



Multinational Enterprises Since Covid: Stronger Than Domestic Firms, Especially at Home

Constance Marette, Camilo Umana Dajud & Vincent Vicard*

The Covid-19 crisis heightened awareness of the vulnerabilities inherent in global trade, prompting a re-evaluation of the benefits and risks of globalization. Although global trade openness briefly declined – reflecting a sharper drop in trade than in GDP during lockdowns – it quickly rebounded to pre-crisis levels. However, this aggregate trend may conceal significant microeconomic shifts in firm behavior. In particular, the employment responses of multinational enterprises (MNEs), which play a central role in global value chains, offer valuable insights into the reshaping of the global trading system. Post-crisis, MNEs exhibited stronger employment resilience than purely domestic firms, especially within their home-country affiliates. This home bias in MNE responses may signal the early stages of a reshoring trend.

The Covid-19 pandemic exposed the risks associated with high levels of trade openness. For some, it marks a true turning point toward a new phase of globalization in which international trade is no longer seen merely as an opportunity for economic gains, but also as a source of vulnerability and economic insecurity.

Yet, despite protectionist rhetoric, calls for reshoring, and reindustrialization policies promoted by several major economies, global trade has shown remarkable resilience. The evolution of the global trade openness ratio does not suggest a broad retreat into isolationism, but rather a limited reconfiguration of international trade flows.

Nonetheless, the landscape is shifting. Geopolitical and climate-related risks are intensifying, and protectionist tendencies – particularly visible in the deteriorating trade relationship between the United States and China, exacerbated since Donald Trump's re-election – are reshaping the environment in which firms operate. Therefore, firms must now factor in a broader set of risks when making investment and location decisions, including supply-chain disruptions, market access constraints, and geopolitical tensions.

These challenges are especially acute for multinational enterprises (MNEs), which underpin global value chains and can reallocate production across different locations. As key actors in the internationalization of economies, their decisions have direct

implications for labor markets in both their home and host countries. Understanding how MNEs adjusted employment in response to the Covid-19 crisis and in its aftermath is therefore essential. This requires distinguishing the evolution of employment in their foreign affiliates from that in their domestic affiliates, to better understand their link to their country of origin and the broader labor market effects of multinational presence – whether foreign or domestic – within a given territory.

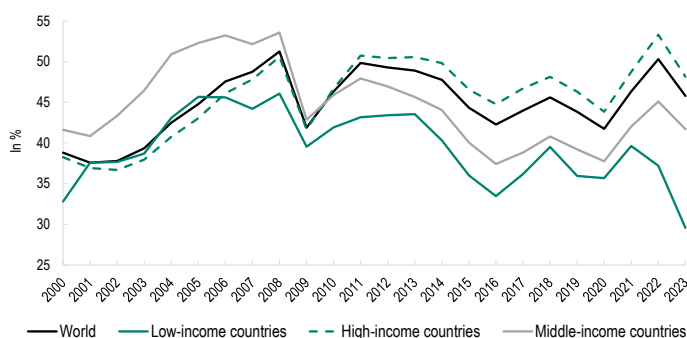
■ Toward a new era of globalization after the Covid-19 pandemic?

The Covid-19 pandemic was a major shock to international trade: global exports of goods and services declined by 9% in 2020 compared to 2019. It exposed vulnerabilities related to the lengthening of global value chains and the concentration of production among certain firms and geographic locations. Beyond these immediate disruptions, the crisis also exposed structural changes in the international trade system, where geopolitical considerations are increasingly challenging economic rationales. This shift was further reinforced by Russia's invasion of Ukraine and the strategic use of energy supplies, particularly natural gas, as leverage against Europe. At the same time,

* Constance Marette is a student at ENS Lyon and was an economist at CIREM at the time the article was written. Camilo Umana Dajud is an Economist at CEPII. Vincent Vicard is Deputy Director of CEPII and head of the International Trade Analysis scientific program.

Figure 1 – Global trade openness remains stable, despite protectionist rhetoric

Trade openness ratio (merchandise trade)



Source: World Bank, WDI.

Note: The trade openness ratio is the ratio of the sum of exports and imports to GDP.

climate change has increased the frequency and severity of natural disasters, further intensifying concerns over the resilience of global value chains.

The political responses have largely focused on the need to relocate industrial production, regionalize value chains or diversify supply chains. France, for instance, launched a sectoral relocation initiative in September 2020 as part of its recovery plan, allocating nearly one billion euros toward this. This policy focus soon extended to a broader economic security agenda aimed at reducing vulnerabilities in the supply chains of strategic products. These measures include industrial policies favoring national production bases or those located in allied economies, and trade instruments supporting decoupling or de-risking. Such approaches are now broadly shared among high-income countries.

However, these discourses and public policies have not led to a widespread retreat from international trade. Restrictions on the cross-border movement of people and goods, induced by lockdowns, reduced global merchandise trade relative to GDP in 2020, but the openness ratio quickly returned to its pre-crisis level across most countries (Figure 1).¹

However, since 2022, and Russia's invasion of Ukraine, early signs of geo-economic fragmentation have emerged, both in trade patterns and in foreign direct investment, although these remain limited. This realignment, marked by a decline in direct trade between diplomatically distant countries, has been accompanied by increased trade routed through intermediary or connector countries.²

Ultimately, the evolution of global value chains is not driven solely by trade or industrial policies. It also reflects the strategic choices of large MNEs concerning the geographic distribution of affiliates and their sourcing choice from external suppliers. These corporate decisions remain central to understanding how globalization is currently being reconfigured.³

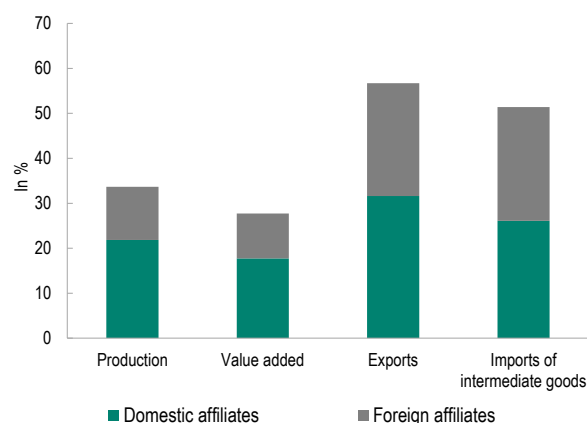
Multinationals operate both abroad and at home

Multinational enterprises are particularly exposed to global shocks, as they participate in and organize global value chains and rely heavily on international logistics flows to manage their production across different regions of the world. The rise of global value chains is indeed characterized by the segmentation of production in various locations, requiring coordination among multiple facilities (internal or external to the firm) and the implementation of supply management processes (just-in-time organization and inventory management).

By underpinning the operation of global value chains, MNEs influence the internationalization of the territories where they operate. In 2019, they accounted for 57% of global exports and 51% of global imports of intermediate goods (Figure 2), a share greater than their share of global production (34%) or value added (28%).

Figure 2 – Domestic affiliates of multinationals play a predominant role

Weight of domestic and foreign affiliates of multinationals worldwide in 2019



Source: Authors' calculations based on: OECD, Analytical Activity of Multinational Enterprises (AAMNE), 2024 version.

Note: The data relates to 76 countries.

Multinationals are often viewed through the lens of their foreign affiliates, which tends to underestimate their role in the economy of their home country, where the majority of their activities actually take place. Two-thirds of their production and value added are indeed generated by affiliates in their home country, compared to only one-third in all the foreign countries where they operate (Figure 2). These activities in the home country include functions such as design, oversight, strategic, organizational and financial planning, and production.⁴

1. 2022 partly reflects the rise in the prices of goods, particularly energy, following the energy crisis.

2. Gopinath, G., Gourinchas, P.-O., Presbitero, Andrea F. & Topalova, P. (2024). Changing Global Linkages: A New Cold War? *IMF Working Paper*, no. 2024/76.

3. Marete, C., Umana Dajud, C. & Vicard, V. (2025). Multinationals Here and There: Affiliates' Response to Global Crises. *CEPII Working Paper*, no. 10, July.

4. The domestic affiliates of US MNEs in the manufacturing sector account for 78% of R&D expenditures and 80% of R&D employment; Bilir, K. & Morales, E. (2020). *Innovation in the Global Firm*. *Journal of Political Economy*, vol. 128(4), pp. 1566–1625.

■ Multinationals are specific enterprises

Under normal circumstances, MNEs exhibit higher productivity but also increased volatility in their operations, particularly when it comes to their foreign affiliates. Their ability to relocate production across multiple sites in different countries makes them more mobile; they can thus more easily adjust their activities in response to changing external economic circumstances. Foreign affiliates are, on average, larger and more productive than the average firm, but they also have a higher likelihood of bankruptcy than similar domestic firms.⁵ Moreover, MNEs often act as transmission channels for economic shocks across countries, amplifying macroeconomic volatility in the economies in which they operate.⁶

In times of economic crisis, however, the effect on the foreign affiliates of MNEs is uncertain. The ability to shift production abroad can increase volatility, while market diversification can reduce it during localized crises that do not affect the entire global economy. During the financial crisis of 2008, for example, the foreign establishments of multinational enterprises fared better than other similar establishments, whereas in the years of global growth that preceded it, these two groups of firms showed no difference in growth.⁷

In contrast, relatively little is known about the reaction of domestic affiliates of MNEs. The renewed attention to reshoring since the Covid-19 pandemic has brought this question to the forefront. For an MNE, a reshoring policy would mean prioritizing domestic activity and increasing the share of its home country in its overall jobs or investments. However, how a shock affects MNEs' foreign and domestic activities is far from straightforward.

Several empirical papers on firms with multiple establishments within a country show that they tend to favor employment in affiliates that are geographically close to their headquarters when faced with a negative shock.⁸ Applied at the international level, this logic would suggest that MNEs might prioritize their home-country affiliates during global crises, leading to relatively better employment outcomes for domestic affiliates. How, then, did MNEs actually adjust employment across their domestic and foreign affiliates in the wake of the Covid-19 crisis?

■ Better performance by multinationals since Covid-19, driven by domestic affiliates

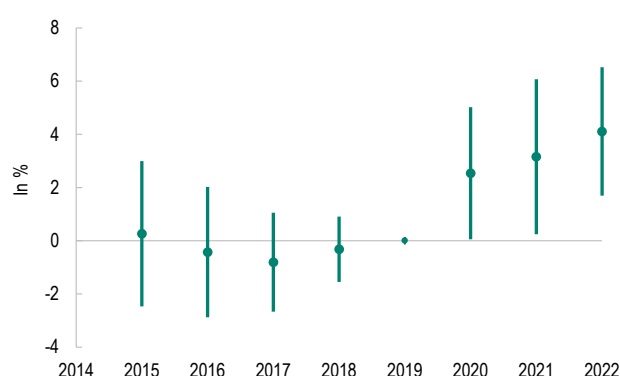
Studying the evolution of multinational enterprises requires combining data on firm activities and their ownership structure. The Orbis database allows for the collection of data on

the affiliates of over 35,000 MNEs from around the globe, across 29 European and Asian countries. Next, to assess the performance of multinationals in terms of employment before and after the health crisis, it is necessary to compare them to similar firms. This requires defining a group of firms that experienced employment evolution before the pandemic similar to that of MNE affiliates. To achieve this, the group of firms to which multinationals are compared is limited to the affiliates of domestic groups (which do not have foreign affiliates) that are larger and more productive than the average firm, and therefore closer to the affiliates of MNEs.

The response of MNEs to the Covid-19 crisis offers critical insights that go beyond what is visible in aggregate trade and investment data, enriching our understanding of the structural changes underway in globalization. First, MNE affiliates show better employment performance than the affiliates of domestic groups after Covid, whereas their dynamics were similar in previous years (Figure 3). This difference in employment trends can then be attributed to a specificity of MNEs (causal interpretation), as the trajectories before the crisis were similar and the onset of the Covid pandemic was independent of the firms' decisions (exogenous). It indicates a better performance in response to the Covid shock compared to similar firms, with employment trends being 2.4% more favorable in 2020, but it does not allow for conclusions about the level of employment: Multinationals either reduced employment less or increased employment more than the affiliates of domestic groups.

Figure 3 – The affiliates of multinational enterprises have shown better employment performance than those of domestic groups since Covid

Difference in employment evolution between affiliates of multinationals and domestic groups



Source: Marette, Umana Dajud & Vicard (2025).

Notes: The points represent the estimated coefficient values; the vertical lines indicate the 95% confidence intervals. When these lines do not intersect the x-axis at zero, the coefficient is statistically significant.

5. Bernard, A. & Jensen, J. (2007). Firm Structure, Multinationals, and Manufacturing Plant Deaths. *The Review of Economics and Statistics*, vol. 89 (2), p. 193-204, and Görg, H. & Strobl, E. (2003). Footloose Multinationals? *Manchester School*, vol. 71(1), p. 1-19.

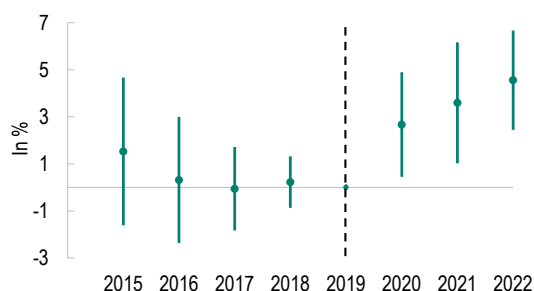
6. Kleinert, J., Martin, J. & Toubal, F. (2015). The Few Leading the Many: Foreign Affiliates and Business Cycle Comovement. *American Economic Journal: Macroeconomics*, vol. 7(4).

7. Alfaro, L. & Chen, M.X. (2012). Surviving the Global Financial Crisis: Foreign Ownership and Establishment Performance. *American Economic Journal: Economic Policy*, vol. 4(3), p. 30-55.

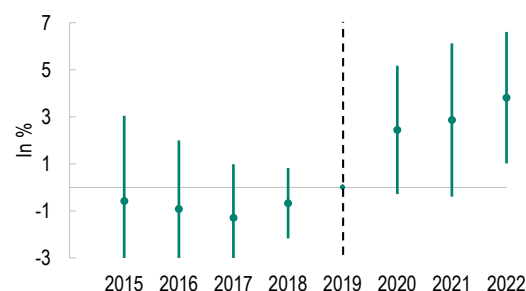
8. Landier, A., Nair, V.B. & Wulf, J. (2009). Trade-Offs in Staying Close: Corporate Decision Making and Geographic Dispersion. *The Review of Financial Studies*, vol. 22(3), p. 1119-1148, and Bassanini, A., Brunello, G. & Caroli, E. (2017). Not in My Community: Social Pressure and the Geography of Dismissals. *Journal of Labor Economics*, vol. 35(2), p. 429-483.

Figure 4 – Multinational enterprises have prioritized employment in their domestic affiliates

4.a – Difference in employment evolution between domestic affiliates of multinationals and affiliates of domestic groups



4.b – Difference in employment evolution between foreign affiliates of multinationals and affiliates of domestic groups



Source: Marette, Umana Dajud & Vicard (2025).

Notes: The points represent the estimated coefficient values; the vertical lines indicate the 95% confidence intervals. When these lines do not intersect the x-axis at zero, the coefficient is statistically significant.

Second, the outperformance of multinational affiliates is not limited to the immediate response to the Covid crisis, but persists over time. Not only does the employment gap not close starting in 2021, but it tends to widen in 2022. This structural difference could indicate a lasting change in the globalization model of multinational enterprises, influencing their long-term location choices.

Third, the resilience observed since 2020 is primarily driven by domestic affiliates of MNEs rather than their foreign affiliates (see Figure 4.a). While foreign subsidiaries also outperformed affiliates of domestic groups, the effect was notably smaller. This indicates that the mode of internationalization and the nationality of the parent company play a significant role in shaping employment responses to global shocks. Domestic affiliates of MNEs, whether located near corporate headquarters or elsewhere in the home country, exhibited stronger resilience. Thus, proximity to headquarters does not appear to be a decisive factor within national borders. Furthermore, the specificity of domestic affiliates holds true regardless of their location within the country: Affiliates located in the same region as their headquarters did not show better performance than those situated in other regions.

This better performance of multinational affiliates does not result from sectoral differences between multinational affiliates and those of domestic groups. It persists when firms operating in the same sector and the same country are compared. It is therefore a choice made by multinational enterprises to prioritize employment in their home country, rather than a decision related to the nature of the activity carried out, since it is known that the countries where multinationals are headquartered are also those where innovation functions in particular are concentrated.

The relative stability of global trade openness thus masks microeconomic changes in the behavior of MNEs. The improved resilience of employment in multinationals in their home countries since the Covid-19 crisis suggests a home bias in their response to the new international environment post-Covid. The persistence of this trend until 2022 is consistent with a structural change in the behavior of multinationals, whose location choices could determine the future geography of global value chains. However, the stimulus plans, which lasted until 2022 in several countries, may have influenced the decisions of MNEs and delayed certain adjustments in their home countries that could materialize with their phasing-out.

La Lettre du CEPII

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Centre d'études prospectives
et d'informations internationales
20, avenue de Ségur
TSA 10726
75334 Paris Cedex 07

contact@cepii.fr
www.cepii.fr – @CEPII_Paris
Press contact: presse@cepii.fr

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