THE EFFECTS OF THE COVID-19 PANDEMIC ON THE GLOBAL ECONOMY WITH IMPLICATIONS ON THE ROMANIAN ECONOMY

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Abstract

In this article, we set out to highlight the effects generated by this health crisis and the measures imposed by governments to stop it. First of all, we shall highlight the effects that this pandemic had globally and then highlight the economic effects of COVID-19 at the level of the Romanian economy. It will be found that service-oriented economies, as well as the Romanian economy, are more affected by this pandemic, given the fact that this crisis generates side effects in supply chains. Therefore, the countries most affected by the COVID-19 pandemic are those dependent on foreign trade.

Key words: coronavirus; economic effects; Romania; production; trade.

JEL Classification: D80; E32; E66.

I. INTRODUCTION

Both the theory and the experience gained in the economic sphere have shown us that there can be no economic growth without production, and today the development and expansion of the industrial sector results from the ability of entrepreneurs to organize production and the division of labor into a system in which key resources are no longer just tangible assets, but rather intangible assets, such as knowledge, human capital, social capital, and so on. At the same time, in the process of industrial development, the global character that the economy has acquired must be taken into account, any imbalance produced in the global economic system equally affecting all nations involved in the economic exchange. In addition to the fact that the development of the productive sector creates the preconditions for healthy and sustainable economic growth, it should be noted that the development of industry, together with the flexibility of national economic policies, increases a country’s ability to avoid or overcome market imbalances.

Of course, in delicate economic situations, the role of the productive system is no longer to ensure economic growth, but to support the needs of citizens, being a sector with a fairly high power of reorientation of activity, compared to the services sector. The most recent global challenge, which affects not only the economic system, but also the social, political, etc., is the pandemic caused by the SARS-COV-2 virus, also known as coronavirus. The pandemic caused by the COVID-19 virus has spread at an alarming rate, infecting millions of people, causing fears of an impending economic crisis. To stop the spread of the virus, countries have imposed strict traffic restrictions and social distancing measures. Social distance, the isolation of infected people, the imposition of travel restrictions and the decrease in demand for goods (except medical supplies, for which demand has increased), have led to a reduction in employment in all economic sectors, leading to the loss of many jobs. The economic damage is becoming more and more obvious and the conclusion is that this economic environment caused by the COVID virus is the biggest economic shock the world has experienced in recent decades. Undoubtedly, the pandemic brings with it an economic and financial crisis which is a major challenge for national governments, the European institutions and the international system. In order to cope with this, governments need to understand the scale of the crisis and the nature of the health, social and economic problems we face, as well as update the economic policies needed to overcome this critical situation.

Given the fact that the Romanian economy is a component of the global economic exchange system, in an attempt to understand the effect of this pandemic on the Romanian economy, we shall briefly present the effects at the global level, focusing on the most important economic sectors, and then to analyze the effects that the COVID-19 virus had on the Romanian economy.

II. GLOBAL ECONOMIC EFFECTS

From a theoretical point of view, mainly three elements of the global economy will be disturbed in the first phase: demand, supply and financial markets. In terms of demand, a combination of low income and fear of infection with the Covid-19 virus will lead to reduced consumption. This situation could also be exacerbated by the negative supply effects, attributable to a sudden cessation of production activities in the most affected regions and to the resulting bottlenecks in the global trading system. If producers do not find the resources necessary for
a recovery of activity, such interruptions will, in turn, trigger the closure of factories due to lack of intermediate goods, this situation can arise even in areas less affected by the virus. Finally, an increased reluctance to the risks involved in this situation generated by COVID-19 and a high preference for liquidity generated by the uncertainty caused by the pandemic will affect the financial markets which will have a strong influence on the global economy. At the level of a country's economy, due to social distancing and isolation measures, entire sectors such as transport, tourism and restaurants have come to a complete halt, and the main economic effects of stopping production and declining consumption are associated with job losses and salaries that cannot be fully offset by income support measures introduced by governments (guaranteed income, tax exemptions, etc.).

First, the resilience of the agricultural sector has been tested by the Covid-19 virus. The fact that global demand for hotels and restaurants has fallen has led to agricultural prices falling by about 20% (Nicola, 2020), but also the fact that countries around the world have imposed a series of measures to prevent the spread of the virus, namely: social distancing, restricted travel, self-isolation, etc., have caused the transport of agricultural goods to be delayed with negative effects on the supply of import-dependent countries with the goods and products needed by the population.

Secondly, the most important element that has contributed to the decline of the world economy is the oil industry. After Moscow refused to support oil production cuts in Vienna on March 6 to deal with the coronavirus outbreak, Saudi Arabia decided to retaliate by offering price reductions to buyers but also by increasing production. Thus, Saudi Arabia increased its oil supply by 25% compared to February 2020, bringing the volume of oil production to an unprecedented level. This caused the largest price drop on the Brent Crude market of about 24%, from 34 USD/barrel to 25.7 USD/barrel (Nicola, 2020). This “war” on oil prices can have serious implications for the global economy.

Thirdly, social distance measures, travel restrictions (in all forms), oil price volatility, restricted imports, etc., have a particular impact on businesses. Government responses and blockages caused by inconsistent measures have led to the disruption of production. For instance, in China, the restrictions imposed have led to a decrease in consumption and, implicitly, in production. In addition to disrupting production, the capital market sector was also affected, with financial markets around the world collapsing. Between February 19th and March 20th, 2020, the S & P500 index on the Wall Street Stock Exchange decreased by 32%. In London, the decline in the FTSE 100 was comparable to that of the S & P500. In Italy, the first European country to be affected by the pandemic, the Milan FTSE MIB index fell by 38%. Despite the fact that so far there have been no elements or situations that could surpass the collapse and bankruptcy of Lehman Brothers, this pandemic raises serious concerns given that, during 2007-2008, the Wall Street stock market fell by 50%, the value currently registered being quite close to it, in a short time it is predicted that it will exceed it. If the proportion of the crisis in 2007 is exceeded, the difference will be that this time, the debts of the countries will no longer be able to be met. This is because, in the OECD's view, this crisis would come after almost a decade of "on credit" expansion, facilitated by almost non-existent interest rates. In the European market, bond yields have fallen for the most part, reaching levels in the euro area crisis of 2011-2012. Therefore, the decline of global stock markets has led to a volatile environment with critical levels of liquidity.

III. THE ECONOMIC EFFECTS OF COVID-19 ON ROMANIA

In the case of Romania, all this imbalance created globally highlighted its weaknesses. Although in 2019 Romania's GDP growth was strong, of about 4.1%, determined by private consumption and a return on investment, and unemployment reached historic lows, the situation changed abruptly in early 2020 due to the impact generated by the COVID-19 pandemic on the health, economic, etc. system. Thus, as large segments of the European economy collapse, the effects spread to the Romanian economy, substantially increasing the risk of a crisis situation within our country.

First of all, it was found that, not only in Romania, the services sector experienced the steepest decline during the pandemic. In fact, the services sector is a major source of economic growth and employment for many countries, including Romania. During March-June 2020, there were sharp decreases in sales due to measures to restrict the movement of persons, the imposition of self-isolation at home but also measures to temporarily close the activity of shops, restaurants, real estate agencies, transport agencies. or tourism, which has led to a decrease in consumption. From an economic perspective, the resumption of consumption at the level of the previous period is expected to be gradual, with consumers becoming more cautious with the pandemic.

The second negative effect felt by the Romanian economy was related to the decrease of production. Manufacturers globally, already tired of the US-China trade war of the past two years, have once again come under a wave of pressure as the coronavirus spread globally. Although the Covid-19 pandemic hit Chinese producers in the first instance, the effects quickly spread to other non-Chinese producers but whose production of goods was dependent on intermediate goods provided by Asian companies. Given that enterprises have also been affected by government-imposed restrictions, as more countries have imposed their own rules, an increasing number of producers have been affected by the decrease in the supply of intermediate goods but also
The second negative effect of the pandemic is closely linked to the third: declining trade. The coronavirus pandemic came in a context where global trade had already slowed since 2019. The World Trade Organization, in its latest forecast this month, said global trade could fall between 12.9% and 31.9% this year, depending on the trajectory of the global economy. The fact that Romania's economy is based on services, made the two effects of the crisis caused by the virus to be strongly felt. The National Institute of Statistics informed in March that Romania's trade balance showed a decrease in exports of 11.3%, meaning almost 700 million euros compared to March last year. In terms of imports, they decreased by 1.8%, which is by 131 million euros, the trade deficit being 1.8 billion euros.

We cannot conclude exposing the negative effects of the service-based economy in the context of economic crises without referring to the labor market. Given that the pandemic has spread around the globe, the main problem that appears on the labor market refers to workers who cannot or do not want to work under the given conditions, thus reducing economic activity. The industry, already having a low share in the Romanian economy, has as its main feature the fact that most of the workforce is employed in jobs where physical presence at work is required, the activities being impossible to be performed remotely. In addition, given the nature of the industry, producers should create the conditions for social distancing at work. From an economic point of view, many companies have been forced to reduce their production or even stop it, and an increasing number of people have either been unemployed or laid off. Despite the measures taken by governments (supporting businesses by subsidizing staff costs), the industry is expected to continue to go through a period of reduced production capacity but also costs, which could translate into possible staff reductions and other related measures, as economic activity decreases.

It is certain that the coronavirus pandemic exposed the weaknesses of the Romanian economy caused mainly by the decisions taken with the transition of the economy from the centralized system to the free market. Privatizations but also misunderstood and misapplied economic policies have forced public institutions to reduce the size of their activities, so that they have lost their universality, efficiency and quality of services. These aspects determined that the productive sector reduce its share in the economic structure of Romania, determining the creation of relations of dependence on the production of other countries. In this context, the coronavirus pandemic exposed the economic and social costs caused not only by the lack of adequate health systems but also by the lack of a strong economy, based on the wealth-creating industry. At the same time, it also highlighted the lack of the state's capacity to rely on a reserve of funds derived precisely from the administration of production and investment projects in which the state is the majority shareholder, for, as he argued (Stiglitz in Silver, 2020), "when we face a crisis like an epidemic or a hurricane, we turn to the government, because we know that such events require collective action." Or, in the absence of key industries in which the state holds the largest share, the reserve of state funds can only consist of fundraising activities, thus reducing its ability to respond quickly and efficiently to economic challenges. The most appropriate example, in connection with the last crisis, is related to public health systems which should be based on a vision of health as a fundamental right, which should be guaranteed by the government by providing public services designed to meet individual and social needs, outside the logic of the market. However, the fact that the state allowed private companies to enter these activities, in the context of reducing the financing of the public health system and the lack of staff, led to health and social assistance services becoming similar to the goods on the market. This created situations in which even the public health system was perverted, becoming the means by which private individuals act in their own interest using public capital, which led to the public health system being deprived of the necessary amounts of funding and improving services, creating situations in which people with low income, who cannot afford a private health insurance or subscription, no longer had access to public health services.

Except for the example of the pandemic, public policy should not be limited to the provision of health services or social assistance. It must guide the development trajectories of the economy as a whole, ensuring coherence between the behavior of enterprises and social, economic, health, etc. objectives. Regarding the fact that Romania does not yet have an institutional system sufficiently developed and able to issue coherent public policies, (World Bank, 2020) considers that, although according to Romania's Economic Memorandum (2020), per capita income, from the European Union average, increased from 26% to 63% in 2017, “this economic success is based on the vague foundations of unfavorable demography, weak human capital and inefficient institutions”. In this sense, the option of institutional reform of Romania should be considered, taking into account the expansion of the role of the state in response to the need for public action in the economy and society. It is necessary for the state to become able to support its expenses, the means being the nationalization of certain industries considered key in the Romanian economy. A similar example is his proposal (Mazzucato, 2020) which recommends an "entrepreneurial state" but also the nationalization of the pharmaceutical industry.
IV. CONCLUSION

We believe that this crisis caused by coronavirus brings back into question the same problems that existed at the time of the crisis of 2008. New industrial policies are needed, which must include a redefinition of the role of international institutions, but also the search for new development goals that take into account the problems facing the global economy and beyond. For this reason, industrial policy does not only mean a series of incentives and protectionist measures formulated to save the national economy that have effect only in the short term, but rather includes the concept, role but also the relationship between market and state in a global context.

Also, through the reform of the industrial system we will be able to increase our capacity to respond to economic challenges such as coronavirus or the already overcome economic crises.

V. REFERENCES

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