

## **COVID-19 AND GEOPOLITICS**

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- REFLECTIONS ON THE IMPACT OF THE PANDEMIC -



## Executive Summary

- **Geopolitical trends of past years are likely to be accelerated by the Covid-19 virus crisis.** These trends are the following: a global economic slowdown, a shift to a multipolar world, a decrease of multilateralism and free trade, an increased authoritarianism and a strengthening of the nation-state. Complex global supply chains will partly be replaced by regional and local alternatives.
- **The Covid-19 pandemic is likely to alter the Swedish political debate.** Traditional policy issues, such as economy, employment, tax policy, healthcare, social insurance, business climate and funding of the welfare system will probably be placed higher on the political agenda compared with the political issues which until now have been at the forefront of the debate (immigration, law and order). It has also become evident that Sweden will have to fend for itself to a higher extent in certain areas. How one embraces this notion, and at the same time continues to fight for the principles of free trade, will be another interesting question for the Swedish political life to deal with.
- **The effects of the virus outbreak will likely be particularly harsh on those who are already vulnerable, and simultaneously threaten geopolitical stability.** There is a risk for immense turmoil in fragile states, in which Covid-19 could bring about massive unrest and put severe pressure on international crisis management systems. For those caught up in conflict, humanitarian aid flows are likely to be disrupted, peace operations could be limited, and negotiations between conflict parties might be postponed or suspended. At the same time, the distraction by the world community with Covid-19 might leave rogue leaders an opportunity to promote their own interests in ways that aggravate internal or external crises, by muzzling dissent at home or by escalating conflicts with rival countries. In addition, the debate on climate change will be affected by the pandemic, yet its direction remains unknown.
- **The rise of digitalization has been further accelerated by the Covid-19 crisis.** For companies, digital technologies have become essential tools, a trend that is likely to shape the future business environment. Digital technologies are also used by states to exercise surveillance, mostly through apps monitoring people infected by the virus. Thus, the transfer of personal data from mobile phone companies to governments may pose a democratic problem, in terms of transparency, freedom of expression and of association. In addition, fake news is making it more difficult to obtain correct information, as conspiracy theories and misrepresented images are spreading on social media.
- **The Covid-19 pandemic has a rather dramatic effect on the regulatory framework,** locally as well as globally, including areas such as finance, tax, labour, insolvency, data privacy and insurance laws. Newly introduced legislations have become very complex, not least considering that countries are implementing different solutions and concepts. Further, there are those who use the opportunity to profit from the misfortune of others, leading to a substantial risk for an increase of corruption, fraud, money laundering, extortion and other similar criminal activities. This is of course particularly true in countries where institutions and oversight are weak, the public trust is low, and where rogue leaders now are taking extra-ordinary power, using the Covid-19 virus as a pretext.
- **During the initial phase of the Covid-19 crisis, EU cooperation was faltering with regard to leadership, cooperation, solidarity, communication and concertation.** Member closed their borders, put up export restrictions for health equipment and established restrictive regulations contrary to the EU single market. After realizing that these national reactions to the crisis were endangering the very core of EU cooperation and the trust of public opinion, the EU institutions and its member states have rapidly counteracted this by mobilizing unprecedented volumes of aid to handle the devastating consequences of the Covid-19 pandemic on Europe's economy.

## **Covid-19 and A Changing Geopolitical Landscape**

**Consilio was founded nine years ago on the assumption that geopolitics would become one of the most important factors to consider for multinational companies.** Our business idea was to provide enhanced decision-making capabilities to our clients by making geopolitical trends relevant to them by answering the questions “what does this mean to our company” and “what should we do now”.

**At that time, we predicted increasing complexity, new dependencies and a partial halt of globalization, as we knew it.** What we never saw coming, however, was the speed and the brute force with which change came. We believe the current Covid-19 pandemic to be the catalyst of a series of trends and tendencies that may well reshape the world. Now is the time for companies to plan for the future in order to be able to readjust, adapt and be successful in the post-Covid-19 period.

**This report aims to highlight some main facets of the crisis and to take you to some of the emerging markets,** which have more or less passed unnoticed in the media. This report also aims to give you some of the contours of the new economic and political environment we believe are emerging.

### **Main Trends After Covid-19**

There are some geopolitical macro trends we believe companies need to adjust to after the Covid-19 pandemic. Some of these trends have been visible for some time, but we believe them to be accelerated by Covid-19 and the following events. These trends are:

#### **1. Global Economic Slowdown**

After the Covid-19 outbreak, we will see a dramatic slowdown of the global economy. GDP is likely to plunge in most countries and unemployment will mount significantly. The IMF is predicting a sharp contraction of the global economy, a decrease of the world GDP with 3% in 2020 – much worse than during the 2008/09 financial crisis.

Many of the challenges created by the handling of the 2008/09 financial crisis will become visible and negatively affect the global economy. However, there will also be pockets of growth and a lot of opportunities. The IMF believes in a recovery next year (+5.8%). The consequences of the pandemic will vary from country to country. In some regions, there is a risk of civil unrest with growing poverty and unemployment, conflicts over scarce resources as well as tensions driven by the interest to divert attention from domestic politics.

#### **2. Shift to a Multipolar World**

The world has over the last ten years developed into a multipolar world. This process will be further accelerated by the effects of Covid-19. The U.S. is likely to remain the leading player, although less active. Meanwhile, China will continue to carry on its expansion on the world stage. Russia will try to follow – but the outcome will depend on the oil price. The EU remains a strong actor, although nationalistic forces are emerging, creating new tensions between member states.

#### **3. Decrease of Multilateralism and Free Trade – in Favor of Regionalism**

As a result of the Covid-19 crisis, the IMF projects that global trade will plummet by 11% this year. Global trade patterns that have been in place since the late 1980s are changing. Instead of a global economy with free competition, we will see more of regional, bilateral and minilateral agreements, which will replace, or at least supplement, complex multilateral agreements under WTO. This will create great challenges for companies planning their production structures, supply chains and strategies, many of which will consider shifting to more regional and local alternatives.

#### **4. Return of Authoritarianism**

The authoritarian form of governance risk spreading in the wake of Covid-19, the culmination of a trend that has been simmering for a while. Worldwide, there is a demand for easy solutions and strong leaders. The rise of China and its increased activity in international bodies may well impact on present norms, regulations and standards in international life.

#### **5. Strengthening of the State**

Following Covid-19, state structures will be strengthened and compelled to focus on its core functions. Many countries have proved to be unprepared or unable to manage the challenges that the pandemic posed to their societies. In addition, a weaker world economy will force governments to make tough priorities. Consilio is following these trends closely.

### **The Effects of the Pandemic on Swedish Politics**

Before plunging further into what the Covid-19 pandemic means for world politics, we would like to draw your attention to the anticipated political development in Sweden. So far, the Swedish authorities have maintained a high level of trust among public opinion for the way they have handled the crisis, and until now, the trust in the Prime Minister and the government has increased. With increased unemployment, industries left partly in desolation, strained social welfare, and evident flaws in the healthcare system, traditional issues such as the economy, employment, tax policy, healthcare, social insurance, business climate and funding of the welfare system will probably be more in the spotlight compared with issues that have previously dominated the political agenda. Migration, as well as law and order, will, no-doubt, continue to remain important, due to the continued conflicts and refugee flows in the EU's immediate surroundings. But civil preparedness for the type of crises we presently experience, can as of now be expected to rise on the political agenda.

It has become evident that Sweden will have to fend for itself to a higher extent in certain areas. How one embraces this notion, and at the same time continues to fight for the principles of free trade, will be another interesting question for the Swedish political life to deal with. Especially for the political parties which are ideologically strongly in favor of free trade principals. If the government's handling of the Covid-19 crisis gets general approval by the public and if the government is able to mitigate the economic consequences of the crisis, this discussion will probably take place under relatively civilized and calm conditions among the established political parties.

If the government and its supporting parties, however, fail, that is, if they are criticized for their work during the virus outbreak and if, in addition, they grapple with difficulties in their handling of the economic problems following the crisis, there is much that indicates that the path is open for more dramatic and unpredictable changes in Swedish political life. Criticism on one of these matters is potentially enough for this to occur.

Another important matter in this respect is how the EU develops after the Covid-19 crisis. The EU did not manage to live up to its citizens' expectations during the initial phase of the crisis. How the EU handles the further development of the crisis in terms of economic support, solidarity between member states and the much needed recovery, will likely have a significance, also for the development of the Swedish political landscape.

## **Covid-19 As a Catalyst for Global Trends and Tendencies**

**The Covid-19 pandemic presents an unprecedented challenge to public health as well as the global economy.** A severe recession is looming, as the world this year is likely to experience the worst economic contraction since the Great Depression of the 1930s. While Western economies are confronted with a far deeper and more brutal chock than anything they have ever experienced, emerging markets will contract for the first time since reliable GDP records appeared following World War II. We believe that this crisis will work as a catalyst for already prevalent global trends and tendencies.

**Even before Covid-19 started spreading like wildfire around the planet, global trade patterns were shifting back to closer intraregional trade and more of regional and local supply chains.** The trend, which was spurred by the U.S.-China trade war, has now been accelerated by the virus outbreak. As borders are closing, bilateral and minilateral trade agreements will replace comprehensive multilateral trade deals. Along with the rise of economic nationalism as well as climate awareness, this will constitute a more complex environment for large multinational companies, which will be obliged to navigate in numerous systems. Increasing protectionism is already palpable, illustrated by the fact that around 70 states are currently imposing export restrictions on crucial medical supplies. China's role as the hub of global manufacturing will decrease, not only because of rising labor costs, but also because China has closed its borders to the world, and xenophobia is rising as new Covid-19 cases in the country are imported. In contrast, Southeast Asia will appear as an attractive alternative. The world's electronics makers are already looking for ways to diversify their supply chains and reduce their dependence on a single country, and soon, other industries are likely to follow. In addition, the virus outbreak will likely reduce the productive capacity of the global economy in the medium-term, especially if businesses shut down and individuals leave the work force.

**Covid-19 also works as a catalyst for the shift into a multipolar world, with increasing uncertainty and instability in the emerging new global order.** Tendencies that have been observed on the international arena in past years, such as waning American leadership, stumbling global cooperation and numerous disagreements between great powers, have been increasingly apparent during the Covid-19 crisis. And they will be likely even more salient characteristics of the period that follows. The outbreak has been marked by an absence of U.S. leadership. The former leader of the free world has neither gathered the world in a collective endeavor to fight the virus and its economic consequences, nor has it assembled the world to follow its lead in its management of the problem at home. Instead, the main responses of the U.S. have been national or even subnational, and when countries have been seeking assistance, their "friends in need" have rather been China and Russia, or in the case of the EU, fellow member states, despite a blatant lack of cooperation in the beginning of the crisis.

**The UN Secretary General Antonio Guterres emphasizes that the Covid-19 pandemic constitutes the worst global crisis since World War II, and he has called for a 'global ceasefire'.** Oxfam has warned that as many as half a billion people could fall into poverty. The pandemic risks creating chaos in fragile states, generating extensive unrest and putting severe pressure on international crisis management systems. For those caught up in conflict, the effects of the virus may be particularly harsh, as humanitarian aid flows are likely to be disrupted, peace operations could be limited, and negotiations between conflict parties have the potential of being postponed or suspended. Rogue leaders could make use of the outbreak by promoting their own interests in ways that aggravate internal or external crises, by stifling dissent at home or by escalating conflicts with rival countries, assuming that the rest of the world is too busy to notice. It remains unclear in which place, and at what point of time, Covid-19 will have its worst possible impact, and in which ways economic, social and political factors may converge to trigger or exacerbate national crises. In countries with frail health systems, lower state capacity and critical domestic conflict, fewer Covid-19 cases have been reported. However, uncertainty of the spreading of the virus in these states – where the aftermath of an extensive outbreak could be devastating – prevails. Nonetheless, there is a glimpse of hope, as a pandemic such as Covid-

19 could spur rival actors to cooperate, or at least preserve stability, to aim attention at the protection and restoration of their societies, which would diminish the risk of conflicts.

**2019 was the year many woke up to the urgency of the climate crisis, an issue that is likely to get affected by the current crisis.** It has been widely debated if Covid-19 will hinder or help the implementation of the Paris Accord. Many, including the World Economic Forum, have discussed the potential lessons learnt from the international community's response to Covid-19 that could be used to strengthen the green transition. After the crisis, some will probably argue that that it has become apparent throughout the virus outbreak that the world community can decrease activities that have a substantial impact on the environment, and that the green transition should therefore be accelerated. In contrast, others will likely claim that the climate cannot stand in the way for jump-starting our bleeding economies. Hence, many activists are worried that the looming economic crisis will have a negative impact on our ability to make necessary green investments. The EU Commission and 17 member states' Ministers for the Environment have made, in that light, a joint statement highlighting the opportunity of reinforcing the EU's sustainability strategy while rebuilding our economy post-Covid-19.

## **Digitalization, Surveillance and Fake News During and After Covid-19**

**In times of global lockdowns and social distancing amid the Covid-19 pandemic, the role played by digital technologies is rapidly increasing.** Due to virus outbreak, even companies that used to lag behind on the technological arena have improved their digital skills, through video conferencing, document sharing, cloud solutions and information security. For businesses across all industries, digital technologies have become crucial tools to keep the operations going. This development is likely to generate a different mindset, opening the way for enormous digitalization efforts in the coming years.

**State control has increased during the pandemic, and digital technologies provide countries with means to further enhance that control, through surveillance.** In China and South Korea, governments are using smartphone apps to monitor people with Covid-19, and in China it is now impossible to use public transportation without green light from the Health Code App. In Israel, 1.5 million people have downloaded an app called "MaHagen", which alerts users if they cross paths with someone infected by the virus. In Germany, Chancellor Angela Merkel has expressed interest in the apps, yet the plan to ask mobile phone operators to give away data of 46 million customers led to a public outcry, pushing the authorities to abandon the plan. These technologies cover geolocation tracking, monitoring the location of people through their phones, as well as facial-recognition systems, which can analyze photos to conduct tracking of the virus. However, such apps only function if they are used widely and extensively. At least 20% of the population would have to provide data to the app in order to enable effective modeling and predictions on the spreading of the virus. Yet these surveillance measures do not only push the limits of privacy, they may also pose a democratic problem, as there is a lack of transparency concerning the potential use and storage of the collected data. Freedom of expression and freedom of association may also be threatened by surveillance measures. For these reasons, users might be opposed to subscribing, and if forced to do so, trust in governments will decrease. The interlinked question of digitalization and surveillance is likely to become increasingly important during and after the Covid-19 crisis, not least due to the set-up of 5G networks.

**In the wake of the Covid-19 crisis, a massive amount of fake news in the form of false information, conspiracy theories and misrepresented images are quickly spreading.** Inaccurate information about cures for the virus, reasons for the outbreak, the severity of the disease as well as governments' responses to the crisis are circulating on social media, rendering it more difficult to get hold of facts. This trend is further accelerated by international leaders clinging on to misinformation. Although social media companies have pledged to prevent the spread of fake news on their platforms, their reliance on artificial intelligence is not sufficient to stop the flows of false information. Fake news will prevail

even after the Covid-19 crisis, yet the quantity of them will probably be smaller, and people will, hopefully, have enhanced their information management capacities.

## **Compliance in Times of Crisis**

The Covid-19 pandemic has had a rather dramatic effect on the regulatory framework, locally as well as globally. New or amended legislations have been introduced in many countries around the world, in a very broad spectrum of regulatory areas including finance, tax, labour, insolvency, data privacy and insurance laws. Further changes can also be expected. Examples on new already implemented legislations are restrictions on payment of dividends, requirement of arranging shareholders meeting remotely, possibility to postpone payment of taxes, short-term layoff, relax of anti-trust rules etc.

The landscape with all new introduced legislations has become very complex, not at least considering that countries are implementing different solutions and concepts. Consequently, in this new regulatory framework, there are several areas and initiatives that multinational companies need to closely follow and control from a legal perspective, both locally and globally. Such areas include i) managing work force, ii) controlling contractual risk (e.g. event of default, adverse material change and force majeure clauses), iii) following corporate rules (e.g. as it relates to restriction on paying dividends), iv) managing financial arrangements (both as lender and borrower), v) considering insolvency risk (both for the company itself but also in relation to its counter-parties), vi) maintaining data and document in accordance with data privacy legislation, vii) considering insurance claims (e.g. under business interruption insurance and credit insurance), viii) managing wider operational risk (e.g. due to meeting restrictions and IT-disruption) and iv) considering impact on potential M&A activities. Obviously, it is essential that companies ensure that they stay up today of the evolving situations as it relates to the regulatory framework.

It should also be noted that an extraordinary outbreak like the Covid-19 pandemic tends to increase compliance risks within areas such as corruption, money laundering, fraud, anti-trust, breach of export-and sanctions rules, other type of similar criminal activities and unethical behavior in general. Unfortunately, particularly corruption and fraud often thrive during times of crisis, not least when institutions and oversight are weak, and public trust is low. This is of course more likely in countries with corrupt leaders who now also receive extraordinary power due to the Covid-19 virus. With experiences from other previous health emergencies, like the Ebola virus and swine flu, that even in times of crisis, there are those who use the opportunity to profit from the misfortune of others.

The intensive interaction with governments and state control institutions (e.g. health and medicine institutions, customs officials and tax authorities) during the Covid-19 crisis supports the thought that corruption and other compliance risks increase substantially in the current circumstances, at least in certain countries. An area of particular concern is the procurement of health services and medicines which is typically one of the most vulnerable areas for corruption and fraud, but there are of course other areas. Reports show that e.g. Ebola epidemic resulted in the diversion and mismanagement of funds, misreporting of salaries, payments for duplicate supplies and bribery of health professionals to receive medical care and leave quarantined zones. According to the UN, approximately 10-25 per cent of all money spent on procurement globally is lost to corruption, a figure which may become even higher during these times. Further, due to the urgency of e.g. delivery of health care equipment and medicines, many countries have decided to not follow the normal rules for public procurement (which are usually time consuming). This increases the risk for corruption and other compliance failures (e.g. related to anti-trust). Also many private companies have due to the crisis a need to replace current suppliers and other business partners. The time for a proper due diligence may therefore be limited which heighten the risk for corporations to connect with corrupt or otherwise unserious players.

To avoid any compliance failure, companies are advised to actively drive their compliance program even during the current tough situation which would include monitoring the spread of the virus

globally and mapping that against existing risk maps for corruption, fraud and other compliance risks. Poor decisions are often made under extreme pressure, so identifying where pressure-points might occur in already high-risk locations will help mitigate potential risks.

## **EU Cooperation Amid the Covid-19 Outbreak**

For the EU, the initial phase of the Covid-19 crisis was marked by clear deficiencies with regard to leadership, cooperation, solidarity, communication and concertation. This is partly due to the fact that health matters are clear national issues and are not part of the EU competences. But when member states, without consultations, started closing their borders, putting up export restrictions for health equipment and establishing national regulations contrary to the EU single market, the EU Commission intervened resolutely to defend the principles of free circulation. And realizing that these initial, national reactions to the crisis were endangering the very core and spirit of EU cooperation, as well as the trust of public opinion, the EU institutions rapidly mobilized unprecedented volumes of financial aid to cope with the grave economic consequences of the pandemic, pave the way for recovery and show solidarity.

The European Central Bank (ECB), predicting a 10% lower growth this year, launched a €750 billion general support scheme through purchase of national bonds. The European Investment Bank (EIB) put up a €200 billion credit guarantee facility with particular focus on small and medium size enterprises. The EU Commission allocated €100 billion to European enterprises so that they can continue paying wages to their work force. And the Eurozone Stability Mechanism (ESM) made €240 billion available to Eurozone members.

The available EU structural funds and the draft multiannual EU budget for 2021-27 will be redirected to focus on the economic dimension of the Covid-19 crisis. And given the risk of a forthcoming, deep recession, the EU Commission is furthermore preparing a broad Unemployment Reinsurance Scheme designed to protect those in work and those that lose their jobs because of the economic crisis; the aim is to reduce the pressure on national public finance. The Commission is also financing procurement of health protection equipment for member states to the tune of 300 million euro and is allocating 400 million euros to alleviate the plight of many developing countries, which because of their weak health infrastructure are particularly hit by the Covid-19 pandemic. At the G7 (virtual) summit on 16 April, the EU presidency announced an online, international pledging event on 4 May to enhance global preparedness and ensure adequate funding to develop and deploy a vaccine against Covid-19.

The EU institutions are presently preparing a Recovery Fund designed to relaunch the European economies in the aftermath of the crisis. In that context, the divisive matter of joint EU debt issuance (the so-called Corona bonds) remains on the EU agenda.

On a national level, member states are in addition injecting substantial sums in various national schemes, amounting to some 16% of GDP. Since these schemes could run contrary to competition rules (level playing field) and budgetary policies, a number of flexibility measures have been introduced in order to loosen up the strict EU rules for state aid, project support and fiscal policy.

The agreed, overarching objective is to use the full portfolio of funding options with maximum flexibility, a minimum of administration work and as quickly as possible. Whether these laudable aims can be achieved remains to be seen.



## **New Perspectives – Enhanced Decision-Making Capability**

We provide our clients with new perspectives. By continuously looking at the globe from a different angle, we can give our clients increased decision-making capabilities in area of high financial importance.

After Covid-19, a number of questions arise.

- Should our company restructure its production base or its supply chains? Are we too dependent on production in China? Should we create more redundancy by establishing more sites or relocating production or do we need to focus on a few sites?
- Are we in the right markets? Does supply match demand, globally as well as on individual markets? Are there any extended risk factors based on the global structure of the company? Are there any geopolitical conflicts between my markets?
- What is the risk exposure of the company? What is the risk for disruptions, conflict, or social unrest in the company's key countries?
- Which of our most important countries have a high geopolitical risk exposure?
- Do we have the right partners in our prioritized markets?
- What does digitalization and automatization mean for the company given our global presence?

Consilio can offer strategic advice and access needed to help realize values and manage risk in a complex global business environment emerging after the Covid-19 pandemic.