

“The Economic Impact of Covid-19 in the World”

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Abstract:

The uncertain outbreak of COVID-19 has hampered the global economy which has made it difficult for the analysts and economists to draw the exact impact on the global economy. Every sector in the economy has been affected by the virus. The paper aims to analyse the damage the virus is doing to the global economy. The economic dip in Wuhan has been a pathway for us to draw an estimation of a global recession. For a better understanding, the economic data available from the time of the outbreak of Ebola and Global influenza has been used to analyse the situation with the present scenario. Further, it showcases the prediction and analysis of various economists and leaders about their understanding of the impact of COVID-19 on the global economy. This discussion further leads to an urgent need for the countries to join hands to strengthen global health.

(Keywords: demand shock, supply shock, shrinkage of GDP, lockdown, international trade)

I. INTRODUCTION

The outbreak of coronavirus named COVID-19 has left an impending hole in the global community. The virus is said to have originated from a wet market in Wuhan in Hubei province in China. It has been notified as a global pandemic. The epicenter of the disease has also shifted from China to the USA and the European countries namely Italy, Spain, France. As of 1st May 2020, the virus is said to have infected over three million cases with the USA, Italy, Spain and France accounting for more than 50% of the cases.¹ Thus, the virus has exposed the loopholes existing within the alleged resilient healthcare of these countries.

As the global community has teamed up to search for a potential medication to combat the virus from creating further devastation, a bigger economic war lies ahead of us. The virus has caused a dip in the global economy. China remains an important player in the global community. The preventive measure of stalling the production in the country due to several lockdowns has disrupted the production chains in the global market². The economic instability has resulted in a lot of companies shutting their business and people losing their jobs. The panic among several firms and consumers has further disrupted the production

¹Coronavirus cases.(n.d.).Retrievedfrom<https://www.worldometers.info/coronavirus/coronavirus-cases/>

² Fernandes, N. (2020). Economic effects of coronavirus outbreak (COVID-19) on the world economy. SSRN, 2. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3557504

chains and has created market anomalies³. The global finances have been affected sharply and is compared to be worse or similar to the financial recession of 2008/09.

II. OUTLINE OF THE PAPER

This paper attempts to present a complete picture of the global economic crisis with a prime focus on the status and actions of the developing countries. The paper is divided into four sections to elucidate and provide a detail account the topic. Section I highlights the economic impact in Wuhan due to the outbreak of Covid-19. The data which is available forms an integral part of the paper and acts as a parameter to analyze the economic situation in other nations and how it has impacted the global economics. Further, section II narrates the economic impact on the world and has been additionally divided into three subsections. The first subsection will elucidate on the impact of Covid-19 on the different sectors like transport, education in the world. The second subsection will highlight on the economic impact on the developing countries. The first subsection will be using the data on the economic impact available in the outbreak of other deadly diseases like the swine flu and Ebola to analyze the economic impact on the global economy due to the Covid-19. Section III will state the views of several notable leaders and economists of the global community on the economic impact of Covid-19 in the world. Section IV concludes the paper to portrays the views of the authors of a potential requirement to shift the focus towards a robust and more advanced health care system and the ways the governments should revive the dying economy.

III. THE ECONOMIC IMPACT ON WUHAN, CHINA AND THE INDIRECT EFFECT ON THE WORLD

Wuhan is the city from where the novel coronavirus named COVID-19 is said to have originated. Wuhan is also regarded as one of the principal financial hubs of central China. The city is ‘a significant transportation and trade center’⁴ and is the base to major local steel makers and vehicle makers. Additionally, the city hosts major companies like Microsoft, German software company SAP and French car maker group PSA⁵. This section will narrate the economic impact of the coronavirus on China and rest of the world.

Wuhan has recorded a GDP growth of 7.8% in the fiscal year 2019. The number has surpassed the national average economy of 6.1%. The numbers make it easy to infer the statement that Wuhan has established itself as a principal financial hub of Hubei and heavily

³ McKibbin, W., & Fernando, R. (2020). The Global Macroeconomic Impacts of COVID-19: Seven Scenarios. SSRN, 2. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3547729

⁴ Ayittey, F., Ayittey, M., Chiwero, N., Kamasah, J., & Dzuovor, C. (2020). Economic impacts of Wuhan 2019-nCoV on China and the world. *Journal for Medical Virology-Wiley*, 473. Retrieved from <https://onlinelibrary.wiley.com/doi/epdf/10.1002/jmv.25706>.

⁵ Huifeng, H. (n.d.). Why Wuhan is so important to China’s economy and the potential impact of the coronavirus.

contributed to the growth of the country. After the outbreak of COVID-19, the country had gone into a lockdown; shutting all public transports and industries. As a result, most of the companies had shut their business and had evacuated their employees. This had crippled the Chinese economic growth and had spread like the wild fire. The stringent lockdown imposed in China had affected the business of the entertainment industry and the airline industry. The effect of COVID-19 on different sectors have been analyzed in the succeeding section.

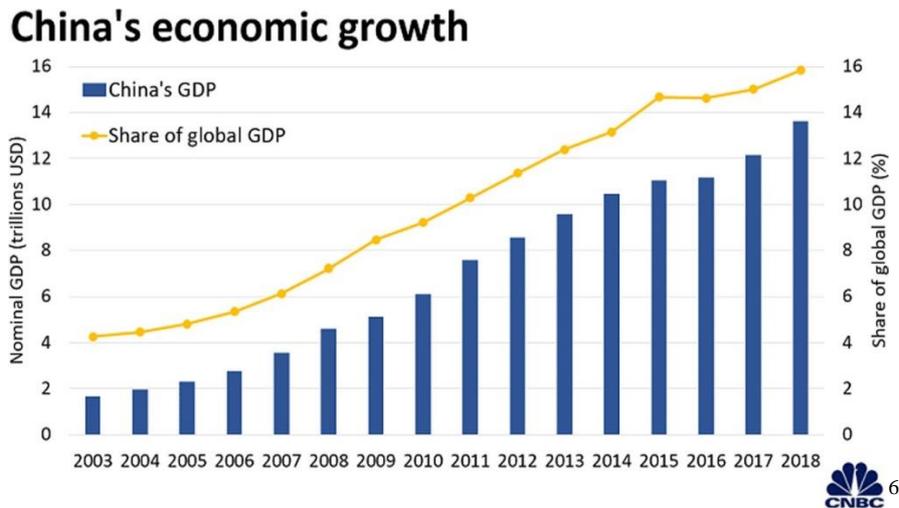


Fig I: Growth of China; GDP.

China has been regarded as an important player in the global market in the era of globalization. Figure 1 signifies the growth of China over from 2003-2018. It is clear from the graph that China has emerged as an important exporter of the world and has accounted for a major share of the world’s GDP. The Chinese provinces record for two-thirds of the supplier of parts to the top companies in the US, Europe and South Korea. The stringent lockdown and travel restriction is believed to have caused a huge loss to several industries in China and the world. ⁷One such sector was the automobile industry. Several companies had already shown their discontent due to the shortage of car spare parts. Hyundai had reported the shutdown of its domestic industry due to the non-availability of spare parts. Another such affected industry is the tourism industry. 6.3 million Chinese people are travel around the world in the lunar new year. As a result, it generated over \$73 billion revenue. However, there was a drastic fall in the figure due to the severe travel restriction. This affected the travel industry of Vietnam and Thailand; countries whose economy majorly depended on tourism. The Vietnam tourist industry is said to have lost up to ‘\$7.7 billion in the first three months’ while Thailand’s tourist industry was predicted to lose up to \$3.1 billion. Thus, it is clear from the section that the outbreak of virus though has started in China but the economic

⁶ Huifeng, H. (n.d.). Why Wuhan is so important to China’s economy and the potential impact of the coronavirus.

⁷ Huifeng, H. (n.d.). Why Wuhan is so important to China’s economy and the potential impact of the coronavirus.

brunt has to borne by the entire world since China remains an important member of the global community.

IV. ECONOMIC IMPACTS ON THE WORLD AND COMPARATIVE STUDY WITH PREVIOUS KNOWN PANDEMICS/EPIDEMICS

A. Impact on different sectors

This section throws light on the impact of COVID-19 on different sectors in the economy. In the current scenario, the world is facing both a demand and supply shock. The industries are shut down for more than a month now and the markets are also closed since then. This has led to a significant shock to the supply and demand chain of the entire world. A majority of the manufacturing units all around the world has come to a standstill because of the temporary closure of the plants. Every sector in the economy is being affected. For example, the aviation sector, automotive industry, retail sector and logistics sector are being affected negatively. This is because of the sudden shock to its demand. The temporary closure of the production plants has resulted in huge reduction in its supply as well. Due to the lockdown, which is continuously extending worldwide, the aviation sector has come to a standstill. Many countries have sealed their borders which have resulted in a shutdown of the aviation center.

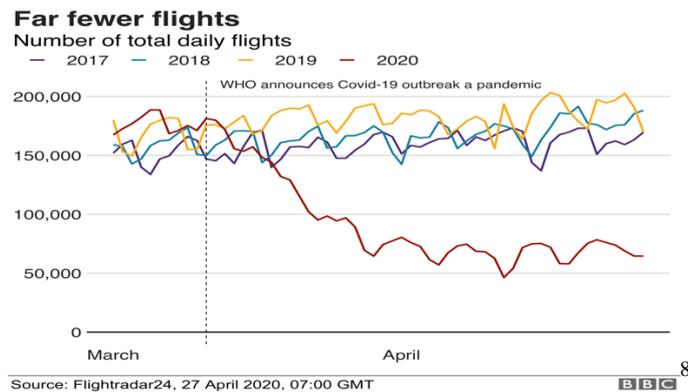


Fig.2: Data on daily flight reduction

However, the grocery sector is facing the opposite challenge. The said sector is finding it difficult to deal with the sudden surge in its demand. According to the World Logistics Council, logistics contribute massively to the GDP.⁹ The steps taken by the government to contain the spread of coronavirus, which includes lockdown has impacted the demand for

⁸ Brown, D. (n.d.). Coronavirus: A visual guide to the economic impact. (L. Jones & D. Palumbo, Eds.). Retrieved from <https://www.bbc.com/news/business-51706225>.

⁹ Evaluating The Impact of Coronavirus Outbreak on Different Business Sectors. (2020). *Infiniti Research*. Retrieved from <https://www.infinitiresearch.com/thoughts/impact-of-coronavirus-outbreak-different-business-sectors>.

goods in a negative way and has disrupted the global supply chain massively. However, the food industry is facing a massive reduction in their demand. The retail food stores, on the other hand, are facing shortage of food supplies. In all these sectors, one of the main problems is also the workforce management. Due to the uncertainty of this virus, all the companies are finding it immensely difficult to plan out a strategy in order to deal with this crisis.

To gain a competitive advantage in the coming period, all these sectors must in all circumstances understand their supply chains and formulate strategies and plans accordingly.

In the beginning of the year, the world economy was expected to grow by 2.5% but due to the sudden outbreak of coronavirus, the expectations have taken a U – turn. Now, it is expected that the economy will shrink by 1% in the year 2020. This is because it is estimated that the global output will shrink approximately by 0.9%. The outbreak was sudden and thus, no nation got enough time to develop policies and adopt measures to deal with the pandemic and protect the economy at the same time. This is the reason that the economy of all the nations individually and as a whole is getting significantly affected. If the same situation continues for any longer, there will be damage to the nations which is unimaginable. Hence, it is of extreme importance that appropriate fiscal responses are taken before extending the restrictions on the economic activities.

The analysis by the UN Department of Economic and Social Affairs (DESA) said the COVID-19 pandemic is disrupting global supply chains and international trade.¹⁰ From the past one month, more than 100 countries have sealed their borders due to which the tourism sector has come to a standstill. With the market being significantly affected, millions of workers have a fear of losing their jobs. Governments are taking several measures which also include huge packages to prevent the downturn of their economy. This could possibly lead to a jump of the global economy into recession. In case the governments fail to boost consumer spending and increase income support, the impact on economy might even be harder. All these impacts majorly depend on the duration of the restrictions imposed on different sectors as well as the efficiency of the fiscal measures that the countries are taking.

The service sector has greatly been affected. The industries that involve physical interactions have come to a standstill like the hospitality sector and the retail sector. This has led to a huge loss of revenues for businesses. As a result of which, massive reductions in the job requirements are expected in the future.

¹⁰ Global Economy could shrink by almost 1% in 2020 due Covid-19 pandemic: United Nations. (2020, April). *The Economic Times*. Retrieved from https://economictimes.indiatimes.com/news/international/business/global-economy-could-shrink-by-almost-1-in-2020-due-to-covid-19-pandemic-united-nations/articleshow/74943235.cms?utm_source=contentofinterest.

B. ECONOMIC IMPACT ON THE DEVELOPING NATIONS

The continuation of the restrictions on economic activities in the developed nations has led to a major impact on the developing nations. This is because a sharp decline in consumer spending in the European Union and the United States will reduce imports of consumer goods from developing countries.¹¹ The countries which are heavily dependent on tourism or commodity exports expect a higher risk as compared to the other countries. This is because tourism and international trade are being affected the most and are likely to remain so in the near future.

Initially, the macroeconomists thought that coronavirus pandemic will cause a negative demand shock in the economy but later it was realized that it will also cause a negative supply shock. A demand shock will be caused because people will not prefer spending anymore because of the constraints on their income due to the pandemic. Supply shock because of the continuous lockdown which is being imposed on several countries including the industrial sector. In developed nations like the U.S or United Kingdom, the governments are planning huge fiscal packages with an aim to expand healthcare facilities and also to help the households and industries to cope up with this pandemic. If the developing nations want to adopt this same strategy, they will need to have sufficient resources with themselves and also need to have enough borrowing capacity. On the contrary, developing nations, even in normal circumstances do not have sufficient resources and such steps often lead to an inflationary spike. Hence, economic hit in developing nations is expected to be much more severe as compared to the developed nations.

C. COMPARISON OF THE ECONOMIC DAMAGE BY EBOLA AND GLOBAL INFLUENZA WITH THAT OF COVID-19

The world has witnessed two major infectious outbreaks in the past namely the global influenza and Ebola. It had been a common observance that such infectious outbreaks have influenced the economy. The Covid-19 is predicted to have larger economic implications in the world. This section will briefly narrate economic damage suffered due to Global influenza and Ebola and analyze the economic damage that the Covid-19 is predicted to do.

Global Influenza:

The global influenza had killed ‘around 40 million people’¹² in 1918 and 1919. The infectious disease had left a damaged hole within the community. However, during the 20th century, the world was not very integrated as it is in the present times. If such a deadly

¹¹ Global Economy could shrink by almost 1% in 2020 due Covid-19 pandemic: United Nations. (2020, April). *The Economic Times*. Retrieved from https://economictimes.indiatimes.com/news/international/business/global-economy-could-shrink-by-almost-1-in-2020-due-to-covid-19-pandemic-united-nations/articleshow/74943235.cms?utm_source=contentofinterest

¹² McKibbin, W., & Fernando, R. (2020). The Global Macroeconomic Impacts of COVID-19: Seven Scenarios. SSRN, 4. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3547729

outbreak occurred in the recent times, there would be as much as ‘60 million people dead.’¹³. The global influenza had an impending effect on the economy and had halted the global trade. However, with the world being more integrated due to globalization and the restrictions on global trade, it is predicted that the global economy is on its way to lose more than \$4 trillion. A study has shown that the US will ‘shrink 5 per cent in the second quarter after flattening the curve in the first’ due to the disruption of the global trade and stringent lockdowns.¹⁴

Ebola:

Ebola is one recent outbreak that has had taken a toll on the global economy. The outbreak of the disease was from 2013-2016 and accounted for around 11, 301 deaths¹⁵. The disease has shown the world that while the health impact can be relatively limited but it might dampen the economy and cause recession. As an example, there was 20% drop in the GDP of Sierra Leone. Additionally, there were serious impact in South Africa. However, the situation of Covid-19 is much worse. The outbreak of Covid-19 has been more widespread and with China being one of the worst hit countries in the world and world being more integrated, it has subsequently created a shock in the demand and supply chain.¹⁶

V. THE VIEWS OF WORLD EXPERTS ON THE GLOBAL PANDEMIC

This future impact of coronavirus is well described by some of the economics experts. Due to the decreased production and demand in the economy, there is an expected downfall in the exports and imports all around the world. This pandemic is likely to bring a time where the world will be less integrated. Due to the quick and effective response of South Korea and Singapore, the powers are likely to shift from the East to the West. In the eyes of Stephen M. Walt “COVID-19 will create a world that is less open, less prosperous, and less free.”¹⁷ This virus might put an end to globalization to a very large extent because of the sudden dropdown in international trading. The extending lockdowns if various countries are forcing the companies and governments to focus on self – growth and economic isolation. As quoted by

¹³ McKibbin, W., & Fernando, R. (2020). The Global Macroeconomic Impacts of COVID-19: Seven Scenarios. SSRN, 4. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3547729

¹⁴ American GDP to shrink 5%, warns Goldman Sachs. (n.d.). The Times. Retrieved from <https://www.thetimes.co.uk/article/american-gdp-to-shrink-5-warns-goldman-sachs-ljh2fgmvg>

¹⁵(2016, March). Retrieved from https://apps.who.int/iris/bitstream/handle/10665/204629/ebolasitrep_16Mar2016_eng.pdf;jsessionid=0CB25C2A9FF3F9A6724E95019A893AAF?sequence=1

¹⁶ McKibbin, W., & Fernando, R. (2020). The Global Macroeconomic Impacts of COVID-19: Seven Scenarios. SSRN, 4. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3547729

¹⁷ Walt, S. (2020, March 20). How the World Will Look After the Coronavirus Pandemic. Retrieved May 18, 2020, from https://foreignpolicy.com/2020/03/20/world-order-after-coronavirus-pandemic/?utm_campaign=Brookings+India

Robin Niblett “it seems highly unlikely in this context that the world will return to the idea of mutually beneficial globalization that defined the early 21st century.”¹⁸

VI. CONCLUSION

The virus has not broken the system but it has exposed the system. This pandemic has posed a huge challenge to the world with every country trying to recover from the lost revenues. It is imperative that an integrated world is formed to deal with any such pandemic in the future. Moreover, as various governments are trying to save their economies by announcing various stimulus packages,¹⁹ it is important government shift their focus towards developing better healthcare instead of spending big bucks in strengthening the defense.

¹⁸ Niblett, R. (2020, March 20). How the World Will Look After the Coronavirus Pandemic. Retrieved May 18, 2020, from https://foreignpolicy.com/2020/03/20/world-order-after-coronavirus-pandemic/?utm_campaign=Brookings+India.

¹⁹ (2020, May). Retrieved from <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>.