

Analysis of the Trend of Global Economy after the Epidemic

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ABSTRACT. *The global spread of novel coronavirus pneumonia has caused the global economy to “stop”. The direction of global economic development has great uncertainty. To accurately grasp the global economic trend after the outbreak, we must analyze this from the root of the potential economic crisis. In fact, the global pandemic is only the fuse. The basic reason for the current economic crisis is the vulnerability of the global economy, finance and society. For the global economic trend after the outbreak, the relationship between China and the United States will be a key factor. The policy choices of China and the United States will have an important impact on the development direction of post epidemic economic globalization, and also on the trend of post epidemic world order, as well as global peace, stability and prosperity.*

KEYWORDS: *Epidemic situation, World economy, Economic trend*

1. Introduction

Up to now, the epidemic has spread to the vast majority of countries and regions around the world, with a total of more than 2.4 million confirmed cases worldwide.

The global financial tsunami, the recent rapid decline in oil prices, the U.S. West Texas light crude oil (WTI) futures prices fell to a negative value for the first time in May, a sudden 306% drop overnight, once breaking through the lower limit of \$40 / barrel, closing at \$37.63 per barrel. U.S. stocks triggered the circuit breaker many times, and European and American stock markets collectively entered the technical bear market. It can be said novel coronavirus pneumonia epidemic spread worldwide, causing the global economy to “stop”, we are standing on the edge of the new round of global economic and financial crisis.

The epidemic will eventually end, but the impact on the economy will not stop. Some studies have pointed out that the impact of the epidemic on the economy will surpass that of the global financial crisis in 2008, or even surpass that of the “Great Depression” of the global economy in 1929-1933. In my opinion, there is great uncertainty in the development direction of the global economy after the outbreak, and in the uncertainty there is certainty. To accurately grasp the global economic trend after the outbreak, we must analyze the uncertainty and certainty from the root of the potential economic crisis. In fact, the global pandemic is only the fuse. The basic reason for the current economic crisis is the vulnerability of the global economy, finance and society. As the core country of the global economy, the United States has certain value in analyzing the global economy.

2. The Influence of the United States on the Trend of Global Economy after the Outbreak

First, as shown in Figure 1 below, the U.S. stock market has the longest bull market in the history of nearly 11 years through long-term loose policies, stock buyback and homogenization trading. The outbreak of the epidemic ended the bull market in the U.S. stock market, repeatedly fusing into a technical bear market. The huge impact of the financial system caused by the stock market crash will be transmitted and amplified to the real economy through the wealth effect of the residential sector, Tobin Q effect of the enterprise sector, balance sheet and collateral of the credit market, and the financial crisis may eventually evolve into an economic crisis.

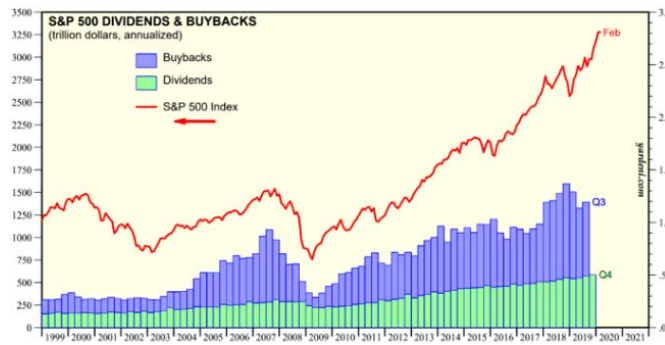


Fig.1 Stock Buyback, Dividend and s & P 500 Index Trend

Second, as shown in Figure 2 and figure 3 below, the United States is at a high level in the financial cycle, and the enterprise sector is facing huge debt risks: rapid rise in leverage ratio, continuous decline in solvency, increase in the proportion of high-risk bonds, and expansion of credit spreads. Corporate sector debt could be the source of a new financial crisis. After the 2008 financial crisis, the U.S. residential sector repaired the damaged balance sheet, and the leverage ratio (debt / GDP) continued to decline; the government sector strengthened macro counter cyclical regulation, and undertook the private sector leverage transfer, and the leverage ratio rose rapidly. However, after 2014, it was basically stable; the non-financial enterprise sector was de leveraging under the impact of the crisis, but the leverage rate rebounded rapidly, exceeding the pre crisis level, and now it is more than the residential sector.

Corporate debt and leverage in the United States rose rapidly, but solvency continued to decline. The debt service ratio (current principal and interest payable / current income) of the U.S. non-financial enterprise sector is much higher than that of the residential sector and the overall non-financial private sector, and it continues to rise, which is relatively high in history. Meanwhile, the proportion of high-risk corporate bonds in the United States continues to expand. The balance of us non-financial corporate bonds increased from US \$2.2 trillion in 2008 to US \$5.7 trillion in 2018, of which BBB corporate bonds with higher risk increased by nearly US \$2 trillion, accounting for 47.4% in 2018, up from 36.4% in 2008. In January 2020, S& P lowered the rating of 676 U.S. corporate bond issuers, increased 352, and the ratio of the increase to the decrease was 0.52, a new low since 2009. 86% of the enterprises that were downgraded were related to the issuance of high-yield bonds. In addition, the credit spread of high-risk corporate bonds in the United States has expanded, and the risk of default has increased. The credit spreads of BBB and below rated corporate bonds rose rapidly, indicating a decline in market risk appetite. The expansion of interest margin increases the cost and difficulty of corporate refinancing. Once it is unable to refinance smoothly and the bond defaults on a large scale, the risk will spread to the whole financial system.

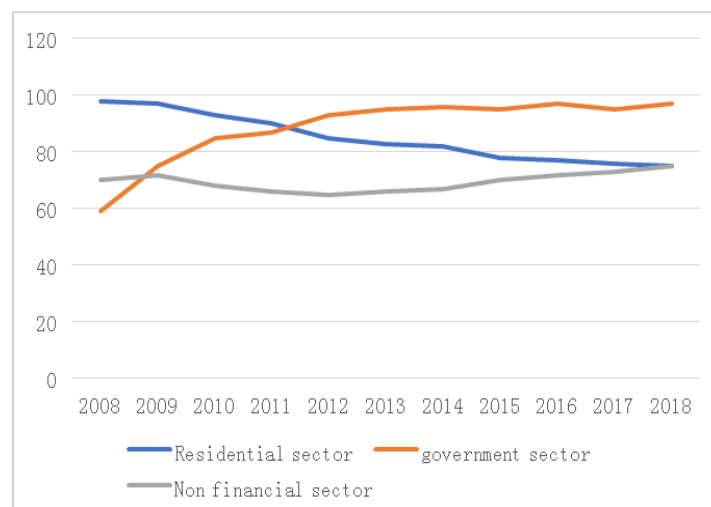


Fig.2 Leverage Ratio of U.S. Non-Financial Enterprise Sector

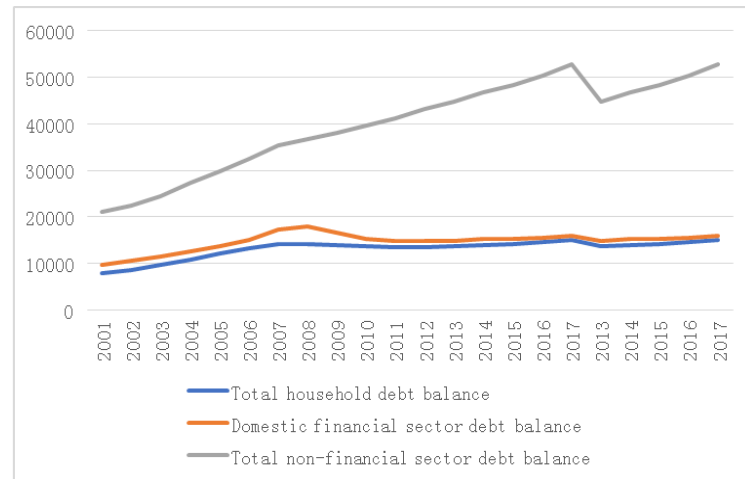


Fig.3 Total U.s. Debt Balances by Sector (\$1 Billion)

In addition to the United States, China's economic situation will also have an important impact on the world economic trend after the outbreak. As shown in Figure 4, China's importance in the global economic system has greatly increased in recent years. In the face of the global epidemic and economic and financial crisis, China will interact with the global economy through industrial chain, trade, foreign demand, financial market, bulk commodities and other channels.

3. China's Influence on the Global Economic Trend after the Epidemic

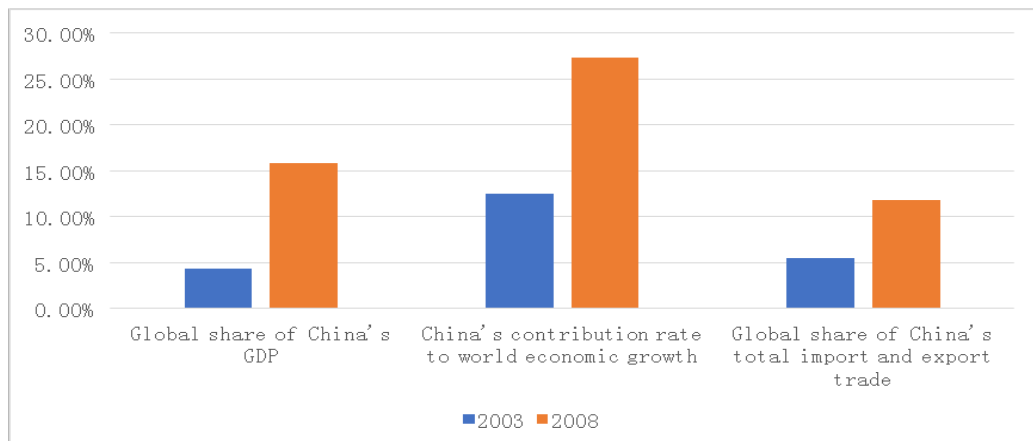


Fig.4 Proportion of China's Economy in the World

First, the large-scale postponement of return to work, the closure of factories and the obstruction of logistics will have a negative impact on the production, transportation and employment of the global manufacturing industry, and through the expansion of the global supply chain network, the global trade will shrink, and the pressure of enterprise orders and cash flow will rise. From the perspective of industrial chain, the global epidemic spread or caused production stagnation and trade control, temporarily blocking the global supply chain. In the era of globalization, industries of all countries are highly dependent and closely related. The impact of the epidemic on the industrial chain of all countries depends on the status and dependence of the country in the global industrial chain as well as the control of the epidemic in the country. The novel coronavirus pneumonia epidemic was declared a "global pandemic" by WHO in March 12th, and the global industrial chain will be more impacted.

In 2018, China's imports of various products are shown in Table 1 below. Currently, Japan, South Korea, the European Union (Italy) and the United States are major trading partners of China. The Japanese and South

Korean epidemic has a great impact on China's middleware and parts, mainly in terms of production materials and equipment; The European and American epidemic has a great impact on China's middleware and parts, as well as the final consumption and capital supply. Therefore, the four areas affected by the current epidemic have an impact on China's production factors, capital supply and final consumption.

Table 1 China's Imports Of Various Products in 2018

	Japan	South Korea	America	Germany
All intermediate	7%	10.10%	5.90%	3.20%
Primary industrial products	1.50%	0.30%	4.80%	0.40%
Processing industrial products	8.50%	17.30%	6.40%	2.80%
Primary fuel and lubricants	0%	0%	2.60%	0%
Capital goods parts	14.10%	10.40%	5.10%	7.40%
Transport equipment parts	21.90%	7.40%	13.60%	21.80%
Primary video and beverage for industrial use	0%	0%	17.40%	0.10%
Processed food and drink for industrial use	0.10%	0.10%	3.80%	1.30%
Process fuel and lubricants	1.70%	1.10%	5.80%	1.10%

Second, the risk of the world economic downturn has increased and foreign demand has declined. The spread of overseas epidemic will affect the economic growth and Consumption Willingness of the country and region, and have a negative impact on the export of Chinese enterprises. The demand of catering, transportation, retail and entertainment industries has been greatly impacted, the short-term unemployment rate has increased, and the risk of economic recession has increased. China's foreign demand mainly comes from Europe, the United States and Asia, and it is also a region that has suffered a lot from the epidemic and suffered a large decline in the stock market. As shown in Figure 5 below, in 2018, China's total import and export value of foreign commodities reached 4.62 trillion US dollars, and the top five import and export countries and regions are the United States, Japan, South Korea, Taiwan, and Germany.

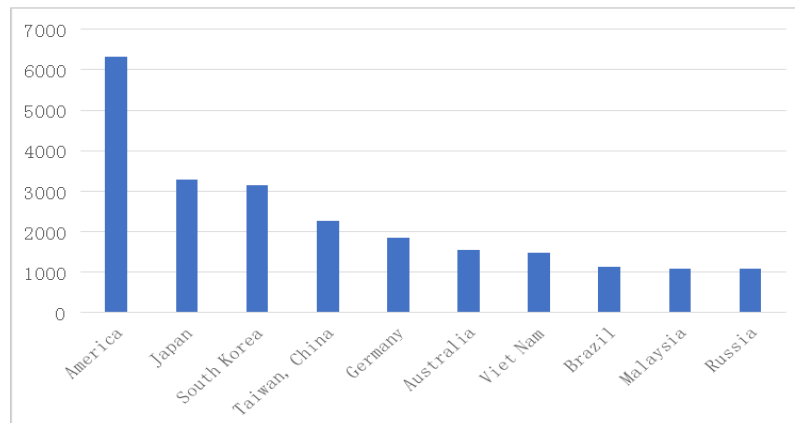


Fig.5 Top Ten Export Countries and Regions of China

Third, the epidemic triggered panic, combined with the downward pressure of the global economy, the global financial market was turbulent, and China's financial market was facing credit and debt risks. For the stock market: the global pandemic and financial crisis will suppress the stock market from corporate profits and market risk preferences, and the volatility of the stock market will increase. For the bond market, the spread and infection of the epidemic has brought negative impact on consumption, production and investment, the short-term weakness of the real economy has pushed down the yield of national debt, and the panic brought by the epidemic has pushed up the risk aversion and driven down the interest rate. For the exchange rate: with the domestic epidemic under control, overseas areas such as Italy, the United States, Japan, South Korea and other regions are still in a high-risk state, and the global risk aversion mood is rising, resulting in the increased volatility of the RMB exchange rate.

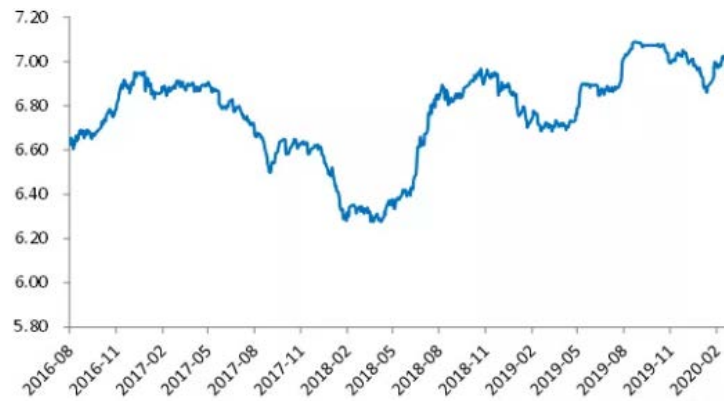


Fig.6 Exchange Rate Change between Us Dollar and Rmb

4. The Trend of Global Economy after the Epidemic

Through the analysis of China and the United States, we can see that the future direction of the global economy is uncertain. But we can be sure that the global politics and economy will change a lot after the outbreak, but the depth and scope of the change are uncertain. The global economic uncertainty under the epidemic situation is mainly caused by three uncertain factors. First, it is difficult to determine the final scale and impact of the epidemic in the world. Second, it is uncertain when humans will be able to develop vaccines or specific drugs to deal with the virus. Third, the impact of the epidemic on the global economy is uncertain. It is uncertain whether systemic financial risks will occur in major economies such as the United States, and how long the global economic “stop” will last and how much impact it will have.

Due to the above uncertainties in the global economy, it is necessary to carefully study and judge the trend of the global economy, and it is very important to make plans for different scenarios. The possibility of global supply chain restructuring and deep adjustment of globalization is increasing. The global supply chain will be restructured, but the depth and scope of the restructuring are uncertain.

With the spread of the global epidemic, the concerns of developed economies about the excessive dependence of medical protection materials and drugs on the supply of China and other countries have increased significantly. The status of public health security in the national security system will rise significantly, which will lead to a certain degree of global supply chain restructuring. The formation of global supply chain is an important manifestation of the development of economic globalization in the past 30 years. Taking the global drug supply chain as an example, China's role in the global drug supply chain is crucial. The raw materials of some drugs in the United States are almost all from China, including antibiotics such as azithromycin, penicillin and cephalosporin. Although India is also one of the world's largest drug exporters, 70% of its APIs rely on China. In terms of key antibiotics, antipyretics and other aspects, India's dependence on China's APIs is nearly 100%. Obviously, the reorganization of global supply chain is inevitable when the awareness of public health and safety is prominent.

In addition, other development trends that affect economic globalization have greater certainty. First, the relationship between the state and the market, and between the state and society will be greatly adjusted. The preference of values will change greatly, the importance of security and order will be increased, and the state's intervention in economy will be increased. In this process, the influence of China's governance model will continue to increase. Second, the international competition for scientific and technological innovation will be more intense, and new technologies, new models and new industries will emerge, which will determine the international competitive position of all countries. The epidemic has made the role of big data and artificial intelligence more prominent; international competition in science and technology and business models will intensify; Europe is worried about becoming the so-called “digital colony” of China and the United States, and will take more countermeasures and self-reliance measures. Third, the strategic competition, ideological competition, development model competition and geopolitical competition among major countries will intensify in the new global situation. The strategic competition of great powers will reconstruct the geo economic and geo political territory of the world. The strategic competition of the big powers represented by the competition between China and the United States will intensify; the phenomenon of geo economic and geo political reconstruction will appear in different regions, the influence of the United States will further decline, and regional cooperation and competition will show new forms.

The trend of China-U.S. relations will be the key factor influencing the global economic trend after the outbreak. China and the United States are the world's two largest economies and an important part of the global supply chain. The impact of the adjustment of China US political and economic relations will be global and global. It can be said that there will be no globalization today without the policies of the past 30 years in which China and the United States have jointly embraced economic globalization. Similarly, if the two countries' economies are "decoupled" from science and technology, the direction of globalization will be completely reversed.

Under the current epidemic situation, the nature of China US relations has further changed. In the past, the relationship between cooperation and ideological competition has been further strengthened. Looking forward to the future, the global economy is likely to form two parallel international supply chains, one centered on the United States and one centered on China. China and the United States may continue to fight a trade war, resulting in higher tariffs and increased barriers to technological exchange. The relationship between the two major markets of China and the United States may gradually weaken. However, it is uncertain how much the US has pushed for global supply chain adjustment.

5. Conclusions and Suggestions

The policy choices of China and the United States will have an important impact on the development direction of economic globalization after the epidemic, as well as on the direction of the world order after the epidemic, as well as the global peace, stability and prosperity. The biggest challenge in the current Sino US relations is the lack of strategic and political mutual trust between the two sides. As the two largest economies in the world, China and the United States have the responsibility to maintain the momentum of globalization. I think the way out for China US relations lies in three aspects: First, both sides must redefine their understanding of the common interests of China and the United States; Secondly, we should carry out effective dialogue among civilizations and national governance models; Third, China and the United States should expand cooperation in non-traditional security areas such as global public health and climate change. International public health and climate warming are common challenges facing mankind, which need the unity and cooperation of the international community to be able to successfully cope with. China and the United States should play a leading role in this regard. At the same time, we can use non-traditional security cooperation platforms to increase strategic and political mutual trust and maintain the stability of the global economic order.

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