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THE GLOBAL ECONOMIC EFFECTS OF PANDEMIC OUTBREAKS– COVID-19 IN MALAWI

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Abstract

On January 30, 2020 the World Health Organization declared COVID-19 a pandemic. Since December 2015, COVID-19 has claimed 928,890 deaths as of 15 September, 2020[1]*. The outbreak of the novel coronavirus (COVID-19), has swiftly evolved and spread across all the countries in the world. The spread of the new coronavirus is a public health crisis that has posed a serious risk to the macroeconomy through the halt in production activities, interruptions of people's movements and cut-off supply chains. On 2 April, 2020, the then president of the republic of Malawi, Prof. Arthur Peter Mutharika confirmed the first 3 cases of COVID-19 in the country. There are now 5,701 cases, 3,762 recoveries and 178 Deaths as of 15th September 2020*[2]*. This paper seeks to integrate the historical effects of global pandemic outbreaks such as 1918 Global Influenza, Ebola and SARS to Coronavirus. A little emphasis is positioned on the panic and havoc in Malawi as a result of coronavirus, such as disruption of supply-chain due to sudden decrease in aggregate demand.*

Key words*: Coronavirus, COVID-19, GDP, Supply shocks, Demand shocks, Hunger*

-September 2020-

[1] European Centre for Disease Prevention and Control, COVID-19 situation update worldwide, as of 15 September 2020.

[2] https://www.health.gov.mw

Introduction

Coronavirus has just proved to the world that infectious diseases can still cause economic havoc in the 21st century, and perhaps in the near future. With the current high travel and migration deltas all over the world, infectious diseases can easily spread. The source of the highest risk to the global economic and social climate are zoonotic microbes especially viruses with high host plasticity. These are usually encountered in places where there is high probability of wildlife contact. Zoonotic viruses alone account for around 15 percent of human pathogens and 65 percent of pathogens discovered since 1980[3]. The most recent mentions in the zoonotic viruses' category include severe acute respiratory syndrome, Nipah virus, encephalitis, Spanish virus, ebola and Covid-19, being the most recent one.

Trans-historically and transculturally, the world economy has experienced a series of simultaneous demand and supply shocks almost each decade since 1914. These shocks ranges from wars, climatic changes and diseases. The questions that has to be asked in the wake of such shocks as global pandemic such as COVID-19 is what do economic models tell us. What are the negative effects, what are the market shortfalls, what are the after effects to the economy after the disease has abated and what action should policymakers take?

1918 Global Influenza

The 1918 influenza pandemic is the most severe pandemic in history, though it looks likely to be displaced by COVID-19 soon. It was caused by an H1N1 virus with genes of avian origin. Although there is no universal consensus regarding where the virus originated, it spread worldwide during 1918-1919. In the United States, it was first identified in military personnel in spring 1918. It is estimated that about 500 million people or one-third of the world's total population became infected with this virus. The number of deaths was estimated to be at least 50 million across the world[4].

The economic fallout from the Spanish flu was far less dramatic considering the tense it created and the time it lasted. In the United States, industrial output decreased sharply but bounced back

[3] Johnson C.K. *et at*. Spillover and pandemic properties of zoonotic viruses with high host plasticity. Sci. Rep. 5, 14830; doi: 10.1038/srep14830 (2015)

[4] Centers for Disease Control and Prevention, National Center for Immunization and Respiratory Diseases (NCIRD), 1918 Pandemic (H1N1 virus), (Revised: March 20, 2019)

in no more than three months. Retail was barely affected, and businesses did not declare bankruptcy at higher rates than usual. According to the latest econometric analysis, the pandemic of 1918–19 cut the United States' real GDP and consumption by no more than two percent. The same appears to have been true for most advanced Western economies[5].

2013 – 2016 Ebola

The outbreak of Ebola virus in Africa between 2013 and 2016 resulted into a total of 28,626 cases and led to 11,310 deaths in Guinea, Liberia and Sierra Leon[6]. Ebola negatively impacted the economy in several different ways such as; less trade and transportation, high fiscal spending, high unemployment rate, reduced tourism, decreased agricultural production, decreased mining and fewer investors[7]. It is also estimated that the pandemic costed Western Africa US$53 billion. In Sierra Leone alone, there were 20 percent point drop in GDP in 2015.[8] And the fall in GDP continued in most west African countries the year after the virus recessed. It is also estimated that over 10 million people lost their jobs in South Africa due to slump in production activities such as tourist destinations, retail, hostels, restaurants and entertainment.

2002 – 2003 SARS

Severe Acute Respiratory Syndrome (SARS) virus first infected humans in the Guangdong province of Southern China in 2002. 26 countries were affected by an epidemic of SARS with more than 8000 total reported cases and 900 deaths in 2003 (WHO). SARS led to 0.5 percent point decrease in China's growth in 2003. The overall cost of this epidemic to the global economy was estimated to have reached $54 billion (World Bank).

Covid-19 as a supply shock

Originating from Wuhan city in China in December 2019, the spread of coronavirus which causes Covid-19 was underestimated. It was not expected to be as devastating as it is in the current situation. Despite news of infections and deaths in China, European countries continued massive gatherings such as football leagues in Germany, Italy, Spain and England. With high travel deltas,

[5] Scheidel Walter, The Spanish Flu Didn't Wreck the Global Economy – What Is Different About the Coronavirus Pandemic? (May 28, 2020)
[6] https://www.cdc.gov/vhf/ebola/history/2014-2016-outbreak/index.html#
[7] Mercy Corps, How does Ebola affect the economy? (March 6, 2019)
[8] Fernandes Nuno…

many countries found it late to deal with Covid-19. As of 23 April, 2020, report by Business Insider showed that a third of the world population were on some form of a coronavirus lockdown, meaning that movement was actively restricted and controlled by their respective governments[9].

The economic trough caused by the Covid-19 pandemic is continually frightening. Many parts of the global economy have been locked down in order to halt the spread of the virus. Workers and business owners have been at once confined in homes with few managing to work. But manufacturing and the service industry has hardly been able to manage operations while working from home. In the medium-term further disruptions are likely because it will take time to restore the global value chains and production networks. Some of the damage may never be fully undone. This reduces the productive capacity of the economy as the pandemic represents a genuine supply shock[10]. Evidence from previous pandemic has proved no correlation between fatality rate and disruption of economic activities. Data shows that even if the health impact of an outbreak is relatively limited, its economic consequences can be devastating and long lasting. For example, Liberia's GDP fell by over 8 percent point yet overall death rate due to Ebola was far too low than the percentage fall in GDP in 2013[11].

Covid-19 as a demand shock

Covid-19 has posed a serious challenge on the operation of the global market. On the other side of a supply shock is a genuine demand shock. The reaction of governments, companies, consumers and media have created a demand shock in the sense that consumers' ability or willingness to purchases goods and services at given prices has become so volatile. People staying at home and not going to restaurants or movie theaters for fear of contagion is an example of a demand shock. Additionally, as service workers lose their jobs, they may stop purchasing other goods such as cars or appliances, which can also be thought of as a demand shock in those specific sectors[12].

In response to the COVID-19 outbreak, governments and public health authorities around the world implemented confinement and mitigation measures such as social distancing. These measures effectively led to the controlled shutdown of entire sectors of the economy, especially those that supply economic activities and services involving high physical contact with other

[9] https://www.statista.com/chart/21240/enforced-covid-19-lockdowns-by-people-affected-per-country/
[10] Tahir, Muhammad Bilal and Maswood, Arslam, The COVID-19 Outbreak: Other Parallel Problems (April 9, 2020)
[11] Fernandes, Nuno, Economic Effects of Coronavirus Outbreak (COVID-19) on the World Economy (March 22, 2020)
[12] Brinca Pedro, Duarte B. Joao and Casto Miguel, Decomposing Demand and Supply Shocks During CVID-19 (June 17, 2020)

people, such as restaurants, hairdressers, airlines, etc. On one hand, authorities forced many such establishments to close and send their workers home (the so-called lockdowns). On the other hand, consumers themselves also reduced their consumption of these services, regardless of public health policy recommendations. Furthermore, as workers in some of these services lose their jobs and income, they also reduce their purchases of other goods and services. This, combined with uncertainty about the evolution of the pandemic, leads to a reduction in demand for goods and services across the globe, affecting not just these locked down countries[13].

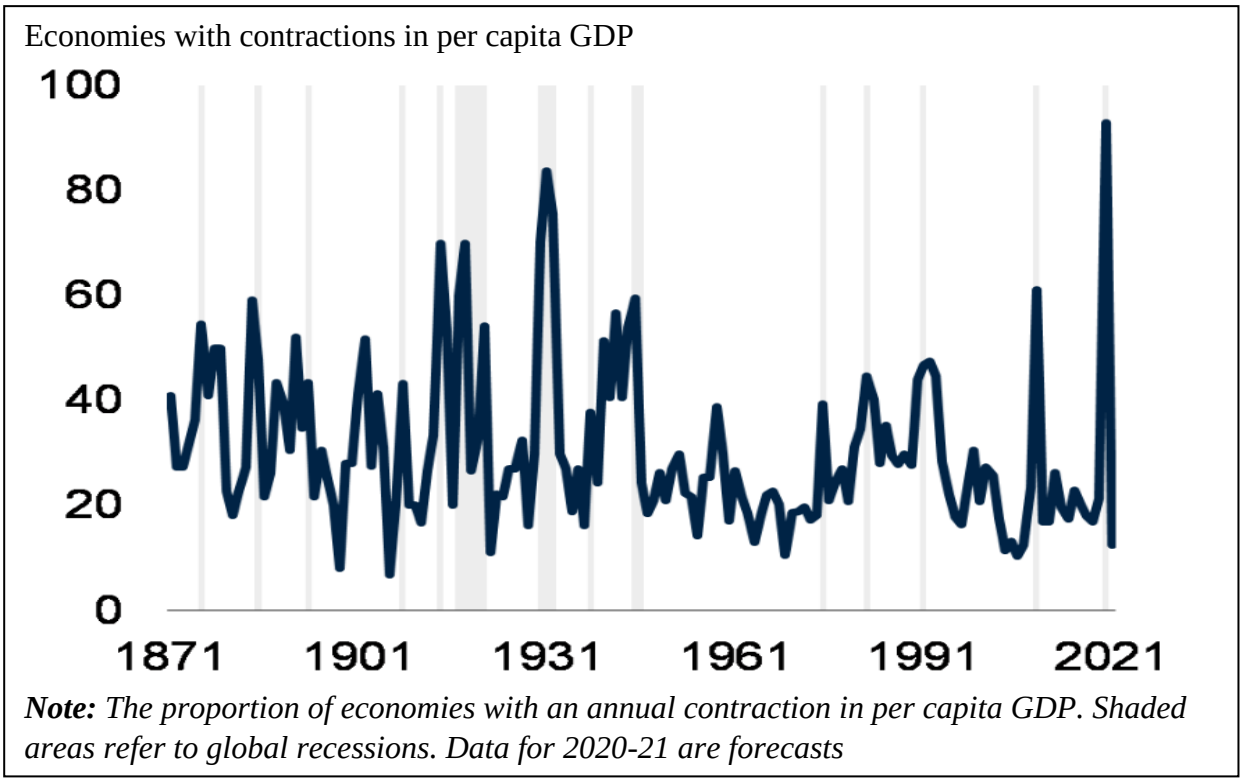
COVID-19 and The Global Economy

In the February 23, 2020 televised address, Xi Jinping, China's president said, "It is unavoidable that the novel coronavirus epidemic will have a considerable impact on the economy and society[14]". The spread of coronavirus is bound to have an impact on the global economy given its highly infectious nature. The spread of this disease has impacted the way individuals spend, earn and participate in economic activities. The oscillation of economic indicators is hugely dependent on individual behavior and speculative as well as precautionary nature of people. It is not a miracle that in the wake of a global pandemic individuals have become thrifty in their expenditure. It is not unfathomable or unpredictable that the economic output of all nations has been trimmed, whether they are on the top echelons of gross domestic product or at the very bottom.

[13] Gourinchas, P O (2020), "Flattening the pandemic and recession curves", VoxEU.org, June 3, 2020.
[14] China's president Xi Jinping, televised address, February 23, 2020

The Plight of Economic recessions

The global economy has experienced 14 global recessions since 1870: in 1876, 1893, 1908, 1914, 1917-20, 1930-32, 1938, 1945-46, 1975, 1982, 1991, 2009, and 2020. The COVID-19 recession of 2020 will be the deepest since 1945-46, and more than twice as deep as the recession associated with the 2007-09 global financial crisis[15]. In 2020 - 21, the highest share of economies will 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 1930-3



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*

The 2020 recession is unique and greatest of all because all components of aggregate demand have fallen almost in all economies. The wiping effects of Coronavirus has already proved to the world that it is causing a recession more than ever experienced since WWII. While the pandemic has just lasted for about 9 months, there yet no cure discovered thereby bringing production and distribution to a halt[16]. Manufacturing has been among the industries negatively affected by the evolving humanitarian crisis caused by COVID-19. This pandemic has heavily disrupted both the

[15] https://blogs.worldbank.org/opendata/understanding-depth-2020-global-recession-5-charts
[16] Jones, D.S., History in a crisis – lessons for COVID-19. New England Journal of Medicine, 2020

demand behavior as well as the supply and the capability of companies to deliver goods to the market[17].

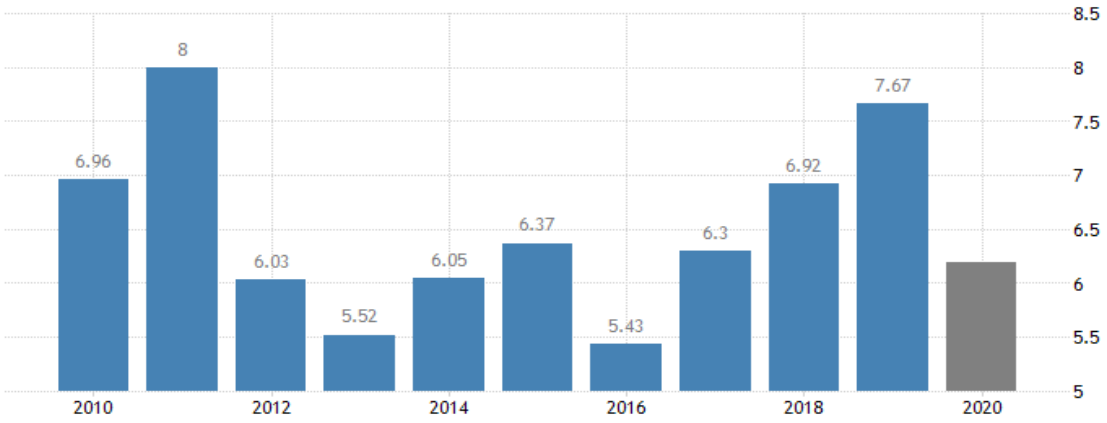
These situations affect people's speculative and precautionary expenditure decisions. Consumption have fallen in countries with lower savings rate such as Malawi and most African countries as well as West Asian countries. Though consumption is likely to increase in countries with higher savings rate such as China and East Asia (Terry cook, Clive Riches and Richard Taylor (2015), but this can only be in short run. A research conducted in the USA reported that in grocery store, the variety in some categories, such as baby care, bakery and meat, fell as much as 30% earlier in the pandemic[18]. This is explained by the paradox of thrift, which states that savings lead to a decrease in consumption and then a fall in aggregate demand. Eventually people become unemployed thereby leading to dissaving as they will have to survive on their savings. This means, with the long period that Covid-19 is expected to run, may see people's savings drain, leading to a total fall in consumption.

Consumption is the main component that directly affects aggregate demand. It is not surprising that a fall in consumption is unpityingly leading to a fall in aggregate demand in various economies which will witness many other companies cutting production or even shutting down. Executives at Craft Heinz Co., Coca Cola, Hershey Co. and other food giants already trimmed less-efficient and less-profitable products, while shelving some in development. Steven Williams, CEO of PepsiCo Inc's North America foods business ordered the company to stop producing some products and focus on its fastest-selling products[19].

Gross Domestic Product, Unemployment and Inflation in Malawi

The Gross Domestic Product (GDP) in Malawi was worth 7.67 billion US dollars in 2019, according to official data from the World Bank and projections from Trading Economics. The GDP value of Malawi represents 0.01 percent of the world economy.

[17] IDC, analyse the future report, "How the coronavirus outbreak is impacting Manufacturing Industry," March 18, 2020.
[18] Steve Banker on July 13, 2020, COVID-19 Beneficial Effects on the Consumer Goods Supply Chain.
[19] ibd



Source: Tradingeconomics.com/WORLD BANK

However, due to the impact exacerbated by the novel coronavirus, Malawi's GDP is expected to fall to 4.70 USD Billion by the end of 2020, according to Trading Economics global macro models and analysts' expectations. In the long-term, after the virus has abated, the Malawi GDP is projected to trend around 6.00 USD Billion in 2021 and 7.50 USD Billion in 2022, according to their econometric models[20].

In Malawi, many income earners such as private national school teachers have not been receiving their wages since students stopped going to school in March 2019 accounting to good six months. Many International high schools, universities and other service sector businesses cut salaries of its stuff due to higher cost of offering online lessons. Other service sector businesses like hotels, restaurants, beach resorts, entertainment and theatre considered retrenchment as a means of remaining in the market amid the global shock brought by COVID-19. International organizations also form a good employment base, but some have closed after failing to secure funding from international bodies due to coronavirus. This shows that both aggregate demand and supply in the economy have been gravely affected because many people have to cut consumption expenditure with no hope of retaining their jobs soon.

The consequential decrease in production is coupled with existing firms laying off its workers leading to higher rates of unemployment. At the same time, the few production companies that

[20] Trading Economics/World Bank, Malawi GDP, **1960-2019 Data | 2020-2022 Forecast | Historical | Chart | News**

have survived are likely to raise prices of their products due to increasing costs of production such as transport and imported raw-materials. Concurrently, unemployment compounded by youth protests in Malawi is accompanied with high inflation rate leading to a situation known as stagflation (Gregory Mankiw: 2009).

Other components of Aggregate Demand such as investments and government expenditure are already seen falling due to the shutting down and downsizing of firms. There is a positive relationship between increase in capital formation (investments) and economic growth. No investor would want to risk capital during times of crisis like this. Capital formation will slump and there will be a long-term decrease in the supply of goods and services. This will further lead to unemployment and decrease in consumption expenditure and hence deepening the effects of the 2020 recession.

Nonetheless, it is worthy recognition that most developing countries will receive injections of income through donations which apparently seems as solution to decrease in aggregate demand. For example, the Central Bank of Malawi has pumped 51 billion Kwacha into the economy. The Reserve Bank of Malawi also disbursed K12 billion to commercial banks to give loans to their customers to cushion the effects of COVID-19[21]. The country has also received huge sums of money from the IMF, World Bank and other international organizations. For example, under the package, known as the Multi-Country COVID-19 Response Support Program (MCRSP) by the African Development Fund (ADF), Malawi pocketed a concessional loan of UA17.87 million and a grant of UA15.03 million[22]. However, the government will need to allocate full or a greater sum of money to the health sector in combating the pandemic.

Injections in form of increase in government expenditure and donations can only be effective when the assumption that the money is used for investment holds and this is hardly possible considering that COVID-19 is not yet going anywhere as of September, 15, 2020. Looking deep into the situation of the coronavirus pandemic, it is hard for governments to focus on investments. Even if

[21] United Nations-Malawi, COVID-19 updates, (April 10, 2020) https://reliefweb.int/sites/reliefweb.int/files/resources/Malawi-COVID-19-Situation-Update-10.04.20.pdf

[22] https://reliefweb.int/report/malawi/african-development-fund-approves-ua1004-million-multi-country-covid-19-response

interest rates and exchange rates are lowered, there is little or no propensity to attract investors both domestic and foreign. This is mainly due to the difficulty of weighing the profitability of business ventures against the cost of establishing the businesses amidst the crisis.

Furthermore, governments will spend a greater proportion of their injections in preparedness and mitigation of the pandemic campaigns. Just like other governments, the Malawi government will need to buy medical equipment and protective materials, employing more health personnel to deal with increasing cases of patients. There will also be a need to pay a lot of money in risk allowances to service sector civil servants such as teachers, police and armed forces

In addition, it is important to note that though theoretically, injections of money in an economy is always equal to withdrawals of money. The money that comes in the economy through the multiplier of investments, earnings from exports and government expenditure, will be equally withdrawn through taxes on both consumption and production, expenditure on imports and savings as people become increasingly shrewd on their expenditure patterns. This therefore, means increase in government expenditure and donations may not be a long-lasting solution to the effect of COVID-19.

Alongside increasing unemployment, it is not unfathomable that COVID-19 has resulted in the increase in the average price levels. With borders closed and many countries imposing full or partial lockdowns, the supply side of production has been heavily inundated. Petroleum products have a price transmission effects on goods and services[23]. Though, there was a global decrease in the cost of fuel in the early months of 2020, transport fares did not go down particularly because of the limit placed on the carrying capacity of public motor vehicles. The increase in transport fares and the inability of producers to control inventory has seen an average increase in the prices of goods and services.

Stress on Public Health Amenities

The covid-19 pandemic also comes with high demand for public amenities. This mainly includes hospitals and health facilities. Given the static and stringent budget lines of the health sector, this

[23] Exchange Malawi – COVID-19 Report v.10

will cause stress on public health facilities. Shortages in various medicines and bed space will aggravate the situation. As a response to the Covid-19

These and other factors lead to increased government spending amid the low revenue collection. This is reflected in the budget deficit of 2020-2021 increasing from the budget deficit of 2019-2020[24]. The budget increase in the 2020/21 national budget is indicative of the high public spending to be incurred by the Covid-19 pandemic. With a total budget of 2.2 Trillion Malawian Kwacha from MWK 1.7 Trillion represents a sharp increase in spending. The health sector spending was pegged at MWK 195.3 Billion representing 9.7 percent of the total budget. The health sector spending is effectively a tithe of the total budget.

The 2020/21 national budget represents a budget deficit of MWK 632 billion which is 10 percent of Gross Domestic Product[25]. This has been aggravated by a reduction in revenue collection by 35 percent due to low economic activity. It is therefore quite evident that the Covid-19 pandemic has reduced revenue collection by the public institutions and increased government spending, especially in the health sector consequently increasing the budget deficit. This increase in budget deficit should be navigated with caution. Depending on the responsiveness of the economy may lead to a certain delta of crowding out in the private sectors and a reduction in aggregate demand. Appropriate monetary policies must therefore be implemented to avoid an increase the interest rates and inflation rates.

Other consequences

The prolonged novel coronavirus is likely to have more disastrous effects that the major macroeconomic issues that economists and policy makers dwell on. Taking off the eyes on; inflation, economic recession, unemployment, budgets deficit, exchange rates and the balance of payments is what will give a room for a wider view of the effects of coronavirus. For example, in many developing countries, a larger proportion of the population live from hand to mouth. For example, in Malawi, the majority of people in towns spend a total of 8 to 12 hours in industries earning MK1,200 or Mk1,400 per day ($1.5 – $1.6) which is far below the current international

[24] https://www.finance.gov.mw/index.php/blog/budget
[25] Fiko, M.(2020).*Malawi: Budget 2020/21.*Retrieved from All Africa: allafrica.com/stories/202006120662.html

poverty line of US$1.90. In other words, with many countries imposing lockdowns, evidence shows that more people will be dying more of hunger than COVID-19.

Prior to the Pandemic, over 1.9 million people were estimated facing severe food shortage in Malawi in the period between November 2019 and March 2020, which is the peak of the hunger season[26]. On the same, World Food Programme (WFP), a UN agency expects more than 2.8 million people to face hunger in the coming months in the worst food crisis in a decade in Malawi. A staggering four out of every 10 children suffer from stunting, the United Nations World Food Programme (WFP) warned on 15 September 2020[27].

Conclusion and Recomendations

The news of the outbreak of COVID-19 is not strange to a world that has suffered from various similar pandemics. For example, the 1918 global influenza was more disastrous in terms of deaths withing a very short period of time. However, the economic impact of influenza is far less than that of COID-19 that has lasted more than 7 months though without cure yet. The main problem with COVID-19 is that it is still increasing in many parts of the world with production completely halted. Firms have shut-down or cut production, many people are out of jobs. People are failing to cope up with COVID-19 in countries where people live from hand to mouth in developing countries like Malawi. Consequently, malnutrition and poor healthcare condition of the population will extol the number of deaths than COVID-19 casualties.

[2626] Integrated Food Insecurity Phase Classification, Malawi – Acute Food Insecurity. June-September and projection for October 2019 – March 2020.

[27] UN News - https://www.un.org/africarenewal/news/malawi

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