

COVID-19 AND GEOPOLITICS

- Appendix -



Executive Summary

- **Originating in Wuhan, China, the Covid-19 has had an enormous impact on the country**, yet China has managed to turn its containment of the virus into a propaganda victory. The virus quickly spread around Asia in the beginning of the year, and although some countries, such as China, appear to have it contained, cases are quickly ticking up in Japan and Southeast Asia. Asia's growth is likely to stall for the first time in 60 years, generating a worse economic slowdown than the global financial crisis in 2008/09. Emerging Asian economies, making up one of the world's foremost economic engines of economic growth, risk entering into a recession, pushing 11 million people into poverty.
- **The pandemic has hit Russia during a particularly bad time**, as the government was already occupied with an economy in downswing, the oil price war with Saudi Arabia and the planning for an extension of President Vladimir Putin's rule. It is likely that the government lacks complete data on spreading of the virus, and there is also a risk that Russia's underfunded medical infrastructure will be overwhelmed by the virus outbreak. In the long run, an oil price at around \$25 dollar per barrel will likely generate a deterioration of Russia's geopolitical stability, and amid the Covid-19 outbreak, President Putin has taken the opportunity to advance his position on the international arena.
- **Covid-19 will likely deal a major blow to the Middle East and North Africa (MENA)** – the region is likely to contract by 3.3% in 2020, compared to last year's estimated growth of 0.3%. The MENA region is already troubled by a complex mixture of multiple protracted conflicts, sectarian tensions, economic crises and broad political unrest, and unemployment and social distress are likely to worsen, which will probably fuel more protests and push the region into a recession. There is also a risk that conflicts will intensify as the world community is distracted, and authoritarian leaders may use the containment measures as a pretext for a more repressive rule.
- **A rapid and extensive spread of the virus could have disastrous consequences in Africa**, as poverty is widespread, levels of unemployment are high, healthcare systems are fragile, and in cities, many people are cramped for room in shanty towns, without possibilities of maintaining a decent level of hygiene. The region is facing its first recession in 25 years, as the World Bank has projected a dramatic GDP drop, from 2.4% in 2019 to -2.1 to -5.1% in 2020. Moreover, in areas of active conflict there is a risk that humanitarian actors will be impeded in their work, potentially resulting in a protracted and more deadly outbreak of Covid-19 in parts of Africa.
- **Latin America risks being severely affected by the Covid-19 outbreak**, with long-lasting humanitarian, political and economic consequences. Healthcare systems are uneven and relatively weak and underfunded, and wealth is generally a crucial factor in order to receive healthcare of a decent standard. At the prospect of Covid-19, the economy is up against a worse contraction than the one generated by the financial crisis in 2009, as the IMF forecasts a drop of as much as 5.2% of GDP in the region in 2020. It is likely that a severe economic downswing, accompanied by salient inequalities in Latin American societies, will spur political unrest in the region in the long-term.

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Asia

Just as the two year-long trade war between the U.S. and China came to an end, offering economies around Asia a very brief moment of relief, another storm hit the continent, this time in the form of the Covid-19 pandemic. Originating in Wuhan, China, the virus quickly spread to the countries around the region in the beginning of the year, and as areas such as China, Hong Kong, Taiwan, South Korea and Singapore appear to have contained the disease, the epicenter has now shifted from China to Europe and the U.S. Countries have implemented lockdowns, closed borders and introduced other containment measures. Nevertheless, Covid-19 may bounce back to East Asia, and in areas such as Japan as well as Southeast Asia, cases are relatively quickly ticking up.

Economic Outlook

In the wake of Covid-19, the IMF is expecting Asia's growth to stall for the first time in 60 years, generating a worse economic slowdown than the global financial crisis in 2008/09 and the Asian financial crisis of 1997. In **China**, the fund estimates GDP to grow 1.2% in 2020, whereas in **India**, GDP is expected to land at 1.9%. For **Japan**, the IMF forecasts a decrease of 5.2% of GDP this year.

According to the World Bank, the best-case scenario for emerging Asian economies is a drop of growth by 4 percentage points. If the region's dramatic slowdown is followed by a strong recovery this year, growth in developing Asia-Pacific countries would slow to 2.1%, which can be compared with the growth of 5.8% recorded in 2019. Nevertheless, if measures to contain the virus are maintained into 2021, the Asian economies would decrease by 0.5% in 2020. The region, one of the world's foremost economic engines of economic growth, risk entering into a recession, pushing 11 million people into poverty. Purchasing managers' indices from **Japan, South Korea, Thailand, the Philippines, Indonesia, Malaysia** and **Vietnam** are also pointing towards a recession. Industries all over the region are suffering, with tourism and retail industries in **Thailand**, and manufacturing and textiles in **Vietnam**, being the sectors where the Covid-19 outbreak had the largest impact. As everywhere, informal workers are especially vulnerable, and difficult to help.

China

Despite China being the origin of the Covid-19 virus outbreak, the party state has managed to turn its containment of the virus into a propaganda victory, both domestically and internationally. Around the Chinese New Year, strict lockdowns went into force in many large cities all over China for over a month. Schools and universities successfully moved online, showing the world how digitalized and able China is. IT-companies such as Tencent and Alibaba helped the Chinese government to control its citizens by providing positioning information of its users. Today, after the spreading of the virus has officially been eliminated in China, the surveillance has entered a new stage. Everyone has to install the Health Code app, which gives a green, yellow or red light to the user in order to use public transportation, enter shopping malls, offices or restaurants.

Due to fears of a second wave of virus infections, the Chinese borders are closed to all foreigners except diplomats. Travelers returning from abroad are put into 14 days of quarantine in specially designated hotels and are strictly health checked before being allowed into the Chinese society.

All new Covid-19 cases reported in China are now imported. This is highlighted by Chinese media, which in turn has led to increasing xenophobia in the country, even though most imported cases are Chinese citizens returning home. So far, the group of foreigners that have been treated the worst are Africans, which has led to a diplomatic crisis between Nigeria and China. The xenophobic treatment of African traders in southern China could potentially damage future Sino-African relations. Most foreigners residing in China only have one-year work permits, and authorities could easily deny them renewals if xenophobia is taken to a new level. Already, 15 American journalists have been kicked out of China, making the information flow scarcer on what is really going on inside the country. Short business trips to China will be out of question for months to come. This will

obviously affect foreign investments in China, and already, Japan has declared that it will help finance Japanese companies to move their factories back to Japan.

The origin of the virus is still unknown and official statistics of diseased, ill, and recovered cases are questionable. The crackdown on dissidents and journalists reporting too much on the virus continues. Even medical doctors speaking out on their experiences of the virus outbreak in Wuhan are being harassed.

The huge lockdown of many parts of China – as many as 750 million Chinese were thought to be under restrictions at the height of the outbreak – has been very hurtful for the Chinese economy. The economic downturn of Q1 at -6.8 % is the deepest since registration of quarterly GDP started in 1992 and the Chinese government will have to work hard to get its economy back on track. The government has released a \$282 billion stimulus package to tackle the economic consequences of the crisis. In addition, more than \$500 million have been distributed in coupons from different provincial governments to encourage consumption, a strategy that seems to be working.

The year 2020 is an important year for the Communist party as this was the year when China's GDP was to have doubled over ten years and turn China into a *xiaokang*, moderately well off, society. Growth had to be at least 6 percent this year to be successful. Given the importance of this growth goal, the Party must have made careful calculations about the cost of containing versus not containing the virus outbreak and continuing business as usual, and found that it would have been much more costly to let the virus run wild. Choosing the latter alternative could also have become politically dangerous for the Party. By harsh containment, the victory could be used as a propaganda tool, just like in 2003 when China beat SARS.

Currently, manufacturing is back to about 85 percent and increasing, and unemployment has decreased, from 6.2% in February to 5.9% in March. But given China's trade dependency, growth will be affected by how the rest of the world is handling the virus. The EU and the U.S. are China's most important trading partners. China could become the engine that pulls the world through the economic recession once again, just like during the financial crisis, but given its internal debt crisis, it might not be as easy as in 2008. There is a risk that the Chinese economy becomes even more state-controlled as the state moves into the private sector buying up parts of it.

The Chinese government has announced a comprehensive market reform program that analysts are comparing to the market reform agenda of November 2013. In order to stimulate economic growth, programs like those during the financial crisis in 2008 and 2009 are not effective, but an easy way to make growth pick up again is to launch institutional reforms and cut red tape. According to the new reform agenda, the market is to become more efficient by following "market rules, market pricing, and market competition". The new policy will be discussed in two sessions, likely taking place in May, and then passed into law. The Chinese economy has been in deep need of reforms for years, and hopefully this can unleash dormant market forces to counter state capitalism.

Globally, China is pushing its victory of the virus as propaganda, with good help by the WHO, giving instructions on how to contain the virus the Chinese way, from data tracking and lockdowns to using traditional Chinese medicines as cures. China is trying to help the worst affected countries with both donations and sales of medical protection gear, medical equipment, and test kits. Alibaba has been shipping protection masks and test kits as donations to most countries in the world.

The lockdown of China in February together with export restrictions on medical equipment and medicines has shown the world the vulnerability of its vast global supply chains and just in time stocks. In the future, it is likely that many countries will reinstall domestic industries, especially manufacturing of medical protective equipment and generic pharmaceuticals, for national security reasons. Many companies will diversify their supply chains to more countries in order to minimize the risk of disruptions.

China is also using its victory of the virus to show the world how a totalitarian state is more efficient than democracies. In the EU, China is continuing its policy of *divide et impera* by helping individual countries on regional level stressing the weakness of the EU and failure of internal EU assistance.

In March, China criticized Sweden for its lack of measures to contain the virus, but it is important to note that this criticism was put forward just a couple of days before the start of the trial of Ambassador Anna Lindstedt, which was most likely the reason for Sweden being called “a black hole for the virus spread”. The Chinese embassy in Sweden has since gone from aggressive to helpful in the middle of the crisis stressing the importance of fighting the virus globally.

Meanwhile, as the rest of the world is struggling with handling the virus, anger against China is picking up. The U.S. presidential election is approaching and being hard on China will likely be part of its focus. Even before the Covid-19 outbreak, US-China relations were bad, but they are now in free fall. For a while, Chinese diplomats aggressively claimed that the virus was of American origin, but this kind of propaganda backfired completely, and has been silenced for a while.

When the pandemic is over, we are likely to see a different world with new priorities. If China is successful and once again becomes the global growth engine saving the world, the country will become even more assertive globally. It is likely that Chinese companies will go on a shopping spree in the West trying to buy up interesting, but bankrupt, companies. In this scenario, it will be hard for countries to decline Huawei 5G equipment and it could become financially interesting to sign MoUs on the Belt and Road Initiative (BRI).

At the same time, there is also a risk that the anger against China for not coming clear on the origins of the virus, not containing it or warning about its danger will make countries more hostile towards China. This could lead to countries moving industries out of China, like Japan wants to do. It appears that the virus has spread along BRI projects, such as subway construction in Qom in Iran, which could make countries more hesitant to future BRI cooperation. BRI is the pet project for Xi Jinping’s foreign relations, and if BRI gets blamed for the spread of the virus it might turn into a total failure.

India

In India, a country of 1.3 billion people, the challenge of containing Covid-19 may be particularly burdensome. A complete lockdown has been imposed, and while the number of confirmed cases is conspicuously low, there is a lot of uncertainty concerning the statistics. The police have taken violent measures to enforce the lockdown, beating anyone on the streets. For millions of poor Indian workers, the lockdown means that they have lost their incomes and their accommodation, and many have been forced to walk back to their villages. Tens of thousands of migrant workers in Mumbai have reacted by protesting against the lockdown, defying social distancing rules and potentially spurring further social unrest. The government plans to relax some of the lockdown restrictions, as limited manufacturing and agricultural work resumed in the end of April.

Prime Minister Narendra Modi’s government has announced a \$22.5 billion stimulus package – equal to less than 1% of the country’s GDP – to be paid out through food security measures for poor households and through direct cash transfers. Yet the package is likely not going to be sufficient, and the government is expected to announce another aid package for the industry, farmers and the poor within the next days. Despite this, the outbreak will likely hit the India hard. The economy was already in crisis before the outbreak, growing in nominal terms at the slowest rate in 42 years, and in March, the Reserve Bank of India stepped in to rescue Yes Bank, one of the country’s largest private lenders, which reported a \$2.5 billion loss last quarter.

There is a risk for an explosive spread of the Covid-19 in India, due to high population density and a lack of access to clean water and soap in many places, especially in the slums. Furthermore, the healthcare system is weak and uneven, with limited capacities of testing for the virus. India only has 8 doctors and 7 hospital beds per 10,000 people, 2 hospital beds in intensive care units per 100,000 people, and there are at most around 40,000 functional ventilators in the country. Nonetheless, India has sent masks and medical equipment to China and Italy, as well as neighboring countries.

In an unusual promotion of multilateral cooperation, the Modi administration has contributed with \$10 billion to a crisis fund set up by the regional association South Asian Association of Regional

Cooperation (SAARC), an attempt of gaining leverage on the regional arena in times of a pandemic. The main trademark of the ruling BJP party – Hindu nationalism – remains strong, however, not least after the spreading of Covid-19 in India has been tracked to a Muslim gathering, sparking outrage among the Hindu majority in the country. As a result, ethnic tensions are mounting once again, just weeks after the deadliest sectarian riots in decades caused over 50 deaths in New Delhi. Meanwhile, there is a risk that the spread of the virus in India and Pakistan could generate an escalation of violence in the disputed area of Kashmir in the coming months, as militant groups may capitalize on the international community's focus on Covid-19, and carry out attacks.

Japan and Southeast Asia

In Japan, Prime Minister Shinzo Abe has announced a "state of emergency" because of the coronavirus pandemic, giving some local governments the authority to request people to stay in their homes, and shutter businesses and schools. Japan has so far managed the crisis without the kinds of sweeping lockdowns seen elsewhere, but a surge of new cases in recent days – particularly in Tokyo – has put pressure on the government to do more. Japan has one of the world's oldest populations – a third of its people are older than 65, the demographic most vulnerable to Covid-19. The emergency decision comes at a tough time. Japan's economy has been hurting for several months now, as China's massive lockdowns in January and February cratered demand for Japanese exports. Local production has been affected by the stagnation of China's supply chains. In order to deal with the fallout that comes with putting his economy on life-support, Prime Minister Abe said the government would push through a near \$1 trillion stimulus package – representing 20% of Japan's GDP.

In the Philippines, President Rodrigo Duterte has implemented one of Asia's strictest lockdowns on Luzon Island, where Manila and a large part of the country's banks and businesses are situated. The country has passed a law yielding the President special powers to fight Covid-19, and its central bank approved the purchase of 300 billion Philippine pesos (\$5.9 billion) of Treasury, a program which may be enlarged to as much as 500 billion pesos. The World Bank considers that the Philippines is better prepared to deal with the economic blow brought about by the virus than others in the region, such as Thailand and Indonesia. However, the halt of the world economy will probably reduce the remittances flowing into the Philippines, which is one of the country's key sources of foreign exchange, and there is a high risk that President Duterte will make use of the new containment measures by reinforcing his already well-established authoritarian tactics.

In Thailand, a state of emergency has been introduced and a partial lockdown has been put in place. The government has issued a \$20 billion soft loan to SMEs, and paid \$8.5 billion to 9 million workers. The tourism industry, accounting for around 20% of the country's GDP in 2018, has suffered a major blow. According to some estimates, Thailand's losses will add up to \$12.1 billion if the virus outbreak lasts until September. However, there is a chance that the tourism industry will recover quickly, as it did following the sharp decline brought about by the tsunami in 2004. The two other foundation stones of Thai economy – manufacturing exports and agricultural commodities – are struggling, as higher wages and an overvalued currency have pushed investors to cheaper neighboring countries, such as Vietnam. There is a risk of growth stalling completely this year, all while the military government is proving to be unpopular, causing a breeding ground for potential social unrest.

In Malaysia, which recently experienced a time of political turmoil leading to a sudden change in government, the management of the virus outbreak presents a first legitimacy test for the new leadership. However, it appears as some damage has already been made, as Malaysia' ministers appear to have been too busy figuring out their new political positions to formulate an efficient response to the rising number of Covid-19 cases in the country. For two weeks, the country was without a health minister in the transition between two governments, and now, Malaysia has the among highest rates of infected people in Southeast Asia. The government predicts a lay-off of 100,000 people.

Russia

The Covid-19 pandemic has hit Russia during a particularly bad time, as the government was already occupied with an economy in downswing, the oil price war with Saudi Arabia and the planning for an extension of President Vladimir Putin's rule. The president first reacted to the threat posed by Covid-19 by ignoring it, until a mounting level of cases forced him to act. Moscow and other cities have are now in lockdown, and Russia has closed its borders for the first time since the fall of the Soviet Union in 1991. Nonetheless, President Putin has remained absent during the crisis, largely avoiding public appearances. It is likely that the government lacks complete data on spreading of the virus in the country, as reports indicate that its tests did not identify all positive cases, and it will probably take time before a full understanding of the situation is established. There is also a risk that Russia's underfunded medical infrastructure will be overwhelmed by the virus outbreak, lacking specialists, tests, respirators and medical equipment. The spread of Covid-19 poses a severe threat to the Kremlin's ambitions of increasing its oil production, owing to a significant fall in market demand. In the long run, an oil price at around \$20 dollar per barrel will affect Russian state company Rosneft as well as Russia's geopolitical stability, which is likely to deteriorate.

Fitch Ratings has slashed its forecast for Russia's GDP in 2020 to 1%, as a result of the global economic decline, the oil price crash, and a weaker ruble. The Russian currency has been one of the worst-performing against the dollar this year, losing around 25% of its value since late 2019. The outbreak has also put the April referendum on a new constitution – which would allow President Putin to stay in power until 2036 – on hold, which is troubling for President Putin, who is in need of an upswing of popular support due to a dramatic decline in his approval ratings over the past two years, following frustration with falling living standards and widespread corruption. As people's earnings will be further reduced as a result of the virus, at the same time as the government will increase its surveillance of the population, distrust in authorities will rise.

Amid the Covid-19 crisis, President Putin has taken the opportunity to advance his position on the international arena, having sent 9 aircrafts and over 100 medical experts, dispatched from the Ministry of Defense, to Italy, along with medical supplies. However, 80% of the material turned out to be useless, and the experts, who have biological, chemical and nuclear expertise, have been placed in Bergamo, less than 2 hours away from a major U.S. military base. The operation appears as a pretext for the Kremlin to gather intelligence, challenge the EU in its own sphere, and continue its battle of influence with China, whose government has also sent aid to Italy.

The Middle East and North Africa

While the Arab Spring sent shivers through the Middle East and North Africa (MENA) almost a decade ago, marking the region as the most disruptive political event since the fall of the Ottoman Empire at the end of World War I, **the spread of Covid-19 in the region could spark an even larger set of disruptions.** The MENA region is already troubled by a complex mixture of multiple protracted conflicts, sectarian tensions, economic crises and broad political unrest. As unemployment rises and social problems increase, fuel will be provided to political protests, which in turn will likely destabilize the region, and push it into a recession. The governments have responded to Covid-19 by imposing lockdowns, suspending international flights and closing borders, however, these measures are likely to be insufficient. It is important to note that Covid-19 entails an elevated risk of jihadist attacks worldwide, as ISIS has called on its adherents to take ‘maximum advantage’ of the disorder in the world caused by the virus outbreak.

Economic Outlook

Covid-19 will probably deal a major blow to the MENA economies – the region is likely to contract by 3.3% in 2020, compared to last year’s estimated growth of 0.3%, according to the IMF. In **Iran**, GDP is expected to contract by 6% this year, and although the government is already struggling with a youth unemployment rate at crippling 17.8%, the outbreak is likely to generate a further drop in output and increase unemployment. **Turkey** will also suffer – the IMF is projecting a contraction of 5% of Turkey’s GDP in 2020, at a time when unemployment amounts to around 14%. Many countries in the MENA region rely on tourism and oil, two sectors that are already bleeding due to the Covid-19 crisis and the oil price war between Saudi Arabia and Russia. The Arab Tourism Organization predicts losses of \$40 billion in the tourism sector by the end of April, if the current direction of the pandemic does not change. In **Iraq**, the authorities have warned that they may prove unable to pay half of its public sector salaries in May, due to the collapse in oil prices. In **Algeria**, the government has decided to cut 30% of its spending, which could spur the country’s protest movement further. In **Egypt**, debt amounts to around 80% of GDP, and **Tunisia**, which suffers an even higher debt to GDP ratio, has been granted a \$745 million emergency loan from the IMF. As a result of crippling economies, many middle-income countries in the region will struggle to offer relief to their businesses, and are likely to become more dependent on international support from the IMF.

In **the GCC countries**, the virus will probably have a massive impact on tourism as well as mega-events, such as Expo 2020, set to begin in Dubai in October. The drop in oil prices affects all GCC monarchies negatively, largely relying on energy revenue for their budgets. Following the oil price war between **Saudi Arabia** and Russia, a deal has been reached with OPEC+ to cut oil output by nearly 10% from May 1. The IMF is expecting oil exports to decrease by more than \$250 billion across the region. The fund projects that GDP in **Saudi Arabia** will contract by 2.3% this year, and in **the UAE**, the GDP will decline by 3.5%. **Saudi Arabia** has issued a \$32 billion stimulus package aimed primarily at SMEs, and another package of \$13 billion to support the private sector. **The UAE** has unveiled a \$70 billion aid package, and Dubai and Abu Dhabi have also announced separate packages. In contrast, **Oman** and **Bahrain**, whose public finances are in a critical state, have not announced any stimulus packages to ride out the crisis. Further disruption to trade could be very problematic for GCC countries, as all of them depend on imports for the lion’s share of their food consumption.

Iran, Turkey and Israel

In Iran, one of the hardest-hit countries in the world and the regional epicenter in the MENA region, the spreading of Covid-19 appears to be diminishing, yet the number of unrecorded cases is expected to be massive. The government, which initially concealed the extent of the crisis, has been unwilling to enforce a full lockdown, owing to concerns about its effects on the economy,

which was already on its knees before the Covid-19 outbreak due to US sanctions. President Hassan Rouhani has recently given orders of a step-by-step reopening of businesses that are considered to be of low or average risk of spreading the virus. The government has also introduced a package of state-backed loans in a bid to support the poorer segments of the population and encourage consumption, including the guarantee of bank credit of 10 million rials (\$61) to 23 million families and low-interest loans of up to 20 million rials to lower-income families.

Iran's economy decreased by 9.5% in 2019, as the sanctions made the country's oil exports drop from 2.8 million barrels a day in May 2018 to a few hundred thousand, and cut its ties to the global financial system. Following two years of sporadic anti-regime protests, which have been met with violent repression from the regime, the government is desperate to uphold social stability, especially as oil prices are plunging. In Washington, there is an on-going debate on whether the U.S. should press the Iranians even harder with more sanctions, or whether the government should take the humanitarian perspective into consideration and lift the sanctions. Iran and the U.S. have been on a collision course in the past months, especially after the U.S. killing of Mr. Qassem Soleimani, de facto number 2 in the Iranian power hierarchy, in January.

The Covid-19 virus has slammed Turkey with brutal force. Turkey is currently displaying the steepest increase curve of most or all countries. With a view to counter this clear and present threat the Turkish authorities has implemented a series of measures, such as building two new 1000 bed hospitals in Istanbul, the declared epicenter of the virus threat with some 60% of cases registered, announcing a 100 billion lira (\$15 billion) rescue package to shore up the economic consequences, shuttering domestic and international air traffic and implementing a battery of curfew measures. In addition, President Erdogan has decided on a state-led but privately financed rescue program, himself offering to donate 7 months of his own salary. Under terms dictated - or limited - by the current Turkish political atmosphere, President Erdogan's one-man rule and the illiberal presidential system imposed, the debate in Turkey on the degree of the threat, on whether the restrictive measures implemented so far are sufficiently effective and serious and on the balance between facing the pandemic threat and saving the economy is vivid but also a manifestation of the problems Turkey already faced as the Covid-19 virus hit.

Covid-19 has hit Turkey in a state of weakness which - over and above the pandemic threat in itself - affects Turkey's resilience and risks exposing Turkey to seriously destructive and disruptive consequences, for instance compared to other emerging economies. While it may be true, to some extent, that the Covid-19 crisis may serve to strengthen the President's position of unchallenged power - presence of crisis atmosphere conducive to authoritarian leadership and absence of opportunities for effective opposition politics and absence of international criticisms - it is still a weakness to have a polarized society and a leadership with weak and systematically questioned legitimacy, undermining solidarity and unified national mobilization.

In addition, the Covid-19 crisis has hit Turkey in a situation where President Erdogan risks costly failures in various aggressive foreign affairs policies, with military muscles being flexed notably in Syria (three military interventions in northern Syria and currently the military stand-off in Idlib) and Libya, where the Erdogan regime continues to support the GNA regime in Tripoli. Furthermore, the fighting in Idlib, recently accelerated from proxy war to direct military confrontation between the regular Turkish army and forces loyal to the Assad regime (including Russia) - until halted by a Turkish-Russian cease-fire agreement on March 5 - has caused a massive refugee flow towards the Turkish border, which in turn inspired President Erdogan to challenge the EU and neighboring Greece by signaling an opening for Turkey's over 4 million refugees to proceed westwards. In addition there was Turkey's problems with the U.S. (S-400 and other items of discord), the difficult Turkey's balancing maneuvers between the U.S. and Russia, and the emerging conflicts in the Eastern Mediterranean over issues pertaining to gas exploration.

In addition, there is the factor of the failing economy, well before Covid-19, with the value of the lira falling in spite of massive regime efforts shore up the currency, currently at 6.6 to the dollar, much below the value level ruling at the time Turkish mainstream corporations helped build Turkey's economic growth by means of then rather cheap loans abroad, now a mountain of

corporate indebtedness enhancing economic vulnerability. Furthermore, repeated transaction by the government, the Central Bank and the array of state banks to seek to counter the threatening fall of the lira has served to deplete resources available for state action to salvage the economy under the Covid-19 threat. With foreign investors looking elsewhere, with Turkish exports in deep trouble, the important tourism sector looking forward to a lost year, unemployment already high, and growth prospects looking negative, all these problematic trends combined unavoidably enhances Turkey's particular vulnerability to a rampant pandemic like Covid-19.

In Israel, the Covid-19 crisis - still at a comparatively early stage in the perceived virus cycle but trends are seen as a serious threat - has affected Israel at a critical stage in its politics when after three consecutive election within less than a year the country still does not have a normal, functioning government, although, after protracted and complicated negotiations, basic agreement now seems to be arrived at between the main players (Prime Minister Benjamin Netanyahu and Opposition Leader Benny Ganz - "the two Bens") to form a "National Emergency Government", "emergency" referring to the Covid-19 threat. While it remains unclear to what extent this highly controversial political compromise will provide Israelis - and Palestinians - with a lasting answer to the widespread call for a functioning, responsible national governance in the situation of perceived virus threat, the Netanyahu caretaker government has implemented draconian measures, not least in view of the impending Passover festivities with its inherent traditional togetherness. "Coronavirus leading Israel into a Passover like no other", says an article, referring to the various restrictive measures now to be enforced, using drones and police troops, to implement social distance. Israel's 12-13% ultra-orthodox population seems to be particularly affected, especially the ultra-Orthodox dominated Tel Aviv suburb of Bnei Brak, a "disaster zone" necessitating drastic evacuation measures.

Similarly, **in the Palestinian areas**, under PA authority, efforts have been made to limit the spread of the virus, including precautionary measures directed at Palestinian workers in Israel massively responding to PA calls for them to return home. Uncertainty still prevails concerning responsibility sharing over the Gaza population, the world's most densely populated area, but pending clarification on this, Turkey - traditionally a friend and supporter of Hamas - has readied a long-planned hospital in Gaza.

The Levant

The countries of the Levant find themselves in a highly vulnerable position in regard to the Covid-19 outbreak, hosting some of the largest refugee camps in the world, where millions of people live in overcrowded spaces with unsanitary conditions, creating a dangerous breeding ground for an uncontrolled spread of the virus. There is a real risk that Covid-19 will spread exponentially through the region. In **Syria**, a long civil war, corruption and economic mismanagement have crushed the institutional structures needed to deliver a well-coordinated response to the global pandemic, such as a functioning health system. International sanctions limit the inflow of medical equipment, and there is a risk that President Bashar al-Assad would take the opportunity to launch a new military offensive in rebel-controlled Idlib while the international community is distracted with Covid-19.

Covid-19 could also generate a further destabilization both **Iraq** and **Lebanon**, which both have seen protests against lockdowns and lost job opportunities. In **Iraq**, a de facto state failure following years of war, a wave of anti-government protests during last fall and widespread corruption has crippled its institutions and its health system, whereas a big bulk of its income, oil, is cut short because of the oil price war launched by Saudi Arabia. In **Lebanon**, a political and financial crisis has paralyzed the country for months after sweeping street protests. The new government is devoid of political legitimacy, and simultaneously, the outbreak of Covid-19 has added fuel to political and sectarian tensions. For the country's political heavyweight, Iran-tied Hezbollah, the Covid-19 provides an opportunity to further cement its position in Lebanese society, having mobilized its abundant resources to 'battle' the virus. Simultaneously, Iran's support of Hezbollah faces

significant opposition, with rival actors politicizing the virus with the aim of criticizing Iran's influence in Lebanon.

North Africa

Up until now, Covid-19 has had limited effects on North Africa. In **Egypt**, a country of 100 million people, high population density and overcrowded prisons, Covid-19 risks spreading fast, despite the government's anti-virus strategy of \$6.4 billion. There is a risk that the government would withhold the true numbers of people infected, as it reacted by withdrawing a Guardian journalist's press license after she published data from a Canadian study suggesting that Egypt had at least 6,000 cases, possibly many more. The authorities may also be inclined to increase its already well-established repressive conduct, especially as the rest of the world is distracted.

In **Algeria**, a country identified by the WHO as being at very high risk from Covid-19 due to its close cooperation with China, medical equipment has been imported to bolster its pressured healthcare system. The most important obstacle to virus containment, however, is the government's lack of political legitimacy, as official measures concerning the limitation of public gatherings are generally perceived as an opportunistic attempt to bring an end to the year-long protest movement requiring a transformation of the country's political system. A crackdown on principal figures of the opposition movement has been initiated, with several key figures imprisoned, arrested or interrogated. In **Tunisia**, the virus presents a first considerable challenge to a government that came into power as recently as February, and the country's persistent economic problems will be aggravated in the wake of the virus, as a result of a dramatic drop in the income from tourism and likely fall in trade with Europe.

In **Morocco**, the economy will experience a severe downswing, as the Covid-19 outbreak intersects with a period of prolonged economic inequality and regional disparities, bringing about widespread public discontent. In **Libya**, however, the outbreak could lead to a humanitarian disaster, as the conflict has intensified while the rest of the world has been focusing on tackling Covid-19. Libya's fragile healthcare system lacks the ability to detect and treat the virus, and foreign doctors have left the country during the war. For European officials, a ceasefire in Libya is no longer a high priority due to the Covid-19 crisis, despite the fact that a failed state neighboring Europe could generate terrorism as well as irregular migration and large refugee flows.

The GCC

In contrast to most countries of the Levant and North Africa, the monarchies of the GCC can rely on their efficient health care systems, which are free and easily accessible to all citizens. Nevertheless, the contagion risk is significantly higher in communities of foreign laborers, many of whom do not have access to healthcare and live in conditions in which social distancing is impossible to apply. Although the Covid-19 outbreak has offered an opportunity to ease political tensions in the region – as exemplified by the initiatives taken by **Kuwait, Qatar and the UAE** to send medical and humanitarian aid to Iran – there is also a risk for increased political and sectarian tensions, as illustrated by **Saudi Arabia's** and **Bahrain's** strong condemnations of Iran's response to the virus. In all GCC countries, there is a widespread narrative that the spreading of the disease in the MENA region is emanating from Iran or Iraq, via Shia citizens, and in **Saudi Arabia**, the Shia-majority province of Al Qatif has been placed under lockdown. The one exception to the countries on the Arabian peninsula is **Yemen**, which is already suffering one of the world's worst humanitarian catastrophes, with 24 million people requiring humanitarian assistance. The country's health system was very frail even before war broke out in 2015, and aid efforts could rapidly be overwhelmed by the virus outbreak, rendering the humanitarian context even more difficult.

Africa

After fighting the Ebola epidemic West Africa in 2013-2016 and in eastern Democratic Republic of Congo (DRC) 2018-2020, Africa now faces the threat of the Covid-19 pandemic. Although the virus has relatively slowly spread to the majority of the region's countries, a rapid and extensive spread of the virus could have disastrous consequences, as poverty is widespread, levels of unemployment are high, healthcare systems are fragile, and in cities, many people are cramped for room in shanty towns, without possibilities of maintaining a decent level of hygiene. Around 72% of the population in Sub-Saharan Africa lack the opportunity of washing their hands with soap and water in their homes, rendering these societies extremely vulnerable for viruses such as Covid-19. In addition, a large number of people are already infected by HIV, tuberculosis and other diseases weakening the immune system. For African governments, the challenge consists of saving people's lives and at the same time, minimize the economic impact in a region where over 400 million people live on less than \$1.90 a day. Countries in the region have closed borders, suspended flights and imposed full or partial lockdowns.

On the bright side, Africa has a median age of 19.4 years, lowering the risk of an outbreak as deadly as the one in the U.S. and Europe. Large parts of the population live on the countryside with low levels of density, and there is a certain preparedness for dealing with diseases with limited resources, following the outbreaks of Ebola, yellow fever, lassa fever and monkey pox. Many African states have also reacted quicker than Europe in their containment measures to suppress the virus, inspired by Asia. Jack Ma, the Chinese business magnate, has donated 20,000 testing kits, 100,000 masks and 1,000 protective suits to every African country. Nonetheless, sub-Saharan Africa only has one doctor for every 5,000 people, which can be compared with one per 300 in Europe. There are few intensive-care beds and ventilators. Healthcare systems struggling with Covid-19 cases may not be able to treat other patients or ensure safe childbirth. Fake news presents another obstacle to containment, as dubious cures and conspiracy theories have been circulating on WhatsApp groups. This tendency may prove to be particularly dangerous as there is generally a low level of trust in governments in Africa, potentially making it difficult to convince populations to follow public health directives, as was the case during the initial phases of the Ebola outbreak in West Africa.

Economic Outlook

The pandemic will likely hit sub-Saharan Africa very hard – the World Bank has projected a dramatic GDP drop, from 2.4% in 2019 to -2.1 to -5.1% in 2020, pushing the region into its first recession in 25 years. The UN estimates that around 50 million jobs in the region are threatened, and at the same time, additional health spending on the virus is estimated to stretch to \$10.6 billion across the continent. In **South Africa**, GDP is expected to contract 5.8% this year, and in **Nigeria**, GDP is projected to decrease 3.4%, according to an IMF forecast. Oil-exporting countries, such as **Nigeria** and **Angola**, are already suffering due to the crash in oil prices, and they could together lose up to \$65 billion in income. Africa has also seen the negative effects of dropping trade and crumbling supply chains, as numerous African states, such as **South Africa, Angola** and **the DRC**, as well as **South Sudan, Namibia, Kenya** and **Rwanda** rely to a large extent on exports to China. Resource-rich states, whose oil and other commodities are principally exported to China, will take the hardest hit. As Chinese purchases make up 95% of all **South Sudan's** exports, 61% of **Angola's** and 58% of **Eritrea's**, these countries will be wrecked by the breakdown of Chinese trade.

Simultaneously, Africa is experiencing disruption in imports. In **Ghana**, shortages of basic consumer goods imported from China have caused a surge in prices, exceeding 100% for some products, including food. The economies of **Nigeria, Uganda, Mozambique** and **Niger** are also severely affected, as small importers and traders make a living by trading Chinese products such as textiles, electronics, and household goods. The tourism industry also suffers a harsh blow, as the sector employs more than 1 million people in each of **South Africa, Kenya, Tanzania** and **Ethiopia**.

There is a risk that the Covid-19 pandemic will lead to humanitarian consequences in Africa. Around 80% of the population work within the informal sector, meaning that the vast majority lacks access to social insurance benefits. At the same time, many countries lack the possibilities of launching stimulus packages to mitigate the economic impact. Money is missing – between 2010 and 2018, average public debt in Africa increased from 40% to 59% of GDP, the fastest increase of any developing region. The region has been standing on the verge of a debt crisis for the past two years, and its precarious situation opens up space for geopolitical players to exercise leverage. The G20 has suspended debt for around 40 of the poorest states of sub-Saharan Africa, and the IMF has approved \$500 million to cancel six months of debt repayments for 25 of the world's poorest countries, including 19 African member states. While Mr. Ma's gift initially seemed to pave the way for economic assistance from China, which would potentially increase the country's influence in the region, Sino-African relations have recently faltered, owing to alleged racism against Africans over Covid-19 in China.

South Africa

In South Africa, the most affected country in the region, flights have been banned from affected countries, and a stricter lockdown than in other countries has been imposed. However, the country's methods of enforcing the lockdown have been violent, as the police has discharged water cannons and rubber bullets against the poorest people of the population, for whom it has been difficult to practice social distancing in crowded slums and townships, and stock up food supplies. The public health system is free, yet it is marked by a lack of resources, and only the rich minority can afford visiting a private clinic. At the same time, Moody's has cut South Africa's debt ranking to junk status, following structurally very weak growth and limited capacity of stimulating the economy, as well as sky-high rise in government debt over the medium term, putting an end to the investment credit-rating it has had for 25 years. A decline in imports have brought about shortages generating a spike in inflation, recently reaching a 17-month high of 4.6%, and there have been significant disruptions in supply chains, owing to the restriction and suspension in movement of people and goods. In response to the worsened economic outlook brought about by Covid-19, the South African Reserve bank has reduced the interest rates by 2% in the last two months. The government has unveiled a \$26 billion stimulus package, equal to 10% of GDP, in order to bolster the economy and ward off an imminent hunger crisis – protests over food have erupted, and further social unrest is to be expected if the aid package is not distributed efficiently. Expecting 1 million lay-offs as a result of the virus outbreak, the authorities, which have already paid \$20 million to the unemployed, have reserved \$2.2 billion for the same cause. In addition, South Africa has requested an IMF loan for the very first time, which could generate an unsustainable level of debt – according to some estimates, South Africa's debt could surge to as much as 95% of GDP.

Areas of Active Conflict

In areas of active conflict, there is a risk that doctors and humanitarian actors will be impeded in their work, potentially resulting in a protracted and more deadly outbreak of Covid-19 in parts of Africa, as was the case during the Ebola outbreak in **the DRC**. Back then, violent local militias blocked access to some affected areas, sometimes even targeting doctors and medical facilities. The Covid-19 outbreak is also likely to have an impact on multinational peacekeeping and security assistance efforts, and ultimately on geopolitical stability, as illustrated in the UN's decision to halt the rotations of a group of nine peacekeeping troop contributors, owing to concerns about the spread of Covid-19. The decision means that peacekeepers' tours of duty will be extended to at least three months in difficult environments such as the **Central African Republic** and **South Sudan**, which could potentially lower their morale and efficiency. Similarly, a rise of conflicts may be a consequence of Covid-19 in the region, as a March summit aimed to alleviate the escalating tensions between **Kenya** and **Somalia** has been called off, and another summit between EU leaders and the **G5 Sahel countries** (Burkina Faso, Chad, Mali, Mauritania and Niger) will also be cancelled, harming the efforts of bolstering counter-terrorism operations in the area.

Latin America

Following series of widespread protests shaking governments in Latin America since 2014, with the most recent wave in 2019, **the Covid-19 pandemic has now made it to the region**. The virus has slowly spread to every country in the region, which risks being severely affected with long-lasting humanitarian, political and economic consequences. Healthcare systems are uneven and relatively weak and underfunded, as the per capita expenditure in Latin America and the Caribbean on health each year amounts to \$949, a little over one-quarter that of Italy and OECD countries as a whole. Wealth is generally a crucial factor in order to receive healthcare of a decent standard, meaning that as the health crisis goes on, divergences and disparities in care will become palpable. The majority of the countries in the region have adopted containment measures, such as closing borders, banning flights from affected countries, prohibiting large gatherings and suspending school, and several of them have also introduced lockdowns.

Economic Outlook

At the prospect of Covid-19, the Latin American economies are up against a far worse contraction than the one generated by the financial crisis in 2009, when the region's GDP dropped by 1.7%. The IMF forecasts a drop of as much as 5.2% of GDP in the region in 2020. In **Brazil**, the IMF expects GDP to contract 5.3% this year, and in **Mexico**, GDP is projected to plunge by as much as 6.6%. Generally, public debt in Latin America made up 57% of GDP in 2019, compared with below 40% in 2008. **Mexico, Central America and the Caribbean**, with close connections to the U.S. economy, will be particularly affected by less demand for their exports, lower prices, and a temporary shutdown of numerous service businesses. In some South American countries, economies are suffering as a result of the contraction in China, their biggest export market. In **Chile**, copper makes up a half of the country's total exports, and half of that copper is sold to China.

In response to the economic crisis posed by the spread of the pandemic, central banks in **Brazil, Mexico, Chile and Peru** have made emergency cuts in interest rates. Some are preparing credit lines for firms - such as the Brazilian central bank, declaring that it will insert \$230 billion into the financial system, representing about 11% of GDP, and aid to health services and workers. Yet the majority of the Latin American population works in small businesses that are part of the informal economy, and emergency programs are only available to formal workers, and through limited cash-transfer programs to the poorest, leaving out a substantial part of lower-middle and working classes. In **Peru**, the government has announced a payment equivalent to \$108 per family, however, it does not know how to distribute the money. In **Ecuador**, low oil prices following the oil price war launched by Saudi Arabia will deal a blow to a vital source of government revenue, likely challenging the country's capacity of securing the credit needed to maintain social spending or meet debt payment obligations, as demonstrated in the end of March when the government failed to make coupon payments on three bonds. In **Argentina**, plans of restructuring over \$100 billion of private sector debt have been hampered by the Covid-19 outbreak, which may drive the country's economy, already marked by inflation running at around 50% following a currency crisis in 2018, into an even deeper recession. Currencies are also suffering – since February, the **Mexican peso** has depreciated by a quarter against the dollar, and the **Brazilian real** by 16%.

In many places, people depend on remittances from family members abroad, which will likely dry up. It is likely that a severe economic downswing, accompanied by salient inequalities in Latin American societies, will spur political unrest in the region in the long-term. In addition, there is a risk that governments across the region will employ the measures used to curb Covid-19 to suppress opposition or the right to political dissent.

Brazil and Mexico

Latin America's two biggest economies, Brazil and Mexico, are the most affected countries, yet their leaders have been slow to react, and both of them have downplayed the gravity of the crisis.

Brazilian far-right President Jair Bolsonaro has recently sacked his popular Health Minister, Mr. Luiz Henrique Mandetta, after they clashed over the President's controversial response to the virus outbreak. President Bolsonaro has not only referred to the pandemic as "sniffles", he has also criticized local and regional lockdowns, and faces harsh criticism for his participation in large public gatherings. In the past weeks, many former important allies have dissociated themselves from the President, and reports suggest that it will be difficult for him to weather the storm. A model from Imperial College London shows that as many as 1.1 million people could die in Brazil if no measures are implemented to curb the spread of Covid-19, and if drastic measures are taken, 44,200 lives could still be lost. The fact that drug gangs and paramilitary groups have stepped in to enforce a lockdown in the country's overcrowded favelas, hosting over 11 million people with limited access to clean water and sanitation, underlines the severity of the situation. The favelas are a ticking-bomb in Brazil, in which an explosion of Covid-19 cases could fuel social unrest, offering a window of opportunity for criminal gangs, who present themselves as the "true" providers of law and order. At the same time, Brazil's deficit has reached 500 billion reais (\$96 billion), accounting for 7% of GDP. Unemployment is at 11.6%. To counter the economic threat, the government has announced a \$30 billion stimulus package.

Meanwhile, in **Mexico**, leftist nationalist President Andres Manuel Lopez Obrador (AMLO) has posted a video on Twitter of himself hugging and kissing supporters, and it took until end of March before he asked the population to stay home. Just as his Brazilian counterpart, President AMLO has been under fire for his lack of action. The President has increased funding on social programs and has offered 3 million loans to small businesses, yet he refuses to hold off taxes or tackle debt to fund a stimulus package. Moreover, the government could be underestimating the spread of the virus, due to a lack of testing, a limited response to the virus, and a fragile healthcare system. Mexico has the lowest level of hospital beds in the OECD, and was struggling with a shortage of medicine even before the arrival of Covid-19. The challenge of protecting citizens' health without ruining the economy is especially complicated in Mexico. Although the country ranks as the world's 11th-largest economy, nearly 50% of Mexicans live below the poverty line, another 30% are vulnerable to falling into poverty, and 30 million work in the informal sector, without a social safety net. The Business Council (CCE) predicts that 1 million jobs will be lost as a result of the outbreak, and President AMLO has pledged to distribute \$2.5 billion in May, yet details remain unclear.

Venezuela

The country that is most threatened by the storm following Covid-19 in Latin America, however, is Venezuela, which is facing a huge humanitarian catastrophe. The country is in quarantine, with a lot of uncertainty concerning the number of cases. It is the worst-equipped country in the entire region to deal with a pandemic, following US sanctions amid a deteriorating economic, political and social crisis, and has now been struck by lower oil prices, essentially slashing its only legal source of revenue. Oil is now trading at about \$20 a barrel, and the market is oversupplied as the world economy has come to a standstill, rendering that oil worthless. Venezuela's health system is collapsing, with many clinics lacking gloves, soap, surgical masks and gowns, medicines, and even clean water. President Nicolás Maduro was turned down by the IMF when asking for a \$5 billion loan to manage a response to the outbreak, with the motivation that there was a lack of clarity concerning the governance of the country. The risk for a military coup or a civil uprising is rising, potentially threatening President Maduro's rule and creating a breeding ground for a spiral of violence. If the virus starts spreading rapidly, which is a likely scenario, at least 100,000 Covid-related deaths should be expected in the coming year in Venezuela. At the same time, the U.S. is increasing its efforts of ousting the regime, having recently charged President Maduro and other officials with being members of a narco-terrorism scheme, and proposed an interim government.