

Covid-19's Impact On The Middle East Supply Chains And Policy Suggestions

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Abstract:

Even with the unilateral efforts of the Middle East to combat the spread of COVID-19, business sectors were not exempted. The COVID-19 pandemic erupted in early 2020 and significantly affected numerous global industrial chains, resulting in a systemic danger of supply chain failure. This research paper discusses the impacts of the COVID-19 epidemic on the Middle East's supply chain and makes policy recommendations to reduce future losses. The effects include revenue reduction, supply chain being deemed vulnerable, the adaptation by the Middle East countries because of the virus, and opportunities gained. This paper also devises recommendations that encourage businesses to enhance supply chain flexibility. The proposals include establishing supply chain digital platforms and diversifying the supply chain.

Keywords: COVID-19 Pandemic, Middle East, Supply Chain.

JEL Classifications : C33, E44, G11

Introduction

The COVID-19 disease that started in China in 2019 is still spreading internationally, with more than 100 million cases reported and over 2.5 million fatalities (WHO, 2020). The fast spread of the disease across the nations has had far-reaching and severe consequences for the world's economic growth. Governments and policymakers confront a high uncertainty, making it challenging to implement suitable monetary policy initiatives (Schleper et al., 2021). Historically, the Middle East has served as a point of focus for international trade, propelling economic growth and leading the way for diversifying into new markets (Alkasasbeha et al., 2021). The said trend has continued in recent years, with many global corporations establishing distribution and supply chain hubs in the region to take advantage of its strategic location between Asia, Africa, and Europe (Hedwall, 2020). The COVID-19 epidemic, a serious public health concern, will considerably affect supply chain

production and operations (Alkasasbeh and Alkasasbeh, 2022). The supply chain management degree has been raised, compelling, relevant firms to strengthen their management to cope with big situations (Kasasbeh, 2021; Van Hoek, 2020). The Middle East has significant producers, consumers, logistics providers and acts as a global supply chain center. The ongoing COVID-19 epidemic in the world has had a substantial influence on The Middle East's supply chain, particularly on the return of production, logistics, and markets at all stages of the supply chain.

COVID-19, which occurred in early 2020, had a variety of adverse effects on all areas of the economy in the Middle East countries, the most significant of which were the difficulty of businesses to yield, problem in trying to turn around products, uneven supply, and, eventually, the limited capacity of consumers to purchase. Revenue losses and supply chain interruptions caused by Covid-19 have significantly damaged company operations in the Middle East's oil and

non-energy sectors (Ibrahim et al., 2020). Moreover, deliveries from overseas have become considerably less secure and more expensive because of decreased worldwide manufacturing and logistics, which have brought new limitations in the supply of goods (Al-kasasbeh, 2022). The effort by Middle East-based companies to enhance their operations by cost-cutting, inventory reduction, and encouraging improved asset allocation has resulted in a shock and a rethinking of strategic aims (Al Hashmi et al., 2020).

This paper examines how COVID-19 has affected the supply chain and offers solutions to lessen the impacts of COVID-19 and any other epidemic on the supply chain.

Literature Review

According to Pujawan and Bah (2021) the novel coronavirus pandemic (COVID-19) has massively disrupted supply chains at the global and local scales resulting in economic slowdown and social issues. To respond to these changes, supply chains need to quickly adapt to the new situation. Moreover, the quick spread of the new pandemic has dramatically sped the digitization process in several industries, which has tremendously aided in reducing COVID-19 space. They also underlined that COVID-19's negative effect had been mitigated by online labor and digital supply networks, but there are stronger pressures for digitalisation and supply-based localisation. The research agenda is also outlined at the end of the paper.

Baena-Díez et al. (2020) stated that production activity and transportation have stagnated in the United States and Europe against high COVID-19 incidence. This ecological study analysed age-standardized incidence rates by economic level in Barcelona. Such factors, particularly under the impact of global production, showcase the fragile nature of the supply chain. Now, the second resurgence of the epidemic and the continued escalation of the virus in the United States have indeed placed a new shadow on the global manufacturing industry's recovery. They stated that manufacturing and the supply chain are intertwined.

Biswas and Das (2020) examined the study on the coronavirus (COVID-19) pandemic is having a clear impact on the supply chains of virtually all manufacturers. Whether frozen foods and grocery items or emergency items, or even the services, the supply chain has been facing multiple obstacles. With demand high and supply unavailable, some products became more desirable causing price hikes and price extorting because the manufacturing sectors are facing some barriers during lockdown. This research has identified the five essential barriers of supply chain such as lack of man power, local laws enforcement, lack of transportation, scarcity of raw materials and deficiency in cash flow for Indian manufacturing sectors during lockdown. This paper proposed a methodology based on a fuzzy analytical hierarchy process (Fuzzy-AHP) with use of triangular fuzzy numbers for the pairwise comparison matrices.

McMaster et al. (2020) investigated the relationship between the widespread and catalytic implications of the 2020 COVID-19 pandemic and the supply chains (SCs) of fashion multinational corporations (MNC). They examined the current state of fashion supply chains, risks that have arisen historically and recently, and existing risk mitigation methods. They found that while lean supply chain management is primarily favored for its cost and waste reduction advantages, the structure is limited by the lack of supply chain transparency that results as well as the increasing demand volatility observed even before the COVID-19 outbreak. The COVID-19 pandemic has caused supply and demand disruptions which have resonating effects on supply chain activities and management, indicating a need to build flexibility to mitigate epidemic and demand risks.

According to Al-kasasbeh (2022) the economic effects of the COVID-19 have been highlighted in this study and emphasized policy options to reduce its effects according to the data announced in Jordan, Provides evidence of certain of these impacts in the coming days, and the economic repercussions. The study comes to the conclusion that monetary, macroprudential, and fiscal policy can help mitigate the effects of the COVID-19.

Sarkis (2020) argued that COVID-19 response strategies caused an unparalleled negative impact in the manufacturing sector and employed physical, structural rules to direct the potential global supply chain network. COVID-19 pandemic events and responses are unprecedented to modern operations and supply chains. Scholars and practitioners seek to make sense of how this event will make us revisit basic scholarly notions and ontology. Sustainability implications exist. Short-term environmental sustainability gains occur while long-term effects are still uncertain and require research. Sustainability and resilience are complements and jointly require investigation.

According to Rapaccini et al. (2020), there was a four-stage crises management approach (fast and dirty, disaster, adaptation, and restart), which provides insights and critical actions that should be taken to cope with the expected short and long-term implications of the crisis. Manufacturing enterprises may use this technique to react to the epidemic and improve their supply chains after the pandemic. This study discusses how servitization can enhance resilience for future crises—providing a set of indicators on the presumed role of, and impact on, service operations in relation to what executives expect to be the “next normal.”

The existing research has explored the influence of COVID-19 on supply chain operations in many sectors, but it has not broken down the phases of impact. This work employs two primary research approaches. The first is based on existing books, publications, and journals, while the second is founded on the author's observations.

The Epidemic's Effects on the Middle East's Supply Chain

The coronavirus epidemic has hit the Middle Eastern nations the worst due to supply chain instability and economic effects. The region's economy is strongly reliant on crude oil prices, and any substantial variations in crude oil prices have enormous consequences for the region's economy (Fu and Shen, 2020). China, the world's largest importer of Gulf oil, has seen its oil consumption fall by 2.5 million gallons a day, or over 20% of its total consumption. In recent

years, the Middle Eastern countries have attempted to expand their business operations to minimize their economy's dependency on oil money. After oil and natural gas, the region's economy relies heavily on tourism and the capital market for survival.

The United Arab Emirates, for example, welcomes 17 million visitors each year and hopes to increase this figure to 26 million with the planned Dubai Expo (Abueid et al., 2018; Haneef and Ansari, 2019). Saudi Arabia drew 20 million visitors in 2021, most of whom came for religious reasons. However, due to the virus outbreak's restrictions on travel and border entrance, the number of visitors will be much lower this year until the circumstances normalize, significantly influencing the region's economy.

Trade flows to the Middle East fell in 2020 because of the growing Covid19 epidemic, which spread to the Middle East and then to the rest of the globe. Policies enacted in the Middle East as governments sought to manage the pandemic caused market forces to shock visible in lower production capacity, interrupted logistics, and reduced consumption of finished goods in most key markets. Industrial production and exports plunged, commercial and business airline services deteriorated, and shipping containers services fell drastically as the Middle East enforced social distancing restrictions (Clapp and Moseley, 2020).

Companies have been under increasing pressure to decrease supply chain costs, which has compelled them to seek low-cost suppliers and manufacturing facilities in various parts of the world. Companies have grown worldwide because of this process, and they have established a diverse, complicated supply network structure. COVID-19 emerges as a significant disruptive event with far-reaching implications for the globalized economy.

This upheaval has shown how susceptible the supply chain is when multiple sources of supply are concentrated in a single location, such as China, and the market is situated distant from the supply source. This interruption has also highlighted the weaknesses of many businesses that have depended on a single supplier to meet

their raw material or final component requirements.

Adaptation by the Middle East Countries

Middle Eastern enterprises are researching strategies to simplify and broaden their supply networks to improve supply chain reliability and security. Overdependence on Asian clients and suppliers, especially Chinese suppliers, was already significant. The widespread disruption to Asian manufacturing and distribution hubs in 2020 has exacerbated these concerns. (Kasasbeh, 2021; Free and Hecimovic, 2021). Middle Eastern companies may aim to reduce their supply chain operations and emphasize local manufacturing whenever feasible. Notably, various Middle Eastern countries are distribution giants and may benefit from foreign direct investments (FDIs) and financially rewarding global trade. At the same time, China will continue to be a significant consumer of the region's energy supplies.

Opportunity Comes Knocking

The pandemic has created substantial economic harm to Middle Eastern countries while providing growth, diversification, and innovation opportunities. Nations and businesses that are more likely to prosper from the financial predicament will enforce growth tactics. Many distribution companies suffer from lengthy processes, complicated bureaucracy, and strict hierarchies, making organizational life unpleasant. Many have been compelled to do away with stringent processes and act quickly because of the coronavirus. Procedures may be abruptly bypassed, or expedited, regulations deviated, and choices can be taken more autonomously without official permission.

Policy Recommendations

The governments of the Middle East should encourage the growth of industrial Internet platforms and the formation of supporting resources. During this outbreak, many businesses, tiny businesses, sustained significant losses. Despite their modest size and lack of risk-aversion, SMEs are crucial in the supply chain. Even though the government has implemented many policies, there is still a struggle in supporting them adequately due to a lack of

enough knowledge on their operations. Therefore, the government should make significant initiatives to enhance digital industrial networks in assorted vertical industries using recent scientific and technological advances such as big data, financial technology, and blockchain to improve the versatility of distribution networks in various industries.

Most global organizations do not have a comprehensive awareness of suppliers who deliver components to their first-tier supplier in the complicated supply network structure. Mapping the supply chain will offer greater exposure to the supply chain network structure, and a digital instrument like IOT can significantly assist in tracing the source of the goods. In such a case, the supply chain management would have access to a wealth of information within moments of a possible interruption. Companies that can precisely map their supplier base will identify which individual suppliers, locations, components, and goods are in danger. This mapping will enable them to take necessary measures to safeguard the inventory of commodities and capacity at alternate sites.

In the Middle East, organizations and supply chains are digitized to increase data integrity and transparency, aid enterprises in predicting risk and reducing losses, and enhance supply chain efficiency. The oil and gas industry has just launched a digital transformational change, which is likely to gain pace given the sector's importance to the Middle East and the massive shock caused by Covid19 on critical supplies and demand. Saudi Aramco, for example, began a digital revolution, intending to become the world's foremost digitalized energy firm by 2022.

Qatar, Saudi Arabia and the United Arab Emirates are busy adopting blockchain and data science technological solutions. When coupled with 5G technology, they have enormous potential for the zone's positioning as a worldwide investment and commerce powerhouse. The goal is to make transportation efficient, cheaper, and quicker by boosting confidence and lowering risks, leading to lower insurance premiums, finance costs, and transit times.

Conclusion and limitation

Developing and implementing strategies to improve and sustain supply chain authenticity include developing a comprehensive supply system, curbing inefficiencies and administrative burdens, digitalization, working in conjunction with key distribution channels and end customers. Middle Eastern businesses are attempting to create a more effective and diverse supply chain network while stepping cautiously through the tumultuous realm of geopolitics. The pandemic may finally cease, but threats are always present. They are simply an element of life. Nevertheless, what we should do is to learn the lessons from COVID-19.

This research paper only looked at the impacts of COVID-19 on the Middle East supply chains between early 2021 and May 2021, and it did not look at the effects of COVID-19 after a minor or substantial recovery in some regions of 2021. Furthermore, this study does not investigate the impact of COVID-19 on the supply chain of individual firms. Lastly, researchers in this study may have biases due to their cultural backgrounds and personal perspectives on certain occurrences, impairing the research's rationality

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