IMPACT OF COVID -19 ON GLOBAL ECONOMY

By

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ABSTRACT

How did a health crisis translate to an economic crisis? Why did the spread of the coronavirus bring the global economy to its knees? The answer lies in two methods by which coronavirus stifled economic activities. First, the spread of the virus encouraged social distancing which led to the shutdown of financial markets, corporate offices, businesses and events. Second, the exponential rate at which the virus was spreading, and the heightened uncertainty about how bad the situation could get, led to flight to safety in consumption and investment among consumers, investors and international trade partners. We focus on the period from the start of 2020 through March when the coronavirus began spreading into other countries and markets. We draw on real- world observations in assessing the restrictive measures, monetary policy measures, fiscal policy measures and the public health measures that were adopted during the period. We empirically examine the impact of social distancing policies on economic activities and stock market indices. The findings reveal that the increasing number of lockdown days, monetary policy decisions and international travel restrictions severely affected the level of economic activities and the closing, opening, lowest and highest stock price of major stock market indices. In contrast, the imposed restriction on internal movement and higher fiscal policy spending had a positive impact on the level of economic activities, although the increasing number of confirmed coronavirus cases did not have a significant effect on the level of economic activities

Keywords: Covid-19, Coronavirus, pandemic, financial crisis, global recession, public health, Impact on Agriculture, Industries.

INTRODUCTION

The World Health Organisation (WHO) has declared that the new coronavirus outbreak is a public health emergency of international concern, officials announced on Thursday, 30thJanurary, 2020. WHO proposed calling the disease "2019-nCoV acute respiratory disease." The 2019 novel corona virus (2019- nCoV) originating in Wuhan, China, has spread to 24 more countries alarming public health authorities across the world. More than 4,900 people have died and over 132,000 have been infected globally, according to the WHO on 13 march, 2020. According to Situation report-48 on Coronavirus disease 2019 (COVID-19) on 08th march 2020 Over 100 countries have now reported laboratory-confirmed cases of COVID19. The report stated that globally 105586 confirmed (3656 new) cases have been reported, whereas in China 80 859 confirmed (46 new) 3100 deaths (27 new) and Outside of China 24 727 confirmed (3610 new) 484 deaths (71 new) (WHO Situation Report-48, March 2020). Delhi has reported six positive cases and Uttar Pradesh 10 so far. Karnataka has five coronavirus patients, Maharashtra 11 and Ladakh three. Besides, Rajasthan, Telangana, Tamil Nadu, Jammu and Kashmir, Andhra Pradesh and Punjab have reported one case each. Kerala has recorded 17 cases, including three patients who were discharged last month after they recovered from the contagious infection with flu-like symptoms (Economic times, 2020).

Objectives:

1.To Identified the highest number of Ovid -19 infected individuals.

2.To analyse the Impact of coronavirus (COVID-19) on Indian economy

Impact on covid-19 on Different sectors.

Impacts

The trade impact of the coronavirus epidemic for India is estimated to be about 348 million dollars and the country figures among the top 15 economies most affected as slowdown of manufacturing in China disrupts world trade, according to a UN report. Whereas according to Asian Development Bank (ADB) the Covid- 19 outbreak could cost the

Indian economy between $387 million and $29.9 billion in personal consumption losses (https://www.livemint.com/). For India, the trade impact is estimated to be the most for the chemicals sector at 129 million dollars, textiles and apparel at 64 million dollars, automotive sector at 34 million dollars, electrical machinery at 12 million dollars, leather products at 13 million dollars, metals and metal products at 27 million dollars and wood products and furniture at 15 million dollars. China has seen a dramatic reduction in its manufacturing Purchasing Manager's Index (PMI) to 37.5, its lowest reading since 2004. This drop implies a 2 per cent reduction in output on an annual basis. This has come as a direct consequence of the spread of corona virus (COVID-19) (The Hindu). When we see the China's Share in total import to India, India's total electronic imports account for 45% of China. Around one-third of machinery and almost two-fifths of organic chemicals that India purchases from the world come from China? For automotive parts and fertilisers China's share in India's import is more than 25%. Around 65 to 70% of active pharmaceutical ingredients and around 90% of certain mobile phones come from China to India.

Sector-wise impact on Indian industries:

Chemical Industry: Some chemical plants have been shut down in China. So there will be restrictions on shipments/logistics. It was found that 20% of the production has been impacted due to the disruption in raw material supply. China is a major supplier of Indigo that is required for denim. Business in India is likely to get affected so people securing their supplies. However, it is an opportunity. US and EU will try and diversify their markets.

Auto Industry: Its impact on Indian companies will vary and depend upon the extent of the business with China. China's business no doubt is affected. However, current levels of the inventory seem to be sufficient for the Indian industry. If the shutdown in China continues then it is expected to result in an 8-10% contraction of Indian auto manufacturing in 2020.

Electronics Industry: The major supplier is China in electronics being a final product or raw material used in the electronic industry. India's electronic industry may face supply disruptions, production, reduction impact on product prices due to heavy dependence on electronics component supply directly or indirectly and local manufacturing.

Foreign Trade: China has been India's largest source of imports since 2004-05, shows data from the Centre for Monitoring Indian Economy (CMIE) database. In 2018-19, the latest period for which annual data is available, it had a share of 13.7% in India's total imports. Any major disruption in the Chinese economy can disrupt these imports and hence both production processes and supply of consumer goods in India.

Effect on Poultry: The poultry industry in different parts of the country has been hit hard amid rumours that the novel coronavirus can transmitted through consumption of chicken, the prices of which have fallen considerably as a result. about two crore people employed in the poultry industry across the country have been impacted. People were avoiding consumption of meat, fish, chicken, and egg etc. Due to the fall in demand, wholesale price of chicken had dropped by as much as 70 per cent.

Spillover to the travel industry

The coronavirus outbreak led the governments of many countries to impose restrictions on non-essential travel to countries affected by COVID-19, indefinitely suspending tourism travel, work visas and immigrant visas. Some countries placed a complete travel ban on all forms of inward or outward travel, shutting down all airports in the country. At the height of the coronavirus pandemic, most airplanes flew almost empty due to mass passenger cancellations. The travel restrictions imposed by governments subsequently led to the reduction in the demand for all forms of travel which forced some airlines to temporarily suspend operations such as Air Baltic, LOT Polish Airlines, La Compagnie, and Scandinavian Airlines. Such travel restrictions cost the tourism industry alone a loss of over $200 billion globally, excluding other loss of revenue for tourism travel, and were forecast

to cost the aviation industry a total loss of $113billion according to IATA.8 US airlines sought a $50bn bailout fund for the US Airline industry alone.9 The GTBA reported that the business travel sector would lose $820 billion in revenue due to the coronavirus pandemic.

Spillover to the hospitality industry

Restaurant businesses have been affected during the pandemic mainly through the government-announced 'stay-at-home policy' and 'social distancing' movement restriction imposed by the government in many countries. This led to rapid shutdowns in cities and states to control the spread of the coronavirus, which threw many restaurants and hotels across the country into sudden shock. Hotels across the world witnessed booking cancellations worth billions of dollars, and the hotel industry sought a $150bn bailout.11 Restaurant executives laid off staff as they shut down their businesses temporarily. Many customers stayed at home, preferring to eat cooked meals at home. Some restaurant executives criticized the government for imposing the stay-at-home and social distancing policy which destroyed many small restaurants and pub businesses in small cities. They argued that governments' announcement of stay-at home policies or social distancing policies was an indirect way of telling people not to come to the pubs, hotels and restaurants, which was a way of silently destroying the hospitality industry during the pandemic.12 Multiple hotels in the US, UK and in some European counties announced the temporary suspension of normal operations which puts the estimated loss of jobs to 24.3 million globally, and 3.9 million in the US alone13 due to the decline in hotel occupancy during the pandemic period. The economic impact of the pandemic on the hotel industry was more severe than the 9/11 and 2008 recessions combined.

Spillover to financial markets

The most visible outcome of the COVID-19 crisis on financial markets was the effect in the global stock market. Global stock markets lost $6 trillion in value over six days from 23 to 28 February, according to S&P Dow Jones Indices. Between February 20 and March 19, the S&P 500 index fell by 28% (from 3,373 to 2,409), the FTSE 250 index fell by 41.3% (from 21,866 to 12,830), and the Nikkei fell by 29% (from 23,479 to 16,552). In the same period, large international banks witnessed a plunge in their share price, for example, Citigroup's share price fell by 49% (from US$78.22 to US$39.64), JP Morgan Chase's share price fell by 38% (from US$137.49 to US$85.30), and Barclays' share price fell by 52% (from £181.32 to £86.45). Although the oil price war, in which Russia and Saudi Arabia were driving down oil price by increasing oil production, played a role in the fall in stock markets indices, the subsequent fall in stock market indices in March was mainly due to investors' flight to safety during the coronavirus pandemic.

Spillover to the education sector

The coronavirus disrupted the $600 billion higher education industry.20 Educators and students around the world felt the ripple effect of the coronavirus as colleges and universities were instructed to shut down after the coronavirus was declared a public health emergency in many countries. There were school closures of some kind in 44 countries on four continents, including Africa, with hundreds of millions of students around the world facing disruptions. The outbreak had a more severe consequence on schools that did not have an online learning platform. Moody's, a credit rating agency, downgraded the U.S. higher education outlook from 'stable' to 'negative', because 30% of the colleges and universities in the US already had a weak operating performance, and it was difficult for these colleges and universities to adapt with the financial and academic changes required to cope with the coronavirus outbreak. Also, UNESCO reported that the COVID- 19 outbreak disrupted the education of at least 290.5 million students worldwide.21 Public schools in the US were closed, Australia shut down some schools, while countries like Israel, Nigeria, Egypt, Italy, France, and Spain shut down all schools, and this created some form of unemployment for teachers. Northern Ireland's government suspended all examinations in its colleges and universities

Global Spillover

Initially, the perception was that the COVID-19 pandemic would be localized in China only. It later spread across the world through the movement of people. The economic pain became severe as people were asked to stay at home, and the severity was felt in various sectors of the economy with travel bans affecting the aviation industry, sporting event cancellations affecting the sports industry, the prohibition of mass gatherings affecting the events and entertainment industries (Horowit, 2020; Elliot, 2020).

There are parallels between the COVID-19 crisis and the events of 2007-2008: as in 2020, many people in the earlier recession assumed the impacts would largely be localized (in that case based on an assumption that the subprime mortgage crisis would be a relatively minor problem affecting only the US, but ultimately affecting the global financial system) (Elliot, 2020). The sudden economic disruption caused by COVID-19 is not only destructive but also has spillover implications because it created demand and supply shocks in almost every area of human endeavor (El-Erian, 2020)7

Spread of COVID-19 (already known as coronavirus)

Real-time data on the spread of the coronavirus (or covid-19 disease) was collected from Worldometer. The data shows that the US had the highest number of infected individuals, followed by China, Italy and Iran as at 23rd of April 2020. The statistics is reported in Table 1.

Table 1: COVID-19 statistics (as at 23rd April 2020)

Countries	Confirmed cases (Total)	Confirmed Deaths (Total)	Recovered (Total)
Global	2,656,391	185,156	729,815
US	849,092	47,681	84,050
Italy	187,327	25,085	54,543
china	82,798	4,632	77,207
Iran	87,026	5,481	64,477
spain	213,024	22,157	89,250
Germany	150,729	5,315	103,300
UK	133,495	18,000	-
Canada	40,190	1,974	13,986
France	159,877	21,340	40,657
India	21,797	681	4,376
South korea	10,702	240	8,411
Turkey	98,674	2,376	16,477
Russia	62,773	555	4,891
Brazil	46,182	2,924	25,318
South Africa	3,635	65	1,055
Nigeria	873	28	197
Tunisia	909	38	190

Source: Worldometer.5 Note that there may be unconfirmed cases which were never reported to the public health authorities.

Conclusion:

We analysed the coronavirus outbreak and the spillover to the global economy which triggered the global recession in 2020. Policy makers in many countries were under pressure to respond to the coronavirus outbreak. As a result, many governments made fast policy decisions that had far- reaching positive and negative effects on their respective economy – many countries plunged into a recession. Social distancing policies and lockdown restrictions were imposed in many countries, and there have been arguments that such social policies can trigger a recession. Our findings in section 5 showed that a 30-day social distancing policy or lockdown restriction hurts the economy through a reduction in the level of general economic activities and through its negative effect on stock prices.

Lawmakers in many countries supported an extended social distancing policy, damning the consequences of social distancing on the economy. The recession that followed, which many countries experienced, was a reflection of the difficult choice that policy makers had to make in choosing whether to save the economy before saving the people or to save the people before saving the economy; many countries chose the latter. There were criticisms that the policies were too fast, premature or insufficient, and that the policies contradicted one another in some areas, for instance, the accommodative monetary policy encouraged economic agents to engage in economic activities while the lockdowns and social-distancing (stay-at-home) policy prevented economic activities from taking place.

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