

# **Covid-19 Pandemic and the Global Economy - A Study on its Negative Impact and Country Responses**

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## **Abstract**

This epidemic is not like any other crisis looking at the unprecedented time and the uncertainty of its outbreak and the impact it has caused globally. Coronavirus (COVID -19) has affected the global health and the economies adversely with limited options of saving lives and also saving the local and federal economies. Even COVID -19 was declared a pandemic there was a hint of a recession which left economists wondering how bad a COVID -19 recession would be? No single number can showcase the apparent magnitude of the impact due to two significant reasons – Short period of study as it is less than a year of detecting this pandemic and the lack of any significant study on its impact on economic growth. This paper reviews the available and most recent studies, newspapers, magazines, and reports issued by international organisations like WTO, UNCTAD, and OECD. It also highlights previous literature reviews and the empirical studies for SARS, Malaria, Spanish flu, etc., for an approximate picture of what might happen during any health crisis and the resultant impact on economic activities.

**Keywords:** Covid-19 (Coronavirus), Recession, Employment, GDP, Trade, global Economy.

## **Introduction**

Confirmed cases of the novel COVID -19, which first appeared in China at the end of 2019, now over 25,662,163 cases as of September 01, is most likely to climb significantly higher worldwide. Fig.1 details the distribution of the confirmed cases across the world. COVID -19 is a disease caused by SARS – CoV-2, a novel strain of coronavirus from the SARS species that changed the outlook unexpectedly. The global economy has experienced various crises that have marked its effects over the years. A UNCTAD report stated that COVID -19 would negatively impact the countries severely hit by the pandemic and also those that are closely integrated into global value chains centred on China, the Republic of Korea and Japan as well as South-East Asian economies. World Bank called it “A year of living dangerously”, COVID -19 has impacted the global annual growth, decreasing it to 3.6 per cent in 2020 thus far. COVID -19 is a public health crisis, which will translate to a global economic crisis. On February 23, 2020, the President of China, Mr Xi Jinping, stated that “It is unavoidable that the novel coronavirus epidemic will have a considerable impact on the economy and society.

The extent of the damage caused by COVID -19 globally will depend on the steps taken by the various authorities to contain it and also how much it will take for them to be successful. How long before the vaccine is found to prevent this disease and the discovery of the correct treatment method, which will help cure the infected without much of damage will be a crucial deciding factor. The steps taken by the various governments in containing the economic impact of this virus globally is to be studied and the good practices shared. Although the outbreak appeared

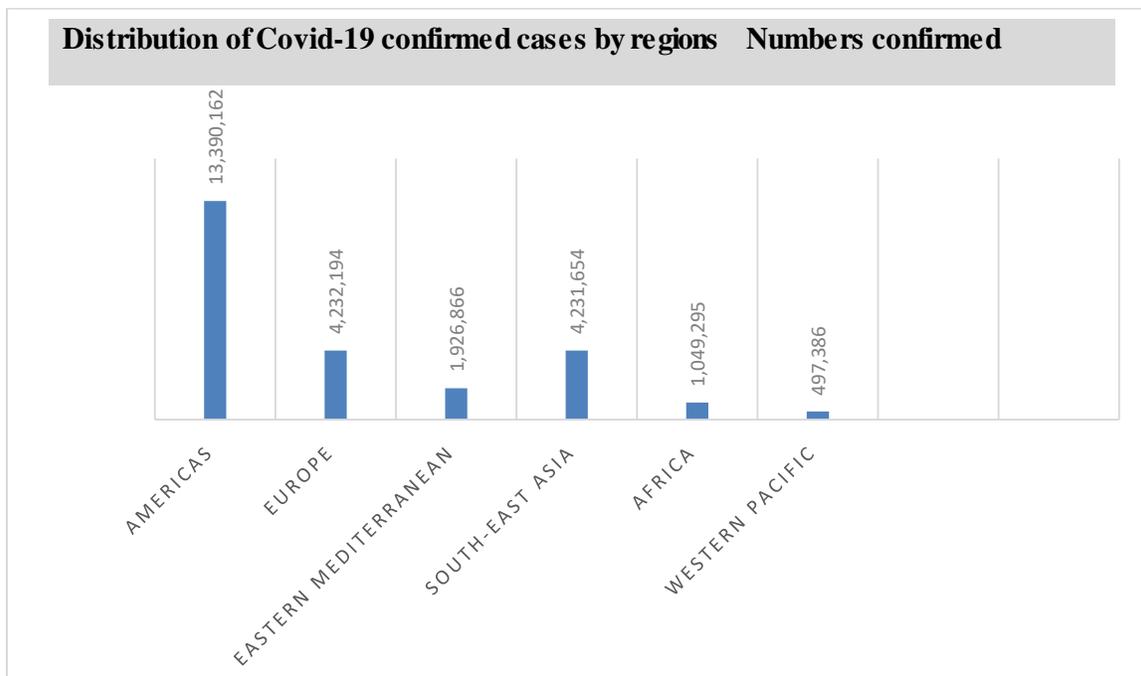
firstly in China, its impacts have gone global. To help understand the potential damage of the virus on the global economy, it is useful to discuss three main factors: labour force (employment loss), GDP growth and global trade.

International Monetary Fund (IMF) during its March 2020 projections for the global economy reversed its earlier forecast as the pandemic started impacting global growth prospects. IMF also stated that the recession caused by COVID 19 on the global economy would be as bad as the global financial crisis of 2007-2008. Historically it is shown that whenever there is a recession which affects the global economy, its impact is vast and vicious, and some sectors are more affected than the others.

In this paper, the researchers review how the coronavirus outbreak led to a global economic recession throughout the three channels mentioned above. The discussion in this paper will significantly contribute to the financial crisis literature. This paper contributes to the literature by showing how labour force, GDP and trade factors can trigger both a financial and economic meltdown in unprecedented ways.

The rest of the paper is structured as follows; section 2 reviews the global economic crises (Past and Present). Section 3 concludes the reviews.

Figure 1: Covid-19 Distribution across the World



Source: World Health Organisation

## Review

There have been significant advances in the medical field in the past years but still, the obstacles caused by infectious diseases like H1N1, SARS, Malaria, Swine Flu, Bird Flu etc., represent a severe threat to human beings. Human lives are a priority always, and reducing their sickness and prevent loss of lives is at the forefront of all endeavours and also the spillover of the virus can have disastrous economic consequences.

Studies have shown that health pandemics across the world have had a significant impact on the global economy.

A report was conducted by the World Bank (2015) indicated that in 2013 when the Ebola epidemic hit in Guinea, Liberia, and Sierra Leone, it had abolished their previous economic gains. After the Ebola outbreak, these countries were among the fastest-growing economies in the world. One of the most affected economic sectors is the health sector whenever an outbreak hits the community with an increase in expenditure due to a surge in hospital admissions putting tremendous pressure on medical staff and equipment. Lau, Hauck and Miraldo (2018) have found that in England when the H1N1 pandemic hit communities, inpatient admissions have been associated between two waves, 2009-2011, which cost around £45.3 million. A similar study by Kim, Yoon and Oh (2012) mentioned that the H1N1 influenza outbreak in 2009 in Korea the cost of government expenditures towards the health system to fight the disease was around \$1.09 billion USD. Similarly, the United States Military Health Care System (USA) estimated that the Department of Defense spent the US \$100 million in 2009-2010 H1N1 pandemic as there was a significant increase in inpatient and outpatient health care utilization mainly used by children less than five years old Jeffery and et, all ( 2013).

In the present circumstances, with the Pandemic showing no sign of waning, countries around the world have strengthened their frontline health services to enable better responses. The current priority for the governments is giving supporting health financing policies for the health system to help contain the various and reducing its spread. The following table 1 shows some of the top infected countries and their spending on the health sector.

Table 1: Governments Response to the COVID-19 Outbreak

<b>Government responses of Coronavirus through Funds healthcare spending</b>	
Australia	AUD \$9.0 billion
New Zealand	NZ \$19.3 billion
UK	GBP £5.0 billion
Germany	DM €560.00 for each patient.
United States	USD \$ \$2.1 trillion
Canada	CAD \$1.50 billion
China	USD \$16 billion
Italy	Euro €750 billion
Iran	USD \$19 billion
Saudi Arabia	USD \$12.53 billion

Source: Various

Lockdowns across have affected an already battered economy by slowing activities and projects and in many cases stopping them altogether. Lockdown was supposed to be effective in saving lives from the pandemic with countries implementing quarantines, social distancing and isolations as some of the practical steps to stop the virus from spreading. Countries affected more are those dependent on tourism, travel, entertainment and exports for their economic survival.

Lockdowns though effective in curbing the spread of the disease but the tools of lockdown have cost the countries economically.

Countries are implementing many measures in order to stop the spread of COVID -19. Dutt 2020 has claimed in his study that “We are not experiencing a standard downturn. Nor is it simply a financial crisis, a currency crisis, a debt crisis, a balance of payment crisis or a supply shock.”

In America, the rise in the number of unemployed workers due to COVID-19 is substantially greater than the increase due to the Great Recession from 2007 to 2010. As a result, the U.S. unemployment rate rose from 3.8% in February to 13.0% in May 2020 (Kochhar, 2020). In the meantime, Trading Economics Magazine of Australia has referred that Australia's unemployment rate surged to 7.4% in June 2020 due to the COVID-19 lockdown, which is a two-decade high. Since the current pandemic hit, unemployment rate and claims for unemployment benefits have increased in countries most affected by this pandemic.

Korkoyah and Wreh 2015 have confirmed that Ebola has a negative impact on the unemployment rate. During the Ebola epidemic and its hit in Liberia in late 2013, the unemployment rate soared from 18.8% before Ebola hits to 56.2% after that. This has resulted in substantial income deficits and closures of most businesses and markets. Other studies indicated that the negative impacts of such epidemics like SARS and Malaria have caused in increasing employment loss, thereby increasing the unemployment rate. (Knobler et al. 2004, Arrow et. all 2004). Coibion et al. 2020 argued through their study on a customized survey with more than 10,000 respondents that the imposition of lockdowns in the United States of America during Covid-19 caused a massive decline in employment due to income and wealth losses. The study also indicated that the households living in counties that went into lockdown, earlier than expected, the unemployment rate increased over the previous year by 13 % which will continue for the next three to five years.

Sedlářek and Sterk 2020 indicated through their study on U.S employment that even with a short-lived recession, the employment losses could be substantial and last for more than a decade after the Covid-19 pandemic. Several studies have also discussed the impacts of stay-home orders and lockdown on unemployment in the USA and confirmed that Covid-19 had increased the numbers of unemployment within the country (Beland et al. 2020, Couch et al. 2020, Blustein et al. 2020). Deady et al. 2020 confirmed that in May 2020 around 2.3 million Australians were unemployed or their work hours have reduced because of the economic considerations. The researchers have argued that as a response to the Covid-19 pandemic, lockdowns and restrictions have increased the unemployment rate in Australia.

It will take a long time to find out and understand the impacts of the Covid-19 pandemic on the global economy. However, with recent numbers, working papers, discussions and insights, these resources draw a significant picture of the massive damage to every economy worldwide. One of the most significant issues that should be attracting more attention is the impacts of Covid-19 on GDP growth. An evaluating study conducted by OECD argued that because of the measures to combat the spread of Coronavirus there is an apparent, sharp decline in the production, household spending, investments and international trade which led to a noticeable decrease in the GDP (OECD 2020). Orem et all. 2012 discussed the burden of Malaria on Uganda's GDP growth by using the production function approach. The researchers concluded that Malaria had had a substantive loss in the GDP of Uganda through direct impacts on government, donors, households etc., and the indirect impacts include output losses and absence from work due to

illness and deaths. A similar study conducted by Sachs and Malaney 2002 found that Malaria highly impacted the GDP growth in Uganda through personal consumption, government expenditures and private investments.

Empirical studies showed conflicting results with regards to the Spanish flu epidemic during 1918-1919 in the United States having a positive impact on increasing the per capita income growth across the country in 1920 Brainerd and Siegler (2002). On the other hand, Bloom and Mahal (1997) have found no significant effect of the Spanish flu on acreage sown per capita across 13 Indian provinces.

Maliszewska et, al, 2020 through their preliminary assessment by implementing a standard global computable general equilibrium model. They illustrated that the biggest negative impact on the output of domestic services declined, as well as in traded tourist services. The global GDP growth was declined to 2% below the benchmark for the world, 2.5 % for developing countries, and 1.8 % for industrial countries. Rawnsley, 2020 explained that Australia's GDP would likely to be declined over 14% if the government did not announce any stimulus measures. However, the Australian government has implemented packages like Jopkeeper, which have saved the local GDP, which recorded a decline of 6.7%. The following table 2 shows the latest world economic outlook GDP growth projections.

Table 3: Real GDP Projections Worldwide

	2019	2020	2021
World Output (Real GDP, annual percent change)	2.9	-4.9	5.4
Advanced Economies	1.7	-8.0	4.8
United States	2.3	-8.0	4.5
Euro Area	1.3	-10.2	6.0
Germany	0.6	-7.8	5.4
France	1.5	-12.5	7.3
Italy	0.3	-12.8	6.3
Spain	2.0	-12.8	6.3
Japan	0.7	-5.8	2.4
United Kingdom	1.4	-10.2	6.3
Canada	1.7	-8.4	4.9
Other Advanced Economies	1.7	-4.8	4.2
Emerging Markets and Developing Economies	3.7	-3.0	5.9
Emerging and Developing Asia	5.5	-0.8	7.4
China	6.1	1.0	8.2
India	4.2	-4.5	6.0

Asean-5	4.9	-2.0	6.2
Emerging and Developing Europe	2.1	-5.8	4.3
Russia	1.3	-6.6	4.1
Latin America and the Caribbean	0.1	-9.4	3.7
Brazil	1.1	-9.1	3.6
Mexico	-0.3	-10.5	3.3
Middle East and Central Asia	1.0	-4.7	3.3
Saudi Arabia	0.3	-6.8	3.1
Sub-Saharan Africa	3.1	-3.2	3.4
Nigeria	2.2	-5.4	2.6
South Africa	0.2	-8.0	3.5
Low-Income Developing Countries	5.2	-1.0	5.2

Source: IMF, World Economic Outlook update June 2020.

In April 2020, World Trade Organization (WTO) estimated that World trade is expected to fall by 13% and 32% in 2020 as the COVID -19 pandemic disrupts regular economic activity and life around the world (WTO, 2020). The report also mentioned that services and trade are directly affected by the COVID-19 pandemic through transport and travel restrictions. The report expected that there would be a trade recovery in 2021. Espitia et al., 2020 confirmed that Covid-19 has negatively impacted the food trade around the world. They explained that food imports have decreased between 6% and 20% in the first quarter, followed by the outbreak. The study mentioned that global food prices have increased up to 18% with the export restrictions, this would result in multiply the initial shock by a factor of 3 and the most affected countries will be Import food-dependent which majority are developing countries. Sforza and Steininger 2020 have implemented a Ricardian model in their study to analyse the economic effects of the Covid-19 pandemic on the disruption in production and trade in intermediate goods. They confirmed that Covid-19 has a considerable impact on most economies. Moreover, they found that global production linkages have a clear role in magnifying the effect of the production shock.

Arouna et all, 2020 suggested through their study some policies towards the African government in order to reduce the impacts of the Covid-19 pandemic on food trade. They mentioned that international and local trade is inflicted by the outbreak. Mold and Mveyange 2020 mentioned that paradoxically, Kenya's trade has experienced a significant improvement in exports in the first quarter of 2020. Exports like tea and fruit increased and exceeded levels of past years in Kenya. The most affected were the imports declining by a quarter over the first three months since the Covid -19 outbreak began. The authors noted that this marked decline in Kenya's imports could have a long-term impact on economic growth. Unctad, 2020 indicated in their report about the global trade impact of Covid-19, that the most recent statistics showed a remarkable downturn in global trade around the world. For example, European auto manufacturers found a shortage of critical components for production. In Japan, auto companies face difficulty to obtain technology parts like cameras and so on. However, According to

economists from WTO we have avoided the worst-case scenario for global trade in the wake of the COVID-19 pandemic.

Table 4: Merchandise trade volume 2018-2021 Annual % change

	Historical		Optimistic scenario		Pessimistic scenario	
	2018	2019	2020	2021	2020	2021
The volume of Merchandise trade	2.9	-0.1	-12.9	21.3	-31.9	24.0
Export						
North America	3.8	1.0	-17.1	23.7	-40.9	19.3
South and Central America	0.1	-2.2	-12.9	18.6	-31.3	14.3
Europe	2.0	0.1	-12.2	20.5	-32.8	22.7
Asia	3.7	0.9	-13.5	24.9	-36.2	36.1
Other regions	0.7	-2.9	-8.0	8.6	-8.0	9.3
Imports						
North America	5.2	-0.4	-14.5	27.3	-33.8	29.5
South and Central America	5.3	-2.1	-22.2	23.2	-43.8	19.5
Europe	1.5	0.5	-10.3	19.9	-28.9	24.5
Asia	4.9	-0.6	-11.8	23.1	-31.5	25.1
Other regions	0.3	1.5	-10.0	13.6	-22.6	18.0

Source: WTO Secretariat for trade and consensus estimates for historical GDP. Projections for GDP based on scenarios simulated with WTO Global Trade Model.

## Conclusion

This paper employs historical and near real-time Google search data to estimate the immediate impacts of Covid-19 outbreak. Covid-19 pandemic is a health crisis which resulted in an economic crisis impacting the global economy profoundly. Most countries have experienced the fall out of this like job losses, decrease in GDP, falling trade due to logistic constraints all staggering over time. It is premature to draw conclusions based on data available for all the above parameters as this pandemic is just above six months old. The preliminary data, however, does reveal that the impact of the crisis on the mentioned above factors will be involved.

Comprehensive available literature review about the possible impacts of Covid-19 on the global economy, indicates that there are numbers of implications that hit every single economy. In other words, the battle against the novel coronavirus (Covid-19) has led to several economic obstacles, while some nations around the world are struggling to contain the Covid-19 pandemic and its economic impact others were hit harder by Coronavirus. According to forecasts from OECD, the impacts of the recession of Covid-19 on the global economy, the economic activities will probably fall 6% in 2020, while a measure of unemployment will climb to 9.2%, from 5.4% in 2019. Unemployment rates (job loss) witnessed a sharp drop in most economies by the great

lockdown. In the most recent report released by the Global Economic Outlook (GEO) global GDP shrinks to 4.6% in 2020 as a result of Covid-19 impacts. International trade was affected by the recession of Covid-19; some WTO' economists have clearly stated that the global trade decrease will be worse than the trade recession brought on by the global financial crisis of 2008-2009.

In summary, the coronavirus has impacted global economies. While policymakers in wealthier countries created plans to help reduce the effects of this disease, other countries did not have these luxuries; it is clear their economies and governments are struggling. We recommend that there should be more studies focusing on policymakers and their laws/plans during these outbreaks because it would help in future pandemics as no one would know when or what they are.

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