

# The global shock in economic activities: Covid-19 pandemonium

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## Abstract

The sudden outbreak of coronavirus disease (COVID-19) has become a global pandemic as the number of deaths at about 3, 400 with more than 100,000 confirmed cases as of March 7, 2020, have suddenly upshot to 192,166 deaths and over 2.7 million cases as of April 24, 2020. This alarming rate of spread poses a challenge to leaders, economist, and policymakers in the world and have distrust global economic activities. COVID-19 has caused public health emergency and significant global economic shock which cuts across all sectors, resulting simultaneously into demand and supply shocks. Among suggested policy measures include reduction of interest rates as low as the 2009 subprime crisis percentage point just to encourage investment and recovery in global activities, intensification of surveillance by local and international health organisations, outbreak readiness, biomedical counter-measures, massive education and enlightenment about the virus using all local dialects focused on the mode of transmission and preventive measure. For the implementation of these policy solutions, maximum support is needed from all stakeholders such as the governments and non-governmental organizations, health professionals, community leaders and the citizens at large.

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## 1 Introduction

The sudden outbreak of coronavirus disease (COVID-19) from Wuhan, China in December 2019 (Fauci, Lane & Redfield, 2020; Gentile & Abenavoli, 2020) has become a global pandemic. As the outbreak beyond the mainland of China has spread to virtually all the countries across the globe, the global international travel has appeared to be responsible for the fast spread of the virus. COVID-19 is a severe respiratory syndrome that has been spreading from person to person attacking the lungs and bronchial tubes (Deng & Peng, 2020), hence ravaging lives due to uncertified vaccines available for the cure. The widespread and death rate recorded as a result of the virus has resulted to global panic and anxiety as the death rate sprout from 3, 400 as at March 7, 2020 (Olaniyi, 2020), to 13,550 on March 22, 2020, and have skyrocketed to about 192,166 as of April 24 (Scooper, 2020), after a month later. While the spread (cases) has hit over 2.7 million as of April 24 from 317,151 as of March 22, 2020 (Scooper, 2020). The alarming death rate and level of spread poses a global challenge to leaders, economist and policymakers and have distrust global workforce. According to statistics from respective countries and regions, the seven most hit countries in the world include China, Italy. Spain, the US, Germany, Iran, France (Scooper, 2020).

In light of the above, the way of living has changed globally as governments around the world have taken drastic measures to contain further spread of the virus. Base on this, several measures have been taken by the government of all strips to curb virus such as; travel bans, export and import ban, restriction on border crossing, close down of schools, sporting events cancelled, large gathering prohibition, social distancing, banning of all international passengers' flights (Yeung, Marsh & Kottasova, 2020) and finally lockdown.

Besides the health implication of COVID-19, the effect on social, political and economic activities cannot be overemphasized. The total lockdown of all global activities is hitting hard most especially on developing economies due to their level of poverty, low medical facilities, a high percentage of the vulnerable citizens among others (Hartzenberg, 2020). The pandemic meets the world in an unprepared state as countries are gradually recovering from the recent global financial crisis that erupted at the tail end of 2009. According to the World Bank, the global growth rate is to rise by 2.5% in 2020 a little upshot from 2.4% in the previous year but the outburst of COVID-19 has wrecked the global economic activities. Also, report by United Nation Conference on Trade and Development (UNCTAD), 2020, revealed that the recessionary threshold for the global economy is below 2.5 % and the global economic "shock" which is as a result of the pandemic could likely cause the world to lose income up to \$1trn. Therefore, it is pertinent to note that if drastic measures are not taken on time to curtail the spread of the virus most

countries might likely go into recession while other more vulnerable nations would slump into depression (IMF), 2020.

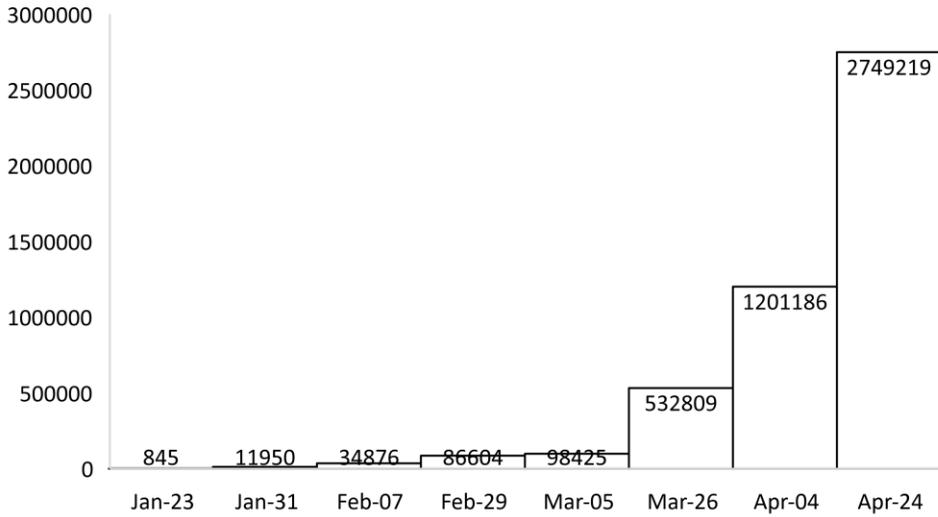
This becomes expedient giving the fact that, the importance of sorting for concrete measures to contain the spread of COVID virus and the impact on human health, social-economic activities has been carefully highlighted by a growing body of literature within the same period (Andayi, Chaves & Widdowson, 2019; Guimbeau, Menon & Musacchio, 2019; Hintzen, 2019, Olaniyi, 2020), hence, these studies have failed to unveil the global market shock caused by the pandemic. Studies like Fornaro and Wolf (2020); Faria e Castro (2020), dived into the macroeconomic issues around COVID-19 but have focused on the impact of COVID-19 on productivity and the effect of the pandemic on the utility of consumer respectively. Base on the fact that literature on the issues around the novel COVI-19 pandemic is still budding and is recent, there are limited studies on the concept. This in effect avails this paper the opportunity to fill this most recent gap in the literature and draw policy solutions that will help households and businesses. Hence, the pertinent concern of this paper is to examine the impact of COVID-19 on global economic activities. Beyond the introduction, the next section is the stylized fact, theoretical framework, while the next section contains discuss on coronavirus and the global shock, then conclusions and policy recommendations.

## 2 Stylized Fact

For a better understanding of the havoc, the pandemic has caused globally, we employ the use of charts for better illustration of the reported cases of COVID-19 globally. Figures 1 and 2, below show the statistics of the COVID-19 case in Africa and globally as of 24th of April, 2020. The statistic below shows the data on the cases and deaths caused by the COVID-19 pandemic. Figure 1 below, shows that as of Jan 23rd, 2020, the global cases were minimal at 845 cases and in barely three months, hit over 2.7 million cases as of 24th April 2020. While the death rate has also followed a similar trend from 56 deaths on Jan 23rd, 2020 to 177,677 (63%) deaths as of 24th of April, 2020 (Worldometer database, 2020).

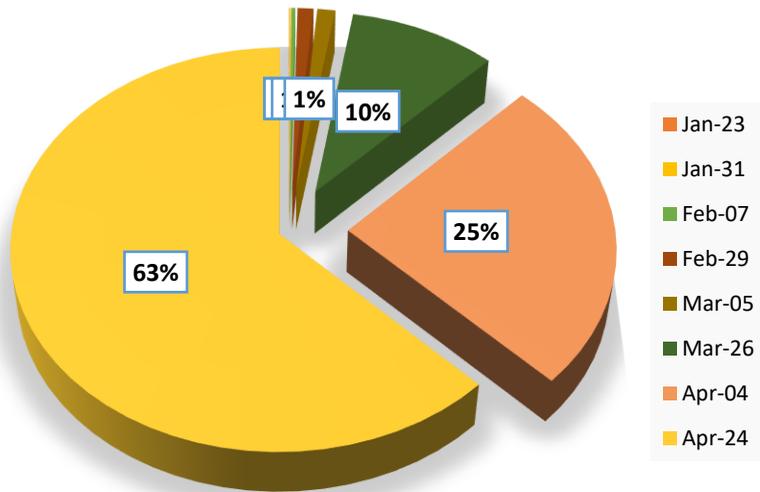
From Table 1 above, it is observed that US has the highest number of cases and deaths followed by Spain, Italy, France, Germany, United Kingdom in that order as listed in the table. But Germany has the highest number of recovered people compared to other countries.

**Figure 1** Cases of COVID-19 as of 24th of April, 2020



Source: Author’s computation from Worldometer database, 2020.

**Figure 2** Death Caused by COVID-19 as of 24<sup>th</sup> April, 2020



Source: Author’s computation from Worldometer database.

**Table 1** The Most Hit Countries in the World as of 24<sup>th</sup> Of April, 2020

Countries	Confirmed Cases (Total)	Confirmed Death Cases (Total)	Recovered (Total)
US	905333	51989	99079
Spain	219764	22524	92355
Italy	192994	25965	60498
France	159952	22279	44271
Germany	155054	5767	109800
United Kingdom	144640	19567	724
Turkey	104912	2600	21737
Iran	89328	5650	68193
China	84330	4642	78402

Source: Author’s Computation from Scooper, 2020

### 3 Theoretical Underpinning – Theory of Financial Contagion

The application of financial contagion as a model for explaining the theoretical underpinning of economic recession and the financial crisis became popular in the '90s, following the Asian financial upset. According to Robert (2006), pandemics like the Asian flu and the recent coronavirus pandemic (COVID-19) have triggered a heavy financial burden on the affected countries. In the case of Thailand, the flu led to a massive devaluation of the Thai baht in July 1997. This currency crisis immediately spread to Thai neighbours including Japan, Korea, Indonesia and Malaysia; with a major crunch on the Hong Kong stock market in October 1998. Surprisingly, this financial crisis which erupted from Southeast Asia shortly migrated to Russia and Brazil, then later to Europe and North America. As a result of the economic contagion, countries such as Russia and the United States experienced major defaults in loan repayment as well as the collapse of the hedge fund respectively (Claessen & Forbes, 2001).

Earlier, financial contagion as a theoretical model provided explanations for co-movements in creditworthiness not captured by shifts in macroeconomic fundamentals (Valdes, 2000). This is entirely different from the initial use of the term “contagion” employed to describe banking illiquidity and depositors' and investors' perception of risk arising from cash or credit crunch. Dissecting the reality on the ground, Krugman (2008) rather developed an entirely different perspective based on the argument that financial contagion can be compared to the re-emergence of a bacteria that use to cause deadly plague in a form which became resistant to the normal antibiotics. It is based on this established premise that contagion is defined as the transmission of shocks arising from epidemics across various countries. More recently, Peckham (2013) adopted the financial contagion theory to dissect the trajectory through which the outbreak of influenza A (H1N1) pandemic in 2009 interconnected with the global financial downturn in 2007-8 periods. Here, financial contagion theory is employed to trace and assess the dynamics in the spread of infections and diffusion of shock through the intra-financial system within the emerging markets.

Thus, policy-makers and macroeconomists have strived to identify the pathway(s) through which shocks arising from pandemics are transmitted from one country to another (Hernandez & Valdes, 2001). Therefore, the financial contagion theory can provide a theoretical framework connecting pandemics and trade linkages, contagion and financial interconnectivity, COVID-19 pandemic and economic activities and then pandemics and global shocks (demand and supply) relations just to mention a few.

## 4 Coronavirus and the Global Shock

The pandemic has brought about a global shock on both demand and supply chain and this simultaneous shock in supply and demand has a negative significant impact on all the sectors. The specter of this global slump was raised by international institutions due to the novel COVID-19 pandemic issue which has resulted to shut down of virtually all economic activities. The demand shock has brought about a decrease in consumption due to poor expectations of future income, hence, citizens have limited demand for goods as the fear of contagion, heightened uncertainty and loss of income due to lack of salary and retrenchment is making people to spend less. The oil-exporting countries are the most hit at this time due to a fall in global demand, restrictions in the supply chain and limited market for export. It has also brought about an increase in government spending as money mapped out for other developmental projects is expended on health care. The demand shock impact of the virus has resulted in a decline in investment as investors would not want to take the risk of investing due to uncertainties and the negative profit outlook of investment coupled with low demand. For example, manufacturing and service sector activities in most countries have come to a total halt, as the decline in the service sector is getting deeper due to the large impact of social distancing; so also, drop in the manufacturing sector activities is worse than the period of the global financial crisis (IMF, 2020).

On the other hand, the shock in the supply chain has an adverse effect on the economy as countries will not be able to stimulate their economy due to drop in share price. Hence, the direct reduction in the supply of labor from unwell workers affect the global supply chain. The lockdown has brought about a decrease in the supply of goods and services and triggered the increase in the price of goods and services. Countries that depend mostly on importation for their consumables are the most hit as there are no means of exportation/supply of any kind due to the global lockdown. This has also resulted to disruption in the supply of components used for production to firms which will result to higher cost of production for industries at this time. More so, companies cannot get their products to the market due to the shutdown, hence, the major cause of inflation because the shortage in the supply of goods will bring about scarcity.

Therefore, whether demand or supply shock, they both lead to global market shock. Consequently, the synchronization of the effect of these shock across countries can be amplified through international trade and financial linkages which will dampen global activity and push prices of commodity down.

This outbreak has more implications on the economic system of developing nations, thus, resources meant for development are diverted to fight COVID-

19 outbreak. Government spending is high as they spend more in combating the virus. More so, setting back the fight for poverty reduction as a result of the economic slump/recession caused by the pandemic. All of this impact may be temporal but the COVID-19 crisis may likely leave a lasting mark. This sudden shock in the markets, oil sector and global economy could result in a decade of debt, policy drift and delusion (UNCTAD, 2020). Therefore, concerted policy and steps towards protecting the people by containing the outbreak and also limit harm to the global economy become a necessity.

## 5 Conclusion

Statistics from recently published data indicate that the world has recorded a substantive decline in output and trade transactions because of lockdown and a drastic cut in investments (UNCTAD, 2020). Amidst the continuing rise in the number of infections and deaths across the globe (Brussow, 2020), most production outfits are pessimistic that measures fashioned out to contain the COVID-19 could further militate against the supply of critical raw materials, hence, negating economic progress both at the origin and recipient countries. It is based on this established premise that stakeholders are forecasting an economic recession, with the developing and emerging economies being the most vulnerable (Ayithey et al., 2020). Therefore, even if the dreadful COVID-19 outbreak is contained in the coming weeks or months, its ripple effects cannot be estimated. Second, the expected negative spillover effects in countries specialized in exporting manufacturing inputs caused by disruptions in supply will be diverse across countries and geographic locations (Ayithey et al., 2020). Third, sectors such as tourism and travel-related industries, transportation, international film markets, entertainment giants, hotels and sports are the worst-hit. Also, with the increasing lock-down, the spread of COVID-19 to developing countries in Africa accompanied by the existing price-wars between Russia and Saudi-Arabia; oil-price shocks would continue to deepen. However, with the perceived recovery and reverse in the spread of the COVID-19 in China (especially the relax of movements in Wuhan) as well as the intensified efforts in the development of vaccines to prevent the infection of the virus, global financial market recovery has abounded. Considering these highpoints, the study focuses mainly at providing an exposition on the number of infections, recoveries and deaths arising from the novel COVID-19 pandemic across the globe; review of social costs and consented efforts at pinpointing workable solutions and policy-formulations to curb the spread as well as draw expositions on the economic impacts of the COVID-19 using recent empirical literature and published statistics.

## 6 Policy Recommendation

In an attempt to fashion out workable policies to curb the spread of the virus as well as revamp the global economic activities, government, non-

governmental organization and private firms/individuals are expected to cooperate. Owing from the above, special palliative measures have been channeled to citizens in the form of pausing loan-repayment plans, doling out stay at home funds, payroll tax cut etc. Thus, most countries have announced fiscal stimulus, for example, Japan, South Korea and Italy declared whopping 9.6 billion US dollars, 9.2 billion US dollars and 4.1 billion US dollars respectively to purchase drugs, equipment, build new hospitals, medical disposables, palliatives and supports for both firms and citizens. More importantly, adequate and efficient implementation of these fiscal stimulus packages on the COVID-19 pathway as well as the effectiveness of other support systems to reverse the spread and spillover effects from the global growth shock.

The above notwithstanding, it is pertinent for global Finance Ministers and Central Bank Governors to pledge and adopt appropriate monetary policies. For instance, interest rates should be reduced drastically as low as the 2009 subprime crisis percentage point just to encourage investment and recovery in global activities (see Cooke, 2009). On the flip side, a good blend of fiscal and monetary policies is recommended.

More so, strict implementation of adherence and compliance to global best practices to curb the spread of the virus cannot be overemphasized. Here, health ministries and the world health organization (WHO) should advocate for bound on the social gathering of more than twenty people. Other measures are strict compliance to social distancing, restrictions on movement within and across cities, use of hand sanitizers, disposal face mask or nose-cover and adherence to personal hygiene (hand-washing) etc.

Massive education and enlightenment about the virus, its mode of transmission, health and socio-economic effects on the household and economy at large. Here, the use of digital and electronic media cannot be over-emphasized. This is because mass education through digital means is fast, relatively cheap and covers a wide range. More importantly, a high percentage of the citizens are already captured on one or more of the social networks. Hence, this will ameliorate the rate at which the virus spreads and as such reduce the effects of the pandemic.

There should be public-private partnerships especially in the areas of funding, research, advocacy, cost-sharing strategies for disease prevention, preparedness and intervention (Olaniyi, 2020), enforcement of stay-at-home measures, strict screening of inter-state travelers and an outright ban on international travels.

Lastly, International health organizations such as the World Health Organization (WHO) should endeavor to lead the way in the area of intensifying surveillance, outbreak readiness, biomedical counter-measures and financing of new projects through government agencies, private organizations, non-government organizations (NGOs) and international agencies.

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