Redefining Globalisation & Development: Reflections on economic resilience during and post COVID-19

Governing Board Thematic Session on COVID-19 & Economic Resilience

2 July 2020, 11.00 – 13.00
Virtual meeting - Zoom online meeting tool.

The aim of this background policy note is to support the discussion of GB Thematic Session on Economic Resilience (item 2 of the Draft Annotated Agenda). The note describes the economic impact of COVID-19 and presents the main issues at stake for economic resilience and development in the aftermath of COVID-19.

This document is circulated to the Members of the Governing Board for INFORMATION and DISCUSSION.

Annalisa Primi, Head, Structural Policies and Innovation Unit, OECD Development Centre (annalisa.primi@oecd.org)

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1. The spread of the COVID-19 pandemic has affected our economies and societies in unprecedented ways. It would have been hard to imagine until recently that the fast-speed world we used to live in could grind to a halt. The pandemic has revealed the multiple fragilities of a world economic system that spins around the interest of the few, and fails to be effectively inclusive, overexposing large parts of the world population and territories to the hard consequences of adverse external shocks.

2. The pandemic caused, and continues to engender severe human and economic losses. On the economic side, the pandemic led to a major supply shock that translated into demand contraction and reorientation towards subsistence consumption as countries imposed strict lock-down measures to limit contagion. Government responses to the pandemic revealed that widespread informality still hinders programmes from identifying and reaching the citizens and firms most in need, making it harder to set up targeted support mechanisms. The responses also revealed an illusory dimension of globalisation, as they largely comprised sequences of non-coordinated and non-cooperative national actions. As of June 23rd, 95 countries had in place export restrictions on COVID-19 related to medical supplies, a measure that, while potentially helpful to face a national emergency, is not effective during a global pandemic, such as COVID-19, and where a disruption in supply chains is harmful for all, and especially for the most vulnerable. While production, trade and investment operate on a global scale, governments lacked established or adequate global solidarity frameworks and the capacity to act quickly and cohesively in the interest of the common good.

3. COVID-19 distressed the already fragile global economy, which had never really fully recovered from the 2008-2009 financial and economic crisis, and aggravated the existing discontent caused by globalisation. Moreover, it confirmed once again that free and open trade alone is not enough for inducing productivity convergence across the globe and improving peoples’ living standards. In fact, the pandemic has hit a world in which the prevailing organisation of production along complex, geographically dispersed supply chains was questioned on multiple fronts. Advanced economies, which host most of the world’s multinational firms and which control global production networks, were faced with job losses. At the same time, industrial hubs faced new challenges, seeing their capital, image and technological leadership depleted. In parallel, several developing economies realised that benefiting from growing participation in global markets was not a low-hanging fruit. Targeted and proactive policies as well as strong negotiation capacities have been necessary to ensure learning spillovers to the local economy and to preserve the environment and workers’ safety. In addition, pre-COVID-19, three important trends were at play: the shifting of global equilibrium towards the East, and most notably to China, the rise of digitalisation and the growing demand for sustainability and inclusiveness. The pandemic has acted as an accelerator of these trends, making the redefinition of globalisation and the way that trade and production are being conducted issues of primary importance for the world.

4. The pandemic is exposing and intensifying the need for a deep transformation of the global economy. Major financial and fiscal resources are needed to sustain economic activities, support entrepreneurs and workers and avoid the prolonged inactivity and underutilisation of capital and know-how. Indeed, the investment recovery packages governments are deploying are impressive. The United States, through the Coronavirus Aid, Relief, and Economic Security (CARES) Act allocated USD 2.1 trillion (which rounds about 10.5% of national GDP) to economic recovery. This package contains a USD 670 billion fund (approximately 3% of national GDP) to support small and medium enterprises (SMEs) through the Small Business Administration (SBA) programme. The EU, after several rounds of negotiations, has rolled out a EUR 500 billion aid programme. In Africa and Latin America too, governments are ramping up investments too. In Egypt, the government has allocated USD 6.2 billion (about 2.4% of GDP) for economic recovery, South Africa approved a R500-billion worth of economic spending and loans (about 10% of GDP), while in
Peru a USD 26 billion fiscal stimulus has been announced (for an equivalent to 12% of GDP) for cushioning the health emergency and kick-starting the recovery.

5. The pandemic is teaching governments and businesses some important lessons. Among them, the need for maintaining manufacturing capabilities within reach – not only logistically, but also in terms of control and dialogue capacity between governments and firms – and the need to define new, effective frameworks for international economic co-operation and solidarity are useful to identify key issues at stake for ensuring economic resilience and to build back better. The injection of significant public resources to face the emergency and to kick-start and sustain the economic recovery represent a major opportunity to advance in redefining globalisation. To make a difference, policies and reforms should go beyond reconstruction and rebuilding, they should focus on transforming globalisation to maximise its impact on inclusive and sustainable development. In this respect, four issues are of particular importance:

- **Defining mechanisms for collective accountability.** The COVID-19 pandemic revealed the asymmetry between fast speed, globally interconnected economies and the lack of mechanisms for collective accountabilities on multiple fronts. On the healthcare side, the rush to enact export restrictions and bans (as of June 23rd 95 countries still had in place some form of export restrictions on medical supplies linked to COVID-19), exposed the fragility of a global system that lacks provisions to deal with systemic and global risks. For example, maintaining manufacturing capabilities within reach – not only logistically, but also in terms of control and dialogue capacity between governments and firms – and the need to define new, effective frameworks for international economic co-operation and solidarity are useful to identify key issues at stake for ensuring economic resilience and to build back better. The injection of significant public resources to face the emergency and to kick-start and sustain the economic recovery represent a major opportunity to advance in redefining globalisation. To make a difference, policies and reforms should go beyond reconstruction and rebuilding, they should focus on transforming globalisation to maximise its impact on inclusive and sustainable development. In this respect, four issues are of particular importance:

- **Strengthening place-based planning, monitoring and measurement.** The COVID-19 pandemic confronted governments with the hard task of having to communicate and deliver goods and services with a granularity hardly experienced in recent times. Those involved with health emergencies, natural disasters or other similar crises know by default that socio-economic phenomena are not abstract but happen in given places. They also know that local capabilities and the density and quality of networks shape the response capacity and ultimately the resilience of places, making some thrive while others fail to recover. However, too often, national policymaking operates in a space-blind logic, often hampered by poor multi-level governance coordination and media obsessed with country benchmarking. A positive heritage of this pandemic should include the development and adoption of a renewed and more systematic place-based approach to planning, policy-making and measurement. Advancing in this area would contribute not only to improve countries’ response capacity to future emergencies, but also to better manage the state-market relationship in ordinary times, matching government actions to citizens’ needs.

- **Fast-tracking the potential benefits of digitalisation, cushioning potential divides.** COVID-19 has accelerated the diffusion and adoption of digital technologies, disrupting institutional inertia in ushering modernisation in unthinkable ways. The reaction to the pandemic caused a simultaneous jump into a digital future, as firms and public administrations worldwide reorganised their business models and work routines to continue delivering during lock-down and in what is being called “the no touch economy”. Despite the concerns on its capacity to support a major jump in users, the internet infrastructure continued performing. In

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For a pre-COVID-19 analysis on industry 4.0 and development see: Lee, Malerba and Primi (2020), here and Primi and Toselli (2020), here.