

HOW COVID-19 SHAPED THE LANDSCAPE FOR INTERNATIONAL BUSINESS

Eliz Akaeva

Master student in International Policy and Security, dept. Administration,
management and political science”
190131005@vfu.bg

***Abstract:** The economic climate in the wake of COVID-19 is creating new challenges for international growth. Many businesses remain optimistic and determined that the disruption caused by the pandemic will not stand in the way of the opportunities offered by international expansion. The goal of this paper is to examine the situation of international business. While resilience is a “must have” quality for any business, innovation will drive recovery and prosperity in post-COVID-19 economic.*

***Key words:** international business, supply chain,*

1. INTRODUCTION

The economic and health crisis triggered by the COVID-19 global pandemic has unleashed a host of threats and opportunities for all organizations. As businesses work to understand the next and beyond amid the pandemic, many private family businesses should rightly ask what the economic, social and political landscape will look like in 2021 and beyond. Just how will the pandemic accelerate, alter or amplify megatrends that were already in motion before the wave of shutdowns, re-openings and new shutdowns? The impact of this crisis will likely change the way business is done now and for years to come.

As leaders wrestle to guide their organizations through the COVID-19 pandemic, decisions running the gamut from where to sell to how to manage supply chains hinge on expectations about the future of globalization. The pandemic has prompted a new wave of globalization obituaries, but the latest data and forecasts imply that leaders should plan for – and shape – a world where both globalizations and anti-globalization pressures remain enduring features of the business environment. The crisis and the necessary public health response are causing the largest and fastest decline in international flows in modern history. Trying to predict the future is even more complicated given the conditions that preceded the pandemic. While the US economy was on solid footing before the pandemic, the global economy was beginning to show signs of weakening. The COVID-19 pandemic deepened these signs and now many companies are looking to develop strategies that will either support their climb out if they were struggling or sustain growth and drive new opportunities if they benefited during the crisis. Most importantly, all companies should prepare for the next unforeseen event so they are poised to recover from an economic downturn. The virus has curtailed demand in certain industry segments. Airlines, hospitality, restaurants and other service-related fields have faced massive layoffs as revenues or prices have collapsed. Other segments, however, are booming – namely videoconferencing, streaming and gaming, medical equipment and supplies, retail food stores and online ordering, particularly last-mile delivery services.

The goal of this paper is to examine the impact of COVID-19 on supply chain and the trends for future development.

As the pandemic persists, some forecasters remain hopeful that we'll experience a V-shaped recovery, though uncertainty about virus containment continues to fuel concerns about the strength of economic recovery.

2. RE-SHAPING OF THE GLOBAL SUPPLY CHAIN

Current forecasts, while inevitable rough at this stage, call for 13-31% decline in merchandise trade, a 30-40% reduction in foreign direct investment, and a 44-80% drop in international airline passengers. These numbers imply a major rollback of globalization's recent gains, but they do not signal a fundamental collapse of international market integration.

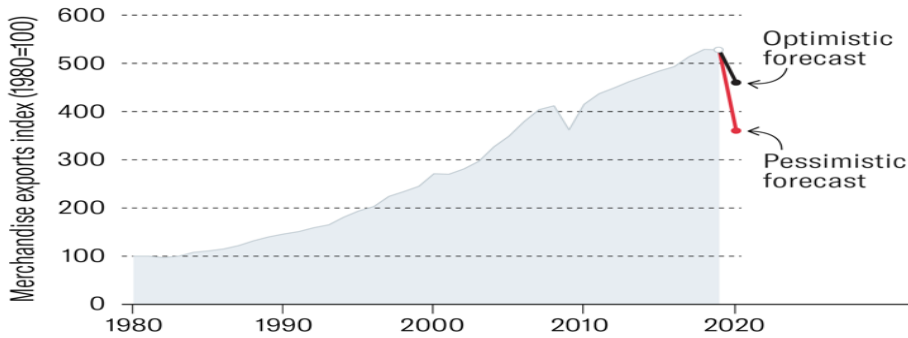
If plummeting trade flows are unlikely to undo globalization, what about the even steeper decline predicted in foreign direct investment (FDI)? Like other capital flows, FDI tends to be volatile, so a double-digit decline is not as shocking as one might presume. FDI flows, for example, fell 38% during the global financial crisis. Nor do shrinking FDI flows necessarily augur a real retreat from corporate globalization. The foreign business activity of multinational firms does not always closely track FDI trends.

The collapse of international travel, in contrast, stands out against a much steadier growth trend, and its damage is indisputable. Tourism contributes more to global output than automotive manufacturing, and business travel facilitates international trade and investment. As of late April 2020, every country had imposed restrictions on international travel, and 45% of countries had partially or completely closed their borders to foreign visitors. Airlines were flying 90% fewer seats on international flights, as compared to 62% on domestic flights. This unprecedented collapse does, however, follow and international travel boom. Even if international airline passengers fall by two-thirds, there would still be more people flying abroad than there were in 2003.

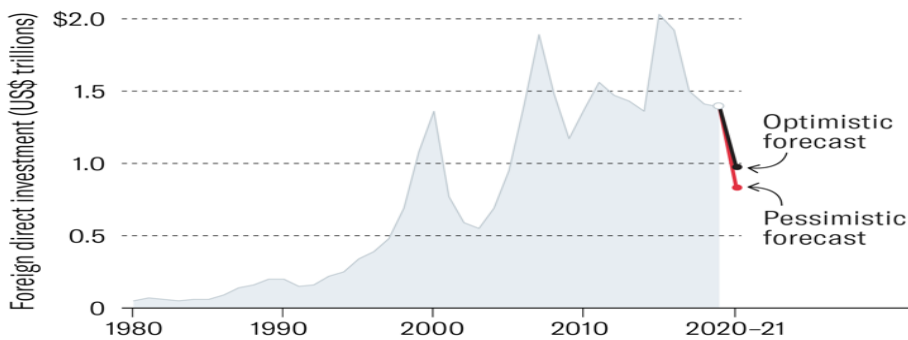
Plummeting International Trade, Investment, and Travel

The Covid-19 crisis and the necessary public health response are causing the largest and fastest decline in international flows in modern history.

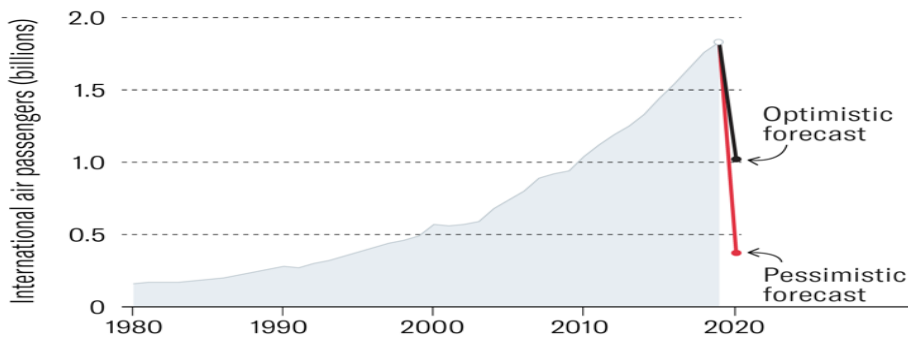
International trade volume



Investment flows



International travel



Note: Forecasts as of March–April 2020;
FDI forecast pertains to 2020–2021
Source: WTO, UNCTAD, ICAO

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Fig.1

With trade disputes escalating between the US and many of its major trading partners, a number of companies had already begun to rethink their global supply chains. The pandemic could very well accelerate this trend, leading global

organizations to make plans for relocating or reshoring certain manufacturing operations. Supply chain policies have come back to the top of the agenda, and shifting approaches have the potential to reshape trade and FDI flows. The key globalizations related debate here is the redundancy versus reshoring. Will companies and countries seek greater safety in international diversification, or will they try fostering domestic self-sufficiency? Economic logic almost always favors the former approach, coupled with national stockpiles for true essentials, but politics will sometimes force the latter. Calls for “in shoring” production have long preceded COVID. Populist movements have highlighted the risk of dependence on foreign companies to undertake production of essential goods and services, engaging in trade wars that have further intensified these nationalist sentiments. Research has also highlighted the downside effects of outsourcing, especially hollowing firms’ competence bases and weakening their investments in proprietary and tacit knowledge and skills that build and sustain their capabilities. Given these ideological shifts and ongoing trade wars, the global supply chain is likely to continue to undergo major changes, with greater focus on relocating activities outside of China – for example, in Cambodia, Vietnam, India in other countries as well as producing more and more domestically within the EU and US. Should these changes materialize, there lately to change the pattern of international ventures’ internationalization (e.g., where these ventures locate their businesses, with whom they collaborate, how do you define their own supply and value chains, and how they source needed capabilities). Moreover, with growing domestic demand for items once produced abroad, some ventures may retrench their international operations and focus a neighboring countries or selected world regions. Under this scenario, de-globalization will accelerate.

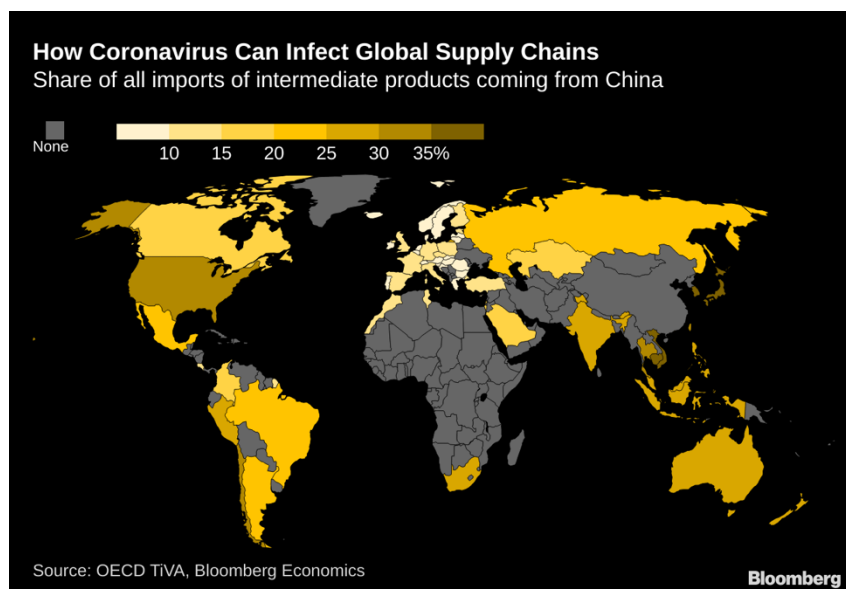
It is difficult to discuss ideological and economic changes without considering the cultural implications of COVID. Notably, for the first time in a

century, billions have had to stay home and away from their schools, work and places of worship. They have also been restricted in their travel, even within their cities as well as internationally. Many could not see their families and could not be there when they have lost their loved ones to COVID. This has led some to worry that this will magnify the growing sense of nationalism among certain groups, further fueling future ideal logical and trade wars. However, in their isolation, people have found ways to connect with each other globally, providing comfort and support. They have also used digital technologies to stay connected and productive. This might suggest that erosion of the powers of formal institutions and the disruption of networks could be somewhat offset through this informal means of communication. If true, this may reduce the barriers International entrepreneurs are likely to face. One lesson from our collective experience with COVID is that we have so much in common, irrespective of ideology and location. Our continuing well-being depends greatly on the well-being of others, even in distant countries.

Super power frictions and fragility had already destabilized the international business environment before COVID-19, and the pandemic adds new layers of complexity. It has led to a vast expansion of state power, while introducing pandemic control as yet another arena for ideological competition. In this environment, where companies come from and how well their home country governments get along will matter even more to them before for decisions about where to raise capital, which markets to prioritize, and which supply basis to cultivate. Many have predicted that COVID-19 will hasten a fracturing of the global economy long regional lines, with competing blocks centered on China, the United States, and perhaps Europe. But the fact that Europe, the world's most connected region, has struggled to mount a unified response to the pandemic is just one reason that a resurgence of regions should not be a foregone conclusion. Most international

flows already take place with the regions, and short distance trade has not grown faster the long-distance trade over the past few years.

One in four manufactures are already worried about how the supply chain interruption caused by COVID-19 will impact their business going forward. Many manufacturers have realized how exposed their supply chain is to disruption, as they rely on one source of acquiring raw materials, transportation, and getting goods to



market. For some, it has also highlighted a lack of awareness around how and where their supplier's source materials, leading them to depend on partners with a suboptimal business model. If one thing has become crystal clear since last year, it's that manufacturers need end-to-end insights. This will empower their markets to gain complete visibility over the supply chain, making intelligent decisions that drive better customer service. The COVID-19 pandemic has highlighted the need for manufacturers to embrace flexible, adaptable supply chain operations because a new disruption will always be just around the corner. Leading organizations are looking not only at how they must evolve supplier relationships, but how they can limit operational interruption through digital transformation. And automation and

robotics will prove central solutions in the movement to enable radical supply chain transparency.

3.DISRUPTION OF NETWORKS

The arrival of COVID, damage to international institutions, shifting ideologies and changing patterns of international operations have also disrupted business networks, widely viewed as essential to innovation, learning, access to resources, international expansion, and opportunity recognition. These networks emerge based on personal, professional and business relationships. They are cemented in trust that develop through a reliable and repeated exchanges among interested parties. Once formed, these networks provide entrepreneurs with the knowledge and resources essential for innovation. Networks also provide important clues as to where promising business opportunities exist in international markets and how to best pursue them. As a result, they affect the strategic choices international ventures make regarding the scope and scale of their internationalization activities, possibly influencing their survival and subsequent success. These benefits take time to materialize as international ventures have to build and sustain their relationships with their partners and network members and learn from them. Thus, gaining such benefits from international networks demands a degree of consistency and stability to ensure the flow of knowledge, other resources and funds. The disruption of existing networks, ecosystems and platforms can have serious negative consequences for international ventures. It could slow down the flow of knowledge across national borders due to limited mobility, interrupted interactions and growing concerns over trade secrets. In turn, this can delay the diffusion of innovative business practices that can stimulate the creation of new businesses while keeping these companies innovative. If this continues, new business creation may decline in certain parts of the world, especially emerging and

lesser developed economies. With over 250 million migrant workers around the globe, in 2018, these remittances “exceeded \$600 billion, thus making remittances the largest or second-largest (after FDI) capital inflow to most developing countries”. Since COVID, these remittances have also declined as many immigrants in the developed economies have lost their jobs or were furloughed, reducing their incomes. If this continues, this will deprive some emerging and lesser developed economies of an important source of entrepreneurial international venture funding. This situation could get worse if advanced economies continue to struggle with the effects of COVID and fail to achieve a successful turnaround; in this case, immigrant and migrant laborers may end up losing their jobs and return home. While this can enrich emerging economies’ knowledge and skill base by welcoming potential returnee entrepreneurs, it could also add to already high rates of domestic unemployment while depriving them from the flow of remittances that fuel domestic entrepreneurial activities.

4. POST-COVID OPPORTUNITIES

As the preceding observations make clear, unlike past financial crises, the COVID pandemic has already had serious political, economic and psychological effects. It has already profoundly altered the global business environment, erecting formidable barriers in the path of international ventures’ expansion. We have witnessed the devastation that COVID has inflicted on as diverse industries as real estate, professional training, professional sports, business and leisure travel, consulting, restaurants and bars, movies, theatres and other places of entertainment, schools and universities, translation services, advertising agencies, casinos and gambling, hair salons, and many others. Yet, despite the major challenges just discussed, the post COVID world is likely to offer important opportunities for these ventures. In fact, many industries have experienced growth since COVID.

4.1 International Business Online

One of the major challenges brought about by COVID is the growing recognition and use of digital technology at work and in everyday life. With billions of people in lockdown and unable to work from their offices, digital technology has offered innovative solutions that has enabled the delivery of medicines and other health care needs, food and education while working from home. It has also kept people around the globe connected. This change made billions of people aware of and comfortable with digital technology, appreciating its capabilities. Further, with travel restrictions in place around the globe, companies have also found digital technologies useful to keep their employees connected, informed and productive. The ubiquitous Zoom meetings have become a substitute to traditional business meetings and business trips.

For many international business ventures, the growing use of digital technologies means cheaper and greater access, better coordination and higher productivity and lower costs. Digital technologies have also allowed some of these ventures to stay plugged into established business platforms, surviving the challenges of COVID. The trend toward digital entrepreneurship has been strong in the years preceding COVID. For instance, entrepreneurs from emerging economies have capitalized on the rapid adoption of the smartphone to offer innovative products and services to their customers. Likewise, family firms have invested in digital technology essential to surviving COVID. Universities and schools have also relied on digital technologies to continue teaching, doing research and staying connected with their sponsors and other key stakeholders. This trend is likely to continue to accelerate as more people have witnessed the power of digital technologies and have developed some comfort in ordering things online. For example, Kenya's organic fresh vegetable producers were able to survive COVID

by going online to reach customers abroad; they predict that customers will continue to favor such online business post COVID because it is convenient, reliable and economical. As the success of digital entrepreneurs becomes more visible, this is likely to accelerate the creation of new international ventures that capitalize on opportunities across national borders. For instance, with the growing number of universities offering courses online and the emergence of several educational platforms, it is possible that international new ventures could enter that market and offer high quality programs to diverse audiences but less expensively than traditional institutions. The same could be said about telemedicine, which has risen in popularity because of COVID. Given the need around the globe, it is conceivable that some of these services could be extended internationally, offering quality care but a lower cost. Of course, health care and education are heavily regulated industries in some countries. This means these new ventures will have to deal creatively with prevailing institutional forces or participate in promoting new institutional arrangements. Clearly, digital entrepreneurship fuels the creation international ventures and enables their successful operation; it also serves to spark and diffuse innovations of all types, as discussed next.

4.2. Innovation on a global scale

The pandemic has pressured international ventures to innovate in their business models to maintain their relationships with their customers. Some companies have to re-examine their supply chain and operations to find ways to continue production and delivery. Others have tried to shift their production focus to address immediate market needs for masks and medical equipment such as ventilators. In fact, some of the well-known companies have sought to capitalize on their skills in shifting their production focus. The shortage of ventilators in hospital intensive-care units has not only motivated health-care companies such as Philips

and Draeger to increase production, but also triggered Canadian automotive suppliers and car brands like Ford to produce life-saving medical devices. The changes prompted by COVID are likely to fuel innovation solutions to the problems entrepreneur's encounter. Digital technology is likely to expedite this trend. This is because customers – both individuals and businesses – are becoming accustomed to new forms of business, such as online ordering for home delivery. Digital technology and market needs have also enabled collaboration in innovating around the globe. For example, the internet has enabled worldwide collaboration to find novel solutions for COVID. Shroeder (2020) predicts such a trend to collaborate to innovate will continue, capitalizing on the explosive growth in telehealth, remote patient monitoring and the use of AI in healthcare. Many international ventures are usually built to exploit new technologies; as a result, they remain committed to research and development. They understand that having unique knowledge and skills gives them a unique competitive advantage. With the changes occurring in their marketplace, these companies are more likely to ally with other companies to innovate; they may collaborate with local entrepreneurs and engage in frugal innovations that allow them to capitalize on opportunities in particular niche markets. They are also likely to access the discoveries made by universities, aiming to convert them into products and goods that could be marketed. They may also engage users in their innovation activities. Here, again, digital technology is likely to make these connections possible, sustainable and workable.

4.3 Enabling entrepreneurial orientation

In the post Covid world, international ventures need agility, resilience and speed to gain the advantages of their entrepreneurial orientation, which centers on taking calculated risks, innovativeness and proactiveness in making strategic moves. These ventures need to retain their entrepreneurialism by sustaining the

support of their human capital; while attempting to reduce cost by using temporary workers, having dedicated skilled knowledge workers who replenish, create and preserve the firm's knowledge base – the core source of its skills and competencies. This is likely to pose a serious challenge to many international ventures that have to do more and more with limited resources in an increasingly volatile business environment. These entrepreneurs also need to develop ways that facilitate and capture learning as they deal with their markets, which are also undergoing radical changes. The speed by which international ventures learn and use their learning can spell the difference between survival and failure. This learning is essential as international entrepreneurs deal with a radically new business environment, struggling institutions, wary customers, and stakeholders who are also experiencing considerable pressures. This learning makes it possible to identify new market niches to target, define products to develop, and find new ways to connect with customers and other key stakeholders.

4.4 Integration of the social and commercial missions

Post COVID, the integration of international ventures' social and economic missions across international borders should receive greater attention. This integration is already occurring as more global startups are created with social missions from the inception. However, our experience with COVID makes it clear that international ventures can no longer separate economic from social issues. Instead, ventures crossing international borders would benefit from addressing important social issues, especially grand challenges – the major and persistent issues that affect the lives of millions of people. These ventures could also address the care of the elderly and other disadvantaged members of society. Understanding these issues improves the quality of life and raises life expectancies. COVID has also magnified persistent concerns about growing inequality around the world. Privatization and

liberalization of economies around the world, which has promoted international ventures, has also led to greater wealth concentration and growing economic inequality. In turn, this has resulted in growing inequalities in access to health care, education, and employment. COVID has magnified these inequalities as people belonging to different economic and social classes and races have been afflicted by the disease at different rates; their access to medical care has also been unequal and their fatality rates also different. Growing concern about inequality highlights the need for integrating social issues with international ventures' business operations. There is a belief that international ventures could develop innovative and more economic solutions that address inequality and other perplexing social issues around the globe. As a major public health crisis, COVID has brought into focus the question as to what international ventures can do to improve the quality of life in their communities. Some of these ventures have embarked on programs that have transformed their business concept to develop the products needed to address the COVID crisis.

5. CONCLUSION

The questions and issues outlined in the preceding paragraphs do not fully capture all potentially interesting questions to be studied in future research. What is clear is that a new and powerful wave of creative destruction is likely to occur, leading to a great transformation of the global business environment, providing the impetus for a new breed of international ventures that find opportunities in the upheaval that COVID has caused. Given the widespread prevalence of these issues, we would expect the development and growth of global social ventures to tackle human dislocation, health care, homelessness and malnutrition. One of the major challenges brought about by COVID is the growing recognition and use of digital technology at work and in everyday life. With billions of people in lockdown and

unable to work from their offices, digital technology has offered innovative solutions that has enabled the delivery of medicines and other health care needs, food and education while working from home. It has also kept people around the globe connected

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