

# A PATTERN SHIFT

## COVID-19 PANDEMIC LOAD ON WORLD WIDE ECONOMY

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### Abstract

The epidemic initiated by SARS-CoV-2 virus congested the Chinese economy and has expanded to the rest of the world at a rapid pace distressing at least 215 countries, areas and zones. The progression of the disease and its economic consequences is profoundly uncertain, making it challenging for policymakers to formulate suitable microeconomic and macroeconomic policy responses. The situations in this paper outline how an episode could fundamentally influence the worldwide economy in the short run. It has been projected that each additional month of crisis would cost from about 2.5-3% of the global GDP and that the GDP growth would take a blow, reaching about 3-6%, depending on the country. Scenarios also suggest that GDP can drop by more than 15% and even exceed 25% in some nations. Via addressing the economic consequence of COVID-19 in different industries and countries, the paper presents appraisals of the feasible global economic costs of COVID-19 and the GDP growth of different countries. Economies will be destructively affected because of the high number of jobs at risk. Countries highly dependent on foreign trade are more negatively affected. Given that infection and its economic influence are highly unpredictable in several aspects, the global economy at the moment is the most disapprovingly threatened in history.

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**Keywords:** COVID-19, Economy, GDP, Global, Impact, Market, Pandemic

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### Introduction

The life-threatening containment measures exhibited across the world in an effort to reduce further transmission of the virus have actively played part in slowing the economy in numerous ways, beginning from negative impacts due to mortality and morbidity, from simultaneous demand and supply shock to limited transportation and closed borders. The economic crisis is such that it may even exceed the global financial crisis of 2008-09, when the rate of global trade declined faster than the global growth. The disease initially broke out in China and later on proceeded to significantly affect some of the economically important nations like, China, Italy, Japan, Korea, USA and Germany. Due to their economic significance, outbreak in those nations catalyzed the process of global economic shock. These 6 nations are facing serious consequences of the outbreak attributing to approximately 60%, 65% and 41% in terms of world supply and demand, world manufacturing and world manufacturing export, respectively. These countries are also at the center of many international supply chains, consequently spewing out a chain reaction of supply shock in other nations within their network. Apart from the supply and demand crisis generated,

the COVID-19 pandemic has left substantial bumps in the productivity growth and employment resulting in labor market shock.

As of 29<sup>th</sup> April, 68% of all workers across countries including those in Africa, Europe, the Americas and Central Asia with suggested workplace closures are in turmoil, of which 81% are employers and 66% own-account workers, according to a report by the International Labor Organization (ILO). The shock is predicted to observe a decrease in the working hours and wages, consequently giving rise to informal employment as per the observations in previous crises; unfortunately, 1.6 billion informal economy workers are affected due to social distancing methods.

### Implication of Market

COVID-19 has hit the global market profoundly, crushing the expectations of an 11-year-old bull-market in 2020. According to a report by IMF (International Monetary Fund) investors have withdrawn a total of US\$83 billion from multiple businesses in the emerging market which has eventually led to a decrease in the revenue of these businesses. Many investors are also seeking liquidity in the worst case scenario.

### Varieties of Markets Include

- A. **Financial Market:** It is one of the most intensely affected sectors in the global market which primarily initiated from the oil price drop. This has resulted in financial assets price deflation that also transferred into currency exchange ranges.
- B. **Auction Market:** Refers to a platform that gathers interested buyers for the purchase of a certain lot of products. The product is sold off to the highest bidder.
- C. **Black Market:** Refers to illegal market that are off the radar of government or other regulatory bodies. Some serve the purpose of evading tax laws while others may provide goods and services during a period of shortage of those. Some black-market sectors such as that of Cuba's have taken this health crisis to their advantage by catering to the needs of increasing medical supplies.

Considering the current circumstance, countless entrepreneurs need to sit at home, since not all organizations have the work from home chance and an enormous gathering of individuals are being laid off from their positions. Subsequently, it is a worldwide marvel that the business rate is diminishing. A possible ripple effect of this could be a fall in the minimum wage rate because otherwise employers will be reluctant to hire workers when there is very little demand for their goods due to the lockdown and borders being closed. Then again, laborers will be alright to agree to a lower wage rate in light of the fact that the activity market will be extreme and we can see a potential swelling coming. With typical cost for basic items rising, the helpless laborers may have no other choice except for get their hands on any activity they find regardless of whether it is for a lower wage.

### Possible Economic Circumstances at A Global Scale

The COVID-19 outbreak that began as a health crisis gradually culminated into a major unprecedented economic crisis throughout the globe, which has led to economists/analysts laying out several possible scenarios. Most of these models consider GDP as a significant determinant of economic revival in the post-COVID era.

As indicated by another report, a base case situation expecting a closure of 1.5 months proposed reclamation of monetary exercises before the finish of May for most nations, with GDP development of -4.5% for most nations while closure of 3 months, for example until mid-June may bring about a GDP development of -6.2%, and the most dire outcome imaginable including 4-month long closure where monetary exercises don't continue until August prompting a GDP development of -10.4% influencing practically all countries. These situations depend on the suspicion that profoundly the travel industry related countries are more inclined to impacts of the financial aftermath.

### Dynamics Distressing Economies

Under typical conditions, a portion of the elements that are straightforwardly connected with the financial development incorporate interest,

demand, supply, prices, wages, production, cost and labor. All of which are affected in the wake of this pandemic. The global economy could shrink as much as 1% due to the interruption in the supply chains and international trade, in this pandemic. The gravity of the economic effects will depend primarily on two factors: 1st The length of the timespan over which financial exercises of the major monetary countries are stifled. And 2nd The efficiency of the fiscal policies developed by the governments in response to the current crisis.

### **Macroeconomic and Microeconomic Influences of Covid-19 on Different Nations**

The SARS-CoV-2 outbreak, which has become a global pandemic upon its origin in Wuhan, China in December 2019, has caused significant damage to the worldwide economy. The virus has already left a long-lasting impact on more than 200 countries on both macroeconomic and microeconomic levels.

### **Microeconomics Dynamics and Influences**

Microeconomics deals with the study of individuals, industries and business-related decisions. It involves the economic interactions of a particular individual or company or firm. COVID-19 has had a disastrous impact on microeconomic level worldwide.

- Changes in labour supply
- Crisis in manufacturing companies
- Revenue decline in media industry
- Impacts on tourism industries

### **Macroeconomic Factors and Impact**

Macroeconomics involves the study of pattern, performance, and policymaking of an economy as a whole. It includes legitimate dynamic so as to accomplish greatest public salary and monetary development. In contrast to microeconomics, macroeconomics centers around a public, territorial and worldwide scale. COVID-19 has struck on a macroeconomic level severely. Some of

the key points are highlighted below:

- Global GDP shrink
- Changes in government expenditure - taxes and subsidies
- Disruption of global supply chain and global trade
- Unemployment, poverty and other issues
- Oil prices down worldwide

### **Covid-19 Government Intervention Schemes**

COVID-19 has caused havoc and it has affected every aspect of society. In dreadful times such as this, governments have to take immediate and proper initiatives to terminate or minimize the probable impacts of the outbreak. The role of government is very significant during this time and can be looked from several angles:

#### **A. Immediate Responses**

Even if the information is limited, the government must find ways to create "action plans" during this outbreak. Quickness in decision making can definitely lessen the negative impact to some degree. The government has to make sure a proper management is there. Government's duty is to minimize the spread of infection throughout the country. They have to make sure that health care resources are available, such as testing kits, hand gloves and masks should be in adequate quantity.

#### **B. Regaining and Restructuring**

The adage of government following the quick reaction ought to be to revamp and develop more grounded. The legislature should design activities to move towards regularity. They should guarantee the residents with respect to the security of work place so they can return to work. The length of financial plunge ought to likewise be abbreviated by the administration. The legislature ought to likewise offer budgetary help to the ventures which are attempting to resume their organizations.

#### **C. Ground Work For The "New Normal"**

The administration ought to guarantee that

business measures are reconsidered. Various inquiries may emerge from the result of this flare-up for what reason did it occur, what is the absolute money related misfortune, how might we dodge such marvel in future, how might we guarantee far off functioning, which cycles have worked and how to ad lib them, what were the impediments, etc. In this stage, the legislature should consider assembling long haul improvements to open areas. They should construct a much better establishment for any future marvel. This is an issue of worry as the eventual fate of a nation and its residents to a great extent rely upon it.

### **Inevitable Inflation**

In a mission to control the spread of the virus, social distancing is to be maintained; which has caused the shutdown of various local businesses, supermarkets, financial markets, corporate offices along with coast-to-coast businesses. As a result, many economists are anticipating high levels of inflation, because both supply and demand have been affected by the pandemic. Travel agency services, hotels, restaurants, home electronics \ furnishings, sport events are sectors that have been more vulnerable to the current pandemic.

### **Consequences of Economic Decline on Manufacture and Services**

#### **A. Influence on Education**

After the commencement of lockdown, many institutes, events and travelling have been halted to prevent the spread of the virus. According to UNESCO, the public health emergency has affected over 70% of student population in 168 countries over the world. The numbers of universities that have switched to online teaching are expanding day by day; but there are still challenges like technological barriers, training or availability to overcome. Moreover, proper evaluation of online exams is questionable as ensuring students are not cheating is difficult. Universities that are functioning have taken critical preventive measures in order to maintain safety of faculties, students and staff members.

#### **B. Influence on Air Travel & Tourism**

COVID-19 has affected the aviation industry as

non-essential travelling overseas has been banned. In other scenarios, people have been respecting there strictions announced by the government which led to a decline in demand for air tickets. According to The International Air Transportation Association (IATA), air industries are likely to lose around US\$113 billion if lock down or traveling bans are not withdrawn quick enough. Along with airlines, the pandemic has impacted tourism industries that include hotel bookings, restaurants, travel agencies or tour operators. IATA estimates the loss to be over US\$200 billion globally. Most airlines are facing the dilemma of deciding whether they should redeploy the planes to other companies however the decision seems unfavorable as other markets are also idle.

#### **C. Influence on Oil Industry**

On a positive note, the oil price has decreased in the airline industry due to less demand and overall, expenditure is reduced. After a meeting at the Organization of the Petroleum Exporting Countries (OPEC), Saudi Arabia went competitive with Russian and increased their crude oil extraction along with slashing oil prices. Moreover, due to COVID-19, there will be both negative supply shock and negative demand shock for oil industries in MENA (Middle East and North Africa).

Confinement of workers will cause less production of oil and reduced transportation has decreased the demand for oil; which is affecting the global economy. But lastly Saudi Arabia, Russia and the rest of OPEC failed to be on the same page and refused to reduce the production of oil amidst already 30% fall in price this year because of a steady economic growth caused by the pandemic.

#### **D. Influence on Sports Industry**

The recent outbreak has postponed several sports event such as, Wimbledon tennis championship, North America's Basketball Association, Tokyo Olympics and so on. The revenues collected from sponsorships, broadcasting deals, tickets during the events are mainly what supported the sports business. But as lockdown is to be continued, many executives are worried that the downfall in the business may be long-lasting. Players of the Premium League have agreed on pay cuts,

insurance policies of the Tokyo Olympics will bear most of the costs. But cricket, rugby and football unions do not have insurance coverage in this case. Some sports industries like USA Rugby, MSK Zilina have already gone bankrupt. If the lockdown is extended for longer periods, larger franchises will meet the same fate.

#### E. Influence on Health and Pharmaceutical Industries

The viral outbreak has undoubtedly pushed health sectors into turmoil. The unexpectedly large number of patients outnumbered medical equipment, hospital beds and healthcare providers. As a result, the services are not as smooth and effective as they are supposed to be.

### World Economy Before and After Covid-19 Pandemic

The spread of COVID-19 in the last four months has caused an unprecedented economic crisis. To properly assess the impact on the world economy, three key sectors must be analyzed. These are (1)

manufacturing and trade, (2) services, and (3) financial markets and commodity prices.

#### 1. Manufacturing and Trade

Previous post-war crises and pandemics have normally affected poorer countries therefore this pandemic is different. The impact on poorer nations is significant locally but, globally those consequences are rarely felt due to the isolated nature of their economies. In comparison the COVID-19 pandemic has affected richer more developed nations which have a far greater economic importance to world trade. This will greatly impact smaller nations as those nations are dependent on trade with larger nations such as China, USA and UK and create a supply side shock much like in the 2008-2009 Great Trade Collapse. As shown in Table given below, the countries with the share of global GDP and highest share of export of manufactured goods also have the highest infections in the world. Therefore, this is both a supply-side shock as well as a demand shock.

**Table 1 : Countries with Global GDP and Export of Goods and Infection Rate**

Country	GDP	Manufacturing	Exports	Manufactured	COVID-19 cases
USA	24%	16%	8%	8%	31.8%
China	16%	29%	13%	18%	2.0%
Japan	6%	8%	4%	5%	0.4%
Germany	5%	6%	8%	10%	4.1%
UK	3%	2%	2%	3%	5.4%
France	3%	2%	3%	4%	3.3%
India	3%	3%	2%	2%	1.8%
Italy	2%	2%	3%	3%	5.2%
Brazil	2%	1%	1%	1%	4.2%
Canada	2%	0%	2%	2%	1.7%

Source : Various Websites

## 2. Services

service areas around the globe are being influenced because of activities taken by governments to forestall the spread of diseases. The wellbeing segment has obviously been influenced the most noticeably terrible because of the high pace of diseases brought about by the flare-up. Training similarly has been sent into disorder because of lockdowns; these lockdowns have influenced 70% of understudies in 168 nations as they can no longer go to classes because of limitations on developments. At long last, because of fears of tainted explorers originating from abroad travel limitations are set up in many nations trying to diminish diseases. This has likewise required common flying to be postponed as air travel has been confined by most nations trying to forestall diseases.

## 3. Financial Markets

According to a study by Zhang, Hu and Ji regarding the impact of the COVID-19 pandemic on financial markets, there was massive volatility in the stock prices among countries during March. The worst affected countries, USA, South Korea and Japan despite having well developed stock markets experience extreme volatility during the month of March when the infection rates were starting to increase.

## 4. Feasible Measures

### A. Monetary Plans

A study showed that countries which implemented expansionary monetary policies were able to overcome the negative effects of the subprime mortgage crisis earlier.

1. **Required Reserve Ratio:** For the implementation of expansionary monetary policy, the reserve ratio is lowered so that banks can use more of their deposits and invigorate the economy.
2. **Currency Transactions:** During time of recovery, central banks would buy foreign currency to decrease demand for foreign currency and thereby increase money supply in the local market.

3. **Open Market Operations:** For the case of expansionary monetary policy, central banks buy government bonds to increase liquidity in the market.
4. **Discount Rate:** During recession, central banks follow expansionary monetary policy to increase money flow therefore they decrease the discount rate.

### B. Fiscal Plans

Countries facing recession require their economies to be more active, therefore it is necessary for governments to choose expansionary fiscal policies.

1. **Tax Rate:** To combat recession, it is necessary to impose lower tax rates and increase economic activity.
2. **Government Debt:** As an expansionary fiscal policy tool, governments can decrease government debt to increase disposable income and therefore increase economic activity.
3. **Government Expenditure:** Increasing government expenditure can increase economic activity which is necessary in a recession.

### C. Other Plans

1. **Postponing loan payments:** Private lenders as well as large institutions such as the IMF and World Bank can extend their loan payments and ensure greater security for debtors.
2. **Increasing Social Protection:** It is necessary for all governments to provide services either at subsidized prices or completely free of cost to those most hard hit. Governments must also provide unemployment benefits to those newly unemployed and financial relief to small and medium enterprises.
3. **Innovations to monitor and disseminate information:** It is also important to disseminate information regarding infections as well the overall scenario to prevent misinformation and allow better policies to be formulated. Technological innovations can be used to monitor whether or not protocols are

followed as well as to spread necessary information in real time.

### Concluding Observations

In this case, the health risk (actual mortality and infection rates) is not fundamentally associated with the economic uncertainty of the global economy. Results imply that, on average, each additional month of crisis will cost from about 2.5-3% of the global GDP. The economic costs of a recession are unevenly allocated. The ultimate fate of this pandemic and its economic influence is highly unpredictable and questionable in many aspects, making it tough for policymakers to formulate a suitable macroeconomic policy response. These scenarios illustrate the trebuchet of costs that might be shunned by more significant investment in public health systems in all economies except particularly in less developed economies where health care systems are less developed, and population density is high. While cutting interest rates is a possible response for central banks, the shock is not only a demand management problem but a multifaceted crisis.

Many governments have been hesitant about investing enough in their health care systems despite the possible loss of life and the potential large-scale agitation to a substantial number of people, let alone public health systems in other countries that are not fully developed, where many contagious diseases are prone to arise. Wide dissemination of good hygiene practices can be a low cost and profoundly productive response that decreases the extent of contamination and, therefore, decreases the economic and social cost. The outbreak of COVID-19 explicates that if diseases generate in developing countries due to overcrowding, inadequate public health, and interaction with wild animals, it can eliminate people of any socioeconomic group in any society. This critical policy intervention has been in our knowledge for ages, yet politicians continue to disregard the scientific proof of public health's role in enhancing the quality of life and as a driver of economic growth. If the ongoing crisis lasts till the end of the summer, the global economy will suffer most horribly than seen in the last two centuries.

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