Cause and Effect Essay on Covid-19

Coronavirus disease 2019 (COVID-19 or coronavirus) was first detected in December 2019 by health authorities in Wuhan City in the People's Republic of China. Since that time, more than 118,000 cases have been confirmed worldwide, and the virus has spread to more than 114 countries across 6 continents, causing over 4,200 deaths to date, according to the World Health Organization (WHO). Spread of the coronavirus is causing a global emergency. It has been characterized as an "epidemic" by the US Centers for Disease Control and Prevention (CDC) and the WHO has just raised the status to that of a "pandemic"— an infectious disease that is able to infect people easily and spread from "person to person in an efficient and sustained way," according to the CDC.

In addition to significant health concerns, the spread of the coronavirus will impact the global economy. Just-in-time supply chains, many of which originate in China, are particularly vulnerable to disruption caused by COVID-19. In January 2020, Chinese officials mandated factory shutdowns across most of the country's provinces in order to stem transmission of the coronavirus. Despite expectations of their reopening in early February, many have remained shuttered. These factories make everything from medicines to car parts to electronics, and their shutdown has interrupted the work routine of roughly 60 million Chinese workers, according to Dun & Bradstreet.

Many analyses compare the coronavirus with the 2002-03 SARS epidemic. But this comparison is misleading as the relative importance of China in the worldwide economy has increased tremendously in the past 18 years. China has more than doubled its share of trade with the rest of the world in that time, and many more industries are now heavily dependent on its economy.

As a result, the coronavirus has caused almost every Fortune 1000 company to experience an interruption of their routine business operations. Across nearly every industry, multinational companies are confronting the stark reality that business will not go on as usual. Further, economists have warned that the coronavirus outbreak could cost the global economy an estimated $1.1 trillion in lost income. Some predict that the epidemic's after-effects will cause the global economy to shrink this quarter—for the first time since the end of 2008, when a shock to the financial sector caused turmoil for businesses around the world.

Many countries plan to implement stimulus packages to mitigate coronavirus impact. On March 3, 2020, the Federal Reserve slashed interest rates by half a percentage point; the first unscheduled, emergency rate cut since 2008, and the largest one-time cut since then. The International Monetary Fund has announced it will provide additional support to poorer countries by way of grants and debt relief. But such efforts cannot save certain businesses and industries from the substantial losses that will inevitably result from a pandemic.

Specifically, experts expect that technology companies, apparel makers and industrial-equipment manufacturers, as well as shipping companies, hospitality chains, airlines and the luxury goods sector will be among those hardest hits by the coronavirus. The economic slowdown could also derail US plans to increase exports of farm produce, energy and manufactured goods to China, delaying any real recovery in the distressed farm and rust belts and other areas of the US economy that rely on the US-China trade relationship. Below is an overview of those industries we expect will be hardest hit by the coronavirus outbreak.

Electronics

- A very large portion of the world's electronics come from Chinese factories. A long suspension of production will negatively impact overall supply. Many technology companies have warned that they will not meet their quarterly estimates because of factory closures. They also anticipate delays in the production and shipment of existing models, and introduction of next-generation models. Other electronics producers have been forced to increase prices on products such as refrigerators, air conditioners, microwave ovens, washing machines and televisions due to short supplies related to the coronavirus.

Hospitality, Tourism and Cruise Ships

- Many countries continue to curtail inbound tourism, especially from countries with a high number of coronavirus cases. The European Union's industry chief estimates €1 billion losses per month in the tourism sector due to the virus's impact. One of the largest losses, felt globally, stems from a decline in visitors from China, who represent a lucrative market for tourism and a large population of luxury goods purchasers.

- Cruise operators expect a bigger hit than initially anticipated, as a result of trip cancellations in Asia. If suspension of operations in Asia lasts through the end of April, losses will easily amount to $385 million to $445 million.[1] Operators not cancelling trips have modified itineraries in response to the coronavirus.

Restaurant and Entertainment

- Restaurants and the food industry will be greatly impacted. Several large chains have collectively closed thousands of restaurants in China since the outbreak. Suppliers expect raw material and protein prices to increase substantially.

- Mass entertainment venues, such as concert halls and museums, will also be impacted. The Louvre in Paris closed its doors as a coronavirus precaution. A major rugby match between Italy and Ireland was rescheduled. A high-profile international furniture fair in Milan has been postponed as the country has implemented severe travel restrictions in efforts to contain coronavirus. Some even speculate the Olympics may be cancelled.

Insurance

- Insurers who provide coverage for travel or business interruption can expect to be greatly impacted by travel disruptions caused by the coronavirus. Countless cancelled flights, hotels and events for both leisure and business travel will undoubtedly increase the claims filings and hurt profits.

Pharmaceuticals and Healthcare

- The US Food and Drug Administration (FDA) requires growers and manufacturers under its jurisdiction to notify the agency of any expected supply disruptions. According to a statement issued by the agency, at least one drug is in short supply because of problems related to the coronavirus outbreak. However, the FDA refused to disclose its name, the manufacturer or where the product or its ingredients are made, citing "confidential commercial information."

- India's pharmaceutical industry expects supply issues relating to the coronavirus. The Trade Promotion Council of India estimates that 85 percent of active pharmaceutical ingredients imported by India are from China, and notes that two-thirds of imports of bulk drugs and drug intermediates in 2018 and 2019 were from China.

Fashion and Luxury Goods

- The fashion industry is particularly vulnerable. Foreign luxury brands are a natural choice for international tourists, who spend roughly $200 billion a year on luxury goods in the US alone for instance.
- Luxury goods makers projects the coronavirus will have a material negative effect on all luxury demand. Apparel makers also expect to see revenues decline because of the outbreak.

Airlines

- With global air travel expected to fall for the first time in more than a decade, the International Air Transport Association (IATA), the trade body for the global airline industry, expects falling passenger demand to result in $29 billion in lost revenues this year alone.
- In response to canceled flights to and from China, certain major airlines have announced plans to cut expenses, cancel some pipeline projects and offer voluntary, unpaid leave to employees.
- In 2003, because of the SARS outbreak, airlines in North America lost about $1 billion as revenue passenger kilometers (a standard metric for air traffic volume) dropped 3.7 percent of international traffic, according to the International Air Transport Association. The IATA expects the coronavirus to outpace the SARS numbers. Some US based airlines have announced they will not resume normal service to mainland China until at least April 24, 2020, almost a month later than originally planned.
- Airliner manufacturers are also impacted due to the shutdown of factories in China that produce parts and finishing facilities.

Auto

- Auto sales are down by 92 percent in China,[2] and Asian and European auto plants are running short on parts. Some US manufacturers could face parts shortages in one to two weeks, if they haven't already.
- Asian automakers have closed factories due to the short supply of Chinese components,[3] British and European automakers have also warned that they may close plants due to shortages.

Construction

- The global construction industry is bracing for slowing economic growth in the near term. Singapore, Canada and the US are already expecting supply chain interruptions with materials ranging from solar panels to electrical and plumbing fixtures to concrete boards and flooring tiles. Singapore is especially vulnerable because it depends on Chinese construction contractors to meet its significant labor needs. Delays in construction schedules for development projects can result in significant cost overruns.

Shipping

- The global shipping market has been significantly affected by the coronavirus epidemic and slowed shipments to and from China. Container-ship operators have canceled over 40 sailings previously set to arrive at the Port of Los Angeles between mid-February and April 1, 2020, resulting in a 25 percent drop in container volumes.[4] Elsewhere, pileups and backlogs continue to build. While shippers and charterers may invoke force majeure clauses, such clauses are not available to certain owners who control their own vessels.
- Containership operators have already cancelled a significant number of sailings from China.

Legal Issues and Considerations

Companies should review their material business contracts to determine how their rights, obligations and business relationships will be impacted by the coronavirus. We expect an uptick in litigation related to material adverse change provisions and force majeure clauses, as well as other legal bases for nonperformance under commercial contracts, such as frustration of purpose. Companies should be aware of the notice provisions in their contracts relating to those clauses and others, including liquidated damages clauses and extension-of-time clauses.

In addition, public companies will be subject to proper-disclosure requirements regarding the impact of the outbreak on their performance.

Insurers and policyholders should assess policies for relevant coverage and exclusions related to business interruption, travel, event cancellation and workers' compensation policies.

Employers have a general duty to provide employees with safe workplace conditions that are free from recognized hazards that are causing or are likely to cause death or serious physical harm. It is important for employers to consider preventative measures to maintain safety and protect their employees during the coronavirus outbreak. This strategy should also consider flexible work arrangements and paid leaves of absence to span any gaps not within the scope of sick-leave policies.

Although it is difficult to determine the exact impact the coronavirus will have on the world's economy, it is clear the impact will be substantial and pervasive. And it appears the worst is yet to come. Investors worldwide are closely watching the coronavirus's impact on world markets. The US stock market has shown substantial volatility, with the Dow Jones Industrial Average suffering its worst single-day losses since the 2008 financial crisis.

Even if the tide turns quickly and the virus's spread is curtailed, its impact will likely be long-lasting. Some entities with thin margins and weak balance sheets will have been driven out of business. Others may need to consider bankruptcy protection to address liquidity issues, or supply chain or vendor disruptions. The Dentons Restructuring, Insolvency & Bankruptcy Team is here to help you and your clients navigate the inevitable challenges ahead.