

CIGLOB

CENTRO INTERNACIONAL DE
GLOBALIZACIÓN Y DESARROLLO

Crossing Borders with Bruno Léyecuyer

Andrés Solimano

The COVID Slump in Historical Perspective and Investment Migration

Thursday 30th April 2020

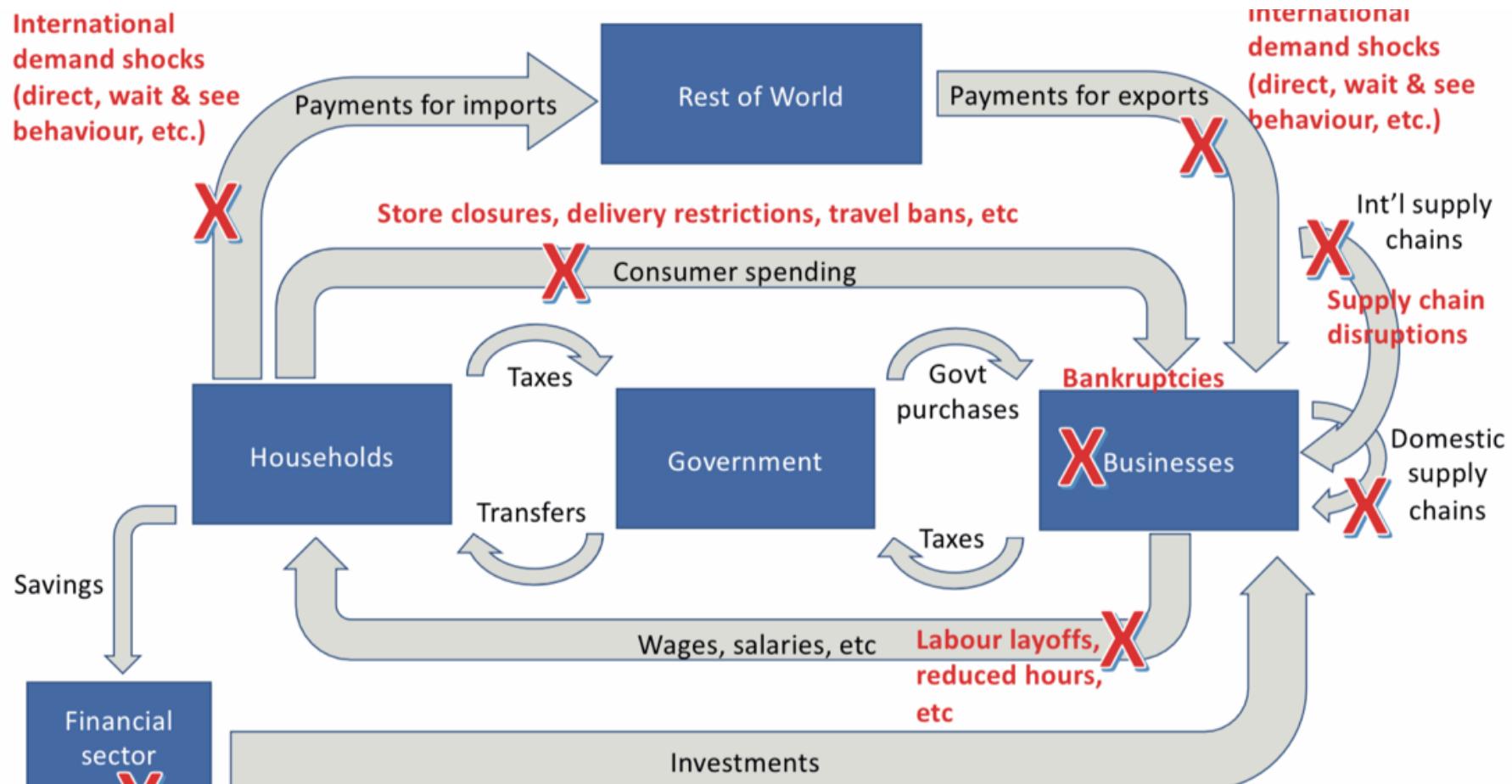
The Covid-recession of 2020 (the great lockdown).

- Originated by the **spread of Covid-19** and **containment policies**.
- Global GDP is expected to contract by -3 percent (IMF) in 2020.
- The C-crisis affects *more severely advanced economies*. Core of the global capitalist system is more vulnerable.
- Advanced economies: GDP projected to fall by 6 percent in 2020.
Projections of GDP growth: USA (-6 percent) around -7 percent in France and Germany and -8 percent to -9 percent in Spain and Italy.
- In emerging economies/developing countries GDP is expected to fall by -1 percent (with China) to -2 percent (without China).
- Sharp deceleration of growth but still positive in China and India.
- The Periphery (Latin America, Africa, Asia) will contract less than the core/center (North America, Europe).

ANATOMY OF THE SHOCKS: Supply and Demand Shocks with Financial disruption.

- The supply side:
- Lockdowns and restrictions to mobility implies a *negative supply shock*. Less workers are available to work. Productivity of capital declines.
- Disruption of supply chains.
- The Demand Side:
 - Unemployment and cut in wages induce a decline in aggregate demand via **consumption** effects. **Private investment** will pause for uncertainty and **exports** will fall as external markets shrink.
 - Financial disruptions:
 - Declines in asset prices and wealth, credit crunch, sudden-stop of international capital flows?

Circular Flow and C-Crisis.



What the history of recessions tell us?

- Three main global recessions in the last 90 years :
- The great depression of the 1930s.
- The stagflation of the 1970s.
- The global financial crises of 2008-09.
- Regional crises:
- The Latin America debt crisis of the 1980s.
- The East Asian crisis in the 1990s.
- The post-socialist slump in the 1990s (Central-Eastern Europe).

Other main disruptions and potential catastrophes

- World War I
- Spanish flu (1918-1919) and other pandemias
- World War II
- Climate destabilization
- Nuclear threat
- Terrorism.

The great depression of the 1930s.

- It was preceded by the stock market crash of 1929.
- Amplified by the straightjacket of the gold standard (no nominal currency depreciation, fiscal and monetary restraint).
- Lack of international policy coordination (British hegemony was waning and America was still unwilling to become a global hegemon).

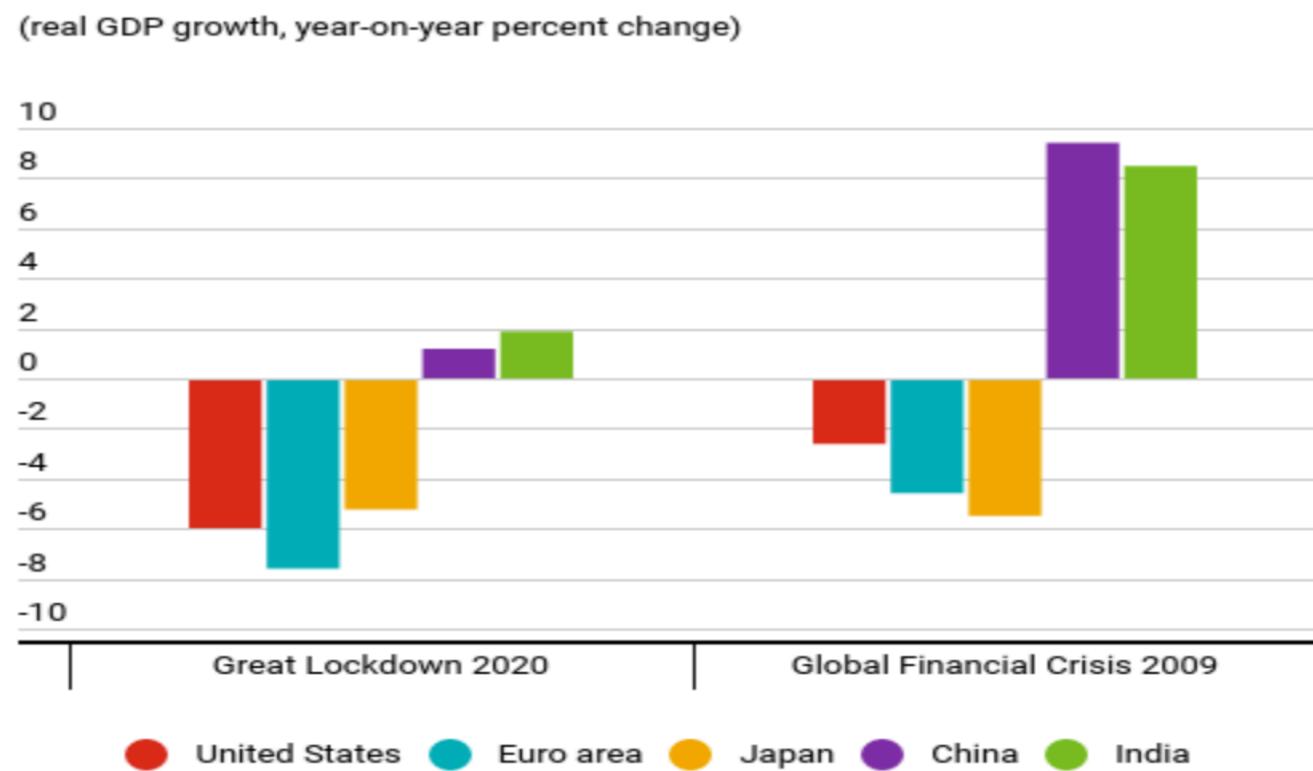
The stagflation of the 1970s.

- Main events that triggered it :
- the **abandonement of Bretton Woods parities**. The USA devalues the dollar vis a vis gold in 1971 (closing of the “dollar window”).
- The **oil price shock** of 1973 and 1979.
- **Inflation and currency instability**.
- **Volatile social conditions and geopolitical context**: strong labor militancy, Vietnam war, Iran crisis, challenges to US hegemony.

The global financial crisis of 2008-09

- It originated in the real estate market in the USA (sub-prime loans), then spill into the financial system and then propagated internationally to Europe.
- It was a crisis mainly of the core/central economies.
- Strong growth in China helped to ameliorate global effects.
- Developing countries and emerging economies suffered less than core economies.

The Great Lockdown and the Global Financial crisis of 2008-09.



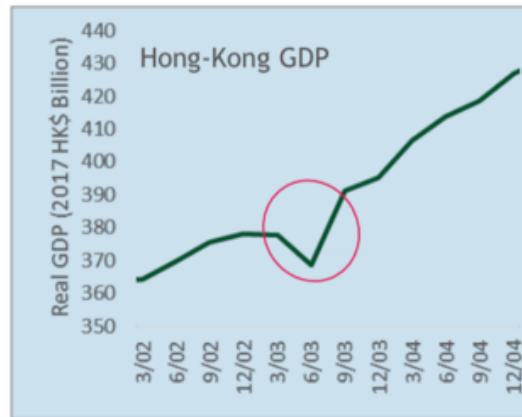
Source: IMF, *World Economic Outlook*.

Empirically, flu shocks have all been 'V-shape'

Historical precedents interesting, not deterministic

2003 SARS

(299 deaths in Hong Kong)



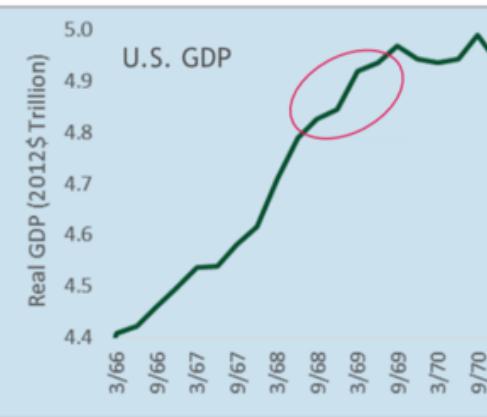
1957/58 H2N2

(116k deaths in U.S.)



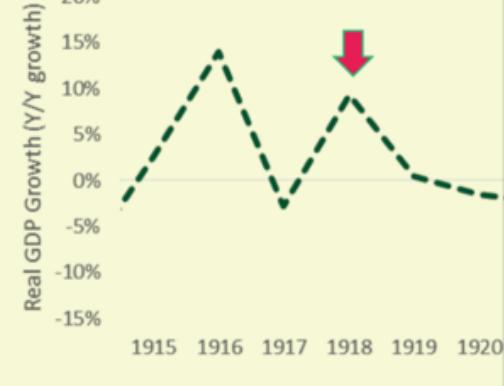
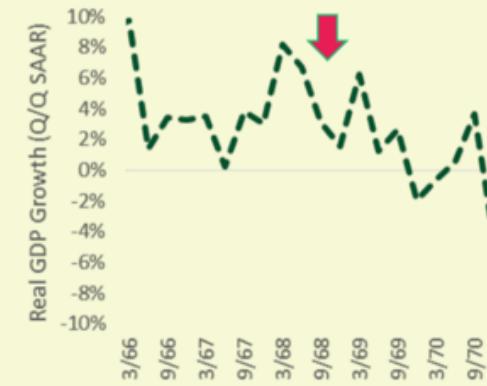
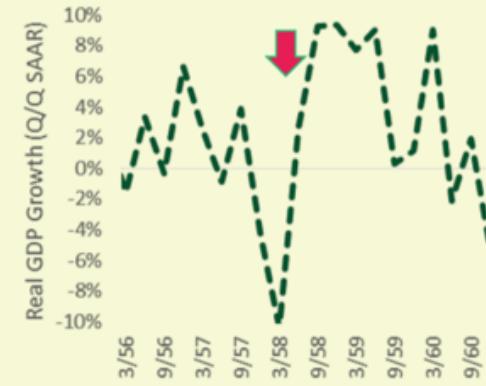
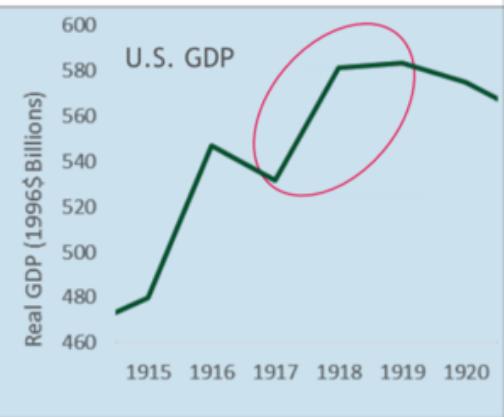
1968 H3N2

(100k deaths in U.S.)



1918 Spanish Flu

(675k deaths in U.S.)



Sectors with high exposure, resilience and upside potential

<u>High-exposure sectors:</u>	Resilient/low exposure sectors	Sectors with upside potential
Tourism/lodging/leisure	Real estate rent	Home-delivery activities
Retail-trade	Food retail	Clinical and medical services
Consumer durables	Internal consumption related agri-business	Internet and communications platforms (technology sectors).
Global shipping	Certain manufacturing activities	E-commerce
Passenger airlines		
Construction		

What for investment migration?

- The COVID crisis is pushing towards de-globalization.
- Borders are closed and sharp slowdown in air traffic.
- Fall in asset prices reduce financial wealth: less resources for CBI and RBI.
- Political legitimacy of second and third passports?
- Crisis countries need foreign capital and investors.

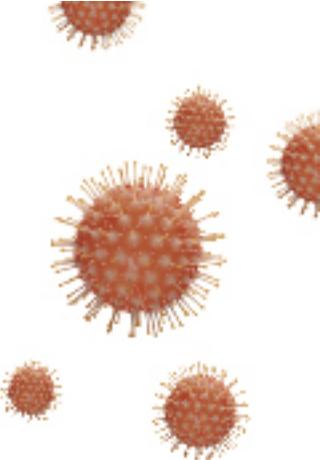
Prospects ahead.

- The impact of the crisis will depend on the dynamics of contagion, duration of lockdowns and policy reactions at national and international levels.
- A plane with two failing engines: US (recession) and China (slow growth).
- V or U recoveries? A scenario of stagnation (L-shape).
- Now international policy coordination is more difficult perhaps than in 2008-09. The great depression of the 1930s was hampered by little international cooperation.
- Countries with weaker institutions (public health, credibility in governments and leaders, fragile fiscal conditions) will suffer more.

A History of **BIG**
RECESSIONS
in the LONG
TWENTIETH
CENTURY

Andrés Solimano





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