



# Living with the pandemic Event series

## The post-COVID-19 economy

### Post-event summary

#### Participants

- [Professor Hisham Mehanna](#) (Chair)
- [Professor Dominique Moran](#) (Co-Chair)
- [Professor Simon Collinson](#)
- [Professor Robert Elliott](#)
- [Professor Raquel Ortega-Argilés](#)

#### Background to the series

The spread of COVID-19 is one the biggest challenges the global community has faced, and our research teams have a key role to play in the fight against it, to reflect on its impact on all aspects of our lives, and to learn lessons from it.

The [Institute for Global Innovation](#) at the University of Birmingham has therefore organised a series of webinars, where experts consider the different issues surrounding the pandemic.

The session was first broadcast on 8 July 2020. You can watch the event in full by [clicking here](#).

#### How long will it take for the economy to recover post-COVID-19? And why should we care?

Professor Simon Collinson, The Department of Strategy and International Business. Deputy Pro-Vice-Chancellor for Regional Engagement, Director of the West Midlands Regional Economic Development Institute (WM REDI) and City-REDI.

How long it will take for the economy to recover is a complicated topic, because:

- there is a huge level of uncertainty about the pandemic itself
- it depends on how we measure recovery, and where we are measuring (Local, national and global economies will recover at different speeds).

There are, broadly speaking, three potential recovery paths for the economy. Economists will know them well; V-shaped, U-shaped and L-shaped. Which path we take will depend on:

- how long it will take for consumers to return to pre-

COVID spending, and

- how will it take for businesses to return to pre-COVID levels of investment (in people and services)

For a V-shaped recovery, it will require a quick return to normality for both – and this would get us back on track by the middle of 2021.

However, with the uncertainty of COVID-19 and the prospect of further lockdowns, it is very possible that a fourth path to recovery emerges - a ‘wobbly’ or W-shaped recovery.

How the UK will bounce back is a major debate among economists.

According to Bank of England, we should expect a very sharp recession, but with a quick V-shaped rebound. The OECD and IMF disagree and project a much flatter, slower recovery. The OECD predicts, due to our reliance on service-based industries, an 11.5% decline for GDP this year.

The major factor in all of this is unemployment. In the UK it is expected to reach 8% by the end of the year. The US is at 10.4% right now, and is likely to get worse.

Here, just over 20% of the workforce is currently on furlough (in France it is 41%), and so the country is looking at a £300bn fiscal deficit already – just trying to save jobs.

But the short and long-term uncertainty about jobs is the key to the economic ‘contagion’ effect, and how this health pandemic transmits throughout the economy.

Economies operate as cycles of activity, and the lockdown has stalled that. Certain sectors, particularly those dependent on international travel and tourism, are being hit much harder. The West Midlands, for example, is highly dependent on automotive manufacturing, the service sector, and universities – all of which also have different projected timescales for recovery to the ‘near’ normal.

The ONS reports that 1% of businesses are now

permanently closed due to COVID-19. 16% are on hold (not currently trading). But 24% of those who are trading are earning less than 50% of 'normal' revenues.

This all leads to a really challenging environment for jobs, and job seekers.

As for why we should care about how long it will take for the economy to recover post-COVID – it is simply because no (or slow) growth reduces opportunities for all, and increases inequality.

We know that recession impacts low-income communities and vulnerable households the most, and that households already in financial difficulty will feel it worse. We have seen it since the last recession in 2008, and there is genuine concern about the long-term 'scarring' effects, particularly on young workers.

Though getting to grips with GDP, fiscal deficits, and the shape of economic recovery might not be for everyone – the economy impacts real lives. The speed of recovery will make a huge difference to hundreds of thousands of people.

Further reading: [Are we heading for a V-shaped recovery?](#) – City-REDI blog by Ben Brittain, Research Fellow – 6 July 2020

## **International Trade post-COVID-19**

**Professor Robert Elliott, The Department of Economics**

The global trade contraction from COVID-19 is already deeper than the financial crisis. We're looking at a 27% fall, and that's an optimistic scenario as we are still in the middle of the pandemic.

Merchandise trade fell 5% in the first quarter, and it's looking like a 17% drop in the second quarter. UNCTAD predict a global fall of 20% for the year.

Though China has broadly recovered from a drop in trade, and East Asia and the Pacific was less severely impacted, the trade collapse has deepened in sub-Saharan African, Latin America and the Caribbean, Middle East and North Africa.

Some sectors have, of course, been hit harder than others – driven by decreases in demand and disruptions to global value chains. The biggest losers have been the automotive (-50%) and energy (-40%) sectors.

One interesting side issue is PPE trade. Trade for

masks, ventilators, and medical products has almost doubled as countries scrambled for supplies. China's exports of PPE fell drastically as they looked to hold onto it in the first quarter of the year, but they then hit 338% in April as COVID-19 took hold in the US and dropped off in China.

Where we go from now depends on how the pandemic evolves, and the implementation of government stimulus plans and trade policies.

Could the current trading system be destroyed by COVID-19? The crisis seems to be stoking the fires of protectionism, for sure. Trump (and others) may use the crisis as a pretext for imposing new trade barriers. New trade barriers may well slow down the recovery. But, although WTO rules are strained, they are just about holding on import tariffs.

The current fear in Europe is that a rapidly recovering China will flood the region with imports and undermining local 'supply constrained' businesses.

You could argue that the danger for global trade is now less from import tariffs and more from export controls (on things like food and medical supplies) and domestic stimulus packages, both designed to distort trade.

What will the post-COVID trade landscape look like? The 2008 crisis threatened the modern trading system, but it led to relatively little protectionism. But times, and leaders, are different now.

Saving the current rules-based system will not be easy, and a failure to prepare for the coming demand for protectionism from Trump and others could be disastrous for it.

It will require foresight and creative thinking. This means:

- boosting confidence in trade and increasing transparency
- keeping global supply chains alive
- responding to demand for a great 'green' trade recovery
- facilitating trade through innovation, and
- not making things worse through our actions!

## The impact of COVID-19 on Brexit

Professor Raquel Ortega-Argilés, The Department of Strategy and International Business and Chair, Regional Economic Development

COVID-19 has already impact the Brexit negotiations. It caused the cancellation of the second round of negotiations in March, has reduced the capacity for local and national governments to deal with Brexit preparations, and created additional costs for firms and sectors (and reduced the time they have to prepare).

Many UK and EU economies, and firms, will see a double-hit of COVID-19 and Brexit.

With COVID-19, most projections have the UK seeing a GDP reduction of between 9 and 11.5%. For the EU, that is between 8.3% and 10.1%.

That, however, assumes just one wave of the pandemic. Were it to be multiple waves, the impact would be greater.

On the Brexit front, our estimations suggest that the UK's risk exposure is 12.2% of UK GDP. In the EU, it's 2.64% of GDP. So the UK Brexit exposure risk is 4.6 times higher than the EU.

The impact of a double-hit therefore is hugely significant, particularly in the UK.

When it comes to specific sectors, we can see that COVID-19 and Brexit have some similarities, and some differences.

The industries more impacted by COVID-19 have struggled due to value-chain disruptions, lockdown, travel restrictions and the number of activities that cannot be done while working from home.

Those jobs most likely to be impacted by Brexit include professional services (legal, accounting etc). There are more than 2.5 million jobs likely to be exposed to the effects of Brexit. However, there are some sectors that are likely to be hit by both – including automotive manufacturing, construction, fishing and agriculture.

As for regional impacts of COVID-19 within the UK, we currently have very little evidence. The early data suggested that job losses and furloughing was spread fairly evenly across the country (with some major outliers in tourist-dependent places like Blackpool, and the South-West).

For Brexit though, we know that the economically weaker regions of the UK are more exposed to Brexit trade risks than the UK's most prosperous regions. The danger here, then, is that Brexit will make the UK's interregional inequalities worse.

## Future events

The next webinar on COVID-19 will be a one-off webinar on #BlackLivesMatter. This webinar will run on Thursday 16 July at 12pm on the University of Birmingham Facebook page, and via Zoom.

You can follow the Institute of Global Innovation on Twitter [@blgideas\\_uob](https://twitter.com/blgideas_uob).