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IMPACT OF THE CORONAVIRUS PANDEMIC ON GLOBALIZATION PROCESSES

Abstract: The article focuses on the impact of the economic crisis caused by the coronavirus pandemic on globalization processes. Analysis of the state of the trade, financial and migration sectors of the international economy provides an understanding of reality and a conscious idea of the further development of globalization. The article also analyzes various approaches and opinions on the presented problems, and also reveals the forecasts of experts.

Keywords: globalization, pandemic, coronavirus, COVID-19

Non MeSH: crisis, forecast

Today, a relevant topic of discussion among leading economists, politicians, sociologists and culturologists is the impact of the coronavirus pandemic on economic, political, social processes around the world, including on the processes of globalization.

A large number of articles, opinions and comments of experts can be broadly divided into two groups. Some argue that the pandemic has reduced, almost minimized, the pace of development of globalization, and predict a future in which the impact of globalization processes will be almost negligible. "The feeling of the crisis of the world of globalization was formed back in 2019 among too many people to be just self-deception. The system of globalization, which seemed to be quite stable, collapsed quickly, almost instantly (the curtailment of international trade and global air travel happened in just a month) and from a relatively small push." [1]

Others are still of the opinion that the presence of barriers caused by the coronavirus pandemic is only a temporary difficulty that will be eliminated in the near future. "Everyone is burying globalization today, they said that the pandemic has dealt a

terrible blow to globalization. In a sense, yes, but also in a sense, no. Because, if we talk about the leap into virtuality, then globalization in virtual space - what we have today - has become even more intense. Today we will simply have some other formats, other guidelines for globalization processes". [2]

One way or another, each of these opinions is based on concrete facts, and it cannot be denied that the current global threat has dramatically slowed down most of the globalization processes. And their restoration, without the necessary creation and distribution of effective medication against coronavirus infection, may drag on for an indefinite period.

At the moment, many countries are still pursuing a policy of "closed borders", which greatly affects labor migration, tourist flows, national and cultural relations and scientific cooperation. Any industry based on social interaction is now undergoing a serious crisis. The demand for travel services fell by 70%, the losses of large air companies almost reach 113 billion dollars; the international film industry has losses of 5 billion dollars. In addition, the slowdown in the pace of production activity in various sectors of the economy has a detrimental effect on the import and export of goods on the global market. According to OECD data, one month of quarantine reduces annual GDP by 2%. [3]

If we assume the possibility of the end of the pandemic in the spring of 2021 and the high efficiency of all measures to restore the economic activity of countries, then the state of external relations and many economically important sectors will return to its previous level no earlier than in 3 years. [4]

To assess the future of economic globalization and the impact of the coronavirus pandemic on it, it is necessary to analyze the following segments of the international economy: trade, investment, tourism and migration. The first segment, trade, can be characterized by various indicators, including the share of exports and GDP. Looking into the recent past, the consequences of the financial and economic crisis of 2008-2009 slowed down the dynamics of world GDP and exports.



Figure 1 - Dynamics of GDP and trade in goods and services in the global economy, %
 Y axis = Growth rate, %
 X axis = GDP; Trade in goods and services

Today, many experts agree that the crisis caused by the coronavirus pandemic will be deeper. According to the IMF's October forecast, the decline in global GDP could be 5.8%. The deepest fall is still expected in Italy and Spain - and if the estimate of the fall for the former is 10.6%, then in Spain it will vary at 12.8%. In France, the decline in 2020 will be 9.8%, and the UK's GDP will fall in 2020, according to the fund, by 9.8%. [5] In its final report, the fund predicts negative GDP growth rates for 170 countries. [6]

Today there are two options for the development of the world economy. The base case predicts a 5.2% reduction in global GDP in 2020, and an increase of 4.2% in 2021. The downturn scenario would imply an 8% cut in global GDP growth at the end of this year. Such a serious gap in projected indicators is due to the distinctive feature of the current crisis - its uncertainty. This is due to the introduction of new restrictions and forecasts for the extension of the pandemic for an indefinite period. A similar trend is observed in the indicator of exports of goods and services, which is predicted to decline by 12% in 2020. The recovery in global trade compared to 2009 will also be much slower. According to the final forecasts, it is expected that the coronavirus infection can slow down the sale of at least half of the goods and services. At the end of the second quarter of 2020, 80 countries and individual customs territories introduced bans or restrictions on the export of goods. [3] Most of the restrictions are positioned as temporary measures that will be weakened in connection with the development of the situation. Also, negative dynamics is observed in the state of oil and gas prices. [7]

However, the dynamics of the development of the service sector differs from the dynamics of the development of the sales of goods. The negative impact of the pandemic on some types of services (education, passenger transportation, hotel services, restaurants, etc.) will be more significant, while the impact of the pandemic on other types of services (telecommunications, computer, insurance, financial, etc.) will be limited. This is because most of these services can be delivered online and are therefore more resistant to any kind of social distancing. Even after the new threats of the coronavirus are neutralized, people will remain in the habit of using this method of receiving services.



Figure 2 - Dependence of the depth of the economic crisis on the share of services in the economy

Y axis = Forecast of GDP dynamics in 2020, %

X axis = Share of the service sector in GDP, %

Orange dot = Peak coronavirus cases per 100,000 inhabitants

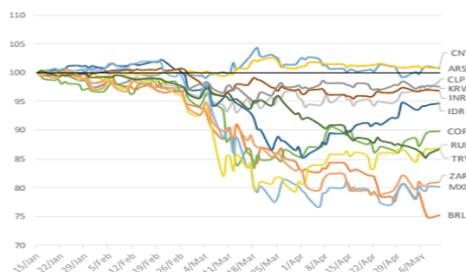
China - 4; Republic of Korea - 13; Russia - 160; Japan - 15; India - 95; Brazil - 310;

EU countries - 300; Great Britain - 410; USA - 270

The global economic shock from COVID-19 has led to many different consequences, in particular to unprecedented capital outflows from emerging market economies caused by the sale of portfolio assets by foreign investors. The scale and rate of capital outflow during the current crisis has been about four times higher than the indicators of the 2008 financial crisis. Against this backdrop, special foreign exchange measures have become an important part of the policy toolkit in emerging market economies. Countries will continue to review and adjust their support measures, including taking into account the experience of other countries in this area. Since market fragmentation can make it difficult to raise funds, countries are very interested in working with each other to find the most appropriate instruments to overcome the crisis, and here international cooperation will play a key role. [8]

Рис. 1. Обменные курсы валют в выбранных странах с развивающейся рыночной экономикой (январь–май 2020 г.)

Figure 1. Exchange rates – Selected emerging market economies, Jan-May 2020



Note: Nominal effective exchange rate (broad index), rebased at 15 Jan 2020=100. An increase indicates an appreciation of the economy's currency against a broad basket of currencies.
Source: BIS, OECD calculations.

Рис. 2. Обменные курсы валют в выбранных странах с развитой экономикой (январь–май 2020 г.)

Figure 2. Exchange rates – Selected advanced economies, Jan-May 2020



Note: Nominal effective exchange rate (broad index), rebased at 15 Jan 2020=100. An increase indicates an appreciation of the economy's currency against a broad basket of currencies.
Source: BIS, OECD calculations.

Figure 3 - Dynamics of exchange rates

Amid the pandemic and the global economic crisis, there was a sharp depreciation of currencies, which was caused by the collapse of oil prices. The exchange rates of Brazil, Mexico, Russia, South Africa, Turkey, Indonesia were particularly affected. During the period from late February to mid-late March 2020, the pace of currency devaluation accelerated. The currencies of developed countries have generally strengthened over this period, especially the United States, Japan, Europe, Switzerland, and after a noticeable fall in the first half of March, the Canadian and Australian dollars rose. [8]

Since March 2020, many countries have seen a decline in cross-border portfolio investment. One of the features of the coronavirus crisis is large-scale and dynamic capital flight. This is due to the widespread trend of the withdrawal of portfolio investments by international investors from countries with risky financial positions in the market to countries with safer assets. The COVID-19 crisis brought about a dramatic change in profit and earnings for companies after several years of growing corporate debt and leveraging. In addition, much of the increase in debt poses additional risks as short-term debt servicing difficulties associated with a lack of liquidity lead to insolvency over time. Corporations face additional risks in the context of significant currency depreciation. Among such risks, one can single out an increase in expenses for investors, the sale of shares, an investor's departure from the market, which is the main prerequisite for stopping the inflow of portfolio investment and their redistribution. Since the response is in direct proportion to the economic situation prior to the crisis, countries have responded to this situation in different ways.

Many states used fiscal and monetary policies to stimulate the inflow of portfolio investments, in particular, they organized loosening of monetary control, offe-

red credit guarantees, purchased assets, stimulated liquidity in US dollars, etc. Protection of the national currency and the preservation of foreign exchange liquidity in a crisis of this magnitude is carried out with the help of the country's foreign exchange reserves.

For example, the Central Bank of Chile expanded by 20 billion dollars and extended the foreign exchange control program, which began in November 2019, until 2021. Brazil has intervened in the spot forex and derivatives markets to support the Brazilian real (BRL), which has depreciated 15% since mid-February 2020. Brazil's foreign exchange intervention amounted to 23 billion US dollars, which corresponds to 6.4% of Brazil's gross reserves as of April 2020. Bank of Indonesia intervened triple to stabilize the depreciation of the Indonesian rupee (IDR) in the spot and domestic foreign exchange markets, as well as in the domestic government bond market. The Central Bank of Russia used several instruments to sell foreign currency in accordance with the tax rule: from March 10 to May 28, 2020, cumulative sales of foreign currency in accordance with the tax rule amounted to 9.7 billion US dollars. India, Mexico, Peru also undertook foreign exchange interventions. [8] Thanks to the reserves and funding needs accumulated over the years, many states are able to use international reserves for their own purposes to overcome the crisis. [9]

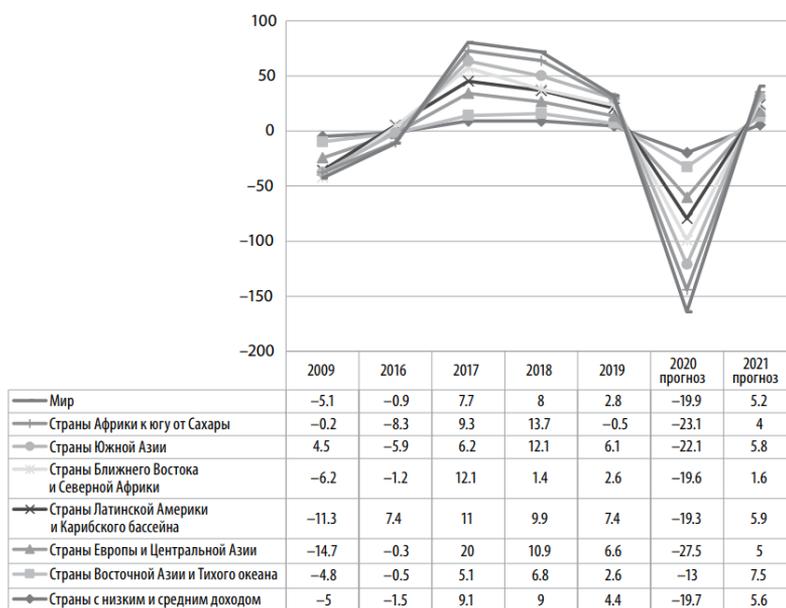


Figure 4 - Growth rates of cross-border remittances in %
 Top to bottom: World; Sub-Saharan African countries; South Asian countries; Near Eastern and Northern African countries; Latin American and Caribbean countries; European and Central Asian countries; Eastern Asian and Pacific Ocean countries; Countries with low and middle income

The World Bank projects that foreign portfolio investment in low-middle-income countries will decline by 80% in 2020. At the same time, one can expect an increase in interstate portfolio investments in debt securities, including those issued within the framework of special programs for large-scale additional financing during a new crisis (USA, EU). The flows of official international loans will also increase. For example, the IMF received an unprecedented number of emergency financing requests from more than 90 countries and agreed to double the demand for financial assistance in the amount of about 100 billion dollars. However, cross-border remittances, which play a critical role in the economies of many poor developing countries, remittances by 19.7% - from 714 billion dollars in 2019 to 572 billion dollars in 2020 (Fig. 4), the bulk of this decrease will be in low and middle income countries - from 554 billion to 445 billion dollars, respectively. [3]

It is no secret that cross-border population flows play a huge role in the progress of globalization. High migration and tourist flows are provided thanks to the effective visa policy of states and the financial situation of the population. Until recently, tourism was one of the fastest growing sectors of the world economy. However, the impact of coronavirus infection has brought this direction into a state of extreme decline. Back in 2018, the entire tourism sector of the world accounted for about 10% of jobs of the total employment of the population (approximately 319 million jobs). With the introduction of anti-Covid restrictions, the entire tourism sector of the world economy practically ceased to function. Travel restrictions, border closures, and flight cancellations have all had a detrimental effect on the demand and supply of travel services. According to the ILO analysis, the tourism sector loses about 1 billion euros in revenue every month, which is due to a large decrease in tourist traffic from the USA, Japan, China and an almost complete stop of domestic tourism. Since the beginning of the 21st century, international migration has shown a constant increase in rates. From 2001 to 2019 the number of migrants increased from 173 million to 272 million, most of whom were labor resources. However, the increase in the share of international migrants has been marginal. [3]

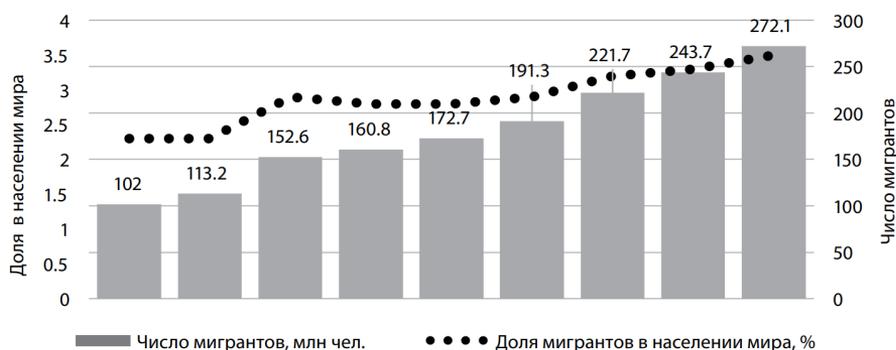


Figure 5 - Dynamics of international migration in 1980-2019

Y axis = Share of world population (left); Number of migrants (right)

X axis = Number of migrants, in millions; Share of migrants in world population, %

According to the ILO, in the next few years, the consequences of the coronavirus will have a significant impact on labor migration. If the forecast is favorable, the unemployment rate will rise to 7 million people, but in the worst-case scenario, the unemployment rate will be 36 million people. Together with restrictions on the movement of citizens, this problem of unemployment will help reduce the flow of labor migrants in the near future. At the same time, it is the tourism sector and migration that have repeatedly demonstrated their ability to recover quickly. These areas can play an important role in the recovery of the global economy after the crisis is over. [10]

Based on all of the above, it can be concluded that the global economic crisis caused by the coronavirus pandemic is having a serious impact on today's globalization and the prospects for its further development. Having analyzed the current forecasts, we can safely say that at the beginning of 2021, an increase in unfavorable trends can be expected, but changes for the better are possible soon. Negative forecasts are associated with a prolonged recovery of the economies of developed countries, as well as complications in the development of vaccination against COVID-19. At the same time, the information sphere showed a high degree of stability, the relevance of which increased several times during the entire crisis. Therefore, large-scale development of fourth-generation technologies and modernization of the global economy are expected in the near future.

Summary

В статье основное внимание уделено влиянию экономического кризиса, вызванного пандемией коронавирусной инфекции, на глобализационные процессы. Анализ состояния торгового, финансового и миграционного секторов международной экономики дает общее понимание действительности и осознанное представление о дальнейшем развитии глобализации. В статье также анализируются различные подходы и мнение на представленную проблематику, а также раскрываются прогнозы экспертов.

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