

4. Global Economic Impacts of COVID-19

Prelims Syllabus: International Institutions – Summits, Working, Organisations

Mains Syllabus: GS-II Important International Institutions, Agencies and fora- their Structure, Mandate.

Why in News?

- The United Nations Conference on Trade and Development (UNCTAD) has recently observed that the economic uncertainty sparked by the Covid-19 will likely cost the global economy \$1 trillion in 2020.

Highlights:

- It is based on the World Economic Situation and Prospects 2020 released by UNCTAD.
- The global economy slowdown will be under 2% for this year is envisaged which will probably cost in the order of \$1 trillion.
- If the world economy grew at only 0.5% which would involve a \$2 trillion hit to gross domestic product (GDP).
- With the moderate declines in private consumption, investment and exports and offsetting increases in government spending, global growth would fall to 1.2% in 2020.
- Due to the supply-chain interruptions from China and oil price uncertainty among major producers, the Global financial market is fluctuating.
- The **economies of European countries** had already been performing extremely badly towards the end of 2019, which is almost certain to go into recession over the coming months. German economy is in a fragile state. Italian economy and other parts of the European periphery are also facing very serious stresses right now.
- It describes that many parts of the Latin **American region are also vulnerable**. Particularly **Argentina** will be struggling as a consequence of the knock-on effects of this pandemic.
- The economies of **least developed countries** are driven by the sale of raw materials will also face hard consequences.
- Developing countries which are Heavily-indebted, particularly commodity exporters face a threat due to the weaker export returns linked to a stronger US dollar.
- The likelihood of a stronger dollar as investors seek safe-havens for their money and the almost certain rise in commodity prices as the global economy slows down, means that commodity exporters are particularly vulnerable.

About United Nations Conference on Trade and Development (UNCTAD):

- It was established in 1964 to promote development-friendly integration of developing countries into the world economy.
- It is a permanent intergovernmental body headquartered at Geneva in Switzerland.
- The reports published by it are **Trade and Development Report, World Investment Report, The Least Developed Countries Report, Information and Economy Report, Technology and Innovation Report, Commodities and Development Report.**

Way Forward:

- The policy responses and institutional reforms are needed to prevent a localized health scare from turning into a global economic meltdown. Governments need to spend now in order to prevent more damaging meltdown in the coming times.
- The Chinese Government is likely to introduce significant expansionary measures – shorthand for increasing spending or tax cuts. The US government is in an election year and it needs to do more than simply cutting taxes and Reducing Interest Rates.

