



THE IMPACT OF CORONAVIRUS ON THE WORLD ECONOMY

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ABSTRACT

The impact of the coronavirus on the economic and social life of the world today is becoming very significant. The whole world begun year 2020 with the epidemic of coronavirus, which grew into a global disease. As a result, of the coincidence of so many negative factors, the world found itself in a situation close to a "perfect collapse". In the history of the 20th century, and in early period of 21th century, there were many examples of various epidemics and world economic crises. But, the current one is much more terrible than the previous examples.

KEY WORDS: *economic downturn, global economy, international institutions, economic crisis*

LITERATURE REVIEW

Before the COVID-19 pandemic, only few studies were conducted that examined the economic aspects of the spread of the epidemic. One of the most notable works was the study of less dangerous viruses (such as influenza, gastroenteritis and chickenpox), which showed that schools were closed and limited public transport significantly reduced the number of cases, but the economic costs of these measures exceeded the economic ones. (Adda J, 2015). However, in that article suggests that with the spread of several more dangerous viruses, the results of comparing benefits and costs are changing, and closing of schools were a useful measure. It has also been shown that an increase in interregional traffic due to transports will lead to an increase in the spread of the virus

Also, Berger D., Herkenhoff K., Mongey S. (2020) showed that mass screening for the presence of the virus and the introduction of selective quarantine significantly reduce both the mortality and economic costs of the disease caused by the virus. Such measures can be supplemented by measures to monitor human contacts.

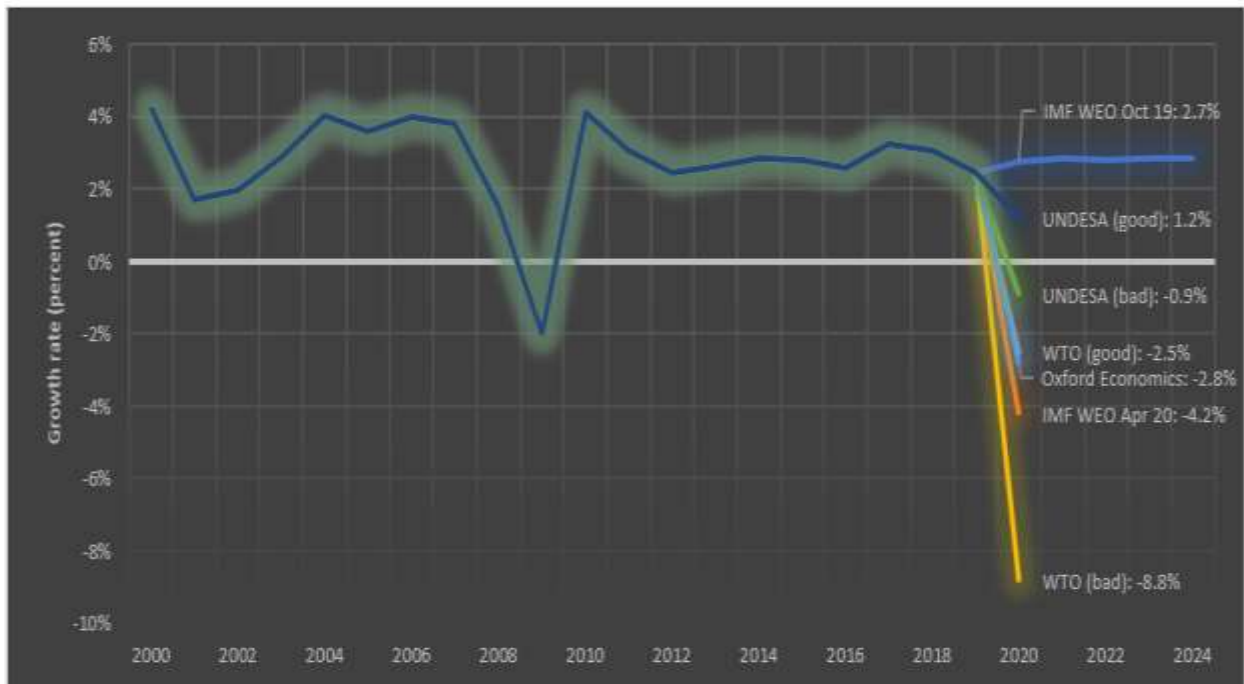
Socio-economic impacts of the COVID-19 crisis

First of all, it is important that the uncertainty factor affecting the economic system and decision-makers (states) carry out timely and effective reforms in response to the impact of the COVID-19 pandemic.

The rapid spread of COVID-19 has stagnated the global economy. Forecasts of the impact of COVID-19 on the global economy vary widely. But the world economy is facing the most serious problems after World War II due to the sudden downturn of economic activity in developed and developing countries.

In late April, the International Monetary Fund (IMF) gave its forecasts of global economic growth and emphasized that the global economy is expected to suffer the worst economic downturn since the GD. Recent WTO forecasts are worse, forecasting a negative growth rate of almost 9 percent by 2020. It is in the worst case scenario (Figure 1). Other forecasts made earlier were more optimistic, such as the forecast of the UN Department of Economic and Social Affairs. According to UNDESA, global GDP will fall to 1 percent.

Figure 1. World growth outlook: latest forecasts by different organizations



Source: UNIDO elaboration based on Oxford Economics (2020), IMF (2019 and 2020), UNDESA (2020) and WTO (2020).

Forecasts of sales of goods and services are even worse. In the World Economic Outlook, the IMF gave a forecast growth in trade in goods and services from 3% to negative 9%. World trade (excluding

services) estimated to decline to 13.32 percent and 32, measured in terms of average change in exports and imports (Figure 2).

Figure 2. Yearly changes in the volume of global trade: latest forecasts by different organizations



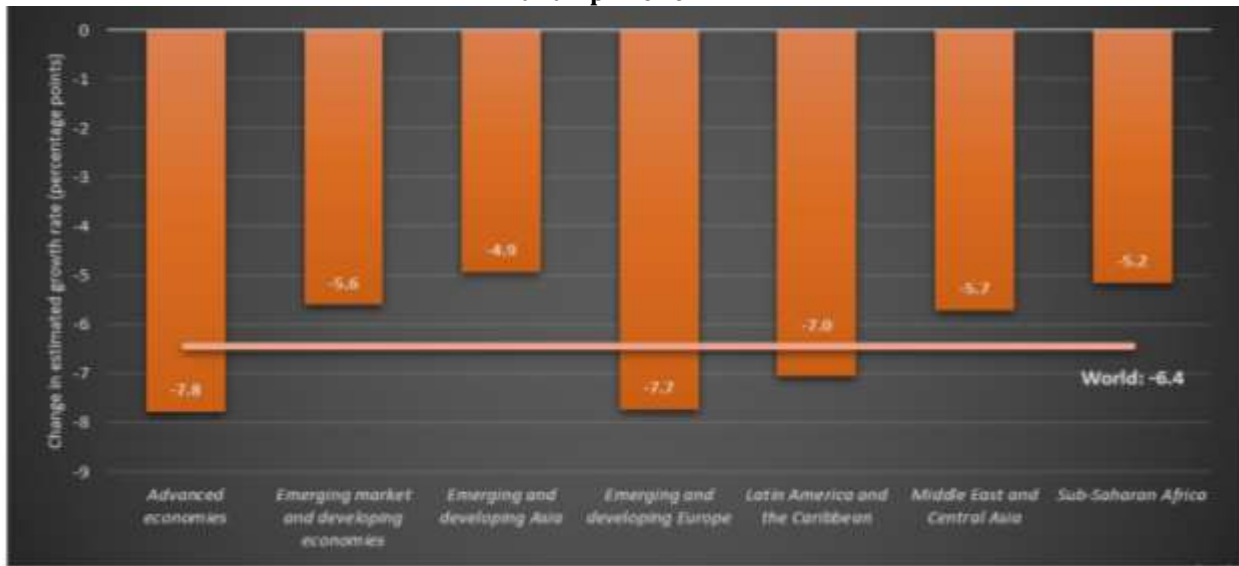
Source: UNIDO elaboration based on IMF (2019, 2020a) and WTO (2020).

Different forecasts of economic growth in 2020 gives the same prediction “a global downturn” in general, but some regional differences are emerging. At a

time when developed economies are expected to suffer crisis from the COVID-19, some emerging economies in Europe, Latin America and the

Caribbean are facing the highest downturn in GDP growth forecasts (Figure 3).

Figure 3. Regional differences of GDP growth rate forecasts for 2020 in the IMF's WEO Oct 2019 and Apr 2020

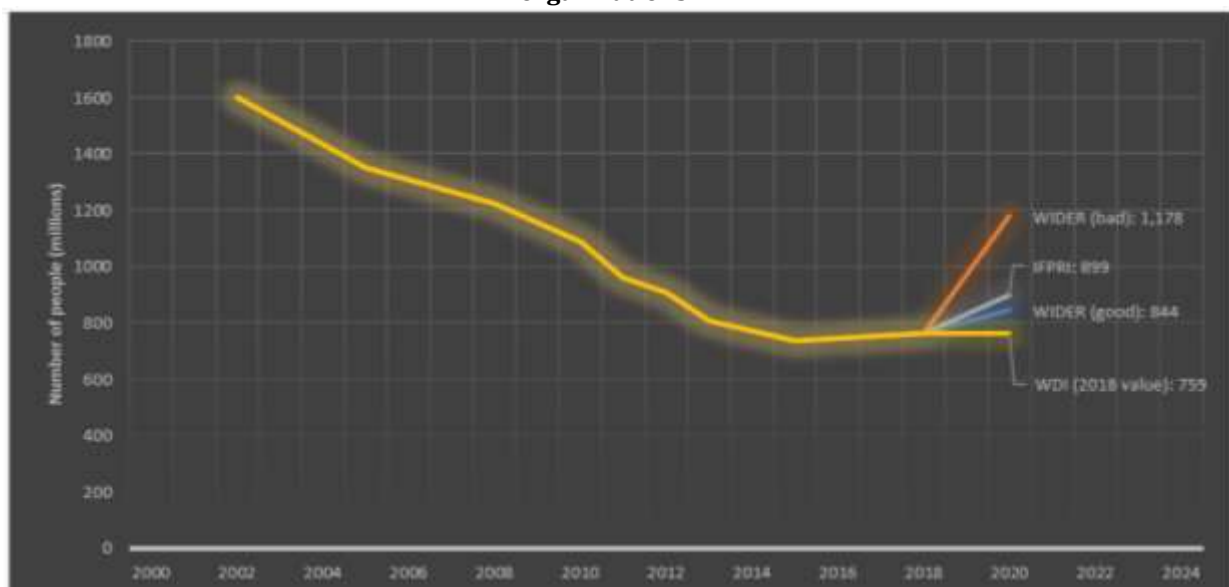


Source: UNIDO elaboration based on IMF (2019, 2020a).

During the this research we have found that some researchers tried to assess the impact of the COVID-19 crisis on global extreme poverty (Figure 4). These calculations give different results. The increase in the number of people living below the poverty line by \$ 1.90 ranged from \$ 85 million to \$ 420 million. The latest figure represents an increase of more than 50

percent from the latest figures for 2018. Despite significant differences in results, all forecasts suggest that for the first time since 1990 (because, there was a decrease in poverty among world people between 1990 and 2019 years), global poverty will increase.

Figure 4. Number of people below the US\$ 1.90 PPP poverty line: latest predictions by different organizations



Source: UNIDO elaboration based on Laborde et al. (2020), Summer et al. (2020) and World Bank WDI database.



Some Important Features of the current crisis

One of the most important features of the current economic crisis is the extremely uneven distribution of economic resources associated with measures to slow the spread of the virus. In an industrial (transport, tourism) and service sector (restaurant, barber shop, etc.) environment that requires physical contact with customers, the measures introduced are primarily affected.

In addition, companies that manufacture long-term consumer goods (e.g., automobiles) face large losses because in conditions of uncertainty, people largely reduce their costs for such goods. Some fields may win from the constraints that allow it to operate remotely performance. These are primarily telecommunications companies, companies in the field of online entertainment and online education.

In terms of size, small and medium-sized enterprises are the most risky, as they have a much higher cash flow ratio to assets than large corporations. This means that they do not have a financial background and must constantly maintain a certain power to fulfill their obligations, and any, even temporary, risk of activity may go to bankruptcy. Individual entrepreneurs are in a similar situation. In this regard, most of developing countries are in a much better position than other countries, as the share of small and medium-sized businesses in the country has historically been much lower.

From the point of view of individual workers, those who are able to continue working remotely in full are in the most optimal position. The problem is that the amount of such work is very limited. Even in the U.S., where the economic structure is conducive to the development of these industries, the share of work that can be done at home is estimated at only 34 percent (Jonathan I. Dingel and Brent Neiman, 2020). At the same time, the proportion of those who continue to work longer is significantly higher among highly skilled workers who initially earn more money. Thus, the economic costs of restrictive measures disproportionately harm the poor and vulnerable segments of the population.

Also, among the works that cannot be completely transferred to the remote mode, there is also a significant variation in how much they depend on direct communication and contact between people and, accordingly, how much they will suffer from the introduction of measures for social distance.

Geographically distributed workplaces, which are more dependent on direct contact between people, show that they are disproportionately represented in large cities with high densities. Thus, urban agglomerations suffer not only because the social distance is more important and imposed greater restrictions on the measures introduced, but also because the employment structure within them is

greater than the economic damage resulting from such measures.

Another important aspect of the uneven distribution of economic costs is gender inequality. On the one hand, the share of employment in the regions most affected by men is high, for example in Russia. On the other hand, the closure of kindergartens and schools traditionally increases the burden on women who care for children more than men.

Economic and political measures to combat the economic crisis

The pandemic has moved first from China to Europe, then to the United States and other parts of the world, and as economic prospects worsen, world governments are increasingly resorting to measures to combat economic and social policies. Examining the impact, it can be argued that if appropriate measures are not taken, the current economic crisis may exacerbate previous weaknesses.

Antivirus measures mainly hit people's income and company profits. That is why tax measures by the government are important, although the actions of monetary authorities can play a very important role in overcoming the crisis. In such a crisis, government economic support programs are needed to compensate for the losses of people whose incomes plummeted due to restrictive measures introduced to prevent collapse in aggregate demand and provide the necessary liquidity for both the real and financial sectors. All these tasks are critical to ensuring that temporary measures to control the spread of the virus do not cause long-term damage to the economy and that it can recover quickly after the restrictive measures are lifted.

As the risk of many companies, especially small and medium-sized businesses, being on the verge of bankruptcy very quickly, the rate of allocation of state aid is also becoming a very important parameter. Leading economists therefore urge governments to act quickly, decisively, and on a large scale (Richard Baldwin and Beatrice Weder di Mauro, 2020). From the point of view of maintaining aggregate demand, the size of state support becomes the main one, that is, by how much the government will be ready to increase its spending.

In addition to the total amount of fiscal incentives, it is also important for what and where exactly these funds are allocated. The key in this case would be the costs that cover the damage caused to those most affected in the current situation. This applies both to the companies that have suffered the most from the introduction of the restrictive measures as well as to those who are unable to receive wages or lose their jobs due to compulsory leave.

Policy analyses in the contemporary academies on the COVID-19 pandemic is based on the need to make decisions regarding the differences



between recent, medium and long-term goals and objectives. However, there remain some differences in the number of stages observed and the degree of detail of the policy responses at these stages.

The development-oriented analysis found that the economic stimulus measures needed to reduce the economic damage caused by the pandemic typically exceeded the amount announced by governments. At the same time, it reaffirms that international organizations between states play an important role in the faster recovery of economic and social activities of countries (e.g., Jayaram et al.) 2020 (for an African country).

Moreover, a report which published recently by the Policy Links Unit of the Cambridge University

Institute for Manufacturing (International Manufacturing Policy Responses) examined policy measures to reduce the potential impact of COVID-19 on manufacturing in 11 countries, as well as in the European Union. Their studies show that measures to mitigate macroeconomic factors can affect manufacturing, but these measures are often combined with measures that appear in three different areas: (1) safeguarding continued operation of manufacturing; (2) mobilizing manufacturing towards critical supplies; and (3) supporting post-crisis manufacturing growth. Table 1 shows examples of specific measures taken so far in each of these areas.

Table 1. Current international policies and measures to support manufacturing

Policy area	Examples of concrete measures	
Safeguarding continued manufacturing	<ul style="list-style-type: none"> Financial and fiscal support (loans, guarantees, subsidies, insurance, tax breaks, etc.) <ul style="list-style-type: none"> Cash flows to support firm survival Workforce retention and wage payments Ensuring continued supply of production inputs/ addressing supply chain disruptions Designation of critical workers and sectors 	
Mobilizing manufacturing towards critical supplies	<ul style="list-style-type: none"> Repurposing manufacturing towards critical supplies Industrial consortia to produce critical supplies Designation of critical medical supplies Easing of regulations Export controls and import facilitation Direct government involvement in production and distribution 	
Supporting post-crisis manufacturing growth	Supporting business resumption	<ul style="list-style-type: none"> Guidance for business resumption, including workers' health and safety Initiatives aimed at increasing manufacturing productivity
	Supporting business reorientation	<ul style="list-style-type: none"> Support to identify future markets and sale channels Support for investments in innovation and local production

In developed countries, traditional production lines have to meet the growing demand for products (such as masks and protective gowns) and also have started to appear in developing countries (for instance in Kenya). Efforts are being made in Kenya. Currently, mask production factory produces 30,000 masks per day (Jayaram et al., 2020). Such efforts will simultaneously help address health emergencies and save jobs.

The long-term effects of the crisis

The level of uncertainty associated with both the spread of the coronavirus itself and the economic consequences of the pandemic is so high that it is extremely difficult to make any forecasts. Nevertheless, it is already possible to single out several potential opportunities that the world economies will face at the end of the crisis phase. First of all, the question will arise about the role of the state in the economy. In times of crisis, the role of



the state increases dramatically, and at the same time, it does not always return to its previous level after its completion. Thus, the role of the state in Western countries increased significantly after the Great Depression and World War II. At the same time, the crisis may lead to an increase in the efficiency of public authorities, for example in the field of targeted social benefits, which will remain critical in times of crisis. Moreover, for some countries, the crisis and falling prices may provide another opportunity to increase the diversification of the economy and reduce its dependence on resource exports.

We can also expect that the crisis will give a powerful impetus to the development of the online industry and remote work, greatly accelerating long-standing trends. Another potentially important effect of the crisis may be changes in the level of trust, nationalism and international cooperation. On the one hand, the crisis has shown that biological threats have no state borders and require coordination of efforts of various countries to combat them. On the other hand, economic crises lead to a drop in the general level of trust (Ananyev M., Guriev S. 2019) and can lead to an increase in nationalism and discrimination (see the chapter Campbell and Yakovlev in this collection).

At this stage, it is almost impossible to predict which of the possible scenarios will be implemented, but the above (as well as many others) can be discussed the possible long-term consequences of the crisis. Various measures taken during the crisis, as they can have a serious impact on the development of the economy even after the end of the acute phase of the crisis.

Recent publications on pandemic coronavirus policy measures suggests the importance of trade for the stability of supply chains and international trade, especially those related to the sale of medical devices, for the protection of human rights. According to UNCTAD, this recognition provides funding via global organizations to help trade development efforts, which are required to implement the WTO Trade Facilitation Agreement (TFA).

Civil society, governments, businesses and international organizations need to join forces to have a real opportunity to build a better future in order to overcome the crisis (United Nations, 2020). Government leaders need to develop plans to reinstate COVID-19. These developed plans can not only help overcome the current socio-economic crisis, but also mitigate climate change and sustainability, and improve racial, gender, and economic justice.

CONCLUSION

During the research we witnessed that coronavirus, which is present in the world today, has had a significant negative impact on the world socio-economic life. However, if we look at the past, even

before the world countries have experienced major economic crises. I would like to provide with examples of two major crises which facing the world peoples. The first, The Great Depression, which was the worst economic downturn in the history of the industrialized world, lasted from 1929 to 1939 (Wikipedia). The second was the economic situation after World War II. In both cases, the world's economies have suffered huge losses. If we compare with today, nowadays, there are only estimates of the detrimental effects of Covid-19 on the economy, but exactly we don't know, even the effects maybe be very bad. According to estimates by world economists, it may be a 15% drop in output in the second quarter of 2020 but it is said that even it could be 20%.

If we remember, 3 major events took place in the 1930s and 1950s. First, the old economic regime was abolished. At that time, Maynard Keynes' general theory served as a basic school for economists and politicians of an entire generation. States have abandoned the gold standard, also, new systems and rules were introduced in the economy and after that in many cases states have begun to grow and develop. Second, there was an attempt to inject equity into economies via improvement of power for trade unions, more progressive taxation and the expansion of welfare states. Finally, there were attempts to build new international institutions through the creation of the United Nations, the International Monetary Fund and the World Bank, which was intended to avoid the economic and policy fragmentation during the years of crises.

In this case, a question arises. Can the above events be repeated again? In the two previous crises, we can see how important the role of states and global organizations in overcoming the economic crisis and ensuring the well-being of the population. And, the governments and international institutions have recognized that they have to support citizens in order to get out of this difficult situation faster. Because, without multilateral cooperation, there will be no victory against Covid-19.

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