

THE LESSONS OF DEVELOPED COUNTRIES FOR COVID-19 EXIT STRATEGIES

Abstract. *The objective of the article was to establish whether the strategies of today's developed countries (DCs) can today be applied to crisis-exit strategies, including the Covid-19 pandemic. DCs have in their transition to higher development levels generally relied on protectionist policies in the areas of trade, patents and foreign direct investment until reaching the top, when they kicked away the ladder of protectionism and started to hypocritically propagate liberalism. Such experiences are also useful for less developed countries so long as the international context provides them with adequate policy space and they use crises as opportunities and react on time. The pandemic could be a good starting point for structural changes in the system of international (economic) relations if the mind-sets and the system that created all of these crises are changed.*

Keywords: *crises, Covid-19, development strategies, intellectual property rights, foreign direct investment, economic nationalism, new order*

Introduction

We are passing through the most vulnerable, uncertain, unpredictable, complex and ambiguous moment of our lives times (VUCA). Covid-19 has just added to all such uncertainties, putting the world economy into a coma. It metastasised in an epochal¹ economic and social crisis, unseen in modern history. Many deficiencies, pathologies and injustices of the existing system have been revealed. “We’ve never frozen an economy to this extent” (Reis, 2020) and we do not know what will happen after de-freezing it. Yet, the outcomes are largely in our hands. People’s “actions have been creating

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¹ “Such biological shocks have been a persistent force of disruption in human history—destroying empires, overthrowing economies, decimating entire populations. When they spark or coincide with other crises—climate crises, legitimacy crises, monetary crises, and armed conflict—they mark moments of transformation or redirection in the stream of history” (Harper, 2020).

crises”² and people’s policies can get out of them because crises are endogenous (as is technology or development). Provided, of course, that the right causes of such crises are identified, that the diagnosis is correct and designs the right ways out of it, concentrating on those elements on which we can, and not those on which cannot, influence.

Although it is impossible to predict the future, one can learn from lessons of the past; *historia magistra vitae est*, provided the crisis is not “turbulence without learning” (Haas, 1990). Crises are like a scholarship; you can use it productively or spend it and not *graduate*. It is thus high time to look to the past in the search for patterns that can guide us in the future. While we have already had even worse health pandemics (Black Death, Spanish Flu)³, this one is unique in terms of how it has affected our economy and society. Drawing historical analogies is hence useful, because “those who do not learn from history are condemned to repeat it”, as Santayana stated in 1896.

What are thus the history lessons, which strategies/policies were available and applied in the past when countries faced crises, turning points or crossroads in their development?

One way is to look into the experiences which have succeeded in their development, the lessons of developed countries (DCs) for today’s less developed countries (LDCs) and for the world economy in general. The objectives of the article are to ascertain:

1. Which strategies/policies (trade, intellectual property rights, foreign direct investment⁴) worked for DCs in their transition from lower to higher levels of development?
2. What implications did the global context hold for the DCs’ strategies?
3. Have DCs always been consistent in what they are today ‘preaching’ as the best policies for LDCs and for the world system generally?
4. Have countries made a timely response to the crises (we define pandemic as a crisis), defensively or offensively, using it as an opportunity for change?

² We define a crisis as any kind of extremely difficult or dangerous situation (usually appearing suddenly, but not necessarily) as climate change. It is an unavoidable and unexpected worsening of the situation which demands quick and fundamental reactions to overcome its negative effects. Yet, “no matter how bad, disorderly, and turbulent events and processes at a certain time are,” they become a crisis only by relating them to a past development and projecting two different paths into the future, thereby defining the presents the critical moment of decision” (Graf, 2010).

³ Harari (2020) claims that Covid-19 now looks to be a very big event but in the very long term of human development it will probably not be so epochal as it seems now because people’s capacity to adjust is formidable and by appropriate use of knowledge we will probably be able to address such pandemics much better in the future. Yes, the storm will pass, humankind will survive, most of us will still be alive – but we will be inhabiting a different world.

⁴ All three areas are a vital part of international economic relations and any development strategy, particularly for small open economies.

5. Is the international context today less or more conducive for fundamental changes than it was in the past?

Such experiences may be highly relevant even though they happened in different contexts and times since these countries are the *godfathers* of the existing liberal economic order. Like any order, it is not only the economic strategies but also a projection of the political/ideological strategies of their proponents.

The rest of the article concentrates first on the catching-up lessons in the areas of: i) trade; ii) intellectual property rights (IPR); and iii) foreign direct investment (FDI), followed by an evaluation of contemporary protectionism. The final section presents conclusions along with some policy implications.

The catching-up lessons

It is almost consensually and wrongly believed that the dominant “preachers” of free trade and the GLO today, namely industrial countries, especially the dominant one of the USA and before then the UK, practised free trade throughout their history. Yet history tells a different story.

Virtually all of today's developed countries did not practice free trade (and laissez-faire industrial policy as its domestic counterpart) in their early development stages. /... / Particularly notable is the fact that the gap between “real” and “imagined” histories of trade policy is the greatest in relation to Britain and the United States. /.../These two countries were, in fact, often the pioneers and frequently the most ardent users of interventionist trade and industrial policy measures in their early stages of development. (Chang, 2003a: 1)

They only started to follow a liberal approach after having first achieved a high level of development. Before then, in their development strategies they were quite nationalistic, even mercantilist. With some variations, DCs protected their developing industries that were then lagging behind the major economic powers of the time, either Portugal, Holland, France, Germany, the UK or the USA.

Despite such experiences, DCs have become hypocritical advocates of the free-trade principle as the very best option for all countries regardless of their stage of development. They propose a *one-size-fits-all strategy*, a *level-playing-field* approach to others, which they themselves did not employ while they were still less developed.

Trade protectionism and state interventionist policies

Evaluating protectionism is important because it has been a very important part of development strategies in the history and due to today's unprecedented revival of protectionism among large countries (see Fajgelbaum et al., 2020).

Historically, mercantilism as practised in the 16th to the 18th century by the European monarchies was the first manifestation of protectionism and economic nationalism (EN) in general. But these were not the same because protectionism takes, according to List, different forms; infant industry protection, macroeconomic activism, authentic EN, and liberal EN (Helleiner, 2002, 308). In general, the ideology of EN seeks to advance national interests at the expense of international integration and cooperation by different policy instruments and has in history always started mushrooming as a first reaction to crises (with the Great Depression (GD) being a prime example). Yet it remains open whether it has been "good or bad protectionism" (see Reinert, 2000), a temporary, short-term reaction or a long-term strategy to achieve competitiveness as part of an endogenous development strategy. It has usually "correlated with national populism" (Judis, 2018; Eichengreen, 2018), or sovereigntism⁵ parallel to the rising popularity of authoritarian values.

Mercantilists used governmental regulation to augment state power at the expense of rival national powers (a zero-sum or beggar-thy-neighbour principle). It was followed by (neo)mercantilism⁶ as a kind of offensive EN, while contemporary protectionism is more defensive in nature.

The USA is "the mother country and bastion of modern protectionism" (Bairoch, 1993: 30) and Hamilton, the first Secretary of the Treasury of the USA, the *father* of protectionism by introducing high tariff protection in 1789⁷. It was only after the Second World War, with its industrial supremacy unchallenged, that the USA liberalised its trade, although not as unequivocally as Britain did in the mid nineteenth century, and started to champion free trade. The then already weakened UK remained protectionist until the 1960s.

Similar was the development in other DCs, particularly **Germany**⁸

⁵ *The belief in the uncontested primacy of national-level politics.*

⁶ *It emerged as a reaction to Adam Smith's famous critique of the European "mercantile system" in his 1776 work *The Wealth of Nations* (Helleiner, 2002).*

⁷ *Between 1816 and the end of WW2, the USA had one of the highest average tariff rates on manufacturing imports in the world (40%-48%). Given that the country enjoyed an exceptionally high degree of 'natural' protection due to high transportation costs, US industries were literally the most protected in the world until 1945.*

⁸ *During the late nineteenth and early twentieth century, while maintaining a low average tariff, Germany accorded strong tariff protection to strategic industries like iron and steel. Sweden provided similarly targeted protection for the steel and engineering industries. Both countries and Japan actively used non-tariff measures to promote their industries, such as the establishment of state-owned "model factories, state financing of risky ventures, support of R&D etc." (Chang, 2003a: 24).*

frequently incorrectly considered to be the mother of infant industry protection. France was less protectionist than Britain between 1821 and 1875, especially until the early 1860s. Only after the Second World War did it start to productively use industrial policy to boost its innovation system. **Japan** very aggressively applied tariff protection⁹, but not **Switzerland** for which, as a small country, infant industry protection would have been costly (see Chang 2003a: 10).

The first lesson from today's DC's catching-up path is that they all applied strong protectionist measures and state interventionism during their catching-up period. Yet, as soon as they attained the summit of greatness, they followed List's advice: "nation can do nothing wiser than to throw away these ladders of her greatness, to preach to other nations the benefits of free trade, and to declare in penitent tones that she has hitherto wandered in the paths of error, and has now for the first time succeeded in discovering the truth" (1885: 295–296).

The second lesson is that the USA and UK both abandoned the *laissez-faire* approach as soon as they faced problems during the GD, the First and Second World Wars and whenever their dominance has evaporated. "The resulting contraction and instability in the world economy, /.../destroyed the last remnants of the first liberal world order. /.../ Dirigist approaches to economic management dominated the policymaking scene until the 1970s in the developed world, and until the early 1980s in the developing world" (Chang, 2003a: 3). The lesson of the GD is that it was actually the response of protectionist governments that did the real damage.

The liberal international economic system has in fact quite a short history because it was squeezed between two types of protectionism; mercantilism from the 16th century until the early 1880s followed by the *laissez faire* system and the neomercantilism¹⁰ of the 21st century.

The most important take-away messages for LDCs of the catching-up phase of the development of DCs are:

- a. With the exception of Switzerland and the Netherlands¹¹ and later Hong Kong, all DCs applied some form of protectionism and state industrial policies in their catching-up periods, while limited economic and political resources forced small states to apply more open strategies.

⁹ On this basis, they developed successful export industries. The dichotomy between import substitution and export promotion was blurred and protectionism may have been regarded as part of a long-term endogenous development strategy.

¹⁰ See section 3 for details.

¹¹ Both countries were already on the frontier of technological development by the eighteenth century and therefore did not need much protection. The Netherlands had deployed an impressive range of interventionist measures up until the 17th century in order to build up its maritime and commercial supremacy (Chang, 2003a: 24).

- b. The protection of domestic industries has not followed a ‘one size fits all’ recipe but was designed and implemented in a different manner. Some DCs implemented such policies even at a time of promulgating a free-trade approach¹².
- c. A free-trade, laissez-faire approach was immediately abandoned when countries were faced with serious growth/development problems (GD, WW1 and 2, for instance)¹³.

Intellectual property rights protection

Today, with digitalisation, the ever-increasing role of services and intangible assets, experiences with distance working during the pandemic, IPR policies are becoming ever more important, while also being more complicated to regulate. The pandemic has, among other things, put the dilemma between free access to knowledge and preserving the rights of innovators’ property rights in the spotlight. Trump is not the only one wishing to privatise research results and make them available only to some, while others emphasise that we should avoid *corona-nationalism* or almost autarchic routes in facing the epidemic. Not only should the research results be made publicly available, governments should create the necessary overcapacities similar to what the military does in peace-building, to be prepared for all possible *predictable unpredictabilities*). IPRs are thus not only a narrowly defined economic issue but a deeply rooted development and political (economy) issue as Sell (2004) clearly described: “swings of the pendulum between public-approaches and private protection, reveals the fundamentally political nature of intellectual property regulation”. China is today thus not a historical outlier in this regard.

The development in **England** and **France**¹⁴ was similar, while smaller DCs’ experiences are somewhat different¹⁵, as were the experiences of

¹² The USA, for instance, applied it after the WW2 by providing government financing for extensive defence-related programmes and R&D development, particularly in the pharmaceutical industry.

¹³ During Covid-19, almost all countries also started to follow more nationalistic, even isolationistic policies like preventing the exports of some of the most important medical equipment. Export bans accounted for more than 90% of recorded pandemic related trade restrictions (WTO, 2020). The America first strategy was inaugurated when it became obvious that the demise of the USA as the only great power was being challenged by China not only in terms of size but also in technology.

¹⁴ France formally established a patent system during the Revolution in 1791 (David, 1993: 13).

¹⁵ Switzerland, although following a laissez-faire trade policy, refused to introduce a patent law until 1907. Its anti-patent policy contributed to the country’s development—especially by allowing the ‘theft’ of German ideas in the chemical and pharmaceutical industries and by encouraging foreign direct investment (FDI) in the food industry (see Schiff, 1971). The Netherlands was the least protected economy among the DCs. It introduced the patent law in 1817, abolished it in 1869, and re-introduced it in 1912. But “during its extreme laissez-faire period, the Dutch economy remained rather sluggish” (Chang, 2003a: 10).

Japan¹⁶ and the Asian tigers. The trend of granting patents started in England in the fourteenth century. Before then, England had technologically been a laggard. Later it became technologically advanced with the modern-day Patent Office of 1852.

Such, now claimed to be problematic, imitation activities (trade, FDI, licensing, international research collaboration, reverse engineering) by Chinese and other LDCs are, and have been, in fact legitimate and voluntary, widely practised in early development periods by the DCs. The USA's protectionist IPR policy may look surprising in the context of today's *accusations* that China systematically imitates and 'steals' IPR and forces foreign companies to transfer their technology to Chinese companies (for more, see Svetličič, 2020), because imitation and "stealing foreign knowledge" was historically the *order of the day* for DCs. Second, because the optimistic "natural evolutionary" view, arguing that China's path to IPR protection is similar to that of the USA historically and it will evolve into a strong IPR protection regime as China develops more IPR itself¹⁷ (Peng et al., 2017).

There are three important lessons for LDCs from the catching-up phase of the development of DCs in the area of IPR:

- a. "Policy makers need to better arm themselves with a good command of the historical knowledge and to be aware of the crossover point¹⁸ – the point of inflection beyond which benefits will outweigh the costs of world-class IPRs protection" (Peng et al., 2017: 30).
- b. Do not liberalise IPR protection until domestic firms reach a higher level of innovativeness, starting producing new product/technologies.
- c. Design IPR protection in accordance with own innovation capabilities and the international context. Today, with digital technology facilitating the unauthorised diffusion of IPR, a reshaping of IPR strategies is needed. They should overcome the prevailing defence-oriented measures of deterring imitation and also include offensive instruments to make imitation less attractive.¹⁹

¹⁶ It was based on a follower policy, emphasising the acquisition of technology from abroad and limiting patent protection (Maskus, 2000: 143, 145). In the 1960s, Japan was a global leader in counterfeit goods.

¹⁷ "No one thought the reverse was possible", that such a natural transition "may stall and even reserve the course/.../ The fact that China heavily relies on global trade can be viewed as a positive factor in China's possible change toward adopting the rule of law". However, "under the party's rule, improving IPR protection by adopting the rule of law, is out of the question", Li et al., (2020: 60, 67, 69) more pessimistically argue.

¹⁸ Prior to the crossover point, following the highest standards in IPR protection is not necessarily ideal, argues Naghavi (2007; cited in Peng et al., 2017: 30).

¹⁹ Cuervo-Casura (2020) proposes four innovation protection strategies: (i) defence; (ii) making innovations obsolete, (iii) complexity in which firms invest in increasing the complexity of innovations to reduce imitation in situations of weak institutional but strong technological IPR; and (iv) convenience; investing in platforms to reduce incentives for imitation.

*Foreign direct investment policies*²⁰

After the Second World War, FDI became one of the most dynamic instruments of the GLO. However, FDI has not always been so welcomed. The FDI policy has been changing, from more restrictive to more liberal. Based on the prevailing theoretical consensus on the developmentally beneficial role of FDI, DCs began to welcome inward FDI only after they had reached a higher stage of their development and started to propagate such a liberal policy also to LDCs. The USA was a champion in that, when it was a capital-importing country, it had in place all kinds of provisions to ensure that foreigners investing in the country did not control its economy.

The stories of the **UK, France and Germany** have been different. They did not have to control FDI until the Second World War, as they were capital-exporting countries before then. When faced with the upsurge of American investment after the Second World War²¹, they started to apply several formal and informal mechanisms to ensure that their national interests were not hurt.

The policies of smaller, less developed DCs, like **Finland and Ireland**, could not have varied more. Finland was until its accession to the EU in 1993 blocking any significant foreign investment, while Ireland was aggressively seeking it out. Ireland is often touted as an example showing that a dynamic and prosperous economy can be built based on a liberal FDI policy. Yet, it became only liberal after the exhaustion of its early import substitution strategy and ensuing industrial stagnation in the 1950s, shifting to an outward-looking strategy. A combination of carrots and sticks has been used since the early days and it was only when it established the right balance between the two that the country started to truly benefit from FDI.

The three largest **East Asian** economies applied extensive controls to FDI throughout their developmental period. **Japan and Korea** (until recently) relied very little on FDI²², while even **Taiwan**, the most FDI-friendly among the three countries, was below the international average in its reliance on FDI. **Japan's** restrictive stance on FDI is well known from the Meiji modernisation (1868) period on. Before 1963, foreign ownership was limited to 49%, while in some "vital industries" it was banned altogether.

DCs' FDI policies have obviously not always been liberal, based on the national treatment principle which makes it impossible for governments to regulate FDI in a manner that is congruent with their national interests. A

²⁰ If not otherwise indicated, the section is mostly based on Chang, 2003b.

²¹ Servan-Schreiber wrote the famous *Le Défi Américain* (1969), accusing American MNEs of colonising Europe (for more, see Svetličič, 2020).

²² Korea has been one of the least FDI-dependent countries in the world, beginning to liberalise its FDI regime only in the mid-1980s.

targeted and performance-oriented approach worked better than a hands-off approach. Yet, the DCs are now arguing that they all benefited from policies welcoming FDI and that the LDCs should do the same. The zeitgeist changed in the mid-1980s. The criticism of the TNCs also died down in LDCs as part of the overall transition to market-oriented economic systems and from import- to export-oriented strategies. “FDI from being part of the problem, became part of the solution, in fact almost a panacea” (Sauvant, 2015: 59), all up until the GR. During and after the crises, FDI flows slowed down, parallel to the globalisation backlash and expansion of Chinese acquisitions abroad. FDI liberalisation and promotion measures started to scale down, while restrictions started to mount, mainly based on security arguments. Nevertheless, the majority of new investment policy measures were still moving in the direction of liberalisation, promotion and facilitation (66% in 2018) (see UNCTAD, 2019: 84).

The following conclusions may be drawn with regard to FDI policies:

- d. Countries always established policies congruent with their development objectives, socio-political context and level of development, being more restrictive at a lower level of development and more liberal as they advance technologically and institutionally.
- d. The widespread propaganda by DCs that LDCs must be open to FDI because they also developed thanks to FDI²³ has proven to be wrong.
- e. The one-size-fits-all strategy and level-playing-field principle regarding FDI or transnational corporations (TNCs) is therefore wrong.
- f. FDI policies have also responded to the ‘climate’ in the world in general.

Twenty-first century protectionism

The present revival of EN, mostly appearing as protectionism²⁴, even with a touch of autarchic, isolationistic tendencies²⁵, is not limited to the USA (*America first* policy mind-set²⁶). The pioneer of protectionism, the USA, is going back to its roots. “The pendulum of history” had swung back to

²³ *Appropriate evidence is in fact lacking.*

²⁴ *According to the WTO (2020), between mid-October 2019 to mid-May 2020, G20 economies implemented 154 new trade and trade-related measures, of which 95 were of a trade-facilitating nature and 59 were trade-restrictive. Sixty percent of these measures (93 in total) were linked to the Covid-19 pandemic (65 facilitated trade while 28 restricted trade). In the early stages of the pandemic, most measures restricted the free flow of trade, while by mid-May 2020, 70% were trade-facilitating. As much as 203 trade remedy actions, anti-dumping investigations accounted for around 80% of all trade remedy initiations, including safeguards and countervailing actions.*

²⁵ *The pandemic has given birth to proposals for closing borders disguised as “keep us healthy”, similarly to the US isolationism before WW1.*

²⁶ *It is based on the assumption that China is growing rich at America's expense and that taking back control through ‘new sovereigntism’ is a solution.*

EN with a neomercantilist touch, based on a *realist* assumption that “countries are amoral and put their own interests first” (see Nye, 2020). History is bringing us back to a farce.

DCs are now applying the infant industry argument²⁷, which is a theoretically reasonable instrument for countries on a lower level of development, with non-competitive markets to address market inefficiencies and in order to protect their uncompetitive industries so long as they become competitive in the international market (the dynamic concept of comparative advantages theory). But the same reasoning cannot be applied to highly DCs with competitive markets. Apart from traditional arguments against the infant industry argument, it can induce retaliation from other countries (boomerang, striking back, trade wars). The result is that consumer welfare decreases by paying too high prices for goods that would otherwise have been cheaper if imported. Even a senior fellow of the right-wing Cato Institute, Bandow (2020), claims that “the tariff idea is simply idiotic, chiefly punishing Americans, creating political tensions and triggering off fundamentalism/inflame nationalist sentiments there” (in China, op., author).

Economic nationalistic philosophy is part of the GLO backlash. Its major promoters have started accusing the GLO for their economic stagnation, lost jobs, for increasing inequalities etc. When DCs (the middle class in particular²⁸) realised that the GLO could harm their development, they started to *kick* the GLO ladder away.

Economic nationalism has also spread to FDI²⁹. It is mainly a reflection of the fear of Chinese acquisitions of national (techno) *champions*. Brexit is also part of the EN and *GLO hate* attitude (although its promoters claim otherwise) and protectionism revival story, as well as the fears of China’s domination of the G5 technology. Whilst ever US companies dominated the area, it was not a problem³⁰. Now, the threat of a ‘different’ domination, coming from a civilisationally different country,³¹ has become a serious problem. It is a defensive reaction to China becoming a technological leader in this and

²⁷ Hamilton first systematically set out the infant industry argument in 1791, later developed by List (not the other way around; see Bairoch, 1993: 17).

²⁸ See Lakner and Milanović’s elephant curve (2016).

²⁹ The USA, Canada, Japan and Australia established a mechanism for protecting the national economy against predatory investments. The EU joined in with adoption of the FDI Screening Regulation applicable as of 11 October 2020, although it remains the sole responsibility of the member states. In June, the European Commission also adopted a White Paper dealing with the distortive effects caused by foreign subsidies in the Single Market now seeking views and input from all stakeholders (see Velten, 2020).

³⁰ According to the World Economic Forum (2018), US companies’ share of the info tech sector is 73%. Among the 10 largest companies by market capitalisation (June 2019), 5 are US (Microsoft, Amazon, Apple, Alphabet/parent company of Google, and Facebook). Alibaba (China) follows in 6th place (Statista 2019).

³¹ It is largely rooted in ethnocentrism, even racism (see Svetličič, 2020).

many other dynamic economic sectors, *dressed up* in a fear of domination by this authoritarian, undemocratic country.

Contemporary protectionism or neomercantilism³² is a manifestation of EN³³ as a defensive reaction to the rising power(s), especially China, and at the same time an offensive response³⁴ to the new VUCA global context, to which Covid-19 has just added new layers of complication and uncertainty. It is more a self-preserving defensive reaction of the USA and less the extent of other DCs, to retain their privileged position in international economic relations than an offensive instrument of climbing up the ladder to the leading power (as in the case of the UK³⁵). E. Helleiner (2002) is thus right while claiming that a dimension of the EN ideology is not only defensive protectionism based on the infant industry argument but it can cohabit with liberal ideology, forming part of aggressive EN.

To conclude; when the interest in the lessons of the past is waning if not forgotten, hypocrisy is winning. DCs are preaching something and yet doing the very opposite. It seems like a see-saw strategy: the protection of domestic companies and free riding on foreign technology (no IPR protection) initially, but when the situation changes and the see-saw is turned around countries started to implement free trade, FDI and protecting the IPR of their firms. Never mind the policy prescriptions given to other countries not to do it. Covid-19 illustrates the same logic, or now, “Sickening the neighbour” (before it was beggar-thy-neighbour) policies and a blaming others policy³⁶ have spread widely. Solidarity principles, at least initially, have not past the exam, unlike after the Second World War the Marshal Plan helping in the recovery of Germany. Negative experiences after World War One when the reparations *killed* Germany and facilitated the rise of Nazism have also been forgotten. In spite of such disastrous consequences, the popularity of the right in Europe and elsewhere is, with its quick-fix solutions, gaining in popularity.

³² *The Merriam-Webster dictionary defines it as a revival of mercantilism emphasising trade restrictions and commercial policies as a means for increasing domestic income and employment.*

³³ *It is mostly defined as state centric realism, ideology putting national “unity, identity, and autonomy” (Shulman, 2000) or culture (pride), or reducing vulnerability, as the main national goals. According to List (1904: 97), the national interest is “how a given nation can obtain prosperity, civilization and power”. What is crucial is that the nation state is in the centre while liberalism is more cosmopolitan, although putting individuals and their pursuit of wealth maximisation in the centre.*

³⁴ *Offensive also because it uproots the rules-based system of international trade based on power as a legitimate instrument.*

³⁵ *“British policymakers were supporting free trade because it would give their country a world manufacturing monopoly that would bolster British wealth and international power” (List, quoted in Semmel, 1963: 66).*

³⁶ *When putting all the blame on China, calling the virus Chinese virus, Trump forgets that the GD of the 1930s and the GR of 2008 could be called American because the USA exported both.*

The recent pandemic also shows that context matters. Today, it is the rise of China as a major player³⁷, the GLO backlash, VUCA and the rise of EN³⁸. The recipes could not have been the same as they were during similar pandemics in history. Globalisation has made the fundamental change, demanding solidarity, policy coordination and speedy responses in the context of much deeper interdependence than in the previous century. The Covid-19 pandemic is frequently presented as an outcome of the excesses of globalisation. Yes, physical globalisation is receding, but digital globalisation is continuing to grow. The GLO as a global division of labour/specialisation is not over³⁹, but it will have to become fairer and more domesticated if it is not to be altogether halted or reversed. The problem might actually be the “simultaneous presence of too much and too little globalization” (Lowy, 2020). Too much in terms of unnecessary trade⁴⁰, localisation of GVCs, cultural homogenisation, and too little in terms of solidarity, cooperation (particularly in R&D), global governance effectiveness in addressing *new* issues like inequalities, digitalisation, cybercrime etc.

Conclusion

Crises in the development strategies of DCs were turning points, leading to fundamental changes. Their success depended substantially on the policies of the actors as well as on the context, which has been substantially changing. Although crises have always worsened the situation, they have also triggered certain productive structural/systemic changes. Today, the world has never been technologically better prepared for such changes, for enhancing our economic and environmental resilience. The problem is the lack of political will and energy to make them.

Regarding our first research question (which strategies/policies worked in the transition from lower to higher development levels), in their transition to a higher development level DCs have mostly relied on protectionist policies in all three areas (trade, IPRs and FDI). Differences among them

³⁷ Li et al. (2018, 68) clearly posit that size matters. When the USA was an IPR violator in the late 18th century to the early 19th century, its economy was small, accounting for about one-fiftieth of the world's GDP. China today accounts for nearly one-fifth of the world's GDP.

³⁸ The EN is namely relational, it depends on the particular socio-economic context (Helleiner, 2002).

³⁹ To throw the baby (GLO) away with the bathwater (virus), and to dream of a return to autarky is no answer. Full-fledged deglobalisation would be inefficient and painful because, by getting rid of the advantages of the division of labour, everybody would lose. “The virtue of specialization is very apparent now that I'm cleaning my toilets, that I'm making all of my meals, fixing everything around the house, now that I'm home schooling. I was much better off when I could specialize in just doing economics” (Reis (2020).

⁴⁰ Some goods are too pollution-intensive to be transported, others like the export of milk from some countries to be processed into yogurt and re-exported back are not really must dos.

were seen in terms of the size, factor endowments and global role. Small or leading ones behave differently than larger or non-major global players. But as soon as today's DCs reached the top they all *kicked away the ladder* of protectionism and started to propagate liberalism. Countries have in history always applied policies which were instrumental for their development needs, their factor endowments and competencies, primarily following their national interests and irrespective of what international or regional rules, practices or attitudes were. The approach was the ideology of EN and not a cosmopolitan free-trade liberal paradigm. The different context now makes such individual responses, allowing enough policy space for countries' specifics and not imposing on them one-size-fits-all approaches, both more relevant and also more difficult. The existing rules do not allow much space for individual action. The macro lesson is thus to allow countries more policy space than there was in the post Second World War Bretton Woods system and reconfigure state–economy relationships, by establishing a new balance between market automatism and government intervention. Governments' role should increase as occurred in all other crises in history⁴¹.

The international **context**/zeitgeist has played an important role in designing strategies is the main answer to the second question (which implications has the global context held for DCs' strategies?). Under the pressure of the two world wars and following economic recessions/crises, solidarity, cooperative efforts in addressing the crises have grown in importance. Leading countries have always been inclined to promote a liberal order, while countries still climbing have advocated more protectionist policies. The Zeitgeist, like the growth performance of countries, has made development laggards more protective in slowdowns or, when faith in free trade evaporates, become more liberal in the golden age of capitalism.

The answer to the **third** question of whether DCs have been consistent is NO. Until DCs had achieved their leading role, they were 'climbing up the protectionist ladder', only to kick it away after reaching the top and to start imposing liberal policies on the rest of the world (Washington Consensus, IMF, WTO regimes...). Presently, we also see such hypocrisy⁴² in, for

⁴¹ At the start of WW1, government consumption in Britain rose from 8% of GDP in 1913 to 40% in 1917. In the Second World War, America's government consumption rose from 15% of GDP in 1940 to 48% by 1943 (McKinsey, 2020).

⁴² Or the case of Microsoft's potential takeover of the Chinese TikTok and WeChat after Trump's executive order threatened to ban it in the USA on the grounds of national security (read economic interests). It was not a security problem when problematic applications were available in Apple and Google's stores. Similar is the situation with 5G. So long as the American Qualcomm dominated the market, monopoly was not a problem. When Huawei started to be number one in this area, it became a security threat even though 5G is only infrastructure while its operation depends on the operators, the applications/programmes (the hardware is Chinese but the software is American). Operators can use or misuse the system. Yes, WeChat

instance, waving EU rules with respect to support for industry when most developed countries, like Germany, are concerned, while this was 'not possible' in the case of the financial crises when Greece and less developed EU members, or recently even Italy, were concerned⁴³. Because the big players are now hurt, the rules of the game are changing. Big players are conducting the rules of the game as they please. The international system should avoid such hypocritical policies in the future and DCs should be more self-critical by allowing others to do what they themselves have done, adopted to the contemporary context.

The fourth answer as to whether countries have used the crises timely and as an opportunity for changes⁴⁴ and not only reacted to them defensively, is mixed. When faced with growth crises, DCs started to change their policies, but not during the GR when the return to business-as-usual followed swiftly. Emerging economies, China, and the newly industrialised countries before them, have now reacted more swiftly and productively to the crises than the DCs did throughout their history. Whether the response to the crises has been timely also varies depending on the type of crisis and issue. In terms of the growth transition, the answer could be YES, but not with regard to the GD, GR or environmental/climate crises. The pandemic found countries mostly unprepared even though it is not, *according to* Taleb, a *black swan*, but a unpredictable predictability. Experts have over the years warned against both pandemic and climate risks⁴⁵. The coronavirus outbreak indicates the world is ill prepared to prevent or confront such pandemics. One of the most important policy proposals of this article is thus: don't be late, because the winners are doing the right thing at the right moment and trying to prepare *ex ante* for potential surprises. Latecomers receive the *breadcrumbs left behind from the rich man's table* or are hurt badly by being unprepared. Adjustments must be done *pro-actively pre*, not *post mortem*, before, not after the *fire is already underway*. Anticipating, adapting quickly in advance by enhancing the resilience to the present

and TikTok can be misused as spyware, collecting huge amounts of data on users. But so too can US apps like Facebook, not to mention Snowden's revelations about the NSA spying on foreign leaders and tapping via fibre optics all around the world.

⁴³ It usually takes 6 months to review a state request for a derogation from the rules. During the pandemic, it was done in under 24 hours (*The Economist*, 30 May, 17).

⁴⁴ According to psychology, crises can be an incentive to change in the environment of new enlightenment.

⁴⁵ See Garrett 1994. In a lecture in 2015, B. Gates (2015) also warned us about such pandemics. An older CIA study, found that: "If a pandemic disease emerges, it probably will first occur in an area marked by high population density and close association between humans and animals, such as many areas of China and Southeast Asia, where human populations live in close proximity to livestock" (CIA, 2008, 75). The only thing they did not predict is the exact location: Wuhan. A WHO panel in February 2018 among threats like Ebola, SARS, Zika and Rift Valley fever also included "Disease X", which "would emerge from animals somewhere in the world" (*The Economist*, 2020, 27 June, 59).

VUCA world, to black swans, is crucial⁴⁶. Dealing with the unknown, the unforeseen, the foreseeable unpredictability, a threat that is likely to occur, but is effectively ignored as if it did not fully exist (Lowy, 2020) is becoming the new normal. Enhancing the resilience can be strengthened by following, analysing and thus improving understanding of contemporary developments, by overcoming ignorance (Gresham's law) and provincialism, by being cosmopolitan and taking the lessons of history seriously. The global precondition for the above is to change the existing fragile systems by strengthening our ability to control epidemics because we are still unable to conquer them.

The answer to the **fifth** question, whether the international context is today less or more conducive to fundamental changes, is ambivalent. Today's international governance system does not allow so much policy space as countries had in the past. "The current crises (and pandemic even more, op. author) has uncovered fundamental flaws in the capitalist system, ... calling for a new capitalism"⁴⁷ (Stiglitz, 2010: xxi, 188, 208). It seems to be not enough. Responses must be systemic since crises are in-built into the capitalist system. Integrating some elements of socialism⁴⁸ seems necessary because the Darwinist profit maximisation, as a founding stone of capitalism, is incompatible with sustainable, more human development and cannot address climate change, environmental degradation, unsustainable inequalities, cybercrime, bioterrorism or even pandemics or wars. Despite the fact that humans often resist change, choosing to stick with the more comfortable, less conflictual, status quo, people are nevertheless keener to accept deep changes in times of crisis. Calamities frustrate people and frustrated people are more open to sweeping changes. The trade-off is not too promising⁴⁹ even though, historically, the ends of wars have led to institutional changes, a better social contract (welfare state). Covid-19 is a global tragedy

⁴⁶ Adizes nicely illustrated this with a tennis player who must predict where the ball will land and run accordingly. If the player reacts after the ball has landed, it is too late, the ball will be missed (2009: 20).

⁴⁷ Yet it is too early to say that the pandemic is the last nail in the coffin of capitalism, which has historically revealed a high capacity for changes and adaptations. The Economist Intelligence Unit (6 May 2020) claims that the "coronavirus pandemic will not usher in an entirely new global order", at least in the short term this is probably right.

⁴⁸ Piketty (2020) is proposing democratic, participative socialism (equality in education, co-decision of workers and progressive taxation as three main characteristics), unrelated to socialism as practised in the past. Adizes is proposing a self-management system as an alternative to capitalism, mentioning that the one practised in former Yugoslavia was not implemented well (see Canjko-Javornik, 2013).

⁴⁹ The conclusion of the G20 (2020) on the pandemic like: "We reiterate our goal to realize a free, fair, non-discriminatory, transparent, predictable and stable trade and investment environment, and to keep our markets open" is not much of new but more of old wine in new bottles. There is, for instance, no mention of the green recovery, of the Sustainable Development Goals. The last statement: "Global action, solidarity and international cooperation are more than ever necessary to address this pandemic" is however more promising.

but it can accelerate progress provided that we act on time and deeply eliminate the roots of crises, or at least narrow the room for their negative effects by reshaping our paradigms, our beliefs⁵⁰ and the system which created the pandemic. The issue is not simply how to manage crises but how not to get into them in the first place. It could be good starting point for structural changes in the system of international (economic) relations.

If we accept the lessons from the after the Second World War, when the Bretton Woods system followed, or even the First World War with the establishment of the League of Nations, both manifesting the conviction that international cooperation and solidarity is needed to conquer war's disasters, then the chances of a new order will increase. Particularly if the mistakes of both institutions are healed.⁵¹ Today's dream can become tomorrow's reality so long as there is no sliding back to 'business as usual', as happened after the GR⁵² and if the *principle of humanity* (Bauer, 2008⁵³) is in-built into the political economy and management (see Vernon and Wilson, 2019). The issue is how to enhance progress and well-being by overcoming the mentality that success is mainly material and that, if unsuccessful in this sense, one is regarded as a loser. If the return of fish to Venice's canals, cleaner air in Calcutta, blues skies above many of the world's metropolises, more prosperous countries with public health and women in leadership have taught us that something is wrong with consumeristic capitalism, then these allow a space for optimism.

Although the pandemic is a huge threat, it should not blind us from even more serious long-term crises like inequality⁵⁴, poverty (hunger)⁵⁵, wars⁵⁶, ecological/climate crises and cybercrime. They all coincide in "four crises: a health, an economic, a social and an ecological/climate crisis. Covid-19 is just additionally exacerbating the previous crises. Solving one crisis without

⁵⁰ *The effects of beliefs are much stronger than usually thought (see Kozłowski et al., 2020).*

⁵¹ *The League of Nations was impotent in materialising its founding principles; peaceful resolution of conflicts and preventing WW2. And the establishment of the Security Council after WW2 limited the implementation of the UN's ideals.*

⁵² *"The same plumbers who installed the plumbing and created the mess, know only how to straighten it out" (Stiglitz, 2010, 295) while the problem is the installation system.*

⁵³ *According to which basic pattern in nature is synergy, not Darwin's life battle; man depends on cooperation, social networking.*

⁵⁴ *The pandemic will enhance inequalities among people and countries even further because some, well-off have the privilege to work at home while the less paid (frequently young, female, black or brown skin), but performing essential public service jobs, cannot.*

⁵⁵ *Poverty/hunger is killing more people than this pandemic probably will. According to The World Counts, around 9 million people die every year of hunger and hunger-related diseases (3.1 million are children) and the pandemic will only worsen this situation. It is a long-term problem since malnutrition has long-run detrimental effects on the brain and body development of children.*

⁵⁶ *Armed violence kills, according to Oxfam (2020), approximately 526,000 a year or 1 person every minute.*

taking the others into account would just mean passing the problems to the next generation and not create healthier planet now" (Mazzucato, 2020). Should things be restored to a pre-pandemic situation now that a vaccine has been found, this will not be so easy for all other crises. The environment cannot be recreated, for instance.

Although it may sound naive, a zeitgeist may have emerged when the debate on the New International Economic Order (NIEO) for the 21st century could be launched as part of efforts to find new innovative responses to the pandemic and any similar crises in the future. Why? According to M. MacMillan, "the river of history changes direction at big junctures like: France in 1789, Russia in 1917, the Europe in 1930s and the pandemic of 2020" (2020: 71). Not so far back, the "oil crises" of 1973/74 was another such *mini* turning point followed by the struggle for NIEO, when the developed countries also realised that the world was interdependent, that urgent changes were needed. The pandemic has revealed how much more vulnerable and interdependent we are now today. A deadly virus smaller than a micron has been able to detonate mega civilizational changes. "A better society can emerge from the lockdowns" (Sen, 2020) provided the pandemic will bring the world together and centrifugal forces do not tear it further apart, driving us into a world that is less open, less free and less prosperous.

The problem is how to make changes; who could be the actor(s) translating the *pandemic of words* about Covid-19 into deeds, to become a game changer. Unfortunately, the pool of potential actors is very modest, making the potential implementation of new ideas, of shaping the new international economic system, less optimistic. One reason for this is that we have many "black elephants,"⁵⁷ a looming disaster that is visible to everyone, yet no one wants to address" (see Siwik and Siwik, 2020).

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⁵⁷ A term coined by the environmentalist A. Sweidan as a cross between "a black swan" and the "elephant in the room".

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