

GLOBALISATION IN THE ERA OF COVID-19 PANDEMIC AND POST-PANDEMIC PERIOD

Vlatka Bilas	Ph.D, full professor, Faculty of Economics and Business University of Zagreb, Zagreb, vbilas@efzg.hr; ORCID ID: 0000-0002-9021-6651
Mile Bošnjak	Ph.D, assistant professor, Faculty of Economics and Business University of Zagreb, Zagreb, mbosnjak1@efzg.hr; ORCID ID: 0000-0002-7663-198X
Sanja Franc	Ph.D, associate professor, Faculty of Economics and Business University of Zagreb, Zagreb, sfranc@efzg.hr; ORCID ID: 0000-0001-8787-4429

Abstract: *Although Covid-19 pandemic and consequential “lockdowns” resulted in inward orientation of countries, international relations and international cooperation are as important as ever. This paper analyses the impact of Covid-19 on different globalisation aspects, from multilateralism and regional economic integrating, over international trade, global value chains to foreign direct investment and inequality. The aim of the analysis is to provide an overview of globalisation pace in the era of Covid-19 and in the post-pandemic period, due to the fact that pandemic changed and disrupted many globalisation aspects on one hand, and forced countries to implement different policies and activities in order to support their economies in this specific crisis, on the other hand. Functioning of global value chains was aggravated and consequently, different market effects occurred. International institutions also experienced challenges in “leading” the response to Covid-19 pandemic, which could put forward some lessons on the importance of global institutional framework. Understanding the effects of Covid-19 pandemic on different globalisation features is the basis for developing approaches and measures for recovering and improving economic performance and global position of countries, as well as for developing and modifying global institutional framework.*

Keywords: COVID-19, globalisation, global institutions, GVC.

JEL classification: F1, F2, F6

INTRODUCTION

The common point of all pandemics in the history is serious negative effects on global economy (Aday and Aday, 2020). Undoubtedly, the spread of Covid-19 in 2020 has had severe effects on every aspect of human lives. We are witnessing differ-

ent shifts, transitions and changes due to the fact that most of the world was affected (Mengzi, 2020). In order to protect global health, global economy was put into stasis (IMF, 2020).

Projections of global institutions on the economic consequences of the Covid-19 are really pessimistic, both of the International Monetary Fund and World Trade Organisation, due to the fact that many countries were in lockdown (Smith and Wilkinson, 2020).

Covid-19 pandemic is also seen as the most fundamental disruption to economic activity in this century (Enderwick and Buckley, 2020)

Globalization is not a new phenomenon, it has been present for hundreds of years (Stevens, 2007) and represents an intense cross-border mobility of goods and services, people, capital and knowledge (Guinigundo, 2018). The notion of globalization has crept into all pores of life, and the interdependence and interaction of people, companies and states on a global level is visible, regardless of spatial distance (Grgić and Bilas, 2012). Although globalization has undoubtedly brought some negative consequences, such as deepening the income gap between countries, but also within them, it also has undoubtedly positive effects such as accelerated economic growth and technological progress (Grgić and Bilas, 2012). It enables easier connection, communication and cooperation among people, businesses and countries.

Global trade and manufacturing today are increasingly structured around global value chains. If the implementation of a certain activity within a segment of production and / or business is more expensive than the implementation or subcontracting of the same activity in the country or abroad, it is almost certain that production or business will split between different companies, very likely outside national borders, which ultimately leads to the formation of a global value chain (Marcolin, Miroudot and Squicciarini, 2016). The production model through global value chains has changed the paradigm of trade and development policies (UN ESCAP, 2015). Instead of developing an entire domestic industry to engage in exports, economies can now specialize in one segment, such as manufacturing certain components, and engage in global value chains through which they have access to wider international market.

Inevitably, Covid-19 affected globalisation process, no matter what is our position on the role and importance of globalisation. For example, China's growth dropped for 6.8% in the first quarter of 2020. Pandemic, of course, had its severe and important social features, like social distancing. Full awareness of these impacts is present, but these are not the subject of this paper. The paper is focused on economic impact of Covid-19 on different globalisation aspects, from multilateralism and regional economic integrating, over international trade, global value chains to foreign direct investment and inequality.

The paper is organized in four parts. Part 2 refers to literature review on the features and the importance of globalisation in general. Part 3 summarizes the impacts of Covid-19 crisis on the globalisation. The final section presents conclusions.

LITERATURE REVIEW

Economic globalisation definitely improved allocation of resources and welfare (Mengzi, 2020). Although globalization has strengthened global economy and improved welfare in general, there is another side of globalization which underscores

the problem of unequal distribution of welfare effects (Guinigundo, 2018). (Rodrik, 2018) also believes that free trade, that is, freer trade, in whatever form it is, creates losers and winners. The final outcome will depend upon country size, power, political and strategic position and a like.

Globalization 4.0, as a new phase of globalization, is taking shape in the midst of Covid-19 crisis. Development and diffusion of digital technologies has changed the way society and economy perform, and has contributed to the creation of a new form of digital economy. In such an economy data is becoming extremely important for value creation. The development of digital economy is also contributed by global platforms that enable the application or development of technologies on a global level, and include social networks, greater mobility, cloud computing, analysis of large amounts of data and the like (Franc and Dužević, 2020). This new global economy requires new and flexible regulatory framework. For greater efficiency, it is necessary to upgrade the system of global cooperation and domestic governance. For example, all international organizations, whether multilateral or not, should reconsider whether they respect the basic characteristics that help them function more effectively in the context of Globalization 4.0 (WEF, 2019), and those are: outcome orientation; multidimensionality; speed; interoperability (acting within different systems, especially important for multilateral institutions); resilience and sustainability; people orientation and trust; technological strength; and level of integration. The next phase of global economic development has the potential to build on the successes of previous phases, but will require the improvement of institutions, agreements and policy models, as well as better cooperative international and domestic architecture (WEF, 2019). There are many challenges facing the multilateral trading system today. Some of them existed at the time of the creation of the World Trade Organization (WTO), and some are newer.

However, according to (Mengzi, 2020) the world is entering now the period of so called “slowbalisation” due to Covid-19 crisis – many factories shut down, global value chains were disrupted, international migration flows as well. Further liberalisation of the movement of factors of production in practice is questionable. In fact, protectionism trend seems to be resumed although there are sound empirical evidences that it decreases economic growth. It is mostly accepted fact in the scientific literature that protectionist policies influence negatively economic growth. There are some research that weren't able to prove this hypothesis but other proved that protectionist policies are anti-trade and the costs of protectionism can be large (Smith and Wilkinson, 2020). (De Rugy, 2019) also concludes that historically tariffs have not helped to boost economic growth. (Espitia et al., 2020) conclude that escalating export restrictions would increase the initial shock caused by the pandemic, with the rise of world food prices by up to 18 percent on average. Most affected would be import food dependent countries, which are in mostly developing and least developed countries.

(Potrafke et al., 2020) also analysed the effect of protectionist policies (introducing trade policy instruments) on economic growth. However, in their research they didn't find evidence that protectionism influenced economic growth, particularly in a sense that raising government revenue from introducing trade policy measures stimulated the increase of government expenditure in a short run.

On the other hand, removal of barriers to international trade resulted in the reduction of costs of cross-border trade, and thus the market prices of exchanged goods

decreased. This has caused fewer positive effects on economic growth and employment in trading countries (Peterson, 2017)

There is almost no doubt that the introduction and increase of tariffs in response to the problems of hyperglobalization, that is rapid and all-encompassing globalization, will result in failure, and create additional problems through potential policies of retaliation among trading partners, increasing economic insecurity, putting additional pressures on workers and consumers and potentially slower growth (UNCTAD, 2018). The new protectionist wave, along with the declining spirit of international cooperation, poses a significant challenge to governments around the world (UNCTAD, 2018).

One of the most important geo-strategic changes of the last half century is positioning of China as the pivotal country in global trade (Lund et al., 2019). From 1995 to 2007, global value chains expanded in almost all manufacturing industries as companies began to use inputs as well as produce in China. Due to its market size, investment in industrial capacity, and growing opportunities, China has an increasing share of world production. Integration in the global economy nowadays is reflected in its participation in GVCs. China is increasingly participating in GVCs but is more included in backward participation and in lower value added activities.

GVCs are now in the process of reconstruction which underscores international division of labor that takes into account both value chain upgrading and value chain governance (Song et al., 2021). Developing countries expect participation in these chains to attract more foreign direct investment (FDI), easier access to export markets, advanced technology and knowledge, the benefits of effective specialization in specific tasks and the like (UNCTAD, 2018). Participation in global value chains is considered particularly important for developing countries with small domestic markets whose firms face different technological and organizational constraints.

FUTURE TRENDS IN GLOBALISATION

As (Baldwin and Mauro, 2020) stated, Covid-19 virus may be as contagious economically as it is medically. Policy measures implemented during Covid-19 crisis can be divided into five categories: (1) public health measures; (2) monetary measures; (3) fiscal measures; (4) travel and human control measures and (5) trade measures.

Covid-19 crisis is transformative in many ways (Ortega, 2020). In some cases, it can be seen as an opportunity. Nevertheless, it had serious negative consequences on investment and trade (Chandra et al., 2020). According to UNCTAD statistics, global foreign direct investment decreased for around 40% in 2020 (Chandra et al., 2020).

In relation to regional versus global cooperation, there are attitudes that regional cooperation is more important than global (Mengzi, 2020). (Smith and Wilkinson, 2020) argue that global cooperation is an important lever out of the economic consequences of the Covid-19. (UN, 2020) also states that redeployment and expansion of international development assistance is vital. (Baldwin and Mauro, 2020) state that monetary policy and fiscal policy actions will be needed and that international coordination is necessary in order to be as efficient as possible. (Baldwin and Evenett, 2020) argue for a global plan to coordinate mass production of medical supplies, for instance.

(Enderwick and Buckley, 2020), however, believe that after Covid-19 recovery it is not so likely to go back to previous wave of globalisation. They predict transfor-

mation to a stronger regional focus since globalisation showed its weaknesses in response to Covid-19 pandemic. They also believe this regional focus would offer better balance of national and international interests, than globalisation.

According to (Gopaldas, 2020), Covid-19 has supercharged nationalism. At the start of Covid-19 crisis many countries actively used international trade policy in order to restrict trade, especially on the export side, in fear of not being able to meet domestic demand and prioritising it on this way (Chandra et al., 2020). These measures were accompanied by loosening restrictions on the import side, especially to medicines and medical products. (FAO, 2020) states that it is very important to have in mind that national policies and activities are compatible with international trade system set by the WTO and commitments of each country. Although most of these measures were introduced as short term measures in the burst of crisis, there is still a risk of hampering trade of small and import dependent countries. One should bear in mind the fact that (FAO, 2020) pointed out, past experiences have shown that avoiding protectionist measures might be as important as direct support of the economy.

However, this crisis has shown that we are interdependent and that external help and international cooperation are crucial as without them the vulnerability of all increases. In that context, one should rethink current global institutional framework. (Albertoni and Wise, 2020) analysed the effect of nationalism and Covid-19 on global trade norms and patterns, and the role of WTO. They concluded that WTO has still not become as a *bona fide* multilateral institution. In relation to this conclusion, they advocate better leadership in WTO. The obvious international institution to lead the crisis response concerning trade was WTO (Smith and Wilkinson, 2020). However, (Smith and Wilkinson, 2020) argue that none of the global institutions took the lead in the situation of the Covid-19 crisis, but in fact they stopped working at all.

(Ortega, 2020) defined three different scenarios of the future under Covid-19 crisis: (1) “everyone for himself”, (2) “collective international intelligence” and (3) “step by step muddling through”. He finds the second scenario as the most advantageous, and the first as the least advantageous. However, the likely outcome is a mix of those scenarios. Most researchers agree on the need for greater multilateral cooperation, especially in the area of trade and global trading system (Chandra et al., 2020). On the other hand, Covid-19 impacted regional economic integration efforts as well, especially the ones in the process of design and development, like the African Continental Free Trade Agreement. In the Southern African Development Community government revenues are estimated to decrease drastically, due to the decrease in economic growth (SADC, 2020).

Recent USA-China trade war and changes in trade flows due to Covid-19 exhibited the retreat of globalisation, the shift closer towards nationalism, and growing dissatisfaction with the inequality problem (Gopaldas, 2020). (Schmucker, 2020) pointed out that Covid-19 pandemic led to increased protectionism and contributed to the intensification of the rivalry between the USA and China.

(OECD, 2020) is emphasizing trade as essential in Covid-19 crisis and international cooperation as the basis for maintaining trade flows. According to this point of view, trade will ensure the supply of essential products and rebuild confidence in the global economy. In order to strengthen trade and cooperation certain level of trust and good will have to exist. There are many challenges in the period when protectionist

trends are occurring within the international trading system, and that is the reason why (OECD, 2020) stresses the necessity of avoiding further trade tensions among countries. (IMF, 2020) pointed out that lack of cooperation makes everyone worse-off, and one should bear this in mind.

(Blanco and Rosales, 2020) claim that Covid-19 will most likely increase global inequality and that international coordination is of great importance, especially to the ones with least policy manoeuvring space. According to them, there is an underlying contradiction between the phenomenon of Covid-19, which doesn't know international borders, and political systems which rely on borders.

(Baldwin and Evenett, 2020) named the previous decade as the decade of defensive nationalism. They found as one of the biggest false dichotomies of this period that international trade undermines national strength and capabilities. Also, they conclude that protectionism didn't work during the Covid-19 crisis. (Aday and Aday, 2020) agree with the fact that lessons from past experiences showed that avoiding trade restriction policies can be as effective as direct support activities to vulnerable sectors. (Giordano and de Mendivil, 2020) also agree that protectionism might magnify the negative economic effects, especially in relation to food security, and that policy makers should be aware of these potential effects.

(Mengzi, 2020) suggests that industrial chain will be longer and larger in more technology-intensive industries where industrial division is more delicate and costs are lower, but in the situations where factories shut down and industrial chain was interrupted, the imperative is to shorten the industrial chain and locate it closer together. There are predictions that some factories will relocate back to home country (Mengzi, 2020). However, we can conclude that it is too early to predict whether Covid-19 will hamper globalisation with divisions and fragmentations of trade and productions after the crisis (Mengzi, 2020).

Covid-19 crisis exposed the vulnerability of global value chains (Smith and Wilkinson, 2020).

(Albertoni and Wise, 2020) presented China's Hubei Province as the example of the first big supply chain shock from the Covid-19 lockdown. This province presents a world center of high-tech production. Around a quarter of the world's optical-fibre cables and devices are in the province and, for example, some projections are that Covid-19 impact in Hubei could alone decreased for 10% global shipments of smartphones (Baldwin and Mauro, 2020).

Damage that has occurred to global value chains in combination with rising protectionism, especially having in mind trade war between USA and China, increased the risk of unilateralism within global trade regime (Albertoni and Wise, 2020). (Baldwin and Mauro, 2020) pointed out that manufacturing sector is likely to have three negative trends: (1) direct supply disruptions will hinder production, (2) supply-chain contagion will amplify the direct supply shocks and (3) demand disruptions due to macroeconomic drops in aggregate demand, purchase delays by consumers and investment delays by firms.

(Chandra et al., 2020) stress that one of the key activities in the process of recovery is definitely ensuring supply chain connectivity, particularly of essential goods. (FAO, 2020) stresses the fact that following international guidelines on safe travel and trade corridors can help keep agri-food supply chains alive and promote food security.

(Espitia et al., 2020) analyzed food protectionism due to Covid-19 and concluded that export restrictions induce retaliation rather than cooperation. (Aday and Aday, 2020) stress the fact that the food supply chain is representing one of the most important sectors of the economy, and that is influenced by Covid-19 all along the chain, from the farm to the final consumer. They also argue that food protectionist policies might increase food prices and they suggest avoiding such policies. Another issue is to create flexible supply chains which are responsive to changes.

(UN, 2020) points out that axioms of free trade and free movement of factors of production in the era after Covid-19 will be questioned against individual country benefits. In relation to these, (FAO, 2020) advocates that potential activities and measures should aim actual, and not perceived demand and supply disruptions.

Digitalisation is one of the prevailing global trends, and the pandemic actually accelerated digitalisation which became of great importance during the Covid-19 pandemic (Chandra et al., 2020). Companies that trade digitally, such as Alibaba, Alphabet, Amazon, Facebook, Microsoft, Netflix and Spotify, are continuously growing and have numerous opportunities for further growth (WTO, 2018). Yet, not all countries have the same benefits and opportunities from digitalization. Digital divide between developed and developing countries is seen an impediment for integration in global digital economy (WTO, 2018). In order to enable digital trade in all countries, it is necessary to strengthen capacities, provide access to the Internet and to necessary digital skills.

(Stiglitz, 2020) argues that there will not be a “V shape” recovery line of the world economy. There are a few reasons to support this claim. He argues that economy wasn't so healthy before Covid-19 crisis. This crisis revealed some weaknesses, and in fact Stiglitz is not advocating returning to the pre-Covid-19 period. Also, he doubts in the speed of controlling Covid-19 globally. Finally, he argues that Covid-19 pandemic only accelerated some changes that are in fact inevitable, for instance digitalisation. Also, he puts an accent to possible major structural changes induced by the crisis which might decrease demand for specific types of labor, mostly unskilled labor, which in turn can have an impact on increasing inequalities.

(Stiglitz, 2020) argues setting priorities of government policy: ensuring health and saving lives, protecting the vulnerable, management of aggregate demand, allocating funds for activities that will contribute to the post-pandemic economy that we want to create, and although limited in scope, monetary policy is relevant for long term stability.

CONCLUSION

It is still too early to predict how will Covid-19 change globalisation patterns as well as the form and durability of these changes. Current global pandemic has once again revealed that some social, health, economic and other circumstances or phenomenon are not always predictable and that in time of crisis, clear, transparent, efficient and fast response is necessary. The role and importance of global institutions is evaluated continuously. However, the importance and successfulness of their functioning is best visible during a crisis period. Their purpose of designing, coordinating and implementing necessary global measures and policies is more important than ever. Whether they succeeded or failed to perform in this crisis is left to be evaluated, but this could

be a good basis for reaching a global consensus on the structural reform needs in the global institutional framework. Informatization and digitalization have opened many opportunities and have been especially useful in the conditions of Covid-19. Online meetings, lectures, conferences, and other activities are here to stay to a certain extent, because, in some aspects, we discovered their advantages. Perhaps Covid-19 can be seen as an opportunity for globalisation to modernize in all its features. Throughout the history every crisis has revealed many lessons, as is the case with Covid-19 crisis. It can represent the basis for building a more resilient global economy and society, but we have to be open to advantages and opportunities brought by it, and fully aware of all damages and risks. Further analysis and data will enable bringing more suitable and necessary strategies, policies and measures needed to rebuild, modify and adapt global economy and society in the post-pandemic period.

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