

Effect of COVID-19 on Globalization: An Economic Perspective

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COVID-19 pandemic is not only affecting global citizen's health but also global economic health. Globalization has been a surge from the last couple of decades, which has positive and negative effects on our society. Globalization has reduced the scarcity of goods and services around the world. COVID-19 will affect human societies in many ways, mentally, physically, and economically for many years. This paper investigates the effect of the COVID-19 pandemic on the globalization. It is challenging to measure the effect because of the uncertainty of this natural phenomenon and human behavior. However, the author tried to make the best use of available resources to investigate. This paper uses variables economic growth, unemployment, and trade at a global level. Analysis suggests that slowing down economic activities, mobilization, and dependency on other countries for necessary goods like medication and PPE equipment can encourage economies to be more self-sufficient in the coming years. After this pandemic end, we might see a different world an inclination towards deglobalization.

Keywords: COVID-19, macroeconomics, globalization, international trade, economic growth, unemployment

INTRODUCTION

Globalization is the interaction among people, businesses, and governments across the world. It is not a new phenomenon; people interact with each other at the global level for thousands of years. The silk road connected Asia from Europe during the middle ages. Today this process is driven by trade, tourism, technology, government policies, and economic growth. Globalization has helped our societies in many ways. The human lifespan has been increased because now people can get the medication easily, reduced mortality rate, reduced poverty, and a higher standard of living across the globe. People are never connected in the history of humankind in the way that they are today. However, it has also created obstacles like climate change and cultural issues. Since countries are trading, they are producing more, which creates negative externalities like pollution. As people are traveling more either for business or for entertainment, they are having more exposure to other countries. Some scholars worried that it could diminish the old heritage culture of some countries.

COVID-19 (coronavirus disease 2019), which originated in Wuhan, China, on December 31st, 2019, has been devastating not only to the health of humans but also to the countries' economic health. The World Health Organization has declared COVID-19 a pandemic on March 11th, 2020, more than two months after the first reported case. Since then, it is increasing in many parts of the world, and economic activity has been reduced significantly. As of July 16th, more than 13.5 million people are affected, with more than five hundred and 84 thousand deaths worldwide.

The goal of this paper is to investigate the impact of COVID-19 on globalization. Will this pandemic reverse the globalization? Will this natural phenomenon lead the countries toward deglobalization? To find the answer to these questions, this study will analyze the economic impact of COVID-19 on globalization through looking at economic growth, unemployment rate, and trade data of the countries.

There are already some research and studies dealing with the effect of COVID-19 pandemic on globalization. There is no doubt that economic activity has slowed down across the world because of lockdown. According to (Baldwin and Tomiura , 2020), as of March 2nd, 2020, the nations with the most reported cases include (in order) China, Korea, Italy, Japan, U.S., and Germany – with the cases proliferating especially in the U.S., Italy, and Germany. These six hard-hit nations account for: about 55% of world supply and demand (GDP), about 60% of world manufacturing, and 50% of world manufacturing exports. When these economies are on completely lockdown, it is an economic loss that will be felt across the globe for many years. COVID-19 pandemic has a more significant effect on the global supply chain, according to Luo and Tsang (2020). Based on our most conservative estimate, China suffers about a 4% loss of output from labor loss, and global output drops by 1% per period due to the economic contraction in China. About 40% of the impact is indirect, coming from spillovers through the supply chain inside and outside China.

The economic slowdown has also affected the global stock exchange, according to Ramelli & Wagner (2020) This seems a fairly obvious observation resulting from the growing number of infections in most countries, closing schools, and promoting social distancing measures well as sharp declines on global stock exchanges. Companies react by cutting investment expenditure, which negatively affects productivity and can, in turn, lead to a recession (Fornaro, Wolf, 2020).

The author is aware of the limitation of this research because this is an unprecedented event, and human behavior is uncertain to predict. According to (Sforza and Steininger, 2020), globalization allows firms to source intermediate inputs and sell final goods in many different countries. Experts Seric and Winkler predict that as a result of coronavirus, the world will see a surge in automation while seeing globalization diminish. Understanding the effects of a global production disruption induced by a pandemic is complex. The first part of this paper is the introduction, and the second part will analyze the effect of COVID-19 on economic growth, unemployment, and trade, and the third part is the conclusion and recommendations of the research.

This paper is based on the analysis of available research, secondary data, reports, and literature from the International Monetary Fund, U.S. Bureau of Labor Statistics, Organization for Economic Cooperation and Development, and International Labor Organization. The author is aware of the lack of research on this topic because of the uncertainty around the world. The main limitation of this paper is the relatively limited availability of the literature and data on this subject. For developed countries like The United States, data is very readily available but not in other parts of the world, especially for developing and emerging economies.

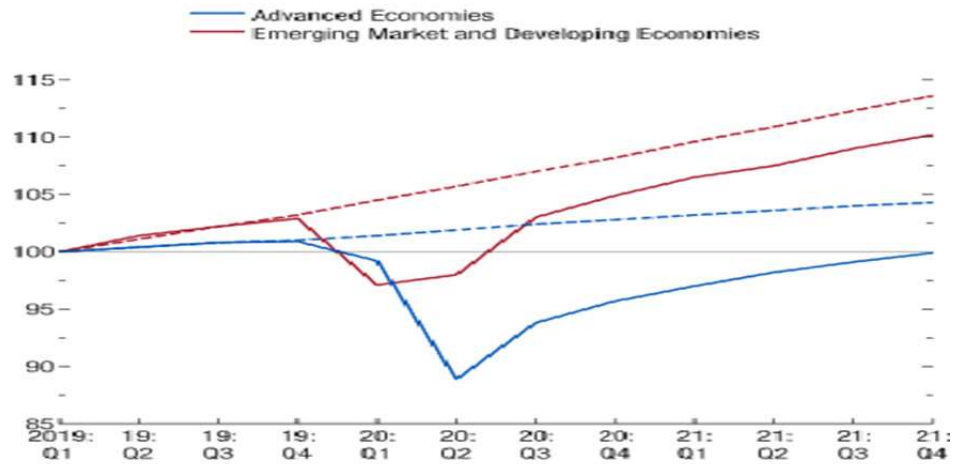
ECONOMIC GROWTH

Long term sustainable economic growth is one of the most desired goal for any country (Shukla, (2017a). The COVID-19 pandemic made countries lockdown and stayed in isolation, which reduced economic activity levels significantly. According to (Shukla,2020) final consumption expenditure is a key driver of a country's economic growth. There is no doubt about the slower growth and recession in the coming months across the globe. There is extreme uncertainty about the economic growth forecast around the world. According to the World economic outlook, April 2020, the global economy is projected to contract sharply by –3 percent in 2020, much worse than during the 2008–09 financial crisis. According to world bank's June 2020 Global Economic Prospects. The baseline forecast envisions a 5.2 percent contraction in global GDP in 2020, by using market exchange rate weights it will be the deepest global recession in decades.

The economic fallout will be uneven among the countries it depends on factors that interact in ways that are hard to predict, including the pathway of the pandemic, the extent of supply disruptions, the

repercussions of the dramatic tightening in global financial market conditions, shifts in spending patterns, behavioral changes, change in market structure, consumer confidence effects, and volatile commodity prices. Below is the graph that shows the quarterly world GDP, divided into advanced and emerging markets and developing economies.

**FIGURE 1
QUARTERLY WORLD GDP**



Source: IMF staff estimates.

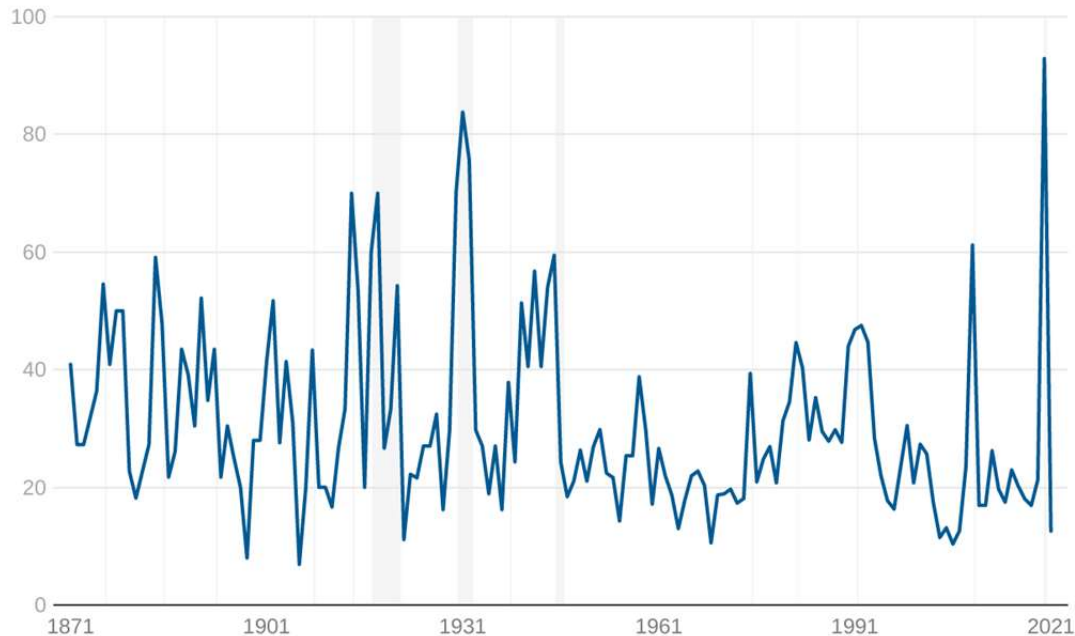
(2019: Q1=100, Dashed lines indicate estimates from January 2020 World Economic Outlook)

The graph shows that the economic effect of the COVID-19 pandemic is worse in the advanced economies than the emerging and developing economies. Because in the developed world, the share of the durable product compare to the nondurable product is higher. While in the developing and emerging countries, the share of nondurable goods is higher than the durable goods. During the economic downturn, this is human nature to buy mostly nondurable and necessary goods people do not want to spend money on durable and luxurious goods because of the uncertainty and gloomy market. Economic growth in the advanced economy group where several economies are experiencing widespread outbreaks and deploying containment measures is projected at -6.1 percent in 2020. The group of emerging market and developing economies is projected to contract by -1.0 percent in 2020, (Economic outlook 2020). According to world bank's June 2020 Global Economic Prospects the pandemic is expected to plunge most countries into recession in 2020, with per capita income contracting in the largest fraction of countries globally since 1870. Advanced economies are projected to shrink 7 percent. That weakness will spill over to the outlook for emerging market and developing economies, who are forecast to contract by 2.5 percent as they cope with their own domestic outbreaks of the virus. This would represent the weakest showing by this group of economies in at least sixty years. Below is the graph of share of economies in recession from 1871 to 2021.

FIGURE 2
SHARE OF ECONOMIES IN RECESSION

Most countries are expected to face recessions in 2020

Share of economies in recession, 1871-2021



The proportion of economies with an annual contraction in per capita GDP. Shaded areas refer to global recessions. Data for 2020-21 are forecasts.

Source: World Bank

Every region is subject to substantial growth downgrades. According to world bank’s June 2020 Global Economic Prospects East Asia and the Pacific will grow by a scant 0.5%. South Asia will contract by 2.7%, Sub-Saharan Africa by 2.8%, Middle East and North Africa by 4.2%, Europe and Central Asia by 4.7%, and Latin America by 7.2%. These downturns are expected to reverse years of progress toward development goals and tip tens of millions of people back into extreme poverty. According to (ILO 2020) The bottom line of the human crisis is between 71 and 100 million people will be pushed into extreme poverty, reversing years of past development progress.

Moreover, as countries are spending a massive amount of money to combat the situation and protect their citizens, it is creating another problem - growing public debt. According to(ILO2020) as Governments have launched unprecedented fiscal and monetary packages to counter the economic and social impact of COVID-19, to a total of some \$9 trillion, in line with commitments “to do whatever it takes” to protect their people, public debt levels are rising sharply. The IMF estimated that average public debt to GDP ratios would increase from 69.4 percent to 85.3 percent in the year, with many countries at considerably higher levels.As a result, when economic growth reduces, countries will be in the recession that will reduce the economic activity among countries as well, which can lead them towards deglobalization.

UNEMPLOYMENT RATE

As the COVID-19 pandemic has slowed down the economic activities, its next impact that economies are facing is layoffs. According to (Shukla, (2017b), there is a strong positive relationship between human

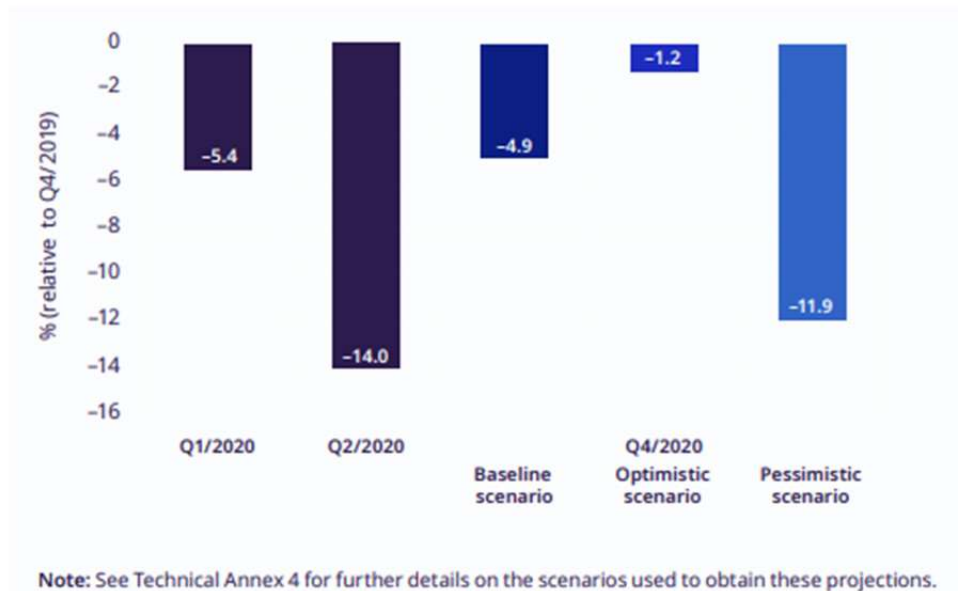
capital and economic growth. The pandemic is, causing massive human suffering and laying bare the extreme vulnerability of many millions of workers and enterprises. The number of unemployed people has increased dramatically across the world. It is too early to capture this data at a global level; however, the U.S. Bureau of Labor Statistics has reported that the unemployment rate in the United States rose to 14.7 percent in April, the worst since the Depression-era. The International Labor Organization (ILO) estimates that global unemployment could increase by almost 25 million (ILO, 2020). The latest ILO estimates are that the large-scale workplace closures around the world in response to COVID-19 have led to a reduction in hours worked of 10.7 percent worldwide in the second quarter of this year. That translates into the loss of 305 million jobs – calculated on the basis of a 48-hour working week. The Asia and Pacific region were initially the worst affected by COVID-19, but now it is the Americas, followed by Europe and Central Asia, reflecting the westward movement of the pandemic's epicenter across the globe. Below is the graph of ILO's projection of the work hour loss for second quarter of 2020.

FIGURE 3
WORKING-HOUR LOSSES, WORLD AND BY INCOME GROUP, FIRST AND SECOND
QUARTERS OF 2020 (PERCENTAGE)



According to ILO's projection global working hours will decline by 14 per cent in the second quarter of 2020 (up from the previous estimate of 10.7 per cent), which is equivalent to 400 million full-time jobs. The Americas is estimated to have suffered the hardest a reduction in working hours of 18.3 per cent, or 70 million jobs. ILO has projected the labor market outcomes for the second half of the year.

FIGURE 4
PROJECTED WORKING-HOUR LOSSES IN THE SECOND HALF (FOURTH QUARTER) OF
2020 WORLD (PERCENTAGE)



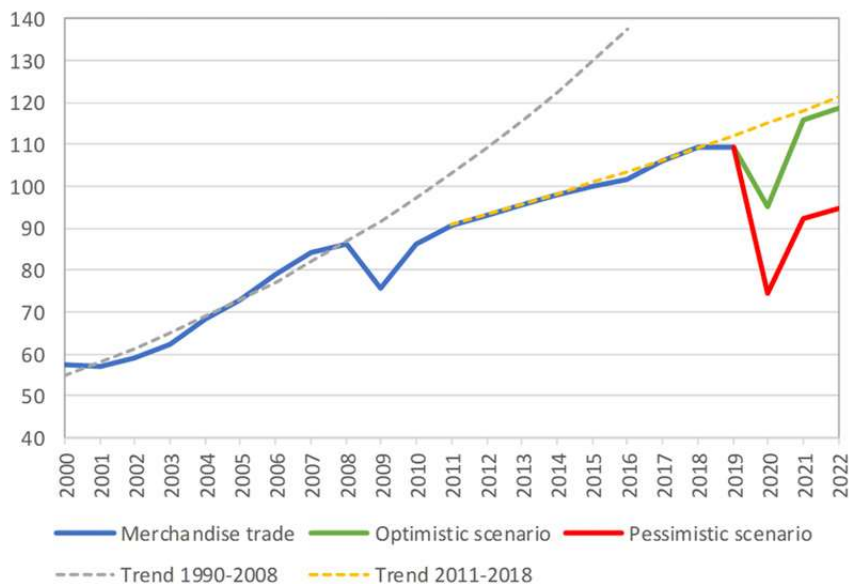
According to their baseline scenario projection, the loss of global working hours (relative to the last pre-crisis quarter, i.e. the fourth quarter of 2019) would decline from the peak in the second quarter of 2020 to 4.9 per cent in the fourth quarter, or 140 million jobs. In the pessimistic scenario, the situation in the second half of 2020 would remain almost as challenging as in the second quarter. Even if one assumes better-tailored policy responses there would still be a global working-hour loss of 11.9 per cent at the end of 2020, or 340 million jobs, relative to the fourth quarter of 2019. The optimistic scenario would push the working hour loss down to 34 million jobs by the end of the fourth quarter of 2020, a gap of 1.2 per cent relative to the fourth quarter of 2019.

When economies are suffering from higher unemployment and future projection is also discouraging, their first goal is to protect their citizens. Immigration and outsourcing will diminish to give jobs to their own citizens. It can lead the countries to deglobalization.

TRADE

Globalization has materialized in remarkable growth in trade between countries from the last century. Countries realized an extraordinary growth in international trade over the last couple of decades. Exports today are more than 40 times larger than in 1913. However, trade started slowing in 2019 because before the virus struck, trade tensions were weighed down and slowed economic growth. As a result of the COVID-19 pandemic, many countries have banned or impose restrictions on interpersonal interactions, social, cultural, and international trade exchange. According to WTO 2020 press releases world merchandise trade has registered a slight decline in the year of -0.1% in volume terms and after rising by 2.9% compared to the previous year. The dollar value of world merchandise exports in 2019 fell by 3% to US\$ 18.89 trillion. Approximately all regions will suffer double-digit declines in trade volumes in 2020, with exports from North America and Asia hit hardest. According to Luo and Tsang (2020). Firms are interconnected through trade within and across sectors with specialized productions. The production linkages among firms serve to propagate shocks along the supply chain and ultimately affect the aggregate economy. According to WTO, World merchandise trade is set to plummet by between 13 and 32% in 2020 due to the COVID-19 pandemic.

FIGURE -5
WORLD MERCHANDISE TRADE VOLUME, 2000-2022
(INDEX, 2015=100)



Source: WTO Secretariat

The graph above is the future trade performance predicted by WTO. There are two distinct scenarios: (1) a relatively optimistic scenario, with a sharp drop in trade followed by a recovery starting in the second half of 2020, and (2) a more pessimistic scenario with a steeper initial decline and a more prolonged and incomplete recovery. Under the optimistic scenario, the recovery will be strong enough to bring trade close to its pre-pandemic trend, represented by the dotted yellow line, while the pessimistic scenario only envisages a partial recovery. Given the level of uncertainties, it is worth emphasizing that the initial trajectory does not necessarily determine the subsequent recovery.

Many countries are currently facing supply shortages of critical medical equipment like a ventilator, particularly from China, which has also been labeled 'supply-side contagion' (Baldwin and Tomiura 2020). It can encourage countries to be self-sufficient, especially for necessary goods. Countries like the USA have learned their lesson. They will put trade restrictions on the place to protect and encourage their domestic industries, that is what happened after the great depression. There is already some indication of reduction in trade, according to BLS June report the price index for U.S. imports and exports rose 1.4 percent in June. According to Eichengreen & Irwin (2010) between 1928 and 1935, exchange-control nations on average reduced imports some 26 percent more than expected from the change in their real GDP. According to (ILO 20) The WTO's best and worst case scenarios are for a fall in world trade volumes of 13 percent and 32 per cent respectively. Protective trade policies will reduce the trade among the countries significantly, which will lead to deglobalization.

CONCLUSION

This study concludes that the COVID-19 pandemic will affect globalization negatively, at least for the short term. The analysis represents the unprecedented disruption to the global economy and world trade, as production, consumption, trade, and supply chain is scaled back across the globe. The inevitable decline in trade and output and increasing unemployment will harm households and businesses painfully, on top of the human suffering caused by the disease itself. Forecasts for the global economy must contend with the great uncertainties inherent in the evolution of the pandemic and policy options that have yet to be determined. This paper suggests the immediate goal is to bring the COVID-19 pandemic under control, find the vaccine, and mitigate the economic damage to people, businesses, and countries. Policymakers

must start planning for the aftermath of the COVID-19 pandemic because the estimates of the expected recovery in 2021 around the globe are equally uncertain. It will depend mainly on the duration of the outbreak and the effectiveness of the policy responses.

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