ECONOMIC CONSEQUENCE OF GLOBAL PANDEMIC

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Abstract: The new decade started with much fanfare in the world with arrival of 2020. There was economic slowdown in some parts of the world caused by US – China trade war, Brexit, geopolitical tension in Middle East, possibility of war between US and its arch rival Iran. But nobody in worst nightmare imagined that Chinese province Wuhan originated virus can spread like wild fire in couple of months and make the world held hostage. WHO declared it as global pandemic as it claimed lives in great number in majority of the nations barring few isolated or island nations.The scale and size of the problem remained overwhelming. The world was completely unprepared. The nations which woke up late and delayed to take necessary precautions paid heavily. Italy, Spain, Iran, US, UK suffered hugely as they lost so many valuable lives. As because there was no medical cure, no vaccine was in sight, nations had no choice but to declare lockdown. Affected people had been quarantined, travel across the border had been restricted, people had been confined at home, business activities had been stopped and economy faced a damaging blow. There was state of emergency in majority of affected countries. As production, distribution, consumption got affected, economic condition deteriorated. There was loss of exchequer as massive funds had been disbursed for providing medical support, buying medical equipments, arranging food facility for stranded people and relief package for underprivileged at the time of crisis. This situation is unprecedented as no one viewed so many countries getting affected in such a short span of time. Even Second World War, Asian economic crisis, Dot com bubble burst, global recession of 2008 didn't spell so much economic trouble. Economic advisors, policy makers will have a tough time coming up with effective measures to bring economy back on track.

Keywords: Global Pandemic, Unprecedented Phenomenon, Business Distress, Economic Loss, Preventive Measure, Solution and Strategic Action Plan

Introduction

Since the beginning of new decade, the world has been bracing for imminent recession as there were economic uncertainties reflected in lack of demand, decreased productions, organizational downsizing and tight job market. This economic slowdown was mostly due to trade war between economic giants US and China, protectionism and inward looking approach by stalwart nations, nationalisation drive in some parts of world, geopolitical tension in Middle East, war like situation between US and Iran etc. Irrespective of economic deceleration stock market performed well across several regions but debt burden had been a serious concern since global recession in 2008. The macroeconomic crisis brought Argentina and Pakistan to take financial help of IMF. There were severe economic challenges for Turkey, Lebanon and India which reflected in drop in currency value, decline of GDP growth rate and rise in unemployment rate. There was humanitarian crisis in Syria, Afghanistan and Yemen due to prolonged civil war and lack of basic amenities and security for people. People from war ravaged nations made desperate attempts to reach safe destinations as asylum seekers. European nations were not interested as refugees might create social tension when countries like Greece, Germany, France, and Italy were saddled with social and economic responsibilities.

World was aware of the Wuhan virus outbreak but didn't give much attention to it as China was the only nation grappling with this novel coronavirus. Travel ban was imposed by several nations on visit to China but it was too late.At the time of writing this paper, the virus has reached more than 200 nations, claimed thousands of lives, infected millions of people and WHO was bound to declare it as global pandemic. Rest of the global affairs have taken a backseat and news channels are blaring about scary details of death tolls and infected cases which don't show the sign of reduction. China, Italy, Spain, France, Iran, US, UK remained worst affected. Top notch advanced economies are outwitted by COVID 19. In the shadow of death and despair, normal life has been thrown out of gear. Perceived as the worst crisis in the history of mankind, it is more devastating than the great depression, WWII, tech bubble burst, sub-prime loan crisis or any serious ordeal of memorable past. There is loss of life, emotional stress, and economic loss of unimaginable level. As the deadly virus spreads through human contact, imposing ban on the movement of people was the only way to contain the spread. Health workers are the front liners in firefighting mode to tackle overwhelming number of cases. Most of the nations are facing dire need of mask, testing kit, medical equipments and ventilators. Mortality rate is skyrocketing due to lack of proper medical cure. Scientists are on overdrive to develop vaccine but it's a long drawn process. To handle the tough situation governments across several nation asked people to maintain social distance, maintain hygiene and keep up healthy diet. There is speculation that corona episode will continue for several months and close on heel economic recession will appear as another challenge to deal with.

Objectives of the study

The main objectives of the research paper are as follows.

i. To see the impact of COVID 19 on various facets of the world economy
ii. To decipher about the gravity of economic crisis owing to global pandemic

Methodology

The Descriptive and analytical methods are used to carry the research operation on given topic. Survey had not been opted owing to the vastness of economic expanse. Secondary information are used such as write-up in business magazines, newspaper articles, web publications from reliable sources to check out deleterious impact of formidable virus on economy, business, trade, and livelihood of people.Regular updates had been followed on the webpages of eminent institutions such as WTO, WHO, IMF, ILO, OECD, United Nations Economic and Social Council to get a grasp on the economic fallout.

Literature Review

In the article 'Collective action' - restarting the global economy amid a Great Reset' written by digital editor of WEF Christopher Alessi, unified and cooperative approach is recommended to deal with complex problem of global economy caused by COVID-19 pandemic. The article emphasized the need to develop fair, resilient and sustainable economic and social system through cooperative commitment for post-COVID future.

In the article 'After the lockdown, a tightrope walk toward recovery' by Laurence Boone, there is comprehensive reference of economic crisis delivered by COVID 19 pandemic. It has mentioned about disruption of economic activity, health emergency, sickened wellbeing and massive job loss. It highlighted the roles of policy makers and governments to come up with stimulus measure to put the economy on recovery phase. The concern about severe integration to fragmentation surfaced in his analysis. There is an appeal about global cooperation and govt. initiatives for sustainable economy to tide over the crisis.

Article by Ravi Ramamurti named 'Using Reverse Innovation to Fight Covid-19' published in HBR June 17, 2020, author appealed about global solution for global health crisis. When it comes to preventive measure and tactics to deal with contagious diseases, big economies like US and UK should not hesitate to take lesson from small countries South Korea, Taiwan, and Thailand or Rwanda, as repeated confrontation with health related challenges made these nations more prudent and efficient.

In the write up published by WTO named 'COVID-19 could lead to deepest economic recession of our lifetime' fear of impending economic doom resonated. Deceleration of trade and investment and disruption of economic activity and normal life discussed briefly.

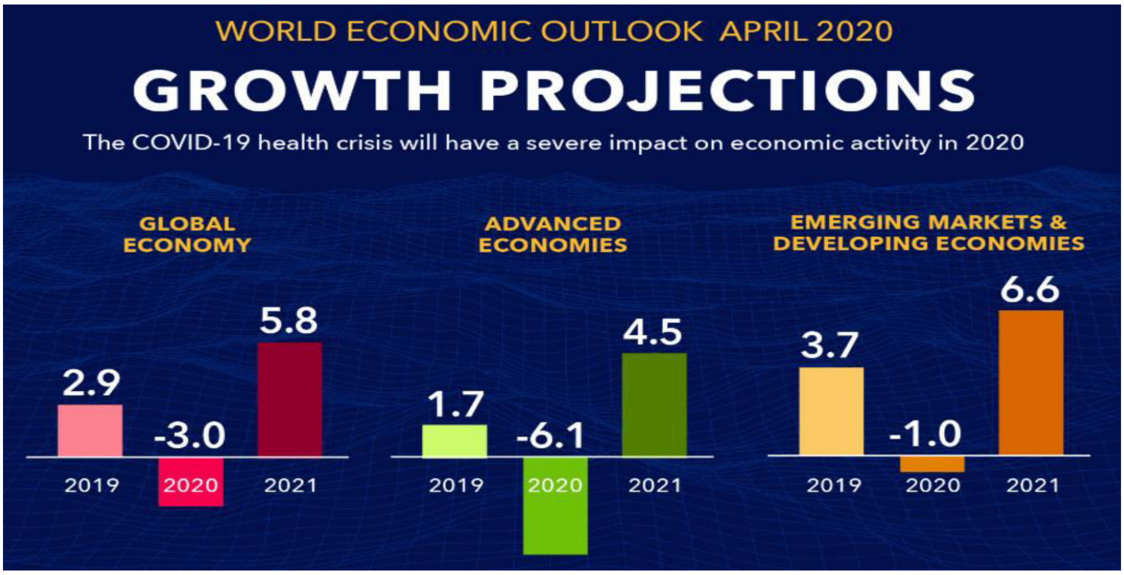
The ILO report named 'COVID-19 and the world of work- Fourth Edition' discussed about reduced job opportunities, declining working hours and unemployment in informal sector. It also compared employment situations across various economic sectors .Four pillars of policy frameworks have been highlighted to minimise the consequence of virus oriented disturbance. Emphasis has been given on special arrangement for tracking, tracing, treatment and care to avoid major catastrophe across all geographies.

Economic turmoil as a result of global pandemic

As per several reports, Corona virus emerged in wild animal laboratory located in Wuhan province of People's Republic of China at the end of year 2019.The contagious virus in its monstrous rampage has caused unprecedented economic, social, health and humanitarian crisis. After China, Iran in Middle East and parts of Europe reported highest number of infected cases and spurred mortality rate. The US had the hardest blow in April and May 2020 as federal govt downplayed the malicious virus and delayed taking precautionary actions. Countries like Russia, Brazil, and Mexico made the same mistake and paid heavy price with huge loss of lives later on.

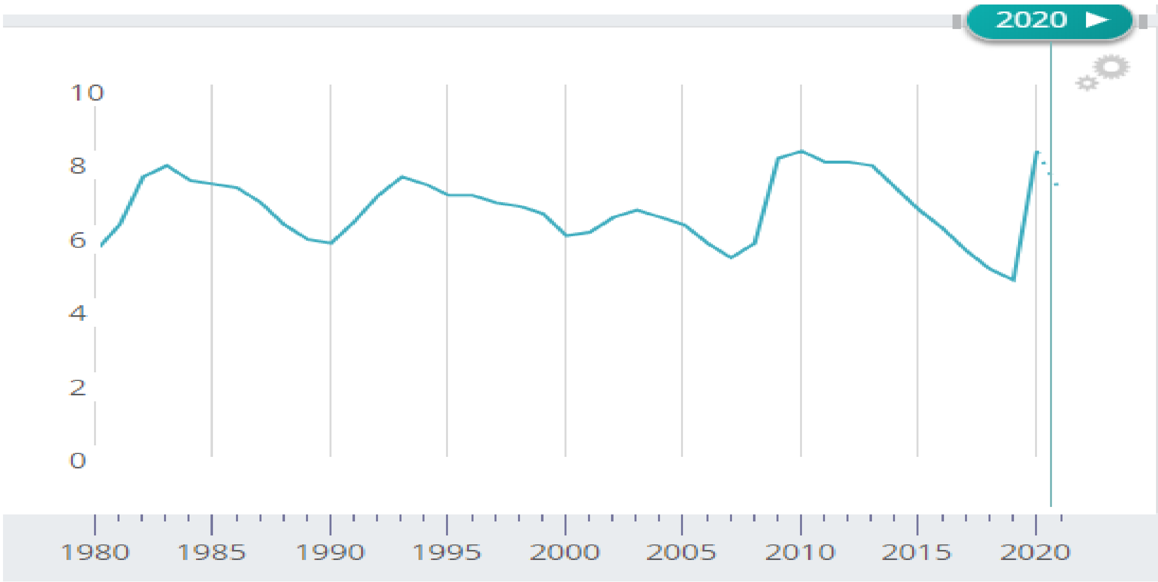
Economic progress showed a dismal picture in majority of the nations in the wake of global pandemic. There was loss of productivity, fall of demand, loss of confidence for consumers due to job loss and pay cut, pessimism in market sentiment, lack of liquidity and retrogression in majority of sectors. IMF's World Economic Outlook report released on April

14, 2020, forecast painted a lacklustre picture as it mentioned about 3 percent fall of global gross domestic product in 2020 happens to be far worse than 2008-09 financial turmoil scenario. Advance economies would be worst hit with combined contraction of 6 percent in 2020 as it is displayed below in the form of bar diagram.



Source: IMF World Economic outlook, April 2020

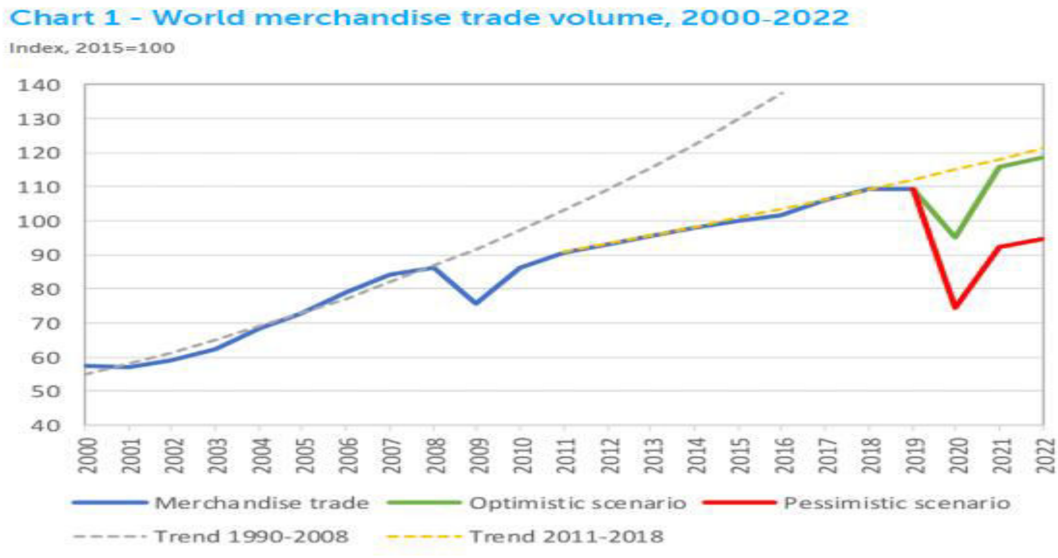
Emerging market and developing will be afflicted by 1 percent in their economic activities in 2020. Absence or delay of therapeutic measure might cast a shadow on solvency situation of weaker nations. Central banks in advanced economies brought down interest rate to historic low and public debt would surge past the record of past 60 years. Emerging nations are saddled with unseen mix of domestic and external shock in the form of macroprudential regulation and depleted capital inflow owing to COVID 19 outbreak. OECD Economic Outlook of June 2020 hinted about 7.6 percent reduction in economic output in 2020 and as per IMF prediction can reach beyond 8 percent in 2020.



Source: IMF Data Mapper, April 2020, Unemployment percentage

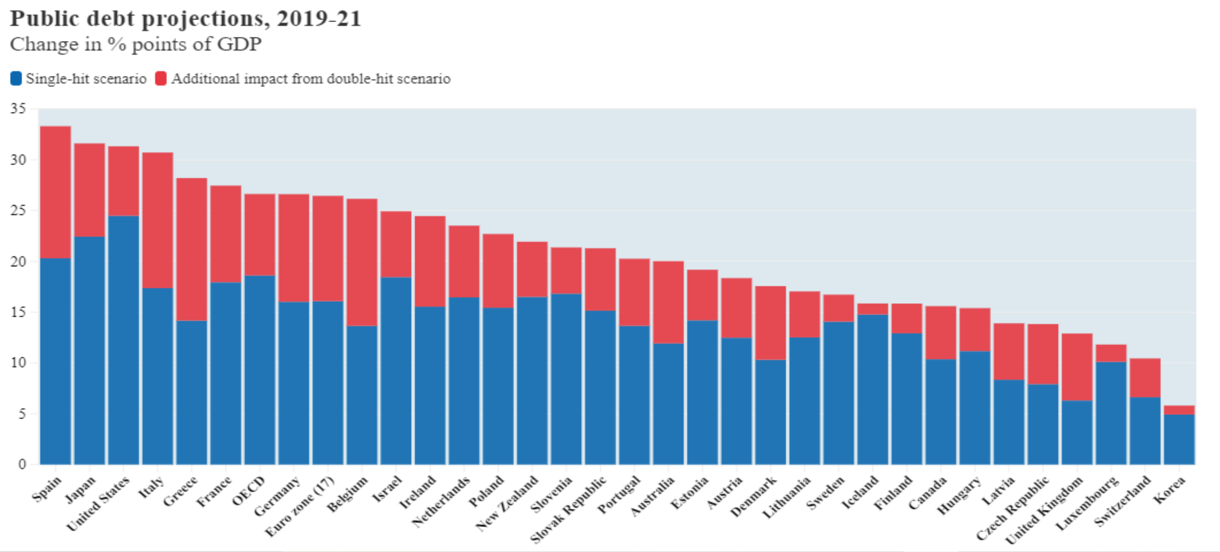
In the above diagram we get the trend of unemployment in percentage term. Unemployment rate mostly vary inversely with economic growth. With downturn of economy, there will be contraction in every sector be it tourism, hospitality, automobile or real estate. There will be downsizing and retrenchment for many organisations. SME sector will find it difficult to run their operation. Start up services will also come under hammer. The pervasive fat-shedding across various sectors will cast a shadow on labour market and sharp spike in unemployment will be noticed in global level as depicted in above diagram. Unemployment rate can go beyond 9 percent in 2020 in the world. Unemployment rate hike can cause hunger, malnutrition, rise in poverty level which might trigger social uprising by deprived souls in some parts of the world.

As per WTO report of April 2020, world merchandise trade was predicted to decline by 13 to 32 percent in 2020 owing to disruption of regular economic activity and life across the world. All the regions will be affected by double digit reduction in trade volume in 2020 and North America and Asia would be worst hit. Complex value chain sector such as electronics and automotive products will have deeper impact in trade value reduction.



Source: WTO Secretariat, April 8, 2020

The trade situation is well presented in the above diagram. As economic conditions deteriorate, domestic consumption will fall for majority of the nations. Effective demand will decline drastically for quite some time. Lack of demand for commodities will adversely impact merchandise trade as presented graphically above. Considering 2015 as base year, we see there is possibility of trade volume reduction from 10 to 25 percent in the optimistic and pessimistic situation respectively in 2020. Sluggish recovery will also defer trade prospect in 2021.



Source: OECD Economic Outlook, June 2020

World reached all time high debt-to-GDP ratio even before 2019 was over. In the last 9 months of 2019 it broke all previous records as debt level had gone high owing to borrowing by household, companies and government to the tune of 9 trillion to reach the level of $ 253 trillion in 2019. The debt situation will be higher in 2020 as people to organisation to government will live on borrowed term unless economic crisis is over. Combined world debt-to-GDP ratio has reached 322 percent which is far higher than 2016 highest record. The debt burden is significantly high for developed nations. Emerging nations are having comparatively less debt burden. As per Global Debt Monitor report of 2019, China is grappling with debt burden reaching 310 percent of GDP. Highly-leveraged countries run the risk of dimmed investment prospect as investment becomes risky at indebted nation. Reduction in interest rate by majority of central banks and wobbly financial conditions for several economies can escalate global debt level to supersede $ 257 trillion. Refinancing will suffer as repayment burden is already high owing to imminent maturity of humongous syndicated loans and bonds in 2020. Debt crisis may aggravate in the face of natural calamity caused by climate change. Hike in public debt as percentage of GDP is portrayed in above diagram which showed surge in debt for OECD nations waves of virus attach during 2019-2021.

Remedial measure and rescue package

As per IMF prediction, world will experience prolonged persistent slowdown ever since Great Depression of 1930s. Global GDP will decline by 3 percent in 2020. Lockdown for months in first couple of months in 2020 caused massive business loss. Millions of people have filed for unemployment benefits in US by May 2020. There is reduced activity on manufacturing, production, transportation and less oil usage due to travel ban. Oil price plunged abysmally between March-May 2020. Few governments are apprehensive about second wave. It would create further loss to knocked–up exchequer. Central banks of majority of the nations from Fed, European Central Bank, People's Bank of China to Reserve bank of India cut benchmark lending rates to increase money supply into market. This monetary policy measure is highly needed to boost up buyer’s sentiment and to stimulate transaction with liquidity in the market. But it will not be much use when overall sentiment is pessimistic and uncertainty is looming large. It is necessary at the hour of crisis to provide welfare and healthcare services even in the condition of revenue loss by govt. Govt should utilise fiscal and monetary measure in economic downturn to bring back animal spirit and revive economic condition. Economy will be reinforced with resurgence of market forces. Domestic consumption led growth can be relied upon in emerging nation in scarcity of foreign investment, dimmed tourism based earning and decimated export oriented income prospect.

Conclusion

COVID 19 struck a catastrophic blow to majority of nations and brought few on the brink of collapse. As per WTO chief Roberto Azevedo, world might experience worst ever recession in the lifetime of people living on planet earth. The suffering due to virus infection is agonizing. On top of it there is harrowing consequence for household and businesses due to reduction in production and trade. Supply chain disruption and incapacitated logistic facility will decimate production everywhere. The noble program on sustainable development by united nation will face a severe jolt. Majority of nations will find it hard to cater to the basic needs of people and maintain inclusive growth. Outbreak of virus followed by economic downturn will affect the impoverished people more than the affluent class. Lockdown has deeply hurt migrant workers and labourers in informal sector. Lack of employment opportunities, slow recovery, lacklustre spirit of market will enhance rich-poor divide. Export oriented growth and tourism earning will decline sharply in post COVID 19 time period. Autarkic measure, continuation of close border approach will affect trade and investment. Trade in services will be jeopardised due to transport and travel restrictions. Flow of foreign capital and remittances will be low in 2020-21. Digital market and online business will have bright prospect. Unless affordable cure and immunisation is available, hardship of common mass, business collapse and indebtedness of economies will continue. Collective action and global cooperation will be needed to set right imbalances.

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