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Published in the Ghana

<http://kadint.net/our-journal.html>



ISSN 2410-4981

## COVID-19 and Global Economy: A Review

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### Abstract

The COVID-19 (coronavirus) pandemic has changed the direction of the global economy since its inception. Though researchers and experts are working hard to estimate its impact on the global economy, it is difficult to project its long term effect. The focus of this paper was to briefly analyse the initial, existing, and possible future effects of the pandemic. Beginning from China, a serious negative impact was seen across all forms of socio-economic activities due to the pandemic. With the spread of the virus from China to other countries, many countries have reported a decline in economic growth. With several economic projections made by experts and researchers, the impact of COVID-19 on countries that depend much on tourism and foreign trade will be heavily affected with estimated costs between 2.5 to 3.0 % of global gross domestic product each month. I observed that the over-dependence of retrospective estimations of other serious global health disasters like the Severe Acute Respiratory Syndrome (SARS), the Middle East Respiratory Syndrome (MERS), and Ebola Virus Disease (EVD) may lead researchers to underestimate the long-term effect of the COVID-19 pandemic. Notwithstanding this fact, some implications could be drawn from the devastating effects of these past traveler-related contagious diseases (SARS, MERS, and EVD) regarding gross domestic product growth, tourism, transportation, education, production of goods, and provision of services for the local and international economy.

**Keywords:** COVID-19, global economy, gross domestic product, review.

### Introduction

Ever since the first case of coronavirus (COVID-19) in Wuhan was reported on the 30<sup>th</sup> of December, 2019, the global economy has been one of the worst to be affected. The outbreak of major contagious diseases is noted to destruct the economy through numerous channels (Madhav et al., 2017). These channels include short and long-term fiscal shocks to the growth of the economy. Nonetheless, the direct financial effects of pandemics are generally less compared to the indirect effects on economic growth (Maddhav et al., 2017).

China as the first to be affected by this pandemic underwent a strict lockdown of some provinces with increasing cases. Notwithstanding the strict enforcement of COVID-19 preventive measures by China to contain the spread of the COVID-19, the virus crossed the borders of China to other countries (Ayittey et al., 2020). In response to the spread, several initiated partial and complete bans on air travel which have hindered the movement of both citizens and foreigners.

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For example, the demand for air travels in China reduced by 40% by the end of January 2020 compared to preceding years according to the International Air Travel Association ([Martin, 2020](#)).

Apart from air travel, Toyota and Hyundai automobile factories at Wuhan where the virus was first detected were closed including other multinational companies like Apple and Starbucks ([Cerullo, 2020](#); [Conelly, 2020](#)). Also, most papers have looked into the dependence of China on other countries for oil and water due to its vulnerability ([Sun et al., 2017](#); [Wang et al., 2014](#)). However, the long term of COVID-19 on economies like China may not be easily estimated just like Severe Acute Respiratory Syndrome (SARS) as researchers like Beutels et al. (2009) revealed that there exist no effects in the long term due to the postponement of consumption expenditure. Notwithstanding this, it is noted that the economic effects of the COVID-19 epidemic may be underestimated presently owing to the over-dependence of experts and researchers on past evaluations of SARS ([Fernandes, 2020](#)).

### **Lessons from past disasters and pandemics**

Keogh-Brown and Smith (2008) undertook a retrospective estimation with the help of macroeconomic variables of the countries that were affected by SARS. They revealed that the impact of SARS on the economy was not significant except for the restaurant and accommodation industries in Canada, Hong Kong, and Australia. Similarly, evidence from the United Kingdom shows that about 16.1 % of employee absenteeism during the influenza pandemic was due to the closure of schools. This increased to 30 % in the health sector as a greater percentage of the employees were women ([Sadique et al., 2008](#)). Likewise, Joo et al. (2019) also employed the Seasonal Autoregressive Integrated Moving Average model to estimate the effects of the Middle East Respiratory Syndrome on the travel-related and tourism sectors in the Korean economy. Their study revealed that the crisis of public health predicament owing to outbreaks of traveler-related contagious diseases can lead to substantial losses to the economies of the countries affected.

Gatiso et al. (2018) studied the impact of the Ebola Virus Disease (EVD) on households of Liberia using Sustainable Livelihood Frameworks. The findings from their studies revealed that the annual income of households affected by EVD was not different from the annual income of households who were not affected by the disease. However, a greater percentage of the sampled households compared to the previous year reported a reduction in annual income. Besides, Kodish et al. (2019) examined the effects of EVD on the food industry in Sierra Leone from the period of 2014 to 2016. Evidence from their study showed that the effects of the EVD epidemic and the policy restrictions on movements (21-day quarantine) also led to the distractions of the value chain in Sierra Leone's nutrition sector.

### **COVID-19 economic impact and recovery interventions**

The effect of COVID-19 may vary across countries and continents. For example, the few studies that have looked at the African context of the pandemic have indicated a possible shortage of labour in African countries as a result of the outbreak of COVID-19 ([Bamfo et al., 2020](#); [Yaya et al., 2020](#)). Bamfo et al. noted that Ghana "*Ghana's gross domestic product (GDP) growth rate had been reviewed downwards by the International Monetary Funds from 5.8 % to 1.5 %. This would be seen as the least recorded GDP growth since the year 1983*" (p. 3). Besides, the pandemic has affected not only the local economic activities but the global market at large. The impact on the global economy has been substantial specifically because China, where the Virus was discovered had turned out to be an economic giant ([Ayittey et al., 2020](#)).

Globally, all industries in the world are affected. The COVID-19 pandemic is known to destruct the production of goods and services which leads to a shortage of goods. The prices of staple goods increase and this affects private firms, households, and the government economically ([Madhav et al., 2017](#)). Furthermore, Gössling et al. (2020) also made a comparative analysis of the effects of COVID-19 and previous pandemics as well as other global crises. Their study also explored how COVID-19 might transform humanity, the economy, and tourism. The conclusion from their research suggests the critical need to returning to the usual business after the crisis, instead of reconsidering a change of the international system of tourism compliant with the Sustainable Development Goals (SDGs).

Also, Vivek et al. (2020) explored a Meta-Analysis of the effects of COVID-19 on the Indian economy due to the loss of labour. The results from their studies show that the increase in the loss

of labour in India was due to the rate of mortality and morbidity. Furthermore, Fernandes (2020) on the effects of COVID-19 on industries and countries revealed that the countries that rely more on tourism and foreign trade will be heavily affected. The results from the study also revealed that COVID-19 costs between 2.5 to 3.0 % of global gross domestic product (GDP) monthly.

Furthermore, Chronopoulos et al. (2020) studied the responses of consumer expenditure to the arrival and the spread of COVID-19 and the subsequent lockdowns imposed by the Britain government. The results of their studies revealed that discretionary expenditure was reduced in the few periods before the lockdown and continued to reduce during the period of the lockdown. Panic buying and stockpiling of foodstuffs also increased two weeks after the World Health Organisation (WHO) announced COVID-19 as a global pandemic. Furthermore, Psacharopoulos et al. (2020) estimated the loss of marginal future revenue using the number of months of school closure and found that the closure of schools reduces future earnings to about 15 percent of future GDP. This will mostly affect students from low-income countries.

### Funding

None.

### Conflict of Interest Statement

The author states that the study was conducted without any commercial or financial connections that could be interpreted as a possible conflict of interest.

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