

COVID-19

International Business Forecast

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A crisis like no other

- On December 31, 2019, China reported a cluster of pneumonia cases of unknown cause in its Hubei Province. Since then, governments worldwide have grappled with what has become known as the Covid-19 pandemic while the global economy began an unprecedented free fall towards the worst financial crisis since the Great Depression.
- In addition to the health implications, grave macroeconomic and financial repercussions began materializing just three weeks of Covid-19's outbreak, compared to the three years of the 2008 financial crisis. In addition, other implications materialized on the overall components of aggregate demand, spending, consumption, employment, and global trade flows.
- The International Monetary Fund (IMF) expects the **global economy to contract by 3% in 2020**. By contrast, the IMF had forecast in January 2020 a global GDP expansion of 3.3% for this year.
- The Organization for Economic Coordination and Development has also warned the economic hit from the virus will be felt “for a long time to come.”
- The future of the economic fallout depends on uncertain factors that interact in ways that are hard to predict. For example, the pandemic's pathway, the efficacy of containment efforts, the progress in finding a vaccine, the extent of supply disruptions and productivity losses, the repercussions within global financial markets, the shifts in spending patterns, behavioral changes, and volatile commodity prices, all factor into the forecast, adding to the uncertainty.



The impact on global trade

- The global economic deterioration, complemented by the breakdown of the OPEC+ agreement among oil suppliers, have also weighed heavily on **commodity prices**. From mid-January to end of March, base metal prices fell 15 %, natural gas prices declined by 38 %, and crude oil prices dropped by about 65 %. Experts expect oil prices to remain below USD \$45 a barrel through 2023, some 25 % lower than the 2019 average price. Even if lower oil prices benefit oil-importing countries, these developments are expected to weigh heavily on oil exporters with undiversified revenues and exports, particularly on high-cost producers, and compound the shock from domestic Covid-19 infections, tighter global financial conditions, and weaker external demand.
- The World Trade Organization predicted a **global trade contraction** by 13%-32% in 2020. Global trade volumes had increased by 2% in 2019, compared to the preceding year with exports volume reaching US\$ 6.03 trillion. Trade in services also increased by 9% with the US, UK, Germany, China and France topping the growth list. The decline in trade because of Covid-19 will likely exceed the trade slump caused by the 2008/09 financial crisis.

	Historical		Optimistic scenario		Pessimistic scenario	
	2018	2019	2020	2021	2020	2021
Volume of world merchandise trade ²	2.9	-0.1	-12.9	21.3	-31.9	24.0
Exports						
North America	3.8	1.0	-17.1	23.7	-40.9	19.3
South and Central America	0.1	-2.2	-12.9	18.6	-31.3	14.3
Europe	2.0	0.1	-12.2	20.5	-32.8	22.7
Asia	3.7	0.9	-13.5	24.9	-36.2	36.1
Other regions ³	0.7	-2.9	-8.0	8.6	-8.0	9.3
Imports						
North America	5.2	-0.4	-14.5	27.3	-33.8	29.5
South and Central America	5.3	-2.1	-22.2	23.2	-43.8	19.5
Europe	1.5	0.5	-10.3	19.9	-28.9	24.5
Asia	4.9	-0.6	-11.8	23.1	-31.5	25.1
Other regions ³	0.3	1.5	-10.0	13.6	-22.6	18.0
Real GDP at market exchange rates	2.9	2.3	-2.5	7.4	-8.8	5.9
North America	2.8	2.2	-3.3	7.2	-9.0	5.1
South and Central America	0.6	0.1	-4.3	6.5	-11.0	4.8
Europe	2.1	1.3	-3.5	6.6	-10.8	5.4
Asia	4.2	3.9	-0.7	8.7	-7.1	7.4
Other regions ³	2.1	1.7	-1.5	6.0	-6.7	5.2

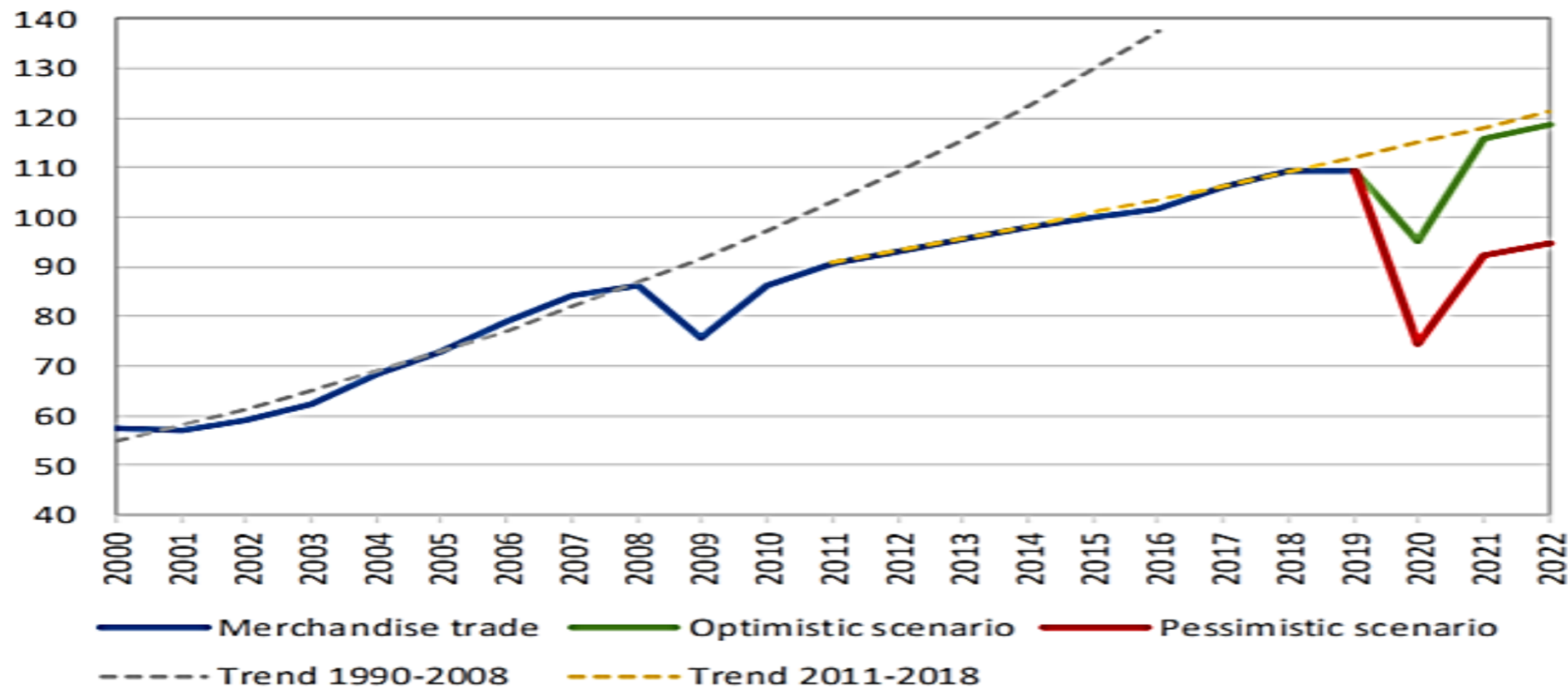
Source: WTO secretariat- https://www.wto.org/english/news_e/pres20_e/pr855_e.htm



Global trade scenarios

- Experts foresee two **scenarios for the future of global trade**; (1) a relatively optimistic scenario, with a sharp drop in trade followed by a recovery starting during the second half of 2020, or (2) a more pessimistic scenario with a steeper initial decline and a more prolonged and incomplete recovery.
- Under both scenarios, most countries will suffer a decline in exports and imports in 2020. A strong rebound is more likely to occur if businesses and consumers view the pandemic as a temporary, one-time shock. In this case, spending on investment goods and consumer durables could resume at close to previous levels once the crisis abates. On the other hand, if the outbreak is prolonged households and business are likely to spend more cautiously.

Index, 2015=100



The way forward

- The path of the Covid-19 pandemic remains uncertain. The **economic impact of restricting movement** for months on end is likely to be devastating on economic activity and global trade, with the severe uncertainty about the duration and intensity of the shock.
- In less acute crises, policymakers tend to encourage economic activity by quickly stimulating aggregate demand. This time, the crisis is- to a large extent- the consequence of required containment measures to limit the virus' spread. Lifting restrictions prematurely could risk new spikes in infections and require a return to isolation measures, further compounding the pandemic's economic and political impact and requiring further injections of liquidity and fiscal stimulus by governments around the world. This makes stimulating activity more challenging and for the most affected sectors, undesirable. Today, policymakers are under immense pressure to ensure that people can meet their needs and that businesses can pick up once the acute phases of the pandemic has passed. This requires substantial targeted fiscal, monetary, and financial measures to maintain the economic ties between workers and firms and lenders and borrowers, keeping intact the economic and financial infrastructure of society.
- On the other hand, the disease has been mostly concentrated and evident in developed economies. Fresh outbreaks in large emerging markets or developing economies could further hamper any recovery, and the shocking nature of outbreaks could imply longer-lasting disruptions. Advanced economies with well-equipped health care systems are relatively better placed to weather this crisis. Developing economies confronting simultaneous health, economic, and financial crises will need support from the international community, including stepped up financial assistance from international financial institutions and bilateral creditors. For those facing large debt repayments, debt restructuring and suspensions may need to be considered.



The need for global leadership

- When the financial crash prompted a global economic downturn in 2008, governments responded with specific monetary and fiscal policies to counter the downturn, including providing temporary income to support businesses and households. The response at the time was driven by US global leadership. Washington, at the time, held sufficient clout to shape this response through the G20, and involved China and other economic powers in the process. In 2014, the US led a (belated) multilateral response to the West Africa Ebola crisis with the support of countries ranging from the UK and France to China and Cuba.
- Today, governments face hard choices as they seek to manage the virus, and they're doing so in the absence of a global leader. Beijing's costly decision to hold back information at the outset regarding the pandemic, and its own uneven response, impacted the pace of the international community's response to this rising threat. While China has a chance to utilize the health crisis as an opportunity to gain global influence through humanitarian gestures and attempts to contain the widespread of the pandemic in new spots such as Africa, China's political influence on the Covid-19 response already took a huge blow by the damage caused.
- Washington's weakened international influence, compounded with mounting domestic pressure on the Trump Administration's response to COVID-19, has made it incapable of bringing other nations together. The recent decision to withhold US funding from the World Health Organization (WHO), the public health body at the forefront of the global response to the virus, will further isolate the US as the world continues to grapple with how to move forward from the coronavirus pandemic. In fact, supporting the WHO at this juncture is critical to the world's efforts to overcome the Covid-19 crisis.



Multilateral cooperation is key

- A global effort must also ensure that when therapies and vaccines are developed for Covid-19, both developed and developing nations alike have immediate access, and that equipment and expertise to reinforce health care systems are also shared.
- Furthermore, the international community should consider new measures to prevent a similar pandemic crisis to occur again. For example, collective action to ensure the enhancement of the global public health infrastructure through sustained information exchange on unusual infections as well as the earlier and more widespread deployment of testing should be considered.
- Building global stockpiles of personal protective equipment and avoiding trade restrictions, particularly on medicines and other essential supplies, are additional measures that could enhance the security of both public health and the global economy on the long term.
- Covid-19 has revealed, yet again, how interconnected and interdependent our world has become, illustrating our common vulnerability, across borders, beyond North-South and East-West divides. Now, more than ever before, the call for multilateralism should be reinforced to tackle the far-reaching health, economic, (geo)political, and social implications of the COVID-19 crisis. This is particularly critical for countries with less resources to deal with such an enormous crisis, who depend on multilateral forums for support and solutions.

