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Geo-economic risks in the COVID era and ability to anticipate crises

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Abstract:

Economic risks do not always derive from economic activity but are often the consequence of events or situations a priori unrelated to financial aspects. However, the consequences of both the former and the latter on social welfare, which is based on the capacity of states to sustain it, are disastrous from the point of view of security.

This article will analyse geo-economic risks, present, probable and future, from the short, medium and long-term perspective, through logical models in which action is taken to remedy the negative effects once they occur, or a plan is anticipated to foresee them and prepare to deal with them. It is in the case of the latter anticipatory strategy that a weapon such as economic intelligence and a connected and vigilant intelligence community are needed.

Keywords:

Economic risks, COVID, resilience, economic intelligence, middle powers.

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Introduction

The problems caused by the outbreak of COVID are the result of a lack of anticipation on the part of the states which, nevertheless, had sufficient elements at their disposal to have foreseen the possibility of a pandemic and the poly-crisis that its expansion could entail.

If we scrutinize the risk analysis documents prior to the pandemic, we observe that their dissemination has only increased them, multiplying the vulnerabilities and weaknesses of most of the states affected by the crisis.

Short- and medium-term consequences of the pandemic

The pandemic has obfuscatingly overwhelmed the process of slow economic recovery following the 2008 depression, making it the worst crisis known to have occurred in peacetime¹ and the third worst in the last 150 years. Despite its many shortcomings, the path of growth was the same in many economies, even though it was not a large-scale or ubiquitous recovery. However, the eruption of COVID in the early months of 2020 has exacerbated pre-existing difficulties and created new ones that are not easy to address without a full or near-complete resolution of the pandemic, allowing us to deal with the current crises while societies prepare themselves to anticipate those to come.

The intrusion of COVID into a clearly unequal world has also affected economies differently. On the one hand, although the reliability of the numbers of those infected and killed by COVID must be accepted with caution, the pandemic has been more damaging to aging societies, such as Europe's, since it is more lethal among older people. However, it is precisely these societies that are the best prepared to deal with the virus, both from the health point of view, with universal health systems, and from the perspective of vaccination strategies.

Despite the slowness of vaccination processes and production problems, the world is already familiar with several vaccines that have proven to be effective in record time.

However, nowadays, we run the risk of creating a new societal inequality: that of vaccinated and unvaccinated citizens of the world². The direct economic consequences

¹ World Economic Forum, wef.com. Accessed the 5/02/2021. Available at: <http://ef.ch/risks2021>

² Prospects for the global economy in 2021", Oxford Analytica. Accessed the 18/03/2021. Available at: <https://www.emerald.com/insight/content/doi/10.1108/OXAN-DB257862/full/html>

of this disparity would be immediately reflected in economic growth. The take-off of GDP in the ‘unvaccinated’ nations would slow down, because of the very economic paralysis caused by the virus, the lack of both inward and outward investment and the fall in mobility, with repercussions for tourism in those societies where it is an important source of income, but also in terms of human resources, youth and talent, trapped in the unvaccinated states³.

Very few emerging countries are expected to be vaccinated by the end of 2021, leading to a slowdown, if not a nosedive, in their GDP⁴. China, despite a substantially slow rate of vaccination and, thanks to its social discipline, has already managed to achieve GDP growth like that before the COVID crisis.

The US and the EU will need to reach the fourth quarter of 2021 and the third quarter of 2022, respectively, with a high percentage of the population vaccinated, in order to achieve growth similar to pre-pandemic levels⁵.

Countries that cannot emerge from the COVID crisis in a timely manner, potentially those with the worst health systems and the least possibilities to provide social support to their populations, will constitute a heterogeneous group of socioeconomic hazards, with devastating consequences on migration, which in turn may pervert the recovery process of those societies with an effective vaccination strategy.

On the other hand, excessive delay in the global vaccination process may result in the collapse of health systems in those countries where they are not robust, and in the profound weakening of those where they are.

The pandemic caused job losses during the second half of 2020 equivalent to a drop in employment of 495 million jobs, or 14% of the total number of people employed worldwide⁶. The major casualties of the main groups in this historic slump have been young people, women, and unskilled workers.

³ World Economic Forum, wef.com. Accessed the 5/02/2021. Available at: <http://ef.ch/risks2021>

⁴ “Prospects for the global economy in 2021”, Oxford Analytica. Accessed the 18/03/2021. Available at: <https://www.emerald.com/insight/content/doi/10.1108/OXAN-DB257862/full/html>

⁵ “Economic and financial risk insights - 2021: a year of global recovery and the start of redistributive policies”, Swiss Re. Accessed the 02/04/2021. Available at: <https://www.swissre.com/institute/research/sigma-research/Economic-Outlook/economic-financial-risk-insights-dec-2020.html>

⁶ World Bank Open Data, worldbank.org. Accessed the 17/02/2021. Available at: <https://data.worldbank.org/indicators/SL.TOTL.IN>

Because of this fact, another likely risk looms over the fragile societal equilibrium: the disillusionment of youth. The world that many young people see as bleak, potentially triggering generational polarization with implications for security and governance, as those who dominate and survive in the world are perceived to be to blame for the world's ills⁷.

The pandemic has also highlighted the enormous digital inequalities. At a time when the handling of technology and the need to use it for educational and business purposes has become essential, the disparities have been revealed in an alarming way: 60% of the world's adults lack digital literacy and the percentage of students without access to a computer ranges from 25% in China to 65% in Indonesia⁸. The closure of schools in many regions of the world has meant, in addition to an unprecedented educational setback, an increase in hunger⁹ and child labour¹⁰.

The "digital divide" can compromise an inclusive recovery and disconnect societies, creating greater inequalities and fracturing social cohesion and governance. On the other hand, the prospects for labour market automation do not bode well for the future of less digitally skilled workers.

On the purely economic front, the very response to the immediate consequences on the welfare state of the countries hit by the pandemic has forced unprecedented indebtedness. Despite the predictable increase in fiscal pressure in the coming years to alleviate the consequences of the debt, it is certain that it will not be possible to resort to it again to make progress in sustainability policies, investments in new markets or research and development. It is an inheritance that new generations will perceive as iniquitous, with the possible social and political consequences that the sense of injustice sometimes fosters.

The International Monetary Forum considers seven low-income countries and twenty-

⁷ World Economic Forum, wef.com. Accessed the 5/02/2021. Available at: <http://ef.ch/risks2021>

⁸ "Learning remotely when schools close: How well are students and schools prepared? Insights from PISA", OECD. Accessed the 12-1703/2021. Available at: <https://www.oecd.org/coronavirus/policy-responses/learning-remotely-when-schools-close-how-well-are-students-and-schools-prepared-insights-from-pisa-3bfda1f7/>

⁹ In some deprived regions schools provide the only healthy meal of the day.

¹⁰ "We're all in this together?", [childrenscommissioner.gov.uk](https://www.childrenscommissioner.gov.uk/report/were-all-in-this-together/). Accessed the 21/03/2021. Available at: <https://www.childrenscommissioner.gov.uk/report/were-all-in-this-together/>

eight countries with average GDP as likely candidates for a public debt crisis¹¹.

The consequences of the pandemic are not the only risks in the short and medium term. The World Economic Forum itself considers climate change, for the second consecutive year and despite the emergence of COVID, to be the greatest risk facing the world, for which there is no vaccine¹². Although the unprecedented shutdown of economic activity with the advent of the pandemic led to a marked decline in CO2 emissions¹³, the latest data extracted from Google Mobility Data reflect an increase in emissions in the second half of 2020 and a slight standstill during the second wave earlier this year, which seems to show that once economic activity returns to normal, CO2 levels will inevitably return to their usual ratios¹⁴.

The Carbon Monitor index, which reflects emissions in near real time, indicates mainly a decline in emissions from freight and household transport, which reinforces the prospect of a return to the adverse pre-covid normality when personal mobility, mainly in the more developed countries, is achieved as a result of mass vaccination and disease control¹⁵.

However, it is worth adding that already in 2019, notable declines in energy expenditure were observed. The yearbook of the Strategic Review of World Energy showed that pre-crisis energy consumption decreased by 1.3% with compared to 2018. In particular, coal consumption fell to its lowest level in 16 years¹⁶.

Linked to climate change and exacerbated by the COVID poly-crisis, the perennial problem of food security has further degraded the already precarious situation of millions of people. The late resolution of the crisis may amplify this trend to a point where the

¹¹ "List of LIC DSAs for PRGT", *Fondo Monetario Internacional*. Accessed the 19/03/2021. Available at: <https://www.imf.org/external/Pubs/ft/dsa/DSAlist.pdf>

¹² World Economic Forum, *wef.com*. Accessed the 15/02/2021. Available at: <http://ef.ch/risks2021>

¹³ "Temporary reduction in daily global CO2 emissions during the COVID-19 forced confinement", *Nature*. Las emisiones de CO₂ cayeron, según un estudio que combina datos de cierre de economías con datos de actividad, un 9 % durante el primer trimestre de 2020. (Corinne Le Quéré, Robert B. Jackson, Matthew W. Jones, Adam J. P. Smith, Sam Abernethy, Robbie M. Andrew, Anthony J. De-Gol, David R. Willis, Yuli Shan, Josep G. Canadell, Pierre Friedlingstein, Felix Creutzig & Glen P. Peters. Accessed the 19/03/2021. Available at: <https://www.nature.com/articles/s41558-020-0797-x>

¹⁴ "The world's sudden launch into lockdown a year ago had an interesting effect on carbon emissions – now they're returning back to normal far quicker than society is", *BBC*. Accessed the 19/03/2021. Available at: <https://www.bbc.com/future/article/20210312-covid-19-paused-climate-emissions-but-theyre-rising-again>

¹⁵ 31.9% lower CO2 emissions, according to data from February 2021 (carbonmonitor.org, 2021)

¹⁶ Global Energy Demand Growth Was Slowing Before Covid-19, Says BP", *bloomberg.com*. Accessed the 02/04/2021. Available at: <https://www.bloomberg.com/news/articles/2020-06-17/global-energy-demand-growth-was-slowing-before-covid-19-says-bp>

social consequences spill over into the security realm. Historical evidence shows us that food and agriculture are essential factors for peace. When one or the other is in short supply, conflict is inevitable¹⁷.

With a world population that has doubled in number in the last fifty years and developed countries with almost total food dependence on others who, as a result, see the produce of the land remunerated, the issue of production and supply becomes crucial. Food systems are now globalized, and consumers demand all kinds of goods all year round. There are crops, such as coffee and tobacco, almost all whose production is consumed in countries where they are not grown.

Since the COVID crisis, the price of staple foods has increased by 27%¹⁸. The increase is largely due to China's hoarding, which it has used to remedy its food shortage and securitize it. On the other hand, the increase in prices and the effects of the pandemic on the mobility of both products and the personnel needed to harvest them have significantly boosted the costs of logistical supply chains, which has led to a reluctance to export in some producing countries in order to ensure local consumption¹⁹.

We already know that, in economics, a supply lower than demand causes either a rise in prices or an attempt to buy goods and stockpile them to protect against subsequent price increases. If this dynamic continues, we face a situation in which the poorest will have even less purchasing power to make ends meet and the richest will face commodity inflation which, among other effects, can lead to food shortages and poverty, even in societies where the problem has traditionally been residual.

In Europe, the regained importance of the CAP (Common Agricultural Policy) shows the extent to which food security has become a strategic axis and a key element of resilience²⁰.

¹⁷ Géopolitique de l'agriculture, collection «40 fiches illustrées pour comprendre le monde», Sébastien Abis & Pierre Blanc. (2020). Paris: Eyrolles-IRIS, 2020.

¹⁸ Géopolitique de l'agriculture, collection «40 fiches illustrées pour comprendre le monde», Sébastien Abis & Pierre Blanc. (2020). Paris: Eyrolles-IRIS, 2020.

¹⁹ ABIS, S. "Tempêtes à venir sur la sécurité alimentaire mondiale", Iris-France.org. Accessed the 21/03/2021. Available at: <https://www.iris-france.org/155365-tempetes-a-venir-sur-la-securite-alimentaire-mondiale/>

²⁰ Futuro de la Política Agraria común, ec.europa.eu. Accessed the 21/03/2021. Available at: https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/future-cap_es

The US, China and the EU

The crisis of multilateralism that we were already witnessing before the pandemic puts the security of the so-called "middle powers"²¹ in the spotlight. With a marked capacity of influence in matters of trade, diplomacy and global health and a combined economic power greater than that of the two most prosperous economies on the planet²², these states must increase their resilience to constitute the pivot of international relations and strengthen the institutions that arbitrate on the geopolitical chessboard.

The China-US rivalry may polarize the relations of these middle powers, in the sense of forcing them to accept being on one side or the other, instead of forming alliances that would allow them to maintain their independence. The EU, the world's third largest trading bloc, seems to have been strengthened since the beginning of the pandemic and to have extended its influence on the countries bordering the East, potential candidates for future membership²³. However, the spectre of protectionism because of the restrictive measures resulting from the pandemic, such as border closures, jeopardize the future of joint actions. The European Commissioner for Trade, Phil Hogan, stressed almost a year ago that stockpiling and autarkic policies should only be an exceptional and temporary measure²⁴.

A reform of the World Trade Organization seems inevitable, so that the arbitration mechanism will favour the recovery of world trade and value chains and reduce the polarizing tensions created by the China-US trade war and the protectionist dynamics resulting from the pandemic.

The EU should promote the use of "thematic diplomacy"²⁵ to raise common interests with

²¹ States that do not have a powerful status on the geopolitical chessboard, but do have an important role in international relations. (WEF, 2021)

²² World Economic Forum, wef.com. Accessed the 15/02/2021. Available at: <http://ef.ch/risks2021>

²³ "À l'Est, que du nouveau : les relations entre l'UE et ses voisins orientaux", europarl.europa.eu. The list of candidates for future EU membership includes Montenegro, Albania, Serbia, Republic of North Macedonia and potentially Bosnia-Herzegovina and Kosovo. Accessed the 21/03/2021. Available at: <https://www.europarl.europa.eu/news/fr/headlines/world/20200604STO80510/l-ue-envise-l-avenir-avec-ses-voisins-orientaux-apres-la-pandemie>

²⁴ "L'après-pandémie et l'avenir de l'OMC, quel rôle pour l'UE?", [lesechos.fr](https://www.lesechos.fr). Accessed the 20/03/2021. Available at: <https://www.lesechos.fr/idees-debats/cercle/opinion-lapres-pandemie-et-lavenir-de-lomc-quel-role-pour-lue-1206209>

²⁵ BENNIS, A. "Middle Power Diplomacy: From State to Thematic Diplomacy", [globalpolicyjournal.com](https://www.globalpolicyjournal.com). Accessed the 21/03/2021. The use of thematic ambassadors, nowadays more typical of great superpowers, serves the dual purpose of coordinating internationally the different national actors, including NGOs, and leading negotiations on issues involving different international stakeholders. Available at: <https://www.globalpolicyjournal.com/blog/06/04/2020/middle-power-diplomacy-state-thematic-diplomacy>

other middle powers, and thus strengthen its role as bridge-builders, which is so necessary to generate greater multinational cohesion²⁶.

Returning to the purely economic point of view, the pandemic has led to a drop in economic indices like those resulting from the end of the Second World War²⁷. The volatility of stock market indices and the amplification of pre-existing problems, such as the oversized financial economy or the effects of monetary policies on the functioning of the banking market, have only increased over the past year.

Debt, GDP and inequality

The COVID crisis has come at a time when many influential countries were already heavily indebted, as a result of the crisis of 2008, and with serious problems in the financial and commercial spheres, still unresolved or with a tendency to amplify.

Prior to the COVID-19 pandemic and since 2010, a fourth wave of global debt accumulation took place, which was the fastest and largest increase in debt in five decades. This new wave was preceded by three previous ones, which began in the 1970s with the oil crisis. The common feature of all of them is that they ended up becoming widespread and almost ubiquitous financial crises²⁸. Recent economic history shows us that after a period of government indebtedness, if it is not resolved, a major economic debacle inevitably follows.

However, it is worth noting that even before the dissemination of COVID in the first four months of 2020, real GDP growth in the G20 countries had begun to decline slowly but steadily. In fact, growth in 2019 fell to 2.9%, down from 3.7% in 2018²⁹. Investment rates, too, already from the beginning of the economic recovery, remained down.

Some economists draw parallels with the great crash of '29, notably concerning the

²⁶ BENNIS, A. "Middle Power Diplomacy: From State to Thematic Diplomacy", *globalpolicyjournal.com*. Accessed the 21/03/2021. Available at: <https://www.globalpolicyjournal.com/blog/06/04/2020/middle-power-diplomacy-state-thematic-diplomacy>

²⁷ CHAUMONT, B. Le monde en face. COVID-19: aux origines d'une crise mondiale, *france.tv*. Accessed the 21/03/2021. Available at: <https://www.france.tv/france-5/le-monde-en-face/2306625-covid-19-aux-origines-d'une-crise-mondiale.html>

²⁸ "Global economic prospects", *worldbank.org*. Accessed the 02/04/2021. Available at: <https://www.worldbank.org/en/publication/global-economic-prospects>

²⁹ "GDP growth slowing before Covid-19: OECD", *investmentexecutive.com*. Accessed the 02/04/2021. Available at: <https://www.investmentexecutive.com/news/research-and-markets/gdp-growth-slowing-before-covid-19-oecd/>

collapse of both employment and GDP in a large part of the world's economies, and in the most advanced ones. It is not unusual to find headlines in specialized magazines that speak of "the worst GDP since the invention of GDP". The different ways of measuring a country's growth have been different throughout economic history, but there has never been a time in our time when wealth has declined so much in a single year.

But, above all, there is a clear and devastating coincidence between these two global crises: their systemic nature, which goes far beyond mathematical economic indices to attack the welfare state in each and every one of its essential aspects, particularly health.

However, the differences between these two major crises are also notable. While in the Great Depression government action was rather late (the New Deal in the US began in 1933), which meant that it took a long decade to emerge from the crisis, in the COVID crisis the state response, with unprecedented increases in public spending, has been almost immediate.

Some of the medium-term effects of the COVID poly-crisis are discussed by analysts as risks that are deeply embedded in the essential economic dynamics. For example, the possible increase in global inflation. Despite the interest rate of money and the volatility of oil prices, high levels of inflation are not ruled out as a consequence of the expansionary monetary policies pursued by most governments³⁰.

Economic models and economic intelligence

The World Bank has modelled, in the document 'Global economic prospects'³¹, the future of world economic growth, depending on the foreseeable ability to control contagion and the pace and effectiveness of vaccination. The models range from realistic optimism to pessimism, analysing the social, including governance, cultural, health and, of course, economic consequences of all of these. These models have been created using real data from all areas that make up the so-called 'welfare state', estimates, expert assumptions, advanced mathematics, and combinations of multiple macroeconomic aspects. The models are intended to do nothing more than prepare us for possible scenarios to come.

³⁰ "Economic and financial risk insights", swissre.com. Accessed the 25/03/2021. Available at: <https://www.swissre.com/search-page.html?searchterm=Economic+and+financial+risk+insights>

³¹ "Global economic prospects", worldbank.org. Accessed the 02/04/2021. Available at: <https://www.worldbank.org/en/publication/global-economic-prospects>

Although we are immersed in an unprecedented crisis and are making every effort and using every available means to get out of it, at least to return to a reality similar to the previous one, the truth is that the world's future is taking shape before us. The new challenges, risks and opportunities are in the process of being formed while we solve the problems of the present.

Following a crisis of any kind, the previous normality has always been succeeded by some new-fangled detail that is reluctant to disappear. Just as we have sewers to prevent diseases associated with poor public hygiene, many of the habits forced upon us by the pandemic will become permanent. However, it is necessary to anticipate the consequences of what is currently happening and those that will result from the different approaches to its resolution, through a system of economic intelligence that encompasses all social actors.

Associated with the ever-ubiquitous problem of individual security, which derives from almost all other existing problems, states must anticipate risks and threats, modelling, gathering intelligence in all areas; creating a culture of this, organized, that responds to a strategy focused on anticipating and preparing for the coming crises.

Spain, as a middle power, should do so hand in hand with the EU, which for the first time in a long time and despite the difficulties, shows an undeniable determination to react jointly to a crisis. It is not, therefore, the capacity to react that should be its only ambition, but that of resilience, for which it will have to implement a future strategy, built from the present, that will allow sustainable growth and the power to face the challenges that arise, through innovation, productive investment, unified migratory policies... and a solid economic intelligence community that observes the existing signs, before they turn into a crisis like the current one.

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