

The Dilemmas and Improvement Strategies of China's Informal Economy in the Post Epidemic Era

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Abstract. This research explores the development trend of the informal economy after the Covid-19 pandemic and the ways to avoid the increase informal economy. The paper discusses the development process of the informal economy, the difficulties it faces, and the causes of its emergence. Based on the detailed analysis of the current situation of informal economy and its possible impact on society, this paper points out that solutions should be implemented from the perspectives of government, enterprises and individuals, which prevent the informal economy from growing at an uncontrollable rate. For example, once the government's five insurance policies are formulated and laws and regulations are publicized; And the way enterprises treat new technical talents have affected the informal economy to some extent. The research of this paper will increase the understanding and attention of the society to the informal economy. Providing some substantial improvement strategies for the current informal economic system will help more people benefit from the regulated economic system.

1 Introduction

The first month of the Covid-19 outbreak in late 2019, Incomes of 1.6 billion workers in the informal economy fell by 60%. The economic community takes this as a turning point to implement sustainable development to restore the original economy. This not only guides economic recovery but also promotes more inclusive economic development [1]. The government should strengthen supervision of informal economies and provide supportive policies to transform informal economies into formal economies.

Under the Covid-19, the money supply in the market decreases and interest rates increase, leading to a decline in people's consumption, corporate investment profits decline and unemployment rate increases. While informal workers need employment security, employers need labor resources with continued flexibility. So informal workers may experience greater labor exploitation and accept lower wages.

Due to the Closure policies during the pandemic, informal workers perform "customer-facing" jobs, and they face a high risk of unemployment. The employers may lay off informal workers without any formal procedures and costs. The costs generated by the decline in production and consumption demand of enterprises will also be transferred to informal workers, so informal workers will both lose their income and be unable to seek help from the government.

The informal economy increases the tax pressure on the country because it can provide opportunities for tax

evasion through the establishment of informal enterprises, leading to a deficit in the national treasury and huge economic pressure on the country.

From the perspective of values and beliefs, it is reasonable to encourage people to re-evaluate their potential loss and gain of entering and leaving the informal economy. Based on the above facts and background, this study addresses the negative impact of informality on informal economic groups under Covid-19 and provide new policies based on the pandemic's impact. The policies can optimize previous old policies and provide informal economic groups with the best solutions at present. This initiative not only helps informal groups but also helps the country's economic growth because the informal economy has always been an important factor hindering the growth of the state-owned economy.

2 Literature review

Judging from the relationship between offline micro businesses (OMB) activities and sales after Covid-19, researchers from famous domestic universities found that urban OMB is particularly hard-hit, especially the number of OMBs where female merchants are active and the activity of non-local self-employed households have dropped significantly, reaching about 53% to 57%. Using a machine learning method called gradient boosting decision tree (GBDT) and linear regression in a difference in difference specification, researchers explore whether the activity frequency of the economy,

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population, and OMB is linearly related to the frequency of OMB activity after the new crown epidemic [2].

Members of the Fujian University of Technology analytical Institute found that as early development economists said that the informal economy is no longer a gradual outcome of modernization. This study describes and analyzes the future development direction of the informal economy based on the regulations issued by Sichuan Province. In order to encourage the employment of vendors, the government provides support to temporary mobile vendors to restore community vitality [3].

Aiming at the development of small and medium-sized enterprises, some scholars analyze on the relationship between the business environment, economic growth and funding sources of small and medium-sized enterprises in China's informal economy to identify the link between the business environment and technology Small and Medium Enterprises (SMEs). Then the study utilizes information asymmetry as an entry point to describe how it affects small and medium-sized enterprises. Information asymmetries were found to be largely due to lenders' reluctance to lend to businesses it considered risky, apply econometric techniques and core questionnaires are adopted to test these links [4].

Investigating the development of sharing economy in tourism during Covid-19, Ouyang Rihui asserts sharing economy in tourism boosts the economy. Meanwhile, sharing economy in tourism brings some risks, involving management and user rights. So, Ouyang Rihui concludes some suggestions for encouraging the growth of sharing economy in tourism [5]. Exploring the traditional second-hand market in China, Zheng Qian, Zhang Xinyu, Bai Changshan, Tang Min, and Dong Zhengzheng elaborate on the development process of China's secondary market, its current situation, and its transaction model. The study analyzes the potential of second-hand markets in the informal economy [6]. Through literature research and semi-structured interviews with local government officials, entrepreneurs, and small and medium-sized workshops, Weicheng Tang and Jin Zhu clarify some risks generated by the development of e-commerce in rural China. Moreover, this study offers political suggestions for the sustainable growth of e-commerce in China's countryside [7].

In the cause of informal economy, excessive regulation, such as labor market regulation and social security legislation, and increased tax burdens can expand the informal economy. It also discusses the impact of insufficient government regulation or action on the rise of the informal economy, such as bureaucracy, over-regulation and corruption in the government sector, which can contribute to the development of the informal economy, especially now that many informal economy participants in start-ups are increasingly seen as "need" or "opportunity" driven entrepreneurs. Many scholars regard informal entrepreneurs as egoists. When motivated, it contrasts sharply with the liberal alternative. Other factors that influence the informal economy include time distribution, socioeconomic factors, and demographic factors [8].

In conclusion, present researches lack specific analysis of various difficulties of informal economy and universally valid solutions. Thereby, detecting existing difficulties for informal economy, analyzing the difficulties' causes and the influences, and exploring solutions from multiple perspectives for challenges faced by informal economy are the core motivations for the article to research.

3 Analysis and discussion

3.1 The development history and main difficulties of the informal economy

3.1.1 Development history

Between 2000 and 2010, the number of urban informal workers in China increased from 111.5 million to 214.8 million, and the average annual growth rate of informal employment reached 6.8%. Accounting for more than half of the urban employed population. It shows that the employment growth in China's cities and towns during this 10-year period mainly comes from the employment rate in the informal economy [9]. In 2016, statistics show that informal employment accounted for 62.8% of non-agricultural employment in developing Asia-Pacific regions. In 2008, the informal economy accounted for 74% to 91% of the total reported economy. It was observed that a larger proportion (over 73.3% of workers) in the informal sector were employed outside agriculture, in rural areas rather than urban areas. According to the 2008-2009 Labor Force Survey, most of these involve the construction and transport sectors, personal, social and public services, trade manufacturing and finally wholesale and retail businesses. In the Middle East and North African countries. Being self-employed and small and medium-sized employ approximately 70 percent of the population, and this proportion approaches 80% throughout South Asia and Africa.

3.1.2 The situation and characteristics of informal workers

Targeting informal workers in the informal economy rely on manual labor and most of them have low education. Therefore, they do not need to have professional skills, and their opportunities to get regular jobs are very limited.

Most people choose to continue working when they are sick because there is no social security. Therefore, emergencies at work are the biggest threat to them. Construction is one of the most dangerous occupations, according to Safe Work Report 2018. It is also the occupation with the highest incidence of occupational diseases [10]. Under such circumstances, they still receive wages that are lower than equilibrium wages. At present, informal workers face three major problems: dirty, high-risk occupations, and difficult occupations.

With the advent of Covid-19, informal construction workers are engaged in "face-to-face" work. Without a

job, your source of income will be completely cut off. However, the contractor will only choose those who want to earn income and take risks to complete the company's requirements. This requirement directly curbs the survival of the informal worker economy. In order to earn income, they can only go to work despite the extremely high risk of infection rate and without any social assistance guarantee.

3.1.3 Main difficulties

The epidemic has dealt a heavy blow to informal workers, especially the street stall economy because they can't work from home. It relies on the liquidity of the external environment to implement operations, and relies on cash flow and loans to survive when savings are limited. The arrival of the epidemic prompted countries to adopt lockdown policies to keep them away from society. As a vulnerable group, their income and even survival have been seriously threatened and they are unable to obtain government relief.

Compared with rural areas, the street stall economy in urban areas has been hit harder, especially female self-employed people in the industry. Activity frequency dropped by more than half and by half the amount in men [2]. The same is true for the non-native population, there is no advantage like local people being protected by the government. Coupled with housing and loan problems, it is even more difficult for them to survive.

The economy has suffered a severe blow after the epidemic, leading to a general increase in unemployment in formal industries. Major companies such as Tencent, Alibaba, and NetEase. Many senior leaders are at risk of being laid off. The reason is that they are older and the number of fresh graduates is increasing, more young talents entering the market. In order to improve economic development, enterprises introduce a large number of new talents. Increasing employment rate is to promote economic development. When most ordinary workers are unemployed, the best thing to do is to join the informal economy as self-employed households.

Due to the epidemic, the right to go out is limited. But people need to buy daily necessities and food, so an industry called e-retail has been born [11]. Direct online ordering and door-to-door delivery bring great convenience to the masses. Even after the epidemic is lifted, this industry is still emerging. As a result, the market for the street stall economy began to shrink because their customer resources are losing. Therefore, the street stall economy has also become a potential laggard in technological development.

Micro-enterprises under the epidemic face massive reverse migration of labor force [12]. Most micro-enterprises still have loans that need to be repaid every month, because many of the bank's corporate customers have gone bankrupt due to the epidemic and cannot repay on time or even fail (accounts receivable become bad debts). Thus, banks will not reduce interest rates. The impact of the epidemic on SMEs can be summarized in the following four points: (1) The production chain is almost directly broken. (2) Market loss and supply chain

disruption. (3) The economic impact of companies on the market in an economy [13]. Due to insufficient distribution and manufacturing, 90% of micro and small enterprises had to file for bankruptcy [14]. Moreover, if the staff turnover rate and turnover continue to decline, it will indirectly indicate the vulnerability of enterprises due to the epidemic. They do not have a clear enterprise structure, personnel division, and authorization from superiors to subordinates, so the vulnerability at the enterprise level is very high. The government may introduce some relevant "protection policies". It is precisely because of the "informality under the informal economy" that they can only say that relying on these policies to slow down the rate of bankruptcy still ends in bankruptcy.

3.2 The reasons for its formation and its impact on the economy and society

The first reason is that the heavy tax burden stimulates the emergence of the informal economy. The informal economy for individuals can have the advantages of unregulated industries in evading government taxes and registration activities, which can reduce costs for businesses. In the recent years, as the recession of the national economy, the study detects that the cost to run a business increases and informal economy has exploded. In addition, by using dynamic multi-indicator multi-cause model (DYMIMIC), it can be discovered that the informal economy as a hidden economic system, which can be measured by the power consumption of enterprises, and points out that the vigorous development of this hidden economic system is indeed a response to the heavy tax burden [15].

The second reason lies in the legal and policy constraints. United States is a good example of the government constriction, according to the US Small Business Administration (SBA), registering a small business needs to meet certain requirements, especially the requirements of the business structure. For instance, the company shall hold its first and annual meetings of directors and shareholders and shall be required to record its meetings, and companies will then need to meet filing requirements, for instance, some states set the deadline on the anniversary of the establishment of the business, while other states choose a specific day for all businesses. Costs are usually accompanied by annual reports or biennial statements and can exceed \$300. Some states impose franchise taxes on corporations or limited liability companies operating within their borders. Some states require an initial report to be filed and charged shortly after the company is incorporated. If the company makes a significant change - such as an address, name, new shares or membership - report it in the articles of association. Then, there are federal government requirements, including but not limited to licenses, permits, or certificates. These cumbersome procedures make it difficult for many ordinary people to choose the formal economy, and then they choose the informal economy to avoid these legal procedures.

The third reason for the informal economic boost is the lack of jobs due to the economic downturn, especially after the Covid-19 pandemic. For example, during the Covid-19 period, the lockdown in China has led to reduced consumption and production disruptions. Across the globe, the functioning of global supply chains has been affected, as have companies around the world. Millions have lost their jobs. Moreover, every day there are more and more companies shutting down operations, revising forecasts or announcing layoffs, such as the bankruptcy of China HengDa Group. Global financial markets have fallen sharply, with volatility at or above levels seen in the 2008/9 financial crisis. In the midst of all this turmoil, the International Monetary Fund (IMF) has made estimates for growth in 2020. In its revised estimates, the IMF expects China's growth to slow by 0.4 percentage points and global growth to slow by 0.1 percentage points. According to the Organization for Economic Co-operation and Development (OECD), it presents that global growth slow to 2.4 per cent in 2020, compared with 2.9 per cent in 2019. When compared the differences in Gross Domestic Product (GDP) growth across countries, Table 1 shows the economic shocks (and confidence intervals) caused by the Covid-19 crisis, expressed as a percentage of GDP across countries. It can be seen that the growth rate of GDP is declining across the board. According to the Phillips curve, the reduction in aggregate supply will lead to high unemployment, which will significantly stimulate the growth of the informal economy [16].

Table 1. Economic impact.

Argentina	-4.3%
Australia	-4.4%
Austria	-5.5%
Belgium	-4.3%
Brazil	-3.9%
China	-4.3%
Czech Republic	-4.6%
France	-4.3%
Germany	4.8%
Greece	-6.2%
India	-4.0%
Ireland	-4.8%
Italy	-5.0%

3.3 Solution

The government should reinforce five insurances and fund in rural and urban regions. Injury insurance shows it can help informal workers reduce the expense of medical care and release the worries when informal workers are injured during work. Thus, the workers can better focus on production, supporting the growth of general social productivity. The government should make sure five insurances and one fund are in place and

offer efficient payment ways. Therefore, informal workers can completely enjoy the basic insurances.

The legislatures should establish perfect laws and policies. For one thing, the legislative department should perfect laws to reduce the occurrence of tax evasion and relevant illegal persons should be punished. Due to enough taxes, the nation can have the money to invest in public utilities, contributing to better welfare and government services. So unofficial economic groups can enhance their living quality. For another, the legislatures should complete laws on informal economy. Many voids and ambiguities exist in the laws of informal economy. Clarifying the scale of informal economy and providing legal support for contracts between informal workers and employers effectively guarantee the rights and interests of both sides.

Platform enterprises should treat formal workers and informal workers equally. Based on labor laws, equal payment for equal effort should be extended to informal laborers. Besides, platform enterprises should create promotion opportunities for informal laborers and realize informal laborers' greatest potential [17].

The government should conduct legal education and allocate technicians to instruct informal workers in skills. Besides, the informal laborers should actively learn. Firstly, the reason why the rights of informal laborers lack assurance is partly because the workers have no contracts or sign illegal contracts. The legal education in informal workers' communities can help them increase legal awareness. Secondly, the technicians assigned to specific regions investigate and utilize local resource advantages. They guide informal laborers on professional techniques, which facilitates lasting and stable employment for informal workers. For informal workers, they should be proactive in learning professional skills and studying how to guard their rightful interests.

4 Conclusion

This study reveals the development process of informal economy: increasing yearly proportion of informal economy, informal economy mostly found in rural regions, a considerable percent of informal workers. The process suggests that informal economy is expanding. From the perspective of the whole, micro and small businesses, and informal workers, the article also reveals the challenges encountered by informal economy during the pandemic. Then, the article discovers tax evasion led by tax burden and excessive limitations on companies are main factors of the challenges. The paper analyzes how the challenges affect national economy and societal development: the decreasing GDP and surge in unemployment. Therefore, the paper offers solutions from the perspective of the government, platform enterprises, and individuals. The government should bolster five insurances and one fund and direct legislation; The platform enterprises should regard informal labor equally; Individuals should learn techniques and laws. This study enables more people to pay attention to informal economy and provides some

measures on informal economy, contributing to the growth of informal economy. Thereby, more people could benefit from the progressively ideal informal economy. However, the paper is not supported by thorough figures and lots of data such as the present scale of informal economy. The article would conduct field research so that the article can explore the challenges for informal economy in China more deeply.

Authors contribution

All the authors contributed equally and their names were listed in alphabetical order.

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