

# Prologue

### **Dashed hopes for economic recovery**

Before the COVID-19 pandemic, global economic prospects were expected to improve, with projections pointing towards a 3.4 per cent growth rate in 2020. However, hopes for a resuscitated economic performance were dashed by the onset of the COVID-19 pandemic. Towards the end of 2019, a few localized cases of the virus in China began to spread quickly across the globe. The spread persisted for most of 2020 and the world continues to grapple with this deadly virus in 2021. This unprecedented health crisis has posed huge challenges for some of the most advanced economies. On 11 March 2020, the World Health Organization (WHO) officially declared COVID-19 a global pandemic. With over 67.6 million cases and 1.54 million deaths reported as of December 2020, the pandemic has placed immeasurable pressure on the health systems in many affected countries.

Asian member countries registered the highest number of COVID-19 cases by Commonwealth region, at 11.9 million, followed by European and African member countries, which reported 1.79 million and 1.18 million cases, respectively. Commonwealth regions with fewer reported infections included the Caribbean (480,000 cases) and the Pacific (30,000). India, with a population of 1.37 billion, recorded over 9 million infections in December 2020. In late January 2021, the United Kingdom had recorded over 3.4 million infections, 90,000 deaths and had the highest coronavirus death rate in the world.

Some advanced Commonwealth countries have managed to contain the virus relatively effectively, due in part to their size and location. These include Canada (37.7 million population; 718,000 infections), Australia (25.5 million population; 28,731 infections) and New Zealand (5 million population; 2,262 infections). Commonwealth small states have generally had low infection rates, especially countries like Kiribati, Samoa and Tonga which had, at the time of writing, reported no COVID-19 cases.

### **Attenuated economic performance in 2019**

Following sustained economic growth throughout the previous decade, global GDP expansion dipped to 2.9 per cent in 2019 from the 3 per cent registered in 2018. This was the lowest growth rate in the decade since the global financial crisis (GFC) in 2008-2009. The dismal economic performance in 2019 was against the backdrop of a tariff trade war between the United States and China, which imposed uncertainty on global value chains. This was coupled with economic volatility related to Brexit. Consequently, firms had to reduce their long-term spending, resulting in lower investment. In addition, household demand for durable goods decreased. Due to the decreased demand and the disruption in global value chains, 2019 was characterised by a substantial weakening of manufacturing activity, reminiscent of that experienced during the GFC.

### **Regional economic performance**

Economic performance varied across different Commonwealth regions. Growth in the Caribbean contracted slightly from 1.5 per cent in 2018 to 1.4 per cent in 2019. This stemmed from fiscal challenges due to high debt to GDP ratios, and vulnerabilities to weather-related shocks. Economic growth also slowed in Europe from 2.1 per cent in 2018 to 1.5 per cent in 2019, stemming in part from decreased manufacturing. Africa showed some resilience, reflected in a 3.5 per cent rise in growth from the 3 per cent registered in 2018. This performance was buoyed by

improvements in macroeconomic fundamentals, which saw an increase in investment and exports. In the Pacific, higher liquefied gas production and increased construction contributed to an increase in GDP growth from 3.5 per cent in 2018 to 4.2 per cent in 2019. Despite growing at its lowest rate since the GFC, Asia remained the fastest-growing Commonwealth region, registering a growth rate of 5 per cent in 2019.

### **Adverse impact of COVID-19 on economic growth in 2020**

As countries implemented lockdown measures in the first half of 2020, economic activity was severely impacted, with businesses suspending their operations. This had a negative impact on employment and livelihoods. On the supply-side, infections reduced labour supply and productivity, whilst layoffs and losses of incomes had demand-side effects. By the third quarter of 2020, 345 million full-time jobs had been lost, at an estimated cost of US\$3.5 trillion in income. Consequently, it is expected that the burden brought on by the pandemic could push 70 million to 100 million people into extreme poverty.

As economic activity continues to suffer worldwide, global economic output is projected to contract by -4.4 per cent. This reflects a more precarious outlook compared to the GFC. The projected economic contraction in 2020 was, however, slightly less severe than the initially predicted contraction of -4.9 per cent in the first half of the year, due to the speed with which some countries re-opened their economies after the first wave of COVID-19.

More than 144 countries implemented fiscal and monetary measures in 2020. Efforts to lessen the economic consequences of the pandemic included increased spending on social support measures and increased bailouts for ailing industries, such as furlough schemes. Such expansionary fiscal policies exerted further fiscal pressure on countries already dealing with decreased revenues, and limited fiscal space. Moreover, this has increased debt burdens in already heavily indebted countries. Furthermore, it is estimated that external private inflows could fall by up to US\$700 billion, partly due to the dismal economic outlook. Nevertheless, the global prioritisation of protecting health has been necessary.

### **Economic performance across Commonwealth countries**

In Europe, tourism-oriented countries like Malta and Cyprus are expected to suffer the brunt of the effects of the COVID-19 pandemic, with projected contractions in GDP of 7.25 and 7.5 per cent, respectively. In Asia, the IMF predictions for growth in 2020 were reduced to -2.2 per cent from the 0.6 per cent growth rate previously forecast. This was due to sharp downturns faced in some countries such as Maldives (20per cent), India (9per cent) and Malaysia (5per cent).

Despite registering fewer COVID-19 cases, Commonwealth small states – particularly small island developing states (SIDS) – are predicted to experience large output contractions. This is because their high reliance on tourism, which contributes an estimated 30 per cent to GDP on average, has been severely affected. As 2020 drew to a close, tourism arrivals had declined by 70 to 75 per cent compared to last year, equating to a decline of about 1 billion international tourism arrivals. The decline in tourism, by extension, led to flagging demand for services such as accommodation and food, and reduced demand in other sectors in which tourism has backward and forward linkages, resulting in job losses. As such, tourism-dependent countries in the Caribbean experienced declines in GDP ranging from 3 to 7 per cent.

Travel restrictions also contributed to a decrease in international trade, with merchandise trade volumes falling by 9.2 per cent. The effects have been most widespread in commodity-dependent countries that were faced with a protracted decline in commodity prices. In addition, travel restrictions and economic challenges in many countries contributed to decreased investment, with greenfield investments showing a decline of 500 per cent across Commonwealth small states.

### **The Commonwealth Economic Development Report 2019**

The *Commonwealth Economic Development Report 2019*, which had been prepared prior to the onset of COVID-19, captures advances made in growth and structural transformation in Commonwealth countries in the pre-COVID-19 era. The macroeconomic platforms it identifies could be important drivers in building back better. It also reports on the challenges besetting Commonwealth countries such as climate change and high youth unemployment, which continue to threaten future economic growth and prosperity. The *Commonwealth Economic Development Report 2019* therefore provides a solid foundation for the next issue, which aims to provide a comprehensive review of Commonwealth economic performance in 2020.