

The Consequences of the Pandemic

Key Points

- Life will not return to what it was before, at least not in the short-to-medium term, with the effects of COVID-19 likely lingering for years, possibly decades.
- The pandemic will exacerbate existing issues and crises worldwide, as well as creating new ones that are going to affect countries and regions for years and decades to come.
- Governments will need to be prepared to face multiple crises at once, potentially undermining their ability to govern and manage finances.
- With a recession looming, large government bailouts, furloughs and rising unemployment, years of political and social instability are likely in the coming decade.

Executive Summary

It is very difficult to find a place to start when assessing the impact of COVID-19 and what comes next. Many countries are still seeing case numbers rise, with deaths growing by just shy of the thousands. However, it is important for individuals, companies and governments to look forward at what the situation will be when these numbers will eventually start falling. The excellent work being done by healthcare workers means that, hopefully sooner rather than later, life will start to show some semblance of normality.

However, it is unlikely, indeed impossible, for the pre-2020 way of life to return in the coming months or even years, and, possibly, indefinitely. We are already facing a serious global recession and it is looking increasingly likely that we are in the beginning stages of a mammoth economic downturn, dwarfing that of 2008. As it stands, countries accounting for over 50 percent of the world's GDP are in lockdown, this collapse of commercial activity is far more severe than in any previous recession. However, many governments have also moved quickly to protect businesses and their economies from the immediate impact of COVID-19, potentially limiting the long-term hardship.

While the impact of the pandemic and subsequent economic fallout on countries worldwide is difficult to gauge, the socio-political pressure is already relatively clear. Several politicians are being challenged on their handling of the crisis, some protests have already begun, and the question of what will come next for many countries is less clear than it was 3 months ago.

The World Still Spins

Going forward, the first issue governments will need to be prepared for is how coronavirus feeds into existing challenges they already faced. While life for nearly everybody has been completely transformed in past weeks, the world continues to spin. The US-Iran standoff, as well as the American trade war with Beijing, remain unresolved and partially forgotten. Additionally, conflicts such as the ones in Libya, Syria and Yemen have not stopped for the virus. Locusts that are decimating crops in East Africa have not stopped undermining the fragile food security in the region. While the issues that drove civil unrest in South America, the protests in India, or the demonstrations in Hong Kong, have not been solved.

Indeed, many of the challenges that the world faced in the build-up to 2020 are now likely to have been exacerbated by the pandemic. Governments are going to find themselves facing multiple crises, that will possibly snowball, while their resources will be stretched, decreasing their ability to combat said issues. That is what makes the coming months so important, governments that find themselves exhausted by their efforts to control the pandemic will suddenly face the risk of a secondary crisis.

In the United States, the hardest-hit country thus far that has an election planned in November, President Trump's whole legacy will now be defined by the first few months of 2020. His decision to pull funding from the World Health Organisation (WHO) has been widely criticised both domestically and internationally.

In the UK, many expected the final stage of Brexit to take centre stage this year. Indeed, Boris Johnson was looking to define his political legacy by the UK's successful transition away from the European Union, instead, COVID-19 is now going to feature

prominently in the Prime Minister’s memoirs. Though on the continent, the EU itself has found the outbreak a major test, nationalism is looking a likely winner from the pandemic, and the lack of a unified message from the bloc’s new leaders has resulted in a virtual emergency summit.

In Africa, the transition to democracy in Sudan and the political stability in Ethiopia are being put to the test by the virus, and their success will be determined by their ability to tackle this challenge effectively. The total impact of COVID-19 on Africa, however, remains unclear, with the continent still in the early stages of its outbreak. The same can be said for many of the Latin American governments that faced unrest throughout the past year and who might find themselves fiscally unable to respond to the growing economic demands of society amid the impact from the virus.

How governments respond to the pandemic will fundamentally shape the coming few years. Managed successfully, some countries could see the pain, and the potential for further crises diminished. However, it still remains unclear whether governments that have debt ratios at their highest since the Second World War can even afford to stimulate the economy and combat the virus.

What Next for Economies?

The nature of the current economic downturn is simple, the lockdown and social distancing measures are preventing the majority of businesses from operating and, therefore, turning a profit. It is highly unlikely that the pandemic will be solved in 3 months, nor does it look like it will be solved by the end of the year. The likelihood of further breakouts, especially in November-December 2020, may also impact the success of many countries’ economic recovery. All this considered, it will likely be late-2022 before economies start to recover to pre-crisis levels.

However, should countries be able to lift lockdowns, allow businesses to reopen with precautionary measures, and allow their economies to restart sooner, a more positive outlook is likely; an economic recovery that follows a “V-shaped” scenario that was often mentioned in the media in the early days of the outbreak. Even in countries heavily hit, like Italy, Spain and the UK, there is the possibility for a rapid recovery should the right parameters be met, i.e. mass testing.

Most likely scenario

- Negative economic growth in 2020, rebounding by 2022
- Home working stays in place for the foreseeable future
- While full lockdowns will end depending on the country by summer, social distancing will remain in place until at least early-2021
- Possibility of further outbreaks, but these will be manageable
- Global Travel will remain curtailed and restricted until 2021 and the earliest

Best case scenario

- Negative economic growth in 2020, rebounding by early 2021
- Businesses and world trade return to normal in the coming months
- Global travel slowly returns in the latter part of the year
- While it will vary by country, social distancing and lockdowns will be relaxed as the year goes on
- A vaccine and/or effective treatment will be found soon, helping fight the virus effectively

One benefit many companies have is that many have entered the current crisis in relatively good shape. In America, employment was at its highest level, markets were at their highest level, and most countries were weathering the various economic issues, such as the US-China trade war and Brexit, well.

As such, governments will be hoping that the various stimulus packages and schemes will keep the majority of companies in relatively good health and most employees in a job. This will, they hope, lead to a quick economic recovery.

However, for the economy to start functioning again, the lockdowns that are in place

Worst case scenario

- A prolonged economic depression impacting world economies until at least 2022
- Prolonged lockdown until 2021
- Home working will stay in place almost indefinitely
- Further outbreaks not only likely but regular
- Social distancing remains a feature in society until at least 2022, possibly beyond
- Global travel almost universally curtailed until late-2021

across the majority of the globe will need to be lifted. Every week they remain in place puts more and more pressure on businesses not making money. In the UK, it is being estimated that 50 percent of companies will seek to furlough staff, with 1-in-4 employees likely to be put on the scheme. This does not take into account the numbers of restaurants, bars and shops that are going into administration each day, and the pressure this is putting on governments and their ability to fund a prolonged lockdown.

The longer the outbreak goes on, the bigger the risk to countries, especially European ones, that they will not be able to continue funding their ailing economies. Italy is a prime example; while banks across the globe are feeling the strain, the Italian banking sector has unique challenges linked to the country's high debt levels. Prior to the crisis, the country's debt-to-gross domestic product ratio was about 135 percent, the second highest in Europe behind Greece. Much of their sovereign bonds are held by domestic lenders, which makes the country's economic outcome and banks linked in a greater way than elsewhere in Europe. A former chief economist at the Italian Treasury Department has even stated that were it not for the European Central Bank, which has kept interest rates in negative territory since 2014, "Italy would already be in default."

Even should the best-case scenario come to pass, the radical measures that many governments have put in place to support their ailing economies in the short-term, often come with large price tags that will mostly need to be funded by increased borrowing in the future. In the aftermath of the pandemic, governments, particularly those of the centre-right, are likely to look to aggressively reduce their fiscal deficits, which were already at a high level. Increased taxation, reducing public spending, further austerity and corporate tax rises. Though these measures may also include large amounts of infrastructure spending and an increase in government-backed loans for businesses.

A shift to the left?

For governments, the economics drive everything else. As part of the measures to support economic well-being, a number of western governments have turned to radical policies that are often associated with the populist left. For example, the Spanish government, a coalition of centre-left and populist-left parties, is planning to introduce a universal basic income (UBI) to ease the economic impact of the crisis, a move which has been supported by Pope Francis. Spain would become the first country in Europe to implement such measures on a permanent basis.

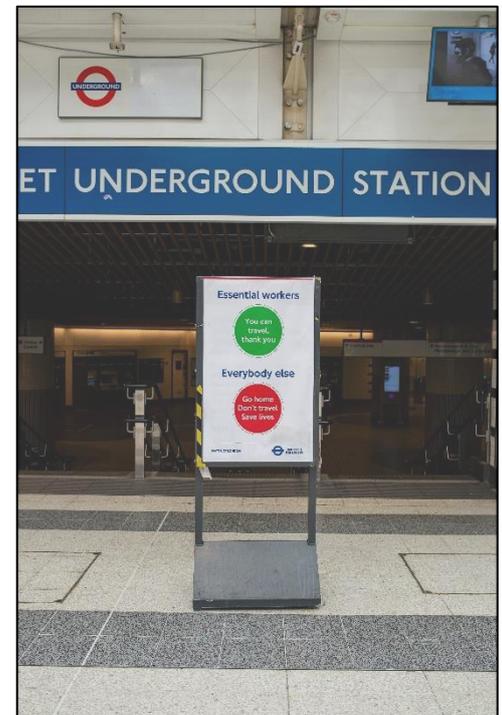
Additionally, there has been an almost universal willingness for more fiscally conservative governments to introduce more radical measures often associated with their political adversaries. For example, UK Chancellor Rishi Sunak, a member of the governing centre-right Conservative Party, has announced that the government will directly pay the wages of staff who have been furloughed because of the COVID-19 outbreak. While these emergency measures are not about to bring about populist left-wing governments in greater numbers, their policy platforms may become more mainstream in the coming years as the crisis and its fallout linger.

With the numerous policies usually restricted to the populist left being used to support economies through the COVID-19 pandemic. Many parties on the left, such as Die Linke in Germany and Podemos in Spain, will be hoping to see a rise in their support. This may especially accelerate as the long-term economic bite from the pandemic begins to impact society, especially in more diverse communities in large urban centres that appear to be seeing a high death and infection rate than more affluent areas.

However, it is not just the populist left that may see a boost from the current crisis. Catastrophes have the tendency to generate fear among the population, which often manifests in a shift in political allegiances, with many turning to populism, nationalism and, in some cases, strong leaders in the face of uncertainty. For instance, the crash of 1929 saw many of Europe's main powers, tired from the pandemic and conflict, turned to nationalism and strong leaders across Europe.

A Case for Authoritarianism

With a number of countries imposing restrictive measures on their citizens while their governments are enacting laws and decrees with little opposition. Such measures would be unthinkable in normal times. This is also not restricted to traditional authoritarian states, such as Russia, with even relatively liberal democracies implementing stringent measures to curb the spread of the virus. Countries are being accused of spying, or at least collecting data on mobile usage, on their citizens to ensure quarantine laws are



followed; there has been the suspension of certain laws pertaining to free movement, and parliaments in many countries are policing the time and reason people are allowed outside, with a signed piece of paper and ID needed in some cases.

However, it is in Hungary that measures have gone even further. Prime Minister Viktor Orbán has been given the most sweeping powers since the fall of the Soviet Union. The PM is now effectively an autocratic leader until he decides the emergency around coronavirus is over. The new law also suspends elections, mandates imprisonment up to five years of anyone spreading information “that alarms the public or impedes government efforts to protect people,” and permits Orbán’s government to rule by decree or invalidate existing laws as it sees fit for as long as it deems necessary.

Elsewhere, the president of Serbia, former ultranationalist and aide to former president Milosevic, Aleksandar Vučić has ordered soldiers onto the streets of Belgrade to enforce the emergency rule. In Turkey, journalists face the risk of arrest if they counter the government’s narrative, though the risk extends to others in society, with a doctor who published a video talking about “thousands” of infections being detained last month.

Elections

This reaction is no surprise, authoritarianism and populism have been rising in the past years, with crises long used by leaders to cement or further their power. One of the best examples of holding onto powers is attacking the mainstay of democracy: elections, that are free and fair. Coronavirus is allowing this to happen, while at this time these cancellations are being done out of necessity.

The laws implemented by Orbán in Hungary, for example, allow him to suspend elections indefinitely. Ethiopia has reportedly postponed its first election in five years. Bolivia, too, has cancelled a key election following the political crisis last year.

Though the impact of delaying these elections may be minor compared to the impact of a potential delay of the 2020 US election. The presidential vote is set to take place on 3 November. This date is set by federal law and neither the president, nor anyone else, has the power to delay it alone. Any such move would require legislation from Congress and a presidential signature. Such a reality continues to be dismissed by many, considered unthinkable. However, with the change the world has gone through in the past weeks and months, it is now an event that should not be dismissed so easily. The impact of a delay would also be profound and would face constitutional hurdles, such as the new Congress needing to be sworn in on 3 January and the new president’s term starting on 20 January.



Leaders Feeling the Pressure?

While some leaders will use the crisis to further their power, others may see themselves facing an early exit.

Brazil’s president, Jair Bolsonaro, has accused the speaker of the Lower House of Congress, Rodrigo Maia, of turning state governors against him in an attempt to remove him from the presidency during the coronavirus crisis. Bolsonaro also fired Health Minister Luiz Henrique Mandetta, on the basis that he was not adequately taking into account the economic fallout from lockdowns.

It is not just Bolsonaro that is feeling the pressure, the reaction of leaders to the current crisis is being put under the microscope. While Trump’s reaction has gained much publicity and negative reaction, the policy decision of almost every leader worldwide is being challenged and scrutinized. In Chile, President Sebastian Pinera sparked outrage by posing for photographs at the now empty Plaza Italia, which was the focal point of last October’s unrest.

Elsewhere, in Lesotho, Prime Minister Tom Thabane has deployed the army to the country’s streets and ordered it to restore law and order, effectively placing the country

under martial law. The measure has been widely seen as an attempt to quell unrest and restrict powers of the country's judiciary, after the high court has ruled against several of his initiatives, including the suspension of congress.

In Sudan, divisions over how to combat the outbreak have resulted in a rift in the Supreme Council. The open confrontation is more notable as it is dividing the country's political leaders, underscoring the fragility of the country's tentative transition to democracy. On Thursday, 16 April, Prime Minister Abdalla Hamdok announced that he had fired the governor of Khartoum, Lt. General Ahmed Abdoun Hamad, for defying a government order to cancel Friday prayers in Khartoum and its sister city across the Nile, Omdurman. General Hamad refused the prime minister's order, saying in a statement issued by his office hours later that he intended to remain in his position. This has culminated in an announcement that all military governors will be replaced across the country.

Social Unrest

The longer the pandemic and the lockdown continue, the more pressure will be exerted at the economy, threatening the livelihoods of millions across the globe. In this context, the government and its policymaking will be under extreme scrutiny from the general public, with any mistake having the potential to trigger civil unrest. While in some countries demonstrations have already taken place for unpaid wages, the sheer scale of the lockdown and social distancing measures could have a devastating effect on the most vulnerable parts of the society, who will start to question whether, as Trump stated, "the cure is worse than the disease".

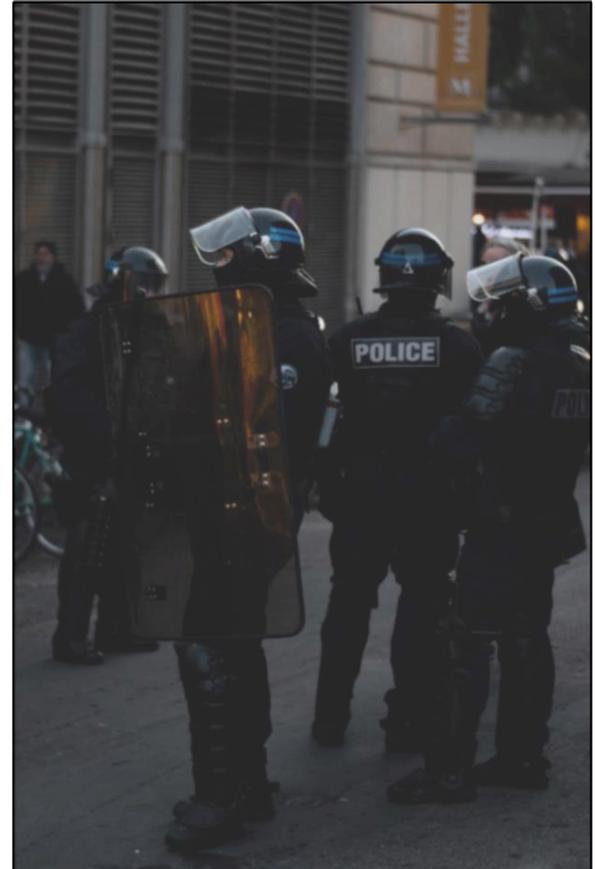
Even before the outbreak, as mentioned in our [2019 – The Year of Unrest](#) advisory, unrest and social discontent were already widespread across the globe. Now, with people locked in their homes, the prospect of difficult economic times and widespread anxiety and trauma as thousands die, the pressure is building. This pressure is being fuelled by the heavy impact that the pandemic is having on working-class and minority sections of society.

The UN and IMF have both warned of social unrest around the globe and urged governments to take steps to prevent the disturbances. The UN especially is worried that growing discontent could result in violence that would ultimately undermine governmental and international efforts to fighting the outbreak.

Already, the United States and South Africa have seen high profile protests. In the US, many have demonstrated against the lockdowns and the curbing of their rights. Their actions have been supported by Trump on social media. In South Africa, however, this unrest has turned more violent. Individuals have targeted shops and looted supermarkets, especially targeting alcohol after it was banned under the lockdown rules. The violence has grown more generalised as food scarcity leaves many hungry and desperate, with protest and skirmishes occurring over access to food parcels handed out by authorities.

Elsewhere, much of the horn of Africa was experiencing a severe problem as swarms of locust have been impacting the region for years in what is one of the worst [outbreaks in almost 70 years](#). Even prior to the pandemic, at least 20 million people were estimated to be in danger of food insecurity. In late 2007 and early 2008, a spike in food prices in Africa and parts of the Middle East triggered unrest across North Africa and parts of the Middle East. This food insecurity has been touted as one of the drivers for the Arab Spring.

It is not just Africa that faces this unrest, in Spain and Italy fears have been mounting that protests could begin to impact the virus struck countries. Many are out of work and hungry with long queues at food banks. These fears are greatest in Italy's south, which is home to the country's poorest regions. Small, but vocal, crowds have already gathered in city halls asking for help to buy food. Additional police have been deployed on the streets of some cities, with reports that gangs were plotting attacks on stores. In Spain, videos of arrests were circulated on social media, which have in turn resulted in protests, most notably in Bilbao.



Conclusion

Coronavirus has set in motion the possibility of a new era for the globe, instead of talking about pre-9/11 and post-9/11 policy, historians could now refer to pre-Coronavirus and post-Coronavirus policy. The semblance of normality known before the pandemic is unlikely to return, especially not in the short-term. While many will be hoping for a rapid recovery, the longer countries stay in lockdown with quarantines in place, the heavier the economic repercussions will be. The coming economic downturn will drive governments, policymaking, elections and geopolitics for at least the next decade.

Governments will also be feeling the impact of the outbreak on much more than just their chequebooks. Such economic ramifications are likely to result in existing issues being exacerbated, with minor hurdles becoming insurmountable obstacles, leading to the dangerous prospect of concurrent crises that may overwhelm a government's abilities to respond. This represents a severe threat for many governments and is almost certain to result in unrest in some areas of the globe.

Much of how the world looks in a few months will depend on what the global recovery looks like. Many will look to China, Germany and Norway to see how they recover as lockdowns are lifted and if the numbers of new cases stay relatively low. However, even for the most astute economists and experienced political advisors, it remains difficult to gauge what the post-pandemic globe will look like. Many politicians and governments will be asked difficult questions about their response to the crisis, and international relations and agendas will most likely be changed. With unrest already brewing, the question about what comes next for many countries have become a lot less clear when compared to the outlook on 1 January.



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