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## **FOR WHAT THE BELL TOLLS? A CONTRIBUTION TO UNDERSTANDING DEPENDENCE OF THE PANDEMIC AND GLOBAL TRADE**

**ABSTRACT:** The outburst of COVID-19 pandemics has heavily contracted and structurally altered both the size and the flows of international trade throughout 2020 and 2021. Even though contagion effect on global trade is clearly a negative one for a number of reasons elaborated in the paper, we venture to argue that this is in fact an evolutionary, expected and unavoidable consequence of the globalisation process itself. Among the key trends affecting the present and future of the international trade, roughly half of them are fully independent and the other half at best semi-dependent from the pandemics itself. In other words, it appears that the bell tolls for the wrong suspect, in as much as the two phenomena might be coextensive, not to mention the ideological and operational confusion behind recently widespread deliberations to deploy trade policies in order to simultaneously achieve several non-trade objectives of dubious compatibility. Notwithstanding the grim prospects on the horizon, some Mediterranean economies, if proven capable, may yet turn out to be the unintended winners of the silver lining.

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*We are hostages of our children. -M. Yourcenar-*

*The most important single central fact about a free market is that no  
exchange takes place unless both parties benefit.  
-M. Friedman-*

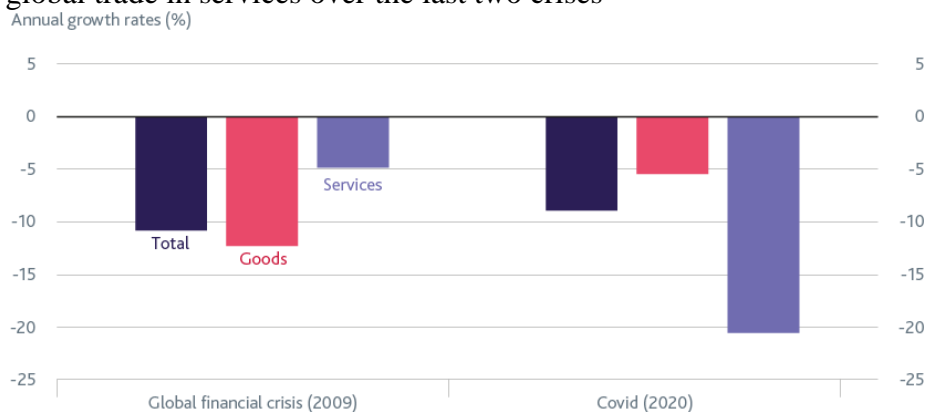
## INTRODUCTION

The outburst of the pandemic, caused by specific strains of corona virus potentially lethal to humans, has heavily contracted and structurally altered the size and the flows of international trade during 2020 and 2021, although world trade has already been severely affected by the trade war between the two political and economic superpowers and the resulting *de facto* suspension of the World Trade Organization (WTO). Based on the analysis of changes in the content and directions of international trade nominally brought by COVID-19, in this paper we present arguments in support of the thesis that this downfall is an unintended child of a gradual and somewhat natural degeneration of international economic relations, fundamentally and dialectically conditioned by the genesis and the very nature of globalisation.

International trade flows are volatile, unbalanced and fragmented within global production, and supply chains. Contrary to the popular belief, after the first blow of the previous international financial crisis and the drastic decline in world trade in 2008-2009, international trade has never returned to the pre-crisis trend trajectory (Bekkers *et alia*, 2020). Something similar, although certainly quantitatively more significant in the case of services, can be expected with the COVID crisis, but the structural transformations of world trade flows will probably be more interesting and turbulent than their aggregate expression, which will sooner or later stabilise at the end through either the V- or L-shaped recovery. Trade in goods in the first quarter of 2021 grew somewhat faster than its pre-pandemic dynamics, but international trade in services continued to fall behind (UNCTAD, 2021). Trade in energy was significantly reduced, much like the trade in drugs and medical supplies needed to fight COVID-19 in the first months of the pandemic. Trade in food and non-medical chemicals has not been significantly affected by the pandemic (Eurostat, 2021). In any case, we are adjusting to a qualitatively "new" normal, which can be seen in Chart 1, which compares the annual rates of decline in

total world trade and changes in its structure during the COVID-19 pandemic and the previous international financial crisis.

*Chart 1: Annual rates of decline in total international trade, trade in goods and global trade in services over the last two crises*



Source: Bank of England (2021)

## INTERDEPENDENCE OF PANDEMIC AND GLOBAL TRADE

The outbreak of the COVID-19 pandemic initially caused not only massive contractions in aggregate demand due to insecurity or wage cuts or even job losses, but also an additional increase of already raised tariffs, non-tariff barriers, even restrictions on exports of certain strategic or deficient products, i.e. broad spectrum protectionism (over 90 countries resorted to protectionism after the declaration of the pandemic, and according to *The Economist* (2021) 2/3 of countries that applied the measures of restriction and control of exports of medical devices after the outbreak of the pandemic applied the same restrictions in August 2021). Global trade plunges of this sort and prolonged trade wars are not part of the solution and will not shorten neither the health crisis nor the economic crisis. Quite the contrary, a new momentum of trade liberalisation, international scientific and economic collaboration are necessary ingredients for a sustainable exit from the pandemic (Baldwin-Evenett, 2020). However, it cannot be ignored that the speed and destructiveness of this pandemic bears the stamp of the achieved development of international trade and globalization, because the virus first and foremost spread along well-trodden trade and tourist routes (Barlow *et alia*, 2021). Over 80% of international trade in goods is carried over sea (UNCTAD, 2021), while ships are unfortunately very suitable for the spread of infection among the crew forced to interact within a small space. There is no need to waste breath on the draconian reduction of international tourism and

tourism-related services, which traditionally involve close contact between consumers and service providers. Finally, the greatest economic loss and *eo ipso* a blow to international trade (which will be fully evident only with hindsight) is the loss of human lives in terms of their contribution to creative economic activity and in terms of their unrealized, i.e. prematurely extinguished consumer potential. At the same time, it may be interesting that Zhang *et alia* (2021) found empirically that during the first year of the pandemic in China, the volume of international trade decreased only in correlation with the number of deaths from COVID-19, while in the USA it decreased in correlation with the number of corona virus infections. Moreover, Liu, Ornelas, and Shi (2021) find that in China, government measures to combat the infection have had more of an impact on the dynamics of import orders than health statistics and the current potential for the spread of the infection.

Be that as it may, one important behavioral peculiarity of economic life imposed by the contagion is rather striking. Namely, a year and a half ago, when a pandemic was declared and the corona virus began to sow death in all four corners of the world, consumers panicked and began to over-purchase all sorts of goods, while today, on the contrary, companies are struggling to produce enough supplies (Murray-Curran-Chipman, 2021). The dizzying speed with which demand for a variety of goods is being restored, including durable consumer goods, is creating shortages, transport bottlenecks and, for the time being, a slight recovery in inflation, in line with the empirical findings of Jack and Stuermer (2021). Global supply chains are straining to the limit and cracking down on production or exchange of a range of commodities from copper, iron, aluminum, steel, wheat, mercantile corn, logs, cardboard boxes, plastics to semiconductors and energy. Rental of trucks, railways, transport containers, etc. has also become more expensive (Murray-Curran-Chipman, 2021). Restrictions on the supply side continue to hamper production and logistics capacities and consequently the volume of trade, so that the decline in exports generally goes hand in hand with the decline in imports, because the tops of the EU-CHINA-US global industrial-trade triangle are sources of imported raw materials, semi-finished products as well as markets for the placement of their final goods (Baldwin, 2020). For example, China obtained a significant percentage of its own needs for semiconductors (at least before the customs war) as input from the United States (Malović, 2019), while China defends its status as the world's number one trading power not only as a net exporter of consumer goods, but as a leading supplier of semi-finished products in the manufacturing industry (20% of global needs for semi-finished products) related to precision mechanics, machinery and automotive industry and electrical communication equipment (UNCTAD, 2020).

It is not impossible for this type of disturbance to further deepen the previously growing foreign trade imbalances in the world economy, which are a very credible predictor of the latter protectionist reaction, especially if an expansive fiscal policy is implemented alongside trade disequilibria (Delpuch-Fize-Martin, 2021). Currently, the massive difference in the intensity of fiscal expansion around the world only further favors possible troubles in international trade. The biggest imbalances in international trade, however, should be expected by countries that are outside the major regional trade integrations, import mostly finished products and trade with whom they usually arrive from the immediate geographical neighbourhood (Comunale-Dainauskas-Lastauskas, 2021).

All in all, the reduction in the volume and deformation of the factor content of international trade at the global level is fuelled by the acquisition of several co-factors: 1) politico-economic repercussions of shifted production and trade gravity to the east, to Asia; 2) technical progress and sectoral expansion in the field of information and communication technologies, automation and artificial intelligence (Industrial Revolution 4.0) which stabilizes the ideology of globalisation; 3) green evolution additionally accelerated by the pandemic that brought about both price increases, substitutions in the production or outsourcing in the procurement of materials, assemblies and technologies, in other words "reshuffled and re-dealt the cards"; 4) special coexistence of de-globalisation, anti-globalisation and globalisation processes in the world; as well as 5) interruption, shortening and diversification of global supply chains; 6) expiration (*id est* effectiveness) of monetary and fiscal expansion as a kind of state aid to the economy and the population (Goldin *et alia*, 2021).

Thus, the fact that China with its Asian hinterland has surpassed the United States with respect to trade volume and in many ways with respect to production activity as well has affected not only its international trade with the Western world, but also how Chinese investment, Chinese technology and trade-logistics centres are viewed down the Silk Road and across the planet (Crow-Saran, 2021). Although the trade war against China has at least temporarily disabled its full foreign trade potential, there is an opportunity for other Southeast Asian economies, primarily Malaysia and Vietnam. After all, Asian economies have proven to be more resilient in the pandemic itself, as they have conducted much stricter closures, more frequent testing based on need, with a stark advantage for much younger populations than in the west, less hospital days and lower Asian mortality (Goldin *et alia*, 2021).

Technical and technological progress has already shaped the transformation of cross-border business, objects and modes of international exchange, and the outbreak of the pandemic has only intensified the use of technologies such as machine learning, cybernetics, remote audio & video

software, cloud computing, video games and artificial intelligence applied in the home entertainment and remote-control industry, for example (*Ibidem*). This, of course, contributes to the stabilisation of the recently endangered narrative of raising the standard of living and well-being of globalization. Inhabiting a highly materialistic civilization, citizens crave technologically advanced products and services. It is becoming easier to control and direct masses of the dissatisfied citizens, which using these same technologies can become aware that these products are widely available elsewhere.

Raising environmental awareness has come naturally with a jump in GDP, and somewhere with a drastic deterioration of the human environment due to the influx of foreign direct investment, which, if focused on dirty technologies, usually seeks destinations with cheap labour and low environmental standards. However, even when green evolution progresses far from emerging markets and underdeveloped countries, along with the price of environmentally friendly products and altered production factor content partly obtained through imports, it is certainly to blame for both trade creating and trade diverting effects, if we may borrow J. Viner's terminology. The likely impact of green evolution on international trade will be less delicate this time around, as WTO rules have so far allowed environmental measures only if they have the minimum necessary negative impact on world trade, and recent research reveals that OECD members account for a quarter of total CO<sub>2</sub> emission in foreign trade activities (The Economist, 2021). Another question is whether it can be successful and at what politico-economic cost, since it is a public secret that key environmental policies have so far been a zero-sum game globally. With a strict application of environmental standards to reduce pollution in developed countries, there is an overflow of about a third of emissions abroad by relocating dirty industries elsewhere instead of permanently abandoning or substituting them (*Ibidem*). When we talk about developing countries, raising environmental standards would have a beneficial effect on certain dimensions of economic development in them, but it would certainly slow down and hinder both economic growth and the balance of international trade.

Unfortunately, the same interconnectedness enabled by globalisation, which facilitated the creation of wealth and multiplied economic opportunities, produces negative effects as well, which began to manifest themselves during the 1990s and 2000s. Global and transnational risks such as international terrorism, environmental degradation, cyber-attacks, epidemics, human trafficking, financial instability and cross-border financial crises have ricocheted off with increasing frequency around the world. Such risks can arise in a single jurisdiction and - through the same channels that have nurtured the 'bright side' of globalization - can spread quickly and sometimes unnoticed across even fairly remote geographical areas (Crow-Saran, 2021). In a word,

anti-globalisation efforts have now been supported as a by-product of globalisation by organically emerging trends of de-globalisation, which are only seemingly its opposite, and indeed it is a somewhat natural evolutionary degeneration of international economic relations. Milanović (2019, pp. 147-148) reminds us that modern global supply chains, as probably the biggest organisational innovation in the era of globalisation, could have emerged only with technologically enabled remote control of a complex production process and globally secured respect for property rights. For a number of attractive emerging markets and developing countries, the last thirty years of production and financial globalisation have meant almost certain prosperity if they have managed to insert their economic capacities into global production and supply chains. At first, outsourcing arrangements contributed moderately to the economic growth of host countries, then were often enhanced by more technologically advanced off-shoring arrangements and/or the host's political and economic ability to choose its own production and development path at an ever-higher level of the Porter-Krugman competitiveness ladder. For countries that have managed to take advantage of their relative advantages (institutional factors, abundance of resources and/or their favourable overall, market size, geographical location), globalisation has changed for the better: in recent decades domestic countries have been forced to negotiate with their parent companies not to transfer advanced technologies to the international economic periphery (Milanović, 2019). However, to achieve what Baldwin (2016) calls the final third globalisation would mean -in addition to the mobility of goods, services and finance- completely free migration of people (both as consumers and as labourers) and equalisation of labour yields between the economic North and the South, an achievement that we are presently far away from and which the COVID-19 pandemic will certainly slow down further still.

Finally, the characteristic features of modern global supply chains are the reliance on several major logistics axes and the just-in-time delivery paradigm (D'Aguanno *et alia*, 2021). The practice of supply at the time of the corona deviated more or less from both of these characteristics. Namely, the global production and supply chains are being shortened, and their actual diversification, which is currently causing delays in the delivery and increase in prices not only of transport, but also of the services and semi-finished products that are in the chain bed. However, as in practice this means more and more frequent and mass migration of production and service assets of globalised economic activity from Asia to the Mediterranean, this could also be a chance for sufficiently agile economies of the Western Balkans. However, post-industrial developed countries' interest in global free trade agreements and further liberalisation is likely to remain limited in the future, as competition from developing countries with low unit labour costs increases pressure on labour markets and a potential decline in worker welfare in

industrialised countries (Petersen, 2020). More importantly, worldwide, globalised production processes are becoming increasingly capital- and technology-intensive. As a result, relocating production processes to low-wage countries becomes less cost-effective and therefore less important. The trend of re-hiring in the developed world, which is already evident in the United States, will probably continue to take off. The spread of 3D printing technology is accelerating this development. Rising energy prices (due to the introduction of CO2 taxes and green evolution) will support this development of the situation, as transport costs will jump as a result (*Ibidem*). In this regard, Aguanno *et alia* (2021) find that re-shoring transition leads to increased volatility of economic activity, while diversification of supply sources reduces the volatility of GDP of those who win orders and increases those who lose orders, so the overall effect of disintegration or repackaging of existing global chains supply to the volatility of economic activity questionable.

Lastly, the world is likely to face the expiration in effectiveness of delayed fiscal and especially monetary expansion, which by repetition gives less and less of the desired resilience while raising inflation and the share of public debt to GDP towards areas of utmost concern. The jump in world food prices by an average of 30% and the drastic jump in energy prices have certainly added fuel to the fire, and currently some economists are evoking unpleasant memories of stagflation from the 1970s. Should there be a resurgence of labour unions around the world in respect to their membership and socioeconomic influence, this undesirable scenario may well be repeated. And even if stagflation is absent, price increases have already occurred, global supply chains have been distorted, deliveries have been delayed, and so on, it will put pressure either on further price increases or on the creation of shortages, which in both cases promises an unfavourable outcome for international trade (The Economist, 2021).

## CONCLUSION

The research conducted through this paper suggests several preliminary conclusions that we leave to the test of time. First, although the negative impact of the COVID-19 pandemic on the volume, flows and structure (with an additional impact on volume over medium-run) of international trade is theoretically and empirically unquestionable for a number of reasons discussed in the text, causality is clearly not a one-way thing and has its longer and broader inception, which means that both phenomena are most likely coextensive by the regular and gradual degeneration of modern international economic relations, i.e. the genesis and nature of the process of globalisation itself. Of the six key trends listed in the paper for the present and future of



international trade, virtually half have nothing to do with the pandemic or its impact on trade, whereas half are only partially related to the consequences of the spread of COVID-19. Thus, it is unclear what the official bells are tolling for in this chapter of international exchange, where on a top of too lightly publicized suspects (corona virus, WTO, PRC...) we deal with escalating trade policies that try to achieve several non-trade goals (national security, geopolitical repositioning, preservation of the human environment, preservation of or growth in employment, etc.) of mutually questionable compatibility.

As luck would have it, even though dark clouds are indisputably gathering ahead and above the world trade, some Mediterranean economies, if they prove capable and flexible enough, could become spontaneous winners of the latest dealing of cards in the globalised production and overseas trade.

## **REZIME**

### **ZA ČIM ZVONA ZVONE? PRILOG RAZUMEVANJU ZAVISNOSTI PANDEMIJE I GLOBALNE TRGOVINSKE RAZMENE**

Izbijanje pandemije COVID-19 značajno je smanjilo i strukturno promenilo i veličinu i tokove međunarodne trgovine tokom 2020. i 2021. Iako je efekat zaraze na globalnu trgovinu očigledno negativan iz više razloga koji su elaborirani u radu, smatramo da je to u stvari evolucionarna, očekivana i neizbežna posledica samog procesa globalizacije. Među ključnim trendovima koji utiču na sadašnjost i budućnost međunarodne trgovine, otprilike polovina njih je potpuno nezavisna, a druga polovina u najboljem slučaju poluzavisna od same pandemije. Drugim rečima, čini se da zvona zvone za pogrešnog osumnjičenog, utoliko što su ova dva fenomena sva je prilika kointegrirana, da i ne spominjemo ideološku i operativnu konfuziju u pozadini nedavno rasprostranjenih nastojanja da se trgovinskom politikom istovremeno postigne nekoliko netrgovinskih ciljeva sumnjive kompatibilnosti. Bez obzira na sive oblake ispred i iznad nas, neke mediteranske ekonomije - ako se pokažu sposobne i dovoljno fleksibilne – mogle bi na posletku postati nesuđeni laureati utešnih ekonomskih nagrada.

*Ključne reči:* COVID-19, međunarodna trgovina, (de)globalizacija, globalni lanci snabdevanje

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