

THOUGHT LEADERSHIP BRIEF

COVID-19 Series

KEY POINTS

- ▶ The coronavirus crisis represents one of the most devastating events of the twenty-first century, and even as the disease shows few signs of abating despite prolonged lockdowns, projections show the worst is yet to come in the form of severe economic hardship.
- ▶ The overall failure of global society to adequately respond to this crisis has revealed the many ways in which the current model of neoliberal globalization has left our economies and societies vulnerable and fragile in the face of cataclysmic shocks.
- ▶ Transitioning to a “new normal” will require governments to not only utilize a multi-pronged strategy involving suppression and mitigation, tough social distancing and personal hygiene rules, large-scale tracing and testing, and various other measures, but also to seize the opportunity this crisis offers to reform the global economic system with a view toward greater diversity, adaptability, and resilience to future shocks.

The Coronavirus Crisis is an Opportunity to Reform the Global Economic System

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Issue

In a few short months, the Covid-19 pandemic has swept through the world and firmly established itself as one of the defining events of the twenty-first century. With over thirteen million infected (many of whom may suffer permanent damage even after they recover) and well over half a million dead, the pandemic has already been nothing less than disastrous. But as tragic as this loss of lives and livelihoods has been, it is only the beginning. The global infection numbers continue to surge, and the global economy,

which never really recovered from the global financial crisis and the “great stagnation” that followed it, appears to be hurtling toward another major crisis that could rival that of the Great Depression. All this is unfolding against the backdrop of an impending climate and environmental catastrophe, which as always, carries devastating class, racial, and gender implications, with vulnerable populations in emerging markets and developing countries likely to suffer the most.

Much of what has occurred was well within our control and could have been prevented. After all, this scenario was not unexpected. The novel coronavirus was preceded by several other serious zoonotic coronaviruses like SARS and MERS, and both civilian and military experts have been warning for years that it was not a matter of if, but when, a similar epidemic erupted into a full-blown pandemic. Strategic preparedness and response plans for a wide variety of possible scenarios were drawn up, but when it finally came time for implementation, a series of failures emerged and cascaded rapidly. In some countries, these failures have been compounded by staggering incompetence at the leadership level, but ultimately, they are structural in nature and have a lot more to do with the architecture that underpins the current global economic system.

With the situation so dire and prospects so bleak, it is important to take stock of what has gone wrong and what needs to be done, not only to navigate as quickly and safely as possible out of the current predicament, but to ensure that we avoid making the same mistakes again when the next disaster strikes.

Assessment

By now, three hard truths about the Covid-19 pandemic should have become apparent to policymakers around the world.

The first is that almost every major economy experienced prolonged lockdowns, with significant parts of their economies effectively shut, and even the most organized among them are only now gradually and tentatively returning to anything resembling normalcy. The lockdowns and shutdowns – the result of what is known as the suppression strategy – have exacted a huge economic toll. As seen in Table 1, the International Monetary Fund (IMF) now predicts global growth to shrink by 4.9% in 2020. Earlier hopes of a V-shaped recovery from the pandemic have all but vanished. Even if global growth for 2021 reaches the 5.4% that the IMF projects – a big if – this would still leave the GDP for 2021 significantly lower than the pre-pandemic projections, and this recovery would come at the cost of adding trillions of dollars to public and private debt that had already risen to record levels before the pandemic. And unlike the global financial crisis more than a decade ago, emerging markets and developing countries will not be spared a sharp contraction this time.

Table 1: Overview of Output and Gross Debt Before and During the Pandemic (2018-2021)

	Output (% Change)				Gross Debt (% of GDP)			
	Estimates		Projections		Estimates		Projections	
	2018	2019	2020	2021	2018	2019	2020	2021
World	3.6	2.9	- 4.9	5.4	81.2	82.8	101.5	103.2
Advanced Economies	2.2	1.7	- 8.0	4.8	104.0	105.2	131.2	132.3
Emerging Market and Developing Economies	4.5	3.7	- 3.0	5.9	48.9	52.4	63.1	66.7
Emerging and Developing Asia	6.3	5.5	- 0.8	7.4	-	-	-	-
China	6.7	6.1	1.0	8.2	47.0	52.0	64.1	70.7
India	6.1	4.2	- 4.5	6.0	69.6	72.2	84.0	85.7
ASEAN-5	5.3	4.9	- 2.0	6.2	-	-	-	-
Emerging and Developing Europe	3.2	2.1	- 5.8	4.3	-	-	-	-
Russia	2.5	1.3	- 6.6	4.1	13.5	13.9	18.5	18.8
Latin America and the Caribbean	1.1	0.1	- 9.4	3.7	-	-	-	-
Brazil	1.3	1.1	- 9.1	3.6	87.1	89.5	102.3	100.6
Mexico	2.2	- 0.3	- 10.5	3.3	53.6	53.7	65.9	66.3
Middle East and Central Asia	1.8	1.0	- 4.7	3.3	-	-	-	-
Saudi Arabia	2.4	0.3	- 6.8	3.1	19.0	22.8	35.2	36.8
Sub-Saharan Africa	3.2	3.1	- 3.2	3.4	-	-	-	-
Nigeria	1.9	2.2	- 5.4	2.6	27.7	29.1	36.5	36.8
South Africa	0.8	0.2	- 8.0	3.5	56.7	62.2	79.9	84.6
Low-Income Developing Countries	5.1	5.2	- 1.0	5.2	42.9	43.1	48.2	49.0

Source: World Economic Outlook Update. International Monetary Fund, June 2020.
<https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020>

While the impacts on advanced economies have attracted most of the headlines, it is the real economy impacts on emerging markets and developing countries that are of greater concern. After the United States, the next six countries that have registered the highest infection numbers are emerging markets, namely Brazil, India, Russia, Peru, Chile, and Mexico. Meanwhile, the impacts on developing countries are particularly severe as most lack the means to cushion the impacts on their large populations of informal and migrant workers. Across the developing world, recession-hit economies will see substantial job losses and small business closures this year, increasing income and wealth inequalities, and possibly reversing the gains in poverty reduction over the last few decades. While the suppression strategy was necessary to slow the spread of the coronavirus, a return to lockdowns cannot be the world's main long-term response, especially if, as experts say, Covid-19 is a recurrent and chronic problem, not an acute one.

The second truth is that it is unlikely that suppression measures such as lockdowns will succeed in eliminating the disease. Even if the measures employed by most countries succeeded in slowing the spread of the coronavirus and flattening the epidemic curve, cases are likely to rise again when the lockdowns are lifted. Eliminating a highly infectious disease is what economists call a “weakest link” public good, in that the provision of this public good depends on the weakest link getting its act together. The weakest link could be anything ranging from an impoverished country with insufficient capacity to a wealthy superpower mismanaging its response to the pandemic. Either way, the condition is unlikely to be met anytime in the short to medium term. A more realistic “endgame” is that 50-60% of the world's population is eventually infected and develop some sort of immunity (even if it is not permanent) to the disease. Discovering a vaccine would of course speed up this process and allow us to normalize our response to it.

The third truth is that our current model of neoliberal globalization, which was threatened but neither abandoned nor significantly reformed following the global financial crisis, is simply not fit for purpose if sustainable human development is the overarching goal. Just as the global financial crisis revealed the risks of excessive deregulation, financial liberalization, and global financial integration, so too has this crisis exposed the fragility of our global economic system. This was a system that was built on extended global supply chains and the relentless pursuit of the efficiency gains that arose from comparative advantage, specialization, and “just-in-time” deliveries, regardless of the hidden costs of reduced adaptability and resilience of our economies, and the all too visible human costs that over forty years of gutting and privatizing healthcare and social services have exacted.

In this respect, one of the main insights of complexity science is especially relevant. About two decades ago, Stuart Kauffman of the Santa Fe Institute highlighted a basic fact about

networks: as a network grows in size and density, the number of interdependencies grows, and the probability that a change in one part of the network will lead to a cascade resulting in a negative change somewhere else grows exponentially. This means that our global economic system – a vast and densely connected network – becomes less adaptable as it increases in size and density of connections. Kauffman also showed that the more regularity or predictability there is in the behavior of the nodes in the network, the more density in connections the network can tolerate.

In the context of our highly integrated economic system, we can think of countries as the nodes. If there is predictability on the decision-making of the key countries, then a more densely connected network can function. But if decision-making is less predictable, more densely connected networks are less resilient and small changes can cascade into big problems – what Kauffman called “complexity catastrophes”.

What this crisis has revealed is the unpredictability in the behavior of the two key nodes in our global economic network: China and the United States. If globalization is to survive the Covid-19 crisis, we cannot simply replace an American-led system with a Chinese-led one. Instead, we need a system that is more diversified and less vulnerable to cataclysmic shocks emanating from any one node. This should not be interpreted as a repudiation of globalization as such, but rather as an attempt to save it by rejecting its current neoliberal orthodoxy. If that cannot be achieved, the remaining alternative may well be a less networked, less densely connected global economic system, one which is not only less efficient, but which possibly leaves global society worse off.

Recommendations

In these economically and psychologically depressing times, it is tempting for policymakers to focus only on the short term and to avoid thinking about a highly uncertain future, but they should resist the temptation, because the welfare of billions of people depends on them taking responsible and resolute steps toward a “new normal”.

First, governments should accept and communicate to their populations the uncomfortable fact that this coronavirus may never be completely eliminated and that we can only “overcome” it when a large enough proportion of the population is immune to it – either from catching the virus and developing antibodies, or from vaccination. Based on what we have learned thus far, the vast majority (more than 80%) of infections will be mild or asymptomatic; this is partly why the coronavirus is so transmissible. But the cases requiring hospitalization or intensive care may still overwhelm our already stretched healthcare systems if they occur in surges.

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Second, and as a result of the above, once the number of infections has stabilized, the suppression strategy should be gradually replaced with mitigation measures combined with tough social distancing rules, a continued emphasis on mask-wearing and other personal hygiene measures, and steps to protect the old and those with pre-existing conditions. All this is necessary to flatten the epidemic curve and protect those that are most at risk. Governments, if they are not already doing so, should quickly ramp up capacity in isolation wards and intensive care units.

Third, governments should roll out and maintain large-scale tracing and testing capabilities to identify new clusters of infection early so that targeted containment measures can be put in place quickly, thereby avoiding large-scale and costly lockdowns in the future.

Fourth, they should seize the opportunity this crisis offers to rethink and reform the current model of neoliberal globalization with a view toward greater diversity, adaptability,

and resilience, and not only of the global supply chains, but first and foremost of the populations they were meant to serve to begin with. This will also require a significant redistribution of wealth from the top to the bottom, both within and between economies. Such rethinking and reforms are difficult, especially in the short to medium term when recovery is the priority of governments. But the potential benefit of enabling our global society to be better placed to resist future shocks of every kind will be well worth the sacrifices.

For emerging markets, the choice before them is particularly stark. In the last three or four decades, globalization helped to lift billions of people out of poverty. Now, those gains are threatened by the pandemic-induced global recession and the potential reversal of globalization (or de-globalization). To avoid the latter, emerging markets must now take centre-stage to construct a system of globalization that is not overly dependent on any one node, and is sufficiently diversified to adapt to the disruptions the future brings.



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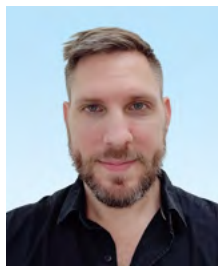
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