

New Drivers of Change in the World Economy in the Context of SARS-Cov-2 Pandemic

CRISTIAN MOISOIU

The Department of economic development models

Institute for World Economy

13 Calea 13 Septembrie, Bucharest

Romania

cmoisoiu@iem.ro <http://www.iem.ro>

Abstract: - The world economy is passing through a crisis with deep implications, due to globalization and the intensity of flows and interdependencies between economies. No country in the world escaped unhurt by this unprecedented crisis, no matter of the incidence of the coronavirus pandemic over it. Could this be a tipping point of a transformative change of the world economy? There are many signals and factors that indicate that there is a disruptive potential accumulated recently. Either technology, digitalization, climate change or the pandemics could determine a shift in societal behavior of people and businesses that might change the world economic order. This paper is not trying to provide answers, but only to present few of the recent evolutions which might have big implications in the proximate future.

Key-Words: - the economic crisis, the world order, international cooperation, SARS-CoV-2 pandemic, state resilience, the world economy

JEL Classification: E6, F0, F5, F6, I1

1 Introduction

The coronavirus pandemic, named SARS-CoV-2, has evolved into one of the hardest crisis in the world since WWII. Having started from unknown sources yet, in Wuhan, Hubei Province, China, the pandemic of the new coronavirus has killed more than 1.1 million people all over the world in the past 12 months and has affected tens of millions. The World Health Organization (WHO) declared SARS-CoV-2 pandemic on January 30, 2020. Human life on the entire planet was messed up, billions of people being forced by governments to lock down, to stay at home or isolated in specialized units, as a prevention measure. Without knowing much about the virus, the lockdown approach was at first recommended by WHO in order to prevent the overwhelming of hospitals and the public health systems which otherwise could have become exhausted all of the sudden. Reducing the incidence of the pandemic, distancing people and preventing the contagion have provided some grace time for the governments to prepare a proper response, to supply with health equipment, tests, medicines and trying to develop a vaccine.

But, with lockdowns put into force and frontiers locked, the national economies, the international flows of goods, trade, tourism and transportation were facing downturns. Many affected countries have not met a crisis of such magnitude since WWII. According to the IMF, the global GDP will fall 4.9% in 2020, followed by a partial recovery in 2021, providing that the pandemic showed some positive track. But, many economies will not recover their output levels until 2022. (OECD, 2020) Most countries have exit lockdowns after couple of months, but the pandemic didn't end. Some local lockdowns were reinstated, some economic activities were again put on hold and a second wave of contagion is presumably starting to fold. No one really knows which are the odds to obtain a vaccine or a medical solution needed to cut off the transmission of the disease in a short time. Both the pandemic and the response against it have a tough impact on the economy. Therefore, without knowing the evolution further on, making assessments on the impact is an uncertain job to do. Most studies have lean to analyzing possible scenarios and making forecasts based on different evolutions of the pandemic.

Clearly, the impact of this crisis will last in time for many years, having implications over each and every dimension of the society: social, political, economic, technological or legal. Without really knowing the impact, the decision makers are looking now for optimal decisions to prevent, to mitigate or to adapt the systems to the new context. This is the reason why the study of the state resilience appears of great relevance.

This paper will present a selection of new trends, challenges and transformative factors that started up with the incidence of SARS-CoV-2 pandemic, based on observations at national or global level. Some of these factors are weak signals for the moment, but they present the potential to become drivers of change. Some of these trends could decisively determine future developments in the world economy. As a methodology, the study is based on a qualitative analysis, expert assumptions and STEEPV table. Of course, the study is limited by the ongoing processes, the manifestation of the crisis and misleading information could appear.

2 New trends in the world economy

Before the pandemic erupted, there had been several trends igniting globally, making clear that some major changes would have occurred in the economic ecosystems formed of international, national, or local actors. Some of these trends tended to converge and increase complexity and risks, like climate change, terrorism, cyber-attacks and global value chains. (National Intelligence Council, 2017) Urbanization and information technologies have generated in the last decades many more interactions between humans, companies and states than ever before. Therefore, globalization has reached a level of integration and flows like never before in the human history. (WEF, 2019) But, also, globalization gave birth to new risks and challenges that no single actor could have the readiness and resilience to uphold or mitigate with its own forces. Technology and automatization are also generating new challenges for labor and many people are finding their jobs competed or erased by new developments and innovations.

Once the pandemic started, many changes in this trends which had been considered certain or with a high degree of certainty, in systems, businesses, governance all over the world, have showed up. Some trends accelerated, some other were put on hold and some ceased to be a viable perspective.

The first shock that the pandemic has produced was in the global supply chains. Most of the international trade of goods and services are delivered today with global value chains (GVC's). GVC's were very attractive to companies in the past 30 years, when technology and globalization made possible to outsource their part of production and services in countries that offered better fiscal and economic conditions. GVC's represent 70% of the international trade, involving exchanges of parts and components, intermediary goods, raw materials, services. According to OECD, one-third of the world production is done by multinational enterprises and they account for half of world trade. (OECD, 2020) GVC's have increased productivity for companies, allowed technology transfer, access to knowledge and capital, even in countries that were lower positioned in the supply chain. They created many jobs and welfare. SARS-CoV-2 pandemic, according to some authors, exposed the fragility of the GVC model due to high interdependencies between companies, states and suppliers located across continents. (Fortunato, 2020) This made the supply very vulnerable, at a time when immediate actions and vital products and equipment were required, like masks and ventilators. At the same time, the medical crisis proved that any shortage or barrier in the GVC could broke the production on the entire chain. If a country on the upstream closed its borders, the production in the downstream got stuck and this blockage replicated further on the entire chain.

A second aspect related to GVC's is the high dependence on the production made in China in almost all the economic sectors. China produces most of the intermediary goods in the global economy and is responsible for 20% of the international trade with intermediary goods. This high dependence proved to be a vulnerability, due to the implications on national security of every country dependent on supply from China and the impossibility to substitute rapidly the industrial inputs from China when China got stuck due to the pandemic. (UNCTAD, 2020) Therefore, as UN experts consider, the main trend related to GVC shows that reshoring, diversification and regionalization will drive restructuring of global value chains in the coming years.

The weaknesses in GVC's and the dependence on suppliers abroad determined protectionist and nationalist moves of some governments. It is expected that new economic policies will stimulate local production and reshoring of industries with strategic importance, like sanitary products, health equipment, materials and medicines, in order to reduce the import dependence and GVC's.

Due to shortages in GVC's, the international trade of goods will drop in 2020 in the sectors dominated by GVC's, like automotive industry, electrical devices, electronics and textile. The World Trade Organization (WTO) estimated a 9.2% drop of trade in goods in 2020, main affected areas being North America, Europe and Latin America. (WTO, October 2020)

Most affected economic sectors by the pandemic are part of the tertiary sector, like tourism, air transport, art industry and leisure, hotels and restaurants. Even with most countries opening after lockdown, in these sectors the restrictions were still imposed and they will uphold until the pandemic ends. It is expected these services to

recover very late in the following years and probably with some other structure and business models than today. New rules and restrictions will be imposed by governments, related to prevention measures, client services safety rules, density, spaces, which will imply additional costs and rethinking of activities.

Reshoring of GVC's and relocating out of China might offer new opportunities for some other countries that present the same competitive advantages like China: a good position, low cost and skilled labor, good infrastructure and proper logistics. This trend envisages emergent countries like Mexico, Turkey and some other countries in Eastern Europe or Latin America. But the experience and expertise accumulated in China in different industrial sectors for a long period cannot be replaced so easily and in a short period of time.

Even if GVC's will reshore, that will not necessarily lead to a surge of employment in the countries of origin of the capital. And the reason is behind the trend of automatization and digitalization which will continue. This will put additional pressures on labor, with most of the jobs possibly affected by replacing humans with robots. The main tasks in manufacturing sectors in the future will be limited to supervising the machines and processes. This will also imply risks and changes in human skills and business management. (Harari, 2018) The restructuring of international trade and of the main fields of globalization might start a period of transition towards a new framework of international cooperation. This could determine de-globalization and a new shock of supply, which would impact increased prices of merchandise. The main institutions of multilateral cooperation, like WHO, WTO, IMF, are under pressure to reform, both by US's political turmoil or China's new ambitions of world power.

A large amount of money have been poured into the economic systems, in order to compensate the drop in demand and supply. Most countries initiated a fiscal stimulus policies to provide incomes and cash transfers, both to households and businesses who had lost liquidity. As the former Nobel Prize winner Nouriel Roubini stated, this money stabilized the economies and the financial markets, but will eventually increase the public debt of these countries. The policy of monetizing the deficits could bring back inflation, if production and trade do not reach the previous levels of intensity. So, one should find appropriate solutions how to cover all this public debt on a medium and long term. (Business Insider, 2020) If together with inflation the unemployment will persist and the short time jobs will shift to no jobs at all in the tertiary sector, this could give push to a period of stagflation. Stagflation might have tough negative consequences on medium to long term on the standard of living even in the developed countries, with social inequalities at high risk.

There is another worrying signal at horizon that foresees a drop in food supply on a short term. This is very dangerous, because a sudden drop in the trade of food, could leave retailers and groceries with no supply, millions without access to food and vital products, both in the less developed countries or in large cities, which are highly dependent on food supply and imports. There is a weak signal for the moment, indicated by the fluctuations in the price of shipping of bulk carriers in 2020, but must be very carefully addressed by governments due to the huge impact it might have in all aspects of society, if reaches a "red" degree that could drive into a food crisis, in the most pessimistic scenario. (Trading Economics, 2020)

Maybe the strongest driver of change stimulated by the pandemic regards digitalization. Digitalization and a new innovation wave are not new phenomena, but in the context of restrictions, lockdowns and teleworking, these trends accelerated the most. Digitalization is already a process that impact society in each of its dimension. With acceleration of technological breakthroughs in ICT, the integration of platforms, public services, education, health systems, teleworking, all these will bring huge transformations in our society. There are premises that apps and platforms will change the health systems, to provide more predictable management of pandemics, to increase safety of patients and to support prevention, to rise efficiency in hospital care or in emergency services. The integration of digital education with school is generating disruption in school systems, forcing local and central governments to act in order to offer equal chances for students, access to internet, proper devices, educational platforms and good training for teachers in areas that are lagging behind with digital inclusion.

3 New trends in the world politics

In this section, we look unto political turmoil determined by the pandemic. The world economic order is in deep change. The actions and the role of the United States in the world are still uncertain. United States will continue to engage less in global issues, even if they reconsider their attitude towards climate change, WTO or multilateralism. The divide in the American society is proven so deep with the recent evolutions that they will put all their effort to respond mainly to domestic issues, no matter who will be in charge with the administration. It is clear that the American middle class was affected by globalization, by offshoring industry, stagnation of

incomes and losing jobs in the last 30 years. A weak middle class will determine further dissensions, protectionist measures, a slip to disorder and a conflicting attitude that will overflow both inside and outside the US.

The European Union is trying to hold together in the face of the global challenges, but EU was also shattered by inner vulnerabilities, like Brexit, demographic issues, migration, nationalist and protectionist behavior and centrifugal tendencies. In the face of SARS-CoV-2, EU seemed to be stunned, it reacted late and weak. When the pandemic broke in Italy and Spain, the main affected countries, the EU's member states (MS) reacted individualistic and uncoordinated, engaging with protectionist measures rather than in consensus, taking care to protect their own borders and their own national reserves of health materials and equipment. Closing down borders has raised the question about the future of Schengen. After the first wave passed, EU succeeded to find optimal means of cooperation. But, still there is a question if EU is well prepared to assume a higher role at the global level, if US seems incapable to hold its positions.

China is the great challenger now of the US supremacy and is showing up its strength more and more. Even with the pandemic, although it was accused of the wrong way of managing the pandemic at first, of not acting quickly and in a transparent manner, China's capacity to control the pandemic in the provinces was appreciated as an example for other countries. (Burki, 2020) China's ability to play its own card in the global economy has propelled it in the position of a strategic rival for EU and US's biggest threat to national security and world dominance. China's economy continues to emerge, maybe not at the same pace like in the past 20 years, but with good stroke even in the times of crisis, showing high resilience to asymmetric shocks. China marches on its own path to win peacefully the economic competition on the global markets and of the technological race, through commercial and economic cooperation. With de-globalization signals and protectionist moves by US and EU in some aspects regarding China's presence outside its area, China will focus further on consolidating its power, developing internally, not forgetting that it holds the largest market in the world, with a huge demand and a population that still lags behind at most of the human development indicators, if compared with the developed countries. (The World Bank, 2018) In relation to China, the EU's interest is to not losing the innovation wave, with China as a forerunner and challenger of the Industry 4.0 (the 4-th Industrial Revolution), by maintaining the multilateral framework of cooperation, but in the same time, trying to hold unaltered the special relationship with US and the NATO engagement. EU is still missing the main pillars that would confer it the self-reliance and resilience to external shocks, the pillars of security and defense and a political union.

In that context, tensions between countries will continue. Fed with populism and nationalism both at the right and the left side of the political spectrum, political leaders will tend to manage people discontent in this way, either in the US, China, Russia, Turkey or the EU member states. This could bring in other conflicts and threats to Western liberal order. The asymmetric conflicts will diversify due to digitalization, integration of platforms and AI, which will generate other vulnerabilities, like cyber-attacks, the informational war or the digitally controlled weapons. (National Intelligence Council, 2017)

Some political actors at the global level are showing up eager to promote reforming programs that address the main global issues, in the context of the pandemic. It has been called this period as a moment of great opportunities, despite the fact that the world is in deep sufferance and mourning. There are calls of united actions and coordinated public policies "*to ensure a durable recovery and resilient future as countries adapt to structural transformations brought on by climate change and the new digital and knowledge economy*". In a speech that might be considered visionary, the International Monetary Fund (IMF) Managing Director, Kristalina Georgieva, spoke about "A New Bretton Woods Moment", making a linkage in time to a historical moment in 1944 when the IMF was founded. (IMF, 2020) The plan that the IMF's leader signals is built on three imperatives: the right economic policies, the policies for the people and tackling climate change. The right economic policies refer to making proper policies for each country, according to their specific situation, with a special attention payed on restructuring the public debts. The Fund discusses about a *Common framework for Sovereign Debt Resolution*. The second imperative discusses health, education, gender equality, investing in young people and digitalization and access to Internet, as a solution for social inclusion. The third imperative addresses the global issue of climate change, as a critical one for the whole planet. The climate action is envisaged as a great opportunity that could bring a "greener" world, but also a prosperous and job-rich world economy. OECD looks also forward to promoting mutual cooperation, as a solution "*to fight the virus and laying the foundations for a strong, resilient, inclusive and sustainable recovery*". The priorities that OECD identifies are "*to restart hard-hit economies, support jobs, promote clean technology development, and sustainable, quality infrastructure while increasing new opportunities for those adversely affected by the pandemic*". (OECD, 2020)

4 New trends in society

The pandemic induced transformations in societal behavior, as well. Forced by lockdowns and restrictions, people are becoming more anxious, more careful with health status, with physical activities and reducing contacts. The nature of jobs is changing. Many jobs were moved to teleworking and the digitalization of tasks intensified. This trend implies that people have more autonomy to organize their time, to be effective at work, but also to be more dedicated to their families and household activities.

In the same time, this impact might seem too radical for many people. Nonetheless, the psychological implications are not to be neglected. Together with the changes in lifestyle, relationships and common habits, it grew up a sentiment of loneliness, a loss in self-confidence and alienation from friends, family and relatives. The number of divorces increased during this period, people consume less and are more preoccupied with the basic needs, reducing excess and delaying some planned investments (BBC, 2020).

The changes in education and work are disturbing for most families. Children and students are affected by the temporary shutdown of schools, by the integration of online studies with classical education, which require adaptation and new skills, new learning processes. For that reason, parents need to be more involved in the children's education, to help them pass this transition.

All these effects in society need further analysis from social scientists and psychologists. The behavioral changes of individuals could determine new vulnerabilities in the economy, taking into consideration possible drops in work productivity, the downturn of domestic consumption, a negative perspective of investments which could all sum up in a long term economic depression.

From ecological point of view, the reduction of consumption, especially the decrease of energy consumption as a consequence of the crisis, will induce a positive effect on greenhouse gas emissions reduction. This could be a decisive moment to make a transition to a low-carbon, energy efficient economy. On the other hand, lower transport and lower consumption of energy, oil and gas, implied a record surge in stockpiles for the main producers of oil and gas, negatively influencing the prices, which fell to new minimum on the global markets.

5 STEEPV Analysis

In this section, the information presented above is wrapped up in a table form, for it to be more knowledgeable for the public.

As it was already mentioned, these trends or weak signals are neither exhaustive, nor certain. There are a lot of factors and determinants that could make things turning other ways, different scenarios for the future can be written, under these unstable circumstances.

Table 1 New challenges and trends, in the context of SARS-CoV-2

Social	Technological	Economic
<p>Teleworking, part time and short term jobs change the nature of labor, of social relations and organizational culture</p> <p>Digitalization of education, as an alternative to school education changes the system of education with impact on families, teachers and school management</p> <p>Reform of health systems due to new needs and changes in hospital care management</p> <p>The transition determines additional costs, unequal access to medical services, social disruptions and new deaths</p>	<p>4IR to accelerate, with digitalization and automatization at forefront</p> <p>Integration of systems, apps and electronic platforms in healthcare systems, to provide more predictable management of pandemics, increase safety</p> <p>New business models due to reindustrialization and robotization, industrial internet, IoT, AI</p> <p>New weapons and military devices due to asymmetric conflicts, pandemics and digitalization, as drivers of a new Cold War</p>	<p>Global value chains (GCV's) are a weakness, need to be reduced</p> <p>World trade of services to adjust.</p> <p>Tourism, airplane transport, art activities and HORECA will restructure</p> <p>No health system prove safe, many issues of logistics, hospital care, intensive care deficits, access to health services for everyone, supply of health equipment and medicines</p> <p>New models of health care and emergency system, hospital management, relocation of medical staff</p> <p>Relocation of industry out of China</p> <p>E-commerce, e-education, e-government, e-services to accelerate</p>

<p>The health private sector increased, but also the prices of health services surged Social inequality persists, vulnerable people are most affected by the crisis, with lower access to health, education and wellbeing.</p>		<p>Losses of productivity for companies, due to increased costs and poor demand Structural changes in manufacturing, mainly automotives Unemployment pressure, due to locks down and automatization Financial stimulation to become more regular, no perspective to come out of the "zero" zone interest rate and „race to the bottom" tax policy Intervention plans valuing trillions of dollars all over the world will generate a new tsunami of public debt.</p>
Ecological	Political	Values
<p>Positive impact of lockdowns on environment, lower level of GHG, due to lower energy consumption Large stocks of oil and gas, due to lower transport, locks down and transit restrictions Higher incidence of pandemics due to climate change New opportunities to make transition to a low-carbon economy and to tackle climate change.</p>	<p>There are limited options to mitigate epidemics: intervention and lockdown to "flatten the curve", to temporize contagion or do nothing and reach „ the herd imunity" faster EU was late to intervene, MS dissensions on budgets and financial aid, protectionism. Is Schengen dead? WHO, WTO, IMF, UN in crisis, there are pressures to reform Block China's access to Western markets and reduce dependence on import from China of strategic products De-globalization: relocate industry out of China Splinternet: Western Internet and Chinese Internet Multipolar world order, with three main blocks: US, China and the EU, Asymmetric conflicts A New Bretton Woods Moment to restart the global order?</p>	<p>Is lockdown legal? How much and for how long can the government suspend freedoms and rights? People to become more caring, concerned for health, physical contacts, less preoccupied by job track and excessive consumption Teleworking gives people more time to self-organize Divorces increase, more time spent in house, less relationships and less time spent with friends due to social distance Psichological implications of lockdowns might negatively impact work productivity, medium to long term investments, domestic demand</p>

Source: author's compilation

6 Conclusions

This paper presented a brief state of the world, in the context of SARS-CoV-2 pandemic. Based on observations at national and global level, few weak signals and trends were identified that have the potential to determine structural transformations in the world economy and politics.

This exercise can be useful for decision makers to offer them a wide image of the global issues induced by the pandemic, to have a starting point to build a more resilient governance. In the same time, further analysis should be carried out to refine the observations and build upon different scenarios of the future.

As things stand, structural changes of deep magnitude seem to be inevitable on a medium to long term in the world order. Nonetheless, the main priority right now for the entire global system formed by main geopolitical actors is to mitigate the pandemic, to limit the effects until a proper vaccine is obtained.

But, at the same time, the world confronts the same big challenges which tended to converge and to become more significant in the day to day life of each state and each individual. SARS-CoV-2 pandemic and the economic crisis that followed have revealed many vulnerabilities of the social and economic systems, even in the developed countries, although the most affected are still the people which have lower access to health services, to education, to Internet and proper jobs. Digitalization seems to be the big confirmation of a trend during this period. The digital transformation of society, in all its dimensions, has begun. There are instead many vulnerabilities induced by this trend which need to be accounted properly. Many jobs will be lost, many people will suffer of digital

divide and there are difficulties for many families and children to pass this transition. The opportunities that digitalization and “greening” of the economy create are nonetheless disruptive for many systems, businesses, categories of employees and they need to be envisaged with proper policies for them not to become a second generation of losers of globalization. Some political actors at the global level are framing reforming programs that address the main global issues, in the context of the pandemic. They call for united actions and coordinated public policies to stop the virus. In the same time, the climate action is envisaged as a great opportunity that could bring a “greener world”, but also a prosperous and job-rich world economy.

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