

## **The Downfall of the World Economy in Covid-19**

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### **Abstract**

The outbreak of coronaviruses is spreading rapidly throughout the world, creating global fear and insecurity. The disease has brought not only human lives into danger, but also the virus has led the worldwide economy to a downturn and a situation of the global recession. The virus has adversely affected the governments, financial markets, trade, manufacturing, supply chain, and many institutions, especially institutions. As a result, many institutions and banking institutions have begun lowering their economic forecasts, resulting in virus impacts on international financial markets. Studies have investigated the effects of coronavirus on human lives, but there are still undervalued reasons why economies suffer from a pandemic. As a result, the purpose of this research was to investigate the causes that have an impact on the economy during the Covid-19 pandemic.

**Keywords: Coronavirus, pandemic, global, supply chain, production, financial crises**

### **Introduction**

Coronaviruses constitute a large family of infectious viruses, from cold to severe illnesses that may lead to disease in animals or people and breathing infections. The World Health Organization of China first communicated cases of unknown pneumonia (unknown cause) and coronavirus as the primary cause of these pneumonia cases on 31 December 2019. According to the World Health Organization (WHO), the coronavirus is new in the large coronavirus family. In December 2019, Wuhan City of China reported the first outbreak of COVID-19. As per the WHO report, COVID-19 is more aggressive than the 2003 SARS (Severe Acute Respiratory Syndrome), which spread globally (Boot et al., 2020; World Health, 2020). In more than 60 countries at the beginning of March 2020, more deaths are caused than those already caused by SARS. On 11 March 2020, World Health Organization (WHO) declared the COVID-19 the global pandemic (C. Albuлесcu, 2020; Coleman, 2020). The epidemic is a disease common throughout a country or around the world. Covid-19 is spreading worldwide, and it can disrupt the global economy.

The new COVID-19 pandemic affected several aspects of human lives considerably. Increased travel, international exchange, and global climate change have all contributed to a rise in organism transmission and infectious pandemics worldwide. In December 2019, this was the first outbreak of coronavirus in Wuhan City of China, affected millions of people around the globe since that period. Many people

throughout the world have already changed their daily routines because of the perception of this uncontrollable disease, which has caused a large number of affected individuals to spread around the world (C. Albuлесcu, 2020; Boot et al., 2020). According to Ashraf (2021) quality of life of an individual has been impacted severely after COVID-19. Individuals have experienced feelings of fear and depression, which has negatively impacted their quality of life. Moreover, the spread of COVID-19 has become a health threat globally. Consequently, the degree of depression, fear, and uncertainty among people is still increasing.

Businesses and schools were forced to close, borders were closed, and over half of humanity was placed in some form of lockdown in the spring of 2020 as a result of the pandemic catastrophe, causing a shock to the global economy that had never been experienced before (Parker, 2020). A healthy economy like the USA represents the biggest economic slowdown after the disease (Burton, Michel, & Sheppard, 2020). According to the European Commission survey, both Italy and France are at the possibility of falling into stagnation (Cochrane, 2020). Also, the German economy has deteriorated significantly with the spread of the disease (Anon, 2000). For nearly nine years for Germany, the Early Bird suffered its most significant decline. The considerable fall in the Early Bird from 0.33 to 0.14 highlights the risk of the German economy declining in the first half of the year due to the negative impact of the Coronavirus (Anon, 2000). Nevertheless, the scale and longevity of the economic impact remain unknowable, and after COVID-19, the world economy has become more fragile (M. A. Ruiz Estrada, Park, & Koutronas, 2020).

Briefly said, while there are researches available that explore the influence of coronavirus on individual health, it is still unclear why a pandemic impacts the entire community. As a result, the current study intends to fill a vacuum in the literature by investigating the elements responsible for a severe breakdown in the global economy.

### **Literature Review**

Coronaviruses are a broad family of contagious viruses that can cause anything from a simple cold to severe illnesses that can cause disease in animals or humans and respiratory infections. On 31 December 2019, the World Health Organization of China reported the first instances of unexplained pneumonia (with no known cause) and the identification of coronavirus as the primary cause of these pneumonia cases. According to the World Health Organization, the coronavirus is a member of the vast coronavirus family that is new to the world (WHO). The first epidemic of COVID-19 was reported in the Chinese city of Wuhan in December 2019. According to the World Health Organization, COVID-19 is more aggressive than the 2003 SARS (Severe Acute Respiratory Syndrome), which spread throughout the world (Boot et al., 2020; World Health, 2020). In more than 60 countries at the beginning of March 2020, more deaths are caused than those already caused by SARS. World Health Organization data indicates that there have been 194,608,040 confirmed cases of COVID-19 worldwide, with 4,170,155 deaths as of 27 July 2021. Worldometer data indicates that there have been 195,865,625 confirmed cases of the coronavirus COVID-19 that originated from Wuhan, China, with a death toll of 4,191,330 deaths as of 27 July 2021. At least 220 countries and territories throughout the world have been infected by the new coronavirus, which initially appeared in the Chinese city of Wuhan in December of last year and has since spread throughout the world.

### **Economic Activities**

In addition to the implications on public health, it is projected that the coronavirus will have a considerable influence on the world economy (Fornaro & Wolf, 2020). Global COVID-19 occurrences, and a decline in

economic activity, might put people out of work, damage the economy, and place a nation's stability in jeopardy (Boot et al., 2020; M. A. Ruiz Estrada et al., 2020). Extreme actions adopted in response to widespread lockdowns, city closures, and travel bans may complicate and destabilize the global economy (Yen Nee, 2020). Covid-19 caused an economic shock three times worse than the financial crisis of 2008. Europe and emerging markets were hardest hit, with only China escaping recession. According to IHS Market chief economist, the worst seen in the U.S., where the green economy emerged long before the pandemic. The Economic Commission for Latin America and the Caribbean (ECLAC) Executive Secretary Alicia Barcena warned that the coronavirus pandemic (COVID-19) will have a devastating impact on the global economy and will be more intense and pronounced than during the global financial crisis 2008-2009, adding that Latin American and Caribbean countries will not be spared, as they will be affected through many channels (Caribbean, 2020). Global poverty is rising for the first time since the Asian financial crisis in 1998 (Development, 2020). Motivated by the slow recovery from the global financial crisis, recent literature has been developed these recessions can have lasting effects on GDP levels. This is because cyclical shocks affect the economy's supply-side through multiple channels and shape long-term trends. This dynamic is reflected in the sectors concerned, such as the travel and tourism sector (Natalia Martín Fuentes, 2021, Szmigiera, 2021). Similarly, the report of Mario and Estrada (2014) tracks the deepening impact of the virus on all sectors of the global economy and outlines the impact of the crisis on world trade, investment, production, employment, and livelihoods. (Mario Arturo Ruiz Estrada, 2014). They further conclude that the number of infected cases and death rates of COVID-19 worldwide may undergo a drastic, unpredictable, and illogical shift at any point, such as economic expansion, contraction, and stagnation.

### **Demand and Supply**

COVID-19 has already shown that the production and demand for goods and services are potentially affected by major shocks resulting in a significant negative impact on the economy. The spread of coronavirus could degrade global demand, and the doom loop could take place, respectively (Fornaro & Wolf, 2020). As with previous exogenous shocks, the COVID 19 pandemic has affected the supply side of the global economy through multiple channels, resulting in lower production potential. If the pandemic continues to flare up, it could shape the path of global economic activity (Bank, 2021, Natalia Martín Fuentes, 2021). Further, the far-reaching measures taken by most countries to contain the pandemic could have massive consequences for economies.

### **Production and Consumption**

The impact of the coronavirus goes far beyond simply causing business interruptions. Nonetheless, the outbreak has had a considerable negative impact on the service industry and the manufacturing sector (Boot et al., 2020). The shutdown of the city and restrictions on trade, travel, and tourism is projected to have a negative impact on both production and supply (C. T. Albuлесcu, 2020; Luo, Kwok, & Tsang, 2020). Similar to this, goods consumption has been suffering on a larger and larger scale. Various manufacturing facilities worldwide have extended their output shuts, resulting in a local food crisis because of the delayed production and delivery (Yu & Aviso, 2020). Many businesses were forced to close, and holidays were postponed as a result of travel restrictions (Coleman, 2020). Most importantly, the sickness results in insufficient imports of goods and materials from China and other nations throughout the entire manufacturing and distribution process, resulting in a loss of revenue (Boot et al., 2020).

### **Employment**

2019 - 20 coronavirus outbreak has left the entire world with disruptions and damage. The outbreak has deteriorated the functioning of manufacturing, healthcare, transportation, and tour and travel services, and

as a result, many businesses have shuttered; and millions of people have already lost their jobs. More than four in five (81%) of the world's 3.3 billion workers are impacted by complete or partial unemployment at this time. According to the International Labor Organization (ILO), research, accommodation and food services, mining, retailing, and corporate and administrative jobs are at most significant risks. In fact, in the second quarter of 2020, ILO's recent statistics wipeout 6.7 percent of working hours worldwide, equal to 195 million full-time workers. The Arab States (8.1%, equivalent to 5 million full-time workers), Europe (7.8%, or 12 million full-time workers), and Asia and the Pacific (7.2%, 125 million full-time workers) are the leading countries where a significant reduction seen in employment (news.un.org 2020). The example of retail shows that rising unemployment, exacerbated by the fall in turnover associated with the closure of shop fronts, is leading to a crisis, as the e-commerce segment is growing during the crisis. Businesses are starting to cut staff to make up for lost revenue, fearing that this will trigger a downward economic spiral, as the unemployed can no longer afford to buy unaffected goods and services (Szmigiera, 2021).

### **Banks and Financial Institutions**

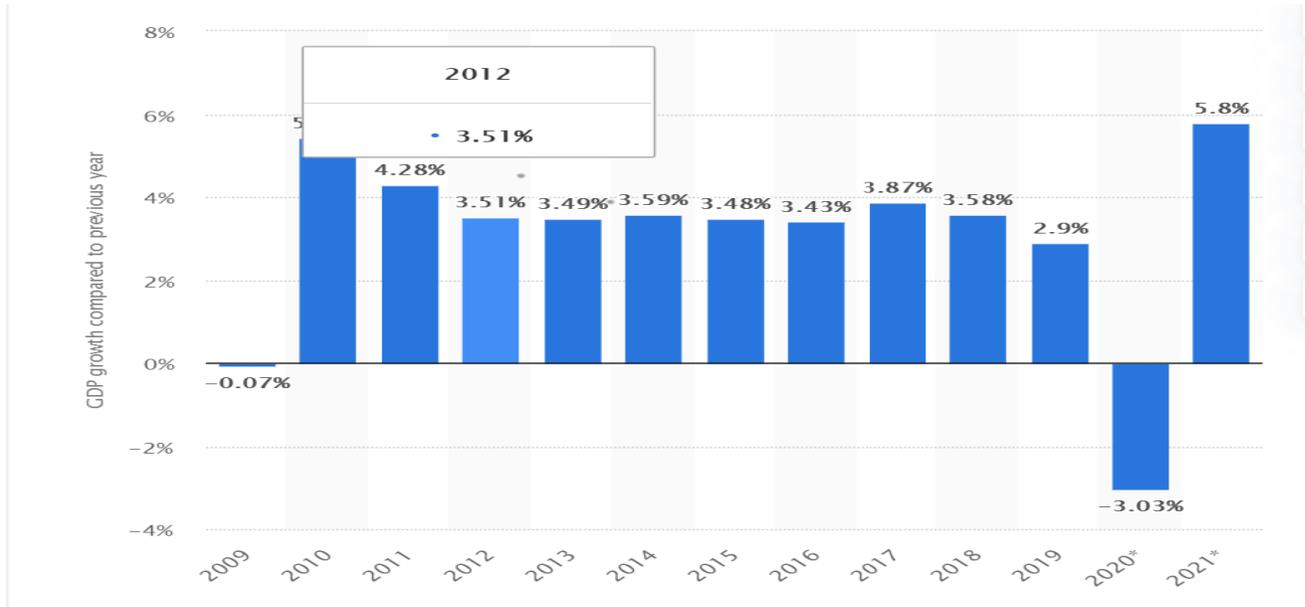
The virus spread has left businesses worldwide, counting costs (Lora Jones, 2020). The damage caused by the infectious virus has long-term implications. Initially, the traditional financial markets responded negatively to the virus news; later, the share and commodity prices abruptly decreased (Regulation, 2020). The epidemic created fear, also volatility in the global economy by entering the financial market. The initial shock reported on the Shanghai stock market, where the stock market declined by 8 percent on 3 February 2020 and the same after that in the U.S. The stock prices recorded their lowest level in the last six months in the U.S. (C. Albulescu, 2020).

Economic instability has generated cash flow and liquidity problems for the companies and banks. Because of this, several businesses have been grappling with the cash flow problem in recent times. With the decline in cash flow, businesses are struggling to pay for their products, staff, and eventually, their banks and companies of this sort will easily face funding or solvency problems (Boot et al., 2020). Nevertheless, if left untreated simultaneously, liquidity issues will generate solvency problems for the relevant banks.

The epidemic has also revealed and generated great danger to financially weak economies (Burton et al., 2020). Moreover, the epidemic not only collapsed the stock market but also created financial uncertainty and can lower nominal rates and less economic growth (Barro & Weng, 2020). However, financial crises in the banking sector are detrimental not only to firms but also to the foundation of the real economy if banking stops the economy as a whole, including the struggles of companies and individuals, and can lead to a recession (Coleman, 2020). With the emergence of the pandemic, the financial situation is extremely devastating and uncertain (Krüger, Sautner, & Starks, 2018). However, if the disease continues to spread, it can lead the world stock market to suffer (Yu & Aviso, 2020) continuously.

### **GDP**

While there is an extensive discussion on what the economic damage will be from the global COVID-19, but on the other side, there is agreement among the economist that pandemic will create a severe impact on the global economy. On 2 March 2020 in the conference Organization for Economic Co-Operation and Development OECD (2020) revealed, the outbreak has already brought significant human suffering and significant economic disruption in the world economy. The growing challenges and inadequate resources could slide into extreme poverty situation in 2020, and 2 million preventable deaths could occur because of health disruptions ("OECD Economic Outlook, Interim Report March 2020 - Coronavirus: the world economy at risk,"; World Economic, 2020). A fall in demand is one of the major cause that

**Figure 3: Source statista.com**

led to the economic damage in the COVID-19 pandemic time, which indicates that there are not consumers to purchase the goods and services available in the global economy. According to the World Economic Outlook Report released by the IMF in April 2021, the global economy contracted in 2020 by 3.5%, a 7% loss over the forecasted growth of 3.4% in October 2019. As a result, gross domestic product (a broader measure of activity) has plummeted to record lows in many economies. In 2020 all countries covered by the Fund had a negative growth (IMF 2020), and the slowdown was most pronounced in the poorest parts of the world (Eduardo Levy Yeyati, 2021, Yen Nee, 2020).

Initially, to slow the spread of the virus, many countries placed restrictions on every sector; as a result, a company trading in travel, supply chain, the production faced an enormous reduction in their consumer demand. Continuous falling in demand created the loss of revenue situation for these companies, and as a result, companies start cutting staff to make up for lost revenue. The need to lay off the staff for cost-cutting will create downward economic growth with unemployed workers. These newly unemployed workers would no longer be able to afford the purchases. An increase in unemployment will also compound a reduction in sales from the closure of several industries.

### Conclusion

The coronavirus is spreading quickly around the globe and has created fear and uncertainty in the world economy. As a result, governments, businesses, and families reacted to the pandemic in unprecedented ways, massively and necessarily disrupting the economy in the process. The world economy has become more vulnerable after the restrictions on various sectors such as commerce, trade, tourism, and services. Result of the current scenario, governments of many countries has restricted the integration of global markets by trade, the interconnectivity of nations via air and sea transport, and technology (Mario Arturo Ruiz Estrada, 2014). According to KPMG (2020), worldwide countries are now facing the most significant downgrade in their supply chain, income, production, and gross domestic product growth. The decline in GDPs underlines the risk; the world is closed to recession due to the coronavirus pandemic (C. Albulescu,

2020; Anon, 2000). The coronavirus severely exposes strong economies such as the United States, Germany, Italy, and Japan and the economies that are already in a weak financial position. It has been observed and proven by various studies and research that the monetary stimulus and aggressive fiscal policy can be useful in these kinds of emergencies. Hence the countries must utilize these measures to mitigate the negative impact of coronavirus on financial sectors, employment, investments, and labor productivity (Fornaro & Wolf, 2020), respectively, to overcome this economic downfall situation. Also, there is a need for other alternative risk management strategies to hedge against the impact of pandemics, such as COVID-19 and SARS.

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