurgence in China's savings rate could worsen global economic imbalances. Hence, it's imperative for the Chinese government to devise a comprehensive strategy aimed at bolstering international cooperation while simultaneously promoting consumption to bolster domestic demand.

The challenges of state-owned enterprises during and after COVID-19

As the pillar of the national economy, state-owned enterprises play an important role in China's economy. Ma (2021) also agrees state-owned enterprises are an important part of China's economy and are of great significance in promoting the country's economic development and the progress of social civilization. However, against the background of increasingly fierce market competition, the financial management of state-owned enterprises facing more and more challenges. In the past, State-owned enterprises mainly on experience and professional knowledge in financial management and lacked data support, which often led to problems such as information asymmetry and insufficient risk control. Previous study confirms that state-owned firms exhibit the lowest productivity compared to all forms of ownership entities. Zhang et al. (2020) find that state-owned firms have inferior research and development efficiency compared to other ownership structures, with a more pronounced decline in innovation efficiency than in production efficiency. Dong et al. (2014) concluded that the innovation efficiency of state-owned firms is generally inferior than that of private enterprises. The Coase theorem (Coase, 2023) guarantees that clear allocation of property rights would facilitate efficiency through bargaining in the absence of transaction costs. The Coase theorem represents an ideal scenario that diverges significantly from reality (Ellingsen and Paltseva, 2016). The establishment of unequivocal property rights is challenging to achieve (Jehiel and Moldovanu, 1999). State-owned firms in China exemplify ambiguous property rights distribution (Cauley et al., 1999). In China, property rights are nearly synonymous with ownership. State-owned firms are nominally held by the public but are effectively controlled by the government. Individuals, in general, lack both the motivation and the capability to run state-owned firms. Consequently, ambiguous property rights may be the fundamental cause of inefficiency, resulting in various issues within state-owned firms, as per the Coase theorem.

Additionally, the U.S. business sector has expressed concerns with the inequitable competition stemming from governmental policies that preferentially support state-

owned enterprises in the Chinese market. The Chinese government's promotion of abroad initiatives by huge state-owned enterprises is perceived as detrimental to other companies competing in the global market (Fan and Hope, 2013). A study confirms if the escalating competitive pressures from China were predicated on equitable conditions, it would chiefly be the responsibility of European enterprises and economic policymakers to address this challenge. The unequal treatment of enterprises in China has been a longstanding topic. Foreign firms are not only treated differently from Chinese firms, but Chinese private firms are also treated differently from state-owned enterprises. This disparity is a significant factor in the trade negotiations between the United States and China, as well as in the European Union's December 2020 Comprehensive Agreement on Investment with China (García-herrero and Ng, 2021). And a deviation from competitive neutrality is one of the main problems faced by Chinese state-owned enterprises (Duan and Kang, 2022).

The challenges of private enterprises during and after COVID-19

Private enterprises are gaining significant prominence in both production and employment within China. There is more and more private enterprise in China (*Figure 1*). For a long time, the public sector economy has occupied the leading position in the national economy. Although the dominant position of the public sector economy has declined in the reform of the market economy, the reform and development of the public sector economy is still an important issue faced by the government. As a result, the centre of gravity of the Government's work has always been in favour of the public economy, which has led to a series of institutional arrangements and designs also centred on the public economy. Private enterprises play a vital role in promoting technological innovation, improving employment, and maintaining social stability. However, due to their shortage of resources, private enterprises are much more vulnerable to public crises than other enterprises (Guo et al., 2020). Terribly, the pandemic has significantly affected socio-economic conditions and individuals' lives nationwide. Production and business encounter numerous challenges, particularly for small and medium firms. Since the private industries are normally small and medium-sized enterprises (SMEs) which are vital drivers of China's economy. As in any other country, SMEs in China are exceptionally exposed to the devastating effects of the COVID-19 outbreak (Jiang et al., 2020). Another research also shows the private industries with limited risk tolerance have been significantly affected, exacerbating a survival dilemma among these companies.

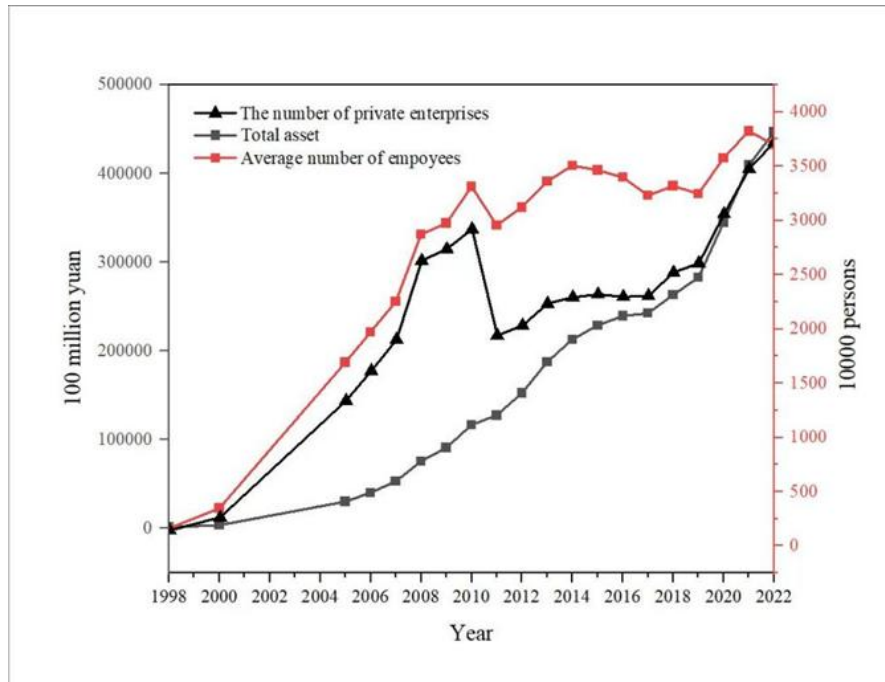


Figure 1. The status of private enterprises.
 Source: National Bureau of Statistics (2021).

During the epidemic in China, enterprises stopped working, markets were closed, business revenues decreased, profits fell, but operating costs such as rents, wages and profits continued to increase, enterprises were under great financial pressure, and some SMEs with weak risk-resistant capacity faced bankruptcy or were in imminent danger of bankruptcy. The business philosophy of commercial banks has a natural disadvantage for SMEs. There is a natural disadvantage for SMEs. Traditional banks do not have the ‘gene’ for inclusion. This is because risk control and maximisation of shareholder value are at the heart of traditional commercial banks' business philosophy. Compared to medium and large enterprises, which have a large and long demand for capital, the temporary and small amount of financing applications from SMEs require the same amount of work and approval process from financial institutions (Hou, 2018), but the small amount of short-term loans implies a low interest income, and the state clearly stipulates that intermediary service handling fees, such as financial management fees, should not be charged for SME loans, so the risk of lending money to SMEs is higher, and the banks have a high economic capital consumption, which is not the case with traditional banks. Therefore, given the high risk of lending to micro and small enterprises and the high capital employed by banks, it is difficult for micro and small enterprises to obtain support from financial institutions. Information asymmetry is a major obstacle for financial institutions in granting loans to technology-based SMEs. This is because, in an asymmetric information situation, raising interest rates will lead to the withdrawal of high-quality enterprises from the credit market, and banks will not be able to achieve the purpose of screening and identifying high-quality enterprises. Therefore, in order to maintain a certain credit return and avoid the risk of adverse selection, banks can only use credit rationing to allocate limited financial resources under fixed interest rate conditions and on the basis of non-interest rate conditions.

Additionally, tax preferential policies for private enterprises have not formed a system, the internal construction of taxation departments still needs to be improved, the

staffing and tax consciousness of small and micro enterprises need to be improved, and the lack of information interaction and immaturity of tax agents. As a matter of fact, there are numerous other challenges facing by SMEs. According to the results of the survey, many micro and small enterprises in China lack internal incentives, which to a certain extent affects the staff's motivation and creative thinking. there is an obvious disconnect between the enterprise's salary management and performance system (He, 2023). For most of SMEs, the main business of enterprises is mostly in traditional industries, and their management mode is based on family governance, with generally low technological content, lack of high-quality talents, low level of digital informatisation, and impeded transformation and upgrading of enterprises (Zhang et al., 2020). The digital transformation of private enterprises is confronted with such problems as inadequate digital service technology and platform construction, imperfect digital transformations unsupported policies and insufficient digital capacity of private enterprises.

Due to the characteristics of socialism market economy, China must keep socialism market economy combined with private property and public property, transform its stagnant industries toward digitalisation, high quality, innovation, and open up the door by recovering harmonious relationship between China and USA, the developed and developing countries, China is facing technology and industry transformation in the new century, innovation is the key pillar to accelerate the transformation of economic development mode, which indicates that technological progress and technical innovation are the only guarantee to promote both the “quantity” and the “quality” of economic growth (Hu, 2019). After pandemic, some scholars believe the content of re-centralization has been enhanced, while such kind of centralisation and excessive charisma are not conducive to the stability and development of the country, China must decentralize its powerhouse and continuously open its door to the world. China must keep peaceful diplomatic strategies and active international trade with the Western countries. Specifically, China must discern the principal assertions of the United States in the trade conflict, since numerous criticisms levied by the US pertain to matters that China must rectify, including the safeguarding of property rights and the promotion of transparency and equity in foreign investment (Carvalho et al., 2019). These policies have the potential to attract investment to China and expand overseas markets for Chinese enterprises in the long term. China must prepare to adhere to international trade and investment regulations, as these guidelines could mitigate the adverse effects of the trade war and expedite China's emergence as an economic superpower (Elms, 2021).

With the development of the times, the reform of state-owned enterprises has become a key link in realising China's economic growth and improving the competitiveness of the state-owned economy in the market. Further, there exists a potential risk that the country may succumb to trade protectionism due to a misaligned policy. Consequently, China's competitive neutrality policy must be precisely defined and emphasize the government's role in fostering equitable competition (Ding, 2015). The modern market economy has moved away from the initial free market economy, with the market and the government playing different roles in the allocation of resources at different levels and in different fields, and the market playing a decisive role. The basis for the effective allocation of resources by the market lies in the clarification of the rights of market players and their trading activities within the scope of the rights granted by law, which gives enterprises autonomy in their market economic activities and reduces the transaction costs in a certain area. Furthermore, acknowledging that private sector

innovation serves as a potent catalyst for enduring economic expansion (Li et al., 2018). One of the major aims of state-owned enterprise privatization is the cultivation of creative competences. It has notably highlighted research and development capacity and domestic technological innovation. Likewise, “clear property rights, separation of government and enterprises, and scientific management” are the tenets of the mixed-ownership reform, which aims to create a contemporary system of enterprise ownership. Because mixed-ownership reform mainly involves the integration of capital with diverse property rights between state-owned (private) firms, it is essential that property rights be clearly defined. Finally, the restructuring of state-owned enterprises has four primary objectives: Altering objectives, reallocating property rights by law, reforming governance frameworks, and reinstating managerial incentives (Genin et al., 2021).

After forty years of reform and opening up the door, China's non-public economy, particularly the private sector, has experienced significant growth, transitioning from small and weak to large and robust. It has become a crucial element of China's market economy and has played a vital role in the stable expansion of the Chinese economy. Currently, it serves as a key driving force in the transformation and advancement of China's economic development (Guo, 2019). Private firms outperform state-owned enterprises in economic growth, employment creation, and technological innovation despite facing unfavourable government regulations. Private enterprises are more efficient than state-owned enterprises and are making a greater contribution to people's daily lives and well-being. The government should need to devise additional strategies to encourage private industries in order to facilitate economic recovery from the impact of the COVID-19 outbreak (Chen, 2022). It is noteworthy, the government should adopt the measures to improve the welfare of employees, there should be the legislation to guarantee the employees' payment and social security system (Hou, 2021). In total, the private enterprises must transform and upgrade, which refers to a series of systematic and innovative measures carried out by private enterprises to achieve sustainable development. This research explores the economic challenges faced during and after the pandemic, providing valuable references and evidence to support economic and systemic reforms focused on digitalisation, high-quality development, innovation, and greater openness. It also highlights the importance of restoring harmonious relations between China and the United States, as well as between developed and developing countries. Although this study operates primarily at the macro level and lacks empirical data, it lays a foundation for future research. Subsequent studies could adopt empirical approaches and focus on more specific areas such as digitalisation, industrial transformation, trade wars, and related issues.

Conclusion

China is undergoing a process of industrial transformation which, alongside the COVID-19 pandemic, has accelerated the digitalisation of its industries. However, as a sudden and widespread global crisis, the pandemic has exposed shortcomings in infrastructure and the quality of talent, making it difficult to keep pace with rapid changes, particularly for small and medium-sized enterprises and state-owned industries. China continues to face considerable challenges in its transition towards a green economy, the achievement of sustainable development goals, high-quality growth, and broader digital and innovative advancements. The successive waves of the pandemic have significantly disrupted industrial infrastructure and led to a decline in

exports. International trade has also been heavily impacted, not only by the pandemic but also by the ongoing trade tensions with the United States and the absence of a competitive neutrality policy. As a result, China's economy is facing unprecedented challenges. Additionally, the state-owned enterprises have been confronting the challenges of financial management, low productivity and efficiency, obscure property rights, inequitable competition to the private ownership business and foreign enterprises. Although the crucial role of private enterprises in China has been recognized, government policies have consistently prioritized the public sector. During the pandemic, however, many small and medium-sized enterprises went bankrupt due to their limited risk tolerance and the absence of protective measures such as supportive legislation, a sound financial system, and effective safeguard mechanisms. China is currently characterised by a blend of private and public ownership. In facing the challenges posed by the COVID-19 pandemic and a complex and difficult international environment, China must commit to reforms in technology and industrial transformation, adopt peaceful diplomatic strategies, and actively engage in international trade with Western countries. Key areas of focus should include the clarification of property rights, the promotion of transparency and fairness for foreign investment and private enterprises, the implementation of competitive neutrality policies, and the establishment of legislation to safeguard employee wages and strengthen the social security system.

Acknowledgement

This research is self-funded.

Conflict of interest

The authors confirm that there is no conflict of interest involve with any parties in this research study.

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