

# COVID-19 AND PEACE

- Impact on Violence
- Economic Impact and Early Responses
- Impact on Positive Peace
- Rebuilding the Economy





## **Quantifying Peace and its Benefits**

The Institute for Economics & Peace (IEP) is an independent, non-partisan, non-profit think tank dedicated to shifting the world's focus to peace as a positive, achievable, and tangible measure of human well-being and progress.

IEP achieves its goals by developing new conceptual frameworks to define peacefulness; providing metrics for measuring peace; and uncovering the relationships between business, peace and prosperity as well as promoting a better understanding of the cultural, economic and political factors that create peace.

IEP is headquartered in Sydney, with offices in New York, The Hague, Mexico City, Brussels and Harare. It works with a wide range of partners internationally and collaborates with intergovernmental organisations on measuring and communicating the economic value of peace.

**For more information visit [www.economicsandpeace.org](http://www.economicsandpeace.org)**

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# SUMMARY

- The socio-economic factor most highly correlated with the number of COVID-19 infections has been the level of air travel before the lockdowns. The US, France, Italy, Spain and the UK have some of the highest air travel rates in the world.
- The crisis has raised tensions between the US and other countries like China, over the role of the World Health Organization (WHO), trade disputes and the origins of the virus. These tensions are likely to increase as economies face protracted downturns.
- Most indicators in the Global Peace Index are expected to deteriorate. The one area that may improve is military expenditure, as countries redirect resources to propping up their economies.
- Europe is expected to see an increase in political instability, including riots and general strikes, all of which have increased substantially in the past decade.
- Reduction in overseas aid budgets will further stress fragile and conflict affected countries, such as Liberia, Afghanistan, Burundi and South Sudan, which are highly dependent on international aid.
- Countries with poor credit ratings, such as Brazil, Pakistan, Argentina and Venezuela may not be able to borrow enough to sustain their economic recoveries, leading to increases in political instability, riots and violence.
- As economies contract, countries will find it more difficult to repay existing debt. The combination of indebtedness and weak activity is likely to lead to increases in poverty, political instability and violent demonstrations. Lebanon has defaulted on its bonds, contributing to an economic crash and violent clashes in its streets.
- The world lacks a credible approach to deal with this crisis. The impact is likely to sharpen the focus on other socio-economic factors that have been brewing, such as the growing inequality in wealth, deteriorating labour conditions in developed countries and increasing alienation with the political system.
- The sharp fall in oil prices will affect political regimes in the Middle East, especially in Saudi Arabia, Iraq and Iran, which may result in the collapse of the shale oil industry in the US, unless oil prices return to their prior levels.
- The pandemic may curtail Iraq's capacity to combat ISIL insurgencies.
- Many countries will struggle to fund expensive interventions. Examples are Saudi Arabia's ability to support the government of neighbouring Yemen, Turkish and Russian support in Syria or Iran's support of militias, such as Hezbollah.
- Iran has warned that the pandemic is an internal security threat that further compounds the US-led sanctions against the country.
- The pandemic and the weak oil markets have worsened the internal security and humanitarian crisis in Venezuela. It has also led Colombia, Brazil and other countries to close their borders with Venezuela, causing further hardship for vulnerable Venezuelans.
- As OECD economies contract, more countries will likely reduce their peacekeeping contributions.
- The economic downturn will impact food security. A total of 113 million people in 53 countries were already on the brink of starvation even before the onset of the pandemic. Countries such as Venezuela, Burundi and Yemen will see deepening food shortages.
- There have been protests in the US, Germany, France and Poland against lockdown regulations. Millions of Brazilians demonstrated in the cities of Sao Paulo and Rio de Janeiro against the government's handling of the pandemic.
- Prison breaks were reported in Venezuela, Brazil and Italy, with inmates reacting violently to new restrictions associated with COVID-19.
- Drug trafficking and other types of crime have seen a temporary reduction as a result of social isolation around the world. However, reports of domestic violence, suicide and mental illness increased.
- OECD countries with greater development in the Positive Peace Pillar *Well-Functioning Government* have been able to test a higher proportion of their population for the COVID-19 virus.

# Preparedness for the Post-Pandemic Recovery



**The journey out of this global recession will be long and arduous. However two factors may assist countries along this path. The first is high levels of Positive Peace, guaranteeing effective institutions, social cohesion and transparent, representative governments. The second is favourable economic conditions before the onset of the pandemic. In particular:**

- low levels of central government debt will help countries borrow to mitigate the economic downturn during the crisis and fund post-pandemic recovery initiatives;
- low levels of unemployment, especially long-term, mean that the labour market is resilient and agile, facilitating the re-training and re-allocation of workers to a new post-pandemic business environment;
- low tax burdens mean that central authorities will have some leeway to increase taxation in the medium term to help fund budget deficits enlarged by the crisis. This may decrease the risk of economic instability; and
- low dependence on international trade means that countries may navigate the disruption of international logistics caused by COVID-19 and a possible future reduction in international trade as countries attempt to reduce reliance on

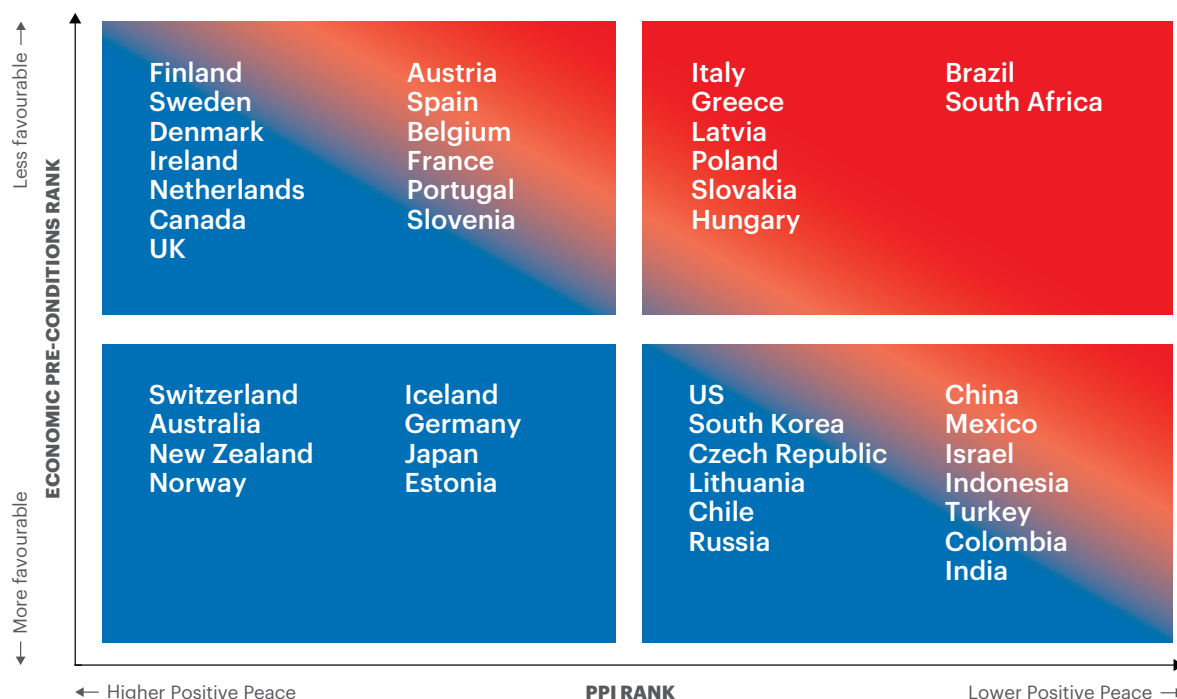
manufacturing from East Asia. The World Trade Organisation (WTO) is expecting international trade to fall by between 13 and 32 per cent in 2020 as the COVID-19 pandemic disrupts normal economic activity.<sup>1</sup>

The following graphic depicts which countries are best positioned for recovery and those that are not. The analysis was restricted to OECD and BRIC countries plus South Africa, Colombia and Indonesia. Before the pandemic, some countries combined both high levels of Positive Peace and favourable economic conditions. These countries will be better positioned to implement robust post-pandemic recovery programs. Other countries are strong in Positive Peace but weaker in economic pre-conditions, suggesting that economic management – rather than social, institutional development – will be a focus in the recovery.

FIGURE 1.1

## POSITIVE PEACE AND ECONOMIC RESILIENCE FOR POST-PANDEMIC RECOVERY, 2018

Some countries combine favourable economic pre-conditions for a post-pandemic recovery with higher levels of Positive Peace, as measured by the Positive Peace Index (PPI). Others do comparatively less well in both criteria.



Source: IEP

## THE IMPACT OF COVID-19 ON THE GLOBAL PEACE INDEX AND THE POSITIVE PEACE INDEX

In 2020, humanity faces one of the most serious crises in recent history. The tragic loss of life and deep economic disruption caused by the COVID-19 pandemic will permanently change society and economies. Responsiveness and adaptability will determine which countries perform best through this period. The pandemic will undo many years of socio-economic development for several countries, exacerbating humanitarian crises and potentially aggravating unrest and conflict.

In this paper, Institute for Economics and Peace (IEP) summarises the crisis through the lens of socio-economic development and peacebuilding. The paper outlines the global impact of the pandemic, using economic data and forecasts available as of May 2020. It discusses the changes in socio-economic systems using the Positive Peace framework and considers the repercussions of such changes on patterns of violence and conflict. Finally, it examines

key aspects of the post-pandemic world and comments on forward-looking initiatives to reshape the global economy. The report also analyses which countries are best positioned to deal with the crisis and those that are not.

Since 2008, IEP has produced the Global Peace Index (GPI) – the world’s leading measure of global peacefulness. It has also empirically developed the Positive Peace Index (PPI), which measures the *attitudes, institutions and structures* that create and sustain peaceful societies. The PPI provides guidance on the future peacefulness of countries, their resilience, which in the COVID-19 era is increasingly important, and long-term prospects for recovery.

Most of the indicators of the GPI and the PPI are likely to be negatively impacted by the COVID-19 pandemic. Table 1.1 briefly discusses the potential impact on some of the indicators in the GPI and PPI.

TABLE 1.1

### EXPECTED DEVELOPMENTS IN THE GPI AND PPI IN THE AFTERMATH OF THE COVID-19 PANDEMIC

The pandemic and the responses to it will have some detrimental impact on peacefulness. But the negative influence on Positive Peace is likely to be severe.

INDEX	DOMAIN	INDICATOR	EXPECTED IMPACT	COMMENTS
Global Peace Index	Safety and Security	Access to Small Arms	Deterioration	Gun sales in the US have increased throughout the crisis.
		Political Instability	Deterioration	Increased economic uncertainty leads to pressure on existing governments. Europe is expected to see an increase in riots and general strikes, both of which have increased substantially in the past decade. Lebanon has already seen violent demonstrations because of food shortages and the Government defaulting on bond repayments.
		Political Terror	Likely Deterioration	The political instability emanating from the economic crisis will lead some governments to increase repression, while others will use lockdowns to pass laws restricting personal freedoms.
	Ongoing Conflict	Violent Demonstrations	Deterioration	Protests against lockdowns have started to emerge in the EU, the US, Brazil and MENA.
		Intensity of Internal Conflict	Uncertain	As humanitarian assistance decreases, the potential for emerging power vacuums to cause or exacerbate existing tensions rises.
	Militarisation	Neighbouring Country Relations	Uncertain	Increased tensions between the US and China, and supply line dependencies will cause other countries to re-evaluate their existing international alliances. Trade will decrease.
		UN Peacekeeping Funding	Large Deterioration	As the OECD economies contract, more countries will likely reduce their Peacekeeping contributions.
Positive Peace Index	Good Relations with Neighbours	Per cent of GDP spent on the military	Uncertain	This is likely to decrease as governments, especially OECD nations, redirect spending to support their economic recoveries.
		Visitors per 100,000 population	Large Deterioration	It will be many years before international tourism returns to 2019 levels.
	Sound Business Environment	GDP per capita	Large Deterioration	The global business environment will suffer as economies contract. Some economies may collapse through credit default (Lebanon), lack of borrowing capacity (Brazil) or high inflation (Argentina).
		Youth not in employment, education or training	Large Deterioration	In the immediate term, the sectors worst hit by the economic downturn have been those that employ youth. A large unemployed youth cohort increases the likelihood of violence.
		Equitable Distribution of Resources	Poverty headcount ratio at \$5.50 a day	Large Deterioration
	Acceptance of the Rights of Others	Group grievance	Large Deterioration	Many countries are experiencing increases in hostilities towards minorities, especially towards people of Chinese descent.

Source: IEP

## THE LEGACY OF COVID-19

The GPI measures peacefulness across three domains: *Safety and Security*, *Ongoing Conflict* and *Militarisation*. While the world has become less peaceful over the last decade, there have been some notable improvements in peace. The average country score on the *Militarisation* domain improved by 4.4 per cent, driven largely by reductions in military spending as a percentage of GDP and the size of the armed forces in many countries. The *Safety and Security* domain deteriorated by 3.3 per cent and the *Ongoing Conflict* domain also deteriorated, falling by 6.8 per cent.

The 2020 pandemic has highlighted how interconnected, fragile and complex the global socio-economic system is. In a matter of weeks, global travel and trade systems collapsed, social norms changed radically, rights and liberties which had been taken for granted – such as the freedom of movement and association – were revoked and social values re-oriented. It also became apparent that the world lacks a credible approach to deal with such crises. The uncertainty, along with the impact of the virus and subsequent economic losses, is likely to sharpen the focus on other socio-economic factors that have been brewing, such as the growing inequality in wealth, deteriorating labour conditions in developed countries and the alienation from the political system. As these dynamics play out, the world will be a very different place in the future.

Other irreversible changes are likely to occur in the way individuals socialise, work and conduct business. Economies are likely to be restructured to provide greater focus on strategic essential sectors, economic sovereignty and food security.

Social values have been affected, with oil prices falling sharply. In contrast, food, shelter, health care and sanitation equipment were avidly sought after. Some cities saw long lines to buy food and consumer staples and hoarding was also common. Companies providing these goods and services largely bypassed the precipitous share price falls seen in February and March.

While international trade has been one of the key drivers of prosperity in recent decades, it has rendered most countries vulnerable to disruptions in global logistic lines. Accordingly, authorities and businesses will have to consider economic sovereignty in the post-pandemic restructuring. The probability of global logistic disruptions – which this pandemic has highlighted – will need to be incorporated in the price of traded goods. The increasing complexity of international supply chains is a vulnerability that previously had not been properly assessed by companies and sovereign states. Just to give one example, the iPhone involves 43 countries in its construction. Particularly pressing considerations will be food and critical manufacturing processes. These will be key drivers of change in supply chains and geopolitics in future decades.

The pandemic has been especially harmful to those living in fragile states. Firstly, the economic downturn greatly increased the risk of joblessness and poverty. Secondly, travel bans and social isolation interrupted tourism and relief missions supplying those most vulnerable with food and health care. Without support, these fragile countries will struggle to recover, thereby creating the conditions for future increases in civil conflict.

The first response to the pandemic has required nations and societies to make a stark choice between public health and the economy. Now, as many countries pass peak infections, the focus is on getting the economies going. However, this may result in a resurgence of COVID-19, which will then further impact economic performance. The future is difficult to see, but until a cure or a vaccine is found, this infection will have a substantial impact on the economy. It is clear that the flow-on effects from the pandemic will be detrimental to peace.

# The pandemic in context



The COVID-19 pandemic has been the most disruptive infection outbreak of the 21<sup>st</sup> century as illustrated in Table 1.2. The pandemic started in Wuhan, China, in late 2019 and by early 2020 had spread globally. By late May 2020, the virus had resulted in 370,000 deaths worldwide, around 12 per cent of identified and closed cases.<sup>2</sup> It is possible that this mortality rate is overstated, as the low testing numbers in the initial phase of the pandemic allowed many cases to pass undetected.

In response, authorities employed containment measures including social isolation and business closures, resulting in a sharp economic downturn. COVID-19 has affected countries regardless of their levels of socio-economic development, unlike other epidemics this century which have mostly impacted countries with low to medium levels of Positive Peace.

TABLE 1.2

## LARGE EPIDEMICS OF THE 21<sup>ST</sup> CENTURY

Eleven out of the 18 most severe epidemics of the century took place exclusively in regions with low to medium socio-economic development as measured by the Positive Peace Index.

EPIDEMIC	START	REGIONS AFFECTED	NUMBER OF DEATHS	REGIONAL POSITIVE PEACE
<b>COVID-19</b>	<b>2019</b>	<b>Worldwide</b>	<b>370,000</b>	<b>All</b>
H1N1/09 (swine flu)	2009	North America, part of Asia and Africa	18,036	All
Ebola	2013	West Africa	>11,300	Low to medium
Cholera	2010	Haiti	>10,000	Low
Measles	2019	D.R. Congo	>5,000	Low
Measles	2011	D.R. Congo	>4,500	Low
Cholera	2008	Zimbabwe	4,293	Low
Cholera	2016	Yemen	>3,800	Low
Ebola	2018	D.R. Congo, Uganda	2,253	Low, medium
Dengue	2019	Asia-Pacific, Latin America	>2,000	Low to high
Meningitis	2009	West Africa	931	Low to medium
MERS-CoV	2012	MENA	862	Low to high
SARS	2002	East Asia and Canada	774	High to very high
Cholera	2001	Nigeria, South Africa	>400	Low, high
Yellow Fever	2016	Angola, D.R. Congo	393	Low
Dengue	2011	Pakistan	>350	Low
Chikungunya	2013	Latin America	183	Low to high
Yellow Fever	2012	Sudan	>171	Low
<b>Comparison Items</b>				
HIV/AIDS	1980s	Worldwide	32 million	All
Spanish Flu	1918	Worldwide	50 million	All
Hunger	n.a.	Worldwide	9 million per year	Mostly low to medium
Cardiovascular diseases	n.a.	Worldwide	18 million per year	All
Suicide	n.a.	Worldwide	800,000 per year	All

Source: Sen Nag (2018)<sup>3</sup>; Gholipour (2013)<sup>4</sup>; World Health Organization Country Profiles, Situation Reports and Global Health Observatory; Worldometer; Pan-American Health Organization; Press Trust of India; Center for Disease Control and Prevention; BBC News; Mercycorps; IHME Global Burden of Disease; IEP.

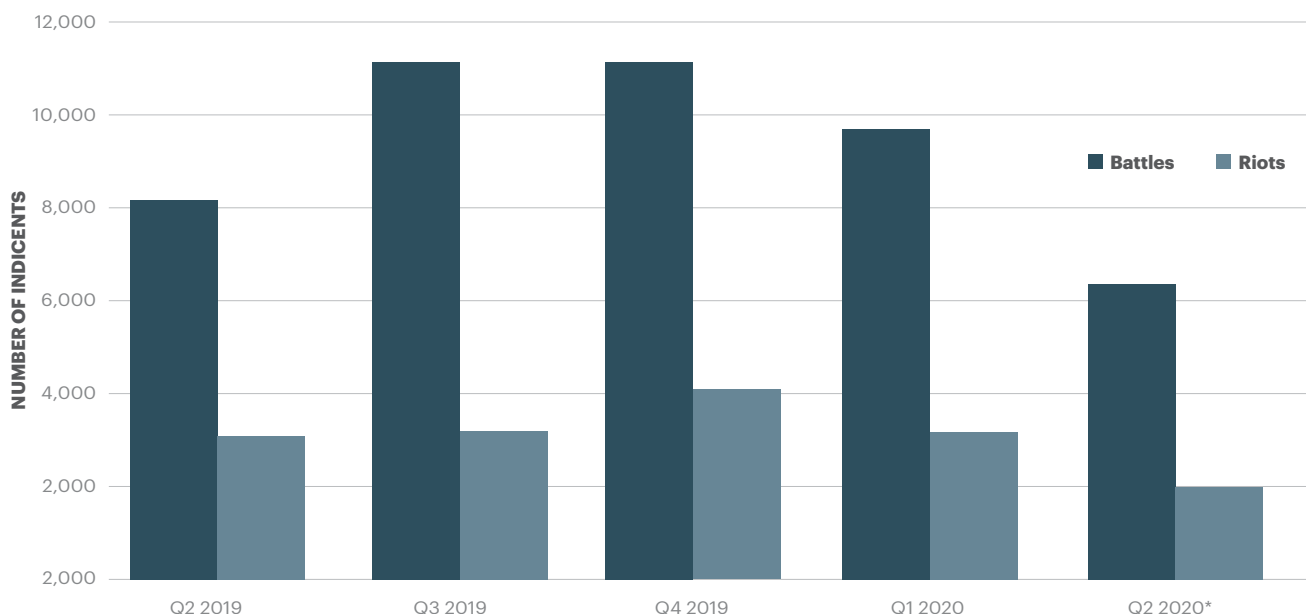




FIGURE 1.3

## VIOLENT INCIDENTS – BATTLES AND RIOTS

There has been a reduction in the number of battles and riots in the second quarter of 2020.



Source: ACLED; IEP calculations

Note: \* Quarterly estimates calculated using data for April

Combatants in Yemen heeded the UN request, as the Saudi-led coalition fighting Yemeni Houthis halted military activities in April.<sup>6</sup> This was an important step on the path towards a permanent ceasefire to end the five-year war that killed 100,000 people. Saudi forces and the Houthis had initiated tentative negotiation talks already in 2019, but the global pandemic provided impetus to an agreement. As yet, the ceasefire proposal has not been formally agreed to by the Houthi rebels.

Student groups and civil organizations in Chile called for a suspension of protests in late March, but citizens also set up road blockades in actions calling for regional lockdowns and improved safety protocols.<sup>7</sup> Demonstrations also declined in Colombia and Venezuela with the imposition of lockdowns. The restrictions were imposed indefinitely in seven states in Venezuela.

Russia and Eurasia have also recorded significantly reduced activity, as restrictive measures to limit the spread of coronavirus prevented many events from taking place. Russia postponed the referendum on reforms that would allow President Putin to extend his term beyond 2024, originally set for 25 April.

Restrictions on movement may dampen protest activity globally in the short run, but political and social tensions are likely to remain through the crisis. Some may even be amplified, as frustrations compound upon losses of livelihoods and free movement.

As the economic fall-out increases and people become more accustomed to COVID-19, it is likely that the ten-year trend of increasing demonstrations, riots and general strikes will intensify. The effects of this on political stability will be pronounced.

## PATTERNS OF VIOLENCE

The short-term impact of COVID-19 on patterns of violence has been mixed. On the one hand, social isolation led to a decline in crime rates by reducing the chances of assaults, muggings, fights and other violent crimes.<sup>8</sup> Drug dealing has declined in many cities around the world, with traffickers finding it harder to reach potential clients. In fact, drug gangs in the US have agreed to a ceasefire so as to keep hospital beds free for COVID-19 patients.<sup>9</sup> There have also been fewer reported cases of urban brawls and car accidents. On the other hand, as mentioned, domestic violence and self-harm have reportedly risen substantially as a result of confinement and greater psychological stress.<sup>10,11</sup>

In Latin America, the pandemic led to a consolidation of power held by drug cartels in places where the state is nearly absent. With policing diverted to monitoring social distancing in city centres and suburbs, criminal organisations in urban outskirts tightened the stranglehold on residents, at times, even enforcing epidemiological social isolation.<sup>12,13</sup>

Some types of cybercrime may increase during the time of the pandemic. As more people – especially those less skilled and experienced on the internet – look for information or go shopping on-line, cyber criminals have increasingly sought to take advantage of the unwary. They have created fake websites to collect fraudulently information from users – an activity known as ‘phishing.’ Google reported a 350 per cent increase in phishing websites after the onset of the COVID-19 pandemic, and similar developments have been reported by other tech companies.<sup>14</sup>

# Economic impact and early responses



## FINANCIAL AND ECONOMIC INDICATORS

### Financial Markets

Global financial markets reacted to the COVID-19 crisis in February 2020, when it became apparent that the spread of COVID-19 would not be restricted to East Asia. The Morgan Stanley Capital International (MSCI) World, a stock index that reflects global equity prices, fell by 34 per cent from its 19 February peak to a 23 March trough. The US share price benchmark, the S&P 500, shed a similar amount in the period. Since the March low, global equity markets have stabilised, although further downswings are likely.

So far the peak-to-trough decline in equity prices has been quick but mild in comparison to other crises, as seen in Figure 1.4. In addition, there has been a partial recovery in April and May. It is possible that financial markets have underestimated the severity of this outbreak and economic disruption. Additionally, the size of the stimulus packages and lowering of interest rates have increased money supply which then seeks investment opportunities.

Many authorities and investors expect a quick economic recovery when activity resumes in full. If these expectations are not met, it is possible that equity markets could decline further in 2020 and 2021. Another factor possibly buoying share prices in 2020 is the expectation that financial assets will be reflationed by quantitative easing (QE). This is discussed in the section 'Monetary Response' below.

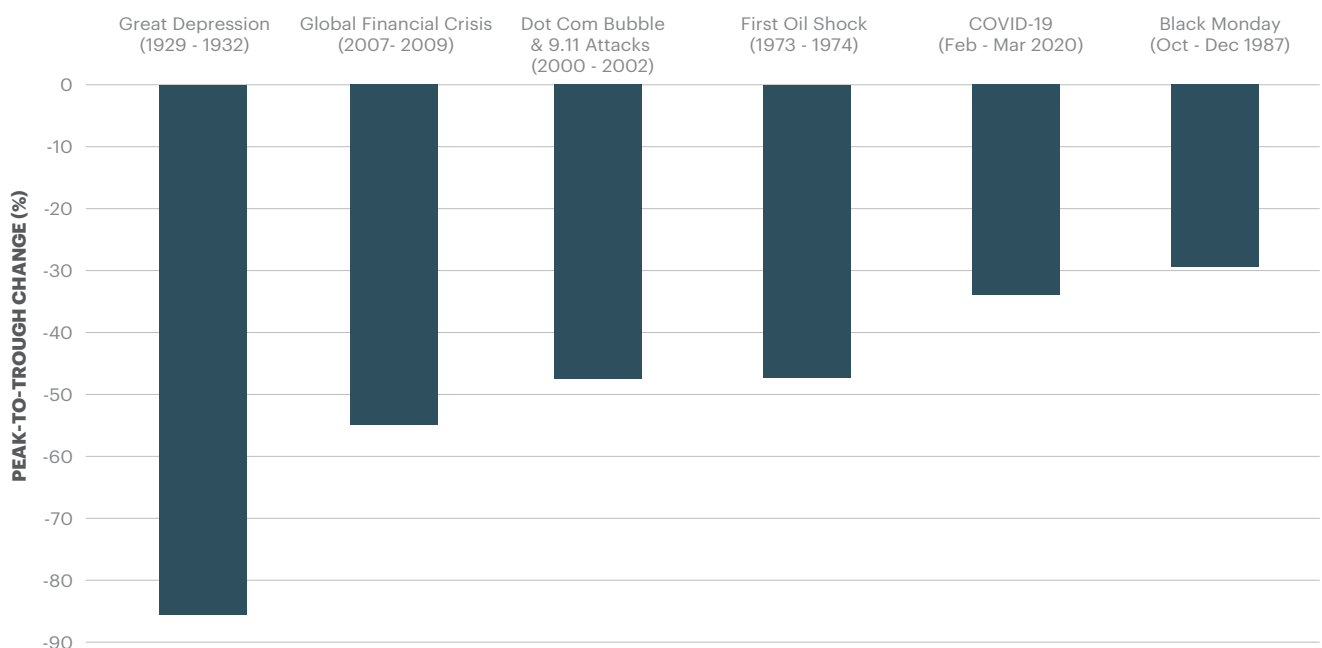
The uncertainty caused by the pandemic led to diverging trends in government and corporate bonds. Long-term government bonds, traditionally considered a safer investment opportunity, saw their prices bid up, leading to yield declines. Yields on ten-year US government bonds fell from two per cent late in 2019 to less than one per cent in May 2020. Similar developments were recorded in the UK and the EU.

In contrast, corporate bond yields rose sharply in the onset of the pandemic, reflecting the greater risks the private sector is now facing. Figure 1.5 shows that yields on US dollar-denominated corporate bonds with lower credit ratings peaked at almost 12 per cent in March 2020, from an average of around six per cent in the previous year.

FIGURE 1.4

### EQUITY MARKET CRISES—PEAK-TO-TROUGH CHANGES IN THE US S&P 500 INDEX

Equity markets' reaction to COVID-19 has so far been less acute than in other crises.

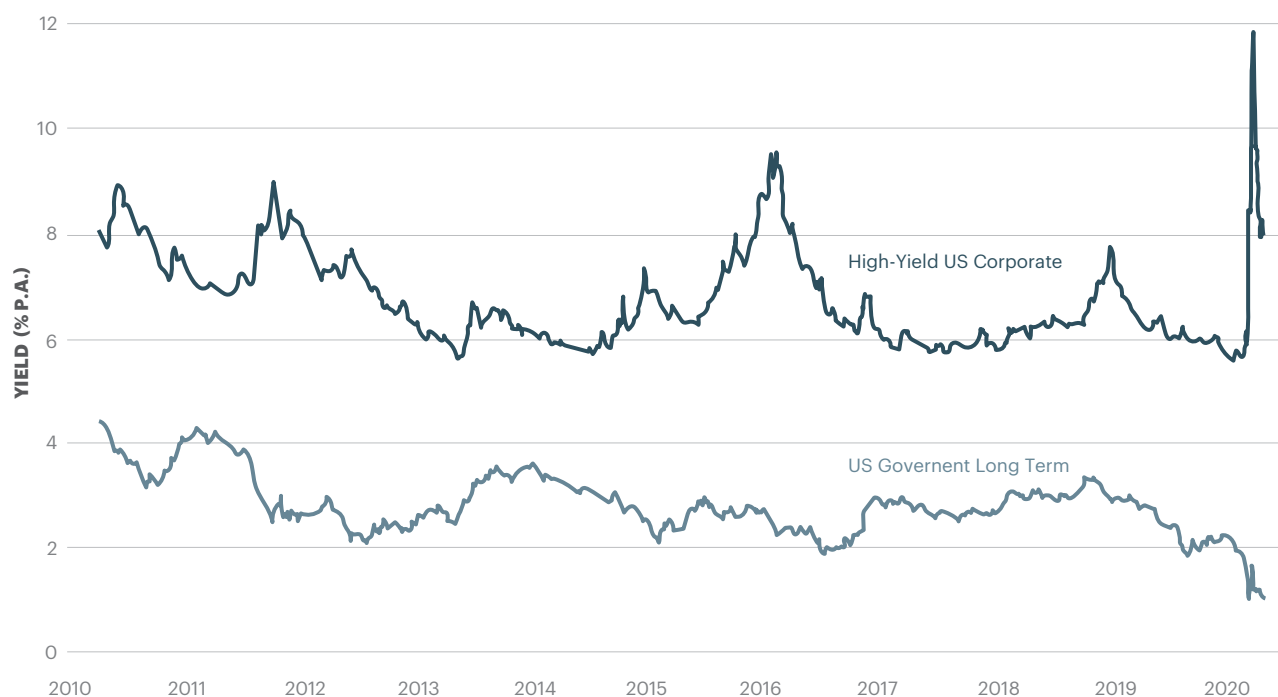


Source: Standard & Poor's

FIGURE 1.5

## US GOVERNMENT AND CORPORATE BOND YIELDS

The spike in corporate bond yields in 2020 reflected the new risks now facing the private sector. It contrasts with the decline in yields of government bonds, seen as a safe haven asset.



Source: Standard & Poor's; US Department of the Treasury

Credit Default Swap (CDS) spreads – a premium investors pay to be reimbursed in case an issuer defaults on its bonds – have also increased sharply. In some industries, such as oil and gas, air travel, and leisure, CDS spreads are pricing in widespread corporate failures.

### Economic Activity

In the first quarter of 2020, the US GDP shrank by 1.2 per cent relative to the previous quarter – a 4.8 per cent annualised contraction, as shown in Table 1.3. This was a much stronger decline than previously anticipated. The Euro zone recorded a sharp decline of 3.8 per cent in the quarter and Chinese output fell by 9.8 per cent, equating to an annualised contraction of 34 per cent. This is a sharp decline, but most analysts expect the Chinese economy to start recovering from the second quarter of 2020.

TABLE 1.3

### QUARTERLY REAL GDP GROWTH

Major economies recorded large declines in output in the first quarter of 2020.

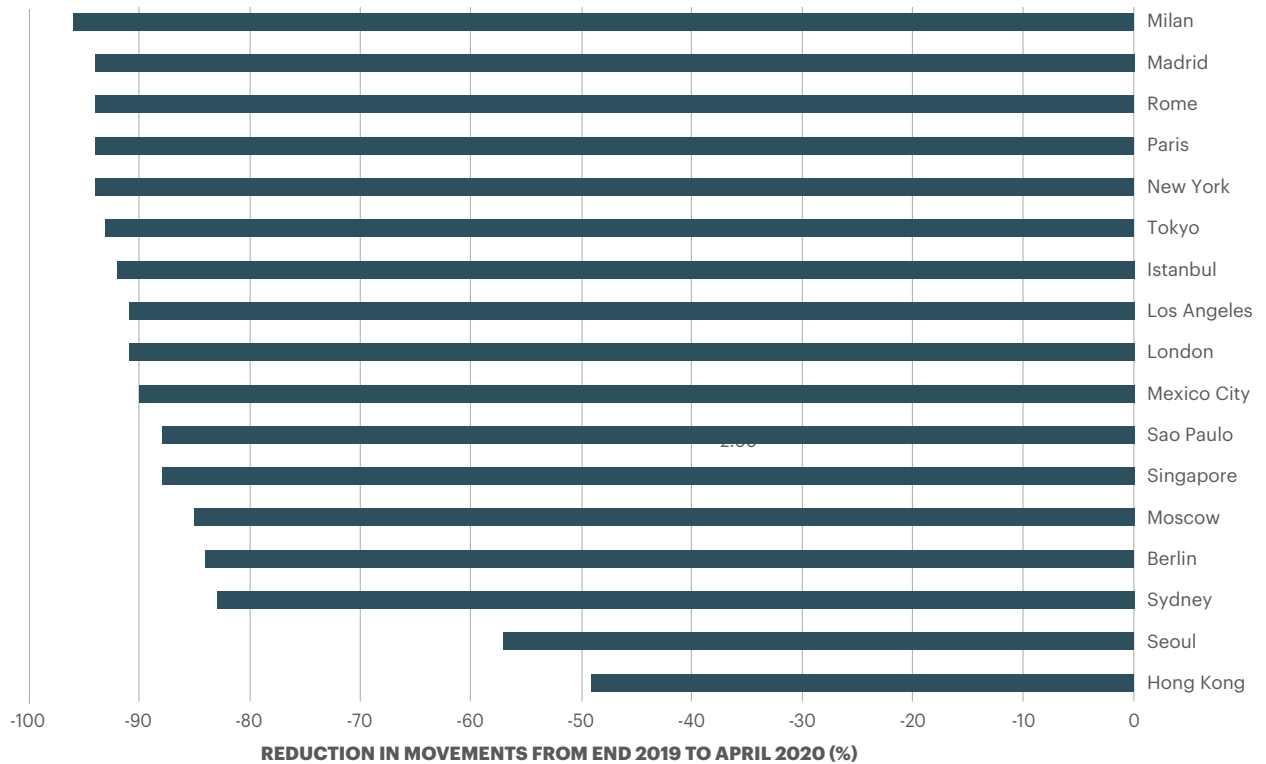
REGION	Change from previous quarter (%)		
	Sep-19	Dec-19	Mar-20
US	0.5	0.5	-1.2
China	1.4	1.5	-9.8
Eurozone	0.3	0.1	-3.8
UK	0.5	0.0	-2.0
South Korea	0.4	1.2	-1.4

Source: OECD; US Bureau of Economic Analysis; Reuters; Eurostat; UK Office for National Statistics

FIGURE 1.6

### CHANGES IN URBAN MOVEMENTS BY CITY, DECEMBER 2019 TO APRIL 2020

The number of urban trips being planned and performed through the Citymapper global service fell substantially in March 2020. By April most major cities had virtually stopped with the exception of Seoul and Hong Kong.



Note: Citymapper

Figure 1.6 illustrated that with lockdown schemes widely adopted, there were sharp declines in urban movement. By April 2020, some European and American capitals had virtually stopped.

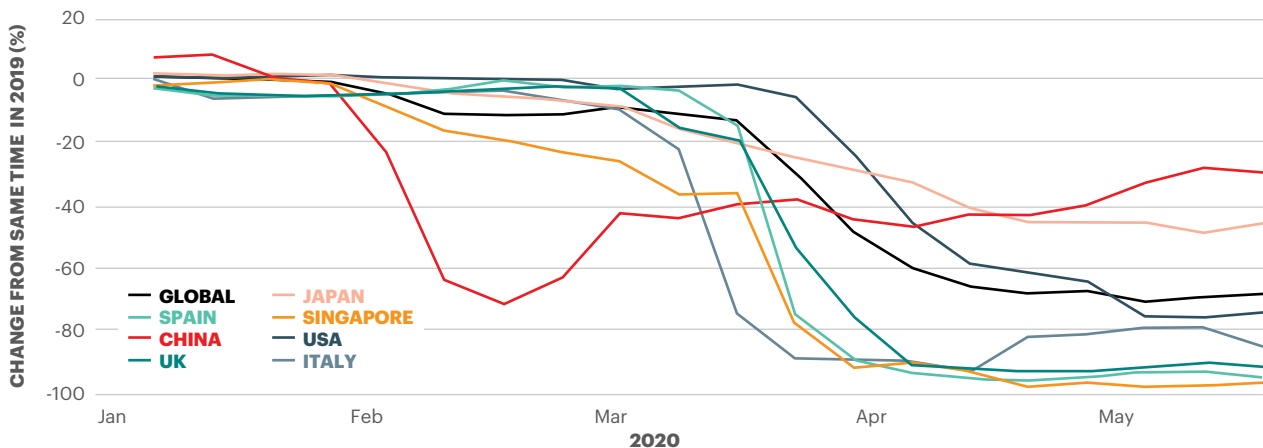
International air travel was heavily disrupted by the pandemic. Initially, countries imposed restrictions on flights to and from

China, where the virus was first detected. By May 2020, air travel bans had spread widely and global travel capacity had fallen by 70 per cent relative to December 2019, as seen in Figure 1.7. These figures most likely underestimate the actual contraction in air travel as many planes continued to take off but with increasing numbers of empty seats.

FIGURE 1.7

### CHANGES IN SCHEDULED AIR TRAVEL CAPACITY, 2020

Global scheduled air travel capacity had fallen by 70 per cent by May 2020. In Europe and Singapore air travel virtually stopped. The reduction in China took place one month before Italy's and has started to recover.



Source: Official Airline Guide

Industrial production has also been significantly affected by the pandemic. Figure 1.8 shows that in China, production declined by 13.5 per cent in the first two months of 2020 relative to the same period in the previous year. Since then, production appears to have started to recover. In the US, industrial production had already

started to fall in 2019, but the decline accelerated as a result of the pandemic. In March 2020, US industrial production fell by 5.4 per cent year-on-year, with the Federal Reserve declaring that as the weakest result since 1946.<sup>15</sup>

FIGURE 1.8

## INDUSTRIAL PRODUCTION

Industrial production fell sharply in the US and China early in 2020.



Source: Trading Economics

## Commodity Prices

The combined weakness in commercial, travel and industrial activity led to a plunge in oil prices in global markets. These markets were already effected by an over-supply, emanating from Russia and Saudi Arabia who could not agree on production curbs. On 20 April the price of crude oil turned negative for the first time in history, as seen in Figure 1.9. Demand had collapsed so rapidly that overstocked producers were willing to pay buyers to take away excess inventory. The negative price was a short-lived technicality, due to the way futures contracts are written; with oil prices soon

returning to positive territory. Nevertheless, the unprecedented episode highlighted the severity of demand collapsing worldwide.

By late April, the West Texas Intermediate was trading at US\$17 per barrel, compared to an average of US\$60 per barrel in the previous year. The price of base metals and other raw materials also fell as a consequence of the pandemic. The price of precious metals, like gold, silver, platinum and palladium fell sharply in March. Although gold prices have since recovered on international markets.

FIGURE 1.9

## OIL PRICE

The COVID-19 crisis resulted in negative crude oil prices for the first time in history.



Source: NY Mercantile Exchange

## Unemployment

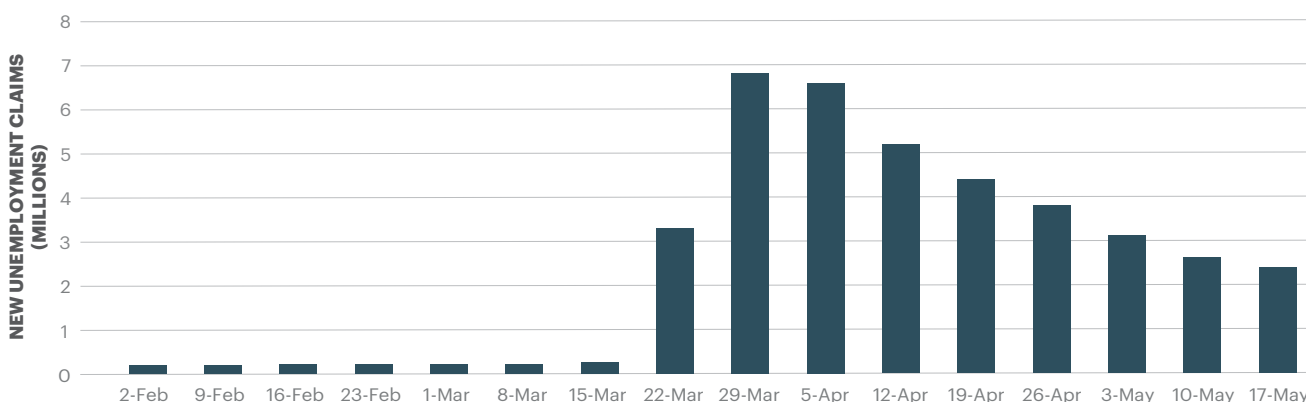
The COVID-19 pandemic has sent labour markets into turmoil. Unemployment rates have risen sharply throughout the world as a result of business closures and social isolation. Historical unemployment rates are not a good gauge for the impact of the pandemic on labour markets, given the dramatic increase in joblessness across the globe. In the US, the Federal Reserve Bank of St Louis warned that the unemployment rate could reach 32

per cent as a result of the pandemic.<sup>16</sup> This compares with a rate of 3.5 per cent in December 2019. This rise is consistent with the steep increase in the number of Americans seeking unemployment benefits from March 2020, as shown in Figure 1.10. If this forecast materialises, it will be a greater rate of joblessness than that recorded in the aftermath of the Great Depression of 1929 (around 24 per cent). Other countries are similarly bracing for further steepening in unemployment.

FIGURE 1.10

### US WORKERS SEEKING UNEMPLOYMENT SUPPORT, 2020

The number of US workers filing for unemployment benefits was around 200,000 per week early in the year. This number jumped to 6,867,000 by end March.



Source: Trading Economics

Countries with high unemployment rates before the pandemic will be hit particularly hard economically, as joblessness will increase at a time where their economies are already fragile. Of particular concern is long-term unemployment – those jobless for 27 weeks or more – as a proportion of the labour force, as per Figure 1.11. In contrast, countries with low levels of long- and short-term unemployment may find it easier to absorb the impact of the pandemic and re-allocate workers to critical sectors in its aftermath.

## BUSINESS SECTORS

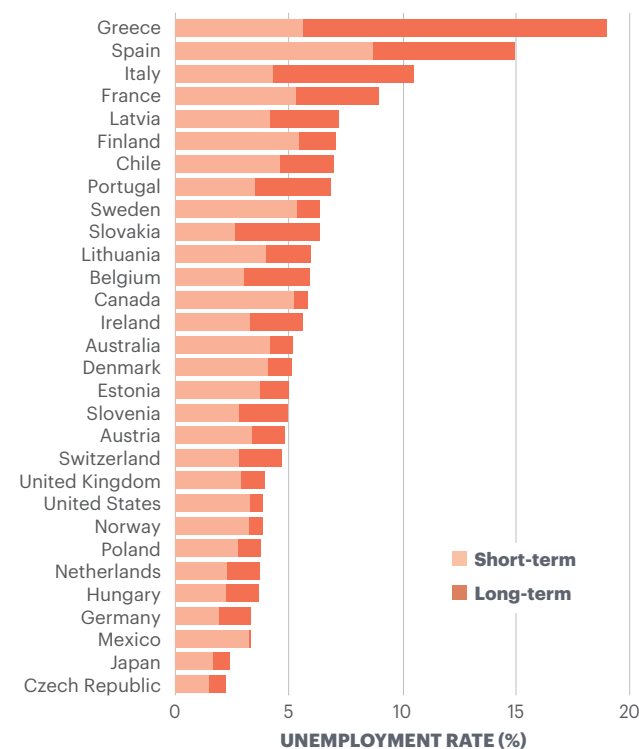
While the global economic downturn affected almost all sectors of business activity, some sectors have been especially impacted. The negative influence of COVID-19 on the airline industry is severe, with most countries implementing bans or restrictions on international and domestic travel. Accordingly, the MSCI stock price index for airlines declined by 51 per cent by April 2020, compared to end 2019, as shown in Figure 1.12. The oil and gas sector was also heavily disrupted, as collapsing demand led to sharp reductions in the price of crude oil and derivatives.

On the other hand, health care companies – particularly those involved with research and technology – have performed well in 2020. This is a consequence of the investment by governments and private sector in research towards treatments and vaccines for COVID-19. The retail sector, especially in regards to food and other staples, also outperformed the market. Some retailers offset the decline in face-to-face sales by creating online shopping facilities and zero-contact delivery services.

FIGURE 1.11

### UNEMPLOYMENT IN OECD COUNTRIES, 2018

Countries with low unemployment pre-pandemic may find it easier to re-skill and re-allocate workers.

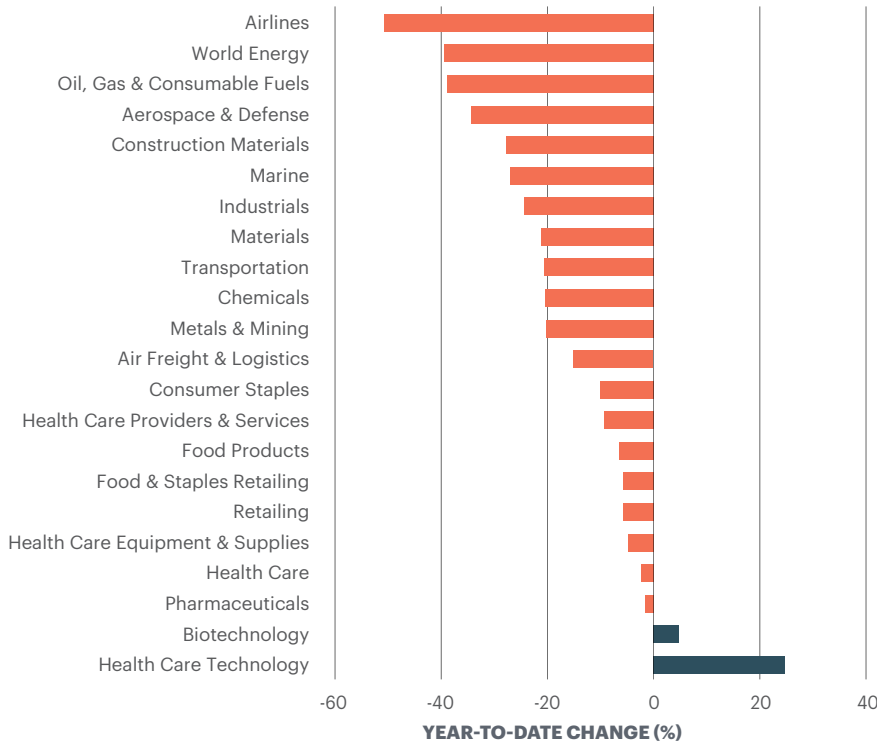


Source: OECD

FIGURE 1.12

### MSCI SECTOR INDEX CHANGES, YEAR TO 23 APRIL 2020

The global economic downturn affected all business sectors, but retail and health care fared better than others.



Source: MSCI; IndexQ.org

### MONETARY RESPONSES

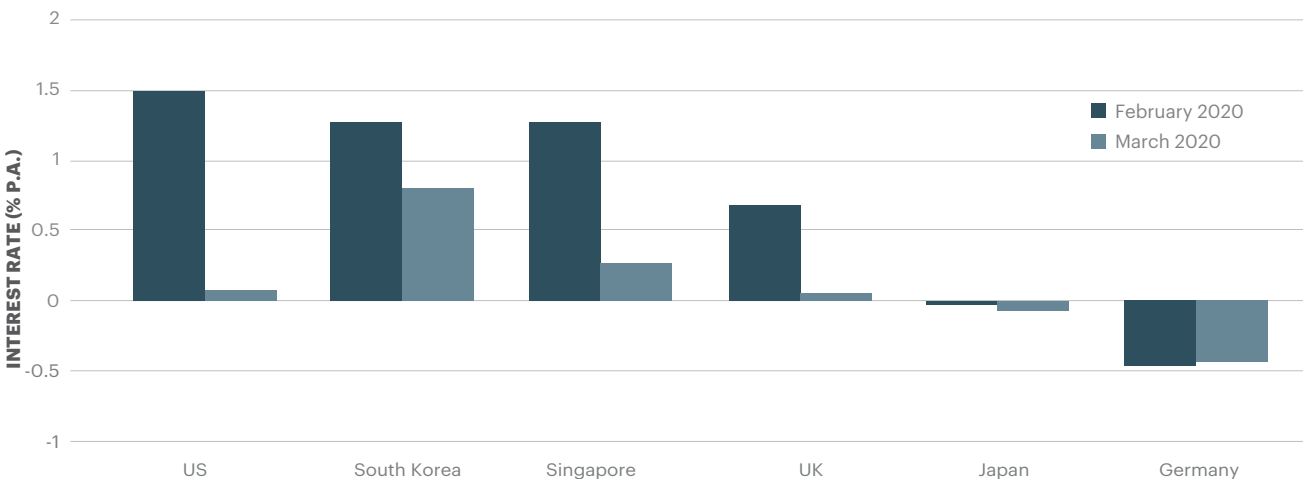
Figure 1.13 shows that in response to the crisis, central banks in many countries reduced the cost of funding to the banking sector. The objective was to lower debt-servicing burdens to businesses and households in an attempt to mitigate the economic impact of the pandemic.

However, historically low interest rate levels prior to COVID-19 means reducing rates further will not provide sufficient stimulus to world economies. Some countries' rates have even turned negative, with the monetary authority effectively charging a fee to hold excess deposits from commercial banks. In the US, for example, the Fed Funds Rate hovered around 1.5 per cent per year in early 2020, however throughout all US recessions over the past 50 years, interest rates have had to be cut by around five

FIGURE 1.13

### SHORT-TERM INTEREST RATES, SELECTED COUNTRIES

Central banks' policy rates or interbank lending rates were reduced in many countries as a response to the pandemic.



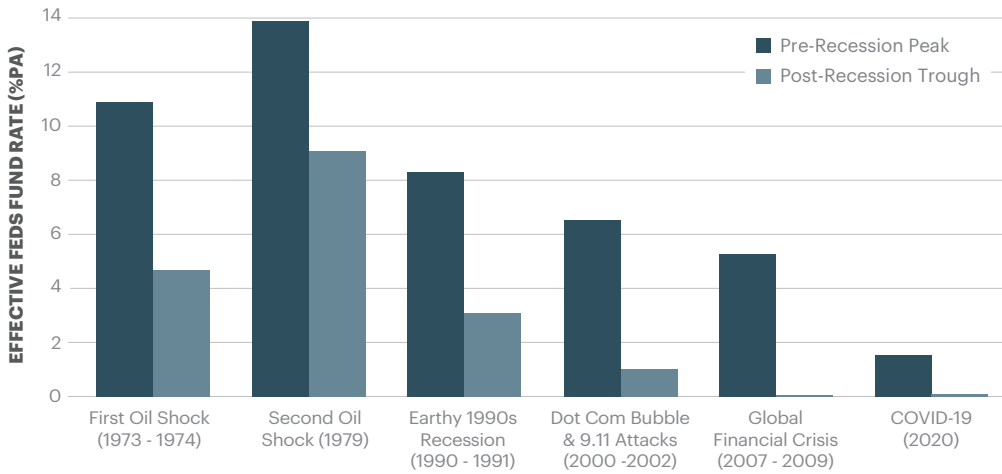
Source: Reserve Bank of Australia



FIGURE 1.14

## INTEREST RATE RESPONSES TO US RECESSIONS

In the past half century, US recessions required cuts in the Fed Funds rates of around five percentage points. At 1.5 per cent, interest rates immediately before the 2020 pandemic clearly do not allow for such a degree of monetary easing.



Source: Federal Reserve Bank of St Louis

percentage points to mitigate the economic downturn (Figure 1.14). As a result, authorities are looking into more drastic ways to stimulate economic activity.

### Quantitative Easing

Many central banks are currently considering quantitative easing (QE) or modern monetary theory (MMT) as it is currently being called to prevent large-scale bank failures and a credit crunch for businesses and households. QE happens when central banks acquire government and mortgage-backed bonds held by banks. This increases banks' cash reserves and injects liquidity into the financial sector. In the US, the Federal Reserve announced it would buy US\$500 billion in Treasury securities and US\$200 billion in mortgage-backed securities guaranteed by government agencies.<sup>17</sup> The European Central Bank put in place a €750 billion facility called Pandemic Emergency Purchase Programme to buy private and public sector securities from financial institutions.<sup>18</sup>

A risk of QE is that the additional liquidity might not make its way through to businesses and households. Banks can be reluctant to lend to businesses whose cash flow projections are unreliable during the pandemic. Households may not be able to borrow if their employment prospects are uncertain. Therefore, unless economies can reinvigorate businesses, employment and household consumption the extra liquidity provided by QE may end up reinvested in financial markets, artificially propping up the price of shares, property and bonds.

In fact, the expectation that QE may reflate asset prices could be one of the reasons share price declines, so far, have been comparatively mild and government bond yields declined. Persistent artificial reflating leads to financial asset prices overstating the productive capacity of economies and increases the potential for further financial corrections.

### FISCAL RESPONSES

The pandemic has galvanised authorities, businesses and private citizens to search for ways to increase health care capacity, mitigate the economic impact of isolation and assist vulnerable

sections of society. By April 2020 a total of US\$15.3 trillion had been pledged to COVID-19 related assistance and stimulus programs across the globe, according to development advocacy group Devex.<sup>19</sup> Almost 80 per cent of these funds were pledged by governments, with international agencies, philanthropic organisations and private citizens donating the remainder.

### ECONOMIC PROSPECTS

Some organisations released forecasts and scenarios to help stakeholders grasp the magnitude of the economic crisis. The International Monetary Fund (IMF) forecasts sharp reductions in economic activity for most of the world in 2020. Table 1.4 illustrates how the IMF expects the global economy to contract by three per cent through 2020 before rebounding in 2021. The downturn predicted for the major industrialised economies in North America and Europe is severe. China and India are among the few major economies not expected to contract in 2020.

The IMF forecasts rely on the contagion being brought under control, increases in money supply mitigating the economic downturn and trade tensions being resolved quickly. All of these assumptions seem optimistic.

“

By April 2020 a total of US\$15.3 trillion had been pledged to COVID-19 related assistance and stimulus programs across the globe.

## US-China Tensions and Supply Chain Dependencies

One of the major outcomes from the crisis is that it has highlighted the global dependency on China for the supply chain of many products. Both Japan and India are paying companies to move manufacturing away from China, while US chip manufacturers, such as Intel, have committed to building more factories in the US. The inability of China to manufacture during its lockdown has highlighted the risks involved in single manufacturing points in supply chains. Large multi-nationals will be looking to spread their risk. The movement away from China is likely to benefit its near neighbours in Asia. Changing supply chains takes time, and

these dynamics are likely to take many years if not decades to play through.

The pandemic has also heightened international tensions, especially between the US and China. Strains had been increasing for some time, but the pandemic has added impetus to claims and counter-claims. This is affecting multilateral organisations, such as the WTO and the UN Security Council. At the time of writing, the Security Council was unable even to agree on the wording of a global ceasefire during the pandemic. Specifically, while China wanted the WHO to be referenced in the communique, the US requested that all such references be removed.

TABLE 1.4

## GDP FORECASTS

Major industrialised economies are expected to contract sharply in 2020 before bouncing back in the following year. This seems a highly optimistic scenario. China and India are the only major economies not predicted to contract.

REGION	ANNUAL CHANGE IN REAL GDP (%)		
	2019	2020(f)	2021(f)
World	2.9	-3.0	5.8
Advanced Economies	1.7	-6.1	4.5
<i>of which</i>			
US	2.3	-5.9	4.7
Germany	0.6	-7.0	5.2
France	1.3	-7.2	4.5
Italy	0.3	-9.1	4.8
Spain	2.0	-8.0	4.3
UK	1.4	-6.5	4.0
Japan	0.7	-5.2	3.0
Emerging Markets and Developing Economies	3.7	-1.0	6.6
<i>of which</i>			
China	6.1	1.2	9.2
Russia	1.3	-5.5	3.5
Brazil	1.1	-5.3	2.9
India	4.2	1.9	7.4
ASEAN-5	4.8	-0.6	7.8
Middle East and Central Asia	1.2	-2.8	4.0
Sub-Saharan Africa	3.1	-1.6	4.1

Source: IMF World Economic Outlook April 2020



# Impact on Positive Peace

**Positive Peace is defined as the attitudes, institutions and structures that create and sustain peaceful societies. It measures the level of socio-economic development of a society and gauges its resilience, prospects for economic development and its ability to resolve grievances without resorting to violence. IEP has created a framework for the statistical analysis of Positive Peace and its eight Pillars, which embody aspects of social development:**

- *Well-functioning Government* – A well-functioning government delivers high-quality public and civil services, engenders trust and participation, demonstrates political stability and upholds the rule of law.
- *Sound Business Environment* – This reflects the strength of economic conditions as well as the formal institutions that support the operation of the private sector. Business competitiveness and economic productivity are both associated with the most peaceful countries.
- *Equitable Distribution of Resources* – Peaceful countries tend to ensure equity in access to resources such as education, health and to a lesser extent, equity in income distribution.
- *Acceptance of the Rights of Others* – Peaceful countries often have formal laws that guarantee basic human rights and freedoms, and the informal social and cultural norms that relate to citizens' behaviour.
- *Good Relations with Neighbours* – Peaceful relations with other countries are as important as good relations between groups within a country or local community. Countries with positive external relations are more peaceful and tend to be more politically stable, have better functioning governments, are regionally integrated and have lower levels of organised internal conflict.
- *Free Flow of Information* – Free and independent media disseminates information in a way that leads to greater knowledge and helps individuals, businesses and the civil society make better informed decisions. This leads to superior outcomes and more rational responses in times of crisis.
- *High Levels of Human Capital* – A skilled human capital base reflects the extent to which societies educate citizens and promote the development of knowledge, thereby improving economic productivity, care for the young, political participation and social capital.
- *Low Levels of Corruption* – In societies with high levels of corruption, resources are inefficiently allocated, often leading to a lack of funding for essential services and civil unrest. Low corruption can enhance confidence and trust in institutions.

The COVID-19 pandemic will interact with Positive Peace in complex and systemic ways. On one hand, pre-existing high levels of Positive Peace are a measure of resilience. Because of that, it can be used as a mechanism to understand which countries are likely to manage the epidemic best, which ones will better adapt to future changed conditions and which countries are better able to implement strong recoveries. Systems are reflexive, therefore, although Positive Peace impacts on the responses to the pandemic, the pandemic will also change Positive Peace. The current economic crisis will also negatively affect peace.

The Pillars of Positive Peace are best thought of as a self-reinforcing system that supports socio-economic development and peacefulness. In recognising the inter-dependency between all aspects of the socio-economy, it is not possible to isolate single causes for phenomena. Instead, systems thinking sees society as a whole, and each system has unique characteristics which determine their responses to inputs. The responses of countries, such as Zimbabwe or Canada to economic crises will be very different. Positive Peace can also be used to understand the strengths and weaknesses of a national system. It also informs whether countries are at or near tipping points – certain states of the system around which the interrelationships between economic variables change in nature.

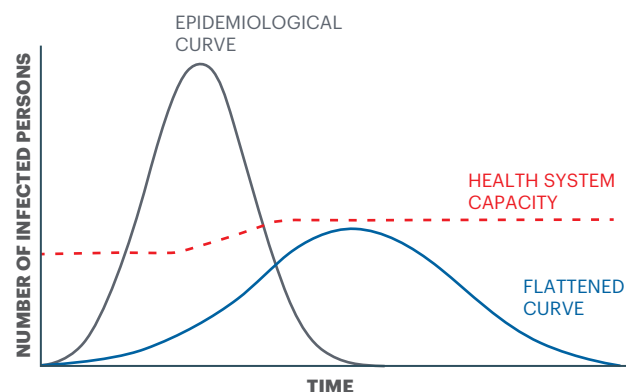
The pandemic and economic crisis are likely to radically change the way some countries operate. The long-term responses will be shaped by Positive Peace but will also shape the Positive Peace landscape of the future. Focusing on the long-term initiatives which improve Positive Peace will create a more dynamic and prosperous social system, one that will be suited to face future shocks and one that allows human potential to flourish better.

## MANAGING A PANDEMIC

The epidemiological curve is a visual representation of the total number of cases during an epidemic over time. The greater the contagion power of an epidemic, the more cases are contracted in its onset and the steeper the initial upswing in the curve. The red line in Figure 1.15 represents the capacity of the health system to treat patients who contract the disease.

FIGURE 1.15  
**THE IMPACT OF POSITIVE PEACE ON A PANDEMIC RESPONSE**

Positive Peace can both help 'flatten the curve' and increase health system capacity over time.



If no attempt is made to tackle the pandemic, the number of patients may quickly overwhelm the health system. Positive Peace helps reduce the number of untreated patients through many channels. Three examples are:

- The *Well-Functioning Government* Pillar allows authorities to act more quickly with better organised lock-downs, quarantine regimes, isolation schemes and other measures to curtail the rate of infections. This has the effect of ‘flattening’ the epidemiological curve.
- A combination of *Well-Functioning Government* and *High Levels of Human Capital* means that authorities are capable of higher levels of testing and treatment capacity by diverting public and private resources to treatment practices, ultimately increasing health-system capacity.<sup>20</sup> The combined effect of interventions through these channels is a reduction in the severity of the pandemic.
- One of the proxies and measures of *Equitable Distribution of Resources* is a country’s health systems coverage of the population. The broader the coverage the more likely a country will be to handle the testing and treatment of COVID-19 patients.
- The other Pillars of Positive Peace are also important, such as *Free Flow of Information*, which facilitates accurate and timely dissemination of information on the virus and government actions in combatting it, while *Good Relations with Neighbours* helps in the global response to the pandemic.

Figure 1.16 illustrates how OECD countries with greater development in the *Well-Functioning Government* Pillar have been

able to test higher proportions of their population for the COVID-19 virus.

### IMPACT ON POSITIVE PEACE PILLARS

The pandemic may lead to deteriorations in some areas of Positive Peace. This means that socio-economic development may recede as a result of the health crisis and its economic consequences. Some countries will be more adversely impacted than others. *Good Relations with Neighbours* and *Sound Business Environment* are likely to be the Pillars most affected. However, all Pillars will be influenced in the long term.

Examples of how the Pillars are likely to be impacted are set out below.

#### Good Relations with Neighbours

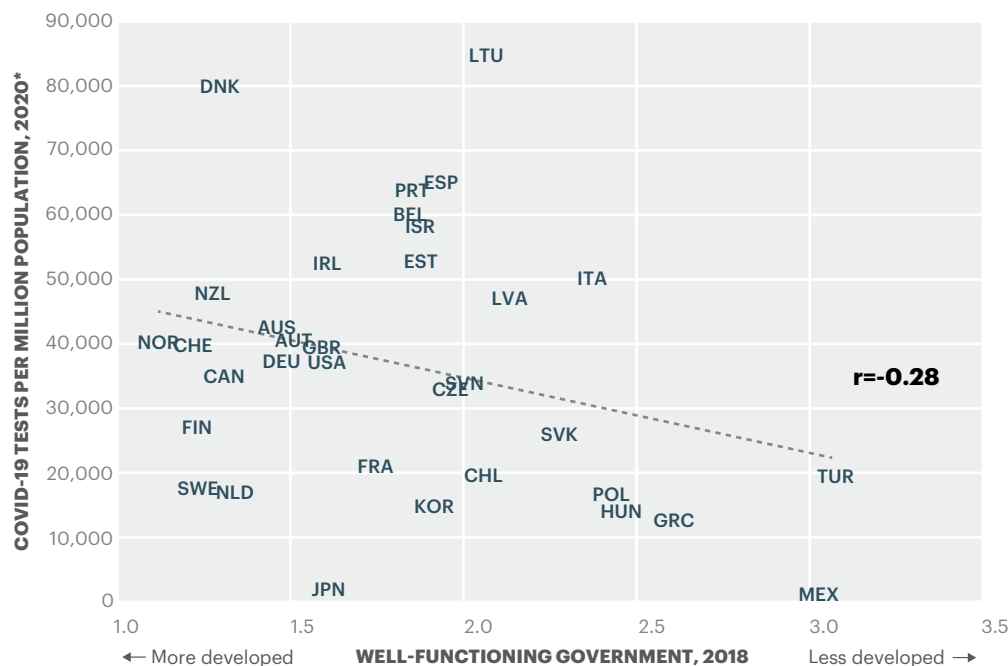
This is the Pillar most likely to record significant deteriorations as a consequence of COVID-19, as all three of its indicators have already been negatively affected.

- International tourism, number of arrivals: The level of international tourism has seen sharp reductions in air travel, as previously mentioned, it collapsed in the first half of 2020. In some countries, international air travel fell by more than 90 per cent. The OECD estimates that tourism makes up 4.4 per cent of member countries’ GDP and 21.5 per cent of their service exports, as seen in Table 1.5. Just four months without tourism would detract two percentage points from annual GDP growth in the OECD. This means that if the OECD countries’ average GDP growth was expected to reach 2.3 per cent in 2020 – as it did in 2018 – the collapse of tourism alone would be enough to almost nullify this growth.

FIGURE 1.16

### GOVERNMENT EFFECTIVENESS AND COVID-19 TESTS IN THE OECD

Higher development in Well-Functioning Government allows authorities to test larger proportions of their populations.



Source: Worldometer; IEP  
 Note: \* Aggregate data as at 18 May 2020

TABLE 1.5

**HYPOTHETICAL IMPACT OF SHUTTING DOWN TOURISM IN THE OECD IN 2020**

A four-month complete shut down of the tourism industry could wipe out almost all economic growth expected for the OECD in 2020.

ECONOMIC AGGREGATE	TOURISM'S SHARE OF ECONOMIC AGGREGATE	DETRACTION FROM AGGREGATE IF TOURISM SHUTS DOWN FOR FOUR MONTHS	DETRACTION FROM ANNUAL GDP GROWTH IF TOURISM SHUTS DOWN FOR FOUR MONTHS
GDP	4.40%	1.5 percentage points (pcp)	1.5 pcp
Services Exports	21.50%	7.2 pcp	0.5 pcp
<b>Total detraction from annual GDP growth in 2020:</b>			<b>2.0 pcp</b>
<b>Memo item</b>			
Employment	6.90%	2.3 pcp	

Source: OECD 2020<sup>21</sup>; OECD Data<sup>22</sup> IEP calculations

- **Hostility to foreigners:** The immigration bans as a result of COVID-19 were acts of epidemiological control, rather than social hostility. However, in some regions these initiatives fuelled perceptions of foreigners as dangerous and undesirable, with some countries recording increases in cases of xenophobia and ethnic profiling.<sup>23,24</sup>
- **The extent of regional integration:** Regional trade will be reduced as a consequence of lower consumption and the interruption of international and domestic travel. The Dry Baltic Index – which gauges the cost of and demand for international maritime shipping of dry goods – fell by almost 80 per cent between December 2019 and March 2020. Participation in regional trade alliances may not decline substantially, as countries hope to resume activity post pandemic. However, there is a deterioration in international cooperation at many levels. The WTO is under pressure, while the WHO is in direct conflict with the US. Some countries, especially the US and China, are using trade sanctions and are increasing protectionism and unilateralism.

**Sound Business Environment**

- The disruption in economic activity is likely to have a negative impact on this Pillar, with two of its three indicators having already deteriorated with the pandemic.
- **GDP per capita:** the global average GDP growth for 2020 has been revised down from 2.9 per cent to negative three per cent as a result of the pandemic. On a per capita basis, GDP will also retract. In the developed world GDP is forecasted to contract by six per cent. While contractions in the developing world will be less, they will push a substantial number of households below the poverty line.
- **Business environment** is likely to be one of the indicators most adversely impacted by COVID-19. However, this impact will not be homogeneous across all sectors. As discussed, aviation, hospitality, tourism, recreation, travel, retail, energy and mineral resources, shipping, education, banking and finance are likely to be particularly negatively affected. Business sectors that may avoid major disruptions are healthcare, telecommunications, information technology and food production.<sup>25</sup> Once the pandemic abates, many governments will attempt to kick-start economic activity, possibly by initiating large infrastructure projects, which could buoy the construction and industrial machinery sectors.

**High Levels of Human Capital**

- The COVID-19 pandemic potentially deteriorates *High Levels of Human Capital*, as youth unemployment will increase severely in 2020.

- **Share of youth not in employment, education or training (NEET):** Traditionally, youth unemployment rates are higher than for the average of the population. In addition, youth tend to be over-represented in areas such as hospitality and retail trade – two areas severely impacted by social isolation and distancing. These factors suggest a possible collapse in youth employment in 2020. The overall share of youth out of schooling and training is likely to increase substantially from 2019 levels.

**Equitable Distribution of Resources**

- **Poverty levels** are expected to rise this year, possibly leading to a substantial deterioration in Equitable Distribution of Resources.
- **Poverty headcount ratio at \$5.50 a day:** The global economic downturn and the disruption of international trade will increase poverty rates in developed and emerging economies. In developed countries that had a relatively benign fiscal position before the crisis, governments will borrow in order to increase welfare payments and support businesses. This will potentially mitigate some of the impact of the pandemic on poverty rates. However, in countries that were already heavily indebted prior to the pandemic, the capacity to support economic activity is limited. In some cases, deprivation may deteriorate into food insecurity and famines, as discussed in the section 'Economic Sovereignty and Food Security' later in this paper.

**Free Flow of Information**

- There have been isolated efforts to prevent media from divulging the true severity of the crisis in some countries. Yet, the overall impact of COVID-19 on this Pillar is still unclear.
- **Freedom of the press:** The pandemic has seen cases of press freedoms being suppressed as some authorities attempted to prevent the reporting of case numbers.<sup>26,27,28,29,30</sup> In addition, many governments have acted with considerable speed in implementing contagion reduction measures. If the press is limited in its opportunity to scrutinise the measures implemented, the lower accountability is likely to affect the robustness of responses.

**Acceptance of the Rights of Others**

- Since the pandemic onset, there have been many examples of communities coming together to support members and front line health workers. Conversely, there have been examples of a rise in xenophobia. Thus, the long-term impact of the pandemic on *Acceptance of the Rights of Others* is yet to be determined.



# Rebuilding the socio-economic system

**The COVID-19 crisis highlighted the fragility and complexity of the global socio-economic system. The Positive Peace framework offers a way to structure thinking on how to reconstitute the fabric of the socio-economy. The pathway to recovery will be long and arduous but will also offer opportunities to rethink the vulnerabilities of the old economy and build a more resilient and productive system going forward.**

## RECOVERY: OPPORTUNITIES AND PITFALLS

Countries that are most likely to recover quickly from the pandemic are those with strong performances in *Good Relations with Neighbours* and *Sound Business Environment* before the crisis. These were the Pillars most heavily affected by COVID-19. In addition, *Well Functioning Governments* and *High Levels of Human Capital* were influential in mitigating the effects of the pandemic. However, sustainable, long-term socio-economic improvement can only be achieved through balanced progress in all Pillars.

### Debt

Many countries implemented stimulus packages to mitigate the impact of COVID-19 on their economies and set the stage for a post-pandemic recovery. Some of these packages have been large and require substantial funding through further issuance of government debt. This may be problematic, especially if the duration of liabilities is relatively short or they are denominated

in foreign currency. Countries that had low debt before the crisis will be better placed to fund stimuli and recovery programs, and without much deterioration to credit ratings and cost of debt, as per Figure 1.17.

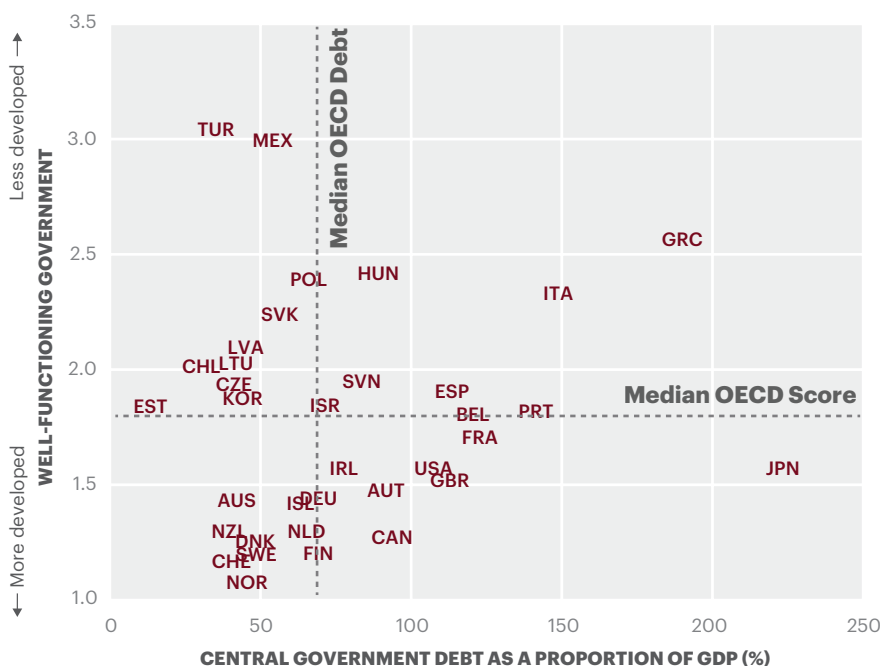
Initiatives to support economic recovery need to be inclusive, transparently planned and carefully implemented. To achieve this, the recovery effort will require strengths in the *Well-Functioning Government* and *Low Levels of Corruption* Pillars.

Countries with lower tax revenues and lower debt will be best placed to recover from the current crisis. In the OECD, the median tax burden is 34 per cent of GDP and developed nations below this level may be able to increase tax rates with relatively small loss of competitiveness. Figure 1.18 shows that the median OECD government debt is 70 per cent of GDP, and countries below this level arguably have some leeway to implement debt-funded recovery programs. Countries with higher debt and tax burdens will find it more difficult to adjust.

FIGURE 1.17

## GOVERNMENT DEBT AND GOVERNMENT EFFECTIVENESS IN OECD COUNTRIES, 2018

Countries in the bottom left hand quadrant will be best placed to weather the pandemic and economic downturn.



Source: OECD; IEP

## Business

A robust and agile business sector – including research and development industries – will be critical for the economic recovery efforts. A well-developed *Sound Business Environment* and *High Levels of Human Capital* will allow businesses to adapt to new post-pandemic consumer demands, rapid technological disruption, a labour market in turmoil and shifting governmental priorities.

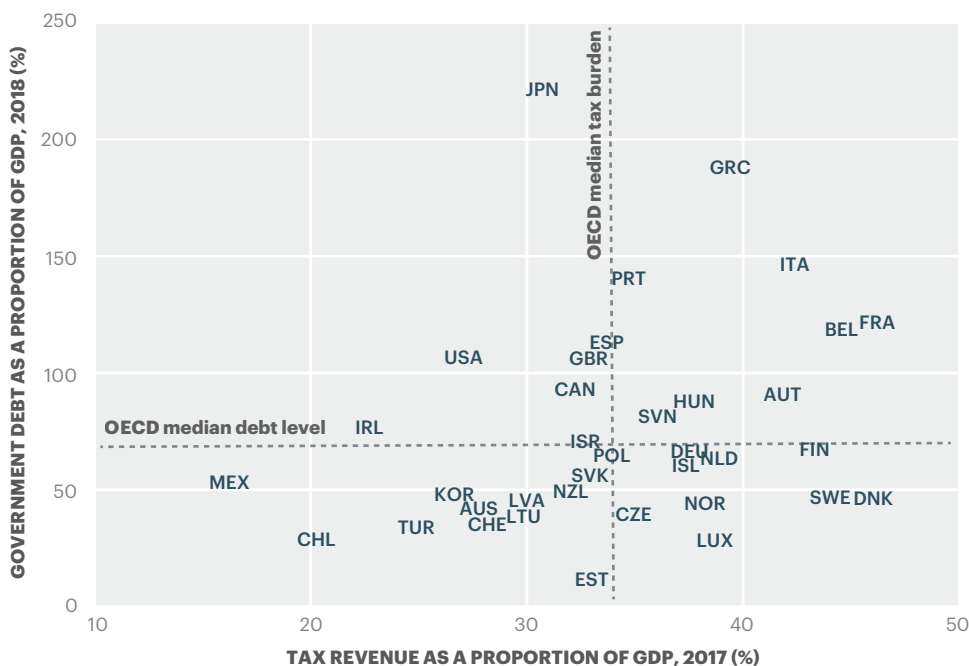
Figure 1.19 highlights how nations with good performance in these two Pillars are likely to experience more robust recoveries.

Some OECD countries will do well in most of the above mentioned criteria. They have low levels of debt, effective governments, agile business sectors and robust investment in technological and scientific research. Others will have weaknesses in some areas which should be addressed to facilitate the post-pandemic recovery.

FIGURE 1.18

## GOVERNMENT DEBT AND TAX BURDENS IN OECD COUNTRIES

Some OECD countries combine relatively high levels of debt with already high tax burdens. This will make it harder to raise funds for debt repayment in the recovery stages.



Source: OECD

## POST-PANDEMIC RECOVERY CONDITIONS

The two factors that will assist countries in the post-pandemic recovery are high levels of Positive Peace – guaranteeing effective institutions, social cohesion and transparent, representative governments – and favourable economic conditions before the pandemic.

Four indicators are used to measure these economic conditions:

- low central government debt as a proportion to GDP will help countries borrow to mitigate the economic downturn during the crisis and fund post-pandemic recovery initiatives;
- low unemployment rate, especially long-term unemployment, means that the labour market is resilient and agile, facilitating the re-training and re-allocation of workers to a new post-pandemic business environment;
- low tax revenue relative to GDP means that central authorities will have some leeway to increase taxation in the medium term to help fund the budget deficits enlarged by the crisis.

This may remove the need to erode government debt through high inflation and economic instability; and

- low dependence on international trade – exports plus imports – relative to GDP means that countries may navigate the disruption of international logistics caused by COVID-19 and a possible future reduction in international trade. The World Trade Organisation (WTO) is expecting international trade to fall by between 13 and 32 per cent in 2020 as the COVID-19 pandemic disrupts normal economic activity.<sup>31</sup>

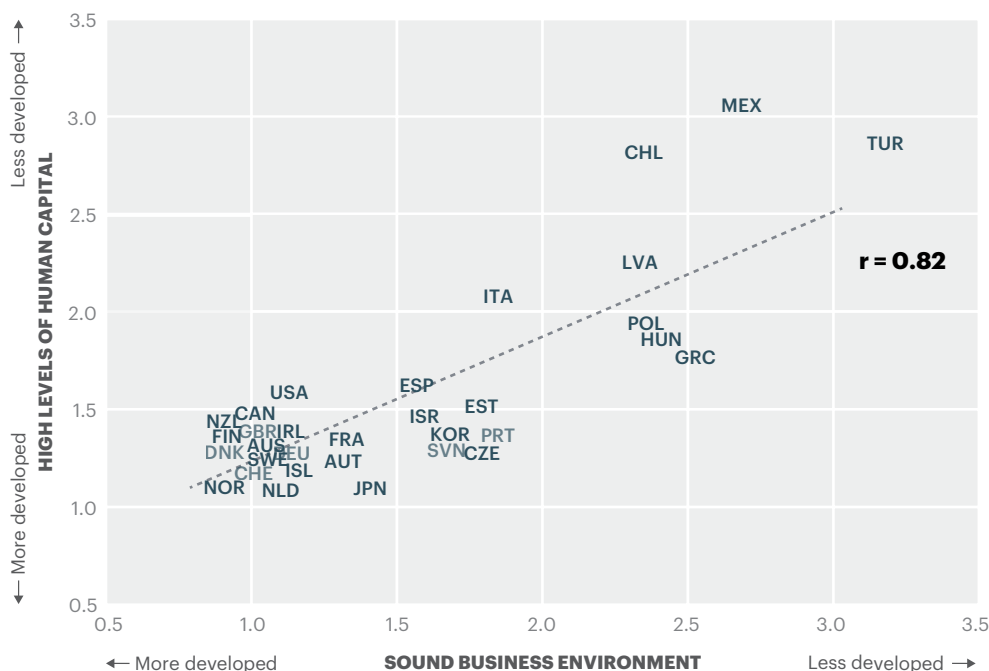
In this analysis ‘economic recovery’ means returning to a country’s pre-pandemic activity conditions, and does not denote economic development in absolute terms.

According to available published data, China, Indonesia, Russia, Mexico and Australia are the countries with the best pre-pandemic systemic states to facilitate a recovery, as seen in Table 1.6. This does not mean, however, that the recovery will be quick or easy, but only that countries with propitious economic pre-conditions are better placed relative to others.

FIGURE 1.19

### BUSINESS ENVIRONMENT AND HUMAN CAPITAL IN OECD COUNTRIES, 2018

High Levels of Human Capital and Sound Business Environment tend to be correlated.



Source: IEP

TABLE 1.6

### ECONOMIC PRE-CONDITIONS FOR POST-PANDEMIC RECOVERY, 2018

The countries with the most favourable economic pre-conditions for a post-pandemic recovery – China, Indonesia, Russia and Mexico – rank relatively poorly in Positive Peace. In Russia and Mexico, in particular, Positive Peace has improved very little over the past decade.

ECONOMIC PRE-CONDITIONS RANK*	COUNTRY**	PPI 2018	
		RANK	CHANGE IN SCORE FROM 2009 (%)
1	China	34	-6.6 (improvement)
2	Indonesia	39	-9.0 (improvement)
3	Russia	37	-1.3 (improvement)
4	Mexico	35	-1.6 (improvement)
5	Australia	13	2.0 (deterioration)
6	Chile	31	-6.2 (improvement)
7	South Korea	23	-9.4 (improvement)
8	United States	25	6.9 (deterioration)
9	New Zealand	9	-4.1 (improvement)
10	Japan	16	-4.3 (improvement)
11	Turkey	41	1.3 (deterioration)
12	India	42	-3.3 (improvement)
13	Czech Republic	22	-5.3 (improvement)
14	Switzerland	3	-3.1 (improvement)
15	Israel	27	-9.9 (improvement)
16	Colombia	38	-7.5 (improvement)
17	Norway	1	-3.3 (improvement)
18	Estonia	20	-8.6 (improvement)
19	Iceland	6	0.8 (deterioration)

Table continues overleaf ->





Favourable economic pre-conditions will help governments deal with the crisis at a macro level. However, recovery will also be better in a strong, well-developed society with social cohesion. Comparing economic pre-conditions to the Positive Peace Index (PPI) adds this dimension.

Countries that do well in both economic pre-conditions and Positive Peace – the bottom-left quadrant in Figure 1.20 – are those which may recover more easily post-pandemic. The distance between a country’s position and the bottom-left corner of the diagram represents the relative difficulty a country will have in implementing a full economic recovery post-pandemic.

Countries that have been improving in Positive Peace over the past decade may also use this momentum to strengthen and consolidate the recovery. These are represented in blue in the figure. Countries that have been deteriorating, may face social barriers from past grievances and their Positive Peace may descend even further.

## ECONOMIC SOVEREIGNTY AND FOOD SECURITY

The pandemic has brought to the fore the advantages and disadvantages of relying on international trade versus fostering economic sovereignty. Economic sovereignty gauges a country’s ability to cater for its domestic market without depending as much on other nations.

Traditionally, companies have sourced inputs from the cheapest foreign suppliers, which led to a decline in domestic manufacturing, especially in OECD nations. In addition, administrative techniques to minimise inventories – e.g. ‘just-in-time’ or ‘pull-through production’ – mean that modern manufacturers operate with paper-thin inventories and are therefore vulnerable even to short-lived disruptions.<sup>32,33</sup>

This increased reliance on international trade failed to account for the damaging impact of major logistic disruptions, such as the 2008 financial crisis, the 2011 earthquakes in Japan, hurricanes Maria and Harvey, the US-China trade war of 2018 or COVID-19. Accordingly, some governments have started to include economic sovereignty considerations in post-pandemic recovery plans. For example, Japan and India launched a program to help companies shift manufacturing from China back domestically or to other countries.<sup>34,35</sup> In the US, the government and companies have been discussing how to bring some manufacturing back inside US borders.<sup>36</sup> For example, Intel has committed to building more manufacturing plants in the US.

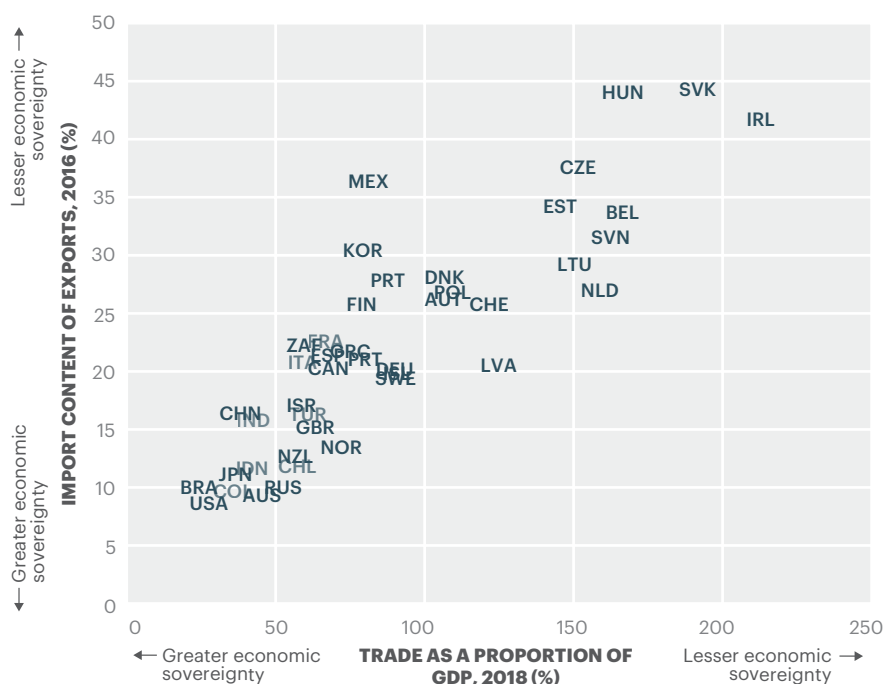
Imports plus exports, expressed as a proportion of GDP, is one indication of how much a country relies on international trade to maintain its economic wellbeing. Figure 1.21 shows that countries such as the US, Brazil, Japan and China have large domestic activity and operate with a high degree of economic sovereignty. Similarly, the import content of exports measures the share of exports that was not produced domestically. This is also a measure of economic sovereignty. Countries whose exports come largely from reprocessing or re-shipping products from other countries are highly dependent on international trade. This is the case for Mexico, South Korea and some smaller European economies.

Overall, it is important to recognise the critical role that international trade has played in global prosperity. Countries and regions have different comparative advantages and the ability to share these dividends with others by trading is a key driver of prosperity. However, the design of countries’ economic infrastructure must also take into account the possibility of trade disruptions. If not, their economies will be excessively vulnerable to logistical shocks and will be ill prepared for future disruptions. Table 1.7 illustrates how countries with comparatively high degrees of economic sovereignty are better placed to navigate such shocks.

FIGURE 1.21

### DEPENDENCY ON INTERNATIONAL TRADE IN SELECTED COUNTRIES

Trade – exports plus imports – expressed as a proportion of GDP is a proxy for absence of economic sovereignty; as is the imports content of exports.



Source: OECD

TABLE 1.7

**ECONOMIC SOVEREIGNTY, 2018**

Countries with greater degrees of economic sovereignty will be less affected by a possible reduction in global trade, either as a result of the pandemic itself or of post-pandemic geopolitical tensions.

ECONOMIC SOVEREIGNTY RANK*	COUNTRY**	PPI 2018	
		RANK	CHANGE IN SCORE FROM 2009 (%)
1	United States	25	6.9 (deterioration)
2	Brazil	36	7.4 (deterioration)
3	Colombia	38	-7.5 (improvement)
4	Australia	13	2.0 (deterioration)
5	Japan	16	-4.3 (improvement)
6	Indonesia	39	-9.0 (improvement)
7	Russia	37	-1.3 (improvement)
8	India	42	-3.3 (improvement)
9	Chile	31	-6.2 (improvement)
10	New Zealand	9	-4.1 (improvement)
11	China	34	-6.6 (improvement)
12	United Kingdom	18	3.2 (deterioration)
13	Israel	27	-9.9 (improvement)
14	Turkey	41	1.3 (deterioration)
15	Norway	1	-3.3 (improvement)
16	Canada	10	-0.7 (improvement)
17	Italy	26	-3.9 (improvement)
18	South Africa	39	1.6 (deterioration)
19	France	15	-0.6 (improvement)
20	Spain	21	0.0 (no change)
21	Greece	32	9.0 (deterioration)
22	Germany	11	-2.7 (improvement)
23	Sweden	3	3.4 (deterioration)
24	Iceland	6	0.8 (deterioration)
25	Finland	2	-0.8 (improvement)
26	Latvia	28	-8.6 (improvement)
27	Portugal	17	-8.7 (improvement)
28	South Korea	23	-9.4 (improvement)
29	Switzerland	3	-3.1 (improvement)
30	Poland	29	-0.5 (improvement)
31	Austria	12	2.8 (deterioration)
32	Denmark	5	6.8 (deterioration)
33	Mexico	35	-1.6 (improvement)
34	Netherlands	7	-1.5 (improvement)
35	Lithuania	24	-12.0 (improvement)
36	Estonia	20	-8.6 (improvement)
37	Slovenia	19	-3.6 (improvement)
38	Czech Republic	22	-5.3 (improvement)
39	Belgium	14	0.7 (deterioration)
40	Hungary	33	2.3 (deterioration)
41	Ireland	8	-1.5 (improvement)
42	Slovakia	30	-0.5 (improvement)

Source: IEP

Note: \*Higher rankings mean the country has lower trade as a proportion of GDP and lower import content of exports. These two parameters have been equally weighted. \*\*Country selection: all OECD and BRIC plus Indonesia, Colombia and South Africa.

## Famines and Food Security

The UN's Food and Agriculture Organisation (FAO) warned that some vulnerable societies, particularly countries outside the OECD, are facing a 'crisis within a crisis,' as the threat of famine is added to the risk of COVID-19 infection. Around 113 million people in 53 countries were unable to feed themselves properly even before the pandemic disrupted the global economy.<sup>37</sup> The FAO is particularly concerned with food deprivation in the Sahel region, Central African Republic, Democratic Republic of the Congo, South Sudan, Afghanistan, Haiti, Syria and Myanmar. In addition to the economic downturn damaging livelihoods, the pandemic also

increases the probability of famine because the lock-downs prevent people from earning the necessary money to feed them and their families. In many developing countries the money earned that day is what provides the food that evening.

The Food Security Index ranks countries according to the availability, affordability and the quality of food accessible to the population. Table 1.8. shows that many countries in Africa and Latin America were already facing food insecurity before COVID-19. The pandemic is expected to worsen this situation, especially if Africa and Latin America start recording larger proportions of infected persons in the second half of 2020.

TABLE 1.8

### FOOD SECURITY INDEX – TOP AND BOTTOM RANKS, 2019

Many African countries already faced food insecurity before the COVID-19 crisis.

A score of 100 indicates the highest possible food availability, affordability and quality.

TOP 15 FOOD SECURITY RANKS			BOTTOM 15 FOOD SECURITY RANKS		
RANK	COUNTRY	SCORE (OUT OF 100)	RANK	COUNTRY	SCORE (OUT OF 100)
1	Singapore	87.4	99	Sudan	45.7
2	Ireland	84.0	100	Angola	45.5
3	United States	83.7	101	Zambia	44.4
4	Switzerland	83.1	102	Togo	44.0
5	Finland	82.9	103	Haiti	43.3
6	Norway	82.9	104	Malawi	42.5
7	Sweden	82.7	105	Mozambique	41.4
8	Canada	82.4	106	Sierra Leone	39.0
9	Netherlands	82.0	107	Syria	38.4
10	Austria	81.7	108	Madagascar	37.9
11	Germany	81.5	109	Chad	36.9
12	Australia	81.4	110	Congo (Dem. Rep.)	35.7
13	Qatar	81.2	111	Yemen	35.6
14	Denmark	81.0	112	Burundi	34.3
15	Belgium	80.7	113	Venezuela	31.2

Source: The Economist Intelligence Unit and Corteva Agriscience

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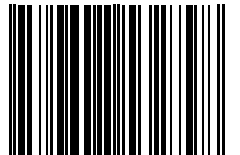
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