Structural Modifications of International Business Theory and Policy in the Time of Covid-19

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The main aim of this work is the presentation of the structural modifications of contemporary international business. International trade in the XXI century has been strongly affected by the force of the economic crisis and COVID-19. The changes are evident in the growing importance of international trade to national economies and to domestic groups within those economies, in the closer linkages between trade and other international issues. Despite the undeniable benefits of the multilateral WTO forum for trade liberalization, the rapid increase of North-South bilateral and multilateral Free Trade Areas (FTAs) begs a systematic explanation for why some forums are prioritized relative to others. This work presents the mercantilist tendencies in the international trade policy, the theory of public choice in foreign trade policy, protectionist pressures in different political systems, the level of protectionist pressures, food producers' pressure, and conflicts between the tendencies to sustainable international trade liberalization and environmental protection, the increasing importance bilateral agreements in the foreign trade policy and international economy in the time of COVID-19.

Keywords: structural modifications, international business, theory and policy, mercantilist tendencies, bilateral agreements, the time of COVID-19

INTRODUCTION

Realistic point is important trends in the global trade regime during the economic crisis and COVID-19. The growing interdependence has led to increased competitiveness and temptations to resort to strategic trade policy. Trade policy takes on additional importance in the economic battle of the brave liberal reformers, fighting against self-dealing rent seekers profiting from inconsistencies of the transition economy. Many of the client policies that shelter rent seekers are impossible to maintain in the face of competition in the international economy. On the other hand, high tariff walls, export licensing, and artificial exchange rates provide numerous rent sources for business people trying to promote their loyalties.

International business policy plays a key role in maintaining economic and political liberalization. The prominence of rent-seeking in a country can have far-reaching implications for its economic development. Especially in underdeveloped or transitional countries, rent-seeking takes scarce resources out of productive areas in the economy, using them to promote and/or perpetuate further rents. It must be emphasized that openness to trade is associated with higher incomes and growth and there is a need for new approaches to trade cooperation in light of the forces currently re-shaping international business. The key to trade developments within the broader socio-economic context is especially the rise of global supply chains, the general shift of trade power away from the West towards Asia.

In the new circumstances for the development of the global economy and global trade, the eyes of the world have been turned to China. This country seems to be a production superpower, able to change world trade. In many areas, it possesses comparative advantages. The access of China to WTO was a historic decision, the evidence of evolution taking place within that organization, giving it a more universal, global form. This means also that it expands on a huge market which can open itself up for foreign competition. National power depends above all on the domestic economy's performance and the ability to mobilize and allocate its resources. China's domestic reforms will determine whether its economy will be transformed into a more sustainable model. In this sense, Chinese foreign policies are an extension of China domestic politics.

The decisions taken by the representatives of the governments participating in the World Trade Organization (WTO) are, to a significant degree, influenced by various lobbies, such as organizations and unions of food producers or other non-governmental organizations, including trade unions (Puślecki 2002). The problems of mutual relations between the representatives of governments and those non-governmental organizations which influence on multilateral trade negotiations conducted on the forum of WTO (Puślecki 2002) are the subject of the analysis in the undertaken research program, while special attention has been paid to the trade conflicts between the European Union and the United States of America (Puślecki 2003).

The biggest confrontations within WTO involved agricultural problems. They could also be observed in other areas, such as steel, textile, or environmental protection (Puślecki 2003). There are serious conflicts between international trade liberalization and environmental protection since one has to consider what is more profitable - environmental protection or international trade liberalization.

The article presents the mercantilist tendencies in the international trade policy, the theory of public choice in the foreign trade policy, protectionist pressures in different political systems, the level of protectionist pressures, food producers' pressure, conflicts between the tendencies toward sustainable international trade liberalization and environmental protection, the increasing importance bilateral agreements in the foreign trade policy and the international business policy in the time of COVID-19.

THE MERCANTILIST TENDENCIES IN THE INTERNATIONAL TRADE POLICY

The tendencies in international trade development can create changes in domestic markets, placing pressure on political actors to obtain aid from the government, especially during the economic crisis. Some groups also want to coordinate activities and change foreign trade policy. The government justify the protection of the domestic market to respond to global competition. Essentially, the government appears to supply protection for affected parties the overall impact on consumers, producers, and foreign competition is negligible (Thies and Porche, 2007, p. 172). Significant government ownership of the productive resources of a country harms trade liberalization. In contrast, fragmentation of decision-making authority, expressed as fragmentation within the government and pluralism in society, positively impacts the liberalization of trade policy (Kennedy, 2007, p. 165).

Foreign-policy analysis has focused on "three i's": interest groups, international structure, and ideas (Kennedy, 2007, p. 146). In the interests groups literature, government policy is viewed as the outcome of competition between groups for trade policies that benefit their industry (Nau, 1989; Milner, 1995; Milner and Yoffie, 1989, p. 239-272; Schattschneider, 1935). International structure suggests that freer trade was a reflection of U.S. interests and its hegemonic status after World War II. In contrast, a decline in free trade reflects the U.S.'s hegemonic decline (Krasner, 1976, p. 317-347). The literature on ideas suggests that policy beliefs are reflected in laws and institutions. These laws and institutions, in turn, carry a type of inertia that continues to influence policy outcomes long after changes in international and domestic structure would predict policy change (Goldstein, 1989, p. 31-71; Goldstein, 1995). In contrast to these explanations, government interests in the economy and in maintaining stability also play a large role in trade policy (Kennedy, 2007 p. 146).

At one end, a multilateral forum with near universal membership maximizes gains from trade and reduces transaction costs. However, a single state cannot expect much control over trade partners or liberalization agendas at the multilateral level. Conversely, a bilateral FTA often yields very small gains

from trade and usually increases transaction costs by producing distinctive sets of rules. But at the same time, a large state can acquire a high level of control in terms of partners, issues and agenda selection, and sectoral exclusions or inclusions based on domestic political needs (Pekkanen, Solis, and Katada, 2007, p. 962). One can contend that industrialized aggregate economic gains in the interest of national welfare (largest in multilateral forums) or seeking control over rules in line with political interests (greatest in bilateral forums).

The liberalizing rules on agriculture, and other less competitive sectors, are no longer an acceptable political price for the economic gains bundled across sectors (Interview MOFA, 2004; New York Times, 2007). In the ongoing Doha Round, the agreement to end agricultural subsidies by 2013 calls for a substantial part of these subsidies to be eliminated well before then. Yet, this sort of vague statement fosters uncertainty for domestic actors at home in uncompetitive sectors like agriculture. In several cases, for example, in Japan, trade officials need to show that they have more concrete control for political reasons-an element more credible in a bilateral setting than a multilateral one (Pekkanen, Solis, and Katada, 2007, p. 962). This situation may also indicate the back from globalization to the mercantilist tendencies in the foreign trade policy (Puślecki 2008).

THE THEORY OF PUBLIC CHOICE IN THE FOREIGN TRADE POLICY

Traditionally, political economy models of trade policy have tended to focus on the demand for protection, with factor endowments driving political reactions to exposure to international trade. Such a model simply assumed that adversely affected economic agents would organize to seek protection, which would be afforded to them by their elected representatives in the political system. The supply side for trade policy was either ignored or underspecified in most models (Thies and Porche, 2007, p. 172).

In the foreign trade policy theory, interesting are the reviews of Alt et al. (1996) and Nelson (1988) about the demand for trade policy in terms of the theoretical importance of factor specificity (Alt, Frieden, Gilligan, Rodrik, and Rogowski, 1996, p. 695; Nelson, 1988, p. 806). Factor specificity refers to the ease with which factors (land, labor, and capital) can move from one sector to another in an economy. The two dominant approaches to explaining the demand side of trade policy used radically different assumptions about the specificity of factors. The Heckscher-Ohlin model, used by Rogowski (1989) in his seminal contribution “Commers and Coalitions”, assumes very low-factor specificity (Rogowski, 1989). The low specificity of factors means that factor returns are equalized throughout a region’s economy. Producers should export goods that intensively use their abundant factors and import goods that intensively use their scarce factors, resulting in owners of abundant factors favoring free trade. Owners of scarce factors will favor protectionism. Trade policy coalitions will therefore be organized along factor or class lines. On the other hand, the Ricardo-Viner assumes that some factors are stuck in their present uses; therefore, factor returns are not equalized throughout a region’s economy but are industry specific. Trade policy coalitions should form along the lines of exporting versus import-competing industries.

Neither of these models explains how preferences over trade policies are translated into political action (Alt, Frieden, Gilligan, Rodrik, and Rogowski, 1996, p. 695). In a discussion of the endogenous tariff literature, Nelson (1988) notes that the mobility costs of the specific-factors model may be a result of productivity differentials, labor union activity, or individual preferences for membership in a given geographic area, industry, or firm (i.e., some form of solidarity) (Nelson, 1988, p. 806). In all of these cases, one can derive a link to preferences for tariff policy, “but without additional information on why the specific-factor model is chosen, it does not tell us much about the political organization”.

Alt et al. (1996) suggest that one can understand this process by assuming that rational individuals make cost/benefit calculations (Alt, Frieden, Gilligan, Rodrik and Rogowski, 1996, p. 695). The Heckscher-Ohlin and Ricardo-Viner models tell us the benefits individuals hope to recive, but the costs of collective action also intervene as they organize to achieve those benefits in the political system. Olson (1985) argued that small groups with specialized interests are easier to organize and more effective in securing economic rents than large groups with diffuse interests (Olson, 1985, p. 928-937). Small groups are better able to control free riders than large groups, and groups with specific or homogenous interests can more easily coordinate

and target their activities than groups with diffuse or heterogeneous interests. This approach is thought to explain the success of agricultural producer groups in developed countries in organizing for protection as well as the inability of agricultural producer group to organize in developing countries (Anderson, 1995, p. 401-423; Coleman, 1998, p. 632-651; Olson, 1985, p. 928-937; Olson, 1986; Sheingate, 2001).

However, Nelson (1988) points out that we should not assume that organized interests will be equally responsive to all issues (Nelson, 1988, p. 807). Institutionalized interaction among actors may help to explain systematic patterns of action, especially as institutions created for specific historical purposes may outlive those purposes. Alt et al. (1996) suggest that if a particular group has paid the fixed costs of establishing collective action and developed well-worn channels of access to public officials, it may defend its trade policy preferences even when the stakes are low because the marginal costs of action are low (Alt, Frieden, Gilligan, Rodrik and Rogowski, 1996, p. 696). It may be the case that "a much more affected but inchoate group does nothing because the start-up costs of organization are too daunting". The past strength of an organization should therefore be an important intervening variable predicting group action on trade policy.

Further, as Nelson (1988) argues, once these institutions exist, supply-side interventions may also affect their usefulness as some are deemed legitimate or illegitimate aggregators of interest (Nelson, 1988, p. 807). Thus, we must examine how economic institutions and political institutions interact. Most economic models simply assume that a model of the economy is a model of the demand side for trade policy, but Nelson (1988) suggests that we must elaborate the mechanisms by which demand is articulated to the suppliers of trade policy (Nelson, 1988, p. 810). For a good overview of this argument, especially regarding agriculture (Thies and Porche, 2007, p. 172).

If the political system rewards small sectoral groups, then individuals will not pay the costs of organizing large intersectoral coalitions. If the political system rewards large mass movements (i.e., majoritarianism), than individuals will have to pay the costs of organizing large intersectoral coalitions in order to achieve any benefits. Collective action costs and political institutions are interactive with factor specificity. They suggest Rogowski's (1989) Heckscher-Ohlin framework requires low factor specificity, low collective action costs, and domestic political institutions favoring mass movements (Rogowski, 1989). The Ricardo-Viner framework used by the endogenous tariff literature requires that factors are specific, collection action costs are high, and institutions are less majoritarian, with changes in any of these three variables also affecting the type of coalitions that form.

In the state as a rational dictator model, the state may be seen as either pursuing "good government" goals along a social welfare function or intervening in the economy for their self-interested model of the state views politicians as offering preferential trade policy to economic actors in exchange for political support (Magee, Brock, Young, 1989), (Grossman and Helpman, 1984, p. 833-850). On the other hand, pluralist theory typically views the state as a neutral aggregator of demands from groups in society. The balance of power then determines the supply of trade policy on any given issue. The supply side of trade policy is relatively undeveloped theoretically and yet a crucial part of the equation (Puślecki 2013). A variety of different characteristics of the political system are posited to affect the supply of trade protectionism, such as politicians' incentives to cultivate personal votes, the size of electoral districts, party fragmentation, federalism, presidential versus parliamentary systems, and so on (Nielson, 2003, p. 407-491; Rodrik, 1995; Rogowski, 1987, p. 203-222; Rogowski, 1987, p. 1121-1137).

Theoretically, understanding the choice of trade policies in countries is very important (Puślecki 2013). A survey of economists in 1984 suggested that one of the few things they agreed on was that, under most conditions, tariffs and quotas reduce the general welfare (Frey, 1984, p. 986-994). The stubbornness of protectionism in the face of international and academic pressure against it has led economists to seek explanations. These explanations range from the simple ignorance of politicians to arguments about the rationality of protection for "infant industries" and "optimal tariff levels" in developing states. Faced with this frustrating question, scholars have increasingly turned to political answers to explain the choice of what would seem to be an "irrational" policy (Frey, 1984, p. 199-223; Nau, 1989; Nelson, 1988, p. 796-837).

PROTECTIONIST PRESSURES IN DIFFERENT POLITICAL SYSTEMS

It is important to indicate that the role of trade unions in different political systems may be, to a high degree, different. In authoritarian systems, it is, as a rule, smaller than in democratic systems. It would seem that if protectionistic pressure on the part of trade unions is weaker, the situation for economic growth is much better. Following that line of reasoning, we could conclude that the authoritarian system is better for the effectiveness of the labor market. The examples of Chile, South Korea, Singapore, and Turkey from the seventies and early eighties could confirm that point of view.

During those two decades, the authoritarian regimes often persecuted trade unions and put restrictions on basic labor rights. During that period of oppression, South Korea, Singapore, and Turkey experienced spectacular growth in the processing industry sector and in the growth of demand for labor. Growing profits and the demand for labor in the processing industry caused a general growth of prosperity of the employed. Although similar results were not noted immediately during the authoritarian phase of development in Chile, several observers express the opinion that the reforms introduced at that time helped to reorganize Chilean economy in the nineties of XX century. The application of democratic rules, on the other hand, may lead to lower productivity of the labour force. In several years different democracies had to use significant financial resources to employ those who belonged to trade unions, for example, in the European Union (Puślecki 2002).

A different point of view says that government legislation concerning the labor market may be applied more effectively in an authoritarian system than in a democratic one. Authoritarian regimes often make use of individual interests of given circles. In most democratic countries, there is no broad enough basis using of labor market policy for gaining support from pressure groups, the urbanized labour marked elite included. The major difference between authoritarian and democratic regimes lies in the level of outside influence. In a well-functioning democracy, outside opinions are also taken into account, and some limitations come from the outside, which restrict the achievements of given groups of interest. In a dictatorship, a government cares only that those groups are not too strong (Puślecki 2020c).

However, there are many democracies among the industrialized countries where an effective labor market exists. There is also several democracies with effective labor market policy among developing countries. Similarly, in the countries in which the transformation from an authoritarian regime towards democracy is taking place, avoiding unfavorable phenomena on a labor market is often a priority. For example, the Chilean government moved towards democracy and to free trade unions without home income growth. The end of oppression in South Korea 1987 started the partnership relations in full of conflicts industry (Banerji and Ghanem, 1997, p. 173).

It is worth considering which of the two points of view presented above should be supported, that is, which of them is the proper one. The problem analysis may be based on the Grossman and Helpman model (Grossman and Helpman, 1994, p. 833 – 850). This model describes economic development based on two sectors - the urbanised, regulated processing sector and the rural, unregulated agricultural sector. The protection of the labor market, especially of minimum wages, is usually applied to bring benefits for the employees of the regulated sector since the sector of unregulated employees does not come under the legislation concerning the labor market.

The sector of regulated employees, and also the owners, demand from the government that it leads an economic policy that is favorable to them. The employed demand high minimum wages, while capitalists demand high profits. Both groups demand restrictions on the degree of economic openness. In a closed economy, higher market minimum wages and higher profits are usually connected with higher prices for home consumers, and this is not easy when those consumers are free to buy substitutes in the form of imported goods. Thus, incomes in an economy may be created by protection and later divided among the employees of the regulated sector and the capitalists. However, sometimes the government itself takes a part of those incomes (Banerji and Ghanem, 1997, p. 173).

A government conducting an economic policy takes into account several factors. Firstly, it has to decide the degree of obtaining the resources, that is, how much from those resources it wants to obtain. Hence the importance of investments, future economic growth, and defining the possibilities for keeping the power it

is currently holding. Secondly, the government should define the scale of support from each pressure group that can influence the situation. The position and importance of each group for developing political processes should be considered. For example, in a country where the regulated labor market is divided and politically weak, only the capitalists may have a deciding voice in political processes. And the contrary also happens - in the societies where the labor market is organized, it may play the important role in mobilizing voters (Puślecki 2002).

How can we recognize the type of power, the type of rule? First of all, we should investigate what level of resources a given government will achieve. If an authoritarian government is more or less corrupted than a democratic one, it will create income, to a bigger or lesser degree, through protectionism. It will also appropriate some part of that income. Secondly, a given type of government may remain under the influence of different pressure groups. Suppose an authoritarian government is trying, to some extent, to subordinate special pressure groups including the regulated labour sector. In that case, it will be, to some extent, generating incomes through protection, and it will be turning over some part of them to those special pressure groups.

THE LEVEL OF PROTECTIONIST PRESSURES

The above arguments show that the policy is defined by political factors (including the type of government and the burdens resulting from obligations towards employees and capitalists), and by economic factors (wages, prices, the structure of production and consumption). Based on the present discussion, we can present two equations, one of the level of protection, and the second about the national economy and deformation of wages.

$$\pi = f\ (e, l, k, R) \tag{1}$$

$$\varphi = f_1(\pi, e, l, k, R) \tag{2}$$

The level of protection (π) depends on the economic parameters (e), the relative political importance of urbanized employees and capitalists (l and k, respectively), and on the type of government (R). Deformation of wages is, on the other hand, the function of (π) and of e, l, k and R. In a small economy, economic parameters can influence (π) and φ include flexible consumer and producer prices, demand flexibility, wages and the demand for labor force, and also the price of goods on an international market.

One can expect, a priori, that the growth of π is depend on l and k. If interest groups become stronger, the pressure to form incomes based on protectionism may become stronger. The influence of R, that is, the influence of political authoritarianism on the level of protectionism, that is π depends on the fact whether the opinion, that the level of protectionism depends on the effects of democratization, is correct. It is also thought that the increase of the deformation of wages depends on π and l, while its decrease depends on k. As long as the incomes are obtained from trade protections, those incomes can be handed over to urbanized employees. An important problem in case of the urbanised labour force as an interest group with growing strength is the fact that urbanized employees may gain a big share in the division of incomes. Still, the growth of political importance of the capitalists may cause the shared incomes handed over to the labor force in regulated sectors of economy will become smaller (Banerji and Ghanem, 1997, p. 173).

Undoubtedly, it is easier for wealthy rather than poor societies to choose democracy (Helliwel, 1992). Since those wealthier societies simultaneously tend to have a bigger openness, the direction of cause-result events may run from the openness of society to the political system, and not, as was suggested earlier, in the opposite direction. The research also showed that the education level plays an important role in this respect. The countries with a higher level of education in the labor force are more open (Puślecki 2002).

On the basis of the earlier considerations, one can conclude that authoritarian systems tend towards a broader application of protectionism than democratic systems, and that, in turn, the trade restrictions

accompany significant deformations of wages in the labor market. This opinion may be justified based on the observations of the situation in several countries.

Freedom of association is one of the elements of good management and a necessary condition for development. The authoritarian governments do not respect, however, the freedom of association, which is connected with the policy of trade restrictions and with the deformations on the labor markets. One cannot state, however, that improper or ineffective policy on the labor market belonged exclusively to authoritarian regimes or that authoritarianism automatically generates this kind of policy. There are several examples of authoritarian countries that do not conduct policies of that kind. The works of such authors as Fields or Freeman show that the repressions against the labour force are unnecessary if one wants to achieve a required economic growth (Fields, 1994; see also Freeman, 1993).

Finally, it should be pointed out that there exists a close relationship between democracy and an economic growth (Puślecki 2020c). There are well-known examples of open societies that stimulate economic growth. This is true mainly in case of highly developed and strongly urbanized countries. In countries with developed democracies, the pressure groups have a bigger opportunity for acting. The research shows that the presence of trade unions helps to accelerate economic reforms (Devarajan, Ghanem, Thierfelder, 1997, p. 145 – 170). The benefits resulting from liberalization of international trade are bigger when the trade unions exist in the sector of the economy under protection. The growth of import abilities leads to a decrease of wage pressures. When the trade unions agree to that, such a situation allows for a better allocation of the labour force in the economy. This is true both in the case of active and passive trade unions, although the effects are better in active trade unions (Puślecki 2020b).

The trade unions are active in an urbanized labour market had a significant influence on the decisions of governments in the course of multilateral trade negotiations within WTO. It was especially evident in the negotiations on lowering customs duties and non-tariff measures in steel, shipbuilding, textile and clothing industries, and in coal mining. In the so-called "sensitive" industries, which, for example, in the European Union, were under special trade protection, the position of trade unions was very strong.

FOOD PRODUCERS PRESSURE

The biggest conflicts between the United States and the European Union within WTO (Puślecki 2003) were caused by agricultural problems also during the Doha Round (Puślecki 2020c). The governments of the two economic powers were often under a very strong pressure of food producers, who had problems with the sale of agricultural products surpluses in the situation of the shrinking world market and lower prices (Puślecki 2003).

The problem of liberalization of agricultural product trading is linked to the problem of subsidy application. According to the WTO decisions (art. XVI), exports of agricultural products, as so-called basic goods, can be subsidized, if this fact does not interfere with the economic interests of other participants of the agreement. Actually, subsidizing exports of agricultural products may have many different forms, starting with a direct subsidy, through variable compensatory fees, and finally through various forms of government guarantees and preferential credits. In the ministers' declaration, we read only about better discipline among the members of WTO (Puślecki 2009a).

To limit the EU budget expense for subsidizing agricultural products, it was decided, among other things, that in the case of fats, the money would be transferred from the processing sector to the production sector. Instead of compensating the industry for higher costs of purchasing more expensive, local raw materials (the prices paid to the growers of rape or sunflower in the EU are much higher than the world prices), it was decided that subsidies would go directly to farmers, and the size of farms was to be the basis for calculations. At the same time, the Union authorities disclosed that they will gradually try to reduce those expenses by reducing guaranteed prices (Puślecki 2009b).

This reform was the first in which an attempt was made to eliminate the structural surpluses. These surpluses had been disorganizing the EU agricultural market and international trade for many years. It is worth pointing out here that the direct result of announced changes in the agricultural policy of the EU may not be favorable abroad. The simplest form of compensation for farmers is usually the restrictions for the

suppliers from abroad. The agricultural lobby in France is especially active in this area. As a result of its activity and the pressure exerted on the government, agricultural goods from abroad have been successfully blocked from the EU market. The position taken by that agricultural lobby also influenced the position of the EU representatives in the debates on the agricultural questions during the multilateral trade negotiations and in the framework of the Doha Round.

Despite the trade conflicts, most clearly visible in the USA - the EU relations, all the countries participating in international trade were interested in the success of international trade negotiations. The reduction or the elimination of trade restrictions significantly stimulates the growth of the world trade exchange. In contrast, foreign trade, in turn, is an important factor of the economic growth of individual countries.

CONFLICTS BETWEEN THE TENDENCIES TO SUSTAINABLE INTERNATIONAL TRADE LIBERALISATION AND ENVIRONMENTAL PROTECTION

The tendencies to liberalize international trade often stand in clear conflict with the protection of the natural environment, which, during the intensification of production, found itself in the center of attention. The process of pollution was one of the negative results of the scientific-technological revolution. Many countries introduced special legal regulations in order to protect the environment against pollution. Ecological organisations of different types were established, and the pressure groups, especially in industrialised countries, interested in the use of trade restrictions by governments to protect the environment.

The pressure groups acting for natural environment protection see the trade policy in two aspects: as a way of improving the environmental protection standards in individual countries and over their borders and as the instrument for persuading those countries to sign international agreements on environmental protection. The import restrictions against the producers coming from the countries with low environmental protection standards may lead to the improvement of production standards by the local companies resulting from fighting with low competitiveness and from the attempts to compete with foreign firms (Anderson, 1997, p. 319).

The application, in trade policy, of discriminating means concerning the environment, which happened in the countries of Western Europe, is following article XX of WTO, and it testifies to the fact that trade barriers are used for the protection of the environment. Thus, the activities related to environmental protection conflict with the tendencies leading to international trade liberalization, and with higher investments. From the theoretical point of view, we cannot say that trade liberalization may help environmental protection, especially when serious steps have to be taken to protect this environment against further degradation (Chichilnisky, 1994, p. 851 - 874; see also Copland and Taylor, 1995, p. 716 – 737; Corden, 1996). On the other hand, when some governments find themselves in a difficult situation, the trade reforms will be much more advantageous for that government than the actions in the environmental protection area (Bhagwati and Srinivisan, 1996). That is why the pressure groups connected with environmental protection are against international trade liberalization.

The actions of those groups on WTO forum, and their regional activity against the reduction of trade barriers, have three reasons: 1) free trade means the growth of production and income, which, in turn, leads to the degradation of the environment, 2) free trade and growing investments cause the growth of transport activity and encourage companies to transfer the production to the countries with low ecological standards, which from the environmental point of view is wrong, 3) freedom for foreign investments discourage local companies from developing the technologies favorable for environmental protection (Anderson, 1997, p. 319).The question of reaching some form of an agreement between the problems of international trade liberalization and the protection of the natural environment, especially in sustainable development, became an important task for the WTO. The program of WTO activities included:

- the relations between the means used in trade and in environmental protection
- the relations between multilateral trade systems and the environmental protection means applied for the protection of the environment

- the influence of the effects of environmental protection on the liberalisation of international trade
- the relations between the mechanisms leading to compromises within WTO and within the multilateral agreements on environmental protection (Martin and Winters, 1995, p. 1-3).

Reaching effective agreements on international trade liberalization and environmental protection in the light of sustainable development is considered to be both very difficult and delicate. The problems of environmental protection have become the most important issues. Therefore, it is evident that the international market has to consider them. In the context of sustainable development, the key problem is to make a proper choice: is the introduction of restrictions on international trade the best solution, or will the benefits from environmental protection (as applied by a multilateral trade system) be higher than the costs?

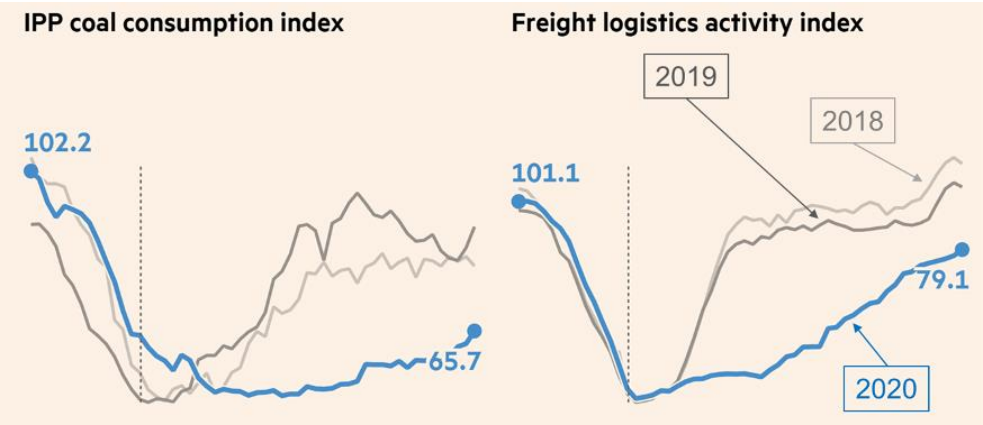
It is necessary also to emphasize that if the rules of international trade are clear – and if they are perceived to be supportive of important environmental values – then their legitimacy will be much greater. Over the long term, public support for the WTO depends on a perception that it is balanced and fair (Esty, 1998, p. 123). Efforts to address the issues identified above could greatly enhance the WTO's reputation. Competing trade and environmental principles could best be balanced through the creation of an interpretive statement that focuses on how the "exceptions" spelled out in Article XX would be implemented rather than through full-blown renegotiation of the environmental elements of the trading system (Esty, 2000, p. 250-251).

Finding ways to address the environmental issues that inescapably arise in the context of deeper economic integration and a tendency to sustainable development must be seen as an important trade policy priority, as a matter of WTO commitment to undergirding the trade regime with sound economic theory, and as a matter of political necessity (Puślecki 2012, Puślecki 2013). Building a trading system that is more sensitive to pollution control and natural resources management issues is mandated by the growing degree to which these realms intersect with trade and environmental policies mutually reinforcing are also advisable to the extent that the presence of trade rules that internalize externalities will prove to be more economically efficient over time. Institutionalizing the links from the trade regime to environmental actors and other elements of civil society will also pay dividends. A culture of openness within the WTO is likely to generate policies that the public accepts and that therefore become more useful and durable (Esty, 2000, p. 250-251).

INTERNATIONAL ECONOMY IN THE TIME OF COVID-19

The fact that it has hit China first and hardest makes it something new since China has, in recent decades, become the 'OPEC of industrial intermediate goods'. Manufacturers worldwide rely on parts and components made in China – many of them made in the hardest-hit provinces (Puślecki 2019). While the disease seems to be subsiding in China, the Chinese manufacturing miracle has not yet returned to its miraculous volume of production (Puślecki 2020a). Moreover, the virus has hit three other leading members of Factory Asia – Japan, Korea, and Singapore. The virus-related disruptions in these East Asian nations alone will cause "supply chain contagion" in virtually all nations' manufacturing sectors (Baldwin, Weder di Mauro 2020).

FIGURE 1
CHINA'S ECONOMY IS RECOVERING, BUT NOT RECOVERED



Source: Financial Times COVID tracker

TABLE 1
NEW CASES OF COVID-19 REPORTED PER DAY, 5–6 MARCH 2020

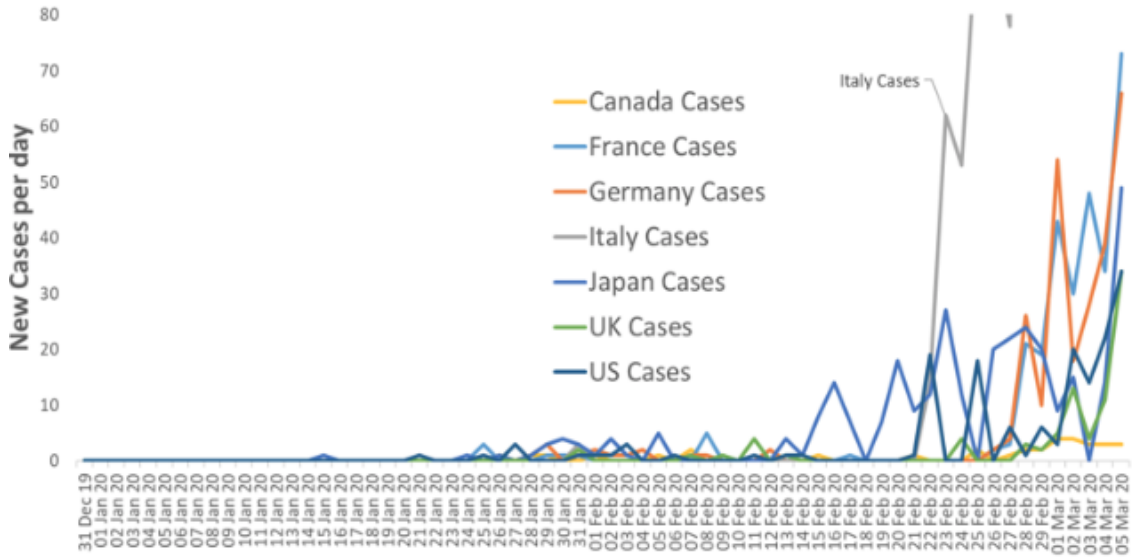
	06/03/20	05/03/20	Growth in the number of new cases per day
US	74	34	118%
UK	30	34	-12%
Canada	12	3	300%
France	138	73	89%
Germany	138	66	109%
Italy	769	587	31%
Japan	32	49	-35%

Source: R. Baldwin and B. Weder di Mauro [48], Economics in the Time of COVID-19, a VoxEU.org eBook, CEPR Press

Over half the world's economy in time of COVID-19 was infected. Table 1, illustrates this point using data from 5 March 2020. The US, China, Japan, Germany, Britain, France, and Italy account for:

- 60% of world supply and demand (GDP),
- 65% of world manufacturing, and
- 41% of world manufacturing exports.

FIGURE 2
G7 MEDICAL SHOCK: COVID-19 EPIDEMIOLOGIC CURVE (NEW CASES PER DAY)



Source: ECDC (https://www.ecdc.europa.eu/en/geographical-distribution-2019-ncov-cases)

To paraphrase an especially apt quip: when these economies sneeze, the rest of the world will catch a cold. These economies – especially China, Korea, Japan, Germany, and the US – are also part of global value chains, so their woes will produce 'supply-chain contagion' in virtually all nations (Puślecki 2020d).

TABLE 2
LARGE ECONOMIES AND COVID-19 (UPDATED 29 FEBRUARY 2020)

	GDP	Manufacturing	Exports	Manufactured exports	COVID19 cases	COVID-19 deaths
US	24%	16%	8%	8%	159	11
China	16%	29%	13%	18%	80,410	2,991
Japan	6%	8%	4%	5%	331	6
Germany	5%	6%	8%	10%	262	-
UK	3%	2%	2%	3%	85	-
France	3%	2%	3%	4%	285	4
India	3%	3%	2%	2%	28	-
Italy	2%	2%	3%	3%	3,089	107
Brazil	2%	1%	1%	1%	4	4
Canada	2%	0%	2%	2%	34	-

Source: Baldwin, R and B Weder di Mauro [48], Economics in the Time of COVID-19, a VoxEU.org eBook, CEPR Press

Data are already reflecting these supply shocks. The February 2020 (Table 2) readout on China's key index of factory activity, the Caixin/Markit Manufacturing Purchasing Managers' Index (PMI), showed its lowest level on record. "China's manufacturing economy was impacted by the epidemic last month," said Zhengsheng Zhong, chief economist at CEBM Group. "The supply and demand sides both weakened, supply chains became stagnant." While China's workforce is gradually returning to work, the Purchasing Managers Indices from across East Asia are showing sharp declines in production, especially in South Korea, Japan, Vietnam, and Taiwan (Baldwin, Weder di Mauro 2020).

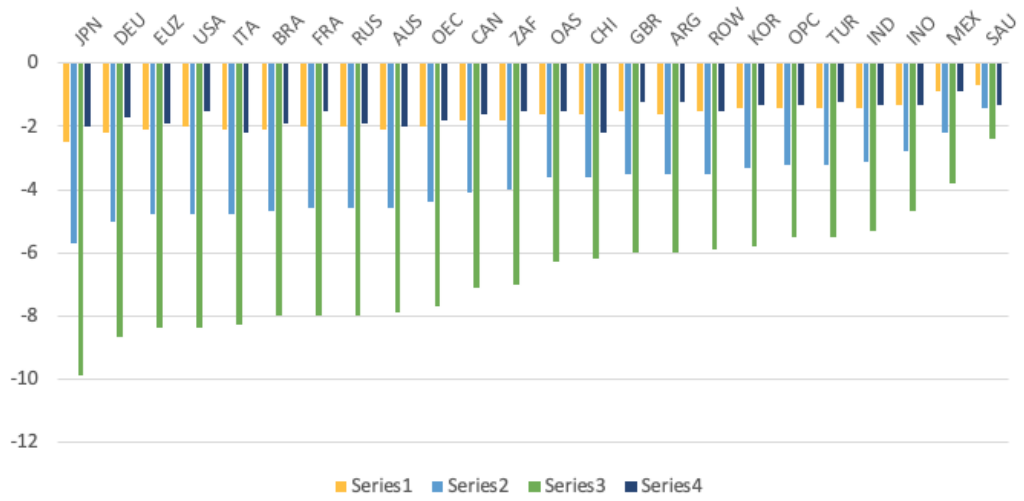
Macro modelers are busy producing estimates of the size of the shock on the world economy. The OECD estimates that a base scenario, in which the outbreak is contained to China and a few other countries, could imply a world growth slowdown of about 0.5% in 2020. In a downside scenario, where the spread is spread widely over the northern hemisphere, the 2020 world GDP growth would be reduced by 1.5%. Most of the impact is attributed to lower demand, but in this scenario, the negative contribution of uncertainty is also significant (Baldwin, Weder di Mauro 2020).

Mann discusses the possibility that this crisis will be U-shaped rather than V-shaped, as has been the case for similar epidemics and other recent supply shocks (Puślecki 2021a), (Puślecki 2022). Her point is that the linkages discussed will affect different nations differently. It may be a V shape, i.e., short and sharp with full recovery to the old growth path for some sectors and nations, but much more lingering for others (Puślecki 2021b), (Puślecki 2022).

This suggests that it could, at least for manufacturing, look more like a U-shape in the global data (Baldwin, Weder di Mauro 2020). The shock will be hard to recover for services, so it may look more like an 'L'. Growth drops for a while, and while it will resume eventually, there will be no catch-up. People who skip a few restaurant meals, cinema outings, and holidays in the sun are unlikely to double up on dining, movie-going, and holidaymaking to catch up. The shock to tourism, transportation services, and domestic activities generally will not be recovered. Mann predicts that domestic services also will bear the brunt of the virus outbreak (Puślecki 2020a) (Puślecki 2022).

McKibbin and Fernando estimate the impact of different degrees of severity of a China-only and global shocks (Chart 3). In their most severe scenario (with very high infection rates), the impact on 2020 growth is four times greater than in Boone's adverse case. In this scenario, Japan has the highest hit of almost 10% GDP loss, followed by Germany and the US with losses of about 8% each (Baldwin, Weder di Mauro 2020).

FIGURE 3
GDP LOSS IN 2020, DEVIATION FROM BASELINE ESTIMATES BY MCKIBBIN AND FERNANDO, S4–S7, GLOBAL PANDEMIC SCENARIOS



Source: Baldwin, R and B Weder di Mauro [48], Economics in the Time of COVID-19, a VoxEU.org eBook, CEPR Press

The virus's behavior is one thing; the governmental reaction is another. As Weder di Mauro puts it: "The size and persistence of the economic damage will depend on how governments handle this sudden close encounter with nature and with fear." On the dark side, it could become an economic crisis of global dimensions and a long-lasting reversal of globalization. On the bright side, it could be the moment when

policymakers manage a common crisis response. They might even rebuild some trust and create a cooperative spirit that helps humanity tackle other common threats like climate change.

One idea of consideration is scaling up the EU Solidarity Fund. The fund was created in 2002 to support EU member states in cases of large disasters, like floods, earthquakes, volcanic eruptions, forest fires, drought and other natural disasters. The fund can be mobilized upon an application from the concerned country, provided that the disaster event has a dimension justifying intervention at the European level. In 2018, the EU Solidarity Fund dispensed almost €300 million for relief following natural disasters in Austria, Italy, and Romania.

Certainly, the disruptions caused by COVID-19 do amount to a natural disaster. Scaled up, the EU Solidarity Fund could provide relief for affected regions and people; beyond immediate relief, it would send an important signal (Baldwin, Weder di Mauro 2020).

CONCLUDING REMARKS

In the 21st century, bilateral agreements are becoming increasingly important. They already account for over 70% of liberalized trade. The role of the G20 group has increased. Both the WTO and G20 should jointly undertake and coordinate efforts to develop the principles that would promote not only international trade of developed countries but also increase access of developing countries to the global market. The promotion of global trade rules will increase the legitimacy of the G20 group and the reformed global trade system whereas its modified management within the WTO framework, which will take into account the specific interests of individual countries, may contribute to further dynamic development.

Structural and micro-political economy analyses of international business policy in the context of sustainable development have missed the impact of changing ideas about protectionism and relatively unchanging institutions designed to handle domestic producer complaints. The political consensus on the supply of international business policy and protectionism has changed. In the economic depression, tariffs, revenues, and protectionism played important roles in the politics of political parties. At the same time in the market economy, even during the economic depression, one can observe little support for liberal foreign trade policy. It is necessary to emphasize that in international business policy, there are not pure liberalism and pure protectionism. In high economic growth, there is the tendency to liberalism in international business policy and in the economic crisis there is the tendency to protectionism.

During the rise of global supply chains, the development of various firm models has made it possible to explore the effects of firm differences on the political economy of trade. It must be underlined that trade opening has two opposing effects on domestic firms within the same industry. First, the cost of exporting decreases, allowing more firms to export and increasing established exporters' sales. Secondly, competition increases, which harms domestic firms. Which of these channels dominates for an individual firm depends on firm characteristics, such as size. As a result, lobbying competition arises between sectors and within sectors in which some firms benefit and some lose due to trade. This effect might especially arise in the context of fixed costs because they rise entry costs and thereby shield existing producers or exporters from competition.

The least and most productive firms during the rise of global supply chains oppose more open trade when it comes to reducing NTMs because the competition effect outweighs the sales effect. It is the firms close to the export cut-off, i.e. those that just break even considering the costs of exporting, which benefit from trade opening and support it. We can use these results to explain a persistent feature of trade policy, namely the reluctance to accept opening trade in homogeneous goods and during the rise of a global supply chain. The emergence of supply chains exacerbates the issue and might weaken reciprocity in trade negotiations. It must be underline that as the largest firms are engaged in global production networks, they support NTMs to protect their foreign affiliates. The mechanism is similar to the one described above: multinational affiliates have fewer problems to overcome fixed exporting costs compared with less productive competitors.

In the conditions of the rise of global supply chains, large firms promote NTMs to reduce domestic competition and shield their foreign affiliates from export competition. One implication of the argument is

that market access-based rules of reciprocity might be insufficient to address the distributional effects of NTMs because reciprocal tariff concessions cannot account for them. Overall, these theoretical studies suggest that while the largest firms benefit from tariff reductions, they may not support the reduction of NTMs that affect fixed costs. Large firms can more easily pay the sunk costs of adapting products to different specifications and benefit afterward from less competition.

The harmonization of standards and rules on investment, intellectual property, and services has become a standard part of new trade bilateral agreements. The differences among firms involved in the trade are also important for future development. The picture that arises from the trade is that even if many firms are indirectly involved in trade-related activities, only relatively few are exporting or importing, and these firms tend to be larger and more productive than others. Such firms also have a role in technology advancement and the diffusion of know-how through supply chains.

It must be underline that if a majority of voters perceives trade during the rise of global supply chains as causing unemployment and/or increasing inequality, governments could refrain from pursuing further trade opening and may even be tempted by protectionism. Another possibility would be for governments to use more intensive public policies for protectionist purposes. Concerning trade negotiations, focusing exclusively on the efficiency effect of trade opening may no longer be possible. Distribution and labor-market effects will also need to be considered. Accompanying measures may need to be proposed to win the support of a majority of voters for open trade by bilateral agreement especially in the conditions of the rise of global supply chains.

Firms compare the cost savings from global supply chains – the difference in wages in low-wage countries relative to wages in their home market inclusive of transport costs – with the cost savings from using robots instead of workers in production. The Global Crisis was a total shock to this comparison in cost savings. Global supply chains became more costly when the risk of a non-delivery of an input good increased substantially after the Global Crisis. Firms may have also expected higher tariff rates after the Global Crisis, which shrinks advantage of GVCs as input goods pass the border several times. At the same time, the Global Crisis made robot adoption less costly, with the sharp decline in interest rates relative to wages when central banks started to fight the adverse effect of the crisis. As a result, many firms in rich countries started to restore production back to their home country and invested in robots instead.

In the wake of the Global Crisis, uncertainty in the world economy led many firms to reassess their business models. Rather than relying on global supply chains, an increasing number of firms invested in robots, which prompted manufacturing renaissance in industrialized countries. Changes in the world economy due to COVID-19 make a V-shaped recovery from the coming recession unlikely; more likely is U and in services L. Instead, COVID-19 will accelerate the process begun after the Global Crisis by encouraging firms to re-shore activity back to rich countries.

Economic relations in the 21st century have significantly enlargement, which is due to common interests. The economic crisis of the world economy breakthrough first and second decade of the 21st century contributed to the stimulus and strengthening of mutual relations. This 21st-century initiative is not merely for China to romanticize its historical legacies: it carries major strategic economic and geopolitical calculations. The realistic point is important trends in the trade regime. Commercial relations are too important to become hostage to political grandstanding or airy rhetoric by politicians performing for domestic galleries. Disturbing this relationship would have ramifications for sales, growth, and employment, especially during COVID-19. Commercial interests in autocratic regimes cause political dilemmas, especially during COVID -19.

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