

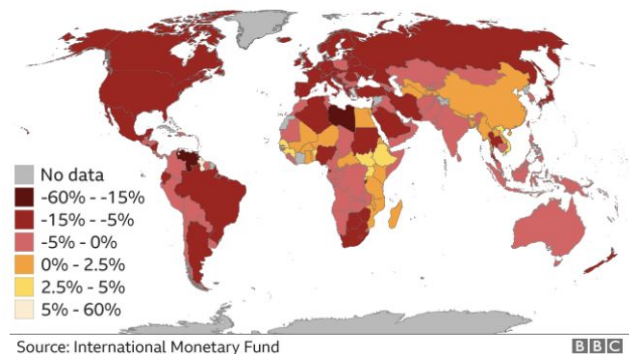
2020 International Student Summit
Restarting the Global Economy Post COVID-19: A Model G7+5 Summit
Background Briefing Paper

“The economic impact is and will be severe, but the faster the virus stops, the quicker and stronger the recovery will be.” - Kristalina Georgieva, Managing Director, International Monetary Fund

COVID-19’s Impact on the Global Economy

The novel coronavirus which emerged in late 2019 and early 2020 has become one of the largest public health crises in modern human history. The virus, a contagious airborne disease, is known to transmit between humans in close proximity. In order to slow the spread of the virus, public health experts in the United States and across the world have called for the suspension of large gatherings, use of masks or face coverings, and increased physical distancing when appropriate. These public health recommendations have fundamentally altered social and economic relationships for billions around the world.

Majority of countries on the brink of recession
Real GDP growth, Q1 2020



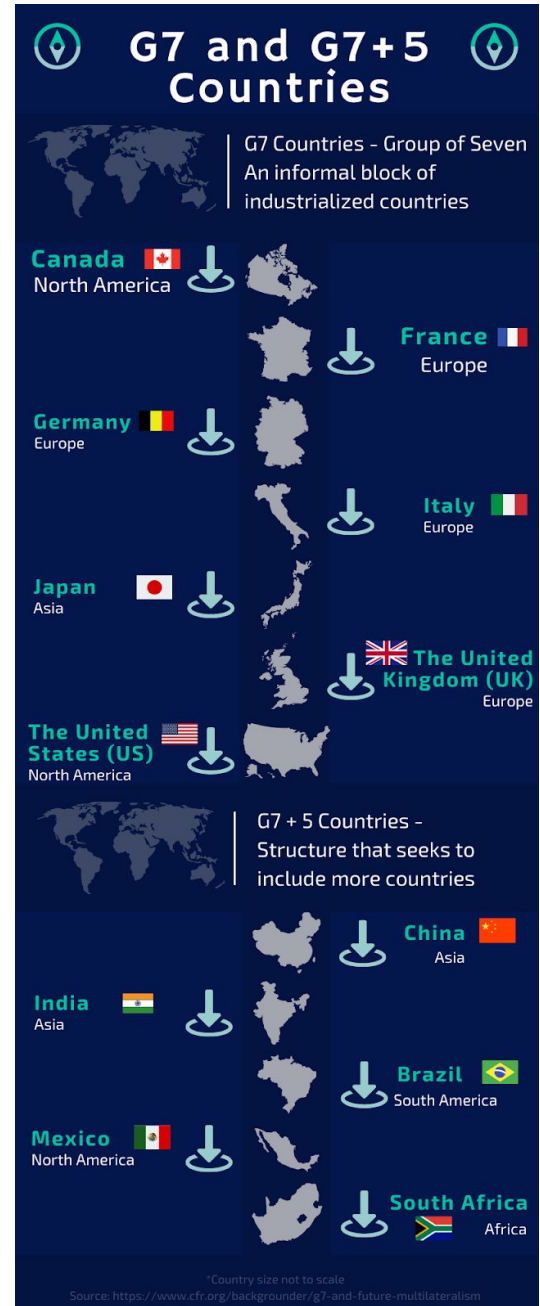
Immediate responses to the coronavirus have varied by country, as public health infrastructure initially struggled to respond to the virus. In some countries with strong, centralized government institutions like China, full community lockdowns were put into place with extreme limitations on movement, commerce, and other areas of public life. In other countries, national and local governments attempted to limit the spread of the virus through a patchwork of recommendations and local ordinances. Although responses varied between countries, the virus, and subsequent public health responses, undoubtedly changed the global economic landscape.

In March 2020, as outbreaks in Italy and Spain surged and outbreaks began in the United States, the reality of a global pandemic set in. As hospitalization and deaths increased, the severity of the virus forced many to stay home, shuttering businesses and dampening **labor markets**. **Supply chains** were greatly disrupted, with the world’s largest manufacturer, China, slowing production while it attempted to get the virus under control. For the first time since the **Great Recession of 2008**, the world was facing a significant economic catastrophe with far reaching consequences for nearly every country on Earth.

The Group of Seven + Five

The **Group of Seven (G7)** is “an informal bloc of industrialized democracies ... that meets annually to discuss issues such as global economic governance, international security and energy policy”¹ among other policy considerations. The seven countries that make up the bloc - The United States, Canada, Italy, the United Kingdom, Germany, Japan, and France - represent advanced economies engaged in a diverse set of international economic activities including manufacturing, banking, advanced technologies, biomedical research, agriculture, and defense, among many others.

The G7 is a controversial entity, with substantial arguments both for and against its current make-up. Advocates of the G7 note that the bloc represents key **liberal democratic values**, including the promotion of democracy and the free-market system. Advocates also point to the bloc contributing about 50% of the global GDP, and the smaller number of member-nations allows for quicker, decisive action. Opponents label the G7 an unelected, unaccountable global organization that rarely follows through on its commitments. Perhaps the most significant critique of the G7 is that it represents a fairly **homogenized** group of countries with relatively small populations, and excludes growing economies with large populations such as China, India, and Brazil. The **G7+5** structure seeks to incorporate more countries into important global conversations, and relieve some of the previous concerns by including China, India and Brazil, as well as Mexico and South Africa, into deliberations. This increases both the geographic diversity of the bloc, as well as its **demographic** representation.



¹ <https://www.cfr.org/backgrounder/g7-and-future-multilateralism>

The G7 international body used to include the Russian Federation and was called the **Group of Eight (G8)** from 1998 until 2014. The seven countries that currently comprise the G7 excluded Russia from future meetings after Russia's **invasion of Crimea** in 2014. The future shape, scope, and policy deliberations of the G7 are under immense scrutiny as some member-states, including the United States, question its **efficacy** and importance in light of surging **populist** and **nationalist** sentiments throughout the world.

Understanding the Global Economy

At its most fundamental form, an **economy** is the wealth and resources of a country, especially as it pertains to the production and consumption of goods and resources. The size and scope of an economy can vary depending on context; we can discuss the economy of a large country like the United States, a smaller representation, like the state of Pennsylvania, or an even smaller reference frame, such as a small beach town of Long Beach Island, New Jersey. Each of these entities has an economy, which can be measured in many different ways, including its economic output, number of jobs, or average household income.

Modern domestic and international economies rely on a few fundamental rules in order to operate smoothly. Perhaps most importantly, economies operate most efficiently in **free and open markets**, with minimal government intrusion. In this case, a free and open market means that a national government will not compete with a **private entity** over the production of a good. Free and open markets allow for **goods and services** to be exchanged for a price according to **supply and demand** - where a company (the supplier), agrees to sell a good to a consumer (the demand).

The impact of coronavirus on stock markets since the start of the outbreak

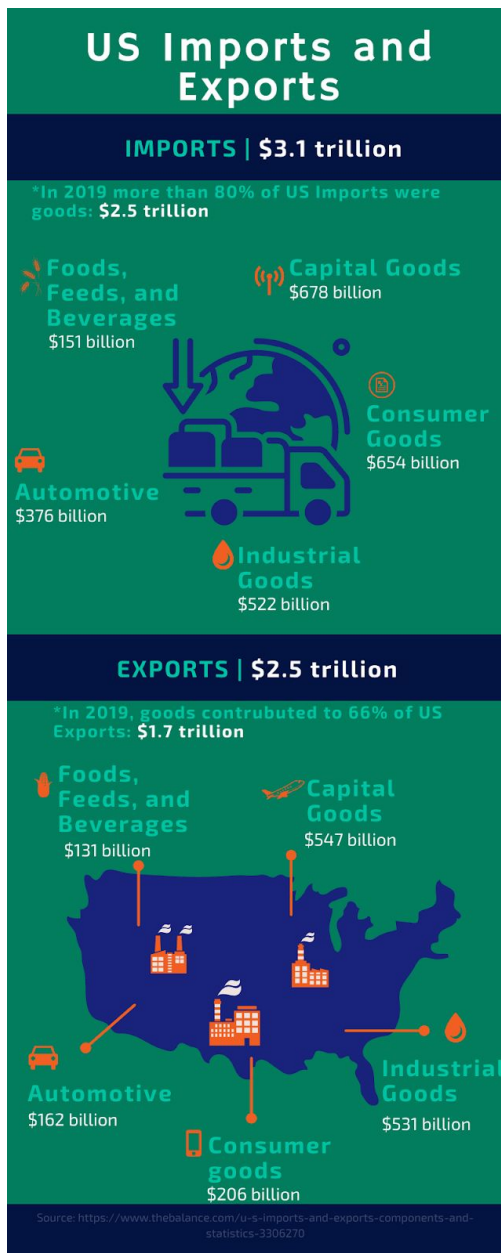


Source: Bloomberg, 29 June 2020, 12:00 BST



In theory, economies operate most efficiently in free and open markets, but in practice, governments often constrain economies significantly to combat **market failures** and enforce laws promoting equity and basic human and civil rights. A market can fail in a number of ways. Perhaps the most obvious way is when competition is removed from the market, such as when a **monopoly** or similar situation develops. Governments and individuals also constrain free markets to protect the rights of workers (more information on this topic can be found in the equity section below). Governments are also responsible

for **public goods**, which are commodities or resources that are available to everyone, and are often provided through taxation. An example of a public good might be a public park or clean air, both of which are available to anyone but hold significant value.



Countries often specialize in a few **economic sectors** where they are able to invest their **capital**, labor, and domestic resources. They are then able to buy (**import**) and sell (**export**) their goods in a free and open system through the global trade market. Many developing countries focus their economies on agriculture, basic manufacturing, and the production of **raw materials**. More advanced economies rely on other economic sectors such as finance, healthcare, advanced technologies, and advanced manufacturing, among others. It is vital that countries **diversify** their economies in order to reduce risk, and make the country more resilient to a failure in a specific sector. For example, a country (or even a city!) that bases their entire economy on a single sector, tourism for example, may struggle during a global shutdown that limits international or domestic travel.

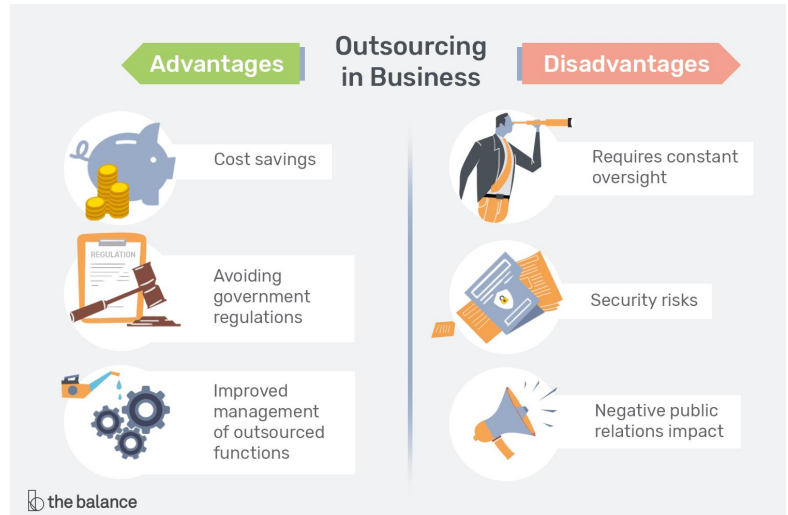
As noted, the demand for goods and services has decreased dramatically as individuals attempt to reduce consumption and spending during the economic downturn. This decreased demand is mirrored within the labor force, as some industries have been forced to **furlough** or cut labor as demand decreases. A reduced number of workers leads to further decreasing demand, creating a dangerous economic cycle that threatens the established global economic system. Although this moment in history is challenging, it also represents an opportunity for growth and change in the world's established systems. For this program, we have chosen three international economic sectors for students to study: International Travel and Tourism, Climate Change and Energy, and Global Trade. Each student will be assigned only one of these topics, and should primarily research that topic.

Equity Concerns

Although economic theory suggests that free and open markets with minimal government intrusion is the most efficient structure of domestic and international economies, in practice, governments place a number of restrictions on economic activity to ensure equity and fairness. Early labor movements in the United States and abroad forced governments and corporations to recognize the value of labor, and institute a number of policies to protect the health and safety of workers. These policies included everything from basic child labor laws, the rights to **unionize** and collectively bargain, limits to the number of hours per week an individual can work, and even mandatory holidays.

It is important to note that countries that profess a commitment to free markets and democratic institutions still struggle to ensure basic rights for workers. Many countries who engage openly in the international trade system still do not provide basic protections for vulnerable workers. Many people, often women or people from minority religious, ethnic, or racial groups, receive very little or no protections from their governments and are forced to work in harsh conditions with nonexistent safety protocols.

One of the outcomes of a global trade network is that many companies are able to **outsource** their labor to countries with fewer protections for workers, therefore reducing costs and increasing profits. International companies such as Nike and Apple have been accused of utilizing low-cost labor abroad to produce goods that can be found in nearly every American household. Who is ultimately responsible for this established economic system? Are the countries responsible to the laborers of their country? Is the company responsible for the rights of workers, or just their own profit margin? Or is it the consumer who is ultimately the one responsible for the purchase of a pair of Nikes made in a sweatshop or an iPhone assembled by someone working a 16 hour shift?



<https://www.thebalancesmb.com/what-is-outsourcing-2533662>

It's also important to remember that labor issues are not only found in developing countries. Even in the United States there still exists significant gaps between the pay that women, people of color, and women of color receive compared to their white, male counterparts. These issues are repeated throughout countries and across the globe, and expand to religious and ethnic minorities, the LGBTQ+

community, disabled people, and other groups. Any efforts to restart or reimagine the global economy should confront the significant barriers faced by marginalized communities throughout the world.

Restarting the Global Economy

As members of the G7+5 Summit, you are responsible for debating and discussing the future of the global economy and imagining a future economic system based on equity and justice. The world is undergoing significant economic upheaval, yet this upheaval should not come at the expense of equitable growth and development. As members of the G7+5, you are charged with changing the established systems to be better, more inclusive and ultimately, more sustainable.

As global leaders you have a number of policy options to utilize to meet your intended goals. Incentives are a fantastic opportunity for governments to push companies toward their intended policy goals. A great example of incentives at work was when Air France, France's leading air travel company, was in need of a short term **bailout** to survive the immediate hardships from the coronavirus. In order to obtain the **government stimulus package**, Air France had to commit to lowering its carbon footprint and producing more efficient and sustainable aircraft. This allowed the company to receive needed stimulus, while the government was able to pursue its own policy goal, reducing its environmental impact.



Another policy option available to governments are penalties and fines for intentional mismanagement or non-compliance. Although penalties are relatively rare, governments and international organizations can fine private businesses for a host of issues, including environmental mismanagement or unfair treatment of workers. Goldman-Sachs, a financial firm, was fined over \$500 million in 2010 for their intentional mismanagement and deception that led directly to the Great

Recession of 2008. In 2012, British Petroleum, also known as BP, was fined a record \$4 billion for violations against the Clean Water Act resulting from the **Deepwater Horizon** oil spill in the Gulf of Mexico.

There are a number of other policy tools available to national governments to push private companies toward their intended goals. As the leaders of the world's largest and most powerful economies, it is up to you to set the standard for international economic practices moving forward. The choices you make

during this conference will undoubtedly set the standard for other countries and will establish global best practices moving forward.

Questions

1. How did COVID impact the global economy? Give two examples of COVID's impact on the global economy.
2. Define Gross Domestic Product (GDP). Why is GDP used to calculate a country's economic standing? Are there alternatives to GDP to measure a country's economy?
3. Give an example of a city, town, or even country that has a diversified economy. What goods and services do they produce? Give another example of a town, city, or country that doesn't have a diversified economy, and explain whether their economy is growing or shrinking?
4. Incentives and penalties are two policy options available to policymakers. Which do you prefer, and why do you prefer that option?

Resources:

(Article) What is the G7 summit and what does it do? - BBC

<https://www.bbc.com/news/world-49434667>

(Video - 11:43) Reimagining the Economy Post COVID-19 - CNN

<https://www.cnn.com/videos/tv/2020/05/13/amanpour-mazzucato-coronavirus-economy.cnn>

(Article) We All Need Small Businesses. Don't Let Them Die - New York Times

<https://www.nytimes.com/2020/03/19/business/small-businesses-coronavirus-help.html>

(Article) How Does the Global Economy Work? - Ecology

<https://www.edology.com/blog/accounting-finance/how-does-global-economy-work/>

Glossary

Term	Description
Bailout	"A general term for extending financial support to a company or a country facing a potential bankruptcy threat." ² Bailouts provide financial support and relief for those who need it. ³
Capital	The capital of a business is the business's assets, or how much the business has of what it needs to stay functioning. The overall capital of a business includes its physical capital (workers, machines, etc.) and its natural capital (land, water, etc.). ⁴

² <https://economictimes.indiatimes.com/definition/bailout>

³ <https://www.thestreet.com/politics/what-is-a-bailout>

⁴ <http://ncsp.org/what-is-capital-in-economics/>



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Deepwater horizon	Deepwater Horizon is an oil drilling rig located in the Gulf of Mexico and operated by BP, a British oil and gas company ⁵ . On April 20, 2010, Deepwater Horizon spilled 4.9 million barrels of oil into the Gulf of Mexico. This is the worst marine oil spill known in history and is viewed as one of the worst environmental disasters to occur in America history. ⁶
Demographics	“The characteristics of human populations and population segments.” Demographics include categories such as age, gender, race, occupation, marital status, number of children, etc. ⁷
Developing countries	Countries that do not have complex economic systems, often relying on agricultural, mining or other natural resources for economic activity. Often these countries are poorer and seek to grow their country by advancing their economic systems and infrastructure.
Diversify	It is recommended for economies, whether that be on the local level, such a city, or the global level, such as a country, to sell many goods and provide many services, so that the economy does not rely on making all of its money from one sector. For example, if a country’s economy relies solely on tourism, then the country will face great economic hardship during a pandemic when international travel is restricted.
Economy	The wealth and resources of a country, especially as it pertains to the production and consumption of goods and resources.
Economic sectors	Economic sectors are large groups of the economy characterized by their place in the production chain, the product they produce, the service they provide or their ownership. ⁸
Efficacy	Efficacy is having the ability and power to produce a specific result. Efficacy is often used alongside effectiveness. ⁹
Export	An export is a good or service that one country produces themselves and then sells to another country. ¹⁰
Foreign aid	Money, food, or other resources given to a country from another country or international organization
Free and open markets	A free market system is one based on supply and demand, where the government has little control or regulation over market, allowing individuals to make economic decisions. ¹¹ An open market has no “regulatory barriers to entry”. This means that there are no tariffs, taxes, licensing requirements or other regulations needed for a company or individual to begin selling a good in a given market. ¹²

⁵ <https://www.epa.gov/enforcement/deepwater-horizon-bp-gulf-mexico-oil-spill>

⁶ <https://www.epa.gov/enforcement/deepwater-horizon-bp-gulf-mexico-oil-spill>

⁷ <https://smallbusiness.chron.com/examples-demographics-65678.html>

⁸ https://simple.wikipedia.org/wiki/Economic_sector

⁹ <https://marketbusinessnews.com/financial-glossary/efficacy-definition-meaning/>

¹⁰

<https://courses.lumenlearning.com/boundless-business/chapter/the-drive-for-international-trade/#:~:text=Exports%20refers%20to%20selling%20goods,export%20to%20the%20sending%20country.>

¹¹ <https://www.investopedia.com/terms/f/freemarket.asp>

¹² <https://www.investopedia.com/terms/o/open-market.asp>



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Furlough	A usually temporary layoff from work. ¹³
Goods and Services	Goods are items that you buy, such as groceries, clothes, and toys. Services are actions and work, such as repairing a car or giving someone a haircut. ¹⁴
Government Stimulus Package	A stimulus package is a coordinated effort to increase government spending—and lower taxes and interest rates—in order to stimulate an economy out of a recession or depression. ¹⁵
Great Recession of 2008	The Great Recession was a global economic crisis that severely damaged world financial markets, the banking and the real estate industry. The recession led to an increase in home mortgage foreclosures and caused millions of people to lose their jobs, homes, and savings. ¹⁶
Group of seven (G7)	The G7 is “an informal bloc of industrialized democracies ... that meets annually to discuss issues such as global economic governance, international security and energy policy” ¹⁷ among other policy considerations. The seven countries that make up the bloc are The United States, Canada, Italy, the United Kingdom, Germany, Japan, and France. ¹⁸
Group of eight (G8)	The G7 international body used to be the G8 International body. The G8 included the Russian Federation and was in existence from 1998 until 2014.
G7 + 5	This group includes the G7 plus China, India, Brazil, Mexico and South Africa. The purpose of this group is A to incorporate more countries into important global conversations and to increase the geographic diversity and demographic representation of the G7 bloc.
Homogenized	To make something uniform, or the same, in structure. ¹⁹
Humanitarian organizations	Groups that provide aid and assistance to people that need help due to conflicts, displacement, natural disasters, or other environmental factors.

¹³ <https://www.dictionary.com/browse/furlough>

¹⁴ <https://www.kidseconposters.com/goods-and-services-poster>

¹⁵

<https://www.investopedia.com/terms/s/stimulus-package.asp#:~:text=A%20stimulus%20package%20is%20a%20coordinated%20effort%20to%20increase%20government.of%20a%20recession%20or%20depression.>

¹⁶ <https://www.history.com/topics/21st-century/recession>

¹⁷ <https://www.cfr.org/background/g7-and-future-multilateralism>

¹⁸ <https://www.cfr.org/background/g7-and-future-multilateralism>

¹⁹ <https://www.merriam-webster.com/dictionary/homogenize>



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Import	An import is a good or service that one country brings in or buys from another country because they do not produce that good or service themselves. ²⁰
Income	Money received on a regular basis for work.
Invasion of Crimea	The Invasion of Crimea in 2014 is significant due to the history of the region. The strategically located peninsula, which is officially part of Ukraine, has given Russia military leverage not only in the Black Sea, but the greater Mediterranean region. In 2014 much of Crimea was under Russian military forces and the area was annexed from Ukraine to become a part of Russia again ²¹ .
Labor Market	“A labour market is the place where workers and employees interact with each other. In the labour market, employers compete to hire the best, and the workers compete for the best satisfying job.” ²²
Law of Supply and Demand	This is a theory that helps to explain the interaction and relationship between the seller of a good and the buyer of that good. ²³ For example, it helps a store decide how much money they should sell a shirt for and helps the buyer decide if that is a good price or not. It also allows a seller to determine how many shirts they should have in stock, based on how many people are looking to buy at a shirt at the current moment.
Liberal Democratic values	Liberal democratic values are the values held under liberal democracies, which is a type of government. Liberal democratic values often include protecting the rights and freedoms of individuals such as freedom of speech, freedom of religion, freedom of the press and equality before the law. ²⁴
Market failures	Market failure occurs when the quantity of goods or services supplied is not equal to the quantity of goods or services demanded. ²⁵
Material assistance	Aid that comes in the form of material goods such as food, water, health supplies, clothing, blankets, shelter, etc.
Member states	The term used for a country that is a member of an international organization, such as the United Nations.
Monopoly	This is an economic term that means there is only one seller/company/group selling a good or product. Therefore, that seller faces no competition and there are no goods that can substitute the one they are selling. ²⁶

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<https://courses.lumenlearning.com/boundless-business/chapter/the-drive-for-international-trade/#:~:text=Exports%20refers%20to%20selling%20goods,export%20to%20the%20sending%20country.>

21 <https://www.history.com/news/crimea-russia-ukraine-annexation>

22 <https://economictimes.indiatimes.com/definition/Labour-Market>

23 <https://www.investopedia.com/terms/l/law-of-supply-demand.asp>

24 https://www.cs.mcgill.ca/~rwest/wikispeedia/wpcd/wp/L/Liberal_democracy.htm

25 <https://corporatefinanceinstitute.com/resources/knowledge/economics/market-failure/>

26 <https://economictimes.indiatimes.com/definition/monopoly>



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Nationalist	Someone who strongly identifies with the country in which they live and supports that nation in all they do, even when policies are harmful to other nations and peoples (which they often are). An open market has no “regulatory barriers to entry”. This means that there are no tariffs, taxes, licensing requirements or other regulations needed for a company or individual to begin selling a good in a given market. ²⁷
Outsource	“Outsourcing is the business practice of hiring a party outside a company to perform services and create goods that traditionally were performed in-house by the company’s own employees and staff.” ²⁸ Outsourcing can also be seen on a global level. For example, a good may have been manufactured <i>and</i> sold in the U.S. 25 years ago but now that good is manufactured in another country but sold in the United States. This happens quite frequently because it is often cheaper to produce a good abroad than it is to produce that good in the U.S.
Per capita	The amount of something per person in a specific area. For example, the number of hospitals per capita in a country.
Populist	Populists are people who adhere to the populism political school of thought. They focus on the needs of “the people” as opposed to “the elite” who are viewed as corrupt and selfish. ²⁹
Private entity	Any group that is not affiliated with the government, such as a corporation, company, or nonprofit organization. ³⁰
Public goods	This is an economic term that means a good can be used by anyone, and where one person cannot prevent or exclude another from using that good. ³¹
Raw Materials	Raw materials are materials or substances used in the primary production or manufacturing of goods. Raw materials are commodities that are bought and sold on commodities exchanges worldwide. ³²
Recession	“a decline or stagnation in economic growth” ³³
Supply chains	“A system of organizations, people, activities, information, and resources involved in supplying a product or service to a consumer.” ³⁴

²⁷ <https://www.investopedia.com/terms/o/open-market.asp>

²⁸

<https://www.investopedia.com/terms/o/outsourcing.asp#:~:text=Outsourcing%20is%20the%20business%20practice,as%20a%20cost%2Dcutting%20measure.>

²⁹ <https://en.wikipedia.org/wiki/Populism>

³⁰ <https://www.upcounsel.com/private-entity>

³¹

<https://www.khanacademy.org/economics-finance-domain/microeconomics/market-failure-and-the-role-of-government/externalities-topic/a/public-goods-cnx>

³² <https://www.investopedia.com/terms/r/rawmaterials.asp>

³³ <https://www.history.com/topics/21st-century/recession>

³⁴ https://en.wikipedia.org/wiki/Supply_chain



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Sustainable Development Goals	Also known as Global Goals, these build on the success of the Millennium Development Goals (MDGs) and aim to go further to end all forms of poverty. The new Goals are unique in that they call for action by all countries, poor, rich and middle-income to promote prosperity while protecting the planet.
Unionize	To unionize means to organize a group of workers to form a union that will protect their rights and interests. ³⁵
Union	An organization that represents and protects people who work in a specific industry. For example, there are teacher unions and police unions. ³⁶
Universally	Covering everyone and everything without limit or exception.

³⁵ <https://dictionary.cambridge.org/us/dictionary/english/unionization>

³⁶ <https://dictionary.cambridge.org/us/dictionary/english/unionization>