

## Effects of Globalization on Trade During the Pandemic Period

Anca Cristina Stanciu

Adina Burghilea (Cocoş)

"Ovidius" University of Constanta, Faculty of Economics Sciences, Romania

[castan22us@yahoo.com](mailto:castan22us@yahoo.com)

[adina\\_burghilea@yahoo.com](mailto:adina_burghilea@yahoo.com)

### Abstract

*The pandemic caused by the new coronavirus is disrupting financial markets around the world, and imported effects on the world economy are expected as a result of crisis management measures. This pandemic causes not only a drop in demand but also a drop in supply caused by declining production, the consequences being a shortage generated by products and a rapid rise in prices. In this economic context, trade has been strongly influenced at the global level. Although the development of the e-commerce segment was on everyone's agenda, this transition to online is becoming steeper in the current context, and the big winners will be those who will be able to adapt as quickly as possible to new realities, by providing the necessary infrastructure. This paper aims to analyze some aspects of the impact of the pandemic on world trade and the influences on trade in Romania.*

**Key words:** pandemic, health, economics, trade, development

**J.E.L. classification:** F13, F40, F63, I15, I18

### 1. Introduction

The pandemic caused by the new coronavirus is disrupting financial markets around the world, and imported effects on the world economy are expected as a result of crisis management measures (Barbosanu, 2020).

Four of the world's top economies, China, Japan, South Korea and Italy, accounting for about 27 percent of global GDP, are fighting disease control. The pandemic affects all G7 and G20 states, but will have a disproportionate impact on the populations of low- and middle-income countries. In the case of Italy, the figures indicate losses of up to 0.4% of GDP. The tourism sector seems to be the hardest hit, with cancellations of 22 million bookings and losses estimated at 2.77 billion euros (Marinescu, 2020). The negative economic impact generated by the pandemic is very high compared to 2008 when the collapse of financial markets massively affected the economy. In this economic crisis we will not face an ordinary financial crisis, but a public health crisis with financial symptoms where the effect of classic countermeasures, monetary and fiscal incentives, is very limited.

Both Romania and the EU and the United States make great efforts to protect and maintain food, energy and medicine supply chains, but quarantine and isolation at home have a serious impact because the tendency to make stocks is irresistible, regardless of calls, authorities or chain stores.

This pandemic causes not only a drop in demand but also a drop in supply caused by declining production, the consequences being a shortage generated by products and a rapid rise in prices.

### 2. Theoretical background

The first plague pandemic, also called the Justinian plague, which broke out in 541, changed the structure of the Western world forever. Food production was severely affected, followed by famine for eight years. The agrarian system of the Empire was restructured to become the feudal system

divided into three areas. The economic and social destruction caused by the pandemic marked the end of the Roman rule and led to the creation of distinct social groups, which later formed the nations of medieval Europe. The plague pandemic, which lasted until 750, allegedly killed between a quarter and a half of the population of the Mediterranean area.

The second pandemic, triggered by the so-called "Black Death" plague, devastated late medieval and early modern Europe, Southwest Asia and North Africa, as well as other regions. The "Black Death" allegedly killed 40% of Europe's population between 1347 and 1352. The hardest hit regions were England, Italy, France and Spain, which lost up to 50-60% of their population in just one or two years. Europe regained its pre-pandemic population around 1600.

The third plague pandemic killed millions of people in South and East Asia at the turn of the twentieth century. The disease spread around the world over the next five decades, with the pandemic ending in 1959, causing more than 15 million deaths, most of them in India. Preventive measures taken following this pandemic targeted maritime trade. In Venice, in 1897, quarantine centers were set up, controls for ships coming from areas with infections, and sanitation measures for ships, passengers, crews, and goods entering Europe. Thus, new principles for modern international prophylaxis have emerged. Many changes have taken place in preventing the recurrence of pandemic plague, such as germ theory and the science of bacteriology, public health measures such as quarantine or antibiotic treatment (Marinescu, 2020)

We are experiencing a global multi-crisis, public health crisis, economic crisis and climate crisis - perfect bad-timing. However, a number of general trends can be foreshadowed. Just the fact that everyone predicts more or less radical changes is an indicator that something is happening. Initial hysteria and panic primarily created a consumer boom before the global recession. Now there has been silence, except in Wuhan, the original center of the pandemic, which has partially resumed its activities. And in the rest of the world, activity seems to be resuming, albeit very slowly. Like the financial crisis of 2008, today's health crisis shakes market fundamentalism, heralds the end of laissez-faire, the belief in the invisible hand that watches over the free movement of markets. The current crisis reaffirms the dependence of international markets on nation states, but also of the global economy on the social and medical systems on which it is based. People are once again becoming the most important resource, which is why one of the great challenges now lies in the effectiveness of supranational alliances.

The global system needs peace for the economy to prosper, so only an increase in the movement of consumer goods could compensate for the slowdown in global mobility and, consequently, the avoidance of an economic catastrophe, says Professor Muhammad Ali Nasi in an article published on the blog London School of Economics. At present, the main concern is to block the movement of goods and the collapse of exports. Due to technological advances, production has become dependent on consumption. But people's purchasing power tends to decrease when work is automated, because this process increases unemployment and lowers wages. Without money, the market does not work, and in the absence of consumption, production does not make sense. It is for this reason that new forms of redistribution have been talked about for several years.

In the context of the current health crisis, Spain is already taking into account the Universal Minimum Income. "Overcrowding in large urban agglomerations comes with a series of pressures on infrastructure - whether we are talking about the labor market, the real estate market, transport, health, educational or leisure infrastructure. Pollution, the high costs of daily living, the congestion of public transport, the real estate market or urban cleaning cause eight out of ten Parisians to leave the city. In the context of the pandemic, it is worth watching this phenomenon, especially when large cities tend to be more vulnerable and affected. It is time to reflect on the regional development model and look at small and medium-sized cities as poles with the potential for economic and human development (Vulpe, 2020).

### **3. The impact of the pandemic on world trade**

"The crisis is coming!" It can be heard in the boutiques on the corner and in prime time. Entrepreneurs count their outstanding bills. The employers are asking for state aid in the choir, the employees are waiting or unemployed, the economy brought by COVID-19 goes to waste. The questions we want answered are: How long does it take?

When are we coming back? What will normal mean in the next period?

Companies around the world have gone from seeing the effects of this pandemic as minor to considering it a serious threat, according to a perception study conducted by a specialist company in the UK. 41% of respondents say the situation is now very serious, while 51% see it as a serious threat to the global economy.

Investment professionals analyze three crisis scenarios:

- The V- type -scenario to recover quickly;
- The U-type - scenario where the bottom point is for a longer period of time;
- The W-type- scenario with a partial return and a new decrease (Vulpe, 2020).

All these scenarios can be this year, if we get rid of the health crisis by the summer. It is certain that the economy is plummeting now, but if it is very short we will recover quickly. If it lasts for several months or a whole year, then the economic effects will be massive.

The most obvious changes triggered by the medical crisis and its economic effects are related to the way we work and the way we relate to work. There will be employers who will find that some of their employees are more productive at home or simply chatting online. This also means a large investment in technology and will probably translate into a competitive advantage for those who will invest in having digital systems that work without syncope. Life can no longer be the same. Just like it wasn't the same after the recession. There are people who simply give up because they can't work like that, and it's not just about the computer, the connection or the software. There will be people who will keep their jobs and people who will go into unemployment, people who will not go bankrupt and people who will struggle, people who will not experience the disease versus people who will have it, directly or through someone close.

At the macroeconomic level, we see the government's attempt to balance the lack of resources in the health system with the budget deficit, in order to propose solutions to support the economy. Romania has so far announced measures to support the economy of only 2% of GDP, half of which are non-cash solutions, such as guarantees. It is a significantly lower value than other states, because Romania's budget was already affected. Put in a global context and the perspective of the next decades, the economic crisis remains serious, but it becomes easier to understand. From the perspective of Radu Burnete: "Global trade and economic activity will return to normal in their major frameworks, as they did after the Black Death and the Spanish Influenza and the Great Depression. There will be changes in the economic structure, the most important thing I see now is the shortening of global production chains. This crisis has so far capped any dream that the global village will soon exist.

It is known from experience that some of the strongest businesses are being built at the moment. But whoever manages to invent or reinvent himself in these difficult times has a real entrepreneurial sense and deserves to reap the rewards when things get back to normal. Here I think we will have a combination of big companies that have capital to reinvent themselves and small companies that have the agility to seize any opportunity. How interconnected the world is - and I think it will remain so for the most part - money and ideas will quickly find a point of intersection (Vulpe, 2020).

The latest estimates of the International Monetary Fund (IMF) indicate a transitory impact of this epidemic on the evolution of the world economy in 2020 (the decrease of the annual growth rate by 0.1 percentage points to 3.2%). In fact, the confidence indicators in the main economic blocs of the world have evolved mixed in the recent period.

China (the world's second largest economy) will be hardest hit by the epidemic, with IMF experts lowering its 2020 annual GDP growth forecast by 0.4 percentage points to 5.6% year-on-year.

In conclusion, we emphasize that analyzes of adverse natural shocks over time have shown that the rate of economic growth in the medium term post-shock is generally higher than that recorded in the absence of shock. The main explanation consists in the implementation of measures at national, regional and global level to counteract and avoid in the future the incidence of shocks. For example, the European Commission has announced the launch of a new EUR 232 million program to support efforts to combat the new corona virus (Radulescu, 2020).

The shock caused by the COVID-19 pandemic on the global economy has lowered most commodity prices and is expected to lead to substantially lower prices by 2020.

Energy and metals are the categories hardest hit by the sharp downturn in economic activity and the significant global slowdown that is expected to take place. Average monthly crude oil prices fell by 50% between January and March. Prices reached a historic level in April, and some trading references recorded negative values. They are forecast to average \$ 35 a barrel in 2020, a sharp drop from the October forecast, but also a 43 percent drop from the 2019 average of \$ 61 per barrel. The negative adjustment reflects a massive drop in demand to a historic level. The fall in crude oil prices was exacerbated by uncertainties over existing production agreements between the Organization of the Petroleum Exporting Countries (OPEC) and other oil industry producers. Energy prices as a whole (including natural gas and coal) are expected to set at an average level 40 percent lower in 2020, but will recover considerably in 2021.

Falling oil prices offer decision-makers in emerging and developing market economies the opportunity to implement reforms that provide for energy subsidies. Such reforms can help target free spending to pandemic goals, discourage energy waste and reallocate spending to programs targeting the poor (<https://www.worldbank.org/ro/news/press-release/2020/04/23/most-commodity-prices-to-drop-in-2020-as-coronavirus-depresses-demand-and-disrupts-supply>).

#### **4. Aspects of the influence of the pandemic in the Romanian trade**

The pandemic caused by the new coronavirus will lead the local economy from an increase of 3.8% in 2020 to a decrease of about 2%. In a short-term forecast made to capture the effects of coronavirus spread on macroeconomic indicators, CNSP presents a scenario that provides:

- At the level of exports of goods, a negative impact at the level of 2020 of 11.3% compared to the winter forecast and a reduction by 7.3% compared to 2019 is estimated.
- The import of goods is affected both at the level of intermediate imports and consumer goods. The effects of the pandemic lead to a decrease in imports of goods in the current year of 10.9%, and compared to 2019 we have a reduction of 6.1%.
- The sector that includes tourism, hotels and restaurants will be the most affected by the pandemic, for April and being expected to reduce turnover by 60% -70%.
- The average gross earnings are forecasted at 5212 lei / month, decreasing by 4% compared to the level estimated in the winter version, including the effect from the technically unemployed.

Pandemic accelerates e-commerce in the car: Dacia and Renault now come with home delivery and full online payment.

The online sale of cars has been discussed for many years, but importers and car dealers have been reluctant to go to internet commerce too quickly, but the pandemic and traffic restrictions have forced the implementation of these decisions much faster.

Groupe Renault Romania has decided to introduce new services for its online sales platforms. Today, customers have the opportunity to pay for the desired car in full online and can also opt for home delivery service, thus avoiding physical interaction or the effort of going to the showroom.

Between April 1-20, 2020, on a sample of 592 companies operating in the virtual environment, a study was conducted on the impact of the crisis generated by the Covid-19 pandemic on e-commerce in our country.

According to the study, the majority of respondents stated that they were severely affected by the crisis, 28.6% having a decrease in income between 20 - 40%, and an almost as high percentage (26.3%) had a decrease in receipts between 60 - 100%. On the other hand, 26.4% of the respondents stated that they had increases during this period, between 20-40% (Ghisoiu, 2020).

Moreover, 18.4% of the companies participating in the study stated that they used the certificate for emergency situations (CSU), to defer payments for utilities and rents. However, the majority of respondents stated that they did not use this measure (48.3%), and in the case of a percentage of 33.3% of companies this measure does not apply.

Most of the surveyed companies (48.3%) state that all employees work from home, followed by 34.5% - none, 6.9% - less than half of the employees, 5.7% - half of the employees, 4.6 % - more than half of the employees.

Most of the surveyed companies (93.1%) sell products and services in Romania, but also in Europe (11.5%), Hungary (9.2%), Bulgaria (4.6%) or the United States (4.6%), and in this period of crisis 33.3% of companies say they have problems with supply. The companies participating in the study come from the following fields of activity: e-commerce (33.3%), online marketing (22.8%), tourism, real estate, hospitality, agriculture, adult, jobs, software, consulting, transport and web services (Ghisoiu, 2020).

With the closure of large shopping malls and businesses in HoReCa, online deliveries became an integral part of people's lives during the COVID-19 pandemic, and companies had to act quickly to adapt, but also to comply with restrictions, the establishment of a state of emergency. Thus, out of the desire to see their business survive and keep at least some of their employees, many quickly turned to online deliveries, but lost sight of essential aspects: authorization at the Trade Register, taxation of cash registers, GDPR rules, etc.

Although the development of the e-commerce segment was on everyone's agenda, this transition to online is becoming steeper in the current context, and the big winners will be those who will be able to adapt as quickly as possible to new realities, by providing the necessary infrastructure. However, most were planning to adopt e-commerce before the crisis, with some even developing their own platforms or creating partnerships in this regard. What must be taken into account is that the transition from the wholesale segment to the retail segment, through e-commerce platforms, brings with it a number of tax and legal implications. Thus, a first aspect to be taken into account by economic operators is the inclusion of the corresponding secondary CANE code in the articles of association (insofar as it is not already on the list of secondary activity objects) and the notification of the Trade Register on the secondary activity to be carried out.

In addition, when talking about retail, we must consider a number of additional requirements such as the obligation to issue tax receipts (with the daily issuance of the Z report) and implicitly the purchase and authorization of electronic tax cash registers. Thus, according to the provisions of Art. 1 of GEO no. 28/1999, the economic operators that collect, in whole or in part, in cash or by using credit / debit cards or cash substitutes, the value of the goods delivered at retail, as well as the provision of services performed directly to the population, have the obligation to issue a tax receipt and to use electronic fiscal cash registers.

## 5. Conclusions

Scientific studies conducted so far on pandemics and their effect on the economy are based on either models - which means that assumptions about the effects of pandemics are introduced into a model (eg a model of sales to the population or supply of power, etc.) which results in a scenario, either on data on previous crises, which are used to generate other predictable scenarios.

Pandemics tend to generate economic developments characterized by a sharp decline followed by a strong recovery. As long as the number of infections increases and public institutions and the population try to limit the spread of the virus by state decree or self-isolation measures, the economy will stagnate.

The effects on economic growth are obviously negative, and the studies differ only in terms of the degree of damage to the economy. The figures range from 0.3% of global GDP growth to figures comparable to a financial crisis. The latest estimates suggest halving growth rates in 2020.

In countries like China, the economic growth rate is likely to be negative for at least a quarter. In countries where the economic growth rate has been at a low level even before the crisis (eg Italy), the economy will contract and the situation is likely to last for a long time, given the growth rates, registered before the crisis.

However, we believe that in the current situation, the markets will be more interested in the news about the Covid-19 virus and the measures taken to limit its spread than in the economic data itself. What is clear is that the measures taken will have a negative impact on economic growth. At this point, the goal is to keep the virus under control. As soon as this goal is reached, the markets will also enter a calmer stage. Even if Europe were to face a situation similar to that of China (in Hubei Province), it is very possible that markets will return to growth (Panfiloiu, 2020).

## 6. References

- Barbosanu,D. 16/04/2020. *How the pandemic of COVID-19 will affect the Romanian economy, in numbers* (Official document). [online] Available at:< <https://stirileprotv.ro/stiri/financiar/industria-cea-mai-afectata-de-pandemia-de-covid-19-impactul-estimat-de-cnsp.html>> [Accessed on 04/05/2020];
- Ghisoiu,I., *Romanian e-Commerce in the midst of the Covid-19 pandemic*. [online] Available at: <<https://www.targetweb.ro/studiu-e-commerce-ul-romanesc-in-plina-pandemie-de-covid-19/>> [Accessed on 05/05/2020].
- Lazescu,A. 17/03/2020. *The pandemic, the world and the economy*. [online] Available at: <<http://www.contributors.ro/editorial/pandemia-lumea-%C8%99i-economia/>> [Accessed on 02/05/2020];
- Marinescu E. 12/03/2020. *The effects of a pandemic on the world economy*. [online] Available at: <<https://www.newmoney.ro/studiu-al-bancii-mondiale-efectele-unei-pandemii-asupra-economiei-mondiale-video/>> [Accessed on 25/03/2020]
- Panfiloiu, I., Nechifor, A. 04/03/2020. *Adapting to e-commerce in the context of COVID-19. Fiscal implications*. [online] Available at: < [https://economie.hotnews.ro/stiri-blogul\\_pwc\\_romania-23974157-covid-19-pandemie-coronavirus-commerce-implicatii-fiscale.htm](https://economie.hotnews.ro/stiri-blogul_pwc_romania-23974157-covid-19-pandemie-coronavirus-commerce-implicatii-fiscale.htm)> [Accessed on 04/5/2020];
- Radulescu, A. february 2020. *Marginal impact of the corona virus epidemic on the evolution of the world economy in 2020*. [online] Available at:< <https://www.bancatransilvania.ro/blog/analize-bt/impact-marginal-al-epidemiei-corona-virus-asupra-evolutiei-economiei-mondiale-in-2020>> [Accessed on 02/05/2020];
- Tăușance, V. 10/04/2020. *Economic crisis. Three diagnoses*. [online] Available at: <<https://mindcraftstories.ro/index.php/2020/04/10/criza-economica-trei-diagnostic/>> [Accessed on 10/05/2020]
- Vulpe, G. 16/04/2020. *Global trends, before and after COVID-19*. [online] Available at: <<https://mindcraftstories.ro/index.php/2020/04/16/trenduri-globale-inainte-si-dupa-covid-19/>> [Accessed on 04/05/2020];
- \* \* \* 16/03/2020. *Coronavirus & financial markets*. Erste Asset Management. [online] Available at: <https://www.erste-am.at/en/private-investors/faq-coronavirus#>. [Accessed on 05/05/2020];
- \* \* \* 23/04/2020. *Most Commodity Prices to Drop in 2020 As Coronavirus Depresses Demand and Disrupts Supply* (Press release), World Bank, Washington. [online] Available at: <<https://www.worldbank.org/ro/news/press-release/2020/04/23/most-commodity-prices-to-drop-in-2020-as-coronavirus-depresses-demand-and-disrupts-supply>> [Accessed on 05/05/2020].