Consequences of COVID-19 on the international economy

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Introduction

On March 11th 2020, a global pandemic was declared by the World Health Organization: COVID-19; a life changing crisis that has impacted all of our lives in many ways. This virus has changed our whole world and has affected the way we will act with society for the rest of our lives. To this day, 3.01M people have died from the coronavirus disease worldwide. Companies have shut down, workers have been fired, family members have been lost, everyone around us has been triggered by COVID-19. The harsh impact on all countries' economies have not been seen since the Great Depression in 1929. Concentrating on the international economic side of things, many businesses have been suffering. They have either been completely shut down, have lost an immense amount of credibility or, on the contrary, their economies have been helped by the virus. Clearly, this subject is very important since it has touched everyone in every way possible and, it is also a phenomenon that is happening in front of our eyes and it is crucial to understand who it has impacted and in which way it has. Many countries wanted to close their borders in order to stop the spread of this virus, but their economy was an important thing to think about. Indeed, even if the borders were not closed, many resources were lacking in some countries which created panic. Countries needed to think about the best way to deal with their citizens and with their economy in order to prevent it for everyone. The closure of certain companies because of a case of COVID-19 affected a lot the economy of countries since they didn't have their suppliers and the product couldn't be delivered. Countries never know how bad the virus will be in the next month which means they need to be careful how they decide to manage their supply. It is interesting to think about the consequences on different levels. Therefore, what were the consequences of COVID-19 on the international economies?

Hypothesis

The goal of this research paper is to prove that the COVID-19 virus has only had negative impacts on the international economy. If we look at the worldwide economy, we can definitely assume that the coronavirus has deeply disturbed the way our economies work in our everyday lives. It is mainly seen through the way markets have crashed, how people have suffered and even the regulations put in place. In this paper, you can expect to learn about the consequences of COVID-19 on the tourism part of the economy, the influence that the virus had on developing countries economies versus developed ones, the impact that it had on international trade groups and, finally, how it affected some specific industries. In order to be able to efficiently analyse the matter, this paper was supported by multiple research papers, news articles and reports by reliable organisations. Furthermore, the fact that this paper discusses many different aspects, countries and regional trading groups makes it possible for readers to get a better overall idea of different ways the unfortunate pandemic affected the economy worldwide.

Tourism

The global pandemic has affected all over the world many facets of people’s life. The health system, the education, the social life of every human but also the global economy was heavily impacted by the pandemic. International trade, finance of countries, tourism, production, agriculture and many more sectors were all hit at different levels. Travel and tourism are often an important part of the economy in many countries. The economy of some countries relies more on the number of visitors coming and on how much they spend during their holiday. According to Adam Behsudi (2020), the pandemic has put 100 million jobs at risk in the tourism industry. In fact, it’s 54 percent of the tourism workforce that has been put to risk. Even when the virus will be less present, the tourism industry will continue to be affected until people feel safe to travel again. According to Behsudi, the economy of countries who depend more on tourism will have some major problems. Indeed, he is not expecting a full recovery of the tourism industry before 2023. Developing countries which have invested heavily into tourism are now facing large deficits and are in some cases poorer than ever. For example, in the country of sub-Saharan Africa, they have put a lot of emphasis on the tourism industry in order to close the gap between poor and rich countries. The pandemic did not help the economy of this country since it was already in trouble and they were just starting to deal more effectively with tourism.

The United Nations also made a research on the impact of COVID-19 on the tourism industry. In fact, they have estimated that in 2020 there will be about 850 million to 1.1 billion less tourists’ arrivals around the world. Also, approximately 910 billion to 1.2 trillion dollars in revenues was lost by this industry. With those statistics, it’s clear that the tourism industry has lost a lot of money and will take a lot of time to recover to the pre-pandemic dynamic. In this article by the United Nations, the author also explained that the pandemic has affected the number of jobs in this sector since less people were visiting the country, so less people were needed to work in order to satisfy the demand. Many people who were working in this industry were part of vulnerable groups like women, low-skilled workers and others. Since some of them do not have any other options for their jobs, they will have some problems financially which will indirectly affect the economy of their country. Those repercussions will have a big effect on the economy since for some countries, 25 percent of the tourism industry counts for the GDP.

Likewise, the United Nations World Tourism Organisation (UNWTO) made a research on how the pandemic has impacted tourism in countries. In their article, they explain that tourism is one of the world’s largest economic sectors, representing close to 7% of the global trade in 2019. Also, for some countries, since it accounted for 20 per cent of their GDP, it slows down and also has an impact on their entire economy. Many of these countries will have a lot of difficulties to financially stabilize again. Furthermore, in this article, the author explained that some of the tourist attractions may never open again since they lost too much money. For example, 90% of museums have closed during the pandemic and 13% of them might never reopen which will lead to less money for the country.

On the other hand, Gössling, Scott and Hall made a research in 2020 about how this pandemic impacted the world economy compared to the other pandemics. They explained how the covid virus had a larger impact on the tourism industry. Indeed, since this virus can spread easily compared to other viruses, borders needed to close which also led to the closure of many tourism attractions. With these closures, jobs were lost, and countries also lost a lot of money. In March 2020, 65 percent of tourism companies had already problems paying their bills. The author also explained that in the United States, vulnerable people occupied 20% of the jobs in the food industry. People working in this industry are often the one with the lowest annual earnings and the lowest levels of education. With the pandemic, they couldn’t earn enough money to cover the basic needs of their family. People employed in the global tourism area also had problems with their jobs and many of them were left unemployed. Indeed, many workers in airline companies around the world were left without a job since they were less demand. With that being said, it’s easy to understand that the pandemic reduced drastically the number of flights and airline companies had to cut jobs. Covid-19 also had a big repercussion on restaurants. With less tourism, social distancing and many more measures to control the pandemic, restaurants are facing financial problems and will take a long time to recover from this pandemic. Lastly, the authors explained that cruise ships have also been hit by covid. Since passengers on the cruises visit many different cities in the world, the contamination between people is higher than other tourism attractions. Cruises might take even longer to recover from this pandemic. With those information, it’s clear that covid-19 has affected so many companies, from small ones to large ones. Compagnies will have to be patient since coming back from this type of impact will take a while.

Impact of COVID-19 on the inside of the economies

All over the world, countries' economies have suffered greatly from COVID-19 causing major disruptions within the businesses. To this day, many businesses are still suffering, ranging from Canada, the United States or China all the way to the poorer countries such as Ukraine, Bangladesh or even countries in Africa. But what exactly has happened within these countries and how are they trying to make things better?

The economy of Canada, United States and China (Developed countries)

Starting off with Canada, Gu (2020) mentions that the economic restrictions and social distancing measures expected negative effects on small and medium-sized firms. Since these firms mainly focus on travel and tourism industries which incorporated transportation, restaurants, accommodation, and arts and entertainment, they were the ones that were the hardest hit by the pandemic. Many studies agree that COVID-19 definitely hit Canada in different ways, employment being one of them. In the first quarter of 2020, hours worked for small firms had declined at 9.4%, for medium-sized firms, they had declined at 11.1% and for large firms, they had increased by 1.2%. (Gu, 2020) This evidently shows a big problem when it comes to jobs and hours that employers work. The goods and services sectors had also declined in small and medium-sized firms. There was a larger decline when it came to services, since many non-essential businesses had to close in order to limit public interactions. To a different extent, the US also suffered greatly when it came to the employment ratio. Udalova (2021) shares that there was a decline in the employment-to-population ratio which meant that additional employment losses were seen in the country due to the pandemic. There was a big downfall: historical trends predicted a 61.3% ratio but turned out to be 51.5%. Since the US had to close a significant portion of the economy, the 'real' GDP growth downgraded during the second quarter by 31.40%. Patton (2020) indicates that there have been no numbers that low since the Great Depression. Sharing most of the same impacts as Canada and the United States, China's businesses are being seriously hit. The four biggest sections that are losing refer to the food and beverage, retail, real estate and travel. As Livermore (2020) suggests, many people that work in these businesses have either had a leave of absence or have completely lost their jobs. In both cases, this creates a big impact on the economy since less jobs means less GDP, which means less production, leading to less trade, etc. Basically, everything is intertwined and not only economies are losing from the pandemic, but personally, everyone is losing.

The economy of Africa, Bangladesh and Argentina (Developing countries)

When it comes to less developed countries, it becomes a whole other story. Focusing firstly on Africa, where many economies entered COVID-19 with already weak conditions. The impact of the first wave of the pandemic was predicted by the International Monetary Fund (IMF) at 3.2% economic contraction for the continent in 2020. (O'Riordan et al., 2020) African countries have seen a drop in the foreign remittances as global economic activity stopped in sectors like hospitality, constructions, etc. O'Riordan et al. (2020) voices that since 2010, foreign payments have been the most stable source of international financial flows. The World Bank thinks that remittance flows to Africa will decline from $48 billion in 2019 to $37 billion (23.1%) in 2020. Coupled with all the declines Africa has to suffer, their economies inability to fund their recovery makes it even harder on the health and economic crises that the pandemic has caused. African countries will also have to fight off the rise of inflation as the global economy starts to recover. To a different extent, Bangladesh is the most populated country in the world and still has a limited number of medical facilities that creates an impossibility to provide medical help to large populations. As Alem et al. (2020) share, Bangladesh's ready-made garments sector is extremely important in the rapidly developing economy. They are the principal source of foreign exchange earnings. With the pandemic, the sector had received work order cancellations of almost $3 billion, which means around 2 million workers were affected in this sector. Bangladesh is also one of the largest recipients of remittance. However, since migrant workers portray a lot of vulnerability, it curbs the capacity to send remittances. Similarly to the developed countries, Bangladesh's bank and financial institutions employees lost their jobs and many institutions collapsed. Latin America's economy has also been going through a lot during COVID-19. Focusing on the developing country of Argentina, Cottani (2020) asserts that it's GDP has fallen by 50 percent in the second quarter of the pandemic. Argentina's economy has been struggling quite a bit, leading the government to seek help and ask the IMF for a IMF-supported program. The country's GDP has had trouble growing for the past 7 years and won't be any easier from this day on with the persistent high inflation, the high fiscal deficit and the high exchange rate inconsistency due to its minimum foreign reserves.

The impact on ASEAN's economy

The Association of Southeast Asian Nations (ASEAN), one of today's largest economies, is recognized as being among the regions with the fastest growing GDP. Indeed, they used to record an annual growth of real GPD of 5% which was much higher than the annual global rate. (ASEAN, 2020) This being said, being an association depending on the trade and relation in between several countries, during a global pandemic restricting all kinds of international movements , can be quite difficult; ASEAN, who took a great hit economically, would certainly agree. Indeed, ASEAN's great pre-covid economic situation and growth mainly depended on three large spheres, being tourism, exports and labor migration, and unfortunately all three were greatly negatively affected by the coronavirus pandemic.

First of all, it is very logical that COVID-19 affected tourism because, as discussed earlier during this paper, the attempt to stop the spread of the disease implied limiting as much human interaction as possible, which translated through lockdowns, travel restrictions and closed borders. This harshly affected ASEAN which, in 2018 only, welcomed up to 135 million tourists, a number that, since 2014, used to grow by 5,8% every year. Considering that a majority of ASEAN's members considerably depended on tourism as a "major revenue source" and that almost 2/3 of ASEAN's tourism was from its members, it is undeniable that the closed borders and the important decrease in international movement posed a serious threat to ASEAN's economic well-being.

Furthermore, another important actor in the economies of many members of ASEAN is the export of manufacturing and natural resources, which, in 2018, represented up to 55% of ASEAN's GDP, as the sector made US$1.4 trillion worth of exports within the region. This domain also suffered from covid as many places faced the impossibility to send products or services abroad due to the movement restrictions. Finally, it is also important to consider the obvious impact on the region's labor. Firstly, another important participant in ASEAN's economic stability is the transfer of money effectuated by migrant workers (remittances). That said, those remittances, which, in 2018, rose to a total of US$74.6 billion within ASEAN, were expected by the World Bank to be cut down by 13% in East Asia and the Pacific, from 2019 to 2020, because of the pandemic. This predicted cut was also anticipated to cause wage reductions and decrease the rate of employment among migrant workers. In addition, another big problem relating to labor is that the construction industry, which used to be a very big and reliable source of revenue within ASEAN, has been identified as the sector which was most affected by the confinements. Indeed, the fact that Singapore, which significantly relied on that sector, saw its employment opportunities greatly decrease, affected a majority of the members of ASEAN which used to be the main source of its laborers. This was especially felt by Malaysia and the Philippines, who both used to be important providers of labor within ASEAN, as they witnessed their unemployment rates grow by almost 2% (from 3.2% to 5.1%) and by enough percentages to triple the rate of unemployment post-covid, respectively. Overall, it is clear that ASEAN's economy notably suffered from the depleted employment rates of their migrant workers. (ASEAN, 2020)

The impact on NAFTA / USMCA

For the North America agreement, a similar unfortunate outcome occurred as the coronavirus outbreak struck right when they were inaugurating the newly renegotiated United States-Mexico-Canada settlement. Indeed, in June of 2020 was planned the transformation of what was before called NAFTA into the new USMCA agreement which was so proudly presented by past-president of the United-States, Donald Trump. This being said, the disrupted supply chains, the increasing unemployment and the many paused businesses made it hard to efficiently apply the latest commitments of the newly settled agreement. Indeed, as companies from all three countries were supposed to start putting in place ways to respect the new settlement and adapting themselves to it, covid came in and strongly established itself within the economy, and so, a new issue became their main priority and they had to put their survival above all other worries, including USMCA. (McGregor, 2020)

Also, what covid made realize the members of the North American alliance, among many other countries already members or thinking about becoming members of regional integration groups, is how risky such agreements can be in critical unexpected situations such as the current pandemic. Indeed, what must be considered is that if a company or a business has instaured supply chains in different countries, when facing particular unusual situations (such as the global pandemic), it is not always the company that has the biggest say in how to deal with its production centers as it depends on the specific country's implementations and way to deal with the crisis. This being said, the specific country and its population's ability to respond to a situation is an unpredictable aspect that greatly impacts the whole company's fate. Therefore, considering such risks makes countries and companies reconsider the efficiency of internationally dispersed supply chains and makes the idea of international alliances for businesses much less attractive.

For the North American relationship, this was notably realized through the beginning of the global issue, when, seeing its cases grow discouragingly fast, Mexico decided to cease activity in its factories for a while which unsettled many U.S companies who lost important providers of supplies, making production impossible. In this case, the vulnerability of dispersed chains of supply was clearly showcased. (Garza, 2020)

Impacts on other regional trade agreements

Obviously, ASEAN and USMCA were not the only regional trade agreements to be impacted by the pandemic but they both are great examples of the overall impact that is very similar throughout other associations. There are no international agreements that were left economically indifferent. Another quick example is The largest economy of the world, The European Union, who also went through a very economically-challenging period since the beginning of 2020. Indeed, The European commission described the EU's situation as the worst recession in their history as, by the middle of 2020, its GDP suffered from a substantial fall of 11.4%. (Lloyd, 2020) The Asia-Pacific Economic Cooperation (APEC) also fell Into the economically-threatening abyss as they saw the number of international arrivals drop by more than 98% in the first three months of the outbreak, which is monumental. (APEC, 2020) The previously mentioned international groups, among many others, were badly affected, and, even with the looser movement restrictions, it will take them many years before being able to recover.

Some positive impacts of Covid

Curfew and long lockdowns made it hard to continue regular entertaining activities as it limited the entertainment possibilities to what people could find to do individually at home. This being said, the most common entertainment activities that people opted for are video-streaming platforms or online shopping.

First of all, some of the few industries that actually used the pandemic to increase their profit are the platforms offering movie or show viewings that can make time go by faster during those endless quarantined days. Indeed, one of the most well-known entertainment platforms, Netflix, generated some serious revenue as, during the first 3 months of 2020, up to 16 million new people subscribed to the platform. That record spike in paying subscribers made their revenues grow from $4,52 billion in 2019 to $5.77 billion in the summer of 2020.

Furthermore, in the stock market, the price of their shares went up by at least 65% during their first quarter of 2020, and analysts expected an increase, in their second-quarter revenue, of $6.08 billion, which Netflix even surpassed. (Owens, 2020) These fortunate events were not only experienced by Netflix but also by Disney+, recently launched in late 2019, which also saw their number of paying subscribers increase by 26 million during the first months under covid-19 regulations. (Sherman, 2020)

Moreover, the unfortunate start of the pandemic also brought some fruitful benefits to the e-commerces marketplace, notably through Amazon, who, during the first 9 months of 2020, experienced an increase in revenues of 70% and, by the end of the year, reported a 200% increase of profits, which are both believed to be direct consequences of the online shopping craze due to physical shopping limitations and excessive boredom generated by covid adjustments. Furthermore, adding to their incredible US$96.1 billion worth of sales, which generated more than US$6 billion in profit, Amazon also greatly expanded by increasing the amount of Amazon warehouses by 50%, which also occasioned at least 250,000 new jobs. The latest fact is a great impact on the economy during these times of growing unemployment. (Takefman, 2021)

Discussing Netflix and Amazon in this paper addressing the impacts on the economy internationally is relevant as both have grown into multinational enterprises with higher GDPs than entire countries. Indeed, Netflix recorded, since 2017, total revenues that exceeded Malta's GDP and Amazon, in 2021, grew into a company richer than 92% of countries. (Belinchon, 2018) (Cohen, 2021) Also, Amazon, being the most fruitful U.S based company employment-wise, with employees in more than 250 countries, represents up to 38% of the total e-commerce market, which is expected, by 2025, to constitute up to 25% of total U.S. retail sales, which affect the overall U.S GDP. (Amazon, 2020) (Samuels, 2020) This being said, these giant companies, especially Amazon, have a certain level of economic importance that makes them pertinent to consider.

Conclusion

With all the research that we've done, we can therefore conclude that our hypothesis was wrong. In fact, even though COVID-19 has highly impacted the international economy in many different negative ways, it is safe to say that it has also affected some parts in positive ways. We've seen in this research that the tourism aspect of the international economy has suffered greatly. The closure of the borders in many countries has affected a lot of their economy. Indeed, many tourist attractions needed to close since no one was visiting their places and if they were to keep their door open, they would have lost too much money. Since tourist attractions closed, the manager decided to let go a lot of their employees which created some problems. Also, the economy of some countries were depending on tourism and since travelling was becoming less secure, people decided to stop travelling and countries lost a lot of money. This pandemic has affected a lot of different industries but the tourism one has been touched by a lot. Finally, the economy of those countries will take a long time until they are financially stable. On the other side, developed and developing countries' economies have both needed to agonize with the virus in different ways. The developed ones suffer greatly in the employment department. Developing countries, on the other hand, also have to endure the same losses in addition to the other major problems they encounter on a daily basis. Many developing countries had barely enough money and ways to ensure safety and health to everyone to begin with. There was also a clear impact on the different international trading groups, such as ASEAN, USMCA (the new NAFTA), EU and APEC, among many others, who's interdependent aspects of their economy were greatly affected. Indeed, the halt of international movement, following the world-wide outbreak of the disease, made it very hard for the members of regional integration groups to share and supply workers and ressources, to feed each other's tourism or to simply continue to carry out some commitments established in their agreements. This being said, even though COVID-19 has had a great negative impact on the different domains of the international economy, the virus also helped out some companies, which provided ways to entertain the people during the tedious confinements resulting from the pandemic, such as on-demand-streaming giant Netflix or e-commerce leader Amazon. Therefore, the latest topic shows a more positive outcome of the disastrous situation which comes to contradict our initial hypothesis.

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