



Short and Fast or Long and Slow? The Economic Impact of the Coronavirus

By:

[David A. Gantz](#)

[Bashar H. Malkawi](#)

May 6, 2020

The spread of Coronavirus in early 2020 posed many [challenges for governments worldwide](#). Millions of people have been affected, and thousands have died. The world economy cannot significantly recover unless and until 1) testing is very widely available so businesses can rehire those who have already been infected and demonstrate immunities; and 2) there is an effective vaccine that can be made available to billions of people. The latter at least is probably a year off.

The economic impact of this virus is likely to continue for a significant period. In the short term, due to the spread of the Coronavirus, lock down of many businesses and social distancing, [economies are suffering major downturns](#). The short-term and possibly medium-term economic impact of the spread of

the virus will be severe. Due to the isolation measures in place, the virus is causing an enormous reduction in domestic demand in many countries. There is a huge slip in savings. Consumption of everything but the bare essentials will slow, probably for at least several years. Where credit card borrowing is available as in the U.S. and Europe many card holders will be borrowing the maximum funds available to them just to purchase food, clothing and shelter. Therefore, once economies begin to recover governments are expected to encourage domestic consumption. Manufacturing productivity has fallen in many countries as factories have been closed and workers furloughed. No economy is immune. For example, the [U.S. macroeconomic data is now showing negative growth](#). U.S. businesses are closed, although some [people are working from home](#). Italy and Spain and even Germany and France are also sinking into recession. With optimistic view, [Germany's economy is expected to shrink](#) 1.9 percent in the first quarter and by 4.2 percent in all of 2020. Almost all regions will suffer double-digit declines in exports and imports in 2020; the WTO is predicting a best case reduction in world trade of 12% and a worst case 32% decline. For instance, Africa, Middle East, and CIS regions could see a [decline in exports in 2020 and beyond](#). [Demand for petroleum products is expected to decline](#) precipitously because of the world-wide recession caused by COVID-19 and the Russian-Saudi Arabian tension over production. [U.S. oil prices crashed](#) below zero for first time in history.

By historical comparison, the epidemics brought about by major infectious diseases including pneumonic plague in India in 1994, SARS in China in 2003, and H1N1 in 2009 suggest that [the economic impact of the epidemic is characterized by a stronger short-term economic downturn](#). Among other factors SARS had relatively little economic impact outside of China and the H1N1. However, [the economic downturn this year will be the most severe since the Great Depression](#) and may require a year or several years for recovery. Fortunately, this time there are better safety nets in the U.S. and EU and the world banking system in most cases in far more secure shape. Recent previous disease outbreaks had only moderate impact in the rest of the world. The three previous epidemics would have a comparable impact on the world economy generally, since the COVID-19 has resulted in a mass shutdown of businesses and manufacturers throughout the U.S. and Europe.

Faced with a public health emergency due to the Coronavirus, a few governments, such as Singapore, Taiwan, and South Korea, have responded promptly and effectively. Some however are only recently beginning to provide substantial funds to counter and control of the spread of the disease, with other financial and economic measures designed to stabilize their economies and employment. These measures have [included tax reduction, subsidies for certain sectors, and lowering interest rates](#). Other measures include shoring up investment in infrastructure projects.

In the short-term, all these fiscal and monetary measures are designed to help absorb the shock and may in some circumstances lead to stabilizing the economy. Even by pouring several trillion dollars into the U.S. economy it will be difficult to offset a situation where most factories, retail stores and restaurants are closed, [22 million or more persons are out of work](#), and many businesses are likely to fail if the shutdown lasts beyond the end of April. Tourism is dead as well as air transport and auto traffic. There is no evidence in either in Europe or the U.S. that financial stimulus is overheating the economy. Rather, it may well be insufficient, and the U.S. administration is implementing [\\$2 trillion relief package](#), the biggest ever in U.S. history.

In the long-term, this crisis is likely to adversely affect virtually all national economies. The path to economic recovery will probably be long and complicated with little certainty that the steps taken will be effective. At the micro level, lifestyles can be changed more toward saving rather spending for those who are fortunate enough to have funds to save, threatening domestic consumption in the medium and perhaps the long term. At very least, major purchases such as autos and expensive travel, and recovery to the 2019 level of total output, may take several years for full recovery, as was the case with the Great Recession in 2008. For business, essential loans may be difficult to obtain, particularly in developing countries, and many [businesses will go bankrupt](#) because they cannot cope with financial losses, leaving their workers unemployed.

The longer- term implications will be significant. [Many countries, particularly the U.S., will seek to diversify their supply lines so they are no longer dependent on handful of countries whether for goods generally,](#)

[pharmaceuticals, services, or petroleum](#). If enterprises do not do so of their own volition the governments may well force them to do so. Policies may be adapted to reform health care systems and educational sectors, or not. Many countries will be encouraged to accelerate the [adoption of industrial and import substitution policies](#), some of which are already in place, despite the fact that such policies may prolong the world-wide reduction in trade and cause poor countries to suffer longer from the effects of the recession.

Industrial policies could include localization targets, i.e., setting advisory or mandatory targets for domestic and international market share that should be held by local technology and production, state funding for industry development - subsidies, tax breaks and other forms of financial support, government procurement favoring domestic suppliers, and [governmental direction of foreign investment and technological imports](#). In the longer term such government interference in the economy does not bode well for the future of the world trading system developed after World War II that in many countries is driven by the decisions of private businesses, and will favor large, rich countries that have sufficient funds to provide extensive subsidies to their industries such as China, the EU and the United States, and where enterprises can obtain the funds to accelerate the replacement of human workers with robots. It also seems likely that there will be [additional trade conflicts between countries, particularly among the U.S., China, the EU and India among others, and within regional groupings such as the EU and NAFTA/USMCA](#).

It also seems likely that weak businesses such as traditional department stores and smaller restaurants in the U.S. will disappear, and those that are currently dominant in the Internet era, such as Amazon, Apple and Walmart, and Huawei in China, will emerge from the pandemic stronger than ever. Many services, including educational services, will move even more rapidly toward delivering their products online. Inefficient manufacturers operating behind high tariff walls such as those in India, Brazil and South Africa will find it even more difficult to compete internationally. A period of “economic Darwinism” may well follow the bringing of COVID-19 under control through new treatments and a vaccine, although that could require a year or more.

Of course, the accuracy of these depressing estimates is anyone's guess, but

considering recent experiences and past history as to how countries seek to recover after ultimately defeating a pandemic it is virtually certain that whatever the changes most world economies will never look the same.

David A. Gantz is Samuel M. Fegtly Professor Emeritus, University of Arizona College of Law and Will Clayton Fellow for Trade and International Economics at Center for the United States and Mexico/Baker Institute. Bashar H. Malkawi is Director of Knowledge Management at H.H. Dubai's Ruler Court, Government of Dubai Legal Affairs Department. Bashar holds LLM from University of Arizona and SJD from American University, Washington College of Law.

View online: [Short and Fast or Long and Slow? The Economic Impact of the Coronavirus](#)

Provided by Afronomicslaw