

COVID-19: Policy-Options (May 2020-end 2021), Effects for and Resulting Scenarios for 2022 ff.

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EXECUTIVE SUMMARY:

Governments around the world are on the horns of the dilemma as to whether to do “whatever it takes” to curb fatalities, or to risk higher fatalities to contain damage to the economy and to state budgets. As we predicted, most are emerging cautiously from their first lockdown as no economy could sustain it until a vaccine is found and administered world-wide. Over the coming 8-20 months (May 2020 - end 2021), governments are faced with the options of (I) a periodic suspension of lockdown measures and their re-imposition until then, (II) a partial suspension of lockdown measures, and (III) few restrictive measures, hoping for herd immunity. Most governments are now going for (II) in the form of a dangerous compromise that might get out of hand, aware that they might have to revert to lockdown, but this will be *ad hoc* and, at this stage, unplanned and at an unpredictable time.

The prospects of the fiscal and economic recovery of the UK and other countries after the end of the crisis depend very much on retrospective cost of this first lockdown period and potential further such periods, and on the economic and fiscal effects of the restrictive measures that continue to be in place. Everything else – including Britain’s ability to continue to take a leading role in the world politically, economically, in defence and security – will flow from this.

We sketch three possible resulting scenarios which would set the UK on different courses in the recovery period after the immediate pandemic period. The UK’s economic and our military power will be diminished by the debt that is being accrued. While until now, nearly 50% of the UK’s trade is with Europe, the fastest growing trade opportunities are with China and the US, one predictable but not necessarily benign, the other less predictable. This inevitably places trade at the heart of the UK’s national security thinking. The UK’s share of global trade dropped from nearly 4.5% before the global financial crisis to 2.5% in 2018 and is now likely to drop further. Such fragility in the UK’s trading position must inform the UK’s strategic choices as we emerge from the current crisis.



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While studies are underway to forecast developments after a vaccine for COVID-19 is applied, this study attempts to unpack the Black Box of the immediate crisis months until a vaccine or a treatment effectively puts an end to the pandemic. It will then sketch scenarios for the effects on International Relations in the immediate post-crisis years.

Assumptions:

Pharmaceutical solutions are being sought in laboratories throughout the world. While mitigating medicines may be found earlier, the crisis can only be brought to an end when a vaccine is found. A vaccine could be tested, mass produced and administered in 10-16 months from writing.

In the absence of pharmaceutical solutions being found sooner to eliminate or mitigate the effects of the virus, only a reduction of infection rates through social distancing and quarantines can contain the pandemic. This leads to the following policy options for governments, leaving aside the unaffordable option of keeping the entire population and workforce confined to their homes until a vaccine is widely administered:

Policy Options for Governments

Over the coming months (May 2020 - end 2021), governments are faced with the options of

- (I) a periodic suspension of lockdown measures and their re-imposition until then, as proposed by the COVID-19 Response Group of Imperial College London on 16 March (Report 9);
- (II) a partial suspension of lockdown measures, which is a risky compromise that might well get out of hand, in which case they may need to revert to more stringent measures or complete lockdown will need to; and
- (III) few restrictive measures, hoping for herd immunity.

Option (I) seems too difficult to plan for, or both; no government seems to be considering this seriously, even though it might be preferable to (II) from the point of view of businesses as they would be able to plan their activities around it, rather than face the uncertainty of the potential imposition at very short notice of a further lockdown.

Most governments are now going for the compromise Option (II), which bears high risks of failure, aware that they might have to revert to lockdown, but this will be *ad hoc* and, at this stage, unplanned and at an unpredictable time.

Option (III) seems unacceptable for the UK. Rates of infection would result in workers and employees in all sectors falling ill, with somewhat reduced productivity everywhere. The NHS would be utterly overwhelmed, large numbers of people would be turned away from hospitals, increasing the proportion of mortality due to the absence of support with ventilators in the critical phase of their illness.

Developments outside the UK will affect its future. The UK is and will be affected by the effects of the pandemic itself and by the behaviours of other governments that influence international stock markets, unequal patterns of economic recovery, geopolitical tensions between countries, particularly the US and China. There is also a heightened risk of socio-political instability in some regions near Europe or domestically in some major world players.

Balancing Costs

All governments are now aware that the cost of measures needed to suppress the pandemic is high in terms of the economy, but also of other illnesses needing hospital treatment.

For developing countries, the picture is likely to be bleak: no lockdown would result in massive fatalities in societies where people live in very restricted quarters, especially where tropical climates have engendered a lifestyle which is in good part outdoors. Lockdown, in the absence of social welfare provisions for the unemployed, will lead to extreme impoverishment with entire families losing their income, and in some countries it can easily lead to starvation, not to mention to the spread of other diseases which cannot be adequately met alongside COVID-19.

The effects on the UK government's budget are already marked. [Projections](#) in early March were for total government expenditure to be £928bn as a result of the Coronavirus measures undertaken in the budget. By the end of March it was [estimated](#) that the additional budget measures could add as much as £100bn to public debt in 2020. Yet even this may be insufficient to counter the 44% drop in new case registrations announced in March 2020, a threatened collapse of the airline sector (reportedly with resources to last to the [end of May](#)) and the threat to key sectors of employment such as hospitality and catering. Moreover, the [WTO argues](#) that global trade could fall by as much as 32% in 2020. Trade represents over 60% the UK's GDP thus the country is likely to be severely impacted by any drop in global trade. Estimates of the total impact on GDP vary, but the [OECD's comparative analysis](#) suggests that the impact on the UK will be around -25% putting the economy in the top quartile of affected countries.

[Estimates](#) as of 8 April were that the Job Retention Scheme announced for the lockdown now will cost £ 30-40 bn over the 3 months for which the government has initially promised this support. But if further periods of lockdown are envisaged, the loss just for this expenditure over the time until the vaccine would easily rise to £ 100 bn. In addition, the cost for supporting businesses (including transport – from ferry services and Eurotunnel for vital supplies from the Continent to rail, coach and bus travel to airlines) would dwarf the current government SME support measures through guarantees which are estimated to be around £350bn.

The large-scale government subsidies designed to make up negative output of the economy and slowing demand will massively increase state debts. During the crisis, UK expenditure on healthcare, budgeted at £162 bn for Fiscal Year 2019-2020, will be very much higher, but after the end of the crisis, the expenditure cannot be reduced to 2019 levels. Given the already existing backlog of treatments by the NHS, it will continue to need about twice the funding of previous years even after a vaccine has been found.

At the same time, as the UK prides itself on its low-tax economy, its tax revenue and public spending per capita are relatively smaller than that of several of its EU neighbours: the UK Government would have the option to raise higher taxes in coming years to make up for the losses, and to resume austerity measures on a scale that would in turn have great knock-on effects in terms of poverty and even inadequate [health provisions](#). This would offset any medium- and longer-term gains which the UK Government is hoping to reap from Brexit. The consequences for the UK's long-standing productivity gap with Germany, France and the US are hard to gauge, not least because of the dominance of the service sector in UK GDP. However, in the near-term productivity is likely to fall and any longer term growth will be a function of the extent to which the labour market and production adapt to new technology-based ways of working post-crisis. It is difficult to imagine that defence procurement decisions would not be put off or that commitments already made would not be delayed if at all possible.

In mid-April, the [Office of Budgetary Responsibility](#) has estimated that the UK economy as a whole could shrink by up to 35% with 2 million job losses as a result of the crisis and on current modelling that assumes a progressive easing of lockdown measures. Any effects of longer spells of lockdown until a treatment or vaccine is found are likely to be more severe making it imperative that other solutions are found.

How the world will look after the crisis.

A number of changes of great consequence be brought about by the crisis which without it would not have occurred.

Changes are likely to include:

1. Large numbers of small businesses collapsing. The ONS estimates there are around 5.9m businesses in the UK accounting for some 99% of all businesses, 3/5ths of employment and around a half of all business turnover. If, as is currently assumed, 1/5th of these go out of business, then this impacts not just on GDP but also livelihoods of a large proportion of the workforce, many of whom could be on contracts, or indeed zero-hour contracts.
2. Impact on government budgets, which will not be *mainly* the actual cost of additional unemployment benefits, but the dependence on rates at which demand picks up subsequently. If it does not pick up after an extended crisis (up to mid- or end of 2021), then we might return to the 1970's in terms of government deficit and the prospect of the need for an IMF bailout cannot be excluded. This could well be worsened by a bumpy transition out of the EU (and a smooth transition under current circumstances seems as unlikely with negotiations put off).
3. Macroeconomic orthodoxy would suggest that a fiscal boost at present will protect levels of demand in the economy and allow businesses to survive. The longer-term danger is that without a careful strategic approach to economic management, the likely rise in inflation resulting from demand picking up after the current crisis will itself damage the prospects for sustained recovery. Economists are still divided on whether or not hyper-inflation will result from the current extraordinary fiscal measures, but a worst case would be the return of hyper-inflation and the need to return to the stringent monetary policies of the 1980s.
4. The social and political consequences would include long term unemployment, high inflation and the devastation of key sectors of the economy, particularly the leisure, hospitality and tourism sectors. Tourism alone contributions just under [10% to UK](#) GDP and, pre-COVID-19 employed 3.8 million people. Any changes would affect different regions of the UK to different degrees, threatening the government's current "levelling up" policies and, not least, deepen the sense of "haves" and "have nots" that may lead to social unrest.
5. Cultural changes could include the fight for survival of many cultural institutions, including state-sponsored ones, such as theatres, orchestras, operas, ballet companies, cinemas, wildlife parks and zoos; many will disappear without significant government support. They might also include even lower church attendance, and possibly also a decline in religiosity amongst minorities of other religions.

Acceleration and catalysation of previous trends

Always assuming that severe restrictive measures will stay in place at least a year in all, a series of changes that had been underway well before the crisis will be catalysed to accelerate or become preponderant and lasting, while without this crisis this might not have been the case. The extent to which these changes will last will be much greater if no pharmaceutical relief is found until late 2021. If partial lockdown, affecting whole sectors of the economy, continues until summer 2021, a whole set of procedures in many sectors will by then have been suspended, changed and replaced irreversibly, where previously there was resistance to such change. Acceleration and catalysation of such changes will result in a world that functions substantially differently and thus looks different from that of mid-March 2020.

6. Larger businesses are likely to embrace the automation of more routine middle management roles (Industry 4.0), not reemploying furloughed staff in this category as a result. The consequences for the labour market will be to accelerate a [shift towards greater automation](#) with the commensurate social impact of increased leisure time alongside permanently lower wages.
7. Far more white-collar workers will continue to work from home at least some of the time. This was technically feasible given the internet's development in the 1990s yet strong cultural resistance existed in most countries. This cultural-psychological barrier is now being overcome when without the lockdown, the old cultural barriers would likely have persisted for many years yet.
8. Previous strong resistance in some sectors to "virtual" attendance of board meetings, job interviews, academic examinations or to distance learning is being overcome, with new IT programmes quickly developed. Henceforth "virtual attendance" is likely to be more common than physical attendance in many meetings, and the proportion of tertiary education through distance learning will grow substantially, especially for mature students (including officer training courses).

Stunting and stymieing of previous trends

A number of trends on which the world as a whole seemed to be set is likely to be deflected or they may even come to an end. Most importantly, there will be a reversal at least in part of globalisation, supra-national co-operation and integration; related to this is a return to nationalism. The other, again related, major trend will be an economic downturn, making it all the harder for those willing to share to do so, as all states will be in debt.

9. International organizations of all sorts – from purely inter-governmental structures such as NATO to the part-sovereign European Union – are already showing their weakness in a new period of dearth and transactionalism. Both NATO and the EU could wither away, not disappearing entirely, but being eclipsed by a return to bilateralism.
10. While governments and populations in many countries had begun to realise that climate change really has to be addressed and that major sacrifices are needed for this, post-COVID-19 crisis, the good intentions simply won't have the resources to draw upon.

11. The recovery of economies everywhere will be slowed down by businesses in future paying more attention to diversification of supplies and flexibility and shortening of supply chains, but both come at a cost.

EU, USA, Russia, China

EU

Collectively Britain's most important trading partners, the member States of the European Union (EU) have so far done much to undermine its cohesion by each following their own policy entirely. More still, like the USA, the Federal Republic Germany has as many different policies as there are individual states or *Länder* within the federation, with schools in some *Länder* already having re-opened in part while most schools, businesses, and even zoos and churches will open again from 4 May. In France with its lockdown stipulations that are stricter than the UK's, nothing there will re-open before 11 May; thereafter some easing is expected, especially in less affected regions. Spain is taking tiny steps to emerge from its extreme lockdown which prohibited children from going outdoors altogether, while Italy, the first and initially most affected country in Europe – since overtaken by the UK - has announced that schools will not reopen before September, even though the equally extreme lockdown measures will be eased. Only [Sweden](#) has experimented with imposing only a minimum of restrictions (secondary schools and universities are closed), encouraging voluntary social distancing (working from home is strongly encouraged), while keeping even restaurants and cafés open. All governments have clung closely to advice from epidemiologists – even in the case of Sweden – and are stressing the precariousness of the compromise Option II (see above) that most are now turning to in some form, after anGove initial 6-8 weeks of lockdown.

With 10% of the overall income of EU Member States coming from tourism, translating into 20% for some states like Greece, the tourist industry is bound to emerge most badly and lastingly hit from this crisis. One can sense desperation in the countries most affected by this, most of which already have high unemployment and budget deficits. Even if Mrs Merkel has finally come around to restating the old (formerly West) German mantra that Germany cannot fare well if its neighbours do not, a *sauve-qui-peut* attitude still prevails.

So far, every government within Europe has taken its own fiscal measures, outside of the Maastricht constraints for government borrowing – even Germany has taken off its automatic fiscal stabilisers in order to deal with the crisis. Germany is, however, better placed to weather the financial storm because of its budget surplus prior to the crisis. The post-crisis challenge within Europe will be that the relative borrowing of weaker nations, particularly Italy and Spain, will be proportionately higher than the stronger nations such as Germany. This could put undue pressure on the €uro exacerbating the imbalances within the €urozone.

The EU did not have the competence to take the lead in co-ordinating measures across its member states in this health crisis. So far the crisis is aggravating the North-South divide within the EU (which Russia and China are seeking to exploit through highly visible gift aid to cope with the COVID-19 crisis). At a crucial meeting of its Heads of State and Government

on 26 March, Germany and the Netherlands dragged their feet on agreeing to an aid package for the most hard-hit members. Eventually, on 14 April, they approved € 200 bn in aid for Italy. But much damage had been done by then: opinion polls taken between 20 March and 12 April by the SWG suggest that Italian popular support for the EU has plummeted and that Italians regard China as best friend, while Germany in particular is seen as disloyal. Meanwhile the governments of Poland and Hungary have seized upon the crisis to increase their emergency powers, in keeping with previous anti-democratic trends. It is apparent that the balance between the sovereign rights of member states and the EU's competences within the EU's does not readily lend itself to check this development.

Some take all this as signalling a steady decline of the EU into insignificance, a decline begun with the British Brexit referendum in June 2016, while others call for more European integration and co-ordination so as to learn from the crisis and prevent the European endeavour from failing.

The United States of America

The United States' response to the COVID-19 pandemic has been the mounting opposition in the country to science, and professional expertise more generally. This trend began in earnest in the 1990s, mostly on the conservative, right-leaning side of political spectrum and within the Republican Party. The shift has been encouraged by surreptitious advocacy from fossil-fuel industries, especially with respect to curbing CO₂ emissions directed at reducing climate change. The presidency of Republican Donald Trump presents a crescendo for these developments. Trump has used his formal and informal powers to undercut science and expertise at every turn, especially through eliminating or defunding myriad scientific units in the government, dismissing experts from their posts, and surrounding himself with uncritical supporters (even more than is typical for an American president). Moreover, Trump, much like Michael Gove in the Brexit referendum campaign, has painted experts as bogeymen in his political messaging, which has helped to stoke grassroots mobilisation against expert-based policies.

The de-expertisation of American government and politics has had devastating consequences for the response to the COVID-19 crisis in the United States. Expert recommendations were ignored in the early stages of the pandemic, leading to delays in taking precautionary measures. President Trump himself has actively spread false, misleading, and patently dangerous information in frequent press briefings. He has made clear his preference for minimizing restrictions and ending them as soon as possible, in some cases speaking out against his own policies intended to reduce risks associated with the coronavirus.

Even though Trump originally claimed that he alone would decide US policy to meet the pandemic, the federal system of government of the USA has enabled the 50 states each to choose their own policies regarding quarantines, stay-at-home orders, and physical-distancing rules. Groups of states have chosen to work together in regional compacts aimed at coordinating multi-state strategies for containing the virus. However, without coherent, rational national leadership or adequate resources, the effectiveness of state-and-local efforts has

been hampered. Indeed, some states have already begun to lift COVID-related restrictions while the spread of the disease is still at a high point.

Although state and local powers do offer a counterbalance to an erratic president, they also present vulnerable pressure points where opponents of science-based policy can exert leverage. Notably, new organisations of grassroots activists have sprung up around the country, such as Pennsylvanians Against Excessive Quarantine. These groups have sponsored public protests that flouted social-distancing restrictions in state capitols and other symbolically resonant locations. In Michigan, these actions appear to have been successful in pressuring the state government somewhat to relax its COVID-related restrictions. Even after this victory, anti-quarantine activists entered the Michigan State Capitol carrying firearms in a blatant display of intimidation. These and related tactics are likely to curtail state and local efforts to protect public health.

Overall, the situation in the United States reflects a patchwork of responses. Unprecedented financial measures have been taken to stabilize the economy, such as stimulus payments to individuals and a policy low-interest lending by the Federal Reserve. However, policies restricting individual movement and interaction have been hard to create, enforce, and sustain. The resistance comes not only from opposition to science and expertise, but also from a long tradition of individual liberty in the United States. This situation promises that the spread of the virus will continue at a steady rate in the United States, posing a continued threat to rest of the world. Under the present conditions, it cannot be expected that the United States will play a constructive role in international efforts to manage the current crisis.

How the pandemic will affect the presidential election which by law must take place on 3 November 2020, is as yet unclear. If the Democratic candidate, John Biden, were elected, assuming office on 20 January 2021, a change of direction of US foreign and security policy could be expected, towards more support for allies and towards more international leadership, but not necessarily more financial support, especially not for NATO. Nor would the long-term pivoting of the focus of US attention away from Europe and the Middle East and towards the Far East be reversed. It currently seems more likely than not that the crisis will contribute to the re-election of Trump: officials in the Republican Party have vigorously opposed the facilitation of voting by mail, despite the usual conditions presented by the crisis. It is thought that the need to come to polling stations in person will affect mainly the turnout in left-leaning constituencies. Thus, the coronavirus crisis is not only perhaps the first since the Second World War in which American leadership is notably absent, it is also factor likely to contribute to the continuation of this new trend.

Russia

The spread of the pandemic in Russia has accelerated in April. The number of cases is reaching 100 thousand (93 thousand, of which 48 thousand in Moscow, on 28 April). The number of victims is surprisingly low, below one thousand, which suggests the unreliability of official data. Putin decided to prolong the lockdown (in the form of the so-called “non-working days”) till 11 May, recognising that Russia has not reached the peak of the pandemic yet. The

government was asked to prepare the rules for easing the lockdown by 5 May and to prepare a new package of economic support for businesses and population.

Putin has delegated responsibility for the implementation (but not necessarily resources to cope with the crisis) to regional governments, arguing that the lockdown needs to be adjusted to local conditions. This has been widely interpreted as Putin's attempt to shed responsibility and blame governors in case of the pandemic's mismanagement. Regions have been directed to adhere to the federal lockdown strategy.

These measures are being coordinated through the new prime minister Mikhail Mishustin (the former tax director) and the Ministry of Economic Development. Putin himself is using the pandemic to show his leadership as defender of employees, threatening punishment for any employer who dismisses them. This posturing has not been supplemented with tangible economic support to either citizens or businesses. The private sector is already suffering from the lockdown. All non-essential workers are required by law to stay home. Leaving homes without special permits is illegal. Strict quarantine measures are enforced vigorously by the police and Interior Ministry troops. There are no social safety nets in place, and few Russians have savings. The government has promised to pay out unemployment benefits to all who claim unemployment. However, the procedures created to claim unemployment benefits seem to contradict quarantine requirements. So far, there has been no rise in unemployment, with employers opting for lower salaries or sending employees on unpaid leave. Financial assistance and increased pay is promised to healthcare sector employees. Russian government continues to refuse bringing its government reserves of 12.8 trillion roubles, roughly 11.4 % of GDP, to this economic emergency. Public discontent with the regime grows as millions are left unemployed. Large scale public protests against the lockdown took place in the autonomous republic of North Ossetia and some other southern regions. Riot police was deployed to violently disperse the protesters.

For all Russians bar the very richest, publicly available health care is poor. On the upside, as a Soviet heirloom, there are sufficiently large numbers of hospital beds, meaning that Russia is well-positioned in terms of quantity to deal with a pandemic.

The Russian military is being used to support civilian efforts to manage the crisis. On 24 April Russian military physicians have been ordered to support the recovery effort in Moscow Oblast (the suburbs around the main city). Russia has started using its military transport aviation to move medical supplies originally from China to third-party countries (e.g. Moldova).

The military is also being used for public diplomacy measures. Russia deployed three military medical teams overseas at the start of the crisis: (1) Italy, (2) Serbia, and (3) Republika Srpska (Bosnia and Herzegovina). Though it appears these were as much educational as anything else, Russian propaganda has been playing up the goodwill from the first two cases as much as possible. The officer in command of the Italian mission has also had multiple face-to-face meetings with the Italian CHOD already.

In the short-term, COVID-19 has created obstacles to measures included to boost Putin's popularity: first the 9 May VE-Day celebrations, annually the most important formal state event, but this time planned to be even more special with foreign VIPs attending as it is the 75th anniversary had to be postponed indefinitely. Secondly, the voting scheduled for 22 April

concerning the amendments to the constitution that would allow Putin to remain in power by 2036 has also been postponed. The amendments to the constitution can take effect without a public vote of approval (the formal procedure of constitutional revisions is complete); it is uncertain, however, if the Kremlin would be willing to take the risk of a backlash and push through the constitutional change during the pandemic.

Also in the short term, the pandemic has pushed Putin into a more conciliatory approach in foreign economic policy. Attempts to project soft power by sending medical supplies to Europe have backfired when their poor quality became apparent. The EU continues to blame Russia for spreading fake news related to coronavirus. More important is the change in oil politics. In March, Moscow withdrew from OPEC+ as it disagreed with EI-Riyadh on the division of cuts; domestic producers strongly pushed for the withdrawal. But on 9 April the Kremlin agreed to serious cuts to the oil production with Saudi Arabia and re-joined the OPEC+ agreement, even though it is in Russia's interest to drive the price up again. Oil companies now probably face higher taxes that would compensate for a lower level of oil production. Russia still has financial reserves (both in the National Welfare Fund and in the Central Bank) as a safety net for the coming months. Russia's return to OPEC+ has not stimulated the rise in oil prices, given the low level of global demand. The Russian budget may lose up to US\$ 50 billion as a result, according to [Argus](#), a consulting agency.

For the military, the message that is put out is that "everything is normal". The 1 April - 1 July spring draft, this year involving sending 135,000 young Russians (highest number in a while) to garrisons across the country, is still scheduled, but postponed until after 20 May. Russia has so far not cancelled any major military exercises (such as the very large exercise of the Pacific Fleet). For now, this hardly affects the fighting power of Russia's Armed Forces, but in any scenarios with recurring waves of COVID-19, lockdowns and social distancing, conscription as a manning tool will be more cumbersome.

China

In China, there is a tension between the fears of the second wave of pandemic and the willingness to capitalise on its success to date, on the lack of US leadership, on the fissions within the EU and the desperate need for loans of many countries. At the same time, there is a dawning realization that the world may not be as hospitable to China's continuing rise after the pandemic ends. There are two main reasons for this. The first is that a growing awareness of the fragility of global capitalism in the face of environmental and health threats may lead national and regional authorities to rebalance towards resilience in preference to growth rates, which for the developed world means shortening supply chains and bringing production back home where possible. The second is that China may be viewed in a more hostile light, not merely on the basis of the kind of populist rhetoric employed by President Trump, but also because of China's failure to provide accurate statistics about the outbreak in Wuhan, which arguably led foreign governments and health experts to underestimate the threat posed by COVID-19 until it was too late.

Although the re-opening of Wuhan on 8 April was intended to symbolize China's victory over the virus, it seems unlikely that the measures taken will do anything more than contain the problem until a vaccine is found. These measures have been, justifiably, some of the most severe in the world. They include quarantine of the entire city, a three month lockdown throughout China, aggressive testing and quarantine measures for individuals, severe restrictions on travel into China, including by Chinese citizens wanting to return home, the universal introduction of public health measures such as wearing masks, and using phone apps to track and trace infections. Further outbreaks and a phased series of lockdowns (Option I) are likely to continue, or else, with surveillance far exceeding that which has been introduced in Europe or America during the current lockdown, partial lockdowns (more like Option II), targeted at particular provinces/cities where the virus returns. Coupled with digital surveillance measures, China's authoritarian structure is probably able to make such policies relatively successful.

Economic revival is the top priority of the leadership and evidence is emerging that the [Chinese economy returned to 90%](#) of its capacity by the end of April 2020. Nevertheless, the economic harm already done to large parts of the Chinese population is considerable, and the most vulnerable sections of the population, such as migrant workers, the rural poor and the elderly have suffered the most and could present a risk to stability if their needs are not addressed. Therefore, we can expect renewed efforts by the Chinese state to redistribute wealth using the existing or newly designed social welfare systems.

As always, the regime will make social and political stability an overriding priority. Careful management of the news and manipulation of public opinion within China and, to the extent possible, overseas will be central to its efforts. Speculation about the true extent of epidemic in China has emerged based on reports about the number of cremations in Wuhan and also estimates of the number of journeys out of Wuhan before the lockdown was introduced. Compared with other countries which had more time to prepare, smaller populations, and lower population density, China's official death toll of 3326 by the time the day of National Mourning was held on 4 April seems improbable, and indeed was revised upwards by about 50 per cent. Despite the admission, which still seems like an underestimate, China will treat it as a national security issue to make sure that its narrative of victory over the virus is maintained.

Chinese society is changing as a result of the epidemic. During the height of the first outbreak, there were reports of communities literally barricading themselves in. While the regime is unlikely to tolerate any kind of unofficial quarantine measures, Chinese society has probably over these three months become less trusting and more fearful. Some of this fear has begun to transform into xenophobia, particularly after the government started to announce that new infections were coming from outside China and to cover the course of the epidemic overseas on TV news, mostly without embellishment. The local government in Guangzhou targeted Africans living in the city with additional quarantine, surveillance and mandatory testing, measures which then had to be walked back after a diplomatic outcry by African countries. Although the Chinese government has called on its citizens to treat foreigners equally with Chinese citizens in all matters concerning quarantine and control, regime propaganda is continuously recreating the image of a safe, controlled China and an unsafe situation abroad.

This is likely to affect how foreigners are received, influence Chinese attitudes to foreign travel, and in turn affect how Chinese are received abroad.

Political repression has intensified as a result of the outbreak. Xi Jinping's original intention on coming to power seems to have been to create a more centralised, more controlled and less pluralised Chinese regime than the one the West became used to in the 1990s and first decade of the 2000s. The virus offers new opportunities to increase surveillance, notably through the now universal use of QR code apps which are ostensibly to identify contacts of covid-19 infections but can be easily repurposed to identify carriers of "ideological viruses." This was already being done in Xinjiang province to cope with a perceived tendency towards separatism. A less vibrant civil society and fewer social and economic spaces outside of direct government control seem to be likely side effects of the epidemic.

In terms of China's global economic position, the pandemic is a huge set back, albeit perhaps not as great as for Europe and North America, let alone the developing countries. As an effect of the COVID-19 crisis, some of its markets are drying up. Yet China's growth rate was slowing before the virus hit. This was probably not a result of the 2008 financial crisis, as China was relatively isolated from its effects as not exposed to sub-prime lending. More of a deliberate policy, it shifted from an emphasis on economic growth to exporting its capacity and securing energy supply lines in the context of the Belt-and-Road initiative. GDP growth rates in China are set as national targets, with local government spending on infrastructure projects being the "go to" means of generating growth. It is in this context that China's leading economists are debating whether or not it is better to revise the current six per cent GDP growth target down to a more realistic three per cent, or to reach for the stimulus levers again to try to achieve the original targets, as some local governments seem to be trying to do.

In terms of foreign policy, China is likely to continue its global PR campaign that portrays China as a leader in fighting against COVID-19 and attempts to compensate for losses to China's image caused by its early-stage mismanagement of the issue. China is likely to continue emphasising the value of its experience in tackling COVID-19, its willingness to help other countries materially and the importance of a multilateral, joined up approach. At the same time, it will react furiously to any questioning of its narrative of successful, calm management of the virus, and it will resist attempts by the US to weaken the WHO and any other UN bodies which it perceives as friendly to China.

Any foreign "adventurism" on the part of China is implausible before the virus is truly under control, even though the Chinese navy is still holding its exercises to show China's claim to the South China Sea. Its potential to draw away the attention of the society is limited, and it might harm the economy, the revival of which is the most important task.

Looking beyond 2021, US-Chinese relations will deteriorate further if the US continues to criticise China's responses. Beijing will be eager to juxtapose its efficiency with the US domestic failures and the lack of international leadership. At the same time, attempts by President Trump to "play the China card" in the November 2020 presidential election could test China's traditional reserve about interfering in domestic affairs of foreign countries, as they may see a potential President Biden as the lesser of two evils.

If the US continues to lose interest in multilateral solutions to global problems, China is likely to do likewise, without signalling to the world that this is the case. China will continue to pursue what it saw as its upward trajectory in world affairs, to focus on securing key resources through the cultivation of ties with developing countries and its Belt-and-Road Initiative, to robustly defend its sphere of influence in East Asia, and to pursue reunification with Taiwan. China can be expected to take advantage of any weakening of the EU by strengthening bilateral ties and making strategic investments in distressed countries of Europe. At the same time, it will be at pains to try to repair its damaged image in the West and globally.

Africa

Africa is the last continent to face an outbreak of COVID-19 but many countries there have been among the quickest to impose measures to slow viral spread. As of 30 April 45 of 47 countries in Sub-Saharan Africa have confirmed [infections](#). For the entire continent's 54 countries, end of the month totals were over 36,000 cases: [six times](#) the number reported at the beginning of April. Despite rising numbers, [44 states](#) in Sub-Saharan Africa now have mass testing capacity and many are receiving testing kits, training, and PPE for front line health workers through partnerships with [international organizations](#). The [majority of states](#) have also taken legislative action, including bans of public gatherings, or declared states of emergency in response to rising case numbers.

While these efforts have no doubt mitigated some spread, the rates of infection are likely much higher than currently known due to population density in major cities. Social distancing and isolation will remain a challenge since many large families live together and work/economic precarity limits citizens' capacity to socially distance since many rely on overcrowded forms of public transit (i.e. hop on hop off buses) to get to work. Healthcare strategies in sub-Saharan Africa may be more effective than other regions due to lessons learned from recent outbreaks of Ebola, but all will face a high degree of strain on critical care supplies and doctors. Public health infrastructure varies widely across the continent, and rising numbers of cases in West and Central Africa in particular are raising concerns about the capacities of some states' poor health infrastructure to cope. Another cause for concern is that focusing all public health resources on COVID-19 means that other more sustained health emergencies, like malnutrition and occasional outbreaks of diseases like measles and cholera, will be put on the backburner.

The global financial downturn and collapse of oil prices will also have an impact on the regions' economic resilience as this crisis unfolds. [Continental GDP](#) is expected to fall from 2.4% in 2019 to -7.1% in 2020, marking the continent's first recession in 25 years. The Africa's key trading partners, besides its own states, are Europe and China. Oil is the largest export sent from North African countries to both partners. Therefore, oil economies across the African continent are likely to suffer significantly, as demand and global price-per-barrel continue to fall. The continent provides many raw materials used for manufacturing in both regions, and demand in those sectors are also facing substantial downturns taken a downturns. Other African countries that primarily export a specific good (ie coffee from Ethiopia, cocoa from Cote d'Ivoire) or rely on tourism will also suffer as global trade declines in the coming months.

Overall, disruption to the region's continental and international trade is forecasted to cost between [\\$37 billion and \\$79 billion](#). Containment measures across the continent are likely to produce widespread food scarcity due to lack of agricultural activity and poverty is also likely to rise because African states cannot afford the furlough and wage support schemes currently enacted elsewhere. Significant debt relief from bilateral donors and bailouts from global financial organizations will likely be required to assist the continent until economies recover. Against this background, African states are particularly vulnerable to the spreading of Chinese political influence in the form of loans and investment. An illustration of this was probably the excessively sympathetic stance taken by the WHO's President Ethiopian Tedros Adhanom vis-à-vis the Chinese government in the context of the crisis, and the connection made between this and his country's dependence on Chinese investment.

Sub-Saharan African societies are still more used to great poverty, infant mortality and lower life expectancies among sectors of their societies, as well as to lingering diseases as malaria or Aids. They also have more experience with the effects of dealing with pan-African pandemics such as Ebola. Nevertheless, against the background of political tensions predating the crisis, its poor handling by governments can trigger [major political unrest](#) in a number of countries. Contested territories in countries involved in protracted conflict were the last to receive medical care for Ebola and the same challenges are being faced in the DRC, CAR, Mali, and Libya with COVID-19. In these instances, armed groups may target government security, peacekeepers, and aid workers. Further, armed groups may capitalize on governments' distraction to take land and resources, attack government and allied forces in areas of weak security, or raid more remote civilian or IDP settlements and refugee encampments. Such insurgencies and cross border armed activity may destabilize regional security in West Africa, Central Africa, and the MENA region, threatening fragile gains in countries looking to transition away from the precarity of conflict to stability and long term peace.

Summary (Options and Developments until end 2021)

Whether the current crisis will [accelerate](#) trends that were previously ongoing anyway, divert or stunt previous trends or whether it will affect major changes which without it would not have occurred depends on the time it will take to find a pharmaceutical solution. Most Western economies will have experienced a 6-8 week complete or near-complete lockdown when they cautiously ease restrictions, and important sectors of the economy will continue in lockdown. Three months with suspended habits and procedures could still lead to a subsequent return to pre-crisis behaviour.

By contrast, a lockdown of parts of the economy or a series of lockdowns or continuing stringent social distancing measures that last a year or longer will lead to the replacement of previous norms in our everyday lives with new habits and procedures. Afterwards, a return to pre-crisis behaviour is no longer the default option: it would need a collective agreement that this is desirable, and an effort on all parts to revert to pre-March 2020 behaviour. If, as we

can now expect, partial lockdown and extensive social distancing measures will continue until at least the end of 2020, possibly well into 2021, we will be living in a “new normal” afterwards.

The global setting in which governments have to manage the crisis cannot but deteriorate within the period considered. Millions from Africa, the Middle East and Latin America will try to flee this misery, heading North. Despite the drastic consequences that this crisis will have for Europe (especially the Mediterranean countries) and North America, this is perhaps not where it will cause the greatest hardship. Indeed, Europeans and Americans will have to prepare themselves mentally for the great need the developing world will have for their support after the crisis. Paradoxically, the emergence of richer regions from the crisis with the least damage can help the rest of the world, if the rich are willing to share. Ironically, the lockdown measures have the short-term side effect of a reduction of CO₂ emissions, but once they are lifted, most governments are likely to prioritise economic recovery and default on their promises of investment to contain climate change.

What the reality will look like by the end of 2021 depends in part on the extent to which the cautious easing of lockdown measures will still prevent new surges of infection and also on the imponderable of how the pandemic will develop (mutation of the virus, possibility of reinfection, ...), whether only non-pharmaceutical measures can stem its most catastrophic eruption in all or parts of the world, or whether a medical cure of sorts can be found earlier. But it also depends on whether governments, steering their risky course of part-easing lockdown, are successful in persuading their populations to remain self-disciplined over the coming summer months when self-isolation will be particularly difficult to bear, especially in countries with high temperatures and much sunshine.

For the time being, perhaps surprisingly, the popularity of individual presidents and high-profile heads of government across the world has remained high in many countries despite strong evidence that their governments have been ill-prepared for it, have ignored early warning signs, fudged figures and made false claims. Xi Jinping, Putin, and Trump have managed to devolve responsibility for the execution of lockdowns to regional/federal governors and can thus claim they are not responsible if things go badly. The general public not only in authoritarian systems but also in democratic ones with a strong critical tradition do indeed seem to be less and less interested in evidence-based debate, confirming that populist trends continue to dominate, rooted in a new information culture based on social media rather than high-quality news reporting.

Scenarios: the situation at the start of 2022

Future Scenario A: International Solidarity and Co-operation

A best-case scenario would be one in which the crisis provokes calm reflection on all parts, a reminder of the fragility of life, peace and prosperity, and a determination to make positive contributions to change the world for the better. With many people after the crisis in future saving time by working from home more often and cutting down on physical attendance at professional meetings, society might become calmer, less consume-oriented. On the

downside, this would not help ramp up economic production through consumerism that contributed to prosperity after the Second World War, or salvage some strongly affected industries (especially air travel, tourism and entertainment, gastronomy).

EU Member States would pull together, agree on a common aid scheme to help the Mediterranean countries to overcome the results of the crisis, and succeed in pressurising Poland and Hungary to step back from their advanced flirtations with populist dictatorships. The USA would again take a leading role in this, making its singular influence on Poland felt in a constructive way. Collectively, while struggling to stem the economic hardship that inevitably will affect the Western countries as well as other parts of the world, the Western countries would pool their resources in a co-ordinated way to help alleviate the extreme problems the crisis is causing and is yet to cause in developing countries. Having raised public consciousness of the fragility of nature, governments would despite the recession be able to ask their citizens for sacrifices to be made to protect the environment and reduce pollution. A sense of world-solidarity would emerge. China's investments in other parts of the world would be welcomed, but China's own citizens would succeed in pressurising its government to take more responsibility for the protection of its own citizens and the environment. Other powers would entice China and Russia to become better team-players on the international scene, with especially China helping to bear the burden of supporting developing countries in their struggle to become economically stronger and socially more just.

Unfortunately, at this stage of the crisis, there is little to lead us to believe that this scenario is realistic.

Future Scenario B: Spheres of Influence in Competition.

China and the USA are likely continue their unfruitfully-framed struggle for world leadership. Small regional hegemonies continue to be built, e.g. by Russia, India, Indonesia, and Japan, sometimes bearing the seeds of clashes with rivalling powers – between Turkey and Iran. In the Caucasus and Central Asia as well as in Eastern Europe, Russia will dominate its “near abroad”. If the Bundesbank is left to its own devices, Germany would begin to build a *de facto* sphere of economic influence including some neighbouring countries that will assert their political independence whenever they can, but will be economically very dependent on Frankfurt as the post-Brexit hub of European banking activity; it is unlikely that Germany's strength as an exporter will decline and it is this economic power resting with its manufacturing sector that will underpin its global influence in the world. French President Macron would continue to support EU efforts, even less effectively than before if the 2021 general elections in Germany do not bring forth a new partner in the pro-European tradition of Adenauer, Brandt, Schmidt or Kohl. If this condition is not met, the EU is likely to stagnate and in part be circumvented by bilateral initiatives, and anti-German sentiments will grow (behind which other countries like the Netherlands and the Scandinavians will shield from criticism fired from the South), along with the North-South divide.

Meanwhile NATO will be a framework for operations by coalitions of the willing, supplemented by ad hoc arrangements like the Joint Expeditionary Force. The 2% spending commitment by

NATO countries would be met on paper only. The variable geometry of all this will undermine the strength of both organisations. Post-Brexit Britain will lean on its relations with the old Commonwealth Countries and do anything to build up its relationship with the USA in a strongly unilateral dependency. France would continue to nurture its special relationships with a number of African countries.

The UN's Security Council would continue to be blocked by vetoes on most security-related issues. The G7 might turn into a G6 if US-Chinese relations deteriorate further, and thus further diminish in importance.

Trade will flow, but even at a certain cost, industries in advanced economies will seek to diversify their suppliers so as not to be too dependent on single (albeit cheapest) sources. The trade sector globally has been shocked by its reliance, not just on single suppliers but also on a "just in time" delivery model which shortens supply chains and reduces inventory stocks making it difficult to keep trade flowing when the movement of goods, services and people are limited. There are signs emerging that large trade credit insurance agencies are beginning to [restrict the amount of insurance](#) they provide to global trade finance. Worryingly, this raises the spectre of a lockdown in trade finance as invoices remain unpaid and private insurance fails. The role of government-owned export credit agencies in this scenario cannot be understated since it is often the smallest businesses at the end of supply chains that are most affected by the blockages in global supply chains.

Under the broader aspects of scenario B, trade war tensions persist. The US has been swift to blame China for a lack of transparency around the virus origins and spread and at the end of April was suggesting further punitive tariff measures and even the cancellation of Chinese debt to the US. The suggestion that the US should take the approach of cancelling Chinese debt was swiftly dismissed as nonsense by senior US advisers such as Larry Kudlow; it would create global financial mayhem and undermine the US dollar's status as a safe haven. Nevertheless, under Scenario B, which we consider quite likely as a consequence of nationalistic responses to the crisis, the result could be a re-escalation of the trade "war" which was already acting as a proxy for the broader tensions between the US and China around technological and financial hegemony.

Future Scenario C: A Hobbesian International System.

In this scenario, presupposing the re-election of Donald Trump as US President, the USA continues not only its pivoting away from Europe but also on its "America first" course, barely mitigated by pressure for international co-operation coming from the older Washington elite, a view that has never convinced many in the Mid-West. The international balance of power will shift from the US as world leader to China where Xi Jinping is positioning himself for this role is completed. China will emerge relatively well from the crisis and seize the opportunities it has brought to increase its economic and thus indirectly its political influence globally. Its ultimate weapon of choice would not be a military one but rather would be to hold over the US the reverse prospect of *selling back* its \$1tn of US debt; this would similarly create financial collapse and as such represents the nuclear option. A stalemate with threat and counter-threat

is therefore more likely. The collective mentality of the Russians will not change and they will continue to support a leadership that claims that Russia can only be made great through sacrifices, and that its greatness must be reflected in its military might and possibly also adventures.

Under pressure to make savings to salvage its own economy and budget deficit resulting from government measures to alleviate the economic impact of the crisis, another Trump administration would want to make big savings where US military expenditure has in the past been large-scale under long-term commitments. NATO will survive but as a framework for the co-operation of the willing who can draw on infrastructure that exists; any maintenance and modernisation will depend on European finance as the USA hands over the responsibility for this part of the world. The 2% spending commitment made by NATO member states might be met by some countries (the Baltic States, Poland, Norway), only, they would be reluctant to spend on anything not directly connected with their own defence. Middle Eastern conflicts will only capture the interest of European countries when there is the danger of new refugees coming to Europe, and little or none in Washington.

Meanwhile in Europe, France and Germany having failed to work together as the motor of Europe, the EU would show itself unequipped to deal with tasks for which its complex compromise structure was not designed. More members might in the coming 5-8 years follow the British example and withdraw, for example Denmark, Greece, perhaps even Italy. The UK is not a player in the EU and thus cannot stop the disintegration of what for over 70 years has been a zone of assured peace. Lack of co-ordination in attempts to force economic recovery runs political and economic risks. All of the European countries would be reduced to their individual importance as second- or third- (or fourth-) tier countries. The return to bilateralism would mark a continent which politically unstable countries with high unemployment and great financial problems, living cheek by jowl with politically more stable status quo powers. Historically, this has not been a configuration favourable to peace and security. Moreover, this scenario would leave many small and medium-sized countries attempting to fend for themselves entirely vulnerable to the global trends and competing forces that will be unleashed as the longer-term economic, social and political effects of the COVID-19 crisis.

The UNSC would be paralysed and revert to the degree of insignificance it had for most of the Cold War. France and the UK would have great difficulties affording the costs of being world policemen, especially when the USA would reduce its commitment to a minimum.

Global and regional markets will drift from crisis to crisis, with little dependability of investments in unstable areas of the world. This has profound effects on the certainty which businesses need in order to make investment decisions, not just locally but also around the world. 91 countries have tightened export restrictions on COVID-19 supply chains, for example, with just one, Germany, liberalising its exports of medical equipment. Even on a lean inventory, trade orders are placed up to six months in advance and as a result, we are likely to see this trend continue after the crisis as, potentially, food shortages and supplies of other equipment also occur. National interest rather than multilateralism is the likely outcome of this scenario.

This clearly is the most dangerous scenario but in essence a logical follow through from developments underway.

Scenario B or C: UK strategy in a stalemate

COVID 19 has brought the global economy to a rapid and grinding halt in an unprecedented way and on a previously unimaginable scale, with almost half the world's population confined to their homes in the previous weeks. Whatever else is the case, it is unlikely that employment and the nature of work will ever be the same for people around the world. Businesses may use this scenario as an opportunity to restructure, witness what we are seeing with Boeing and British Airways as an example, and many smaller businesses will simply not survive. Global trade will be transformed with greater localisation and distribution of supply chains to mitigate the risks of reliance on a single supplier; this will be driven by technologies that have evolved swiftly to enhance the capacity for digital printing of components and the digitisation of trade finance (moving it away from paper processes).

This puts power firmly in the hands of China in terms of technology and the US in terms of its control over financial networks. The debates around the strategic use of economics, trade, technology and finance to advance national security will become more heated since the COVID 19 pandemic has simply compressed the patterns of political de-globalisation that have been emerging since 2016 when President Trump was elected and the UK voted for Brexit. COVID 19 has collapsed the global economy and laid bare the raw politics of a power struggle for hegemony in a new era driven by a new technological paradigm. Since little can now make the economy worse than it currently is for millions of people, there is always the danger that either China or the US could invoke the economically “nuclear” option – by the US to exclude China from trading on its market and by China of selling its US treasury debt. This would create an L-shaped depression and a new world order.

At present, we consider scenario B to be the more likely: a stalemate where neither China nor the US triggers economic mayhem. This is because both Xi and Trump are under considerable pressure domestically – the first in terms of his relations with other Chinese decision makers and the latter because he is seeking re-election.

Against this backdrop, the UK has clear strategic choices about where its allegiances lie. The government has already stated that it will not extend the Brexit deadlines and thus it is looking to the US and beyond for trade and economic, potentially also national security, support. There are implications for the UK's use of Chinese technology in 5G networks, and this will become more obvious through the “track and trace” apps currently being developed by the NHS. The state will have greater access to individual data and national security will be bound up with the suppliers of that core technology.

As we emerge from the COVID 19 pandemic, there is little doubt that both our economic and our military power will be diminished by the long-term impact of the debt that has been accrued. Nearly 50% of the UK's trade is with Europe and while there are fast growing opportunities abroad, the fastest growing trade corridors according to Coriolis data are with China and the US outside of Europe. This places our trade inevitably at the heart of our national security thinking. Before COVID 19 the outlook for the UK's trade was for it to grow in value terms only mildly and below the rate of inflation – in other words, a reduction in

volumes, particularly with the US because of sterling's weakness against the US dollar. Our share of global trade has dropped from nearly 4.5% before the global financial crisis to 2.5% in 2018. Coriolis projections for services trade suggest that we cannot take absolute growth beyond 2020 for granted either. Such fragility in our trading position should undoubtedly inform our strategic choices as we emerge from the current crisis.