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# International Trade in the (post-)Covid-19 World\*

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**Abstract:** *This article argues that although some of the short-term consequences of the COVID-19 pandemic for international trade are potentially serious, they do not appear to be unmanageable. One could therefore expect that once the pandemic disappears, or is at least under control, international trade will go back to business as usual. However, in the long-term perspective the potential impact of the pandemic can be more profound than initially anticipated, leading to structural changes in the process of economic globalization. While the seeds of such a process were sown some time ago, the Covid-19 pandemic seems to exacerbate existing tendencies for States to turn inward and compete more openly for economic and political dominance in the world. In this context, the article argues that the extent of the potential transformation will depend, among the other things, on the length and severity of the current pandemic. The larger is its health and economic impact, the greater are chances that we will see structural changes in international trade relations.*

**Keywords:** Covid-19, pandemic, international trade, globalization, China, USA, deglobalization

## 1. Introduction

The Covid-19 pandemic has taken the world by surprise. Initially, it was seen as a Chinese, and later South-East Asian, problem. Decision-makers around the world apparently believed that the SARS-CoV-2 could be contained and controlled within the region, following a pattern that was evident in previous outbreaks, such as SARS.<sup>1</sup> However, due to a combination of various factors of a natural, political and regulatory character,<sup>2</sup> the disease quickly became an epidemic and later, when it reached other parts of the world, a pandemic. The existing interconnectedness among countries – one of the facets of globalization – has obviously facilitated this process.

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<sup>1</sup> See generally, T. Abraham, *Twenty-First Century Plague: The Story of SARS*, Johns Hopkins University Press, Baltimore: 2004.

<sup>2</sup> The broad spread of the initial outbreak was caused by the Chinese authorities, which ignored, for political reasons, early signs of the unfolding epidemic. Many other countries have been also too late with their regulatory responses. Covid-19 as such has turned out to have a relatively high transmission rate, with a considerable number of infected people being asymptomatic, which facilitates transmissions.

The pandemic has impacted almost all spheres of human activity. Nationwide lockdowns, closed borders, face masks in public spaces and remote work have become, within weeks, a new normal. Paradoxically, the world while slowing down, has also accelerated. Digital transformation, progressive and large-scale automation, growing inequalities (both within societies as well as between countries) and a shift in the economic balance, away from the West towards Asia are by no mean new. All these trends have been visible for at least a decade. What has changed, however, is the pace of the transformation. The processes that would normally take years are happening now.

International trade is not an exception. The pandemic has shaken the foundation of the currently functioning system and has clearly a potential to leave it with permanent marks. What are then the consequences of the pandemic for international trade? How the future model of cooperation between States in this field may look like? This article is a modest attempt to answer these two question by identifying some of the short and long-term effects of the pandemic (Sections 3 and 4 respectively) and discussing one possible scenario that seems to be slowly emerging in the field – a divided world with less cooperation and more open rivalry among the States. However, the issue that needs to be addressed in the first place is the complex nature of the crisis caused by the pandemic. This problem is tackled in the subsequent section.

## **2. The Covid-10 pandemic and three-dimensional crisis**

Initially, the pandemic has been predominantly seen as a public health problem. Indeed, as of October 20, 2020 there have been more than 41 million confirmed cases globally and about 1.1 million registered deaths,<sup>3</sup> with the United States (US), Brazil, India and Russia being the most affected countries. Unfortunately, these figures might be just the tip of the iceberg. The experts of the World Health Organization (WHO) estimated at the beginning of October 2020 that up to 10% of the global population may have already contracted the virus,<sup>4</sup> while the death toll is believed to be twice as large as the official data indicate.<sup>5</sup> The situation will most probably get worse in the near future as the available epidemiological models envisage many

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<sup>3</sup> Cf John Hopkins University & Medicine, *Coronavirus Resource Center*, available at: <<https://coronavirus.jhu.edu/map.html>>, all internet resources last accessed on 20 October 2020.

<sup>4</sup> J. Keaten, *10% of the World Has Been Infected With COVID-19, WHO Estimates*, *The Time*, 6 October 2020, available at: <<https://bit.ly/3nqY7MJ>>.

<sup>5</sup> *The Covid-19 pandemic is worse than official figures show*, *The Economist*, 26 September 2020, available at: <<https://econ.st/2SyzMXf>>.

more infections and between 0.5 to 3.5 million additional deaths by 1 February 2021.<sup>6</sup> While some countries have managed to establish the control over the progress of the pandemic (e.g. China, New Zealand, Singapore or Australia), others have not been so successful. For example, France, Spain, Hungary and Poland have recently entered the second wave (which is more severe than the previous one), while the US, Brazil, and Ukraine are still battling the first one.

The ongoing public health emergency has been followed by mutually reinforcing economic and political crises that eventually may leave societies around the world with even deeper scares. As far as the economic dimension is concerned, the global GDP is expected to fall by 4.4% this year<sup>7</sup> (note that the financial crisis in 2008-09 only led to a 0.1% contraction). This is worse than initially anticipated, as the pandemic has had a more negative impact on economic activities in the first half of 2020 than envisioned, while the recovery has been more gradual than previously forecasted. Although all countries suffer, some are affected more than others. For example, the GDP of the US contracted by 32.9% in the second quarter of 2020 and its economy is expected to see a negative growth of 4.3% for the entire year. An even more pessimistic scenario is predicted for the Euro Area, which is projected to have an 8.3% contraction in 2020.<sup>8</sup> While the Central and East European (CEE) Member States of the European Union (EU) are expected to fare better, these predictions are highly uncertain.<sup>9</sup> Paradoxically, the only large country that may see economic growth this year (of 1.9%) is China, which apparently has successfully managed to establish control over the spread of the virus.<sup>10</sup> At present the pace and extent of potential global recovery still remains an open question. While the third quarter of 2020 saw some rebound in economic activity, the second wave of the pandemic – which has already formed in many countries – may undercut this fragile growth. Even if this negative scenario does not happen, between 89 to 115 million

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<sup>6</sup> See e.g. Institute for Health Metrics and Evaluation (IHME), *Covid-19 projections*, last updated 15 October 2020, available at: <<https://covid19.healthdata.org/global?view=total-deaths&tab=trend>>.

<sup>7</sup> International Monetary Fund (IMF), *World Economic Outlook. A Long and Difficult Ascent*, October 2020, p. 9, available at: <<https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020>>. It should be noted that this figure is better than in the June 2020 projection, which envisaged a 4.9% contraction.

<sup>8</sup> *Ibidem*, p. 9.

<sup>9</sup> For example, the current figure for Poland is -4.6% and for Hungary -7% (European Commission, *Economic forecast for Poland and Hungary*, see respectively <<https://bit.ly/34wtwoo>> and <<https://bit.ly/3jGVBQ5>>). It is however not clear how the current development of the pandemic in these two countries will impact their economic growth in the fourth quarter of 2020.

<sup>10</sup> IMF, *supra* note 7, p. 9.

people will be pushed into extreme poverty, particularly in low- and middle-income economies, by the end of this year.<sup>11</sup>

Equally serious is the political crisis, which can manifest itself not only at the national level (by undermining the support for the current governments),<sup>12</sup> but also at the regional or international levels. One example of the latter is the growing tension between the US and China, which has been fuelled by poor management of the pandemic in the US (coupled with the political need to find an external enemy) and the growing ambitions of China, which is taking advantage of the chaos that has dominated the world (e.g. by imposing the new security law in Hong Kong or further militarizing the Taiwan strait). The recent protests in Belarus and the war between Azerbaijan and Armenia over Nagorno-Karabakh have been linked to the pandemic as well.<sup>13</sup> Some experts also worry about the future of the European integration project, pointing out the inadequate response of the EU institutions (at least in the initial phase of the pandemic) and rising nationalist sentiments in many EU Member States.<sup>14</sup> In this context it is worth noting that the European countries have mostly responded to the pandemic and its economic effects individually, with the EU becoming more visible only recently. Despite the fact that the protection of public health is a competence of the Member States and the Union can only intervene to support, coordinate, or complement the actions taken at the national level, the perception of failure of the EU institutions is quite common.<sup>15</sup> Others also note that the pandemic may lead at least some EU Member States to move away from market-oriented policies toward more interventionist policies, creating additional tensions within the EU, which is centred on the creation and functioning of the single market.<sup>16</sup>

There are also those who see the Covid-19 pandemic as an existential threat to liberal and constitutional democracy. Indeed, there are some early signs which may indicate that the current autocratic tendencies will be strengthened in the future. Governments in different

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<sup>11</sup> World Bank, *COVID-19 to Add as Many as 150 Million Extreme Poor by 2021*, 7 October 2020, available at: <<https://bit.ly/36RDaf3>>.

<sup>12</sup> Initially the pandemic has had the opposite effect in many countries with government approval ratings rising. This phenomenon is labelled by social psychologists as a rally-round-the-flag effect. See K. Chi Yam, J. C. Jackson, C.M. Barnes, J. Lau, X. Qin, and H. Yeung Lee, *The rise of COVID-19 cases is associated with support for world leaders*, 117(41) *Proceedings of the National Academy of Sciences* 25429 (2020).

<sup>13</sup> A. Troianovski, *Putin, Long the Sower of Instability, Is Now Surrounded by It*, *The New York Times*, 7 October 2020, available at: <<https://nyti.ms/3dce8Bl>>.

<sup>14</sup> G. Celi, D. Guarascio and A. Simonazzi, *A fragile and divided European Union meets Covid-19: further disintegration or 'Hamiltonian moment'?*, 47 *Journal of Industrial and Business Economics* 411 (2020).

<sup>15</sup> L. Laurent, *The EU's Big Pandemic Failure Isn't About Money*, *Bloomberg*, 14 April 2020, available at: <<https://bloom.bg/3IAV8j9>>.

<sup>16</sup> P. Bergsen, A. Billon-Galland, H. Kundnani, V. Ntousas, T. Raines, *Europe after Coronavirus: The EU and a New Political Economy*, Chatham House Research Paper, June 2020, p. 1.

parts of the world are using the pandemic as an excuse to restrict freedoms, punish independent news operations, and attack minorities. The recent report by the Freedom House shows, for example, that democracy has weakened in 80 countries (including Hungary<sup>17</sup>) and become stronger in only one country, thus reinforcing a trend that has been observable over the last fourteen years.<sup>18</sup>

When taken together, it is therefore not surprising that many commentators predict growing chaos and increasing poverty in the upcoming future, as well as the reversal of various processes that have shaped the world as we know it today.<sup>19</sup> These changes are also expected to affect international trade and its governance structures, the issue that is addressed in two subsequent sections.

### **3. Short-term consequences for international trade**

The Covid-19 outbreak has already caused a deep disruption in world trade, affecting both the supply and demand side of the global economy. In the first phase of the pandemic many governments ordered the temporary closure of non-essential manufacturing facilities, while numerous corporations either took such measures voluntarily (in part because of reductions in the supply of labour) or simply decreased production due to disruptions in their supply chains. Although most of these production sites have already reopened, frequently their output is still below the pre-pandemic level. The impact of the Covid-19 pandemic is however most visible in the international service sector. The main victims are international tourism, passenger air travel, and container shipping. Global financial transactions, as well as information and communications technology services, have also declined significantly.<sup>20</sup> Moreover, according to the recent UNCTAD forecast, the pandemic will cause global foreign direct investments (a part of which fall within mode 3 of the transnational supply of services) to shrink by 40% in 2020.<sup>21</sup> The demand side has been also affected, as consumers around the globe are unwilling at the moment to spend their money. This phenomenon can be attributed to a common fear of loss of income (e.g. due to unemployment) and heightened uncertainty. Overall, the World

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<sup>17</sup> For details see e.g. T. Drinóczy and A. Bień-Kacała, *COVID-19 in Hungary and Poland: extraordinary situation and illiberal constitutionalism*, 8(1-2) *The Theory and Practice of Legislation* 171-192 (2020).

<sup>18</sup> FreedomHouse, *Democracy under Lockdown*, October 2020, available at: <<https://bit.ly/3iI83O8>>.

<sup>19</sup> For an interesting overview of different narratives on the Covid-19 pandemic and its consequences for the process of globalization, see A. Roberts, N. Lamp, *Is the Virus Killing Globalization? There's No One Answer*, *Barron's*, 15 March 2020, available at: <<https://bit.ly/39EQiuB>>.

<sup>20</sup> WTO, *Services Trade Barometer*, 17 September 2020, available at: <[https://www.wto.org/english/news\\_e/news20\\_e/wtoi\\_17sep20\\_e.pdf](https://www.wto.org/english/news_e/news20_e/wtoi_17sep20_e.pdf)> (note that these data cover June 2020).

<sup>21</sup> UNCTAD, *World Investment Report 2020. International Production beyond the Pandemic*, UNCTAD/WIR/2020, June 2020.

Trade Organization (WTO) predicts a 9.2% decline in world merchandise trade for 2020<sup>22</sup> (which is however a much better figure than the initial estimates provided by the organization in April, which fell within the -13% and -32% range<sup>23</sup>). At the same time, the WTO envisages a rebound of 7.2% in 2021. Since this will not compensate for the losses in 2020, the WTO describes the potential rebound as “being closer to the ‘weak recovery’ scenario than to a ‘quick return to trend’.”<sup>24</sup> Of course, all these estimates are subject to a high degree of uncertainty and depend on the progress of the pandemic and the regulatory responses to it.

Recent months have also seen a significant increase in States’ recourse to Covid-19-related trade policy measures. In particular, some countries have decided to establish export controls over certain medical products (e.g. medical ventilators, certain drugs, personal protective equipment) in the form of temporary export bans, or the addition of licensing/authorization requirements.<sup>25</sup> Other countries, concerned with the security of their food supplies, have introduced export restrictions on specific agricultural products (altogether these export barriers covered almost 4% of the caloric value of globally-traded food<sup>26</sup>). Border restrictions have also affected the movement of people that are employed (normally on a temporary basis) in the agricultural sector, leading to labour shortages. All of these phenomena have generated genuine concerns about a potential lack of a sufficient amount of available food on the global market in the second part of the year.<sup>27</sup> The problem appeared sufficiently serious that it has led to a joint statement by the Directors-General of the Food and Agriculture Organization (FAO), the WHO, and the WTO, in which they noted that “uncertainty about food availability can spark a wave of [additional] export restrictions, creating a shortage on the global market.” In this context, they called on countries to ensure that their trade-related

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<sup>22</sup> WTO, *Trade shows signs of rebound from COVID-19, recovery still uncertain*, 6 October 2020, available at: <[https://www.wto.org/english/news\\_e/pres20\\_e/pr862\\_e.htm](https://www.wto.org/english/news_e/pres20_e/pr862_e.htm)>.

<sup>23</sup> WTO, *Trade set to plunge as COVID-19 pandemic upends global economy*, 8 April 2020, available at: <[https://www.wto.org/english/news\\_e/pres20\\_e/pr855\\_e.htm](https://www.wto.org/english/news_e/pres20_e/pr855_e.htm)>.

<sup>24</sup> WTO, *supra* note 22.

<sup>25</sup> For up-to-date list of those measures see the database prepared by the WTO (*COVID-19: Measures affecting trade in goods*), available at: <<https://bit.ly/3jMZuTJ>>. In principle those measures are WTO-consistent. While they may be regarded as prohibited quantitative restrictions on export, they are potentially justified as necessary to protect public health. Of course, they need to be applied in a manner that does not discriminate between WTO Members and cannot constitute a disguised restriction on international trade. See also WTO, *Export Prohibitions and Restrictions. Information Note*, 23 April 2020, available at: <<https://bit.ly/3lJ4gCp>> and J. Lawrence, *Covid-19, Export Restrictions, and the WTO: Magnifying Global Divisions in a Time of Crisis*, in C. Ferstman, A. Fagan (eds.), *Covid-19, Law and Human Rights: Essex Dialogues*, University of Essex, Colchester: 2020, pp. 107 et seq.

<sup>26</sup> D. Laborde, W. Martin, J. Swinnen, and R. Vos, *COVID-19 risks to global food security*, 369(6503) *Science* 500 (2020).

<sup>27</sup> International Institute for Sustainable Development (IISD), *Policy Brief: COVID-19 and Food Export Restrictions*, 2020, available at: <<https://bit.ly/2SBL2Cd>>.

measures do not disrupt the food supply chains.<sup>28</sup> Fortunately, so far this negative scenario has not materialized. There have been only a few cases of significant disruptions in supply chains, and the world prices for staple foods (e.g. wheat, rice, corn), while remaining volatile, have not increased substantially. At the same time, during the summer most of the export restrictions were lifted by the governments.<sup>29</sup> Again however, the situation is highly uncertain and may change quickly, depending on the development of the pandemic.

It would be a mistake to think that the current epidemiological situation has only resulted in a wave of trade restrictions. The picture is much more complex. In fact, a number of States have removed or suspended some of their trade controls. For example, Argentina has suspended its anti-dumping duties on imports of certain medical products from China, while Canada has temporarily eliminated tariffs for specific categories of products if they are imported by public health agencies, hospitals and testing sites, or for use by first response organizations.<sup>30</sup> The aim of these measures is to ensure that there are sufficient supplies of such needed items to domestic markets. Interestingly, some trade restrictions have been reduced – at least temporarily – even between the US and China, the two rivals who have been stuck in a trade war for the last two years. In particular, the United States has decided to exclude a range of medical protective gear and equipment from additional duties previously imposed under its Section 301, and new products may be added to that list in the future. Similarly, China has granted temporary exclusions for certain US goods (e.g. reagents or disinfectants) from its counter-duties.<sup>31</sup>

The pandemic has also slowed down the pace of various international trade negotiations around the globe, as well as the execution of existing trade agreements, as States have been preoccupied with the public health crisis. Sometimes, the delay has been small, as in case of the new agreement between the United States, Mexico and Canada (the so-called USMCA) that has replaced the North American Free Trade Agreement (NAFTA). The initial plan for the entry into force was set for 1 June 2020, but actually took place one month later<sup>32</sup> (arguably thanks to the determination of the US administration to announce a major success

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<sup>28</sup> *Joint Statement by QU Dongyu, Tedros Adhanom Ghebreyesus and Roberto Azevêdo, Directors -General of FAO, WHO and WTO*, 31 March 2020, available at: <<https://bit.ly/3433Uis>>.

<sup>29</sup> Laborde et al. *supra* note 26.

<sup>30</sup> *WTO (COVID-19: Measures affecting trade in goods)*, *supra* note 25.

<sup>31</sup> D.W. Layton, J. Zhang, and H. Li, *The Impact of COVID-19 on the US-China Trade Relationship*, Mayer Brown, 13 March 2020, available at: <<https://bit.ly/39zCXE1>>.

<sup>32</sup> US Department of State, *Entry into Force of the United States-Mexico-Canada Agreement – Press statement*, 1 July 2020, available at: <<https://www.state.gov/entry-into-force-of-the-united-states-mexico-canada-agreement/>>.

before the presidential election). More serious problems have emerged in the context of the implementation of the US–China Phase 1 trade deal<sup>33</sup> concluded in January 2020, which constitutes the preliminary agreement that establishes the prerequisites for ending (again, at least temporarily) the trade war between the two countries. On its basis China undertook to purchase more US goods and services, while the US agreed to lower some of its tariffs introduced for Chinese products between 2017-19. While both countries regularly re-affirm their commitments,<sup>34</sup> the actual implementation level is rather low (overall below 50% of the year-to-date targets). For certain commodities, such as agricultural or energy products, the figures are even lower.<sup>35</sup>

On the other side of the Atlantic, talks between the United Kingdom (UK) and the EU over future trade relations have made very little progress.<sup>36</sup> According to the withdrawal agreement,<sup>37</sup> the transition period for the UK ends on 31 December 2020. If no deal is reached, then border controls will return and British access to the European market will be severely restricted (and vice versa), while mutual trade relations will be governed by the WTO rules (which are largely insufficient given the size and scale of the trade between the two partners), and be subject to the partially paralyzed dispute settlement mechanism provided by the organization.<sup>38</sup> That seems to be a very unappealing option, particularly for the post-Covid-19 world, so one may expect to see (despite all the statements to the contrary from Prime Minister Johnson<sup>39</sup>) either an extension of the deadline or a last-moment deal with far-reaching concessions from the UK, being a country that has more to lose.

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<sup>33</sup> Economic and Trade Agreement between the Government of the United States of America and the Government of the People's Republic of China: Phase One, signed on 15 January 2020, entry into force on 14 February 2020.

<sup>34</sup> Most recently in August 2020 (see E. Beech, R. Liu, *U.S., China reaffirm commitment to Phase 1 trade deal in phone call*, Reuters, 25 August 2020, available at: <<https://reut.rs/2GMXTPI/>>).

<sup>35</sup> For an excellent tracker of the implementation agreement, see Peterson Institute for International Economics, *US-China phase one tracker: China's purchases of US goods*, available at: <<https://bit.ly/2IcjAJg>>.

<sup>36</sup> See e.g. L. O'Carroll, P. Walker, *Michel Barnier 'worried and disappointed' over Brexit talks impasse*, Guardian, 2 September 2020, available at: <<https://bit.ly/3iE5TiI>>.

<sup>37</sup> Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community, signed on 17 October 2019, entry into force 1 February 2020.

<sup>38</sup> For more details, see B. Hoekman and P. Mavroidis, *WTO Dispute Settlement and the Appellate Body Crisis. Back to the Future?*, Bertelsmann Stiftung: 2020.

<sup>39</sup> J. Lawless, *Johnson says UK will quit Brexit talks if no deal by Oct 15*, The Associated Press, 6 September 2020, available at: <<https://bit.ly/318Yhim>>.

The negotiations over the Regional Comprehensive Economic Partnership (RCEP),<sup>40</sup> which will connect 10 members of the Association of Southeast Asian Nations (ASEAN) with China, Japan, South Korea, Australia and New Zealand, have also slowed down due to the pandemic, although eventually some significant progress has been made in 2020.<sup>41</sup> The current plan is to sign the agreement (or at least an agreement in principle) in November 2020, but that deadline may be unrealistic. Nevertheless, these negotiations seem to be largely unaffected by the pandemic. This can be explained not only by the determination of China, but also by the fact that most of the participating countries have been quite successful in containing the pandemic.

#### **4. Long-term consequences for international trade**

The global economy is built on the specialization of labour across countries. In line with the theory of comparative advantage, which provides the foundation for the current system of the international exchange of goods and services, such specialization allows for maximization of the total output and overall improvement in welfare. The Covid-19 pandemic has shown however that the clear benefits of the system come with costs. As noted by two commentators, “single-source providers, or regions of the world that specialize in one particular product, can create unexpected fragility in moments of crisis, causing supply chains to break down.”<sup>42</sup> Such disruptions can have significant impacts, both on individual companies as well as on global networks of supply chains. For example, China is the dominant global supplier of active pharmaceutical ingredients for many important medications. In 2018, it accounted for 95% of the United States imports of ibuprofen, 91% of hydrocortisone, 40-45% of penicillin, and 40% of heparin.<sup>43</sup> Such a situation becomes particularly problematic in times of crisis, when production facilities are not fully operational while the demands of the domestic markets may require countries to redirect part of the export. This is also true for other sectors, even if the consequences of possible disruptions are not so dramatic.

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<sup>40</sup> For more generally on the RCEP, see M. Dian, and S. Menegazzi, *New Regional Initiatives in China's Foreign Policy. The Incoming Pluralism of Global Governance*, Palgrave Macmillan, Cham: 2018 (particularly Chapter 5).

<sup>41</sup> *RCEP states make 'significant' progress in trade talks without India*, Japan Times, 27 August 2020, available at: <<https://www.bilaterals.org/?rcep-states-make-significant&lang=en>>.

<sup>42</sup> H. Farrell and A. Newman, *Will the Coronavirus End Globalization as We Know It?*, Foreign Affairs, 16 March 2020, available at: <<https://fam.ag/2QYcdXg>>.

<sup>43</sup> D. Palmer and F. Bermingham, *U.S. policymakers worry about China 'weaponizing' drug exports*, Politico, 20 December 2019, available at: <<https://politi.co/2QXHidx>>.

This newly discovered risk may eventually lead to profound changes in existing supply chains. The early signs of such a process were already visible even before the pandemic. The Trump Administration was pressuring American companies (albeit for different reasons) to move their production facilities back to the United States, or at least outside of China.<sup>44</sup> The 2017 US National Security Strategy explicitly identified economic security as a part of national security.<sup>45</sup> In 2019 Taiwan launched a three-year incentive programme to promote a so-called “non-red supply chain”, encouraging China-based Taiwanese companies to return home.<sup>46</sup> The idea of “China plus one” has been also gaining some traction among multinational corporations.<sup>47</sup> Although all these efforts have had only limited success so far,<sup>48</sup> the Covid-19 pandemic may accelerate the relevant changes. Remarkably, it seems that both private companies and governments (not only in the US but also elsewhere) may now be genuinely interested in introducing such modifications. On the one hand, shortening and diversifying supply chains can be a rational and attractive strategy for private companies, which will allow them to ensure smoother operations and reduce the risks of supply shortages (which were prevalent in the initial phase of the pandemic). Consequently, the supply chains will be designed not only on the basis of cost efficiency but also taking into account risk management considerations. On the other hand, for the governments this may be a way of limiting dependence on China (or any other country that dominates their supplies). Such a move may not only make them better prepared for potential future crises, but also decrease the geopolitical leverage held by China due to its control over the global supply chains (recall, for example, that China threatened to withhold supplies of medical equipment to the US and Europe<sup>49</sup>). From both perspectives, the modification of the existing supply chains can be seen

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<sup>44</sup> J.R. Reed, *President Trump ordered US firms to ditch China, but many already have and more are on the way*, CNBC, 1 September 2019, available at: <<https://cnb.cx/3aLGh0p>>. For an analysis of the American trade policy under President Trump, see L. Gruszczynski, J. Lawrence, *Trump, International Trade and Populism*, 49 *Netherlands Yearbook of International Law* 19 (2018).

<sup>45</sup> White House, *National Security Strategy of the United States of America*, December 2017, available at: <<https://bit.ly/3nHTpKw>>.

<sup>46</sup> Action Plan for Welcoming Overseas Taiwanese Businesses to Return to Invest in Taiwan. The program aims at Taiwanese companies that have been operating in China for at least two years and which have been hit by the U.S.-China trade war (for more details see Executive Yuan, available at: <https://bit.ly/36TfuzT>).

<sup>47</sup> The strategy is aimed at reducing dependence on China by moving some of the production to one of the developing countries in the Southeast Asia region. This has been done not only to increase the safety of supply chains, but also in order to address the problem of rising production costs in China. See also K. Iida, *Japan's Security and Economic Dependence on China and the United States*, Routledge, New York: 2018, pp. 156 et seq.

<sup>48</sup> Z. Erchi, Q. Tong, and M. Yelin, *Despite Attempts to Lure Them Away, Multinationals Aren't Leaving China*, Caixing Global Business and Tech, 21 May 2020, available at: <<https://bit.ly/2Hi5w08>>.

<sup>49</sup> S. Lau, *EU toned down report on Chinese disinformation after Beijing threatened 'repercussions'*, *diplomatic sources say*, South China Morning Post, 25 April 2020, available at: <<https://bit.ly/37h8htB>>.

as way of addressing the existing strategic vulnerabilities in the economic sphere. This way of thinking is well illustrated by the recent statement of the US Secretary of State Mike Pompeo, who stressed the need to “fundamentally review our [US] supply chains and make sure that we know those supply chains and have control over them for moments just like this.”<sup>50</sup>

Indeed, a number of countries have taken steps during the pandemic to address the problem of vulnerabilities in their supply chains, and the actual or potential strategic dominance of China in specific sectors of the global economy. The US continues to employ an aggressive trade policy that targets selected areas deemed to be strategic (e.g. most recently various Chinese internet service providers) and to pressure other countries to restrict access to their markets for Chinese telecommunication technologies (e.g. 5G networks),<sup>51</sup> or tries to cut off the supplies of essential components to China (e.g. semiconductors).<sup>52</sup> The US lawmakers are also discussing the creation – as a part of the next fiscal stimulus to offset the coronavirus downturn – of a special fund in the form of tax breaks and subsidies that would assist American companies to relocate their operations back in the US.<sup>53</sup> A similar incentive programme has been already created by Japan, which has reserved funds, within its Covid-19 emergency economic package, to help domestic companies to move their production back to Japan (for high added value goods), or to diversify their production base in Southeast Asia (for other products).<sup>54</sup> India has recently announced a special welcome programme for foreign companies in specific sectors that wish to move away from China.<sup>55</sup> At the same time, the Indian government cut off a number of the leading Chinese apps from the domestic market, citing data protection concerns.<sup>56</sup> The problem of trade dependencies and China-dominated supply chains is also discussed in the European Union,<sup>57</sup> Australia,<sup>58</sup> and Canada<sup>59</sup> (and some

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<sup>50</sup> *Secretary Michael R. Pompeo With Hugh Hewitt of The Hugh Hewitt Show*, U.S. Department of State, 26 March 2020 <<https://bit.ly/2UyjGyn>>.

<sup>51</sup> N.T. Lee, *Navigating the U.S.-China 5G Competition*, Brookings, April 2020.

<sup>52</sup> See e.g. J. Zhang and S. Zheng, *US-China tech war: battle over semiconductors, Taiwan stokes trade feud*, South China Morning Post, 22 September 2020, available at: <<https://bit.ly/2FiXVxM>>.

<sup>53</sup> A. Shalal, A. Alper and P. Zengerle, *U.S. mulls paying companies, tax breaks to pull supply chains from China*, Reuters, 18 May 2020, available at: <<https://reut.rs/33Qoy6K>>.

<sup>54</sup> K. Nakazawa, *Xi fears Japan-led manufacturing exodus from China*, Nikkei Asia, 16 April 2020, available at: <<https://s.nikkei.com/2Fj2t7l>>.

<sup>55</sup> V. Beniwal, *China's Loss May Be India's Gain in Shifting Supply Chains*, Bloomberg, 17 September 2020, available at: <<https://bloom.bg/36WyEvt>>.

<sup>56</sup> Agence France-Presse, *India bans 118 Chinese apps, accusing companies of stealing data*, The Guardian, 3 September 2020, available at: <<https://bit.ly/34HJrjO>>.

<sup>57</sup> Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions, Brussels, 24 July 2020, COM(2020) 605 final.

<sup>58</sup> See e.g. Supply Chain Resilience Initiative announced by the Australian government on 1 October 2020 (see <<https://www.industry.gov.au/news-media/meeting-our-needs-in-times-of-crisis>>)

of them have taken first steps to implement specific plans). In particular, India, Japan and Australia have recently commenced a dialogue on the creation of a trilateral Supply Chain Resilience Initiative in order to reduce their reliance on China.<sup>60</sup> The US is also pushing for the creation of the so-called Economic Prosperity Network, which would form an alliance of trusted partners that cooperate in the areas of trade, health, and development. This group is expected to include, in addition to the US, Australia, India, Japan, New Zealand, South Korea, and Vietnam.<sup>61</sup>

It also seems that the tougher approach to China will be followed in the US regardless of who wins the upcoming presidential election. In the past, regulatory initiatives aimed at addressing vulnerabilities in the supply chains have attracted bipartisan support in the US Congress.<sup>62</sup> More generally, the Republicans and Democrats appear to increasingly agree that China is a strategic rival which constitutes an existential threat to the US hegemony. In this narrative, the trade relations between two countries are primarily seen in terms of competition rather than cooperation. Interestingly, Joe Biden has also announced his plan to rebuild the existing supply chains, making it one of the issues in the upcoming election. While improving supply chains that are critical to fight against Covid-19 is a rather uncontroversial proposal, the plan is much broader in its scope and also mentions “a range of critical products ... in a number of areas, including energy and grid resilience technologies, semiconductors, key electronics and related technologies, telecommunications infrastructure, and key raw materials.”<sup>63</sup> The plan also calls for a periodic review of the US supply chain vulnerabilities.

However many commentators, drawing on historical parallels, go even further and argue that the Covid-19 pandemic may be a turning point in the process of economic globalization, resulting in a deep and lasting transformation of the existing interdependences between countries.<sup>64</sup> This new world, if it emerges as projected, will be characterized by tighter immigration rules, new trade and investment barriers, and a technological race and decoupling. While I do not believe that Covid-19 pandemic is a turning point for economic

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<sup>59</sup> See e.g. The Institute of Peace and Diplomacy, *Securing Canada's Supply Chain in the post-pandemic World*, 11 May 2020, available at: <<https://bit.ly/3lFENK5>>.

<sup>60</sup> A. Palit, *The Resilient Supply Chain Initiative: Reshaping Economics Through Geopolitics*, The Diplomat, 10 September 2020, available at: <<https://bit.ly/33NYmJP>>.

<sup>61</sup> H. Pamuk and A. Shalal, *Trump administration pushing to rip global supply chains from China: officials*, Reuters, 4 May 2020, available at: <<https://reut.rs/2SSvk5w>>.

<sup>62</sup> Cf J. Whalen, *Commission that advises Congress on China warns of prolonged strategic competition*, The Washington Post, 14 November 2019, available at: <<https://wapo.st/2UDfOMR>>.

<sup>63</sup> *The Biden Plan to Rebuild U.S. Supply Chains and Ensure the U.S. Does Not Face Future Shortages of Critical Equipment*, available at: <https://joebiden.com/supplychains/#>

<sup>64</sup> H. James, *A Pandemic of Deglobalization?*, Project Syndicate, 28 February 2020, available at: <<https://bit.ly/3bK1o3e>>.

globalization, I share the opinion of those who argue that the pandemic will strengthen and accelerate different processes that have already been taking place in the area of international trade relations for some time.<sup>65</sup>

Multilateralism,<sup>66</sup> which has served as a foundation for international cooperation over the past several decades (including trade relations), is in clear decline.<sup>67</sup> The great powers – both established and emerging ones – apparently prefer uni- and bilateral strategies – which maximize their political leverage rather than diluting it in multilateral fora – as more effective ways to control the course of international affairs.<sup>68</sup> Paradoxically, also some smaller nations seem to be frustrated by the functioning of various international organizations and the operation of international multilateral arrangements, believing that they fail to deliver on their declared goals, or suffer from political biases that are embedded in their institutional structures.<sup>69</sup> Since multilateralism has been traditionally associated with a certain “constitutional” vision of the world that calls for open markets, international institutions, common security, progressive change, collective problem-solving, shared sovereignty, and respect for the rule of law,<sup>70</sup> its demise also means that all these components are questioned.

International trade seems to fit well into the above picture. Economic integration has been characterized for years by a process of dynamic expansion of regional initiatives, with the multilateral liberalization efforts stalled.<sup>71</sup> However, the real blow to global trade governance structures came with the election of Donald Trump as new US President. The launch of the trade war against China; the imposition of unilateral trade sanctions on other WTO Members; and blocking the appointment of the new members of the Appellate Body have together severely undermined the position of the organization and eventually led to the partial

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<sup>65</sup> R. Haas, *The Pandemic Will Accelerate History Rather Than Reshape It*, Foreign Affairs, 7 April 2020, available at: <<https://fam.ag/317TQUX>>.

<sup>66</sup> Multilateralism is conventionally understood as process of organizing relations among three or more States on the basis of generalized principles of conduct, without regard to particularistic interests of the participants or specific strategic exigencies that may exist (J.G. Ruggie, *Multilateralism: the Anatomy of an Institution*, 46(3) International Organization 561 (1992), p. 568).

<sup>67</sup> See e.g. J. Brunnée, *Multilateralism in Crisis*, 112 Proceedings of the ASIL Annual Meeting 335 (2018); P.J.J. Welfens, *Trump's Trade Policy, BREXIT, Corona Dynamics. EU Crisis and Declining Multilateralism*, 17 International Economics and Economic Policy 563 (2020); B. Jones and S. Malcorra, *Competing for Order. Confronting the Long Crisis of Multilateralism*, Brookings Report, 5 October 2020.

<sup>68</sup> See e.g. H.H. Koh, *Trump Change: Unilateralism and the “Disruption Myth” in International Trade*, 44 The Yale Journal of International Law Online 96 (2019).

<sup>69</sup> See generally A. Acharya, *Constructing Global Order, Agency and Change in World Politics*, Cambridge University Press, Cambridge: 2019.

<sup>70</sup> See G.J. Ikenberry, *The Future of the Liberal World Order: Internationalism After America*, 90(3) *Foreign Affairs* 56 (2011).

<sup>71</sup> Cf. e.g. S.J. Powell and T. Low, *Is the WTO Quietly Fading Away?: The New Regionalism and Global Trade Rules*, 9 The Georgetown Journal of Law & Public Policy 261 (2011).

paralysis of its dispute settlement mechanism.<sup>72</sup> But trade restrictions have been on the rise in other parts of the world as well and the weakened WTO will make this process only easier and more attractive.<sup>73</sup> Even the EU, which is traditionally very open to international trade, has recently taken a more assertive stance in its willingness to impose its anti-dumping duties, countervailing measures, and trade sanctions more vigorously (although within the frames established by the WTO).<sup>74</sup> Throughout the world countries have also more frequently than in the past come to refer to national security when justifying their trade restrictive measures.<sup>75</sup> Technological decoupling – seen by both China and the United States in terms of competition for global technological supremacy – has been an important part of their trade war.<sup>76</sup> All these developments hardly seem to be compatible with the ideas of open markets, cost efficiency, global competition and rule of law, all of which are the essence of the WTO. Similar developments can be seen in the area of foreign direct investments, which have come under stricter scrutiny as a number of countries have introduced special screening mechanisms.<sup>77</sup> The rise of economic nationalism is also reflected in the positions held by major political parties around the globe. For example, the recent report prepared for the Peterson Institute for International Economics found that political parties in developed economies have generally become more nationalist on issues related to trade, while in developing countries with respect to industrial policy.<sup>78</sup>

The Covid-19 pandemic clearly has the potential to strengthen these trends. As discussed above, countries now take more seriously the existing dependencies (both in term of supply chains and capital) in an attempt to better insulate their economies against future shocks. In the future, they may also be more willing to introduce trade protectionist measures, this time

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<sup>72</sup> For an in-depth analysis of this crisis, see Ch.-f. Lo and J. Nakagawa, T.-f. Chen (eds.), *The Appellate Body of the WTO and Its Reform*, Springer, Cham: 2020.

<sup>73</sup> E.g. WTO, *Overview of Developments in the International Trading Environment. Annual Report by the Director-General (Mid-October 2018 to mid-October 2019)*, 29 November 2019, WT/TPR/OV/22. See also M.A. Witt, *De-globalization: Theories, Predictions, and Opportunities for International Business Research*, 50(7) *Journal of International Business Studies* 1053 (2019).

<sup>74</sup> H. von der Burchard, J. Barigazzi and K. Oroschakoff, *Here comes European protectionism*, Politico, 23 December 2019 <<https://politi.co/39CruDH>>.

<sup>75</sup> The national security argument has been raised in a number of recent WTO disputes. See e.g. Panel Report, *Russia — Measures Concerning Traffic in Transit*, 5 April 2019, WT/DS512/R; Panel Report, *Saudi Arabia — Measures concerning the Protection of Intellectual Property Rights*, 16 June 2020, WT/DS567/R. Note also that the security exception was raised as a defense in a number of disputes that have been initiated by China and other WTO Members against the US.

<sup>76</sup> Ch. Ting-Fang and L. Li, *The great US-China tech decoupling: Where are we now?*, *Nikkei Asian Review*, 30 December 2019 <<https://s.nikkei.com/2UAWCE2>>.

<sup>77</sup> For a general overview see UNCTAD, *National Security-related Screening Mechanisms for Foreign Investments, An Analysis of Recent Policy Developments*, December 2019.

<sup>78</sup> M. de Bolle and J. Zettelmeyer, *Measuring the Rise of Economic Nationalism*, PIIE Working Paper 19-15.

to shield the weakened economies battling with or emerging from the unfolding economic crisis. In a similar vein, restrictions on foreign direct investments may become more prevalent as they will aim at preventing the acquisition of depreciated assets by foreign investors. The signs of this process are actually already visible.<sup>79</sup> This scenario becomes even more probable when one recognizes that the impact of the pandemic on different countries is distributed unequally, with some clear winners and losers. On the basis of the currently available economic data, it appears that China will emerge from the crisis stronger, while the US and Western Europe will relatively lose.<sup>80</sup>

As elegantly summarized by Roberts, Choer Moraes and Ferguson in their article, which *nota bene* was published before the outbreak of the Covid-19 pandemic, “[r]ecent developments suggest that the international economic order is transitioning away from the post-Cold War Neoliberal Order toward a new Geoeconomic Order. The shift to this new order, which is characterized by a growing ‘securitisation of economic policy and economisation of strategic policy’, will likely see the rules, norms, and institutions of international trade and investment law undergoing significant change.”<sup>81</sup> The Covid-19 pandemic seems to expose the existing tensions between the countries, and has “reinforced the fundamental characteristics of geopolitics today,”<sup>82</sup> which is based on competition rather than cooperation, relative rather than absolute gains, and overriding security considerations. The central place in this new order will be reserved for States rather than for international institutions (which are now one of the pillars of multilateral international cooperation in trade matters and beyond).<sup>83</sup> The States’ elevated position will be not only a result of their newly reclaimed sovereignty,<sup>84</sup> but also a consequence of the absence of an effective and comprehensive global response to the pandemic,<sup>85</sup> the lack of which has forced the countries

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<sup>79</sup> For example, the EU framework for screening of foreign direct investment became fully operational on 11 October 2020, see Regulation (EU) 2019/452 of the European Parliament and of the Council of 19 March 2019 establishing a framework for the screening of foreign direct investments into the Union, OJ L 79I , 21.3.2019, p. 1–14.

<sup>80</sup> See e.g. *The pandemic has caused the world’s economies to diverge*, The Economist, 8 October 2020, available at: <https://econ.st/3o88HIR>.

<sup>81</sup> A. Roberts, H. Choer Moraes, and V. Ferguson, *Toward a Geoeconomic Order in International Trade and Investment*, 22(4) Journal of International Economic Law 655 (2019), p. 655.

<sup>82</sup> Haas, *supra* note 65.

<sup>83</sup> E.g. I. Bremmer, *Why COVID-19 May be a Major Blow to Globalization*, The Time, 5 March 2020, available at: <https://time.com/5796707/coronavirus-global-economy/>. For the contrary view see Z. Karabell, *Will the Coronavirus Bring the End of Globalization? Don’t Count on It*, The Wall Street Journal, 20 March 2020 <https://on.wsj.com/2WZW9rP>.

<sup>84</sup> E.g. J. Zielonka, *The Nation-state Strikes Back*, Vox Europe, 30 March 2020, available at: <https://voxeu.com/en/the-nation-state-strikes-back/>.

<sup>85</sup> E.g. L.O. Gostin, *COVID-19 Reveals Urgent Need to Strengthen the World Health Organization*, JAMA Health Forum, 30 April 2020, available at: <https://jamanetwork.com/channels/health->

to address their health, economic, and security crises on their own.<sup>86</sup> Such a shift from international to national may actually be finding support in large segments of the societies around the globe. Historically speaking, during pandemics societies tend to become more self-reliant and closed. Foreigners and minorities are blamed for all the evils (think, for example, about Trump's insistence on using the term "Chinese Virus), barriers to the outside world are erected while xenophobia and racism are on the rise.<sup>87</sup>

## 5. Conclusions

Although some of the short-term consequences of the Covid-19 pandemic for international trade are serious, they do not appear to be unmanageable. Looking at the situation from this perspective, one could expect that once the pandemic disappears (or is at least is under control), international trade will go back to business as usual. However, depending on its length and severity the potential impact of the pandemic may be more profound than initially anticipated, leading to structural changes in the process of economic globalization. While the seeds of such a process were sown some time ago, the Covid-19 pandemic may exacerbate the existing tendencies on the part of States to turn inward and compete more openly for economic and political dominance in the world. Whether this will lead to the resurrection of national states (as suggested above) or rather to a segmentation of the world that will be based on the regional economic blocs created around the local hegemons (e.g. the US, EU and China) that compete against each other in the global power game is still an open question. The speed and the extent of transformation will also depend, as noted above, on the length and severity of the current pandemic. The greater its impact, the greater are the chances that we will see structural changes in international trade relations and global economic governance structures.

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forum/fullarticle/2765615>. In the earlier literature see e.g. A. Kamradt-Scott, *WHO's to blame? The World Health Organization and the 2014 Ebola outbreak in West Africa*, 37(3) *Third World Quarterly* 401 (2016).

<sup>86</sup> It should be admitted that the poor response of the global institution was partially caused by the lack of necessary authority. Many countries have also performed poorly in limiting the spread of the disease.

<sup>87</sup> S.K. Cohn, *Pandemics: waves of disease, waves of hate from the Plague of Athens to A.I.D.S.*, 85(230) *Historical Journal* 535 (2012). For the analysis of these phenomena in the context of Covid-19 see: V. Bartoš, M. Bauer, J. Cahlíková, J. Chytilová, *COVID-19 Crisis Fuels Hostility against Foreigners*, IZA DP No. 13250, May 2020.

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