

Potential Impact of COVID-19 on International Business

by **Md. Israr Hassan Khan**, *Professor & Head,*
P.G. Centre of Commerce,

Sri Arvind Mahila College, Patna-800004, India

&

Smita Vaidehi, *Assistant Professor,*
Department of Commerce,

Ramkrishna Dwarika Mahavidyalaya, Patna-800020, India

Email : smitavaidehi7@gmail.com

Abstract :

The world economy is largely impacted due to COVID-19 crisis. International business is brought to a standstill in the times of this multi-layered pandemic with severe effects on demand, supply, investments, capital flows, falling commodity prices, exchange rates and supply chains. The estimated output loss in 2020-2021 has been approximately 9 trillion dollars with advanced nations suffering more than emerging economies. Market vs. State debate has revived again with globalization reinventing itself with new faces. Rebalancing between global and national autonomy is happening at a fast pace. Fault lines in multilateralism have appeared recently in handling this situation.

The paper presents a theoretical mapping of the likely macroeconomic impacts of the pandemic and how the world will cope with this economic crisis. The potential economic impacts of this crisis is the point of study with special

focus on the how the global economy will reboot through various measures from global collaborations to global vs. local preferences. Role of international institutions will be immense in handling and re-establishing the world economic order. National government leaderships across the world will have to play a proactive role in encouraging and developing competencies and encouraging investments. State intervention in healthcare and other prime sectors is needed more than ever to maintain resilience and recover economically, environmentally and psychologically from this pandemic in the near future.

Keywords : international business; global collaborations; market vs. state; international institutions; national government leadership

I. Introduction :

The pandemic which has brought the world to a standstill started in December 2019 in China. China is the second largest economy after the United States of America and one-third of the manufacturing happens in China. The crisis is no doubt a multi-layered crisis touching all the aspects of life. The economic aspect is severely affected with huge impacts like shrinking demand, falling prices, reversal of capital flows, reduced investments and supply chain reversals. The ripple effect has been felt across the globe by way of huge loss of jobs, output losses, stock markets hitting the red zones and worst affected sectors being retailing, tourism, hospitality and entertainment sector which together account for 30 percent of the gr as per International Labour Organisation. The estimated output loss has been estimated to be 9\$ trillion losses. The Belief that markets are perfect has been shattered and state's role has been revived. Market vs. State debate is revived in these scenarios. The forces of market complemented with Govt. interventions can be the panacea to sustain these crisis situations. Also, the role of international institutions should be reinvented. As per the International Labour Organization, 1.6 billion people worldwide in informal sector are affected by the lockdown. This is sure to create misery and loss of livelihood related ill effects on the individuals and society as a whole.

This paper aims to do a theoretical mapping on how the global economy will reboot itself and a sound global order would be re-established. This paper attempts to quantify the losses and aims to give way forwards to policy makers to deal with the problem areas. How The Indian Government can act as a shock absorber and

create infrastructural measures is also discussed. It summarises the trends and focuses on the measures to be taken on global levels to ensure resurgence of the economy and the international business. The literature review reveals that the impact of the pandemic on various topics has just begun. Given this lack of broader research and systematic academic study on the impact of the pandemic on the global macro-economy, this paper is expected to fill an important research gap and thus make an important contribution to the existing scant literature on this highly important topic.

II. Literature Review :

Since this is a relatively new and evolving crisis, there is not much current literature available yet to review on this topic area. Only handful of studies can be reviewed and reported here; as such, the scope and volume of the review will not be that extensive.

Romer and Garber (2020), in an opinion article, took a critical look at the current policy of lockdowns and social distancing that may have a damaging effect on the economy if continued for a longer-term. They argued instead for an alternative strategy of opening the economy with widespread testing along with increased production and use of protective equipment's so as to allow for economy to move on. Ali (2019) examined the impact of the Covid-19 pandemic focussing on Bangladesh in a descriptive way. The author argued for a better cooperation among countries at the world stage to work together to combat the pandemic. Morrison (2020) examines how globalisation and China's rise at the global stage has resulted in the rapid spread of the Covid-19 virus and thus disrupting the global supply chain. He argues that the world community needs to think about sustainable globalisation in the face of this crisis. Ali, Islam, Anisul, and Wise (2011) discuss the severity of the 2007-2009 global financial and economic crises along with various international business implications. Some implications from that study can be relevant for this pandemic situation as well. The current pandemic is expected to have similar or even more sever effects on the global economy as discussed in this paper in the empirical section. In an IMF blog, the IMF Chief Economist Gita Gopinath writes that the Global Lockdown is playing out in ways that are very different from past crises (Gopinath, 2020). These unusual characteristics are emerging all over the world, irrespective of the size, geographic region, or production structure of the

economies. Andersen, Hansen, Johannesen, and Sherdian (2020) examine the impact of Covid-19 pandemic and the accompanying social distancing measures on consumer spending in Scandinavia. More specifically, the paper tried to disentangle the effects of the virus and the laws aiming to contain it for two countries, Denmark and Sweden. The comparison of the effects of pandemic on these two countries provided an interesting case study. While both countries were similarly exposed to the pandemic but only Denmark imposed significant restrictions on social and economic activities but not Sweden.

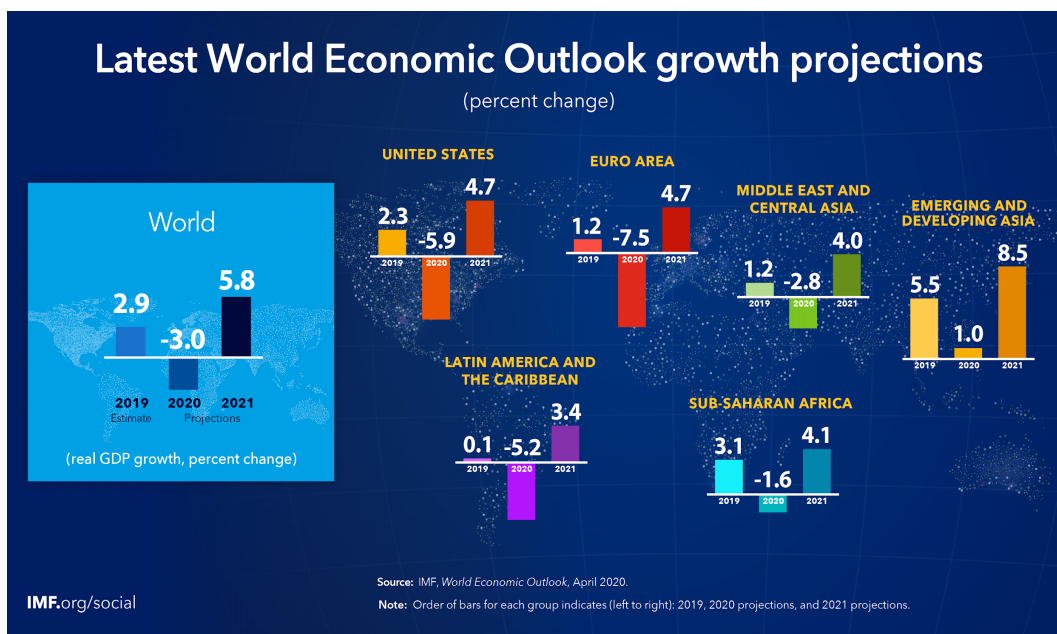
At a macro level, Chien and Bennett (2020) make some preliminary comments about the estimates for GDP decline for the U.S., Italy, and China due to the Covid-19 Pandemic. These estimates show large decline in real GDP growth rates in the post-Covid-19 period. Taking a more pessimistic view, based on historical experiences of the past pandemics, Jorda, Singh, and Taylor (2020a) predicted that the economic hangover of the Covid-19 pandemic would most likely last for generations. In a different article, the same authors, Jorda, Singh and Taylor (2020b) discusses the long-run consequences of the pandemic and how it differs from other economic disasters. They measured the long-run effects by the rate of return on assets and examined the trend of this variable over a long-time span and concluded that the long-run effects persist for decades unlike effects of other disasters such as wars. Fang, Wang and Yang (2020) examine the impact of human mobility restrictions, particularly the lockdown of the city of Wuhan, China dated January 23, 2020, on the containment and delay of the spread of the Covid-19 virus. They report that Wuhan lockdown reduced mobility significantly with reduction of inflow into Wuhan by 76.64%, outflows from Wuhan by 56.35%, and within Wuhan movements by 54.15%. They found that these reductions have reduced the total infection rate and the spread of the virus into other nearby and other cities outside of Wuhan. The authors find that the COVID-19 cases would be 64.81% higher in the 347 Chinese cities outside Hubei province and 52.64% higher in the 16 non-Wuhan cities inside Hubei, in the counterfactual world in which the city of Wuhan were not locked down from January 23, 2020. They also find that the enhanced social distancing policies in the 63 Chinese cities outside Hubei province were effective in reducing the overall spread of the disease. Kaur (2020a, 2020b) examined some interesting options for business in the face of various possible uncertainties and challenges for business organisations and how best to navigate through

such uncertainties. We suggested that Organisations at the forefront of the crisis must make headway from the usual known risk environment towards the current uncertainty of ‘unknown unknowns’ in terms of creating what we described as knowledge-based dynamic capabilities to survive during the crisis and create a sustainable future. As part of the McKinsey Report (2020), Smit, Hart, Lund, Greenberg, and Govindarajan (2020) discusses the impact of Covid-19 pandemic on the economies of some advanced countries with focus on some alternative scenarios about the path to recovery from the pandemic for China, the U.S., the Eurozone, and the world. The 192 A.M. ISLAM report also discusses on how to deal with the crisis in an effective way keeping in mind the possible dilemma between saving lives versus livelihoods. The report argues for trying to achieve both goals with effective policies. Very recently, the Journal of Business Research published a special edition on the impact of Covid-19 pandemic on that was edited by Donthu and Gustafsson (2020). This issue contains several short articles, each focussing on different aspects of business and management. For example, Kirk and Rifkin (2020) discuss changing consumer behaviour patterns in response to the pandemic with implications for future marketing research. Sigala (2020) examines impact of the Covid-19 pandemic on travel and tourism industry, the industry that got very hard hit by it. Woodside (2020) discusses the lessons learned from public interventions as experiments that can be utilised to design more effective marketing campaigns. In their article, Sharma, Adkikari and Borah (2020) offer strategic insights about some critical issues many firms are facing in dealing with the pandemic such as demand-supply mismatch, technology issues, and development of resilient supply chains, among others. Sharma, Borah and Moses (2020) discuss what drives country responses to COVID-19 using the organisational learning theory as the backdrop. They find that centralised governance positively affects reactive strategies, while healthcare infrastructure and learning from past pandemics positively influence proactive and reactive strategies. Krishnamurthy (2020) discusses the impact of the Covid-19 pandemic on business education and how it may change in the future with technological advances and other behavioural and social changes.

III. Methodology :

This paper analyses and compares the data released by the International Monetary Fund and other reports by the renowned institutions. This crisis is

supposed to be worse than the Global Financial Crisis of 2008. The statistical analyses of growth rates have been studied. The report by the International Monetary Fund predicts that the world GDP is to contract by 3 percent.

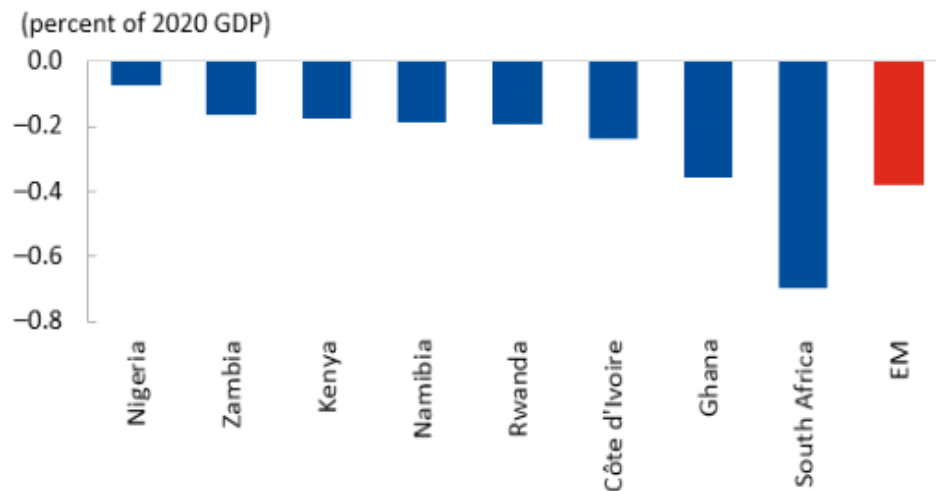


The above figure 1 published by the World Economic Outlook report of the International Monetary Fund shows that in 2020 the world real GDP growth is to contract by 3 percent. Various countries and areas are going to experience reduced growth levels. The figure gives an analysis of the United States, the Euro areas, the Middle East nations, Latin American areas along with the Sub-Saharan Africa. The analysis years have been chosen as 2019, 2020 and 2021. The question is not whether there will be a recession or not! The question is how deep it will be and for how long?

The figure 2 taken from the report of the International Monetary Fund analyses the capital flows as percentage of GDP in 2020. We can see how the world has been toppled amid the Covid-19 scare. The capital flows have remained stagnant or even reversed in the wake of this crisis. The countries under analysis are Nigeria, Zambia, Kenya, Namibia, Rwanda, Ghana, etc. The largest capital flows have taken place from sub-Saharan Africa. The analysis points out to a very gloomy picture of the international business scenarios.

Largest capital outflows on record from sub-Saharan Africa

Capital outflows from the region have exceeded \$4.2 billion since end February.

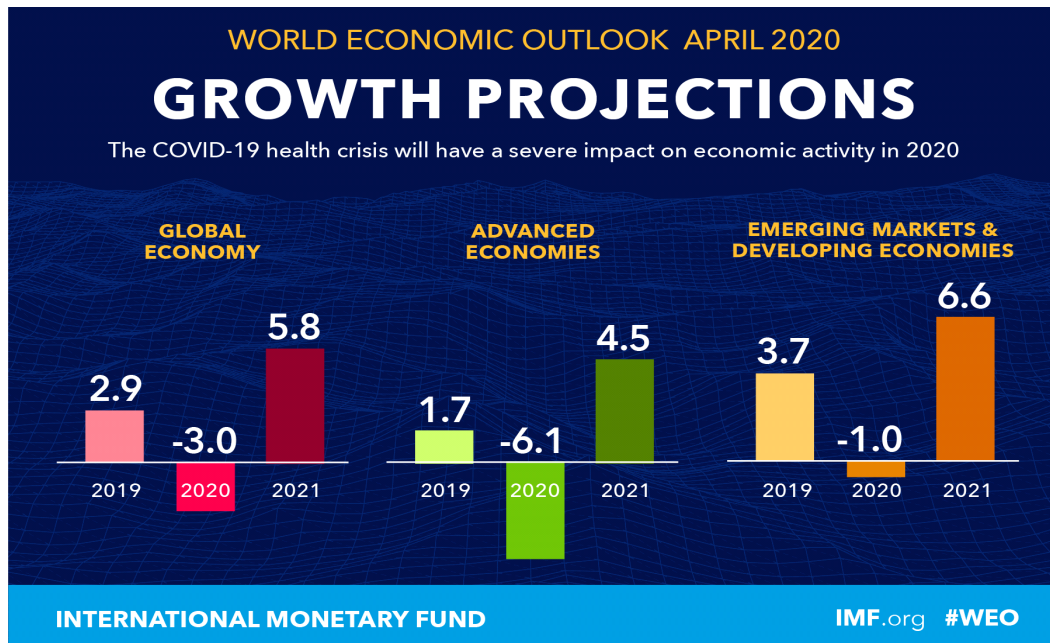


Source: EPFR Global/Haver Analytics. Last update: April 6, 2020.

Note: Cumulated flows since January 21, 2020. EM is the simple average of: China, Brazil, India, Indonesia, Korea, Mexico, Philippines, Turkey, and Thailand. EM = emerging market economies.

INTERNATIONAL MONETARY FUND

The figure 3 from the World Economic Outlook shows that the Advanced economies are suffering more than the developed economies. Here comes the role of resilience. We can see that the global economic growth is shrinking by 3 percent in 2020. The advanced economies are experiencing huge damage as the picture shows. There is a contraction of 6 percent as compared to 1 percent of the emerging and developing nations. This is an interesting observation and points to building measures to enhance the resilience of the economy in advanced nations.



IV. Way Forward :

This paper divides the cope up mechanism into three measures as follows :

- A. The Global Measures
- B. Revamp of the role of International Institutions
- C. The National Government Interventions.

A. The Global Measures :

1. **The Global Collaborations-** There is a need for global collaborations and proactiveness of global leaders in this direction. We have seen few positive examples of countries like Cuba which practices “Then Doctors Diplomacy” sending a team of doctors to the ailing nations. Also, India had sent hydroxylchloroquine to the other countries as a responsible country.
2. **The Need for Collective Action-** The segregated measures need to be combined to enhance the utilities. United Kingdom’s Prime Minister Gordon Brown has called upon the establishment of “the new global government” to take care of this crisis collectively.

3. **Mobilize Fundings-** We have heard that the US government is pouring huge amounts of money i.e., 2.3 trillion \$ in its economy and lending to mid-sized companies, there is buying of securities and interest rates are kept low. Interest free bridge loans and bailout packages are the measures adopted in few developed nations.

B. Revamp of the role of International Institutions :

The World Health Organisation was brought under the scanner for understating the crisis and acting soft on China. There is a need for whom to act more responsibly by being proactive, sharing information timely and giving importance to the scientific temper enhancement. Crowd sourcing and Research & Development measures will also be important here.

C. The National Government Interventions :

The National governments need to implement good fiscal, monetary and financial market measures timely. There has to be increased expenditure on health. The Atma Nirbhar Bharat cannot function without apt infrastructure. Hinterland development should become prime responsibility of the government to ensure inclusive growth. Task forces to handle these situations and action taken notes should be created with prime focus on development of vaccine and expenditure on research and development. The government needs to collaborate with private players and Make in India would be given more serious support by the Government.

V. Conclusion :

This crisis is multi layered and its handling requires systemic and institutional support. Only with the government intervention and collaboration with private players can we hope a revival of the international business. The **managerial strategies** post COVID-19 era will also play a big role in handling the situation. Reskilling employees, Outplacement and Career Development measures along with moral support from employers in organisations and corporate will ensure trust building and in turn result in efficiency and effectiveness. We can surely expect some hope amid the darkness in the area of international business.

References :

- Ali, M.M. (2019) : Grim situation of the world due to COVID19: Economic perspective. *Geopolitics under Globalization*, 3, 24-29.
- Ali, M., Islam, Anisul, M., & Wise, V. (2011) : Great Recession of 2008: It's impact on Bangladesh economy and international business implications. *Thunderbird International Business Review*, 53, 263-276.
doi:10.1002/tie.20405
- Alon, I. (2020) : Covid-19 and international business: A viewpoint. *FIIB Business Review*, 9, 75-77. doi:10.1177/2319714520923579
- Andersen, A.L., Hansen, E.T., Johannesen, N., & Sherdian, A. (2020) : Pandemic, shutdown and consumer spending: Lessons from Scandinavian policy responses to COVID-19. COVID-19 e-print.
Retrieved from: <https://arxiv.org/abs/2005.04630>
- Chien, Yili & Bennett, Julie (2020) : Preliminary: The GDP impact of economic shutdowns, Federal Reserve Bank of St. Louis, May 5.
Retrieved from: <https://research.stlouisfed.org/resources/covid-19/preliminary/gdp-impact-economic-shutdowns>
- Donthu, N., & Gustafsson, A. (2020) : Effects of COVID-19 on business and research. *Journal of Business Research*, 117, 284-289.
- Gopinath, Gita (2020) : The Great Lockdown through a Global Lens. IMF Blog, June 16. Retrieved from: <https://blogs.imf.org/>
- Jorda, O., Singh, S.R., & Taylor, A.M. (2020b) : Longer-run economic consequences of pandemics [Report no. w26934]. Cambridge, Massachusetts, U.S.: National Bureau of Economic Research. 200 A.M. ISLAM.
- Kathimerini. (2020) : IMF Managing Director praises Covid response, warns of recession in Kathimerini interview. Retrieved from:
https://www.ekathimerini.com/255117/article/ekathimerini/business/imf-managing-director-praises-covid-response-warns-of-recession-in-kathimerini-interview?utm_medium=email&utm_source=govdelivery

- Kaur, Vaneet. (2020a) : Knowledge-based dynamic capabilities: The panacea for pandemic. Strategy-insight note. California Management Review. April 28. Retrieved from: <https://cmr.berkeley.edu/2020/04/kbdc/>
- Krishnamurthy, S. (2020) : The future of business education: A commentary in the shadow of the Covid-19 pandemic. Journal of Business Research, 117, 1-5. doi:10.1016/j.jbusres.2020.05.034
- McKinsey Report. (2020) : Various business and economic reports. McKinsey and Company. Retrieved from: <https://www.mckinsey.com>
- Sigala, M. (2020) : Tourism and COVID-19: Impacts and implications for advancing and resetting industry and research. Journal of Business Research, 117, 312-321. doi:10.1016/j.jbusres.2020.06.015