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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, for example, the IMF.

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](https://www.statista.com/statistics/273951/growth-of-the-global-gross-domestic-product-gdp/) to [2.4 percent](https://www.statista.com/statistics/1102889/covid-19-forecasted-global-real-gdp-growth/). 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](https://www.statista.com/statistics/1105021/coronavirus-outbreak-stock-market-change/), and the [Dow Jones reported its largest-ever single day fall](https://www.statista.com/statistics/1104278/weekly-performance-of-djia-index/) of almost 3,000 points on March 16, 2020 – beating its previous record of 2,300 points that was set only four days earlier.

The economic damage caused by the COVID-19 pandemic is largely driven by a fall in demand, meaning that there are not consumers to purchase the goods and services available in the global economy. This dynamic can be clearly seen in [heavily affected industries such as travel and tourism](https://www.statista.com/statistics/1103426/covid-19-revenue-travel-tourism-industry-forecast/). To slow the spread of the virus, countries placed restrictions on travel, meaning that many people cannot purchase flights for holidays or business trips. This reduction in consumer demand causes airlines to lose planned revenue, meaning they then need to cut their expenses by [reducing the number of flights they operate](https://www.statista.com/statistics/1104036/novel-coronavirus-weekly-flights-change-airlines-region/). Without government assistance, eventually airlines will also need to reduce lay off staff to further cut costs. The same dynamic applies to other industries, for example with [falling demand for oil](https://www.statista.com/statistics/332291/global-oil-demand-outlook-following-covid-19/) and [new cars](https://www.statista.com/statistics/1104015/worldwide-auto-industry-gross-value-added-growth-covid-19/) as daily commutes, social events and holidays are no longer possible. As companies start cutting staff to make up for lost revenue, the worry is that this will create a downward economic spiral when these newly unemployed workers can no longer afford to purchase unaffected goods and services. To use retail as an example, an increase in unemployment will compound the [reduction in sales that occurred from the closure of shop fronts](https://www.statista.com/statistics/1102658/coronavirus-lost-sales-impact-for-retailers-europe/), cascading the crisis over to the online retail segment (which has increased throughout the crisis). It is this dynamic that has economists contemplating whether the COVID-19 pandemic could lead to a global recession on the scale of the Great Depression.  
  
 Despite the clear danger that the global economy is in, there are also reasons to be hopeful that this worst-case scenario can be avoided. Governments have learned from previous crises that the effects of a demand-driven recession can be countered with government spending. Consequently, many governments are increasing their provision of monetary welfare to citizens, and ensuring businesses have access to the funds needed to keep their staff employed throughout the pandemic. In addition, the specific nature of this crisis means that [some sectors may benefit](https://www.statista.com/statistics/1105059/industries-experiencing-an-increase-in-revenues-due-to-the-impact-of-coronavirus/), such as e-commerce, food retail, and the healthcare industry - providing at least some economic growth to offset the damage. Finally, there is the fact that the crisis may have a clear end date when all restrictions on movement can be lifted (for example, when a vaccine is developed). Taken together, this means it is at least possible the global economy could experience a sharp rebound once the pandemic is over. There are still many variables that could affect such an economic recovery – for example, a reduced supply of goods and services to meet lower demand could create mid-term shortages and price increases – but there are some reasons to think that, with the right mix of appropriate government responses and luck, some of the more apocalyptic predictions may not come to pass.

The new coronavirus has brought about a huge defect in the global economy. Through years of stubbornly low economic growth and inflation, the brightest spot was the U.S. labour market, with unemployment reaching half-century lows. Coronavirus may have ended that boom. With infections surging, cities in lockdown, businesses downing shutters and most travel on ice, staff layoffs are likely to mushroom. That showed up in the number of Americans filing unemployment benefit claims which hit a record of more than 3 million. Economists polled by Reuters had forecast claims would rise to 1 million, though some estimates were as high as 4 million. Now the wait is on for Friday’s non-farm payrolls figures that will offer a snapshot of the jobs picture over March. The government’s unprecedented $2 trillion fiscal expansion package includes a $500 billion fund to help hard-hit industries and a comparable amount to fund direct payments of up to $3,000 apiece to U.S. families. Economists expect the payroll data to show a loss of 293,000 jobs - the largest monthly drop since July 2009. A significant overshoot of that and the $2 trillion stimulus approved by Congress could suddenly start to look inadequate.

It’s been a tough time for riskier assets in recent weeks, including emerging market stocks, bonds and currencies. But few have felt the pain as much as frontier markets, a subset of smaller and often riskier emerging economies. Many of those frontier economies are in Africa, and are suffering from a toxic combination of tumbling oil and commodity prices, the prospect of the global economy tumbling into recession and weakening currencies which will make servicing external debt ever-more expensive. Oil-producing countries like Angola, Ghana, Gabon and Nigeria have seen their dollar-denominated debt drop sharply, with yields of some issues shooting above 20%, indicating soaring borrowing costs. Many countries on the continent lack the financial firepower or foreign currency reserves needed to combat the coronavirus and prop up their economies, with healthcare systems already under strain. The World Bank and International Monetary Fund on Wednesday urged official bilateral creditors to provide immediate debt relief to the world’s poorest countries as they grapple with the human and economic consequences of the pandemic. Leaders of the Group of 20 major economies pledged on Thursday to inject over $5 trillion into the global economy to limit job and income losses from the coronavirus and “do whatever it takes to overcome the pandemic”, expressing concern about Africa in particular. Many hope that the acknowledgement of the need to bolster global financial safety nets and national health systems will translate into action

Now using a case study I will explain the consequences of the shutdown; my case study being the International Monetary Fund has shown on its website how the global economy could and has been affected by the new coronavirus pandemic and the lockdown protocol. 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, the 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.

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, they are actively deploying out 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 they 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.