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**INTERNATIONAL RELATIONS AND DIPLOMACY**

**IRD 218: ELEMENTS OF CONTEMPOPARY GLOBAL STUDIES**

**ASSIGNMENT TITLE: COVID-19 AND THE GLOBAL ECONOMY**

**QUESTION**

**THE COVID-19 PANDEMIC CONTINUES TO RAVAGE THE WORLD. BRIEFLY ASSESS THE PANDEMIC’S IMPACT ON THE GLOBAL ECONOMY BETWEEN DECEMBER 2019 AND APRIL 2020. BASICALLY EXPLAIN BOTH THE INTENDED AND UINTENDED CONSEQUENCES OF THE SHUTDOWNS, LOOKING AT THE STATISTICS OF GLOBAL FINANCIAL INSTITUTIONS, FOR EXAMPLE, IMF.**

The new coronavirus pandemic popularly known as COVID-19, meaning coronavirus infectious disease 2019, first emerged in the city of Wuhan, China in December 2019. The case was immediately reported to the World Health Organization country office in China on the 31st of December 2019. The outbreak was declared a Public Health Emergency of International concern on the 30th of January 2020 and was later named by the World Health Organization on the 11th of February 2020.

The pandemic is by far the most defining global crisis of our time and the greatest challenge to be faced since World War II. Dozens of the world’s greatest cities are deserted as people stay indoors and people are losing their jobs as all across the world, shops, restaurants, theatres, and bars are closing and small island nations heavily dependent on tourism, have empty hotels and deserted beaches. We are in uncharted territory and there is no way of knowing when normality will return. It has had a large impact on the global economy the most and has the power to create devastating crisis that will leave deep scars to the global economy.

The coronavirus novel pandemic, has affected the economies of every continent in the world except Antarctica, which has not at all recorded any case of the coronavirus. The COVID-19 pandemic has pushed the world into a recession. For 2020, it will be worse than the global financial crisis. The economic damage is mounting across all countries, tracking the sharp rise in new infections and containment measures put in place by governments.

Furthermore, while there is no way to tell exactly what the economic damage from the global COVID-19 novel coronavirus pandemic will be, there is a widespread agreement among the economists that it will have severe negative impacts on the global economy. Early estimates had predicted that should the virus become a global pandemic, most major countries will at lose at least 2.4 percent of the value of their gross domestic profit(GDP) over 2020, leading economists to reduce their 2020 forecast of global economic growth from 3.0 down to 2.4. These predictions however, were made prior to the COVID-19 pandemic and before the implementation of social distancing and since then, the global stock markets have suffered a drastic fall due to the outbreak.

COVID-19 has affected the world economy in three major areas: Financial markets, Employment and redistribution of income among various sectors. The price of oil has dropped and the stock exchange markets around the world has dropped with the stock market of different companies crashing for employment leading to unemployment. In redistribution of income, digital and technology companies such as Slack, Zoom, Netflix and Microsoft are seeing a surge in revenue because businesses and households are trying to adapt by working from home and finding means to keep themselves busy. Most online businesses such as TIK TOK, Instagram, YouTube, Google. Etc. have benefitted a lot from this lockdown. Pharmaceutical companies and Supermarkets are also the big winners due to various bulk buying by citizens to carry them through the quarantine and protective supplies to help prevent the virus. This theory, applies to all the continents affected by the virus.

AFRICA

The COVID-19 crisis is affecting the entire world economy especially that of Africa. In Africa, COVID-19 employment effects in are likely to be severe in urban areas. With urban-based sectors of the economy, manufacturing and services, which currently account for 64% of GDP in Africa are expected to be hit hard by COVID-19 related effects, leading to substantial losses in productive jobs. In particular, the approximately 250 million Africans in informal urban employment, excluding North Africa, will be at risk. Firms and businesses in African cities are highly vulnerable to COVID-19 related effects, especially SMEs which account for 80% of employment in Africa. These risks are compounded by a likely hike in the cost of living is expected as shown for example by some initial reports of up to 100% increase in the price of some food items in some African cities.

Furthermore, with the per capita expenditure of African local authorities being the lowest in the world at $26, many local authorities are poorly resourced and less able to contend with the onslaught of COVID-19. Alarming also the likely fall in revenue streams for local authorities due to COVID-19 curtailing their already limited ability to respond to this crisis. Intergovernmental/national transfers which account for 70 to 80 per cent of local authorities’ finance are likely to be reduced due to immediate national response and recovery requirements. Own source revenues which are already low at only 10% of local authorities’ finances with city level lockdowns and restrictions leading to reduced economic activity.

Africa, because of its openness to international trade and migration, is not immune to the harmful effects of COVID-19. Some key sectors of the African economy are already experiencing a slowdown as a result of the pandemic. Tourism, air transport, and the oil sector are visibly impacted. These impacts are of two kinds: endogenous and exogenous. The exogenous effects come from direct trade links between affected partner continents such as Asia, Europe and the United States; tourism; the decline in remittances from African Diaspora; Foreign Direct Investment and Official Development Assistance; illicit financing flows and domestic financial market tightening, etc. The endogenous effects occur as a result of the rapid spread of the virus in many African countries. On one hand, they are linked to morbidity and mortality. On the other hand, they lead to a disruption of economic activities. This may cause, a decrease in domestic demand in tax revenue due to the loss of oil and commodity prices coupled with an increase in public expenditure to safeguard human health and support economic activities.

AUSTRALIA

For many in Australia, the bushfire catastrophe now seems a distant memory as the coronavirus pandemic takes this country deeper into the unknown. The "miracle economy" that avoided recession during the 2007-2008 financial crisis, avoided the worst of the 1997 Asian financial crisis as well as the lancing of the dot.com bubble is in deep trouble. The Black Summer fires were adding to an escalating economic malaise but the coronavirus has inflicted a jolting collapse. In one week about one million Australians became unemployed. Within days the center-right government had unveiled Australia's biggest ever economic package - A$130bn ($80bn) is to be spent on keeping six million people, or around half the workforce, in jobs. Australia could suffer more than others because of the unfolding of two of its key exports: tourism and education.

Westpac economists predicted the impact of Covid-19 would be particularly severe in New South Wales and Victoria, due to their reliance on tourism and international students. NSW was predicted to record its first recession since 1990-91 and Victoria was facing a significant downturn and would be unlikely to stave off what is shaping as a big hit from the outbreak of COVID-19, particularly due to its reliance on tourism. The ABS data also shows dramatic changes in the healthcare and social assistance sector workforce. About 63% of businesses made changes to the workforce because of Covid-19, including 44% which reported they had reduced work hours of staff, 42% which said they had changed the location of their staff, and 17% which had placed staff on unpaid leave. About 9% of healthcare or social assistance businesses said they had temporarily increased work hours.

Also, reduced work hours were reported by 25% of businesses with 19 employees or fewer, 41% of those with 20-199 workers, and 34% of those with 200 or more employees. Nowhere was the impact more apparent than in the hospitality sector. About 78% of accommodation and food services businesses had made changes to their workforce, including 70% that temporarily reduced work hours. The Covid-19 pandemic has forced a staggering 70% of businesses in the hospitality sector to reduce the hours of their staff and 43% to either sack workers or place them on unpaid leave, new data shows. The Australian Bureau of Statistics has released new data showing the pandemic’s impact on business, based on a survey of 3,000 companies in the days after the government’s tough social distancing restrictions were announced on 29 March. Two-thirds of businesses across all sectors reported taking a hit to revenue or cash flow due to COVID-19. Roughly the same number reported they had suffered decreased demand.

Two in five businesses said they had changed how they delivered goods or services, one-third said they had renegotiated their leases, and one in four had deferred loan REPAYMENTS. About one in 10 said they had paused trading altogether. In 70% of cases, this was due to COVID-19. The disruptions to Australian workers were VAST. Almost half of the businesses still trading reported making some sort of change to their workforce in the past two weeks due to Covid-19, including either temporary reductions or increases in work hours, a change of work location, or placing staff on leave. Westpac economists warned Australian gross domestic product would contract by 8.5% in the June quarter, followed by a 0.6% contraction in the September quarter.

AMERICA

The U.S. economy has almost certainly entered a contraction. Unemployment insurance claims reported for the week ending March 14th showed a sizable spike, but the true contraction likely started the following week, the week ending March 21st. It appears that millions of Americans have already lost their jobs, likely at a pace that exceeds job losses in the worst weeks of the Great Recession. Even if economic activity in the United States were not being shut down in support of social distancing, the current spread of the COVID-19 pandemic around the world reduces demand in the world economy and complicates supply chains, and the drop in equity prices lowers household wealth to an extent that would have caused a sizable slowdown in the U.S. economy. When those factors are added to the economic disruption needed to fight the virus, the United States will likely see one of the sharpest economic contractions in its history.

Fears of a broader outbreak and its economic impact spread to financial markets last month, and most international indices are nearing bear market territory (declining at least 20 percent from the 52-week high) as investors process the lower corporate earnings that will result from the virus. The S&P 500 fell 7 percent to open the March 9 session, triggering a “circuit breaker” that briefly suspended trading for the first time since 1997. Overall, the index is down about 17 percent from its record high on February 19. Amid the equity rout, investors have fled to safe haven assets such as U.S. Treasury bonds, leading to record low yields. Low yields translate into low borrowing costs for the U.S. government, but low interest rates may not benefit private companies or individuals (or even all sovereigns) who may find financial markets too risk adverse to extend credit in light of such uncertainty. The longer the virus spreads, the more economic and company performance will be impacted, raising concerns about debt sustainability, especially for highly indebted countries and companies, absent official support. The stock market has sunk a quarter from its peak last month, wiping out three years of gains. Meanwhile there is news that a record 3.28 million Americans applied for unemployment benefits, the highest number ever recorded. Unemployment is shooting up far faster than it did during the 2008 recession, a sign the economy is headed toward recession.

To understand COVID-19’s hit on the economy, consider its effect on different industries. Consumption makes up 70% of America’s gross domestic product (GDP), but consumption has slumped as businesses close and as households hold off on major purchases as they worry about their finances and their jobs. Investment makes up 20% of GDP, but businesses are putting off investment as they wait for clarity on the full cost of COVID-19. Arts, entertainment, recreation, and restaurants constitute 4.2% of GDP. With restaurants and movie theaters closed, this figure will now be closer to zero until the quarantines are lifted. Manufacturing makes up 11% of U.S. GDP, but much of this will be disrupted, too, because global supply chains have been obstructed by factory closures and because companies are shutting down factories in anticipation of reduced demand. Ford and GM, for example, have announced temporary closures of car factories. As businesses rack up losses due to closures, layoffs have already followed. Small businesses will especially struggle to keep staff on the payroll as their revenue slumps. However, it is possible to imagine scenarios in which the COVID-19 quarantines are followed by a swift economic recovery. The economy was growing steadily before the virus struck, so there are no other factors pushing. But the longer the shutdowns last, the less likely this becomes. More worrisome is that some state and local governments are only just beginning to take the risk seriously—thereby increasing the likelihood that the coronavirus spreads further, and requires longer shutdowns to bring it under control.

EUROPE

As explained in a new policy note published by Funcas, three distinct, though over-lapping, economic effects can be anticipated. The first is macroeconomic, with the sharp fall in GDP expected to lead to a rapid increase in both public and private indebtedness, potentially leading to renewed financial instability. The second economic effect stems from the uneven incidence of the lock-down of economies. Aviation, tourism, leisure activities and non-food retail face an extended period of inactivity. Apart from the direct effect of the virus on the worst affected localities- such as Bergamo and adjacent parts of Lombardy, Madrid, New York and Wuhan-the economic woes could be severe for localities, regions or entire countries dependent on these sectors. Although there will be some offset from the few sectors expected to gain from efforts to contain the virus- not least health care and the industries supplying it with equipment, consumables and so on- the risks to companies in locked down sectors are acute. Those with heavy overheads, whether large or small, will quickly exhaust their working capital and face insolvency. Third, the effects on households will be profound, though again very uneven. Job losses will mean loss of income and the lockdown will deter the search for alternative jobs, likely in any case to be scarce. Households committed to payments for rents, utilities and other regular outgoings based on previously credible expectations of a certain level of income will find themselves in financial jeopardy.

Europe is among the largest economies across the globe in terms of industrial production. The GDP of the European Union (EU) was estimated to be $18.8 trillion in 2018, increased from $17.4 trillion in 2017, represented nearly 23% of global GDP. This result owing to the remarkable focus towards the production of all finished goods and services within the country. In 2018, EU industrial production surpassed the level that was observed in 2008. More than 75% of the value of sold production in EU 28 was generated by six member states, including Germany, Italy, France, UK, Spain, and Poland with 28%, 16%, 12%, 9%, 8%, and 5%, of total EU respectively (Eurostat).

The region has a significant production of food products, motor vehicles, machinery and equipment, and basic metals and fabricated metal products. In 2018, the production of food products in EU 28 increased by nearly 117 billion (16%) compared with 2008. In addition, there is a considerable production of machinery and equipment, such as construction and transportation equipment in European countries, including UK and Germany. According to the Office for National Statistics (ONS), in UK, the production of machinery and equipment increased by 1.8% and reached nearly $36 billion in 2018. However, European countries are currently facing a recession due to factory shutdown and shortage of raw material amid the COVID-19 outbreak. After China, European countries, including Italy, Spain, and UK are highly affected by COVID-19 pandemic.

The study on the impact of COVID-19 on European industry is classified into automobile, food & beverage, machinery, electrical and electronics, aviation, retail and e-commerce, healthcare, travel and tourism, and others. BFSI and automobiles are among the most affected sectors due to the COVID-19 outbreak in the region. European banks were facing financial and debt crises in 2019 and the COVID-19 crisis has created uncertainty in the financial sector. As per the European Banking Authority (EBA), as of June 2019, the weighted average ratio of non-performing loans stood at 3%, rather than 6% in 2015. The COVID-19 pandemic is expected to worsen the level of bad loans in banks' balance sheets. Hence, it is expected that several small and medium-sized businesses will struggle to repay their debts and have been forced to close, which, in turn, will more worsen the condition.

ASIA

COVID-19 continues to take a humanitarian toll around the world, including in Asia and the Pacific. Countries are rightly taking dramatic measures to slow it, and those measures have economic impacts. The impact of the Covid-19 crisis is hitting the asian economies through several channels. First, ASEAN countries are highly open to trade and investment as well as tourism, all of which have been severely disrupted by the spreading global pandemic. Demand for these countries’ exports, whether palm oil and metals from Indonesia; manufactured components from Malaysia, Vietnam, and the Philippines; or textiles from Cambodia, have fallen sharply and will continue to stagnate throughout the crisis. The suspension and likely very slow resumption of tourism will hit the Thai economy especially hard, which depends on tourism and travel spending for one-fifth of its GDP, and will also impact the tourism-dependent economies of Malaysia, Indonesia, Philippines, and Vietnam. Singapore had already been hit by declining trade volumes in the midst of U.S.-China trade conflict in 2019 and is now facing a further drop in trade in goods as well as declining services trade and tourism.

ASEAN economies have a diversified set of trade and investment partners, including the United States, European Union, China, and intra-ASEAN trade. In normal times, this diversified portfolio of partners would provide a buffer for a regional economic downturn, but in this global pandemic all of these partners are facing a halt to or dimming prospects for growth for the first three quarters of 2020, with bleak forecasts for China (+1 percent growth), the United States (-6 percent), Japan (-4 percent), and the Eurozone (-7 to -8 percent). Second, the collapse in oil prices caused by the sudden drop in energy consumption due to the widespread lockdowns and travel bans will have a sharp impact on economies dependent on exports of fuel, namely Indonesia, where coal and oil comprise nearly one-quarter of exports; Malaysia, where oil and gas make up about 16 percent of exports; and of course Brunei, whose economy is almost entirely supported by exports of crude and natural gas (over 90 percent of exports).

Third, the sharp drop in domestic demand due to lockdowns and other public health measures will have large multiplier effects on these economies, since consumption represents about 60 percent of GDP in the major ASEAN economies, with Singapore being an exception. The fourth channel of economic impact from the global Covid-19 crisis is capital outflows. Whereas foreign direct investment is generally sticky, international portfolio investors in emerging market equities and bonds have driven large capital outflows as they seek safe havens in the face of the deepening global pandemic. According to the Institute of International Finance, capital outflows from emerging markets have totaled nearly $100 billion so far this year, with Southeast Asian economies taking a sizeable hit. Indonesia has seen an outflow of $8.2 billion in capital by the end of March. These outflows have led to regional currency depreciations, especially the Indonesian rupiah, which has depreciated 14.5 percent year to date, while the Thai baht, Malaysian ringgit, and Singapore dollar all depreciated by more than 4 percent in the March 2-19 period. Central banks in the region have also intervened to support their currencies, but tightening financial conditions complicate their efforts to maintain accommodative monetary policy and shore up their economies in the face of the Covid-19 crisis.

Over the longer term, it is difficult to predict the ultimate economic impact on Southeast Asia because there is vast uncertainty about how the pandemic will play out over the next several months and beyond, and how the crisis will reshape the global economy. It is likely to intensify the ongoing process of reshoring capacity away from China and the rest of East Asia. Although certain sectors in some Southeast Asian economies have benefited from recent supply chain shifts out of China, it is less clear that post-pandemic trends will be as favorable. National security considerations in the United States and other advanced economies now loom large over questions about pharmaceutical ingredients and inputs for and production of medical supplies, while travel disruptions and difficulties in the form of quarantines, health certificates, and fear of travel will likely further accelerate the shortening of supply chains.

In addition, the impacts of COVID-19 among the international financial institutions are yet to take their toll. For now, the international financial institutions are still able to cater for their member countries but some of them, have used up most of their savings and loaned money to a lot of countries. The full impact on the international institutions will be seen if the pandemic and shutdown still continues further than the predictions of the international institutions. Then, the donations of the various member countries will be limited because of the reduction in the economy of most countries. The global economy intended for the spending of money to control the virus, but they did not intent for the pandemic to continue for a long time and to lead to all the drastic economic reductions and this can be seen above in all the different continents. However, with this, the recovery of both financial institutions and countries will be very slow and will take time.

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