

HAS COVID-19 AFFECTED THE GLOBAL ECONOMY?

¹Syed Mohd Khalid, ²Dr. Babli Dhiman

Abstract

The global economy was already concerned about the consequences of trade war between US and China when the pandemic (Covid-19) hit the world. After the hit, the nations were put under lockdown in order to curb the virus. This halted the day-to-day life cycles of both the humans and the businesses. The health systems to deal with the situation and the consumer spending patterns, survival of businesses has been greatly affected by the pandemic that ultimately slow down the global economy. In this study, we discussed the impact of Covid-19 on the international stock markets.

Keywords: Covid-19, Global economy, Investors, Stock markets.

INTRODUCTION

Covid-19 belongs to the family of coronavirus. SARS-COV is the ancestor of the Covid-19 that spread havoc in 2002-2003. The two viruses are related to each other but there are numerous differences between the two (Hussain et al, 2021). During June 2002, the fatalities were at peak and that was at the beginning. COVID-19 is mainly found in mammals and birds like bats and snakes. It has been transferred to humans by consuming these mammals and birds. It affects human's respiratory organs like lungs causing Pneumonia and if not treated on time leads to death. It is a viral disease i.e.it transfers from human to human either by touch or by sneezing. There is no particular vaccine produced for the cure, so the affected person is quarantined to curb the virus. It was first found from the stallholders working at the South China seafood market in Wuhan. It created a havoc at Wuhan, causing more than 6000 deaths and thousands of people were affected by this deadly virus till January, 2020. In order to take actions to control the situation, the Chinese government lock down the entire Wuhan city. Later China lock down the borders and trade practices (WHO, 2021). It affected the trade and commercial activities of the people in China as well as in the whole world

because China is one of the largest commodity producer and supplier to the world. The viruses outbreak rapidly influences the world-wide supply and industry. This leads to the development of new and advanced techniques and plans and methods in the future. Its affect cannot be only seen in short term like shutting down of day-to-day operations of the businesses but also in the long term like mass unemployment, inflation and business bankruptcy. The foreign exchange currency's efficiency declined during the pandemic (Oktay Ozkan, 2021). The gold and oil markets became more inefficient during the pandemic as compared to preceding Covid-19. The Covid-19 pandemic lead the world economy to an obsolete economic abyss. To reduce the extent of Covid-19 spread, the governments of different nations-initiated online programs to provide awareness to the general public and either cancels completely or by limiting the number of people in the events like marriages, public gatherings, rallies, ceremonies.

Impact of Covid-19 on Global Economy

The Covid-19 has initiated a huge spike in uncertainty. The situation in China that was on November 2019 bring down the Chinese markets to the ground. The responses of the financial markets are shown by fluctuations in stock prices and stock exchange volume.

Before the impact of the virus, the GDP growth of Wuhan was 7.8% in 2019 in China's national growth but after the impact, the growth rate fell sharply as the manufacturing units, tourism sector and other different sectors were closed. China is contributing approximately 16.3% to the global GDP [7][9]. The trade markets of China were affected when China and other countries bring restrictions on trade. The stock prices were falling at a high pace [1]. The fluctuations of stock prices are seen more in UK and US than in any other stock exchanges (Oktay Ozkam, 2021). There is a positive relationship between reported Covid deaths and the stock markets, for both the Shanghai and Dow Jones (Yousaf Latif et al., 2021). The impact of COVID-19 also spread throughout the European countries and its implications are worse. EU commission last week of February 2020 said that "it is so early to say the implications of COVID-19 on the economy".

The virus spread havoc all-over the world and labelled as pandemic by WHO on January 2020. It affected people of almost 176 countries [1]. It spreads at a high speed but the death rate is slow. As its spreading speed is considered, US and now Italy overtakes China in the case of COVID-19 affected people and death cases [21].

Table 1: COVID-19 CASES IN SOME COUNTRIES BY JANUARY, 2020 [1][2][3]

Country	Cases of affected people
China	Almost 82,000
Italy	80,500
India	918
New York	30,000
US	200,000
Japan	Almost 1387 and still increasing
Europe	388,320
Germany	63,605
Iran	41,495

As 27th of January, 2021, Covid has been detected in a total of 99,864,391 people and

2,149,700 people died among 224 countries of the world. By the increase in the number of victims, the countries start lock down either those particular areas or the whole nation. (Adda, 2006) provides insights regarding the virus that will get birth in the France and produces policies like school closures, closures of public transport and so on [10]. As China lock-down Wuhan and other neighboring cities, Iran, Germany, Japan, Europe, Italy, US, India lock down the whole nation. They shut down the manufacturing sector, tourism sector, airline services which impact the whole nation at a large scale and the effects will be seen in stock markets. The combined loss of commerce sector, tourism sector, services sector and major impacts on global supply chains are taken into consideration, the impact on world economy is extremely large. The tourism market is highly affected by global lock down, both domestic and international (UNWTO). Billions of dollars of loss are calculated in tourism sector like in China tourism was producing \$73 billion but the figure reduced drastically after the scenario [8], Vietnam to lose \$7.7 billion within 3 months of 2020 [17], Thailand to lose \$3.1 billion in first 4 months of 2020[18]. India's economic growth will also be affected but it will not fall into recession as it has strong ties with Eurozone, Asia-Pacific and US. It is estimated that Indian economic growth rate will fall from 5.3% to 2.5%. As the lock down has been done for 21 days in India, government is providing finance packages \$23 billion to manage the disruption. The RBI cuts interest rates sharply. If the situation continues April and June 2020, it becomes a huge threat to the Indian economy than 2008 financial crises [20]. These crises will cost to Indian economy 8.76 lakh cores [4]. So, the Indian government take steps to control the contagion. The government advices the employees of IT companies to operate at home. They produce strict laws if rules broken. The Germany is faking into stagflation [7]. So, the situation goes in the world that the world economy comes under depression. The world was not prepared for it, so the experts forecast far worst impacts on global economy as compared to SAR-COV 2002-2003 and US financial crises 2008.

Impact of Covid-19 on Stock Markets

As the financial markets were also affected by this pandemic causing immense losses. The pandemic took the stock markets to crash and increase in their volatility globally, US stock markets lost 28% from its value during 19th of February to 31st March, 2020 and rest other stock market indices of the world dropped by 10-30% (Muhammad M. Elgammad et al., 2021). The stock prices fall to the low since 2008-2009 financial crises. The circuit brake mechanism struck 4 times in US financial market in March during 10days (Mohsin et al., 2018). The virus has a huge positive impact on US economy but the world economy has even a greater impact triggered by the Data reported in the US (Marwan Izeldin et al., 2021).

The top stock exchanges of the world got a heavy blow by the COVID-19 effect. Due to the virus outbreak, the financial markets start facing crises because of the possibility of downturn of some companies. On the beginning of the virus at China, during first 3 months (November, December and January), the stock market of China (Shanghai and Hang Sang stock exchange) seems falling down but not so much. But during February there was a sharp steep in stock prices by -111.03. In this short period China loses \$375 billion since 2015. Most stock markets of the world remain unaffected in the beginning i.e., for the first 3 months but after January every stock market comes under affect because of fall of Chinese markets and spreading of the contagion. It is because China is one of the largest commodity producer and supplier to the world. Every stock market falling steeply mostly stock exchanges of developed countries after China's fall. The virus spread throughout the world affecting businesses drastically and the stock markets. It not only affects the stock markets but also commodity markets. The oil prices hike the ground (Oktay Ozkan, 2021). The closure of firms and manufacturing units lower CAPM-adjusted returns of the firms and looking at the stock prices of firm's share of foreign revenues indicate a greater threat to financial markets [5]. As the global economy growth reduces, the analysts predict that there would be financial crises in the markets as

market prices fall [7]. But the markets start responding quickly after the effect of COVID-19 to overcome from the possible economic consequences [6].

Impact of Covid-19 on Investors

The COVID-19 has an intense impact on investors behavior throughout the world. It leads to chaos and havoc among the investors depicting strong negative sentiment. The health hazardous diseases like Ebola and SARC which leave an impact on financial markets and market sentiments. The Covid-19 enhanced the fear of uncertainty among the investors through-out the world. Investing in the stocks has shifted to invest in the gold because of the downfall of the stock markets. Oil, fuel and transportation industries which show that there is a sharp decline in the positive sentiment (Yunchuan SUN et al, 2020). The crypto markets got a huge blow during the pandemic. The investors lost huge investments in the crypto currency markets. The Chinese stock markets does not show a significant correlation with gold and Bitcoin (Mike K.P. So et al., 2020). It has laid an impact on investing policies and practices. The investors can invest in pharmaceutical companies and can earn high returns during the Covid-19 crises (YunChuan SUN et al., 2020). The people are taking decisions based on the information contained in the event. As the virus spreads throughout the world and the increasing number of cases and lock down by countries. Its characteristics are studied in comparison with 2008 financial crises. Lots of studies were done, results show decline in crises as an opportunity to earn significant profits (Yousaf Latif et al., 2021). People need money to meet their basic needs and for health issues. So, the people who need money and have invested in stock markets start liquidating their shares to make the large sum of money available. China's stock market is mainly of retail investors and they occupy 75% of money invested. As the problem grows, people have been quarantined and there is no doubt that these investors are not trading normally. So, there will be an impact on stock markets of China. Similarly, in lock down countries, investors will find difficulty in trading and that will affect the stock market.

CONCLUSION

The virus continues to spread around the globe following a path that is difficult to predict. The health organizations across the world and the governments will ascertain the speed of recovery. It has not been stopped yet but has been curbed to some extent by the help of proper medication and treatments. However, the impact it will leave on the world economy would be extremely worst as it has been observed globally. The market predictability of the pandemic becomes less due to which market volatility will reduce. To survive and succeed, new innovations and open creativity are required (Yousaf Latif et. al., 2021).

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