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Milica Đokić[1]
Innovation Center,
University of Niš

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WORLD ECONOMY IN THE TIME OF PANDEMIC - CONSEQUENCES OF COVID-19 ON WORLD OUTPUT, TRADE AND EMPLOYMENT

Abstract

The outbreak of COVID-19 has completely changed the world. Besides jeopardizing health, the coronavirus has seriously affected all other aspects of people's lives. In order to mitigate short-term, as well as long-term economic consequences of the pandemic, it is crucial to find an appropriate balance between public health protection and unconstrained economic activity. In this paper, the impact of the pandemic on world economy will be analysed, mainly through segments like economic output, trade and employment. Based on the data of the world economic, financial and trade organizations and studies of relevant authors, the aim of this article is to provide an overall perspective of economic effects caused by the COVID-19 crisis in some of the crucial economic areas and to give an outlook for the future. The analysis will also indicate the variation in effects among countries of different levels of development.

Keywords: *economic crisis, COVID-19, world economy, international trade, employment*

JEL classification: ***F01, F10, F40***

СВЕТСКА ЕКОНОМИЈА У ДОБА ПАНДЕМИЈЕ - ПОСЛЕДИЦЕ КОВИД-19 НА СВЕТСКИ АУТПУТ, ТРГОВИНУ И ЗАПОСЛЕНОСТ

Апстракт

Изненадна појава КОВИД-19 је у потпуности променила свет. Осим угрожавања здравља, корона вирус озбиљно утиче и на све остале аспекте живота људи. Како би се ублажиле тренутне, као и дугорочне економске последице пандемије, од суштинске је важности наћи одговарајућу равнотежу између заштите јавног здравља и слободног обављања привредних активности. У овом раду ће бити анализиран утицај пандемије на светску економију, кроз кључне сегменте као што су привредна активност, трговина и запосленост. Ослањајући се на податке светских економских, финансијских и трговинских организација и студија релевантних аутора, сврха овог рада је да пружи општи преглед економских ефеката изазваних

[1] milica91nis@hotmail.com, ORCID ID 0000-0002-7155-3476

КОВИД-19 кризом у неким од кључних економских области и процени будућа кретања. У анализи ће такође бити указано на диспаритете у последицама међу земљама различитог нивоа развијености.

Кључне речи: *економска криза, КОВИД-19, светска економија, међународна трговина, запосленост*

Introduction

Hardly could any of us imagine that in the 21st century we would be put in a quarantine, without possibility to move or with serious restrictions, and that avoiding social contacts would be required and physical distance between people mandatory, while wearing face masks. Since the emergence of corona virus, it was clear that it would be very hard to stop its spreading from China and in a short period of time it went from local to being an international problem. Considering that nowadays, in a highly globalized world, organizations and countries are very inter-connected and mutually dependant, any kind of disruption or change in one area causes problems or certain effects in another.

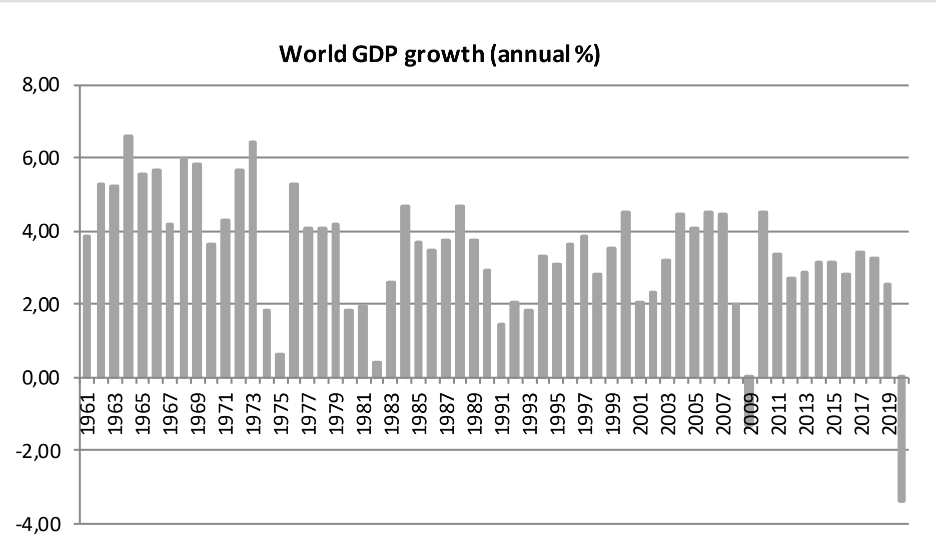
Since the beginning of 2020, social gatherings, travelling, working and even free movement have been limited or entirely forbidden on and off in almost every part of the world. Therefore, everyday life and practices we once had have changed tremendously. What a serious situation the whole world has been in is perhaps best described in the United Nations' statement that we are facing a crisis which is much more than just a health crisis since ″coronavirus disease is attacking societies at their core″ (UN, 2020, pp. 1). It is a human crisis. A crisis that is ″killing people, spreading human suffering and upending people's lives″ (UN, 2020, pp.1). Apart from health, the pandemic has made an enormous impact on trade, transport, employment, tourism, finances and the overall economy, both on the national and global levels. Although it was expected that COVID-19 vaccines discovery would stop the spreading of the infection and bring everything back to normal, global economic prospects are still very vague. Since not all countries have the same access or necessary amounts of vaccines, the vaccination pace varies across the world, and their efficiency declines against new variants of the virus, and recovery is going to be very uncertain and diverse.

New life circumstances caused by the pandemic created new consumer needs and changed some spending patterns, redirecting their purchases towards essential goods, medical and health products, home electronics etc. On the other hand, production and delivery of many inputs was slowed down or even completely stopped temporarily, which resulted in supply and demand mismatches across the world. Millions of jobs have been lost and the number of people at the risk of poverty has been dramatically increased. In order to alleviate the economic consequences of the pandemic, governments around the world have been offering various financial supports to individuals and firms, especially those in the most vulnerable groups and the most affected industries.

The impact of the COVID-19 crisis on world output

Wars, natural disasters, financial crises, political measures, epidemics, riots and any other public disturbance have an impact not only on national but also on world economy as well. They usually cause disruptions on the global level to a certain degree. However, the COVID-19 crisis, which has befallen the world in 2020, can hardly be compared to anything that happened before. The trend of world GDP growth rates for the last sixty years clearly depicts how grave the current circumstances are (Figure 1). Besides few periods of low growth rates in the past, the only year when a decrease in world GDP has been registered was 2009, as the consequence of the world financial crisis. Still, that decline was far less than the one from 2020.

Figure 1. World GDP growth rate 1961-2020



Source: World Bank national accounts data, and OECD National Accounts data files; author's own work

Over the time, economies have adapted better to the pandemic measures and the so called ″new reality″, macroeconomic policy support in many countries has been very helpful and effective, while vaccine discovery has given hope that virus would be put under control. However, prospects for the global economy, although improved in the second half of 2021, still remain unpredictable and diverse across the globe. In many countries, particularly in developing and low-income economies, COVID-19 has induced huge economic shocks, so the recovery will be prolonged. The severity of the pandemic is reflected in the global GDP decrease of 3.5% and the OECD GDP decrease of 4.8% in 2020, which represents considerably larger falls than during the global financial crisis (OECD, 2021). The decline was quite sharp in some European countries and emerging-market economies, particularly those where tourism makes a significant part of the economy. On the other hand, strict and effective pandemic measures in the Asia-Pacific region helped many economies to overcome the COVID crisis and avoid a large decrease in the output, while China experienced the most rapid recovery and even a rise in GDP of around 2.3% last year. In spite of the stabilization and upward trends in world economy since the third quarter of 2020, it will take a lot of time and effort to get back to the pre-pandemic course. According to the Organisation for Economic Cooperation and Development (OECD, 2021) global recovery will be significant but uneven, with the projected rise of global GDP by 5.8% in 2021 and 4.4% in 2022 (Table 1). While most countries are expected to be back to pre-pandemic GDP levels by the end of 2022, the global economy will remain far from its planned growth path and living standards in many OECD countries will not be back to the level anticipated before the COVID crisis.

Table 1: World GDP, GDP in OECD and Non-OECD countries

	Average 2013-2019	**2019**	**2020**	**2021**	**2022**
per cent					
Real GDP growth[2]					
World[3]	3.3	2.7	-3.5	5.8	4.4
G20[2]	3.5	2.8	-3.1	6.3	4.7
OECD[2]	2.2	1.6	-4.8	5.3	3.8
United States	2.5	2.2	-3.5	6.9	3.6
Euro area	1.8	1.3	-6.7	4.3	4.4
Japan	0.8	0.0	-4.7	2.6	2.0
Non-OECD[2]	4.3	3.7	-2.3	6.2	4.9
China	6.8	6.0	2.3	8.5	5.8
India[4]	6.8	4.0	-7.7	9.9	8.2
Brazil	-0.3	1.4	-4.1	3.7	2.5

Source: adapted from *OECD Economic Outlook, May 2021.*

In the latest International Monetary Fund’s (IMF, 2021a) World Economic Outlook, the global economy is projected to grow 6.0% in 2021 and 4.9% in 2022 (Table 2). After a deep crisis and a significant decrease in economic activity across the world during 2020, positive trends are anticipated due to further immunisation of people, normalization of the situation caused by the pandemic and reopening of countries. Still, the revival is going to be uncertain and uneven. Estimations are that the level of global GDP in 2021 will be 3.2% below pre-pandemic projections, and that, despite further recovery and growth, by 2022 it will still remain 1.8% below, while losses of per capita income that arose last year will not be completely recompensed in two-thirds of emerging market and developing economies

[2] Percentage changes

[3] Moving nominal GDP weights, using purchasing power parities

[4] Fiscal year

(World Bank, 2021). Tourism-dependent economies, especially the small ones, will still be affected and go through slower recovery since many travel restrictions will remain. Advanced economies are expected to reopen faster and further improve their prospects for growth in 2022 as vaccination proceeds and additional fiscal measures of support are implemented. Manufacturing and sales seem to be recovering faster, already reaching pre-pandemic levels, while services sector remains weaken and still deeply affected by pandemic measures. United States are leading the advanced economies group with the projected growth of 7%, mostly thanks to the high fiscal support and a good vaccination pace. Economy in the Euro area is expected to grow stronger in the second half of 2021 since strict pandemic measures and uneven vaccine availability slowed down the recuperation in the first one. Economic forecasts for emerging markets and developing economies are not very optimistic considering lower vaccination rates, new waves of infection and therefore newly imposed restrictions and measures. Furthermore, the recovery is expected to be very inconsistent throughout this group, with China and India being at the head and the rest of it lagging behind, especially African economies. As stated in the World Bank report, the long-term outlook for emerging market and developing economies is even more concerning since their potential output is expected to remain below pre-pandemic projections over the next decade (World Bank, 2021). However, the hardest hit by the pandemic are the low income countries, whose development will be significantly decelerated, leaving them more years behind advanced economies compared to the projected pace before the COVID crisis. IMF analysis indicate that these countries will require $200 billion in the next five years just to be able to respond to the COVID crisis and additional $250 billion to improve their economic aspects and go back to pre-pandemic convergence paths (IMF, 2021b).

Table 2: Overview of the World Economic Outlook Projections (percent change)

			Projections	
	2019	**2020**	**2021**	**2022**
World Output	2.8	–3.2	6.0	4.9
Advanced Economies	1.6	–4.6	5.6	4.4
United States	2.2	–3.5	7.0	4.9
Euro Area	1.3	–6.5	4.6	4.3
Germany	0.6	–4.8	3.6	4.1
France	1.8	–8.0	5.8	4.2
Italy	0.3	–8.9	4.9	4.2
Spain	2.0	–10.8	6.2	5.8
Japan	0.0	–4.7	2.8	3.0
United Kingdom	1.4	–9.8	7.0	4.8
Canada	1.9	–5.3	6.3	4.5
Other Advanced Economies[5]	1.9	–2.0	4.9	3.6
Emerging Market and Developing Economies	3.7	–2.1	6.3	5.2

[5] Excludes the Group of Seven (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and the Euro area countries

Emerging and Developing Asia	5.4	–0.9	7.5	6.4
China	6.0	2.3	8.1	5.7
India[6]	4.0	–7.3	9.5	8.5
ASEAN-5[7]	4.9	–3.4	4.3	6.3
Emerging and Developing Europe	2.5	–2.0	4.9	3.6
Russia	2.0	–3.0	4.4	3.1
Latin America and the Caribbean	0.1	–7.0	5.8	3.2
Brazil	1.4	–4.1	5.3	1.9
Mexico	–0.2	–8.3	6.3	4.2
Middle East and Central Asia	1.4	–2.6	4.0	3.7
Saudi Arabia	0.3	–4.1	2.4	4.8
Sub-Saharan Africa	3.2	–1.8	3.4	4.1
Nigeria	2.2	–1.8	2.5	2.6
South Africa	0.2	–7.0	4.0	2.2
Memorandum				
World Growth Based on Market Exchange Rates	2.4	–3.6	6.0	4.6
European Union	1.8	–6.0	4.7	4.4
Middle East and North Africa	0.8	–3.0	4.1	3.7
Emerging Market and Middle-Income Economies	3.5	–2.3	6.5	5.2
Low-Income Developing Countries	5.3	0.2	3.9	5.5

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during May 5-June 2, 2021. Economies are listed on the basis of economic size.
Source: adapted from *IMF World Economic Outlook, July 2021.*

World manufacturing sector has experienced high growth rates in the second quarter of 2021. As reported by the United Nations Industrial Development Organization (UNIDO, 2021), manufacturing output has already surpassed its pre-pandemic levels in China by the middle 2020, whereas in other developing and emerging industrial economies that happened during the last quarter. Meanwhile, industrialized economies reached their 2019 manufacturing output levels at the end of 2020 and then slightly exceeded it at the beginning of 2021. Given that in 2021 many countries were considerably mitigating their pandemic measures and progressively reopening their economies, global manufacturing production has registered high annual growth rate of 18.2% by the second quarter of 2021. Although very encouraging, it should be kept in mind that such high growth rates are partly a result of very low levels of production last year, when global manufacturing

[6] For India, data and forecasts are presented on a fiscal year basis and GDP from 2011 onward is based on GDP at market prices with fiscal year 2011/12 as a base year

[7] Indonesia, Malaysia, the Philippines, Thailand, Vietnam

output declined by 11.4%. It was the first time since the 2008 financial crisis that global manufacturing dropped. Yet, the recovery seems to be faster, but also uneven across regions.

International trade during the corona virus pandemic

World trade has been seriously impacted by COVID-19 crisis, with both supply and demand sides deeply disturbed. Many companies had their production stopped and doors closed temporary, either because of the governments' measures or because of the disruption in their supply chains and sales. Most governments required temporary closure of non-essential sectors, reduction of working hours or a complete lockdown, which had a severe consequences for both manufacturing and services. In such conditions, long global supply chains were most affected since a number of participants and distance between them is large. Like in any crisis, during the pandemic, uncertainty is very high, people feel insecure and have a fear of income loss. Therefore, they tend to spend less and mostly only on essential and necessary goods, so the demand side has been seriously affected as well. Disruption of supply chains and changed spending patterns caused surpluses of some goods, inducing extra costs for their storage or damage control, while shortages of certain inputs and components in other sectors created bottlenecks in the production process. The pandemic has "revealed the fragility and exposed the global supply chains' vulnerability and low resilience" (Fonesca & Azevedo, 2020, pp.427).

Moreover, changes in trade were very diverse across product categories and sectors. Analysing the impact of COVID-19 on the directions and structure of international trade, OECD authors reported that demand for protective and pharmaceutical products surged in 2020, need for food, home appliances and electronics also grew, and interest in precious metals raised as well (Arriola, Kowalski & van Tongeren, 2021). On the other hand, products such as clothing, different kinds of textile and fabrics, vehicles and machinery were in much lower demand than normally. According to their data, trade in category ″other made-up textiles articles″, which contains masks and other protective equipment, saw a record high increase of 110% during 2020 and in pharmaceuticals it was about 12%. A significant growth was registered in trade within commodities such as stones, precious stones and precious metals (16%) as well as trade in ores, slag and ash (8%). Furthermore, in many agro-food product categories trade was also raised, including animal and vegetable oils (14%), oil seeds and oleaginous fruits (14%), cereals (9%) and sugar (8%). Miscellaneous chemical products category recorded a rise of 9% in trade, while electrical and electronic machinery and equipment trade increased by 5%. In contrast, trade in items like fur-skin, silk and works of art declined considerably, around 40%. Aircraft, spacecraft and parts were 34% less traded last year, as well as mineral fuels, oils and products (31%), while a fall in vehicles and parts trade was less severe, around 14%. As stated in the OECD analysis, the influence of the COVID-19 crisis on trade was more different than the influence of global financial crisis. Namely, during the 2009 crisis negative effects on trade were seen across all product categories, while in 2020 disparity in trade impacts was much larger than not only during global financial crisis, but also any other year in the last two decades. Considering the level of product's technological sophistication, the data shows that impact of the pandemic was nearly identical since the decrease in goods trade during 2020 was registered among both - technologically complex products and the basic ones - as well as the increase. How strong the influence of the COVID-19 crisis on international trade in certain sectors has been depended on many factors. The study involving 28 exporting countries and multiple importers suggested that ″sectoral characteristics such as the feasibility of remote work, durability of goods, and integration into global value chains played a large role in mitigating or augmenting the trade effects of COVID-19 shocks″ (Espitia et al., 2021, pp.26).

The WTO statistics indicate that the volume of world merchandise trade dropped 12.1% (quarter on quarter) in the second quarter of 2020, but made a substantial increase of 11.4% in the third quarter of 2020 and a rise of 4.4% in the fourth (WTO, 2021). The growth was big enough not only to bring back the volume of merchandise trade in the last quarter of 2020 to its pre-pandemic level, but even above it. The recent trade forecast of WTO predicts that world merchandise trade will increase by 8.0% in 2021 and 4.0% in 2022. Unlike the goods trade, services trade has been much more influenced by lockdowns, other imposed measures and restrictions, and therefore has recovered more slowly. Analysing the world trade in the terms of value, it could be seen that the decline was sharper than in volume. The WTO data shows that the value of world merchandise exports decreased about 8% compared to the previous year, while the value of commercial services was down by 20%. The value of world merchandise trade in US dollar declined by 21% year-on-year in the second quarter of 2020, but by the last quarter it was up by 2%, whereas commercial services trade fell by 28% year-on-year in the second quarter, and has stayed down by 19% year-on-year in the fourth (WTO, 2021).

Table 3: World trade volume (percent change)

			Projections	
	2019	**2020**	**2021**	**2022**
World Trade Volume (goods and services)[8]	0.9	–8.3	9.7	7.0
Advanced Economies	1.4	–9.2	8.9	7.1
Emerging Market and Developing Economies	–0.2	–6.7	11.1	6.9

Source: adapted from *IMF World Economic Outlook, July 2021.*

The IMF report (IMF, 2021a) implies that the world trade had already been slowing down in 2019, before the dramatic fall of 8.3% in 2020. Advanced economies experienced a bigger decline in trade, around 9.2%, while emerging markets and developing economies were in a somewhat better situation, facing a fall in trade volume of 6.7% (Table 3). Projections show that global trade volumes are expected to increase about 9.7% in 2021, mostly as the result of expanded goods trade, while services trade is going to recover much slower due to the still present restrictions related to the

[8] Simple average of growth rates for export and import volumes (goods and services)

movement and social interactions. In 2022, the trade volume is estimated to rise further and approximately equal in advanced and emerging markets and developing economies, around 7%.

As mentioned, service sector was more affected by the pandemic, especially those services which require free movement of people and goods. Travel and tourism has been one of the major sectors of world economy, accounting for around 10% of the world GDP in the last twenty years. And it has been hit hardest. After ten consecutive years of continuous growth, a number of international tourist arrivals plummeted in 2020, reaching the level of thirty years ago. According to the data provided by the World Tourism Organization (UNWTO) the number of international tourist arrivals in 2019 was around 1.5 billion, whereas in 2020 that number was only 381 million (UNWTO, 2021a). That caused a loss of 1.3 trillion US$ in export revenues from international tourism and over 2 trillion US$ loss in global GDP. What brings more concern is that more than 100 million jobs have been at risk, affecting mostly women and youth. Developing countries have been the most vulnerable, especially small islands, in the regions of North-East Asia, South-East Asia, Oceania, North Africa and South Asia. For many of them tourism is one of or a major source of income, amounting up to 50% of total exports (UNCTAD, 2021). As reported by the World Travel & Tourism Council (WTTC, 2021), Travel & Tourism sector in 2019 accounted for 10.4% of the global GDP, which was equal to 9.2 trillion US$, and 10.6% of all jobs, total up to 334 million, providing 25% of all new jobs across the globe. Furthermore, international visitor spending made up around 27% of global services exports and 6.8% of total exports, reaching 1.7 trillion US$. Statistics clearly show how devastating economic effects of restrictions and other pandemic measures have been, revealing losses of almost 4.5 trillion US$ in this sector. Its share in global GDP dropped for almost 50% in 2020, reaching only 4.7 trillion US$. Moreover, 62 million jobs were lost in 2020, while many of the remaining 272 million are at risk, undergoing huge changes and working hours reductions, and depending on government’s support. International visitor spending in 2020 declined by 69.4%, whereas domestic visitor spending recorded a smaller fall of 45% related to 2019. Other industries closely connected to tourism have also suffered considerable losses, particularly small and medium enterprises, so the consequences are much more profound. In the first seven months of 2021, the number of international tourist arrivals was still far from the pre-pandemic level, 80% lower than in the same period of 2019 and 40% lower than in 2020 (UNWTO, 2021b). Due to increased vaccination, relaxation of travel restrictions and reopening of many countries, during the summer months of June and July 2021 international tourism registered a modest recovery, although very uneven. Asia and the Pacific continued to struggle the most during the first seven months of 2021, with a 95% decline in international arrivals compared to the same period of 2019, followed by the Middle East (-82%), Europe and Africa (both around -77%). Some small islands in the Caribbean, Africa and Pacific regions, along with a few small European destinations, reported the biggest number of arrivals during June and July, sometimes even above the pre-pandemic levels. Regardless of small and short improvements in 2021, international tourism is still far below the 2019 levels and according to the World Tourism Organization survey most experts expect a return of international arrivals to pre-pandemic levels in 2024 or later (UNWTO, 2021b).

Aviation, alongside tourism, has been one of the biggest losers during the COVID-19 crisis. Borders closure, limited movement of people and goods and complete lockdowns have had a strong impact on operations of air carriers, airports and air navigation service providers. Both passenger and cargo flights underwent huge changes and suffered severe losses, mainly because of the reduction in the number of flights, offered seats and additional expenses of other required measures. As stated in the latest economic analysis by the International Civil Aviation Organization (ICAO), global passenger traffic in 2020 fell by 60% (2.7 billion passengers) compared to 2019 which led to approximately 371 billion USD loss of gross passenger operating revenues of airlines (ICAO, 2021). The Asia/Pacific region was hit hardest, followed by Europe and North America. Domestic traffic recorded 50% reduction in the number of passengers while international traffic stayed further below the 2019 level, even 74%, due to the border closures and travel restrictions. By far, the lowest number of passengers was registered in April 2020, with the decline of 92% compared to previous year. According to the ICAO assessments, airports and air navigation services providers (ANSPs) have faced enormous losses as well. For the total of 12 months airports around the globe have lost 114.6 billion USD related to 2019, with Europe leading the biggest losers list, followed by the Asia/Pacific region and North America (ICAO & ADS-B Flightaware, 2021a). Air navigation services providers in Europe were also the most affected by the pandemic, suffering more than a half of the total world loss in 2020 which was nearly 13 billion USD (ICAO & ADS-B Flightaware, 2021b). Although the pandemic seems to be getting under control and the restrictions are far less severe, projections for 2021 show that a number of passengers will still be far below the 2019 level, with overall reduction of 2.21 to 2.24 billion (-49% to -50%). Domestic passenger traffic is estimated to be lower for about 34% compared to 2019, whereas international passenger traffic will still be down for more than 70% compared to the pre-pandemic level. Such conditions would lead to approximately 323 to 327 billion USD loss of gross passenger operating revenues of airlines (ICAO, 2021).

According to The United Nations Conference on Trade and Development (UNCTAD), the value of world trade in 2020 declined about 7% with significant heterogeneity in the timing and the magnitude (Nicita & Saygili, 2021). The impact of the pandemic on trade varied across the globe partly because of the existing trade agreements between certain countries and/or regions. The study of UNCTAD showed that trade within regional trade agreements (RTAs) decreased by about 5.6 percentage points, considerably less than trade occurring without any agreement. In addition, the more comprehensive and deeper the RTA was, the more resilient was the trade within it. If trade agreements provided only tariff preferences (shallow RTAs), trade flows were still less disrupted than if there was not any. However, the effects of RTAs during the pandemic were not the same for developed and developing countries, nor for developing countries belonging to different regions. Deep trade agreements have considerably reduced negative effects of COVID-19 crisis regardless of the level of country's development, while shallow trade agreements did not always result in more resilient trade flows for developing countries. The analysis also indicated that the benefits of RTAs have varied a lot across the world. Trade agreements did not help much African countries to make their trade less affected by pandemic shocks, but for Asian developing economies and countries from Latin America and Caribbean region RTAs had much more notable effect.

Even though COVID-19 has seriously affected the international trade, many difficulties have been already overcome. However, the long-term effects of the pandemic may be "more profound than initially anticipated, leading to structural changes in the process of economic globalization" since it could result in stronger competition for economic and political dominance (Gruszczynski, 2020, pp.342). Depending on the overall impact of the pandemic, we could be witnessing a fundamental change in international trade relations and the governance model.

Turbulence at the labour market and changes in the living standard caused by COVID-19

Since the appearance of the corona virus, most countries imposed lockdown measures, some form of the workplace restrictions and closures in certain sectors, or even all but essential workplaces, over the time. As a result, world economy has faced a potential record high levels of unemployment and poverty. The estimates from the International Labour Organization (ILO) show that around the globe labour markets have been severely disrupted, a lot more than during the 2009 global financial crisis or Great Depression.

Compared to the last quarter of 2019, 8.8% of global working hours were lost in 2020, which is equivalent to 255 million full-time jobs[9] (ILO, 2021). Around a half of those was mainly a consequence of employment loss, mostly in regions like North and Latin America, while in Europe and Asia it was the result of working hours decrease for those who kept their jobs. Women suffered greater losses of employment than men, as well as younger workers compared to the older ones. Employment loss in 2020 mostly led to increasing inactivity rather than unemployment (71%), meaning that people were predominantly withdrawing from the labour market either because they were unable to work or for some reason did not want to search for a job (Figure 2). According to the ILO report (ILO, 2021), in previous global crises a rise in unemployment was usually the main source of working-hour losses, whereas during the ongoing crisis caused by the pandemic both inactivity and reduction in working hours within employment appeared to be major factors. The analysis of the working-hour losses in 2020 by different income groups show that lower-middle-income countries were hit hardest, with losses much higher than the global average (11.3%). High-income countries and upper-middle-income countries experienced similar working-hour losses (8.3% and 7.3% respectively), while countries with low income faced the smallest working-hour losses (6.7%). The second quarter of 2020 was the most difficult one for every income group and in general, when nearly half of total yearly working-hour loss happened.

Losses in working hours resulted in large reductions in labour income. The assessment of labour income loss in 2020, which amounted to 3.7 trillion $ and represented around 4.4% of the 2019 global GDP[10] clearly shows how seriously the labour market and people were affected by the pandemic. It declined by 8.3% in 2020 related to 2019. The data indicates a large disparity within country income categories and geographical regions. Generally, lower-middle income countries suffered the greatest loss of income from work (12.3%), while low-income, upper-middle-income and high-income countries experienced nearly the same extent of a labour income loss (7.9%, 7.6% and 7.8% respectively). Furthermore, workers in Asia and the Pacific were in a somewhat better position than workers from another parts of the world, having lost around 6.6% of the labour income, while those in America were faced with highest labour

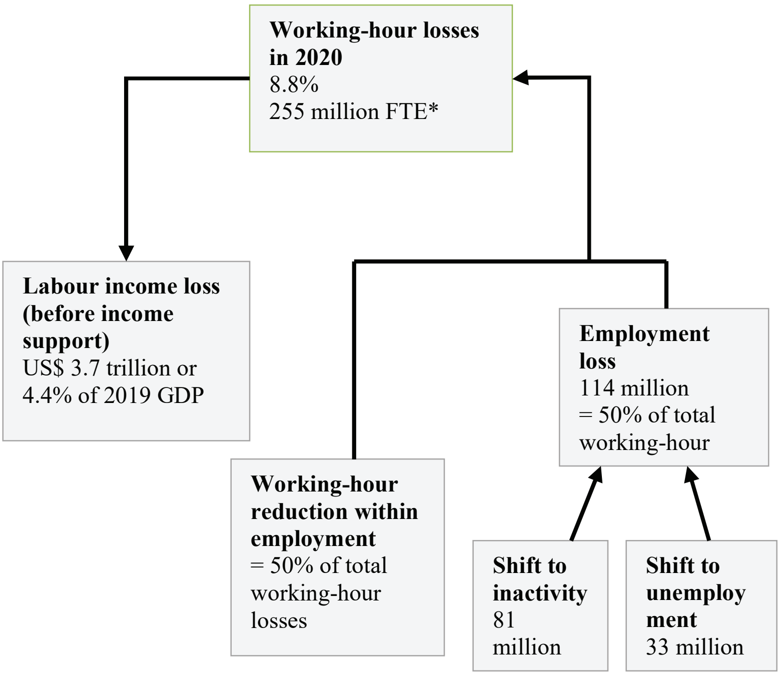
[9] Assuming a 48-hour working week

[10] Global GDP in 2019 using 2019 market exchange rates

income loss of 10.3%. Workers in Europe and Central Asia region and in Arab States suffered similar losses of 8.7% and 8.4%, while in Africa the decrease in labour income was about 9.4%.

Since there is a high degree of uncertainty regarding the pandemic and a wide group of factors that affects the employment and working conditions around the world, the speed of recovery is very hard to predict. As stated in the ILO report (2021), there are three possible scenarios that would lead to different outcomes. The pessimistic scenario projects that the global working-hour losses in 2021 will remain high, around 4.6% compared to the last quarter of 2019, which corresponds to 130 million full-time jobs (presuming 48 working hours in a week). Somewhat better situation is anticipated in the baseline scenario, which estimates the losses up to 3.0% or about 90 million full-time jobs. Even in the most optimistic case, which presumes the rise in economic activity and having the pandemic under control, a decrease in global working hours will amount to 1.3%, equivalent to 36 million full-time jobs. Furthermore, it is anticipated that in 2021 a greater share of working-hour losses will lead to employment loss, rather than to working-hour reduction. However, in order to estimate the real effects of the COVID-19 crisis on the employment so far, it is important to take into consideration the labour market trends which would continue if the pandemic had not occurred. Bearing in mind a long-term trend in the labour force participation rate and assuming the same values of unemployment rates as in 2019, the global employment in 2020 would be 30 million higher than in 2019. This brings us to the conclusion that global employment loss in 2020 is even higher than previously projected, amounting to around 144 million full-time jobs (ILO, 2021).

Figure 2: Estimates of working hours, employment and labour income loss during 2020



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

Source: adapted from *ILO (2021)*

Changes in employment and in working hours usually led to the income loss, partly or completely. By far, researches indicate that the COVID-19 crisis has influenced living conditions of the most vulnerable groups to the largest extent and that it could cause long-lasting effects on inequality. Even before the pandemic, a huge number of people, especially in the world's least developed countries, did not have many opportunities for decent work, raising their incomes or improving their living standards. Not only that COVID has threatened their health but also significantly increased the risk of poverty. The latest World Bank report on poverty shows that already-poor and vulnerable people are hit hardest by the pandemic-related job losses and deprivation, while the profile of global poverty has been partly changed, creating millions of ″new poor″ (World Bank, 2020). The fact that causes concern is that those who are new poor are usually more educated, live in more urban areas and are less likely to work in agriculture than the population living in extreme poverty before the pandemic. According to the World Bank (2020), it is estimated that between 88 million and 115 million people were pushed into extreme poverty last year because of the global crisis caused by COVID-19, which translates to a poverty rate of between 9.1% and 9.4% in 2020. This dramatically impedes the progress, making almost certainly impossible to achieve the 2030 goal of 3% of extreme poverty. The report suggests that South Asia and Sub-Saharan Africa would be the most affected regions.

Researches show that not all have been bearing the same burden caused by the pandemic and that inequality might be drastically raised. Households in many developing countries have been seriously disturbed by the crisis, where more than one third of respondents stopped working, temporarily or permanently, and over 64% of households had their total income reduced (Bundervoet, Dávalos & Garcia, 2021). That significantly increased food insecurity at the household level. The study also showed that vulnerable groups have been much more affected by the pandemic. Woman, youth and low-skilled workers are segments of society which were in disadvantaged position at the labour market even before COVID-19, thus they experienced the biggest job losses and income reduction. Self-employed and casual workers suffered most from income losses. Many developed countries have faced the same challenges as well. Using a large-scale survey of UK households, researchers came to the results that population with insecure employment, those under the age of 30 and minority ethnic groups are the ones that experienced the largest job losses, while those in lowest quintiles of income have suffered severe declines in household earnings (Crossley, Fisher & Low, 2021). Transaction data from companies showed that during the pandemic the largest spending reduction was recorded among the wealthy, as well as decline in consumption, but expenditure for this group has fallen much more than income. On the other hand, the lowest quartile of income distribution experienced the smallest spending cuts, but the largest decline in earnings, while their total incomes have not fallen as much thanks to the government help (Hacioglu, Känzig & Surico, 2020). Consumption and income inequality has extremely increased, with economically most vulnerable segments of society suffering the biggest loss (Surico, Känzig & Hacioglu, 2020). The analysis conducted in Spain showed that government interventions have been very effective since without them the inequality would have increased substantially, mainly because of job losses and reduced earnings experienced by low-wage workers, as well as among the young, the foreign-born and in regions more dependent on services (Aspachs et al., 2020). Perhaps the best evidence of how serious the impact of COVID-19 might be is the IMF analysis which suggests that distributional consequences from the current pandemic may be larger than those occurred after any other pandemic in the recent past, and greater than those caused by typical recessions and financial crises (Furceri, Loungani, Ostry & Pizzuto, 2021).

Conclusion

The ongoing COVID-19 crisis has been nothing like the previous ones. The pandemic has been threatening people's health and has taken many lives. In order to stop the spreading of the disease and protect public health, the restrictive measures had to be imposed. Accordingly, economic activity got completely disrupted and the extent of economic consequences has been unprecedented. Furthermore, the duration and intensity of it stays unknown which brings even more uncertainty. It is quite difficult to make predictions about the end of the crisis and when things will go back to normal, if they ever will. Whether it will cause only a short term economic effects or it will lead to structural changes in global economy remains an open question. The "normality" we once knew might be changed forever and we might be witnessing the creation of a new economic order.

The pandemic revealed all the weaknesses of world economy, proved how countries are mutually dependent and that in today's globalised world it is hardly possible to isolate and defend national economy from the outside shocks. Saving lives and protecting economic prosperity simultaneously have been a huge challenge for all countries, regardless of their level of development. Undoubtedly, the way and time of ending this pandemic will very much depend on mutual cooperation and assistance. Only with joint financial and medical support the world will get the chance to win this war against the virus. Moreover, precautionary measures and proactive actions should be taken in order to prevent, or at least minimize the possibility of, similar troubles occurring in the future.

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