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EMORY ECONOMICS REVIEW

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ABOUT EER

Emory Economics Review (EER) is a student-run publication that exists as a sub-division of Economics Student Society (ESS) at Emory University.

EER strives to facilitate active discussion on contemporary economic issues and new research findings through publishing students' opinion pieces and research papers.

The articles submitted by EER writers are carefully reviewed by student editors and get published on the website:
www.emoryeconomicsreview.org
as well as on a physical copy each semester.

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Covid-19'S Biggest Victim: Foreign Investment

by Aayush Gupta

The Covid-19 crisis has brought about a strong sense of fear and uncertainty in economies worldwide[1]. With major layoffs resulting in record high unemployment[2] in the United States and across the world, countries have a stiff challenge facing them in a post-coronavirus world. Recovering from one of the biggest crises in modern history will undoubtedly take some time. However, it is sure to leave some lasting consequences for the world economy that will not fade away anytime soon. This pandemic has called into question the stability of global supply chains and interdependent trade relationships, thus sparking discussions about a decrease[3] in the hyper-globalization of the current international market. Perhaps the biggest victim of such a change would be foreign direct investments (FDI).

An FDI is an investment in the form of a controlling ownership in a business in one country by an entity based in another country. It differs from a foreign portfolio investment (FPI) within the notion of direct control — FPI providers do not get autonomous decision making power over their investments, while FDI providers do. While the G7 economies released a commitment[4] to maintain the status quo after the pandemic, the actions of some economies suggest otherwise.

Over the course of the past few months, as countries realized their dependence on Chinese manufacturing and trade, they have taken major steps to move towards protectionism and internal-looking economic policies, to become more self-sufficient. Canada, for example, issued a statement[5] declaring that "the Government will subject all foreign investments by state-owned investors [...] or private investors assessed as being closely tied to or subject to direction from foreign governments, to enhanced scrutiny." Similar sentiments have been echoed by India[6], which has made foreign purchases of over 10% of Indian companies subject to

1 "Expanding into International Markets." Due, 14 Mar. 2017, due.com/blog/expanding-international-markets/.

2 Timmons, Heather. "U.S. Unemployment Rate Will Get Worse, Treasury's Mnuchin Says." Reuters, Thomson Reuters, 10 May 2020, www.reuters.com/article/us-health-coronavirus-usa-jobs/u-s-unemployment-rate-will-get-worse-treasurys-mnuchin-says-idUSKBN22M0HM.

3 Fontaine, Richard. "Globalization Will Look Very Different After the Coronavirus Pandemic." Foreign Policy, 17 Apr. 2020, foreignpolicy.com/2020/04/17/globalization-trade-war-after-coronavirus-pandemic/.

4 Leyts, Barend. "G7 Leaders' Statement on COVID-19." Consilium, 16 Mar. 2020, www.consilium.europa.eu/en/press/press-releases/2020/03/16/g7-leaders-statement-on-covid-19/.

5 Leyts, Barend. "G7 Leaders' Statement on COVID-19." Consilium, 16 Mar. 2020, www.consilium.europa.eu/en/press/press-releases/2020/03/16/g7-leaders-statement-on-covid-19/.

6 Roche, Elizabeth. "Beijing Calls New Delhi's Move to Amend FDI Norms Discriminatory." Livemint, HT Media Limited, 20 Apr. 2020, www.livemint.com/news/india/china-objects-to-india-tweaking-fdi-rules-says-move-violates-wto-norms-11587368297241.html.

government approval, and numerous European Union[7] countries including Spain, Italy, Germany, and France. Australia, New Zealand, the UK, and the US, among others, are predicted to enact similar policies, primarily to protect local firms from acquisition by Chinese firms.

What implications might this have for the upcoming future? For starters, global trade will dramatically decrease — some estimates suggest up to 32 percent[8] — and stay at levels lower than the pre-corona economy. It is, however, unclear how this will manifest itself in the long run, as there may be different avenues that countries may pursue.

Nationalization and the Rise of Socialist Economies

The economic fallout from the pandemic may be perceived as an indication of the failures of capitalism and the free market. In the U.S., we see a growing moment, particularly among younger generations, leaning towards more progressive, socialistic policies, encapsulated in the popularity of Senators Bernie Sanders and Elizabeth Warren. As these young people enter the workforce during a recession, it may change their perception of the current system and make them favor a more welfare-oriented, pro-government state. Tendencies of such states often include nationalizing services such as healthcare and housing, among others, which will result in the crowding out of private firms that may currently dominate those industries and contribute billions to the economy.

Shift Towards Autarkic States

Another likely scenario is a rise in autarkic (self-sufficient) economies. While it is extremely unlikely, and almost impossible, that a country can be entirely self-sufficient, it is likely that we'll see a long-term decline in trading and greater preference for locally manufactured goods and services. Japan has already announced incentives[9] for Japanese companies willing to shift production out of China and relocate back to Japan.

Indian Prime Minister Narendra Modi announced a new growth model[10] for the country, colloquially titled 'Atma Nirbhar Bharat' (Translation: Self-Sufficient India) as the country prepares for a post-coronavirus world. This was kicked off by a nearly $300 billion GDP stimulus, almost 10% of India's GDP, making it one of the largest proportional stimulus bills globally.

This could be a potentially worrying trend, particularly for developing countries, as a lot of them depend on investments from big multinational corporations in sustaining their economy, and may not necessarily have the infrastructure, equipment, or the skills to replace them with domestic equivalents.

Increased Regional Cooperation

A decline in globalization does not necessarily have to entail a decrease in overall international cooperation. In fact, the Covid-19 crisis might foster more interdependence and stronger relations between regional neighbors. The EU, for example, allows free movement of labor and capital, thus countries can find it easier and more

7 Agrahari, Amit, et al. "'We Cannot Let China Destroy Us,' Spain, Italy and Germany Are Changing FDI Laws Fearing Hostile Takeover by China." TFIPOST, 9 Apr. 2020, tfipost.com/2020/04/we-cannot-let-china-destroy-us-spain-italy-and-germany-are-changing-fdi-laws-fearing-hostile-takeover-by-china/.

8 Azevedo, DG. "Trade Set to Plunge as COVID-19 Pandemic Upends Global Economy." WTO, World Trade Organization, 8 Apr. 2020, www.wto.org/english/news_e/pres20_e/pr855_e.htm.

9 Reynolds, Isabel, and Emi Urabe. "Japan to Fund Firms to Shift Production Out of China." Bloomberg.com, Bloomberg, 8 Apr. 2020, www.bloomberg.com/news/articles/2020-04-08/japan-to-fund-firms-to-shift-production-out-of-china?sref=gAQr8Hwd.

10 PTI. "At 10% of GDP, Modi's Atma-Nirbhar Bharat Abhiyan Ranks among Biggest in World." The Economic Times, Economic Times, 13 May 2020, economictimes.indiatimes.com/news/economy/finance/at-10-of-gdp-modis-atma-nirbhar-bharat-abhiyan-ranks-among-biggest-in-world/articleshow/75716267.cms?from=mdr.

convenient to exchange goods and services. Treaties like NAFTA (North American Free Trade Agreement) and ASEAN (Association of Southeast Asian Nations) can take note and improve their economic systems to make member nations less reliant on global economics and more intrinsically focused while still being able to focus on their comparative advantages and have smaller, more focused supply chains.

Change in Manufacturing Hubs
Currently, China is the leader[11] in global manufacturing, making it the inception point for almost all supply chains in the world. The novel coronavirus has exposed the world's extreme dependence on the high-functioning of the Chinese economy to fulfil its demands. While this relationship may have its advantages, namely the cheap Chinese labor and the ability to generate high economies of scale, it also has major downsides that are now evident to everyone. As a result, it is possible that countries may look to switch manufacturing hubs to other places, thus diversifying the supply chain to ensure that production keeps flowing in case of a predicament. India looks to seize this opportunity by offering[12] land area twice the size of Luxembourg to companies willing to relocate production, as well as instituting bold new labor law reforms[13] to attract foreign investors and companies.

Other emerging economies such as Bangladesh and Vietnam may also implement such measures to build upon their recent economic successes and capture a greater share of global manufacturing. Lately, China has begun to switch to a service-based[14] economy, which might also fuel this move. This has been a historic trend - The US used to be the manufacturing hub until it was sufficiently developed with great technology. After this, the US became a service exporter, and China took over the manufacturing powerhouse mantle.

Return to Status Quo
It is, however, not improbable that things might also simply revert to how they were pre-coronavirus. China remains the biggest centre for production, and has a vast amount of skilled labor and high-quality infrastructure built. Constructing new megafactories elsewhere would cost companies hundreds of billions of dollars, and add greater risk and uncertainty to their futures. Hence, barring major incentives, it is doubtful whether any of the above options would actually materialize in the near future.

The full economic impact of COVID-19 may not be seen for years to come, and it is impossible to accurately predict what it will be. Due to the vast spread and uncertain nature of the virus, it remains to be seen how long it will continue to last and force countries to implement social-distancing protocols. One thing, however, seems clear: the world that emerges from the crisis will be one that is very different to the one we know today. As for foreign investments, the long-term implications may be foggy, but it is safe to assume that for the foreseeable future, countries will attempt to rely less and less on the hyper globalized economy, and produce as much as possible locally.

11 Richter, Felix. "Infographic: China Is the World's Manufacturing Superpower." Statista Infographics, 18 Feb. 2020, www.statista.com/chart/20858/top-10-countries-by-share-of-global-manufacturing-output/.

12 Srivastava, Shruti. "India Pledges Easy Access to Land for Factories Leaving China." BloombergQuint, Bloomberg Quint, 6 May 2020, www.bloombergquint.com/global-economics/india-offers-land-twice-luxembourg-s-size-to-firms-leaving-china.

13 Gupta, Surojit. "Experts Back 'Bold' Labour Reforms: India News - Times of India." The Times of India, The Times Network, 11 May 2020, timesofindia.indiatimes.com/india/experts-back-bold-labour-reforms/articleshow/75666107.cms.

14 Hsu, Sara. "China Takes Another Step Towards A Service Economy." Forbes, Forbes Magazine, 22 Feb. 2017, www.forbes.com/sites/sarahsu/2017/02/21/china-takes-another-step-towards-a-service-economy/#aelf35728cl2.

06

How the COVID-19 Pandemic Has Affected the US Supply Chain

by Justin Ma

A summary on how globalization affects the US supply chain
Globalization. Since its introduction, that concept has only become much more scrutinized and despised. But it is globalization of supply chains that has built the foundation for the success of American companies and entire industries since the 1970s. Take Apple, for example. Tim Cook states that much of Apple's manufacturing, sourcing take place in China not only because of competitive advantages in cost, but also quality, to the point where final assembly takes place overseas[1] . This fundamentally means many profits of global companies stem from their China subsidiaries, which do not show up on the trade deficit as imports nor exports but rather shows up on the income statements. Without the level of quality and costs specialized producers, Apple would have to switch to the next best alternative in terms of costs- which evidence now shows is Vietnam or Mexico.

What is the situation with the trade war?
In the upcoming months, both governments are preparing for Phase 2 of the agreement. Phase 1 took place in January, in which both sides agreed to raise imports, China increasing purchases of American products by $200 billion over a 24-month period[2]. China would also ramp up legal protection for counterfeiting and make it easier for companies to pursue legal action over trade secret theft.

Together with its Chinese partners, General Motors sold 3.6 million vehicles in China last year, more than in the United States [3]. GM brands like Cadillac or more importantly Boeing were very popular in China- that is very likely to change given decline in the airline industry, as well as with grounding of 737 Maxes[4] . Despite this, some US brands are actually doubling down on China- with Popeyes opening stores, Tim Hortons declaring opening of over 1500 coffee shops, Walmart, Tesla and Exxon Mobil all believe in the country's long term growth potential despite high geopolitical tensions[5]. Companies are still optimistic, with Starbucks CEO Kevin Johnson telling Bloomberg, "The market in China — I am so bullish on it for the long term.... we're going to be able to accelerate and build new stores for a long, long time in China"[6].

1 "Your Crash Course on Supply Chains, Globalization, and COVI..." Business Casual, 16 Apr. 2020, www.businesscasual.fm/your-crash-course-on-supply-chains-globalization-and-covid-19/.
2 "Your Crash Course on Supply Chains, Globalization, and COVI..." Business Casual, 16 Apr. 2020, www.businesscasual.fm/your-crash-course-on-supply-chains-globalization-and-covid-19/.
3 Zarroli, Jim. "U.S. Companies In China Get Caught In The Trade War Crossfire." NPR, NPR, 27 Aug. 2019, www.npr.org/2019/08/27/754777224/u-s-companies-in-china-get-caught-in-the-trade-war-crossfire.
4 Zarroli, Jim. "U.S. Companies In China Get Caught In The Trade War Crossfire." NPR, NPR, 27 Aug. 2019, www.npr.org/2019/08/27/754777224/u-s-companies-in-china-get-caught-in-the-trade-war-crossfire.
5 Moss, Trefor. "Neither Coronavirus Nor Trade Tensions Can Stop U.S. Companies' Push Into China." The Wall Street Journal, Dow Jones & Company, 19 May 2020, www.wsj.com/articles/neither-coronavirus-nor-trade-tensions-can-stop-u-s-companies-push-into-china-11589880603.
6 Zarroli, Jim. "U.S. Companies In China Get Caught In The Trade War Crossfire." NPR, NPR, 27 Aug. 2019, www.npr.org/2019/08/27/754777224/u-s-companies-in-china-get-caught-in-the-trade-war-crossfire.

Companies that built their supply chains in China now face the danger of being cut off by regulation, which the government has full power to do, but does not because it still views many American firms as "business partners". The US has further restricted exports to Chinese telecom equipment manufacturer Huawei, which has beforehand had zero revenues from the US, out of national security concerns. Huawei's strong brand would give China perfect reason to stop encouraging new brands to enter and ban the many big US brands that operate in its own countries.

What implications does COVID-19 add to the situation?

COVID-19 has severely slowed most major economies- US is the 2nd on the list of trade impact, preceded by the European Union[7]. US trade and supply chain partners are affected as well- countries like Vietnam, Mexico, Germany, and Japan are among the top 10 most heavily impacted[8]. China's biggest export destinations (excluding the US) are also affected: Hong Kong ($255B), Japan ($157B), Germany ($109B) and South Korea ($98.1B).

Because all these economies are still recovering from the pandemic, the agreements put forth during Phase I of the trade deal, specifically the import boost China has agreed to is too high and unrealistic. The timing of this agreement, being in January during Chinese New Year, coupled with the outbreak of COVID-19, meant that the economy took a massive hit[9]. China's economy shrunk by 6.8% from January to March, ending nearly a half-century of growth[10]. China's economy will simply fail to match the agreed upon amount. Worse of all, China is unlikely to purchase any products from industries severely affected by COVID-19. In the coming months, it makes sense for the US government to renegotiate more realistic goals and ease the burden on Chinese consumers. This would be mutually beneficial to its own companies, and US based exporters who would benefit from the easing of the deal.

On a micro level, big multinational corporations do not have full control over their supply chain: Once they decide to outsource the production of goods and services, they tend to deal only with the first layer of suppliers. But those suppliers also buy intermediate goods and services from other suppliers, who buy from other suppliers, and so on. A single bottleneck can disrupt the entire supply chain, which has become probably the "largest disruption to supply chains we've seen since World War 2"[11]. This is something the manufacturing bases are not set up to adapt to such rapid changes in demand[12]. At the very minimum, many domestic businesses are having shortages, with many retailers having to adjust short-term by rationing items, or prioritizing

7 Coronavirus Outbreak Has Cost Global Value Chains $50 Billion in Exports, www.unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2297.

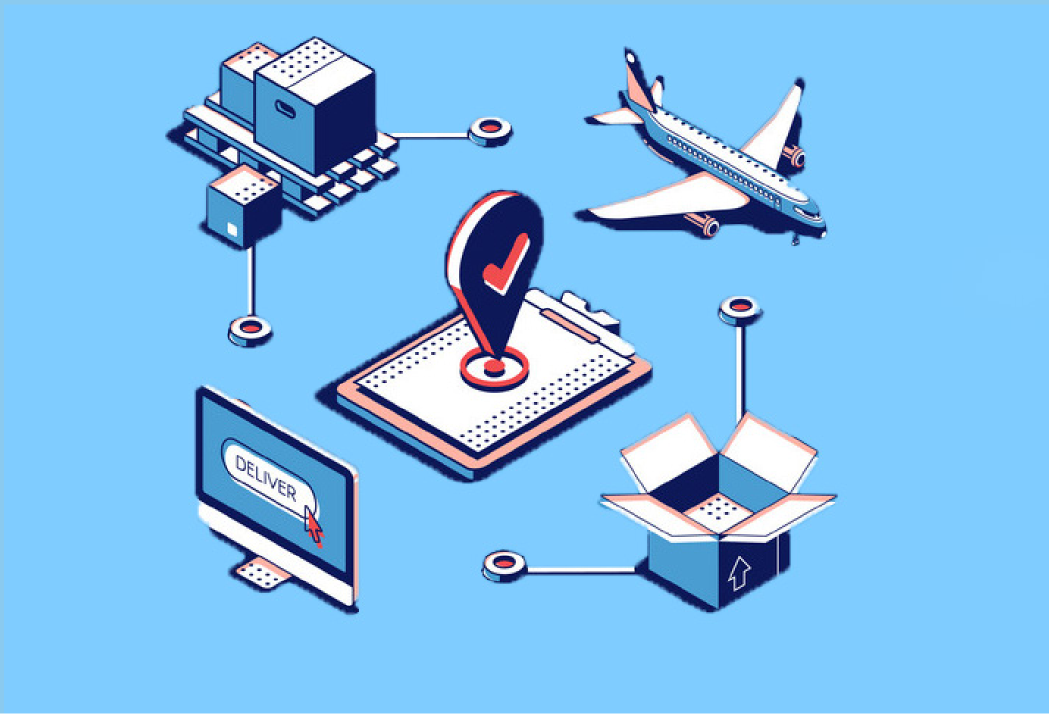
8 Gray, Sarah. "These Are the Biggest U.S. Trading Partners." Fortune, Fortune, 15 Jan. 2020, www.fortune.com/2018/03/07/biggest-us-trade-partners/.

9 "Your Crash Course on Supply Chains, Globalization, and COVI..." Business Casual, 16 Apr. 2020, www.businesscasual.fm/your-crash-course-on-supply-chains-globalization-and-covid-19/.

10 Bradsher, Keith. "China's Economy Shrinks, Ending a Nearly Half-Century of Growth." The New York Times, The New York Times, 17 Apr. 2020, www.nytimes.com/2020/04/16/business/china-coronavirus-economy.html.

11 Lichtenwalter, Jim. "How COVID-19 Is Affecting Every Aspect of Supply Chains". Asug Insights, Asug, 25 Apr. 2020, www.asug.com/insights/how-covid-19-is-affecting-every-aspect-of-supply-chains

12 "How COVID-19 Is Affecting the Global Supply Chain." News, 29 Apr. 2020, www.news.ucr.edu/articles/2020/04/29/how-covid-19-affecting-global-supply-chain.



deliveries of essential goods- most are reducing the number of SKU (stock-keeping units) that they offer[13]. Many factories are looking to pivot their production- for example, some automotive suppliers stopped making cars and switched to building ventilators[14]. Richard Sandall, chief supply chain evangelist at Innovapptive, said companies are taking measures in plants and warehouses to avoid further spread of the virus, including running production lines at slower speeds, assigning workers to designated work areas, and sanitizing equipment between shifts[15].

13 "How COVID-19 Is Affecting the Global Supply Chain." News, 29 Apr. 2020, www.news.ucr.edu/articles/2020/04/29/how-covid-19-affecting-global-supply-chain.

14 Lichtenwalter, Jim. "How COVID-19 Is Affecting Every Aspect of Supply Chains". Asug Insights, Asug, 25 Apr. 2020, www.asug.com/insights/how-covid-19-is-affecting-every-aspect-of-supply-chains

15 Lichtenwalter, Jim. "How COVID-19 Is Affecting Every Aspect of Supply Chains". Asug Insights, Asug, 25 Apr. 2020, www.asug.com/insights/how-covid-19-is-affecting-every-aspect-of-supply-chains

What will happen in the long term?

To adjust, this pandemic will have long-term effects on the way supply chains are geared to handle recessions and shortages like this- companies will undoubtedly be focused on building resilience, contingency plans, response mechanisms and risk assessments of their supply chains to be more prepared. On a geopolitical level, COVID has only sped up the phenomenon of "de-Chinafication" of US and other supply chains, where anti-globalization sentiment has driven companies to gradually reduce outsourcing and more on reshoring production, which will only raise costs for producers and consumers. According to Dean Garrett of Wharton, this means that Mexico and Vietnam are likely beneficiaries of this process, Mexico being near the US and Vietnam having similar capabilities as China as a manufacturing nation[16].

16 "Your Crash Course on Supply Chains, Globalization, and COVI..." Business Casual, 16 Apr. 2020, www.businesscasual.fm/your-crash-course-on-supply-chains-globalization-and-covid-19/.

Pandemics + Social Inequality = China's Economic Collapse?

by Yifei Gao

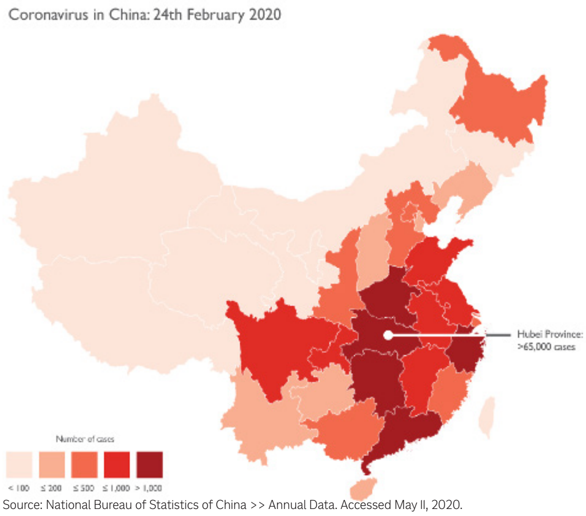
China has always been seen by Western eyes as an economic threat-- an ever-growing power house of riches that needs to be stopped. On the other hand, the migrant worker stigma and social rights abuse that seep through the city streets of China may hint otherwise. During this time of COVID-19, as the global economy slips further, I was curious as to how Chinese migrant workers from rural areas are affected and if it would cause a domino effect on the fastest growing economy. Thus, I did some research on how SARS, along with the novel coronavirus, have affected the rural class--which led to some disturbing results and dark foreshadowing on long term economic growth.

To find the answer, I looked at past instances of disease and hoped that history will have clues as to how a pandemic affects migrant workers, and in turn, the economy. SARS, severe acute respiratory syndrome, is an illness that was seen as a global threat in March of 2003[1]. Between November 2002 to July 2003, over 8,098 people internationally became sick and 774 died after being diagnosed with the illness[2]. During times of chaos, inequalities between the rural and urban classes tend to increase, which could spell out negative implications for the economy and future economic growth.

During SARS, migrant workers from rural areas became the focal group in anti-SARS campaigns[3]. The municipal government of Beijing issued at least 18 official documents on migrants and SARS between late April and early June[4]. Additionally, across the nation, the government issued at least 8 documents specifically on migrants during the same period[5]. With stigma against migrants already a part of urban culture, these documents suggest how the migrants' lack of hygiene, congested accommodations, and lack of knowledge for self-protection make them more susceptible to the disease[6]. Their continued movement between cities and the countryside is another cause of concern.

Rural migrants pose a special challenge to the state because of the government policies that were put in place, such as the hukou system. Migrant workers have minimal access to health information with no medical insurance and lack of visitation to the hospitals, which the government sees as a threat to national security[7]. During SARS, workers from rural areas

1 "SARS." Centers for Disease Control and Prevention. Centers for Disease Control and Prevention, May 3, 2005. https://www.cdc.gov/sars/about/faq.html.
2 "SARS." Centers for Disease Control and Prevention. Centers for Disease Control and Prevention, May 3, 2005. https://www.cdc.gov/sars/about/faq.html.
3 Biao, Xiang. "SARS and Migrant Workers in China: An Institutional Analysis." Asian and Pacific Migration Journal 12, no. 4 (2003): 467–99. https://doi.org/10.1177/011719680301200403.
4 Biao, Xiang. "SARS and Migrant Workers in China: An Institutional Analysis." Asian and Pacific Migration Journal 12, no. 4 (2003): 467–99. https://doi.org/10.1177/011719680301200403.
5 Biao, Xiang. "SARS and Migrant Workers in China: An Institutional Analysis." Asian and Pacific Migration Journal 12, no. 4 (2003): 467–99. https://doi.org/10.1177/011719680301200403.
6 Biao, Xiang. "SARS and Migrant Workers in China: An Institutional Analysis." Asian and Pacific Migration Journal 12, no. 4 (2003): 467–99. https://doi.org/10.1177/011719680301200403.
7 Biao, Xiang. "SARS and Migrant Workers in China: An Institutional Analysis." Asian and Pacific Migration Journal 12, no. 4 (2003): 467–99. https://doi.org/10.1177/011719680301200403.



Source: National Bureau of Statistics of China >> Annual Data. Accessed May 11, 2020.

Source: State Council (2006). *Research Report on Chinese Migrant Workers.* Shiyen Chubanshe.

with the virus, they would have to pay all of the service fees[8]. According to a news report, one particular worker was hospitalized in Beijing on the 30th of April due to fever that had settled in two days[9]. However, partly due to classism and the social stigmas against migrants at that time in addition to high caution from the government, the patient was confined for another two weeks for further observation, making the bill total to RMB 5000[10]. At that point, the migrant worker had to borrow money so he could be discharged since he had no way to repay his debt. Thus, the SARS pandemic has a way of feeding straight into the stereotypes of rural migrant workers being dirty, uneducated, and poor—which in turn generates more inequality through stereotyping as a positive feed-back loop.

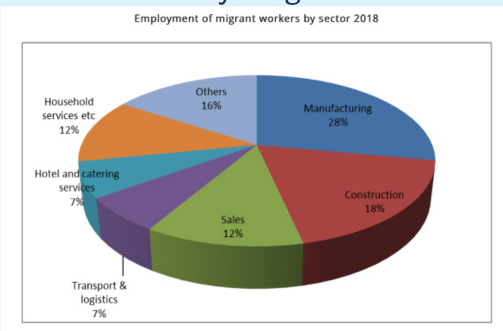
COVID-19 is a disease that emerged in Wuhan, China in December 2019 and is an ongoing pandemic stretching across the globe[11]. In China, there are a total of 82,874 cases and 4,633 deaths[12]. How this pandemic has affected the Chinese economy similarly to how SARS had previously ravaged the country: decreasing consumer spending, investments, and industrial production. Compared to SARS, COVID-19 has a much higher negative impact on China's economy, which leads me to believe that it will also rock the rural and urban inequality more than we have seen before.

There is no doubt that the same marginalization and hostile attitude towards migrant workers have increased similarly to how it increased during the period of SARS. If we refer to the maps below, we can see that it seems that most of the COVID-19 cases are worse in the hometowns of migrant workers--a fact that pushes migrant workers into the spotlight in regards to anti-COVID-19 campaigns. Nevertheless, there are differences

8 Biao, Xiang. "SARS and Migrant Workers in China: An Institutional Analysis." Asian and Pacific Migration Journal 12, no. 4 (2003): 467–99. https://doi.org/10.1177/011719680301200403.
9 Biao, Xiang. "SARS and Migrant Workers in China: An Institutional Analysis." Asian and Pacific Migration Journal 12, no. 4 (2003): 467–99. https://doi.org/10.1177/011719680301200403.
10 Biao, Xiang. "SARS and Migrant Workers in China: An Institutional Analysis." Asian and Pacific Migration Journal 12, no. 4 (2003): 467–99. https://doi.org/10.1177/011719680301200403.

11 "Coronavirus Disease (COVID-19) - Events as They Happen." World Health Organization. World Health Organization. Accessed May 1, 2020. https://www.who.int/emergencies/diseases/novel-coronavirus-2019/events-as-they-happen.
12 "China." Worldometer. Accessed May 1, 2020. https://www.worldometers.info/coronavirus/country/china/.

between SARS and COVID-19 regarding how migrant worker stigma generates inequality and how big of an effect this inequality will have on the Chinese economy. Compared to the time period of SARS, the rural citizens of China today are much more cognizant of the opportunity costs that occur when they leave their home provinces—lack of socioeconomic support, increased classism, and the possibility of missing out on the economic boom within their own rural towns. This combined with the exhaustion of miracle growth factors has a really good chance of further hampering the Chinese economy. During the SARS outbreak, the migrant workers, or mingong, were young and didn't mind taking risks and labor intensive jobs in the cities with little pay and, thus, the stigma, lack of rights and resources did not faze them. However, in today's time, as China's population grows older and urbanization continues in rural areas, the need and desire to work in back-breaking labor in the big cities becomes less attractive to younger populations in the countryside. The demographic dividend, a factor of growth for China, is shrinking at a faster pace because of the decrease in the stream of young workers



Source: "Migrant Workers and Their Children." China Labour Bulletin, March 10, 2020.

entering the "cheap labor" force in urban China.

Finally, it is no surprise that the sectors of work that are most affected by COVID19 are similar to those affected during SARS—manufacturing, household services, hotel and catering, transport and logistics, and sales industries. As we can see from the pie chart above, migrants are mostly employed within these sectors. Now, as the COVID-19 lockdown continues, we see layoffs in these sectors and an increased stigma from the urban residents against rural migrants within the bigger, more urbanized cities.
We may one day witness a world where migrant workers believe the opportunity costs of migrating to a city to work as cheap labor are higher than the benefits that are received. Additionally, we may observe urban employers hiring the "cleaner," "more-educated," and "better-off" local workforce to fill in job openings that were previously taken by the displaced and laid-off rural migrant workers after the pandemic ceases. The aftermath of it may be the drastic drop and even disappearance of the demographic dividend that has brought China its miracle boom. Will China be able to achieve the growth and prosperity that it once acclaimed with its cheaper migrant labor gone? Can the world adjust its supply chains in time before China's "factory of the world" title is no longer relevant? Only time will tell.

8 documents specifically on migrants during the same period. With stigma against migrants

already a part of urban culture, these documents suggest how the migrants' lack of hygiene, congested accommodations, and lack of knowledge for self-protection make them more susceptible to the disease. Their continued movement between cities and the countryside is another cause of concern.
Rural migrants pose a special challenge to the state because of the government policies that were put in place, such as the hukou system. Migrant workers have minimal access to health information with no medical insurance and lack of visitation to the hospitals, which the government sees as a threat to national security. During SARS, workers from rural areas were forced to go to hospitals, and until these patients were confirmed with the virus, they would have to pay all of the service fees. According to a news report, one particular worker was hospitalized in Beijing on the 30th of April due to fever that had settled in two days. However, partly due to classism and the social stigmas against migrants at that time in addition to high caution from the government, the patient was confined for another two weeks for further observation, making the bill total to RMB 5000. At that point, the migrant worker had to borrow money so he could be discharged since he had no way to repay his debt. Thus, the SARS pandemic has a way of feeding straight into the stereotypes of rural migrant workers being dirty, uneducated, and poor—which in turn generates more inequality through stereotyping as a positive feed-back loop.

COVID-19 is a disease that emerged in Wuhan, China in December 2019 and is an ongoing pandemic stretching across the globe. In China, there are a total of 82,874 cases and 4,633 deaths. How this pandemic has affected the Chinese economy similarly to how SARS had previously ravaged the country: decreasing consumer spending, investments, and industrial production. Compared to SARS, COVID-19 has a much higher negative impact on China's economy, which leads me to believe that it will also rock the rural and urban inequality more than we have seen before.
There is no doubt that the same marginalization and hostile attitude towards migrant workers have increased similarly to how it increased during the period of SARS. If we refer to the maps below, we can see that it seems that most of the COVID-19 cases are worse in the hometowns of migrant workers--a fact that pushes migrant workers into the spotlight in regards to anti-COVID-19 campaigns.

Nevertheless, there are differences between SARS and COVID-19 regarding how migrant worker stigma generates inequality and how big of an effect this inequality will have on the Chinese economy. Compared to the time period of SARS, the rural citizens of China today are much more cognizant of the opportunity costs that occur when they leave their home provinces—lack of socioeconomic support, increased classism, and the possibility of missing out on the economic boom within their own rural towns. This combined with the exhaustion of miracle growth factors has a really good chance of further hampering the Chinese economy. During the SARS outbreak, the migrant workers, or mingong, were young and didn't mind taking risks and labor intensive jobs in the cities with little pay and, thus, the stigma, lack of rights and resources did not faze them. However, in today's time, as China's population grows older and urbanization continues in rural areas, the need and desire to work in back-breaking labor in the big cities becomes less attractive to younger populations in the countryside. The demographic dividend, a factor of growth for China, is shrinking at a faster pace because of the decrease in the stream of young workers entering the "cheap labor" force in urban China.

Finally, it is no surprise that the sectors of work that are most affected by COVID19 are similar to those affected during SARS—manufacturing, household services, hotel and catering, transport and logistics, and sales industries. As we can see from the pie chart above, migrants are mostly employed within these sectors. Now, as the COVID-19 lockdown continues, we see layoffs in these sectors and an increased stigma from the urban residents against rural migrants within the bigger, more urbanized cities.

We may one day witness a world where migrant workers believe the opportunity costs of migrating to a city to work as cheap labor are higher than the benefits that are received. Additionally, we may observe urban employers hiring the "cleaner," "more-educated," and "better-off" local workforce to fill in job openings that were previously taken by the displaced and laid-off rural migrant workers after the pandemic ceases. The aftermath of it may be the drastic drop and even disappearance of the demographic dividend that has brought China its miracle boom. Will China be able to achieve the growth and prosperity that it once acclaimed with its cheaper migrant labor gone? Can the world adjust its supply chains in time before China's "factory of the world" title is no longer relevant?

14 The Impact of Coronavirus on the Private Equity Market

by Miranda Wang

As the stock market partially bounced back from the sharp decline in mid-March, alternative investments that are more long-term focused, such as private equity, are still showing a clear downward trend. On a broader scale, in the first quarter of 2020, in the private equity market, both deal volume and transaction value were down[1]. Most notably, deal volume decreased drastically by 21.68% from last year. Some PE giants also halted their acquisitions by the end of March. Even KKR put its original plan of selling Goodpack on pause. Goodpack is a Singapore-based bulk container maker which was expected to be sold for at least $2 billion USD[2]. Given these shocking statistics, this article attempts to dive deeper into different challenges PE firms are currently facing due to COVID-19.

First of all, the pandemic is hitting various types of PE funds differently. It is almost a no-brainer that PE firms with a majority of their portfolio companies in the retail, tourism, and oil industries are struggling to support these companies they own. The nature of private equity also worsens the challenges their portfolio companies are facing. According to PwC, since the PE firms aim to sell their portfolio companies eventually, these companies “may have less robust contingency plans for dealing with this type of emergency.[3] ” Additionally, the way a PE firm funds its deals also impacts the extent to which the firms are affected by the pandemic. The PE funds that normally use higher leverage would have to fight harder to stay solvent as the cash flow from their portfolio companies dwindles. With the low level of cash flow, the debt burden would weigh heavier on their shoulders and add additional stress to the fund. On the contrary, portfolio companies that are mostly in the software, technology, and healthcare space that are owned by growth equity investors would be relatively safe. As some software companies keep bringing recurring revenue, enabling people to work from home, and generating a higher EBITDA margin, they are more likely to be able to weather this pandemic. Therefore, different types of PE funds with different financing and investing strategies and goals would face different challenges at this time.

Secondly, besides operational challenges, completing a transaction could become harder for many reasons involving valuation, financing, and due diligence. For the valuation part, it’s harder to forecast future profits due to the current uncertainty. The trending joke “EBITDAC”– “Earnings Before Interest, Tax, Depreciation, Amortization and COVID” is becoming less of a joke but the new reality. In terms of financing deals, according to Mintz,“ lending availability will be more limited and this will require alternative approaches to the financing .[4]” As debt financing becomes a less viable option, other financing strategies such equity and earn-outs would become more common. Lastly, conducting in-person due diligence becomes more laborious and risky in the lock-down. Therefore, acquirers would need to find alternative ways to negotiate deals and conduct due diligence virtually. Lastly, as firms focus more on keeping portfolio companies alive rather than completing new transactions, we expect that it would take longer to close a deal. It’s reasonable to speculate that there could be more opportunities for distressed investing in the next two quarters.

In conclusion, the above mentioned risks are only my personal opinions and they are not exhaustive. In such a turbulent time, each firm needs to assess their own portfolio companies and investment strategies to find the best way to mitigate risks.

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1 Rosacia, Pam, and Gaurang Dholakia. “Pandemic, Economic Uncertainty Slow US Private Equity Deal Activity in Q1.” Pandemic, Economic Uncertainty Slow US Private Equity Deal Activity in Q1 | S&P Global Market Intelligence, 9 Apr. 2020, www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/pandemic-economic-uncertainty-slow-us-private-equity-deal-activity-in-q1-57949952.

2 Daga, Anshuman. “Exclusive: KKR Shelves $2 Billion Sale of Singapore-Based Goodpack Due to Market Slump: Sources.” Reuters, Thomson Reuters, 1 Apr. 2020, www.reuters.com/article/us-health-coronavirus-goodpack-exclusive/exclusive-kkr-shelves-2-billion-sale-of-singapore-based-goodpack-due-to-market-slump-sources-idUSKBN21J480.

3 PricewaterhouseCoopers. “COVID-19 and the Private Equity Industry.” PwC, www.pwc.com/us/en/library/covid-19/coronavirus-private-equity.html.

4 “Private Equity Investing and the Pandemic.” Mintz, www.mintz.com/insights-center/events/2020/private-equity-investing-and-pandemic.

Changes Expected in the Private Debt Market

by Ethan Kim

Introduction

Private debt is a type of debt that is usually issued to middle-market companies in private. As a result of bank industry consolidation, many non-banks started lending to medium-sized businesses. However, the private debt market grew rapidly, and even some companies with more than $1 billion in revenue now seek financing services from non-banks.

As the pandemic increased default risk of businesses around the world, the yields on debt investments increased, attracting more investors into the private credit market. Recently, many major funds have successfully started and raised multi-million, multi-billion funds to capture the market dislocation opportunities in a distressed economic environment.

Recent Credit Funds Raised

-Owl Rock: $1.5 billion - Opportunistic Debt Fund[1]
-CVC: $657 million - US Focused Direct Lending Fund: Senior Secured Loans [2]
-HPS: $1.5 billion - Specialty Finance Fund[3]
-Arena: $300 million - Asset-Backed Debt & Real Estate[4]
-Ares: $3.5 billion - Special Situations Fund[5]
-JP Morgan Asset Management: $3 billion - Real Estate Credit Opportunity Fund[6]
-ADM Capital: $630 million - Private Credit[7]

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1 Butler, Kelsey. "Owl Rock Looks to Raise $1.5 Billion for Opportunistic Debt Fund." Bloomberg.com, Bloomberg, 4 May 2020, www.bloomberg.com/news/articles/2020-05-04/owl-rock-looks-to-raise-1-5-billion-for-opportunistic-debt-fund.

2 "CVC Credit Partners U.S. Direct Lending Fund II Secures Total Commitments of $657 Million." CVC, 21 Apr. 2020, www.cvc.com/media/press-releases/2020/cvc-credit-partners-us-direct-lending-fund-ii-secures-total-commitments-of-657-million.

3 "HPS Investment Partners Closes Second European Asset Value Fund." PR Newswire: Press Release Distribution, Targeting, Monitoring and Marketing, 20 Apr. 2020, www.prnewswire.com/news-releases/hps-investment-partners-closes-second-european-asset-value-fund-301043206.html.

4 Bakie, John. "Arena Investors Has Secured $300m for Credit Opps Fund: Sources – Exclusive." Private Debt Investor, 17 Apr. 2020, www.privatedebtinvestor.com/arena-investors-has-secured-300m-for-credit-opps-fund-sources-exclusive/.

5 Mitchell, Justin. "Ares Blows Past Target on Special Opportunities Fund amid Pandemic Dislocation." Buyouts, 8 May 2020, www.buyoutsinsider.com/ares-blows-past-target-on-special-opportunities-fund-amid-pandemic-dislocation/.

6 Butler, Kelsey. "JPMorgan to Raise Up to $3 Billion for Real Estate Credit Fund." Bloomberg.com, Bloomberg, 12 May 2020, www.bloomberg.com/news/articles/2020-05-12/jpmorgan-to-raise-up-to-3-billion-for-real-estate-credit-fund.

7 Kim, Adalla. "ADM Capital Raises $630m for Its Private Credit Platform." Private Debt Investor, 12 May 2020, www.privatedebtinvestor.com/adm-capital-raises-630m-for-its-private-credit-platform/.

Potential Private Debt Industry Consolidation

While major players in the private debt market are successfully attracting new LPs, many relatively small private debt funds are expected to struggle. Adams Street Partners, a $41 billion private market investor, has realized that the market competition is weakening. Bill Sacher, the head of private credit, mentioned that the private debt investors are gaining more negotiation powers, and he's also currently buying leveraged loans at low prices[8]. From his comments, we can take away two important points. The first point is that lenders are gaining power as a result of lessened competition within this market. As a result of the coronavirus, many portfolio companies will default on their loans, distressing many private debt funds. As a result, bigger investors, like Adams Street, will buy loans at cheap prices and become even bigger.

We've seen a similar phenomenon in 2008 when major investment banks acquired other big banks as a result of the subprime mortgage crisis. Lehman Brothers went bankrupt and Barclays bought their business at a huge discount, while Merrill Lynch was bought out by Bank of America. Although we're currently only seeing a few big funds buying individual assets at cheap prices, more consolidation in this industry is expected to come as more fund-scale acquisitions are expected[9].

Having said that, Ares has already made two acquisitions this year before the coronavirus pandemic: acquiring a majority interest in SSG Capital Holdings[10] and acquiring a managing interest in a restructured Crestline Denali Capital[11], resulting in an addition of seven CLO funds. Although the company did not make acquisitions because of the distressed opportunity provided by the pandemic, these corporate actions hint that major players in this field will actively look to acquire distressed debt portfolios as well.

8 Butler, Kelsey. "Private Debt Competition Is Thinning, Adams Street Says." Bloomberg.com, Bloomberg, 24 Apr. 2020, www.bloomberg.com/news/articles/2020-04-24/private-debt-market-competition-is-thinning-adams-street-says.

9 Butler, Kelsey. "Private Credit Market to See M&A as Virus Forces Consolidation." Bloomberg.com, Bloomberg, 22 May 2020, www.bloomberg.com/news/articles/2020-05-22/private-credit-market-to-see-m-a-as-virus-forces-consolidation.

10 "Ares Management Corporation Announces Agreement to Acquire Majority Interest in SSG Capital Holdings Limited." Business Wire, 21 Jan. 2020, www.businesswire.com/news/home/20200121005407/en/Ares-Management-Corporation-Announces-Agreement-Acquire-Majority.

11 "Ares Management Corporation to Acquire Seven CLO Contracts Through a Managing Interest in Crestline Denali Capital." Business Wire, 3 Feb. 2020, www.businesswire.com/news/home/20200203005204/en/Ares-Management-Corporation-Acquire-CLO-Contracts-Managing.

Current Activities in the Private Debt Market

Another change recognized within this industry is the share of different deal types. While the majority of private debt deals were investments in leverage loans as a part of private equity deals, more non-sponsor direct lending deals are expected. When an economic crisis happens, two things happen that result in a lower private equity deal volume: lower multiples disincentivize business owners and private equity funds have a hard time managing their portfolio companies; thus, less leveraged buyout deals are expected. Moreover, private credit lenders are also busy injecting needed liquidity to their portfolio companies to survive, moving their focus away from new private equity deals.

As private credit funds operate with a "buy and hold" strategy, most, if not all, private credit funds are playing defense to keep their portfolio companies alive rather than playing aggressive offense. GSO Capital's Managing Director Brad Marshall said, "Being defensive right now, focusing on your portfolio companies, minimizing losses, those are your keys to success over the long term... we are spending a lot of time with sponsors or companies and trying to figure out what the best path forward is, like any partner would do."[12] When asked about the current approach to the market, CEO of Antares, David Brackett said their focus is on their portfolio and helping out the borrowers in the long term. Michele Kovatchis, head of the credit advisory group, added by saying that they are making amendments to the credit terms, including the rates, covenants, and more. Since private credit lenders require a positive long-term relationship with their borrowers, they need to do whatever it takes to help their portfolio companies survive[13].

Who will survive

However, what will really separate some direct lenders from others is their ability to play offense right now. If a lender deployed capital too aggressively prior to the pandemic, there is a high possibility that this manager will fall out of the expanding private credit market. The amount of excess capital is very important because playing defense and offense both need cash. However, if a fund has more than enough cash to play defense, this investor can play more offensively by investing in new targets with higher returns. While playing defense will help a private credit fund survive this crisis, a fund's ability to play defense and offense at the same time will allow that fund to come out much stronger than other players.

Rates

As a result of the high demand for liquidity, the yields on private credit investments are getting juicier. An article from Bloomberg mentions that "A unitranche loan for a company with more than $40 million of earnings before interest, tax, depreciation, and amortization is likely to command 650 to 750 basis points over Libor currently, according to Lincoln. A senior loan will probably price around 500 to 600 basis points over Libor, while a second-lien would be around 900 to 1,050 basis points over Libor, according to Lincoln data." This is an incremental increase of 100 to 250 basis points compared to last year as credit risks are higher[14].

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12 "Key Takeaways from A Glimpse Into Private Credit." King & Spalding, King & Spalding, 29 Apr. 2020, www.kslaw.com/attachments/000/007/918/original/Key_Takeaways_from_A_Glimpse_Into_Private_Credit_Webinar.pdf?1589213074.

13 Butler, Kelsey. "Antares Sees a Private Lending Reset As Deal Flow Slows: Q&A." Bloomberg.com, Bloomberg, 8 May 2020, www.bloomberg.com/news/articles/2020-05-08/antares-sees-a-private-lending-reset-as-deal-flow-slows-q-a.

14 Butler, Kelsey. "Private Lenders Get Juicier Yields in a Battered Middle Market." Bloomberg.com, Bloomberg, 7 May 2020, www.bloomberg.com/news/articles/2020-05-07/private-lenders-get-juicier-yields-in-battered-middle-market.

Why More LPs will become attracted
The private credit market has proliferated, and more institutional investors have become interested in locking their money in these funds. While banks used to be the main source of capital for businesses, the industry became so consolidated that more regulations led to less risky investments and underwritings. Moreover, the number of public companies declined rapidly from the late 1990s as the number of public companies declined by 50% from 1996. Along with this trend, many investors lost appetite in the public debt market and searched for private market investments.

Now, banks are more hesitant to make loans to their customers. US banks started pulling back from lending to European companies recently as Europe has been struggling from its earlier economic crises. These risk-averse actions from the US banks show that financial institutions are becoming cautious of lending to riskier businesses, and this gap of capital demand can be filled with non-bank lenders. Moreover, as investors recognize high volatility in the public market, more institutional investors can be attracted by the private market's low volatility.

Another factor that attracts the investors to the private market is the differences in multiple between the two markets. The public market gets affected by so many factors that it doesn't represent the right value of the company many times. However, as the public market experienced high growth until the coronavirus, the multiples have been very high compared to the private markets. According to S&P's data, public companies' average EV/EBITDA multiple was higher than private companies' by 1.0x - 2.0x from 2016 to 2019[15]. If investors also realize this overvaluation of the public companies, more investments into private debt funds can be expected.

As the private debt market is yet considered one of the niche markets, many investors are not fully aware of the benefits of investing into private debt funds. However, with the new economic crisis, investors are now seeking other asset classes where they can lower volatility risk and receive more stable investment income[16]. Since the private market is much less volatile than the public market, we can expect to see the private debt market attracting more investors, subsequently leading to a private debt market boom.

15 "The Rise of Private Markets: Secular Trends in Non-Bank Lending and Their Economic Implications." Ares Management, Ares Management, Feb. 2020, www.aresmgmt.com/sites/default/files/2020-04/The-Rise-of-Private-Markets-Whitepaper-vF.pdf.
16 Butler, Kelsey. "Ultra-Rich Families With Cash on Hand Pile Into Private Debt." Bloomberg.com, Bloomberg, 4 May 2020, www.bloomberg.com/news/articles/2020-05-04/ultra-rich-families-with-cash-on-hand-pile-into-private-debt?sref=tA4Kkzir.

What COVID-19 Means For Luxury Brands

by Grace Kang

What is COVID-19?

A cluster of unknown pneumonia cases was reported in Wuhan, Hubei Province on December 31, 2019, which was later identified to be caused by the novel coronavirus, COVID-19. In January 2020, the World Health Organization declared COVID-19 a world health emergency. Since then, this virus has turned our lives upside down. As of May 10, there have been over 280,000 deaths worldwide, with the US being the country with the highest COVID-19 death toll.

Economic Impact of COVID-19

According to the data released by the U.S. Bureau of Labor Statistics on May 8, the unemployment rate in the U.S. skyrocketed from 4.4% to 14.7%[1]. The United States is not the only one that is suffering. The global economy has been paralyzed, and governments are struggling to implement fiscal and monetary policies in response to COVID-19.

COVID-19 has also negatively affected many industries. One industry that comes to mind right away might be the airline industry. Due to a sharp decline in the number of travelers, the airline industry is experiencing one of the hardest hits.

But you probably haven't thought much about the impact of COVID-19 on the luxury industry, or have you?

What Are Luxury Goods?

Luxury goods are goods that are not necessary but deemed highly desirable by many. They are disproportionately consumed by wealthy people, and the purchase of such goods is often seen as conspicuous consumption[2]. Despite its exceptionally high-priced products, the luxury goods market has experienced steady growth over the last few years.

Luxury Market in 2019

In 2019, Deloitte had an optimistic outlook on the luxury goods market despite the slowdown in the economic growth of major markets, including China and Europe[3]. In fact, the luxury market grew by 4% in 2019, which was largely driven by Asian buyers[4]. Chinese consumers accounted for 90% of the global luxury market growth in 2019[5].

Luxury Market in 2020

However, like many other industries, the luxury industry has been hit by the COVID-19 pandemic. According to Bain & Company, global luxury sales could fall

1 News Release. Bureau of Labor Statistics, U.S. Department of Labor , www.bls.gov/news.release/pdf/empsit.pdf.

2 Kenton, Will. "Conspicuous Consumption." Investopedia, Investopedia, 29 Jan. 2020, www.investopedia.com/terms/c/conspicuous-consumption.asp.

3 Global Powers of Luxury Goods 2019. Deloitte, www2.deloitte.com/content/dam/Deloitte/ar/Documents/Consumer_and_Industrial_Products/Global-Powers-of-Luxury-Goods-abril-2019.pdf.

4 "Personal Luxury Goods Market Grew by 4 Percent in 2019 to Reach €281 Billion." Bain, www.bain.com/about/media-center/press-releases/2019/fall-luxury-report/.

5 D'Arpizio, Claudia, et al. "Luxury after Covid-19: Changed for (the) Good?" Bain, 3 Apr. 2020, www.bain.com/insights/luxury-after-coronavirus/.

up to 35% in 2020. The first ominous sign was noticed when the virus quickly started spreading throughout China in January 2020. China had to virtually stop its economy to slow down the spread of the virus, yet the virus had already reached countries around the globe. When it reached Europe, home to many well-known luxury brands, their operations became under risk. Many have shut down their stores as the countries go under lockdown and health concerns over the virus grows. It is questionable if reopening businesses would completely solve the problems that luxury brands are facing right now.

COVID-19 and Pent-Up Demand in Asia

Some high-end brands, however, experienced a sharp increase in sales after Coronavirus lockdown was lifted in China, which could be seen as a good sign. In fact, Hermes flagship store in Guangzhou, China reported $2.7 million in sales in just one day[6]. Oddly enough, China was not the only one. On May 13, over 100 South Korean shoppers started queuing up outside the Lotte Department Store in Seoul at 5am, hoping to purchase Chanel handbags ahead of expected price hikes.

Despite the worldwide economic downturn, luxury goods experienced unusually high growth in sales after some Asian countries eased their social distancing restrictions. This 'recovery' is most likely to be due to an explosion of 'pent-up demand', which is often seen right after a recession or depression. Pent-up demand builds when consumers decide to hold off making purchases due to the pessimistic outlook on the economy. Once the economy starts to recover, pent-up demand is released as consumer confidence increases, and people tend to spend more money than usual.

COVID-19, An Unexpected Threat

Nevertheless, our lives are permanently affected by COVID-19, and nothing will be the same as the pre-coronavirus era. Consumer sentiment has been plunging, with the U.S.' Consumer Confidence Index dropping from 132.6 in February to 86.9 in April 2020[7]. Travel restrictions and fear of contracting the virus will also stop many from making international travels for a while. Even though some positive trends have been spotted in the luxury goods markets across Asia, with the large fall in the number of tourists, the sales revenue of luxury brands will inevitably decline globally.

Luxury goods have a high income elasticity of demand, which means the sales performance of luxury brands largely depends on people's wealth. Unfortunately, COVID-19 negatively impacts the wealth of people around the globe, not just those with low income but also the wealthy. According to the Economic Times, the richest people in the world have lost over $200B during the COVID-19 crisis[8]. Morgan Housel, the author of "The Psychology of Money," said that the coronavirus crisis could lead to "a generation of supersavers" and increase cash hoarding[9].

We are still in the middle of the pandemic, and it is difficult to accurately predict how the luxury market will continue to be affected by COVID-19. However, what we know is that COVID-19 has changed the ways we live our lives, and it also has altered consumer spending habits, which would affect not only the luxury goods market but also the consumer goods and services industry overall.

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6 15, License Global | Apr. "Hermes Sells $2.7m Luxury Goods in One Day as China Lifts Lockdown." Licenseglobal.com, 15 Apr. 2020, www.licenseglobal.com/retail/hermes-sells-27m-luxury-goods-one-day-china-lifts-lockdown.

7 "United States: Consumer Confidence Index: Economic Indicators: CEIC." United States | Consumer Confidence Index | Economic Indicators, 1 Apr. 2020, www.ceicdata.com/en/united-states/consumer-confidence-index/consumer-confidence-index.

8 "How Coronavirus Impacted the Wealth of Rich People around the World - Coronavirus Is Taking Away the Wealth of the Wealthy." The Economic Times, economictimes.indiatimes.com/news/company/corporate-trends/how-coronavirus-impacted-the-wealth-of-rich-people-around-the-world/coronavirus-is-taking-away-the-wealth-of-the-wealthy/slideshow/74667660.cms.

9 15, License Global | Apr. "Hermes Sells $2.7m Luxury Goods in One Day as China Lifts Lockdown." Licenseglobal.com, 15 Apr. 2020, www.licenseglobal.com/retail/hermes-sells-27m-luxury-goods-one-day-china-lifts-lockdown.

21

Why Food Delivery Apps are Some of the Few Benefiting from the Coronavirus

by Ankita John

Over the last couple of years, there has been a growth in reliance on food delivery apps. This is due to how as people get busier with their everyday lives, they tend to prioritize convenience. With the current global pandemic, food delivery apps have been a vital part of most peoples' quarantine agenda. It's also the primary way that restaurants continue to generate sales amidst the mandatory restaurant and bar shutdowns put in place by the government. As a result, the digital food delivery sector is amongst the few businesses flourishing in the current crisis. The total number of users for food delivery apps has also increased by 9.8% in 2020, [1]showing the increased popularity of such apps.

In addition to the companies benefiting, food delivery also acts as a source of income for many individuals. With over 14.7% of the US population currently being unemployed[2], food delivery acts as a viable source of income. Although many questions the safety involved with doing such a job, delivery apps have publicly committed to ensuring the safety of their drivers. This involves the option of 'contact-free delivery' which limits hansdling in transferring the food thus reducing the risk of the virus spreading. Several other mandatory safety measures are being implemented by restaurants as well. Many delivery apps are also working to provide restaurants with CDC issued guidelines in order to ensure that the food tampers safely.

How delivery apps are accommodating for the suffering restaurant industry

GrubHub announced in early March that they would offer "deferred commission fees" [3] on products from independent restaurants (not including any big chains) that normally make up roughly 80% of their sales revenue. They have also taken the initiative to use its "Donate the Change" program to assist drivers and restaurants negatively impacted by the Coronavirus. UberEats, additionally, has announced that it will be waiving its delivery fee when individuals order from an independent restaurant. UberEats has also declared the option for restaurants to receive daily payments instead of their conventional weekly payments to reduce the financial burden on restaurant owners. Additionally, they have committed to assisting drivers and delivery men who currently can't work due to exposure to the coronavirus. Postmates has also set up its "Postmates Fleet Relief Fund" which aims to cover COVID-19 related medical expenses for its employees, and are also looking into omitting commission fees for new restaurants that join the app during this period.

However, there remains growing backlash against delivery apps, as many claims that they are exploiting the current pandemic to their economic benefit. GrubHub faced severe criticism when it announced that they made a whopping $363 million in sales revenue from January to March[4] and continue to charge extremely high delivery fees especially when restaurants are struggling to stay open. This is a claim that has been made by restaurant owners for years now. Because these delivery apps are aware of how much business they bring to restaurants, they charge extremely high fees and are able to get

1 Askinasi, Rachel. "Here's How Delivery Services like Grubhub, Postmates, and Uber Eats Are Adapting to the Coronavirus Restrictions and Safety Precautions." Insider, Insider, 17 Apr. 2020, www.insider.com/food-delivery-services-grubhub-postmates-uber-eats-reacting-adapting-coronavirus-2020-3.

2 "Coronavirus: Pandemic Sends US Jobless Rate to 14.7%." BBC News, BBC, 8 May 2020, www.bbc.com/news/business-52591262.

3 Liffreing, Ilyse. "Postmates and Uber Eats Use DoorDash Tipping Fallout as an Opportunity to Build Trust with Customers." Ad Age, 25 July 2019, adage.com/article/digital/postmates-and-uber-eats-use-doordash-tipping-fallout-opportunity-build-trust-customers/2186231.

4 Askinasi, Rachel. "Here's How Delivery Services like Grubhub, Postmates, and Uber Eats Are Adapting to the Coronavirus Restrictions and Safety Precautions." Insider, Insider, 17 Apr. 2020, www.insider.com/food-delivery-services-grubhub-postmates-uber-eats-reacting-adapting-coronavirus-2020-3.

away with it. This complaint has been amplified in the current economic condition. Many claim that because people primarily rely on delivery apps to ensure convenience and safety (as they don't have to leave their homes and expose themselves to any risks), those delivery apps have utilized this to their advantage by increasing food delivery fees. This is shown by the 16.3% increase in delivery fees between March 12 to March 18, compared to the first week of February- caused by the surge in demand for home delivery[5].

The Future of Home Delivery

Home delivery was a concept that is up and coming within the United States. Previously its demand was limited by time constraints and how expensive food delivery was considered, however with the current pandemic there has been a significant rise in demand for delivery services. Nevertheless, the narrative that dominates mainstream media is the idea that these delivery services take far too heavy of a cut from the earnings of local restaurants. However, what many people tend to forget is that delivery services are extremely cost heavy, and most delivery apps make significant losses before they can even come near to making a profit. Businesses like Gruhub and UberEats first have to hire drivers, pay insurance for the car and employees, and cover fuel expenses for each pickup and delivery of an item. As a result, the gains food delivery companies make on each delivery relative to their expenses tend to be rather small. Restaurants, along with such delivery apps, also incur significant expenses from providing food to their customers. Thus for a relatively small increase in price, the consumer receives the far greater benefit of both safety and convenience. The current benefits of home delivery seem to be unequally divided amongst the customer, the aggregator, and the restaurant. For this to be a sustainable service, in the long run, the benefits of home delivery must be adequately distributed amongst all three stakeholders. In the future this exchange between the stakeholders will be successful if the customer, who is the biggest beneficiary of convenience and safety, takes a bigger share of the cost associated with it, thereby ensuring an equitable distribution of profits[6].

5 Wong, Venessa. "Struggling Restaurants Paid Record Fees To Grubhub During The Pandemic." BuzzFeed News, BuzzFeed News, 7 May 2020, www.buzzfeednews.com/article/venessawong/coronavirus-grubhub-food-delivery-fees.

6 Bandoim, Lana. "How Food Delivery Apps Are Responding To The Coronavirus." Forbes, Forbes Magazine, 21 Mar. 2020, www.forbes.com/sites/lanabandoim/2020/03/20/how-food-delivery-apps-are-responding-to-the-coronavirus/#32d7468955dc.

TJX Companies: Moving Forward Amidst COVID-19

by Haejin Kang

Since 2010, various retailers have experienced the wrath of the "retail apocalypse."[1] Due to the emergence and popularity of eCommerce, more and more consumers have been drifting from the traditional brick-and-mortar stores to online shopping, which have contributed to many retailers, such as Sears, J. Crew, and Forever 21, filing for bankruptcy. However, amongst these players, TJX Companies has continuously managed to show growth in sales and has even increased its number of store openings. In 2019, TJX managed to achieve $39B in sales, which is more than double compared to its sales a decade ago. The company also grew its total square footage by 4%, adding a net total of 236 stores[2]. Currently, there are approximately 4,306 stores owned under TJX[3]. How is this possible considering other retailers have experienced massive hits?

Background on TJX Companies

TJX Companies is the only major international off-price apparel and home fashions retailer. It is able to thrive because of its off-price business model[4] and core competencies in providing addictive "treasure hunt" shopping experiences and molding its distribution network and supply chain operations to support its off-price buying model and highly integrated global business[5]. These core competencies, along with its strong sourcing strategy and flexible buying, allow TJX companies to establish its core products, such as a well-integrated system of operations and a strong brand portfolio with rapidly changing arrays of high-quality, low-priced goods that are sold second-hand. These core products are developed and delivered through TJX's four core business segments: Marmaxx (T.J. Maxx, Marshalls) and Sierra, HomeGoods (and HomeSense), TJX Canada (Winners, Marshalls, HomeSense), and TJX International (T.K. Maxx, Homesense). These foundational strengths ultimately culminate into its core end products, which allow TJX to have competitive advantages. Thus, its business model and core competencies enable TJX to carry out its strategy of offering more for less, allowing it to function as a disruptive innovator within the retail industry[6]. As such, TJX capitalizes on brick-and-mortar retailers that are struggling from the "retail apocalypse."

How TJX Companies Should Move Forward Amidst Covid-19

Although its business model is built to weather out recessions and competitors, TJX Companies needs to leverage its core competencies and opportunities to maintain its economic moat during COVID-19. One way

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1 Bhattarai, Abha. "'Retail Apocalypse' Now: Analysts Say 75,000 More U.S. Stores Could Be Doomed." The Washington Post, WP Company, 10 Apr. 2019, www.washingtonpost.com/business/2019/04/10/retail-apocalypse-now-analysts-say-more-us-stores-could-be-doomed/.

2 The TJX Companies, Inc. (n.d) The TJX Companies Inc.: Company Statement. Retrieved May 3, 2020, from Marketline Advantage database.

3 The TJX Companies, Inc. (n.d) The TJX Companies Inc.: Business Description. Retrieved May 3, 2020, from Marketline Advantage database.

4 "About TJX Europe." TJX Europe, www.earlycareers.tjxeurope.com/about-tjx-europe/what-is-off-price-retailing/.

5 "The TJX Companies, Inc. Company Background (2020)." 2020.

6 Christensen, Clayton M., et al. "What Is Disruptive Innovation?" Harvard Business Review, 24 Jan. 2020, hbr.org/2015/12/what-is-disruptive- innovation.

TJX Companies can sustain itself is by implementing a two-pronged renovation plan to address how its business segments should improve their (I) online platforms and (2) supply chain operations.

(I) Amplify eCommerce & marketing efforts to create a stronger economic moat and corporate image.

TJX Companies should recommence and bolster its eCommerce to support its business model during COVID-I9. There is no doubt that online shopping will increase during this period, which will lead to a bump in the adoption curve for eCommerce as physical stores close and dependence on online platforms increases. Currently, TJX's websites do not include most merchandise to avoid cannibalism[7] of its in-store products, and they have even come to a halt amidst COVID-I9. This can become a potential problem in the future, considering there has been a consistent 2% growth in the proportion of retail sales coming from eCommerce since 20I7. Additionally, the U.S. is ranked second in retail eCommerce sales amongst other countries. Therefore, TJX should not fall behind on this trend[8] as its market concentration is heavily dependent on the U.S.. The company should take up eCommerce while leveraging its core competency in providing addictive "treasure hunt" experiences and low-priced goods to create a lasting retail experience during this short-term isolation. In addition to recommencing its eCommerce, TJX should improve its eCommerce user experience to ease online purchasing for customers. It can achieve this by implementing visual storytelling to bridge the gap between in-store and online shopping, upgrading the design layout to attract more customers through improved aesthetics, and expanding and re-organizing its repertoire to widen the scope of selections.

In conjunction with its eCommerce platforms, it might benefit TJX Companies to initiate a marketing campaign that focuses on concepts, such as social distancing and mental/emotional support, during COVID-I9 to build a stronger corporate image. A strategic marketing campaign can increase traction and customers' trust. The campaign should appropriately represent models and featured individuals enjoying TJX's apparel and goods while practicing social distancing at home. The campaign should also provide comforting captions, slogans, and merchandise description to inform customers that TJX will help them get through quarantine. Social media platforms

7 "Marshalls Is Making an Unprecedented Change to Its Business after Long Refusing to Sell Online (TJX) | Markets Insider." Business Insider, Business Insider, markets.businessinsider.com/news/stocks/marshalls-to-sell-online-this-year-20I9-2-I02799033I.

8 "Global Ecommerce 20I9." EMarketer, www.emarketer.com/content/global-ecommerce-20I9.

should also bolster TJX's eCommerce sites by sharing similar messages, leveraging influencer marketing, and using strategic inbound/outbound linking methods. Stronger online presence can eventually lead to a virtuous cycle[9]: (1) easier accessibility, (2) greater perceived value of TJX's merchandise, (3) a spillover effect, and (4) a stronger additional sales channel.

By bolstering its online platforms and implementing a strategic marketing campaign, TJX will strengthen its customer relations and distribution channels and expand its opportunities in eCommerce, which will further contribute to TJX's competitive edge and economic moat.

(2) Improve supply chain management & vendor relations to ensure a quick comeback in stores. Although TJX Companies has a well-oiled supply chain[10], it should refine its supply chain management (SCM) to prepare itself for rebound. Since TJX needs to recalibrate product orders to maintain and increase operational efficiency, it needs to feed changes across its purchasing, planning, and inventory management operations. Some ways it can achieve this is by revising its purchasing plans to favor items in high demand and/or using ABC analysis to categorize merchandise based on their impact on costs and profit generation. TJX can also direct inventories (and those already owned) towards more active locations and reassign merchandising operations staff and in-store marketing budgets to build operational flexibility for more essential items. Improved SCM can also lead to a virtuous cycle: (1) greater supply chain transparency (avoid bullwhip effect), (2) more accurate forecasting, (3) smarter resource allocation, (4) reduced stock levels, (5) increased efficiency, and (6) higher demand fulfillment.

Despite its core competency in having a good sourcing strategy[11], TJX needs to maintain strong vendor relations to mitigate supply shock. The company needs to work closely with existing suppliers while diversifying the supply base to leverage good deals and overcome supply chain bottlenecks for the upcoming years. One obvious way to maintain good relations is by pausing standing orders with suppliers, allowing future payments to be pushed back. The sooner TJX can cancel or defer the order, the better it is for suppliers. Additionally, open communication with suppliers can lead to exclusive deals and helpful advice.

Given the perks of being an off-price retailer, TJX will better manage and reap the benefits of selling cheap, post-COVID-19 merchandise that were unsold from full-priced retailers by maintaining and enhancing its distribution network and dealer community. Improving its existing strengths in SCM and vendor relations will allow TJX to sustain itself during and after COVID-19, easing the transition back to physical stores and quickening the pick-up pace. This will allow TJX to maintain its economic moat and continue carrying out its core competencies.

Therefore, TJX Companies must build its online presence and refine its supply chain operations to successfully maneuver around the challenges imposed by COVID-19. By doing so, TJX can create a lasting retail experience for customers and achieve a swift comeback, ultimately ensuring a sustainable competitive advantage and securing its economic moat.

9 Dsedp. "A Look inside the Virtuous Cycle of Economic Development." Denver South, 10 July 2019, denver-southedp.org/a-look-inside-the-virtuous- cycle-of-econom-ic-development/.

10 Dsedp Macri, Kate Patrick. "As H&M Lags, TJX Models Inventory Management in the e-Commerce Age." Supply Chain Dive, 12 Oct. 2017, www.supplychaindive.com/news/HM-TJX-TJ-Maxx-Marshalls-Home-Goods-supply-chain-inventory-management/507112/.

11 "TJX Companies: An Impressive Retailer Paying Higher Dividends Since 1987." Intelligent Income by Simply Safe Dividends, 1 Dec. 2019, www.simplysafedividends.com/intelligent-income/posts/187-tjx-companies-an-impres-sive-retailer-paying-higher-dividends-since-1987.

Adopting Artificial Intelligence in Finance

by TsamYi(Tina) Lam

Technological advances with a spirit of innovation now run through the financial market and change the way we interact with money. Since the third climax of AI began in 2010[1], as tech spending continues across industries, adopting artificial intelligence (AI) initiatives go mainstream for financial service firms. Global investment banks now race to claim larger slices of the technology pie, through machine learning in AI. In January 2020, global investment bank JP Morgan launched the Machine Learning Centre of Excellence (ML CoE) in London led by Hong Kong University of Science and Technology Professor Chak Wong focus on AI[2].

Unbiased AI

AI offers enormous benefits to transform the business model, whereas the positive results based on the data put into the AI system[3]. Building unbiased AI for financial services applications is critical because biased AI systems could erode trust between humans and machines that learn. As AI systems trained to use data in the algorithmic model, identifying and mitigating bias in AI systems aim to ensure human bias does not affect the data or algorithms used to inform decisions. AI can mimic the human cognitive process in processing more massive sets of data and using algorithms for reasoning. Research institutions such as MIT-IBM Watson lab make efforts in building computational cognitive modeling based on human moral standards, thus applying specific human values and principles in decision-making[4].

Potential Alpha

Making advancement in the application of machine learning, stated by JP Morgan's alternative researcher, will continue making material and positive impacts on the finance industry. Not only enhancing operational benefits, but AI is also beneficial for firms seeking organic growth. As a result of faster, more precise financial market forecasting, firms may benefit from market volatility and unique alpha signals that drive returns[5]. Apart from a quantitative financial analysis perspective, the use of AI will change the role of financial advisors. They will free from repetitive tasks and focus more on business decision-making, utilizing advanced techniques, and more precise data to provide expert advice[6].

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1 "Deloitte Digital Innovation Camp (China)." Charlie Wang, , Director of Deloitte Analytics Institute, 2019.
2 Parsons, Joe. "JP Morgan Expands Dive into Machine Learning with New London Research Centre." The TRADE, 27 Jan. 2020, www.thetradenews.com/jp-morgan-expands-dive-machine-learning-new-london-research-centre/.
3 "Bias in AI: How We Build Fair AI Systems and Less-Biased Humans." THINKPolicy, 20 Jan. 2020, www.ibm.com/blogs/policy/bias-in-ai/.
4 AI Bias Will Explode. But Only the Unbiased AI Will Survive." AI and Bias - IBM Research - US, www.research.ibm.com/5-in-5/ai-and-bias/.
5 "2020 Global Alternatives Outlook J.P.Morgan Asset Management." Global Alternatives Outlook, 2020, am.jpmorgan.c content/dam/jpm-am-aem/emea/regional/en/insights/portfolio-insights/global-alternatives-outlook-ce-en.pdf.
6 "ARTIFICIAL INTELLIGENCE APPLICATIONS IN FINANCIAL SERVICES ." Artificial Intelligence Applications In Financial Services, www.oliverwyman.com/content/dam/oliver-wyman/v2/publications/2019/dec/ai-app-in-fs.pd.

Key Components & Operational Benefits

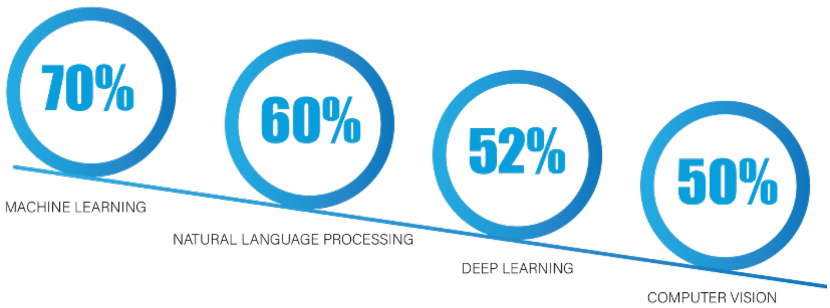
Artificial intelligence targets a specific combination of capabilities perception, reasoning, problem-solving, knowledge representation, natural language processing, motion and manipulation, planning, and social intelligence.

•**Machine learning**: Machine learning is a model's capability to independently analyze and categorize new datasets after learning a single data set. It predicts cash-flow events, and proactively advises customers on spending and saving habits. Applying machine learning also expands reach and reducing the defaults in credit models[7].

•**Natural language processing (NLP)**: NLP is widely adopted in information verification, user identification, and approvals for checking and identifying errors in documents. Thus it improves the underwriting process and capital efficiency; Apart from the paperwork, NLP understands customer queries via voice search on digital voice assistants or smartphones[8].

•**Deep learning**: The priority of the documents will be ranked based on the urgency, severity, and compliance to expedite triage. Deep learning also analyses data in generating precise and intuitive forms such as a simplified user dashboard; therefore, it helps develop innovative trading and investment strategies to a wide range of users[9].

Percentage of All Financial Services Respondents



Sources: Loucks, Davenport, and Schatsky, State of AI in the enterprise, 2nd edition. View in article

Risk Management

With AI embedded in every part of the business, cyber-security will be one of the top risks facing financial institutions. A higher percentage of concerns on cyber-threats from CEOs in the finance industry compared to all sectors. The concerns are driven by cross-border data exchanges, third-party vendors, and evolving technologies such as the Internet of Things . To mitigate the risk, thus, require adaptive compliance policies and transparent models and data.

COVID-19

Current circumstances of COVID-19 also signal the importance of implementing cutting-edge technology in transforming the modern workplace to a more flexible one that will stand firmly against the future crisis, thus relieving the global economy faster. Leveraging AI will increase the predictability of potential disasters. Besides, workers can work remotely with access to cloud databases because of IoT. Possible future utilization of 5G combining with AI will enhance automation and connection between the smart cities. In the longer term, as an investment bank software researcher says, reduced operational cost due to the steady trend of global adoption on technology will free up more resources for financial companies to invest aggressively in their digital initiatives.

AI in financial services creates equal opportunities for consumers and can potentially result in new markets for financial services firms. If AI incorporated with other technologies such as cloud computing in the Internet of Things (IoT), smart cities, and potential future implementation of 5G, the boundary of traditional finance and technology industry will break faster.

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7 AI Leaders in Financial Services." Deloitte Insights, www2.deloitte.com/us/en/insights/industry/financial-services/artificial-intelligence-ai-financial-services-frontrunners.html.

8 AI Leaders in Financial Services." Deloitte Insights, www2.deloitte.com/us/en/insights/industry/financial-services/artificial-intelligence-ai-financial-services-frontrunners.html.

9 AI Leaders in Financial Services." Deloitte Insights, www2.deloitte.com/us/en/insights/industry/financial-services/artificial-intelligence-ai-financial-services-frontrunners.html.