

COVID-19 AND GEOPOLITICS

- ONE YEAR LATER -



Global Overview: The State of the World One Year into the Pandemic

Strong second and third waves of Covid-19, uneven vaccine access, and extensive uncertainty of the prospects of a global economic recovery are all matters marking the state of the world today, over a year into the pandemic. India is currently enduring the most destructive outbreak worldwide, accounting for as much as 39% of all global cases – the highest share of any country since the early phases of the pandemic. Containing the outbreak is crucial, not only to save lives and ease the burden of the frail Indian health system, but also to prevent the development of new, perilous mutations and spread to neighboring countries.

Despite last year’s dramatic global economic slowdown, triggering disruptions in both supply and demand, numerous companies were bold and innovative when facing the pandemic. Firms changed quickly to digital channels, automated production, and accelerated decision-making and invention of operating models. If businesses and policy makers play their cards right, this could, potentially, speed up annual productivity growth by around one percentage point in the period leading up to 2024. It would more than double the pre-pandemic rate of productivity growth, forming an economic revitalization similar to the one in the post-war period. For this potential to materialize, continuous strong demand is prerequisite, and action needs to be more extensive, moving beyond the large “superstar” firms. If action is missing, however, there is a risk of ascending inequality and unemployment.

Signs of recoveries are visible in several major economies. In the U.S., which boasts one of the highest vaccination rates in the world, an economic boom is taking place. Activities in society are resuming, and in March, over 900,000 jobs were registered. And thanks to the Treasury’s recent deposit of US\$250 billion in stimulus cheques into people’s bank accounts, there is money to spend. Another sign of global recovery is found in China, which is dominating the trade scene. Chinese exports amounted to US\$710 billion in Q1 2021, which was China’s second highest total ever, just less than the record in the previous quarter. Key reasons for Beijing’s trade bonanza include surging global demand for medical products, work-from-home equipment and other home merchandise that people are buying during the pandemic – which means that demand may decrease as transmission wanes. In addition, Japan’s exports soared 16.1% in March, to the highest level since November 2017.

Despite the uptick in global trade, there have been major disruptions in past months. First, a huge appetite for primarily Chinese goods caused a shortage of containers and clogged up ports from the U.S. to Europe. Second, an extensive Covid-19 outbreak in the crucial port of Long Beach outside of Los Angeles further hampered logistics. And third, the six-day blockage of the giant ship *Ever Given* in the Suez Canal – which carries 12% of global trade – cost about US\$9.6 billion in daily delays and put over 450 ships to a complete halt. This is still being felt in ports across Europe, reflecting the fragility of global supply chains. The incident also illustrated the problems related to the ever-increasing size of ships, the need to invest in deeper and wider ports, and potentially also other trade routes, such as the Northern Sea route (NSR), to reduce companies’ risk exposure. Shipping rates are now as much as 50% higher than a year ago, and they are expected to remain high this year, potentially into 2022.

The pandemic has continued to leave substantial marks on politics, too. Former President Trump’s mismanagement of the Covid-19 crisis, and the subsequent economic hardship, were key reasons for his loss in the U.S. presidential elections in November. With Joe Biden on the presidential post, American policies have started to look dramatically different – the vaccination campaign has accelerated, a mask mandate has been issued, and public health professionals are now free to carry out their work. Also, the U.S. has now rejoined the Paris Agreement, negotiations are underway with the Iranians on a potential American return to the nuclear deal, the JCPOA, and the country has joined Covax, the vaccine-sharing scheme led by the WHO. Despite this, there is still a certain continuity with the Trump-era – President Biden is just as assertive as his predecessor on China, his “Buy American” plan echoes a protectionist, “America First” agenda, and the U.S. is still retreating from the world stage, as shown by the recent decision to leave Afghanistan by September 11.

Geopolitical Trends – Where Do They Stand Today?

In our previous Covid-19 reports, issued in April and September 2020, we discussed several significant geopolitical trends that we believe that companies need to take into account in the wake of the pandemic. These trends had been brewing for a while, but we assessed that they would be further accelerated by the virus outbreak. A year after we first formulated them, we would like to explore how some of these trends reflect the world of today.

1. Global Economic Slowdown – Turned into an Uneven Recovery

The pandemic brought about the most severe economic turmoil that the world has experienced since World War II, and global economy contracted about 3% in 2020. This was less than expected, due to relatively high growth outputs in the second half of the year in most regions after lockdowns were lifted and economies adjusting to new operation modes. By virtue of unparalleled policy action, the Covid-19 recession will likely do less damage than the 2007-2008 financial crisis. The IMF expects the global GDP to land at 6% in 2021 and 4.4% in 2022. There is, however, widespread uncertainty about the path forward.

Amid economic revivals in some places, and disastrous virus mutations and outbreaks in others, the previous trend of a global economic slowdown has been replaced by an uneven economic recovery. Economic recoveries are differing across countries, sectors and segments in society, owing to variation in disruptions caused by the pandemic, the scope of policy support, and vaccine access. The prospects also depend on the efficiency of the vaccine roll-out and the effectiveness of economic policies implemented amid high uncertainty. Emerging markets and low-income developing countries, many of which were dealing with high debts and strained economic resources even before the pandemic, have received a serious blow, and they will likely undergo more severe medium-term losses. Youth, women, workers with relatively low levels of education, and the informally employed have often been the most affected. Covid-19 will likely provoke dramatic hikes in income inequality, which will reduce trust in authorities as well as social cohesion, potentially leading to unrest, more south-north migration and raised international friction.

2. Fragmentation in a Multipolar world

Despite the arrival of the internationalist Biden to the U.S. presidential post, fragmentation in our multipolar world continues to be on vivid display. Increased levels of uncertainty and instability in the international arena incapsulate this trend, which is a distinct feature of following events: 1) Russia's recent military build-up near Ukraine's and occupied Crimea's borders, consisting of over 100,000 troops in the area – more than during the Russian invasion of the country in 2014. Although the Kremlin announced on April 22 that it would withdraw its troops, the build-up still demonstrates the assertive foreign policy of President Putin and his companions, in what is perceived as a Russian sphere of influence. 2) Western sanctions on China for human rights abuses of the Muslim Uyghur minority in Xinjiang in March, and tit-for-tat Chinese sanctions on ten EU citizens, four EU organizations, and a Swedish company. The event did not only further push the already-prevailing collision course between the West and China – putting the recent CAI investment deal between EU and China at risk – but it also showed that companies and individuals are facing a higher risk exposure in the volatile geopolitics of today. 3) Heightened Chinese aggression in the South China Sea, in the form of over 200 Chinese vessels within the Philippines' exclusive economic zone in late March. The incident deepened the rift between Manila and Beijing, illustrating that China does not hesitate to cross international norms and boundaries to advance its positions.

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

This trend operates in close conjunction with fragmentation in a multipolar world, which means that the arrival of a U.S. president who is almost unprecedentedly well-versed in international affairs does not automatically translate into more multilateralism and free trade. In contrast, the world continues to move in the opposite direction, and a trade deal between, for instance, the U.S. and the EU is still quite low on President Biden’s agenda. Another trade agreement that has met obstacles lately is the Mercosur deal between the EU and South American states, which risks being halted by concerns of deforestation in the Amazon and spats between the French President Macron and his Brazilian counterpart Bolsonaro.

Recent trade deals, such as the Regional Comprehensive Economic Partnership (RCEP) in the Indo-Pacific region and the African Continental Free Trade Area (AfCFTA) in Africa, have both been established in accordance with regional logics. For Beijing, the RCEP presents an opportunity to increase its influence in the region through China-centered supply chains, whereas for Africa, the deal has the potential of increasing intra-African trade by more than 50%. The regionalization of trade signifies a multiplication of trade systems, which implies that different systems are governed by different rules, complicating international commerce for companies.

4. Return of Authoritarianism

As noted before, the return of authoritarianism has been a clear trend of the pandemic, as “civic space”, including freedom and human rights, has been curtailed during the past year. Human Rights Watch has registered that at least 83 governments worldwide, including dictatorships as well as democracies, employed Covid-19 as a pretext to launch a crackdown on free speech and peaceful assembly. Journalists, activists, healthcare workers, opposition groups and others who have criticized government management of the pandemic have been especially targeted.

The transmission of the virus has also shed light on appalling inequities in numerous societies (potentially triggering mass upheaval in regions such as Latin America), pushed tens of millions of people deeper into poverty (the number of extremely poor in Africa could soon be higher than in 1990), and reversed progress on gender equality by decades (an entire generation, to be exact). Authoritarianism has lately been particularly palpable in places such as Russia, where over 11,000 people have been taken into custody following anti-regime protests this year; in Myanmar, where the military carried out a coup in February, which so far has led to over 750 civilian deaths; and in Brazil and Mexico; where the army has gained considerably more power under populist presidents.

5. V-Politics: Vaccine Nationalism, Vaccine Diplomacy & Vaccine Hesitancy

Few things have been as characteristic of 2021 as the politicization of vaccines, a trend that started to emerge last year. Vaccine nationalism, which is all about securing vaccines for one’s own population – and consequently, limit the supply available for others – has been rife. American export controls on raw material and equipment are currently threatening the global vaccine supply chain. Indian export bans are constraining Covax’s vaccine access, whereas export bans in the EU and the UK respectively have contributed to colder relations between the two parties post-Brexit. Meanwhile, vaccine diplomacy, the use of vaccines to boost diplomatic relations and influence others, has also been highly prevalent. China has donated millions of doses of its vaccines Sinovac and Sinopharm to poor countries with the aim of obtaining goodwill and spread a positive image of the country, and Russia has sold its vaccine Sputnik V to EU countries such as Hungary and Slovakia, triggering a government crisis in the latter. And finally, vaccine hesitancy, which covers people’s unwillingness to get jabbed, will impede the vaccination rate in some countries. The trend, which is visible among white American evangelicals, some segments of European societies, and in many African countries, is further spurred by reports about blood clots linked to vaccines.