

Chapter 3

The New Face of Global Trade in a Post–Pandemic World

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ABSTRACT

The COVID-19 pandemic has raised serious questions about the applicability of international trade theories. International trade has now changed its shape due to this novel coronavirus. It is a fact that no country in the world follows one trade theory. They use multiple theories for their goods and services and will continue to do so. The future of international trade theories is suspected as to which theory will be employed or any new theory of international trade will emerge. Empirical evidence illustrates the emergence of regionalization as compared to globalization. In this context, trade theories will also adjust their forms and assumptions. Therefore, this chapter reconciles international trade theories with actual data, most notably COVID-19.

INTRODUCTION

The term “globalization” was first coined by an American journalist Theodore Levitt which economist Kinichi Ohmae further disseminated in 1988 in a study of the global strategies of multinational firms. This term delineates the international process of strengthening the goods, information and production requirements movements, particularly capital and financial instruments. Many are motivated to consider that globalization is simply an advanced phase of the development of capitalism. Globalization and capitalism are very much connected. As such, for Robinson (2004), the five-hundred-year process of capitalist expansion constitutes the definition of globalization, with the current period distinguished as being qualitatively and quantitatively different from its predecessors.

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Capitalism is considered an economic system where the property is owned and controlled by private actors as per their interests and demand, fix prices in markets liberally to satisfy society's best interests. The same still exists as the economic system almost in all countries of the world.

Like all past crises, the current pandemic situation of COVID-19 has exposed several vulnerabilities concerning international trade (Aylor et al., 2020). The pandemic also illustrates a massive exogenous change to the global system (Buckly, 2020). Policymakers, academicians and practitioners have begun predicting the future of international trade more regional than global, forecasting the phenomenon of de-globalization. They argue that the global supply chain will shrink, and countries will start building up resilience. Economic prosperity for a country is very much dependent on international trade.

On January 24, 2019, The Economist showed that

The new world will work differently. Globalization will lead to deeper links within regional blocs. Supply chains in North America, Europe and Asia are sourcing more from closer to home. In Asia and Europe, most trade is already intra-regional, and the share has risen since 2011.

On December 10, 2020, The Financial Times showed that

The plausible future is not that international exchange is going to die. However, it is likely to become more regional and more virtual.

Regional trade was already at work before the COVID-19 pandemic. After the financial crisis of 2008, the year 2019 reached its lowest level of international trade. At the same time, neighboring countries started trade of goods and services which increased from 10% to 18% over the last two decades. This opens a new question of impacting international trade because of COVID-19 or the past crisis (Baldwin & Tomiura, 2020). The World Trade Organization explains that regional trade agreements have increased from less than 100 to 500. Based on reciprocal trade agreements, partner countries are now trading with each other, which increases the pie of regional trade.

The debates remains unanswered about the future of international trade. Is it a new phenomenon about the scope of regionalization? Is it the end of globalization? Is it the start of a new form of globalization? These answers are open for all researchers, policymakers and practitioners to find.

Although the prediction of regionalization is strong, international trade theories still exist. No one can deny the importance of these theories, which shows that theories will remain there but with their modified forms. One may alter the existing theories and design a new theory, stating the transition from globalization to localization. Fontaine (2020) stated that there would be a significant shift in corporation strategies and managerial thinking to avoid risk, nationalism, and protectionism in a post-pandemic world.

Before discussing the future of international trade, we must focus our attention on discussing some of the terminologies used in international trade perspectives. The theories of international trade will be discussed then in order to refresh our understanding of them.

GLOBALIZATION, INTERNATIONALIZATION, LOCALIZATION

Globalization, internationalization and localization all seem similar, and in fact, they are often used interchangeably. However, minor differences distinguish them. Recognizing the distinctions is critical

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