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ELEMENTS OF CONTEMPORARY GLOBAL STUDIES

ASSIGNMENT

QUESTION

The COVID-19 Pandemic continues to ravage the world. Briefly assess the pandemic’s impacts on the global economy between December 2019 and April 2020. Basically explain both the intended and unintended consequences of the shutdowns, looking at the statistics of global financial institutions, for example, the IMF.

ABSTRACT

At the start of the year, most investors expected the 11-year bull market to continue in 2020, only to be shockingly disabused of that notion by the spread of COVID-19. As a result, the Dow fell from record highs to bear-market territory in a matter of weeks.

Investors need a way to price in risk, and as of April 2020, there are simply too many unknowns surrounding COVID-19 for investors to predict the economic impact, leading to fear and extreme volatility.

The scenarios in this paper demonstrate that even a contained outbreak could significantly impact the global economy in the short run. These scenarios demonstrate the scale of costs that might be avoided by greater investment in public health systems in all economies but particularly in less developed economies where health care systems are less developed and popultion density is high.

INTRODUCTION

COVID-19 has officially been designated a pandemic by the World Health Organization (WHO). It has gone global with cases in over 150 countries. As of April 1, 2020, almost 900,000 COVID-19 cases

have been reported worldwide with a death toll of over 44,000. Note that over 185,000 of the infected patients have recovered, and almost 3,000 fatalities have already occurred in the U.S.

China's unprecedented quarantine of approximately 600 million people in their homes or hospitals has slowed the progression of the outbreak. At the epidemic's peak in late-January and early- February, China frequently experienced over a thousand new COVID-19 cases per day, along with 100 fatalities.

Although still a relatively high amount of new cases emerged, this is drastically lessened compared to prior months. This is part of a long-term downward trend that gives rise to hopes that China nearly has the virus under control.

However, the spread in the United States, Europe and other regions continues to rapidly evolve. How long the epidemic will last and its economic impact is difficult to predict. As a result, the stock and bond markets have entered a period of extreme volatility, leaving investors to wonder: What does COVID-19 mean for the global markets and economy?

THE PANDEMIC IMPACTS ON THE GLOBAL ECONOMY

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.

China was the first country to experience the full force of the disease, with confirmed active cases at over 60,000 by mid-February. European countries such as Italy, Spain, and France are now in acute phases of the epidemic, followed by the United States where the number of active cases is growing rapidly. In many emerging market and developing economies, the epidemic appears to be just beginning.

The government, Wall Street and the American people want to see the virus contained. Until it is, risk assets remain vulnerable to additional selloffs. However, there are some bright spots. The outbreak has increased the demand for medical products, especially face masks and test kits in an effort to avoid spreading and/or catching the virus.

The news across other risk assets points to earnings weakness in the first quarter of 2020. For example, Nike relies heavily on China for its production, igniting fears of an earnings dip due to supply-chain disruption. Starbucks also had to shutter half of its 4,292 stores in China, and Apple has begun a search for alternative suppliers who can make up any production losses.

However, with China hitting its peak with new COVID-19 cases, the country continues to steadily decline its infected count. Apple CEO Tim Cook expressed optimism that the company's Chinese supply chain is rebounding. Starbucks has reopened most of its locations.

While people all over the world remain quarantined, the number of those infected still continues to aggressively increase. Collectively worldwide, experts are steadily working on finding a vaccine. Unfortunately, we can expect more economic pain in the U.S. and abroad as virus containment measures continue to decrease economic activity. For example, trade shows and business conferences are canceling events around the world, such as the giant The Inspired Home Show in Chicago, which draws more than 60,000 attendees worldwide. Many businesspeople are canceling travel and concerned vacationers are rescheduling trips. As a result, United Airlines has taken the unprecedented step of canceling 10% of its upcoming domestic flights and 20% of its international flights.

Further, cautionary action has been taken on the federal, state and city level to ensure as many Americans as possible remain safe and uninfected. To slow down the spread of COVID-19, everyone is highly encouraged to practice social distancing for the foreseeable future.

The effect of COVID-19 remains uncertain. In a case such as this, when continued volatility can be expected, it is wise to employ strategies that enhance returns, whether the market shifts violently up or down.

Further, it’s wise to consult with a trusted financial partner to ensure you don’t panic sell or buy based on FOMO (Fear Of Missing Out) or FOLE (Fear Of Losing Everything). It is important to remain patient and make sound decisions not based on emotion.

Volatility can provide an opportunity for market-beating returns. The key is employing a strategy that allows you to make money in volatile markets regardless of which direction they turn.

Economists have lowered their estimates for global growth due to the

outbreak. Predictions include that China's economy will reach low growth levels that haven't been seen since the 2008 financial crisis and may experience $800 billion in new bad loans.

However, due to the outbreak of COVID-19, a huge downfall in demand for petroleum products has been witnessed globally as well as in the US which results in a downfall in oil prices. Moreover, disagreement between Russia and OPEC countries related to the daily crude oil production had also resulted in a downfall in prices near to $30 per barrel. The oil industry is significantly affected due to the closedown of the aviation sector. After the outbreak of COVID-19 in the US, the country bans pTassengers from most of the affected countries of Asia-Pacific and Europe, which results in the cancellation of a huge number of flights.

THE INTENDED AND UNINTENDED CONSEQUENCES OF THE SHUTDOWN

The intended consequences of the shutdown was more or less to stop the spread of the corona virus which brought up the pandemic globally putting the global economic at risk but due to the rise of the cases around the world the situation has been seen than expected.

The unintended consequences of current policies are vast, in both human and economic terms. The governments of Taiwan, Japan, and South Korea seem to have shown that even a democracy can manage a health crisis directly, by seeking to minimize spread of the disease, in ways that won’t cripple the economy.

Rules vary by country and jurisdiction, but – especially in urban centers – the following generally apply. On leaving home, you must wear a mask. On entering an office building or store, your temperature is taken. If it’s elevated, you will be tested. Apart from that, if you are not feeling well, you can get tested at a convenient location. If you test positive, they will ask about whomever you’ve seen in the past week, and will test them, too. You are then placed on mandatory home quarantine, as are those who live with you. Hospitalization is reserved for serious cases. Direct and unambiguous.

The health of the economy is not as important as the health of the citizenry. However, the two are interconnected. You can’t crush the economy without exacting a human toll. In a 2018 academic article, Taiwanese researchers Yu-Hui Lin and Wen-Yi Chen showed a link between unemployment and suicide, one that may linger for two to three years after the job market has improved. These findings suggest that even a short, sharp recession has lasting consequences. In rough terms, they postulate that each 1% rise in unemployment leads to one additional suicide per 100,000 people, and a rise in divorces of up to 1%. If unemployment jumps by 5% in the current shutdown of the U.S. economy, that would translate into some 16,500 additional suicides and up to 3 million divorces. The human toll is very real.

Robert Zoellick and others have noted that supply chain disruptions are jeopardizing the health and lives of patients facing much more serious health risks than coronavirus. There are 23 million Americans with cancer or who have had cancer, another 30 million with heart disease, 34 million with diabetes, and 35 million with chronic lung disease. Given the overlap between these groups, around 70-80 million Americans are being treated for one or more of these ailments. If one in a hundred of them die because they can’t get their medicine, or the hospitals can’t take them, there’s another 750,000 deaths.

How likely is death from COVID-19, for the millions who will be exposed? It’s too early to know, and it varies widely by age and health. Because many cases are asymptomatic or are mild enough that the carrier doesn’t get tested, the number of cases is likely understated by far more than the number of deaths. Countries like South Korea, which have done widespread testing, will have far fewer unreported cases.

On the Diamond Princess cruise ship, with 3,000 aboard, everyone was tested. For both the Diamond Princess and South Korea, the mortality rate is about 1%. Those who are over 60 years old with other risk factors (the aforementioned heart or lung disease, cancer or diabetes) comprise roughly 80% of that total. This means that, for most age groups, a COVID-19 victim faces mortality risk that very roughly matches one’s risk of dying from all other causes in 2020. Why are we shuttering the global macroeconomy for a threat that temporarily doubles our risk of dying, and only

for those of us who are infected? While a muscular national response is both expected and necessary, the old saying of "first do no harm" rates prominent consideration. In a noble effort to save lives, let's please be careful to not crush people’s careers, plans and dreams in the process.

THE CURRENT STATISTICS ON THE GLOBAL FINANCIAL INSTITUTIONS

The world has changed dramatically in the three months since our last update of the World Economic Outlook in January. A rare disaster, a coronavirus pandemic, has resulted in a tragically large number of human lives being lost. As countries implement necessary quarantines and social distancing practices to contain the pandemic, the world has been put in a Great Lockdown. The magnitude and speed of collapse in activity that has followed is unlike anything experienced in our lifetimes.

This is a crisis like no other, and there is substantial uncertainty about its impact on people’s lives and livelihoods. A lot depends on the epidemiology of the virus, the effectiveness of containment measures, and the development of therapeutics and vaccines, all of which are hard to predict. In addition, many countries now face multiple crises—a health crisis, a financial crisis, and a collapse in commodity prices, which interact in complex ways. Policymakers are providing unprecedented support to households, firms, and financial markets, and, while this is crucial for a strong recovery, there is considerable uncertainty about what the economic landscape will look like when we emerge from this lockdown.

Under the assumption that the pandemic and required containment peaks in the second quarter for most countries in the world, and recedes in the second half of this year, in the

April World Economic Outlook we project global growth in 2020 to fall to -3 percent. This is a downgrade of 6.3 percentage points from January 2020, a major revision over a very short period. This makes the Great Lockdown the worst recession since the Great Depression, and far worse than the Global Financial Crisis.

Assuming the pandemic fades in the second half of 2020 and that policy actions taken around the world are effective in preventing widespread firm bankruptcies, extended job losses, and system-wide financial strains, we project global growth in 2021 to rebound to 5.8 percent.

This recovery in 2021 is only partial as the level of economic activity is projected to remain below the level we had projected for 2021, before the virus hit. The cumulative loss to global GDP over 2020 and 2021 from the pandemic crisis could be around 9 trillion dollars, greater than the economies of Japan and Germany, combined.

This is a truly global crisis as no country is spared. Countries reliant on tourism, travel, hospitality, and entertainment for their growth are experiencing particularly large disruptions. Emerging market and developing economies face additional challenges with unprecedented reversals in capital flows as global risk appetite wanes, and currency pressures, while coping with weaker health systems, and more limited fiscal space to provide support. Moreover, several economies entered this crisis in a vulnerable state with sluggish growth and high debt levels.

For the first time since the Great Depression both advanced economies and emerging market and developing economies are in recession. For this year, growth in advanced economies is projected at -6.1 percent. Emerging market and developing economies with normal growth levels well above advanced economies are also projected to have negative growth rates of -1.0 percent in 2020, and -2.2 percent if you exclude China. Income per capita is projected to shrink for over 170 countries. Both advanced economies and emerging market and developing economies are expected to partially recover in 2021, given the extreme uncertainty around the duration and intensity of the health crisis, we also explore alternative, more adverse scenarios. The pandemic may not recede in the second half of this year, leading to longer durations of containment, worsening financial conditions, and further breakdowns of global supply chains. In such cases, global GDP would fall even further: an additional 3 percent in 2020 if the pandemic is more protracted this year, while, if the pandemic continues into 2021, it may fall next year by an additional 8 percent compared to our baseline scenario.

Flattening the spread of COVID-19 using lockdowns allows health systems to cope with the disease, which then permits a resumption of economic activity. In this sense, there is no trade-off between saving lives and saving livelihoods. Countries should continue to spend generously on their health systems, perform widespread testing, and refrain from trade restrictions on medical supplies. A global effort must ensure that when therapies and vaccines are developed both rich and poor nations alike have immediate access.

While the economy is shut down, policymakers will need to ensure that people are able to meet their needs and that businesses can pick up once the acute phases of the pandemic pass. The large, timely, and targeted, fiscal, monetary, and financial policies already taken by many policymakers— including credit guarantees, liquidity facilities, loan forbearance, expanded unemployment insurance, enhanced benefits, and tax relief—have been lifelines to households and businesses. This support should continue throughout the containment phase to minimize persistent scars that could emerge from subdued investment and job losses in this severe downturn.

Policymakers must also plan for the recovery. As containment measures come off, policies should shift swiftly to supporting demand, incentivizing firm hiring, and repairing balance sheets in the private and public sector to aid the recovery. Fiscal stimulus that is coordinated across countries with fiscal space will magnify the benefit for all economies. Moratoria on debt repayments and debt restructuring may need to be continued during the recovery phase.

Multilateral cooperation is vital to the health of the global recovery. To support needed spending in developing countries, bilateral creditors and international financial institutions should provide concessional financing, grants, and debt relief. The activation and establishment of swap lines between major central banks has helped ease shortages in international liquidity, and may need to be expanded to more economies. Collaborative effort is needed to ensure that the world does not de-globalize, so the recovery is not damaged by further losses to productivity.

At the International Monetary Fund, we are actively deploying our 1-trillion-dollar lending capacity to support vulnerable countries, including through rapid-disbursing emergency financing and debt service relief to our poorest member countries, and we are calling on official bilateral creditors to do the same.

There are some hopeful signs that this health crisis will end. Countries are succeeding in containing the virus using social-distancing practices, testing, and contact tracing, at least for now, and treatments and vaccines may develop sooner than expected.

CONCLUSION

The widespread of the corona virus has brought high loss to global economy business around the world and I has caused mass quarantine, and travel ban also had an impact on the confidence of both domestic businesses and international companies, according to a survey of 761 business owners by the University of International Business and Economics in midFebruary.23 Among the 761 businesses, half were private Chinese companies, 20 percent were international joint ventures, and 27 percent were State Owned Enterprises (SOEs); 18 percent had online business. Thirty-five percent of companies had more than 1,000 employees, 29 percent had 1,000 employees, 14 percent had 50– 100 employees, and 21 percent had fewer than 50 employees. Most of the business in the study fit the SME definition in China.24 Thirty percent reported that company cash on hand could sustain their businesses for no more than three months, and 30 percent reported cash coverage of six to 12 months. Half of the businesses expected 10–30 percent loss of revenue this year. The most challenging issue reported was the company’s cash flow. The American Chamber of Commerce in Shanghai conducted a survey of 127 American companies operating in China between February 4 and 6.25 Among the 127 companies, 20 companies had China-sourced revenues of over $500 million, and 27 had Chinese revenues of $100 million to $500 million.

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