

# THE FUTURE OF GLOBAL ECONOMY POST COVID-19

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Analysis

The new type of coronavirus - Covid-19, started from China but now threatening the whole world by spreading rapidly as well as continuously, endangering human lives. But, the long-term results of coronavirus outbreak that hit the global economy seem to shake political and economic balances in many countries. The pandemic, which postpones international travel and stops production wheels, causes shock waves in the markets. It's a fatal health problem, which caused significant economic breakdowns and shook the global financial system gravely. In addition to supply and demand shocks, there is a high fluctuation in the financial markets. Economic life, especially in the US and Europe, has stopped because the pandemic affected the supply and demand fronts simultaneously. Since the Second World War, the world has been facing grave economic recessions, and there has never been a time when all these imbalances were experienced so harshly at the same time.

Unfortunately, this dangerous scenario has become a reality.

## Global Economic Growth Forecast

In this process, where the global system will be reshaped, global economic growth projections of international organizations have been turned upside down. The International Monetary Fund (IMF) lowered the 2020 global growth forecast due to the spread of Covid-19. The IMF's Global Economic Outlook estimated that the global economy, expected to grow by 3.3%, would contract by 3% this year. The global economic growth forecast for the next year increased from 3.4% to 5.8%. According to the IMF's report, the US economy will shrink 5.9% this year and the Eurozone 7.5%.

Germany, one of the leading economies of Europe, is expected to shrink by 7%, and Italy, which is most affected by the outbreak, is 9.1%



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this year. The British economy was reported to shrink 6.5% this year. The growth forecast for emerging economies decreased from 4.4% to minus 1% in 2020. Stating that there is great uncertainty regarding global growth forecasts, the report said, “Many countries face a multi-layered crisis, which is caused by health shock, domestic economic disruptions, falling foreign demand, the reversal of capital flow and the collapse of commodity prices (IMF World Economic Outlook, April 2020).<sup>1</sup>

While the impact of coronavirus is increasing around the world, at the same time, the economic impact is also increasing. Most of the effect of economic impact is not derived from the virus itself but from the measures taken to prevent it’s spread. For example; most countries have opted for lockdowns or self-quarantine as preventive measures, encouraging people to keep away from themselves, closing schools, colleges and universities, and strict restrictions on international travel as well as business travel. Additionally, they restrict the movement of workers, goods, and consumers. Due to the pandemic, most countries are closing their restaurants, cinemas, transportation services, hotels, shops, and industries. For this reason, people try to work from home.

When the Covid-19 crisis is over, the world will have changed. Although this change is not radical, it will be an important one. It is evident that the pandemic will cause significant changes in the global economy. It is necessary to underline a few issues before analyzing what changes the global economy might have in the medium and long term in different aspects. Although it is not easy to make comparisons, historical experiences will also be taken into account in order to see what kind of breakdowns of the global economy has been experienced after the big shocks encountered in the past. Therefore, it is inevitable that some points in the analysis are speculative (Islam, 2019 and Islam and Israel, 2020).<sup>2,3</sup>

## **Global Supply Chains and Protectionist Economic Policies**

Covid-19 showed us that excessive dependence on East Asia in manufacturing industry production poses a severe risk for global supply chains. Multinational companies will have to review their investment strategies from now on.

Multinational companies can move part of their production facilities from China to other regions. In the manufacturing industry, other developing countries with a wide range of production, high human capital levels, and logistic advantages can be added more tightly to global supply chains by attracting more foreign direct capital in the long run. However, as a reflection of the rising anti-globalization in developed Western countries, some multinational companies of American and European origin may choose to shift their factories to their own countries. In order to make such large-scale production transfer possible and sustainable towards developed countries in terms of costs, the weight of blue-collar workers in factories will have to be reduced.

In such periods, countries switch from implementing liberal to protectionist policies. The first steps were already taken with the trade wars that have been going on for a while. With the Coronavirus, this process may accelerate, and the scope of protectionism can expand. Both developed and developing countries can introduce various regulatory mechanisms to keep their capital and investments inside.

## **Management of the Company**

During the Covid-19 outbreak, many companies had the opportunity to experience different methods of working remotely. After the pandemic, we will see that working remotely has become more widely used, especially in the services sector. This experience can pave the way for large companies, especially in some departments, to purchase more services from the outside. The supply shock from the virus caught some critical sectors off guard.

## **Unemployment, Household Debt, and Income Distribution**

The International Labor Organization (ILO) predicts that in the worst scenario, there may be a 25 million increase in global unemployment due to this virus. On the other hand, some people's income levels may be below average for some time, even if they do not lose their jobs. High unemployment and falling income may increase household debt levels and deteriorate income distribution over time. Increased problems of people with low incomes can lead to severe breaks in the domestic politics of countries.

## **Globalization of Social Dimensions**

Globalization can be damaged not only in terms of production and trade but also in social dimensions. Possibilities such as people's less preferring abroad holidays, decreasing participation in international fairs and conferences, and increasing foreign opposition may cause serious damage to the tourism sector. In the event of such a scenario, the sharing of knowledge and experience between countries and peoples may also decrease to some extent.

## **Impact on Health Expenditures**

Neo-liberal policies, which had an impact on almost every aspect of life, caused a significant reduction in many countries' public health systems. Private health insurance tried to fill the remaining gap in healthcare services, where the public was left behind in developed Western countries. However, there are serious shortcomings here as well. For example, 27.5 million people in the US do not have health insurance. In Europe, public support for health spending decreased with the austerity policies that came into effect after the global financial crisis. As a result, the health system of some Western countries could not handle this crisis. If we consider the criticism and pressures coming from the public after this stage, it will not be a surprise that the health system reform in many countries is on the agenda again.

## **The Burden of Economic Packages on Public Finances**

The total amount of support packages introduced to keep the effects of the Covid-19 crisis on the economy at minimum levels reached \$7 trillion. Until the pandemic is brought under control and economic activity returns to normal, the burden of these financial packages on public finances will not be a problem. However, it will be discussed after a certain period of time on how to finance the increased budget deficits and control the public debt expected to increase. Countries can prepare reforms in tax systems to close budget deficits. In order to increase tax revenues, wealth taxes for ultra-rich segments, or additional taxes that can be levied on sectors that make excessive profits during the virus crisis, may enter the radar of finance. On the other hand, the global debt stock, which has already exceeded \$250 trillion, will increase more with the new public debt; hence demands for deletion of certain debts will arise. Tax reforms can bring tough power struggles in the domestic politics of countries and debt relief plans internationally.

Despite the dizzying technological developments and innovations, this pandemic reveals how incapable human beings are in some of the issues that seem simple. It will be further questioned how technology-oriented companies', R&D spending, and the patents they receive have had a positive impact on key components of economic development, such as human health and productivity growth. People around the world spend their money, employee's human capital, and companies' R&D investments, mostly in areas of low efficiency and benefit. We will have to change our perspective on innovation, especially to solve significant problems such as global climate change.

## **The 4 Possible Scenarios for Economic Recovery After the Pandemic**

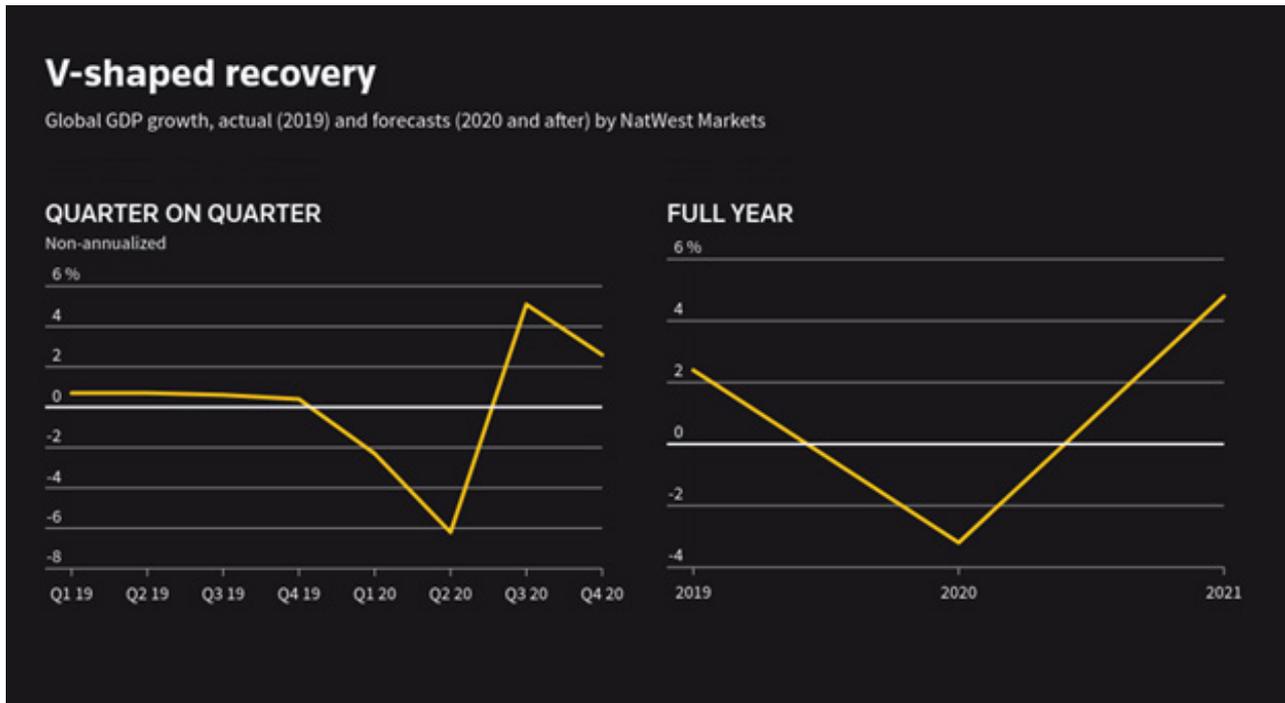
Economists analyze that the current scenario of COVID-19 and predicts possible four economic recovery models, namely:

*V-shaped*, meaning when confinement ends and a quick return to economic normality. This option is possible, but it is difficult to realize because, as mentioned earlier, the world will not return to the same economic scenario as before the pandemic. Security measures, limited capacity, closed borders, and fear of contagion play against this option.

Dhara Ranasinghe, Ritvik Carvalho (2020)<sup>4</sup> explained that the V-shaped recovery model is the best outcome. Similarly, a rapid rebound is accompanied by a collapse in production.

longer to return to economic normality. This form of recovery seems more in line with the situation that we will find after confinement since the opening will be progressive and the situation will be different from before the coronavirus appeared.

Ranashighe and Carvalho (2020)<sup>5</sup> argued, “economies have experienced a recession faster and deeper than in 2008-09. In view of this situation, they predicted it could be the most likely outcome.”



**Graph 1:** “V”- Shaped Recovery

**Source:** Carvalho, (2020), Designed by Reuters

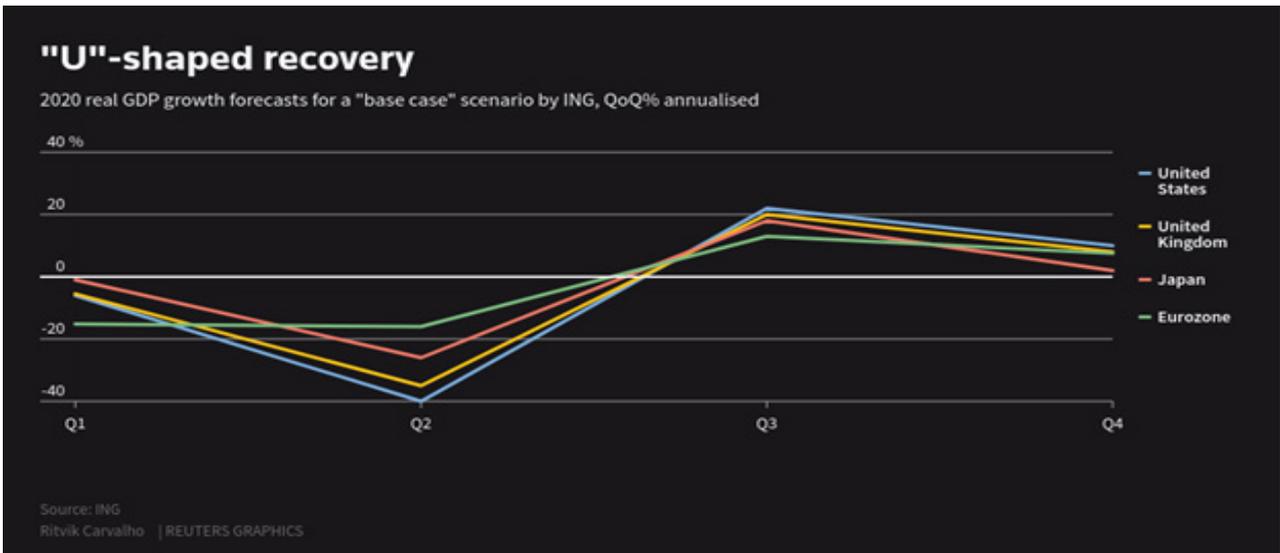
“The April-June GDP contraction will likely be on a scale not seen for decades. But fiscal and monetary stimulus - over \$10 trillion and counting - could aid an equally swift rebound.”

Ross Walker, NatWest Markets’ co-head of global economics, estimates the economic decline expected in this quarter “a sizeable rebound in Q3 and Q4 as businesses re-open”.

U-shaped, this option means that it will take

Although almost all the organisms agree that the U-shaped recovery is the most likely, some warn of a more adverse scenario.

*U-shaped* is the base case for ING’s Brzeski, who notes the lockdowns’ impact will last for a while after they are lifted. “Easing of the lockdown measures will be gradual, social distancing will continue and tourism industry will likely continue to suffer,” Brzeski said.

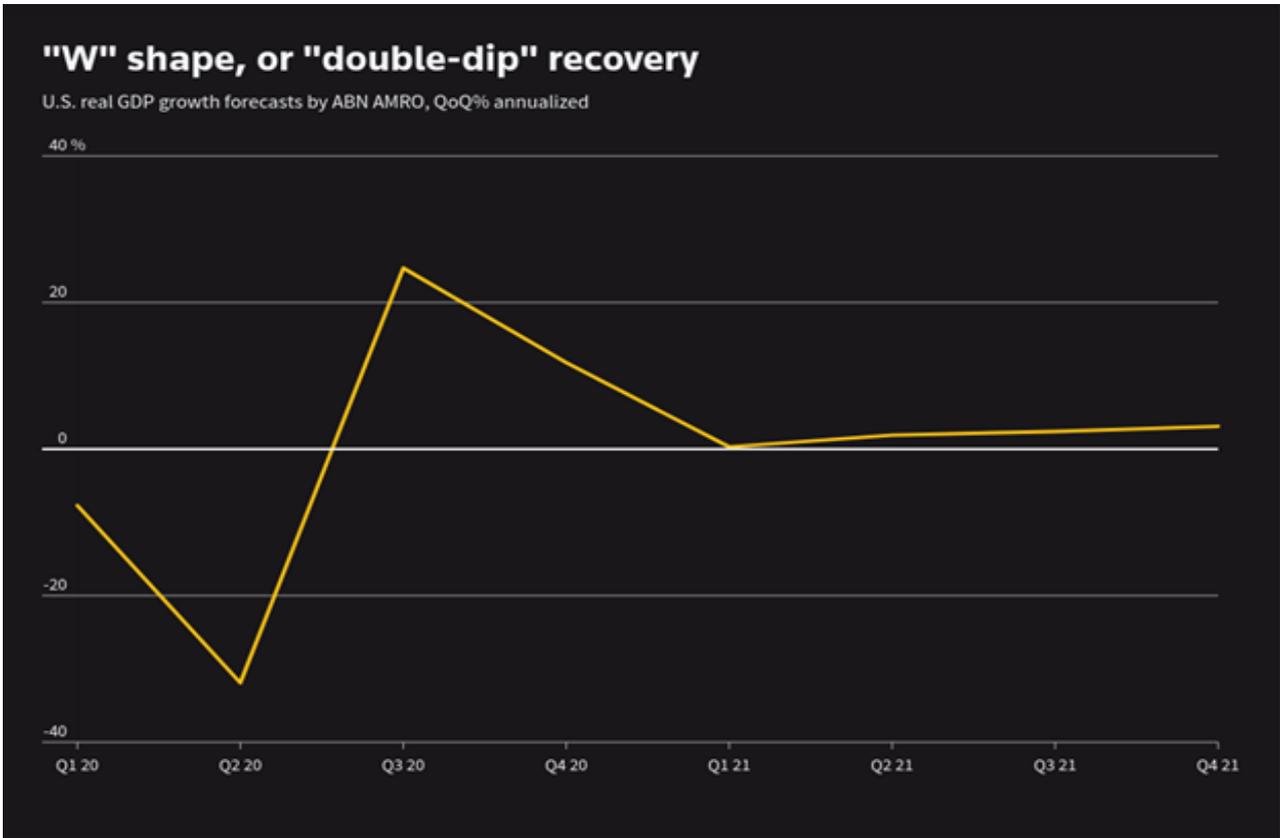


**Graph 2:** “U”- Shaped Recovery  
**Source:** Carvalho, (2020), Designed by Reuters

*W-shaped or Double-dip* this means that, after a slight recovery, there would be a fall again and then the final economic recovery. This option is consistent with the appearance of a flare-up or the disappearance of the initial effect of the monetary and fiscal measures put in place to

combat the coronavirus.

According to Ranasinghe and Carvalho (2020)<sup>6</sup> if the easing of lockdown restrictions initially boosts activity, the effects of unemployment and corporate bankruptcies would start to filter through.



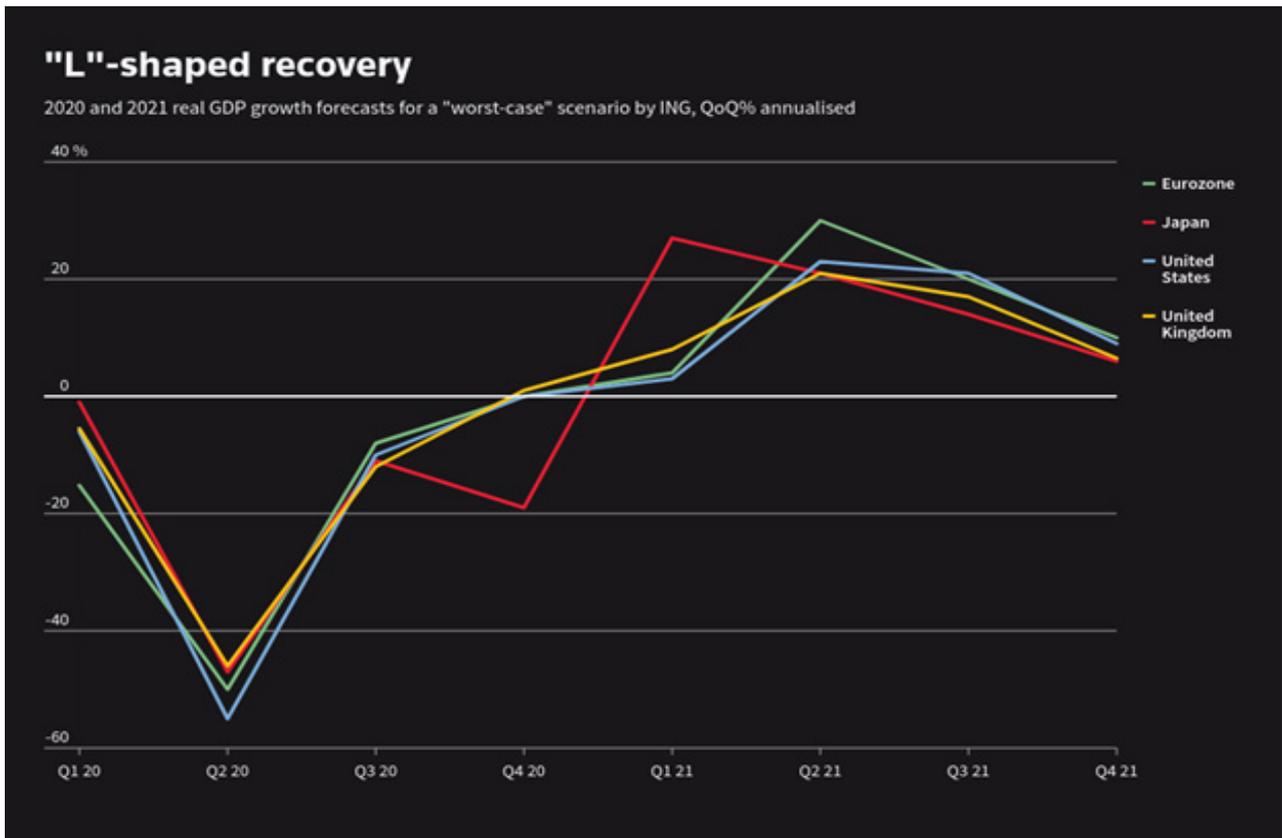
**Graph 3:** “W”- Shaped Recovery  
**Source:** Carvalho, (2020), Designed by Reuters

**L-shaped**, this is the worst option we that might face. It would mean that we would go through a great crisis that would take a long time to recover. This is the bleakest economic scenario and would imply strong economic and social changes, which always happens when large economic collapses occur.

Accordingly, Ranasinghe and Carvalho (2020)<sup>7</sup> explained, “L-shaped outcomes may be a risk for those emerging markets less able to engage big stimulus and often rely on commodity exports.”

would be imposed. These measures are going to be a great challenge for many businesses, with limited capacity in restaurants and bars, concert halls, museums, universities, schools, etc., with their respective impact on business results.

Finally, various studies show that the loss of biodiversity and the destruction of ecosystems is related to the increase in the transmission of infectious diseases. In recent years we have been experiencing the proliferation of diseases such



**Graph 4:** “L”- Shaped Recovery  
**Source:** Carvalho, (2020), Designed by Reuters

As it can be argued, “recovering normality” is a relative term, where it is impossible for us to return to the pre-pandemic situation without a vaccine or widespread immunity. Once confinement ends, the return to economic normality will be gradual. Everything between great hygiene and safety measures, avoiding crowds, and checking contagions week after week to avoid a regrowth

as COVID-19, MERS, Ebola as well as SARS, which appear recurrently.

In short, as soon as we overcome this crisis, we must learn and work both in terms of potential pandemic preventive measures and in improving sustainable economic development before it is too late.

## Endnotes

- <sup>1</sup> IMF World Economic Outlook. (April 2020). The Great Lockdown. World Economic Outlook Reports. Accessed on June 3, 2020. Available at: <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020>
- <sup>2</sup> Islam, Md. Nazmul. (2019). BRICS, MIKTA, SCO and IBSA: EMERGING GLOBAL ORGANIZATIONS AND GROUPS -A Paradigm Shift for New World Order. ADAM AKADEMI Sosyal Bilimler Dergisi (ADAM Academy Social Sciences Journal), 9(2), 471-490. DOI: 10.31679/adamakademi.508998
- <sup>3</sup> Nyadera, Israel Nyaburi., Islam Md. Nazmul. (2020). Link Between Administration, Politics, and Bureaucracy. In: Farazmand A. (eds) Global Encyclopedia of Public Administration, Public Policy, and Governance. Switzerland: Springer, Cham. DOI: [https://doi.org/10.1007/978-3-319-31816-5\\_3903-1](https://doi.org/10.1007/978-3-319-31816-5_3903-1)
- <sup>4</sup> Dhrara Ranasinghe, Ritvik Carvalho, (2020)»Alphabet soup: How will post-virus economic recovery shape up?» Accessed on June 1,2020. Available at: <https://uk.reuters.com/article/uk-health-coronavirus-economy-graphic/alphabet-soup-how-will-post-virus-economic-recovery-shape-up-idUKKCN21R25J?il=0>
- <sup>5</sup> Dhrara Ranasinghe, Ritvik Carvalho, (2020)»Alphabet soup: How will post-virus economic recovery shape up?» Accessed on June 1,2020. Available at: <https://uk.reuters.com/article/uk-health-coronavirus-economy-graphic/alphabet-soup-how-will-post-virus-economic-recovery-shape-up-idUKKCN21R25J?il=0>
- <sup>6</sup> Dhrara Ranasinghe, Ritvik Carvalho, (2020)»Alphabet soup: How will post-virus economic recovery shape up?» Accessed on June 1,2020. Available at: <https://uk.reuters.com/article/uk-health-coronavirus-economy-graphic/alphabet-soup-how-will-post-virus-economic-recovery-shape-up-idUKKCN21R25J?il=0>
- <sup>7</sup> Dhrara Ranasinghe, Ritvik Carvalho, (2020)»Alphabet soup: How will post-virus economic recovery shape up?» Accessed on June 1,2020. Available at: <https://uk.reuters.com/article/uk-health-coronavirus-economy-graphic/alphabet-soup-how-will-post-virus-economic-recovery-shape-up-idUKKCN21R25J?il=0>