

# SOME ASPECTS REGARDING THE IMPACT OF COVID-19 AT THE MACROECONOMIC LEVEL AND AT THE LEVEL OF MULTINATIONAL COMPANIES

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## **Abstract:**

*The world economy is affected by the spread of Covid-19 and by the measures taken to prevent the spread of the disease. The effects will be felt in terms of prices, supply and demand, living standards, international trade, labor market, the budget and external deficit, transport, supply chains, tourism, etc. The analysis shows that companies will simultaneously face challenges due to supply and demand disruptions, but also of a different nature. Covid-19 brought about the readjustment of the companies' business models. Thus, the restrictions imposed have increased the importance of online commerce. Covid-19 could drag along the construction of quasi-independent regional production chains, leading to a shortening of supply chains, favoring the strategic use of stocks and a new approach to risks.*

**Keywords:** forecasts, changes, effects, companies, supply chains

**JEL classification:** D20, E30, F23

## **Introduction**

Covid-19 has brought into the world an unprecedented challenge. The effects on the economy are not due to economic causes, but are generated by the measures taken by national governments for medical reasons to prevent the spread of a disease. These measures consisted in the (temporary) closure of some companies (which led to the stop of the production); in restricting the movement of people and goods (with consequences in the direction of disruption of supply chains). The likely effects are the slowdown of national economies and of the global economy, through contractions in production, in household spending, in investment and in international trade (European Commission, 2020). In March 2020, the sectors the most affected were health, tourism and transport, especially air transport (European Commission, 2020).

## **Some effects in the economy of the measures taken in the context of Covid-19**

Given the high probability of the hypothesis that the spread of Covid-19 will generate an economic crisis in the world economy, and that the measures adopted in response to Covid-19 will cause problems of sovereign debt default and financial contagion, The Economist Intelligence Unit (2020) considers a few scenarios. Thus, a very likely scenario is a fracture in the world economy as a result of a trade war between the US and China. Another scenario with a high probability of occurrence concerns the effects on the world trade caused by the definitive return of open economies to anti-globalization policies. The last scenario, which has a low probability of emergence according to The Economist Intelligence Unit (2020), is for the world economy to recover quickly, in the context in which Covid-19 is proving to be less harmful than expected.

The European Commission (2020) estimates that the European economy will be affected by Covid-19 through several transmission channels, namely: *the shock resulting from China's initial contraction* in the first quarter of 2020; *the shock of supply* in the European economy as well in the global economy as a result of disruption in supply chains and people missing from work; *the*

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*demand shock* that affected the European and global economy, caused by declining consumer demand (amid diminished household income as a result of measures taken to prevent the spread of Covid-19); the negative impact of uncertainty on investment plans and the impact of liquidity shortages on enterprises.

In addition, according to an analysis of the European Commission (2020), the measures taken in the context of Covid-19 will affect trade in the sense of reducing trade flows, as a result of declining economic activity.

Measures taken to prevent the spread of Covid-19 have led to a halt in production, would probably cause recession, have negatively affected the labor market (through unemployment), but have also caused the fall in the prices of some products such as oil or metals. (Roubini, 2020).

Roubini (2020) considers that the measures adopted in the context of Covid-19 hasten a trend of fragmentation that was already noticeable. Thus, most countries will react to the newly created situation by adopting more protectionist measures meant to protect their companies and employees from global collapse. And the post- Covid-19 world will be marked by the restriction of the freedom of movement of goods, services, capital, labor force, technology, information. This is already happening in the pharmaceutical, food and medical equipment sectors, where governments have imposed export restrictions and other protectionist measures.

Given that it occurs exceptional expenditures for financing public health and healthcare systems, as well as for providing social and fiscal support, there will probably be a massive increase in fiscal deficits - of 10% of GDP or more - at a moment when the debt level is already high (Roubini, 2020). The increase of the budget deficit leads, according to the twin deficits theory, to the increase of the external deficit (Cerna, 2018).

All these make deflation very likely and increase the risk of insolvency.

Roubini (2020) estimates that as central banks will try to fight deflation and prevent interest rate hikes (due to high debt accumulation), monetary policies will become increasingly unconventional. In the short term, governments will have monetized fiscal deficits to avoid deflation. But later, the negative shock of the break of supply chains, as a result of protectionism, will make inevitable the increase of inflation and unemployment (stagflation). These will lead to the devaluation of the national currency.

Trade in services can be the component of world trade the most directly affected by Covid-19 due to the transport and travel restrictions and to the closure of many hotels, restaurants, etc. Unlike goods, services cannot be stored; trade in services not carried out during the restrictions period could be lost forever. However, some services may benefit from the crisis created. This is the case of information technology services, whose demand has increased significantly because companies have allowed employees to work from home, as well as due to the fact that people socialize from distance.

Thus, Covid-19 has a significant impact on transport, and implicitly on the European supply chains. The discontinuance in the flow of goods can lead to serious economic damage. Air supply chains have been almost completely disrupted. Supply chains by land have been severely affected by the introduction of bans on entry at land borders or by restrictions on drivers heading to certain Member States. This affected all goods, but especially essential supplies and perishable goods, and as most companies in this sector are SMEs, the effects have been prompt and severe.

The tourism industry in the European Union has been and continues to be affected by the considerable reduction in the number of international arrivals (cancellations and decreases in the number of bookings), as well as by the slowdown in national and intra-EU travel, due to the reluctance of EU citizens to travel, and to prevention measures adopted at national and / or regional level. SMEs in this sector are particularly affected by this general decline in travel for tourism or business purposes. The trade fairs and congresses sector is also affected, with more than 220 events being cancelled or postponed in Europe for the first quarter of 2020. Other related sectors, such as food services, as well as education and cultural activities have been and continue to be, also under increasing pressure due to the Covid-19 and to the efforts to limit its spread.

According to prognosis, the Covid-19 crisis will have a significant negative economic impact on the EU and the euro area. It is estimated that the direct impact, through all channels, will reduce real GDP growth in 2020 by 2.5 percentage points compared to the scenario where there was no pandemic, i.e. there would be a decrease of around 1% of GDP in 2020, with a substantial but not complete recovery in 2021.

However, some of the direct effects of measures meant to combat the spread of Covid-19 can be offset in 2020 by prompt and effective policy action, which could mitigate the negative impact on real GDP. However, policy measures will not be able to protect EU from the negative effects of the crisis in China and only to a limited extent - or not at all - from the effects of supply-side shocks on labor. However, these measures can play an important part in mitigating the negative impact of declining consumer demand and on companies facing liquidity problems.

A strong recovery is more likely if policymakers send signals that Covid-19 was a temporary, single economic shock. In this case, spending on capital and consumer goods will resume at levels close to those before the disease. On the other hand, if the pandemic is prolonged and / or uncertainty becomes widespread, households and economic agents are likely to spend more cautiously.

The longer the restrictive measures remain in place, the longer the period of economic damage, and the greater the reduction in permanent capacity. (UNCTAD, 2020).

For a speedy and vigorous recovery, fiscal, monetary and trade policy measures must converge.

### **Some effects of the measures adopted in the context of Covid-19 at the level of multinational companies**

According to The Economist Intelligence Unit (2020), the world economy will see a sharper decline in output than after the global financial crisis of 2007-2008. A slow recovery will follow, which means that demand for a range of goods and services will be significantly diminished in 2020. As a result, companies will simultaneously face challenges due to disturbances in both supply and demand. In addition, due to supply disruptions in many sectors, it is possible for multinationals to face challenges related to delivery, procurement, but also other challenges. Scenario planning techniques will become very important as firms try to limit the impact on their supply chains, and to deliver goods when consumption is higher. Strategic planning of future activities is necessary because it offers new opportunities for many companies to reach new customers, which they could not reach in the conditions before Covid-19.

Covid-19 has brought about the accommodation of the companies' business models. This is the case of restaurants, which, in many countries, unable to function as before the disease, have developed their delivery options in order to attract more customers. Another example is consumer goods companies that have faced the closure of physical stores all around the world. As a result, they have developed their online activities to attract customers and maintain / increase sales. Thus, the restrictions imposed as a result of Covid-19 (social distancing, restrictions on leaving home, etc.) have led to an increase in the importance of online trade (especially for medical, food and household products) and the development of online presence of companies in order to maintain the relationships with customer.

The Economist Intelligence Unit (2020) argues that consumer habits built up in 2020 will be perpetuated, and companies will need to develop more their online trading platforms, and to find new channels for selling their goods, and efficient methods of delivering products.

However, online trade in goods and services has also been negatively impacted by the same factors that have disrupted physical supply and demand (closure of factories, which has led to a decline in production in many countries; the introduction of new health regulations on international transport and logistics services, which have severely disrupted most international means of transport). Negative effects include delays in delivery or total cancellation of orders. New challenges related to online trade have emerged, others have been amplified during this disease. These include online consumer protection: price gouging (increasing prices to unreasonably high levels), product safety concerns, deceptive practices, cybersecurity issues, the need to increase bandwidth and development-related concerns (WTO, 2020). Other challenges relate to collect and

share, at the international level, of pertinent information and data allowing to determine the risks involved in each transaction, including with respect to sanitary and phytosanitary, and technical barriers to trade.

Governments have adopted new measures, and the private sector has also acted to ensure that e-commerce can help to alleviate some of the challenges faced in fighting the disease (for example, increasing network capacity, offering expanded data services at low or no cost, lowering or eliminating transaction costs on digital payments and mobile money transfers, improving delivery services and other logistics).

According to The Economist Intelligence Unit (2020), the digitization of distribution chains will increase. This trend faces some challenges, including the existence of different operating systems in each country and customs controls based on documents in physical form. The provision of data by suppliers along the chain is necessary for visibility, but it will raise issues of privacy and competition.

In this context, it has been highlighted the need to diminish the digital divide, both within and across countries, given the central role that digital economy has played during the crisis. In order to support greater participation in e-commerce activities of small producers, sellers and consumers in developing countries, and in least-developed countries, it has arisen the need for efficient and affordable information and communications technology services, such as telecommunication, computer and other IT services. These include access to online payment solutions, reliable internet and electricity connections, visibility in online searches, advertising and sales platforms, the prohibitive costs of trading across borders, and the difficulties in gaining consumer trust.

## **Covid-19 and global supply chains**

Covid-19 can lead to the relocation of Chinese production to other Asian countries (The Economist Intelligence Unit, 2020) and the build-up of quasi-independent regional production chains in America and Europe, i.e. shortening of supply chains could take place, favoring strategic use of stocks and a new approach to risks.

Moreover, companies in the consumer goods sector (especially small and medium size) will be able to join regional supply chains.

The build-up of regional supply chains will provide coverage against future shocks for multinational companies. Thus, they will have the possibility to move the production of key components from one region to another, as factory blockages and closures occur, for example as a result of coronavirus. Production chains are difficult to create and even harder to move, especially in the automotive sector.

Another important decision of the multinationals affected by Covid-19 concerns the production schedule and the assembly of products along the production chain, as well as the storage of intermediate or final goods throughout this process. For efficiency, multinationals tend to optimize the logistics process of production chains in order to minimize storage costs. However, in a world where uncertainty and risk are constantly rising, focusing only on transport and production efficiency will leave companies vulnerable to shocks. In the current crisis, companies are giving more importance to storing stocks in strategic locations, which can be easily accessed, and from where products can be delivered to customers. This approach applies to final goods, but also to strategically important components, such as those that can be supplied only from a market.

Maintaining a strategic stock of final goods and critical components has helped some companies to cope with the effects of Covid-19. Although the practice of maintaining strategic stocks may diminish over time, the need to monitor the strength of the production chain to shocks and maintain storage flexibility is an issue of the production chain management that will continue.

Companies will also need to think strategically about pricing policy. Both the regionalization of supply chains and the creation of strategic stocks will lead to the increase of the final prices of goods, reducing the competitiveness of products. On the other hand, a more regionalized supply chain will give companies the opportunity to focus more on local tastes amid a greater capacity to

differentiate products. In the medium term, this can offer companies the opportunity to set higher prices for their products, perhaps offsetting the increased production costs due to regionalizing supply chains and holding larger stocks.

According to The Economist Intelligence Unit (2020), the insecurity in the global economy makes companies to pay more attention to preventing the materialization of risks.

Some of the challenges that Covid-19 has brought and need urgent solutions could be addressed through the implementation of the Trade Facilitation Agreement, which came into force in 2017. It has several provisions that promote the adoption of improved export, import and transit procedures. For example, the Agreement includes provisions such as:

- allow for the advance lodging of documents in electronic format in order to allow for the pre-arrival processing of such documents
- allow for the electronic payment of duties, taxes, fees and charges collected by customs for imports and exports
- provide for a minimum shipment value or dutiable amount for which customs duties and taxes will not be collected; in certain members, this also extends to the VAT and other internal taxes.

## Conclusions

The measures taken to prevent the spread of Covid-19 (i.e. stopping production) may cause recession, and may affect negatively the labor market (through unemployment), but have also caused the collapse of the price of some products such as oil or metals, and have caused the decrease of trade flows as a result of declining economic activity.

Trade in services has been affected by Covid-19 by imposing transport and travel restrictions and by closing many hotels, restaurants, etc. Unlike goods, services cannot be stored; trade in services not carried out during the restrictions period has been lost forever (e.g. transport, tourism). However, some services have benefited from the crisis. This is the case of information technology services, whose demand has increased significantly.

Covid-19 has brought about the adaptation of the companies' business models. Thus, the restrictions imposed (social distancing, restrictions to leave home, etc.) have led to an increase in the importance of e-commerce, highlighting the fact that it can be an important tool / solution for consumers. E-commerce can support small businesses and it can be an economic driver for both domestic growth and international trade.

The measures taken in the context of Covid-19 could lead to the build-up of quasi-independent regional production chains, inducing the shortening of supply chains, favoring the strategic use of stocks and a new approach to risks (due to the insecurity in the global economy), with effects on costs, and implicitly on prices, but also on the logistics process.

Strategic planning of future activities is necessary because it offers new opportunities to reach new customers.

The full effect of COVID-19 on global value chains will become clearer in the coming months.

The longer the restrictive measures remain in place, the longer the period of economic damage.

In the future, the degree of fulfillment of the negative outlook will depend on the supply of critical raw materials, on the effectiveness of measures meant to limit the spread of the virus, on the periods of production pause, on the number of lost working days in companies and public administrations, and on the effects on demand (e.g. mobility restrictions, travel cancellations).

For a speedy and vigorous recovery, fiscal, monetary and trade policy measures must converge.

Finally, we can say that the current situation is rapidly evolving, and suggestions may become outdated at the same pace as the development of the conditions caused by Covid-19.

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