360° Series

Fair Observer°

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How Will COVID-19 Impact Our Economy?

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How Will COVID-19 Impact Our Economy?

Atul Singh
June 26, 2020

Editor's Note: These are unprecedented times. A global pandemic has changed life as we know it. In recent months, we have examined the crisis through political, economic and social lenses, publishing articles from around the world. The result is three 360° series.

The greatest economic crisis since the Great Depression of 1929 is transforming the structure and rewriting the rules of the global economy. This 360˚ context article explains the economic impact of COVID-19.

On April 21, the price of West Texas Intermediate (WTI), the benchmark for US oil, fell below zero. This has never happened before. On June 25, natural gas prices fell to a 25-year low. Thanks to the COVID-19 pandemic, much of the world has been under lockdown. Very few car engines are humming. Most planes are grounded. Hence, demand for energy has crashed and storage hubs are filled to the brim.

COVID-19 has rewritten the rules of the economy in the blink of an eye. On March 13, US President Donald Trump declared a national emergency. By the beginning of June, more than 42 million Americans — over a quarter of the country's workforce — had filed for unemployment benefits, and the unemployment rate had shot up from 3.8% in February to 14.4% in April or, by some estimates, as high as 23.6%. If that figure is correct, it came precipitously close to the Great Depression, which peaked at 24.9% unemployment in 1933.

This number does not include many millions of gig workers and temporary employees. As per the International Labour Organization, there are 1.6 billion workers in the informal economy. Nearly half of the global workforce faces the risk of losing its livelihoods. Around the world, hundreds of millions are out of work as the Great Lockdown has brought the global economy to a grinding halt. Already in April, the UN warned that 195 million jobs may be lost globally in the next three months alone, adding to the 190 million who were unemployed before COVID-19 hit.

The Economic Impact of COVID-19

Since 1991, the global economy has relied on the relatively free flow of goods, services and people. COVID-19 has disrupted that flow, triggering a decline in demand and a slump in supply. Consequently, unemployment has skyrocketed. Governments have stepped in to provide relief measures. Since a shrinking economy has lowered tax collections, relief measures have been funded by ballooning deficits. In turn, these have led debt levels to rise dangerously.

For the first time since the 1929 Wall Street Crash, advanced emerging market and developing economies are in recession. The International Monetary Fund projects per capita income to shrink for over 170 countries. COVID-19 has eviscerated industries like tourism, travel and hospitality. Sports and entertainment have stopped too. Even the Olympics have been called off. The last time this happened was during World War II. But unlike wartime days, manufacturing has cratered. Simultaneously, consumption has crashed.

As is invariably the case, poor countries have been hit hardest. They rely on daily wages to survive. Now, those have stopped. Many have run out of their meager savings. They are either living in hunger or fear running out of food. As per Oxfam, the pandemic "could push over half a billion people into poverty" in developing countries. Even middle-class families in advanced economies are feeling the pinch.

In April, markets were down by 35%, credit markets had seized up, and credit spreads had shot up to 2008 levels. Since then, stock markets have rebounded to some degree thanks to historic stimulus packages, but credit defaults are on the rise. Bankruptcies are becoming more frequent, ruining both debtors and creditors. In response, central banks have thrown in everything and the kitchen sink in response to the crisis. They have announced zero or negative interest rates and doubled down on quantitative easing. They have engaged in credit easing, purchasing private assets to backstop banks, non-banks, money market funds and even large corporations.

While central banks have eased monetary policy, governments have used fiscal policy to ease the economic shock. They have announced stimulus measures that include unprecedented income support. They have promised to pay a large percentage of people's wages, made direct cash transfers and tried to bail out key industries.

In March, the US enacted the largest fiscal stimulus package in its history. It cost $2 trillion, about 10% of its GDP. In less than a month, it has passed an interim stimulus package worth $484 billion to fund small businesses and hospitals. China, Canada, Germany, France and the UK have all announced bailouts of their own. Spain, one of the worst-affected countries in Europe, even toyed with the idea of introducing a universal basic income to stay in place past the crisis. As a result, both deficits and debt have gone through the roof.

Why Does COVID-19's Economic Impact Matter?

COVID-19 will change the global economy in a similar manner as the Great Depression, World War II and the collapse of the Soviet Union did in the past.

First, COVID-19 is precipitating a financial crisis. No model of future economic activity could have factored in a pandemic of this sort. Many people will not be able to pay their rent. Their landlords will then struggle to pay their mortgage. When enough landlords default, banks could find themselves in trouble. Many complicated financial instruments will most certainly lose value. Hedge funds, private equity shops and venture capitalists are already laying off staff or cutting their pay.

Second, COVID-19 is increasing debt dramatically. Even before this pandemic, leading financial analysts wondered if there was a "government bond bubble." In 2019, global debt topped $255 trillion, reaching 322% of the global GDP. Now, this figure will be much higher. Developing countries are already facing a debt crisis as are affluent economies like Dubai and Italy. This crisis will envelop many more countries.

Third, COVID-19 is challenging the global economy that took off after the Soviet Union's collapse in 1991. The disruption in supply chains has led to shortages of medicines, personal protective equipment and other essential items. There is a shift in sentiment to move production closer to home. Trade was slowing down before the pandemic thanks to rising protectionism and trade wars. Now, national security and public health concerns add "momentum to the deglobalization trend."

Fourth, COVID-19 is weakening markets and strengthening governments. For much of the last few decades, markets have been ascendant. Governments have retreated from intervening in economies. That changed somewhat in the aftermath of the Great Recession. Now, the transformation is complete. Governments are once again taking over the commanding heights of the economy and Keynesian policies are back.

Finally, COVID-19 is exponentially increasing inequality and putting it firmly into the spotlight. Many are questioning why hedge fund managers and footballers make so much money for just buying and selling assets, while researchers and nurses who work as hard, if not harder, make much less. Others are wondering why the rich pay less tax and ask for bailouts every 10 years.

It is unclear as to what sort of economy will emerge after the COVID-19 pandemic. However, it is crystal clear that things will not revert to the pre-pandemic status quo. As Bob Dylan once sang, “the times they are a-changin’.”

***Atul Singh** is the founder, CEO and editor-in-chief of Fair Observer.

Will a Struggling Global Economy Survive the Coronavirus?

Atul Singh
February 25, 2020

The coronavirus outbreak is putting a clearly unsustainable global economy to the test.

On February 24, the World Health Organization declared that the world should prepare for a possible coronavirus pandemic. Outbreaks in South Korea, Iran and Italy have caused alarm. Clearly, the virus has traveled widely and rapidly. Authorities have canceled concerts, carnivals and football matches as well as closed schools, imposed curfews and restricted travel.

Despite these measures, COVID-19 has now spread to about 30 countries and infected tens of thousands of people.

Stock markets from New York and London to Hong Kong and Mumbai have crashed. They are waking up to the fact that the Chinese economy is in big trouble. Zhu Min, a former official of the International Monetary Fund (IMF), estimates that the Chinese GDP might have lost $196 billion this year already.

Tourism has been hit badly. Consumer spending has decreased. Factories are struggling to keep up production. As a result, the global supply chain has been disrupted. Stores might run short of both clothes and iPhones, as well as face masks and essential pharmaceuticals.

Epidemic Woes

The coronavirus outbreak has turned out to be what Nassim Nicholas Taleb calls a black swan event. It was unpredictable. Its effect on the global economy, however, might be a touch more predictable. In July 2019, Nouriel Roubini, an economist popularly known as Dr. Doom, foresaw “the trade and tech war and cold war” between the US and China leading to deglobalization, decoupling of the global economy and a global recession.

Roubini was not alone predicting doom and gloom. In October 2019, an article in Bloomberg reported that the global economy was wobbling. It worried that the first recession since 2009 might be nigh. After all, bond traders were bearish, and $14 trillion of bonds were yielding negative rates.

The main worry for the writers at Bloomberg was the trade war US President Donald Trump had unleashed on China. This war had led to a manufacturing malaise, with businesses cutting back investment. Brexit and other geopolitical issues also muddied waters. Central banks seemed to have run out of ammunition. After all, there are limits to pumping money into the economy.

The article went on to reassure readers that the risk of recession for the US economy was just 25%. So, even if the rest of the world went belly up, the US would be alright. Hiring sprees had boosted consumer confidence, and the Fed had cut rates twice in 2019. Other central banks were also flushing money into the global economy through more quantitative easing.

A month after the Bloomberg piece, Raghuram Rajan, the former governor of the Central Bank of India, argued that the biggest threat to the economy came from the White House. He saw uncertainty over trade dampening investment and growth. Rajan worried about geopolitical risk such as a crisis in the Middle East that could spike the price of oil, triggering inflationary pressures. In a wishy-washy end to an underwhelming article, he claimed that “If the world had fewer wannabe strongmen, the global economy would be much stronger.” Presumably, they were the villains who could bring bubonic plague and the death of the firstborn to an otherwise wonderful world.

On February 17, Roubini argued that white, not black, swans would cause predictable global crises before the US presidential election. A deeply divided US would face four horsemen of the apocalypse: China, Russia, Iran and North Korea. This would lead to chaos, conflict and financial collapse. Like astrologers' tales, Dr. Doom's prognostications must be taken with a healthy pinch of salt. Yet he does have a point even if the white swans to worry about are different to the ones he names.

The Straw That Breaks the Camel's Back

There have been plenty of signs that all is not well with the global economy. Japan is teetering on the brink of recession. Prime Minister Shinzo Abe's "three arrows" — monetary easing, fiscal stimulus and reforms to revive private investment — have not hit the target. After seven years, Abenomics is also looking at failure in the face. Japan's lost decades after the bursting of the stock market bubble in 1990 look set to continue. The economy seems to be sinking because of two millstones around its neck — an aging population and gargantuan national debt.

Germany, another aging country and Japan's former ally, is in trouble too. Its economy flatlined in the final quarter of 2019, growing at 0%. Exports and spending, both consumer and government, have declined. It is fair to say that this exporting economy was a victim of Donald Trump's assault on global trade.

Even as populism, political polarization, trade wars and geopolitical tensions have continued to raise concerns, most Wall Street savants have been optimistic that the global economy will chug along. Continued consumer demand and low interest rates by central banks will avoid banana peels. Gita Gopinath, the chief economist of the IMF, has gone further. She sounded almost bullish when she said that, despite the coronavirus causing a global pandemic, China could have a V-shape recovery.

Gopinath is wrong. The post-World War II global rules-based order of which she is a high priest is dying before our eyes. It might have delivered great benefits to many millions in the past, but it has now lost its way. The debt-fueled orgy driving global trade cannot last forever. Trump has taken a sledgehammer to Gopinath's idols and smashed them to smithereens.

Instead of singing paeans to free trade, both Democrats and Republicans worry about China. The Middle Kingdom is the new Soviet Union. Some find it even more dangerous than the "Evil Empire" given its population, technological progress and economic might. China's grand projects such as the Belt and Road Initiative are causing unease all the way from New Delhi and Tokyo to Berlin and Washington, DC.

Machiavellian power politics and mercantilism are now back in fashion. The inequities of globalization, where a tiny elite has siphoned off most benefits, are causing anger around the world. So much so that a democratic socialist named Bernie Sanders is doing rather well in the US, the veritable Mecca of capitalism.

Furthermore, quantitative easing (QE) is reaching its limits. It did not quite work for Japan and is not really working elsewhere either. As the amount of money in the economy increases much faster than the amount of goods, services or assets, QE is causing asset bubbles. The likes of Jeff Bezos and Mark Zuckerberg might be fine, but the proverbial Tom, Dick and Harry are not. That is why they are voting to smash the status quo.

Now the coronavirus black swan has joined other white swans to put a clearly unsustainable global economy to the test. It adds to the rising paranoia of the Middle Kingdom. When the pandemic inevitably goes away, the fear will not. The structural imbalances have now been laid bare for everyone to see. The global economy will not go back to status quo ante whatever its high priests say.

The coronavirus is China's Chernobyl. It is finishing what Trump's trade wars started. Global supply chains will change. Trade will slow down.

The decoupling of China and the US will continue. Even as these tectonic changes unfold, a global recession has become more probable.

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Coronavirus Threatens China's Global Trade and Investment Regime

Daniel Wagner
March 9, 2020

The coronavirus outbreak is forcing many businesses to question the premise upon which they based their decision to so closely embrace China.

China's economic juggernaut has been brought to its knees by COVID-19. In the first two months of this year, Beijing reported a 17% drop in exports, including a 28% drop in exports to the US, a 4% drop in imports, and a trade deficit of $7.1 billion. For the Chinese government to publish such data, things really must be bad, and we can assume that the data is actually worse than is being reported. This raises serious questions about whether the global trade and investment regime Beijing has crafted over the past three decades — in which the world became dependent upon China as its trading and manufacturing epicenter — will be sustainable going forward.

A decade ago, China had already established itself as having near-monopoly status on the manufacture of a whole range of products the world rapidly consumes. By 2011, 91% of all personal computers, 80% of all air conditioners, 74% of global solar cells, 71% of cell phones and 60% of all cement were manufactured in China. Today, the world's largest 1,000 companies (or their suppliers) own more than 12,000 factories, warehouses and other facilities in quarantined areas of China, which means that they cannot operate these facilities and must find alternative means of supplying their businesses.

Some of these companies will have backup suppliers outside of China, but many do not, and many of those that do have backups will not have been incident-ready to seamlessly transition to an alternative supply chain. What the virus has made abundantly clear, by virtue of how quickly national and global economies have essentially shut down in short order, is that business interruption planning has largely been inadequate on local, national and global bases. Even the multilateral body charged with ensuring global health, the World Health Organization, has provided a lackluster response to the virus.

Despite being on business and government crisis planning radars for at least two decades now, plenty of organizations around the world have either not paid sufficient attention to pandemic planning, having apparently presumed that such a scenario would ultimately become someone else's problem. Now, of course, it is too late to do something about it. But beyond that, COVID-19 is forcing many businesses to question the premise upon which they based their decision to so closely embrace China. When times were good, they profited handsomely. Now, the reverse is true.

It was never really a smart idea to devote so many critical resources to a single source. Having done so, many firms became blinded by their decision, perhaps recognizing too late that it could take a decade to become profitable in China, if they were to become profitable at all by operating there, given Beijing's draconian approach to foreign trade and investor management. Many of them endured operational restrictions in China that they would never have endured at another investment destination, by virtue of China's population size and importance. Beijing knew this and played them like a fiddle.

The compact made between Beijing and foreign businesses has all now come crashing down since China has, in essence, been closed for business for more than two months. At the very least, those businesses that were caught flat-footed will now ensure that they have alternative means of operation outside China, should they choose to continue to operate there. But many foreign businesses will now choose to either establish or enhance manufacturing operations outside of China. That may well change the very nature of how businesses think about China going forward and, with it, succeed in shifting global manufacturing toward multiple geographical "epicenters" of operation in the future.

Beijing has stolen enough intellectual property — from businesses and governments alike, and has the means to continue to do so regardless of whether businesses actually operate in China — that it may no longer matter to the Communist Party whether China remains the world's manufacturing hub. That may actually fit neatly into the party's narrative that it becomes more self-reliant and consumer-focused. In the same vein, perhaps the world's manufacturers will have come to the conclusion that operating in China is no longer an economic imperative, particularly given the plethora of geographical options — many of which are actually lower in cost — than China now provides.

There will undoubtedly be many unanticipated consequences of this viral outbreak, economically, politically and from a global health response perspective. Surely, renewed emphasis on business continuity planning and questioning the basic premise upon which so many global businesses have continued to function will be among them.

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The G20 Needs to Show Leadership to Fight COVID-19

John Bruton
March 30, 2020

The G20 convened via teleconference to discuss the coronavirus pandemic and the economic impact. But what should be done?

It is welcome news that the G20, representing the world's biggest economies and 90% of global GDP, met via teleconference on March 26 to discuss the health and economic crisis caused by the novel coronavirus, which leads to the COVID-19 disease. It has been obvious for several weeks that coordinated international action was needed.

Given that the G20 was founded in order to deal with crises — particularly the global financial crisis of 2007-08 — it is amazing that it has taken the Saudi presidency of the G20 so long to convene a meeting. The Saudis were pressed into doing so by India.

In 2008, when the G20 first convened, there was a reasonable relationship between the two biggest world powers, the US and China. Gordon Brown of the UK was the chair, and a substantial program of action was agreed and implemented. The financial stability board was set up, and a global set of actions to stabilize banks was agreed and put into motion. China led the way in stimulating its economy through infrastructure spending, and this helped to get the global economy going again. Germany and Europe benefited from this through exports.

Now that lives, not just livelihoods, are at stake, an even more vigorous program of action is needed from the G20. The US and China must stop sniping at one another and start cooperating. Washington and Beijing coming together to work on this global threat would give hope to the world.

When the COVID-19 crisis broke out in the Chinese city of Wuhan in December 2019, Japan set a good example that the US might now follow. Japan sent protective equipment to Wuhan, and Japanese MPs donated part of their salaries to the virus containment efforts in China. This was a remarkable gesture in light of the previous public hostility between these countries, which dates back to World War II.

The WHO and Trade

The COVID-19 crisis has revealed how much we all depend on the chronically-underfunded World Health Organization (WHO). In recent budgetary proposals, the White House actually proposed halving the US contribution to the WHO. Instead, all G20 members should agree to double their contributions to the organization.

Trade barriers, many of them recently enforced, are also hindering efforts to save lives. John W.H. Denton, the secretary-general of the International Chamber of Commerce in Paris, wrote in the Financial Times that "the recent escalation of trade barriers is now wreaking havoc in key medical supply chains." For example, restrictions on the export of life-saving equipment — including masks, test kits, disinfectants and ventilators — have been introduced by some countries. Global trade in test kits is worth $186 billion and that in disinfectants is around $308 billion.

The Global Trade Alert team in Switzerland says that damaging export bans have been introduced by a number of countries, including Bulgaria, France, India, the UK, South Korea and even by Saudi Arabia itself. In the case of ventilators, export restrictions would be particularly damaging. In Africa, there is no firm that is capable of manufacturing ventilators, while there is only one throughout Latin America. Even the countries that do have manufacturing capacity will have to import some components. Even soap and disinfectants have to be imported by most countries. There are 78 countries that impose tariffs on soap and 23 nations place tariffs on disinfectants. This is crazy under the present circumstances.

The G20 should decide that all barriers to trade in goods, including soap, which the World Customs Organization (WCO) has said is critical to fighting the coronavirus, should be lifted straight away. The European Union should abolish its own export authorization system for ventilators as it will slow down production and cost lives, especially in the poorest countries of the world.

EU Action

The G20 also needs to consider the long-term economic effect of the shutdown in global economic activity. Big countries with big tax bases can protect themselves and their firms. Germany has introduced a huge aid package for German firms. Yet an Italian company that produces the same product as a German one may not receive the same aid as its German competitor, and this sort of issue could destroy the level playing field of the EU single market.

No country derives as much benefit proportionately as Ireland does from the existence of a fair and open single market in the European Union. So, Ireland should back EU coordination of business support to ensure that all firms — whether from big or small countries — can compete fairly.

The European Central Bank has taken welcome steps to help Italy and other heavily indebted countries affected by the coronavirus pandemic to borrow at reasonable interest rates. But that simply adds to their debts. Collective EU action, financed by collective EU borrowing, in support of particular health-related spending should be undertaken. At the moment, the union can neither raise taxes nor borrow, and that means it is unable to cope with crises like this one.

There are three steps that should be considered. First, there should be an immediate elimination of all tariffs and restrictions on the export or import of goods identified by the WCO as vital to fighting COVID-19. Second, a mutual assistance program to help countries with the greatest shortage of equipment and intensive care beds should be launched. Finally, medical staff who have been tested should be exempt from immigration restrictions to allow them to go where they are needed most.

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COVID-19 Makes Johnson and Trump Reject Thatcher and Reagan

Atul Singh
March 31, 2020

With wartime deficits and historic economic stimulus, the era of unleashing markets and rolling back the state has come to an end.

In 1978-79, the United Kingdom experienced the winter of discontent. Trade unions around the country went on strike. On January 22, 1979, the UK experienced the largest strike action since the General Strike of 1926. Even gravediggers and waste collectors joined in, leaving corpses and rubbish piling up. A bitterly cold winter with blizzards and heavy snowfall dampened animal spirits further. To quote one of this author's former tutors, "the country was in the gutter."

Throughout the 1970s, the British economy had been ailing. The 1973 oil crisis had triggered a global recession and high inflation. The British government tried hard to be fiscally responsible, control inflation and avoid a large increase in unemployment. The only way to achieve all three goals was to curb wages. Sadly for Jim Callaghan, the then British prime minister who hailed from the Labour Party, the workers revolted and the economy wilted.

Sensing Labour's weakness, Margaret Thatcher, the Conservative leader of the opposition, pounced. She tabled a motion of no-confidence that Callaghan lost by a single vote on March 28, 1979. A general election followed in May. Thatcher won a historic victory with 5.2% of British voters swinging from Labour to Conservative. Not since 1945, when Clement Attlee became prime minister, had so many voters switched sides.

No Such Thing as Society

Unlike Tony Blair or David Cameron, Prime Minister Thatcher was a conviction politician. As an undergraduate at Oxford, she was deeply influenced by "The Road to Serfdom," a 1944 classic by the Austrian economist Friedrich von Hayek, a friend and rival of the legendary John Maynard Keynes. Von Hayek made a sophisticated case against socialism, arguing that it "tends always to totalitarian outcomes, regardless of the intentions, professed or real, of its proponents." Thatcher was one of von Hayek's true believers.

It is easy to forget today that von Hayek was largely forgotten after 1945. World War II marked the triumph of Keynesian ideas. The commanding heights of the economy were occupied by the state in an all-out war effort. As a result, a full employment economy emerged that left the ravages of the Great Depression behind. Attlee's 1945 victory led to the establishment of the National Health Service (NHS). Henceforth, regardless of whether a Labour or Conservative prime minister occupied 10 Downing Street, the British economy was run on Keynesian ideas.

In von Hayek's words, "Keynes died and was raised to sainthood" while he was discredited and forgotten. It was only the economic crises of the 1970s that brought von Hayek back into fashion. Thatcher went on to put his ideas into practice. The grocer's daughter believed in enterprise, thrift and self-reliance, not handouts from or dependence on the government. She did not want people to cast "their problems on society." In fact, she forcefully argued that "there is no such thing as society. There are individual men and women and there are families."

In the Thatcherite worldview, obligations came before entitlements, governments can do nothing except through people, and people had to look after themselves first. As per the Iron Lady, "It is our duty to look after ourselves and then, also, to look after our neighbours." The fact that some people did not work because they could go on state benefits infuriated her.

Thatcher's moral clarity set the UK on a fresh course. She broke the back of unions, rolled back the state, let uncompetitive British industry die and brought in "Big Bang" reforms that made the City of London a rival to New York. Thatcher pulled not only her fellow Conservatives but also the rival Labour Party to the right. In the 1990s, Tony Blair and Gordon Brown created New Labour by abandoning their party's cherished old principles. The duo became Thatcher's children and venerated markets when they ran the government between 1997 and 2010.

Government Is the Problem

In 1980, the US emulated the UK in moving to the right by voting in Ronald Reagan as president. Throughout the 1970s, the US suffered from low economic growth, persistent inflation and high unemployment. The Iran hostage crisis of 1979-80 destroyed faith in the government and in Jimmy Carter's credibility, paving the way for Reagan.

The new president believed in supply-side economics. As per this theory, economic policy must focus on increasing the supply of goods and services for consumers. This can best be achieved by lowering taxes and decreasing regulation. Once businesses produce more goods and services that consumers purchase, employment rises, wealth increases and the economy booms.

Unlike Thatcher, Reagan was not an educated man. He is not known to have read many books. Yet this Hollywood actor for whom Franklin D. Roosevelt was a "true hero" had a Damascene conversion and turned against government. Like Thatcher, President Reagan believed in individual enterprise and free markets. In his view, reforms that "get government off our backs" and "out of our pockets" lead to more jobs and a better economy.

In his inaugural address, Reagan declared that "government is not the solution to our problem, government is the problem." Now, Reagan is venerated by American conservatives as a prophet. Along with Thatcher, he changed the global zeitgeist. For him, the mighty Soviet Union was the "evil empire" and free markets were the best way to protect individual liberty. To this day, his iconic words hold sway: "The nine most terrifying words in the English language are: I'm from the Government, and I'm here to help."

The Soviet Union collapsed in 1991, vindicating Reagan's faith in markets, not government. When Bill Clinton became president in January 1993, he acted as Reagan's dutiful son, signing off on welfare reforms and on the repeal of the Roosevelt-era Glass-Steagall Act of 1933. This monumental legislation separated investment banking from retail banking and was a reaction to the terrible stock market crash of 1929. Yet despite warnings of dire consequences from the likes of Byron Dorgan, the North Dakota senator at the time, Clinton gave Glass-Steagall an unceremonious burial.

There Really Is Such a Thing as Society

Unlike the financial crisis of 2007-08, the current coronavirus pandemic has changed the trajectory of politics and economics. The response to the 2007-08 crisis was fiscal stimulus and monetary easing. The global economy did avoid collapse, but the gains of the bailout ended up in the pockets of the wealthy. In fact, $1.6 billion of US taxpayer money went to top executives in the form of salaries, bonuses and other benefits.

The bailouts were nothing but socialism on the downside and capitalism on the upside. The wealthy kept all their returns while the public was left with the risk. Unlike Roosevelt, President Barack Obama proved too pusillanimous to take on Wall Street. As a brilliant PBS documentary has chronicled, the Obama administration prosecuted small fry but steered clear of the big fish. It is widely whispered that Obama did not want to be seen as an angry black man and prized stability over reform.

The failure of the US president and the legislators to act left a searing sense of injustice that fueled both the Tea Party and Occupy Wall Street movements. Eventually, it paved the path to the White House for Donald Trump in 2016. At the time, the government just made the big banks bigger and business went on as usual. Central banks hosed economies with cash, which boosted the price of assets. The rich became richer. Even as stock markets surged, inequality soared.

In 2020, the coronavirus pandemic has brought markets around the world to their knees. Governments have imposed lockdowns and the global economy is in recession. Instead of individuals taking care of themselves and their neighbors, governments are stepping in. The Conservatives have announced a £350 billion ($433 billion) stimulus for the British economy.
On March 17, Chancellor of the Exchequer Rishi Sunak declared: "This is not a time for ideology and orthodoxy, this is a time to be bold, a time for courage. I want to reassure every British citizen this government will give you all the tools you need to get through this." British Prime Minister Boris Johnson, who is self-isolating due to contracting the coronavirus, has gone further. In a video message, he said the "coronavirus crisis has already proved … that there really is such a thing as society."

Unlike Blair and Cameron, Johnson has an acute sense of history. He studied classics at Oxford, has written a biography of Winston Churchill and began his career during the Thatcher era. Like the Iron Lady, Johnson has won a historic election. Now, this politician of "blundering brilliance" has publicly buried Thatcher.

Instead of the austerity that Cameron and George Osborne imposed on the country in 2010, Johnson and Sunak have opened all taps to give people relief. From paying workers' wages and giving businesses grants to tax holidays and mortgage relief, the Johnson government has decided to run wartime deficits to combat a public health crisis. Johnson is proving to be the child of Clement Attlee, not Margaret Thatcher.

The US has emulated the UK by passing its own stimulus package of over $2 trillion. It is the largest bailout in US history. With a record 3.3 million people claiming unemployment insurance, no Republican senator or congressman is now arguing that government is the problem. Instead, they have sanctioned one-time $1,200 payment for every American earning less than $75,000 per year and another $500 per child. More importantly, the Congress has increased unemployment insurance by an extra $600 per week. Americans expect relief and the government, not Goldman Sachs or Bill Gates, is answering their call.

President Trump has done what Obama was reluctant to do. He has ordered "time-wasting" General Motors to make ventilators for coronavirus patients after attacking the company's chief executive. He invoked the Defense Production Act, a legislation from the era of the Korean War, which gives the president the power to force companies to make products for national defense. In a land where elections cost an arm and a leg, politicians are wary of taking on companies. Trump has done so publicly.

Obama once remarked that "Ronald Reagan changed the trajectory of America in a way that, you know, Richard Nixon did not and in a way that Bill Clinton did not." Abandoning Reaganomics, Trump and Congress have gone back to Roosevelt's economics. The coronavirus has achieved what Clinton or Obama did not.

The two Anglo-Saxon democracies, the superseded and the predominant superpower, have largely created the world we live in. In both these lands, the mighty winds unleashed by Thatcher and Reagan have now changed direction. Make no mistake: A new world is about to be born.

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How the Middle East Reacts to the Coronavirus Pandemic

Jean AbiNader
April 14, 2020

The impacts of the coronavirus pandemic across the Middle East and North Africa will be shaped by the capabilities of each country to implement broad efforts that reassure citizens while effectively mitigating the worst outcomes.

Combating the coronavirus pandemic requires reliable data for projecting infection rates, the effectiveness of mitigation steps and casualties.

There are many subsets to consider: where it is spreading, transmission sources, demographic profiles, assessment of mitigation and treatment options, and lessons learned. But all of this is tentative at best given that we are not even six months into its global impact.

After a delay of at least four to six weeks, the novel coronavirus known as COVID-19 was first reported in China and later to Iran, which also had a period of denial before reporting began. Since neither country is a paragon of statistical accuracy or openness, it is no wonder that many of the initial projections have been skewed by poor data using Chinese reports.

With reliable inputs from South Korea, Taiwan and Europe, projections are now more reliable, yet local conditions are a major factor in gauging the impact of the pandemic in any specific country, the US included.

Breaking It Up

Local conditions are a significant issue in determining how countries in the Middle East and North Africa (MENA) will emerge from the effects of the virus in the medium and long term. There have been many analyses of likely outcomes for the Gulf, North Africa, Egypt and the overall region. Each raises important questions that reinforce the need to understand that recovery strategies will vary in four categories:

Group A: Energy producers with access to financial liquidity — Saudi Arabia, the United Arab Emirates, Kuwait and Qatar

Group B: Energy producers with limited access to financial liquidity — Algeria, Egypt and Iraq

Group C: Energy importers with access to liquidity — Jordan, Morocco and Tunisia

Group D: Energy producers or importers with credit, financing and liquidity issues — Bahrain, Oman, Sudan and Lebanon

The rest of the MENA countries are either failing or fragile states (Yemen, Libya and Syria) or have yet to publish useful data, which includes Somalia and Mauritania. The World Health Organization (WHO) reports both on a country-by-country and regional basis.

In this analysis, access to liquidity is from domestic and international sources. Morocco, for example, has tapped credit lines with the IMF and will receive support from the European Bank for Reconstruction and Development (EBRD)to provide a cushion for its declining exports, remittances and internal revenues to maintain public services and subsidies for food, fuel and pharmaceuticals.

Kuwait, on the other hand, will rely on its own financial sector, private and government as the first line of support for funding needed to ramp up health services, protect companies and maintain government operations. Given its stability and conservative fiscal policies, it can also access external funding if needed.

Group A: The Gulf

Access to sources for stabilizing finances is only part of the need. In the Gulf Cooperation Council (GCC), much is being made of the three shocks to the oil producers: low prices, the pandemic and the recent price war between Saudi Arabia and Russia. The decline in oil prices has put the Vision 2030 projects in Saudi Arabia under scrutiny, and delays are being implemented to protect dwindling funds. A similar slowdown is happening in the UAE and Qatar.

Even if the latest OPEC agreement to cut oil production is honored, the participation of Mexico and the US is essential for price stabilization, which may not occur until the fourth quarter at the soonest given the production glut of the last month and declining global demand as people stay at home and planes are grounded. The GCC countries are already experiencing a contraction in the second quarter, tens of thousands of foreign workers have and are returning home, and currently upwards of an estimated $140 billion worth of stimulus funding to local companies will be needed to maintain even an acceptable level of domestic economic activity.

Recovery steps will be hampered by the length of the contraction, available supply chains that GCC countries rely on for imports, the stability of trade relations as countries take steps to protect their citizens' access to needed goods and services, and rising budget deficits as energy exports provide the bulk of government revenues. Banks do not have the tools to support companies with loan refinancing mechanisms, dealing with distressed assets, financing small and medium-sized enterprises (SMEs), and similar means of propping up the private sector that directly or indirectly depends on government contractors and projects.

Finally, the GCC depends on foreign labor for construction, agriculture, health services, maintenance and blue-collar jobs producing items for export or local consumption. How it will be able to recall and recruit those who have left may require a rethink of such items as visa sponsor policies, unemployment insurance, pension benefits and health care for both domestic and foreign labor.

Group B: Algeria, Egypt and Iraq

One of the major differences between Groups A and B is the high level of domestic labor in the economy, which focuses on all of the factors mentioned previously — insurance, pension, health care. These are key factors in reviving the workforce. All of this will require funding that is in scarce supply in Algeria, Egypt and Iraq for many reasons, many of which are related to corruption, control of the economy by the military and elites, and in Iraq's case, Iranian interventions into its economy and political decision-making.

In these countries, significant political issues are being faced as well. Popular unrest, terrorism, internal dissension and instability will make international lenders wary of investing. Recovery will take some degree of accommodation with the people, such as more economic and political openness, more job opportunities at all levels, better services and protection of civil and human rights, and an independent and transparent judiciary. All of this takes time. Accountability and transparency are not hallmarks of these regimes and continued delays cannot be blamed on the pandemic; in fact, it may be a mobilizing factor once restrictions on movement and assembly are lifted.

Group C: Tunisia, Morocco and Jordan

Tunisia, Morocco and Jordan face the same political challenges as Group B: political demonstrations are demanding an end to corruption, a more open economy and opportunities, and the provision of better services. The overriding issue as this point is how to fight the virus and build a foundation for resuscitating the economy for the citizens. All three countries face financial issues. They regularly run national deficits and are reliant on foreign assistance to survive and maintain services. External financing is imperative if they are to transition through combating the coronavirus to rebuilding their economies and reducing wealth disparities.

All are doing their best locally. Morocco has raised more than $3.5 billion for a fund started by King Mohammed VI to combat the virus. Its engineers and others have already invented a locally-manufactured ventilator that is now in production, and its textile factories are producing masks and gowns. In Tunisia, similar initiatives are ongoing to produce equipment and supplies to combat the virus, and Jordan is doing the same.

These nations are similarly challenged by the return of overseas workers who have been instrumental in providing significant remittances that are the second or third-largest component of their revenues. Internal issues such as the need for governmental reforms, corruption, lack of adequate public services, and human and civil rights deficiencies continue to hamper building trust that will be sorely tried in the coming months.

Group D: Bahrain, Oman, Sudan and Lebanon

It seems counterintuitive to put these countries in the same category, but they all have similar issues related to national budgets, domestic political stability and dependence of external sources of assistance for fighting the virus and rebuilding their economies. Bahrain will most likely be able to rely on Saudi Arabia for its financial needs, but that does not remove the lack of accommodation with the majority Shia population.

Oman has simply overspent its revenues too often in the past five years and will require extensive economic and political restructuring to appeal to international creditors and investors for its recovery. This is a real test for the new sultan, Haitham bin Tariq, which he is well equipped to manage.

Sudan will struggle under the impact of its feeble health services and recurring political instability while trying to effectively address the pandemic. Recovery will require retooling a government that for too long sustained elites to the detriment of the major populations. Although tribal identities remain strong and determinant, dealing successfully with the virus is a key opportunity for building trust, developing sound strategies and drawing investments from the international and expatriate communities.

Lebanon has the professional and technical personnel required to mitigate the worst impact of the pandemic. It is constrained by political elites who see the virus as an opportunity to disarm opposition to their decades of corrupt practices. While the quasi-technical government is taking mini-steps in the right direction, it is unable to command the power needed for medium and long-term solutions beginning with the financial sector. Lebanon has few if any sources of revenues by which to procure needed supplies to combat COVID-19 and its private sector is pitching in but at modest levels compared to the needs.

The intertwined interests of Iran, Syria, Hezbollah, the political elites and the demonstrators in Lebanon make this a perfect tsunami if steps are not taken concurrently to fight the pandemic and implement political and economic reforms. Otherwise, Lebanon will certainly become a failed state in the coming year.

While this may seem a dire analysis of the region, it reflects the reality that its weaknesses have been building for years. Without comprehensive, thorough and inclusive strategies that include economic initiatives that serve the countries in the long term, the Middle East and North Africa will continue to underperform. This is as true for the oil producers with cash on hand as for the resource-challenged nations that must address other causes of instability only highlighted by the pandemic.

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COVID-19 Is a Wake-Up Call on the Shortcomings of Globalization

Hans-Georg Betz
April 23, 2020

The COVID-19 crisis has fundamentally challenged the logic of globalization.

Until recently, globalization was heralded as the major engine of global economic growth and, particularly, of the dramatic reduction in inter-country inequality. Globalization was largely seen as a win-win mechanism for both developed and developing countries. Central to globalization has been the expansion of global value chains — the breaking up of the production process into a series of geographically separated steps. Some, such as design and marketing, were retained in developed countries. Others, such as manufacturing and assembly, were outsourced to developing countries. The expectation was that over time, developing countries would "climb up the value chain," allowing them to converge with the developed West.

The COVID-19 crisis has fundamentally challenged the logic of globalization. It has brutally exposed the underlying flaws of a system exclusively based on cutting costs. Take, for instance, the case of Switzerland. It derives much of its wealth from the pharmaceutical industry, which is a major driver of Swiss exports. Together with chemicals, pharmaceuticals account for roughly half of Swiss exports, way ahead of jewelry, watches and precision instruments. Novartis and Hoffmann-La Roche are global players. Yet when the coronavirus pandemic hit Switzerland, the country was caught completely unprepared.

At the beginning of March, pharmacies advised Swiss citizens to follow basic health measures, such as washing hands and using hand sanitizer. There was only one problem: There was no hand sanitizer, neither in the pharmacies nor in the supermarkets. It took Coop, one of the country's two major supermarket chains (the other is Migros), more than four weeks to provide hand sanitizer to its customers.

Things were equally disastrous with regard to face masks. By now it has been well established that face masks are an effective way to prevent the spread of the virus, which is carried in tiny spit droplets. The easing of lockdown restrictions will ultimately depend on the availability of protective masks for anyone venturing out into the public. Ironically enough, as the Swiss quickly found out, there was not one company in the country in a position to produce face masks. Swiss face masks were imported from Germany, which, in the face of a quickly escalating pandemic, stopped exporting masks to its neighbors.

The Underbelly of Globalization

COVID-19 has laid bare the soft underbelly of globalization — with disastrous consequences. Globalization has entailed two contrary developments: deindustrialization in the north and industrialization in the south. For years, major Western European and North American companies have outsourced core areas of their manufacturing operations to localities overseas. Producing basic commodities such as face masks just was not profitable. Better leave it to the Chinese, Indians or Vietnamese.

Today, we are paying the price — a price that goes into the hundreds of billions. Ironically enough, in Germany today, the country's decimated textile industry is called upon to retool quickly in order to deliver desperately needed protective masks. Unfortunately, they lack the machines necessary to go into production. The machines have to be procured from China, as the Swiss did a few weeks ago, allowing them to start production after Easter. However, necessity, as they say in German, is the mother of invention. Melitta, Germany's premier producer of coffee filters, just announced that it has retooled and is in a position to produce protective masks.

COVID-19 has been a wake-up call — or so one would hope. For ages, countries have refused to hand over their vital food supply to the outside world. Even in Switzerland, a country largely covered by mountains and lakes, consumers pay relatively horrendous prices for domestic agricultural products in order to keep domestic producers alive. Food security is essential, as the Germans found out during World War I. This explains why the Chinese have gone at great lengths to secure access to farmland in Africa, opening them up to charges of land grabbing.

Ironically enough, as the current crisis has drastically shown, there have been no similar concerns with regard to health care. Western countries have had no qualms outsourcing the production of essential materials abroad, if only to save on costs. Take the case of medication. Big pharmaceutical companies in Europe and North America are focused on the development and patenting of new drugs. Their active ingredients, however, are largely produced in China from where they are distributed across the globe. As a result, even in Germany, a country with an excellent health-care system, clinics were running out of vital medications such as painkillers and antibiotics.

Today, the health sector is the most visible example of the fundamental flaws of globalization. It is, however, hardly the only one. Take, for instance, the case of the German automobile industry. Much of the production process is not done in Germany, but in central Europe, particularly Slovakia. COVID-19 has severely disrupted these links. In many cases, the crisis poses a fundamental threat to the survival of Germany's suppliers abroad, which were already under pressure as a result of the rapid pace of technological innovation and change in the industry.

At the same time, the future of Germany's leading car manufacturers has been compromised by the uncertainty associated with their suppliers. And car manufacturers are hardly unique with respect to international dependency. A recent survey by a leading German consultancy firm found that some 80% of the companies it surveyed depended on Chinese suppliers. This suggests that a serious disruption of the flow of inputs from China has a disastrous effect on companies in Germany. And Germany is hardly a unique case. Over the past few decades, most advanced Western countries have increasingly outsourced core industrial operations to Asia, in the process dramatically increasing their dependence on overseas suppliers.

A Mistake?

The current crisis suggests that this has been a mistake. In case of an emergency, everybody looks out for themselves. We might not like this as it might go against everything we believe in. Yet as we have found out in recent weeks, it is a bitter reality.

The reality is that globalization has substantially weakened national sovereignty. The loss of sovereignty has been most prominent with respect to states' ability to conduct their own autonomous monetary and fiscal policy in the face of what is known as "financialization." For a long time, the loss of state sovereignty was seen as a positive development, as long as it led to greater international integration and "societal progress." The current pandemic has laid bare the flaws inherent in a process that fundamentally depends on its smooth functioning.

A recent public opinion study from France suggests that we might already be on the verge of a fundamental rethinking of the logic behind globalization. Asked what they thought were the main lessons of the crisis for the "time after," more than 80% of respondents agreed that Europe should repatriate as much as possible of the production value chains that had been outsourced to Asia. Almost 70% thought basic services (water, energy, transportation) should be nationalized, and 70% equally thought that the influence of finance and shareholders on enterprises should be curtailed. These results jibe with earlier findings which showed that the COVID-19 crisis had increased the French public's sensitivity to the question of inequality and social justice.

These and similar findings suggest that the COVID-19 pandemic might indeed mark a fundamental turning point in recent history. For decades, the international community has been engaged in a debate about social and economic inequality, sustainability and global justice. Much has been written on all of these topics — little has been achieved. The temptation has been to proceed with business as usual.

The Trumps and the Bolsonaros of this world are glaring examples. This time around, it is to be hoped that they won't succeed. Given the monumental challenges facing humanity after the end of the current crisis — particularly climate change and global warming — major disruptions such as droughts, wildfires or floods are likely to become the new normal. Under the circumstances, a return to business as usual is inviting the next disaster.

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Fintech: Embracing the Digital Age in the Time of Social Distancing

Glenn Ojeda Vega & German Peinado Delgado
April 28, 2020

The stress of COVID-19 on the global economy will expand the market for fintech and accelerate the pace at which it is adopted.

The COVID-19 global pandemic has become a make-it-or-break-it moment for many businesses, particularly startups and industry disruptors. With market forces and rules being reshaped daily at lightning speed, large swaths of the world have been forced to adopt technology and embrace the digital age in order to keep the lights on.

The new socioeconomic order and redefined market priorities will be a fire test for businesses of all sizes to prove the sustainability of their model and the uniqueness of their value proposition. Shaky shops will unfortunately collapse, particularly in the small and midsized markets, while compelling innovation, much-needed disruption and quick adaptability will soar.

Now, this doesn't mean that all businesses that make it through the COVID-19 crisis are destined to succeed in the long run. Nor does it mean that all business concepts that fold during the pandemic were destined to fail. The unpredictability and suddenness of this global emergency are such that a stroke of either cash-flow luck or an unfortunately-timed investment makes a difference between the liquidity needed to stay afloat or the next payday simply being one bridge too far on the cash runway.

The Fintech Landscape

In developed free market economies, 2018 and 2019 were good years for the fintech software as a service (SaaS) space. For both acquisition and capital raise transactions, startups that have proven their model's worth in the marketplace were valued at six to nine times their annual revenue. Depending on maturity, cash flow and revenue growth metrics some outstanding companies even secured valuations over 10 times their annual revenue. Similarly, in emerging markets, the use of proliferation of financial technology has allowed entire populations to discover the use of cashless payments, leverage crowdfunding platforms, microloans and parametric insurance.

For at least half of the fintech market, a correction was overdue, and valuations will certainly constrict in the midst of the socioeconomic crisis. However, once the COVID-19 crisis has passed, small and midsized businesses that manage to weather this tempest and survive the market shock will procure premium valuations for several reasons.

Firstly, businesses still standing after months of tight liquidity, stretched sales cycles, tested employee morale and teleworking challenges will warrant a force majeure survival premium on their enterprise value. Moreover, most of these companies will face a leaner, more favorable competitive landscape once the storm has passed and former peers have left the market.

Likewise, pandemic-induced physical distancing has served, in some regards, as a marketing equalizer. Forcing would-be customers into the digital space and increasing the amount of time individuals spend online, global quarantine measures have turned the already robust social media presence — which tends to favor small and dynamic market players — into an even more valuable corporate asset.

On the supply side of capital and acquirers, however, the future is more uncertain. In the United States, aggregate demand will increase slowly as everyday consumers prioritize savings and purchasing power remains low due to increased unemployment. Likewise, an increased global demand for US dollars will decrease national exports and hurt manufacturing.

Therefore, investors not fixated solely on asset liquidity and capable of taking long positions will focus on positive cash flows and significant margins over revenue growth, particularly with the prospect of a second wave of COVID-19 and a slow macroeconomic recovery. In this regard, startups in emerging markets seeking foreign capital injections will find themselves competing for fewer resources as investors turn toward established and developed economic environments.

Unstoppable Trend

To comply with distancing guidelines and health regulations, banks and commercial stakeholders around the world will continue to promote and implement fintech applications facilitating cashless and virtual transactions. In this sense, fintech will also play a decisive role in reaching individuals currently outside the formal financial sector, such as rural communities without banking infrastructure in emerging markets. Likewise, it will allow socially and economically vulnerable populations greater access to game-changing resources and financial literacy tools.

For instance, the mass propagation of new digital payment methods such as PayPal, Square, Apple Pay, Google Pay, Alipay and Samsung Pay is a unique opportunity for fintech developers and entrepreneurs to reach customers in new and uncharted jurisdictions. Simultaneously, established industry players such as Mastercard, Visa and American Express are now finding themselves with new competitors hungry to gain market share. On the lending front, small banks and non-traditional players, like the payroll software provider Quickbooks, have become key actors in implementing federal incentives and loan programs in the US.

These transformations also open a new regulatory landscape. Governments and corporations will have to address new sets of challenges, such as preventing money laundering, tax evasion and terrorist financing. Due in part to current lockdown measures, criminal activity in Latin America — drug dealing, human trafficking, contraband, and cybercrime — has also found a way to adapt, leveraging fintech platforms as channels to receive and make payments while avoiding conventional regulatory controls and oversight. Consequently, criminals are gaining liquidity and finding ways to launder illegal funds onto platforms and even into the financial ecosystem.

For instance, the use of fintech platforms and other third-party intermediaries renders the job of regulators more difficult as they seek to determine how the funds were generated or where they are derived from. Likewise, the use of non-bank financial institutions such as Western Union, as well as cryptocurrencies, helps illicit organizations avoid legal controls.

Nonetheless, the introduction of dynamic and bespoke regulation into the fintech space can both enhance the user experience and help oversight authorities with due diligence and compliance as required by law. Responsible governance and transparency in this sector are essential to ensure that governments and individuals are protected amid growing concerns around user data privacy, particularly as cyberattacks become more common, thus elevating digital risk.

Consolidation and Competition

Sectors of the global market that were deemed essential a few weeks ago and had experienced steady growth trajectories for decades are now facing a challenging change in the paradigm. From higher education and international travel to lodging and hospitality, many aspects of modern life will be forever transformed by the realization that, in a tele-business world, classrooms and boardrooms can be accessed from a home office for a fraction of the cost. Thus, commercial real estate can expect to feel the sting of an increasingly digitized economy and adapting businesses seeking to reduce fixed costs.

With established and emergent players struggling in a variety of markets, and with the capital needed to fuel competition shrinking, another trend in impacted industries, like retail and air travel, will be consolidation. Some sectors are becoming more competitive as a new economy takes shape, but startups and entrepreneurs might struggle with operations and funding as recapitalization investments are put on hold or down-rounds become the only option. Beyond the obvious enablers of the digital 2.0 economy (such as teleconferencing and web-streaming platforms), food and grocery delivery services, as well as healthy-living enablers, are seeing their markets grow.

In the fintech space, large strategic acquirers will be careful about their investments as they see the crisis reflected in their income statements and thus focus on targets that generate proven efficiencies through reduced costs. Meanwhile, financial funds will be looking to capitalize on fire-sale exits in the fintech space before the dust settles and the coronavirus premium ups enterprise value.

In short, the stress of COVID-19 on the global economy will expand the market for fintech and accelerate the pace at which it is adopted. It is up to established market players and government regulators to keep lockstep with technological innovation and increased user demand for efficiency.

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Coronavirus Makes Indonesians Get Online

Dikanaya Tarahita & Muhammad Zulfikar Rakhmat
April 29, 2020

The COVID-19 pandemic has changed the perspective of Indonesians when it comes to work and the internet.

At the time of publishing, around 9,800 Indonesians are confirmed to have contracted the novel coronavirus that causes COVID-19. Although the central government had been slow in enforcing self-quarantine measures, the hashtag #dirumahaja (or #WorkFromHome) is trending on social media as more people are staying indoors.

Both the public and private sectors, as well as educational institutions, have responded to the pandemic by changing their working styles. While this has involved laying off employees and closing schools, some companies are allowing their staff to work remotely from home and many students are taking classes online.

As a country that has not had any previous experience in developing flexible working hours and telecommuting practices, the coronavirus has taught Indonesia that it can go online. There are many skeptics who still believe that physical attendance equals good performance. Yet the current situation is proof that companies and schools can adapt and utilize modern technology to keep the country moving. The question is whether Indonesia will see a digital revolution to change the way it functions.

To this day, Indonesia as a country still considers that physical attendance and long working hours will improve performance. This is in stark contrast with many developed countries where companies had already introduced flexible working hours and encouraged staff members to work from home, which can cut operating costs. After all, employees who are happy with their job and are better able to manage their work and social lives are more likely to stay at a firm, thus boosting a company's productivity.

In early February, President Joko Widodo initiated a controversial omnibus bill that aims to improve the ease of doing business and attract investment to Indonesia in order to boost job opportunities and economic growth. The law also allows businesses to increase overtime for employees by up to 18 hours a week and offers provisions for a six-day working week. Not only does the bill show that the government still considers longer working hours to mean added productivity, but it has also led to criticism as it could result in the exploitation of workers.

In addition, at government agencies, work discipline is strict when it comes to attendance and punctuality for the 4.3 million civil servants employed in the public sector. If a worker is late, then they are paid late and miss out on any promotion for the next year. Likewise, if a university lecturer or school teacher is late or fails to attend, they don't get paid on time.

The Coronavirus Is Changing Things

Concerns about COVID-19 and the involvement of local officials in attempting to prevent the virus from spreading have led to changes in Indonesia, and it's not only for everyday citizens. Officials from several government ministries, including education, culture and finance, are working from home. Cabinet meetings are even conducted online via videoconferencing.

Startups like Gojek and Tokopedia — a payment system company and an e-commerce firm, respectively — have also applied the same policy. Even the banking industry, which is often strict when it comes to annual leave for its employees, has also urged its staff to work remotely. Rully Setiawan, the corporate secretary of Bank Mandiri, told The Jakarta Post that the health and safety of customers and employees was the priority. He has appealed to people who need financial services to use mobile and internet banking, which is not commonly used by Indonesians.

As with most urban cities, the Indonesian capital, Jakarta, has recorded the highest number of confirmed cases of COVID-19 in the country. The city's governor, Anies Baswedan, has thus continued to instruct more companies to adopt work-from-home practices. Despite the devastating situation for public health, this policy trend is a breath of fresh air for the world's 10th most congested city as pollution has dropped.

On March 19, Sambodo Purnomo Yogo, the director-general of the Jakarta Metropolitan Police, said: "More and more private and government offices are implementing work-from-home policies, [which] when viewed from the side of traffic there has been an extraordinary decline." He revealed that there was a 20% reduction in vehicle volume at the Jakarta toll gate and 18% in the Sudirman-Thamrin protocol line, which has been notorious for traffic jams.

This has, of course, been aided by schools and universities that are currently closed and are holding distance learning classes for this semester. Educational institutions are not only conducting classes online, but they are also holding exams and the defense of university theses.

This is nothing new for developed countries that have conducted distance learning for years. Yet for a country that does not see the value in learning online, this is a revolutionary development for Indonesia. If such practices continue long after the lockdown is lifted and the spread of the coronavirus has been stopped, digital working and learning could become the new norm in Indonesia.

Not only would this allow staff to balance their work and social lives and also transform the education system, but it could allow people in remote regions of Indonesia to benefit from jobs or programs they could only dream of. Suddenly, people in far-way Indonesian islands could see a wealth of opportunities as they could attend universities or get a job without having to leave home.

Policymakers should be reminded that long work hours and physical attendance do not necessarily mean efficiency. Rather, favorable working practices are more beneficial to all stakeholders in the new digital age. A modern Indonesia has led to new ideas on solutions to long-held issues such as traffic and pollution that the government has for a long time tried to find an answer to.

Of course, the practice of work from home during the current lockdown also has negative implications for various industries, including the tourism sector. In addition, many Indonesians who work as street vendors selling in traditional markets are also at risk of losing money because of this outbreak.

Yet among the uncertainty caused by the coronavirus lies the removal of Indonesia's skepticism about going online to get things done. Who knew that working and learning remotely is possible and, actually, it's not a bad idea? There's a very real possibility that such practices will continue long after the pandemic ends.

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Saudi Geopolitics Amid COVID-19 and the Oil Crisis

Theodore Karasik & Alexander Jalil
May 15, 2020

Scholars will look back at the 2020 oil market crash as the beginning of a new energy landscape that helped usher in the reign of the future Saudi king.

With West Texas Intermediate futures trading in negative territory for the first time in history, it seemed the market had finally come to terms with what experts had long warned: The world is running out of oil storage. With human movement restricted due to the coronavirus pandemic, aviation grounded and the global economy halted, demand for oil plummeted.

By March, Saudi Arabia warned that the demand destruction that had started in the Asian market would spread. The Saudis reasoned that OPEC+ countries needed to undertake larger production cuts in order to balance the 30 million barrels per day in demand. Angered by US sanctions on Rosneft and the Nord Stream 2 project, Russia refused to give up market shares to the benefit of US shale oil. Saudi Arabia responded by flooding the market in a bid to strong-arm Russia back to the negotiating table. With both a supply glut and low demand, inventories are bound to reach maximum limits and push down prices even further.

Saudi Arabia's economy will suffer in the short term. The government has already trimmed the 2020 budget by 5%. Further spending cuts are expected. The International Monetary Fund (IMF) argued that Saudi Crown Prince Mohammed bin Salman would be wise to remove fuel subsidies — accounting for 17.9% of GDP — when gasoline is cheap, thereby avoiding political backlash. Instead, the Saudis adjusted the price by reducing the cost to consumers by over 50%, at least for May. Other decreases in public benefits risk undermining the social contract, which can alienate sections of the population that have given the crown prince staunch domestic support.

On May 10, King Salman bin Abdulaziz ordered a cut in Vision 2030 projects and other efforts by $26 billion, increasing value-added tax (VAT) from 5% to 15%, stopping the cost of living allowance to state employees and revising benefits of government contractors. These short-term painful cuts are expected to be reversed later in 2020, depending on how quickly the global economy adjusts to the new energy environment. Revenues from investments are plugging budget deficits, and the reserves from the Public Investment Fund (PIF) — Saudi Arabia's $320-billion sovereign wealth fund — will cushion the macroeconomic crash. The $470 billion in foreign reserves provide an additional source of cash, but restraint is required in order to avoid currency pressure on the dollar-pegged riyal.

Saudi Arabia, like other Gulf Cooperation Council (GCC) member states, will carry forward with bond issuances. The kingdom has already sold $12 billion on international debt markets, and the government is willing to increase the debt-to-GDP level from 24% to 50%.

While the short-term economic forecast appears gloomy, the long-term outlook is brighter. It appears that a protracted low-price environment will continue forcing involuntarily shut-ins on petroleum producers. Oil fields around the world will contract permanent damage from shutting down production and, in many cases, they will not be able to resume extractions. Yet Saudi Arabia's low-cost and flexible petroleum industry is capable of surviving the crisis and seizing market shares from its crippled competitors. Even if oil prices never recover to pre-coronavirus pandemic levels, these newly acquired market shares will compensate for lower prices.

Moreover, recent PIF purchases will generate future profits. Saudi PIF activity during the oil crash in April was remarkable for its "buy low" strategy. The PIF invested in Royal Dutch Shell, France's Total, Norway's Equinor and Italy's Eni. All these companies represent the future of European energy. These financial moves seek distressed assets during a global crash of the oil market. The aim of this strategy appears to be to take advantage of the global contagion to the benefit of the PIF and its investment partners.

These investments are based on the strong and correct assumption that the oil sector will recover significantly during this transition to a new energy future by emphasizing the power of sovereign wealth funds (SWFs). The SWFs' role as politically motivated investment vehicles is part of this new energy environment. These recent investments will grant Saudi Arabia control in competing oil companies. Additionally, stakes in the strategic energy industries expand the country's clout in Western capitals.

Strained Relations With the Americans

The reception to the news that Saudi Arabia was shutting down America's shale industry on purpose forced Senator Ted Cruz to express his outrage at Riyadh for dumping oil on American shores. The energy industry transition that it is now undergoing is about creating the "end use" of the petroleum industry. In other words, it is about how to best use up this resource from the ground while moving into a new energy future based on gas. Saudi Arabia's approach is to create a new energy market where Saudi Aramco and PIF can dominate.

For US shale producers, their future is being determined by the White House either through bankruptcy or nationalization. The shipping of Saudi oil to the United States in 20 very large crude carriers — known as VLCCs — is part of a negotiated deal between US President Donald Trump and Crown Prince Mohammed bin Salman through their many phone calls.

This move between Washington and Riyadh seems to be part of a guarantee to keep oil cheap and shale offline. But Trump's moves are very risky. US senators are calling for tariffs and opening up Saudi Arabia to more legal damages.

In this election year, the US Congress is not toothless. Without a doubt, Trump will not take the risk of alienating American voters and other US politicos because Saudi oil may be going into the US Strategic Petroleum Reserve. This aspect of the story is still unfolding in terms of the reopening of the US economy from the coronavirus lockdown, the speed at which cheap oil will be consumed and, of course, politics.

Having said the above, the US government has few options to protect US shale, whose high-cost production is ill-prepared for a market at much lower prices. One option is to pay companies to keep their oil in the ground, but keeping oil pumps idle inflicts great damage on oil wells and restarting them could possibly fail. The government has flirted with resorting to Trumpian protectionism and imposing tariffs on foreign oil. This would pose technical problems for US refineries that need foreign heavy crude to blend with the American light.

Another option on the table is to fill the Strategic Petroleum Reserves, in order to increase storage capacity. However, funding for this has not been approved and these reserves are not infinite, meaning they will only push the peak demand date further. Other options mean that the best way is to resort to a laissez-faire policy and let market forces cull the herd — a strategy preferred by big oil companies with less exposure to the uncompetitive shale industry.

Whatever measures are taken, the heavily indebted shale industry will be forced into bankruptcy. Larger firms will acquire some shale companies and push down production costs, but shale will not be able to recover and America’s position as the world’s largest oil producer will come to an end.

Although, the US has one last resort to take on market shares and keep oil prices high enough for its shale companies — and that is war. In April, a single tweet by Trump, stating that he had ordered the US Navy to fire on Iranian vessels if harassed, boosted oil prices by 10%. A military escalation in the Gulf would strangle a fourth of global oil supply, increase prices significantly and leave markets open for US oil exports. Moreover, it would boost oil demand for the war effort and bring about a military Keynesianism program in the midst of an economic depression.

Nevertheless, the spread of the novel coronavirus would hamper the deployment of soldiers, and the already broken supply chains would pose another obstacle for logistics. It would also be a huge gamble for President Trump to initiate war in the midst of a pandemic during an election year. However, the last four years have proved that Trump’s unpredictability is not to be underestimated. In that case, he would also act against the interests of America’s Saudi ally, which would not only see its oil exports choked off but also its very existence imperiled.

On May 11, Saudi Arabia’s announcement of a range of austerity measures that included cutting the cost-of-living allowance for government workers is notable in how the effort restructures priorities. The steps taken to shore up revenue and rationalize spending are valued at about 100 billion riyals ($26.6 billion) in total, according to the official Saudi Press Agency, although figures will change over time.

Overall, spending for 2020 will remain close to what was planned as money saved is reallocated to health care and aid for Saudi businesses. Due to the economic situation, Finance Minister Mohammed al-Jadaan indicated in an interview with Al Arabiya that spending cuts could reach any sector, as long as it does not impact the welfare of Saudi citizens.

Mohammed bin Salman is opting to decrease the bloated defense budget, accounting for 8.8% of GDP to an estimation of $67.8 billion. Reducing military expenditure implies slashing weapon imports from the American arms industry. Considering Trump’s fixation with allies’ defense budgets, cutting back on military hardware will not be an easy task for Saudi Arabia, which is already blamed for disrupting another vital sector in the US economy. Recycling petrodollars into the US military industry is a pillar of the Saudi-US relationship, and breaking with that would be dangerous at a time when fissures are appearing in the historically united al-Saud dynasty, as the crown makes a generational transition for the first time in history.

Saudi Arabia will be careful not to risk its lynchpin role, knowing that Qatar and the United Arab Emirates are lurking to assume the role of America's pillar in the Gulf. A fear that has taken a more serious role in Saudi calculations since leaked tapes dating back to 2003 between then-Libyan leader Muammar Gaddafi and the Qataris indicates that there is a plan to divide Saudi Arabia into small states.

Following Saudi tradition to compensate the US when relations have deteriorated, Mohammed bin Salman can offset American antagonism by awarding contracts for the giga projects to US companies. Saudi Arabia can reemphasize its significance to the US if it consolidates firm control of energy markets at a time when American energy independence is faltering. Renewed reliance on Middle Eastern hydrocarbons will push the US to keep good relations with the Saudi petro hegemon.

Putin and Mohammed bin Salman

Russia claims its economy, with a $460-billion-strong reserve buffer and a low fiscal breakeven oil price at $40, is well prepared for a price war. But lay-offs, wage cuts, the fast-spreading coronavirus and, on top of that, President Vladimir Putin's PR trick to send medical equipment to the US has provoked protests and falling approval ratings for the Russian leader. Additionally, Putin lost face in Western eyes when he was forced to sign a new OPEC deal — with even deeper cuts than the proposed quota in March. Concomitantly, the defeat in the price war will cost Moscow bargaining power in future OPEC+ negotiations.

Saudi Arabia has targeted Europe, Russia's key market, in its battle for market shares. Saudi and Emirati tankers are heading toward the Russian-dominated Amsterdam-Rotterdam-Antwerp (ARA) hub, pushing the storage capacity to a maximum. In contrast to the Asian market — another battlefield between Russia and Saudi Arabia — European industrial activity has not resumed following lockdowns, which further pressures storage infrastructure.

A jammed oil market will hurt all petroleum producers, but the Russian oil industry will be particularly exposed in the long term. Oil wells in Russia produce a mere average of 9.5 tons/day, compared to the Saudi average of between 1,000 to 2,000 tons/day. Small output means that production cuts will entail shutting down wells completely. Shut-ins in Russia risk being permanent since Russian oil wells suffer from underinvestment, the equipment is old and the fields are located in Siberia, which has an unfavorably cold climate. This scenario imperils Russian energy diplomacy in the long term. And with that, Russia's geopolitical standing in the Gulf appears increasingly bleak.

Angering the Saudis deprived the Kremlin of an important inroad to soft power diplomacy in the Arab world. Putin has used the symbolic relations with Saudi Arabia to promote the image of Russia as the new powerbroker in the Middle East. For the foreseeable future, this cooperation discourse strategy will be unavailable when Moscow contemplates soft power projections in the Gulf.

In the Background, US-Russian Summitry

The US factor is represented by Trump and his individual relationship with Putin as part of a change in how the two countries interact. With the Saudis pulling the plug on the oil market, Trump is able to apply pressure on Moscow to make Russia capitulate on issues related to arms control by creating a new START II treaty, an agreement signed in 1993 by the US and Russia to reduce their nuclear warheads.

This factor is important because the Russian Direct Investment Fund (RDIF) headed by Kirill Dmitriyev is negotiating with Trump's immediate circle, despite US sanctions on both RDIF and Dmitriyev himself. Dmitriyev and the RDIF are Putin's representatives to Trump and the US National Security Council. Here, the relationship between the US and Russia is to build toward a summit like the 1972 meeting between Leonid Brezhnev and Richard Nixon, according to sources in both Washington and Moscow.

This process is a negotiation channel for a number of different immediate strategic threats, including energy markets, coronavirus testing and producing a vaccine, and a new START treaty. The energy transition fits into these ongoing backchannel negotiations — particularly communications between Russian National Security Council Secretary Nikolai Patrushev and his US counterpart, Robert O'Brien — because of the impact of the coronavirus on global markets, as Dmitriyev negotiates further investment opportunities between RDIF and the Saudi minister of investment, Khalid al-Falih.

This triangulation between the US, Russia and Saudi Arabia drives them toward cooperation down the road. This is an issue to watch out for.

Developments on the Arabian Peninsula

All the Gulf Cooperation Council states have resilient petroleum industries as they are well invested in mid and downstream infrastructure. Emirati and Kuwaiti oil companies hold ownership of refineries in all major consumer markets, which have secured additional storage space for their exports. The UAE and Kuwait's robust oil industries will be able to cope with low demand and shut-ins. On the other hand, hydrocarbon reserves in Oman and Bahrain are depleting. The largest issues facing these countries are not their oil, but rather their macroeconomic status.

Bahrain's debt-to-GDP ratio exceeds 100% and long-running fiscal deficits are indicators for tough times in the small Gulf state. Bahrain, however, is likely to receive financial support from both the Saudis and the Emiratis because of its geostrategic significance. Saudi Arabia faces its own economic challenges, leaving the UAE's solid coffers better placed to buttress Bahrain. This development may strengthen the Emirati-backed King Hamad bin Isa al-Khalifa's positions vis-à-vis his Saudi-aligned prime minister, who is also his uncle. This would increase Abu Dhabi's influence in the politics of Bahrain's ruling family.

The Omani economy is particularly vulnerable due to the double-hit against both oil revenues and its tourism sector, which is critical to the sultanate's diversification efforts. High-debt levels and small financial reserves also spell trouble for the future of its sovereign currency. Without access to international debt markets, Oman will need to ask for a bailout from its wealthier neighbors. Saudi Arabia will avoid spending increases. Sultan Haitham bin Tariq, who became Oman's head of state in January, has business ties to Dubai and has already tilted Muscat more toward the Emirati orbit, at least according to some analysts. Accepting Emirati funds would deepen this trend, which risks compromising the late Sultan Qaboos bin Said's legacy of conducting an independent foreign policy.

Although Kuwait expects a strong recovery once demand rebounds, the government approved yet another budget with a fiscal deficit for the sixth year in a row. A historically vocal population and parliament may spell trouble in this emirate. Kuwait and the other GCC states can understand the rationale behind Saudi Arabian brinkmanship on the oil market, and they have not voiced criticism against Riyadh despite how much their economies are suffering. For now, they are following Saudi Arabia's lead, but that would change if economic distress translates into public pressure. In that case, Riyadh would be compelled to bail out its neighbors.

A disinformation campaign claiming coup attempts and a spreading coronavirus problem in Qatar circulated in early May. Any coup is an improbable scenario for Qatar, which is logistically and financially well-prepared for isolationism and unexpected trade disruptions. A low breakeven oil price at $45 (the lowest in the GCC) is another advantage for a state facing a two-pronged economic shock.

Though comfortable and stable, Doha will continue to seek reconciliation with the Saudis, albeit without comprising any of Qatar's sovereignty. Qatar has been under an economic and diplomatic embargo by four Arab nations since 2017. The Qataris have participated in GCC emergency meetings regarding COVID-19, the disease caused by the novel coronavirus. But it is unlikely that technical coordination will yield a political rapprochement.

Mohammed bin Salman values his strategic alliance with the UAE, and the political deadlock will remain for as long as the Emiratis refuse to renormalize relations with Qatar. On the contrary, the coronavirus may widen the rift if domestic turmoil stirs in GCC states and Doha is perceived to fuel protests in the region. Last week's disinformation campaign against Qatar was a stark reminder that the Gulf dispute is far from over and will only grow more contentious in the current ideological division splitting the region between Abu Dhabi and Qatar.

Yemen's multisided war is also likely to continue until Saudi Arabia can exit with some form of security assurance. The COVID-19 financial distress, however, incentivizes the Saudis to pursue diplomatic solutions. The announcement of a unilateral ceasefire in April was an indicator that Saudi Arabia seeks to untangle itself from the Yemeni quagmire. The Houthi rebels in Yemen sense weakness from Riyadh and have bolstered their bargaining position through recent gains in Marib, where Yemeni government forces were rooted out.

Fear is emerging in the ranks of the internationally-recognized Yemeni government led by President Abdrabbuh Mansour Hadi as the Saudis appear to be flirting with the idea of abandoning the militarily weak pro-Hadi camp for the more resolute southern separatists in the UAE-sponsored Southern Transitional Council (STC). Jumping ships would consolidate Saudi Arabia's alliance with the Emiratis.

Abu Dhabi never saw eye to eye with the Hadi government as it included Islamist factions from the Islah party. Abu Dhabi's Crown Prince Mohammed bin Zayed was always more comfortable working with the southern separatists, who have a secular legacy stretching back to the Cold War era. Mohammed bin Zayed will lobby Mohammed bin Salman to support the STC and its plans to revive South Yemen. But the STC is not interested in fighting the Houthis. Saudi Arabia must, therefore, embark on a diplomatic settlement.

The core aims of Saudi Arabia's intervention, which began in March 2015, were to eradicate Iranian influence in the Arabian Peninsula and neutralize the threat posed by the Houthi rebels' arsenal of weaponry. Saudi Arabia will need to convince the Houthis that cutting ties with Iran will bring them peace with their neighbors, their own state in North Yemen and substantial reconstruction funds. These funds will only increase when Saudi Arabia recuperates market shares and oil revenues. Whether the Saudis and the Iranian-backed Houthi insurgents will ever able to develop sufficient levels of trust to begin a new chapter based on peace and cooperation is unclear.

Looking Ahead

The collapse of the oil market and the subsequent drop in finances will impact Saudi Arabia's geopolitical calculations. In the short term, less capital to spend on financial aid will lead to retreating Saudi influence in the region, to the advantage of the UAE and Qatar. A negative economic outlook will embolden Saudi Arabia's adversaries, and no solution to regional disputes should be expected. Mohammed bin Salman's act of brinkmanship jeopardized Trump's support, and possible spending cuts in arms imports could further strain US-Saudi relations. The volatile action also undermined Riyadh's role as a responsible energy market stabilizer.

Nonetheless, Saudi positions will strengthen in the medium and long term. Protracted low oil demand and forced production shut-ins will purge most of Saudi Aramco's competition. Indeed, American shale; Canadian oil sands; deep-water platforms in Norway, the United Kingdom and Brazil; Russia's cold old rigs; and capital-starved wells in Iraq, Iran, Algeria, Nigeria and

Venezuela will all suffer from immense production destruction.

Yet when demand accelerates again, the supply crunch is likely to spike oil prices. Consumer markets will be available for swing-producer Aramco to multiply its exports. Saudi Arabia will reinforce its supremacy on global energy markets and prove its indispensability in international affairs. The new energy order will wake up to a Saudi Arabia whose energy diplomacy will be characterized by force and dominance, rather than consensus and reliability — much in line with Mohammed bin Salman's doctrine.

It appears that scholars will look back at the April 2020 oil market crash as the beginning of a new energy landscape that helped usher in the reign of the future king, Mohammed bin Salman, and the supporting roles played by Russia and the Trump administration as the world contended with the coronavirus pandemic.

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Central Europe Tiptoes Into the New World After Coronavirus

Sona Muzikarova
May 21, 2020

What's in store for Central European economies beyond managing the pandemic, and when/how will their economies bounce back?

Classic textbooks teach us that economic shocks typically hit either the demand or the supply sides of the economy. They usually stem from domestic developments, but sometimes they emerge from abroad. COVID-19, the disease caused by the novel coronavirus, has defied this logic and has done so in new ways. For example, one of its distinctive features — one that has been particularly excruciating for policymakers — has been the tradeoff between containing the global pandemic and the ensuing economic crisis.

Since the start of the outbreak in late 2019, evidence has mounted that early implementation of containment measures leads to better outcomes. It appears that countries that introduced strict containment measures after only a handful of confirmed cases of COVID-19 were discovered — or even shortly after the first death was recorded — tended to fare better in containing the spread of the virus and preventing it from getting out of hand.

In Western Europe, Portugal is a case in point. In Central Europe, Slovakia has championed the crisis response with the lowest number of deaths per capita on the continent. Lagging behind its Western European peers on several other counts, Central European countries have been surprisingly apt at managing the COVID-19 crisis.

It comes as no surprise, therefore, that the region's governments have been under pressure to start gradually lifting their lockdowns to contain the coronavirus. The Slovak government, for example, has introduced a four-phased reopening strategy that is dependent on the situation continuing to improve. The policy, which is reassessed every two weeks, looks at the seven-day average in the number of people being hospitalized with COVID-19. In the first phase, which commenced on April 22, shops and places with an area of up to 300-square meters were allowed to resume operations. Poland went ahead with a similar step on April 20 and Austria dared to do so even earlier on April 14.

Buying Time

The world has taken notice of how well Central Europe has handled the pandemic. Yet the region has recently been called out for its overly strict containment measures, given that Central

Europe's robust containment position — with few confirmed infections each day and one of the lowest death tolls on the continent — came at a sizable economic cost.

Such debates are important, especially if scaled by data-backed interdisciplinary considerations. The process of economic resurgence should be data-driven and science should play a key role in how governments form recovery strategies. The gradual nature of lifting lockdowns means that we are still buying time to learn more about the coronavirus.

A recent empirical study about COVID-19 and immunity puts it succinctly when it says the "reliance on comprehensive … [data and conducting solid research into protection] … will allow policy to be guided by secure, evidence-based assumptions on herd immunity, rather than optimistic guesses."

An agnostic reopening approach also seems warranted as epidemiologists warn of a possibility of a second wave of the outbreak. International research institutions, including the Organisation for Economic Co-operation and Development (OECD), have advocated for testing as a way not only to lift containment measures, but also to fight any second bout of COVID-19.

Specifically, the study estimates that between 70% to 90% of people that an infected person meets will need to be traced, tested and isolated, which the OECD sees as our best bet in the absence of a vaccine.

This is especially important for Central Europe, where the testing rate per 1,000 population is low, hovering at about 5% for Slovakia and below 4% for Poland and Hungary in recent months. The capacities for far-reaching and extensive testing, tracing and isolating must be stepped up. The associated challenges and economic costs are dim compared to the consequences of another coronavirus lockdown.

The Economic Toll

On April 30, the European Statistical Office published its flash GDP estimate for the eurozone and the European Union for the first three months of the year. At -3.8% on quarter, the eurozone seems to have posted its worst contraction on record. The EU economy seems to have performed marginally better at -3.5% on quarter, padded by the presence of countries (including many in Central Europe) where the coronavirus outbreak was milder.

Still, this is just a warmup for Q2, when a double-digit quarterly contraction will not be far-fetched for the period of three months between April and June, the point that COVID-19 sent the European economy into an ice age. For macro analysts and the like who are used to looking at national accounts data, the numbers will be beyond surreal, but a painful coronavirus bill was expected. Now, the real question is: How fast can these economies return to normalcy beyond Q2, if at all?

As a bottom line, for as long as a vaccine is out of reach, consumption and investment activities are set to stay quiet in the quarters to come. After having experienced such a heavy hit to confidence, consumers, companies and investors will likely remain vigilant for some time. Different economic reopening models may continue weighing down trade activity and the smooth running of value chains, which are important features of the regional economy.

There is also the risk of a second peak of the coronavirus, something the eurozone needs to gear up for now. In sum, it will take Herculean efforts, a little faith and some time to jumpstart the economic recovery.

Sensible and data-driven reemergence strategies are important, but so is the medium-term playbook. The successful management of the pandemic in Central Europe to date has been a silver lining of a severe health crisis.

And we will, hopefully, have more reasons for optimism as governments and stakeholders take COVID-19 as a catalyst to take up digitalization, complete integration of financial and capital markets, take a leap toward green growth and introduce the much-needed dormant reform efforts, which have the potential to upgrade the region to a higher order of recovery mode.

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What Has COVID-19 Done to Small Businesses?

Vinay Subramanian
July 27, 2020

Governments must enact policies judiciously to keep small businesses alive because they provide jobs, economic dynamism and social stability.

Small and medium-sized enterprises (SMEs) are businesses with revenues, assets or employees below a certain threshold. SMEs are important to the health of any country as they tend to form the backbone of the economy. When compared to large enterprises, SMEs are generally greater in number, employ far more people, are often situated in clusters and typically entrepreneurial in nature. They drive local economic development, propel job creation and foster growth and innovation.

According to the World Bank, SMEs represent about 90% of businesses and 50% of employment worldwide. In the United States, 30 million small businesses make up 44% of GDP, 99% of the total businesses and 48% of the workforce, amounting to 57 million jobs. In India, the SME sector consists of about 63 million enterprises, contributing to 45% of manufacturing output and over 28% of GDP while employing 111 million people.

SMEs in China form the engine of the economy comprising 30 million entities, constituting 99.6% of enterprises and 80% of national employment. They also hold more than 70% of the country's patents and account for more than 60% of GDP, contributing more than 50% of tax collections.

Different Countries Define SMEs Differently

Though most experts agree on the crucial role SMEs play in any economy, the definition of an SME varies by country. In the US, the Small Business Administration (SBA) defines SMEs broadly as those with fewer than 500 employees and $7 million in annual receipts, although specific definitions exist by business and sector. Annual receipts can range from $1 million for farms to $40 million for hospitals. Services businesses such as retail and construction are generally classified by annual receipts, while manufacturing and utilities are measured by headcount. In June, the Indian government revised its SME definitions, expanding the revenue caps on medium and small enterprises from $7 million and $1.5 million to $35 million and $7 million respectively. In the United Kingdom, a small business is defined as having less than 50 employees and turnover under £10 million ($12.7 million), whereas a medium business has less than 250 employees and turnover under £50 million.

Proper definitions matter. If SMEs are classified well, their access to capital and other resources can improve. They can apply for grants, get tax exemptions, collaborate on research with governments or universities or access other schemes. This gives SMEs better opportunities to survive and thrive.

Since SMEs tend to be the biggest employers in most economies, a good policy to promote them creates jobs and develops worker skills. Furthermore, proper definitions enable governments to focus their efforts regarding SMEs and level the playing field for them vis-a-vis large corporations.

Given the scale and nature of their business models, SMEs operate at the mercy of vagaries of the economy, geopolitical events and local policies. They battle competition from multinational giants, volatile cash flows, fickle customers, demanding suppliers and constantly churning employees. But the COVID-19 pandemic has crossed all boundaries. While the 2000 crisis was a dot-com bust and 2008 was a collapse of the financial systems, 2020 is clearly the SME crisis. It is Murphy's Law at its extreme — anything that can go wrong has indeed gone wrong.

The coronavirus crisis started off in early 2020 as a supply shock, which has now turned into a demand shock, impacting customers, employees, markets and suppliers alike. The consequences can be potentially catastrophic with the International Monetary Fund estimating that SME shutdowns in G20 countries could surge from 4% pre-COVID to 12% post-COVID, with bankruptcy rates in the services sector increasing by more than 20%.

SMEs are bearing the brunt of the economic and financial fallout from the COVID-19 pandemic, not least because many were already in duress before the crisis. This could have a domino effect on the economy, given the pivotal role played by SMEs. Therefore, it comes as no surprise that most governments have sought to intercede legislatively with their fiscal might to ameliorate the predicament of SMEs.

Indian and American Response

It is instructive to note how different countries have responded to the economic crisis. India is a good country to start with. In early May, the government announced a 20-trillion-rupee ($250 billion) stimulus package called Atmanirbhar, equivalent to 10% of India's GDP. It was a mixture of fiscal and monetary support, packed as credit guarantees and a slew of other measures. The centerpiece was an ambitious 3-trillion-rupee ($40 billion) initiative for SMEs, including instant collateral-free loans, subordinate debt of 200 billion rupees ($2.5 billion) for stressed micro, small and medium enterprises (MSMEs), and a 500-billion-rupee ($6.5 billion) equity infusion. Perhaps the largest component of the stimulus was the Emergency Credit Line Guarantee Scheme (ECLGS) that provides additional working capital and term loans of up to 20% of outstanding credit.

Although the scheme received positive feedback, the initial uptake was slow. On the supply front, bankers fretted about future delinquencies arising out of such accounts as the credit guarantees only covered incremental debt. On the demand side, SMEs were worried about taking on additional leverage when there is uncertainty about economic revival. Moreover, a 20% incremental loan may not suffice to service payrolls and operating expenses and keep business alive.

Also, while this scheme addressed existing borrowers, the fate of those who are not current borrowers is unclear. While initial traction for the scheme was low, the recent momentum has been encouraging. The finance ministry reports that as of July 15, banks have sanctioned 1.2 trillion rupees ($16 billion), of which 700 billion rupees ($9 billion) have been disbursed largely by public sector banks, although private sector banks have joined in lately.

Meanwhile, even the largest global economy has struggled with its SME relief program. In mid-March, US President Donald Trump approved a $2.2-trillion package under the Coronavirus Aid, Relief and Economic Security (CARES) Act to help Americans struggling amid the pandemic. One of the signature initiatives under the act was the $660-billion Paycheck Protection Program (PPP) aimed at helping small businesses with their payroll and operating expenses. This program was distinct from its peers in its loan forgiveness part, in which the repayment of the loan portion used to cover the first eight weeks of payroll, rent, utilities and mortgage would be waived.

The program, though well-intentioned, has struggled with execution issues exacerbated by labyrinthian rules. Matters came to a head when the initial tranche of $349 billion ran out in April. The program had to be refinanced but, by June, it was closed down with $130 billion of unused funds in its coffers. The program was restarted again and extended to August by Congress.

Worse, the program saw refunds from borrowers who were unclear about the utilization rules. Loan forgiveness would be valid only if the amount was utilized within eight weeks. This stipulation made SMEs wary because their goal was to use cash judiciously and optimize the use of the borrowed amount to last as long as possible. These rules have since been amended by the Small Business Administration. It now gives SMEs 24 weeks to use the borrowed funds and allows them more flexibility on the use of funds. In any case, questions have been raised about capital not reaching targeted businesses and unintended parties benefiting instead.

Despite the changes in SBA rules, the jury is still out on whether more SMEs will take out PPP loans. Some are lobbying for full loan forgiveness. However, dispensing of repayment requirements essentially creates handouts that could lead to the lowering of fiscal discipline and increasing incentive for fraud. A recent proposal by two professors, one from Princeton and the other from Stanford, suggests "evergreening" of existing debt, a practice that involves providing new loans to pay off previous ones. Though innovative, it is not quite clear how such a policy would provide better benefits compared to a loan repayment moratorium, especially when it comes to influencing future credit behavior.

In addition to the PPP program, the SBA has announced the Economic Injury Disaster Loans (EIDL) program. This offers SMEs working capital loans up to $2 million to help overcome their loss of revenue. The program was closed down on July 13 after granting $20 billion to 6 million SMEs. Maintaining equitability and efficacy in the distribution process has been a challenge, though.

European Responses

Europe's largest economy, on the other hand, has fared relatively better. In early April, German Chancellor Angela Merkel announced a €1.1-trillion ($1.3 trillion) stimulus termed the "bazooka." This constituted a €600-billion rescue program, including €500 billion worth of guarantees for loans to companies. The German state-owned bank KfW is taking care of the lending. The program also includes a cash injection of €50 billion for micro-enterprises and €2 billion in venture capital financing for startups, which no major economy has successfully managed to execute. Notably, the centerpiece of the German program is the announcement of unlimited government guarantees covering SME loans up to €800,000. These loans are instantly approved for profitable companies.

Berlin's relief measures were specifically targeted at supporting Germany's pride, the Mittelstand. This term refers to the 440,000 SMEs that form the backbone of the German economy. They employ 13 million people and account for 34% of GDP. Many of these firms manufacture highly-specialized products for niche markets, such as high-tech parts for health care and auto sectors, making them crucial to Germany's success as an export giant. Not surprisingly, these companies have seen a contraction in revenues, especially the ones that depend on global supply chains.

The swift implementation of these initiatives, coupled with the resilience of the Mittelstand, is demonstrating that SMEs can survive and thrive in this environment. The Germans have also been preaching and practicing fiscal prudence in normal times, which has now worked in their favor. Germany can afford to inject capital and do whatever it takes to save its SMEs.

Since its first stimulus, Berlin has followed up with an additional €130-billion package consisting of tax, SME loans and spending measures aimed at stimulating demand. This included a €46-billion green stimulus focused on innovation and sustainable projects such as e-mobility and battery technology. In keeping with the German tradition, the SMEs who make the Mittelstand have stayed agile as well. They are diversifying their customer base and pivoting their business models to more recession-proof sectors.

The UK, another major world economy, also launched an array of relief measures, including the Coronavirus Business Interruption Loan Scheme (CBILS) worth £330 billion ($420 billion). This was designed to support British SMEs with cash for their payroll and operating expenditure. It also announced the Bounce Back Loan Scheme (BBLS) focused on smaller businesses. This enjoyed a better launch than CBILS because the latter, with its larger loan quantum, required more vetting and paperwork.

Loans from the CBILS initiative, although interest-free for a year, are only 80% guaranteed by the government. This makes banks less willing to lend during these troubled times because they are afraid of losing 20% of the loan amount. This slows credit outflow and starves SMEs of much-needed capital. As of July 15, less than 10% of the allotted capital had been utilized, which banks blame on an inadequately designed scheme. By mid-July, only £11.9 billion had been disbursed to 54,500 companies through the CBILS and £31.7 billion to 1 million smaller firms through the BBLS.

Businesses have sought modifications from policymakers to existing schemes. These include hiking government guarantees for loans to 100% and waiving personal guarantees for small loans. The Treasury has agreed to some of these demands. Critics also point to structural deficiencies in the system. They believe the administrative authority for SME loans should be a proper small business bank instead of the British Business Bank, which was not designed for SMEs. Already, the UK government has warned that £36 billion in COVID loans may default. More drastic measures seem to be on the way, including a COVID bad bank to house toxic SME assets.

Responses Elsewhere

Economies around the world have been responding to disruption by COVID-19. It is impossible to examine every response in this article, but Japan's case deserves examination. The world's third-largest economy had been battling a recession even before the pandemic. Declining consumption, falling tourism and plunging exports were increasing the pressure on an aging society with a spiraling debt of over $12.2 trillion. The pandemic has strained Japan's fiscal health further.

In response to the pandemic, the Bank of Japan announced a 75-trillion-yen ($700 billion) package for financing SMEs, which included zero-interest unsecured loans. Additionally, the National Diet, Japan's parliament, enacted a second supplementary budget, which featured rent payment support and expanded employment maintenance subsidies for SMEs.

The execution of these programs has been tardy. The government's 2015 digitalization drive is still incomplete, impacting the distribution of subsidies and the implementation of other relief measures. Of the more than 400,000 applications for employment adjustment subsidies, only 80,000 companies received aid by mid-June. Application procedures are unnecessarily complex, adding to the woes of SMEs.

Any discussion on SMEs in the global economy would be incomplete without examining China, which was the first country to deal with the COVID-19 disease. In February, the government announced a 1.2-trillion-renminbi ($174 billion) monetary stimulus. Large state-owned banks were ordered to increase lending to SMEs by at least 30% in the first half of 2020. Three of these banks alone were supposed to lend 350 billion renminbi ($49.7 million) to small businesses at preferential rates. In addition, Beijing encouraged local policymakers to provide fiscal support to keep SMEs afloat.

China's stimulus seems more understated compared to other major economies and their own 2008 bailout package. After controlling the first COVID-19 wave in March, the Chinese have focused on restarting the economy and reopening businesses instead of relief measures and bailouts.

In February, surveys in China showed that 30% of SMEs had experienced a 50% decline in revenue. Surveys also found that 60% of SMEs had only three months of cash left. At the end of March, almost half a million small businesses across China had closed and new business registrations fell by more than 30% compared to last year. The resumption of work has been an uphill struggle. In April, the production rate of SMEs had crossed 82% of capacity, but the sentiment had remained pessimistic. Notably, the Small and Medium Enterprise Index (SMEI) had risen from 51.7 in May to 53.3 in June, indicating that SMEs are slowly reviving.

With the easing of lockdown measures, domestic demand in China has picked up, driving SME sales. In turn, greater demand is increasing production activity and accelerating capacity utilization, causing a mild rise in hiring. The green shoots of recovery of Chinese SMEs should encourage authorities worldwide.

Policy Lessons for the Future

Governing nation-states is an arduous task at the best of times and especially so in a nightmarish year of dystopian proportions. No wonder governments worldwide have appeared underprepared to combat the COVID-19 crisis. Whilst predicting a global pandemic of this scale would be next to impossible, there were early warning signs that severe disruptions to global health care, supply chains and business models were imminent. Yet scenario planning and stress testing of economic models has been flawed, impacting the swift rollout of relief measures.

The crisis has also underlined the importance of fiscal discipline when economies are doing well. Countries that do so can build a robust balance sheet to leverage during troubled times. This crisis also brings home the importance of evaluating and reevaluating the efficacy of the entities that deal with SMEs. Policymaking is an iterative process, especially when it comes to SMEs and bodies that oversee them must be overhauled periodically.

Importantly, policies pertaining to SMEs must have inputs from those with domain expertise. Structures must take into account execution capabilities and speed of delivery. Instant loan approvals with suboptimal due diligence have to be constantly balanced against longer vetting but slower turnarounds. Similarly, policymakers have to analyze the various types of instruments, fiscal and monetary, that can be used for SMEs. What works in one country may not work for another.

It is important to remember the nuances of different policy measures, such as guarantees, forgiveness, monitoring and moratoriums. Guarantees are a sound instrument for relief but are potential claims on the government's balance sheet and contingent liabilities. They also have little economic value if capital is not promptly delivered to SMEs. Forgiveness provisions have their own issues. They may be important in a crisis but could incentivize subpar credit behavior in the future. Similarly, monitoring is important but is impractical when millions of SMEs are involved. There is no way any authority can keep a tab on the intended usage of funds. Finally, moratoriums have their own problems. Businesses could misuse moratoriums, putting pressure on banks and making accounting difficult. They were cheered at the onset of the crisis but further extensions could be costly to the ecosystem.

Going forward, governments need to prepare for the long haul. The consequences of the COVID-19 pandemic will stay with us for the foreseeable future. What began as a liquidity crisis might well become a solvency crisis for SMEs despite the best attempts to avoid that eventuality. If that does happen, governments will need to plan for efficient debt restructuring. They will have to institute insolvency management processes while figuring out how to handle bad asset pools. In simple language, governments will have to make tough decisions as to distributing gains and losses not only among those living but also future generations.

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When COVID-19 and Hurricanes Collide

Kayly Ober
August 7, 2020

It is critical that migrant workers have access to economic opportunities to be able to help their communities recover from the deadly combination of COVID-19 and natural disasters.

It is hard to think of impending natural hazard-related disasters in the middle of a global pandemic. But it is absolutely essential that policymakers do so. This year, due in part to climate change, scientists predict one of the most active Atlantic hurricane seasons on record.

In fact, nine tropical storms have already formed out of the western Atlantic in 2020, something that has never happened this early in the hurricane season before, with Hurricane Isaias striking just this week. This is especially worrying as COVID-19 cases drastically increase and the pandemic continues to affect the capacity of states to respond to non-coronavirus emergencies.

Of course, this challenge isn't only in the Americas. Other parts of the world have already grappled with the intersection of COVID-19 and large-scale disasters with varying results. From Cyclone Harold in the Pacific to Cyclone Amphan in India to severe flooding and locust swarms in East Africa, some key trends have emerged. By studying and learning from them, policymakers in the Western Hemisphere may be able to prepare more effectively for the worst.

Straining Supply Chains, Underfunding and Marginalized Workers

The COVID-19 pandemic is putting supply chains under strain, even for basic household goods. Where supply chains are particularly stressed, the prices of essential goods have skyrocketed, making it harder for humanitarian workers to provide much-needed aid for long-standing global relief needs.

Adding large-scale natural hazard-related disasters like cyclones and hurricanes to the mix only exacerbates these already fragile systems. Strict lockdown and decontamination procedures, for instance, held up much-needed rapid delivery of emergency supplies in Vanuatu during Cyclone Harold and also delayed relief by up to two weeks in some hard-to-reach islands. In addition, COVID-related cancellations of intra-island transport, including planes and ships, coupled with Cyclone Harold's destruction of main roads to further delay aid delivery.

Natural hazard-related disasters, likewise, impact the delivery of COVID-related supplies. In East Africa, where record-setting floods displaced more than 1.1 million people in May, important infrastructure, including a number of key bridges and roads, were destroyed or damaged. This created a nightmare for humanitarian agencies attempting to deliver relief supplies, including those meant for COVID-19.

In the face of these challenges, aid organizations have carried on, but their budgets and impact on the ground are in jeopardy. To date, by and large, commitments for funding humanitarian emergencies, COVID-related or not, have fallen short by at least a third as compared to this time last year. For example, funding appeals for flooding and locust relief in East Africa have a combined gap of $325 million, and the amounts raised represent less than 20% of the articulated need. The UN Office for the Coordination of Humanitarian Affairs' (UN OCHA) appeals in Ethiopia are underfunded by more than 84%.

In addition, Refugees International's own reporting shows that this year's Cyclone Harold, when compared to 2015's Cyclone Pam, has received far less attention and humanitarian funding, even though it displaced more than 27% of Vanuatu's population. According to the UN OCHA's Financial Tracking Service, in 2015, Vanuatu received more than $37.2 million in humanitarian assistance for Pam; this year, only $4.8 million has been donated for Harold.

Yet, another layer of vulnerability for those displaced by disasters has emerged as governments around the world have moved to expel migrant workers to limit the spread of COVID-19. For example, in the Sundarbans in southern India, hundreds of thousands of migrant workers returned home from urban centers in March before Cyclone Amphan hit. Now they've been left stranded without job prospects as their community struggles to recover. This is especially worrying, as remittances from migrants are often a dependable lifeline during disasters.

Migrant workers who have not returned home but who may have lost jobs during shelter-in-place orders by authorities have similar challenges. In fact, the World Bank predicts that remittances sent back home may shrink by more than 20% this year. This means that places such as Vanuatu, where seasonal workers normally send home more than $19 million annually, will have fewer funds from family members to rebuild and recover after the fall out of this year's Cyclone Harold. The ability to send money back home is further hindered by the fact that migrant workers are also often not eligible for COVID-19 social protection schemes.

What Does This Mean for Policymakers?

While the COVID-19 pandemic and large-scale disasters are being handled differently all across the world, there are undeniable trends that speak to a larger challenge that policymakers must face. First, our humanitarian supply chains are woefully underprepared for any sort of major disruption. Second, national governments and international organizations that often lead the charge to help those most in need are falling short. Third, policies to address the crisis of COVID-19 may actually exacerbate others.

Donor countries, such as the United States, must move urgently to invest in disaster relief and recovery — COVID-19-related and otherwise. The United Nations estimates the cost of protecting the most vulnerable from the worst effects of the pandemic is about $90 billion. While this amount seems high, it represents less than 1% of the amount of world stimulus packages that rich countries have begun to implement. Thus, a significant contribution from the US of $20 billion in emergency funding would not only be reasonable but also consistent with America's expressed commitment to humanitarian leadership.

Substantial and rapid injections of aid also make long-term economic sense in fragile settings dealing with other disasters. For example, the World Bank estimates that the locust challenge alone could cost the greater Horn of Africa region, including Yemen, as much as $8.5 billion by the end of this year. A rapid response could cut that loss by more than $6 billion.

National governments should not summarily expel migrant workers or make it impossible for them to remain, as such actions or omissions are more a result of fear and prejudice than sound public health policy judgments. Indeed, it is critical that migrant workers have access to economic opportunities — in both urban centers and abroad — to be able to adequately help their communities recover from the deadly combination of COVID-19 and disaster. In order to ensure migrant workers are best able to do so, policymakers must include them in recovery planning and economic assistance measures regardless of status.

Finally, there is the need to decentralize humanitarian operations, as some aid organizations working on the ground have already signaled they will do. Building up the capacity of local people — especially in the communities that are often affected by big storms — is essential. Doing so decreases the high costs of getting to harder-to-reach communities and maximizes humanitarian aid while reducing response times.

As we begin to witness the impacts of the Atlantic hurricane season, taking to heart these lessons will be a matter of life or death for millions.

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Cambodia's COVID-19 Recovery Must Include Microfinance Reform

Dai Wei Tsang
November 19, 2020

Cambodia's government must avoid treating microcredit as a miracle cure or a substitute for an adequate social safety net.

In Cambodia, more than 2 million of the country's 10-million-strong adult workforce hold a microcredit loan. Each of those loans comes to an average of $3,320, or twice the per capita GDP of the country. While microcredit was once considered a useful tool, without a national social assistance program, improved financial literacy and more stringent consumer protections, Cambodia may strangle itself with a system that once lifted many out of poverty.

Modern microcredit deployed on a significant scale is generally attributed to Muhammad Yunus, who launched the Grameen Bank in Bangladesh in 1976. The project began as an alternative for the poor, who often resorted to loan sharks when formal banks refused to extend credit to those judged unlikely to return the investment. The sharks, on the other hand, charged interest rates that ate up enough profits to permanently trap families in cycles of borrowing. The lasting benefits of microcredit have been disputed by some economists, but no matter their actual effects, microcredit was never intended to be an emergency fund. It was designed to facilitate entrepreneurship and to enable a cycle out of poverty rather than simply making ends meet. But in Cambodia, more and more citizens are borrowing just to make it through the month or, worse, to pay off existing loans.

Most microloans in Cambodia are collateralized by land titles, and when the poor are unable to make payments on time, they are pressured to sell their land or flee their village. Cambodia has extremely low social assistance coverage and does not run a cash-transfer system for any demographic on a national scale. It offers no pensions and no national health insurance for most workers beyond the government and military sector, leaving a large majority of the population vulnerable to the ebb and flow of the economy. Stripped of land and out of work, the poor move in search of other opportunities. Today, this nomadic workforce creates massive complications for pandemic control.

With multiple industries hit hard by the COVID-19 pandemic and the ensuing economic downturn, the Cambodian government must avoid treating microcredit as a miracle cure or as a substitute for an adequate social safety net. It is also imperative that the government prevent micro debt from evolving into an even larger economic presence during this period. The largest lenders in Cambodia together already provide more than 90% of all microloans, and most are owned by external banks and Western development agencies. This foreign influence could increase the risk of political and economic destabilization in the future, long after COVID-19 is contained.

More than 135 civil society groups have called for a temporary halt of loan repayments, but so far, the National Bank of Cambodia has only issued a non-binding circular on loan restructuring. More action is needed by the government of Cambodia to protect those most vulnerable to default under the current economic whiplash, whether in the form of a moratorium on new loans, an extended grace period for loan repayment or suspension of interest.

In the longer term, the Cambodian government should seriously consider improving the reach of the nation's social assistance program, financial literacy programs and consumer protection against unethical loan practices. Unemployment benefits and emergency funds would eliminate the need for many individuals to seek loans in the first place and prevent them from putting up their land titles as collateral. Financial literacy would deter borrowers from making purchases that are unlikely to yield enough profits for timely repayment as well as immunize them against any legal scare tactics. Consumer protection laws could also limit the interest rates to bar excessive profit and the measures used by salesmen, who themselves are under pressure to collect.

It is worth remembering that Bangladesh, home to the Grameen Bank, remains poor despite the bank's wide reach. Cambodia had sustained one of the world's highest economic growth rates, but the government has its work cut out if it wants to insulate its poorest from the COVID-19 economic shockwave under existing constraints.

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"Human Work" Is the Key to Ending Income Inequality

Jamie Merisotis
November 23, 2020

Even before the pandemic, growing income inequality had become a stubborn feature of global economies. That doesn't mean we should accept it.

A new report from the International Monetary Fund says that COVID-19 will increase income inequality in emerging markets and developing countries, "further widening the gap between rich and poor" and increasing the urgency for "investment in retraining and reskilling programs [that] can boost reemployment prospects for adaptable workers whose job duties may see long-term changes as a result of the pandemic." For many years, these countries have been challenged by disaffected youth along with "wide inequality in education, and large gaps remaining in economic opportunities for women."

The report further warns that "COVID-19 is expected to make inequality even worse than past crises since measures to contain the pandemic have had disproportionate effects on vulnerable workers and women." Even before the pandemic, growing income inequality had become a stubborn feature of global economies, but that doesn't mean we should accept it — or the social devastation it's likely to cause.

Tragic Rise in Inequality

The rise in inequality isn't just tragic for the millions who are directly affected. We see it reflected in the growing allure of authoritarianism, in the fearmongering directed at lower-income groups, and in the despair and hopelessness of those who feel left out and left behind. The accelerating increase in inequality is dangerous for the future of societies and for the planet.

Ironically, the two groups who have fared best in recent decades are the very poor and the very rich. The global decline in extreme poverty is one of the most important developments of recent times. Between 1990 to 2015, the extreme poverty rate dropped from nearly 36% to 10%. At the other extreme, the very rich have done quite well. In the last 10 years, the number of billionaires around the world has nearly doubled. In 2018, the 26 richest people in the world held as much wealth as did the entire bottom half of the global population — some 3.8 billion people. More to the point, from 1990 to 2015, the share of income going to the top 1% increased in four out of five countries around the world.

This massive redistribution of wealth means that the world can no longer be neatly sorted into "developed" and "developing" countries. The global distribution of wealth is now more of a continuum. But the good news ends there, and the trend is inescapably clear: Wealth inequality is growing around the world. In the United States, it's rising not just because the rich are getting richer, but because since 2000, incomes at the lower end of the scale have stagnated or fallen. Inequality in the US is the highest among the G7 countries, and the wealth gap between America's richest and poorest families more than doubled from 1989 to 2016. Between 2007 and 2018, median income in black households fell from 63% to 61% of median white household income.

COVID-19 has worsened things considerably. The pandemic has hit poor countries particularly hard, with experts estimating that as many as 115 million people could fall back into extreme poverty in 2020 alone. Unemployment in most countries has risen the most for people in lower-paid jobs. In the US, unemployment among those with less than a high school diploma reached 21.2% in April, while for those with a postsecondary degree it peaked at 8.4%. According to the World Economic Forum, the impact of COVID-19 on workers with lower levels of education will be even worse than the global financial crisis of 2008.

Human Work

While COVID-19 has accelerated the shift, the transformation of work — especially the automation of a much wider array of tasks through the use of artificial intelligence — is a major driver of inequality. For decades, as low-skill jobs were automated, we have seen an increase in the knowledge and skills demanded of workers. Of course, this is reflected in the rising demand for higher learning and the credentials that represent such learning.

This long-term shift reflects the emergence of human work — work that demands uniquely human traits and capabilities. A human worker takes traits such as compassion, empathy, and ethics, combines them with developed capabilities such as critical analysis, interpersonal communication, and creativity, and then applies them, often in highly interactive settings. Much human work involves helping and serving others, using technology and other resources to understand and help solve people's problems.

Today, and even more so in the future, holding a good job and doing meaningful work depends on people's ability — and opportunity — to prepare themselves for human work. Sadly, these opportunities are unavailable to many, which means inequality will continue to increase. But we can change that — first, by changing our approach to education, training and employment.

To begin with, we must abandon the outmoded idea that education, training and employment are different activities that occur in discrete systems. We still see learning and work as separate and sequential: People go to college or technical school, and then they go to work, maintaining their skills through experience and occasional training on the job. This approach has been obsolete for a long time, yet it is still how most education and training systems are designed, certainly those in the US.

But in reality, "student" and "worker" are no longer two different kinds of people, if they ever were. In most cases today, people play both roles simultaneously. Learning and working are done concurrently and continuously, and both are necessary throughout one's career. For today's economy, and even more for tomorrow's, the concept of "once and done" education is dead. In an era when people can be thrown out of the labor market suddenly with little chance to prepare, all workers need opportunities to keep learning throughout their lives and careers. And all of that learning, however and wherever it is obtained, needs to be recognized to count toward credentials that open the door to meaningful work.

The true tragedy of the rise in inequality is that it reflects a society coming apart at the seams. But changing the trajectory of inequality to build a more just and open society isn't an insurmountable challenge. Indeed, if 2020 has taught us anything, it's that massive change can come very quickly. Now is the time to work toward such change. We can do that by applying the three interrelated aspects of human work — learning, earning and service to others — toward reducing economic and social inequality. Indeed, our only way to eliminate these inequities is to ensure that everyone has the capacity and opportunity to do human work.

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