

IMPACT OF THE COVID-19 PANDEMIC ON BUSINESS INTERNATIONALISATION AND INVESTMENT

Ladislav Fabo – Soňa Chovanová Supeková

Abstract

The internationalisation of business activities is currently taking place mainly because of rapid scientific and technological progress, rapid developments in information and communication technologies, international economic cooperation, and interdependence between national economies. These factors have resulted in the growth of international trade flows in goods, services, capital, labour, knowledge, and information. At the beginning of 2020, the world was paralysed by the Covid-19 pandemic, which necessitated several stringent measures. The aim of this paper is to identify the current business environment problems in the field of internationalization and investment, which are caused by the impact of government measures due to the COVID-19 pandemic on international business. We also identify how the behaviour of national economic actors and foreign direct investment has been affected. The methodology of the paper is based on the interpretation and analysis of theoretical outputs (literature and scientific articles) on the issue under study in combination with official statistical data from relevant world organizations. The result of this work is the basis for drawing a conclusion on the impact of the Covid-19 virus pandemic on international trade.

Key words: foreign direct investment, internationalization, COVID-19 pandemic

JEL Code: F15, F18, F21

Introduction

In the first quarter of 2020, the world was paralysed by the rapidly spreading Covid-19 virus. The global pandemic required a number of stringent measures. National governments have opted for 'lockdowns' and temporarily closed or restricted and tightened cross-border movements. The months of restrictions that were interrupted by the better summer months in terms of the pandemic returned again in September, as part of the second wave of the pandemic. In addition to the public health threat, the pandemic has also affected the global economy and the behaviour of individual businesses in the marketplace.

The aim of this study is to clarify the concept of internationalization of business activity and its important impact on the global economic system. Furthermore, to follow up on the current business environment problems in the field of internationalization and investment, which are caused by the effects of the Covid-19 virus pandemic on international business. This allows for a reflection on how the pandemic has affected various behaviours of national business actors, as well as foreign direct investment in the last year.

1. Internationalisation of business activities (definitions)

The concept of internationalisation of business activity can be defined in several ways in today's economically developed global world. There is no precise and uniform definition, but there are many explanations. Magdolenová defines internationalization of business activity as the so-called "internationalization of the enterprise". According to her, it is "the regular expansion of an enterprise's activities beyond the borders of its home country, or the regular activity of an enterprise beyond the borders of its home country. (Magdolenová, 2010). We are aware of several other theories and definitions that try to explain why enterprises attempt international activities in the first place. Susman explains the term internationalization of business activity as "the process of increasing the participation of enterprises in international markets, although there is no precise and agreed definition of this process." (Susman, 2007)

Internationalization is a crucial strategy not only for companies that seek horizontal integration worldwide, but also for countries that focus on the sustainability of their own development in different sectors of production and services. This is also true in higher education. At its core, internationalisation in education is a very important context that is required to bridge the gap between different cultures and countries for people as young as student age. The essence of all theories of internationalisation is to explain the existence and reasons for international activities. (Adel, Zeinhom, Mahrous, 2018) The impact of internationalization is definitely behind the development of a society. Whether we look at it from a marketing, managerial, or any segment of the company, the necessity of innovation and continuous growth of the company in foreign markets is important for "survival". The experience gained from activities in foreign markets, especially from the creation of various innovative projects, will, in the most positive case, help the company to consolidate its place in each market in which it participates with its activities. We consider project creation and project management to be an important element in the internationalisation of business activities. Projects and innovation are a fixed part of both professional and private life – we live in a

project society. Projects and project management is an important first in any company. (Krchová, 2019)

However, the calendar year 2020 has changed the view of the globalized world to some extent. The phenomenon of the coronavirus, i.e. the Covid-19 viral diseases and the associated measures affecting almost the entire globe must also change the perspective on the forms in which companies will operate or penetrate foreign markets in the short future. All the previous definitions correctly define the concept of internationalisation, but today we must look at the issue from a different angle. If we look at the Member States of the European Union at least, border protection and lockdowns make trade relations with each other very difficult, despite the fact that they are 'living together' in a single, relationally advanced integration unit. Moreover, scholars and professional entities are still unable to determine the exact timeframe for the duration of any restrictions. A vaccine could be the answer to even a full resumption of trade relations and travel, but all clinical trials and questions regarding the continuation of threats associated with public health are unknown. It is also questionable how all states will approach the vaccination issue. Alternatively, when will vaccination of the majority of the population occur. In the meantime, the processes of internationalisation of business must also adapt to 'current trends'.

1.1 The evolution and importance of internationalisation for the economy

The foundations of internationalisation lie in the transcendence of the production boundaries of a particular national society, as the national framework was narrow for the further development of a country's economy. This happened after the advent of large-scale engineering production, when surplus production was exported abroad due to the saturation of the domestic market. On the other hand, this principle also applied the other way round; scarce goods had to be imported. Internationalization thus represents, in its essence, the intensive overgrowth of the economic life of nation-states across their borders. From a theoretical point of view, the process of internationalization led to an analysis of the behavior of international business. (Collinson, Rugman, 2012)

Internationalization is a positive phenomenon for the world economy because it promotes the exchange of both material and spiritual values. At the same time, however, it coordinates the economic policies of the various actors in the world economy and influences the adoption of joint transnational decisions. However, internationalisation also brings several negative phenomena for the world economy, such as the spillover of inflation or the

transmission of various economic disorders. These negative features cannot be eliminated, but they can be minimised through international cooperation and the development of regionalism. This aspect only confirms the importance of accepting mutual compromises. However, the development of internationalisation is outpacing regulatory and adaptation processes at all levels – national, regional and global. The importance of internationalisation for a country or individual industries is obvious. From a country perspective, internationalisation directly affects macroeconomic indicators and the trade balance. Foreign trade exposure as a consequence of internationalisation processes through the liberalisation of mutual economic relations can be seen as an indicator of national economic growth. (Cihelková, 2012). If businesses want to be successful, they cannot avoid adapting to global trends. They are therefore increasingly drawn into the internationalisation of business activities Mura, 2019).

2. Pandemic as a risk of internationalisation / Covid-19 and the change of perspective on the business environment

The viral disease Covid-19 is not only behind a direct threat to public health, but also a significant change in the global economy and society as a whole. The impacts of the coronavirus are most evident at the international business level due to restrictions on travel and labour mobility. This problem has required businesses to develop different strategies to survive in the current market environment. The coronavirus pandemic has presented unique challenges and opportunities within international business. The Covid-19 virus has exposed many of the weaknesses of the modern society that humanity has been building for decades through global processes and interdependent infrastructure in the form of business partnerships. There is hardly a region of the world that has not been affected by this new kind of coronavirus. There is thus no difference between developed and developing countries on this issue. Although mankind has dealt with various viral pandemics in the past, the complications caused by the Covid-19 coronavirus have resulted in a new perspective on business as such. No pandemic has had such a widespread global impact. (Liguori, Winkler, 2020)

2.1 Transformation in business communication

How to do business in times of heightened uncertainty? This has been a central question for perhaps all companies, not just those directly affected and constrained by the protective regulations of individual governments. High contagion and relatively rapid spread have led to significant cultural, social and business changes. Culturally, established social practices have

been transformed into social distancing. This phenomenon has automatically changed the nature and forms of work of many companies, which have started to use work through the convenience of the home environment (so-called home office). This means that all workers and employees who can carry out their work mainly in their own homes away from the common areas do so. As a result, the company relies much more on online communication than physical contact. While there are many disadvantages associated with physical distancing, including for example the inability to read non-verbal cues, it has also brought several advantages in the form of a new form of communication through digital technology. Information and communication technologies are now widely regarded as essential components of economic and social development in the so-called 'knowledge society' and have attracted the attention of governments, businesses, citizens, and civil society organisations. They are multifunctional tools that provide great opportunities for information and communication and have applicability across the whole spectrum of economic, social, political, and cultural life. Globalization and the dissemination of information have changed our lives in different and profound ways. (Krchová, 2021)

For geographical reasons, it may also be easier to communicate online than in physical form. This has automatically led to the increased use of streaming devices, which has further enhanced the needs of societies in the advancement of digitalization. From a social perspective, there has been a dramatic reduction in group activities. This was an unprecedented event because of the way communities have changed. There is now more emphasis on individual rather than group activity. This is not to say that group activities do not exist as they do, but in a new format. (Qian, 2018) Sustained communication transformation should be more beneficial for societies that are, or will be, able to adapt to developments as effectively as possible. The use of services and online meetings has increased with the introduction of lockdown measures. Equally, the temporary closure of school facilities has given an appeal towards the development of better online-communication technologies as teaching has moved to online communication. The internet banking and e-commerce sectors have seen a similar increase in usability globally. (OECD, 2020)

2.2 Coronavirus and the international business environment

Restrictions on free movement and travel between countries caused by the spread of Covid-19 have significantly affected the international business environment. Regional trading blocs, including the European Union, which were based on the idea of free movement between countries, have been altered by the closing of national borders. A number of major countries, such as Spain, have banned travel between neighbouring countries while, of course, retaining membership of the European Union. Increased levels of internationalisation for work, family and lifestyle reasons have been severely curtailed as a result of the measures and the closed borders, which, among many other problems, has caused delays in the export and import of goods and services, thus disrupting trade relations. Global society has become accustomed to frequent international travel and interaction, so border closures represent exactly the opposite development. As a result, international institutions are having to confront the pandemic at national, regional and international levels. The disruption of trade and economic relations due to the coronavirus pandemic and the subsequent measures is, to some extent, a complication in the internationalisation of business activity. However, there is also a more positive side to this issue. This is the desire of business entities to improvise and invent new technologies and procedures within their activities to be able to move their companies abroad or to manage them in a dialectical manner.

However, international business relations and partnerships are certain to continue regardless of the social changes in society, even if the public health pandemic has taken all the institutions and bodies of international society by surprise. Travel restrictions because of the virus have led to a temporary de-internationalisation of business activities in many countries. In many respects, the regulations of the various governments have not met with the approval of the public, particularly because of the lack of, or slow pace of, economic compensation in relation to the damage caused, whether to businesses or to employees. All this has led to a general increase in social tensions in society. As globalised society is nowadays highly interconnected, there have been further negative effects on business activity. One of the most affected sectors of life has become the sports industry. Here, however, one must consider the many other business corporations and companies that are already an integral part of the world of sport in terms of capital. This means that their revenues are equally affected by the restriction of various sporting events. During 2020, the first ever postponement of the Olympic Games took place. The feast of sport was supposed to take place in Tokyo, Japan, but the International Olympic Committee (IOC) postponed the event by one year in March last year. The Union of

European Football Associations (UEFA) also issued a similar verdict when, during the first wave of the pandemic in March, it provisionally postponed the European Championships until the calendar year 2021. However, whether the tournament itself or the Olympic Games will take place remains in doubt. The virus situation remains critical globally. (Ratten, 2020)

In its June opinion, the Organisation for Economic Co-operation and Development (OECD) urged its member states not to impose unnecessary export restrictions while at the same time being able to guarantee that imports would not pose a health risk to their partners. "This is a particular challenge at a time of trade tensions, when the international trading system is already subject to a host of new restrictions and disruptions, ranging from tariff increases among major traders to significant government support in key sectors," reads the official OECD document, which then goes on to say importantly, "Efforts to manage and prevent tensions through face-to-face negotiations and dialogue are now complicated by limited mobility. In the context of severe economic tensions caused by the COVID-19 viral disease, it is more important than ever to prevent the current trade tensions from escalating." (OECD, 2020)

3. Aim and research methodology

The priority of this research was to define the concept of internationalization of business activity and its importance for economic growth. The research is based on the analysis of available literature and scientific articles in the field of the studied issue. Statistical data on the impact of the containment of the global Covid-19 pandemic are then used to infer whether and how extent the virus has affected world trade.

4. Results of the research

The United Nations Conference on Trade and Development (UNCTAD), in its latest research dated December 8, 2020, reported that the decline in world merchandise trade output fell by 5.6% compared to 2019. At the same time, this was the largest decline in merchandise trade since 2009, when it fell by as much as 22%. At the same time, however, UNCTAD said that the original forecast of the decline was as high as 9%, which looks optimistic. The fact that buyers have been able to replace physical shopping with an online version almost certainly plays a role in the relatively low decline in trade in goods, something that cannot be proven for services. Global trade in services is much larger. According to the widely accepted economic indicator Nowcasting, trade in services for 2020 will fall by 15.4% compared with the previous year. This is the largest decline since 1990, when these forecasts began to be made. In 2009,

after the global financial crisis, trade in services fell by 9.5 %. The information from the final quarter of the last calendar year also confirms the facts presented in the previous subsections in the seminar paper. The declines in international trade in goods and services are due to significant declines in travel, transport and tourism. The limited internationalisation of business activity is a major problem in today's market-open world economy. (UNCTAD, 2020)

Now closer to foreign direct investment (FDI) in the internationalization of business activity in various forms. According to historical experience, FDI could play an important role in supporting economies during post-pandemic economic recovery. Evidence from past economic crises has shown that foreign-owned affiliates, including SMEs, can demonstrate greater resilience during crises due to their connections and access to the financial resources of their parent companies. (Alfaro, Chen, 2012)

The first half of 2020, during which the virus attacked in its first OECD wave, saw a global FDI decline of over 50 % compared to the second half of 2019 (to a level of \$364 billion). This is the lowest level since 2013. Looking at it quarter-on-quarter, FDI fell 41 % in the first quarter and 39% in the second. Over the same period, the first half of 2020, inflows to OECD member countries fell by 74 %. In terms of investment outflows from OECD territory, this is a 43 % decline relative to the second half of 2019. The main cause is the reduced flow of capital to the United States and the reduction in investment flowing to Switzerland, the Netherlands and the United Kingdom. Cross-border mergers and acquisitions, as forms of internationalization of business activity, saw a decline of 11 % in the first half of 2020. Announced greenfield projects fell by 46% in OECD countries. Here, the most pessimistic assumptions were for a decline of 40%. In almost all OECD member countries, the 2nd wave of the pandemic hit harder than the initial one, suggesting that measures were stringent, and several governments resorted to lockdowns. The second half of 2020, especially the fourth quarter, is thus unlikely to look more favourable. (OECD, 2020)

From the research based on the reading of literature, scientific articles and official internet outputs, we can confirm that internationalization is a fundamental factor for the growth of the economy as well as for economic and social well-being. Based on the figures, we can confirm the strong impact of the Covid-19 pandemic, particularly in the area of world trade in services.

Conclusion

Today, this is confirmed by the fact that, with the advent of the Covid-19 pandemic, or the restrictions associated with the protection of public health, there has been a reduction in living standards globally. One of the main restrictions is free travel, or a restricted regime when moving from one country to another. This move has also significantly disrupted trade relations among many member countries of regional integration units, resulting in a reduction in foreign direct investment and complications in the issue of internationalisation of business activities. Given my more optimistic view on this current global issue, I remain hopeful that the coronavirus may not have an adverse impact on overall business activity in the global economy. The coronavirus has profoundly altered existing social structures and practices. Although the nature of business may undergo a fundamental change as a result of the coronavirus, which requires more entrepreneurial thinking in order to meet the needs of society. For this reason, it is important today for entrepreneurs to design the next steps of their operations with a higher regard for safety and security. This could enable many measures to be released that are aimed at alleviating the health crisis. Part of this change requires every entrepreneur to question whether the business is in fact different from its pre-coronavirus form, or whether it will remain the same. This will allow for a better understanding of how pandemics affect business and the ability of entrepreneurs to cope with the many pressures. Unlike other crises, the coronavirus crisis has led to entrepreneurs being able to respond quickly to different needs. An important issue for entrepreneurs is therefore whether consumer concerns about the pandemic will lead to more safety and security-based business, creating a need for further innovative activities.

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Contact

Ladislav Fabo

Pan-European University in Bratislava, Slovakia, Doctoral student

Paneurópska vysoká škola n.o., Tomášikova 20, P.O.BOX 12, 820 09 Bratislava, Slovakia

faboladislav40@gmail.com

Soňa Chovanová Supeková

Pan-European University in Bratislava, Slovakia

Paneurópska vysoká škola n.o., Tomášikova 20, P.O.BOX 12, 820 09 Bratislava, Slovakia

sona.supekova@paneurouni.com