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The Economic Strategies of the Great Powers to Response to the Covid-19 Pandemic

Sergiu-Lucian Șorcaru[1], Ștefan-Cătălin Topliceanu[2], Alisa-Mihaela Ambrozie[3]

Abstract: Every country has its own strategy in order to response to the covid-19 pandemic. Their main concerns are to manage this situation on the one hand, from a medical point view, and, on the other hand, to solve the economic issues, which may occur due to this pandemic. The responsibility of the great powers is enormous from two perspectives; first, most countries are influenced by their economic competition, and second, the great powers try to respond firmly to this pandemic in order to maintain their world economic position. The purpose of this paper is to compare the strategies of the great powers to response to this problematic economic situation. This comparison is interesting because these strategies can modify the way that the great powers influenced the global economy.

Keywords: impact of covid-19; economic crisis; great powers influence

1. Introduction

The covid-19 pandemic generates concerns for global economy in order to manage this situation from a medical perspective, but also to solve the economic issues occurred. The global economy suffered an enormous economic disrupt and its worldwide impact can be likened to effects of global financial crisis of 2007-2009. Generally, (Ludvigson, Ng and Ma, 2020, p. 1) economic shocks driven by natural disasters or by fluctuations in productivity, supply or demand of products are short-terms and affect only the economy. But the covid-19 pandemic has a different impact because affects multiple countries not only from an economic point of view, but also the social, emotional and physical well being. The consequences are various and affect almost all countries in the same time for a long-term period. Globalization, which involves the movement of products, factors of production, people, capital and information, is restrain by this pandemic and a new world order can emerge. For the human perspective, the restrictions on the movement will affect the consumption behavior and the firms. These restrictions will persist, even if some business open up internally, and the impact will be bigger as longer the restriction on the international movement of people will persist. For these reasons, every country tries to implement its own strategy and policy measures in order to respond to this pandemic.

[1] PhD in progress, "Alexandru Ioan Cuza" University of Iasi, Faculty of Economic and Business Administration, Specialization Economics, Romania, Address: 20 Carol I Blvd. Iasi, Romania, Tel. +40 727956359, Corresponding author: sorcarusergiu@univ-danubius.ro.
[2] PhD, "Alexandru Ioan Cuza" University of Iasi, Faculty of Economic and Business Administration, Specialization Economics, Romania, Address: 20 Carol I Blvd. Iasi, Romania, Tel. +40 747 828 236, E-mail: stefan.catalin@yahoo.com.
[3] Master in progress, "Dunărea de Jos" University Galati, Faculty of Economic and Business Administration, Specialization Comunication in Marketing, Romania, Address: 59-61 Nicolae Bălcescu Street, Galati, Romania, E-mail: ambrozie.alisa@gmail.com.

The purpose of this paper is to compare the strategies of the global powers to response to this problematic pandemic situation. This comparison is interesting because these strategies can modify the way that the economic powers influenced the global economy. The responsibilities of the global powers are greater than any other state because most countries are influenced by their economic competition, and because these powers are engaged to maintain their world economic position. Also, it is interesting to observe how the economic powers are affected by the covid-19 pandemic and what measures are implemented in order to limit the negative effects. Are the global economic powers only interested to save their economy? Or, in this pandemic context, these powers will try to increase their worldwide influence? Are the global powers engaged to adopt strategies for their own economies or their concerns are also for global economy? Which of them is a responsible leader, interested not only to reopen it own economy, but also in supporting the global economy recovery?

2. Related Work

The covid-19 pandemic is a new and interesting subject for the specialized literature, especially in order to find solutions for responding against the economic effects. Beck and Wagner (2020) consider that lockdown measures were excessive taken in the early stage of pandemic, causing a slowdown of economic activity. Eichenbaum, Rebelo and Trabandt (2020) suggest that the pandemic will affect the demand and the supply, generating a large and persistent recession. This situation is generated because people take decisions to reduce their consumption and work in the effort of reducing the severity of pandemic, as number of total deaths. But, the predicted recession will imply unemployment, disruptions of supply-chains and bankruptcy costs. Alon (2020) identifies several effects due to the covid-19 pandemic such as the (i) `rise of the global virtual teams around different technological solutions` (p. 76); (ii) a reduction trust of people in information coming out from countries which put restrictions on free media, internet access and freedom of speech (such as China, North Korea and Iran); (iii) an increasing use of virtual money; (iv) sovereign debt crises due the currencies fluctuations; (v) currency crises because of the dollar-denominated loans of emerging markets; (vi) some industries could be considered sensitive and be including in the list of national security risk (food, energy, medicine, oil, telecommunications and technology) and (vii) a slowing down of investment flows, especially of cross border investment flows. As Rugman and Oh (2008) predicted, this pandemic is likely to determine a greater regionalization of investment flows. So, the multinational companies will be interested to invest in the place where they sell and will focus on serving local customers.

On the other hand, Ludvigson, Ma and Ng (2020) consider that the economic impact of this pandemic is larger than any event in the past four decades. For the United States economy, the favorable scenario implies a service sector loss of almost 2.6%, while the industrial production will suffer a loss of almost 5.8%. If the period is extended at ten months, the cumulative loss reaches 12.75% for industrial production and a service employment loss of near 24 million jobs (17%). Other negative effects are related to sustained reductions in air traffic and macroeconomic uncertainty for at least five months, while the possible rebound is predicted to happen after about a year.

Andrieș, Ongena and Sprincean (2020) are interested in analyzing the impact of the pandemic on sovereign bond risk. Their study reveals that the public health containment measures adopted and the high number of cases and deaths caused by covid-19 increase the uncertainty of investors in European government bonds. The negative impact is higher on long term due to the country’s losses caused by shocks occurred in supply chains.

Regarding the consequence of social distancing for the United States, Gascon (2020) suggests that the main negative effects imply the employers in food preparation and serving-related sector. He estimates that 46% of workers are in sectors which appear to be at `high risk` of unemployment, such as food preparation and serving-related (9%), sales (7%), production (6%) and installation, maintenance and repair (4%). In the same time, he identifies that almost 33% of workers are employed in occupations possible to work from home, having a `low risk` of layoff. On the other hand, Wardrip & Tranfaglia (2020) show that almost 38 million American workers are at risk of unemployment, while sales, construction and food service are presented as sectors in which the overall percent of at-risk workers reaches about 60.

3. The Economic Strategies of the Great Powers

The covid-19 is, obviously, an international problem, but, for now, the policy responses are entirely national. The main purpose of national containment policies is to reduce the number of deaths and of infected people by limiting the economic interactions. In an interconnected world, implementing uncoordinated national policies can generate tensions and exacerbate the effects of the recession. In order to save both the population and the economies, the governments started to implement policies to respond to the economic impact of this pandemic. For global economic powers, the stakes are higher because this pandemic can generate a new world order. The great powers are interested to maintain the worldwide position or to increase their power, while most countries are influenced by their economic competition. This is why the global economic powers have a greater responsibility of handle this pandemic and to adopt useful strategies for themselves and for the world economy.

The major impact of pandemic on the United States economy was recorded in the first quarter of 2020, as it can be observed in Table 1. The GDP has experiencing historic drops by 5%, while the trade contracted by almost 25%. The exports of goods and service started to drop since March 2020 below $200 billion, while the imports reduction was recorded earlier, in February 2020. The falls continued in the following months, the decrease of exports being higher than that of imports. So the trade deficit increased at almost $55 billion in May 2020, while the exports dropped below $145 billion and imports below $200 billion. The pandemic affects also the foreign direct investments. Both the American investors and the foreign ones were interested in saving their businesses, while the economic activities lockdowns due to covid-19 affected the investment behavior. The inward FDI decreased below $9 trillion in first quarter of 2020 while the American companies invested nearly $7 trillion in foreign markets.

Table 1. The impact of pandemic on the American economy

Indicator		Q2 2019	Q3 2019	Q4 2019	Q1 2020
Real GDP (%)		2.0	2.1	2.1	-5.0
Change of Exports (%)		-5.7	1.0	2.1	-9.0
Change of Imports (%)		0.0	1.8	-8.4	-15.7
FDI inward (billion $)		9731.0	9858.2	10547.1	8769.8
FDI outward (billion $)		8394.8	8305.2	8798.7	6982.0
Trade in 2020	**January**	**February**	**March**	**April**	**May**
Exports of goods and services (billion $)	210.44	211.75	190.18	151.13	144.51
Imports of goods and services (billion $)	252.49	246.43	232.52	200.89	199.12
External balance (billion $)	-42.05	-34.68	-42.34	-49.76	-54.61

Source: The U.S. Bureau of Economic Analysis, last update June, 2020.

Regarding the labor market, according to the U.S. Bureau of Labor Statistics, due to covid-19, the United States economy lost almost 20.5 million jobs in April 2020. In this context, the unemployment rate hit 14.7%, but The Heritage Foundation suggested that it actually was at least 18%. (Doescher, 2020). The food service and restaurant lost almost 5.5 million of those jobs, while the education and health services had a loss of almost 2.5 million jobs. Other notable losses were recorded in professional and business services and retail trade (2.1 million each), construction (975.000 jobs) and transportation and warehousing (584.000 jobs). Nevertheless, it's necessary to mention that almost 88% of these jobs represent workers who were only temporary laid off. In these circumstances, these layoffs will remain temporary as long as the American economy is capable to recover. If the economic recovery will last more than half a year and parts of the economy will be closed, these layoffs can move to permanent.

The American labor market suffered several losses in the pandemic context, especially in March-May period. But, the good news is that in June 2020, the labor market is starting to recover. According to Table 2, the participation rate has been reduced to almost 60% in April and May 2020, while the number of employed people did not exceed more than 140 million persons. Meanwhile, the unemployment rate skyrocketed at 14.7% in April, decreasing at 13.3% in May, which means more than 20 million people unemployed. More than 15 million of these were temporary layoff. But, in June 2020, these indicators show a recovery of labor market. The participation rate started to increase, also the employed people. The number of unemployed people decreased below 18 million people, by which almost 10.5 million are temporary layoff.

Table 2. The impact of pandemic on the American labor market in 2020

Indicator	February	March	April	May	June
Participation rate (%)	63.4	62.7	60.2	60.8	61.5
Employed (million people)	158.76	155.77	133.4	137.24	142.18
Unemployment rate (%)	3.5	4.4	14.7	13.3	11.1
Unemployed (million people)	5.79	7.14	23.08	20.99	17.75
On temporary layoff (million people)	0.80	1.85	18.06	15.34	10.57

Source: The U.S. Bureau of Labor Statistics, The Employment Situation, 2020.

In the United States, the progress on reopening the economy varied across the states, so that such meaningful restrictions remained in 20 states, including the closing or partially open of restaurants and bars, personal care services and indoor entertainment. In order to reopen the economy and to respond to the pandemic` effects, the United States adopted several acts (IMF, 2020):

- The Coronavirus Preparedness and Response Supplemental Appropriations Act 2020 and the Families First Coronavirus Response Act, adopted in March 2020, which provide almost $200 billion for support for the Centers for Disease Control and Prevention, virus testing, development of vaccines, food assistance, fund expanded unemployment insurance and expansion of Small Business Administration loan subsidies. An interested thing is that $1.25 billion was dedicated to international assistance, while a suspension for 60 days was given to federal student loan obligations;
- The Coronavirus Aid, Relief and Economy Security Act, known as CARES Act, which includes several economic measures:
  i. Providing loans and guarantees in order to prevent corporate bankruptcy ($510 billion);
  ii. Helping small businesses that retain workers with Small Business Administration loans and guarantees (almost $350 billion);
  iii. Providing one-time tax rebates for individuals ($293 billion);
  iv. Expanding the unemployment benefits ($268 billion);
  v. Supporting the state and local governments ($150 billion);
  vi. Funding hospitals ($100 billion);
  vii. Providing food safety for vulnerable people ($25 billion).

  As the previous acts, this one also provides international assistance of almost $50 billion.
- The Paycheck Protection Program and Health Care Enhancement Act, adopted in April 2020 and which focuses to help small businesses that retain workers with loans and guarantees ($321 billion) and, also, with grants and assistance loans ($62 billion). For hospitals and virus testing, this act provides $100 billion and there is no dedicated amount for international assistance.

Despite these acts, the United States were concerned to adopt monetary and financial strategies. Federal Reserve introduced facilities in order to support the credit flow, while the federal funds rates were reduced to 0-0.25bp in March. Also, the existing cost of swap line was reduced for major central banks and the U.S. dollar lines were broadened. The Treasury and agency securities were encouraged to purchase the amount as needed while the foreign and international monetary authorities received a temporary repo facility. In the same time, the United States adopted supervisory and regulatory measures for bank and financial institutions. Assistance to borrowers was announced by Freddie Mac and Fannie Mae in order to provide mortgage forbearance for one year. Also, the foreclosure sales and evictions of borrowers were suspended for 60 days. The borrowers benefit to loan modification options and the possibility to delay related fees payment, while the denunciation to credit bureau of delinquency was also suspended.

Table 3. The impact of pandemic on the China economy

Indicator		**Q2 2019**	**Q3 2019**	**Q4 2019**	**Q1 2020**
GDP (%)		6.2	6	6	-6.8
Indicator for 2020	**January**	**February**	**March**	**April**	**May**
FDI inward (billion $)	126.8	194.2	216.19	286.55	355.18
Exports of goods and services (billion $)	146.44	146.44	185.14	200.28	206.81
Imports of goods and services (billion $)	149.88	149.88	165.21	154.94	143.89
External balance (billion $)	-3.44	-3.44	19.93	45.34	62.92
Change of Exports (% year-on-year)	7.9	-17.2	-6.6	3.5	-3.3
Change of Imports (% year-on-year)	-16.5	-4.0	-0.9	-14.2	-16.7
Unemployment rate (%)	5.3	6.2	5.9	6.0	5.9

Source: Trading Economics, last update June, 2020.

The American goals are (Carafano, 2020) to reboot its economy and strengthen multilateral cooperation with its partners in order to achieve a stronger competitive position in the worldwide economic competition. The most strategic partnerships for the United States are the trade bloc U.S-Canada-Mexico, the Transatlantic Community, the Indo-Pacific and the Middle East. In order to reboot its economy, the United States must focus on three types of initiatives meant to stimulate the economic growth, to expand economic freedom and to increase employment.

Both the United States and China were affected by this pandemic. The GDP has experiencing historic drops by 5% for the American economy and by 6.8% for China in the first quarter of 2020. Also, the American unemployment rate reached 13.3%, although between in April and May were hired almost 2.5 million employees. On the other hand, the China`s unemployment rate reached 6%, while some estimates (Walters, 2020) show that the real Chinese unemployment rate is closer to 20%.

Even if the foreign direct investment attracted by China increased at $355 billion in May 2020, China may be affected also by the MNC`s changing behavior. (Alon, 2020, p. 76) The multinational companies will diversify from China-only sourcing and will reduce the supply chains. This change will affect the China trade revenue, while the beneficiaries are the high-income countries. For now, only the imports of goods and services recorded a downward trend in 2020, while exports continued to increase, but having a slower pace than usual. In these circumstances, the external surplus exceeded at almost $63 billion

The American economy is slowly opening again for business and will recover before China (Walters, 2020) because of the differences related to consumer culture. In personal consumption, Americans spent almost $14.5 trillion last year, which means 70% of all economic activity, due to their more disposable income. The primary consumption was related to retail, services and dining out. Compared to the American consumption, the China`s one reached 58% of all economic activity last year. Now, because of the covid-19 pandemic, China is looking to increase consumption, especially on domestically produced goods. One Chinese measure was to issuing retail vouchers, but the primary income is being spent on food, where the higher demand determined the prices` jump. The prices of pork have almost doubled, as effect of Africa swine flu. In the same time, the prices of beef and lamb, the pork` substitutes, has also increased. On the other hand, the United States recorded an excess supply of food and the cost of it hardly has risen.

In order to reopening the economy, China has gradually removed mobility and activity restrictions starting middle of February 2020. The essential economic sectors received a special attention while 4.1% of GDP (almost 4.2 trillion renminbi) was allocated for fiscal measures. Most of this package includes production of medical equipment and epidemic prevention and control. From an economic point of view, this 4.1 % GDP was also dedicated to public investment, tax relief, suspension of social security contributions and unemployment insurance. Also, in order to safeguard the financial market stability, China provided monetary policy support adopting the following measures (IMF, 2020):

i. Expanding the credit line to private firms and micro and small-scale enterprises (MSEs);
ii. Injection of liquidity into the banking system using open market operations;
iii. Allowing of exchange rate to adjust flexibly;
iv. Removing the restrictions on the investment quota of foreign investors;
v. Reducing the interest rate by 25bp for re-discounting facility and by 50bp for re-lending facilities for MSEs, medium-sized companies and agricultural sector;
vi. Providing financial relief to affected regions, companies and households which faced repayment difficulties;

vii. Reducing the interest on excess reserves to 35bp from 72bp;
viii. Helping large and medium-sized banks and the local ones to support MSEs and also implementing an evaluation system for lending;
ix. Expanding re-lending facilities and offering discounts in order to help manufacturers of daily products and medical supplies;
x. Delaying of loan payments and reducing the restrictions for online loans;
xi. Relaxing of housing policies by local authorities;
xii. Implementing new instruments to support lending to MSEs, such as zero-interest `funding for lending` package.

The pandemic affected the European Union`s GDP less than the American or the Chinese one, as it can be seen in Table 4. If the United States have experienced a 5% drop and China a 6.8% one, the European economy suffered a contraction of real European GDP by 2.6% in first quarterly of 2020 compared to the first on of 2019. But, the European Union also recorded a decrease of trade surplus due to the downward trend of exports. Both exports and imports of goods were reduced below €200 billion in April 2020, while the trade surplus remained very low, at almost €1.3 billion. Regarding labor market, the European one was less affected than the American one. The unemployment rate recorded a small increase to 6.7% in May 2020; the young unemployment rate reached 16%, while the growth rate of employment experienced one of the lowest values in the first quarter of 2020.

Table 4. The impact of pandemic on the EU-27 economy

Indicator		**Q2 2019**	**Q3 2019**	**Q4 2019**	**Q1 2020**
Real GDP (%)		1.5	1.5	1.2	-2.6
Change of employment (%)		1.0	0.9	0.9	0.5
Indicator for 2020	**January**	**February**	**March**	**April**	**May**
Exports of goods (billion €)	257.77	253.61	245.08	175.22	-
Imports of goods (billion €)	242.84	247.22	242.15	173.92	-
External balance of goods (billion €)	14.93	6.39	2.93	1.30	-
Unemployment rate (%)	6.5	6.5	6.4	6.6	6.7
Young unemployment rate (%)	15.6	15.2	15.0	15.7	16.0

Source: Eurostat, Covid-19: Statistics serving Europe, last update June 2020.

In order to response to this unprecedented economic shock, the European Commission adopted a general escape clause which allows Member States to depart from budgetary requirements. So, the Member States can run deficits in excess of 3% of GDP. This clause is temporarily and designated to support an economic recovery, to help companies and to preserve jobs.

The reopening process of the economy is supported by the European Commission through a guideline (The European Commission, 2020a, p. 5) for exit strategies. There are three sets of criteria in order to relax the confinement: the epidemiological one (reduction of new cases), the capacity of health system (pharmaceutical products, hospital logistics and equipment) and the capability to appropriate monitoring (detect and isolate infected individuals as quickly as possible).

In order to support the economic recovery, the European Union launched a fiscal package of almost €540 billion and adopted several measures from the EU Budget (almost €37 billion) as following (IMF, 2020; The European Commission, 2020b):

i. The fiscal package includes three directions, such as:
    a. Providing government guarantees to the European Investment Bank to finance the companies, especially the small and medium enterprises;

  b. Allowing the European Stability Mechanism to support each euro area country in order to finance health related spending up to 2% of 2019 GDP (€240 billion);
  c. Protecting the jobs and workers through a temporary load-based instrument, guaranteed by Member States, up to €100 billion.

ii. Supporting the public investments for hospitals;
iii. Guaranteeing the European Investment Fund with €1 billion in order to support bank to provide liquidity;
iv. Adopting a macro-financial assistance package for ten neighborhood and enlargement partners up to €3 billion;
v. Supporting national measures for critical industries and sectors;
vi. Extending the budget of EU Solidarity Fund up to €800 million;
vii. Supporting the affected regions, labor markets and SMEs;
viii. Enabling Member States to compensate companies for damage caused by covid-19, especially in tourism and aviation
ix. Providing monetary policy support through liquidity at deposit facility rate, favorable terms and additional asset purchases;
x. Asking banks for not buy back shares and for not pay dividends for financial years 2020 and 2019 in order to use the conserved capital to absorb losses and to support small businesses, households and corporate borrowers;
xi. Offering credit holidays to affected debtors.

In the same time, the European Union has structured some country-specific recommendations, meant to provide economic guidance and stimulate sustainable growth.

The covid-19 pandemic affected the American economy in a greater degree than the Chinese and the European one. In the first quarter of 2020, the negative effects of pandemic over the American economy imply a 5% drop of real GDP, a downward of trade, an increase of trade deficit and a reduction of attracted and outward investment flows. In the same time, the American labor market suffered a shock starting March 2020. The unemployment rate reached 14.7% in April 2020, translated on almost 23 million people unemployed, by which 18 million were temporary layoff. In these circumstances, the participation rate dropped at nearly 60% which means that there were almost 133 million people employed in April 2020. But, in the following months, the labor market started to recover gradually. Compared to the American economy, the Chinese one suffered a higher real GDP drop (6.8%) in the first quarter of 2020. Besides this GDP reduction, China has not recorded other economic negative effects due to pandemic. Moreover, the trade surplus increased in May 2020 almost three times compared to March 2020 because the imports of goods and services recorded two reductions in April and May. Regarding the European Union economy, the negative effects of pandemic are related to trade. The downward trends of exports and imports starting February 2020 generated a reduction of trade surplus. Also, the real GDP recorded a 2.6% drop, while the unemployment rate exceeded 0.3% in May 2020 compared to March 2020.

Even in pandemic and being affected more than European Union and China, the United States still the global leader. China is hoping to move into the worldwide leadership position, using a global propaganda. But having an authoritarian regime and wearing the blame of the global crisis due to the origin of the coronavirus, China hardly will claim this global leadership role.

Compared to China and the European Union, the United States are dedicated to support its allies and the international community. The American economy is the largest partner in helping the Indo-Pacific region, offering almost $275 million in assistance for 64 countries, such as India, Burma, Kazakhstan, Bangladesh and Cambodia. Also, the United States are the largest contributors to international organizations (such the World Health Organization, UNICEF), through which aided China as well, especially in the first period of the pandemic outbreak.

4. Conclusions

The covid-19 pandemic generates concerns for global economy in order to solve the issues occurred. The impact can liken to that of global financial crisis of 2007-2009. But the novelty brought by the pandemic is that the negative effects are multiple, affecting all countries almost in the same time and for a long term. The impact is not just economic, but also social, emotional and physical due to the restrictions on the people movement. Every country adopted strategies to respond to these effects, but the biggest responsibilities are on the global economic powers.

Mainly, the United States, the China and the European Union implemented measures for reopen their own economies, ranging from economic, financial and fiscal ones to those regarding the foreign direct investment and labor market. Analyzing the first quarter of 2020, it seems that the American economy is more affected by this pandemic than China and the European Union. But, despite this greater impact degree, the United States act as a worldwide leader. China is more concerned about its own economy than the global economy. Even if the European Union adopted a financial assistance package for ten neighborhood and enlargement partners, its goals are more focused to the Member States economies. The United States prove a great responsibility for the global economy and a deeper commitment to its allies and to the international community. The American strategies, adopted in 2020 in order to reopen its own economy, had some measures dedicated to international assistance. For example, only the CARES Act provides international assistance of almost $50 billion, while the Indo-Pacific region is supported with almost $275 million. The American behavior regarding the international assistance demonstrates the true and the responsible global leadership of the United States. For now, the democratic history of the United States shows that the American economy will overcome this pandemic crisis and will remain the global leader.

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