NATO PARLIAMENTARY ASSEMBLY

ECONOMICS AND SECURITY COMMITTEE (ESC)

Sub-Committee on Transatlantic Economic Relations (ESCTER)

THE GLOBAL ECONOMIC CRISIS: IMPLICATIONS AND PROSPECTS

Preliminary Draft Report

Faik ÖZTRAK (Turkey)
Rapporteur

018 ESCTER 21 E | Original: English | 9 March 2021

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The longer-term consequences of the COVID-19 pandemic for the global economy are not yet fully apparent. National responses to the virus have differed as have the economic consequences. Public responses in many countries have reflected lessons learned from the global financial crisis in 2009. This time, governments have far more swiftly introduced stimulus programmes to counter recession. The European Union, for instance, facilitated joint debt issuance and created conditions for a powerful fiscal response to the crisis. The United States acted with very large spending packages to sustain demand and maintain income. While preventing mass unemployment and bankruptcies, massive government spending will invariably generate extraordinary levels of public debt. There are concerns that this could eventually trigger inflation, although inflation and interest rates so far have remained remarkably low. It is not yet clear how this mass of debt will ultimately be financed. This will remain a compelling challenge for hard-pressed governments over the medium and long-term.

There is an element of systemic competition underlying the current crisis, and this competition has an important strategic dimension. Several authoritarian actors have instrumentalised the pandemic in order to discredit democratic governance. China, for example, has incorporated the fight against COVID-19 into a broader national narrative of its "peaceful rise" and systemic superiority. It has sought diplomatic and public relations leverage from its contributions to the global fight against COVID-19. Countries that managed to contain the disease have also managed to keep their economies more or less functioning, and this has had international consequences. The capacity to quickly vaccinate populations and to help other countries vaccinate has become a kind of diplomatic currency. Certain countries have discounted the virus altogether only to discover that the disease does not follow political dictates.

The world appears slated to return to growth in 2021, but there several potential downside risks that might lead the global economy to underperform. These include ongoing bottlenecks to vaccination production and distribution, the emergence of drug resistant strains of the COVID-19 virus and renewed infection surges, the premature abandonment of government-led countercyclical fiscal and monetary measures with a resulting fall in liquidity, and a global retreat into hyper-nationalist economic and public health policies that would be fated to fail. Debt defaults could precipitate a financial market panic, which could spread rapidly given the huge debt burdens governments have assumed. Slowing economies have led to a shrinking tax base which has only exacerbated the problem. On the upside, a rapid ramping up of vaccination schedules could hasten the onset of so-called herd immunity, rapidly restore investor and consumer confidence, unleash pent-up demand, and thereby hasten a demand-led recovery. The persistence of low interest rates and low inflation could lengthen the period in which governments are positioned to provide essential monetary and fiscal support to national economies as the green shoots of recovery take root.

I. INTRODUCTION

1. 2020 was a disastrous year for the global economy. A pandemic stuck all corners of the world, triggering a swift and synchronised global economic shut down affecting almost all sectors of national economies. This precipitated one of the most significant and swiftest economic declines ever registered.

2. Governments throughout the world have subsequently had to cope with extraordinary medical challenges, provide support to vulnerable populations, fight the recessionary impacts of the crisis and lay the groundwork for eventual recovery. This has proven an extreme challenge to state capacity. Government policy makers have effectively been compelled to make a great leap into the dark, although the lessons of the 2009 financial crisis have loomed large. Drawing from that experience, governments bet that only massive infusions of government capital could sustain highly vulnerable national economies until vaccines were developed and then distributed to millions of people. So far, it seems as if this bet was a good one.

3. There are still compelling uncertainties at play. Rolling out comprehensive vaccination initiatives across the world is proving to be a massive and highly fraught undertaking. New variants of COVID-19 are emerging and complicating preventive responses. As long as a critical mass of vaccinations have not been delivered, the virus is very likely to continue mutating. The financial and logistical barriers to carrying out global inoculation programmes are proving more daunting that originally imagined. In an age in which disinformation and conspiracy theories are often given as much weight as objective facts, in part, because of dynamics of the internet and those willing to exploit medical misinformation for political and economic advantage, sustained and informed public information campaigns have been essential. Nationalist policies have also hindered international cooperation at critical junctures, and there is a serious problem of global equity in terms of vaccine access.

4. That said, defying all predictions, authorities have already approved several vaccines which are now being administered. These vaccines cut a pathway out of this crisis. The IMF now projects a global growth rate of 5.5% in 2021 and 4.2% in 2022. But the global economy has suffered permanent damages, or scarring, and many economies have been knocked off the growth paths along which they were moving prior to the crisis. The crisis has dealt a terrible blow to commercial life. Firms face a range of daunting adjustment costs with adverse productivity impacts. Weakened education systems and school closures have undermined human capital formation, and this too will undermine productivity over the longer term. Reduced funding for basic research has impaired scientific development with adverse implications for innovation (IMF, 10/2020). This scarring phenomenon would have been worse had governments not responded with massive counter cyclical spending programmes. Still, because some of the damage is permanent and millions are now at risk of never regaining lost jobs or the income levels they once enjoyed (IMF, 01/2021).

5. The crisis has placed the greatest burdens on those living in poverty, the working class, and less skilled workers who have suffered the highest levels of job loss. Women, young people, and ethnic minorities have also suffered inordinately. The IMF estimated in January 2021 that roughly 90 million people will fall into extreme poverty in 2020-2021 (IMF, 01/2021). The pandemic's disproportionately adverse impact on a range of vulnerable groups has posed serious social, public health and economic challenges to governments. For example, those working in the hospitality and tourism, delivery, retail, and basic care sectors have disproportionately lost work or faced exposure to illness. Because social distancing can be very difficult for those conducting this kind of work,

these workers are particularly vulnerable either to lockdown induced job loss (when judged nonessential) or on the job contagion (when essential). One UK labour market study suggested that borrowing requirements have increased substantially for those who had been hardest hit in the labour market, including the lowest income quintiles and minority ethnic groups (Crossley et. al, 2021). According to recent IMF analysis, women and the young have been hit particularly hard because they are overrepresented in many of these sectors (IMF, 10/2020). By contrast, many of those working in knowledge-intensive sectors have been able to seamlessly transition to remote work.

II. FISCAL AND MONETARY POLICY RESPONSES

6. It is striking how quickly and decisively governments responded to the shock of the pandemic. The speed and depth of the response was shaped by lessons learned from the initial failure to respond adequately to the financial shocks that originated on Wall Street in 2008-2009. At that time, many governments and Central Banks did not immediately appreciate the degree to which shocks on this scale would fundamentally alter the normal workings of national economies. This miscalculation made that crisis deeper and longer than it should have been. The lesson learned in 2009 was that when the world economy falls into deep recession, normal assumptions about government economic policymaking suddenly become inadequate. Massive government intervention becomes essential as markets seize up and no longer operate in a conventional fashion.

7. In retrospect, Europe confronted increasingly apparent structural difficulties which challenged its capacity to respond quickly to the crisis. A significant part of the problem lay both with the natural fragmentation precipitated by different national responses and policies, the limited powers of the European Union, particularly on the fiscal front, and a strong anti-inflationary bias in European policy making that induced what might be called intervention hesitation. While many EU member countries were integrated in the European single currency system, fiscal policy remained largely outside the purview of European institutions. The European Central Bank (ECB) was unable to issue debt, and there was strong reluctance among member states to move in that direction.

8. Many economists observing this dynamic argued that a single currency could not remain viable if a greater level of fiscal integration were not achieved. Without the capacity to engage in continent wide counter-cyclical spending and transfer payments, there was a real risk that significant shocks could bring the entire edifice crashing down. This almost happened during the 2009 crisis as several member states experienced financial collapse while European governments debated the implications of fiscal union and felt legally hampered from engaging in a rapid fiscal response to the crisis. As an integrated fiscal and monetary union, the United States never had to confront this particular dilemma, and its system of stabilisers and transfers kicked in to help battle the worst impacts of the financial crisis. This is interesting because on balance, the United States has a less developed welfare system than does Europe. But it compensated for this deficiency, through a high level of market integration and constitutionally constructed fiscal union.

9. Indeed, the United States fiscal response to the ongoing COVID-19 shock has been significant. Washington quickly pumped liquidity roughly equal to 13% of GDP into the US economy. A significant share of this went to suddenly illiquid low-income households with a relatively high propensity to spend—disbursements that had a relatively powerful multiplier effect. While US GDP fell by roughly 9%, government transfer payments rose by 10% through unemployment benefits, social security payments and a range of special support programmes for distressed companies. Unemployment benefits were also topped up although that initial benefits

programme ended in July 2020 (Furman, 2021). As intended, these transfer payments provided a vital boost to consumer spending and added essential stimulus to an economy under shock.

10. The United States has enjoyed a degree of leeway to embark on counter-cyclical fiscal policy because of its capacity to borrow on global capital markets at relatively low interest rates. A key question today is whether these conditions will hold in the future. In 2009, the US debt stood at 50% of GDP. By the time President Biden took office, that figure had jumped to 100% of GDP. The difference between the situation in 2020 and 2009, however, is that while the interest rates on ten-year bonds in 2009 was roughly 2%, by 12 January 2021, they stood at a highly advantageous rate of -0.93 which obviously made borrowing very cheap (U.S. Department of Treasury). Low US interest rates significantly reduce the cost of public borrowing and thus the cost of massive emergency government spending. A key question now is how long these low rates will endure.

11. The change of Administration in Washington has myriad policy implications, although the emphasis on deficit spending will certainly endure over the first half of 2021 at least. The Biden Administration seems poised to deepen multilateral cooperation as a tool for digging out of the current crisis. In the eyes of some analysts, this enhances the prospect for coordinated fiscal responses to this global crisis. U.S. allies and many of its partners welcome US leadership on this front, not simply out of old habits, but also because there is no other country in the world that can play this role. Although China has recovered far more quickly than other major economic players, for countless reasons, it is not seen as a suitable global economic leader. Indeed, there are mounting concerns about China's predatory policies that are antithetical to the interests of democratic free market societies. The hope and expectations are that the United States and its allies and partners in Europe and Asia will now seek to orchestrate a coordinated fiscal and monetary response coupled with greater cooperation across a policy spectrum that includes public health, trade, support for developing countries and environmental investment to help put the global economy back on a sustained growth path (Furman, 2021).

III. CONCERNS ABOUT DEBT

12. Although governments around the world are rightly focused on keeping national economies afloat, there are myriad concerns about how rapidly accruing debt will be managed as the pandemic begins to wane. Again, interest rates for developed countries remain low despite the fact that governments the world over are turning to credit markets to finance mounting spending. In Japan, which has nearly twice the debt-to-GDP ratio of the United States, high debt has not increased interest rates, and there is now a degree of optimism in Europe and the United States that interest rates have been partly delinked from debt levels, at least for the most developed countries.

13. Of course, this could be a temporary phenomenon, and there are economists, policymakers, and politicians alike who caution against the continued accrual of debt obligations, at least on the scale of the past year. The looming question is when governments should take the foot off the pedal. There are legitimate concerns, that acting too hastily in this regard could cause national economies to seize up just as recovery begins. But this concern must be balanced against the possibility that overspending could render debt financially unsustainable. Were interest rates and inflation to rise substantially, they, this could trigger yet another economic and financial crisis. The pathway between these two contingencies is likely to be narrow and harrowing. Governments will accordingly need to wean economic actors and consumers gradually of off government support systems. Indeed, timing is everything. In Europe, the President of the ECB, Christine Lagarde, has warned governments and central banker not to cut stimulus just as the recovery begins. She said that even the spectre of inflation should not deflect decision makers from keeping their foot on the

monetary and fiscal pedal. In December, she acknowledged that recovery will, in part, be driven by "expected pent-up demand". Her concern is prematurely tightening monetary policy just as this demand begins to express itself could kill the recovery. It is worth noting that in December 2020, the ECB increased the size of its emergency bond-buying programme by €500bn to €1.85tn, (Stiglitz, 2020).

14. While governments have engaged in massive deficit spending, some households have moved in the opposite direction, in part, because spending opportunities in the current climate have been eviscerated. European household savings, for example, have increased substantially during the crisis as demand for many goods and services fell dramatically once the crisis began and consumers hedged against uncertainty. The savings of those lucky enough to remain active in the labour market has helped societies to mitigate somewhat the fall of aggregate savings due to higher government spending and the dissaving's of those who have lost income and been compelled to draw down their own reserves. (Crossley et.al., 2021). Although higher savings rates reduce consumption, they do provide a foundation for capital formation.

15. Rising unemployment and reduced income have slowed consumption, but lockdowns and shuttered businesses like travel and restaurants have also been a factor. Reduced consumption has asserted downward pressure on prices, which the ECB believes is temporary. Central bankers remain concerned that a price surge could accompany any unleashing of pent-up demand. Again, the challenge will lie in finding a safe moment to begin to ease off the monetary and fiscal accelerators. The ECB now forecast that consumer price inflation in the eurozone will reach 1% this year and 1.4% by 2023, still substantially below the ECB target inflation rate of slightly under 2%.

IV. TRADE

16. The last four years have been characterised by a steady erosion of global trade, the rise of new trade barriers and renewed public scepticism about the virtues of trade. In 2019, global trade grew slower than GDP, with year-on-year growth rates of 0.8% and 2.4% respectively. In 2020, global GDP will have likely fallen by 5.2% compared to the previous year, while trade will have decreased by 13.4% over the previous year. This decrease can be linked to the effects of the coronavirus pandemic, but rising trade barriers have only made matters worse (Statista, 2020).

17. The public discussion about trade and its contribution to growth and well-being has also taken a turn for the worse in many countries. Patently false notions that trade deficits can be corrected through the imposition of tariffs and quotas have gained political traction. Economists know that trade deficits essentially operate in an inverse relationship with national savings. If a country pursues policies that reduce national savings, this will generally be reflected in rising ratio of imports to exports. Tariff policy will have only a marginal impact on a country's trade position unless, of course, a country opts for pure autarchy and essentially shuts down trade, which, if perfectly executed, would lead to a perfectly balanced trade account—zero exports and zero imports. But in the real world, governments that oversee rising budget deficits, for example, through unfunded tax cuts while reducing their commitment to the multilateral trading system, placing a greater degree of stress on bilateral trade arrangements rather than globalised exchange, and imposing a new tariffs and quotas on trading partners, not surprisingly are very likely to experience rising trade deficits (Roberts, 2021). They will also impinge on their growth potential. The challenge now will be to revivify multilateral and regional trading systems in ways that generate global growth and encourage equitable returns.

V. ECONOMIC CONDITIONS IN THE UNITED STATES

18. The COVID-19 public health and economic crisis has demonstrated gaps in US resilience that US officials will need to address over the coming years. The United States entered the crisis with a deficit to GDP ratio of 5% and that figure had more than tripled before President Joe Biden began his term of office due to spending linked to fighting the COVID recession. This number will only increase with the massive stimulus package that the Biden Administration plans on introducing (Stiglitz, 2020). The Administration's economics team led by Treasury Secretary Janet Yellen subscribes to the view that monetary policy has little remaining space to bolster the economy due to historic low interest rates. She and others in the Administration have thus prioritised fiscal policy to act as the economic work horse until a genuine recovery is underway. Surprisingly, low interest and inflation rates now make fiscal stimulus more affordable than it normally would be.

19. As of January 2021, an estimated four million Americans had been out of work for 6 months or more as compared to 2.1 million Americans in September 2021 (Pymnts.com). Much of this burden has fallen on women. In December 2020 women accounted for more than 111% of jobs lost that month. In other words, in that month the US economy shed a net 140,000 jobs according to the US Labor Department, but women lost 156,000 jobs overall, while men gained 16,000 jobs. Between February 2020 and January 2021, women lost a net of 5.4 million jobs, or 55% of the more than 9.8 million US jobs lost since February. Almost 40% of women who were unemployed in December had been jobless for six months or more. The longer the unemployed are out of work, the more likely it is that their wages will be lower once they do return to the labour market (Aspan, 2021). Although the full impact of the crisis had been mitigated by massive intervention through the stimulus package, including in the Cares Act and other measures, many smaller businesses have gone bankrupt or vastly reduced their operations. Critical sectors of the economy, like the commercial property, oil and gas, tourism, hotel, restaurant, airline, travel, and entertainment industries all confront a grave crisis, and sectoral crises have been a primary engine of job loss.

20. The Trump Administration and the US Congress recognised the overwhelming need to inject significant amounts of cash into the economy quickly, including large payments to households in terms of cash grants extended through the ambitious Cares Act. A second cash injection was agreed at the end of 2020 and there is an expectation for additional household funding later in 2021. On 27 February, the House of Representatives passed a $1.9 trillion COVID-19 relief package that includes $1,400 stimulus checks to individuals, an extension of unemployment benefits, and billions of dollars of aid for small businesses and non-profits. It also includes $350 billion in support for state, local and tribal governments. The Senate is expected to consider the bill in March (Drew, 2021). On 5 March, the US Senate passed a similar but not identical $1.9 trillion relief package. At this writing, the two bills will need to be harmonised before President Biden can sign the law into legislation before a March 14 deadline when current unemployment benefits programmes are set to expire (Pramuk, 2021). The US government has also provided an extensive array of support programmes for business which proved helpful, although there were some concerns about how and to which companies some funds were disbursed (Furman, 2021). The U.S. has confronted spending bottlenecks, which have complicated efforts to disburse appropriated support funds These kinds of dilemmas are inevitable when speed is of the essence (Stiglitz, 2020).

21. The Cares Act included an unemployment insurance component to bolster consumer spending while demand collapsed. The $600 weekly benefit was purposefully large and was a central factor in preventing the US economy from spiralling into an even deeper recession. This significant cash injection went to those with a higher propensity to consume, and this, in turn, helped sustain critically needed consumer demand. As the US economy moves towards recovery,

policy makers will need to ensure that there are compelling incentives that make work more attractive than unemployment. Finding the correct balance will be politically and technically challenging.

22. The current crisis has had a significant impact on labour markets, and there are real concerns about structural unemployment. There will be serious economic, social, and political implications if jobs are not created for younger Americans coming out of this recession. This may require fundamentally new approaches to labour market challenges in the United States including new training and education initiatives to better prepare workers for the emerging economy. These efforts can help those who have lost jobs and need to requalify for new ones. Wage insurance programmes might also come into play as these can help older workers who lose jobs but must cover essential costs like mortgage payments, child costs etc. Older workers are less likely to benefit from fundamental retraining programmes, and these insurance schemes can help top up income if their only employment options are less well paid than jobs lost due to restructuring. Programmes like these help maintain incentives to work even in labour markets recast by global competition and technology change.

23. The Biden Administration also seems intent on bolstering infrastructure investments, including infrastructure designed to extend the reach of renewable energy. Large scale public or private-public finance investments could indeed help create new jobs, in some instances in transformative emerging sectors, at a time when many jobs in more obsolete industries have permanently vanished a result of the COVID-19 crisis and rapid technological and economic change. Knowledge investment poses another long-term challenge in the United States. The world-renowned US university system, long seen as a critical source of American economic competitiveness, has suffered serious revenue falls during the current crisis. This potentially poses a long-term challenge to the national economy and to its capacity to generate paradigm altering technological change and other knowledge break throughs. Major research institutions of enormous long-term importance to the US economy will likely need significant support to continue to play this essential role in keeping the United States on leading edge of technology change.

24. US states and local governments are also in a very difficult position as the crisis has deprived them of tax revenue needed to underwrite critical local services including schools, police, public health institutions, support for the most vulnerable and essential infrastructure. Following the 2009 crisis, studies revealed that a fiscal crisis at state and local levels had shaved off .6% of GDP over the ensuing five years (Furman, 2021). Many states confront an unprecedented financial crisis precisely when the burdens on those states have never been greater. How this crisis is met remains a critical political challenge for US leaders at the federal, state, and local levels. Some US states, for example, have been hamstrung by balanced budget requirements which curtail their capacity to borrow when revenues collapse. The Biden Administration is now proposing a significant spending programme to assist state and local governments so that they can carry out functions essential to public health, social comity, long-term investment, and economic recovery.

25. Trade will be another pillar of US recovery. Here it is likely that the Biden Administration will reassess a range of trade policies, although some elements of the previous administration's policies could endure. Trade itself is generally understood as an agent of growth and development. But there are persistent concerns of both a political and strategic nature that might impede a return to an unqualified embrace of the multilateral trading order. The pandemic has revealed trade-related strategic vulnerabilities arising out of over reliance on imports for medical equipment and pharmaceuticals that both Congress and the Administration seem intent on addressing. In late February President Biden signed an order directing federal agencies to make an intensive study of potential vulnerabilities in the industrial supply chain for such important inputs as rare-earth metals and pharmaceuticals. The administration has laid out a two-phase programme that would produce

a report on four key categories of products; the second phase, lasting a year, would examine whole industrial sectors, from defence to energy to transportation (Washington Post Editorial Board, 2021). China is a particular concern in this regard and leaders in both parties seem to agree that more control needs to be exercised over trade with that Asian power. This could create new trading opportunities with other Asian states that are not seen as strategic rivals. But it would also have costs which would have to be absorbed both by consumers and companies. There is also a potential for transatlantic friction over differing approaches to China. Washington, for example, has been critical of the EU's recent investment deal with China and has had an extended dialogue with a number of European governments about China's role in rolling out 5G networks in the continent.

26. Finally, sustainable US economic recovery will not be possible as long as COVID-19 is circulating through the general public. The Biden Administration has promised to push for stronger and more comprehensive federal measures to curtail the spread of COVID-19, to hasten the rollout of vaccines to the broader public and to align government messaging with the medical consensus and to support global vaccination initiatives. The rate of vaccination in the United States is significantly higher than in Europe and this will put it in a good position to launch a robust economic recovery.

VI. ECONOMIC CONDITIONS IN EUROPE

27. The eurozone's GDP contracted by a historic 6.8% in 2020, but the IMF now forecasts an expansion around 4.4 percent in 2021, down 1 percentage point from the level forecast in late 2020 (Smith -Myer, 2021). Real GDP is projected to remain below its 2019-level at the end of 2021, however. In autumn 2020, the eurozone economies showed strong signs of recovery as governments relaxed lockdowns across the continent throughout the summer. Growth approached 13% in the third quarter of 2020 (IMF, 12/2020). The onset of a second wave of infections and fears of a third wave have significantly lowered growth expectations for the first quarter of 2021. Persistent uncertainty linked to delays in the production and distribution of vaccines as well as reported virus mutations continue to weigh heavily on the economic outlook. Surveys on business activity from early 2021 showed that while US entrepreneurs were increasingly optimistic, their European counterparts were more pessimistic than they had been at the end of 2020 (Chazan, 2021).

28. While the pandemic has stuck every European country, its impact on national economies differs significantly from one country to another. The IMF warns that the pandemic could deepen already pronounced regional disparities on the continent (IMF, 2020). As was the case during the 2008 financial crisis, regions with lower GDP per capita rates, higher unemployment and lower productivity are expected to suffer disproportionally from the pandemic-related economic crisis, thereby widening the gap with more prosperous regions of the continent. Low investment and incomplete structural reforms in some countries have long contributed to low productivity growth and competitiveness gaps. These problems predated the COVID-19 pandemic, but the crisis has exacerbated the challenge. The European Commission has noted, for example, that regions heavily reliant on tourism have been particularly struck by the crisis, (Fleming and Khan, 2021). In a recent economic outlook, the Commission forecasts GDP to grow by 3.7% in 2021 and 3.9% in 2022 in the EU, and by 3.8% in both years in the eurozone, significantly lower than IMF forecasts. The Commission underlines, however, that while some member states can expect their economic output to return to pre-pandemic levels by the end of 2021, others might have to wait significantly longer due to structural scarring (European Commission, 2021).

29. European institutions have taken unprecedented steps to temper the impact of the economic fallout. In March 2020, the Commission suspended the Union's deficit rules by triggering the

escape clause and allowing member states to open the fiscal floodgates without fear of repercussion from Brussels (Smith-Meyer, 2020). Since then, governments have agreed on a series of stimulus programmes designed to strengthen member state-economies and avoid scenario akin to what transpired during 2009 eurozone crisis. In July 2020 EU heads of state and government announced a € 750 billion recovery programme, Next Generation EU, which the European parliament subsequently approved (Taylor, 10/2/2021). The recovery plan is financed through joint debt issuance, a significant historical first for the EU. It is the largest stimulus package ever financed through the EU budget. But it is more than that as it also aims to affect permanent structural changes leading to a greener, more digital, and more resilient Europe. If it is seen as successful, the effort could also generate support for a permanent fiscal capacity in Brussels (IMF, 12/ 2020). But this is hardly a settled issue, and fiscal union is not, by any means, the inevitable end of this set of initiatives.

30. A substantial part of the programme will be disbursed to member states as grants. Other elements include the Temporary Support to Mitigate Unemployment Risks in an Emergency (SURE), providing loans of up to € 100 billion to member states, a new crisis support-credit line that is available through the European Stability Mechanism (ESM), and a Pan-European Guarantee Fund that enables the European Investment Bank (EIB) to increase lending to European businesses – with a particular focus on SMEs (IMF, 2020). Meanwhile, the European Central Bank (ECB) has engaged in a massive asset purchase programme with a total envelop of € 1,850 billion (European Central Bank, 2021).

31. The EU and its member-states clearly derived lessons from the controversial austerity-driven response to the consequences of the 2008 global financial crisis. Yet, discussions on the recovery programme have also revealed the persistence of divisions within the Union. Despite the initial opposition from the so-called “Frugal Four”, Austria, Denmark, the Netherlands, and Sweden, (later the “Frugal Five”, with Finland joining), to elements of the programme, a compromise was ultimately forged. Led by France and Germany, member states authorised the European Commission to borrow funds to support member states’ efforts to sustain economies coping with a pandemic induced crisis. Some have characterised the agreement as yet another advance in European integration insofar as it demonstrated a capacity to undertake shared fiscal measures to compliment efforts on the monetary side (Nussbaum and Jennen, 2020). But it is not clear whether this will become a new competence or if it is a one-off response to an emergency.

32. EU efforts have unfolded in parallel with EU member states’ effort to develop national recovery programmes. National fiscal packages vary significantly in size, ranging from 6.4% of GDP in Greece to 48.7% in Italy (Credit Suisse, 2020). Many have focused on financing short-term work programmes while providing income support to employees compelled to work reduced hours. These programmes, combined with the existing automatic stabilizers, help explain why unemployment rates have increased only slightly in the eurozone throughout 2020. While in the United States unemployment rose by 3,5% in October 2020 (compared to 2019), unemployment rates in the eurozone increased by only one percentage point in the same period (IMF, 12/2020). The OECD warned governments not to ensure that the recovery is well underway before phasing out these programmes (Sandbu, 2020).

33. Germany has played a key role in forging European responses to the crisis. It notably moved off its traditional position of fiscal rectitude to pump liquidity into the economy to sustain both German and European economic activity during the deepest moments of the crisis. The government introduced €1.3tn programme of subsidies and grants to businesses, along with a €130bn stimulus package. To do this, the government suspended constitutionally mandated limits on the budget deficit. The Finance Minister, Olaf Scholz, proposed new borrowing of €180bn for the 2021 budget after the country took on €218bn of debt in 2020, the highest level of German

public debt in the post war period. Germany's national debt rose from close to 60% of GDP to 70% last year, compared to overall eurozone government debt rising from 84% of GDP to almost 100% in the same period (Arnold, 12/02/2021) The government has promised to begin paying down these new debts in 2023 and to reinstate its long sacrosanct debt brake in 2022. The timing and speed of this return will be a matter of political debate. Those who hew closer to traditional fiscal orthodoxy have expressed concerns that German payments to economic actors have been overly generous and threaten to distort incentives and price signals (Chazan, 2020).

34. Germany enjoyed strong growth in the last three months of 2020, despite a surge in coronavirus infections. Manufacturing orders, industrial production, retail sales, employment and exports all rose, pointing to the economy's enduring resilience. This relatively strong performance defied expectations. Germany outperformed other European economies, fuelling fears in some circles that the pandemic might deepen existing imbalances in the eurozone. In contrast, France and Italy were forecast to undergo sharper falls in economic performance. For 2020 overall, Germany's GDP was expected to fall 5.1%, or roughly half the fall expected for France. German exports surged in the last quarter and the growth of its exports to a growing China doubled. German exports to the United Kingdom also rose as British firms stockpiled German producer goods in anticipation of Britain's departure from the European Union, with all the uncertainties that move has entailed. A sudden surge in COVID-19 infections in December, however, triggered more lockdowns in Germany, and this was likely to slow the economy again in the first quarter of 2021 (Romei, 2021).

35. Paris has welcomed Berlin's evolving position on fiscal policy in the face of global economic crisis. The French government recognises the value of budgetary constraints as registered in the Stability and growth Pact for membership in the European single currency system, but it also has argued that these rules should be suspended when a deep crisis strikes Europe. The block needs to "take into account reality" as French finance minister Bruno Le Maire put it with regards to the bloc's Stability and Growth Pact (Mallet and Abboud, 2021). More generally, French officials see the crisis as confirming elements of a French critique of the old Washington Consensus. French President Emmanuel Macron, in fact, called for a "new consensus" on global economics at the annual Davos meetings in late January (Chazan et.al., 2021). He suggested it was time to break with the "Washington consensus" and acknowledge the essential role played by public sector in national economic life. This stance accords with others in Europe calling for a larger state role, particularly in both nourishing and regulating sectors too important to be driven by market vagaries alone.

36. In 2021, France, Belgium, Italy, Spain, and Greece are expected to have accumulated more than double the debt-to-GDP ratio formally permitted by the convergence criteria fixed in the Maastricht treaty (Taylor, 1/1/2021). The Spanish economy has taken the greatest hit in the Eurozone during the pandemic-induced recession. It is slated to shrink by 12% in 2020, according to European Commission forecasts. Like several other southern European states, its tourist and hospitality sectors have an outsized weight in GDP, and these have been among the worst effected industries in the current crisis (Arnold and Romei, 2020). The IMF has noted that the gap between higher and lower-income households has widened to a greater degree in southern European countries like Spain and Italy than it has in France or in Germany (IMF, 12/ 2020). This disparity will pose both economic and political challenges even after the continent returns to growth. At this writing, a new Italian government in Italy led by former ECB-director Mario Draghi has been charged with planning how best to disburse the almost €200bn that Rome will receive from the European recovery fund (Roberts, 12/02/ 2021).

37. After a sharp contraction in 2020, the British economy is expected to grow by 4.2% in 2021 (Smith-Myer, 26/01/2021). That the British government and EU were able to agree initial terms for

Brexit has reduced one of the primary sources of uncertainty, although a number of agreements still need to be hammered in the final settlement, including services trade and rules governing the financial sector (Editorial Board, FT). There have already been some tensions, over both a pandemic induced travel ban that blocked truckers at the UK-French border and a squabble over vaccine distribution (Taylor, 1/1/ 2021). The British government is looking to ease its reliance on trade with the continent and, for example, recently announced that it will formally apply to join the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), one of the largest free-trade areas in the world. London hopes to redeem its promise free itself of EU regulations and avail itself of global market opportunities (Gov.Uk, 2021).

38. Although the pandemic is generating enormous fiscal pressures, it is also exacerbating security risks. NATO allies have committed to dedicate 2% of GDP to defence budgets and 20% of those budgets to investment. It is important to recognise that defence spending is not a deadweight loss in economic terms. Above all, national security is a precondition to functioning, prosperity-generating markets. In simple terms, investment is fundamentally impaired if a country lives in a condition of deep insecurity, and it is ultimately the responsibility of the state to create a context for security. Allocating sufficient resources to defence will thus be fundamentally important to economic recovery. Secondly, defence investment can generate new technologies with commercial applications, some of which are exportable. It thus creates new business opportunities for companies acting as prime contractors, sub-contractors and consumers of new technologies. Defence spending also contributes to national demand and, and by extension, to GDP. Finally, in an allied context, defence spending reinforces transatlantic solidarity, a phenomenon that obviously spills over into close and prosperity-generating investment and trade relations among its members (Tybring-Gjedde, 2021).

VII. ASIA'S DISCIPLINED RESPONSE

39. COVID-19 is the third major health crisis with which East Asian countries have had to cope in the 21st century. Experienced gained from responding to the 2003 SARS pandemic and the 2014-2015 MERS pandemic might explain why Asian countries have managed the COVID-19 pandemic more successfully than Europe and North America. After initially restricting information about the spread of COVID-19 in and around Wuhan, Chinese authorities undertook a course correction. It finally acknowledging the serious public health challenge COVID-19 posed and employed systems constructed during the earlier crises to contain the spread of the virus. The general public's familiarity with how best to cope with pandemic, including the need for social distancing and mask wearing, contributed to higher levels of acceptance for restrictive measures in China as elsewhere in Asia (Kheng Khor and Heymann, 2020). Those early restrictions paid off on both the public health and economic fronts.

40. Asia's relative success in controlling the spread of COVID-19 has had important economic implications. In 2020, China's GDP grew by 2.3%, making it one of the world's only major economy to achieve economic growth last year, among which was Turkey which grew at 1,8% 2020. After its first decline in more than 40 years, the world's second largest economy expanded by 6.5% in the last quarter while achieving the highest trade surplus ever recorded for December. (Hale et al., 2020). China's surprisingly rapid economic recovery had a positive spill over impact on other Asian economies, particularly in export-driven economies like Japan and South Korea. Beijing's trade surplus was bolstered by soaring demand for Chinese manufactured medical equipment (up 13%) and for consumer goods (laptops up 54.5%, furniture up 27.5%). China's factories continued churning out product, while many competitors shut down due to national lockdowns (Mitchell and Yu, 2021).

41. While there has been very legitimate criticism of Beijing's efforts to squelch information about COVID-19 in the pandemic's early months, the Chinese government can nevertheless be credited for swiftly correcting course and introducing effective policies to contain the virus. New cases in China have remained at very low levels since late spring of 2020, while Western societies largely failed to contain the spread of the disease and were obliged to embark upon costly and extended economic lockdowns because of the catastrophic spread of disease. But this success story should not be exaggerated. China claimed that this narrative utterly vindicates its model of political-economic management. Most Western democracies beg to differ. A capacity to lockdown is hardly the only criteria for good governance (Gerwitz, 2020). In any case, China has managed to exploit the economic slowdown in other producer countries to seize market share across an array of industries (Hale et al, 2020). For the coming year, the IMF projects the Chinese economy will grow by 7.9% (Zhou, 2021).

42. China's strong economic position is reflected in myriad indicators. It attracted $154bn in foreign investments over the course of 2020, and this drove up equity prices on China's booming stock market (Hale and Yu, 2021). On the heels of the US withdrawal from the Trans-Pacific Partnership (TPP), it has now concluded a Regional Comprehensive Economic Partnership with neighbouring states, which collectively account for a third of global GDP (Credit Suisse, 2020). China has also signed a new investment treaty with the European Union that some in Washington warn could drive a wedge between the United States and its allies. The treaty, which should lower barriers for European companies seeking to invest in China, has yet to be ratified by national legislators, but EU officials have highlighted important Chinese concessions, including its newly announced commitment to ratify International Labour Organization (ILO) conventions against the use of forced labour. (Brunsden et al, 2020).

43. Beijing has begun a concerted campaign to make the world forget its initial negligence at the beginning of the pandemic. It now claims, in direct contravention to a welter of evidence, that the virus did not originate in Wuhan or even in China itself. Of course, any systematic effort to undermine ongoing forensic investigations to establish the origins of a pandemic would undermine global efforts to understand the phenomena at play and to undertake corrective measures. The last thing the international community needs is a multinational war of misinformation on this deadly virus. The fastest path to redemption lies in an honest reckoning, and this holds for all countries that have made missteps throughout this brutal pandemic (Freymann and Stebbing, 2020).

44. The incoming Biden Administration is likely to encourage its allies to increase the pressure on Beijing on matters related to perceived predatory economic behaviour including intellectual property violations, its provocative military posture, espionage, and human rights violations in Hong Kong, Xinjiang and elsewhere. Public perceptions of China have hit new lows, not only in the U.S., where, according to a recent Pew Research-poll, 73% of Americans hold unfavourable views of China, but also in Germany, France, Spain and elsewhere in Europe (Credit Suisse, 2020). In the United States, Australia and the United Kingdom, discussions on the vulnerability of critical infrastructure such as 5G networks to espionage has inspired a raft of restrictions to reduce reliance on Chinese technology in these systems. Other European countries are poised to adopt similar restrictions but there is not a consensus on the matter.

45. Indeed, despite concerns on Beijing's transparency during the outbreak of the pandemic, last year's crackdown pro-democracy movement in Hong-Kong and recurring reports of human rights violations in Xinjiang province and elsewhere, China remains an integral element of the global economy and has become an engine of growth even during the current pandemic. Germany, for example, is generating essential foreign exchange earnings selling in the Chinese market. Chinese technology will likely play an important role both as a supplier and as a consumer across a range of sectors both in developing and advanced markets over the coming decade (Credit Suisse,

2020). The challenge lies in striking a balance between engaging with the positive elements of that economic dynamo while resisting the more threatening ambitions embedded in its leadership. The current crisis has brought some of these challenges into stark relief.

46. China, for example, has incorporated the fight against COVID-19 into broader matters of systemic competition—although it is hardly the only country doing so. President Xi began speaking about Chinese vaccines as a "global public good" as early as May 2020 and launched a policy of some termed Mask Diplomacy in which it sought to gain diplomatic and public relations leverage from its contributions to the global fight against COVID-19 (Freymann and Stebbing, 2020). The Chinese government is expected to subsidise vaccines for the export market in order to facilitate deals such as one that Mexico recently signed with CanSino, securing 35 million vaccine doses (Reuters, 2020). China's leaders see this as a pillar of the country's so-called soft diplomacy and herald it as embodying the country's peaceful rise on the global stage (Euractiv, 2020) (Barigazzi, 2020). Of course, there are beneficial dimensions of these policies, but some clearly aim to undermine democratic solidarity or distract attention from China's threatening strategic ambitions and human rights violations.

47. Despite a surge in infections at the end of the year, Japan has also laudably controlled the spread of COVID-19. But Japan has been less successful in insulating itself from the economic fall out of the crisis. Falling global demand has struck its export-dependent economy. Japan's real GDP fell by 4.% in 2020, although its economy was already contracting when the COVID-19-shock hit in early 2020. The second quarter contraction was its largest since World War II (Solis, 2020) but it rebounded strongly in the second half of the year. Tokyo has responded with a massive $298 billion supplementary budget, which the government financed with a new bond issue. Borrowing accounted for nearly 60% of the national revenue this past year (Economist, 2020). In December, Prime Minister Yoshihide Suga, announced a new $708 billion stimulus programme, bringing the pandemic-related stimulus to roughly $3 trillion, a spending package that is roughly two thirds the size of the national economy (Reuters, 2020). Japan's national debt is expected to surpass 260% of GDP in 2025 (Statista, 2021), the world's most heavily indebted country will have to delay fiscal reform until markets stabilise.

48. Japanese trade with China has had a salutary impact in an otherwise bleak landscape. In 2019, China accounted for 24% of Japanese imports and 19% of its exports. Japan significantly outranks China in terms of foreign investments, averaging $122.4 billion per year since the financial crisis compared to China's $109.5 billion per year (Solis, 2020). Japanese policymakers, however, have begun to incentivise companies to restore production. In March 2020, then Prime Minister Shinzo Abe announced subsidies of up to $2 billion to support relocations of factories from China to Japan and other Asian countries (Credit Suisse, 2020). As in Europe and the United States, there are concerns that Japan has become overly dependent on Chinese manufacturing, leaving it strategically and economically vulnerable. Tokyo, however, recognises that China will remain a key global player that cannot be ignored.

49. Japan continues to champion a liberal free trade order in Asia and has been a strong advocate for the Trans-Pacific Partnership (Solis, 2020). It is looking for a reset in trade relations with the United States after uncertainties emerged following the Trump Administration's decision to withdraw from the TPP. After signing the RCEP-agreement and a free-trade deal with the United Kingdom in 2020, Japanese officials are also looking to a possible trilateral agreement among Japan, China, and South Korea, although ongoing diplomatic tensions could hamper this effort (Arrington and Yeo, 2019). For fiscal year 2021, Japan's economy is projected to grow by roughly 3.4% (Japan Times, 2021). After postponing the Olympic Games in 2020, Tokyo expects that this major event will bolster domestic consumption in 2021.

50. The South Korean economy is expected to have shrunk by only 1.1% in 2020, making it Asia's fourth strongest performing developed economy (Stangarone, 2021). Its relatively strong performance is partly due to prompt and effective government policies to contain the spread of the virus. Like China and Japan, South Korea benefited from lessons learned during the 2003-SARS and the 2014-15-MERS epidemics. Following the SARS outbreak, Seoul reformed its public-health infrastructure, strengthened command-and-control mechanisms, and developed enhanced capacities for the mass production of test kits to prepare for future crises (Khong Khor and Heymann, 2020). As of 21 February 2021, Korea had registered only 1,557 COVID-19 related deaths (Worldometer 21/2/ 2021).

51. The government's primary objectives for 2021 are recovery and resurgence. Over the past year, legislators have passed four supplementary budgets worth KRW 67 trillion or 3.5% of South Korea's GDP last year. 70% of this is debt-financed, and the public budget and overall public debt is projected to approach 50% of GDP by 2022. Fiscal rules were supposed to limit the government deficit to 3% and public debt to 60% of GDP (OECDa, 2020). While public debt levels in South Korea will remain comparatively low, OECD economists warn that pandemic poses a risk to financial stability, particularly as corporate debt has soared (OECDb, 2020). Private households and small and medium enterprises (SMEs), in particular, are heavily leveraged. This threatens to exacerbate disparities between South Korean industrial champions like the Samsung Group, South Koreas largest company, and SMEs, which enjoy less support and confront greater hurdles in the global economy.

52. Samsung Electronics, the world's largest producer of micro-chips, smartphones, and flat screens, has profited from increasing demand for consumer electronics throughout 2020. The company estimated in December that its profits hit $8.2 billion in the last quarter of 2020. LG, another South-Korean tech giant, saw profits rise sixfold in the same period (White and Harding, 2020). LG and Samsung are immensely important for South Korea's export-driven economy. Samsung Group's revenues alone accounted for 12.5% of the country's GDP in 2019 and 12% of corporate tax revenue (Jung-a and White, 2020). Employment levels for women in Korea are relatively low, and the gender wage gap is the highest in the OECD; if anything, the current crisis is likely to exacerbate gender-driven income disparities (OECD, 2021).

VIII. THE CHALLENGE FOR DEVELOPING COUNTRIES

53. The situation for Developing Countries in the face of the global recession is fundamentally different than for developed countries. Less developed countries generally lack the financial depth, the credit worthiness and lower borrowing costs to handle the financial implications of this recession. Many lack the medical infrastructure needed to cope with the pandemic, although, fortunately, many have so far had suffered lower infection rates than in Western countries.

54. International lending institutions, including the World Bank and the IMF, have created a range of programmes to help these countries weather this difficult period, including debt repayment restructuring, concessional financing, and grants. But those packages have not stopped the ineluctably adverse e economic consequences of this recession for poor countries. UN secretary-general António Guterres has said that $35bn will be needed to assist the poorest people in 2021. An estimated 235 million people will require humanitarian assistance, 40% more than in 2020. This is almost entirely linked to the COVID-19 pandemic and its economic impact (Rutter, 2020).

55. Achieving the UN's Development Goals has become a far more daunting challenge due to the current global crisis. UNDP has outlined one scenario in which 251 million additional people could fall into extreme poverty by 2030, leaving 1.1 billion people in extreme poverty worldwide. Yet it also argues that targeted investments in social protection and welfare programmes, governance, digitalisation and environmental resilience could help counteract the longer- term negative impacts of the current recession. It is worth noting that many governments have responded effectively to the crisis and even used it as an opportunity to encourage needed structural changes. Brazil and Lebanon, for example, were able to push out temporary income supplements to sustain demand, while Columbia established a digital payment system that ensured the impact of public income support resounded immediately in the greater economy (Rutter, 2020).

56. The COVID-19 pandemic has caused significantly less deaths per capita in low- and middle-income countries than in some of the richest parts of the world (Ghani, 2021). Sub-Saharan Africa, for instance, appears to have avoided massive shocks to its economies comparable to the eurozone or North America. With 14% of the planet's population, this region accounts for only 3% of known cases and deaths related to the virus. The IMF also estimates that sub-Saharan economies shrank significantly less than most wealthy economies and nearly half of the 24 countries that reported positive growth last year were in that particular region (The Economist, 2021).

57. Yet, experts are worried more about the long-term impact of the pandemic on the broader developing world. Economists suggest that the pandemic has widened the income gap between advanced and underdeveloped economies (Martin, 27/1/2021). Responding to the pandemic has also demanded a reallocation of very scarce resources that were already much needed in other domains of public health: The Global Fund, a Geneva-based international organisation that fights AIDS, Tuberculosis and Malaria, estimates that because of COVID-19, 1.5 million more people might have died from these three diseases in 2020 alone – close to the estimated deaths directly linked to COVID-19 (The Global Fund, 2020).

58. The World Food Programme (WFP) registered a doubling of people that either experienced hunger or lived on the edge of hunger last year (WFP, 2020). The pandemic has driven close to 100 million people into extreme poverty (defined as an income, less than US$ 1.90 per day), with another 50 million at risk in 2021 (Shameran, 2020). The World Bank announced that 2020 marked the first annual rise of the global poverty rate after more than two decades of decline (Ghani, 2021). Children have suffered the consequences. UNICEF reports that 463 million children were deprived of formal education due to school closures last year. This loss of human capital formation will penalise developing countries for decades. (UNICEF, 2020).

59. It is now very evident that developing countries will suffer long waits before they can begin to vaccinate their people comprehensively. A recent article in the British Medical Journal demonstrated that countries representing one-seventh of the global population had reserved more than half of the vaccines potentially available (D. So, and Woo, 2020). Beyond the ethical argument for equitable global access to vaccines, there are also convincing economic arguments that the global economy will not recover until the developing world is properly vaccinated. The Director General of the World Health Organization (WHO), Tedros A. Ghebreyesus, has cautions that unequal access to vaccines in the short run could ultimately cost the global economy US$ 9.2 trillion (WHO, 2021).

60. The COVID-19 Vaccine Global Access Facility (COVAX) aspires to meet the challenge of global vaccine access. Led by the WHO, the initiative has encouraged donor countries to contribute funding for its Access to COVID-19 Tools Accelerator (ACT). The initial goal is to

vaccinate the most vulnerable 20% of recipient countries' populations by the end of 2021 (O. Gostin, et. al, 19/1/2021). The distribution of vaccines and test kits to developing countries could cost US$24 billion in the coming year. In December 2020, however, leaked documents suggested that the initiative was already close to failure due to insufficient funding (Guarascio, 2020). Importantly, the Biden Administration re-joined the WHO soon after the inauguration, and in February, announced that the United States would contribute US$ 4 billion to COVAX to galvanise international support for the effort (O'Donnell, and Shalal, 18/2/2021). Several countries are planning on rolling out their own programmes for vaccine distributions in the developing world. China, for example, has announced plans to deliver its vaccines to countries in need (Parkinson et. al, 2021).

IX. CONCLUSION: PERMANENT STRUCTURAL CHANGES AND GLOBAL GOVERNANCE CHALLENGES

61. The world appears slated to return to growth in 2021, but there several potential downside risks that might lead the global economy to underperform. These include ongoing bottlenecks to vaccination production and distribution, the emergence of drug resistant strains of the COVID-19 virus and renewed infection surges, the premature abandonment of government-led countercyclical fiscal and monetary measures with a resulting fall in liquidity, and a global retreat into hyper-nationalist economic and public health policies that would be fated to fail. Debt defaults could precipitate a financial market panic, which could spread rapidly given the huge debt burdens governments have assumed. Slowing economies have led to a shrinking tax base which has only exacerbated the problem. On the upside, a rapid ramping up of vaccination schedules could hasten the onset of so-called herd immunity, rapidly restore investor and consumer confidence, unleash pent-up demand, and thereby hasten a demand-led recovery. The persistence of low interest rates and low inflation could lengthen the period in which governments are positioned to provide essential monetary and fiscal support to national economies as the green shoots of recovery take root.

62. Governments overseeing policies aiming to galvanise economic recovery will also need to focus on a range of longer-term challenges including poverty, inequality, mounting debt, infrastructure, climate-related investments, digitalisation, and education that are essential to long-term productivity. Synchronising fiscal, monetary, and public health policies globally will increase the likelihood of success (IMF, 2021).

63. Developed countries should begin to chart out a pathway to debt consolidation. The IMF suggests that governments find savings by reducing wasteful and poorly targeted subsidies, extending maturities on public debt and contemplating eventual tax hikes on higher income brackets and corporations, particularly in those countries where both have carved out privileged low tax benefits that lower income groups do not enjoy (IMF, 2020). Closing loopholes in tax regimes that allow companies to avoid taxation will be essential to shoring up public finances over the long run. Governments should work to ensure that OECD recommendations on profit shifting and digital taxation are adopted globally and fully implemented.

64. This crisis has been so deep and so consequential that it could well introduce paradigmatic changes in fundamental economic structures. As the global economy begins to recover the global economic landscape may look very different from that which preceded it. Some sectors may never return to the status quo. Government policies will have to account for these changes. Those societies that recognise inevitable change and quickly adjust to it are more likely to flourish than those that are animated by a reflexive desire to return to the status quo ante or to seal themselves off from global opportunities.

65. National recovery strategies should accordingly aim to rebuild economies in ways that are both open and financially, and environmentally sustainable. This will put their societies in the best position to prosper over the long-term. Prioritising long-term capital investment, infrastructure, technology research, and education would help put countries on pathways for growth in a rapidly changing global economy. Reducing unneeded subsidies that encourage fossil fuel use, for example, would not only lower government fiscal obligations, but it would also help countries advance the climate agenda and prepare for a new energy paradigm (Mari, 2020).

66. Of course, debt consolidation will eventually require some combination of spending cuts and tax hikes or, failing that, debt monetisation which is, by nature, inflationary. It will be very important to ensure that the burdens are equitably shared and that the wealthiest strata of society are not somehow exempted from collective sacrifices. Indeed, measures to defend the economic and social interests of those who have been most adversely impacted by this crisis, including elements of the working class, ethnic and racial minorities, women, and children, will be needed.

67. Finding resources to underwrite education investments will be essential to long-term economic recovery as human capital development is key to long-term prosperity. Education and worker training should be prioritised in national recovery strategies. Efforts will be needed to combat unemployment and under employment which simply destroy human capital. Creating retraining opportunities need to be more systemically integrated into national economic policy making.

68. Energy markets also seem poised for fundamental change due to commitments to lower greenhouse gas emissions, technological changes that have slashed the cost of renewable energies, evolving urban infrastructure, public and private investments aiming to encourage non-carbon transportation, and falling business travel, among others. These changes will have important implications for Western countries but could also fundamentally alter the economies of carbon-based energy exporting regions in the Middle East, Russia, the Caucuses and Central Asia. These are changes of important geo-political significance for which strategic planners must prepare.

69. Although national policies will play a central role in digging out of the current economic crisis, regional and global approaches will be essential to addressing effectively both public health and economic challenges which cannot be contained by national borders. Here too, new approaches will be needed although many traditional insights on the value of multilateral cooperation, open trading relations, and fiscal and monetary coordination remain instructive.

70. Although more advanced economies enjoy a modicum of fiscal and monetary leeway to prime the pump for economic recovery, this is not the case for much of the developing world. Sustained global recovery is not possible unless less developed countries also find a pathway to growth. Failure here could trigger far greater instability and humanitarian catastrophe across the world. Wealthier countries will have to help stabilise these countries through a range of economic support policies that will likely include an admixture of public health support, debt relief, smarter and more targeted aid policies, policy development support, and more open trading relations. Working to ensure that vaccines are broadly available in developing countries will be essential to their recovery. Fully funding the Covax facility will be essential. The threat to health and well-being will not be eradicated until this global project is completed.

71. Ultimately, the road to global economic recovery will be paved with mass vaccinations. Until the public can gather in safety, normal economic activity will be impossible and whole sectors of economic life will function sub-optimally. The best investment governments can make today lies in

insuring comprehensive and rapid vaccination programmes that aim to develop collective immunity to COVID-19. In an age in which disinformation and conspiracy theories are often given as much weight as the truth, concerted public information campaigns promoting the value for vaccines will be essential.

72. This pandemic has clearly demonstrated that building resilience in the face of global health and economic shocks is also essential. When hospitals systems are designed to run near fully capacity in normal times, they will be overrun in times of pandemic unless emergency supplemental systems can be readily accessed. Public health systems including disease monitoring and control systems must have the capacity to be ramped up swiftly in times of public health crisis. The same logic applies to economic support systems. Improvising solutions during a crisis is extraordinarily difficult, costly and can lead to disastrous bottlenecks. As countries emerge from this public health and economic crisis and begin the process of rebuilding, they will need to build in greater resilience so that future crisis can be dealt with in a more effective and assured manner. The goal should be to make societies more capable of sustainable growth that makes possible better lives for all. Reconstruction should seek to make economies greener and address matters like the growing wealth gap which has fed social and political tensions the world over (Sandbu, 2020)

73. Finally, countries like China and Russia have used this crisis to actively denigrate liberal economic models while suggesting that authoritarian-led societies are the wave of the future. This notion has become an increasingly worrying siren song, and it has led some political forces in Western countries down a very dangerous path. The capacity to reform liberal market systems so that they broaden opportunity, revive meritocracy, reinforce democracy, minimise insider corruption, and promise broadly shared welfare at this gravely difficult moment must be stoutly defended. This is a core value of the transatlantic community of nations and defending it must remain a fundamental ambition of this Alliance.

BIBLIOGRAPHY

Arrington, Celeste L. and Yeo, Andrew, "Japan and South Korea Can't Get Along", 31 July 2019, https://www.foreignaffairs.com/articles/japan/2019-07-31/japan-and-south-korea-cant-get-along

Arnold, Martin, "Bundesbank head says rising inflation likely to require policy 'tightening'", 12 February, 2021, Financial Times, https://www.ft.com/content/29517402-562e-4fb5-9d6a-6513085d45b9

Arnold, Martin, "Lagarde warns against early tightening of stimulus efforts", Financial Times, 13 January, 2021, https://www.ft.com/content/3984312c-5278-42ef-94f1-597c6f0a40cb

Arnold, Martin and Valentina Romei, "Covid restrictions weigh on eurozone prices and Spanish factory output", Financial Times, 1 December, 2020 https://www.ft.com/content/7551d4fd-c53f-4bbb-a57f-ed6ff7fad319

Aspan, Maria, "Women accounted for 100% of the 140,000 jobs shed by the U.S. economy in December", Fortune, 8, January, 2021, https://fortune.com/2021/01/08/covid-job-losses-women-december-us-unemployment-rate/

Barigazzi, Jacopo, "Italy's foreign minister hails Chinese coronavirus aid", 13 March, 2020, https://www.politico.eu/article/italys-foreign-minister-hails-chinese-caronavirus-aid/

Brunsden, Jim, Khan, Mehreen, Peel, Michael, "EU and China agree new investment treaty", 30 December, 2020, https://www.ft.com/content/6a429460-4bfb-42d4-9191-73ba97dde130

Bowles, Nellie, "They Can't Leave the Bay Area Fast Enough", The New York Times, 17 January, 2021, https://www.nytimes.com/2021/01/14/technology/san-francisco-covid-work-moving.html

Chazan, Guy, "Germany frets about its coronavirus debt mountain", Financial Times, 1 December, 2020, https://www.ft.com/content/8d0bdc11-2d87-4872-8302-c1ce6b7bdfd0

Chazan, Guy, "Top Merkel aide under fire after call for debt limit to be suspended," Financial Times, 26 January, 2021, https://www.ft.com/content/c0379bc1-905a-4ca7-9749-16c506b443b9

Chazan, Guy Mehreen Khan, Joseph Cotterill, Harry Dempsey and Victor Mallet, "Davos highlights: European leaders urge Biden to extend efforts to reignite international co-operation", Financial Times, 26 January 2021, www.ft.com/content/02465195-1957-490d-a3c8-4c54d45469a9

Credit Suisse, "What will last? The long-term implications of COVID-19", December 2020, https://www.credit-suisse.com/about-us/en/reports-research/csri.html

Crossley, Thomas F., Paul Fisher, and Hamish Low, "The heterogeneous and regressive consequences of COVID-19: Evidence from high quality panel data", Journal of Public Economics, Vol.193, January 2021, https://www.sciencedirect.com/science/article/pii/S0047272720301985

Drew, Jeff, "House passes $1.9 trillion stimulus bill with a variety of small business relief", Journal of Accountancy, 27 February, 2021, https://www.journalofaccountancy.com/news/2021/feb/house-passes-stimulus-bill-small-business-relief.html

D. So, Anthony and Woo, Joshua, "Reserving coronavirus disease 2019 vaccines for global access: cross sectional analysis", 7 December 2020, https://www.bmj.com/content/bmj/371/bmj.m-4750.full.pdf

Euractiv, "Serbia sets the stage for Beijing's mask diplomacy", 2 April, 2020, https://www.euractiv.com/section/china/news/serbia-sets-the-stage-for-beijings-mask-diplomacy/

European Centre for Disease Prevention and Control (ECDPC), "COVID-19 situation update for the EU/EEA", 18 February, 2021", https://www.ecdc.europa.eu/en/cases-2019-ncov-eueea

Editorial Board, Financial Times, "Amsterdam punctures City's post-Brexit hopes", Financial Times,11 February, 2021, https://www.ft.com/content/79f231fe-3c39-41ca-9c33-6713b1834f76

European Central Bank, "Pandemic emergency purchase programme (PEPP)", 12, February, 2021, https://www.ecb.europa.eu/mopo/implement/pepp/html/index.en.html

European Commission, “Economic Forecast: A challenging winter, but light at the end of the tunnel”, European Economic Forecast, Winter 2021, https://ec.europa.eu/info/sites/info/files/economy-finance/ip144_en_1.pdf

Fleming, Sam and Mehreen Khan, “Brussels lifts forecasts for eurozone’s economic recovery”, Financial Times, 11 February, 2021, https://www.ft.com/content/723331a5-d08e-4dc3-bae4-b46935af73fd

Freymann, Eyck and Stebbing, Justin, “China is Winning the Vaccine Race”, 5 November 2020, https://www.foreignaffairs.com/articles/united-states/2020-11-05/china-winning-vaccine-race

FT, “Davos highlights: European leaders urge Biden to extend efforts to reignite international co-operation, 26 January, 2021, https://www.ft.com/content/02465195-1957-490d-a3c8-4c54d45469a9

Furman, Jason, “The Crisis Opportunity What It Will Take to Build Back a Better Economy, Foreign Affairs”, Foreign Affairs, January/February 2021, https://www.foreignaffairs.com/articles/united-states/2020-11-30/biden-build-back-better-economy

Gerwitz, Julian, “China Thinks America Is Losing”, November 2020, https://www.foreignaffairs.com/articles/united-states/2020-10-13/china-thinks-america-losing

Ghani, Tarek, “The Sting in COVID-19’s Tail”, 26 January 2021, https://www.foreignaffairs.com/articles/world/2021-01-26/sting-covid-19s-tail

Global Fund, “Results Report”, 2020, https://www.theglobalfund.org/media/10103/corporate_2020resultsreport_report_en.pdf

Guarascio, Francesco, “Exclusive-WHO vaccine scheme risks failure, leaving poor countries with no COVID shots until 2024”, 16 December, 2020, https://www.reuters.com/article/health-coronavirus-who-vaccines-exc%E2%80%A6eaving-poor-countries-with-no-covid-shots-until-2024-idUSKBN2-8Q1LF

Gov.Uk, "UK applies to join huge Pacific free trade area CPTPP", 30 January, 2021, https://www.gov.uk/government/news/uk-applies-to-join-huge-pacific-free-trade-area-cptpp

Hale, Thomas and Yu, Sun, “China’s economy expands at faster rate than before coronavirus”, 18 Januar,y 2021, https://www.ft.com/content/ac22618a-4bab-4905-af81-a031a54e9617

Hale, Thomas, Mitchell, Tom, Shepherd, Christian and Zhou, Emma, “Chinese economy expands 4.9% in third quarter”, Financial Times, 19 October, 2020, https://www.ft.com/content/22108ddd-3280-4013-bcd8-1adc9e6ae13d

Hirsh, Michael, Foreign Policy, "Yellen’s Mandate: Massive Stimulus, Assuaging Fears of Inflation: New Treasury nominee hailed as the right woman for the moment", | November 24, 2020, https://foreignpolicy.com/2020/11/24/yellens-mandate-massive-stimulus-assuaging-fears-of-inflation/

IHME, “COVID-19 Results Briefing”, 22 December, 2020, http://www.healthdata.org/sites/default/files/files/Projects/COVID/briefing_EU_20201222.pdf

IMF, “At a Glance”, 30 January, 2021, https://www.imf.org/en/Countries/JPN#ataglance

IMF Country Report No. 20/324 “Euro Area Policies”, December 2020, IMF Country Report No. 20/324, December 2020 https://www.imf.org/en/Publications/CR/Issues/2020/12/21/2020-Consultation-on-Common-Euro-Area-Policies-Press-Release-Staff-Report-and-Statement-by-49979

IMF, "Policy Support and Vaccines Expected to Lift Activity", World Economic Outlook Update, January 2021, https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update

IMF, “World Economic Outlook: A long and Difficult Ascent”, October, 2020 https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020

Japan Times, “Japan’s economy could see record turnaround – if pandemic is kept under control”, 4 January, 2021, https://www.japantimes.co.jp/news/2021/01/04/business/economy-business/japan-economy-turnaround-coronavirus/

Jung-a, Song and White, Edward, “Coronavirus disruption at Samsung could threaten S Korea economy”, 27 February, 2020, https://www.ft.com/content/4a42e9a8-57b6-11ea-a528-dd0f971febbc

Kheng Khor, Swee and Heymann, David, "An Asian Pandemic Success Story", Foreign Affairs, 21 September 2020, https://www.foreignaffairs.com/articles/united-states/2020-09-21/asian-pandemic-success-story

Kihara, Leika and Kajimoto, Tetsushi, "Japan unveils $708 billion in fresh stimulus on post-COVID growth", 8 December 2020, https://www.reuters.com/article/us-japan-economy-stimulus/japan-unveils-708-billion-in-fresh-stimulus-with-eye-on-post-covid-growth-idINKBN28I02Y

Kuttner, Robert, "Can We Fix Capitalism?", The New York Review of Books, 24 September, 2020, https://www.nybooks.com/articles/2020/09/24/can-we-fix-capitalism-branko-milanovic/

Mallet, Victor and Leila Abboud, "EU recovery fund 'too slow and complicated', says French minister", Financial Times, 27 January, 2021, www.ft.com/content/07ee0a9e-4db2-4ca0-8b05-521ab2e11898

Mari, Francesca, "The Housing Vultures: The investors who exploited the 2008 financial crisis are dictating the bailout of this one", The New York Review of Books, 11 June, 2020 https://www.nybooks.com/articles/2020/06/11/homewreckers-housing-vultures/

Mitchell, Tom and Yu, Sun, "Five things to watch for as China reports fourth-quarter GDP", 17 January 2021, https://www.ft.com/content/8b7041f7-5980-4a22-851a-67ede9698929

Nussbaum, Ania and Birgit Jennen, "Merkel, Macron, Conjure Hamilton, Moment to Fight EU Break-Up, Bloomberg, 19 May, 2020, https://www.bloomberg.com/news/articles/2020-05-19/merkel-and-macron-conjure-hamilton-moment-to-fight-euro-break-up?sref=BX5f2LOD

O. Gostin, Lawrence, A. Friedman, Eric, Moon, Suerie, "Wealthy Countries Should Share Vaccine Doses Before It Is Too Late, 19 January, 2021, https://www.foreignaffairs.com/articles/world/2021-01-19/wealthy-countries-should-share-vaccine-doses-it-too-late

O'Donnell, Carl and Andrea Shalal, "Biden to pledge $4 billion to COVAX vaccine program at G7 meeting Friday" Friday, Reuters, 18 February, 2021, https://www.reuters.com/article/us-usa-biden-covax/biden-to-pledge-4-billion-to-covax-vaccine-program-at-g7-meeting-friday-idUSKBN2AI2YP?il=0

OECD Economic Outlook, " Strengthening the recovery: The need for speed: Interim Report", March 2021, https://www.oecd.org/economic-outlook/

OECD, "COVID-19 triggered a deep recession", 2021, https://www.oecd-ilibrary.org/sites/2dde9480-en/index.html?itemId=/content/publication/2dde9480-en

OECD, "Korea Economic Snapshot", December 2020, http://www.oecd.org/economy/korea-economic-snapshot/

Parkinson, Joe, Deng, Chao, Lin, Liza, "China Deploys Covid-19 Vaccine to Build Influence, With US on Sidelines", 21 February 2021, https://www.wsj.com/articles/china-covid-vaccine-africa-developing-nations-11613598170

Plecher, H., "Japan's national debt in relation to gross domestic product (GDP) 2025", December 9, 2020, https://www.statista.com/statistics/267226/japans-national-debt-in-relation-to-gross-domestic-product-gdp/

Pramuk, Jacob, "Senate passes $1.9 trillion Covid relief bill, House Democrats plan final approval Tuesday," 6 March 2021, https://www.cnbc.com/2021/03/06/covid-stimulus-update-senate-passes-1point9-trillion-relief-bill.htm

Pymnts.com, "Some 4 Million Americans Have Been Unemployed For Half A Year", 21 January, 2021, https://www.pymnts.com/economy/2021/almost-4-million-americans-have-been-unemployed-half-a-year/

Reuters, "Mexico gov't lowers target for purchasing CanSino COVID-19 vaccine doses", 17 December 2020, https://www.reuters.com/article/health-coronavirus-mexico-cansinobio/mexico-govt-lowers-target-for-purchasing-cansino-covid-19-vaccine-doses-idUSKBN28R2JB

Roberts, Hannah, "Mario Draghi forms Italian government", Politico, 12 February, 2021, www.politico.eu/article/mario-draghi-forms-italian-government/

Roberts, Ken, "Trump's trade deficit legacy: three largest in history in four years", Forbes Magazine, 14 January, 2021 https://www.forbes.com/sites/kenroberts/2021/01/14/trumps-trade-deficit-legacy-three-largest-in-history-in-four-years/?sh=6a77e8e95ba0

Romei, Valentina, ''Resilient data suggest Germany avoided fresh downturn in late 2020", Financial Times, 8 January, 2021 https://www.ft.com/content/cea5ebc1-a941-4ac6-a053-43c620790a89

Rutter, Calum, "A billion people could be in extreme poverty after pandemic", Public Finance Focus, 4 December, 2020, https://www.publicfinancefocus.org/pfm-news/2020/12/billion-people-could-be-extreme-poverty-after-pandemic

Sandbu, Martin, "The Post-Pandemic Brave New World", The International Monetary Fund, Finance and Development, Winter 2020, https://www.imf.org/external/pubs/ft/fandd/2020/12/post-pandemic-brave-new-world-sandbu.htm?utm_medium=email&utm_source=govdelivery

Shameran, Abed, "The long shadow of COVID-19 on extreme poverty", 27 October, 2020, https://www.devex.com/news/opinion-the-long-shadow-of-covid-19-on-extreme-poverty-98372

Smith-Meyer, Bjarke, "E.U. triggers deficit rules 'escape clause' to boost public spending", Politico", 20 March, 2020, www.politico.eu/article/eu-triggers-deficit-rules-escape-clause-to-boost-public-spending/

Smith-Myer, Bjarke, "IMF: Europe's economic rebound dented by virus wave", Politico, 26 January, 2021, https://www.politico.eu/article/imf-europes-eurozone-uk-economic-rebound-dented-by-coronavirus-second-wave/

Solis, Mireya, "The Underappreciated Power", November 2020, https://www.foreignaffairs.com/articles/japan/2020-10-13/underappreciated-power

Stangarone, Troy, "South Korea's Moon Lays Out Agenda for the Remainder of Term", 14 January, 2021, https://thediplomat.com/2021/01/south-koreas-moon-lays-out-agenda-for-the-remainder-of-his-term/

Statista, "Global growth in GDP and trade 2007-2021", 26 November, 2020, https://www.statista.com/statistics/1032199/global-growth-gdp-trade/

Stiglitz Joseph E., "A Lasting Remedy for the Covid-19 Pandemic's Economic Crisis", The New York Review of Books, 8 April, 2020, https://www.nybooks.com/daily/2020/04/08/a-lasting-remedy-for-the-covid-19-pandemics-economic-crisis/

Taylor, Kira, "Historic step' as European Parliament approves green recovery fund", 10 February, 2021, EURACTIV.com, https://www.euractiv.com/section/energy-environment/news/historic-step-as-european-parliament-approves-green-recovery-fund/

Taylor, Paul "Two options for Europe's coronavirus economy: Bad or a lot worse", Politico, 1 January, 2021, www.politico.eu/article/europe-2021-coronavirus-economy-bad-or-worse/

The Economist, "The Japanese authorities understood covid-19 better than most", 12 December 2020a, https://www.economist.com/asia/2020/12/12/the-japanese-authorities-understood-covid-19-better-than-most

The Economist, "Africa's recovery from covid-19 will be slow", 6 February, 2021, https://www.economist.com/middle-east-and-africa/2021/02/06/africas-recovery-from-covid-19-will-be-slow

The Economist, "Japan probes the limits of economic policy", 4 June, 2020b, https://www.economist.com/finance-and-economics/2020/06/04/japan-probes-the-limits-of-economic-policy

Tybring-Gjedde, Christian, "Allied Defence Spending: Enduring Threats And New Constraints", NATO PA, Preliminary Draft General Report, 017 ESC 21 E, March 2021.

Washington Post Editorial Board, "America needs to shore up its supply chains. That shouldn't become an excuse for protectionism", 26 February, 2021, https://www.washingtonpost.com/opinions/biden-trade-supply-chain-protectionism/2021/02/25/3dd0a164-7787-11eb-948d-19472e683521_story.html.

UNICEF, "COVID-19: Are children able to continue learning during school closures?", August 2020, https://data.unicef.org/resources/-remote-learning-reachability-factsheet/=

U.S. Department of The Treasury, "Daily Real Interest Rate Curve Rates", https://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield

WFP, "WFP Global Update on COVID-19: November 2020", November 2020, https://docs.wfp.org/api/documents/WFP-0000121038/download/

WHO, "WHO Director General's opening remarks at the media briefing on COVID-19", 25 January, 2021, https://www.who.int/director-general/speeches/detail/who-director-general-s-opening-remarks-at-the-media-briefing-on-covid-19---11-march-2020

Worldometer, Japan, 21 February, 2021, https://www.worldometers.info/coronavirus/country/japan/

Worldometer, United States, 21 February, 2021, https://www.worldometers.info/coronavirus/country/us/

Worldometer, South-Korea, 21 February, 2021, https://www.worldometers.info/coronavirus/country/south-korea

Zhou, Cissy, "China GDP: IMF cuts growth forecasts citing US tech decoupling, domestic debt, Hong Kong risks", 8 January, 2021, https://www.scmp.com/economy/china-economy/article/3116996/china-gdp-imf-cuts-2021-growth-forecast-citing-us-tech