



Twenty years after the conclusion of the Doha Development Agreements<sup>1</sup>, the southern hemisphere remains on the side-lines of its northern neighbour's economic evolution. The so-called emerging economies continue to supply volatile raw materials to the countries that need them for manufacturing, while the technologically advanced countries are showing their dependence and inability to carry out an orderly decarbonisation process.

The crisis unleashed by the COVID pandemic has not provoked a unanimous international response, but has shown the intrinsic selfishness of the rich countries and the enormous fragmentation among them. Under the hypothesis that the worst patriotism, absurdly identified with the closing of borders and self-management of the vaccination process, has shaped a deeply divergent geo-economic landscape and exacerbated the already existing inequalities, not only in the present, but fundamentally in the medium and long term, this article will analyse the current geo-economic reality through the reactive measures of the world's major economies, from the initial economic inactivity caused by the COVID crisis to the gradual operationalization of a world dominated by the health situation.

We also wonder whether the economic indicators that are currently troubling us are the result of "reactive innovation" in the face of the economic problems arising from the crisis; of a lack not only of foresight, but also of a global approach to problems of a planetary nature.

### **“Zero COVID” strategy**

Since the beginning of the pandemic, we have observed how mostly all the nations of the world closed their borders, at the same time as an unprecedented recession took place, both in terms of its intensity and the speed of its consequences and its ubiquity.

Although the effects of the economic crisis were transmitted to all economies, in the early stages of the pandemic it was the least developed countries that suffered the least.

Much of Africa and Asia were indirectly affected, mainly due to uncertainty in their future growth and the way in which it would occur after the outbreak of the pandemic. The

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<sup>1</sup> iris-france.org. (02/12/2022). Available in 20 ans après quel bilan?: <https://www.iris-france.org/163045-entree-de-la-chine-a-lomc-et-ouverture-du-cycle-de-doha-20-ans-apres-quel-bilan/>

unequal distribution of vaccines<sup>2</sup> and the lack of solidarity towards countries that are less able to develop an effective vaccination policy have led to an inordinate divergence between the first world and the developing world. This is perhaps not the first time in history that human selfishness has relegated the poorest to disease, but it is the occasion when a lack of solidarity has had disastrous economic consequences, distributed in larger doses to those who have ignored the extent and scope of the new variants<sup>3</sup>.

The emergence first of the Delta variant and then of Omicron dealt the coup de grace to the promising economic growth and the recovery of pre-crisis employment levels.

The differences in growth between the northern and southern hemispheres have been evident. While countries such as China managed to close the first year of the pandemic with positive, albeit timid, growth despite trade restrictions and limitations, others have suffered more intensely from the effects of the economic shutdown<sup>4</sup>.

The OECD<sup>5</sup> does not question a growth process that seems to be the only possibility after the economic debacle; however, it warns of unequal growth between the two hemispheres, as a consequence of the increase in uncertainty, whose effects do not operate in the same way in the most advanced economies as in those that are still emerging<sup>6</sup>.

The "Zero COVID" policy is still common in many regions of the world, whether individual countries or groups of countries. The fiction of turning the territory and the air into a bubble, the belief that the disease of our countrymen is more manageable than that coming from abroad, as illogical as it is intrinsically engraved in our worst instincts, has even made us forget the scientific nature of the transmission of the virus.

The WHO, with its manifest inability to impose anything more than the stage of transmission and the name of the variants, has once again revealed the ineffectiveness

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<sup>2</sup> rfi.fr. (02/12/2022). Available in L'Afrique et l'inégalité vaccinale: <https://www.rfi.fr/fr/podcasts/invit%C3%A9-international/20211130-l-afrique-et-l-in%C3%A9galit%C3%A9-vaccinale-7-de-la-population-compl%C3%A8tement-vaccin%C3%A9e>

<sup>3</sup> rfi.fr. (02/11/ de 2022). Available in Pourquoi l'Europe est-elle redevenue épicentre de la pandémie du COVID?: [https://www.rfi.fr/fr/podcasts/d%C3%A9bat-du-jour/20211125-pourquoi-l-europe-est-elle-redevenue-%C3%A9picentre-de-la-pand%C3%A9mie-de-covid?ref=tw\\_i](https://www.rfi.fr/fr/podcasts/d%C3%A9bat-du-jour/20211125-pourquoi-l-europe-est-elle-redevenue-%C3%A9picentre-de-la-pand%C3%A9mie-de-covid?ref=tw_i)

<sup>4</sup> oxfamfrance.org. (02/13/2022). Available in Dans le monde d'après les riches font secession: <https://www.oxfamfrance.org/rapports/dans-le-monde-dapres-les-riches-font-secession/>

<sup>5</sup> OECD.org. (02/13/2022). Available in <https://www.oecd.org/coronavirus/en/themes/global-economy>

<sup>6</sup> iris-france.org. (02/13/2022). Available in COP-26. Peut-on parler d'un échec?: <https://www.iris-france.org/162703-cop-26-peut-on-parler-dun-echec/>

of today's international organizations in resolving any kind of conflict and the danger of unilateral or regional decisions.

The situation is such that we find countries whose adult population has received four doses and others in which the percentage of citizens who have the full initial two-dose regimen does not exceed 12%<sup>7</sup>, infinitely far from what is necessary to achieve collective immunity.

This fact, in a world that is still profoundly globalized, can only be perceived in one way: as completely absurd and ineffective.

While some nations continue to put their faith in the efficacy of vaccines, more or less willingly subjecting an uninformed population to an uncertain process of booster doses, other nations prefer to consider the virus as a new neighbour. Having arrived to stay, we must fraternize with it so that it stops modifying our social habits and limiting our democratic rights.

The consequences of this new divergence in the treatment of the virus as it is today and of the ignorance of the nature of the virus as it will be in the future are, to say the least, unpredictable from the point of view of its impact on societies, on health systems and, once again, on economies, punished by the sick leave of those infected, recidivists both in the contagion and in the doses received from the various vaccines accepted on the market.

The different criteria in the adoption of measures, their fairness and their adequacy to the nature of the consequences of infection in a healthy person and vaccinated with several doses of the infection at present, show the lack of unanimity and agreement among countries.

Nations such as Norway (leading the democratic index of "The Economist"<sup>8</sup>, with 9.37 points), Finland, Sweden, Iceland, Denmark, and many others have decided to lift many or all restrictions related to COVID, warning only of the danger to unvaccinated persons.

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<sup>7</sup> [bbc.com](https://www.bbc.com/news/56100076). (02/13/2022). Available in COVID 19 vaccinations: african nations miss WHO target: <https://www.bbc.com/news/56100076>

<sup>8</sup> [elordenmundial.com](https://elordenmundial.com/mapas-y-graficos/el-mapa-del-indice-de-democracia/). (02/13/ 2022). Available in el mapa del índice de democracia: <https://elordenmundial.com/mapas-y-graficos/el-mapa-del-indice-de-democracia/>

## Other indicators: inflation

In the purely economic field, although with a clear but not unique derivation of the pandemic, we are witnessing an inflationary process unprecedented in the last forty years.

This development has gone through several distinct stages, while its perception in the markets has transcended the purely conjunctural to take on a structural character that now seems to be accepted as undeniable.

The disruption of supply chains caused by the closure of international trade, as a consequence of the early stages of the pandemic, resulted in an insufficient supply of components, raw materials and finished products.

In addition to this fact, which was already a determining factor in the point of equilibrium between the demand and supply curves, demand itself contracted by several percentage points in most advanced economies, as a result of the fall in the consumption of goods and, to a greater extent, of services.

To this fact should be added the abundance of liquidity in the markets and the obvious tensions on the labour market, compounded by many years of quantitative easing<sup>9</sup> to remedy the effects of the 2008 financial crisis, whose impact on inflation stems from the depreciation of the currency and the loss of purchasing power of companies and households.

Inflation could also be due to a hidden lack of competitiveness<sup>10</sup> in large companies, especially in the field of energy resources. Collusion in setting market prices when the consumer has no power to influence them can increase corporate profits by increasing prices rather than production.

The US currently has an inflation rate of 6%, the same as Germany. France, with 3.5%, seems to be less deeply affected by the problem, largely due to its greater energy sufficiency, although it is far from the targets set by the EU.

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<sup>9</sup> Quantitative easing" policy measures are aimed at boosting the economy through the purchase of bonds by central banks (European Central Bank and Federal Reserve). The objective is twofold. On the one hand, to reduce the cost of financing government debt by lowering its price. On the other hand, to lower the cost of corporate debt. BBVA.com. (12 de 02 de 2022). Available in Qué es quantitative easing: <https://www.bbva.com/es/economia-todos-quantitative-easing/>

<sup>10</sup> [theGuardian.com](https://www.theguardian.com). (02/13/2022). Available in We need to talk about the real reason behind US inflation: <https://www.theguardian.com/commentisfree/2021/nov/11/us-inflation-market-power-america-antitrust-robert-reich>

For its part, Spain ended the year 2021 with a rate of 6.5%, according to the final data published by the National Institute of Statistics<sup>11</sup>, in what appears to be an escalation of the CPI that has no signs of moderating.

The consequences of the inflationary process and the actions to reverse it, which directly affect the quality of life of citizens and eventually compromise our growth, are multiple and with diverse consequences.

The OECD<sup>12</sup> forecasts a sustained inflation rate during 2022 and probably, although somewhat lower, throughout 2023.

Faced with the loss of purchasing power and purchasing power of consumers and companies, there is the possibility of wage increases. This situation may, however, lead to what is known in economic terms as "monetary illusion"<sup>13</sup>. If inflation continues its upward trend, an increase in wages may lead consumers to believe that their purchasing power is being maintained or even improved, leading them to make incorrect decisions about their ability to save, invest or consume.

The increase in wages would probably maintain consumption at pre-inflation rates or even contribute to its increase, thereby boosting economic growth through consumption, unless inflationary expectations, resulting from uncertainty, have a contractionary effect on it.

When wage increases are indexed to price increases<sup>14</sup>, there is a risk known as the "second round"<sup>15</sup>. This effect consists in the fact that the aforementioned increase in consumer demand is not accompanied by an increase in supply, which is more rigid and takes longer to adapt, with the added difficulties of supply chains. This would not only fail to dampen the inflationary process, but would actually accelerate it<sup>16</sup>.

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<sup>11</sup> INE.es. (02/12/2022). Available in [https://www.ine.es/dyngs/INEbase/es/operacion.htm?c=Estadistica\\_C&cid=1254736176802&menu=ultiDatos&idp=1254735976607](https://www.ine.es/dyngs/INEbase/es/operacion.htm?c=Estadistica_C&cid=1254736176802&menu=ultiDatos&idp=1254735976607)

<sup>12</sup> OECD.org. (02/13/2022). Available in <https://www.oecd.org/coronavirus/en/themes/global-economy>

<sup>13</sup> Monetary illusion is the effect that occurs when an economic agent makes decisions based on the observation of nominal variables, without taking into account real variables. ECONOMIPEDIA.com. (02/12/2022). Available in Ilusión monetaria: <https://economipedia.com/definiciones/ilusion-monetaria.html>

<sup>14</sup>This means that salaries increase ex-post by the percentage by which the CPI has increased.

<sup>15</sup> elconfidencial.com. (02/16/2022). Available in "los efectos de la segunda ronda ya están aquí y retroalimentan la inflación": [https://www.elconfidencial.com/economia/2022-02-06/efectos-segunda-ronda-aceleran-la-inflacion\\_3370512/](https://www.elconfidencial.com/economia/2022-02-06/efectos-segunda-ronda-aceleran-la-inflacion_3370512/)

<sup>16</sup> To avoid going into economic concepts that are sometimes difficult to understand, suffice it to add that wage increases can be indexed not to price increases (inflation), but to increases in productivity. This measure, proposed on numerous occasions by the leaders of other countries, such as former Chancellor Angela Merkel, has never had

If, on the contrary, it were decided to assume the loss of purchasing power of the citizen and the entrepreneur as a lesser evil or collateral damage and not to revise wages upwards, it is possible that consumption would be reduced without this reduction affecting the upward inflationary process, which would lead to a double process of inflation and stagnation of growth, known by the term stagflation.

Measures applied exclusively to the labour market should be accompanied by other stimuli to the economy, often far removed from the political interests of those who are called upon to implement them.

On the one hand, the tax burden should not penalize growth or innovation, much less promote labour immobility. However, the worst danger of excessive taxation of corporate profit, especially on small and medium-sized enterprises, is the promotion of activities remunerated in black money, which in some countries constitute a volume similar to or greater than the country's own GDP.

The economic measures adopted, however, may be aimed at favoring growth over the well-being of the citizen, with the aim of creating a medium-term climate that will eventually include the consumer in the growth spiral, which would lead to an increase in wages and, eventually, to the minimization of the effects of inflation.

It is possible, in the latter case, to promote a rise in interest rates, which as we know are at historic lows since the emergence of COVID, exceeding the already historic percentages with which central banks fought the 2008 crisis.

A rise in interest rates would cause widespread joy among investors and banks, perhaps boosting entrepreneurship and discouraging high-risk financial products, which are the prelude to the most recent crises (and speculation, in general, whether through the stock market or trading with cyber currencies).

On the other hand, the price of debt would become more expensive, which in turn has both positive and negative effects. On the negative side, the interest payments on the debt we contract will be higher. Also, and no less important, the increase in the real debt of developing countries, sufficiently burdened by reductions in aid and their own closely related economic and governance problems.

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an inflationary effect.

On the positive side, from the point of view of an advanced economy and as a witness to the abuse of debt recourse to debt, the closing of the debt channel to finance what the country's present wealth cannot afford.

The crisis that triggered the emergence of COVID required a rapid and forceful response in financial terms, to avoid the economic and social erosion that the paralysis of the country's current wealth would have entailed. However, it should be remembered that in times of economic recovery and even more so in times of prosperity, it is imperative to recover debt levels that will make it possible to face successive and inevitable crises with a healthy economy.

The profoundly expansive recovery policies of both the EU and the US (Next Generation EU and Build Back Better, respectively) represent a golden opportunity for the creation of a sustainable production model, but they extend the recourse to sovereign debt and, without adequate supervision, may prove to be not only ineffective but harmful.

A not inconsiderable positive aspect of the decision to raise interest rates is the incentive to save. At current interest rates, not only do banks have to find new ways of earning money, but private individuals also consider investing in property as one of the most advantageous options.

This investment, the purchase of housing in order to extract a return from renting or owning it in the long term, is accelerating the process of creating a real estate bubble. The increase in demand for the purchase of personal property is accompanied by a rise in prices. As bank loans are contracting at ridiculously low interest rates, recourse to debt is more attractive than ever. It does not seem unreasonable to expect a new bubble, in view of the sustained increase in housing prices that we have been witnessing for many months now<sup>17</sup>.

### **The Minsky moment**

The Minsky moment, named after the American economist, is the point in time preceding a market crisis.

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<sup>17</sup> rfi.fr. (02/16/ 2022). Available in *Économie mondiale*. Faut-il craindre le scénario du pire?: <https://www.rfi.fr/fr/podcasts/%C3%A9co-d-ici-%C3%A9co-d-ailleurs/20220114-%C3%A9conomie-mondiale-faut-il-craindre-le-sc%C3%A9nario-du-pire>



Speculative and particularly aggressive investment activity, either due to a lack of investment stimulus or unattractive interest rates, in conjunction with a bank supply of high-risk credit, lead to the Minsky moment. It is important to note that the theory that accompanies the explanation of the phenomenon establishes a causal relationship in the monetarization of a country's debt and this moment. Interventions by central banks (ECB or Federal Reserve) with the intention of ensuring financial stability transfer to the investor, either directly or psychologically, the idea that speculative excesses are risk-free. In other words, financial stability sometimes incubates instability and crisis through a false sense of confidence.

Stabilizing intervention by central banks and successive interest rate cuts to inject "energy" into the markets reduce the "moral hazard"<sup>18</sup> that accompanies many of the decisions made by economic actors. The reduction of this variable, which is directly dependent on the amount of information and the level of uncertainty, leads investors to assume higher levels of risk, which can lead to the attainment of the dreaded momentum<sup>19</sup>.

This process, which has been going on for two decades now, "zombifies" the economy<sup>20</sup>, since the economic growth generated is not sufficient to cover the payment of the accumulated debt.

The current growth model resulting from two almost concatenated acute crises is based on almost gratuitous debt. It seems clear that it is not without risks, and that if these materialize, the consequences of the model itself would prevent a recovery without deep economic and social scars, exacerbating once again inequality and inequity.

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<sup>18</sup> In economics, moral hazard occurs when an entity has an incentive to increase its exposure to risk because it does not assume all the costs that such risk entails. Insurance companies are a classic example of moral hazard. A person with comprehensive insurance covering his or her home may have less reason to install an armored door, since theft is covered by the insurance. [economictimes.indiatimes.com. \(02/13/2022\)](https://economictimes.indiatimes.com/definition/moral-hazard). Available in moral hazard definition: <https://economictimes.indiatimes.com/definition/moral-hazard>

<sup>19</sup> MUNKNEE.com. (02/13/2022). Available in *What exactly is a Minsky moment and when will the next one arrive?*: <https://munknee.com/what-exactly-is-a-minsky-moment-when-will-the-next-one-arrive/>

<sup>20</sup> libremercado.com. (02/13/2022). Available in *la zombificación de la economía. ¿Estamos llegando al momento Minsky?*: <https://www.libremercado.com/2021-12-15/empresas-zombi-y-economia-mundial-hacia-un-momento-minsky-6845354/>

## Commodities and decarbonisation

The decarbonisation process, in which the first world is already immersed, involves a large number of economic, social, institutional and governance adjustments.

The changes in the way in which the production process is carried out today in order to achieve zero net emissions will entail an economic transformation without precedent in the history of mankind, perhaps surpassing those brought about by the industrial revolution.

Areas such as demand, costs and the labour market are already undergoing the convulsive shift from a fossil-fuel-based economy to a completely fossil-free one.

This transformation will be universal but not similar in time or geographic space. It will unequally affect sectors, communities and individuals who are already differently exposed to the adjustments that this adaptation necessarily entails<sup>21</sup>.

It is foreseeable that the transition will be more orderly in the stronger economies, although the transition currently being suffered by the energy sector does not seem, at least in the short term, to have a clear or achievable goal.

A process at different speeds could trigger trade wars, eventually regionalizing international relations and leading to a de-globalizing process with unforeseeable consequences. If the EU establishes its "green tariffs"<sup>22</sup>, exports to it could be diverted to other areas for purely economic reasons.

An anarchic transition would entail enormous economic costs, as well as the possibility of a market and consumer reaction contrary to the transition itself, with potential social movements with consequences that are difficult to anticipate<sup>23</sup>. These consequences would foreseeably be more plausible in those economies with greater energy dependence on carbon, less capacity for technological adaptation, poorer institutions and, not least, less ecological awareness.

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<sup>21</sup> iris-france.org. (02/11/2022). Available in Une reprise économique incertaine: <https://www.iris-france.org/163197-previsions-de-locde-une-reprise-economique-incertaine/>

<sup>22</sup> ec.europa.eu. (02/16/2022). Available in [https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/energy-and-green-deal\\_en](https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/energy-and-green-deal_en)

<sup>23</sup> WHO.int. (02/13/2022). Available in Social dimensions of climate change: <https://www.who.int/globalchange/mediacentre/events/2011/social-dimensions-of-climate-change.pdf>

On the other hand, the process opens the door to new business opportunities, with emerging market niches and a whole new world conducive to the destruction process.

This is a creative process, which may be easier to locate in a greater number of geographical areas, but which will undoubtedly be more accessible to economies that promote research and development and business innovation.

One of the greatest risks involved in the process, to which both developed and emerging countries are no strangers, is the short-term, immediate survival of the companies most affected by the increase in energy costs. Institutional mechanisms must be put in place to support companies, consumers and other economic actors with aid, exemptions, technological and academic incentives in all areas. It is also necessary to accept that transformation implies the destruction of what does not serve any purpose. Once again, the role of institutions as catalysts for strategic objectives is crucial.

### **Divergent recovery. The path to inequality**

Throughout history, major humanitarian catastrophes, such as pandemics and world wars, have had the positive effect of synchronizing societies, making them more just and equitable.

Both the so-called Spanish flu and the plague itself caused a very high mortality rate<sup>24</sup>. The same happened in the world wars.

In all these cases, mortality drastically reduced the availability of labour, which contributed to a rise in wages and, by extension, to a decrease in the return on capital to the benefit of a better distribution of economic profit.

The COVID crisis, despite its enormous health impact, has dramatically affected people who, because of their age, were already outside the productive process.

On the other hand, the productive processes, which were already in a phase of full automation, are more than ever dependent on the technological factor, which has

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<sup>24</sup> It is estimated that the Spanish flu (1918-1920) may have claimed the lives of between fifty and one hundred million people. Estimates of the 14th century plague suggest that one third of the world's population perished from it.

displaced the labour requirements in many productive areas and turned the advance of the digitalization of the economy into a social and educational challenge<sup>25</sup>.

The COVID crisis is conditioning structural changes in the very mechanism of globalization, profoundly affecting the way we work; how we work, where we work, when... but the greatest pressure of these still unpredictable changes falls on people with the lowest incomes or those whose job prospects are non-existent<sup>26</sup>, which, together with rising inflation and the unpredictable impact of an already endemic disease, does not help to augur a more equitable distribution of wealth in the future than before the crisis.

This, together with rising inflation and the unpredictable impact of an already endemic disease, does not help to anticipate a more equitable distribution of wealth in the future than before the crisis.

The International Monetary Fund's Global Risks 2022 report<sup>27</sup> warns of the risks of disease prevalence in under-vaccinated areas, where the effects on the labour market, productivity, supply chains and consumption itself may further exacerbate the economic crisis.

Another risk highlighted by the report is the declining appetite of advanced economies for investment in disadvantaged areas. The health crisis has shifted investment interests towards regional interests to the detriment of the capital relocation we have seen to date.

Social fractures often have economic roots. In the current context of uncertainty, it is more necessary than ever to seek a recovery that takes into account the fact that the gap between rich and poor constitutes the extent of social dissatisfaction, the rise of populism, and all the consequences that are becoming commonplace around us.

Finally, the geopolitical tensions we are facing these days, such as the possible new US-China bipolarity, the crisis in Ukraine or the time bomb that constitutes the Taiwan conflict, have an indirect impact on the rest of the countries in the world, both because of their

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<sup>25</sup> elcomercio.com. (02/19/2022). Available in ¿un mundo más desigual de la pandemia?: <https://www.elcomercio.com/tendencias/sociedad/mundo-desigual-covid19-pandemia-virus.html>

<sup>26</sup> stlouisfed.org. (02/19/2022). Available in Setting the stage for economic equity in 2022: <https://www.stlouisfed.org/on-the-economy/2022/feb/setting-stage-economic-equity-2022>

<sup>27</sup> Forum, W. E. (02/19/ 2022). [www3.weforum.org](https://www3.weforum.org). Available in The global risks report 17th edition: [https://www3.weforum.org/docs/WEF\\_The\\_Global\\_Risks\\_Report\\_2022.pdf#:~:text=The%20Global%20Risks%20Report%202022%20presents%20the%20results,resilience%2C%20drawing%20from%20the%20lessons%20of%20the%20last](https://www3.weforum.org/docs/WEF_The_Global_Risks_Report_2022.pdf#:~:text=The%20Global%20Risks%20Report%202022%20presents%20the%20results,resilience%2C%20drawing%20from%20the%20lessons%20of%20the%20last)

alignment in one or another strategic alliance and because of the economic and collaborative repercussions derived from the conflicts.

In conclusion, two years after the outbreak of COVID, the world is facing global challenges, led by the management of the virus itself and climate change, which will shape the world as future generations will know it.

The regionalization of problems of global significance, misunderstood patriotism, the lack of binding and mediating capacity of International Organizations and the economic effects of the resolution of the pandemic have revealed a path that does not seem to be the right one, since it further aggravates the divergences between the developed and the emerging world, increasing the multiple risks that discontent and inequity bring with them.

Hopeful news such as the production of vaccines on African soil gives hope that it is still possible to take advantage of what is good about a crisis such as the one we are still experiencing; the possibility of synchronizing once again, this time in a sustainable way, a world that has no choice but to get on with it.

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