

## GLOBAL ECONOMIC MELTDOWN: THE WORLD ON THE BRINK OF GLOBAL RECESSION

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### **Abstract**

*This article analyses the global economic crisis and issues with potential global recession in relation to causes and effects on world economies. This work uses qualitative research methods which derive implications from secondary data sources that include publications and reports from international financial institutions and accredited journals and other relevant publication houses. The study aims at identifying major causes of the current economic volatility including inflation, geo-political risk, shut-down of supply chains and policies from the central banks. It also evaluates the impact of economic measures that can be prepared or used to avoid or at least reduce the looming recession. The objective of the paper is to explore whether a Global Recession can still be prevented due to the integrated global structures of economies and the limited options that remain available to fiscal and Monetary Agents. Analyzing this issue the article concludes that albeit certain corrective measures may retard or alleviate the impact, it might become harder and harder to avoid a recession.*

**Keywords:** *Global Recession, Climate Change, COVID 19, Russian-Ukrain War.*

### **Introduction**

Contemporary global economy is experiencing acute crisis which developed due to several factors which can potentially plunge the world economy into a severe crisis or full-scale recession at the moment. In recent years, economies have failed to recover from the shocks that the COVID-19 spread caused, including disconnection of supply chains, reduced customer spending, and other effects, including dolphin damage to health care sectors. Only as some countries started to stabilize, a new generation of economic crises has developed, adding to the instability of the existing world situation. Inflation increases, increase in energy prices and conflict between Russia and Ukraine show that everything is not well. Several global central banks are struggling to manage inflation by increasing the rate of interest, but such steps come with the fallout that will adversely affect the economies (Gourinchas, 2022).

The major strategic plan that leads to the current economic instability is a high inflation level, which has been registered at the highest level for many years in various countries. After the pandemic, recovery demand for products and services increased further but supply chain constraints and availability of human resources became a challenge for organisations. In any case, to the worries that were previously mentioned, one can add the fact that prices started to go up. Crude oil and gas prices have fluctuated due to unforeseeable change in global geopolitics and restrictions on major exporters. This has however been exacerbated by the Russia Ukraine war, where key energy imports to Europe have been severed and this has spurred linked price increases across all facets of the global economy. This is because workers

in developed and, more so, developing nations are struggling to afford basic needs now that wages are Rocketing as the cost of goods and services soar (Aldem, 2022).

In this context, the chiefs of central banks, especially the chairman of the Fed, Jerome Powell and head of the ECB, Christine Lagarde, has started raising interest rates fiercely as an effort to tame inflation. But all these measures are not without some attendant dangers. High interest rates reduce credits available for spending and investment to businesses and consumers respectively. This in most cases results to a pull back of economic activity, this speed up the process of heading towards a recession. Moreover, flows of foreign exchange trade confirm that one country's central bank's decisions can causatively impact others owing to the integration of global financial markets. These global financial shifts are especially dangerous for developing countries: capital flight, a decline in currency value – and on top of everything else (Marchant, 2021).

The other reason that can contribute to an emerging recessionary gap is that the consequences of the pandemic persist in influence labor markets and industries. Some industries have recoveries with others like travel, hospitality and retail still challenged in terms of making recovery to pre- COVID-19 levels. Restrictions in human capital and new trends in hiring practices with more employees asking for telecommuting or flexible schedules have been an issue in resurrecting the economy. Furthermore, there is constant uncertainty of new COVID-19 variants remaining as a threat to any growth witnessed in world markets (Mishra, 2020).

Given this complex web of challenges, the central question remains: can the upcoming global recession be prevented? However, as some analysts have suggested, the further targeted fiscal stimuli, concurrent with persistent monetary policy interventions, may mitigate the damage; the truth is that the global economy is transitioning to a period of increased risk. Governments and other international institutions have limited ways of preventing a recession and the effectiveness of the solutions available are questionable at best. Though collective international action might slow down the results or soften the negative impact, the trend at the present moment is increasingly pointing to the fact that it is no longer possible to avoid the entire cyclical global recession at all (David, 2022).

### **What is global recession?**

A global recession is the long-term cyclical slowdown of the economy on a planetary scale. Famous economist Julius Shiskin in 1974 said that recession means two quarters of shrinking growth rate internationally, while the International Monetary Fund (IMF) has broader characteristics of global recession that including a reduction of per capita gross domestic product (GDP) all over the globe. For the IMF, this decline in global output has to be associated with a deterioration of other key macroeconomic variables, including trade, capital flows and employment (Gourinchas, 2022).

### **Research Question**

- Is the world heading towards a global recession and can it be prevented?

### **Methodology**

Through a qualitative research approach, this article collect data from secondary sources, including research reports from international financial institutions, academic articles, and informed analysis of the course of the global economic crisis. Information is collected by means of a literature analysis of the existing publications and financial reports. Thematic analysis incorporates observations made on analysing the data to establish the variability and themes that relate to inflation, the energy market and central bank policies to provide direction on the future probability of the world's recession.



## History

There have been four worldwide recessions that have impacted the world economy in the last 70 years: in 1975, 1982, 1991, and 2009.

The 1973 Arab oil embargo caused a ripple effect in oil prices around the world, leading to the global recession of 1975. The supply shock and the ensuing sharp increase in oil prices caused inflation to skyrocket and significantly slow down GDP in several nations until the embargo was lifted in March 1974. Reversals in monetary and fiscal policy, particularly by a few major advanced economies, were the cause of the growth bounce of 1976. However, the Group of Seven—Canada, France, Italy, the United Kingdom, and the United States—saw consistently high inflation, with the exception of Germany and Japan. The global recession of 1975 marked the start of a half-decade of stagflation, which was typified by weak output growth and soaring prices.

The second oil shock of 1979, the Latin American debt crisis, and stricter monetary policy in the US and other affluent countries were some of the factors that contributed to the global recession of 1982. In 1979, there was a significant surge in oil prices as a result of the Iranian revolution, which partly caused interruptions. This led to record high levels of inflation in some industrialized economies. In response, the main advanced economies—the United States, Germany, Italy, Japan, and the United Kingdom—tightened their monetary policies. In several of these nations, this resulted in severe drops in activity and notable increases in unemployment rates between 1982 and 1983. A number of Latin American nations had debt problems as a result of the rise in interest rates globally and the decline in commodity prices brought on by the slowdown in global growth. While unemployment remained rather high in many circumstances, the industrialized economies were able to resume their recovery relatively rapidly. However, several EMDEs, particularly those in Sub-Saharan Africa (SSA) and Latin America and the Caribbean (LAC), experienced long-lasting growth slowdowns as a result of the debt crisis.

A multitude of variables came together to cause the global recession of 1991. Sharply rising oil costs and increased geopolitical unpredictability were linked to the Gulf War of 1990–1991. Widespread instability in US lending institutions from the mid-1980s has affected the housing market, particularly during the 1990–1991 credit crisis. The deregulation of the financial sectors and the extraordinary expansion of the credit markets in the 1980s led to significant banking crises in the Nordic countries early in the 1990s. A handful of the member nations of the European Monetary System saw severe drops in economic activity in 1992 as a result of issues with the exchange rate mechanism (ERM). The collapse of an asset price bubble in Japan brought in a protracted period of low growth and almost negative inflation, as well as a recession. The shift to market economies in the former USSR and Central and Eastern Europe was followed by significant output declines and inflation (David, 2022).

The current financial crisis is one of the worst in the world economy, similar only to the Great Depression of the late 1920s. Following more easing of the loan and financial markets and institutions regulation and supervision, and the emergence of asset price and credit bubbles in several countries and the rapid expansion of subprime loans particularly in America's housing market, the crisis emerged mid 2007 in the industrialized economies. The September 2008 fall of Lehman Brothers set off a financial and macroeconomic debacle. The crisis was initially sparked by the U.S. mortgage markets, but because of its close ties to other financial markets, it also impacted other developed nations and certain EMDEs. Beginning in 2008, a number of European countries experienced banking issues, which resulted in financial crises inside the euro region between 2011 and 2013. These developments led to a record number of countries

experiencing highly synchronized recessions, severe credit crunches, sharp declines in asset prices, and a collapse in global trade. Even so, EMDEs fared very well throughout the global crisis of 2009—aside from a tiny percentage in the Europe and Central Asia (ECA) region.(Halton, 2021).

### **Is the world once again heading towards a recession?**

The ability of governments to adapt to major crises with flexibility has been one of the most impressive aspects of the post-World War II global economic order. From the 1970s stagflation and Bretton Woods currency regime collapse to the 1990s Asian financial crisis and the current global financial crisis, the world's leading economies have shown themselves surprisingly effective at cooperating to confront significant issues. That run of good luck could finally end this time. The current confluence of issues, including the war between Russia and Ukraine, inflation, worldwide food and energy shortages, asset bubbles in the US unwinding, debt crises in developing nations, and the aftereffects of COVID-19-related supply chain bottlenecks and shutdowns, may be the most serious crisis of them all. This is partly because central banks are unable to print wheat and gasoline. However, there aren't many indications of the kind of coordinated action that will be required to address these issues. Never before has international cooperation seemed less likely and more vital(Aldem, 2022).

Global economy is slowing down quickly, and it is anticipated that this slowdown will last as more countries experience recessions. “I fear that these trends will persist and clearly, the future is grim for anyone in an emerging market and developing economies,” said David Malpass, the President of the World Bank Group. Furthermore, compared to the years before prior worldwide recessions, the current global decrease in consumer confidence is noticeably more severe. Significant economic decline has occurred in each of the world's three main economies—the US, China, and the euro area. Given these circumstances, there's a possibility that the world economy will go through a recession at some point in the following year (Risk of Global Recession in 2023 Rises Amid Simultaneous Rate Hikes, 2022).

There were hints of an impending global recession earlier in the year, but they are becoming more apparent now. Prominent individuals have voiced alarm about the possibility of a worldwide recession. Among them are American economist Paul Krugman, winner of the Nobel Prize in Economics, and the director of the World Trade Organization (WTO) (Morrow, 2022).

The risk of a worldwide recession is increased to 98.1 percent by Ned Davis Research, a Florida-based research business best known for its global recession probability model. This is the highest since the COVID-19 pandemic-related slump of 2020 and the global financial crisis of 2008–2009. The prospect that the US Federal Reserve would raise interest rates so high that the greatest economy in the world experiences a recession that affects most of the rest of the globe is the main source of fear among investors. The outlook for the economy is being clouded by the conflict in Ukraine, China's stringent pandemic regulations, and uncontrollably high inflation (Power, 2022).

The head of the World Trade Organization, NgoziOkonjo-Iweala, stated that she thinks the world is getting closer to a global recession as a result of issues including the COVID-19 epidemic, the Russia-Ukraine war, the climate catastrophe, rising food prices, and energy crises. In order to revive growth, she also advocated for drastic measures. She stated that ensuring food security and access to energy is her main priority at the commencement of the WTO's annual session in Geneva. "The spectre of not having enough food is one that worries me," the news agency AFP cited her as saying. In an effort to combat inflation, she went on, central banks will need to tighten and raise policy rates (Agarwal, 2022). Some speculators link

the possibility of a worldwide recession to Russian gas supplies. According to the IMF, a complete supply cutoff to Europe by year's end and an additional 30% decline in Russian oil shipments would result in almost no growth in the United States or Europe (Rao, Ranasinghe, & Flasseur, 2022).

### **Role of Climate Change in Global Recession**

The Fourth National Climate Assessment published in 2018 also said – global economy may be threatened by climate change if we don't start to prepare and reduce greenhouse gases. High temperatures, increased duration and intensity of floods and storms, and systems' storm surges can result in damages to critical structures and assets, and have implications on human health and efficiency and a negative impact on a wide range of economic sectors including forestry, tourism, farming and fisheries. There will be pressure on water supplies, and as power generation becomes less reliable, energy consumption will climb. Trade and supply chains will be disrupted by damage to other countries, which will affect international industry. A recession in the economy may result from the effects of climate change on infrastructure, business, tourism, human health and productivity, and agriculture (Cho, 2019).

According to the Swiss Re Institute, if global temperatures rise by 3.2°C by 2050, the biggest effect of climate change might be the removal of up to 18% of the world's GDP. In the worst-case scenario, if temperatures rise by 3.2°C by the middle of the century, this might grow to 18% of GDP. Swiss Re warns that climate change is a systemic problem that requires immediate attention (Kammar, 2022).

By 2050, the global economy is expected to have lost 10% of its total value due to climate change. The Swiss Re Institute published a report titled "The Economics of Climate Change: No Action Not An Option," which calculated the effects of climate change. This analysis was based on the assumptions that net-zero emission targets would not be fulfilled, that the Paris Agreement would be implemented, and that temperature increases would continue on their current trajectory. In the best-case scenario, climate change is predicted to have the greatest impact on Asian economies, with a 5.5% GDP decrease, and in the worst-case, a 26.5% loss.

However, the data revealed significant regional variations. According to estimates, advanced Asian countries' GDP losses would be 3.3% if temperatures dropped below 2°C and 15.4% in the event of a catastrophic occurrence; ASEAN countries' GDP losses would be 4.2% and 37.4%, respectively. China's GDP might decline by as much as 24% in the worst-case scenario, while the US, Canada, and the UK are expected to lose 10% and Europe 11%. According to the poll, if temperatures go below 2°C, the Middle East and Africa will see a 4.7% decline in temperature. The worst-case scenario is what we have here. (Aldem, 2022).

The economies of South and Southeast Asia were most likely to be impacted by the physical effects of global warming. Generally speaking, the countries most impacted—Indonesia, Malaysia, Thailand, India, the Philippines, and Thailand—lacked the resources to mitigate and adapt to the effects of climate change. Initiatives to mitigate global warming will mostly help these nations.

Many developed countries in the northern hemisphere were relatively less vulnerable because they were better prepared to handle the effects of climate change and were less exposed to adverse weather patterns linked to global warming. Germany, the United States, Canada, Switzerland, and other countries were expected to be the least affected. This is supported by research from the Swiss Re Institute. According to Swiss Re Institute group chief underwriting officer Thierry Leger, climate risk affects every society, company, and person. It is estimated that approximately 10 billion people will inhabit the earth by 2050, primarily in the areas most affected by climate change. As a result, we must move quickly to reduce the risks and achieve

net-zero objectives. More active effort toward achieving the objectives of the Paris Agreement can mitigate the effects of climate change. It states that in order to accelerate the shift to net zero, collaboration between the public and commercial sectors would be necessary (Marchant, 2021).

### **Role of Russia-Ukraine war in Global Recession**

The invasion of Ukraine by Russia poses a serious threat to international peace, especially that of Europe. But the war also makes a number of negative global economic trends worse, including deglobalization, rising inflation, extreme poverty, increasing food insecurity, and worsening environmental damage. Furthermore, given the apparent demise of the peace dividend, which has long assisted in funding higher social expenditures, adjusting budgetary priorities may still be challenging, especially in mature nations. To start with the obvious, devastated by war Ukraine is experiencing extreme economic hardship. Apart from the devastation of tangible assets, millions of people have left the nation, and innumerable numbers of people have been murdered or injured. This is in addition to a global increase in economic hardship brought on by the COVID-19 pandemic. According to World Bank estimates, around 700 million people worldwide—many of whom live in war-torn areas—are estimated to be living in extreme poverty. This is a rise of nearly 100 million individuals. The conflict-related shortages of food and fuel are exacerbating post-pandemic inflation for the global economy, which had already hit multi-decade highs in the majority of the world (Rogoff).

The World Bank has warned that as the Ukraine war strikes economies already shook by the Covid outbreak, countries all over the world will be entering a recession. Less developed countries in Europe and East Asia are reportedly experiencing a severe recession. David Malpass, the president of the World Bank, says there's also a higher likelihood of "stagflation," or high prices combined with weak growth. Global food and energy prices have gone up. The Ukraine crisis, supply-chain hiccups, Chinese lockdowns, and the potential for stagflation are all seriously impeding growth. Many countries will find it difficult to emerge from recession. The devastating extent of the shock waves that are now striking countries and households thousands of miles distant from the epicenter of Russia's invasion of Ukraine is only now becoming apparent, more than a century after the invasion began. Already, developing countries were finding it difficult to recover. Before the pandemic, households there used to make \$20 a year, but today they barely make \$19. However, rising food and energy prices pose a potential to further disrupt lives, resulting in suffering and hardship for the most vulnerable. And not only in less developed nations. According to a poll, one in six households in Britain had used a food bank (Morrow, 2022).

Between 2021 and 2024, the global economy contracted by 2.7 percentage points, which is more than twice as much as it did from 1976 to 1979, the last period of stagflation. The study cautioned that although the dollar was weaker and oil was significantly more expensive in the 1970s, the dramatic increases in interest rates necessary to fight inflation at the end of the 1970s led to a worldwide recession in 1982 as well as a number of financial crises in developing and emerging markets (David, 2022).

The conflict increases expenses and impede growth, which is extremely detrimental to the world economy. All sectors of the global economy are impacted by slower growth and increased prices, notwithstanding the misery and humanitarian disaster caused by Russia's invasion of Ukraine. There are three main impact pathways.

- As the price food and energy continues to climb, inflation will increase even more, lowering salaries' buying power and burdening demand.

- A historic spike in refugee movements, together with interrupted trade, supply networks, and remittances, will be a challenge for neighboring economies in particular.
- Decreased investor confidence and heightened business uncertainty might impact asset values, perhaps leading to more stringent financial regulations or even a flight of capital out of emerging markets.

Prices have surged worldwide as a result of disruptions, particularly for natural gas and oil, which are produced by Russia and Ukraine, two significant producers of commodities. Wheat, which Russia and Ukraine export for 30% of the global market, has caused food prices to rise to all-time highs. Furthermore, the consequences of Russia's invasion of Ukraine have stunned not only those nations but the entire region and the world, highlighting the need for international safety nets and regional accords to stabilize economies. At a recent conference in Washington, Kristalina Georgieva, the managing director of the IMF, cautioned reporters about the more shock-prone nature of our environment. Furthermore, we will need to unite as a group to withstand future shocks. It is already obvious that the war and the ensuing increase in the cost of necessities will make it more difficult for policymakers in some countries to strike the difficult balance between preserving inflation and fostering the pandemic's economic recovery, even though some effects may not be fully noticeable for years (Kammar, 2022).

#### **Role of COVID-19 in Global Recession**

The COVID-19 pandemic has resulted in adverse health outcomes and a worldwide financial crisis. The COVID-19 epidemic is still having a detrimental effect on the world economy. Along with significant issues for healthcare facilities, the outbreak has created hurdles for the world economy. More than anything else that has occurred in the past century, the introduction of COVID-19 has hampered the growth of the global economy. Economists predict that the COVID-19 epidemic will slow global economic growth by 3.0–6.0% by the end of 2020. The spread of the pathogen has stopped economic growth (Wang, Wang, Abbas, Duan, & Mubeen, 2021).

Consequently, the world economy has contracted because of a big and fast knockdown by the corona virus and the containment measures that followed. The hardest-hit nations are those where the pandemic has spread to the greatest extent and where a strong reliance on international trade, tourism, commodity exports, and outside funding exists. Although the degree of disruption would differ between regions, all EMDEs have weaknesses that external shocks can amplify. Furthermore, the development of human capital will most likely be negatively impacted in the long run by changes to primary healthcare and education (Felsenthal, 2020).

The corona virus problem is primarily a hazard to public health, but it also poses an increasing risk to the economy. As the COVID-19 virus spreads around the world, unemployment and economic stagnation follow. A number of sectors have suffered as a result of COVID-19's global expansion. Through direct effects on production, supply chain disruption, and market disruption, as well as financial effects on businesses and financial markets, it has had an impact on the world economy. The pandemic is causing disruptions to global supply chains and international trade. About 100 nations have closed their borders in the past month, which has resulted in a complete halt to travel and tourism. The grim possibility of losing their jobs lies ahead for millions of people in these countries. Economists generally believe that the global COVID-19 new corona virus pandemic has major negative effects on the world economy, even though it is impossible to predict exactly how much money would be lost (Mishra, 2020).

### **Risk of Global Recession**

The World Bank's extensive new analysis shows that the world is headed for a global recession. In the long run, a series of financial crises in emerging market and developing economies would do them no good, since central banks around the globe, all at the same time, will raise their interest rates in response to inflation. The analysis found that global interest rates are rising this year at a synchronized rate that central banks hadn't seen for 50 years until now. And this is probably going to persist into the next year. Currently, even the mere continuation of such interest rate rises and further policy measures may not be sufficient to restore global inflation to pre pandemic levels.

Inflation is now being fought by central banks. There are already a number of previous markers of global recession that are blinking red. The post-recession rebound that began in 1970 has now given way to the world economy's sharpest downturn. Already, there has been a far more dramatic drop in global consumer confidence than there was in the years preceding prior recessions. The world's three largest economies—the US, China, and the euro area—have all seen significant downturns in recent times. A minor setback to the global economy during the course of the following year can trigger a recession in the current climate. Even while the global economy is rapidly slowing down, officials in many countries are withdrawing support for policies due to the threat of inflation and the constraints on their fiscal space. The worldwide recession that occurred in 1982, the policy responses to the global recession that occurred in 1975, the stagflationary period that followed, and the events of the 1970s serve as examples of the negative effects of permitting inflation to stay high during a prolonged period of low growth. 1982 had the second-lowest growth rate among developing nations over the previous five decades, only surpassed by 2020, which happened to coincide with the world recession. It caused over 40 debt crises, which prevented many developing economies from making progress for ten years (Roy & Young, 2022).

### **Can the upcoming Global recession be avoided?**

The World Bank has suggested the following measures in order to avoid a global recession:

- Central banks must communicate their policy decisions in a clear and concise manner in order to preserve their independence. This could reduce the need for tightening and help maintain steady inflation expectations. Developed economies' central banks ought to be mindful of the potential cross-border repercussions of monetary tightening. For developing and emerging market economies, macro prudential measures and larger foreign exchange reserves are advised.
- Fiscal authorities must carefully calibrate the elimination of fiscal assistance measures to ensure compliance with monetary policy objectives. Next year, the percentage of countries expected to tighten fiscal policy is expected to hit its highest level since the early 1990s. This might make monetary policy's effects on growth more pronounced. It is imperative that lawmakers implement feasible medium-term budget plans and help the most vulnerable.
- It will be necessary for other economic officials to take up the battle against inflation, especially by implementing significant measures to increase global supply. These include:
  - The labor market's constraints are being loosened. Policy measures must be used to reduce labor force participation and pricing pressures. Reforms to the labor market may facilitate the reallocation of displaced workers.
  - Increasing the availability of commodities worldwide. Encouraging global cooperation can significantly boost the availability of food and energy.

Policymakers ought to expedite the shift to low-carbon energy sources and implement strategies to curtail energy usage with regards to energy commodities.

- Creating networks to facilitate international trade. In order to reduce supply constraints worldwide, policymakers ought to work together. It is imperative that they endorse an international economic system founded on norms to prevent protectionism and fragmentation, which have the potential to erode trading networks.

### **Conclusion**

The world's economy faces a new recession caused by inflation, energy issues, and problems with the international economic relations. A number of factors have combined to create economic instability, including the COVID-19 pandemic's aftermath, supply chain disruptions, inflationary pressures, and the conflict between Russia and Ukraine. The global recessions of the 1970s, 1980s, and 2009 are among the historical instances of such downturns, and they serve as sobering reminders of their potential severity and wide-ranging impacts. The current condition of affairs highlights the urgent need for governments, central banks, and international organizations to work together. It is characterized by rising inflation, sluggish development, and increased geopolitical tensions. Central banks have begun tightening their monetary policies in an effort to combat inflation; nevertheless, striking the right balance between lowering inflationary pressures and sustaining economic growth is challenging. It is crucial to have open lines of communication, carefully calibrate financial support measures, and provide targeted relief to the most in need households in order to strike this delicate balance. However, steps to boost global supply, loosen labor market constraints, and strengthen trade networks are crucial to reducing supply chain disruptions and the inflationary impact of rising commodity prices. Collaboration at the regional and global levels will be crucial to achieving these objectives and preserving the stability of the global economy. Looking ahead, the path to recovery will require multilateralism dedication, ingenuity, and resilience. To build a more just and sustainable global economy, it will be essential to address the root causes of economic vulnerabilities, such as socioeconomic inequality, geopolitical upheaval, and climate change. Even if there may be many barriers in the way, there is reason for optimism. History has shown that the world is capable of enduring adversity and emerging from crises stronger than before. By taking lessons from the past and adopting collective action, we can weather this storm together with laying the foundation for a more resilient and successful future.

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