

WORLD ECONOMY IN THE COVID-19 CRISIS

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Abstract: The first pandemic in over a hundred years began as a health crisis and soon escalated into the global world economic COVID-19 crisis spreading at an unprecedented rate. The world economy has experienced 14 global crises since 1870. The COVID-19 crisis is predicted to be the deepest since World War II and more than twice as deep as the 2007-09 world financial crisis. The aim of the paper is to highlight the depth of the COVID-19 crisis and its consequences on economic activities worldwide. The research will show that the economic disruptions induced by the COVID-19 crisis are enormous. Many indicators of economic activity registered the sharpest declines in six decades. World production, trade, tourism, air traffic, oil consumption, foreign direct investments, employment and living standard fell drastically seeing record drops while some new global risks emerged. The seriousness and intensity of recession will depend largely on how long the downturn lasts as well as the effectiveness of policy responses. As the paper deals with the current crisis, all up-to-date data and research results present novelties in this field regarding the estimated versus realized effects of the COVID-19 crisis. The paper might be useful for policy makers and economic researchers as well as all other researchers given the connection and intertwining of economic and all other activities and areas of life.

Keywords: world economy, COVID-19, crisis.

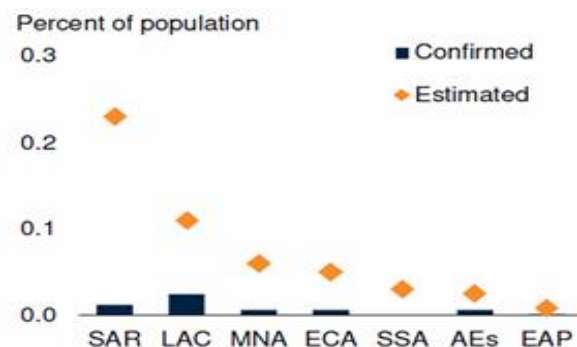
1. INTRODUCTION

The first pandemic in over a hundred years began as a health crisis and soon escalated into the global world economic COVID-19 crisis spreading at an unprecedented rate. The COVID-19 virus has spread worldwide without acknowledging borders. It has impacted all industries, all sectors and all aspects of our lives with devastating economic and financial losses and significant uncertainties [1]. Since COVID-19 started to spread, it has come in several global waves, each at a higher daily infection rate. The virus has infected at least 160 million people and caused more than 3 million deaths. [2] Hundreds of thousands of new cases are being reported every day (Figure 1), and the number of confirmed cases is lower than the estimated number of actual cases in all regions, particularly in South Asia (Figure 2).

Figure 1: Evolution of the pandemic



Figure 2: Confirmed versus estimated COVID-19 cases



Note: AEs = advanced economies; EMDEs = emerging market and developing economies; EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MNA = Middle East and North Africa; SAR = South Asia; SSA = Sub-Saharan Africa

Source: [2].

As at 31 March 2021, almost 128 million people had contracted the coronavirus, of which 46 million cases (or 36%) had been reported since the start of 2021. On the same day, nearly 2.8 million deaths were attributed to COVID-19, of

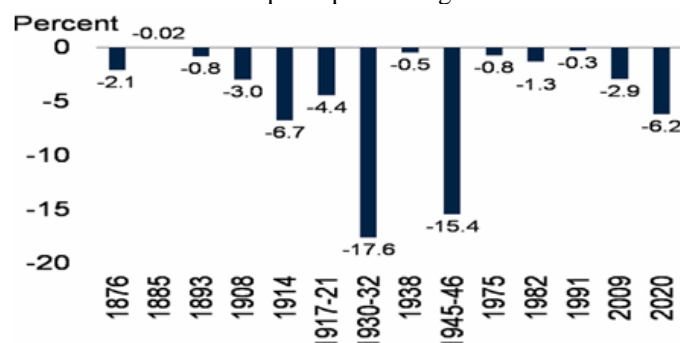
which 1 million (or 36%) had occurred in 2021. Globally, the apparent mortality rate¹ is 2.2%. The Americas accounted for 44% of cumulative cases (almost 56 million) and 48% of deaths (1.3 million); Europe, for 35% of cases (almost 45 million) and 37% of deaths (almost 1 million); South-East Asia, for 12% of cases (almost 15 million) and 8% of deaths (220 thousand), with the lowest apparent mortality rate among the regions. Africa has recorded the highest mortality rate. [3] Currently the pandemic continues to spread worldwide and new variants that were originally identified in Brazil, India, South Africa and the United Kingdom are now circulating globally. These new strains may spread more easily and cause more severe disease, and some of them also appear to be resistant to the immune responses triggered by a previous infection or by the current set of vaccines. All countries remain vulnerable to renewed outbreaks so long as the virus continues to circulate in some areas. [2]

First as health and then as economic crisis, the Covid-19 represents an unprecedented crisis, and no aspect of our lives is immune. Never in modern times has one event had such a wide-ranging effect on the world, its inhabitants and its ecosystems [4]. The crisis affects different aspects of public and private life from economic and environmental fluctuations to changes that affect individuals in terms of income, education, employment and violence and changes affecting public services such as civil aviation and postal services. It also affects some sub-population groups like women and children as well as geographical regions. Disproportionate impact of the pandemic on vulnerable groups, including women, school-age children and informal and unskilled workers has widened inequality. There are many COVID-19 impacts and implications on different aspects. The paper focuses on COVID-19 impacts on selected aspects of the world economic activity such as world production, trade, air traffic, oil consumption, foreign direct investment, tourism, employment, living standard that is poverty and global risks. The data of all prominent and relevant international organizations and institutions regarding analyzed aspects of pandemic impacts are used, such as: World Bank (WB), World Trade Organization (WTO), United Nations (UN), United Nations Conference of Trade and Development (UNCTAD), United Nations Industrial Development Organization (UNIDO), World Tourism Organization (UNWTO), International Labour Organization (ILO) and World Economic Forum (WEF). In the following part of the paper the results regarding the research of the pandemic impact on selected aspects of the world economy will be presented.

2. FINDINGS

The global world economy has experienced 14 global recessions since 1870: in 1876, 1885, 1893, 1908, 1914, 1917-21, 1930-32, 1938, 1945-46, 1975, 1982, 1991, 2009 and 2020 (Figure 3). In the previous seventy years from 1950 to 2020, the world economy has experienced four global recessions: in 1975, 1982, 1991 and 2009, and in each of these recessions there was a contraction in annual real per capita global GDP and broad-based weakness in other key indicators of world economic activity. These episodes were highly synchronized internationally, involving severe economic and financial disruptions in many countries around the world. The 2009 global recession was the deepest and most synchronized episode among these four. [5] The ongoing COVID-19 recession of 2020 is predicted to be more than twice as deep as the recession associated with the 2007-09 world financial crisis and the deepest since the Second World War. [6] The current COVID-19 pandemic plunged the world economy into its deepest recession since 1945-46 (Figure 3).

Figure 3: Deepest global recession since World War II
Global per capita GDP growth



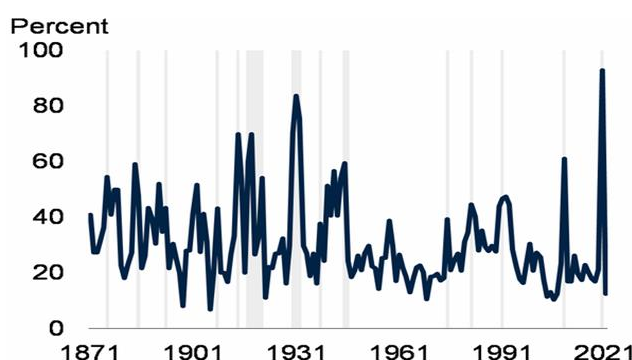
Note: for multi-year episodes the cumulative contraction is shown. Data for 2020 are forecasts.

Source: [6]

The pandemic of 2020 has had a devastating effect on GDP per capita. It pushed the world economy into recession in 2020 on a scale not witnessed since the 1930s. In 2020, the highest share of economies is expected to experience contractions in annual per capita gross domestic product (GDP) since 1870. The share will be more than 90% higher than the proportion at the height of the Great Depression of 1930-32 (Figure 4).

¹ The apparent rate is greatly affected by testing regimes, the number of cases recorded and the number of deaths attributed to COVID-19.

Figure 4: Highest synchronization of national recessions since 1870
Economies with contractions in per capita GDP



Note: 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: [6]

Due to the COVID-19 pandemic **world production** was decreased in 2020 and the world gross domestic product (GDP) growth was contracted by 3.5% in 2020 (Table 1). The contraction varied between economies and regions (Table 1 and Figure 5). The largest contraction of 4.7% in GDP growth occurred in advanced economies and it was largely due to the decline of 6.6% in GDP growth of Euro area followed by Japan (4.7%) and United States (3.5%). Emerging market and developing economies (EMDEs) experienced smaller contraction in GDP growth of aggregate 1.7% in 2020. Among them, the largest contraction of GDP growth occurred in Latin America and Caribbean (6.5%) and South Asia (5.4%) followed by Middle East and North Africa (3.9%) and Sub-Saharan Africa (2.4%), while the smallest contraction occurred in Europe and Central Asia (2.1%).

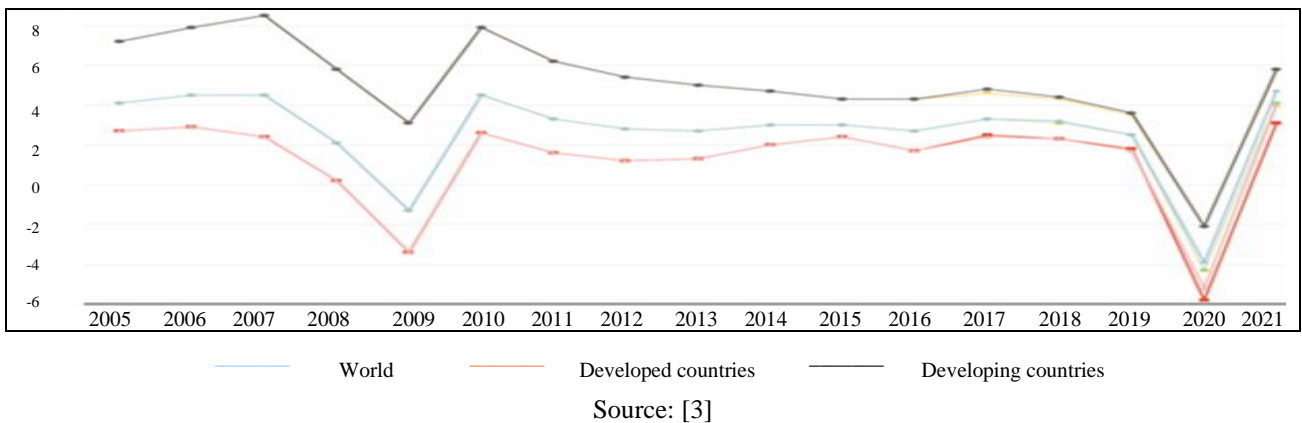
Table 1: Real GDP growth: annual estimates and forecasts
(percent change)

	2018	2019	2020e	2021f	2022f
World	3,2	2,5	-3,5	5,6	4,3
Advanced economies	2,3	1,6	-4,7	5,4	4,0
United States	3,0	2,2	-3,5	6,8	4,2
Euro area	1,9	1,3	-6,6	4,2	4,4
Japan	0,6	0,0	-4,7	2,9	2,6
Emerging market and developing economies (EMDEs)	4,6	3,8	-1,7	6,0	4,7
East Asia and Pacific	6,5	5,8	1,2	7,7	5,3
China	6,8	6,0	2,3	8,5	5,4
Indonesia	5,2	5,0	-2,1	4,4	5,0
Thailand	4,2	2,3	-6,1	2,2	5,1
Europe and Central Asia	3,5	2,7	-2,1	3,9	3,9
Russian Federation	2,8	2,0	-3,0	3,2	3,2
Turkey	3,0	0,9	1,8	5,0	4,5
Poland	5,4	4,7	-2,7	3,8	4,5
Latin America and the Caribbean	1,8	0,9	-6,5	5,2	2,9
Brazil	1,8	1,4	-4,1	4,5	2,5
Mexico	2,2	-0,2	-8,3	5,0	3,0
Argentina	-2,6	-2,1	-9,9	6,4	1,7
Middle East and North Africa	0,6	0,6	-3,9	2,4	3,5
Saudi Arabia	2,4	0,3	-4,1	2,4	3,3
Iran, Islamic Rep.	-6,0	-6,8	1,7	2,1	2,2
Egypt, Arab Rep.	5,3	5,6	3,6	2,3	4,5
South Asia	6,4	4,4	-5,4	6,8	6,8
India	6,5	4,0	-7,3	8,3	7,5
Pakistan	5,5	2,1	-0,5	1,3	2,0
Bangladesh	7,9	8,2	2,4	3,6	5,1
Sub-Saharan Africa	2,7	2,5	-2,4	2,8	3,3
Nigeria	1,9	2,2	-1,8	1,8	2,1
South Africa	0,8	0,2	-7,0	3,5	2,1
Angola	-2,0	-0,6	-5,2	0,5	3,3

Note: e = estimate, f = forecast.

Source: [2]

Figure 5: GDP growth rate, world and country groupings, 2005-2021
(annual percentage change)



Following the contraction in 2020, global economic activity has gained significant momentum, suddenly and uneven. Global output growth is expected to attain 5.6% in 2021, compared with predictions at the end of 2020 of GDP growth of around 4% in 2021 according to UNCTAD [3] or 6.0% according to IMF [7] and 4.3% [3] or 4.9% [7] in 2022, what is its strongest post-recession pace in 80 years (Figure 7).

Figure 6: Global growth

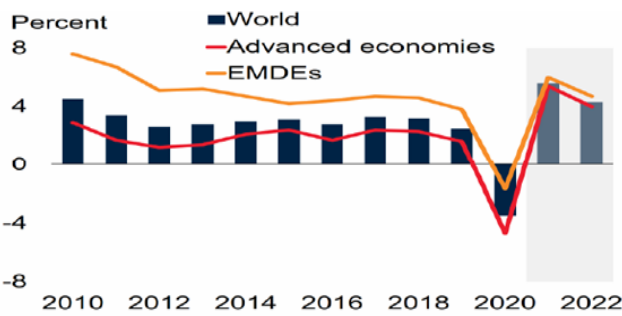
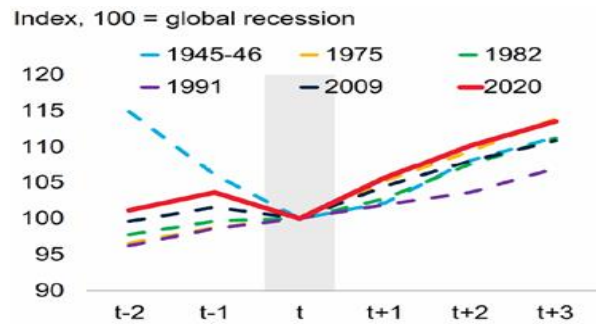


Figure 7: Global recoveries after recessions

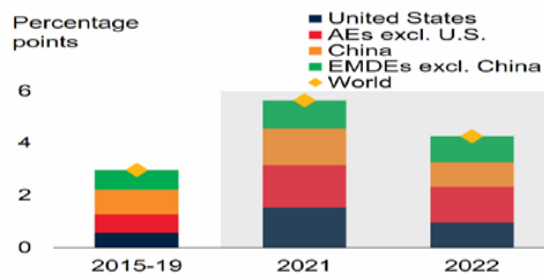


Source: [2]

Growth is concentrated in a few major economies, with most emerging market and developing economies (EMDEs) lagging behind: while about 90% of advanced economies are expected to regain their pre-pandemic per capita income levels by 2022, only about one-third of EMDEs are expected to do so [2].

The recovery is underpinned by gradual relaxation of pandemic-control measures in many countries as well as rising confidence [3]. A substantial share of the rebound is expected to happen due to major advanced economies which economic activity is firming - most notably in the United States where the recovery is being powered by substantial fiscal support and in China whose growth remains solid, with many EMDEs lagging behind. The United States and China are each expected to contribute over one-quarter of global growth in 2021, with the U.S. contribution nearly triple its 2015-19 average (Figure 8).

Figure 8: Contributions to global growth



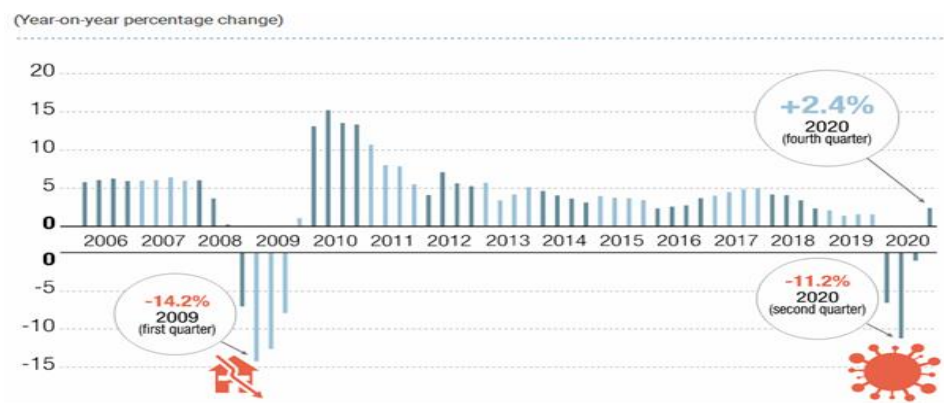
Note: data for 2021 and 2022 are forecasts. Figure shows contributions to global growth forecast for 2021 and 2022 compared to average contributions to growth in the 2015-19 period.

Source: [2]

Despite the strong pickup, the level of global GDP in 2021 is expected to be 3.2% below pre-pandemic projections [2]. By 2022, global output is expected to remain about 2% below pre-pandemic projections, and per capita income losses incurred last year will not be fully unwound in about two-thirds of emerging market and developing economies (EMDEs) [2]. The recovery is uneven and largely reflects sharp rebounds in some major economies passing over many poorer countries. In 2021, developed countries are expected to experience a relatively more significant rebound in GDP growth than developing countries, leading to concerns about a further expansion in the gap between rich and poor countries, particularly if this trend continues in 2022 [3]. And there is considerable uncertainty about its durability. The ongoing pandemic continues to shape the path for global economic activity, with severe outbreaks continuing to weigh on growth in many countries [2].

Due to pandemic-related confinement measures the **world manufacturing production** declined by 11.2% in the second quarter of 2020. After a significant decline in the first half of 2020, world manufacturing output showed signs of recovery in the second half of the year reaching pre-crisis levels in September 2020 [8] and output grew by 2.4% year-on-year in the fourth quarter of 2020 [3].

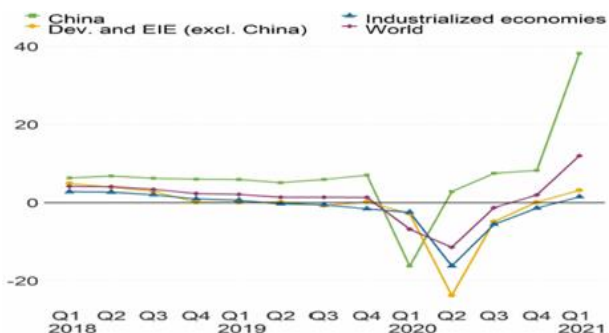
Figure 9: World manufacturing output



Source: [3]

The recovery has been more pronounced in developing economies, led by China, than in developed economies [3]. Therefore regional recovery has varied: while China's manufacturing production has recorded year-over-year growth since June, many industrialized countries continue to report negative annual growth rates due to the extension of containment measures since autumn (Figure 10). China's manufacturing sector recovered quickly (Figure 11), while industrialized countries (North America, Europe and East Asia) continue to struggle with the ongoing economic and health crisis. [8]

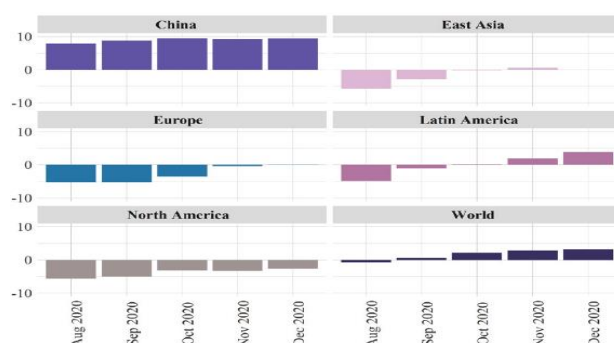
Figure 10: Growth of world manufacturing output (percentage change compared to the same quarter of the previous year)



Note: Dev. and EIE = Developing and emerging industrial economies

Source: [9]

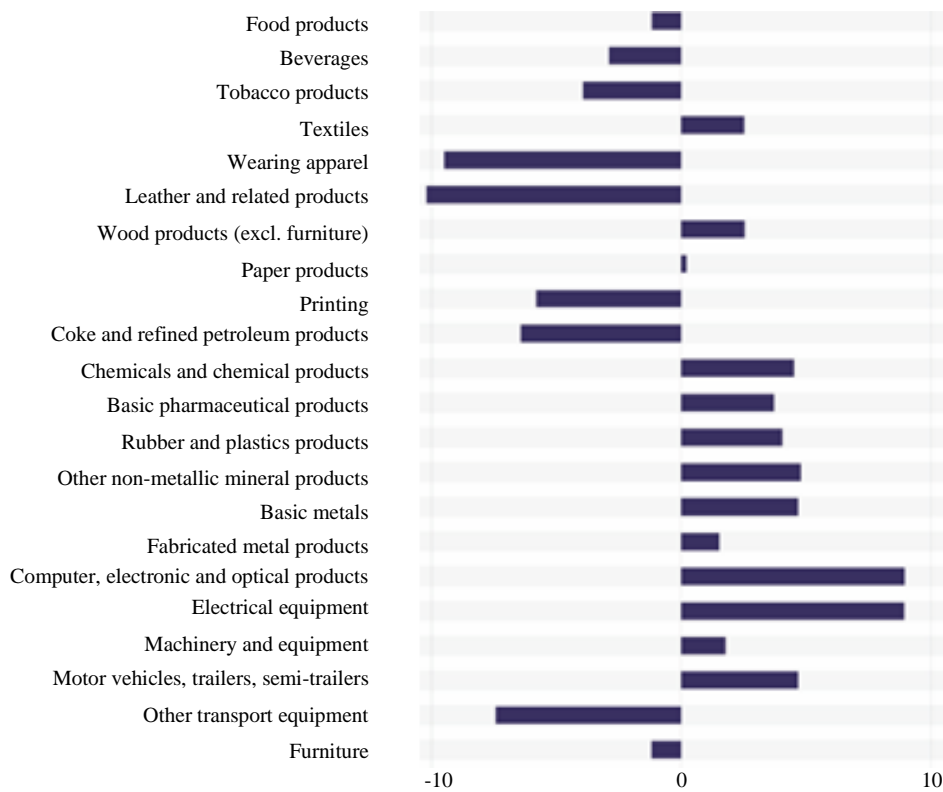
Figure 11: Growth of manufacturing output by region (percentage change compared to the same period of the previous year)



Source: [8]

Medium-high and high-technology industries have recovered faster from the crisis than industries with lower technological intensity (Figure 12). Those typical high-technology industries which have recovered faster from the crisis include basic pharmaceutical products, electrical equipment, computer, electronic and optical products as well as motor vehicles, whose production is already registering comparatively high rates of growth. [8]

Figure 12: Estimated global growth rates by industry
(percentage change compared to the same period of the previous year, December 2020)



Source: [8]

It seems that world manufacturing production has stabilized following the economic disruptions caused by COVID-19. However, the early recovery has been uneven, in terms of both industries and countries, and subject to considerable uncertainty, especially given the volatile nature of the pandemic.

The economic and social disruptions brought about by COVID-19 greatly affected **world trade** during 2020. Overall, world trade recorded a drop in value of about 9% in 2020, with trade in goods declining by about 6% and trade in services decreasing by about 16.5%. [10]

Figure 13: World trade to continue recovering during 2021



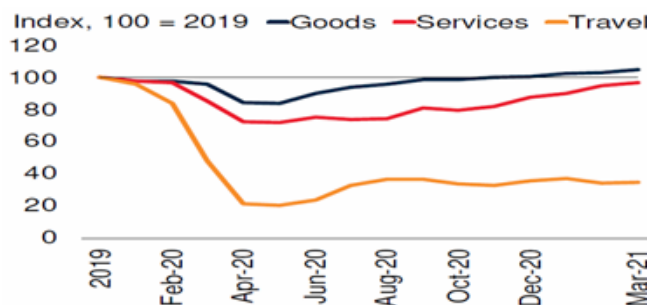
Note: Quarterly growth is the quarter over quarter growth rate of seasonally adjusted values. Annual growth refers to the last four quarters. Figures for Q1 2021 are preliminary. Q2 onward is a forecast.

Source: [11]

The effect of COVID-19 on world trade was most severe during the first half of 2020 as pandemic-related policies disrupted shipping, international travel and domestic economic activity. World trade collapsed by nearly 16% in the second quarter of 2020 at the height of the COVID-19-induced global recession, what is 6 percentage points steeper than in the first quarter of 2009, at the height of the recession triggered by the 2007-09 world financial crisis. [2]

Unusually for global recessions, the collapse in world services trade was even larger than the collapse in world goods trade (Figure 14).

Figure 14: World trade



Note: Goods trade is the average of imports and exports volumes, services trade is the average of imports and exports values. Goods trade data in 2021 relative to average of 2019, services and travel trade data relative to corresponding month in 2019. Last observation is March 2021.

Source: [2]

During the first nine months of 2020, world merchandise exports were down 11% versus the year prior. Within world merchandise trade, the value of trade in fuels and mining products decreased by 24%, with sharp declines in the second (38%) and third quarters (28%) of 2020 due to falling oil prices (Figure 15). Trade in manufactured goods (Table 2) contracted by 10% in the same period, while world exports in agricultural products remained more resilient due to the sustained demand for food during the pandemic (Figure 15). Computers and electronic components saw double-digit trade growth (11% and 10%, respectively) in the third quarter of 2020, as did shipments of textiles (24%), which were boosted by demand for face masks and other protective equipment (Table 2). Shipments of automotive products collapsed in Q2 2020 (53%) mainly due to both supply disruptions and declining demand in the early stages of the pandemic. World exports of pharmaceutical products grew at an average rate of 10% in the first half of the year, and after that contracted by 1% in the third quarter of 2020, reflecting an end to stockpiling, particularly in Europe, where COVID-19 cases dropped significantly over the summer. [8]

Figure 15: YoY % change in world merchandise trade, 2020

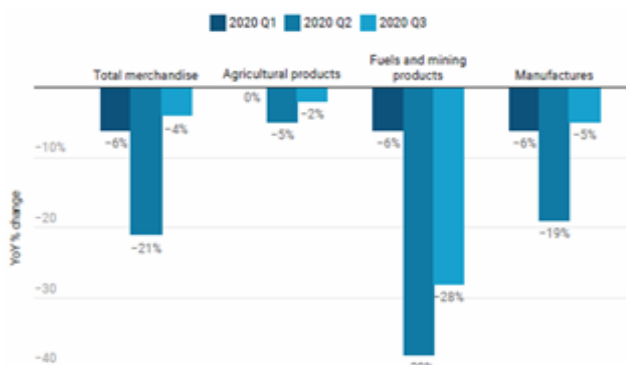


Table 2: YoY % change in world trade in manufactured goods, 2020

Product group	Annual percentage change (%)		
	Q1 2020	Q2 2020	Q3 2020
Manufactured goods	-6	-19	-5
Iron and steel	-13	-25	-19
Footwear	-10	-31	-18
Travel goods, handbags	-13	-38	-17
Automotive products	-10	-53	-13
Clothing	-10	-29	-8
Industrial machinery	-7	-17	-8
Chemicals	-6	-14	-7
Toys, games and sports equipment	-13	-9	-6
Telecommunications equipment	-10	-12	-2
Precision instruments	-3	-12	-2
Pharmaceuticals	11	11	-1
Integrated circuits etc.	10	8	10
Computers etc.	-11	3	11
Textiles	-9	10	24

Source: [8]

Services trade was hit harder by the pandemic than merchandise trade. During the period January-September 2020, trade in commercial services was down 20% versus the year prior (Figure 16). Within service sector, the most affected was the travel sector which was down 61% and transport sector with drops of 21% during the first three quarters of 2020, suffering the most from closing borders and the decline of international tourism and business travel. Trade in other commercial services had uneven performances during the first three quarters of 2020 (Table 3). Sub-sectors such as construction, recreational or manufacturing services contracted (16%, 14% and 12% respectively) in the third quarter, while world exports of computer services increased significantly during the same period (9% rise in Q3 2020) in line with the increasing use of electronic devices and IT systems and the demand for cloud computing and virtual workplaces. [8]

Figure 16: YoY % change in world trade in commercial services, 2020

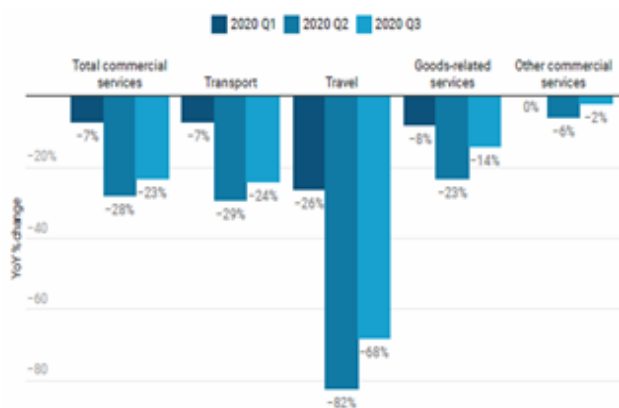


Table 3: YoY % change in world trade in other commercial services, 2020

Product group	Annual percentage change (%)		
	Q1 2020	Q2 2020	Q3 2020
Other commercial services	0	-6	-2
Construction	-30	-25	-16
Audiovisuals, artistic, and recreational	-5	-18	-14
Manufacturing and repair services	-7	-20	-12
Telecommunications	-7	-8	-7
Intellectual property-related services	-1	-7	-6
Architectural, engineering, & business services	-4	-11	-6
R&D services	-5	-7	-4
Legal, management, accounting, advertising	5	-4	1
Financial services	5	-1	2
Insurance services	-2	-11	3
Computer services	10	4	9

Source: [8]

World trade began to recover in the third quarter of 2020 (Q3 2020) and more strongly in the fourth quarter of 2020 (Q4 2020). The recovery was largely due to the rebound of trade in goods and was faster than in the 2007-09 world financial crisis: goods trade had returned to pre-COVID-19 levels within six months of the trough of the trade collapse, 12 months earlier than after the world financial crisis. [2] The recovery was largely due to developing countries, particularly to East Asian economies, because the trade of goods from and to these countries has recovered more strongly relative to developed countries. [10] The trade recovery encompassed most sectors of goods, with the exception of the energy and transport equipment sectors. In Q3 2020 the trade recovery was largely driven by sectors related to goods for which demand has increased because of COVID-19, i.e. textiles (including personal protective equipment) and (home) office equipment, while in Q4 2020 the recovery has been much more broad-based, with trade in most sectors recording positive growth. [10]

The recovery in goods trade was fairly broadbased, with global imports of cars, capital goods, consumer goods and industrial supplies all back at or above pre-pandemic levels by January 2021 [12]. In the first quarter of 2021, on a year-on-year basis, merchandise trade is nowcast to have grown by 25% (or 8% in terms of volume) [3]. Global value chains have remained broadly resilient to the pandemic as companies increasingly turned to digital technologies and diversified suppliers and production sites [13]. Nevertheless, recently, some strains in supply chains have emerged. The strong recovery in global manufacturing has raised demand for containerized exports from Asia, pushing up freight rates. The week-long blockage of the Suez Canal temporarily stretched maritime supply chains further. [2]

Looking forward, trade is expected to continue growing into 2021 and is forecast to grow by 8.3% in 2021 [2]. The positive trends from the last few months of 2020 grew stronger in early 2021. In Q1 2021, the value of world trade in goods and services grew by about 4% quarter-over-quarter and by about 10% year-over-year. Importantly, world trade in Q1 2021 was higher than pre-crisis levels, with an increase of about 3% relative to Q1 2019. During Q1 2021, world trade of COVID-19 related products remained strong. The trade rebound of Q1 2021 continues to be driven by the strong export performance of East Asian economies. In Q1 2021, the value of trade in goods was higher than pre-pandemic level, but trade in services remains substantially below averages. [11]

The decline in services trade was considerably more pronounced and the recovery more subdued than in the 2007-09 world financial crisis, reflecting a collapse in global tourism and travel services as countries closed their borders to stem the spread of the pandemic [2]. In the first quarter of 2021, services trade is nowcast to have contracted by 8% [3]. In March 2021, global services trade was still 3% below pre-pandemic levels, whereas at a similar point after the global financial crisis, services trade had already recovered. While most components of services trade, including telecommunications and financial services, have fully recovered to pre-pandemic levels, travel services remain just under 65% below. The recovery in services trade was concentrated in East Asia and the Pacific (EAP) where China's services trade had already returned to pre-pandemic levels by December 2020. Service trade plays an increasingly important role in the global economy: Since 2000, global travel and tourism revenues have nearly tripled, with the sector now accounting for 10% of global GDP and about 30% of global services trade, and providing one out of ten jobs worldwide. [14]

Tourism is one of the hardest hit sectors by the COVID-19 pandemic, with unprecedented impact from an economic and social point of view. International tourist arrivals have fallen by 74% from almost 1.5 billion arrivals in 2019 to around 381 million in 2020, reaching the lowest levels on record. This represents a loss of an estimated 1.3 trillion USD in international tourism expenditure, an amount about 11 times greater than the loss experienced during the world financial crisis of 2008/09. [8]

While all regions have been heavily affected, Asia and the Pacific experienced the steepest decline in international arrivals (at 84%), followed by the Africa and the Middle East (which experienced declines of 74% and 75%,

respectively), and the Americas and Europe which experienced the lowest, but nevertheless disruptive declines (of 68% and 70%, respectively) [15].

It is expected that international tourism will take between 2.5 to 4 years to return to the 2019 levels [8]. Given that the tourism sector is a major source of employment, government revenue and foreign exchange earnings in many countries, particularly in developing countries, the drastic decline in tourism revenues has had major negative effects including further uncertainty about developments in this sector.

Figure 17: Number of international tourist arrivals, 2019 and 2020



Source: [15]

With the wide-scale lockdown measures, border closures and travel restrictions being set out around the world, world passenger **air traffic** (civil aviation) collapsed in 2020 with unprecedented decline in history. Such a decline has not occurred in the case of any previous crisis (Figure 18). It fell drastically by 60% or 2.7 billion for the year 2020 as a whole, compared with 4.5 billion in 2019, what brings world air travel totals back to 2003 levels. The lowest point was reached in April (Figure 19) when the overall number of passengers had fallen 92% from 2019 levels. [8]

The decline in air traffic led to airline financial losses of estimated USD 370 billion. Among regions, Asia/Pacific accounted the biggest losses (by 32%), then Europe (27%) and North America (24%). Furthermore airports and air navigation services providers have lost a further USD 115 billion and USD 13 billion, respectively. There is persistent disparity between domestic and international air travel so that number of domestic passengers ended 2020 with a decline of 50% year-over-year, while international traffic was far below 2019 levels with 74% or 1.4 billion fewer passengers. [8]

The projections indicate prolonged depressed demand and lower global passenger number in 2021 by 47% to 49% than 2019 levels. Given that the aviation provides the only rapid worldwide transportation network, facilitates international trade and tourism, creates jobs (supporting a total, direct and indirect, of 65.5 million jobs globally) and helps generate economic growth (supporting 3.6% of world GDP) and alleviate poverty [1], the drastic decline in this economic activity has had prominent negative effects.

Figure 18: World passenger traffic evolution, 1945-2021



Note: * = 2021 figures are estimates.

Source: [16]

Figure 19: Air traffic evolution through 2020

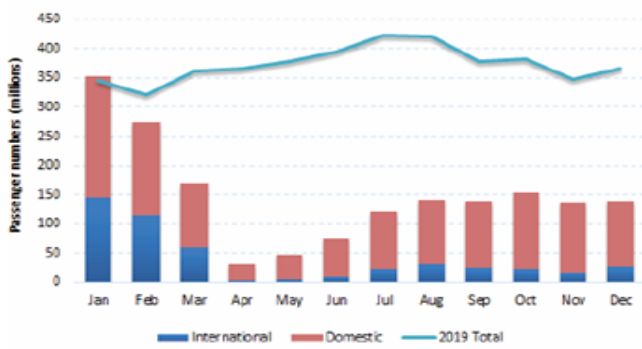
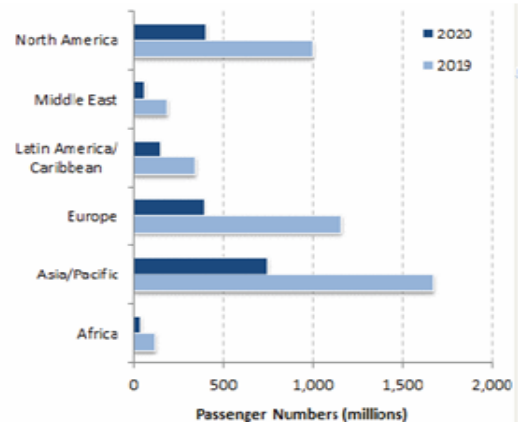


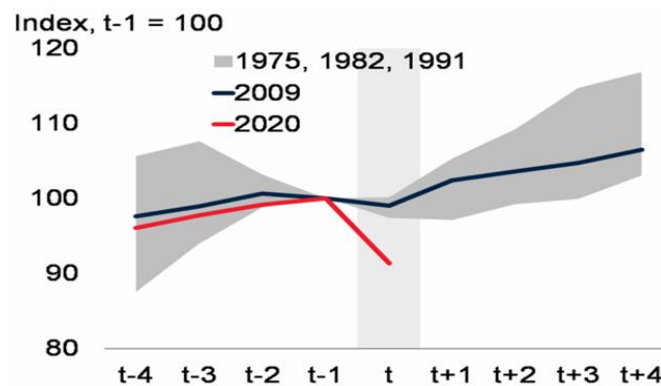
Figure 20: Passenger loss by region



Source [8]

Oil consumption typically fell during global recessions (Figure 21). The previous largest decline in oil consumption occurred in 1980-82, when consumption fell by a cumulative 9% from its peak in 1979. [6] The outbreak of COVID-19 and the wide-ranging measures needed to slow its advance have hit the oil market in 2020 by an unprecedented combination of demand and supply shocks and have led to an unprecedented collapse in oil demand, a surge in oil inventories (Figure 23), and in March 2020 the steepest one-month decline in oil prices on record (Figure 24).

Figure 21: Oil consumption during global recessions



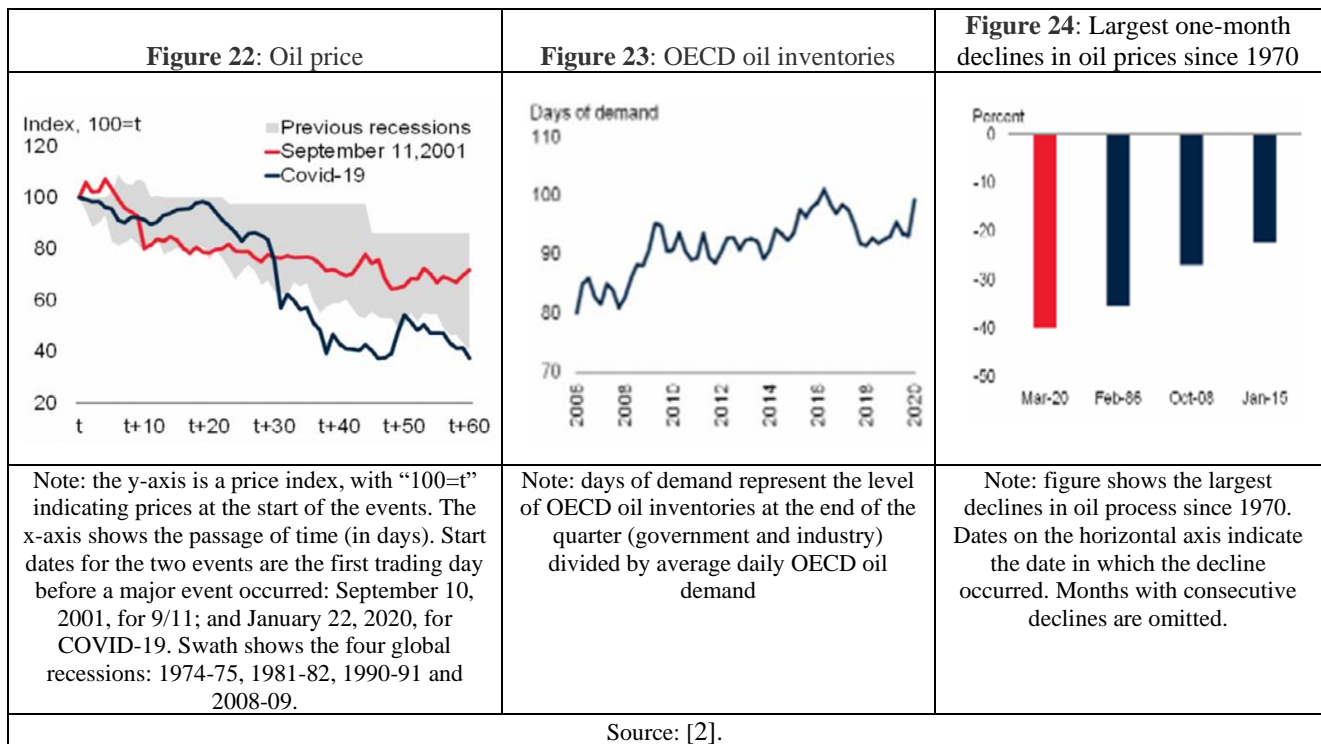
Note: year “t” denotes the year of global recessions (shaded in light gray). The darker shaded area refers to the range of the three global recessions with available data.

Source: [6]

The factor driving the collapse in oil prices (Figure 22) has been the sharp reduction in oil demand arising from government restrictions to stem the spread of the pandemic. The COVID-19 pandemic and the measures taken to prevent its spread: quarantines, travel restrictions and shutdowns of non-essential activities, have caused deep economic contractions. Many countries have implemented wide-ranging travel bans, sharply reducing the number of flights. Stay-at-home orders and a widespread shift to remote working have caused the number of passenger journeys to drop rapidly. There has also been a reduction in the volume of shipping, both for consumers (most notably cruises) and container shipping for industry, as a result of shrinking world trade. The unprecedented reduction in travel and transport in many countries, which account for around two-thirds of demand for oil, has led to a sharp fall in fuel consumption. [2] For 2020 as a whole, oil demand is expected to decline by an unprecedented 9%, what is more than twice as much as during any previous global recession or oil-specific demand slowdown. [2]

Supply-side factors were driven by a delay in early March 2020 of OPEC and its partners (OPEC+) to agree to limit production and the accompanying increase in oil inventories [2] which all added pressure on the fall in oil prices.

There were expectations that, because of the existing high level of inventories, oil prices will remain low for some time to come, which could provide initial support for a broader economic recovery once it begins. Low oil prices may also increase the damage being done by the pandemic by weakening the balance sheets of oil producers [2]. However, from May 2020, as consumption shifted from in-person to online transactions and global demand rebounded as well as international trade and global manufacturing activity, oil prices have started recovering [2] and are expected to rise over the year 2021 as a whole [2].



The lockdown around the world in response to the COVID-19 pandemic has contracted **foreign direct investments** (FDI). It has slowed down existing investment projects, and the prospects of a recession led large, global, transnational companies (TNCs) to re-assess new projects i.e. new investments. Therefore the pandemic has hit international investment flows hard. The fall in FDI was significantly sharper than the fall in gross domestic product (GDP) and trade. World foreign direct investment (FDI) flows fell by 35% in 2020, reaching \$1 trillion, from \$1.5 trillion in 2019 (Figure 25). This is the lowest level since 2005 and almost 20% lower than the 2009 trough after the world financial crisis. [17]

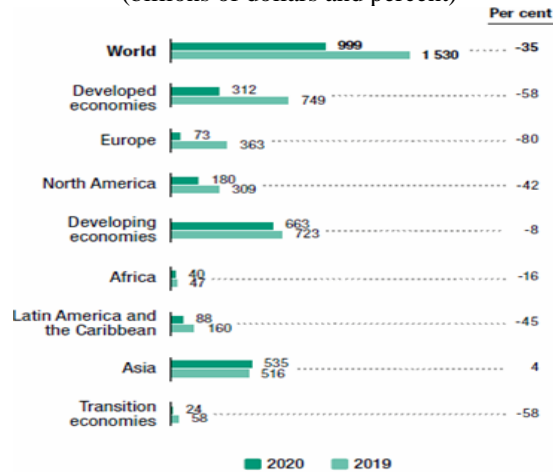
Figure 25: FDI inflows, world and by group of economies, 2007-2020 (billions of dollars and percent)



Source: [17]

The pandemic impact has varied across regions and country groups (Figure 26). FDI decreased in developed and transition economies even by 58% in both, and in developing economies by a moderate 8% mainly because of resilient flows in Asia (up 4%) which was mostly driven by an increase in FDI flows to Hong Kong, China (up \$46 billion from low levels in 2019), largely reflecting financial transactions by Chinese TNCs. As a result, developing economies accounted for two thirds of world FDI in 2020, up from just under half in 2019. [17]

Figure 26: FDI inflows, by region, 2019 and 2020
(billions of dollars and percent)



Source: [17]

The pandemic has affected all types of investment (greenfield projects, cross-border mergers and acquisitions and international project finance) with much steeper declines in new greenfield investment announcements and international project finance deals in developing economies than in developed ones. Greenfield announcements in developing countries fell by 44% in value and international project finance deals by 53%, compared with 16% and 28% in developed countries (Table 4). These investment types are crucial for the development of productive capacity and infrastructure and for the prospects for a sustainable recovery. [17]

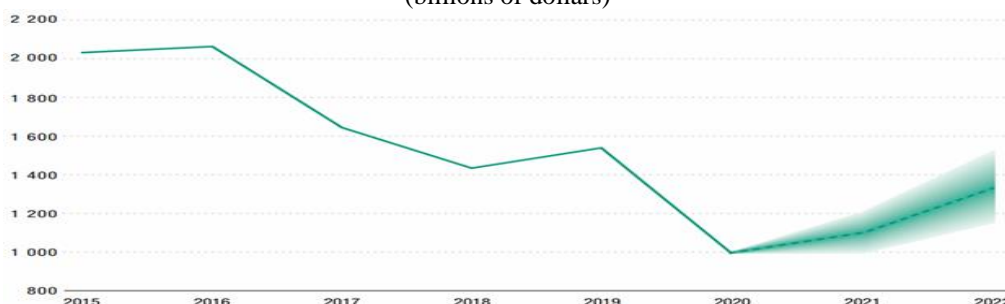
Table 4: Announced greenfield projects, cross-border M&A and international project finance deals, by group of economies, 2019-2020

Group of economies	Type of FDI	Value (billions of dollars)		Growth rate %	Number		Growth rate %
		2019	2020		2019	2020	
Developed economies	Cross-border M&A	424	379	-11	5802	5225	-10
	Greenfield projects	346	289	-16	10331	8376	-19
	International project finance	243	175	-28	543	587	8
Developing economies	Cross-border M&A	82	84	2	1201	907	-25
	Greenfield projects	454	255	-44	7240	4233	-42
	International project finance	365	170	-53	516	443	-14
Transition economies	Cross-border M&A	1	12	716	115	69	-40
	Greenfield projects	46	20	-58	697	371	-47
	International project finance	26	21	-18	59	31	-47

Source: [17]

It is projected modest recovery in world FDI in 2021 with an increase of 10%–15%. This would still leave FDI some 25% below the 2019 level and more than 40% below the recent peak in 2016 (Figure 27) [17]. Estimated modest recovery reflects long-lasting uncertainty about efficiency of implemented COVID-19 measures, the emergence of virus mutations and delays in the reopening of economic sectors.

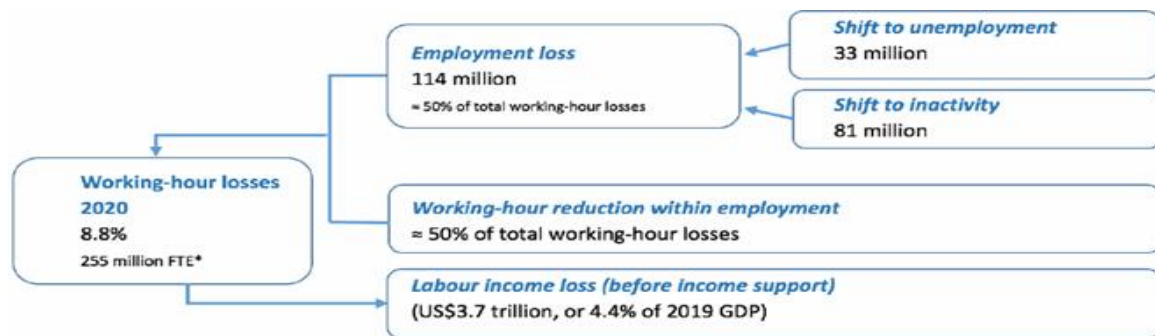
Figure 27: World FDI inflows, 2015-2020 and 2021-2022 forecast
(billions of dollars)



Source: [17]

The pandemic caused massive disruptions in the world of work and contracted **employment** level worldwide. In 2020, 8.8% of global working hours were lost, which is equivalent to 255 million full-time jobs. [8] Around half of the world's working-hour losses were due to employment loss, while the other half were attributed to reduced working hours (among workers who remained employed but were not working). Employment losses in 2020 stood at 114 million jobs relative to the pre-crisis employment level in 2019. [8] About 33 million hours were lost to outright unemployment. An additional 81 million hours were lost due to shifts to inactivity or underemployment. [3] In contrast to previous crises, the bulk of employment losses in 2020 translated into rising inactivity (81 million hours) rather than unemployment (33 million hours). All these losses translate into a loss of \$3.7 trillion or 4.4% of world GDP in 2019 [3].

Figure 28: Estimates of the working hours, employment and labour income lost in 2020 and predictions for 2021



Working-hour losses: Quarterly trends in 2020 and predictions for 2021

	2020 quarterly				2021 projection		
	Q1	Q2	Q3	Q4	Baseline	Optimistic	Pessimistic
%	5.2	18.2	7.2	4.6	3.0	1.3	4.6
FTE* (million)	150	525	205	130	90	36	130

* FTE: Full-time equivalent jobs (assuming a 48-hour working week)

Source: [18]

The impact of the pandemic on global working hours has been approximately four times greater than that of the 2008/09 financial crisis. During the global financial crisis of 2008/09, the loss of global working hours was only 0.6 hours [3]. In contrast, average hours worked per person of working age (aged 15 to 64) dropped sharply (from 27.2 hours per week in 2019 to 24.7 in 2020) [8]. Therefore the global labour market disruption in 2020 far exceeded the impact of the financial crisis of 2009.

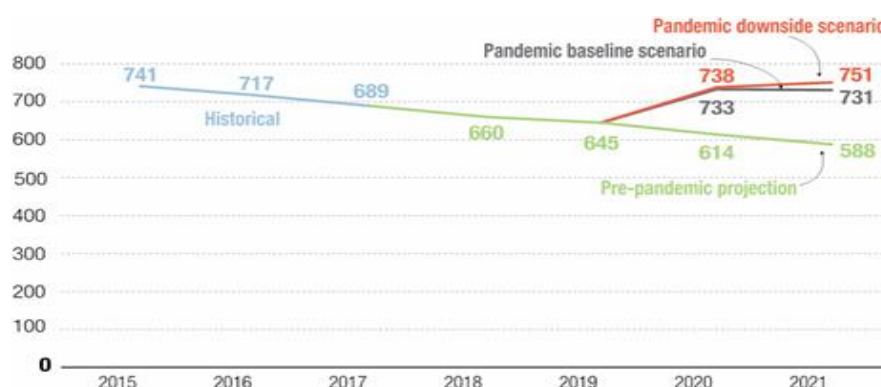
While the disruption was global, there was substantial variation between regions. Working-hour losses in 2020 were particularly large in Latin America and the Caribbean, Southern Europe and Southern Asia. In contrast, Eastern Asia and Central, Western and Eastern Africa experienced relatively smaller losses, reflecting less stringent lockdown measures in these subregions. [8]

Globally, irrespective of region or country income group, women have been affected by employment losses to a greater extent than men. At the global level, the employment loss for women was at 5% in 2020 versus 3.9% for men. [3] In absolute numbers, the loss is larger for men (80 million) than for women (64 million) because of the long-standing gender gap in labour force participation rates [8]. Furthermore, women were more likely than men to become economically inactive and drop out of the labour force. Young workers were particularly affected by the pandemic, with an employment loss of 8.7% in 2020, compared with 3.7% for adults. [3] The pandemic has exacerbated young people's disconnection from the labour market, highlighting the all too real risk of a lost generation.

Looking ahead, ILO expects to see a recovery in the second half of 2021. However, much uncertainty remains. The speed of the recovery will depend on a wide range of political, economic and health-related factors, including the extent of vaccination, how countries continue to control the pandemic and whether policy measures can be maintained to promote economic and labour market recovery. Given this uncertainty, employment losses in 2021 are expected to be between an optimistic forecast of 36 million hours and a less optimistic forecast of 130 million hours. [18] Policy interventions must focus on robust and broad-based recovery by addressing employment, income, workers' rights and social dialogue: a human-centered recovery [8].

Affecting GDP, GDP per capita, employment and other economic activities, COVID-19 has had an impact on living standard and unprecedented impact on global extreme poverty. For the first time in 20 years, **world poverty** is increasing. The pandemic is estimated to have pushed between 119 and 124 million people into extreme poverty in 2020. The pandemic-influenced global extreme poverty rate is estimated to be 9.5%, which translates to between 733 million (baseline) and 738 million (downside) people living in extreme poverty—i.e. those living under \$1.90-a-day—in 2020. The pre-pandemic forecast for 2020 was estimated to be 7.9% or 614 million people. The difference of 119 million (baseline) and 124 million (downside) is the COVID-19-induced new poor. [8]

Figure 29: Extreme poverty, 2015-2021
(millions of people)



Source: [3].

Among regions, South Asia contributed the largest share of the new poor in 2020, with around 60% of the 119-124 million people, followed by Sub-Saharan Africa with around 27%, and East Asia with around 7%. [8]

COVID-19 has brought unprecedented increase in global poverty. The only other crisis-induced increase in global poverty in the last three decades was during the Asian financial crisis, when global extreme poverty increased by 18 million in 1997 and 47 million in 1998. [8]

If things do not change rapidly, poverty will increase in 2021 as well. In 2021, it is estimated that 143 million–163 million people will be pushed into extreme poverty. These estimates are worrisome as it is the first time in the past two decades that there has been a significant increase in global extreme poverty, representing a major setback for efforts to eliminate extreme poverty and achieve the Sustainable Development Goals. [3]

Due to the huge and globally present disturbances caused by the ongoing COVID-19 pandemic, the world economy faces a number of **risks**, both existing ones that survive or intensify, and new ones that are emerging.

Existing critical global risks² have not gone away – from extreme weather, climate degradation and biodiversity loss, natural and human-made disasters to water crises and political conflict and destruction (Table 5). The biggest global risks in terms of the probability of realization are all environmental, while the biggest global risks in terms of impact are both environmental (three risks), geopolitical (one risk: weapons of mass destruction) and societal (one: water crises).

Of the economic risks, which, in addition to geopolitical, societal, technological and environmental risks, participate in shaping the global risk landscape, taking into account both the probability and impact of risk, the following are the most likely and influential risks: unemployment, fiscal crises, asset bubbles, critical infrastructure failure, financial failure, unmanageable inflation, illicit trade, energy price shock and deflation [19]

Table 5: Top 5 global risks

Top 5 global risks in terms of likelihood	Top 5 global risks in terms of impact
Extreme weather	Climate action failure
Climate action failure	Weapons of mass destruction
Natural disasters	Biodiversity loss
Biodiversity loss	Extreme weather
Human-made environmental disasters	Water crises

Environmental Geopolitical Societal

Source: [19]

Many existing risks are exacerbated by the current crisis, including cyberattacks, inequality, social instability and even the potential for future infectious disease outbreaks. [4] Among the new ones that are emerging, economic risks in general are the most likely and concerning fallout for the world and companies over the next 18 months, in particular the risk of a prolonged recession of the global economy. That in itself is not surprising as the global economic impacts

² A “global risk” is defined as an uncertain event or condition that, if it occurs, can cause significant negative impact for several countries or industries within the next 10 years.

have intensified. The economic risks also have far-reaching environmental, societal and technological implications and interconnections. [20]

In ranking the most worrying risk for the world caused by the COVID-19 pandemic (Table 6), the prolonged recession of the global economy was identified as the top risk. This overarching concern is related to a continued perception of the risk of bankruptcies of large and small firms alike and the potential failure of certain sectors to fully recover despite the unprecedented response from governments. Further, the structural unemployment this is likely to cause – especially for youth – and its effects on demand emerge among the top 10 concerns. Public debt, the disruption of global value chains, economic collapse of an emerging or developing economy as well as geopolitical risk of tighter barriers to the cross-border movement of people and goods, technological risk of cyberattacks and data fraud and societal risk of another global outbreak of COVID-19 or different infectious disease round out the key risks facing the world economy.

Table 6: Top Covid-19 risks: most likely fallout for the world

1.	Prolonged recession of the global economy
2.	Surge in bankruptcies (big firms and SMEs) and a wave of industry consolidation
3.	Failure of industries or sectors in certain countries to properly recover
4.	High levels of structural unemployment (especially youth)
5.	Tighter restrictions on the cross-border movement of people and goods
6.	Weakening of fiscal positions in major economies
7.	Protracted disruption of global supply chains
8.	Economic collapse of an emerging market or developing economy
9.	Cyberattacks and data fraud due to a sustained shift in working patterns
10.	Another global outbreak of COVID-19 or different infectious disease

Economic risk Geopolitical risk Tech risk Societal risk

Source: [4]

In order to overcome the crisis effective **policy** action is necessary on both levels, multilateral and national. Effective multilateral action is necessary to arrest divergences, limit adverse spillovers and ease policy space constraints at the level of individual economies. National-level policies need to reinforce those efforts and catalyze a sustainable, inclusive recovery. [7] The need for recovery underscores the need for a forceful policy effort to address multiple near- and long-term challenges. This policy response requires speedy action from governments, the private sector and the international community. [2] Concerted, well-directed policy actions at the multilateral and national levels can make the difference between a future where all economies experience durable recoveries and one where fault lines widen further—as many struggle with the health crisis for an extended period while a handful see conditions normalize, albeit with the constant threat of renewed flare-ups. [7]

A distinction can be made between the following policies tailored to the stage of the pandemic: first, to *escape the acute crisis* by prioritizing health spending and targeted support for affected households and firms; second, to *secure the recovery* with more emphasis on broader fiscal and monetary support depending on available space, including remedial measures to reverse the setback to human capital accumulation from lockdowns; and third to *invest in the future* by advancing long-term goals which include boosting productive capacity, accelerating the transition to lower carbon dependence, harnessing the benefits of digitalization, and ensuring the gains are equitably shared by strengthening social safety nets, education and worker training. [7]. Policies to complete the recovery entail a difficult balancing of objectives across the three phases, often with limited policy room for maneuver. According to the IMF [7], *countries are currently either in the first phase or transitioning to the second.*

Policymakers need to continue supporting the recovery of output and employment. The faster the recovery, the less scarring people and businesses will suffer from unemployment, lost human capital and lower investment and research and development. As monetary policy becomes less effective in boosting output, fiscal policy needs to play an increasingly larger role. [21] Attention to debt is one of critical tasks. The pandemic spurred an unprecedented buildup in government debt in many economies and amplified the last decade trend of the largest, fastest and most broad-based increase in debt levels around the world. These developments highlight the importance of careful use of debt-financed spending. In particular, capital needs to be allowed to flow for productive uses, especially in countries that have implemented large-scale fiscal support. Effective domestic revenue mobilization and robust medium-term fiscal frameworks are essential to widen fiscal space, foster policy credibility and bolster debt sustainability. [2] Fiscal measures to stimulate investment and to facilitate job creation and reallocation would speed up the recovery. Labor market policies should promote job search, enhance training and reskilling programs and provide well-targeted hiring subsidies. Corporate sector support policies should become more targeted toward viable firms and focus on strengthening firms' solvency. Financial policies should continue to enable banks to keep credit flowing. [21]

For these and other policy objectives, fostering data transparency is essential to guarantee a more efficient allocation of resources. In the context of trade, this is exemplified by the need to enhance information flows among participants of global value chains. Another important avenue to bolster trade is to reduce the costs of cross-border trading. These costs

currently double the price of traded goods over domestic goods and far exceed the costs of tariffs alone, and they are particularly high in many developing economies. Measures to lower trade costs include simplifying burdensome border procedures, improving transport infrastructure and governance, enabling greater competition in shipping, logistics, and wholesale and retail trade, lowering trade barriers, and ensuring greater transparency and predictability of trade policy. Such actions could help trade—long a key driver of development—become a solid engine of growth again. [2]

Once the health crisis is under control and economies are secure on their recovery paths, policy must increasingly focus on incentivizing shifts in employment, credit and other inputs consistent with emerging growth opportunities (for example, digitalization or the transition to lower carbon dependence). [7] The post-pandemic recovery presents policy makers with a unique opportunity to steer countries onto a path of green, resilient and inclusive development. To achieve this, climate and development policies need to be integrated, and incentives aligned to achieve both climate and development goals. Smart climate action includes investing in low carbon and renewable energy sources, improving diagnostics to identify priority areas for greenhouse gas emissions reduction and climate resilience and prioritizing climate spending to achieve maximum impact. Private investment will be needed to meet green investment needs. An effective and transparent regulatory environment, including an adequate carbon tax policy, is of paramount importance. [2]

Generally policy makers must strive to balance fiscal support to foster recovery and preserve fiscal stability. Policy makers must also strive for a sustainable recovery by undertaking growth-enhancing reforms and guiding their economies onto a green, resilient and inclusive development path. Prominently among the necessary policies are also efforts to lower trade costs so that trade can once again become a robust engine of growth.

As the economy moves toward a new normal, policies will also increasingly need to refocus on tackling structural challenges that preceded or were aggravated by the crisis and build a greener, more equal, and more digital economy, while continuing to facilitate transformative reallocation. [21] Policies should also ensure the gains are widely and equitably shared by strengthening social safety nets, protecting vital health and education spending, and funding worker training, as well as investing in child and elder care to facilitate broader participation in the post-pandemic labor market. Financing these initiatives with more progressive taxation, closing loopholes and reducing tax expenditures would help mitigate inequality while helping rebuild fiscal buffers for the next downturn. [7] Fiscal resources should be redeployed to accelerate infrastructure investment, especially on digital and green technologies. And finally, renewed efforts should go into improving social safety nets and labor market institutions, forging a way toward a new social contract that will help cope with disruptive technological changes and accelerating automation and address inequality. This was on the agenda before the COVID-19 crisis—it is even more urgent now. [21]

The COVID-19 crisis put new focus on how world economy responds and how it should respond to this kind of crisis. The pandemic crisis will drive a new wave of awareness and adoption of economic behavior. There are believes that “with the right approach, this crisis can become an opportunity to move forward and create even more value and positive societal impact, rather than just bounce back to the status quo” [22]

3. CONCLUSION

The economic disruptions triggered by the pandemic are huge and overall. The COVID-19 pandemic and the measures taken to prevent its spread: quarantines, travel restrictions and shutdowns of non-essential activities, have caused deep economic contractions. There is no economic activity that is not affected by the pandemic. All observed economic activities of global world economy has had downward trend in 2020: world production, trade, air traffic, oil consumption, foreign direct investment, tourism, employment and living standard. There is the far-reaching impact of the COVID-19 on all of them.

Following last year’s collapse, the world economy is experiencing surprisingly strong but highly uneven recovery in 2021. World growth is set to reach 5.6 percent in 2021, what is its strongest post-recession pace in 80 years. Growth is concentrated in a few major economies, with most emerging market and developing economies (EMDEs) lagging behind. While advanced economies are re-bounding, many of the world’s poorest countries are being left behind, and much remains to be done to reverse the pandemic’s implications.

Although world output is rebounding it remains below pre-pandemic projections, with more subdued recoveries in poorer countries. Compared to previous world recoveries, the current cycle of recovery is strong but uneven, and primarily reflects rebounds in some major economies.

The recovery is also not assured: the possibility remains that additional COVID-19 waves and its implications deliver setbacks. Although it seems that world economy has stabilized following the economic disruptions caused by the COVID-19, the early recovery is uneven, in terms of almost all regions, countries and industries. Forecasts of the pace of the world economy recovery are also subject to considerable uncertainty, especially given the volatile nature of the pandemic.

The recovery is not assured until the pandemic is beaten back globally. Therefore the global world economy in the COVID-19 crisis remains subject to significant downside risks, which include the possibility of large COVID-19 waves in the context of new virus variants and financial stress.

In such a world economy, pandemic-related, fall of uncertainty and declining trends, national and international policy makers have a significant and additional responsibility to consider all relevant aspects and act making possibilities to mitigate the effects of a pandemic and to get through it as fast and painless as it can be.

The seriousness and intensity of the world economy's recession will depend largely on how long the downturn lasts as well as the effectiveness of policy responses.

The COVID-19 crisis has put new focus on how world economy responds and how it should respond to this kind of crisis. How world economy and national economies respond to the pandemic challenges of poverty, inequality and other implications that have affected all of us will be defining choices of our age.

The world COVID-19 economy may be seen as a kind of test facing the world economy that will show its ability as well as ability of national economies to cope with this kind of crisis. The pandemic conditions will shed light on which policies and economic behavior will allow economy to survive or, better yet, to progress. The next period will reveal this ability relatively quickly.

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