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Globalizacja w rzeczywistości pocovidowej?

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Globalization in a post-Covid-19 Reality?

This paper attempts to assess the impact that the Covid-19 pandemic can exert on the globalization process. The pandemic crisis, which fully unfolded worldwide in March 2020, had dramatic consequences for the world population, some of which are of economic character. As some of the global value chains and international trade and investment relationships were destabilized or suspended, a legitimate question as to the possible developments of the globalization process arose. We commence with a multidimensional concept of globalization and its critical evaluation. Subsequently, three possible scenarios of post-pandemic development are identified and explored: disrupted globalization, de-globalization and finally re-balanced globalization. The discussion of these scenarios also includes implications for economic policy.

Globalizacja w rzeczywistości pocovidowej?

W artykule podjęto próbę oceny wpływu, jaki pandemia Covid-19 mogła wywrzeć na proces globalizacji. Kryzys pandemiczny, który w pełni rozwinął się na całym świecie w marcu 2020 r., miał dramatyczne konsekwencje dla światowej populacji, z których część ma charakter gospodarczy. W związku z destabilizacją lub zawieszeniem niektórych globalnych łańcuchów wartości oraz międzynarodowych powiązań handlowych i inwestycyjnych pojawiło się uzasadnione pytanie o możliwy rozwój procesu globalizacji. W artykule rozpoczęto dyskusję od wielowymiarowej koncepcji globalizacji i jej krytycznej oceny. Następnie zidentyfikowano i zbadano trzy możliwe scenariusze rozwoju wywołanego pandemią: zakłócona globalizacja, deglobalizacja i ostatecznie przywrócona równowaga globalizacja. Dyskusja na temat tych scenariuszy obejmuje także implikacje dla polityki gospodarczej.

Introduction

Globalization has led to increased international trade and foreign direct investment (FDI) in recent decades, which coincided with such phenomena as reduction in global poverty¹. Nevertheless, it should be borne in mind at the same time that one of the major challenges for the global economy remains the large scale of inequality, both between countries and within individual economies². As nations gradually became economically more interdependent, international political stability also increased at a global level. As political leaders worldwide were making decisions with regard to the tactics of fighting the Covid-19 pandemic and curbing down its devastating impact on public health, the resulting uncertainty as to the conditions of international trade and investment, as well as the continuity of global value chains (GVC) raised a legitimate question as to the further shape of globalization³. Indeed, the breakdown in international flows of goods, capital and people raise serious concerns, with their scale unseen for many decades⁴. Not surprisingly, the pandemic crisis and its negative impact on globalization had been compared in the public debate to the financial crisis of 2008⁵.

- 1 B. Walsh, *The coronavirus is a force for deglobalization*, "Axios" [online], 20 V 2020 [accessed: 10 VIII 2020]: <<https://www.axios.com/coronavirus-economic-globalization-744b0660-ce56-4ffa-93e9-cc4c20ee135c.html>>.
- 2 H. Boushey, J. B. Delong, M. Steinbaum, *After Piketty: The agenda for economics and inequality*, Harvard University Press, Cambridge 2017; M. Sandbu, *The economics of belonging: A radical plan to win back the left behind and achieve prosperity for all*, Princeton University Press, Princeton 2020.
- 3 S. A. Altman, *Will Covid-19 have a lasting impact on globalization?*, "Harvard Business Review" [online], 20 V 2020 [accessed: 10 VIII 2020]: <<https://hbr.org/2020/05/will-covid-19-have-a-lasting-impact-on-globalization#>>.
- 4 *World investment report. International production beyond the pandemic*, United Nations Conference on Trade and Development, Geneva 2020: <https://unctad.org/en/PublicationsLibrary/wir2020_en.pdf> [accessed: 10 VIII 2020].
- 5 I. Oliví, M. Gracia Santos, *The end of globalisation? A reflection on the effects of the COVID-19 crisis using the Elcano Global Presence Index*, "Elcano Royal Institute – Madrid" [online], 4 V 2020 [accessed: 10 VIII 2020]: <http://www.real-institutoelcano.org/wps/portal/rielcano_en/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/ari60-2020-olivie-gracia-end-of-globalisation-reflection-on-effects-of-covid-19-crisis-using-elcano-global-presence-index>.

One can argue that globalization experienced stages of growth, contraction and mutation, in line with structural changes in the international economic and geopolitical landscape, with recent developments including the rise of emerging economies and firms, particularly those from Asia⁶. However, concerns about the scale and scope of the recent turbulence were definitely valid in that the coronavirus had not only massively affected international business cooperation in a direct manner, but also reinforced the factors affecting globalization already in place before its outbreak. In fact, fragmented supply chains and limited mobility of people reinforced other trends such as the reinforcement of protectionism with a view to securing national supply of critical goods, or stricter immigration controls⁷. Accordingly, an incremental path of globalization cannot be taken for granted. While some scholars have argued that globality is irreversible in the sense that no country or group can isolate itself from others due to the multitude of economic, cultural or political ties⁸, temporary or permanent contractions of international economic activity have long co-existed with the aforesaid interconnectedness⁹.

In light of these developments, the question arises as to what long-term impact of the pandemic crisis on the phenomenon of globalization can be expected, and what does this impact depend on. In an attempt to explain this issue, it is argued that three overarching scenarios can be sketched out which thereafter are identified as: disrupted globalization, de-globalization and globalization rebalanced. Before outlining them and discussing their implications, addressed firstly is the concept of globalization as such and approaches to it, in order to build up an understanding of its influencing factors. After analyzing these three scenarios, certain concluding thoughts and implications are presented.

6 Ibidem.

7 P. Legrain, *The coronavirus is killing globalization as we know it*, "Foreign Policy" [online], 12 III 2020 [accessed: 10 VIII 2020]: <<https://foreignpolicy.com/2020/03/12/coronavirus-killing-globalization-nationalism-protectionism-trump/>>.

8 See e.g. U. Beck, *What is globalization?*, Polity Press, Cambridge 2018.

9 G. R. G. Benito, L. S. Welch, *De-Internationalization*, "Management International Review" 1997, vol. 37, issue 2, p. 7–25.

The phenomenon of globalization and its underpinnings

Globalization in the context of capitalism

While we tend to think of globalization as a recent phenomenon, Friedman¹⁰ argues that the first era of globalization dates back to the Columbus' opening of trade between the Old and New World which lasted until around 1800 (Globalization 1.0), followed by a second great era (Globalization 2.0) from 1800 to 2000, interrupted by the Great Depression and the two world wars. Finally, around the year 2000, the world entered the third era of globalization (Globalization 3.0). Along these eras of globalization, the driving forces behind it changed from industrial progress, exploitation of natural resources and the related operations of multinational enterprises, to most recent developments in communication and information technology.

Due to its complex character, the dimensions of globalization embrace economic, financial, technological, political, socio-cultural, religious, ecological, educational and communication aspects of human activity¹¹. Thus, such a multidimensional and far-reaching phenomenon is not easy to define. According to the Robinson, globalization can be defined as "intensified interconnections and interdependencies on a planetary scale and consciousness of them"¹². It is generally understood to entail the opening of international borders to flows of goods, services, finance, people and ideas; and the changes in institutions and policies at national and international levels that facilitate or promote such flows. This definition seems to echo that of Dunning, who also pinpointed that "modes

10 T. L. Friedman, *The World is Flat. The Globalized World in the Twenty-First Century*, Penguin Books, London 2006.

11 S. Guttal, *Globalisation*, "Development in Practice" 2007, vol. 17, issue 4–5, p. 523–531, DOI: 10.1080/09614520701469492; T. Kowalski, *Globalization and transformation in Central European countries: The case of Poland*, Poznań University of Economics Press, Poznań 2013; M. Wolf, *Shaping Globalization*, "Finance and Development" 2014, vol. 51, issue 3, p. 22–25; M. Gorynia, *Competition and globalisation in economic sciences. Selected aspects*, "Economics and Business Review" 2019, vol. 5 (19), No. 3, p. 118–133, DOI: 10.18559/eb.2019.3.7; M. A. Witt, *De-globalization. Theories, predictions, and opportunities for international business research*, "Journal of International Business Studies" 2019, vol. 50, p. 1053–1077, DOI: 10.1057/s41267-019-00219-7.

12 W. I. Robinson, *Theories of Globalization*, [in:] *The Blackwell companion to globalization*, ed. G. Ritzer, Blackwell Publishing, Malden 2007, p. 129.

of interdependencies are principally three fold, viz arm's length trade, foreign direct investment and inter-firm cooperative agreements"¹³.

A crucial aspect of globalization, along with technological changes, is the economic one, which is connected with the very essence of the market economy and the overcriticized *homo oeconomicus* stereotype. In line with this stereotype, producers seek to maximize their profits, and consumers seek to maximize utility resulting from consumption. Although arguably the most efficient wealth-creating system we currently know¹⁴, the capitalist/market economy system is not free from weaknesses, the most significant being the pursuit of the said profit and utility based solely on the interaction of market forces, which can produce undesirable social and ecological consequences. Such pursuit may, for example, exclude a large part of the population from reaping the fruits of economic progress. This same mechanism has been the main driving force behind the development of the market economy system on a global scale. In spite of diverse efforts undertaken by the state and charity activity, many authors point to economic inequalities still observable within most countries¹⁵. But it would be unjustified to blame globalization *per se* for the uneven distribution of the effects of prosperity and other challenges such as environmental degradation, as these problems pertain to the very shortcomings of capitalism itself and could be curtailed with a more responsible and inclusive institutional approach to global capitalism¹⁶. Still, globalization may be treated as a step in the evolution of the market economy in line with its principles, whereby many of the existing forms of state intervention in the operation of pure market mechanisms fail. Technological change in the process of globalization, particularly in transportation and information technology, has provided an additional impetus to the exploitation

13 J. H. Dunning, *Internationalizing Porter's Diamond*, "Management International Review" 1993, vol. 33, issue 2, p. 8.

14 *Making globalization Good. The moral challenges of global capitalism*, Oxford University Press, ed. J. H. Dunning, Oxford 2003, p. 1.

15 See e.g.: J. Michie, *Advanced introduction to globalisation*, Edward Elgar Publishing, Cheltenham 2017; L. Gruber, *Globalisation with growth and Equity: can we really have it all?*, "Third World Quarterly" 2011, vol. 32, issue 4, p. 629–652; R. Wade, *Globalisation isn't working*, "Prospect Magazine" [online], 22 VII 2006 [accessed: 14 I 2021]: <<https://www.prospectmagazine.co.uk/magazine/globalisationisntworking>>.

16 *Making globalization Good...*

of the market economy fundamentals related to profit and utility maximization. In fact, an excessive drive to lower production costs may lead producers to locate their operations in places with weak environmental standards or doubtful employment conditions.

Nonetheless, globalization has been discussed from the perspective of its potential to boost economic growth and contribute to poverty reduction, particularly in the developing world¹⁷. Indeed, many of these potential benefits have materialized. While the related empirical literature is mixed, there is ample evidence that trade openness and economic integration are contributing positively to growth¹⁸, while growth and improvement in living standards lead in turn to poverty reduction, particularly in emerging economies¹⁹.

Approaches to globalization

The views on globalization processes and cause-and-effect mechanisms may vary significantly, particularly with regard to the assessment of globalization's economic, social and environmental effects. One can distinguish four basic approaches to globalization.

Firstly, the pro-globalization approach features economists, such as Bhagwati²⁰, arguing that globalization, if properly governed, is not only economically beneficial but also socially benign. For instance, while it leads to greater prosperity in developing countries, it can also reduce child labor and increase education levels. Meanwhile, Bhagwati acknowledges that "globalization is good but not good enough"²¹. In parallel, influential

17 *Meeting globalization's challenges. Policies to make trade work for all*, Princeton University Press, ed. L. A. V. Catao, M. Obstfeld, Princeton-Oxford 2019; M. Wolf, *Shaping globalization...*; J. Bhagwati, T. N. Srinivasan, *Trade and poverty in the poor countries*, "American Economic Review" 2002, vol. 92, No. 2, p. 180-183; D. Dollar, *Globalization, inequality and poverty since 1980*, World Bank, Washington 2001; J. E. Stiglitz, *Making globalization work*, W. W. Norton & Company, New York-London 2006.

18 See e.g. B. Candelon et al., *Globalization and the new norm*, International Monetary Fund, Washington 2018 (IMF Working Paper, WP/18/75).

19 J. Bhagwati, *In defense of globalization*, Oxford University Press, New York 2007.

20 Ibidem.

21 Ibidem.

thinkers referred to by Heldt et al.²² as hyperglobalizers²³ regard contemporary globalization developments as a new era and argue that a new set of rules has emerged for the global marketplace²⁴.

Secondly, a balanced approach to the benefits and costs of globalization, was adopted among others by Streeten²⁵. It stipulates that the benefits have not been distributed widely and evenly, with many countries or regions remaining marginalized. Negative outcomes of globalization require institutional changes in order to better govern the globalization processes. Thirdly, a suspicious and critical, yet constructive approach is represented by Stiglitz²⁶. His earlier book²⁷ described some of the failures of the international financial system and its institutions and demonstrated why the benefits of globalization have remained limited. In his later book²⁸, he argued that globalization, when properly and ethically managed, can do a great deal of good, in both developing and developed countries. In Heldt et al.'s²⁹ terms, scholars representing this perspective can also be referred to as skeptics in that they stress the role of nation-states and national governments, whereby major regional trading blocs play a dominant role in the world economy.

Finally, an anti-globalization approach fueled by populism related to new protectionism and new nationalism can be identified³⁰. To fight

22 D. Heldt et al., *Global transformations: Politics, economics and culture*, Stanford University Press, Stanford 1999.

23 Such as: T. L. Friedman, *The World...*; D. Yergin, J. Stanislaw, *The commanding heights: The battle for the world economy*, Touchstone, New York 2002.

24 C. Gopinath, *Globalization: A multi-dimensional system*, Edward Elgar Publishing, Cheltenham 2018.

25 P. Streeten, *Globalisation: Threat or opportunity?*, Copenhagen Business School Press, Copenhagen 2001.

26 J. E. Stiglitz, *Globalization and its discontents*, W. W. Norton Company, Washington 2002; idem, *Making globalization work...*

27 Idem, *Globalization and its discontents...*

28 Idem, *Making globalization work...*

29 D. Heldt et al., *Global transformations...*

30 D. Rodrik, *The globalization paradox. Why global markets, states, and democracy can't coexist*, Oxford University Press, Oxford 2011; D. Rodrik, *Populism and the economics of globalization*, "Journal of International Business Policy" 2018, vol. 1, issue 1-2, p. 12-33, DOI: 10.3386/w23559.

the backlash against hyperglobalization, policy makers need to redirect globalization benefits from business to society and governance from global to national³¹. In line with Heldt et al.'s³² typology of perspectives on globalization, Rodrik belongs to the group of transformationalists regarding globalization as a driver of substantial change, whereby nations attempt to adapt to contradicting pressures which remain uncertain³³.

Possible scenarios of a post-Covid-19 globalization landscape

The Covid-19 pandemic created a global disruption affecting many areas of human activity worldwide, including international business³⁴. However, its long-term effects on globalization are still uncertain even if the pandemic does not make headlines in 2024, leaving ground to such external shocks as the Russian invasion of Ukraine which started in February 2022³⁵. In the ensuing sections, we possible shape of the post-pandemic trajectories of globalization along three scenarios.

Disrupted globalization

The first scenario of disrupted globalization implies that the hypothetical, extant status quo has changed, or even reversed existing trends, creating new problems or perpetuating existing ones on an unprecedented scale and magnitude in all areas of human activity. The essence of such disruptions resides however in their envisaged temporary character and nature. After such pandemic-induced disruptions, national economies, firms, institutions, and the world economy as a whole, should return to their pre-pandemic trajectories and levels of (international) business social activity and engagement.

31 Ibidem.

32 D. Heldt et al., *Global transformations...*

33 C. Gopinath, *Globalization...*

34 A. Seric et al., *Managing COVID-19: How the pandemic disrupts global value chains*, "World Economic Forum" [online], 27 IV 2020 [accessed: 10 VIII 2020]: <<https://www.weforum.org/agenda/2020/04/covid-19-pandemic-disrupts-global-value-chains>>; B. Walsh, *The coronavirus is a force for deglobalization...*

35 M. Wolf, *How Covid-19 will change the world?*, "Financial Times", 16 VII 2020; M. Gorynia, *Will COVID-19 Kill Globalization?*, [in:] *Covid-19 and International Business. Change of Era*, ed. M. A. Marinov, S. T. Marinova, Routledge, London 2021, p. 66–73.

The first issue that appears from such a perspective is whether the pre-pandemic state of globalization, roughly situated at the beginning of 2020, can indeed be qualified as devoid of any signs of disruption. Indeed, the period of at least one year before the beginning of the Covid-19 pandemic abounds in developments in the economic, political and regulatory environments, attesting to reversals, slowdowns and distortions challenging the continuity of globalization and its drivers. In some countries, populist and nationalist political movements gained significance, questioning the intensity of globalization, labelling such process as hyper-globalization³⁶. As a result, we had witnessed the threat and waging of trade wars (the most notable being between China and the USA) with all their negative consequences³⁷. Thus, the starting point for projections in this scenario is not an optimal state of the global economy characterized by equilibrium and stability. The observed forces that decelerated globalization before the emergence of Covid-19 pandemic will not, in most cases, cease to operate, although they might be temporarily overshadowed by the pandemic. However, such starting point of reference has to be assumed in order to provide the necessary analytical rigor, pointing at the same time to the relative nature of the proposed projections.

The second point of reference can be determined as the lockdown stage in the evolution of the Covid-19 pandemic. By the beginning of April 2020, it was estimated that more than 3.9 billion people were ordered to stay at home by their governments³⁸. In many industries and sectors (such as passenger air and road transport, tourism, entertainment/show business, automotive, petroleum) activity came to a virtual standstill, generating loss of revenue, placing firms at the risk of bankruptcy and hibernating or reducing employment. Imposed quarantine restrictions forcing people to stay for prolonged periods confined to their dwellings created also mental problems related to isolation and stress from uncertainty, and concern about their safety and future. Therefore, usually after several weeks, governments decided to alleviate many restrictions. The underlying causes

36 See e.g.: *The retreat of the global economy*, "Economist", 28 I 2017; *Globalisation has faltered*, "Economist", 24 I 2019; M. A. Witt, *De-globalization...*

37 S. Jean, *How the COVID-19 pandemic is reshaping the trade landscape and what to do about it*, "Intereconomics" 2020, vol. 55, No. 3, p. 135-139.

38 "Euronews" [online], 2020 [accessed: 2 IV 2020]: <www.euronews.com>.

were either linked to the perceived virus containment, but much more to the negative economic, social and mental consequences which lockdown had brought. The latter factors have been at the core of attempts in the next, post-lockdown stage to bring countries and their populations/societies as well as firms and institutions back to pre-pandemic normality. This recovery drive following departures from pre-pandemic trajectories is perceived to constitute, if successful, the principal component of this disrupted globalization scenario, although the shape of the post-pandemic status quo remains highly uncertain.

The degree of disruption in the functioning of global value chains (GVCs) is also of primary concern in this globalization scenario. Their break-up in the lockdown stage triggered attempts to restore them based more on components located closer to the countries of final assembly in order to increase their stability and resilience, although incurring higher transaction, relocation, and inventory costs. In consequence, the composition of firms involved in GVC structures changed. In fact, the decomposition of GVCs exerted its heaviest blow on local SMEs closer to the GVCs starting points, causing economic and social problems for their home countries. Bigger firms, particularly multinational enterprises (MNEs) were arguably less affected, possessing larger resources allowing them to survive all disruptions at relatively lower costs. It could thus be envisaged that the possible fall of SMEs would have less effect on globalization than the potential bankruptcy of large MNEs. Nonetheless, the disrupted globalization scenario stipulates that GVCs eventually fall back into their original pre-pandemic trajectories, as precedence will be given again to the lowest cost approach over security of supply considerations.

Government support is another formidable factor in the context of projections in this scenario. The pandemic-induced disruptions activated widespread reactions of governments to protect firms, employees and other key components of their national environments. Direct and indirect financial transfers had been among the most prominent in their reactive measures. Government spending was generally directed to protect public health, support hibernated or ailing firms and industry sectors, and employees in such firms and industries. As an important accompanying effect, governments were striving to preserve and expand their international trade and FDI potential, thus creating grounds to sustain country international competitiveness and enhance globalization. These financial

transfers, however, would inevitably lead to substantial increases in budget deficits and country indebtedness, which on the downside might exert a slowing down effect on commitment of individual states in maintaining their engagement levels in the globalization process.

Disruptions in the political and regulatory environment inside Covid-19 afflicted countries constituted another important factor in this projected globalization scenario. The pressing need to introduce economic and social measures designed to cope quickly with the often still quicker and proliferating negative effects of the Covid-19 pandemic placed the effectiveness of many neoliberal/democratic governance systems at risk, in favor of promoting their more autocratic and populist variants. Under the guise of protecting public interest and widely conceived security and safety in the functioning of the national economy, in healthcare and society in general, measures and policies were introduced that have objectively drastically increased the role of state and in certain countries pushed into more prominence existing nationalist leaders legitimizing their economic and social programs and policies, and often securing for them wide ranging popular support.

In this context, at the national level, calls appear for more economic patriotism. Nationalist and protectionist measures generally concern jobs, restrictions on imports through tariff and non-tariff measures, and reduction of the free movement of capital, particularly via FDI. One type of measures specifically affecting inward FDI concerns adopted legislation preventing takeovers of domestic firms, presumed to be of strategic importance by host country governments. Such measures nominally are supposed to be applied for a limited time period only and are in certain countries directed at hostile acquisitions by investment funds coming from certain large emerging markets. Another deficiency in this area has been the lack of multilateral or regional cooperation demonstrated, for example, by restrictions that states imposed on trade in medical goods after the COVID-19 outbreak, designed to protect purely national interests. Thus, return to normality and pre-pandemic standards, taking into account all the above measures, might prove to be difficult especially in a short to medium time perspective. The net dominant macroeconomic outcome of all the above delineated disruptions of globalization was visible in all countries in condensed form in changes in the business cycle.

Summing up, the disrupted globalization scenario projects that in the long run the Covid-19 pandemic would not radically undermine or

change the trends observed in the pre-pandemic global economy. Its currently observed impact on the intensity of globalization slowdown should be considerably reduced or even subside, but definitely more probably in a longer-term perspective. Rodrik even that Covid-19 may well not change, let alone reverse, these pre-crisis trends³⁹.

De-globalization

A less optimistic scenario can be referred to as de-globalization. The situation at the end of 2020 and the beginning of 2021 aggravated in that the second and third waves of the Covid-19 pandemic again shook the global economy with the previous prospects for a speedy recovery being clearly dampened. Disruption therefore acquired a new, repetitive character with the healing process being dependent primarily on the pace and effectiveness of the Covid-19 vaccine application process. Such assessment prompted us therefore to formulate in the following two sections possible alternate scenarios of evolution of globalization in a Covid-19-afflicted world. Therefore, as mentioned in the previous scenario, due to the additive effect of the aforesaid drivers of de-globalization which were acting long before the pandemic⁴⁰, a development in which the negative effects of Covid-19 on globalization would reach out further than merely the short-term could not be excluded still during the pandemic. In fact, it was clear already in Spring 2020 that the initial decline in production in different locations exerted a strong impact on countries further up and down the supply chain. While many of the restrictions were gradually being lifted in different countries particularly in the summer-time of 2020, the return of limitations in a growing number of regions and countries since early Autumn 2020 reinforced valid concerns about the effects of the second and third wave of the pandemic on international trade and foreign direct investment.

39 D. Rodrik, *Will COVID-19 remake the world?*, "Project Syndicate" [online], 6 IV 2019 [accessed: 10 VIII 2020]: <<https://www.project-syndicate.org/commentary/will-covid19-remake-the-world-by-dani-rodrik-2020-04>>.

40 I. Olivie, M. Gracia Santos, *The end of globalisation?*; P. Enderwick, P. J. Buckley, *Rising regionalization: will the post-COVID-19 world see a retreat from globalization?*, "Transnational Corporations Journal" 2020, vol. 27, issue 2, p. 99–112, DOI: 10.18356/8008753a-en; P. Legrain, *The coronavirus is killing globalization as we know it...*

In an updated forecast from October 2020, thus accounting for both the summertime recovery the rebound of the pandemic in many countries, world merchandise trade volume would overall fall 9.2% in 2020. According to an UNCTAD update from October 2020, FDI inflows worldwide almost halved in the first half of 2020 as opposed to the 2019 6-month average⁴¹. Interestingly, this decline was more pronounced in developed economies where it amounted to -75% and brought FDI inflows back to the level of 1994 (see table 1). In general, greenfield FDI projects have been more affected with a decline of 37% as opposed for mere 15% for mergers & acquisitions (M&As). In line with FDI flows data quoted earlier, the M&A deals were clearly more resilient to the pandemic crisis in some developing countries, particularly Asia, as well as transition economies at large. Conversely, greenfield projects experienced a steeper decline in developing countries with -49% in Q1-Q3 2020 compared to 2019, as opposed to -17% for developed countries and -37% for the world (see table 2⁴²). Also, from a sectoral perspective M&As declined by 76% in the primary sector and 27% in manufacturing⁴³. Likewise, greenfield projects declined particularly strongly in manufacturing (49% decline), particularly coke and petroleum products (89% decline). Clearly, the international production system as a whole was entering a period of transformation, which involved such challenges as increased divestment, relocation and investment diversion, as well as a shrinking pool of efficiency-seeking investment, implying tougher competition for FDI by different locations.

Based on the situation in international trade and investment during the pandemic, it was not unrealistic to assume that the consequences of the pandemic for globalization would be more devastating and deeper than those of the 2008 crisis⁴⁴. Despite temporary optimism with the increasing control over the pandemic situation with the widespread vaccination programs, the war in Ukraine since February 2022 triggered new concerns for the future of globalization. In 2023, global foreign direct

41 "Global Investment Trends Monitor" 2020, No. 36: <<https://unctad.org/publication/global-investment-trends-monitor-no-36>> [accessed: 10 VIII 2020].

42 Ibidem.

43 *World investment report...*

44 I. Oliwié, M. Gracia Santos, *The end of globalisation?...*

Table 1. FDI inflows by region, 1st half-year 2020 vs. 2019 6-month average

	2019 6-month average*	2020 1st half-year *	% change
World	777	399	-49
Developed economies	397	98	-75
Europe	203	-7	-103
North America	156	68	-56
Developing economies	352	296	-16
Africa	23	16	-28
Latin America and the Caribbean	83	62	-25
Asia	246	217	-12
Transition economies	29	5	-83

*in billions of USD

Source: based on UNCTAD 2020a, p. 2

investment (FDI) flows reached an estimated \$1.37 trillion, marking a modest 3% increase from 2022⁴⁵. This rise defied earlier recession fears and was supported by strong financial market performance. Despite this, global investment was still impacted by economic uncertainty and higher interest rates. The overall increase was mainly due to higher values in a few European conduit economies; excluding these conduits, global FDI flows were actually 18% lower.

In developed countries, FDI in the European Union surged from negative \$150 billion in 2022 to positive \$141 billion in 2023, driven by significant fluctuations in Luxembourg and the Netherlands. Without these two countries, inflows to the remaining EU nations decreased by 23%, with several major recipients experiencing declines. Inflows to other developed countries were stagnant, with no growth in North America and decreases elsewhere. FDI flows to developing countries dropped by 9% to \$841 billion, with most regions experiencing declining or stagnant flows. Developing Asia saw a 12% decrease, Africa a 1% decline, while Latin America and

45 "Global Investment Trends Monitor" 2024, No. 46: <<https://unctad.org/publication/global-investment-trends-monitor-no-46>> [accessed: 25 VI 2024].

the Caribbean remained stable, with Central America showing resilience. International investment project announcements, including greenfield (mainly industry), project finance (mainly infrastructure), and cross-border mergers and acquisitions (M&As), mostly declined. Higher financing costs in 2023 led to a 21% decrease in international project finance deals and a 16% reduction in M&A deals. Although the number of greenfield project announcements fell by 6%, their value increased by 6%, and there was a rise in manufacturing projects, indicating an initial recovery from a long-term downward trend⁴⁶.

Table 2. Investment trends by type and region, 2020 Q1-Q3 (per cent change vs. 2019)

	Cross-border M&As	Greenfield projects*	International project finance**
World	-15	-37	-25
Developed economies	-21	-17	-19
Europe	-5	-17	-17
North America	-32	-25	-34
Developing economies	12	-49	-25
Africa	-44	-66	-49
Latin America and the Caribbean	-73	-53	-34
Asia	60	-42	8
Transition economies	84	-58	-46

* The trend in greenfield projects refers to the first eight months of 2020.

** International project finance refers to (the trend in) the number of deals, as project values for the latest months are unavailable.

Source: UNCTAD 2020a, p. 6

In light of the above cumulated developments, including the pandemic and subsequently the geopolitical turbulences, reshoring can result in shorter, less fragmented value chains and a higher geographical concentration of value added⁴⁷. This would primarily affect higher-technology GVC-intensive industries. The repercussions of this development would include increased divestment and a shrinking pool of efficiency-seeking

46 Ibidem.

47 B. Walsh, *The coronavirus is a force for deglobalization...*

FDI. Thus, for some economies it implies the need to re-industrialize, while for others to deal with premature de-industrialization. On the other hand, regionalization can be expected to reduce the physical length of supply chains, while keeping them nonetheless fragmented. This trajectory could affect regional processing industries, some GVC-intensive industries and even the primary sector. It will imply a shift from global efficiency-seeking investment to regional market-seeking investment, and from investment in vertical GVC segments to investment in broader industrial bases and clusters on a more regional, rather than global, basis. This re-construction of regional value chains would require an enhanced level of regional economic cooperation, industrial policy and investment promotion. Alternatively, the shortening of value chains and a re-bundling of different elements of the manufacturing process may lead to more geographically spread activities, yet with more value added concentrated in separate locations.

Finally, one may expect that MNEs will continue to micromodularize their international operations in order to facilitate the replacement of particular elements of the chains, hence also curbing down the potential adverse effect of any module in the value chain on the remainder of the group⁴⁸. Accordingly, de-globalization might also reflect itself in a shift from investment in large-scale industrial activity to distributed manufacturing, which relies on lean physical infrastructure and high-quality digital infrastructure. Thus, apparently the pandemic-induced transformation of cross-border operations may not simply reduce their breadth, but more importantly lead to declining cross-border investment in productive assets. On the whole, these developments would lead to an ever stronger regionalization of the world economy, a trend that had been discernible for some time⁴⁹.

It must be noted, however, that the way in which this scenario would eventually unfold, is – like in the case of the disrupted globalization scenario – also highly contingent upon policy choices. In a number of developed countries, leading government politicians have called for a rethinking of their companies' approaches to international outsourcing of production, with a view to avoiding future supply bottlenecks while increasing resilience

48 A. Verbeke, *Will the COVID-19 pandemic really change the governance of global value chains?*, "British Journal of Management" 2020, vol. 31, issue 3, p. 444–446, DOI: 10.1111/1467-8551.12422.

49 P. Enderwick, P. J. Buckley, *Rising regionalization...*

of supply chains. These calls for national supply chains clearly suggest that companies re-think the spread of production across the globe. On a more top-down note, countries may develop their existing FDI screening systems and procedures. With regard to the European Union, for instance, currently the responsibility for screening FDI rests with Member States. Strategic assets are crucial to Europe's security, and are part of the backbone of its economy and, as a result, of its capability for a fast recovery⁵⁰. In response to the Covid-19 crisis in Spain, the government has adopted a Royal Decree-Law of extraordinary and urgent measures, which suspends the earlier liberalization of the FDI regime and introduces an authorization system for FDI transactions, particularly in sectors deemed as strategic from the perspective of the state⁵¹. Such measures were also adopted in other parts of the globe, Australia and India being just a few examples⁵².

Globalization rebalanced?

Each of the two scenarios discussed above predicts quite different outcomes for post-pandemic globalization. Yet, it is likely that globalization which emerges after the Covid-19 pandemic will neither be back to normal after temporary disruptions, nor will its course be substantially reversed. It is possible that a model of rebalanced globalization emerges, which can

50 *Guidance to the Member States concerning foreign direct investment and free movement of capital from third countries, and the protection of Europe's strategic assets, ahead of the application of Regulation*, EU 2019/452 (FDI Screening Regulation), European Commission, Brussels, 25 III 2020: <https://trade.ec.europa.eu/doclib/docs/2020/march/tradoc_158676.pdf?utm_source=CCSI+Mailing+List&utm_campaign=41db584820-Perspective+283&utm_medium=email&utm_term=0_a61bfd34a-41db584820-62959973> [accessed: 10 VIII 2020].

51 J. M. Jiménez-Laiglesia et al., *New system for screening foreign direct investments in certain sectors in Spain*, "Client Alert Commentary" 2020, No. 2625: <https://www.lw.com/thoughtLeadership/New-System-for-Screening-Foreign-Direct-Investments-in-Certain-Sectors-in-Spain?utm_source=CCSI+Mailing+List&utm_campaign=41db584820-Perspective+283&utm_medium=email&utm_term=0_a61bfd34a-41db584820-62959973> [accessed: 10 VIII 2020].

52 A. Rhydderch et al., *COVID-19 pandemic response: Australia dramatically tightens foreign investment rules*, "Colin Biggers & Paisley" [online], 8 IV 2020 [accessed: 10 VIII 2020]: <https://www.cbp.com.au/insights/insights/2020/march/covid-19-pandemic-response-australia-dramatical?utm_source=Mondaq&utm_medium=syndication&utm_campaign=LinkedIn-integration>.

be positioned somewhere in between the two scenarios depicted in the preceding sections.

Although certain painful globalization weaknesses came to the fore during the pandemic, this analysis clearly shows that most of the global imbalances were already morally unacceptable and/or politically unsustainable before the pandemic outbreak⁵³. So was a widely spread dissatisfaction with the impact globalization was having on many of the developing countries and numerous groups of people, including those in developed countries. Covid-19 simply exposed and exacerbated some of the existing problems with globalization, and as such may become a catalyst of changes in the way globalization works and is governed at both national and international levels. Therefore, we see the possibility of re-balancing of globalization processes in the wake of Covid-19 pandemic. Such re-balancing is likely to occur mainly in the following areas:

- role of state vs. market in shaping globalization processes and their outcomes,
- configuration of global value chains (GVCs),
- control of FDI and MNEs,
- modus operandi and leadership of international institutions.

It is clear that Covid-19 and subsequently the geopolitical turbulences further undermined the validity of neo-liberal economic doctrine underlying globalization. This is not a coincidence that in many cases the groups of people that were the hardest hit by the pandemic are the same that had been left in the cold by globalization – those of lower socio-economic status, living in poor housing conditions, workers without employment and medical insurance, minorities. At the same time, governments had to step in and provide financial assistance to companies and hibernated or furloughed workers on a massive scale. This experience is likely to rebalance

53 *Making globalization Good...*; J. E. Stiglitz, *Making globalization work...*; K. E. Meyer, *International business in an era of anti-globalization*, "Multinational Business Review" 2017, vol. 25, issue 2, p. 78–90, DOI: 10.1108/MBR-03-2017-0017; J. Michie, *Advanced introduction to globalisation...*; M. A. Witt, *De-globalization...*; W. H. Janeway, *The Retreat from Globalization*, "Project Syndicate" [online], 28 VI 2020 [accessed: 10 VIII 2020]: <<https://www.project-syndicate.org/onpoint/faces-of-economic-deglobalization-by-william-h-janeway-2020-06>>; P. J. Buckley, N. Hashai, *Scepticism towards globalisation and the emergence of a new global system*, "Global Strategy Journal" 2020, vol. 10, issue 1, p. 94–122.

the relationship between markets and the state in favor of the latter. In line with that, a rebalancing process can be expected between hyper-globalization and national autonomy, also in favor of the latter⁵⁴. The crisis made national governments realize the importance of social justice, more equitable distribution of economic gains, dependability of supplies over cost savings through global sourcing, and a state's resilience to various shocks. To independently fulfill missions of such paramount importance, the state will seek greater strategic autonomy and control⁵⁵. It is likely that this process will lead to a new paradigm in balancing the market forces with state intervention.

Covid-19 and the ensuing economic crisis painfully exposed the vulnerability of GVCs which are characterized by complex interdependencies between the producers of finished goods (typically MNEs) and their suppliers scattered around the world⁵⁶, as well as by short production lines, low inventories and just-in-time deliveries⁵⁷. During the pandemic, many countries faced supply shortages of critical medical equipment and Active Pharmaceutical Ingredients, in particular from China, which was of primary concern in their ability to fight Covid-19, but shortages appeared in other product categories as well. Thus, the long and often convoluted global supply chains, as well as the reliance on few suppliers, are likely to be reconfigured. Supplies are expected to be organized closer to the sites of production, assembly or final use, to make them less vulnerable to unexpected disruptions. In many cases, precedence will be given to security of supplies over lowest costs. This means a better balance between efficiency and resilience⁵⁸. Moreover, as it was pointed out in the preceding section, it is likely that MNEs will further micromodularize value chains so as to allow

54 D. Rodrik, *Making the best of post pandemic world*, "Project Syndicate" [online], 12 V 2020 [accessed: 10 VIII 2020]: <<https://www.project-syndicate.org/commentary/three-trends-shaping-post-pandemic-global-economy-by-dani-rodrik-2020-05>>.

55 S. Jean, *How the COVID-19 pandemic...*

56 See e.g. A. Seric, D. Winkler, *Covid-19 could spur automation and reverse globalization – to some extent*, "World Economic Forum" [online], 11 V 2020 [accessed: 10 VIII 2020]: <<https://www.weforum.org/agenda/2020/05/covid-19-automation-globalisation-coronavirus-world-pandemic-change>>.

57 I. Olivie, M. Gracia Santos, *The end of globalisation?...*

58 P. Enderwick, P. J. Buckley, *Rising regionalization...*

easier substitution of one micromodule by another in a situation of supply disruptions. Distributed manufacturing and substituting robots at home for low-cost labor abroad are other solutions to deal with the vulnerability of GVCs, suggested in received literature⁵⁹. Finally, the crisis has highlighted the risk of geographic dependence on supplies from China. This could result in strategies to geographically diversify existing sources of supply, while increasing the number of suppliers for the same item⁶⁰ or a move to more regionally-based international supply chains⁶¹.

Because of the predicted sharp decline in FDI flows in 2020 and a further, albeit smaller, decline in 2021⁶², it is expected that in the rebalanced model of globalization countries could take a more active role in shaping FDI and the behavior of MNEs. As was discussed in the preceding sections, several governments already introduced or stepped up their FDI screening procedures to make sure that MNEs and their investments align with national interests. We expect governments to try to leverage FDI for robust growth and for fostering social goals and sustainability. These measures are likely to end the earlier liberalization of FDI regimes, particularly in sectors deemed strategic, but should not significantly dampen FDI growth. MNEs can be expected to become more responsive to the expectations of host country governments and local communities, becoming more sensitive to inequalities and striving to make real economic contributions to host economies⁶³.

The current pandemic also revealed the weaknesses of international cooperation in a globalized world, aggravated by the deteriorating international political climate due the on-going tensions between the US and China⁶⁴. The most important organization in the fight against Covid-19 – WHO – became a subject of political bickering between China and

59 S. A. Altman, *Will Covid-19 have a lasting impact on globalization?*...

60 I. Oliví, M. Gracia Santos, *The end of globalisation?..*; F. J. Contractor, *The world economy will need even more globalization in the post-pandemic decade*, "Journal of International Business Studies" 2022, vol. 53, issue 1, p. 156–171, DOI: 10.1057/s41267-020-00394-y.

61 P. Enderwick, P. J. Buckley, *Rising regionalization...*

62 "Global Investment Trends Monitor" 2020, No. 36.

63 S. A. Altman, *Will Covid-19 have a lasting impact on globalization?*...

64 S. Jean, *How the COVID-19 pandemic...*

the US, and itself showed poor leadership. The European Union was virtually invisible in the early fight against the pandemic, even in the hardest hit member countries. The World Bank and IMF, through their rigid (some would say – antisocial) economic reform packages imposed on countries going through difficult times, contributed to the resultant vulnerability of many groups of people, particularly in developing countries. Both organizations were slow in stepping up their efforts to alleviate the consequences of the Covid-19 pandemic in countries needing immediate help in financing surge capacity in the public health sectors⁶⁵. In a rebalanced model of globalization, international organizations need to be empowered to coordinate and lead the actions and changes that concern global issues, such as global pandemics, climate change, regional conflicts and ensuing migrations, and perhaps most importantly – international trade and FDI⁶⁶. Due to the expected increase in state interventions at the national level, coupled with nationalist and protectionist tendencies, the need for international cooperation (e.g. within the UN) in governing globalization will be even greater.

Summing up, the globalization rebalanced model preserves the positive outcomes and achievements of the globalization processes so far, while seriously addressing justified criticisms and fixing the main weaknesses of the present model of globalization. As such, the rebalanced model does not entail de-globalization, nor does it assume the return to “the business as usual” approach after the pandemic. It is essentially about globalization with a human face.

Table 3 provides a summary of the discussed scenarios along a number of key dimensions.

65 *The IMF and World Bank-led Covid-19 recovery: “Building back better” or locking in broken policies?*, “Bretton Woods Observer” [online], 2020, Summer [accessed: 12 I 2021]: <<https://www.brettonwoodsproject.org/wp-content/uploads/2020/07/BWPObserverSummer2020.pdf>>.

66 F. J. Contractor, *The world economy...*

Table 3. Globalization scenarios under Covid-19 conditions

Scenario	Disrupted globalization	De-globalization	Globalization rebalanced
Expected development of international trade in 2021	increase	decrease	stabilization
Expected development of FDI in 2021	increase	decrease	stabilization
Possible start of recovery	2021	2022	2021 or 2022
Post-pandemic shape of global value chains	return to pre-pandemic configurations	divestment and focus on home operations, shortening of value chains	diversification of international supply sources (depending on sector)
Predominant approaches of governments	extensive financial and non-financial support for affected sectors	protection of domestic sectors	more interventionist government policies; selective sectoral measures guided by national security aims

Source: own elaboration

Concluding remarks

In an attempt to summarize the scenarios sketched out above, five particular aspects should be considered, related to the possible post-pandemic landscape of the global economy.

Firstly, one should distinguish what this economy is likely to become (real view) from what it should be or what one would like it to be (normative view). As the real and desired spheres or outcomes have always differed, the gap between these two different types of end-states is most likely going to be significant. Secondly, Covid-19 will unlikely radically undermine or change the trends observed in the pre-pandemic global economy. In simple terms, these trends have so far contributed to the slowdown of the golden age of globalization (1990–2010) with all its positive and negative effects, anyway. This hyper-globalization is thus giving way to slowbalization. The latter process will continue its course. Thirdly, Covid-19 will most likely exert a short-term impact on the intensity of globalization slowdown, whereas the medium and long run repercussions may differ depending on the specific paths of development which we sketched

out in the scenarios of de-globalization and rebalanced globalization. Regardless of the specific development, allegations about the dusk of globalization are overly exaggerated and rather premature, despite all its criticisms. Instead, it can be expected that – regardless of the evaluation of globalization from the perspective of particular countries, organizations or individuals – there will be structural or qualitative changes. Due to the inequality issues exacerbated by the pandemic, it can be expected that a more socially responsible and sustainable approach will be taken in FDI projects⁶⁷. Apart from the social and economic externalities of such transformations, it can be expected that such focus on sustainability can be conducive to new adjusted business models of firms adapting themselves to doing international business in the pandemic or post-pandemic landscape.

Importantly, in the long run not only the magnitude of globalization is likely to alter, but also its structure. As it was discussed in the paper, a transition from global efficiency-seeking investment to regional market-seeking investment is likely to be observed in the years ahead. Moreover, a shift from vertical to more horizontal ties in the global value chains can be expected, marking a strive for diversification of the supply basis. Not least, in a geographical dimension a return to more regional investments can be assumed regardless of the specific scenario, with more value added concentrated in single locations.

Importantly, the further fate of globalization in the current context is considerably influenced by the reactions of the public sector worldwide. While short-term conservative policy reactions to the pandemic were typically understood in light of the bottlenecks created in strategic sectors, or the fear of in asset takeovers due to their sudden devaluation, in a longer perspective the potentially negative effects of de-globalization will require appropriate policy responses. In that context, government actions – such as reducing investor risk and increasing policy predictability – would be able to rebuild investor confidence. Investment promotion agencies could boost their countries' investment competitiveness by better aligning their FDI attraction and retention efforts with market signals and changing

67 H. He, L. Harris, *The impact of Covid-19 pandemic on corporate social responsibility and marketing philosophy*, "Journal of Business Research" 2020, vol. 116, p. 176–182.

investor preferences. In fact, governments can leverage FDI for robust post-crisis growth by precisely avoiding protectionist policies, seizing new opportunities from changing FDI and supply chain trends, and fostering global cooperation⁶⁸. Indeed, the pandemic crisis, just like the ones following it (such as the Russian aggression in Ukraine) could be a catalyst for a process of structural transformation of international production this decade, and an opportunity for increased sustainability, but this will depend on the ability to take advantage of the new industrial revolution and to overcome growing economic nationalism. Yet, sustainable development depends primarily on a global policy climate that remains and will remain conducive to cross-border investment⁶⁹.

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