

Challenges in Designing Economic Strategies for the Post Covid-19 Era

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Abstract: The Covid-19 pandemic has generated a number of unprecedented consequences, from the simultaneous reduction of supply and demand to a steep increase of unemployment levels and to the closing of countries and regions as well as of international trade flows. The paper starts from the assumption that the Covid-19 crisis is, in its intrinsic nature, similar to a natural disaster and not to a financial and economic crisis. As the present crisis is still unfolding, the research focuses on identifying the challenges that may arise in the designing of economic strategies in the post Covid-19 era. The conclusions are that globalization will not disappear but will be different, that the historical course will not change fundamentally but rather speed up towards changes already underway, that governments will play a more significant role in the economy and society, at least in the medium term and that capitalism will have to re-invent itself once again.

Key words: Covid-19 crisis, economic strategies, globalization, shareholder capitalism

JEL Classification: B50, D81, D84, E17

1 Global context and forecasts for 2020 from the May 2020 perspective

As a consequence of the Covid-19 pandemic, world economy is facing the most severe recession in the last century; a result of this crisis was that decades of progress and economic growth were wiped out in less than a quarter. The speed of this decline is not specific to economic phenomena but rather to natural disasters (earthquakes, massive volcanic eruptions, pandemics) that manifest suddenly. In January 2020, the IMF forecasted for this year a 3.3% growth at global level, while in May 2020 the same institution considers that a 3% contraction is an optimistic evaluation (Reuters, 2020).

What is new in the current circumstances is the fact that the recession is global, including all or almost all economies. According to the IMF, the reduction of global gross product during the 2020-2021 period is estimated at 9 trillion dollars, which is more than the cumulated GDP of Germany and Japan (Kapadia, 2020). The developed countries, as a group, may be faced with a contraction of 6% of their economies in 2020 compared to the previous year (and this is just an optimistic estimate). In 2020, Asia will most probably end a long period of economic growth that lasted for 60 years, and in the best-case scenario may hope for zero growth. Latin America is highly likely to face the worst recession in 50 years in 2020, with unemployment potentially reaching 200 million. Unemployment may also represent a big challenge for Africa were almost 50% of the pre-crisis jobs may be terminated.

2 The present is full of uncertainties, but the future should be prepared now

After more than two months of various degrees of lockdown in many parts of the world, both ordinary people and decision-makers still hope for a fast return to the previous “normal” but very few really believe that will happen. The procedures for the discovery and validation of a vaccine are long, as they have to satisfy certain security criteria, and in the meantime entire sectors of the economy are almost completely closed (tourism, passenger transport, parts of retail trade, etc.). In May 2020, many countries or regions started experimenting various degrees of relaxation of the lockdown measures, but there are many uncertainties and “stop-and-go” situations are possible.

Government involvement in solving critical situations has been necessary because only governments can adopt and implement large scale, nationwide measures overnight. At the same time, only governments have the means to rescue entire economic sectors by using various rather unorthodox means (quantitative easing, partial or total nationalizations, direct interventions in certain manufacturing areas or in international trade) which nobody knows how sustainable will be in the future. This substantial intervention of governments in the economy and in the society has not been an ideological option, it was the only immediate option available.

There is no available recipe for managing at macroeconomic level a global scale pandemic with local implications practically everywhere. There is and there will be significant trial and error and many decisions that were made proved sub-optimal, to say the least.

Therefore, the present is full of uncertainties and the second quarter of 2020 is expected to be significantly worse from an economic point of view than the first one.

Anyway, even if the present is uncertain and unclear (starting with the data available on the pandemic and the relevance of the statistical interpretation of that data), the future after the end of the Covid-19 crisis has to be prepared now. Some facts, elements and trends can be identified already and their knowledge should represent the basis for the design of the post Covid-19 era. In the following we are going to explore some of these facts, elements and trends and bring them together in hope that the resulting picture will provide a timeframe and indicate a number of steps to be taken.

3 Challenges in designing economic strategies in the post Covid-19 era

Under these circumstances, the economies of the world have to respond both to the immediate need for damage control and providing support for the population and the economy, and to the need for adaptation to different domestic and international environments that will emerge in the post-crisis period. Even if there are still many unknowns related to the future evolution of Covid-19 crisis, the time needed until a vaccine is discovered and mass-produced, the ways in which each state will manage its social and economic problems and the ways in which states will interact with each other (particularly the big economies such as US and China), a number of specific challenges can be identified and they can be useful in designing the macroeconomic solutions for the world economy of the post Covid-19 era.

Therefore, we suggest a number of challenges that could be taken into account by the decision-makers at macroeconomic level in designing the post-Covid-19 economic strategies and policies. The list is not intended to be exhaustive and the order of presentation is not necessarily the order of importance.

The crisis affects practically everybody, dramatically reducing offer and demand at the same time. From the perspective of April 2020, the IMF estimates that 90% of economies will have negative growth in 2020, compared to only 62% in 2009. If we compare world economy with a train and the economic growth rate with the speed of the train, then the pandemic crisis did not slow down the speed of the train but rather put the whole train on a side line because of lockdowns and border closures in numerous states.

As the cause of the crisis is a virus, this crisis should be included in the category of natural disasters. Due to this specificity, the only event that is similar in terms of scale in the relatively recent history is the so-called Spanish flu that occurred 102 years ago. As a consequence, comparisons and possible lessons from the past cannot be found in the area of financial crises, but rather in the area of natural disasters such as large-scale volcanic eruptions, earthquakes or pandemics. This observation (comparison with natural disasters and not with financial crises) points us towards a series of prevention, reaction and recovery measures that may be useful during and after the Covid-19 crisis (Klemetti, 2020).

As the crisis is a truly global phenomenon, cooperation among states is essential, as global issues cannot be solved by local solutions. Unfortunately, at least for the time being, it seems that the focus has shifted in international relations from the multilateral to the predominantly bilateral perspective. Despite numerous calls for the strengthening of multilateral cooperation from the G20, OECD and other international organization (Obstfeld & Posen, 2020), faced with critical medical, social and economic conditions states/governments focused on their immediate needs and became the main decision centers. It is to be noted that a historical period less favorable to multilateralism has manifested well before the onset of the Covid-19 crisis, exemplified by the position adopted by the United States in relation to World Trade Organization (Packard, 2020) or in relation to the United Nations as a whole (Flores, 2017), or by the United States' leaving UNESCO on January 1, 2019 (Adamson, 2019). We can add in more recent times, after the onset of the Covid-19 crisis, the suspension in April 2020 for a period of 60 – 90 days of the U.S. contribution to the World Health Organization (Smith, 2020), but also the difficulties in achieving a consensus regarding the financing of a coordinated approach within the European Union for the Covid-19 crisis (Rankin, 2020).

After the onset of the Covid-19 crisis the leaders of many states changed their attitude from the “win-win” to the “negative sum game” approach. In the period before the Covid-19 crisis, at least at official level, the position was that international economic relations and international cooperation should be regarded as a “positive sum game” in which all parties involved could win something (even if it was admitted that the wins were different). After the onset of the crisis, when the context changed and the global gross product declined

(meaning the global result of the game became negative), the unilateral approaches of many states seemed to focus on fighting at individual level to lose as little as possible.

The prospect of a new world order. All these changes of approach, under the impact of medical, economic and social urgencies at a local and national levels, already have and will continue to have consequences in the fields of domestic and foreign policies, leading to a new world order after the end of the crisis. As Henry Kissinger mentioned, the great difficulty is for the leaders of the main powers to succeed in managing the current crisis and, at the same time, think about the future, a future in which power should be in balance with legitimacy (Kissinger, 2020).

The increase of the role of governments, at least in the short and medium term, as they will be responsible for: ensuring the subsistence of the population that lost jobs and revenues; providing financing for companies big and small or taking major stakes in large companies; securing the functioning of the health and education sectors; deciding priorities for their economies and international trade policies that will take into account the national interest. As in the first phase of the crisis huge funds were provided for the economy and for the population (which amounted and can easily exceed 10% of the GDP of some large, developed countries), governments and the civil society will be required to supervise how these funds have been used, which will significantly increase the level of control over the economy. In case of market economies (the vast majority of the economies of the world) a risk to be avoided in the post Covid-19 era will be that of nationalizing the losses and privatizing the profits.

The crisis and the recovery periods to follow will be, most probably, rather long. As far as the availability of a tested Covid-19 vaccine is concerned, numerous experts mention a term of 12-18 months starting from March/April 2020, even if there are some more optimistic expectations regarding the use of experimental vaccines or, at least, some treatments, if a cure is not yet available (Spinney, 2020). As for the recovery, Morgan Stanley (Reinicke, 2020) estimates the ending of the recession at the global level towards the end of 2021, based on an U form evolution (decline, stagnation on a lower level for a period, recovery), while some less favorable scenarios elaborated by the IMF estimate that the gross global product will recover to levels similar (but still inferior) to those of 2019 only by 2024 (IMF, 2020).

The period of limited/restricted movement will be long, the restrictions may be reduced but not eliminated for the majority of states/regions, and there may be alternations of reduction and reinstatement of restrictions, depending on how the pandemic will evolve. This period of uncertainty and limited mobility will last at least until the discovery of an efficient vaccine and/or treatment (Wolf, 2020). A fact that should be taken into account is that historical experience indicates a period of over 5 years for the discovery of a vaccine while in this case the expectations are between 9 months and 2 years (Gates, 2020). Similar terms have been mentioned by Romanian experts who think that a vaccine may be available by autumn of 2021, while the pandemic will end by 2022 (Streinu-Cercel, 2020).

The increase of the importance and risks related to digital surveillance. Given the very easy dissemination of the Covid-19 virus, including by asymptomatic patients, a need has emerged for the monitoring of the movement of persons, both of those affected by the virus and of those who are healthy but who can at a given moment, without their knowledge, be near persons that later are confirmed as infected. In this context, it is worth mentioning that on April 10, 2020 an agreement was signed between Apple and Google for the design of a joint application that will allow the monitoring of about 3 billion people worldwide (Gurman, 2020). Different methods of digital monitoring are already in use in China, Germany, Austria, Italy, Belgium, South Korea and studies indicate that once put in use, such methods are most likely to be maintained even after the end of the Covid-19 crisis.

Companies will have to design new business approaches (Sneader & Singhal, 2020) that will have to be based on resilience (resistance to shocks), redundancy (securing alternative supplies, markets and manufacturing), social distancing (both for classic economic activities and for economic sectors that will become totally or partially „remote” – such as digital, trade, remote medical diagnostics, automation).

The emergence of significant changes in the structure of economies, company market shares and consumer behaviour. As result of all the changes mentioned above, economies will have to adapt to the new context, meaning that they will have to try to produce locally a number of key products and services, they will have to create emergency stocks, to secure alternative supplies, manufacturing units and markets, to take into account the possibility that certain important sectors may be required to significantly reduce their activity in a short period of time (sectors like tourism, passenger transport, retail trade, etc.).

The importance of digital communication infrastructures will increase, and these infrastructures will really become critical. In the new circumstances that emerged after the onset of the Covid-19 crisis, a large part

of economic activities have become remote/telework-based (in different economic sectors, education, administration), the financial-banking and insurance services moved online to a large extent, the majority of the population tried to replace real life meetings and socialization with electronic communications and the monitoring of the location of individuals started to be used on a larger and larger scale in many countries. All these developments transformed digital communications infrastructures into a vital part of our economies and societies. One aspect is to be noted: the more critical an infrastructure is, the more important is the security/protection of that infrastructure. That is why, in the new context, cyber-security reached a new level of importance.

While the above list represent just a synthesis of the topics that are of interest for economic and political decision-makers, for experts or representatives of the civil society, and for businessmen, at the same time this list can be used for the design of the economic strategies and policies in the post Covid-19 crisis era. Knowing these characteristics and trends as well as updating them with new ones should represent, in our opinion, a permanent task, so that at the end of the Covid-19 crisis decision-makers may be prepared for immediate and efficient action.

4 Conclusions

The Covid-19 crisis may be regarded as a catalyst for a series of historical and geopolitical trends that were already underway. An important remark in this respect was made by Richard Haas who said that history did not change its course due to the Covid-19 crisis but rather increased its speed of change (Haas, 2020).

Globalization will not disappear, but it will be different. States will become much more sensitive and reserved as regards the idea of total or quasi total dependency on supply sources that are far away or related to states that are not compatible with certain political and ideological options (Irwin, 2020). In the new context and based on the experiences related to shortages and vulnerabilities that were noted during the Covid-19 crisis, the decision-makers in many states will encourage local or regional supplies, will create stocks and will support the idea of medical and food security, while rethinking their approach to the global value chains.

The implications of these changes of approach may be even deeper because as the President of France remarked this March, the new realities will mean that in certain sectors of activity market rules will no longer have priority (Kauffman, 2020).

In the new world that will emerge after the Covid-19 crisis ends, it is very likely that, at least for a while, the primacy obsessively given to the increase of the „shareholder value” be replaced by more complex approaches, perhaps by „shareholder capitalism” where, besides profit, people and the planet/environment will be important.

A lot will depend on the options that will be adopted by decision-makers at a national and international level, both in the present and in the near and medium-term future. These options will in fact amount to a choice between the road towards „shareholder capitalism” or towards a less desirable future that might be represented by surveillance capitalism (Zuboff, 2019).

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