



## **Global Insights: COVID-19: Stress Test for the Global Economy**

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Panelists: Ann Fitz-Gerald (Moderator - BSIA), John Ravenhill (University of Waterloo, BSIA), Lena Rethel (PAIS and Centre for the Study of Globalisation and Regionalisation/Warwick), Tewodros Mekonnen (Institute for Strategic Affairs, Ethiopia), Stephen Silvia (American University).

COVID-19 is a severe economic crisis affecting individuals, households, national economies and global supply chains. There are pressing questions around debt relief, gender justice, and failing international cooperation, and our responses to them will shape our economic futures for years to come. This panel discussion touches upon these issues, and others, in a wide-ranging exchange on the pandemic's economic effects, responses, and options for policy makers.

### **What was the state of the global economy going into the current crisis?**

Summing up the state of the global economy we characterise it as 'brittle', referring to recent contractions in international trade, increases in debt of several large economies, and the failure of international cooperation in international affairs. This inauspicious situation can be summed up by the surpassing of the 250 trillion US dollar mark of [global debt](#) last year, and does not bode well for the global economy in the 'post-COVID' phase. In addition to state debt we have high levels of corporate debt and household debt, leading to variations in individual experiences of the current crisis. This is compounded by the growing reliance on precarious labour which poses significant challenges when thinking through policies to ensure job security. Turning to the Global South specifically, there had been an upward trend in economic growth in Africa since the 2008 financial crisis. These positive trends will be undermined by the current crisis.

### **How is this crisis different from the 1930s or 2008 crises?**

What is happening to the global economy now is certainly far worse than the 2008 financial crisis, which was a crisis in financing connected to a home mortgage bubble. The current crisis is much more like the crisis in 1974/5 where there was also an external shock, and we see the severity of the dual demand and supply shocks. We don't yet know whether constraints on the repayment of loans will lead to economic instability in the future and we may see government bailouts. Even when lockdown is relaxed the likelihood is that spending, tourism and the service sector will be impacted for years to come. [212 million people](#) are employed globally in the hospitality industry for example, which gives some sense of the long-term impacts that we may see. We could see huge unemployment increases as well as significant decreases in economic growth. The fact that lockdown-induced unemployment has caused a falloff in demand, which is in reverse order compared to a typical recession, makes it different to previous crises. It is particularly important to highlight the gendered dimensions of these effects, in terms of who undertakes the insecure labour, and who is undertaking additional care work in response to school and childcare closures.

### **What gaps and weaknesses has the COVID-19 crisis exposed in the national and international economies?**

On the international level the main weakness has been the marked lack of cooperation. The one positive course of action has been the G20 agreeing on a moderate package of [debt suspension](#) for the poorest countries. Disruptions in imports and exports has constrained foreign exchange and this is hitting countries in the Global South hard, with [calls to cancel](#) and not only suspend debt. On an international level we have also seen a disruption of supply chains, and disruptions in the food supply. In addition, many national economies in the Global North have a welfare state connected to work and in the Global South no welfare state at all leaving those in lockdown with limited abilities to generate resources. For domestic economies the record low interest rates in many industrialised economies have robbed central banks of a key instrument to slow recessions, and we already heard warnings about this last year. This leaves only one instrument for national economies, and that is to pump cash into the economies, and there are a lot of pressures on ensuring this happens. In the context of high levels of deficit and debt this will have medium and long-term consequences, and the key question of who will pay for the debt which is accumulating remains unanswered.

### **Will this crisis trigger a transformation?**

It is too early to say which transformations will occur as a result of the crisis, particularly as the pandemic is only in the early stages in the Global South. We have started to see some changes around purchasing practices, and we might well see moves towards automation, delivery at a distance, and increasing delinking of work from social benefits. There is some hope of transformations such as a move towards a more caring economy, universal basic income and a focus on the welfare state, but it is too early to predict. Indeed, one shouldn't forget the aftermath of the financial crisis of the 1920s which saw the rise of fascism and Second World War. Large numbers of unemployment may lead to instability, and we may see increasing protectionism around a focus on national security. We may also see an intensification of regionalisation regarding supply chains and reliance on key goods. The position of China will be relevant for such changes, although the extent to which it is marginalised may be over exaggerated due to lack of agility in moving manufacturing hubs.

East Asia is likely to be the region which rebounds most quickly, with less debt than other parts of the world and because of close integration of the economies.

### **What has worked in terms of dealing with the economic effects of this crisis?**

The policy response so far has seen some innovative policy making, particularly in comparison to the 2008 financial crisis. Policy makers have, from the beginning, been using more of their tool kit e.g. wage subsidies, mortgage payment holidays, tax cuts, or looking for other types of short and medium term funding and investors. However, a lot of these measures have a short lived grace period and we will see some difficult choices about which companies and sectors will be supported by governments. This is as much a political decision as an economic question, and the 'winding back' from such measures is as yet unplanned. Innovations are required around the gendered effects of the crisis, use of technology and automation, social security systems, and access to finance for individuals and households. If we turn to the Global South, and Africa in particular, we see some learning among politicians and policy makers regarding response and early preparations for tailored solutions. Indeed, we have in many ways seen more effective responses to the economic aspects of the crisis that we have to the health aspects of the crisis. What we are lacking is leadership for a coordinated international response and this is concerning.

### **Key Conclusions: Six pieces of advice for policy-makers**

1. Think about how to manage debt relief and introduce new instruments to ensure long-term sustainability of such relief that benefits the poorest.
2. Coordinate procurement and distribution of personal protective equipment on a global level.
3. Address, in a socially just way, the difficulty of implementing social distancing in many parts of the global supply chain.
4. Build welfare states for countries that do not have them.
5. Take steps to address climate change.
6. Focus on international trade and an international agreement winding back tariffs.



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