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The World after COVID-19 and its impact on Global Economy

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Abstract

Urgent and bold policy measures are needed, not only to contain the pandemic and save lives, but also to protect the most vulnerable in our societies from economic ruin and to sustain economic growth and financial stability. We are facing a global health crisis unlike any in the 100-year history, one that is killing people, spreading human suffering, and upending people's lives. But this is much more than a health crisis. It is a human, economic and social crisis. The coronavirus disease (COVID-19), which has been characterized as a pandemic by the World Health Organization (WHO), is attacking societies at their core. The global economy could shrink by up to 1 per cent in 2020 due to the coronavirus pandemic, a reversal from the previous forecast of 2.5 per cent growth, the UN has said, warning that it may contract even further if restrictions on the economic activities are extended without adequate fiscal responses. The COVID-19 pandemic will cause a dramatic drop in FDI flows. MNEs, local business and investment have been severely affected with far reaching social and economic repercussions. The coronavirus crisis is first and foremost a public health threat, but it is also, and increasingly, an economic threat. The so-called "Covid-19" shock will trigger a recession in some countries and a deceleration of global annual growth to below 2.5 per cent -- often taken as the recessionary threshold for the world economy¹. The world is being flooded with perhaps unfamiliar words and phrases in coverage of COVID-19, the newly discovered coronavirus — starting with the very word "coronavirus." The new coronavirus, which first emerged in the Chinese city of Wuhan last December, has infected more than 210,000 people in at least 171 countries and territories globally, according to the World Health Organization. The on-going spread of the new coronavirus has become one of the biggest threats to the global economy and financial markets.

Key Words: COVID-19, Global Economy, International Organization

JEL Code: F62, F69

¹ UNCTAD Report

Introduction

As the COVID-19 virus spreads globally, economic paralysis and unemployment follow in its wake. But the economic fallout of the pandemic in most emerging and developing economies is likely to be far worse than anything we have seen in China, Europe, or the United States. This is no time to expect them to meet their debt payments, either to private or official creditors. With inadequate health-care systems, limited capacity to deliver fiscal or monetary stimulus, and underdeveloped social-safety nets, the emerging and developing world is on the cusp not only of a humanitarian crisis, but also of the most serious financial crisis since at least the 1930s. Capital has been stampeding out of most of these economies over the past few weeks, and a wave of new sovereign defaults appears inevitable. These are extraordinary times. As the outbreak spreads, more and more lives are disrupted. Though it is challenging, we must recognize the urgency of the moment we are in and do our best to adapt—both to the essential social distancing measures being put in place around the world, and to the personal tumult it is creating in all our lives. The COVID-19 pandemic is inflicting high and rising human costs worldwide, and the necessary protection measures are severely impacting economic activity. As a result of the pandemic, the global economy is projected to contract sharply by –3 percent in 2020, much worse than during the 2008–09 financial crisis. In a baseline scenario—which assumes that the pandemic fades in the second half of 2020 and containment efforts can be gradually unwound—the global economy is projected to grow by 5.8 percent in 2021 as economic activity normalizes, helped by policy support.²

Background: About COVID-19

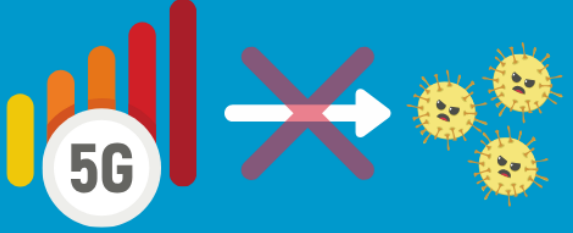
On 31 December 2019, WHO was informed of a cluster of cases of pneumonia of unknown cause detected in Wuhan City, Hubei Province of China. The coronavirus disease (COVID-2019) was identified as the causative virus by Chinese authorities on 7 January. As part of WHO's response to the outbreak, the R&D Blueprint has been activated to accelerate diagnostics, vaccines and therapeutics for this novel coronavirus. COVID-19 (more specifically, a coronavirus) is the disease identified as the cause of an outbreak of respiratory illness first detected in Wuhan, China. COVID-19 is spread through respiratory droplets when an infected person coughs, sneezes or speaks. People can also be infected by touching a contaminated surface and then their eyes, mouth or nose.³

² <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020>

³ WHO

Viruses cannot travel on radio waves/mobile networks.
COVID-19 is spreading in many countries that do not have 5G mobile networks.
 COVID-19 is spread through respiratory droplets when an infected person coughs, sneezes or speaks.
 People can also be infected by touching a contaminated surface and then their eyes, mouth or nose.

FACT: 5G mobile networks DO NOT spread COVID-19



World Health Organization #Coronavirus #COVID19 8 April 2020

Figure Source:WHO

Globally, as of 2:00am CEST, 21 April 2020, there have been 2,402,250 confirmed cases of COVID-19, including 163,097 deaths, reported to WHO.

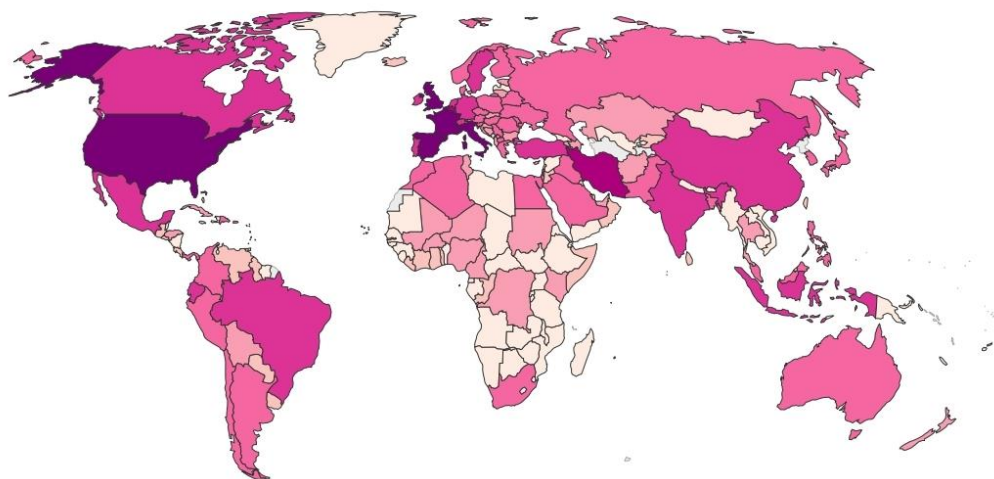
4/22/2020

total-deaths-covid-19.svg

Confirmed COVID-19 deaths, Apr 21, 2020

Limited testing and challenges in the attribution of the cause of death means that the number of confirmed deaths may not be an accurate count of the true number of deaths from COVID-19.

Our World in Data



Source: European CDC – Situation Update Worldwide – Last updated 21st April, 11:45 (London time) OurWorldInData.org/coronavirus • CC BY

THE SITUATION (PROBLEM)

Several industries have been adversely impacted due to the spread of COVID-19 globally. This year, in early March, the Institute for International Finance had said that global economic growth could turn out to be as low as 1%, and this was even before the OPEC club and Russia fell out on production agreements to maintain stable oil prices. Oil prices have had a free fall, sending stock markets into a tizzy. The UN's United Nations Conference on Trade and Development (UNCTAD), said the virus outbreak could cost the global economy up to \$2-trillion this year and that the pandemic could cause a recession in some countries causing global economic growth to clock in below 2.5%.⁴ We are facing a global health crisis unlike any in the 100-year history, one that is killing people, spreading human suffering, and upending people's lives. But this is much more than a health crisis. It is a human, economic and social crisis.

The worst is over. Transmission in China has slowed already. Although some isolated outbreaks occur elsewhere, these do not create a massive spread of the disease. As the global number of cases stabilizes, China's economy returns to normal, and there is little impact outside of some areas such as Iran that are not important for the global economy

Year of the virus. Although the spread of the disease in China slows, outbreaks occur on a rolling basis around the world. Each outbreak requires slowing production in that area, and in a globalized world, that means rolling disruptions to different regions and industries as outbreaks occur and are controlled. The overall impact is to disrupt economic activity enough to slow global growth substantially. Businesses that are nimble enough to manage switching suppliers and that have enough liquidity to survive periods of low sales and revenue will have a competitive advantage.

Global pandemic response. Economic centres around the world are subject to Wuhan-style shutdowns as people panic over the spread of the virus. Uncoordinated decisions on a country-by-country basis disrupt the movement of both people and goods. Global manufacturing declines, as businesses with international supply chains can operate only intermittently. Tourism and related businesses decline sharply, and tourism-based businesses and regions suffer. It takes more than a year for the World Health Organization and the United Nations to develop an accepted global response. Global GDP stagnates, international trade falls, and a global recession is a distinct possibility.

Financial crisis. Delayed shipments and production schedules create financial problems for companies with heavy debts, throughout the world. The decline in global equity markets and

⁴ *The Hindu*, March 15, 2020

flight from risk—investors selling assets such as high-yield bonds and volatile stocks—exposes investors who have under-priced risk.

Better outcomes are possible, especially with greater international cooperation. But on the present trajectory, the post-virus world economy will be one of subdued growth, more fragility, and greater division

IMPACT OF THE CORONAVIRUS PANDEMIC ON THE GLOBAL ECONOMY

A raging pandemic—unleashed by a highly contagious COVID-19 virus—has triggered unprecedented restrictions not only on the movement of people but also on a range of economic activities, and the declaration of national emergencies in most countries in Europe and North America. Growing demand for urgent healthcare and rising death tolls are straining national healthcare systems. The pandemic is disrupting global supply chains and international trade. With nearly 100 countries closing national borders during the past month, the movement of people and tourism flows have come to a screeching halt. Millions of workers in these countries are facing the bleak prospect of losing their jobs.⁵ While there is no way to tell exactly what the economic damage from the global COVID-19 novel coronavirus pandemic will be, there is widespread agreement among economists that it will have severe negative impacts on the global economy. Early estimates predicated that, should the virus become a global pandemic, most major economies will lose at least 2.4 percent of the value their gross domestic product (GDP) over 2020, leading economists to already reduce their 2020 forecasts of global economic growth down from around 3.0 percent to 2.4 percent. To put this number in perspective, global GDP was estimated at around 86.6 trillion U.S. dollars in 2019 – meaning that just a 0.4 percent drop in economic growth amounts to almost 3.5 trillion U.S. dollars in lost economic output. However, these predictions were made prior to COVID-19 becoming a global pandemic, and before the implementation of widespread restrictions on social contact to stop the spread of the virus. Since then, global stock markets have suffered dramatic falls due to the outbreak, and the Dow Jones reported its largest-ever single day fall of almost 3,000 points on March 16, 2020 – beating its previous record of 2,300 points that was set only four days earlier.⁶

The problem with current predictions is no one knows how long the virus will remain potent, how authorities around the world are able to stanch new cases and the resources they pull out to

⁵ *World Economic Situation and Prospects: April 2020 Briefing, No. 136*

⁶ <https://www.statista.com/topics/6139/covid-19-impact-on-the-global-economy/>

treat old ones. What business hates is uncertainty and uncertainty is the only thing that abounds when it comes to predictions about the vitality, endurance and longevity of the new virus.

Since the COVID-19 threat first emerged, economists have debated whether the shock to the global economy will be ‘temporary’ or ‘permanent’. In the more optimistic ‘temporary shock’ view, the virus will eventually pass, and economic life can then largely go back to normal. Massive fiscal and monetary expansion programs in Western countries will keep the economy afloat in the interim — with government balance sheets socialising the costs of economic hibernation. Government debt will be much higher in the aftermath. But incredibly low borrowing costs will keep this sustainable.

The analysis by the UN Department of Economic and Social Affairs (DESA) said the COVID-19 pandemic is disrupting global supply chains and international trade. With nearly 100 countries closing national borders during the past month, the movement of people and tourism flows have come to a screeching halt. "Millions of workers in these countries are facing the bleak prospect of losing their jobs. Governments are considering and rolling out large stimulus packages to avert a sharp downturn of their economies which could potentially plunge the global economy into a deep recession. In the worst-case scenario, the world economy could contract by 0.9 per cent in 2020," the DESA said, adding that the world economy had contracted by 1.7 per cent during the global financial crisis in 2009. It added that the contraction could be even higher if governments fail to provide income support and help boost consumer spending. The analysis noted that before the outbreak of the COVID-19, world output was expected to expand at a modest pace of 2.5 per cent in 2020, as reported in the World Economic Situation and Prospects 2020. Taking into account rapidly changing economic conditions, the UN DESA's World Economic Forecasting Model has estimated best and worst-case scenarios for global growth in 2020.

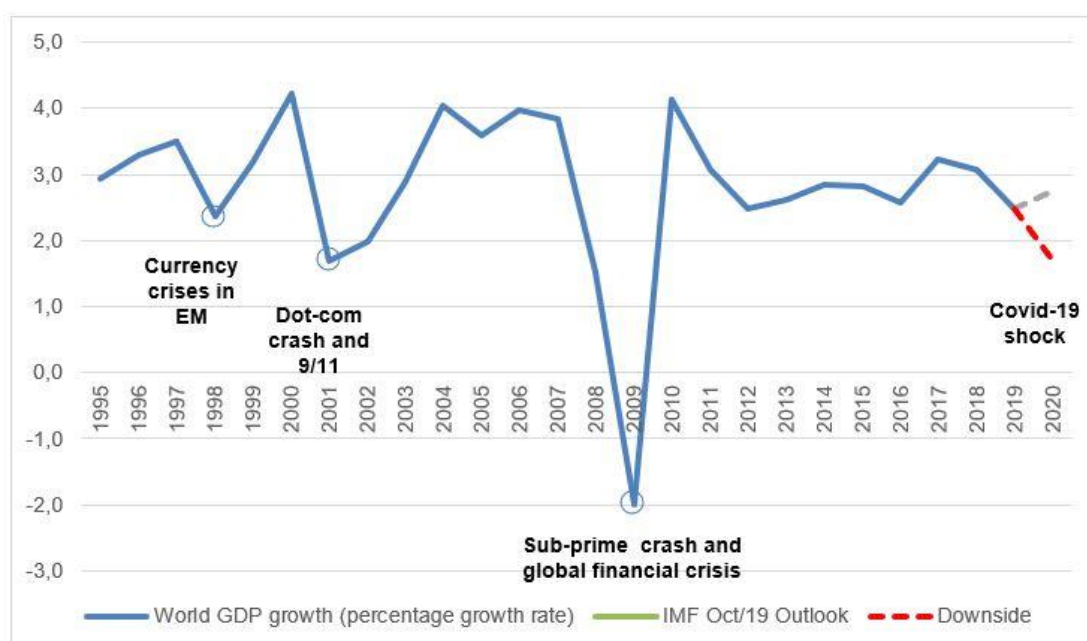
The three important Economic impact of COVID-19 could affect the global economy through:

1. Direct impact on production. Production has already been substantially affected by the shutdown in global areas. Some other countries are also beginning to feel a direct impact as their authorities put in place similar measures. The slowdown or lockdown in many countries has effects on exporters to other countries. According to the World Bank even without new outbreaks of the disease, these areas will likely experience slow growth in the first half of 2020.

2. Supply chain and market disruption. Many manufacturing firms rely on imported intermediate inputs from China and other countries affected by the disease. Many companies also rely on sales in China to meet financial goals. The slowdown in economic activity—and transportation restrictions—in affected countries will likely have an impact on the production and profitability of specific global companies, particularly in manufacturing and in raw materials used in manufacturing.

3. Financial impact on firms and financial markets. Temporary disruptions of inputs and/or production might stress some firms, particularly those with inadequate liquidity. Traders in financial markets may or may not correctly anticipate or understand which firms might be vulnerable. The resulting rise in risk might reveal that one or more key financial market players have taken investment positions that are unprofitable under current conditions, further weakening trust in financial instruments and markets. A possible event would be a significant financial market disruption as participants become concerned about counterparty risk.

The COVID-19 pandemic represents an unprecedented disruption to the global economy and world trade, as production and consumption are scaled back across the globe. The IMF's January Outlook repeated such sentiments albeit with a small growth downgrade from its October figures because of a slower return to normal in leading emerging economies. Still, the combination of an almost constant growth rate of 6% in China, an easing of trade tensions and a presumed acceleration of major commodity-exporting countries was expected to push global growth in 2020 up to 2.7 per cent, despite the continued weak growth performance of developed economies. Now that the Covid-19 shock has changed the scenario all forecasts for 2020 are being revised downward.

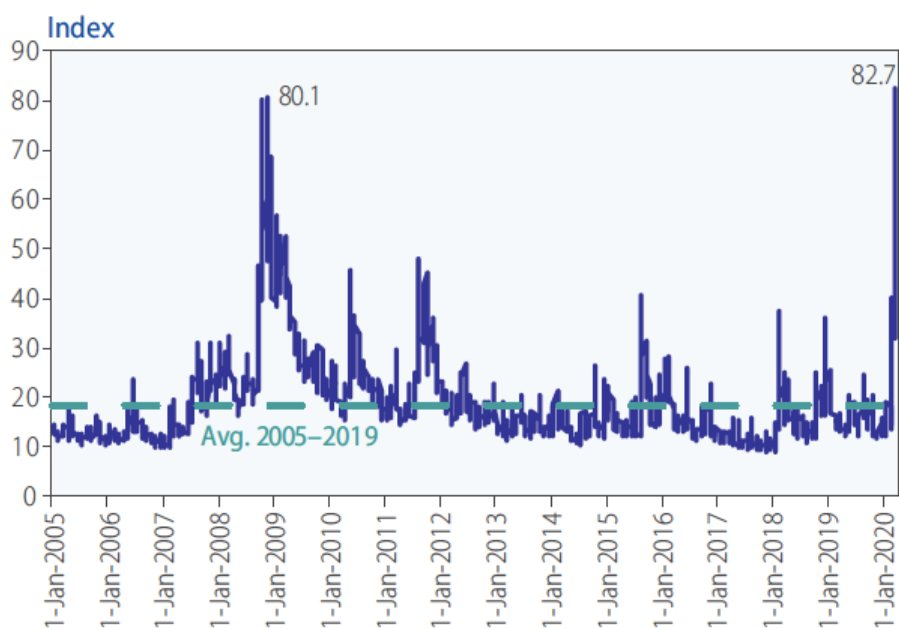


Source: UNCTAD calculations based on IMF, WEO, October, 2019

With a percentage point drop in global growth costing some \$900bn in lost income, most forecasts have wiped a trillion dollars of global income for this year and if growth comes in at 1.7 per cent the cost of the virus will be closer to 2 trillion dollars.

World services trade growth continued to weaken toward the end of 2019 and into the first quarter of 2020 according to the WTO's Services Trade Barometer, released on 11 March 2020. The latest reading of 96.8 is down from the 98.4 recorded last September and well below the baseline value of 100 for the index.⁷ Among the component indices, the largest declines were in passenger air travel (93.5) and container shipping (94.3), growth of which was already moderating before the COVID-19 outbreak. Both indices cover developments through January and may partly reflect early efforts to halt the spread of the disease, which intensified toward the end of the month. The drop in the container shipping index was driven by lower shipping volumes in Asia while the slowdown in passenger air travel was more broad-based, also covering North America, South America and Europe. The global financial transactions (97.7) and ICT services (97.0) indices also dipped below trend, while the construction index (99.8) appears to have held steady. The global services Purchasing Managers' Index (96.1) is the most forward-looking barometer component, reflecting expectations that COVID-19 is likely to continue to weigh on services trade in the near-term.

Cboe Volatility Index (VIX)



Source: Cboe.

Fears of the exponential spread of the virus—and growing uncertainties about the efficacy of various containment measures—have rocked financial markets worldwide, with market volatility

⁷ WTO Trade Barometer

surpassing its peak during the global financial crisis and equity markets and oil prices plunging to multi-year lows.⁸

According to The Economist Intelligence Unit the growth outlook for 2020 appears bleak, the U.S.-EU trade war, and the U.S.-Iran conflict as the biggest threats to the global economy; global growth is forecast to be 2.9% in 2020, close to decade lows. The EIU expects economic growth in the developed world to slow in 2020, driven by a moderation in the U.S. growth. The emergence of a novel coronavirus in China will dampen Asia's growth perspectives. The social unrest seen across the world in 2019 looks set to continue in 2020 and will challenge both policy-makers and business models.

REQUIRED KEY POLICIES

Urgent and bold policy measures are needed, not only to contain the pandemic and save lives, but also to protect the most vulnerable in our societies from economic ruin and to sustain economic growth and financial stability.

Fiscal Issues

Rich countries have introduced massive health and public spending programs to counter the economic effects of the COVID-19 pandemic. For poorer countries, the options for fiscal and monetary responses are more limited, and present ideas for the role that international organizations can play in helping them. Most developed countries have made massive economic responses to the COVID-19 pandemic, ramping up spending and using monetary policy to cushion the blow of lockdowns and other measures that have shut down businesses and left huge numbers unemployed. But for developing countries, which are now starting to respond to the crisis more aggressively, such options may be more limited. Plan, organize, and implement the approach to manage business continuity during the range of possible scenarios that could result from the COVID-19 crisis. Ensure continued revenue collection and agencies' operations to help finance and implement governments' responses to the crisis.

Macroeconomic and Development Policies

In response to the escalating health emergency and rapidly deteriorating economic outlook, national authorities and multilateral entities worldwide are considering unprecedented policy measures. Central banks across developed and developing countries have moved aggressively to help stave off the crisis, slashing interest rates, injecting liquidity and providing emergency funding for firms and households. Since the outbreak of the crisis, about 60 different monetary

⁸ *World Economic Situation And Prospects: April 2020 Briefing, No. 136*

authorities have cut their policy rates, often at emergency meetings. Direct wage or income support measures can play an important role in limiting the socio-economic effects in the short run, while preserving the capacity to recover promptly. Such measures include tax deferrals, government-subsidized short-term work schemes, moratoriums on mortgage payments and direct cash payments. Importantly, social protection programmes need to reach the most in need during the crisis, with a focus on the elderly and those in vulnerable employment.

Manage Balanced Supply and demand of essential goods and services

Governments must address basic supply and demand issues to prevent shortages, price spikes, and suffering in the short term. It is essential to ensure the production and distribution of food and medicines, which in turn requires keeping transportation and basic public services (water, energy, and communications) up and running. The crisis-management office must establish committees with the private sector and operators in key areas to monitor daily the flow of crucial goods and services, and the health of workers and critical personnel.

Supply and demand for foreign currency

To avoid a run on the domestic currency from the expanded money supply, governments will most likely have to establish controls on transactions in foreign currency. The government must be able to manage foreign reserves, calculating the cash flow needed to finance the imports of food, medicines, energy, and other basic materials for at least six months, while considering the flows of external debt.

The role of international organizations

International organizations are important actors in the critical episodes of international politics, with power in mediation, dispute resolution, peace keeping, applying sanctions and others. They also help in managing various key areas of international concern, from global health policy to the monetary policies around the world (Abbott and Snidal, 1998). The COVID-19 crisis has demonstrated just how crucial multilateral institutions are to our collective health, prosperity, and security. The efforts of the wider United Nations, the World Bank Group, and other international and regional organizations as they come together in a coordinated, coherent whole to respond to the wider socio-economic impacts of the crisis.

International organizations must call for further rounds of “unconventional monetary policies” coordinated with fiscal stimulus in developing countries, as discussed above, allowing them the policy space to decide how to do this. They should also encourage leaders in developing countries to establish a central crisis management office as outlined above. We need seek to ensure adequate financing from international organizations to contain the pandemic and protect people, with particular attention to the most vulnerable. Better outcomes are possible, especially with greater international cooperation. But on the present trajectory, the post-virus world

economy will be one of subdued growth, more fragility, and greater division. The International Monetary Fund, the Organisation for Economic Co-operation and Development, the G7, G20, the World Bank and Regional Development Banks need to support focused, efficient and impact-proven measures to economies in need to address the health, economic, employment and social impact of the pandemic for workers in all sectors of the economy including the self-employed and non-permanent, casual and informal workers, and all of business, especially small and medium enterprises (SMEs). For this, the global economy needs urgent measures and policies that reach the real economy.⁹

Investment Promotion and Facilitation

Foreign direct investment (FDI) has become an important factor in bringing capital, as well as jobs, technology and management skills to many developing countries. Some developing countries have seen major benefits from these investments in terms of economic development and rising standards of living. FDI can also play a significant role in financing the achievement of the Sustainable Development Goals by 2030 in basic infrastructure, food security, climate change mitigation and adaptation, health and education. To do so, Governments need to mobilize private investment more efficiently, channel it into sustainable development sectors and maximize its positive economic, social and environmental impacts.

Conclusion

We must take a careful look at market signals across asset classes, recession and recovery patterns, as well as the history of epidemics and shocks, to glean insights into the path ahead. Urgent and bold policy measures are needed, not only to contain the pandemic and save lives, but also to protect the most vulnerable in our societies from economic ruin and to sustain economic growth and financial stability. International organizations must call for further rounds of “unconventional monetary policies” coordinated with fiscal stimulus in developing countries, as discussed above, allowing them the policy space to decide how to do this. Foreign direct investment (FDI) has become an important factor in bringing capital, as well as jobs, technology and management skills to many developing countries. Some developing countries have seen major benefits from these investments in terms of economic development and rising standards of living.

⁹ https://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---actrav/documents/genericdocument/wcms_739522.pdf

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Mukesh Kumar Mishra is Secretary General of The Krityanand UNESCO Club, Jamshedpur, (NGO having Consultative Status with the United Nations ECOSOC). He did his doctoral studies from the Department of Political Science, Kolhan University, Chaibasa. He is interested in theories of International Relations, and Economic and Political Development. His primary research area is at the intersection between Policy and Development Economics. Some of the topics he has investigated or is currently investigating are Emerging Trends in Indian Economy and financial Reforms, Sustainable Development Linking economy and environment In the Era of Globalization, Role of Technology in Smart Governance: 'Smart City, Safe City'. Actively engaged as a Research Guide at Undergraduate and Post-Graduate level Research/Internship program in field of Social, Political and Economic Development. He also serves as Assistant Professor of Management and Social Sciences in Jamshedpur.
