Prairie View
International Business Digest

Center for International Business Education

College of Business, Prairie View A&M University

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Inside This Issue

COVID – 19 Pandemic and the Economic Shock to the Global Economy

Munir Quddus, Dean, College of Business

I am happy to write this introductory note for the PVAMU College of Business International Business newsletter. As I write this, we know that the coronavirus induced shock which first affected China, the epicenter of the virus, spread like wildfire to the rest of the world, disrupting lives and livelihoods in more than 200 nations, or 98 percent of the world's population of seven billion people. According to one report, "By 30 April 2020, 212 countries, territories and areas had reported COVID-19 cases and 174 had reported at least one death from COVID-19." The catastrophe is unprecedented in living memory and will become an important part of human history in the 21st century.

This virus was a new variant of the coronavirus, hence "novel" and it could not be contained partly because of the secretive manner China initially responded, trying to suppress all information related to the virus, and later allowing many Chinese to travel abroad. More importantly , the virus spreads easily, is highly contagious, is more lethal than the common flu, and other viruses that have spread widely.

Why was the impact of the virus so unexpected? China did not cooperate sufficiently with other nations, nor did it warn them adequately. Hence, when reports of deaths came out, the government and people in other nations were caught by surprise and were unprepared by the lethal nature of the virus and the ease by which it spreads. This is unfortunate. However, blaming the virus solely on a lack of transparency of the Chinese government does not explain the failure of many governments, including some very competent ones, to arrest the spread of the virus.

Nations like South Korea and Taiwan, which followed the science and learned from their experience of dealing with the SARS virus, quickly did a lot of testing and tracing, and kept the economies going, compared to the countries like USA and Brazil, which either denied the science for political reason or plain incompetency. The lessons we have learned from nations like New Zealand and South Korea, which have successfully dealt with the virus, is that a complete lockdown for at least two weeks – which can be deadly to the economy, followed by graduate opening and constant vigilance – wearing masks, testing, tracing and isolation - is the only effective route. The virus kills people, but to contain the virus, the economy must come to a near standstill for at least some time. The metaphor of a burning building is apt. First, you save the people, then the building.

What is the nature of the shock to the global economy from COVID – 19? Given a lockdown, or a lack of social interaction is the most effective control, efforts to contain the virus equal a "negative shock" to the economy, one that is self-inflicted as a strategy to cleanse the society of the virus. It is like taking a bitter pill to knock off the disease. Unpleasant, but necessary. How does this negative shock differ from say the financial market collapse of 2008? Normally the word "economic shock" is used by economists to describe a big, unexpected event that causes considerable harm to the economy. Examples of economic shock include the 2008 near-meltdown in the financial markets caused by excessive speculation in the real estate market and derivative-laden debt.

Editor's Note

Greetings. It gives us great pleasure to bring to you the 58th issue of the *Prairie View International Business Digest*, an electronic quarterly newsletter produced by the Center for International Business Education.

Dr. O. Ojumu
Editor

This issue features three sections. The first section features a report from the dean of the College of Business on COVID – 19 Pandemic and the Economic Shock to the Global Economy. The second section presents U.S. trades to show how COVID_19 has affected U.S. Trades with the major trade partners to date. The final section presents a report on The Nordic Model on Open Innovation and Sustainable Development", which is a view from site visits during the 2019 Faculty Development in International Business (FDIB) Program in Scandinavia. Please note that all URL links are active and you can go directly to a section from the Table of Contents on the first page.

We hope you continue to find this e-newsletter a valuable channel for important information relating to international business. We believe our efforts will inspire greater number of local firms to seek out new global business opportunities. Should you have any questions or suggestions, please feel free to contact us.

Thank you for your support.

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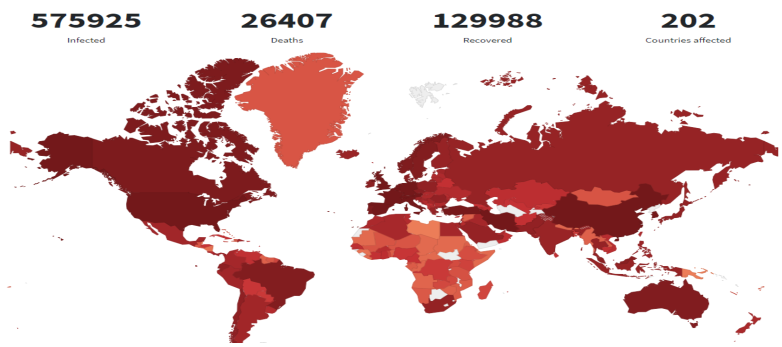


COVID – 19 Pandemic and the Economic Shock…Cont'd

The results of this shock came to be known as the "great" recession, which caused widespread bank failures, a decline in real GDP, and deep losses in jobs. It was mostly a financial and "supply-side" shock. On the other hand, the pandemic induced shock has crippled not just supply, but also demand since people cannot come together to work and earn. Global supply chains were knocked off as commercial travel was disrupted. Factories were shut down, for workers could not work in close quarters without making the place a super-spreader.

The impact differs across the nations as each has dealt with the virus differently. According to the World Bank, the "baseline forecast envisions a 5.2 percent contraction in global GDP in 2020, using market exchange rate weights—the deepest global recession in decades, despite the extraordinary efforts of governments to counter the downturn with fiscal and monetary policy support. Over the longer horizon, the deep recessions triggered by the pandemic are expected to leave lasting scars through lower investment, an erosion of human capital through lost work and schooling, and fragmentation of global trade and supply linkages."

According to reports from the World Bank and IMF, the pandemic has plunged many nations into deep recessions, with per capita GDP contracting; perhaps the largest decline in over a hundred years of data collection. Advanced economies are projected to shrink 7 percent, with a spillover effect for emerging market and developing economies, which will contract on average by 2.5 percent, depending on the extent of the spread of infection and death. This would represent the weakest showing by this group of economies in at least sixty years. The economist, Avi Braverman, also reported that COVID-19 has caused an economic shock three times worse than the 2008 financial crisis. He said that although Europe and developing economies and emerging markets have been hit hard, some like China, where the virus first emerged have suffered grievous losses, but have averted a recession.

In spring 2020, the cascading damage spread to every part of the economy. The pandemic shut down schools and colleges, restaurants and shopping malls, factories and offices, borders and airports, placing more than half of humanity under lockdown. Many millions lost jobs almost immediately, especially in the service sector. With that, millions lost their health coverage and homes, dug into their savings, but also begged for government support for survival. There has been a sharp decline in GDP growth in the second quarter, followed by an expected bounce in the third quarter, but the fourth quarter will be flat. Even if the recession is bad, it is not as bad as the great depression of the 1930s. Governments across the world have responded in a way recommended by Keynesian economics with massive spending to jumpstart the collapsing economy, businesses, and institutions, but also to stave off hunger and human suffering. The US Congress unleashed an unprecedented $2.3 billion relief package called the CARES Act.

COVID – 19 Pandemic and the Economic Shock…Cont'd

What does the future hold for global trade? Even if a vaccine become available in another 2-3 months, it will take much longer for business and lives to get back to normal. For example, global air travel is down to 25% of what it was at the end of 2019 and it's not going to fully recover for at least a year. Hotels are another example. And there are huge amounts of excess capacity on cruise ships. Who has done well? Given the sudden and massive move towards digital tools to work and to do business, the tech companies have boomed. The rise in stock prizes has worsened the wealth inequities. According to one estimate the billionaires Americans have seen their portfolio and wealth rise by more than $700 billion. Other sectors which have done well include housing, although this is a surprise. The excess money from equity markets, which at times seem divorced from the real economy, may be one factor behind the real estate boom. To be sure the global trade will gradually return to normal, but the new normal will be different in many ways, and it will take some time depending on the success of vaccine and luck.

Covid-19 and United States Foreign Trade

The Coronavirus (COVID-19) outbreak is a humanitarian health crisis on a global scale. The pandemic has shocked the world and is having significant impact on the world/global economy. It brought untold pressure on the healthcare systems, stalled investments, contracted trades, triggered massive job losses, and pressures on world economies. The virus continues to spread throughout the globe, placing different countries health systems under unprecedented stress in the battle to save lives. This in turn is impacting world travels with grounded airlines; bank's interest rates, oil demand and prices; canceled conferences; closed schools at every level; triggered stock market routs; and unprecedented unemployment rates. Economists around the world have slashed economic growth forecasts. In the first and second quarters of 2020, all the global stock index recorded a loss of about $6 trillion (US$), the fears of demand fall resulted in a steep oil price fall, U.S. Federal reserve embarked on rate cut in March, two rate cuts in June, and three cuts in September, EU Central Bank reduced its minus 0.5 percent rate by 10 basis points in June. Several other countries and regions embarked on different monetary and fiscal policies to combat the COVID-19 impacts. In June 2020, OECD Economic outlook optimistically projected a 13 percent decline in global GDP.

Globally, COVID-19 has shown an unprecedented disruption employment, production, and consumption with significant impacts on world trade and the global economy. It triggered mandatory and voluntary restrictions on global economic activities. The problems presented by the pandemic is further compounded by the uncertainty that surrounds the disease. The challenge includes the scale of infections, the pace of expansion and future waves of infections, the shutdown intensity in different countries, treatments and vaccine prospects, and asynchronous recoveries in different countries. On education, the global pandemic has undoubted interruptions in student learning when out of precaution, several countries decided to close schools at every level. These closures had a mixture of frustrating and fun moments, but we may never really be able to estimate how COVID-19 fully affected education. This is because family support dynamics may be difficult to put into perspective since the whole population cannot be generalized with respects to the inputs needed for student success.

Most countries fear that a resurgence of the virus could lead to new restrictions on global activities. Other fears to possible recovery are fears that the fiscal policy packages may be unwound too quickly, further reducing demands and confidence, which can lead bankruptcies which so far has mostly been averted. The bank balance sheets have stayed in relatively good shape from the extreme and accommodative monetary policies in most countries. Although, sovereign debt crises are looming as many economies, including that of United States, have taken on large sums of debt that may be difficult to service in the future. In the US, given the expected government stimulus, a faster than expected rollout of viable vaccines, improvement in third quarter GDP, many expect increase in the pace of recovery. Against these backgrounds, the flow of world trade that is essential to save both lives and livelihoods must continue and this edition will explore the impacts of COVID-19 on trade flows between United States and the world with a focus on the top five major trading partners.

U.S. and the Top Trading Partners

This section presents U.S. trade performance with her top trade partners from 2017 through the COVID_19 period. The United States is the 3rd largest export economy in the world and the 7th most complex economy according to the Economic Complexity Index (ECI). The leading export destinations of the United States over several years have been Mexico, Canada, China, Japan, and Germany while the top import origins are China, Mexico, Canada, Japan, and Germany. These countries usually make up about 50 percent of U.S. import origins and export destinations.

In 2017, the United States exported $1.25T and imported $2.16T, resulting in a negative trade balance of negative $910B. In 2018 United States maintained the third rank in total exports, the number one in total imports, and the number 9 most complex economy according to the Economic Complexity Index (ECI). In 2018, U.S. exported $1.44T and imported $2.41T, resulting in a negative trade balance of negative $967B. In 2019, U.S. exported $2.5T and imported $3.1T and had a negative trade balance of $617B. (OEC, 2020)
In 2020, the COVID-19 pandemic triggered one of the largest public health and this triggered exogenous economic shock crises the U.S. Figure 1 below shows how U.S. trade was impacted by Covid-19. The trade volume reduced significantly in March from $134B to $95.37B and $90.65B in April and May respectively. Although the trade volumes is gradually increasing, the August value of $118B is lower than the $138B trade value of August 2019.

Figure 1: Total U.S. Trade from August 2019 To August 2020

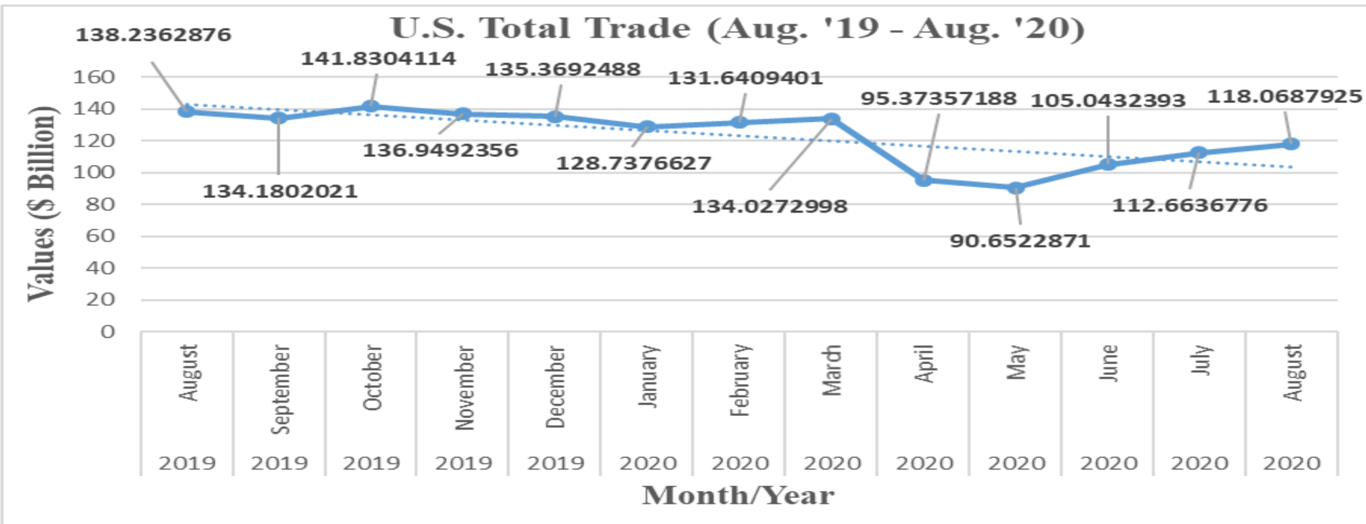
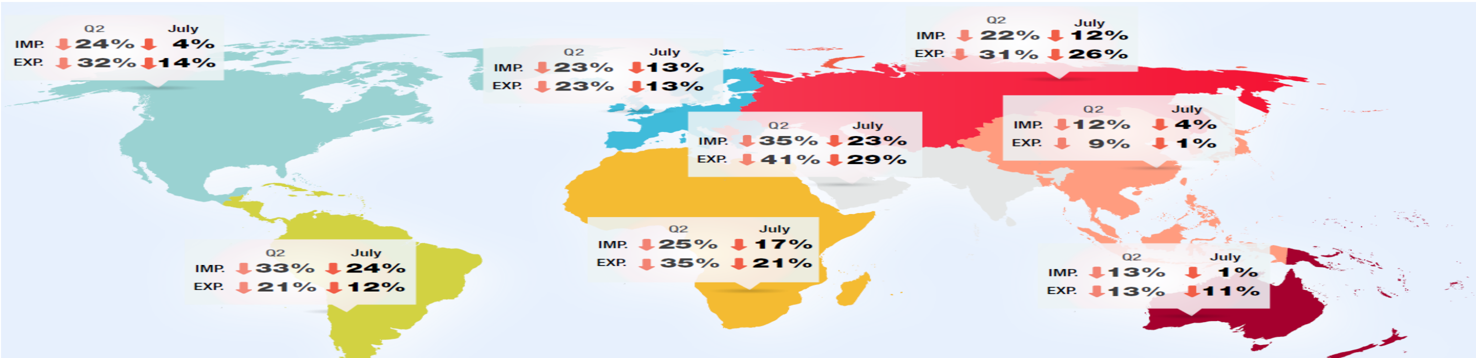


Figure 2: U.S. Trade in Goods and Services (Millions_USD)

Figures 1 and 2 show U.S. total trade values over the global pandemic period. The trend shows that the trade values declined from February 2020, after U.S. announced that the country will be shutting down the borders. The trend shows that the U.S. international trade was at the lowest in May, 2020. While the trade has since began to increase gradually since June 2020, the pre-COVID_19 rate is yet to be reached. Figure 2 compares the values of trades in goods and services and the trend shows similar dips in goods and services trade during the Covid-19 shutdown period.

The next set of charts (figure 3 to figure 8) show U.S. export, imports, and balance of trade in merchandise values in billions of U.S. dollars. All the graphs show a dipping of both exports and



Source: UNCTAD fallen trade based on national statistics (*year-over-year*)

The next set of charts (figure 3 to figure 8) show U.S. export, imports, and balance of trade in merchandise values in billions of U.S. dollars. All the graphs show a dipping of both exports and imports with U.S. top trading countries. In addition, the trade balance during these periods show persistent deficits in U.S. trades with these countries.

Data used for the graphs below are from the website of the Census Bureau, Foreign Trade Division (https://www.census.gov) and the

Figure 3: Trades with Canada

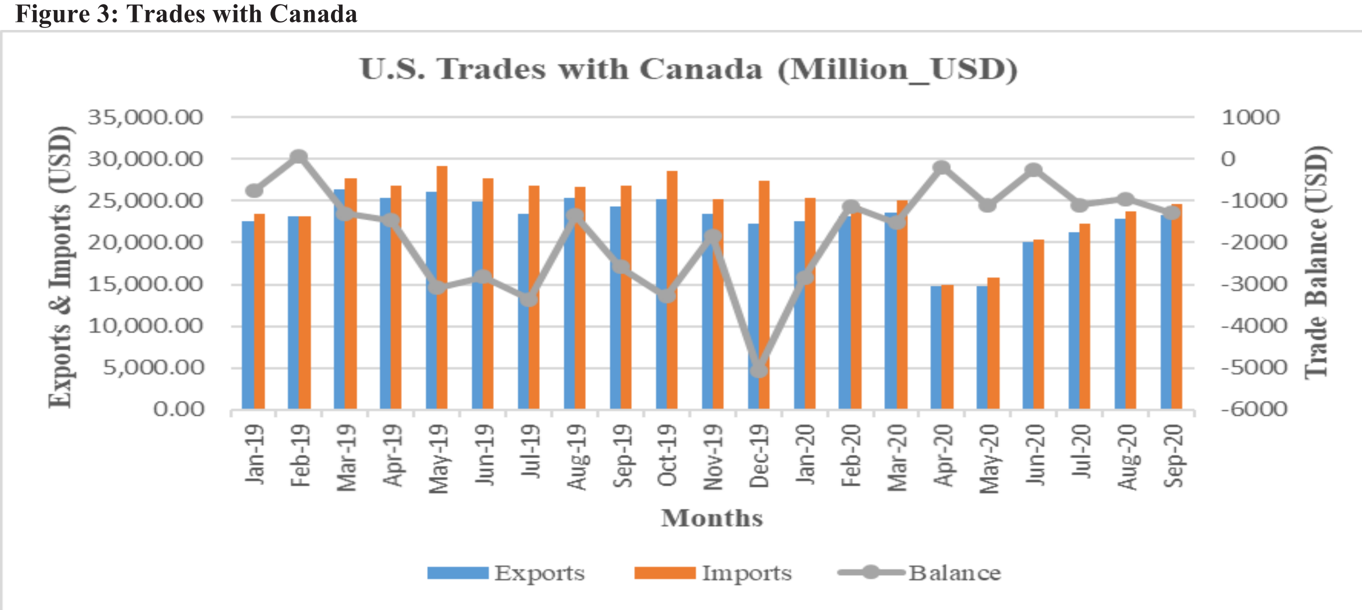


Figure 4: Trades with China

Figure 6: Trades with Germany

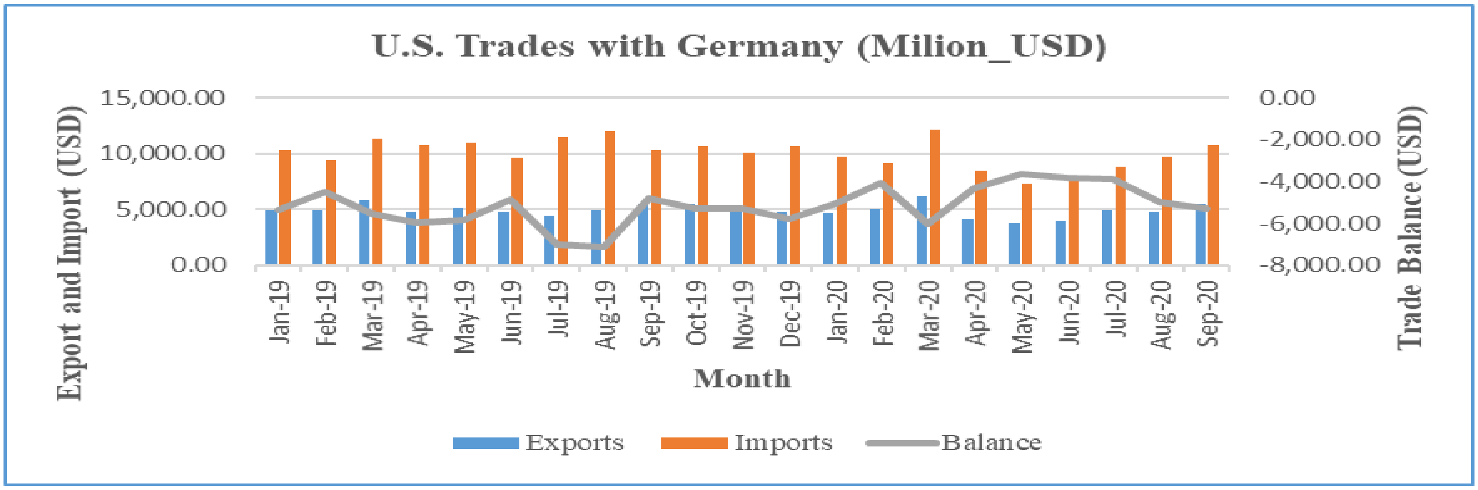


Figure 7: Trades with Mexico

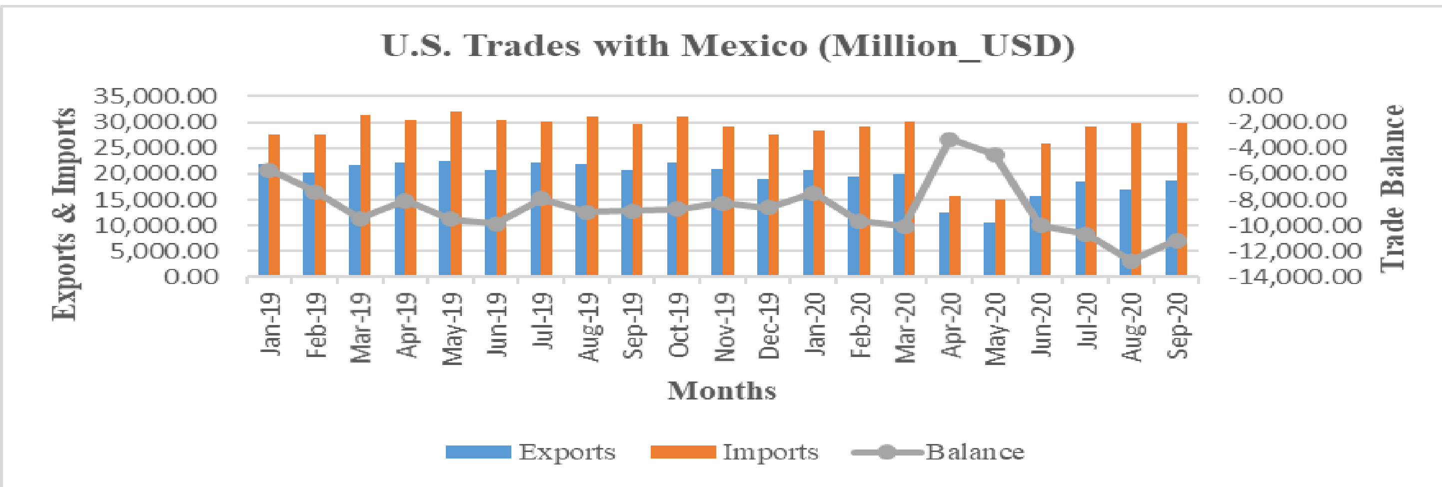
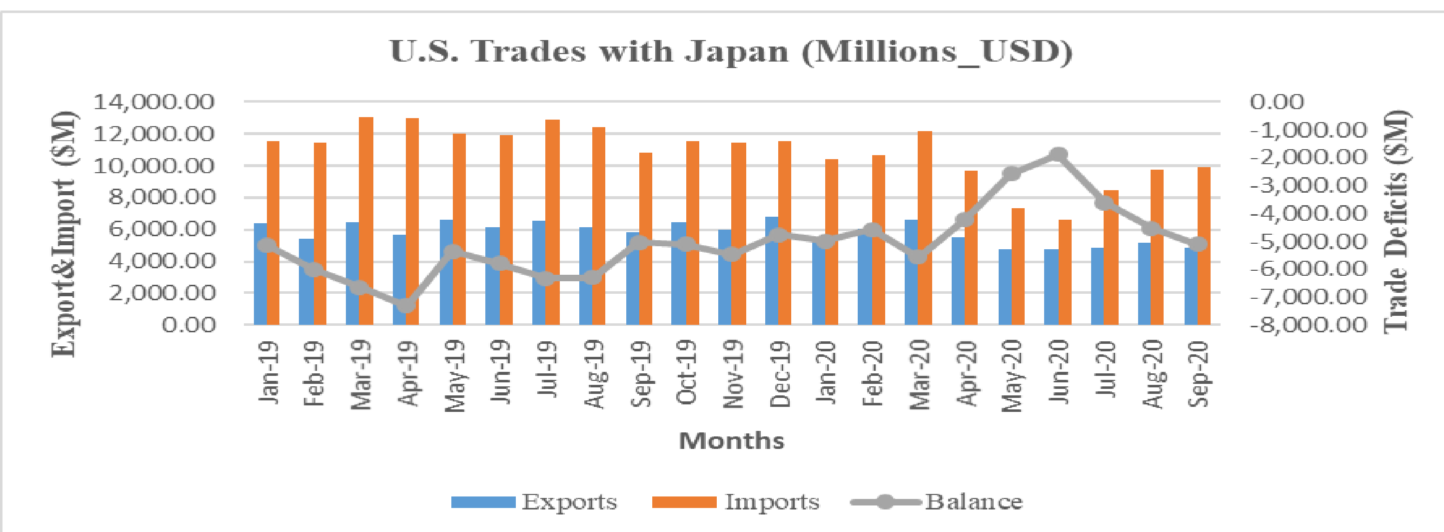


Figure 8: Japan



The Nordic Model: Open Innovation and Sustainable Development

By Hesam Shahriari | Assistant Professor of Finance
PVAMU, College of Business

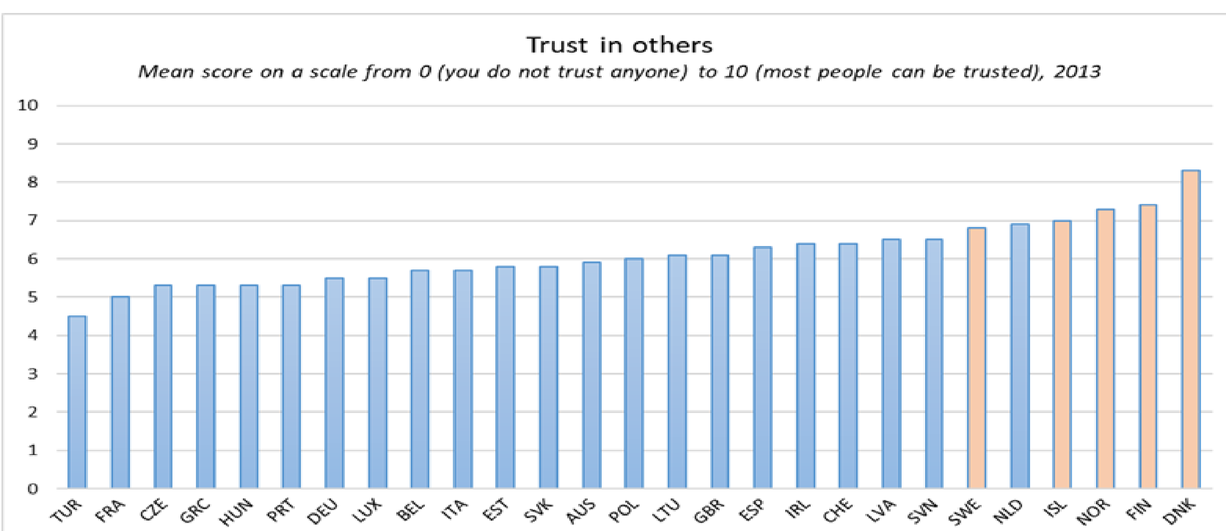
Image from www.thenordics.com.

"Many parts of the world simply don't understand that trust is society's most valuable and most vulnerable resource. The Nordic countries understand that trust is a currency, and one which can prove to be incredibly profitable economically, politically, and socially."
– Rachel Botsman, Renowned expert on trust and lecturer at Oxford University
The Nordics – including Denmark, Finland, Iceland, Norway, and Sweden – are identified by cultural values that promote trust, openness, innovation, and sustainability. The group of countries with a combined population of more than 27 million people has been a benchmark in several comparative studies of economic and social performance. For example, Denmark and Sweden are both among the top ten countries according to the United Nation's Human Development Index (2019), Yale's Environmental Performance Index (2020), and World Economic Forum's Global Competitiveness Index (2019). Many observers may find it surprising that the Nordic economies have flourished despite the seemingly weak economic incentives associated with high tax rates and generous social welfare systems.

The Nordic Model:

The top marginal tax rate for individuals in Sweden is above 57%. Individuals in other Nordic countries pay similar high taxes. In return, they get access to free healthcare and education through college. The comprehensive social support combined with flexible labor markets presumably protect workers without introducing regulatory burden on businesses. For example, Denmark has a relatively low corporate income tax and no government-regulated minimum wage. However, strong unions ensure high hourly wages for retail and restaurant workers. Consequently, Denmark has some of the world's largest companies – such as Maersk, Novo Nordisk, and Vestas, which are considered leaders in their respective industries. The share of the top ten companies in Denmark as a percentage of the GDP has grown from 20% in 1993 to 45% in 2015. Additionally, the Research and Development (R&D) expenditure of the Danish private sector has risen significantly from 0.4% of the GDP in 1981 to 1.7% in 2016, in line with Germany and the United States.

Scholars have debated if a Nordic model exists or not. The economies and policies vary significantly in the Nordic region. However, the group of countries seem to share important features; apart from a comprehensive welfare state, social cohesion and trust is arguably the most visible attribute. The Organization for Economic Co-operation and Development's (OECD) "How's Life?" report shows that trust in others is highest in the Nordic countries compared to other European members of the OECD (see the figure).
Another key feature of the Nordic economies is an openness to globalization. The small home market and population of the Nordics means they need to rely heavily on exports to grow. In Sweden, 46% of the GDP in 2017 was from exports (compared to 12% in the U.S.). Moreover, 48% of Swedish exports are from foreign-owned companies. Sweden also attracts the largest share of venture capital investment in Nordic countries, which consists of 16% of Europe's VC investment. The business culture that embraces globalization is also supported by government institutions focused on global partnerships. For example, Business Sweden helps both Swedish companies expand globally, and international companies invest in Sweden. Similarly, the Swedish Institute is a public agency tasked with monitoring and promoting interest and trust in Sweden in other countries.



Source: European Union Statistics on Income and Living Conditions, https://doi.org/10.1787/888934083012

The Business of Sustainability
Many Nordic businesses consider sustainability as a core value. Novo Nordisk, the world's largest producer of insulin, has incorporated the sustainable business philosophy in the company bylaws. Part of this is a commitment to the Triple Bottom Line: profit, people, and the planet. For instance, to enhance its social impact, the company started the Cities Changing Diabetes program in 2014 to collaborate with cities around the world and help communities understand and manage diabetes challenges. Another program, Circular for Zero, aims to reduce the environmental impact of the company. Maersk, the shipping giant, follows a similar program with a zero-emission target by 2050. Denmark has been a pioneer in clean and renewable energy. Vestas, which accounted for more than 20% of the world's market share for wind turbines in 2018, is based in Denmark. Moreover, according to the International Energy Agency, more than half of the electricity generation in Denmark in 2018 was by wind energy. Meanwhile, the share of coal in electricity generation in the country has dropped from 90% in 1990 to around 20% in 2018.

Innovation and Entrepreneurship
Nordic countries, particularly Sweden, have been very successful in tech entrepreneurship. In 2015, R&D expenditure comprised almost 3.3% of the Swedish GDP. The figure was above the European Union (EU) average of around 2.7%. With old companies like IKEA and new tech firms like Spotify, Sweden is behind some of the most recognizable global brands. The country follows a triple helix collaboration model in which industry, academia, and the public sector work together to foster innovation. Kista Science City is an excellent example of the triple helix in action. It is a smart city north of Stockholm's city center and the leading information and communication technology (ICT) cluster in Europe. Kista, established in 2016, provides an ecosystem in which tech startups can collaborate with government agencies and universities – such as Vinnova and KTH Royal Institute of Technology.

Vinnova is an independent government agency under the Swedish Ministry of Enterprise and Innovation. The agency funds approximately four thousand research and innovation projects and provides networking and analysis support. Its goal is to help build Sweden's innovation capacity. Vinnova also collaborates with other Nordic and EU countries in projects such as the Co-operation Program for Innovation and Business and Horizon 2020 – programs to advance research and innovation. KTH is the largest technical university in Sweden. The university has a dedicated innovation center, KTH Innovation, which supports faculty, staff, and students with the help of industry experts. Its pre-incubator program, for example, provides coaching to students and office space on campus to aid early-stage, tech-based projects.
The Nordics have established a successful blend of trust, active government, and social welfare and managed to stimulate economic growth. It seems unlikely that local or global events threaten their success in the next decade.

Acknowledgment: This report is partially based on the information from the site visits during the 2019 Faculty/Professional Development in International Business Program in Scandinavia. The Program was led by George Washington University's Center for International Business Education and Research (CIBER). The author's attendance in the Program was generously supported by grants from the Center for Global Business (CGB) of the Smith School Business at the University of Maryland, Texas A&M University's CIBER, and the Dean of the College of Business at Prairie View A&M University.
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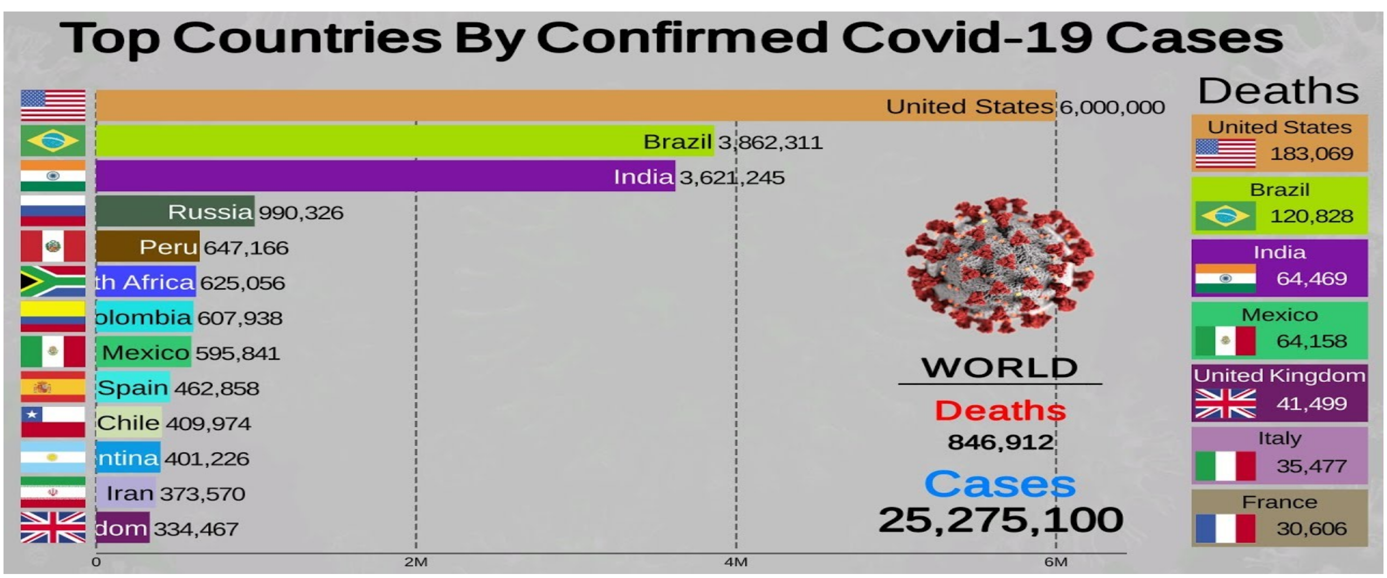

Source: CDC Top Countries by Coronavirus Cases (Covid-19: January to September –2020)

- Swiss Companies, U.S. Jobs, Global Response
- STOPfakes Roadshows Deliver Critical Intellectual Property Information to U.S. Businesses
- ITA Connects Smart City Technology Exporters to Southeast Asia
- Global Outlook: United States Remains the Largest Destination for FDI in the World
- Application Process Opens for U.S. Industry Groups Seeking Awards for Projects that Address Barriers to U.S. Exporters
- Trade Agreements
- Discover Global Markets
- Export Assistance
- Ensure International Clients Can Find You – Website Globalization

Source: *Tradeology*, International Trade Administration Blog (January-June 2020)

Next Issue Available: March 2021

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PVAMU College of Business
Vision and Mission Statements

Vision Statement

The Prairie View A&M University COB envisions becoming a nationally recognized business program known for its transformative impact on students through an education that empowers them to reach their full potential.

Mission Statement

The Prairie View A&M University College of Business transforms students from diverse academic and socioeconomic backgrounds into ethical business professionals and leaders who are entrepreneurial, productive, and prepared to succeed in the global economy. We achieve this through our strong commitment to high-quality teaching, relevant and impactful research, and outreach to the community.

Core Values

Academic Excellence: We support the pursuit of academic excellence by students, faculty and staff, by creating an environment that inspires and fosters learning, scholarship, and service.

Diversity: We believe that diversity in experience, ideas, beliefs, races, cultures, national heritages, lifestyles, and perspectives is a source of strength.

Integrity: We believe that honesty is the best strategy for building trust. We expect everyone in the COB community to act with integrity and be accountable for his or her actions

Collegiality: We believe in the importance of building a culture of openness and civility where each member of the team feels valued and respected for their contributions to the College's success.

Partnership: We believe that there is power in building partnerships across the campus and with institutions and people with whom we have a mission overlap.

Social Responsibility: We believe in corporate social responsibility - businesses must serve the society. As an educational institution, we are committed to the greater good of the society through teaching, research, and outreach to the community.

Growth-mindset: We believe in the growth-mindset, the idea that we all can enhance our knowledge and competencies through hard work with a positive attitude towards learning.

What we do: As a faculty, we believe in the importance of high-quality teaching, research, and service. The weights assigned to these three areas are, 50%, 30%, and 20% respectively. This guides decisions in faculty evaluation, merit raise, and strategic planning.

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