

## CORONAVIRUS IMPACT ON GLOBAL ECONOMY

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### **Abstract**

*The COVID-19 pandemic is having a severe effects on both workers and employers in different countries and industries worldwide. In this paper we analyzed the impact of the corona crisis on the global economic growth and the main questions addressed here are the effects of corona crisis on the global manufacturing activity and service industry.*

*The research results showed that at the beginning of 2020 when the coronavirus emerged in Wuhan, China and has spread around the world causing a pandemic, it brought the global economy on its knees in a very short period of time. Also, the results indicate that the global economy will take years to recover from the corona crisis.*

*The research is done by exploring of the latest economic analysis related to the COVID-19 pandemic in order to identify its effects on world economy throughout the first half of 2020.*

**Keywords:** COVID-19, coronavirus, crisis, economic slowdown, global economy, black swan.

**Clasificare JEL:** F00, F60, F63.

### **1. Introduction and context of the study**

In the last thirty years, many developing countries as well as some of the developed countries, have been victims of severe financial crises. But according to Roland Berger’s (2020) research the Covid-19 crisis will hit the global economy harder than the last financial crisis from 2008, and the most sectors will recover slower than they did after the financial crisis.

Nassim Nicholas Taleb, a finance professor used the 2008 financial crisis to explain his idea of black swan which is extreme rear, unpredictable event that is beyond what is normally expected of a situation and has potentially severe consequences on the financial markets and world economy. Taleb describes a black swan as an event that (Chappelow, J, 2020):

- is beyond normal expectations that is so rare that even the possibility that it might occur is unknown.
- has a calamitous impact when it does occur, and
- is explained in hindsight as if it were actually predictable.

Janevska, N. (2020) emphasises that the COVID-19 spread is expected to be the black swan in the economy, this year. A quarter of the world is under restricted conditions whereas the consequences are felt in all segments of the economy, and the companies that work in the international market, or are dependent on exports, suffer the most. Therefore, the main idea of this paper is to analyze the impact of crisis on the several economic sectors, including tourism and hospitality, airline and automotive industry.

The rest of the paper is organized as follows: the first part analyses the data set for analyzing the effects of corona crisis on the global economic development. The effects of the crisis on selected economic sectors are presented in the second section. Some recommendations and

conclusions are made in last section. The scope of the research will cover the explanation of the mentioned objective and will depend on the knowledge and research that exists within the field.

## 2. Global economic growth slowdown

The global economy faces its biggest challenge since the global financial crisis from 2008. The spread of the corona virus this year is expected to be the black swan in the economy, because it has seriously impacted the economy and job security. In fact, the consequences are being felt in all segments such as global financial markets, travel industry, airline industry, industrial production, sales and investments, hospitality industry etc.

As stated by IMF's managing director Kristalina Georgieva the global economic growth will be lower by 0.5% than IMF's projected growth of 3.3% in 2020 (Robb, G.2020). Unlike the IMF, the estimates of S&P are even more pessimistic. The S&P reduced its projection of the global economic growth to just 0.4%, from expected 3.3%, which would be the slowest growth since the 1982 economic crisis. S&P believe that the measures adopted to contain COVID-19 have pushed the global economy into recession (Gruenwald, P. 2020). The Table 1 shows the GDP growth forecast for years 2020 and 2021.

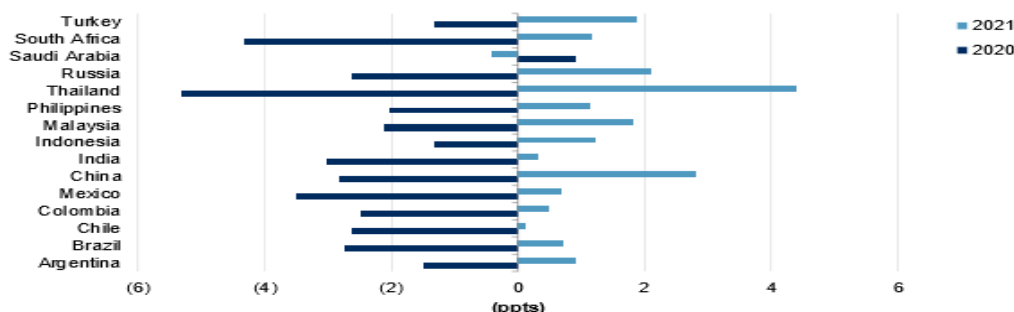
Table no.1. GDP Growth Forecasts

(%)	2019	2020	2021
U.S.	2.3	(1.3)	3.2
Eurozone	1.2	(2)	3.0
China	6.1	2.9	8.4
India	5.0	3.5	7.3
Japan	0.8	(1.2)	1.8
Russia	1.3	(0.8)	3.8
Brazil	1.1	(0.7)	2.9
World	2.9	0.4	4.9

Source: Paul F Gruenwald (2020): “Economic Research: The Escalating Coronavirus Shock is Pushing 2020 Global Growth Toward Zero”, S&P Global Ratings.

With their economies affected by the Covid-19 shock and financial markets in turmoil, many emerging market states will face sharply lower growth in 2020. (Chart 1)

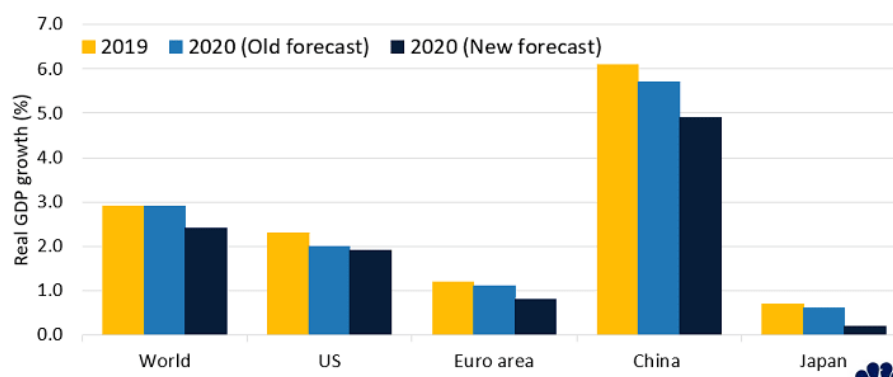
Chart no.1. Emerging Markets Growth Forecasts



Source: Paul F. Gruenwald (2020): “Economic Research: The Escalating Coronavirus Shock is Pushing 2020 Global Growth Toward Zero”, S&P Global Ratings.

Another international organisation that has published new estimates of the economic growth rates for 2020 for almost all countries is OECD.

Chart no.2. Global economic growth slowdown



Source: Lee, N. Yen (2020): “6 charts show the corona virus impact on the global economy and markets so far”, CNBC.

As we can see from the chart above, OECD forecasts are that China’s economy will grow by 4.9% than the earlier forecast of 5.7%.

What is characteristic of the current crisis is that there has never been an economic crisis in the past that has so quickly worsened things globally. Corona crisis will hit the world economy hard, and the consequences will be felt by all, at some point, in a direct or indirect way.

### 3. Slowdown in manufacturing and service industries

The epidemic has had economic consequences, primarily through the partially drastic measures taken by the authorities to prevent further spread of the virus. One of the restrictive measures which was conducted by China to combat the spread of Covid-19 was the shuttered factories across the country. The shutdowns had a major impact on economic activities of the international business whose production depends on the import of parts from China.

The Minister of Economy of France, Bruno Le Mer, considers the epidemic an event that completely changes the current development. The outbreak and the consequences of the spread of the virus have revealed "irresponsible and unreasonable" dependence on China (Urlich, K. 2020). Many sectors have long been dependent on Chinese raw materials or products. For instance, 95% on the supply of electric batteries and 80% of the raw materials for the active components of a drug in the health industry come from China or Asia. Another obstacle is that dependency on raw materials or products (Web24News, 2020).

One more industry that was particularly affected by the previous mentioned measures was the **global automotive industry**. According to the research made by He and Zill (2020) the impact of the production facilities shutdowns in China has expanded as a domino effect to the rest of the world. The effect of China as a world’s biggest car market and home to automotive production of many major auto companies was, among other things, declining car sells in the country by 92%. Also, Tesla postponed the production date of its Model 3 and Volkswagen delayed production at all of its Chinese plants that it runs in partnership with SAIC. (He, P. and Huang, Z. 2020). In February 2020, South Korea's Hyundai became the first major car maker that temporarily stopped the production because of a shortage of parts caused by the corona virus (Ewing, J. Boudetee, N. and Abdul, G. 2020). On April 7 (Roberts, G., 2020) Nissan Motor reported to lay off about 10.000

workers in the USA and Honda Motor announced that half of its US employees will go on temporary leave. The consequences are felt in Japan's market, too. According to Japan Automobile Manufacturing Association the Japan's new vehicle market has declined by 9,2%.

The European car market has also not been spared by the corona crisis effects. Most affected by the production interruptions are employees in Germany followed by France, Italy and Spain. Based on the European Automobile Manufacturers Association (ACEA) weekly interactive maps for the impact of the Covid-19 crisis on the European auto industry, covering the EU countries and the United Kingdom at least 1,138,536 European automotive manufacturing jobs were affected by factory shutdowns as a result of the corona virus crisis. While the factory shutdowns have resulted in lost production to at least 2,396,549 motor vehicles.

Despite the gradual reduction of COVID-19 restrictions, at the time when this research is made, by some countries and returning the business to normal operations still it will take time for automotive industry to go back to the normal levels.

Not only the automotive industry, but all international businesses need to learn a lesson from this crisis by allocating a network to their suppliers and reducing dependence on one country or region.

#### 4. How the Corona crisis has impacted the service industry

The airline industry, tourism and hospitality are among the most affected ones from the very beginning of the corona crisis. Whether the economic downturn lasted a month or three, it will have consequences for both the annual profitability and the short-term liquidity of the companies.

The Covid-19 crisis has had a severe impact on **airline industry** due to the resulting travel restrictions accompanied by demand drop among travelers and it has been one of the hardest-hit industries since the beginning.

In his article Fauvelle, L. (2020) said that it will take years, perhaps a decade for air industry to return to pre-crisis levels. According to his analysis the short term effects of coronavirus will include:

- The demanding social distancing specified by European Commission would mean reduction of the aircraft capacity by 1/3. This would cause a reduction of the Europe's major airlines turnover and their passengers for at least 50% in 2020 compared to 2019.
- After the introduction of the first bans in March 2020 the air traffic reduced between 48% and 61%.
- The continuous fixed costs that remain, even when the planes are not flying, cause millions of euros in losses each month.

Some of the airlines that have collapsed, declared bankruptcy, or suspended operations so far are the following (Slotnick, D. 2020):

- UK regional airline Flybe in March 2020 entered administration (a practice when a company becomes insolvent and the control of the company is put under the management of the Licensed Insolvency Practitioner).
- Trans States US Airlines had already been planning to shut down by the end of 2020.
- Shutdown of Compass US Airlines in April 2020.
- Virgin Australia entered "voluntary administration" in April 2020.

The recent forecasts as to how much the global airline industry will lose in 2020 as a result of the impact of the corona crisis has been published by the IATA – International Air Transport Association. According to its calculations corona virus could cost the airlines industry around US\$250 billion. (Caswell, M. 2020)

How have airlines responded to the challenges they face as a result of the corona crisis? One of the first measures companies are taking to reduce their costs is to lay off employees, even though the layoffs are affecting not only those who are leaving, but also the company itself. This has been

happening in the aviation industry for the past few months. For instance, according to Leggett, T. (2020) analysis, Easy Jet has laid off its 4,000 UK-based cabin crew for two months; Qantas has put 20,000 while Air Canada has set 15,200 employees on leave. Further on, British Airways plan to reduce its staff by 12 000 as part of a restructuring plan.

Hospitality and tourism are the sectors that were the first to be hit by the pandemic. Entrepreneurs who provide accommodation services are most affected. Hotel and apartment owners have seen a sharp drop in revenue due to travel restrictions and mass cancellations of bookings during this period. Also, the owners of cafes and restaurants suffer heavy losses because they were forced to close their facilities for several months due to government restrictions. Some governments around the world have announced a package of measures to help the sector, but it remains to be seen how government measures and activities will help entrepreneurs survive in business and deal with the effects of the corona crisis.

According to UNWTO (2020) the **tourism** sector is currently one of the hardest-hit by the outbreak of COVID-19, with impacts on both travel supply and demand. There estimates for 2020 are the followings:

- Global international tourist arrivals could decline between 20-30%, down from an estimated growth of 3% to 4% forecast in early January 2020.
- This could translate into a loss of US\$ 30 to 50 billion in spending by international visitors.

The UNWTO's assumption are that SMEs (which make up around 80% of the tourism sector) will be particularly impacted by the corona crisis. This might affect millions of livelihood across the world, including vulnerable communities who use tourism as a tool for their development and economic inclusion.

Given that many people will avoid traveling for some time, especially in distant destinations, tourism will not recover quickly even after the pandemic is suppressed.

## 5. Conclusion

In today's globalized economy, countries are closely integrated so that the occurrence of certain types of economic or financial shocks in any part of the world would have a medium to high impact on other countries. Therefore, the expectations that the consequences of the Chinese economy from the emergence of Covid-19 will have a significant impact on all economies in the world were justified.

Calculations and assumptions from the key world institutions such as IMF, S&P Global, OECD etc. showed that global economy will face sharply lower growth in 2020. The consequences from Corona crisis are being felt in all segments such as global financial markets, travel and tourism industry, airline industry, industrial production, sales and investments, hospitality industry etc.

The International Labour Organization (ILO, 2020) warned that the corona crisis has already transformed into an economic and labor market crisis. Businesses, especially those mentioned above, are coping with lost revenue while the unemployment rate continue to rise. Corona virus *unemployment numbers* are devastating in the USA and it have reached the levels unseen since Great Depression. According to data released by the US Labor Department on 7 May more than 33 million people have lost their jobs (WEF, 2020).

The governments across the world are taking different actions to cope with the consequences of the corona crisis. Those measures include from various bailout programs for the businesses most impacted by the Covid-19 spread, reduced reserve requirements for banks, cash payments to citizens and SMEs, delayed tax payments to travel and tourism coupons (Masters, J., 2020).

Because SMEs are the backbone of the most economies the governments should consider the following measures in order to help these businesses to overcome their current problems caused by the corona crisis:

- Jobs Support Scheme in order to help SMEs retain their employees.
- Tax delays
- Emergency corona virus lending loans to support the SMEs.

In this context we should emphasize that besides the previously mentioned measures the governments should map and implement actions to improve aggregate demand in order to stimulate the economic activity. Among the measures recommended by *Acevedo* (2020) and *Pettinger* (2018) in the context of achieving this goal are: decrease taxes, increase in government spending, increase in government spending, increased real wages, lower interest rates to increase consumer spending and investments etc.

This paper represents the basis for our future research in which the focus will be to identify the main problems that Macedonian SMEs are facing as a result of the corona virus pandemic as well as to offer concrete mitigation and overcoming measures.

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