

IMPACT AND POTENTIAL CONSEQUENCES OF COVID-19: GLOBAL AND EUROPEAN CONSIDERATIONS



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Director General of the Institute for World Economics, Budapest. Doctor of Economic Science (German Habilitation) on Host Country Behaviour towards Foreign Direct Investment (1991). Ph.D. on Andean Integration in 1977. Research Fellow (1967-1979), Senior Research Fellow (1977-1980), Head of Department (1981-1989), First Deputy Director (1987-1989) at the Institute for World Economics, Budapest.

Head of the Strategic Task Force on Integration into the European Union (1986-1988). Visiting Professor, San Marcos University, Lima, Peru (1972-1973). Trade Policy Division, The World Bank, Washington D.C. (1989-1991), President of the Foundation on European Studies (Hungary, 1999-). Member of numerous Hungarian and international organisations and editorial boards of professional journals.

Author of books and articles on regional integration, EC/EU relations, international direct capital flows, international competitiveness of the CMEA countries, the EC '92 Program and Eastern Europe, the

European Union's Eastern Enlargement. Most recent publication: The European Union and Southeastern Europe. Troubled Waters Ahead? Peter Lang Editors, Brussels. College of Europe Studies No. 7 (2007).

Main research areas: European Union and Central and Eastern Europe, candidate countries' preparation for membership, negotiations on accession, transformation economics, globalization and regional integration/cooperation, international direct capital flows, competitiveness of Central and Eastern Europe.

1. History of globalization:

- main feature of the development of mankind;
- overarching development (security, economics, environment, technology, communication, human behaviour);
- globalization vs. de-globalization (short- and longer-term benefits and dangers) (e.g. dramatic decrease of „deep poverty” vs. dramatic increase of wealth (not just income!) gap);
- focusing on the economy (7,6 bn people with global GDP of 90.000 bn USD). Different degree of globalization of trade in commodities, services, capital flows, spread of technology, free flow of labour. Key contradiction: almost 100 % free movement of capital vs. 3 % of labour permanently living and working outside his/her native country. This huge gap cannot be maintained. Some restrictions of capital will be accompanied by rapidly increasing (voluntary and forced) migration (doubling in the next 15 to

20 years to 6 % of world population). Is the international community prepared?;

- understanding globalization: complexity, qualitative interdependence (forget about „national sovereignty” and focus on national+regional identity) and in-built interdisciplinarity (e.g. economic policy decisions have a number of non-economic – political, social, institutional, regional and even mental consequences, similar to political, institutional, legal, social policy decisions);
- most policy-makers are absolutely unprepared to face this triple challenge, aggravated by accelerated time, appearance of new technologies and the impact of global communication networks). Is humanity/mankind really prepared for these unique challenges and find the right and common answers – or the fundamental risk of the revival of „tribal instincts” – with unpredictable consequences;
- therefore: our common task and responsibility consists in „investment into the innovative society”. Among others, I mean openness vs. closing down, cooperation vs. polarization, inclusion vs. exclusion, solidarity vs. hatred, future-oriented attitude vs. flight into the not so „glorious” past, self-responsibility vs. blaming others, development of flexible adjustment capacities vs. explaining why change is impossible (due to external and internal enemies);

- The successful development of the „innovative society” has to be accompanied by the appreciation of social sciences (integrated in an interdisciplinary network).

2. Global economy and COVID-19:

- short-term direct impacts (dramatic decline of economic growth, disruption of global value chains, paralysis of selected service sectors, such as tourism, international traffic, hotel and restaurant chains, rapidly increasing unemployment);
- current crisis, for several reasons, cannot be compared to the financial crisis of 2008: it is not financial but affecting the entire structure of the economy, in 2008 global value chains remained largely intact and international trade could jump back to pre-crisis levels in less than 2 years, in 2008 China had a 10 per cent growth rate and could act as a „saver” – today Chinese economic growth is just about 1 per cent, today economic (and social) interdependence is qualitatively higher than 12 years ago);
- the current crisis has been aggravated by previously started developments which have just reached a critical turning point (technological change, new conditions of employment, structural changes in the car industry both on the demand and the supply side, unsettled issues of the international financial system, new-born trade protectionism mainly fuelled by the Trump administration,

growing social and mental uncertainty/desorientation caused by contradicting communication messages and outspoken fake-news which increase the camp of „believers in simple solutions“;

- longer- (medium-) term impacts to be managed: impact of huge rescue packages on national households and on the international financial system (currently economic support provided against the negative impacts of the pandemic reaches 11.000 bn USD, or 12 % of global GDP), how long can rescue packages be sustained, how strong is the crisis-resistance of companies, how long can unemployment be financed, how long can the financial capacity (previously accumulated savings) of different strata of the society (employed and unemployed people, pensioners) resist longer-term negative impacts of the crisis, how to phase-out supports and how to select competitive and future-oriented companies (and employees) from rent-seeking activities supported by temporary or lasting subventions. In sum, how long will the crisis last and the recovery start. Slow and delayed recovery, which seems more and more plausible, could further aggravate the economic and not least social costs of the crisis and make the management of huge budget deficits even more difficult or impossible – with state and company bankruptcies, competitive devaluation and rapidly rising inflation;

- little attention has been devoted to the massive reemergence of extreme poverty in many countries mainly based on industrial subcontracting and international tourism (rise of about 50 to 60 mn people as the immediate consequence of the crisis) which could end up in social disturbances and growing international/regional security risks;
- longer-term uncertainties (maybe with positive outcome) include technological breakthroughs (not least in the healthcare system), new quality of international cooperation (redefining the priorities or create new global institutions, correcting some basic distortions created by globalization, strengthening multilateralism), new forms of employment saving costs and increasing efficiency (home office) but with unknown social consequences due to the lack of personal contacts, regional and structural transformation of global value chains with higher value-added and changing selection of partners, cleaning of the environment due to less air- and sea-bond transportation, fundamental rethinking of income/wealth redistribution, including the introduction of (universal) basic income schemes, management of the cross-national new divide between metropolitan and rural areas;
- However, at the moment we have more questionmarks than policy solutions. The future largely depends on the duration of the crisis, a new

quality of international cooperation, global, regional and local solidarity (it is a two-way street!), and, last but not least, on the development of an „innovative society“ based on successful „mental revolution“ of the mankind.

3. Some remarks on the European Union-27:

- the EU's global role (6 % of world population, 17 % of global GDP but dependent on the Euro/USD exchange rate, 70 per cent of GDP produced by service sectors, leading global trading bloc, constant role of Euro in global reserves (about 28 %) and rapidly growing role in international transactions (almost 50 % and increasing, see Russia-China trade transformed from USD to Euro most recently);
- immediate reaction to COVID-19 by member states, due to the fact that healthcare has not been part of EU-level decisions and the pandemic came suddenly without any serious preparation. Resilience of national health systems proved to be different and national policy measures were not coordinated (see the collapse of the Schengen system);
- as compared to previous periods, the EU woke up much earlier and took several crisis management measures, including the Recovery Fund (Euro 390+360 bn) and the acceleration of the MFF 2021-27 (Euro 1100 bn for the seven-year period) talks, new priorities for a future-oriented EU

(environment, digitalization, education, R&D, growing role as a global player);

- apparent breakthrough in several key areas: steps towards a fiscal union (Recovery Fund to be financed by European Union deficits, debt mutualization), necessity of creating new „own resources“, community-level control of financial flows (including the creation of the European Prosecution Office), (ambiguous) efforts to link EU financial transfers to the rule-of-law requirements, abolition of national veto-rights and growing role of qualified majority voting strongly supported by the European Parliament. Such steps, if consequently implemented, can lead to a more federal EU structure and a manageable „differentiated integration“;
- At the same time, the EU keeps on struggling with inherited (and partly new) challenges. On the internal front: Brexit, reducing the imbalance between monetary and fiscal union, implementation of a very ambitious green deal when at least partial redistribution of the money available seems unavoidable towards other and more burning issues, harmonization of economic, social, institutional and legal tasks, each with different time dimension – can a solution be found to reconcile urgent economic and social priorities with a much slower moving legal-institutional structure? Can the latter become sufficiently

flexible without losing confidence and credibility, a key element of systemic solidity and resilience? Last but not least, how to manage growing Eurosceptic and even openly anti-EU policies of some member countries as well as in parts of the cross-EU society? On the external side the development of relations with China (cooperation in keeping multilateralism alive, EU-China investment treaty, impact of the Belt and Road Initiative, China's growing interest in euro and – hopefully – in a strong European Union with characteristics of a global player – an indispensable element of China's „multipolar world“ for the 21st century), Russia, increasingly explosive geographic neighbourhood (from Belarus through Turkey to North Africa), what kind of security anchor (being France the only nuclear power after Brexit, future of transatlantic relations), clear and sustainable EU-level migration strategy).

FORESIGHT SESSION: EASTERN EUROPE & BULGARIA NAVIGATING UNCERTAINTY

The foresight sessions on the topic “**Eastern Europe & Bulgaria Navigating Uncertainty**” aimed at outlining post-COVID scenarios for the future of Bulgaria, Eastern Europe and the EU by 2030. For the development of the scenarios, the SSS2020 participants used the Scenario Building 2x2 Matrix Technique, including the choice of two key tendencies, characterized simultaneously by great significance and a high dose of uncertainty. By facilitating this mental exercise, EPI leveraged the collective wisdom and creativity of a unique expert pool of participants, who embraced this interactive task with great enthusiasm and as a result interesting and thought-provoking scenarios were developed. Utilizing a specially designed digital whiteboard for developing the scenarios, each of the six groups outlined four alternative scenarios based on the chosen two key tendencies, illustrating them with interesting sound-tracks, collages and tailor-made stories describing the main characteristics of each of the scenarios, as well as their potential impact on the life of an average Bulgarian, Eastern European or European.

Herewith, the scenarios of the two groups working on the topic for the post-COVID future of the Eastern Europe are represented. EPI publishes the versions as submitted by participants:

GROUP 1: POST-COVID FUTURE OF EASTERN EUROPE BY 2030

Authors: Andrei Palade, Arxhilda Rringaj, Goran Georgiev, Snezhana Rangelova, Viktoriya Petrova

Group 1's task was to outline four different scenarios for the post-COVID future of Eastern Europe by 2030. Group members focused their discussions on the countries from the Western Balkans, the Eastern Partnership and the EU member countries in the region. EPI publishes the version as submitted by participants:

We chose the following **two main indicators for outlining the scenarios**: 1) **Biopolitics** (the extent to which the governments in the region choose to apply restrictive measures such as declaring a state of emergency, lockdown, travel restrictions and limited access to urban centers); 2) **Economic Prosperity** (the extent to which the health crisis has affected economic indicators such as economic growth, job opportunities, investments, free movement of goods and capital and whether the economy is recovering rapidly or slowly).

The First Scenario called „2030 is the new 1984“, characterized by strong biopolitics and low prosperity, was considered the worst-case scenario for the development of Eastern Europe. In this scenario, a strong authoritarian government is observed, which applies extremely strict measures in order to protect the health of the population. As a result of these measures, the economic development of the region is slowing down sharply, and the economic recovery is happening much slower than expected by the experts. All of this also