King Faisal Center for Research and Islamic Studies

KFCRIS Report on the Regional and International Impacts of Coronavirus

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Overview Current Situation

As the economic ramifications of locking down national economies become all too evident, governments across the world have found that it is fairly straightforward to implement socioeconomic restrictions such as lockdowns, curfews and quarantines; The hard part is how to either lift or ease these restrictions without causing harm to a population's collective health by triggering a reemergence of coronavirus. In other words, inadvertently sparking a second wave of the virus. Indeed, Professor Nancy K. Bristow, author of "American Pandemic: The Lost Worlds of the 1918 Influenza Epidemic", reminds us that in 1918, the influenza pandemic, otherwise known as Spanish flu, swept the globe in a series of waves.

Nowadays, governments and policymakers are faced with the difficult choice of whether to prioritize the economy over health or vice versa. This dilemma comes as the World Health Organization (WHO) said countries that ease social restrictions should wait at least two weeks to evaluate the impact of lockdowns, curfews and quarantines, before considering a relaxation of restrictions. Yet, we have already witnessed demonstrations against anti-lockdown constraints, for example in Berlin, Germany and the United States, as many people fear that the economic fallout from national lockdowns will have more profound long-term consequences for societies than deaths caused by the virus. In truth, millions of workers around the world have already seen their incomes evaporate.

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Latest Coronavirus Statistics as of: 3 May 2020

SAUDI ARABIA

King Salman issued an order to lift curfew restrictions partially across the Kingdom from Sunday, April 26, until May 13. The curfew was lifted partially in all regions, allowing residents to go out between 9 a.m. and 5 p.m., except in Makkah where a 24-hour curfew remains in force.

Some economic and commercial activities have been allowed to restart business including wholesale and retail shops as well as malls. They are can operate for two weeks, from Wednesday, April 29 until May 13 (Ramadan 6-20). However, beauty parlors, barber salons, gyms, cinemas, and restaurants remain closed.

Confirmed cases: 27011 | Deaths: 184 | Recovered: 4138

Individual Countries

Up-to-date statistics on confirmed cases, deaths and recovered in specific countries can be found here:

https://coronavirus.jhu.edu/map.html
www.worldometers.info/coronavirus/

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However, national coronavirus outbreaks are at different stages and therefore, government decisions to ease lockdowns are based on the success of national efforts to mitigate the spread of the virus. Hence, some governments feel more confident about lifting certain restrictions, whilst others such as the UK, are keeping the social constraints in place. The real concern for many policymakers is that lifting lockdowns too early could lead to a second coronavirus outbreak. As an example, Singapore received worldwide attention for what was seen as its success in containing the early stages of the outbreak. However, a new and quickly expanding second peak of infections in the city-state underlined how easily the virus can return. This 'second wave' forced the Singaporean government to extend social restrictions to combat coronavirus until early June. The prime minister, Lee Hsien Loong acknowledged that many people were "disappointed by the extension," and that businesses and workers were "hurting greatly". But he also pointed out that the "short-term pain is to stamp out the virus, protect the health and safety of our loved ones, and allow us to revive our economy."

Ultimately, the question for governments across the globe is how to reopen economies without triggering the much feared 'second wave'. Consequently, it is unsurprising that countries are watching each other's exit lockdown strategies closely to learn valuable lessons of how to deal with an unfamiliar, and unpredictable, situation.

What was Spanish Flu?

The 1918 influenza pandemic was the most severe pandemic in recent history. It was caused by an H1N1 virus with genes of avian origin. Although there is not universal consensus regarding where the virus originated, it spread worldwide during 1918-1919. In the United States, it was first identified in military personnel in spring 1918. It is estimated that about 500 million people or one-third of the world's population became infected with this virus. The number of deaths was estimated to be at least 50 million worldwide with about 675,000 occurring in the United States. Mortality was high in people younger than 5 years old, 20-40 years old, and 65 years and older. The high mortality in healthy people, including those in the 20-40-year age group, was a unique feature of this pandemic. Significantly, the 1918 influenza pandemic occurred in *three waves* and more people died during the 1918 pandemic than the total number of military and civilian deaths that resulted from World War I.

Source: Center for Disease Control and Prevention (CDC).

Commentary & Analysis

The KFCRIS weekly report on the regional and international impacts of coronavirus (COVID-19) comes at a critical time as the virus continues to impact on national economies and the lifestyles of millions of people. Hence, this weekly report aims to interview a diverse range of individuals including policy makers, academics, and thinkers to seek their opinions on the impact of this pandemic as it relates to their area of interest. In this KFCRIS weekly report on the regional and international impacts of coronavirus (COVID-19) Enrico Fardella, Tenured Associate Professor, History Department of Peking University, and Director of PKU's Center for Mediterranean Area Studies, discusses the impact of COVID-19 on China and its global relationships. Karen E. Young, resident scholar at the American Enterprise Institute (AEI) considers how post-coronavirus the Gulf state's economic recovery is tied to the East, and Aisha Al-Sarihi, T20 Climate and Environment Task Force Coordinator at King Abdullah Petroleum Studies and Research Center (KAPSARC) examines the future of economic diversification and climate action in the Gulf Cooperation Council (GCC) in the post-coronavirus world.

The impact of COVID-19 on China and its global relationships

Enrico Fardella

The world is struggling to cope simultaneously with the convergence of the coronavirus that is impacting health, trade and commodities and the decoupling between China and the United States. This decoupling started earlier than the pandemic. China's shares in US imports decreased since 2013 and plunged in 2019, but the economic and political impact caused by coronavirus is multiplying in pace, intensity and cost. As Dalia Marin, Chair of International Economics at the University of Munich observes the coronavirus pandemic might reduce supply-chain activity by 35.4%, pushing firms to reconsider the costs of offshoring and taking advantage of cheap 'robotization' to re-shore production. An acceleration in decoupling clearly poses a challenge to China's global role as the main offshore manufacturing hub.

Yet nowadays, China remains central to almost every industrial sector. Decoupling might be attractive, but it is extremely expensive. It might require

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trillions for new factories and infrastructures, and potentially be far too expensive at a moment of global recession. Zachary Karabell, columnist, investor and former Head of Global Strategies at Envestnet, a publicly traded financial services firm, states clearly 'Where will the money for a divorce come from at a time when every available dollar is needed for basic economic stability?' Still, it would appear that China has time to adapt to this transition, strive for new achievements and prepare to grasp its 'period of historic opportunity' (2021- 2050) that is supposed to transform the People's Republic of China (PRC) into a superpower in time for its centenary celebrations. Furthermore, Lardy and Huang from the Peterson Institute for International Economics (PIIE) document how China is well-equipped to face the current coronavirus crisis as China is far less dependent on exports than before, 4% of GDP in value added terms, and its economic recovery will be driven by increased internal demand.

Nonetheless, as it moves toward great power status China needs to boost its exports and preserve its supply chains to improve the productivity of its companies and allow them to become genuine global players. On April 16th, Wang Yi, State Councilor and Minister of Foreign Affairs, said China has to pursue unswervingly its 'grand vision' of building a shared future community for humanity and China will do *whatever it takes* to keep global industrial and supply chains stable as well as promoting trade, investment liberalization and facilitation.

As part of its effort to position itself as a global health leader in the coronavirus pandemic, China has resurrected the 'Health Silk Road' moniker, suggesting that this concept may take on new importance. Yet, the Health Silk Road is just an overture. China's supplies of medical equipment to countries such as Iran and Italy, that have been dealing with the most acute coronavirus emergencies, has momentarily changed the public perception of the Belt and Road Initiative (BRI) into a provider of public goods.

In Italy, according to an April 2020 survey, at the peak of the coronavirus crisis when Chinese medical equipment was delivered, 52% of respondents in Italy considered China to be a 'friend'—a jump of 42% since the previous survey conducted in January 2020—and 36% were favourable of an alliance with Beijing in contrast to only 30% of respondents who favored

one with the USA. Hence, given the new centrality of the Mediterranean region in global trade and its geopolitical position in great power competition, undoubtedly China will prioritize this strategic region in order to maximize its influence, counter anti-China forces, and maximize disagreements in the US-led alliance.

Iran, a key player in China's BRI plans, is confronting an unprecedented combination of challenges. Concurrently, Tehran is struggling with the worst coronavirus crisis in the Middle East, as well as a weakened economy and restrictions on medical procurements caused by international sanctions. The situation has been exacerbated by the unprecedented collapse of oil prices and subsequent reduction in revenues. As highlighted by the ChinaMed project, an initiative that analyses the deepening interconnections between China and Mediterranean region, China's medical assistance has been much appreciated by the Iranian leadership and media. Furthermore, Beijing has assumed the role of Iran's champion against international sanctions during the coronavirus pandemic. This was exemplified by Chinese ambassador Chang Hua's demand that the USA lifts sanctions to allow Iran to fight the pandemic.

Like the situation in Iran, the trade and commodity crisis will place massive strain on both the economies and societies of oil producing countries in North Africa and the Middle East, as well as European economies such as those of Italy and Spain. Due to the ongoing coronavirus pandemic, the risk of social unrest and political radicalization is an imminent risk for these regions. Consequently, China might try to benefit from this opportunity by elevating the BRI's function as a vehicle for increased stability and security. This could also assist China in consolidating its political vision of a shared community; that is a revised and contemporary form of global governance.

Finally, on April 9th, China published a blueprint for a new form of economic liberalization: the most important guideline since XI's 'deepening reform initiative' of the Third Plenum of the 18th Party Congress in November 2013. The National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC), to be convened in May 2020, might indicate whether this is indeed the beginning of China's 'historic opportunity'.

Post-coronavirus, Gulf economic recovery tied to the East

Karen E. Young

As governments seek to reopen economies from lockdown restrictions, the trajectory of recovery remains an unknown. Will it be a sharp uptick and return to growth, or an uneven start to recovery that could be stymied by a return to lockdowns later in the year, the elusive V-shaped or dreaded W-shaped curve? For the Gulf states, and Saudi Arabia in particular, the trajectory of recovery will depend a great deal on global oil market demand to stabilize. More specifically, recovery depends on the major destination countries of Gulf oil exports and related petrochemical products to rebound, with increased local consumer demand and productivity in industry. For the Gulf Cooperation Council (GCC) states, a lot is on the line in China. And though the Chinese government has been eager to put forward positive rhetoric toward its economic partners in the Gulf, the reality of the shared vulnerabilities is stark. It will be China's economic recovery trajectory that will set the pace for the Gulf.

The bad news is that the twin crises of coronavirus and the oil price collapse have altered global energy markets for the foreseeable future. The International Monetary Fund (IMF) estimates that the Middle East & North Africa (MENA) region will be hit especially hard by the twin crises, with lower growth forecast than the global average for the coming year. Depressed oil prices, declining tourism and remittance flows all hit the MENA region especially hard. The energy giants Shell and Exxon slashed their dividends, and the CEO of Shell described a dismal recovery, "Given the continued deterioration in the macroeconomic outlook and significant mid and long-term uncertainty." For oil exporters, this does not bode well.

The extent of demand destruction goes beyond the decline in transport fuel to airlines and container ships, as local consumer demand in the largest global economies needs to recover for industrial capacity and energy use to increase. Global demand destruction is hitting Chinese industry hard, as export orders slumped in March and April. Analysts at HSBC find that in China the recovery so far has been slow. China faces demand hurdles of its own, with excessive industrial inventory of finished products (a 15% year on year increase in the first quarter of 2020, according to HSBC analysts.) This means that even as global demand for Chinese products recover, the industrial production inside China will

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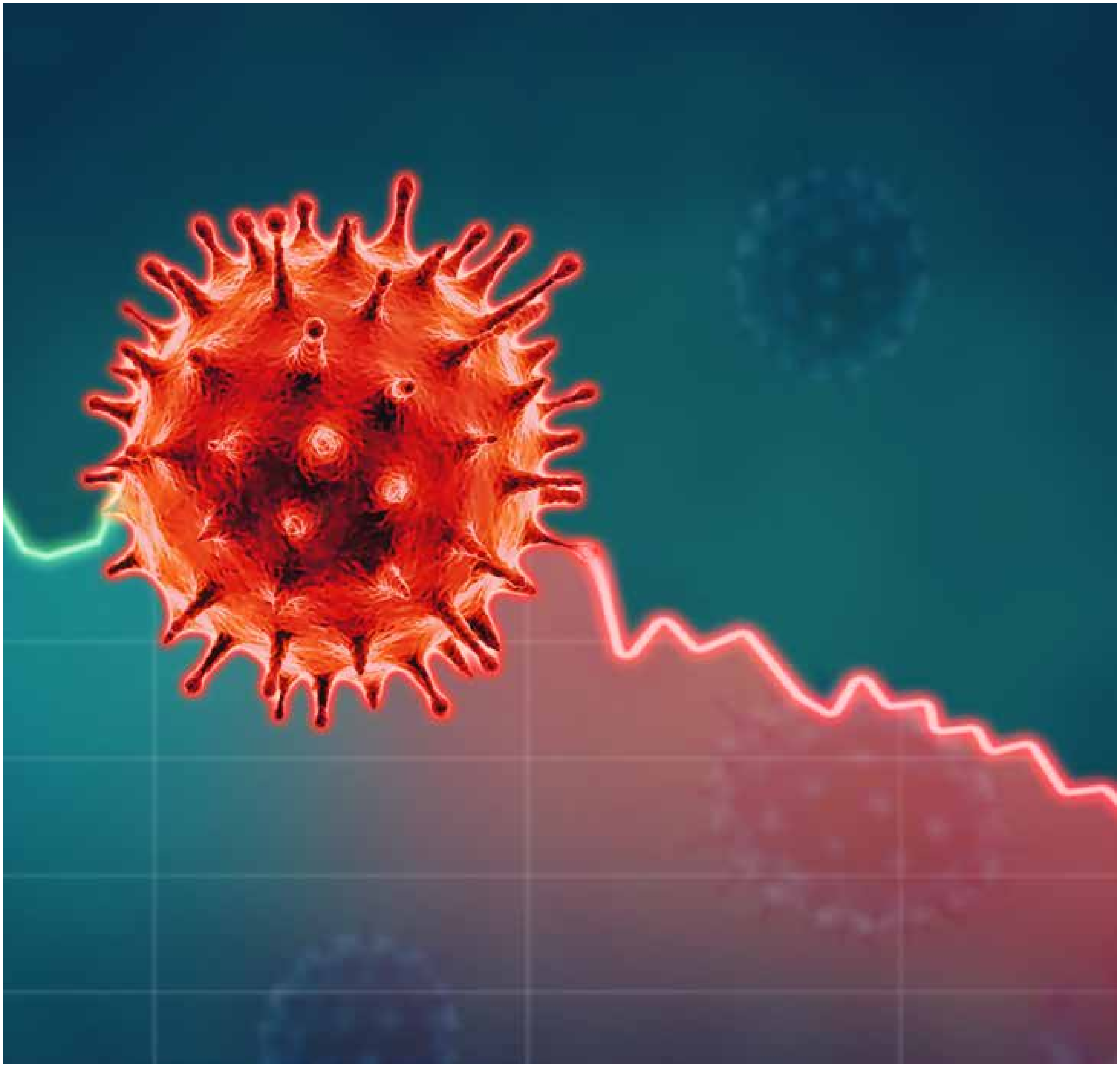

be slow to resume until existing product is delivered. The Chinese government has announced plans to stimulate domestic consumer demand by extending cuts to the value-added tax for small and medium-sized businesses and expanding lending to these firms.

For Saudi Arabia and other Gulf economies, the interdependence of recovery remains one of the more difficult variables to predict. There will not be a coordinated timing of reopening across geographies, as governments will have to respond to local outbreaks and craft safe containment efforts. Yet, our collective recovery depends on coordinated increases in consumer demand, mobility and access to stimulus measures to generate employment and business activity. Saudi Arabia's leadership in the G20 this year could not come at a more opportune moment to realize the connected nature of energy price recovery and global commerce.

Post-coronavirus: The future of economic diversification and climate action in the GCC

Aisha Al-Sarihi

As the number of COVID-19 cases outside China increased 13-fold, and the number of affected countries tripled, on March 11, 2020, Dr Tedros Adhanom Ghebreyesus, Director-General, World Health Organization (WHO) announced that coronavirus can be characterized as a pandemic. To contain the spread of the virus, countries around the world have implemented lockdown measures and curfews including closures of schools, universities and public spaces, the implementation of remote working policies, minimizing the use of public transport, and postponement or suspension of international travel.

This unprecedented global lockdown has cause significant harm to many businesses and economies as well as leading to around 305 million jobs losses — at airlines, hotels, restaurants, gyms, hair salons, and shops. The coronavirus containment measures have also resulted in a major global decline to oil demand leading to a historic collapse in oil prices. In response, this global economic slowdown has forced countries to implement economic stimulus packages to fund all necessary health measures needed to halt the spread of the virus as well as compensating job and income losses. The size of these economic recovery packages has been in line with the size of economic damage as well as the socio-economic condition of each country.

Given their high reliance on oil export revenues, and unlike other economies which are well-structured around taxation systems and highly diversified, the six Gulf Cooperation Council (GCC) states - Bahrain, Kuwait, Qatar, Oman, Saudi Arabia and the United Arab Emirates - are faced with severe consequences as a result of coronavirus crisis. The coronavirus pandemic is an unprecedented dual economic shock for the Gulf Arab states: harming domestic businesses and governmental activities due to local containment measures, and, at the same time, cutting the major sources of governmental revenue due to the historic decline in oil prices. Therefore, the current situation leaves this group of countries with limited options to find a balance between protecting health and minimizing economic disruption.

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The six GCC states have pledged over $120 billion to help their economies mitigate the impact of coronavirus, and stop businesses going bankrupt. Context specific economic stimulus packages were targeted, amongst others, to provide financial and economic incentives for the private sector; support small and medium-sized businesses; enhance the liquidity of financial institutions; exempt tourism-related companies from tourism levies; and in some cases subsidize or apply water and electricity utility bill exemption for citizens, commercial and industrial activities.

Acknowledging that containing the virus and shoring up economies are indeed high priority in the short-term, the consequences of approaches taken to tackle the pandemic are likely to be felt in the long-term. In the case of the oil producing GCC states, decision-making related to coronavirus economic recovery is likely to affect other persistent issues such as economic diversification and climate change. The GCC countries have readily defined transition pathways towards inclusive, less oil-dependent economies, including through the enhancement of the private sector, logistics, tourism, downstream petrochemical industries, as well as navigating the expansion of low-carbon energy investments such as renewables. However, current economic recovery approaches are viewed in isolation to readily existing long-term economic diversification and low-carbon investment ambitions.

Given the scale of the coronavirus shock to the GCC states and their limited options in dealing with the pandemic, the GCC states can make the most of their coronavirus economic stimulus packages by navigating opportunities that tie up their current bailout decisions with their long-term economic diversification and low-carbon investment ambitions. This will facilitate long-term economic benefits and ensure that national economies are more resilient in the future.