



SPECIAL REPORT

CORONAVIRUS COLLECTED WORKS: MEDICAL, ECONOMIC AND GEOPOLITICAL IMPACTS

Table of Contents

Analysts contributing to this special report.....	4
Chinese New Year 2020: The Year of the Coronavirus	6
The Geopolitics of the Novel Coronavirus	12
Weekly Graphic: Coronavirus in Russia	15
China, Ultra-Competence and Coronavirus	16
What We're Reading: Pandemic: How to Prevent an Outbreak	20
Assessing the Economic Effects of the Coronavirus	22
George Friedman's Thoughts: Variations on Apocalypse.....	27
How Dangerous Is the Wuhan Coronavirus?	30
The Coronavirus Outbreak: Impact on Iran	33
Thoughts on the Coronavirus	38
Weekly Graphic: U.S. Student Loan Debt	41
The Most Important Coronavirus Question	43
George Friedman's Thoughts: Compromising on Corona.....	48
The Next Phase of China's Fight with the Coronavirus.....	50
Is It Even Possible to Contain COVID-19?.....	54
Quarantine and the Supply Chain	57
George Friedman's Thoughts: Whatever Happened to Brexit?.....	59
The EU Wasn't Built for This	63
Weekly Graphic: Healthcare Resources in the European Union	68
Modeling the US Reaction to the Coronavirus.....	70
The Coronavirus and the Rural-Urban Divide.....	73
The Calculated Risk of the Coronavirus.....	78
Weekly Graphic: The German Economy Is in Trouble	81
Arab Perspectives on the Coronavirus	83
The Method to Bolsonaro's Madness	87
George Friedman's Thoughts: Thinking About This Moment	93

Not Another Eurozone Crisis.....	96
What We're Reading: The Plague	101
The Indo-Pacific After COVID-19	103
Weekly Graphic: The Coming Decline of Global Trade.....	109
The Beginning of Social Dysfunction.....	111
Weekly Graphic: Fiscal Measures to Combat the Coronavirus	114
From Our Daily Memos	116

Dear Subscriber,

We've been tracking the progress of the coronavirus since reports surfaced. What was once a string of unconfirmed rumors has become a full on global pandemic, with the outcomes for dozens of nations uncertain and millions of lives thrown into confusion.

Geopolitical Futures is by no means a company of medical professionals, but then the outbreak was never strictly a medical crisis. It is also an economic and social crisis, the geopolitical ramifications from which will grow starker as governments struggle, however successfully, to ensure the safety of their countries and the people who live there.

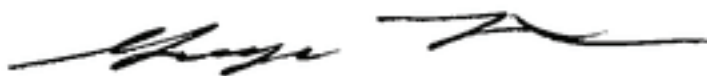
It's certain that the virus will continue to spread and that the medical community will do whatever it can to fight back. But until it is contained or sufficiently mitigated, governments will have to make some difficult decisions that will affect our economies, our societies and, in time, how nations behave with one another.

Financial devastation is vulgar compared to a death in the family, but it can destroy lives in its own way. It's difficult to find much solace in your health when you're chronically unemployed in an economic recession or depression.

Likewise, it's difficult to self-quarantine for a few weeks or months; it's impossible to self-quarantine for years. Humans are social by nature. We work, we play, we court others. Interaction is not optional. In that sense, the social consequences to the outbreak could be dire.

Geopolitically, some of the world's most pressing issues – Russia vs. Turkey in Syria, the U.S.-led campaign against Iran – have been pushed to the backburner. Others – the fragmentation of Europe – are coming into even starker relief. But none are going away.

There is still much we don't know. Enclosed is a compendium of analyses that chronicles our coverage of the virus to tide you over until we have a better idea of what comes next.



George Friedman

Analysts contributing to this special report



[George Friedman](#) is the founder and chairman of Geopolitical Futures and author of the new book *"The Storm Before the Calm: America's Discord, the Coming Crisis of 2020s, and the Triumph Beyond."*

[Alex Berezow](#) joined Geopolitical Futures to analyze the impact of science, technology and public health on geopolitics. He is also vice president of scientific communications at the American Council on Science and Health.



[Phillip Orchard](#) is an analyst at Geopolitical Futures focused on China and East Asia. He holds a master's degree in security, law and diplomacy from the Lyndon B. Johnson School of Public Affairs.

[Valentina Jovanovski](#) is an editor at Geopolitical Futures and has a master's degree in political science from Carleton University in Ottawa.



[Caroline D. Rose](#) has a master's degree in the history of international relations from the London School of Economics and Political Science and writes on the Middle East and Europe.

[Allison Fedirka](#) is the director of analysis for Geopolitical Futures. She is fluent in Spanish and Portuguese and has a master's degree in international relations and affairs from the University of Belgrano, Argentina.





[Hilal Khashan](#) is a Senior Analyst at Geopolitical Futures and a Professor of political science at the American University of Beirut. He is a respected author and analyst of Middle Eastern affairs and author of six books, including *Hizbullah: A Mission to Nowhere*. (Lanham, MD: Lexington Books, 2019.)

[Antonia Calibasau](#) is Geopolitical Futures' COO and a Senior Analyst who frequently writes and speaks on international relations, the EU and risk analysis. She holds a Doctorate in International Business and Economics from Bucharest's Academy of Economic Studies.



[Ryan Bridges](#) is an editor with Geopolitical Futures, having spent years both editing and writing geopolitical articles. He joined Geopolitical Futures in 2017 and spent over a year as a geopolitical analyst writing on Europe and focusing on issues relating to the European Union.

Chinese New Year 2020: The Year of the Coronavirus

January 24, 2020

By [Phillip Orchard](#) and [Alex Berezow](#)

The biggest political and economic effects of pandemics come from public panic and panicked government responses, not the disease itself.

Grappling with internal political pressures, a slowing economy, an open rebellion in Hong Kong and an unresolved trade war with the U.S., Chinese leaders may have already been in a less-than-celebratory mood heading into this year's Lunar New Year festivities, which begin Jan. 25. The last thing the government needed was an outbreak of infectious disease, particularly when hundreds of millions of people are expected to travel throughout the country and beyond. Not only is that exactly what happened, but the disease – a new type of coronavirus – is unknown to science.

The severity of the virus (known as nCoV or the Wuhan Virus) is uncertain, nor is it clear if it will mutate and spread. The World Health Organization has yet to label it a global health emergency. But it's certainly not yet contained. As of Thursday, there were more than 653 confirmed cases across seven countries, including the United States, and 18 people had

died. And despite repeated assurances that it had matters under control, the government on Wednesday began locking down Wuhan, the provincial capital of Hubei, where the outbreak started, and three nearby cities. Doctors in Wuhan are reportedly expecting the number of infections to exceed 6,000, and local authorities are planning to build a special hospital in just six days to handle the epidemic.

There's reason to believe the disease isn't nearly as big a threat to public health as the one posed by the SARS outbreak in 2003, which killed nearly 800 people. Inevitably, though, the biggest political and economic effects of pandemics come from public panic and panicked government responses, not the disease itself. And given Beijing's checkered track record for managing these sorts of emergencies over the past two decades, the Communist Party of China's very legitimacy might just prove to be on the line.

How Bad Is It?

Coronaviruses come in a variety of strains. Some, such as the one that's one of the many causes of the common cold, are relatively harmless. Others, such as those responsible for SARS and MERS, are potentially lethal. The

dangerous coronaviruses seem to be linked to animals. SARS may have originated in bats and then spread to humans via civets, which are eaten as a delicacy in China. MERS also came from bats but spread to humans via camels, once again, perhaps through consumption of raw camel milk or meat. It is therefore reasonable to suspect that the new coronavirus is linked to animals that are eaten. Indeed, the reason China is always likely to be ground zero for the next influenza pandemic is that millions of people regularly come into contact with livestock. As Smithsonian Magazine wrote,

“Many Chinese people, even city dwellers, insist that freshly slaughtered poultry is tastier and more healthful than refrigerated or frozen meat.”

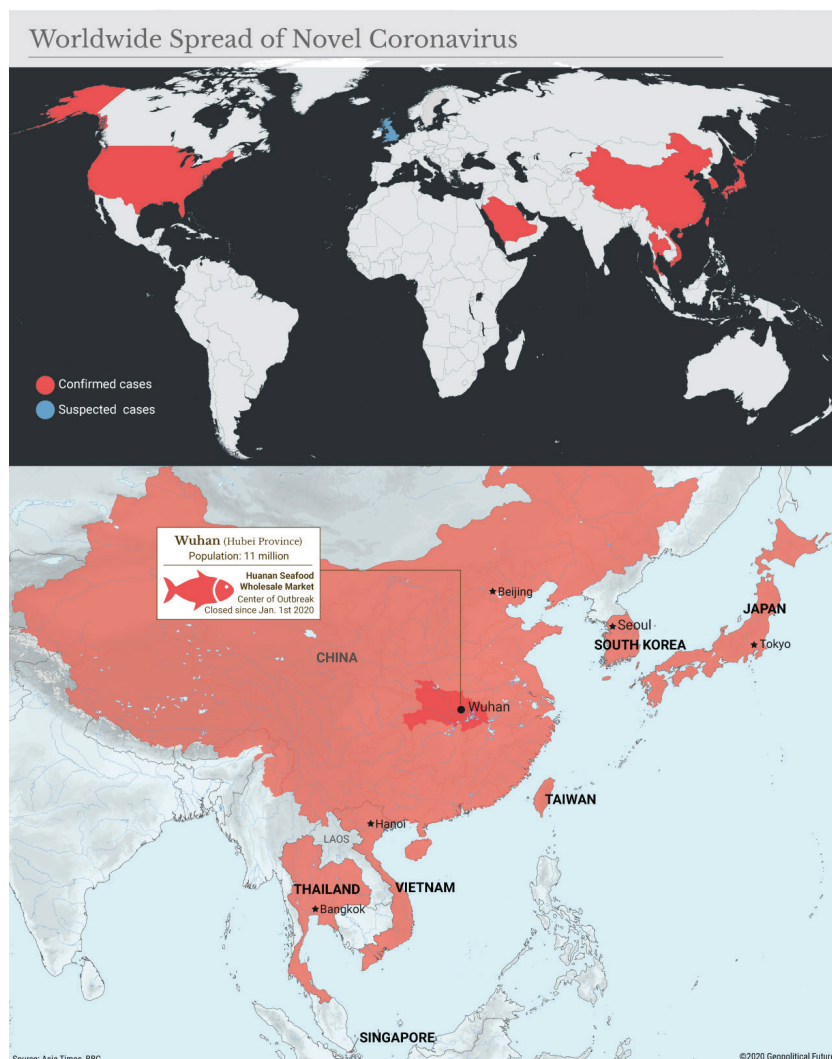
Whatever the source, it's now been confirmed to be capable of being transmitted from one human to another. Even so, the new coronavirus will have a limited direct impact on public health. SARS appeared in 2002, spread quickly around the globe in 2003, infected 8,096 people and killed 774. Then, with the exception of a handful of cases, it mostly disappeared. MERS has infected 2,442 people and killed 842.

It still lingers throughout much of the world, particularly in the Arabian Peninsula. And though the reported case-fatality rates for both seem high – 9.6 percent for SARS and 34.5 percent for MERS – bear in mind that many mild cases probably went unreported. The real case-fatality rate is likely lower.

The damage inflicted directly by the disease is therefore highly unlikely to have much long-term impact. But, particularly in China, the potential economic and political implications can't be dismissed.

Economic Impact

The problem with new outbreaks is that the public and public officials alike can't exactly wait until all the facts become clear before



taking preventative measures. And it doesn't take much for fear of the unknown to grind public transportation systems to a halt, empty out shopping centers, movie theaters and restaurants, and, most important, persuade revelers to just stay put this year during the Lunar New Year rather than join the hundreds of millions of people who take part in the world's largest annual human migration.

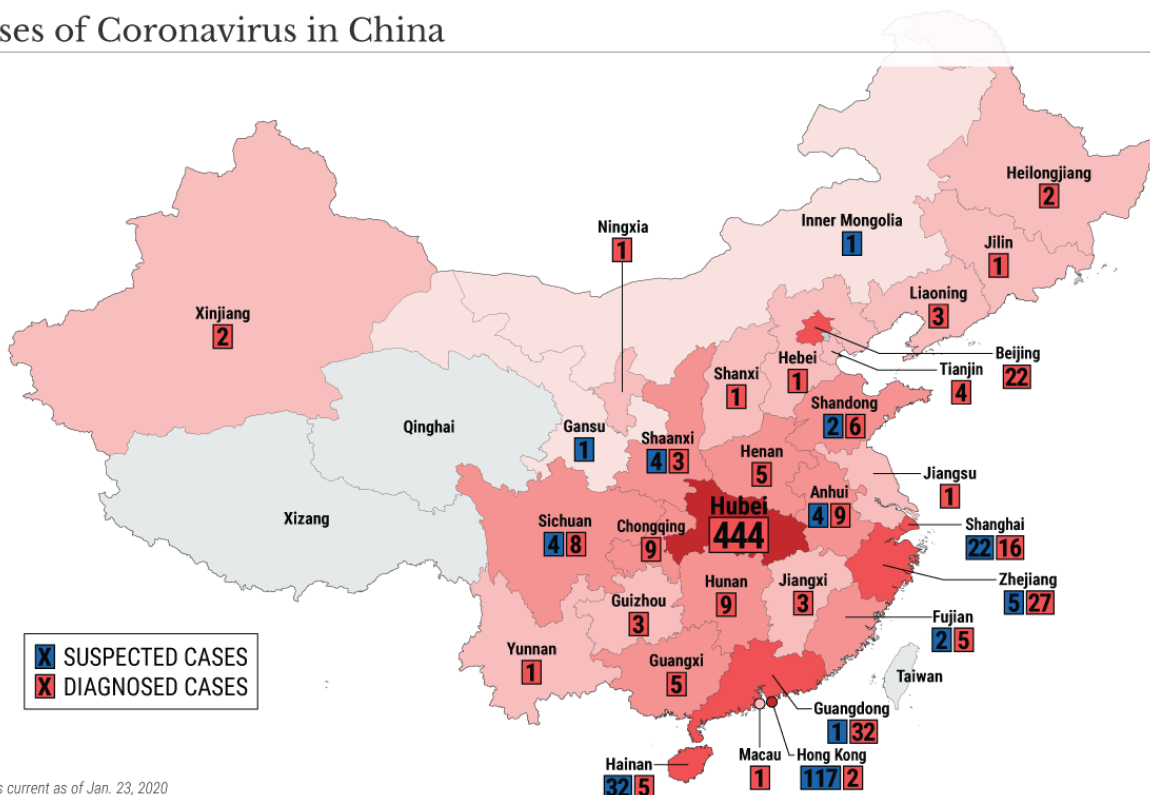
The costs add up quickly. The SARS outbreak in 2003, for example, dented Chinese gross domestic product by as much as \$30 billion, reducing annual growth by between 1-2 percent. Globally, the bill for the pandemic ran up to as much as \$100 billion.

Not all economic activity will be lost for good.

Short-term hits to the sorts of sectors most exposed to the epidemic – mostly ones tied to consumer spending – often lead to supercharged recoveries. Chinese growth drivers where short-term disruption would have longer-lasting effects, such as manufacturing exports, industrial production and investment, stayed mostly intact in 2003. Indeed, while Chinese GDP growth dropped from 11.1 percent in the first quarter of 2003 to 9.1 percent in the second, it bounced all the way back to 11.6 percent a year later.

Still, even if nCoV proves more manageable than SARS, there are reasons to think the impact this year will be worse. For one, the SARS epidemic occurred on the heels of the dot com crash, when consumer spending across the region was

Cases of Coronavirus in China



Note: Figures current as of Jan. 23, 2020

Sources: China's National Health Commission, The Economist Intelligence Unit

© 2020 Geopolitical Futures

already somewhat suppressed. (Incidentally, the resulting reduction of international travel may have helped contain the spread of the virus.) For another, locking down an urban area as large as Wuhan – a city at the center of one of China’s most important internal shipping routes along the Yangtze – will be immensely disruptive.

Moreover, a substantial portion of the lost holiday spending will never be recovered. This is a problem for Asia Pacific nations that, unlike in 2003, are now highly dependent on Chinese tourists. All told, Chinese people took an estimated 130 million more trips abroad in 2018 compared to 2003, and before the outbreak, the China Outbound Tourism Research Institute predicted that more than 7 million Chinese people would head overseas during the Lunar New Year this year. In Thailand, which has already reported four cases of nCoV, foreign tourism accounts for as much as a fifth of economic growth. Around 57 percent of visitors to Thailand last year were Chinese, including more than 2 million in January and February alone. Japan, which hosts the 2020 Summer Olympics, is estimating an economic loss of nearly \$25 billion if the virus spreads as widely as SARS.

The biggest difference for China this time around is that the economy can’t as easily shrug off a major shock. In the early 2000s, annual GDP growth was still climbing well above 10 percent. Today, with a long structural slowdown well underway, Beijing is running up staggering debts

just to keep growth from swan-diving below 6 percent. Add to this an unresolved trade war with its largest export customer – along with its scramble to implement critical but growth-sapping measures to stave off a financial meltdown before the next global slowdown strikes – and the epidemic starts to look like the sort of thing that could derail Beijing’s best-laid plans for avoiding an economic reckoning.

Political Impact

The outbreak will also complicate a broader, existential challenge weighing on the CPC: preserving its very legitimacy with the public. Delivering steady gains in prosperity is, of course, at the center of this challenge. But breakneck economic growth has become impossible to sustain – and was never going to be sufficient, anyway. The wealthier a country becomes, the more its citizenry demands quality of life that can’t be sourced solely from rising GDP, things like clean air and water, medical services, social safety nets and responsive, corruption-free governance. This is why President Xi Jinping has encouraged the party to shift its focus to “high-quality growth,” and it’s why he’s put environmental and emergency management initiatives at the center of his sweeping reform agenda. No amount of propaganda or censorship can convince his people that a smog-choked sky is actually blue or make devastation from an earthquake disappear.

The 2003 SARS outbreak laid bare the political risks of mismanaging a public

health emergency. The government came under withering public criticism for covering up the scale of the epidemic (inadvertently worsening panic), impeding the World Health Organization's investigation, and moving slowly to contain the outbreak. Bungled government responses to a number of other crises, such as the 2008 Sichuan earthquake, a high-speed rail accident in 2011, and a string of scandals involving tainted milk, tainted vaccines and fiery industrial accidents likewise prompted fierce public outcry. Beijing received higher marks in subsequent health scares, particularly the H1N1 bird flu outbreak in 2009. And this time around, initially at least, it received international praise for its improved transparency and swiftness in moving to contain the virus. Chinese authorities had isolated and published the nCoV genome by the second week in January, allowing foreign governments to develop critical testing procedures for the virus. Xi addressed the emergency personally last week, ordering "all-out prevention and control efforts." China's top political body responsible for law and order said officials who withheld information would be "nailed on the pillar of shame for eternity."

But facts on the ground are once again giving the public reason to doubt its government's candor and capability. Authorities have been claiming for more than a month that the virus is "preventable and controllable." Now, they're taking extreme measures like locking down the Wuhan metro area, home to some 19 million people, and making belated mea culpas. The government has also struggled to abandon

its practice of reflexively cracking down on independent sources of information, despite commands to do so from on high. This has led to contradictory messaging and suppressed information that might have helped contain the virus. Chinese censors initially ordered local media outlets to stick to reprinting official reports, according to the Financial Times, effectively silencing independent reporting. And in early January, eight people were reportedly detained for posting information about the outbreak on social media. As also happened in the SARS outbreak, moreover, the government's rigidly enforced top-down decision-making structure has once again worsened matters by incentivizing, for example, hospitals to under-report cases and local authorities to go forward with high-profile public gatherings deemed politically important.

For all the criticism they are receiving, authorities in Beijing are trying to address a problem that would bedevil any government. China is very large and very dense. As happened with SARS, panic would almost certainly do more damage than the disease itself. And Beijing may reasonably conclude that resorting to drastic measures may truly be in the public interest, even if they're at odds with public sentiment. Perhaps more than any government, Beijing has given itself the power to surveil its citizenry, to shut down cities, to silence unfounded rumors on social media – all without permission. Such powers certainly could come in handy in this sort of crisis.

But by hoarding authority – by insisting on the right to micromanage the country – the CPC has raised the bar for what the public expects in response when the country is under attack, whether from foreign powers, economic forces or viral mutations. This is a problem when tight centralization has also, paradoxically, created a rigid top-down institutional culture that's ill-suited to respond nimbly to public demand.

When faced with a crisis, the machinery of the state is programmed to default to the tools it knows best. Censorship, disinformation and problem-solving by brute force are hardwired into the Chinese system, often making it at once flat-footed and prone to overcorrection. Yet, the more pressure intensifies, the more Beijing is doubling down on this model. And the stakes riding on its bet are getting higher.

The Geopolitics of the Novel Coronavirus

February 4, 2020

By [George Friedman](#)

Geopolitics is a fairly slow-moving process that unfolds in predictable ways. This is usually the case. There are then moments when a wild card enters the system from the outside, unpredictable yet significant. At the moment, we can't tell if the new coronavirus is such an event. We don't know exactly how it is transmitted, how lethal it is, whether it causes long-term illness and so on. We know it has broken out in a Chinese city, Wuhan; that the Chinese government regards it as serious enough to impose significant controls on movement in and out of Wuhan; and that a small number of cases in China, relative to the population, and a smaller number of cases outside of China have been reported. For this we depend on media reports, since our own knowledge of viral medicine is limited.

Geopolitically, communicable disease ranges from the common cold to the Black Death. The former is ever-present but of little consequence; the latter massively disrupted European society and, in some cases, shifted the regional balance of power. There is a trigger point between these two diseases where the political system erects disruptions in everyday life and commerce designed to limit the effect of the disease. To some extent these actions are effective, and to some extent they can be sufficiently

disruptive to cause economic problems. We are at the moment teetering between these points, with the consequence of the disease and the consequence of protecting against the disease uncertain.

The major threat would appear to be travelers carrying the virus. The United States has banned travel to the U.S. for foreigners who have traveled to infected regions, while U.S. citizens may return but are quarantined for two weeks. Major U.S. airlines are starting the process of suspending all flights to and from China, but Chinese airlines and U.S. cargo carriers are still flying to the U.S. Other countries like Russia have also imposed travel bans. The U.S. government has imposed very limited barriers, through which the disease is likely to pass. Most important, maritime shipments to and from China have not been significantly disrupted. This is vital, because if they were to be suspended, the situation would transform from a problem to a crisis.

China is dependent on exports to maintain its economy. About 20 percent of its gross domestic product derives from exports, and its single largest customer is the United States, despite the trade dispute. Assume for the moment that the new coronavirus were closer to the bubonic plague than the common cold, or assume that the panic that arises from the fear of the un-

known compelled the governments of multiple advanced countries to place China under quarantine. It is an unlikely but far from impossible outcome.

The Chinese government has been under intense pressure in three ways. First, the crack-down on Xinjiang province generated a massive negative response from Europe and the United States. Alongside that, the United States imposed significant tariffs on China. The contraction in exports hit a financial system that the Beijing government was already struggling to stabilize. This led to fear among Chinese authorities of unrest over economic and financial issues. The result was increasing security, from recognition technology to intrusion into the internet and periodic arrests of those considered dissidents. Economic insecurity led to increased security. This in turn led to Hong Kong. The Hong Kong riots were triggered by a bill that authorized China to extradite Hong Kong residents. This was a desire Beijing did not have before. But as the situation intensified, the desire to assure stability in Hong Kong increased. With the bill, some in Hong Kong recognized that extradition could be carried out for things legal in Hong Kong and could lead to extreme sentences. It represented an existential threat to many in Hong Kong, and the results were transmitted around the world.

A chief responsibility of the Chinese president is to manage relations with its most important customer, the United States. China has deflect-

ed American demands to open its markets and not manipulate its currency since the George W. Bush administration. It was expected that President Xi Jinping could continue this process. He failed to manage U.S. President Donald Trump, and the result was that an exporting nation faced a challenge from a consuming nation. To put it more simply, there is a rule in business that you should never have a fight with your best customer. Xi violated this rule by winding up in a tariff fight with the United States.

There is no evidence – but then, there wouldn't be – of a fight in the Central Committee of the Chinese Communist Party over Xi's stewardship. The Central Committee is packed with Xi supporters, of course, but a situation like what has developed must cause concern and generate ambitions. The idea that the Central Committee was content with the financial situation, trade war, Hong Kong and Xinjiang is to me the least likely situation.

Now, to the coronavirus. Assume that the fears that are being expressed do not turn out to be exaggerated. Assume that in response to this, massive trade restrictions and embargoes were imposed on China and that freighters were not permitted to dock in Long Beach or Rotterdam, nor would they be permitted in Shanghai. With the Russians already screening China's northern border, China would be isolated.

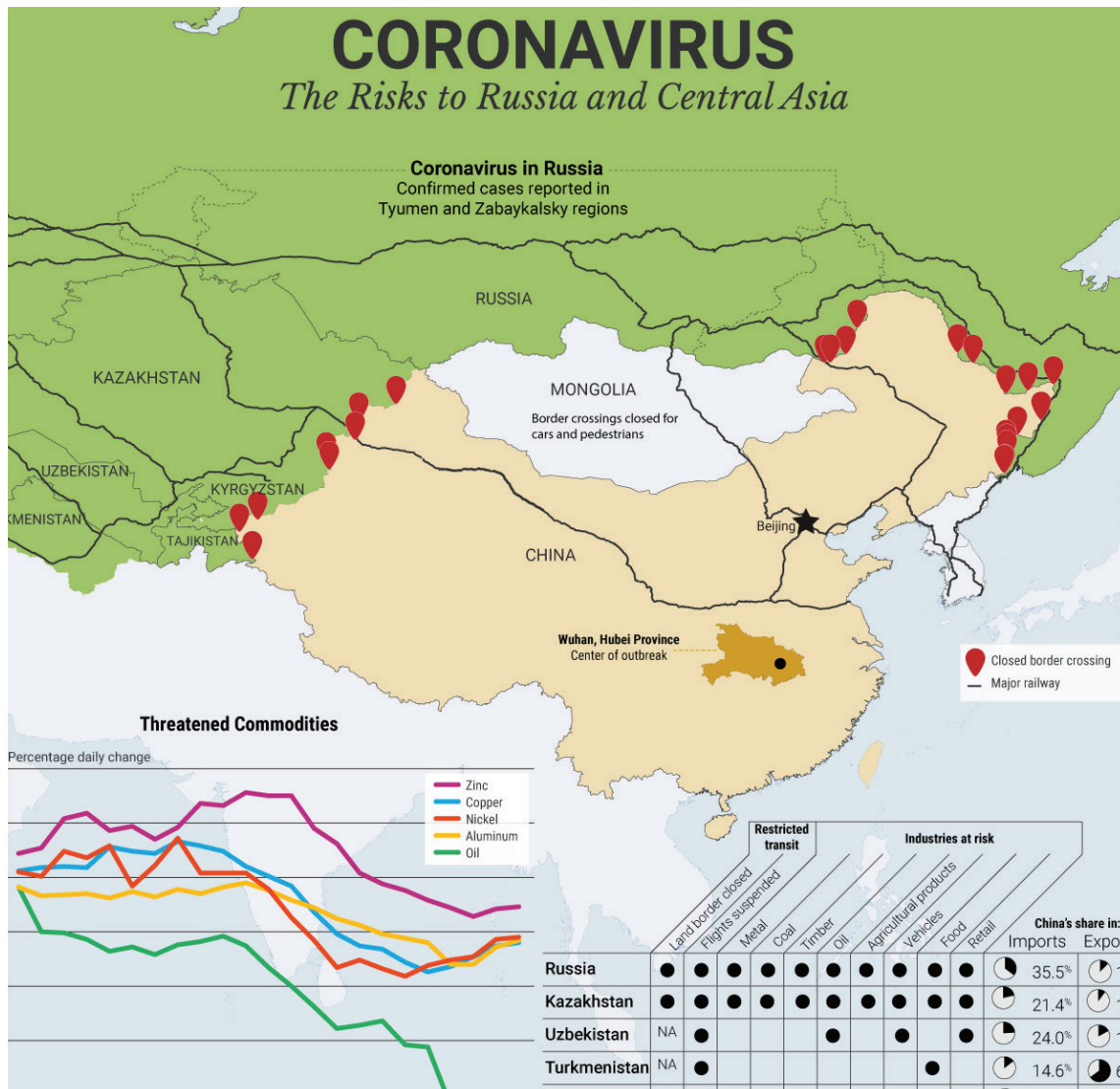
China is a nation whose core dynamic is based on international trade. Under pressure from

the United States, a dangerous virus would inevitably cripple that trade at best. At this point, the Chinese government, like any government, would be blamed for what went wrong, and it would be blamed for mismanaging the virus and failing to understand the economic consequences. From here you can play out the game.

The reason for this exercise is to point out that the coronavirus is neither a geopolitical nor a political event. Diseases emerge with some frequency. But given the Chinese dynamic and China's current condition, the virus could readily evolve into a geopolitical and political event, in which tension within China might explode, with the coronavirus the last straw and China's international position transformed.

To emphasize, I have no idea what "2019-nCoV" is or what it will do, but judging from what is being said about it and the level of anxiety, I will assume for the sake of argument that it is more dangerous than not. Then, given the evolution of the past year or two, and given the fear that always follows new, deadly diseases, we could see a fundamental transformation of the international system.

Not all events are geopolitical. They do not arise out of relations between nations. But events that are unconnected to geopolitics can connect themselves to the system and disrupt it. This is meant as an exercise in geopolitical theory. It is not insignificant in the case of China, which has had a difficult period and doesn't need to be quarantined by the world.



Weekly Graphic: Coronavirus in Russia

February 7, 2020

The number of coronavirus cases in China now exceeds 30,000, and the risks outside of the country are growing, not just in terms of the number of people infected but also in terms of the economic impact. The economic costs are difficult to gauge right now because the full ramifications may not appear for another cou-

ple months. Still, Russia and the countries of Central Asia have been among the first to feel the effects. In addition to sharing a border with these states, China is a top trading partner for them. It's the largest supplier of component parts widely used in their domestic industrial sectors and one of the largest export destinations for the energy and metallurgy sectors. The decline in Chinese demand and the subsequent decline in the price of commodities, including oil, could take a toll on the already fragile economies of this region.

China, Ultra-Competence and Coronavirus

February 11, 2020

By [George Friedman](#)

The Communist revolution brought to power Mao Zedong. It created a state based on ideology, the belief that what would emerge from the long revolution would be a nation based on communism, and that with that China would experience both a prosperity and community it had never had. But the price that had to be paid to reach that goal would be ruthless oppression and suffering. This was designed both to build communism and expunge the anti-communist habits that were ingrained in the Chinese people. Mao was the prophet of this transformation of the human condition, and the Communist Party would be his instrument. But since bad habits were to be found in the Communist Party as well as among workers and peasants, the party itself had to be periodically and ruthlessly cleansed.

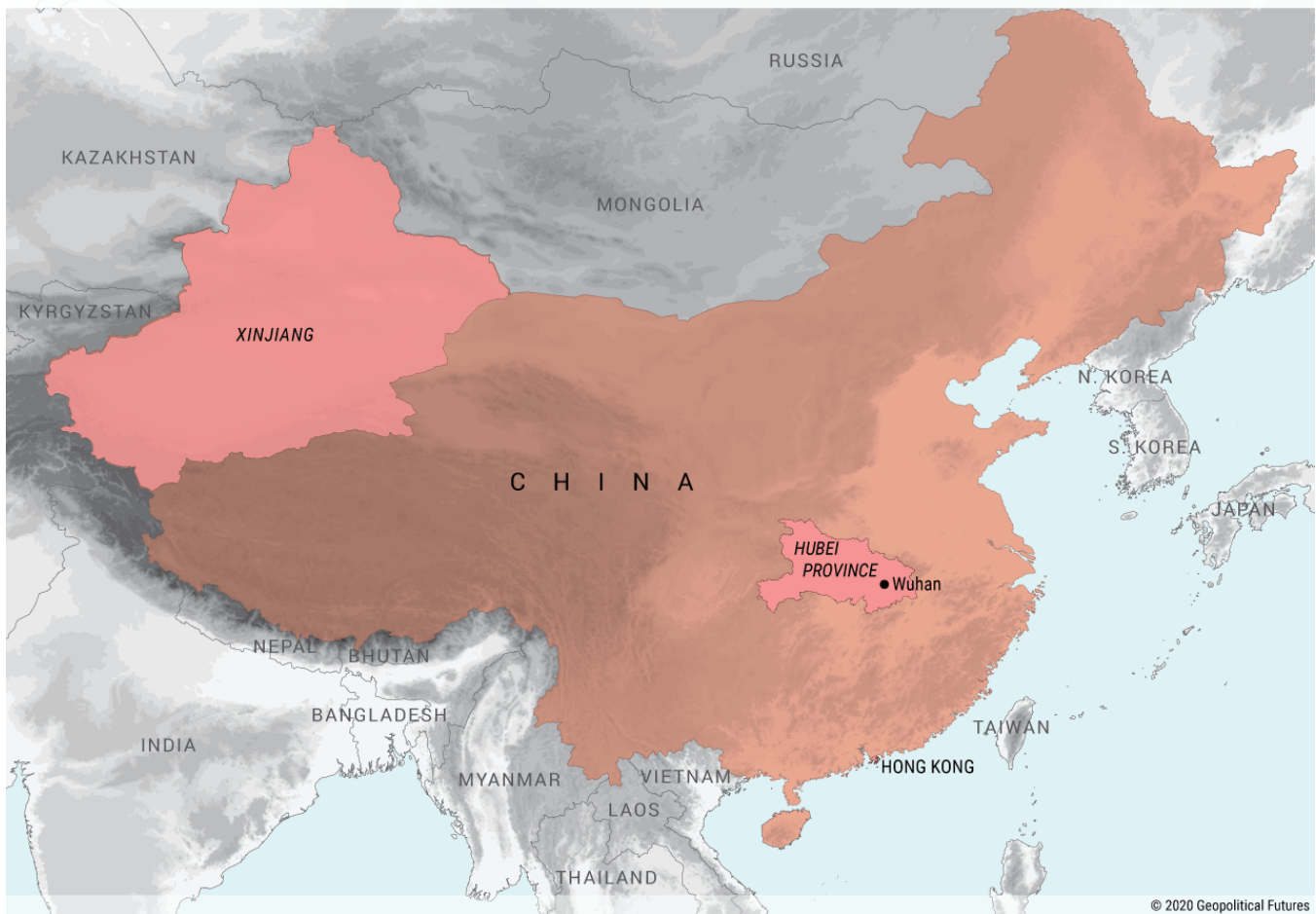
China experienced multiple campaigns for purification, each more intense, and these outlived Mao himself. The Chinese people endured them for two reasons. First, they, or at least their children, would enter the new world. Second, the Chinese Communist apparatus and the forces it mobilized were pitiless and powerful. They could not be defeated. After Mao's death there was a political struggle,

and Deng Xiaoping emerged. He was an enemy of Maoism when Maoism was gone, and he took a different approach to the future of China. It would be a state still ordered by the Communist Party, but its ends would not be millenarian. His goal was simply prosperity, achieved by empowering entrepreneurs to become rich. They would become rich because they would be free to employ their competence, and their competence would cascade on the Chinese people. He gave the Chinese people not only hope in a real future, but also the opportunity to exploit their talents. The Communist Party was still there, guaranteeing stability and practicing a systemic corruption in which the party and its senior members benefited disproportionately, but it was a small price to pay for a competent regime.

The 2008 global financial crisis raised the question of the party's competence. China had built its wealth on exports, and in 2008 the appetite for Chinese goods around the world contracted. The Chinese economy could endure this, but the financial system was destabilized. China's economy existed on bank debt, and the failure of exports put enormous pressure on the banks. The competence of the state was no longer assured.

The solution emerged over the past decade of

China's Recent Areas of Tension



a powerful China searching for economic balance. The solution had to increase the power of the state, root out corruption (or at least unsanctioned corruption) and create a dictator whose claim to legitimacy was his knowledge of how to be competent in governance, economics and foreign policy. The Chinese public on the whole was far more interested in prosperity than in abstract liberty, and Xi Jinping came to power promising to combine the power of the state with the desire for economic growth, and to increase Chinese power.

Xi has had a difficult time. He has failed to

stabilize the banking system sufficiently; he has failed to manage China's biggest customer, the United States, as his predecessors did; his actions in Xinjiang cost China some of the international respect that it craved; and Hong Kong rose up against his will. Competence is a difficult ideology. Its successes and failures are far more evident than in other ideologies. The competent leader must demonstrate his competence in all things, for if he is not competent, and he does not have visions of a future redemption of all things, then he is just another time server, making speeches.

The problem with competence-based governments is that the public frequently expects competence to produce miracles, and when disappointed, the public can turn vicious. The case of the coronavirus is an example. Xi and his staff know as little of epidemiology as I do, and even the epidemiologists are taken by surprise about new diseases. And when diseases are new, their behavior is unpredictable. The new virus may be as deadly as the common cold, or it might match the Black Death. The very novelty of the disease creates one of two responses. One is panic. The other is dismissal.

For a competent politician, there are three risks. First, failing to notice in a timely manner the existence of a new disease in the midst of daily work. Second, ordering measures that enrage the public, perhaps unnecessarily. And third, failing to order measures to limit a disease that turns out to be extremely serious. Starting from the point of ignorance, and having heard many claims on many subjects by experts, the tendency is to avoid overreacting, for which he is rarely thanked, but will be pilloried if he makes the wrong move.

Xi is president because he has sold himself as ultra-competent. Events such as the coronavirus outbreak eat ultra-competence alive. As the minor disease shows itself to be more deadly, and the opening casualness misplaced, the ultra-competent politician has as his primary goal retaining his reputation. Step one is to ignore the event. Step two is to say it is under control. Step three is to silence those who say it is not under

control. The ultra-competent leader doesn't have a step four. The disease will take its own course, practicing its own style of competence.

The doctor who was one of the first to sound the alarm about the virus died of it. It is not an unreasonable outcome when you think of it, but the theory arises that he was silenced by Xi (step three) in order to hide the truth. If he was silenced by anything other than the disease, it didn't work anyway. The fear that the disease strikes in us must be blamed on someone. No one would dare have blamed Mao, who would have answered that the disease was a useful lesson on the road to communism. But the ultra-competent politician doesn't have that "out."

It has to be remembered that Xi has created a powerful sense of both omniscience and competence. His performance has been far less impressive. Given the state of the economy prior to the coronavirus, and his relationship with China's biggest customer, he had problems. But he could cover the failures with bombast and illusion. Disease doesn't allow that. Xi's job is to manage China competently, and managing a new disease is hard. It is still not clear – to me, at least – what kind of disease it is on the cold or Black Death scale, but ignorance has created a kind of global quarantine on China, although freighters still sail. So the question is whether Xi can retain his reputation as the ultra-competent leader after trade wars with the United States, the Uighur camps in Xinxiang, riots in Hong Kong and now coronavirus, and what will happen in China if he can't. It is not so much that the disease appears

so deadly as the way it was handled. And paradoxically, it seems to be Xi's inability to handle something that by its nature can't be handled, while failing to control things that could be handled, that poses the extreme risk for him. Politics in China is as vicious as politics anywhere. It is merely more circumspect. But the public needs someone to blame for this crisis, and a leader who lives by the claim of competence is a likely target.

What We're Reading:

Pandemic: How to Prevent an Outbreak

February 11, 2020

Review by [Valentina Jovanovski](#)

Directed by Doug Shultz

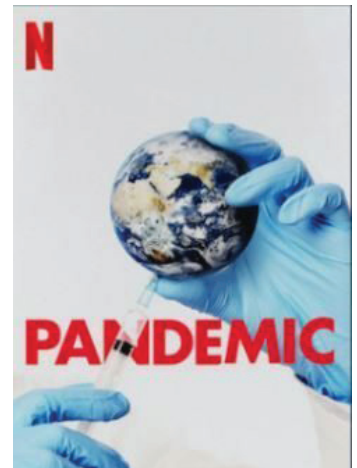
How prepared are we really for a deadly disease outbreak? If an outbreak were to happen, how quickly would it spread and how many countries could be affected? Would hospitals and medical personnel be able to cope with a virus for which there's no cure and that has, within a matter of months, infected tens of thousands of people?

We're beginning to see some hints at the possible answers to these questions with the outbreak of the novel coronavirus. The disease, which originated in Wuhan, China, has so far affected 25 countries around the world, compelling the World Health Organization to declare the outbreak a global public health emergency. On Tuesday, the number of deaths in China from the coronavirus topped 1,000, while the number of people infected exceeded 40,000. These are some concerning figures considering the virus was discovered only in late December. Already, the government in Beijing has been widely criticized for its handling of the disease, criticism the government is now trying to counter by,

among other things, parading President Xi Jinping in front of the cameras, wearing a surgical mask and getting examined by medical staff.

Because this story has been headline news for a few weeks now, Netflix's release last month of the six-part docuseries "Pandemic: How to Prevent an Outbreak" is incredibly timely. The series examines how vastly different countries with vastly different public health systems have handled outbreaks in the past. It explores how doctors in India have dealt with flu outbreaks and how medical staff in Congo have tried to prevent another Ebola virus epidemic.

Then there are the unique challenges faced in the United States. The series examines the growing anti-vaccination movement there, the threat it poses to public health and how it could help trigger an outbreak of preventable diseases that were once thought all but eradicated in much of the developed world. Meanwhile, there



are also people in the U.S. – namely, migrants detained at camps along the Mexican border – who want to be vaccinated against the flu, but medical personnel can't get enough of the vaccine to inoculate them all.

One of the most concerning conclusions I got from watching the series was how quickly an outbreak could spread, especially in densely populated areas. And once a highly infectious and deadly disease circulates in a major city, it would be difficult to contain considering that hospitals are often already at capacity and

wouldn't be able to handle an extra couple of thousand patients on top of their normal daily intake. There is some hope, though; researchers profiled in the Netflix series are working on a one-shot flu vaccine that would protect people against multiple strains of the virus. Also inspiring a lot of much-needed optimism is the dedication and commitment to public health shown by doctors, nurses and scientists who often put their own well-being at risk for the sake of the greater good.

Assessing the Economic Effects of the Coronavirus

February 12, 2020

By [Phillip Orchard](#)

Even short-term pain in one vulnerable sector could trigger a cascading crisis.

There's irony in the fact that, as Chinese Vice Premier Liu He was in Washington on Jan. 15 signing the "phase one" deal formalizing the impasse in the U.S.-China trade war, a stealthier threat to global trade was spiraling out of control at home. Over the past few weeks, the mysterious new coronavirus epidemic has begun to do what tariffs never quite could. The scramble to contain the outbreak has shut down Chinese factories en masse, put China on the brink of twin financial and political crises, and sent foreign executives scurrying to revisit plans to pull out of the country. And now, with the U.S. and other major economies imposing strict border controls and bans on travel in and out of China, the flow of Chinese goods to its most important consumer markets is at risk of nose-diving.

The severity of potential economic disruption – both for China and the world – is impossible to forecast. (Not that that's stopped anyone from trying.) The impact will depend mostly on just how much worse the outbreak gets, which it-

self can hinge on the evolutionary vagaries of microorganisms. There's also unpredictable factors as varied as the ability of oil exporters to agree on production cuts, ethnic tensions involving Chinese tourists in Southeast Asia and the medium-term investment plans of tens of thousands of businesses. Perhaps the most pernicious is fear – the sort that was emptying out airplanes even before the travel bans kicked in.

We can say this: Absent a mutation in the virus that accelerates both its spread and lethality or the eruption of another black swan event, most of the economic damage will likely be short-lived. And most of the hardest-hit sectors will be primed for turbocharged recoveries. But there are certain risks where a rupture would cause colossal long-term damage. And, at minimum, the crisis will expedite a profound paradigm shift about the wiring of the global economy.

Short-term Pain

The most direct comparison to the current pandemic is the SARS outbreak in 2003, which dinged Chinese gross domestic product by as much as \$40 billion, reducing annual growth by between 1 and 2 percent. Globally, the bill for the pandemic ran up to as much as \$100 billion.

Within a year, China had returned to pre-outbreak growth levels.

But this benchmark tells us only so much. With the new virus, which originated in Wuhan, the scale of the lockdown has been much wider. It would be painful enough if it extended only to the outbreak's epicenter in Hubei province – an area with the population of Argentina and the GDP of Sweden – which functions as a rail and shipping hub that's vital to the government's efforts to stitch together the wealthier coastal provinces and the interior (a core Chinese imperative). But the lockdown was extended nationwide, and disruptive quarantine measures have been reported across the country, including all-important advanced manufacturing hubs like Shenzhen, Guangzhou and Shanghai that were most affected by the trade war. Moreover, a lot has changed in China since 2003. The population is older, more urbanized, more dependent on internal consumption, and more reliant on vast internal flows of migrant labor – all factors that can amplify both the spread of the virus and the extent of its disruption.

As a result, the coronavirus has hit the global economy with three main waves: The most immediate was Chinese consumption (nearly 40 percent of Chinese GDP in 2018), as hundreds of millions of people canceled Lunar New Year travel plans; restaurants, shopping malls and movie theaters were suddenly emptied; and so on. This is also a problem for foreign firms like Starbucks and Walmart that have pegged their growth strategies to the growing appetites

of Chinese spenders, as well as countries such as Cambodia and Thailand that have come to economically rely on Chinese tourists.

The second was labor disruption. Today, China is home to an estimated 288 million migrant workers, or roughly one-third of the country's total labor force, most of whom return to their hometowns during the New Year. Though most Chinese factories outside Hubei were allowed to go back to work this week, operations won't reach full speed until travel restrictions and fear subside.

The third wave hit as countries throughout the world (plus, crucially, Hong Kong) started to impose restrictions on travel to and from China. This highlights perhaps the biggest difference between today and 2003: China is much more tightly integrated with the world – and, despite halting U.S. efforts to pare back this interdependence, at the center of a dizzying network of supply chains optimized overwhelmingly for efficiency, not resilience. Shutting down cross-border travel impedes business and decimates tourism, of course, but it also hampers shipping, as “belly cargo” on commercial flights accounts for more than half of air freight.

The worst-case scenario for global trade is that the contagion risks will compel the U.S. and Europe to ban not just commercial air travel but oceanic shipping as well. This is highly unlikely; the virus can't survive on surfaces for long, particularly not a months-long journey, and the relatively small number of crew arriving at ports

won't overwhelm their health screening capacity. Still, Chinese ports can't operate without stevedores, nor ships without sailors. As a result, even without a sweeping ban on shipping, Chinese port activity has slowed by an estimated 20 percent since mid-January. This is a problem for exporters foreign and domestic in China, as well as for commodity exporters like oil producers, and manufacturing operations elsewhere that depend on intermediate goods made in China. (This was a side effect of most of the U.S. tariffs as well.) Auto assembly operations in Japan and South Korea have already been suspended because of a shortage of parts, for example. Some 450 U.S. companies source components from Hubei province alone.

Long-term Risks

The short-term impact may be immense, but as with the SARS epidemic, there's minimal structural damage being done to the Chinese economy, and most affected sectors will bounce back within a matter of months. This isn't always the case with black swan events. The 2011 floods in Thailand, where investors had already been spooked by cycles of mass political violence, wiped out hundreds of thousands of cars from automaker inventories and shut down critical infrastructure for nearly a year. Japan still has yet to fully recover from the Fukushima disaster. But unlike natural disasters, conflicts and other more destructive black swans, the fallout from epidemics is comparatively easy to manage. Factories and public transportation lines in China are closed, not buried under rubble or

coated in radioactive fallout. Hundreds of millions of people may be stuck at home, but the virus isn't exactly wiping out the Chinese labor force for good. There's little stopping key pillars of the Chinese economy like fixed-asset investment and the services sector from rebounding quickly, especially as the government opens the stimulus spigots. And China-centric supply chains can't be rerouted quickly or cheaply enough for the country to be replaced in the meantime. Moreover, Chinese manufacturing grinds to a halt every year during the Lunar New Year, typically taking weeks to return to full production. Most importers of Chinese goods had likely already stocked up in anticipation. From this perspective, the epidemic came at a pretty good time.

Still, there are three key long-term risks to watch. The first is the trade war. China was already likely to struggle to meet the import pledges it made in the "phase one" deal. To be sure, the epidemic (and ongoing problems with African swine fever and a new strain of the avian flu) will likely compel it to buy more U.S. farm products. But imports of other U.S. goods, particularly crude and liquefied natural gas, won't be as necessary, and government funds earmarked to help Chinese importers meet the targets may have to be diverted to short-term rescue measures at home. China may have a good excuse if it falls short when the U.S. conducts its reviews of Chinese progress on implementing phase one in the fall. But whether the White House responds to such a scenario charitably or restarts the trade war may depend

entirely on election-year political factors. At minimum, the outbreak will force Beijing to lean more heavily on things like subsidies and state-owned enterprises.

A return to currency manipulation is also possible, though fairly unlikely. This means the already low chances of progress on negotiating a phase two deal – the one that would ostensibly address the fundamental drivers of U.S.-China trade tensions – are dropping further.

The second risk to watch is the one keeping Chinese leaders awake at night the most: that even short-term pain in one vulnerable sector or another will trigger a cascading crisis. Put simply, the Chinese economy is overwhelmed with interlocking risks, from unchecked shadow lending to a fragile banking system to widespread asset bubbles. As a result, deleveraging and “financial de-risking” have been the foremost priority for Beijing over the past few years. It’s had enough success with efforts like metabolizing nonperforming loans, curbing reckless lending and rescuing ailing banks to prevent an uncontrollable crisis from rupturing. But the limits of its ability to micromanage the economy have also been exposed, with Beijing often finding itself playing a sort of high-stakes game of whack-a-mole, where its efforts to address one problem worsen a problem somewhere else. In its campaign to stem a wave of bond defaults among small and medium-size enterprises, for example, it’s struggled to force banks to lend to troubled firms.

Today, SMEs account for roughly 60 percent of the Chinese economy, plus around 80 percent of Chinese jobs. Compared to state-owned firms and private sector giants, SMEs are ill-suited to survive the cash-flow hits that result from the outbreak; in a recent survey, around a third said they couldn’t last more than a month on their current savings. In response, Beijing is redoubling efforts to push banks to lend to the sector and reducing interest rates, but these measures will further weaken balance sheets across the banking system, which is already teetering amid a string of near-failures in 2019. Beijing is also cutting taxes, which will worsen the default risks posed by debt-ridden local governments (which Beijing is now allowing to pile up new debt to spur infrastructure spending). It’s cutting pension contribution requirements, which will amplify China’s demographic crisis. It even appears to be easing off its shadow lending crackdown. So even if China avoids a financial meltdown now, its moves will increase the risk of a crisis over the long term. Keep in mind that China was racing to eradicate these risks – and, as a result, loath to flood the economy with fiscal stimulus – before the next global recession. That’s still looming.

A Death Knell for Interdependence

Finally, the epidemic will make companies more wary of China’s outsized role in global manufacturing. Since the 1990s, the cutthroat economics of globalization have pushed supply chains to become ever more complex and geographically diverse. For example, the Jeep

Cherokee, the most “American-made” automobile in 2019, is built with components sourced from dozens of countries. But these economics have also pushed for the manufacturing of particular components, particularly research-intensive high-end technologies, to be consolidated in one or two countries. The result has been the proliferation of chokepoints.

It’s not just China. Taiwan dominates semiconductor fabrication. Japan, as we saw last summer in its dispute with South Korea, dominates production of various chipmaking materials. The U.S. is currently mulling how to leverage its dominance over chip design, software and the dollar-denominated global financial system to blunt China’s technological rise. But China has certainly made itself the king of chokepoints. And chokepoints can be really bad for business.

The U.S.-China trade war and “tech war” have underscored just how much supply chain bottlenecks can be weaponized or targeted for strategic or political purposes – and how easy it is for firms to be caught in the crossfire. Likewise China’s crackdowns in Xinjiang and Hong Kong. The coronavirus outbreak, along with the problems endemic to the Communist Party’s model of governance it has exposed, has merely crystallized the risk of being dependent on China that much more. China isn’t the only

manufacturing center vulnerable to epidemics, natural disasters, political spasms or geopolitical disruption. But until its relationship with the West finds stable long-term footing, and until its government can be confident in its long-term hold on power, China will be home to the most tightly concentrated and explosive matrix of supply chain risks.

This doesn’t portend a future of total Chinese isolation from global supply chains. Its manufacturing footprint and labor pool are extremely difficult to replace at scale, while the lure of access to Chinese consumers alone is enough to give most multinational corporations pause. Surveys indicate that most firms planning to leave China are doing so only partially, with the goal of effectively setting up parallel supply chains as a means to inoculate themselves from tariffs, Beijing’s capacity for coercion and whatever black swans may come. Firms may be merely seeking to protect themselves from events beyond their control. But the broader effect will be an accelerated if fitful disentangling of the chains binding Chinese and Western countries. This is a dramatic reversal of a more than 30-year trend with any number of potential geopolitical implications – the ability of nation-states to weaponize interdependence chief among them.

George Friedman's Thoughts: Variations on Apocalypse

February 13, 2020

By [George Friedman](#)

I have been thinking and writing about the coronavirus in China. In general, I've focused on its geopolitical aspect, on its effect on Chinese national power. But there is something more interesting going on. What is most fascinating about the coronavirus is how it has gripped the imagination of the world. It has been given a power beyond what it appears to have. In the simplest sense, it appears to be just another of the sort of disease that has troubled humanity since the beginning. But there is a deeper sense in which it has gripped us. It brings with it a hint of the apocalypse, the disease that brings with it the end time, annihilating all that is in an orgy of cleansing death.

The Black Death, the gold standard of apocalyptic disease, originated in Asia. It is said that a trading ship landed at Messina in the 13th century, carrying with it an illness that killed 30 percent of the population of Europe, with life ending in horrid sores and fevers. It was a killing simultaneously awful and utterly efficient. The annihilation was fearsome, and reasonable people believed that this was the end of humanity. They also sought meaning in that end, some reason for God's wrath, some sin that had been

committed to cause humanity to deserve this end.

They sought meaning in their failure to please a jealous God. That the apocalypse was nigh was clear to them. What they hungered for was not life, but an explanation of what they had done to deserve this. What accompanied preparation for the apocalypse was ruthless self-flagellation for what they had brought on themselves. Indeed, they had brought it on, by allowing rats to roam free and not bathing. But they didn't know that; they sought a meaning more profound.

Today, we are more enlightened. We do not blame God but the government. Some claim that the novel coronavirus, which the World Health Organization has named COVID-19, is far more murderous than it appears, with the political authorities hiding the truth. Some say that it was caused by foreign countries waging biological war. But all look to the modern God, the state, some state, or any state, to hold responsible. Someone, somewhere failed to detect and stop the virus in time. As with the Black Death, the idea that diseases come on their own schedule and leave in unpredictable ways is rejected. What differs is that those who dread the virus don't blame their own sins in the face of God, but blame the contemporary God, the

state, for not protecting them.

The Black Death was worse than the coronavirus. What binds them together is the conviction that in some way they threaten our very existence, that greater powers that were supposed to protect humanity commanded the virus into being. It could have been God; it could have been a scientist. That the Europeans so many centuries ago blamed their own sins while we moderns blame others is interesting to consider, but more important perhaps is a consideration of the fascination we humans have with the apocalypse.

Throughout the 1950s and 1960s there was an intense belief held by the best minds that humanity was on the eve of destruction. Rock music was written with this title. The cause of this catastrophe was overpopulation. By 1970, the Club of Rome, a highly respected gathering of the best and brightest, said the world would no longer be able to feed itself and would be running out of natural resources. Unless humanity repented of the sin of reproduction, it would annihilate itself. This was a belief that could not be challenged, and those who said not only that it was untrue but that the birthrate would soon plummet were dismissed. The coming apocalypse was written in stone, and those who would challenge it either were mad or would profit from the apocalypse.

What always struck me about this, and virtually every class I took included at least one lecture on this, was that those who argued the apoc-

alyptic view were not actually frightened by it. They loved the role of Jeremiah. They awaited it with the faith of the righteous and, I suspect, were looking forward to the last moment, when they could scream, "I told you so." Now, if you expect me to discuss global warming here, not a chance. I learned in the 1960s not to get involved with religious wars. But not only would the population bomb, as it was called, destroy us, but each of us who reproduced would be responsible for that destruction.

The first story of the apocalypse that I know of was the story of Noah. The world had displeased God by its corruption, and God had decided that his creation had to be annihilated. But God saw virtue in Noah, who built an ark on which he loaded all the animals of the world (don't ask me about hygiene, this is a metaphor) and his children, and God unleashed a storm that wiped out all other living things. The waters then receded, and Noah refounded humanity.

The story of Noah places the blame directly on humans and says that sin demanded a cleansing of the Earth. It is the theme of cleansing that I think is always embedded in the idea of apocalypse. The Black Death demanded that Europe cleanse itself, and moral cleansing ended the plague, so they thought. The population bomb demanded an end to reckless and heedless fornication, a remarkably religious dimension to a secular global apocalypse. The notion that apocalypse originates in vileness and can be ended only by reform and denial of sins is at the root of this mode of thought.

But also at its root is not only the imposition of virtue but also a fascination with the apocalypse and even a yearning for it. These can be grand apocalypses such as those that Christianity promises, or generational apocalypses that Judaism speaks of when it says that in every generation they shall come to kill us. Both sorts of apocalypse, grand and petty, are filled with dread and with hope. They are also filled with anticipation. I think it is a weariness with the prosaic, a dream of the heroic, and a hope for something more worthy of life for those who are redeemed or survive.

We are fascinated by the coronavirus not only because of its prosaic meaning (another decade, another virus) but also because it has a promise of vastness and that, in the end, we will discover the sins and sinners who allowed it to happen. And because deep in our imaginations, Noah lurks, and we dream of a cleansing of the world and having the privilege to remake it in our own image. It is a small thing with the coronavirus, but Noah's dream lurks.

There is now a genre of science fiction called "post-apocalyptic" in which humanity is virtually wiped out by something or other, and one or a handful of people struggle to survive and rebuild. The world is filled with evil, be it gods or Martians, but it will be redeemed by them. What is clear is that the authors, usually quite good, have a longing for the apocalypse, and the best clearly imagine themselves fleeing in rags, turning and reclaiming the world for humans.

Anything that brings a modern dream of the apocalypse with Noah's is clearly pointing toward something important. We humans hate and long for the apocalypse, and for the cleansing it will bring and the manner in which we will be elevated above all by surviving. As I said, the coronavirus doesn't rise to these heights, but the people commenting on it sometimes do. The fear that this is the big one is coupled with the slight thrill that it just may be.

How Dangerous Is the Wuhan Coronavirus?

February 17, 2020

By [Alex Berezow](#)

The political and economic effects of the new coronavirus – both in China and across the globe – hinge overwhelmingly on just how successful efforts to stop its spread are likely to be. Forecasting these, therefore, requires us to take a closer look at the mechanics of both contagion and containment.

When determining how dangerous an infectious disease can be, microbiologists and epidemiologists need to know two numbers: R_0 (called R-naught) and the case-fatality rate (which is actually a ratio, not a rate). The former estimates how infectious the disease is, while the latter provides an insight on its virulence.

R_0 is an attempt to calculate how many people will catch a disease from an infected person. An R_0 of 2, for instance, means that an infected person will spread the disease to two other people. But this is not an easy number to calculate. A paper published in the scientific journal PLOS One describes two methods for finding R_0 . One involves hunting down every contact of several infected people to determine how many get sick and averaging the results; the second involves calculating an estimate by plugging cumulative

data into equations that serve as infectious disease models.

But, as an article in The Atlantic explains, R_0 is even trickier than that. It can change depending on external circumstances. A public health campaign or an effective quarantine could lower R_0 , while the virus' spreading to a region with poor health care could increase R_0 . Perhaps the most salient point is that an R_0 greater than 1 suggests that the infection will spread, while an R_0 less than 1 suggests it will fizzle out.

As its name implies, the case-fatality rate estimates the percentage of deaths that occur among infected people. The Wuhan coronavirus has an estimated case-fatality rate of about 2 percent, meaning that there are two fatalities for every 100 cases of the disease. Science News reports that "the [World Health Organization] says less than 2 percent of patients who have fallen ill with 2019-nCoV have died, most often from multi-organ failure in older people and those with underlying health conditions."

But just like R_0 , this number can be tricky to calculate and interpret. First, the true number of cases is hard to know for sure, since people who contract a mild version of the disease don't go to the hospital, don't get tested, and don't be-

come tallied in the official statistics. Second, the case-fatality rate will vary inversely with the quality of a health care system. Wuhan was so overwhelmed by the coronavirus that hospitals were turning away patients. It is quite likely that some people who died could have been saved had they received treatment. Combined, these facts would suggest that the case-fatality rate for the Wuhan coronavirus is lower than 2 percent, especially if an infected person is treated in an advanced nation with a good health care system. Indeed, an article in Reuters concluded that infections have been underreported. As of publication, data from Johns Hopkins show that of the more than 1,000 deaths, only two have occurred outside mainland China (in the Philippines and Hong Kong).

Despite the difficulty in calculating R_0 and the case-fatality rate, these numbers are worth estimating because they help place a new disease in the context of what is known about other diseases. The R_0 of measles could be as high as 18, while the case-fatality rate of seasonal influenza is approximately 0.1 percent. Thus, preliminary numbers suggest the Wuhan coronavirus is less infectious than measles but deadlier than seasonal flu. But, because of the sheer number of cases of seasonal flu (which number in the millions), the global death toll from influenza is far greater, estimated to be approximately 300,000 to 500,000 deaths annually.

Containing the Coronavirus

The global economy surely will take a substan-

tial hit from the coronavirus. This will be the result of China's massive, citywide quarantines, a decrease in industrial output, and travel restrictions and supply chain disruptions. Many such efforts to contain the coronavirus are disproportionate to the threat.

China's massive quarantines will probably work to an extent – after all, preventing people from traveling within and between cities will help curb transmission of the virus – but this measure cannot be implemented in free societies. In non-authoritarian countries, only individuals can be quarantined, and this has been adequate to prevent the spread of disease. (When Ebola came to the United States, it didn't spread far thanks to effective treatment and isolation procedures.) Citywide quarantines also aren't necessary because the best way for uninfected people to remain that way is to wash their hands frequently and to avoid touching their face while in public. It's difficult to say whether wearing a mask accomplishes anything. On the one hand, masks catch respiratory droplets, which is why sick people and those with whom they are in close contact absolutely should wear them. On the other hand, viruses are so tiny, they can pass right through masks. To the extent that a mask prevents a person from touching his or her face, then a mask may provide some protection. However, the Centers for Disease Control and Prevention does not recommend that healthy people wear a mask in public.

While coronaviruses can spread via frequently touched fomites (objects, such as doorknobs,

that can transmit an infection indirectly to another person), it is not known how long they can survive outside the body on surfaces. While some scientists believe that coronaviruses can last only a few hours, a newly published literature review in the Journal of Hospital Infection concludes that they “can persist on inanimate surfaces like metal, glass or plastic for up to 9 days, but can be efficiently inactivated by surface disinfection procedures... within 1 minute.” Because exports from China take 30 to 40 days to arrive in the United States (if shipped via ocean freight), there is virtually no chance that exported products could infect Americans – unless the export is an infected human, animal or animal product.

When Overreactions Are Rational

The most serious threat to the global economy is not from the virus itself but from overreaction. Chinese manufacturing plants sit idle due to sick or quarantined workers. Travel into and out of China has been reduced. These overreactions are understandable, however, because scientists and public health officials have expressed a lot of uncertainty about the virus. When faced with uncertainty – particularly when that uncertainty potentially involves death – people (especially politicians) behave cautiously. (From the American perspective, re-

stricting travel to China has the side benefit of squeezing that nation’s economy even further.)

The general public hates uncertainty. But scientists live in a world of probability and are very comfortable dealing with uncertainty. This is also why scientists rarely use words like “never” and “always.” (We know better from experience. At one time, we thought all swans were white, until we went to Australia and found black swans.) This difference between the public and scientific community on the relationship to risk creates a communication gap that further feeds the uncertainty.

Ultimately, the future of the Wuhan coronavirus is not knowable. Like the other major coronavirus epidemics that preceded it, the Wuhan virus is thought to have jumped from animals to humans. SARS terrified the world, but then quickly vanished. MERS, on the other hand, is now endemic, meaning there are a few cases that occur all the time. The Wuhan virus could follow either path or some other path entirely.

Just like an economic recession, an infectious disease outbreak provokes strong psychological responses. Life will return to normal when enough people believe that it’s okay to return to normal.

The Coronavirus Outbreak: Impact on Iran

February 28, 2020

By [Caroline D. Rose](#)

The outbreak comes at an especially vulnerable time for the regime.

Over the past two weeks, Iran has been dealing with an outbreak of coronavirus that has so far led to 388 infections and 34 deaths in the country. The government has struggled to contain the virus, and in barely more than one week, there have already been riots over its mismanagement of the outbreak. The virus has not only had political consequences but also economic ramifications, especially stemming from the closure of border crossings with some of its most critical trade partners. The dissatisfaction with the government's handling of the outbreak comes at an especially vulnerable time for the regime. Over the past two years, the United States has applied a maximum pressure campaign on Iran that it hoped would squeeze the country's finances, instigate social unrest and curtail Iranian influence in the Middle East. It has done so mainly through sanctions, which have crippled Iran's economy and caused some degree of unrest but failed to weaken the regime to the point of collapse. The coronavirus outbreak, however, has the potential to undermine the regime in ways that U.S. sanctions never could. Still, we don't expect the government to com-

pletely crack under the pressure; Tehran will manage by implementing curfews, quarantines and other measures to crack down on anti-government sentiment. But coronavirus is yet another issue that will cause the public's frustration with the government to rise. It highlights the growing distrust of the regime, as well as the government's own resilience in the face of adversity.

Economic Implications

Many have highlighted the potential implications of the outbreak for Iran's economy, particularly the effects on trade and Iran's currency. But the country's formal economy won't take as big a hit as other affected countries like China and Italy. Sanctions have already crippled Iran's economy, forcing the country to reduce its dependence on exports and rely increasingly on illicit trade. While the outbreak will certainly further discourage other countries from trading with Iran and affect its access to foreign currency, the list of willing buyers for Iranian exports is already limited, and the value of the rial has already declined substantially.

Instead, the outbreak's largest economic impact will be felt in the shadow economy, which has been Iran's greatest weapon against sanctions. Iran's gross domestic product dropped by

4.8 percent in 2018 and an additional 9.5 percent in 2019, and its unemployment level rose to 16.8 percent last year. Import shortages, high living costs, drained foreign currency reserves, a strained pension system, and skyrocketing prices for bread, beef, sugar and milk have also contributed to the country's deep recession. Iranians have therefore increasingly resorted to the informal market as a means of survival. In 2017, Iran's informal economy was estimated to account for about 36 to 38 percent (worth \$12.3 billion) of economic activity in the country. Experts estimated that \$10 billion to \$15 billion worth of products were smuggled across Iran's borders annually. By contrast, non-oil exports traded through official channels were worth about \$650 million in 2019. At a time of extreme economic hardship, therefore, smuggling has provided a source of income for thousands of otherwise unemployed Iranians.

The informal economy has also enabled Iran's oil export market to survive. This is because U.S. sanctions only target trade of Iranian goods in the formal market. In May 2019, the U.S. announced a fresh round of sanctions with the intention of slowing Iranian crude production to zero. The campaign has been fairly successful: Iranian exports have fallen 87 percent from 2016 levels, and oil output decreased to 2.1 million barrels per day last October from 3.8 million bpd in 2018. Tehran has therefore been forced to turn to other means, including smuggling, to sell its most profitable export.

In 2018, experts estimated that between 5.3 million to 10.6 million gallons of crude were

smuggled out of Iran daily – though this number has undoubtedly declined as production has fallen. Proxy networks and Iraqi Shiite militias loyal to Tehran have served as dependable intermediaries in Iranian smuggling networks. Militias within Iraq's Popular Mobilization Forces, which the Iraqi government has entrusted with guarding certain border checkpoints, patrolling highways and protecting oil fields, have been particularly helpful. Iraqi Shiite groups and Iran's Islamic Revolutionary Guard Corps have also helped smuggle Iranian crude into Syria, now the largest customer for Iranian oil. Crude is typically smuggled across the border using trucks and vans through unofficial or militia-guarded checkpoints, particularly along challenging terrain such as the marshlands in the Maysan province. It is often offloaded between Iraqi Shiite groups with limited Iranian logistical supervision and transported along the al-Boukamal-al-Qaim highway at the Iraq-Syria border. Though trucks, which can carry only about 120 barrels of oil, and vans, which can carry only 12 barrels, are not as efficient as oil tankers, Iran's wide network of proxies in Iraq has turned cross-border smuggling into one of the most reliable methods of distributing Iranian oil to external markets.

But this method will be jeopardized if Iraq closes its border over coronavirus fears. Iraq has already closed some crossings for several days to stop the virus from spreading. The economic impact will depend on how strictly Baghdad enforces the border closures and prohibition on travel to and from Iran. Smuggling won't end en-

tirely, as poorly defended border crossings will continue to enable illicit trade. But the element of fear will certainly have an impact on Iran's informal economy. All of the reported infections in Iraq and Lebanon have been linked to Iran. People involved in the trafficking of goods will be increasingly hesitant to deal with Iranians, particularly as cases in the region continue to rise in countries that lack protective gear, medical services and well-staffed hospitals. Even if the Iraqi government does not enforce the border closure as strictly as it says it will, the virus could take a toll on Iran's informal economy.

Political Unrest

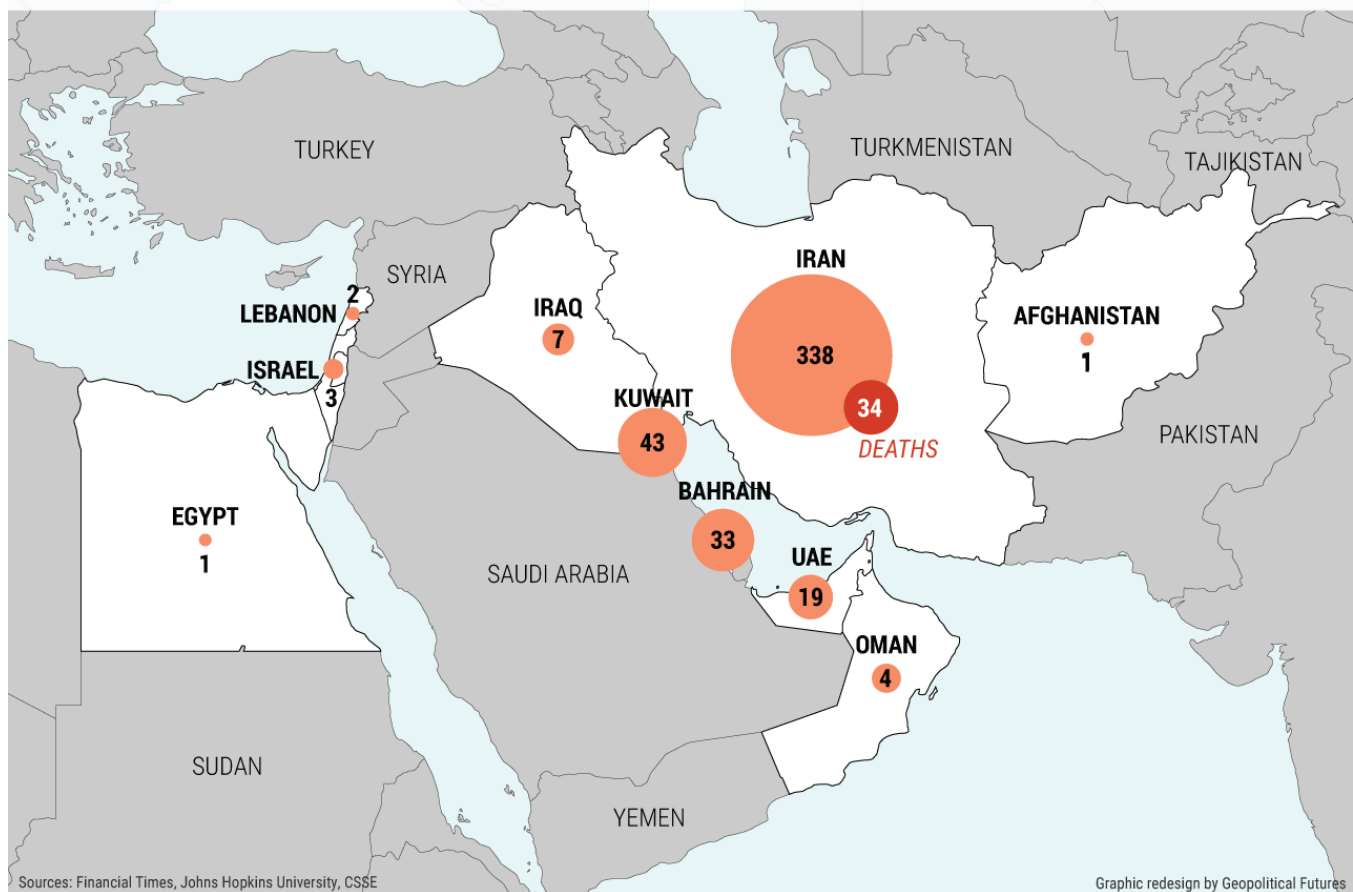
Most importantly, the virus comes to Iran at a politically inopportune time. In its first two weeks of the outbreak in Iran, the government has already shown signs of unpreparedness. Sanctions and the recession have stripped Iran's health care system down to its bones, depriving it of critical medical equipment, personnel and expertise. As of 2019, the World Health Organization recorded the country had only 10 doctors per 10,000 people. (For comparison, in the U.S. there are 45 doctors per 10,000 – and the Association of American Medical Colleges considers even this a shortage.) Reports have poured in from Iran about the lack of protective masks, hand sanitizer and adequate medical equipment in both rural and urban environments. And the government's track record of reporting infections has upset opposition lawmakers and citizens alike. Tehran announced the two cases that hit Qom on Feb. 19, two days

before elections to the country's parliament, or Majlis, and withheld information about an additional 18 cases and two deaths (translating to a higher mortality rate than the global rate of a little over 3 percent) two days later.

But the government had a powerful interest in underselling the scale of the outbreak, less than two months after it sparked protests when it accidentally shot down a Ukrainian passenger airplane during a missile barrage targeting U.S. forces in Iraq, and ahead of an election that was already fated to be controversial. In January, the Guardian Council barred 6,850 reformist candidates from the ballot, causing widespread outcry over a lack of democratic representation and leading to calls, particularly in urban areas, to boycott the vote. The last thing the government needed, then, was a mass viral outbreak that would further damage the credibility of itself and the election. In the end, the election's outcome was favorable for Supreme Leader Ayatollah Ali Khamenei, with 30 conservative hardliners gaining seats in the Majlis. Just 42.57 percent of Iranians voted, the lowest participation rate since the 1979 Islamic Revolution and down nearly 20 percentage points from the previous election in 2016. Fear of infection certainly played a role in keeping Iranians from the ballot box, and the government didn't shy away from accusing its "enemies" of sensationalizing the outbreak to influence its internal affairs – even if, in the end, the low turnout probably worked to the government's advantage.

In the wake of the election, as the extent of the outbreak has become clear, there have been ri-

Coronavirus Cases in the Middle East, as of Feb. 28



ots over the government's mishandling of the virus. In Talesh, a city in Iran's northern Gilan province, people protested the government's secrecy and mysterious quarantines outside a hospital on Feb. 23 until security forces dispersed them with tear gas. In Isfahan, medical students protested in front of the University of Medical Sciences over the lack of protective gear and supplies, while in Rasht, protesters started fires in the streets to oppose unexplained street closures, where they were met with crackdowns from security forces. And in Najaf, protesters upset with the government's refusal to close the city's international airport

attempted to block travelers' access.

In the face of rising unrest, Tehran has tried to nip political threats in the bud. On Feb. 26, Iran's cyberpolice unit arrested 24 people accused of spreading rumors about the virus, and warned news outlets and social media users against reporting cases that contradicted official reports. The government is gradually shutting down social gatherings, religious sites, schools and sports matches in affected provinces as well as the cities of Isfahan, Mashhad, Tabriz, Shiraz and Tehran, which will soon turn into full-fledged quarantines and curfews. Under such

restrictions, large anti-government gatherings will be difficult to coordinate. But that doesn't mean political resentment toward the regime won't continue to fester.

In unstable countries such as Iran, the coronavirus outbreak is not only a health crisis but also a political and economic threat to the regime. In the face of a crushing sanctions campaign, the government has been struggling to keep the lights on, keep protesters off the streets and keep up its campaign to spread its influ-

ence in the region. The hospitals are lacking proper medical kits and virus protection to treat patients. Panic risks crippling its illicit economy, which has struggled to make up for its teetering formal economy. With such political and economic uncertainty, Iran's government cannot finance this outbreak and come out unscathed. However, after everything the regime has endured in recent years, it will likely take much more than the coronavirus to force regime change.

Thoughts on the Coronavirus

March 3, 2020

By [George Friedman](#)

I have presented geopolitics to be like economics, a science that predicts and summarizes the impersonal forces that drive a system so vast as to be beyond the control of individuals. Each is controlled by forces so powerful that kings and peasants alike must align with them or fall victim to them. Kings ultimately do not decide the global business cycle, nor do they control the relations between nations. Kings must align with the overwhelming forces that are at work.

To some extent, individuals are helpless in the face of massive forces. In a world of seven billion people and endless variables, humans make history by aligning with it. This is difficult, since thinking that we are caught in a storm in which we may choose to get wet or to make and sell umbrellas collides with the idea that we are all masters of our fate. We are masters of our fate in making certain we understand the forces that compel and constrain us. We are masters of our fate in choosing how we align with the broad reality. But when markets decline, we can claim to have willed them to do so, but the markets consist of billions of people making billions of decisions, so the best we can do is try to anticipate the decisions that are going to be made.

There is something preposterous in all this. We

all know that politicians do make decisions and that these decisions matter. It is the wisdom and goodwill of the leader, and sometimes the lack of both, that make history. The idea of history being out of control – the idea that depressions and war are ultimately beyond the control of the leaders whom we hold responsible for all things, good and bad, and can at best anticipate what is coming and mitigate it – is terrifying. Far better to imbue them in our minds with powers they don't have, to praise or execute them for things over which they are as helpless as we are.

I bring this up in light of the coronavirus, which exists outside the purview of world leaders. It is dreadful because it will do what it will do. It is even more dreadful because it is a virus, something without consciousness that cannot be reasoned with or bribed. We are merely observers of it, waiting for it to show whether it is as powerful as we fear, and waiting with even more dread to see whether we or those we love will fall victim to its terrible power or be saved with the discovery that its power will be meager. We search for a way to align ourselves with the disease, but like history, it flows on.

We live in the age of technology that has achieved remarkable things, from antibiotics to microchips to visions of the universe. We take pride in what has been wrought. But each

of these things has come from understanding the nature we have been given, aligning with its forces, and crafting engines that conform with nature, not changing it. And when our power grows enough that we delude ourselves to be nature's master, something arises to remind us of our limits. In due course, it will learn more about the coronavirus, including ways we can fight it, but for now our fears take counsel of themselves.

The threat of the virus is not only that we may die, but that the fear of death will cause the world to heave up out of control. The virus first emerged with authority in China, a country dominated by the idea that the state's power governs all things. This belief holds a fractious nation together in pride at how the state had made China great. The coronavirus showed the limits of human power, even in China. Beijing insists that it will deal with the virus and that its edicts will stop its spread, but the reality is that China is being overwhelmed, both by the disease and by the fear of the disease.

Two great forces are being hurled against each other. On the one side is a tiny bag of molecules that aligns with the vulnerabilities of the human body. On the other side is science, desperately trying to find its footing, justifying itself by asserting the limits of its knowledge and the promise that it will know more later. The virus is what it is, science is what it is, and so are the rulers, whose opinions on what the virus is and what ought to be done are of value to the extent that they conform to the reality. Our local super-

market has announced that it is rationing the number of sanitizing wipes that can be bought because of high demand, while the latest word from experts is that the virus is spread by human liquids. No matter, where there is no solution, we invent solutions. They give us comfort that we are fighting back.

In truth, we don't know how deadly the virus is. It may kill no more than the flu. It may turn out to be much worse. We don't know. And therefore the global economy is in disarray. China's economy seems shattered. The price of oil is plunging. And fear of Turkey releasing Syrian refugees on Europe is now compounded by fear that they carry this disease among others.

We speak of black swans, unpredictable events that wreck economic and geopolitical expectations. This is surely a black swan, even if humanity has been periodically hit by unexpected diseases for time immemorial. We know there are black swans swimming about, and that one or two will occasionally come to shore. It is the time they decide to leave the lake, and the reasons that they have chosen this particular time, that startles us and drives us to search for explanations and solutions.

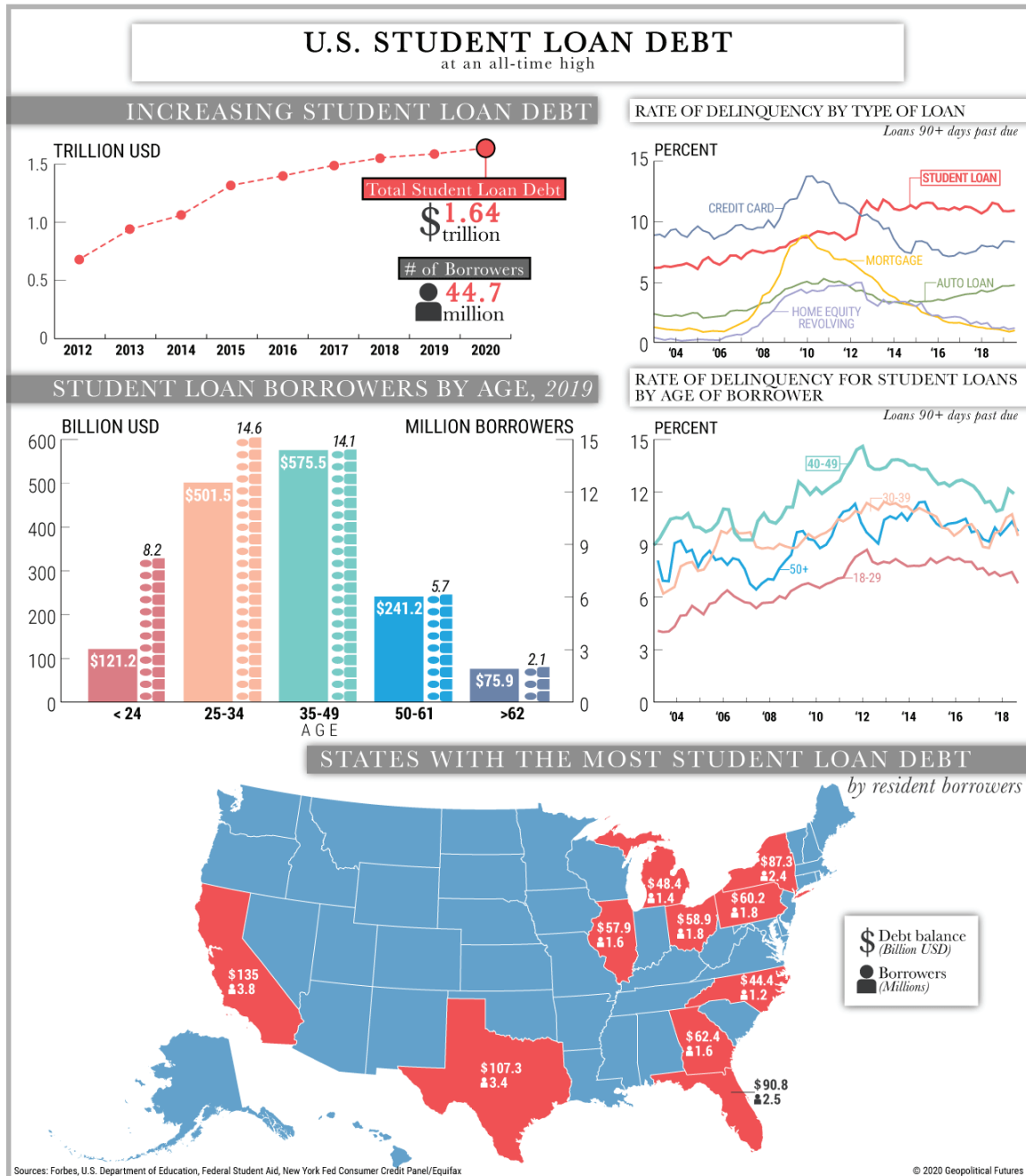
Not understanding why they chose this moment or what their intent is, we search for explanations. Since we no longer believe that they are here as God's punishment for our sins, they must have been caused by biological warfare units, or have spread because of the incompetence of scientists and politicians. Where

priests used to comfort us, now leaders do, and now we hold the leader responsible not for causing the virus, but for not acting quickly enough to protect us.

Coronavirus does not seem to be like the Black Death that wiped out half of Europe. It seems more like a nasty flu. But then that is just one guess in a world full of guesses. It has been elevated to a global menace because living in Texas, I am aware of what is going on in Wuhan. Listening to scientists, I am told that this is a new virus. Being American, I am presented with a problem and expect someone to solve it quickly. It is what I know that concerns me: The virus is global, it kills people, it has wreaked havoc in China and some other countries, and

therefore I should be and am afraid. It is not the unknown but the poorly understood that is frightening, as well as the inability of very smart people charged with protecting me from all things natural and dangerous to do so.

Our expectations are what frighten us. The coronavirus does not seem especially dangerous to our species. But we have come to expect to be protected and when we are not our imaginations turn to the apocalypse. The successes of science and the claims of politicians have led us to believe in human invincibility so that the arrival of the virus is a violation of the social contract between the state, science and us. There are limits to power, and that, above all else, frightens us.



Weekly Graphic: U.S. Student Loan Debt

March 6, 2020

The rising cost of higher education in the United States is unsustainable. The total amount

of student debt has now reached \$1.64 trillion. In late 2019, 10.9 percent of aggregate student debt was either 90 plus days delinquent or in default. Student loans now account for 11 percent of total household debt, making this category the second-largest source of debt behind only mortgages at 68 percent.

The U.S. is facing the simultaneous end of institutional and socio-economic cycles. Whatever the causes, most socio-economic cycles end or begin with a financial crisis. The rising levels of student loan debt will be a major driver in the United States' anticipated transformation over the coming decade because it is the system that fuels the broad social bureaucracy. The uni-

versity is poised to be at the center of a political battle in which it is both part of the problem and part of the solution. To read more about the critical role of the university in the United States' institutional and socio-economic cycles, check out "The Storm Before the Calm" by GPF founder George Friedman.

The Most Important Coronavirus Question

March 9, 2020

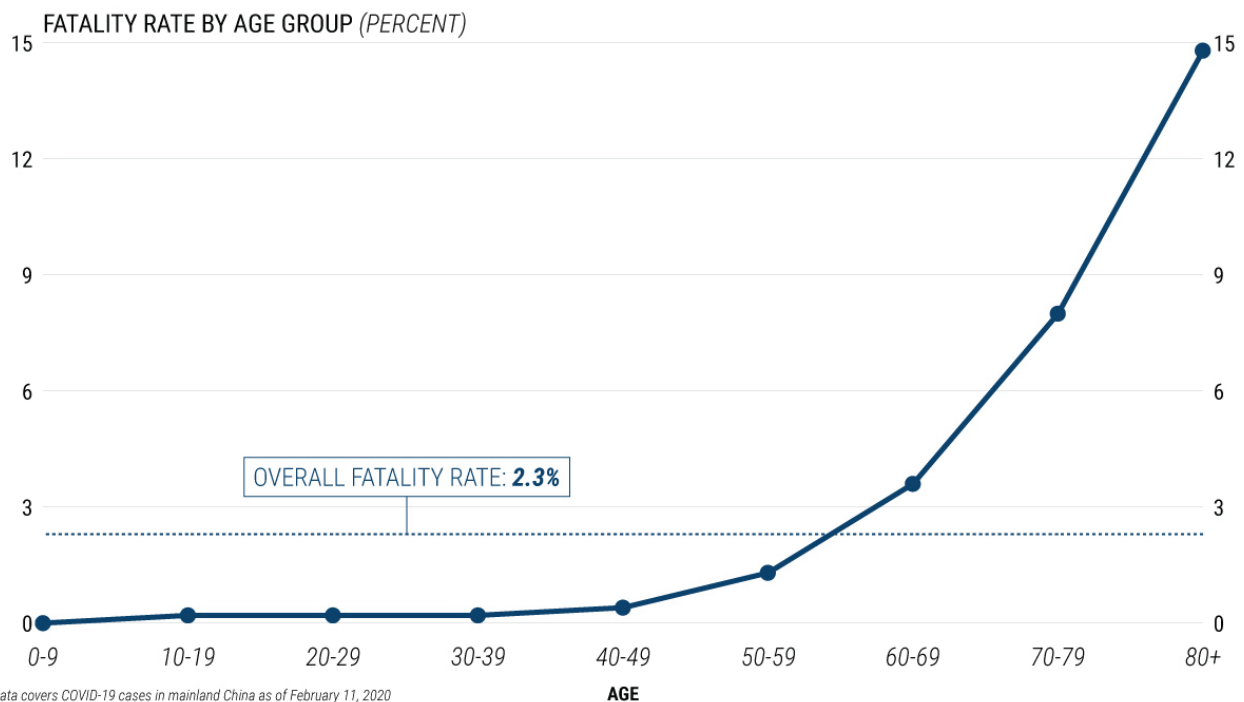
By [Alex Berezow](#)

How dangerous is coronavirus to public health?

The first person to die from coronavirus on American soil passed away on Feb. 29 at a Seattle area hospital – incidentally, the same hospital where my daughter was born just ten and a half months ago.

For epidemiologists, the most important unanswered question about the Wuhan coronavirus, or COVID-19, is the case-fatality rate. But for the general public, the question is much more personal: “Might I – or anyone I love – get sick and die?” When faced with uncertainty, people make decisions cautiously, and they base them on emotion and personal experience instead of statistics. If enough people answer “Yes,” there could be major repercussions as panic sets in around the world. Small behavioral modifications, such as telecommuting or reducing

COVID-19: *Fatality Rate*



© 2020 Geopolitical Futures

factory activity to avoid spreading the disease, made by millions of people can have a large impact. The United Nations already estimated \$50 billion worth of exports worldwide will be affected, excluding non-trade economic activities such as travel tourism, as manufacturing slows and governments impose measures like port restrictions. This is why it is necessary to develop a “risk of death” profile for COVID-19.

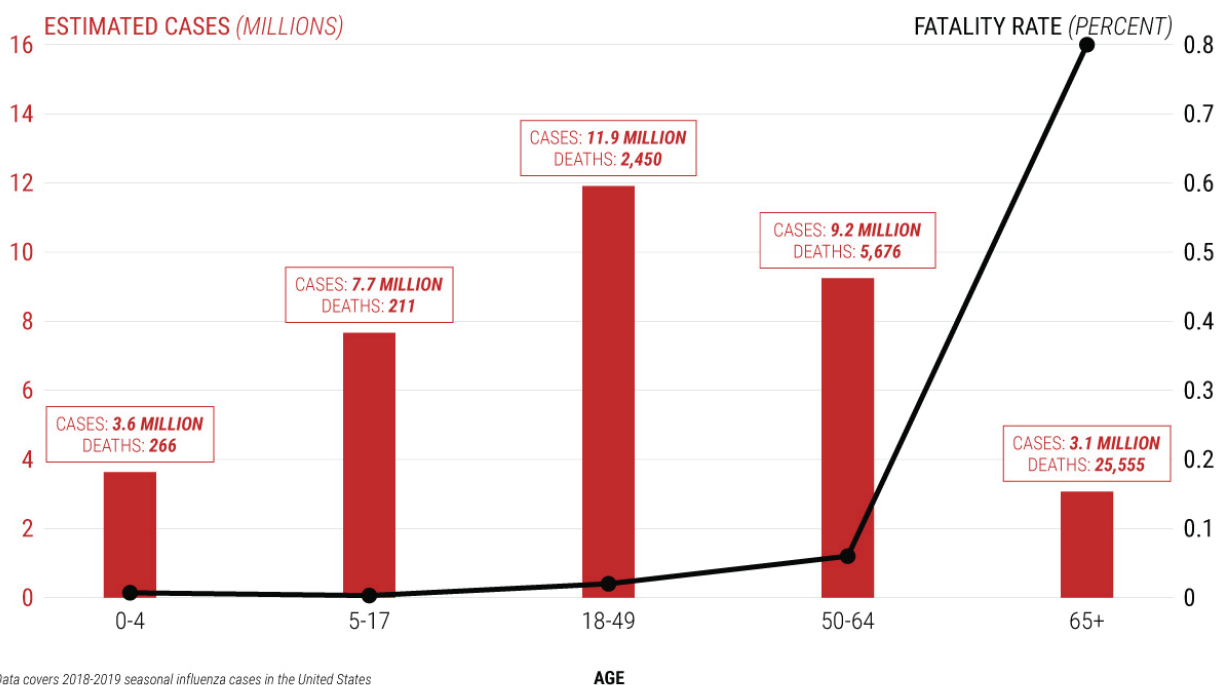
The first substantial effort to do just that was published by the Chinese Center for Disease Control and Prevention. Though these numbers should be thought of as preliminary (and perhaps specific to only China), they allow us to begin to comprehend the risk that our global society is facing. After analyzing 44,672 confirmed cases, Chinese health officials estimated the

case-fatality rates by age group.

Of the 416 children aged 0 to 9 who contracted COVID-19, precisely zero died. This is unusual for most infectious diseases, but not for coronaviruses; the SARS coronavirus outbreak also had minimal impact on children. For patients aged 10 to 39, the case-fatality rate is 0.2 percent. The case-fatality rate doubles for people in their 40s, then triples again for people in their 50s, and nearly triples yet again for people in their 60s. A person who contracts COVID-19 in their 70s has an 8 percent chance of dying, and a person in their 80s a nearly 15 percent chance of dying.

The virus can be lethal in a variety of ways. Viral infections in the lungs can trigger an immune

2018-2019 Seasonal Flu



Note: Data covers 2018-2019 seasonal influenza cases in the United States
Source: United States Center for Disease Control and Prevention

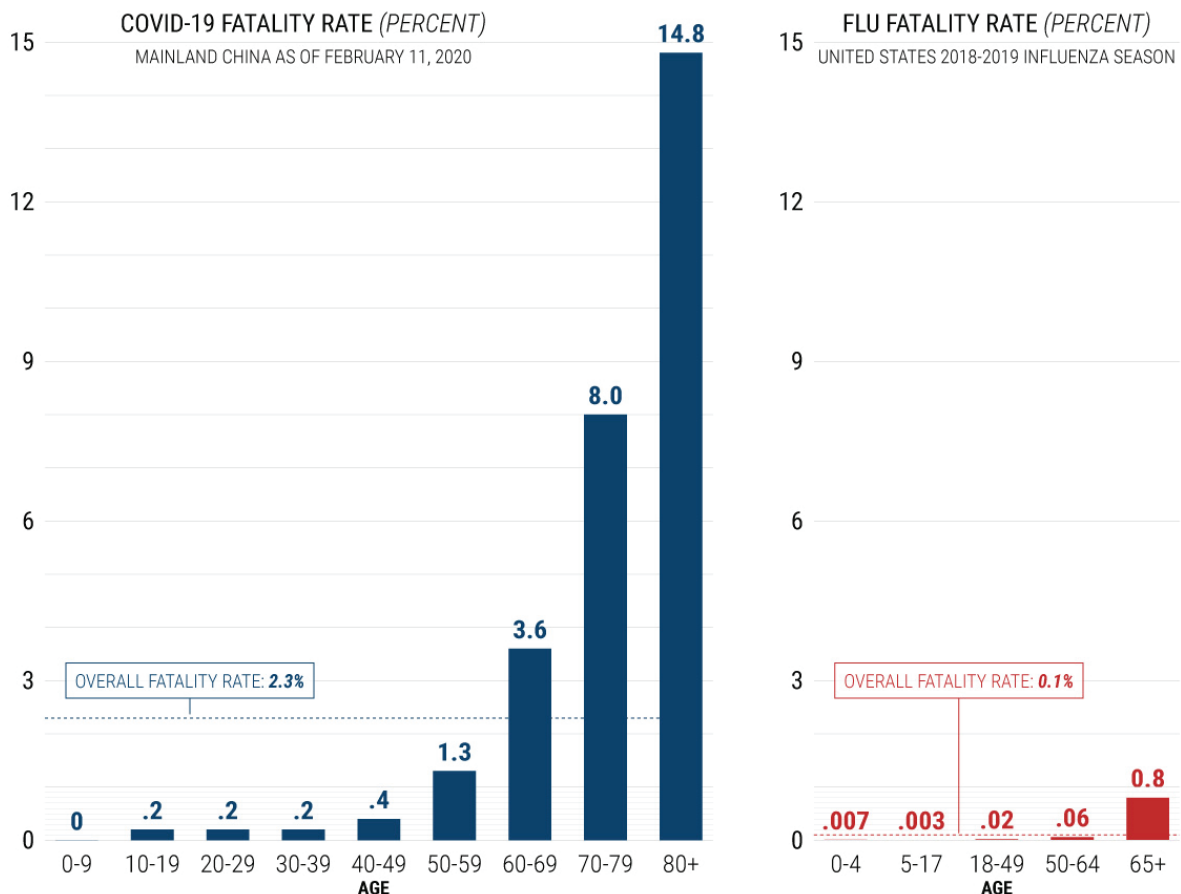
© 2020 Geopolitical Futures

response so strong that it fatally damages the lungs. In others, a systemic immune response, called a “cytokine storm,” can cause multiple organ failure. This could explain why some young, healthy people are killed by the virus, such as Dr. Li Wenliang, the 34-year-old doctor who died shortly after alerting the world to this new strain of coronavirus. An older person’s immune system may not be able to fight a respiratory virus. Underlying conditions such as high blood pressure or diabetes can worsen outcomes.

The above statistics are no doubt frightening numbers. But there are at least three major

mitigating factors. First, the number of mild or asymptomatic cases is unknown and probably substantial. Second, China is still a poor country with low-quality health care and, at the epicenter of the outbreak in Hubei province, was overwhelmed by the virus. (The case-fatality rate in Chinese provinces outside Hubei, where hospitals aren’t overloaded, is much lower.) Third, smoking is much more prevalent in China than America, especially among men (52 percent in China versus 16 percent in the U.S.), and smoking is a risk factor for poor responses to respiratory infections. Together, this means the case-fatality rate is likely inflated, and it would

COVID-19 vs. Seasonal Flu



Source: United States Center for Disease Control and Prevention, Chinese Center for Disease Control and Prevention

© 2020 Geopolitical Futures

be a mistake to apply these figures to the United States or other advanced nations.

The real question, then, is how inflated the case-fatality rates are. At this point, it's impossible to determine because scientists are still collecting data on how widespread the virus is. But to get a sense of how exaggerated these numbers might be, it is useful to examine the case-fatality rate for seasonal influenza. For the 2018-19 influenza season, the U.S. Center for Disease Control and Prevention provides estimates for the number of cases (defined here as "symptomatic illnesses") and deaths. From these, we can derive case-fatality rate estimates by age group.

If COVID-19 ends up being similar to seasonal influenza, then the case-fatality rates for COVID-19 are inflated by a factor of 20 to 100. Dr. Anthony Fauci, head of the U.S. NIAID, co-authored an editorial for the *New England Journal of Medicine* in which he wrote:

"If one assumes that the number of asymptomatic or minimally symptomatic cases is several times as high as the number of reported cases, the case fatality rate may be considerably less than 1%. This suggests that the overall clinical consequences of Covid-19 may ultimately be more akin to those of a severe seasonal influenza (which has a case fatality rate of approximately 0.1%) or a pandemic influenza (similar to those in 1957 and 1968) rather than a disease similar to SARS or MERS, which have had case fatality rates of 9 to 10% and 36%, respectively [emphasis added]."

We have reason to believe this view is closest to reality. In South Korea, public health officials screened about 100,000 people and detected over 7,300 cases. So far, the death toll is 50, which translates to a case-fatality rate of 0.7 percent. That's still seven times worse than seasonal flu, but it's far lower than the initial reports from China.

The Future of COVID-19

Stat News describes two possible scenarios that epidemiologists envision for the future of COVID-19. In the first, COVID-19 becomes just another cold virus, and possibly evolves to become less lethal as well. What we call the "common cold" is actually caused by roughly 200 different viruses. Each year, about 25 percent of common colds are due to four coronaviruses, and some scientists think COVID-19 could eventually join this group as its fifth member. In the second scenario, COVID-19 behaves more like a severe seasonal flu, vanishing in the summer and returning to hit us hard in the winter.

In neither scenario does COVID-19 resemble the Spanish flu of 1918, which disproportionately killed young people. In neither scenario does the virus mutate to become more lethal. Most likely, the opposite will be true. There is an inverse relationship between lethality and contagiousness; that is, the most contagious viruses tend to be less lethal. Evolutionary pressures – namely, the biological imperative to reproduce as far and wide as possible (which means not

killing people) – may push COVID-19 down this path.

For now, influenza remains the far bigger global public health threat. Each year, about 1 billion people become infected with seasonal flu, killing some 300,000 to 500,000. This season alone (2019-20), about 20,000 Americans have died from flu, including 136 children. Yet, very few people fear the flu. Society has accepted it as part of reality, and people carry about their daily lives without excessive concern over influenza. This is the likely future for COVID-19.

Until then, perhaps the last word should be given to virologist Dr. Lisa Gralinski, who told *The Scientist*, “If you’re over fifty or sixty and you have some other health issues and if you’re unlucky enough to be exposed to this virus, it could be very bad.” While everyone else should remain vigilant and take proper precautions (e.g., washing hands and avoiding crowds) until more data comes in, from a scientific perspective the public alarm is disproportionate to the risk.

George Friedman's Thoughts: Compromising on Corona

March 11, 2020

By [George Friedman](#)

Battling the coronavirus is essential. But the battle has costs, which are invariably measured against the gain. "No matter what the cost" – the approach many countries appear to be taking – is a principle that can be disastrous, particularly when the cost is so high that it cannot be borne socially. With the coronavirus, like all new and lethal diseases, alarm shapes the responses. As the cost starts to emerge, there is an inevitable recalibration. We are approaching that point of recalibration.

First the risk. The coronavirus seems as difficult to contain as other coronaviruses like the common cold. Some people do not know they have been infected, and many who never fall ill carry the disease. Everyone is suspect. The only safe course is complete social isolation. That is of course impossible. Jobs must be worked, children must go to school, food must be bought and consumed, and so on. Humans are inherently social animals, and the perpetual threat of infection undermines a fundamental human imperative: to be with other people.

Coronaviruses are persistent; they appear, disappear, reappear, mutate. There will be no clear moment at which the virus is eradicated, no

moment at which the dread of a handshake or of a kiss on the cheek will go away. Obviously, there may eventually be a vaccine that can minimize if not eradicate the virus, but that is a ways away. In the meantime, fear will continue to haunt.

The virus is deadly, of course. In South Korea, which has maintained by far the most comprehensive statistics on the disease, the mortality rate for those infected is about 0.7 percent as compared to 0.1 percent for the flu. As with the flu, the death rate is higher among the elderly, especially those with other afflictions. As someone over 70, I can be permitted to say that this is a bearable risk compared to other risks.

In the United States, about 39,000 people died in automotive accidents in 2018. That is a bit over 3,000 people per month or 100 per day. It is a significant risk that most of us accept daily. We understand the risk, we take prudent precautions like not drinking while driving, and we live with it. We live with it because the price of not living with it is more than we are prepared to pay.

Life is a calculated risk, and the question is whether protection against the coronavirus is possible, and if possible, whether it is worth it. I raise the number of automobile deaths to drive

home the fact that we do take calculated risks. There has not been an overwhelming demand to create automobiles that allow passengers to survive crashes beyond the point where we are – with airbags, seatbelts and better engineering. We demanded steps within the framework of the cost of increased protection, and the price of decreased mobility.

When the virus first appeared, the natural public response was to demand that the government stop it. Governments are useful things, but public expectations are sometimes extravagant. The next phase was to blame the government for failing to protect them. The third phase will be attacking the government for taking the steps it took to protect them. We are not there yet, but we are close.

The cost of the protections is not merely disruption of how we live, but also a significant economic cost.

The crisis has contributed to massive damage to the Chinese economy and, to some degree, to the decline in oil prices, since China is the leading oil importer. It has almost certainly contributed to the massive decline in equity prices. All of these will extract human costs as global economies move toward recession.

Recessions are common. Uncommon is the refusal to attend public gatherings, which has caused significant economic loss. Here in Austin, South by Southwest laid off a third of its staff on Tuesday after the festival's cancellation. In New

York, the governor has decreed that containment sites be set up to protect people from people who have the disease. In Italy, the solution has been to divide the country into different parts and forbid the movement of people between them.

The more sequestered the population is, the less efficient the economy becomes not merely for financial reasons but also because to produce things, even ideas, workers must be at their jobs, goods must be moved freely and so on. The coronavirus is frightening, but a recession that is more than just a cyclical event is also frightening, for it can extract a massive social cost as jobs are lost, banks fail and so on. The sequestration of larger and larger groups of the population cannot become a long-term feature of society without repercussions.

If the virus has a higher mortality rate than it does now, the risk-reward calculus changes. If the virus can be quickly eradicated by current measures, the calculus changes. But if the mortality rate remains the same, and if the virus persists in spite of best efforts, the risk-reward ratio remains in place. What will emerge is not a bloodthirsty indifference to life. All our lives are at risk. Rather, it will be the process of accepting a new risk and staying our social and economic courses.

The current imposition of increasingly intense measures, unless successful or unless the disease proves more dangerous, will lead to social adjustment and, of course, holding the government responsible for all prior fears.

The Next Phase of China's Fight with the Coronavirus

March 13, 2020

By [Phillip Orchard](#)

The Communist Party of China would like you to know it's winning the war against the coronavirus, and that we all have Xi Jinping to thank. That's been the core message from Chinese state media over the past few weeks, which marked a major turning point in the crisis. Internally, China's massive mobilization against the virus appears to have stemmed the tide, with new infections slowing to single digits and Chinese industry gingerly getting back to work. And as the outbreak became a pandemic, Western governments' spotty responses have put both Beijing's early missteps and its later successes in a more favorable light.

It's been a boon to Beijing's propagandists, who can now call attention to China's triumphs and the world's woes. Their messaging has also made it clear that Xi and his inner circle will emerge from the public health crisis intact – and perhaps even stronger. Xi has commanded the decisive battles in the “People's War” against an invisible enemy, at least according to state media hell-bent on elevating the president to almost Mao-like status.

But if Xi is safe on his throne, his realm is not.

The Chinese economy is, to put it plainly, in really bad shape. Nearly every problem Beijing couldn't figure out how to fix has been made an order of magnitude worse by the coronavirus crisis. And while the virus going global may be a shot in the arm for China's hype machine, its spread may very well shut down the country's most promising roads to a rapid recovery.

Xi's Glorious Battle

A month ago, the CPC was reeling. The epidemic had become nearly uncontrollable, and Xi's tightly centralized decision-making structure and a culture of censorship were at least partially to blame. This created pressure both at home and abroad, forcing Beijing to implement a twist on Mao's Hundred Flowers Campaign and relax the restrictions on independent reporting and to censor social media with a lighter touch. The outrage that followed, particularly after the death of whistleblowing doctor Li Wenliang, scared Beijing, forcing it into a series of clumsy moves to squelch dissent. Beijing was also forced to postpone its annual National People's Congress, which the CPC relies on to align the machinery of the state with its agenda. For much of this time, Xi himself was conspicuously absent from the spotlight. When the central government finally launched a campaign to demonstrate its

command of the crisis response, it was led not by Xi but by Premier Li Keqiang, the closest thing Xi has to a rival in the Politburo Standing Committee. But as soon as the outbreak looked like it would soon crest in early February, Xi was firmly back out in front.

The pillars of power in China are often described as “the three Ps”: the People’s Liberation Army, personnel and propaganda. And by becoming the public face of the government’s response, Xi has demonstrated his control over each of them. In early February, he deployed the PLA, which answers directly to him as chairman of the Central Military Commission and had been noticeably absent from the response in January, to build hospitals, transport supplies, ensure public order and dispatch medics to the front lines in Wuhan. If Xi were losing control over key personnel appointments, he wouldn’t have been able to replace the party leadership in Hubei province with a pair of loyalists. Finally, the propaganda machine has gone into overdrive in lionizing the president. State media has begun referring to the president as “the People’s Leader” and, particularly during Xi’s long-awaited visit to Wuhan this week, equating his leadership in the fight against coronavirus to Mao’s command of the Communist Party’s civil war victory in 1949. This matters more than mere symbolism. By effectively elevating Xi to Mao-like status, the Communist Party is wrapping its own legitimacy in Xi’s cult of personality even more tightly, making it near-impossible for rivals to dislodge him.

Still, there are at least two other “Ps” that also matter. The first is the public, which for now appears to broadly support the CPC. To be sure, there are glimpses of discontent over Beijing’s mismanagement – and not just in social media circles where outfoxing censors has become something of an art form. Doctors in Wuhan haven’t stopped speaking out about the government’s suppression of information about the virus. An exceedingly tone-deaf speech given by Wuhan’s party chief calling for a “gratitude education campaign” for the city’s residents ahead of Xi’s inspection tour had to be buried by censors after earning so much backlash. And leaked videos showed Chinese Vice Premier Sun Chunlan getting showered with insults from quarantined citizens during her own visit to Wuhan. But this has yet to translate into any sort of mass movement on the streets.

This is, in part, because the country has been effectively in lockdown. (Indeed, the digital systems put in place to combat the spread of the virus will be useful in combating attempts to mobilize against the government going forward.) It’s also because there’s no prominent opposition figure or party to rally around. (This is why any signs of a major split in the PLA or Politburo would be so important). But the power of the state’s messaging machine shouldn’t be dismissed. Propaganda is more effective when it contains nuggets of truth. Beijing can reasonably point to the lockdowns in Italy and elsewhere to make the case that its own response was within bounds, and it can point to the severe shortage of medical masks, testing

kits, hospital beds and so forth in places like the U.S. to make the case that, whatever its flaws, the CPC's model of governance is superior to Western democracies in a crisis.

The War Isn't Over

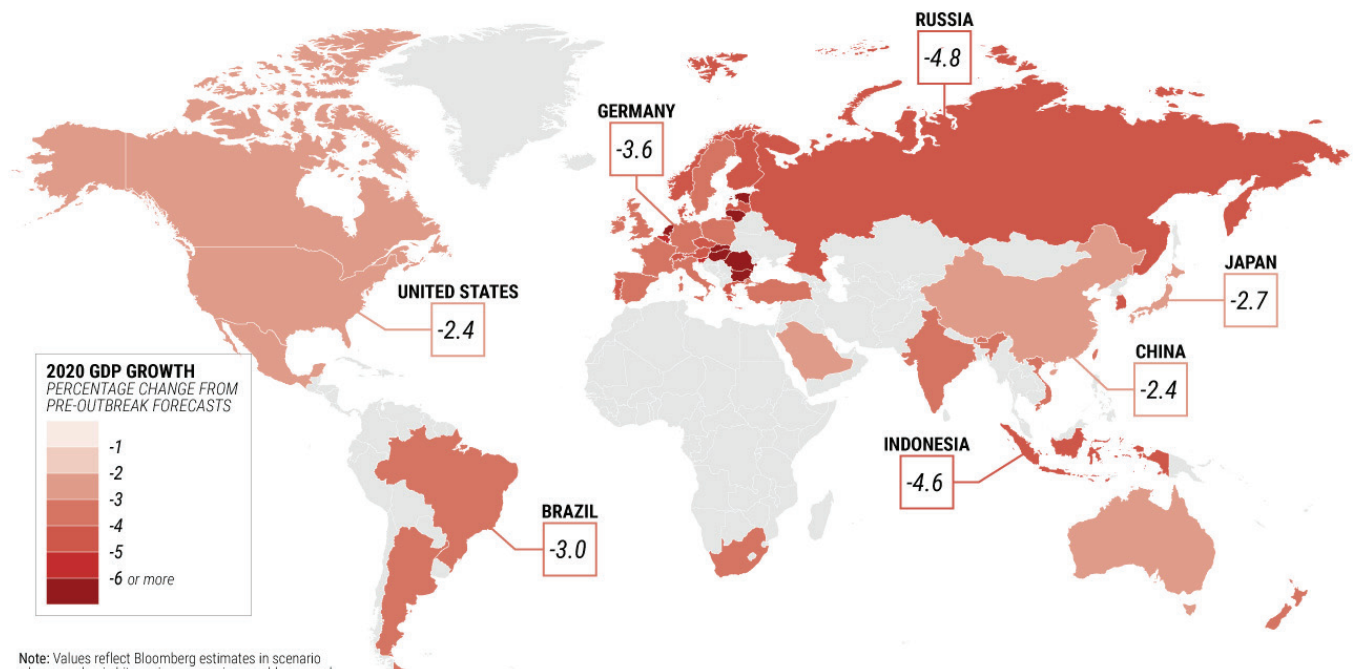
The other "P" is prosperity. Breakneck growth was already becoming impossible to sustain. In February, the economy effectively ground to a halt. As many as a third of Chinese businesses remain shut down, with many more operating at only partial capacity. As was made clear by anemic credit growth figures released this week, Beijing's chronic struggles with getting liquidity to small and medium-sized businesses – which account for as much as 80 percent of employment in China, and more than half of which say

they can't last two months on their savings – persist. Even "shadow banking" hit a three-year low in February. This is good news for Beijing's long-term battle against reckless lending, but it's bad news in the current environment.

We've noted that China would be reasonably well-positioned for a "V-shaped" recovery once it could contain the virus enough to restart its manufacturing engine – that is, so long as it could keep systemic risks in, say, the financial or property sectors from rupturing. That's basically what happened following the SARS epidemic in 2003. Once people can actually get back to work en masse, it won't be hard to rev up Chinese factories and services sectors.

The pace of the recovery will therefore depend primarily on demand. Massive stimulus spend-

COVID-19: Worst-Case Economic Shock



Source: Bloomberg

Graphic redesign by Geopolitical Futures

ing and the state sector will help here. But with the mass, short-term loss of wages likely to drag down domestic consumption for at least a month or two more, external consumption will once again be the key.

This is why the global spread of the crisis is such a problem for China – especially since it's happening at a pace that's likely to last months and may surge again in the fall. Prolonged disruptions to trade would be bad enough for Chinese exports, which dropped more than 17 percent in January and February alone. The more European and the U.S. economies slow down, the more Western demand for Chinese goods will dry up. In this light, "doomsday scenarios" like the one put out by the United Nations predicting a \$2 trillion hit to global gross domestic product somehow seem optimistic.

Meanwhile, stress on financial markets in the West – combined with the likely boost to an-

ti-globalization political forces and the broad awareness among multinational corporations that supply chains have become overly dependent on China – will blunt investment and capital flows into China. Despite China's impressive capacity to screen just about everyone for the virus at just about every factory door or airport gate, it's not impossible for the virus to come back. Additional mass quarantines, of course, could be incalculably disruptive. (One silver lining of the global slowdown for Beijing: The collapse of oil prices will have mixed effects on the Chinese economy, but on the whole it will do more good than harm.)

For almost a decade now, we've been waiting for the next big shock that would test the resilience of the CPC-led system. The assumption has been that the most likely shock would come from external forces. Turns out, the shock came from within, spread to the rest of the world and now looks likely to boomerang back. There's nothing China's propagandists can do about it.

Is It Even Possible to Contain COVID-19?

March 16, 2020

By [Alex Berezow](#)

The only viable option is mitigation.

Extraordinary times call for extraordinary measures. At least two different countries, China and Italy, have turned this aphorism into an official government response to the coronavirus, issuing quarantines that cover millions of people and enforcing extraordinary lifestyle changes. But these kinds of measures can't last forever. The public is willing to tolerate massive disruptions to daily life only when it believes the disruptions will end. When they don't, economic and perhaps social unrest will ensue. That is why the question, "Should the coronavirus be contained at all costs?" is geopolitically relevant. Before we can answer that question, however, we must first answer if SARS-CoV-2 (the official name of the new coronavirus) is an extraordinary virus and if it's even possible to contain it at this point.

SARS-CoV-2, and the disease it causes called COVID-19, is in some ways extraordinary. Four strains of coronavirus are among the 200 causes of the common cold. But they aren't typically lethal. The other two coronaviruses, SARS (severe acute respiratory syndrome) and MERS

(Middle East respiratory syndrome), had very high case-fatality rates but infected far fewer people. For these reasons, SARS-CoV-2 is like a deadly version of the common cold and, thus, unlike any other coronavirus we've seen.

Moreover, it's not acting like typical respiratory viruses, which can hit young children and the elderly especially hard. Instead, SARS-CoV-2 has minimal impact on children (though it can still infect them, and children can spread it to others). Bizarrely for a respiratory virus, it has been detected in stool samples, indicating possible fecal-oral transmission. Though the entire human population should be immunologically susceptible, the virus is not spreading as quickly as influenza. Flu season lasts from October to March. In that five-month timespan, influenza will infect anywhere from 9 million to 45 million Americans each year. COVID-19 does not appear to be on that track, especially with summer approaching. (Warm weather is often lethal to respiratory viruses.) In the roughly two months the virus has been circulating in America, the number of confirmed cases is only roughly 3,700. Even if off by a factor of 100, the number of infections is two orders of magnitude less than the flu. The bottom line is that scientists don't really know how the virus is spread.

Can this extraordinary virus be contained?

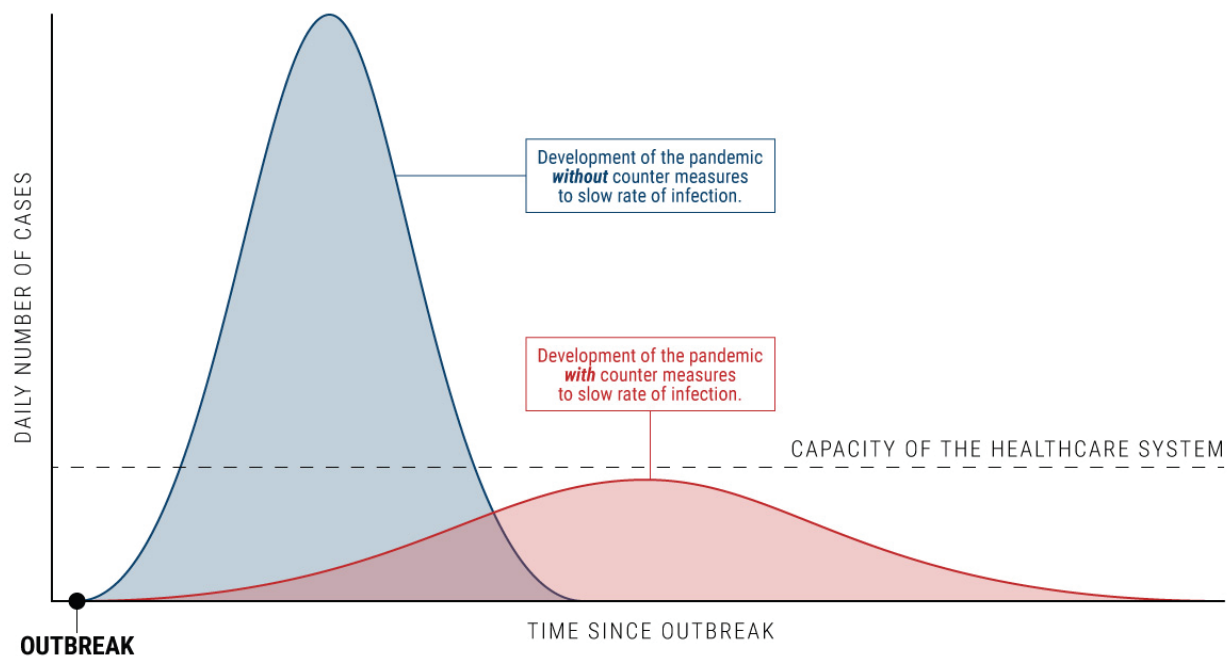
Probably not. The biological and epidemiological features of the virus make that nearly impossible. Research indicates that the virus is most contagious at the earliest point of illness, which means that a person is already spreading it by the time symptoms first appear. Once a person feels poorly enough to stay home, it's already too late. Even worse, people who are infected but asymptomatic can probably spread the virus as well. The World Health Organization estimates that 80 percent of COVID-19 cases are mild or asymptomatic, underscoring the likely futility of containment measures. The only way to stop a virus that can spread so surreptitiously is to force every person on Earth to stay home for the next 14 days, which is the length

of time necessary for quarantine, based on the virus' incubation period.

Public officials are faced with few options to protect the population. On one extreme is "do nothing." This would result in the virus spreading far and wide and is therefore not a politically or socially viable option. On the other extreme is "cancel everything." This certainly would prevent new cases. However, while health concerns and fears of a new virus might allow for this to be socially acceptable for a while, it cannot last indefinitely. People might accept economic devastation as a necessary consequence to stop smallpox, a disease that killed 30 percent of the people it infected, but COVID-19 is not nearly so

Flattening the Curve

The importance of early counter measures in the COVID-19 pandemic.



Source: United States Center for Disease Control and Prevention, OurWorldinData.org

Graphic redesign by Geopolitical Futures

lethal. The greatest threat is to people aged 60 and over or those with underlying health conditions. The rest of us are concerned about them. But people are also rightly concerned about their wages and bank and retirement accounts and may decide that life needs to return to normal.

With that in mind, there are two general approaches that can be taken when faced with an emerging infectious disease: containment or mitigation. The former seeks to prevent the virus from spreading and to ultimately snuff out the pandemic. It is a viable and potentially successful approach for diseases such as Ebola that are relatively difficult to transmit and create patients with unmistakable symptoms. Mitigation acknowledges that the virus cannot be stopped and seeks ways to minimize its impact on public health. This strategy is used when containment is not viable.

Mitigation countermeasures are an important component of “flattening the epidemic curve.” The goal isn’t necessarily to reduce the number of total infections, though that would be a pleasant side effect. Instead, the goal is to buy

time: slowing down the spread of the disease so that the health care system is not overloaded with patients, as it was in Wuhan. After all, a sick patient can only benefit from medical care if there are enough hospital beds and supplies. This, in turn, lowers the case-fatality rate.

Considering the biological and epidemiological features of the virus described above, combined with more than 150,000 confirmed cases – not to mention the several hundred thousand more cases that are undiagnosed – the notion that the virus is still containable seems far-fetched. The U.S. decision to ban flights from Europe is a containment tactic that will yield few practical results because the virus is already circulating in the United States. And there are still other international flights entering the U.S. that Europeans could use to gain entry. Given the spread of the virus to date, the economic hits incurred thus far, and all the other unknown factors regarding the nature of the virus, mitigation emerges as the most viable course of action that allows for an appropriate balance between public health and economic needs.

Quarantine and the Supply Chain

March 17, 2020

By [George Friedman](#)

The global medical community appears to have devised a strategy for mitigating the coronavirus that depends largely on quarantine, or limiting contact among the infected and potentially infected, thereby limiting the virus' spread. No one expects this strategy to eliminate the virus, of course. The hope is to keep it at bay long enough for it to fade away on its own or, as many experts believe, die in the more hostile conditions of warmer weather. In the meantime, it's possible that scientists will develop more effective treatment for the disease it causes.

This is all speculative. What we know for sure is that the world's governments are kicking the can down the road, hoping that later is better than now. It's not an irrational plan, but it does come with economic costs, not the least of which involve supply chains. What we need to survive must travel from where it's made to our homes, and every step along the chain is at risk of breaking down.

For our purposes, there are three indispensable supply chains: food, pharmaceuticals and energy. The need for food is obvious. The inability to obtain pharmaceuticals for pre-existing medical conditions could kill more people than the

coronavirus itself. Electricity is essential to refrigerate foods and possibly pharmaceuticals, allow information to flow, and drive facilities needed for the supply chain. Gasoline must be delivered if the trucks that distribute food and pharmaceuticals are to run. There are undoubtedly other supply chains we have missed, but these are the essentials to get us through until the weather turns.

When my wife and I shop for groceries, we order online so that it is ready for pickup when we get to the store. Two weeks ago, we were able to place an order for same-day pickup. We ordered a two-week supply since we thought we'd be traveling a bit and wanted to make sure we had plenty of supplies when we returned home. (I saw this coming and my wife thought me mad. Please note I finally got one right.) Last week, however, we ordered online for some additional supplies, and there was a three-day wait. On Sunday, we tried again, and the earliest we could pick it up was in eight days. We checked with Amazon, the king of supply chains, and their wait on some basic food and household items was anywhere from five to 10 days. Some items were completely unavailable.

This means there are people who are just beginning to stock up who can't because the initial surge in demand has overwhelmed super-

market stocks and has overloaded the supply. Warehouses undoubtedly have substantial resupply, and their sources – food packagers and the like – are also able to obtain food from producers. The food supply chain is robust, but we have seen a simple breakdown due to demand that may have some impact in the next few days.

But the problem is that the food supply chain and social distancing, not to mention quarantine, run against each other. No matter how automated it has become, it is staffed by people who deliver products to people. Warehouses still employ human workers. Truckers and loaders go from one node in the supply to the next. Stockers and cashiers touch food packaging. The list goes on. It is not that the quarantine is ineffective; it's that it runs counter to the principles of its intent.

There is a social cost in all this too. Poor people cannot buy three weeks of food at a time. And the entire picture is complicated by the whims of workers, who may decide that they need their wages to survive or may determine it is safer to forego their jobs. The workforce will contract, possibly at all levels. These all involve the availability of workers who choose not to quarantine in spite of the risk to themselves and their families, a rational structure of demand from an economically variegated society, and the inevitable rage that builds under pressure. The pharmaceutical industry has these prob-

lems too, plus the breakdown of the system would be disastrous. The maintenance of power plants involves numerous people, more when there is a problem. It requires the delivery of fuel along pipelines that must be maintained, and storage and production facilities. (This is to say nothing of the upkeep of water purification plants, pumping stations and all other essential services.)

My point is two-fold. First, a total quarantine is impossible, and second, the more aggressive the quarantine is, the more pressure it puts on vulnerable supply chains that sustain life. The systems require staff, and the staff cannot avoid contact with the public.

This is not to say that the quarantine is not a reasonable solution. Under the circumstances, it is the only reasonable solution. It may even be as effective with the number of essential workers breaking. But it is important to bear in mind that supply chains, no matter how robust, can break, and it takes armies of workers to maintain them. The cycle that is envisioned by the quarantine confronts the cycle that maintains the supply chain. The question is the math of the quarantine. To what degree does the workforce maintaining these and other supply chains – and their end-users – change the math. I assume that has been calculated and that it is understood that these supply chains cannot be allowed to break and to some extent will sustain the virus' spread.

George Friedman's Thoughts: Whatever Happened to Brexit?

March 19, 2020

By [George Friedman](#)

The planet has reached an extraordinary moment of unity. The overriding focus is on the coronavirus and the radical restructuring of our lives and societies. There is a weird sense of sharing. This is not a “Kumbaya” moment in any sense. The moment is not giving us a sense of how we are all human and a desire to be together. Quite the contrary, it is a moment of fear and loathing of each other. The fear is that being near someone will lead to our death. The loathing is a sense that the world has become unclean.

I am fortunate. My wife and I live in a large house, by ordinary measures, on a bit over five acres of land. We have always been recluses of a sort, basking in our aloneness when on breaks from traveling around the United States and to many countries overseas. Geopolitical Futures was designed to support this aloneness. The company has no office, and everyone works from home, in constant communication made possible by things like Zoom and Slack. For us this moment is no burden. It is the life we chose, but even we must occasionally leave and see friends and strangers.

But I think of the places I lived as a child, or in Baton Rouge when we first arrived there. My wife and I raised four children together; they are now gone, scattered by their careers, as is proper in America. During that time when they were all home, this moment would have been increasingly hellish. Asking children, especially teenagers, to avoid social contact is an assault to who they are. They live and mature through social contact. It defines who they are. The places we used to live were bearable to adults because we could go to the office, and have occasionally intelligent conversations with colleagues, or at least isolate ourselves at a desk by holding a forbidding posture. But staying at home in a small apartment or tract house, terrified of contact with others and exhausted by unbroken family bliss, would be unbearable, made altogether more difficult by the fact that there is no knowledge of when it will end. The solace of separation is gone and the uncertainty about how long it will last makes it stressful. All of this is made more difficult by the open or hidden suspicion that this is unnecessary. I am of the opinion that it is, but my ignorance and the institutionalized distrust of government by Americans forces me to wonder at our leaders' wisdom. We are social animals, and we have been told that our fundamental nature is a threat to our lives.

The idea that this can last for as many months as needed is dubious. The epidemiological reality and the human reality collide. But what also collides is that there are other human questions, questions that were urgent a few weeks ago – and in at least some cases, people were dying in substantial numbers – that still lurk, and sometimes break forth. These are the geopolitical questions. They are no longer spoken of widely, and in many cases seem to have been suspended, but they will not be put on permanent hold. So where on the one hand the personal requirements of being human will grind against the reality of the epidemic, on the other hand the relationship between nations and other groups of humans, superseded and suspended by the moment, will reemerge.

I will attach a list of such issues, but the list is less important as a whole than the manner in which each was vital just a few weeks ago. Consider Brexit. It was an issue that tore at British society, and recreated the confrontation between Britain and the Continent. The British, with Churchillian stubbornness, chose to reject Europe. The Europeans promised profound consequences. The bureaucrats involved may well be having teleconferences, but what was overwhelming has now become peripheral. The important question in Europe is that up until a couple of days ago the Germans were unwilling to ship protective equipment to other European countries, and it remains to be seen whether they will now in fact follow through and do so, and whether a 50-kilometer line of Lithuanians will be permitted into Poland. The Europe with-

out borders seems to have discovered it has borders between nations, and Italy raised the question of not only external borders but internal ones. This is not about the resurrection of nationalism. Nationalism was always there, waiting for a stunning moment to be resurrected.

Iran-supported forces in Iraq fired rockets at and killed American and British personnel. A few weeks ago this would have riveted Washington, with loud voices demanding more action and others demanding less. But now the focus of the Defense Department is the virus and its effect on troops for whom social distancing is not possible. The U.S. has taken minimal action but has withdrawn troops to what I assume are safer positions. Perhaps Iran, one of the countries hit most viciously by the virus, is feeling better and wants to come out to play. Its American playmate is not in the mood to think about it.

Not too long ago, the Russians attacked Turkish forces in Syria. This happened after Turkey sent forces to Libya, where they challenged the Russians. As a result of the Europeans not involving themselves against Russia, the Turks released Syrian refugees living in Turkey to go to Europe, resulting in a tear gas war between Turkey and Greece and meetings in Brussels, with weakly worded warnings to Turkey. It was in all the papers' headlines. It has been, it seems, suspended along with schools.

The Chinese are recovering to some extent from the virus and are celebrating by expelling

American reporters and making claims that the U.S. invented the virus in order to attack China. There was also a trade war underway, a war that has become moot in the context of a global economic breakdown.

In my isolation, I miss these things greatly. It was my pleasure in observing the manner in which the world evolved, with nations allying, betraying and fighting. It is not gone but only suspended, or more precisely taking place behind a haze of anxiety, being managed by the second teams of all countries, but waiting to reemerge.

The virus has canceled human intercourse, from two people meeting in a bar and falling in love, to massive airstrikes. Even Brexit has finally slunk into the background. The encounter between two potential lovers or the slaughter of enemies is not something that can be deferred inevitably. It is who we are. In the laboratories of biologists, they are doing the vital work of crafting biological and social solutions. But I sense, perhaps wrongly, that the ones crafting social solutions are my brethren, socially maladjusted, loving the chance to be and drawing conclusions about what is possible that is unsustainable, regardless of the fact that some will die as a result. My wife reminds me that I do not understand individuals but only countries. Probably true. The scientists may understand the virus but not humans.

Canceling social life for months is likely the path to defeating the virus. But it cuts against

not only the economy but, even more, what it means to be human. Social distancing is another way to say that we should halt the most human of activities in order to suppress death. But humans play with death in all sorts of contexts, because it is social and necessary. I am likely least upset by isolation, and in my isolation, I can see a collision between social and epidemiological necessity. There are friends who must be seen, and wars that must be fought. Humans can endure this, but they will be able to do so for a remarkably short period of time. Hopefully, the time frames of humanity and science can mesh.

A random list, undoubtedly incomplete, of conflicts or things needing settlement:

- Belarus and Russia's standoff over oil supplies.
- Vladimir Putin's control of Russia.
- Turkey and Russia's contest for influence in Syria.
- Turkey's struggle with Greece and others for influence in the Eastern Mediterranean, which expanded to include Libya.
- The status of eastern Ukraine's Donbass region and of Crimea.
- Turkey's attempt to exact concessions from Europe by pushing migrants into Greece, and Europe's attempt to repel them.
- EU negotiations over the bloc's next long-term budget.
- Brexit, specifically the United Kingdom's future relationship with the European Union.
- U.K.-U.S. trade negotiations.
- EU-U.S. trade negotiations.

- NATO's incessant dispute over burden-sharing.
- The Iran nuclear deal and U.S.-Iran hostilities.
- U.S. military reorganization.
- Tensions between the U.S. and South Korea, and between both and North Korea.
- Hong Kong protests.
- The U.S.-China trade war.
- China's struggle for greater influence in Central Asia and the South China Sea.
- Venezuela's political and economic turmoil.
- The U.S.-Mexico border.
- Brazil's economic reforms.
- Sahel militancy.
- Argentine debt.

The EU Wasn't Built for This

March 20, 2020

By [Allison Fedirka](#)

However ill-suited the bloc may be, it understands that the coronavirus outbreak warrants a collective response.

Europe has always struggled to define what the European Union really means, particularly after the 2008 financial crisis. It was a harsh reminder that all its members have different political and economic needs, and every move it has made since then – financial compromises, Brexit, immigration reform – has only widened the differences, even as it has stoked nationalist sentiment. This bodes poorly for the EU's ability to confront its latest crisis: a two-front war against a virus and the economic and social unrest it threatens to unleash.

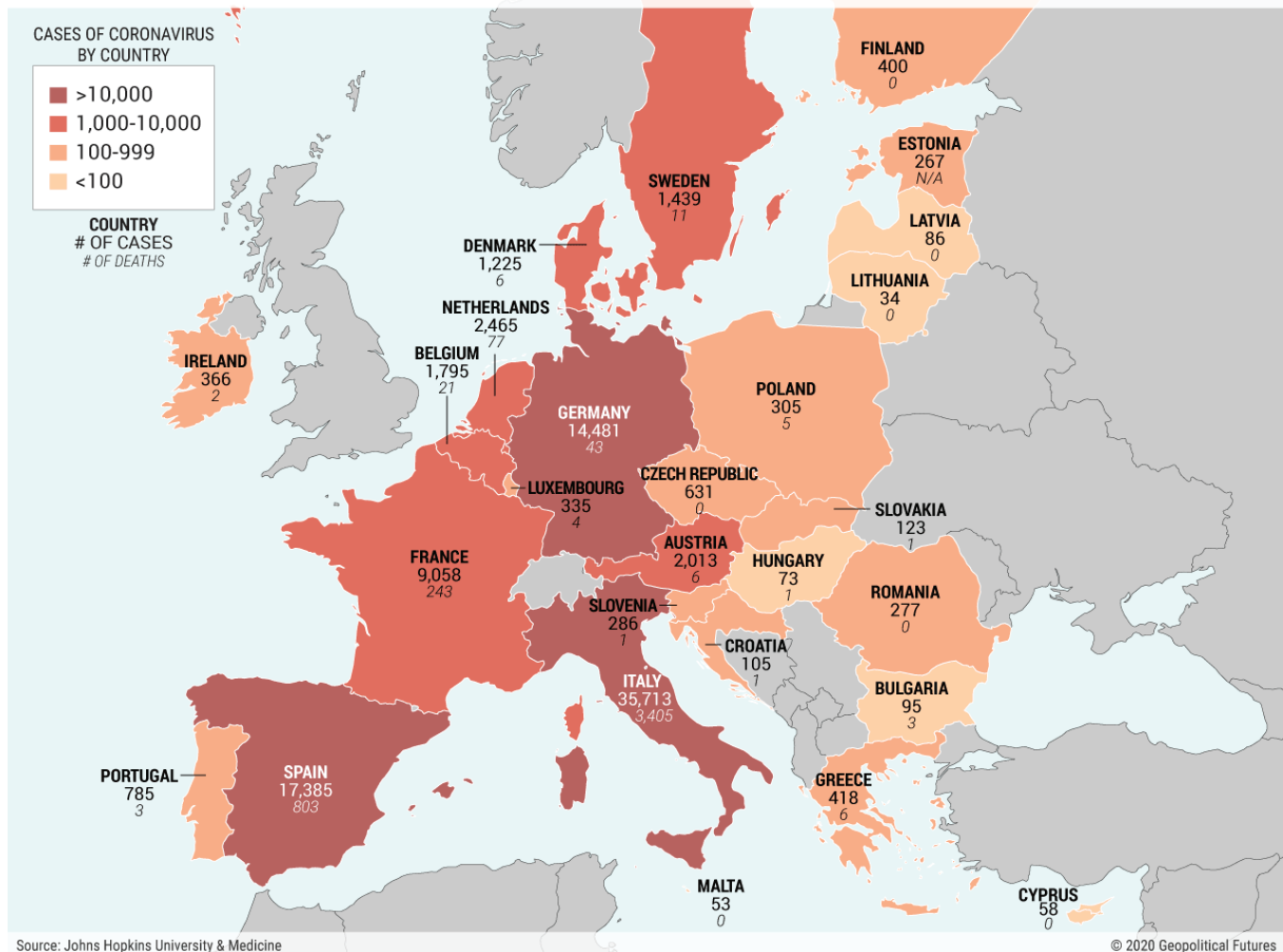
Before the coronavirus outbreak, the EU knew it was approaching a recession. The only question was exactly when and how bad would it be. The virus helped answer these questions – now, and potentially catastrophic. It also meant that the questions of public health measures (a national issue) and economic recession (a union issue) became intimately linked. The bloc will be judged on its ability to manage the crisis with the goal of avoiding the chaos and decline that occurred after the 2008 financial crisis. As part of its efforts to stay ahead of the economic cri-

sis, the EU included a public health component to its initial response, something no one expected Brussels to do. As a result, the bloc faces a defining moment as it has now positioned itself as a possible solution to problems national governments may not be able to solve on their own.

The EU was meant to foster economic prosperity and thus to prevent any more continent-wide wars from breaking out. In time, its mandate evolved, eventually including more complex arrangements such as a common currency, production standards, the free movement of people and so on – all to support trade, the common market and general economic well-being. By design, it needed to be prepared for economic crises, and though its record during the 2008 financial crisis leaves something to be desired, the union held nonetheless. Brussels enacted some strong central measures for the eurozone as constituent states imposed policies that at times rivaled the EU's, but the mutual dependencies and benefits of being in the eurozone have outweighed the costs of completely breaking ties.

But the bloc was never designed to address mass public health issues and there's no history of collaboration in this area. In the past decade, health and medical sectors have been standardized somewhat for the purposes of trade, but EU legislation generally allows its members

COVID-19 Cases in the European Union, as of March 19, 2020 19:00 GMT



to break rank when national security is at stake. The coronavirus has certainly become a matter of national security, and though Brussels will be judged on its ability to manage the current crisis (after all, it is still expected to play a role on the economic side of the problem), its performance will depend on the buy-in and co-operation of panicked member states that are likewise scrambling for answers.

Addressing the public health crisis puts two forces at odds. On the one hand, the bloc is trying to solve a problem as a community. This

makes sense on the economic level as the economies are closely integrated. On the health side, there is also a case for an integrated response given the threat is a communicable disease, how freely the populations move among one another, the close proximity of multiple countries and the desire to maintain what trade is possible. On the other hand, the member states demonstrate that they consider themselves to be facing exceptional circumstances likened to a state of war. Such a likening is not unheard of given the scale of economic and human conse-

quences brought about by the pandemic. Given the EU was built with the intention of decreasing the risk of wartime behavior, its tools and approach are not compatible with countries in war mode where the me-or-them mentality prevails. The EU was never designed to lead a war nor fight public health battles. Member states most affected by the virus find themselves needing to do exactly this.

However ill-suited the bloc may be, it understands that the coronavirus outbreak warrants a collective response. To that end, the European Council approved Commission proposals to help guide the bloc through the public health crisis. Earlier this week, it recommended closing borders, limiting internal trade to the essentials and allowing citizens to return home. The proposals also called on the capacities of rescEU, a union-owned reserve that provides assistance in extraordinary situations. Thus, the Commission is now taking stock of medical equipment, collectively procuring supply and distribution of existing stock with the goal of equitable access and minimizing potential shortages.

The problem is that member states are responsible for reporting stocks and determining how many supplies their people need, and it's unclear how each government makes those determinations. It's also unclear how well Brussels can coordinate supply efforts.

However, it is clear what the EU needs to combat the crisis: face masks, ventilators, health care professionals, hospital beds and so on.

But already there are reports of shortages. Estimates of the disease's progression show no country has sufficient ventilators, face masks and hospital beds to meet potential peak demand. Health care professionals were already scarce prior to new demand levels. (This is to say nothing of high demand outside of Europe.)

Some countries are able to meet their own needs better than others, hence the discrepancies in which members do and do not support EU initiatives. Germany, for example, is better suited than most to manage the crisis on its own. It has the largest medical device market in Europe (ahead of the U.K., France and Italy) and the third-largest in the world (behind the United States and Japan). With Switzerland, Germany is home to the two leading ventilator producers in Europe. Italy, by contrast, boasts just one low-capacity ventilator manufacturer. France has some, but Spain has none. German company DACH Schutzbekleidung is also a leader in medical masks, particularly outside of China, though other countries such as Spain, the Netherlands and France also can produce masks.

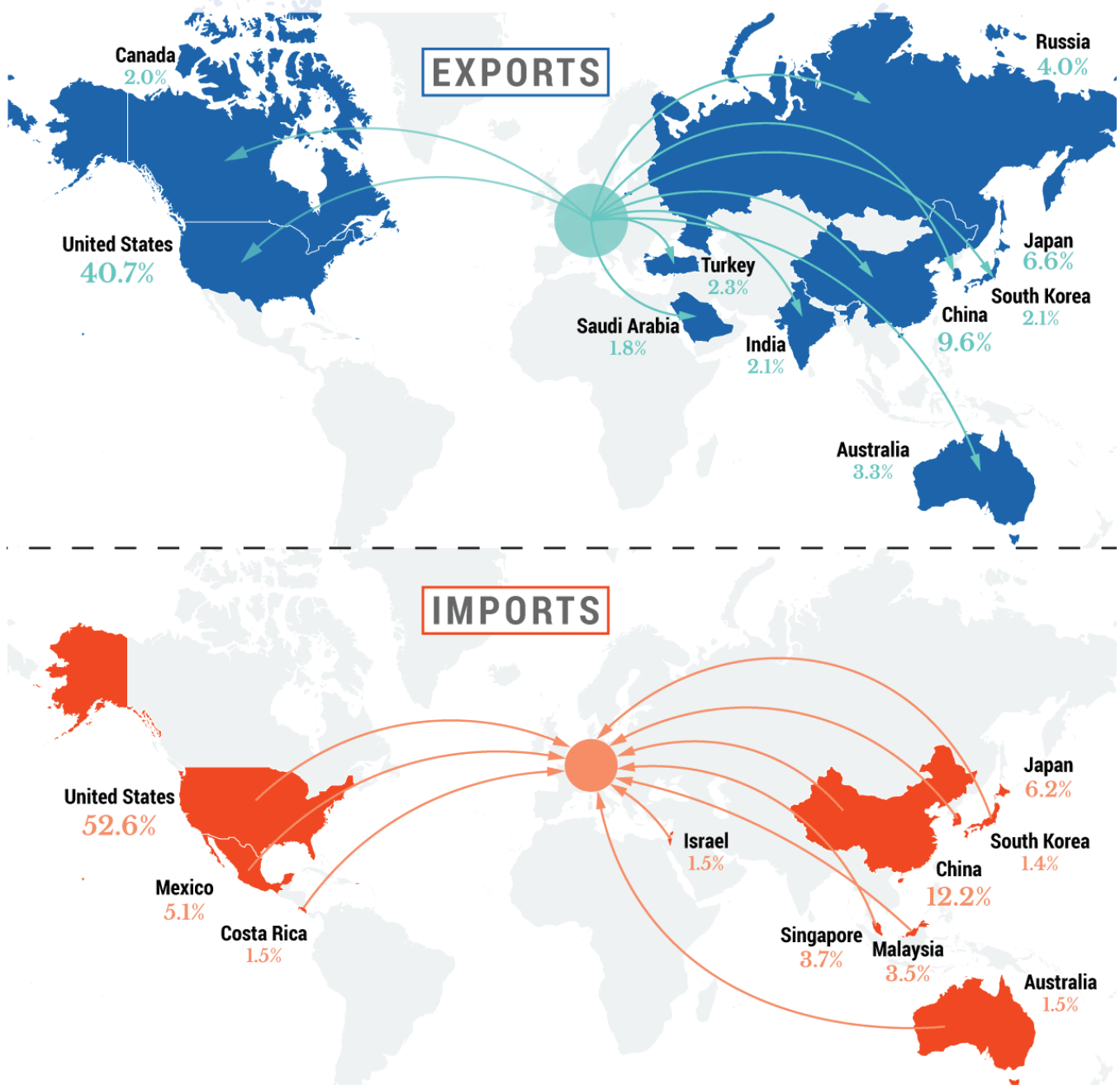
Yet even Germany faces a potential shortage of hospital beds and health care workers. Many of these workers come from Poland and enter Germany on a rotating basis for multi-month shifts. The recent border restrictions have disrupted the cycle, making it difficult for more health care workers to enter back in.

Between the outbreak, medical shortages and lack of self-sufficiency in the public health and

medical industries, many EU member states have started to turn toward their national governments for answers. In response, Berlin and Paris have imposed export restrictions on medical supplies. Given the advantages Germany

has as a producer of these goods, it's not a surprise that one of Berlin's first moves was to restrict exports to ensure domestic needs were met first. Over the weekend, Berlin and the European Commission came to an agreement that

Medical Devices Moving In and Out of Europe



Source: MedTech Europe

Graphic redesign by Geopolitical Futures

allowed Germany to approve exports of protective equipment such as masks, goggles and gloves. Since then, it has issued licenses for the export of protective equipment to Italy, Switzerland and Austria.

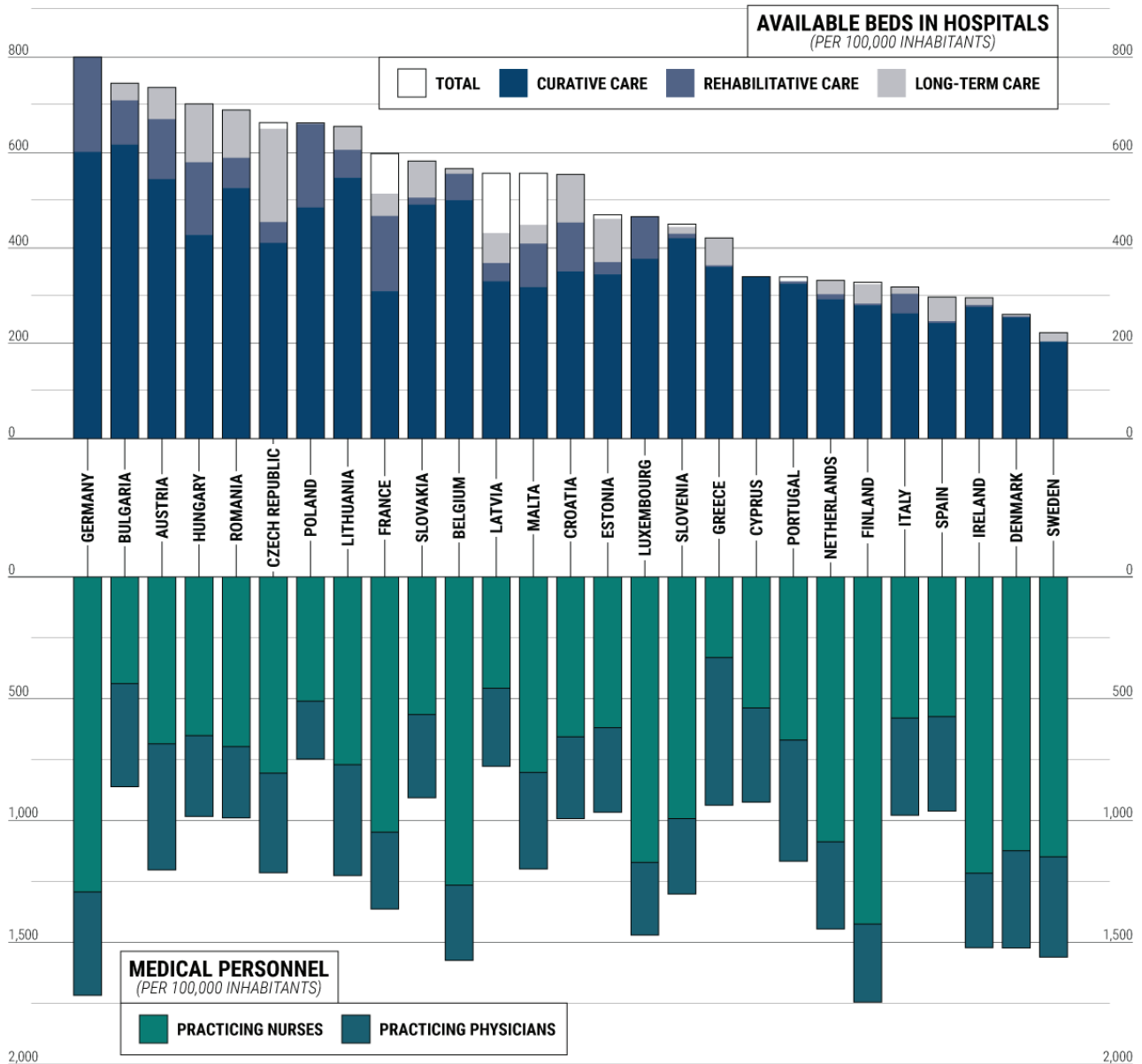
What recourse, then, is there for member states? Most have begun inching toward the nationalization of key companies or operations so that the government can directly control resources during the crisis. Spain and Italy nationalized private hospitals and have legal standing to do more if they want with other companies. Germany has called on hospitals to postpone nonessential surgeries. France declared a state of “sanitary emergency” on March 18 allowing Paris to take more action in the economic sector to provide for the health system. The government is also supporting local factories as they shift production lines to produce high-demand products such as masks. Romania restarted

and nationalized a company that had closed before the crisis and enlisted the help of the military to resume work to produce disinfectants. Other companies have been put to work by the state and switched to producing masks, other protective equipment and biocides (though, notably, not ventilators).

Thus there are two competing solutions to the coronavirus crisis. The EU is stepping up to grow beyond its current role to show members it’s a reliable manager. It had to, given that the source of the economic problems it needs to address requires addressing ways to stabilize a public health crisis. Meanwhile, states encourage the very kind of nationalist tendencies EU membership is supposed to dispel. Ultimately, the EU’s efforts to keep the bloc together will rest more on its ability to weather the economic impact than the public health battle.

HEALTHCARE RESOURCES IN THE EUROPEAN UNION

How equipped is the EU in the face of the COVID-19 pandemic?



Source: Eurostat

© 2020 Geopolitical Futures

Weekly Graphic: Healthcare Resources in the European Union

March 21, 2020

It's become clear that addressing the coronavirus pandemic requires both a public health and an economic response. For European Union members, while the economic response will, at least in part, be the responsibility of the EU itself, particularly for eurozone members, health-care is usually a national concern. Neverthe-

less, the European Commission is stepping in; it decided this week to create a strategic stockpile of medical equipment, such as ventilators and protective masks, to supplement supplies member states already have and are looking to purchase on their own.

Medical resources are increasingly in short supply in many countries affected by the outbreak, and the EU's move aims to help distribute resources to all member states. There are, however, some medical resources that will be harder to manage at the EU level. Medical facilities, hospital beds and healthcare workers are

all necessities individual states must procure on their own. Yet, border closers and quarantines have reduced the flow of health professionals that many states depend on. As indicated above, some countries are better positioned than others to deal with these types of shortages. A small group of member states, such as Spain and Italy, have already taken control of hospitals in an effort to address deficiencies in the system, while in places like Germany, the government has made recommendations but has not imposed changes by law.

Modeling the US Reaction to the Coronavirus

March 23, 2020

By [George Friedman](#)

The United States is under enormous pressure. The nature of the particular pressure is unique, though pressure on the United States from various forces is normal, as it is with other nations. What makes this pressure unique, aside from its biological origin, is that it has been so intense that virtually all systems are seeking to cope with the problem, both in defining and responding to it. This is largely true of all countries, but each responds to it differently, based on their institutional and cultural frameworks that existed before the coronavirus outbreak. Much of what we say about the virus is universal, and there are commonalities in the response, but ultimately each nation's response must be understood on its own terms. Understanding the model allows us to understand events, stresses, failures and successes.

At the moment, there are four distinct systems operating in the United States: the medical, the economic, the social and the geopolitical. Controlling these, and in turn being controlled by them, is the political structure. This obviously includes the president, on whom attention is always focused, but let's not forget the rest of the executive branch and the vast and distinct

bureaucracies operating within it, the judiciary, the Congress, and every state government. Already we have seen that, in times of crisis, the individual states are the most decisive actors in the short run.

At the moment, the crisis has been defined by the medical system, the overriding goal of which is to limit the disease, infections and deaths. The medical system has developed no cures or preventatives. A vaccine is at least a year and a half away, and there is no obvious medication available yet. The medical system is thus asking for what it needs – supplies and equipment such as ventilators, masks and tests – which necessarily pressures the economic and political systems to produce them.

The best countermeasure, then, is social. The disease appears to spread primarily by human contact, so the emphasis of the medical system has been to limit human interaction. It's a minimally intrusive and (for now) viable strategy to mitigate infection.

But this strategy has a significant and immediate effect on the economic system. In other words, the best available medical solution creates massive economic dislocation. Much of the economy cannot be sustained with social

distancing. Social distancing reduces economic activity and could lead to economic failure. The danger of the social distancing strategy in all of its dimensions is not only the immediate decline of the economy but its systemic destruction. The destruction of current business activity can result in permanent destruction.

The solution is to mitigate the effects of the medical system by using political means to dramatically support the economy on a short-term basis. There is a serious question of the long-term effects on the economy of a solution that involves infusions that will equal between 5 and 10 percent of our gross domestic product. But the risks of absorbing the cost of the medical solution are too high not to take this step.

We remain at the stage where the primary concern of the social system is avoiding being infected by the disease, and surviving it if it strikes. The extreme measures imposed by many states are, broadly speaking, being accepted. But they are not sustainable, at least not for the amount of time the medical system needs to resolve the problem. Short-term measures such as prohibiting foreclosure for a month or two may help people ignore the fact that they are isolated and, in some cases, jobless, but at some point it will create a material crisis.

Add to this that isolation can only be a short-term solution because humans are social animals. Creating a system in which all other human beings are seen as potential threats will

have unfortunate effects. But to be simplistic about this, there is the concept of cabin fever. People confined to their homes, however comfortable, will rebel. Their understanding of risk will change as the risk of going mad in a small apartment with two children competes with the fear of the virus. Breaking quarantine and incurring the risk of disease seems irrational only if you regard the risk of disease as a paramount consideration. Mental health and finding a job can rationally take precedence.

The longer-term outcome of the medical solution and the damage to the economy could be a depression neither the government nor society can cope with. If the short-term solution costs 5-10 percent of GDP, then long-term solutions will soak up wealth at a fantastic rate, undermining all aspects of the economy.

In sum, the medical system's only solution to an unprecedented event has stunned an economic system that the political system is trying to stabilize. Together they will lead to a breakdown in the radical quarantine systems and a massive social disturbance. This will, in turn, generate political instability and sow distrust in social institutions. This is all avoidable in the short term, but the longer this drags out, the less the time frames are in sync.

No single system is at fault. Everyone now knows what should have been done, and undoubtedly there are some who argued for it. But societies are complex machines, and the response to a hypothetical threat that would cause this kind

of instability will not be action, and few of us would have accepted the regime imposed on us to deal with the hypothetical. The system operated as well as a system involving 300 million people could. And it has crafted solutions driven by short-term considerations. Improvisation on this scale is most effective in hindsight.

Still, there is a mismatch in the time frame of systems. It will take time for the medical system to develop a vaccine. The economic system cannot withstand social distancing for that long without consequence. The social system cannot withstand the stress of isolation coupled with fear of poverty. The stresses snowball. And no one is to blame as it appears that there is no solution.

To the extent that there is a solution, it is in releasing people from isolation without risking their lives. The medical system is the only one that can do that. It is a system built on the avoidance of all risk possible in the introduction of medicines and vaccines. This is not only a practical consideration but a deep ethical principle of medicine. But given both the damage wrought by the disease and the damage caused in combatting the disease, including the very real risk of economic and social havoc, I wonder whether the medical ethic of first doing no harm can be extended to the economic and social reality. A principle of calculated risk, with the federal government passing laws to protect error, might shift the medical timeline sufficiently to short circuit non-medical risks. I know nothing about the creation of medical solutions

and am not speaking with any knowledge of that, but in looking at the problem, the rapid introduction of medicines, even those with some potentially disastrous side effects, might align the timelines to give us a softer landing. Otherwise, we cannot withstand months of isolation and social distancing.

I have left the geopolitical for last because it is the longest track of all. For now, normal geopolitical processes have been suspended. The U.S. did not respond to Iraqi-Iranian missiles. The confrontation between Turkey and Russia has disappeared for now. And China and the United States are trading insults but speaking little of trade wars. At the same time, borders are closing as foreigners are seen as potential carriers. Air travel is grinding to a halt. As divisions reemerge, we should remember that economic destruction due to war gave rise to Hitler and Lenin. Economic destruction in any form is destabilizing. But that is for later.

For now, the crisis is not only the virus but the inability to combat it without massive economic cost, and ultimately social unrest. During Europe's great Black Death, citizens marched with torches and burned those they felt were ill and those they felt were responsible for the illness. It was not only the plague that created a time of horror but the legitimate fear it generated in people and the inability of the state to protect them, in a world where kings were as likely to die as peasants. The virus is dangerous. The follow-on effect can be far more dangerous.

The Coronavirus and the Rural-Urban Divide

March 25, 2020

By [Antonia Colibasanu](#)

The pandemic will deepen differences between the urban and the rural.

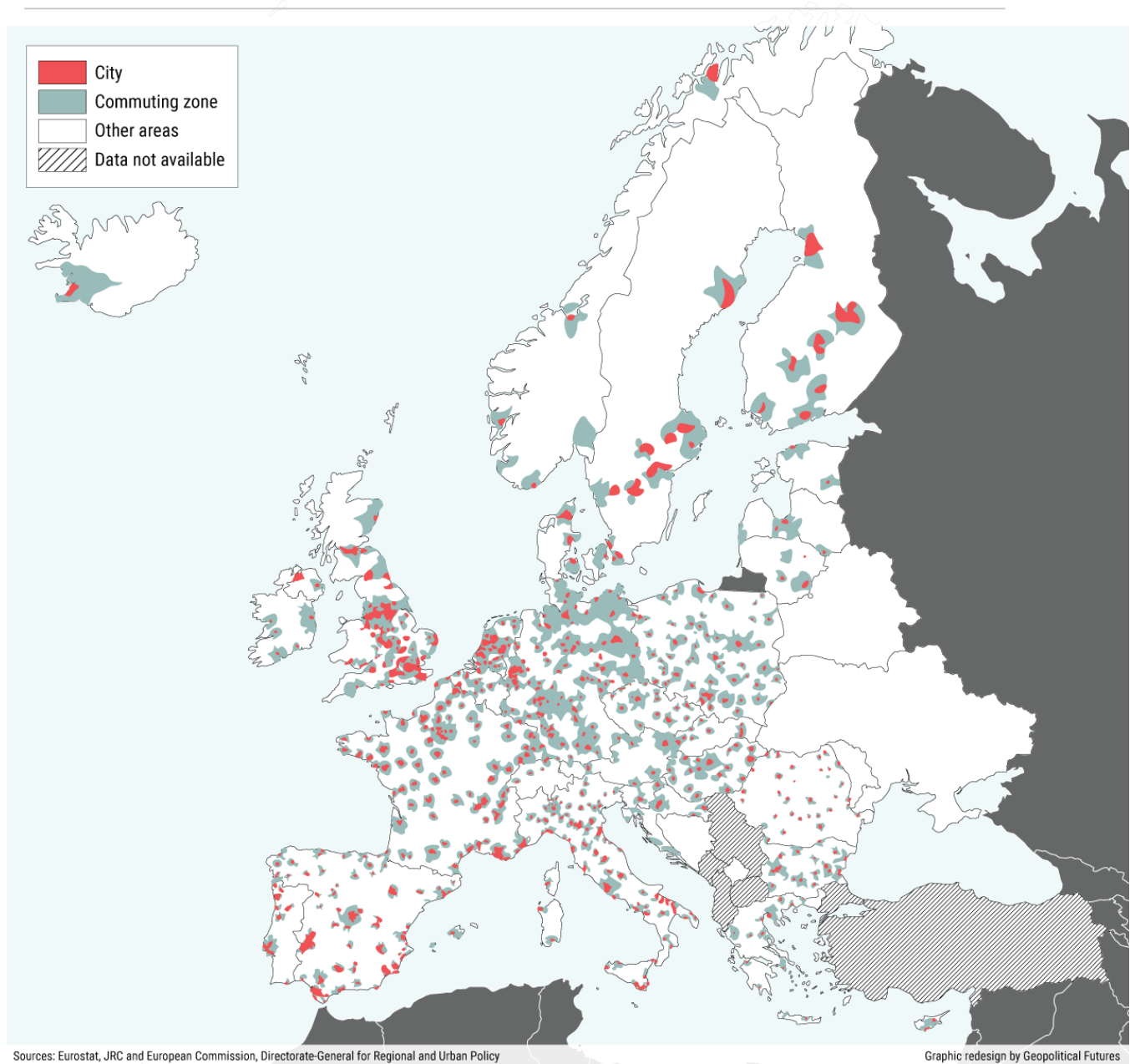
The coronavirus crisis is a source of common concern across the globe and a shared invisible enemy. But as it develops, the crisis will push toward a global reset. The distribution of power around the world had become more diffuse before the coronavirus outbreak, with countries like China and Russia increasing their role at the global level and nationalism growing at the expense of the authority of multilateral institutions. But with the coronavirus pandemic, the deepening differences between classes and between rural and urban societies are not only becoming more visible worldwide – they are restructuring societies and thus reshaping national strategies.

In the last chapter of my book “Redrawing the World Map: Contemporary Geopolitics and Geoeconomics” (to come out later this year in Romanian and then in English), I write about how the social changes brought on by digitization, while they differ from place to place, will eventually restructure all nation-states and the global system. Social changes also reshape how we

see the world, geopolitically. My argument referred to the way that resources – including human resources – change and evolve over time depending on the ecosystem they are part of, and depending on that system’s geography and social patterns.

I argue that globalization and access to digitization made it possible for people living in very different locations to consider themselves peers. In the process, people working from laptops in their offices, or independently from home or some coffee shop, have been uniting the urban zones of the world. I also argue that while “urban” areas begin to share common characteristics all over the world, rural areas will not only remain distinct from one country to the next, but as a whole will grow increasingly different from urban centers within each nation. The social geography of rural areas, depending on the specific structure of each nation-state, will have a great impact on nation-states’ strategies. The characteristics of a state’s rural reality – and its interconnections, similarities and tensions with rural counterparts elsewhere – will determine to what extent that state cooperates with or opposes other states. The urban setting is where they come to talk; it is a setting for mutual understanding.

Cities and Commuting Zones in Europe, 2018



What this means is that society, and the settings in which it acts, will become more important to the state's strategic imperatives – not less, no matter the promises of technology. Demographics matter because they are the very core of society and because they are ever-changing, at distinct paces, within each society. Commu-

nities, through their levels of education and specialization as well as their living environments, determine the country's economic development and, with that, its imperatives. I wrote the introduction of my book too early to consider the effects of the novel coronavirus on demographics and society overall – even if I acknowledged its

potential to drive significant changes.

Now I am beginning to see what may come. As of this writing, the coronavirus has already brought Europe to a close. Extraordinary things are happening. Italy is in complete lockdown; Paris is quiet for the first time in history. Borders have been resurrected: The checkpoints are back in use. Goods are allowed to move through them, while only citizens returning to their home countries may pass. Nation-states have banned exports of essential medical equipment to fight the virus. In this crisis, EU member states are visibly national first and foremost. They seek solutions in the nationalization of businesses, and the national military is called in to help.

There are several dimensions to discuss when talking about EU resilience to the coronavirus crisis. First, coordination among member states is what makes the EU relevant – the states administer borders and essential trade traffic. Second, they coordinate on a bilateral level, sending in timely resources and medical aid. Health is a prerogative of the nation-state. However, the way each country reacts to the needs of the other will determine intra-EU relations. Third, how EU institutions coordinate national actions following the crisis will determine the future of the EU. The public perceives the EU through what Brussels does to help. So, we will know how the EU evolves based on how it acts in front of its public.

Ultimately, the future of the EU, and that of

the world, depends on how society is shaped by the coronavirus pandemic. We are all subject to “social distancing” policies imposed by nation-states in fighting contagion. Much has been said and written about how social distancing will affect supply chains and the economy – because people may choose to work or not to work, because they may revolt against the policy considering the need to support themselves. The financial costs are high. Much has also been said and written about how labor will change – telecommuting, for those who can work remotely, will potentially set new standards. The opportunities may also be high. All writings I have read also point to inevitable yet uncertain changes approaching, including the potential for a depression.

However, social distancing, in practice, doesn't affect only working habits. It relates to personal feelings, of which the most important is fear. You fear the virus, therefore you keep your distance. You don't do that because someone told you to; you do it because you feel you should, for your own sake. It is personal, even if it is imposed. Fear of getting sick with something that is not necessarily deadly depends on the trust you have in the health system. Fear of getting sick along with many others depends on the trust in your country's ability to cope with a situation where a lot of people get sick and many others are economically inactive. The two are very distinct matters, distinct fears.

Anthropologists teach us how humans and humanity have evolved and have been shaped

by their fears. It is fears and the actions taken to deal with fears that create social changes. The geography people live in sets them to fear differently and therefore respond differently to challenges. Geopolitics takes into consideration the behavior of the mountain people, which is different from that of other people, because they fear different things. Similarly, in the coronavirus pandemic, the urban population, while more connected through digitization, in a much more enclosed environment, behaves differently from those living in villages.

The people living in urban environments have better access to medical services than those living in villages. It matters greatly for urban areas whether the health care system is under pressure; for most rural areas, the health care system is meager or nonexistent. True, differences exist between countries – the rural setting in Germany is different from that of France, with people having more access to medical facilities in Germany than in France. But overall, medical care for the urban population is a lot more accessible than it is for the rural population. Similarly, the role of the state and its economic power are perceived differently in rural versus urban areas, which are not created equal.

In the coronavirus crisis, considering the potential for the medical system to be overloaded and the closeness imposed by urban settings, the fear of living in an apartment is intense. Acknowledging that you don't have access to services you used to have access to means acknowledging some of your needs will not

be met. And when social distancing includes state-mandated isolation (as is the case in Italy, Spain and France right now), having to stay indoors for longer than a few days and fill out forms to show the local police authority just to walk your dog certainly has some effects on your lifestyle and psychological state. Fighting the negative effects of the quarantine may include singing on the balcony, as we saw in Italy, but this means only that there are negative effects to fight.

In the process of social distancing, we are testing the links between social groups. The well-off will behave differently from the poor, the young differently from the old. In a town, all groups have access to the same services – in an unequal manner. Observing the food bought in the rush hours for the quarantine is a lesson in how different in both lifestyle and ultimately in income urban people are. Their tolerance, their acceptance for the other doesn't relate to their willingness to help. For all the physical closeness there is between urban people, there is just as much distance. Living in an apartment doesn't mean you talk to your neighbors outside of saying "hello." Not talking disengages – you are too busy, but also you need not know. If you don't know that a neighbor needs help, then you have no responsibility to help. The urban social network is that of class, and once in a class, in a group, relations with the other groups are minimal.

For the rural, things are different. There are groups in the villages, as there are influencers.

But the network rules are different. It is family ties that matter, before economic classes. Links between people are well established, and the same from one generation to another. When you are living in the countryside, you are generally more aware of geography and closeness than you would be in the city. You know a lot about your neighbors because you need to deal with them on a more or less daily basis. The plots of land around the villagers' houses don't impose human distance, as good neighborliness includes helping out one another. The state is largely not present – but God is. Religion and family are key concepts for what forms the basis for trust in rural areas.

During the pandemic, fear in rural areas is dependent on their connection and their dependency on the cities. In this sense, the more distant they are, the less affected they get. However, considering contagion rules, once someone gets infected, the rural setting facilitates infection. Imposing social distancing in such communities is difficult – considering their poor access to public health services, rural people consider themselves doomed from the very beginning. They live not in fear, but in the hope that God will help them again. Because no one

else really helped before. They need not learn that medical services are available, because it is in distant hospitals that they can get access to such services – in theory. Digitization, when available, is only for communication with and learning about the rest of the world. They rely mostly on religious services and their own.

The coronavirus crisis creates different fears for different geographies. While digitization gives all people access to information, fears of the unknown – which include not only the virus but also the way that it is and could be dealt with at all levels – deepen differences between the urban and the rural. While it's unclear how the EU will come out of this new crisis, and while it's urgent that nation-states act and show they can fight the coronavirus, it is clear that the outbreak will also affect the distance between the urban and the rural and that between the social classes. In effect, the crisis is accelerating a process that was already happening, as fears create social changes affecting the structure of society, everywhere around the globe. Urban reactions are similar, their problems too. They may bring the world together. But rural reactions are not similar – and we don't know them yet.

The Calculated Risk of the Coronavirus

March 26, 2020

By [George Friedman](#)

We live in a world filled with risks, some large and some small. When we step off the sidewalk to cross the street as the light turns green, there is a risk the car to our left will suddenly accelerate and kill us. We see it stopped there, we evaluate our desire to cross the street, and we decide the threat is too small to delay us. Overwhelmingly we are right. On rare occasions, someone gets hit and dies. We do not respond to the risk by refusing to cross streets when cars are on the road. The cost of eliminating all risk is too high, and the probability of the risk materializing is too small. It's a calculated risk, when the risk of doing something or not doing something is understood. Sometimes the calculation takes months. Sometimes it takes seconds. But it is always there, and you are always analyzing it and making decisions accordingly, rightly or wrongly. Risk and reward are at the center of human life.

And to be sure, humans are not averse to risk. Many cultivate risk as a gourmand chooses from a menu. There is a pleasure in choosing to confront a risk and an exhilaration in surviving it. My wife loves to scuba dive. We learn the mechanics of diving so that the risks are controlled

to the extent they can be. The point is that risk is an integral part of life, even a rare pleasure, not solely a burden that we must live with.

Though most of us try to avoid risk, it is everywhere. Life itself is a risk that shares its place with rewards. Every relationship is a risk, for people we meet may carry with them some unknown and even uncontrollable threat. But it is impossible to live our lives alone, because man is a social animal, and even the most reclusive of us must make a decision based on uncertain and poorly glimpsed realities. We cannot eliminate it any more than we can refuse to face it. The best we can do is calculate the risk.

Which brings us to the coronavirus. It causes just one disease in a world filled with diseases, some of which are fatal, and any one of which could strike at any moment. Yet we press on. A big difference is that the coronavirus is new, and we fear new risks far more than old ones. It is highly contagious, but for 98 percent of those who contract it, it will cause a week or two of illness. For those of us older than 70 or suffering from other diseases, it is far more deadly. None of my research suggests Hungarian Jews over 70 are exempt from this calculus.

Our collective solution to combat the corona-

virus is to avoid all human contact. We share no comments on the weather or laughter. There is little commonality among us, save the suspicion that this person in aisle three might cause my death. A disease that has a degree of calculability has caused us to fear not only the stranger but also the friend. And now we must keep our distance from each other, by the command of the state.

If this meant that the disease could be eliminated in a certain time, it would be worth it. But the fact that it might subside after we all hide doesn't mean it won't reemerge. Quarantine can mitigate but not eliminate the enemy. Our calculation is that we can push off the reckoning by living strange and inhuman lives. Sometimes, when the risk has grown out of proportion in our mind, and the reward seems to be life itself, the finely honed risk-reward ratio loses its bearing. The decision has been made that the disease must be battled at all cost, even if the battle can't be won; any compromise with the fact that it exists and will not readily go away is considered reckless and dangerous.

And so we risk the consequence. With human contact rendered unacceptable, our ability to produce what we need to in order to live declines to the point of potential disaster. We have established a calculation in which the risk from this disease outweighs all other risks, from wreckage to our economy, to the solace of friendship.

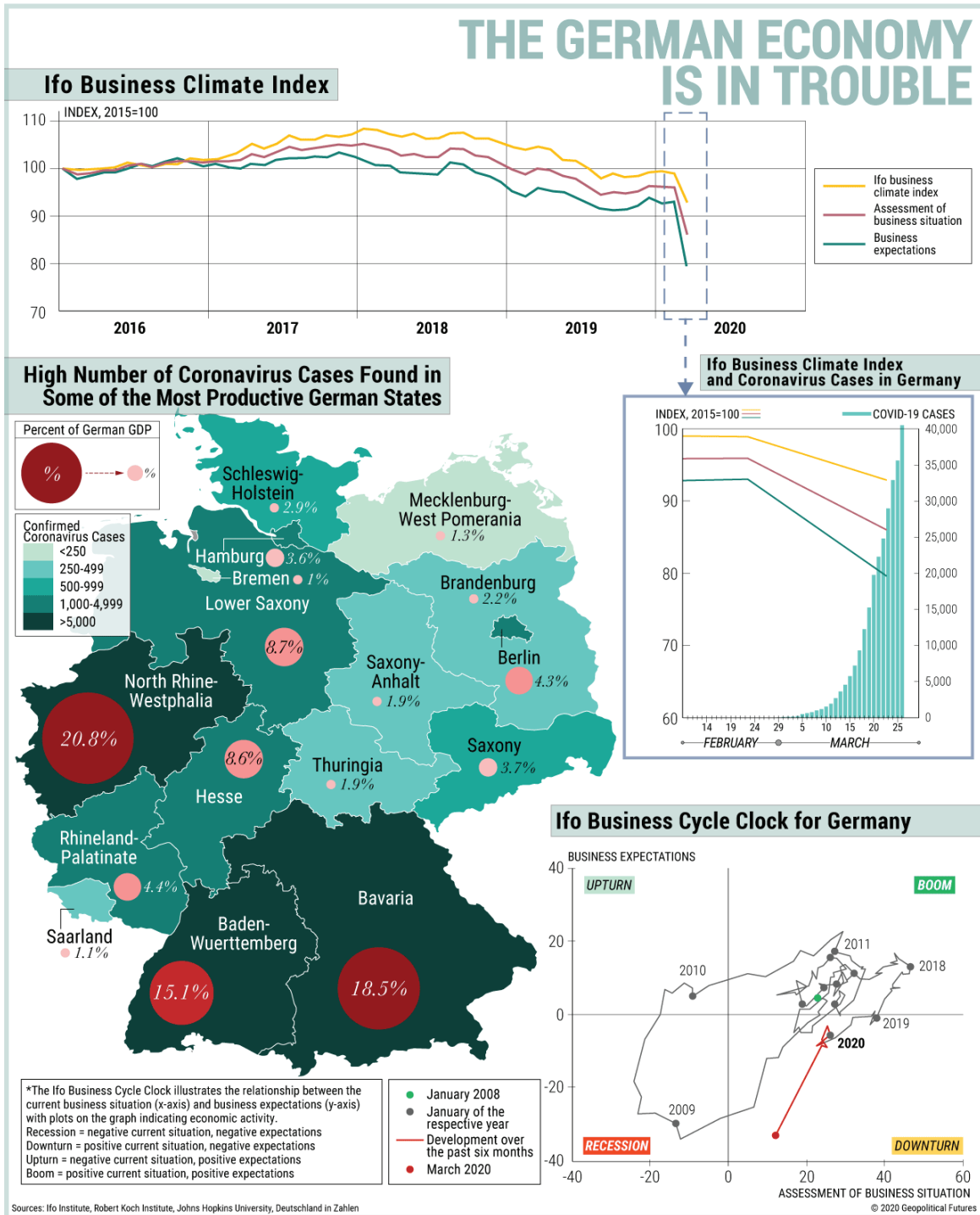
We might hope that our vast medical-pharma-

ceutical complex will invent something to at least mitigate the disease. But the ethical foundation of that complex is risk aversion. So a vaccine can't be produced in less than a year. The consequence is a vast fragmentation of humanity, and the threat of an economic failure not seen in 90 years. The avoidance of risk creates the apparent certainty of disaster. The idea of calculated risk, where the risk of harm is measured against the certainty of harm, is absent.

The attempt to shut down New York City is a loss of all proportion. COVID-19 is a nasty disease, but the possibility of being sequestered in a Bronx apartment like the one I grew up in, for as long as it takes, is appalling. And then there is the problem that we don't know how long "however long it takes" is. But when you don't know what to do, the most unbearable solutions seem the only reasonable ones. Avoiding the pain of the novel coronavirus demands isolation and economic disaster. There should be a symmetry between the risk and the calculated solution, even if it is merely a temporary respite.

Perhaps, until the flawless vaccine is created, the calculated risk must be that we will endure this disease as we have others. The Black Death killed perhaps half of the people in Europe's cities. HIV killed most it infected. Heart disease and cancer will kill many of us. We live with them by taking calculated risks. Some of us may die from the risks we take. Others will not. But a disease that likely kills less than 2 percent of those infected, the old and rarely the

children, demands a different risk-reward ratio. There is a possibility that I will die from it. But there is the certainty that the current measures will create deep hardship for my children and grandchildren by wrecking the economy. For me the calculated risk is this: I probably won't die, and if I do, I will not have to live with the vision of a shattered country, and the shattered lives of children I both love and must serve.



Weekly Graphic: The German Economy Is in Trouble

March 27, 2020

It's no secret that the global economy has slowed down in March as major economies across the globe introduce measures to combat the coronavirus outbreak. Measuring the impact of these measures is challenging since

data for this period has, for the most part, not be released yet. In Germany, however, the Ifo Institute's business climate index, which measures sentiment among German managers in the areas of manufacturing, services, trade and construction, is a useful indicator.

And according to this indicator, the future doesn't look good. In the institute's own words, the sentiment among business managers has turned "extraordinarily dire." "The German economy is in shock," the institute said. The two

sectors contributing most to the declining business climate were trade and manufacturing. More worrying than the plunge in the business climate, however, is the plunge in expectations for the next six months. As mentioned in GPF's 2020 forecast, Germany is vulnerable to an economic downturn because of its dependence on exports, which account for 47.4 percent of the country's gross domestic product, according to the latest World Bank figures. This means every 2 percent drop in exports will translate into a nearly 1 percent decline in GDP.

Arab Perspectives on the Coronavirus

March 30, 2020

By [Hilal Khashan](#)

The Arab world is as guilty as any other region in underestimating the threat.

The coronavirus has stunned a disbelieving world. By the time we understood the gravity of the situation, it had already become a pandemic. The Arab world is as guilty as any other region in underestimating the threat. Except for wealthy Gulf Cooperation Council states that responded reasonably quickly, most Arab governments seemed to hope that the crisis would resolve itself on its own. Clearly, it hasn't. But differences in the reactions among Arab governments, religious officials and the public bring into relief some of the issues that undergird Arab society.

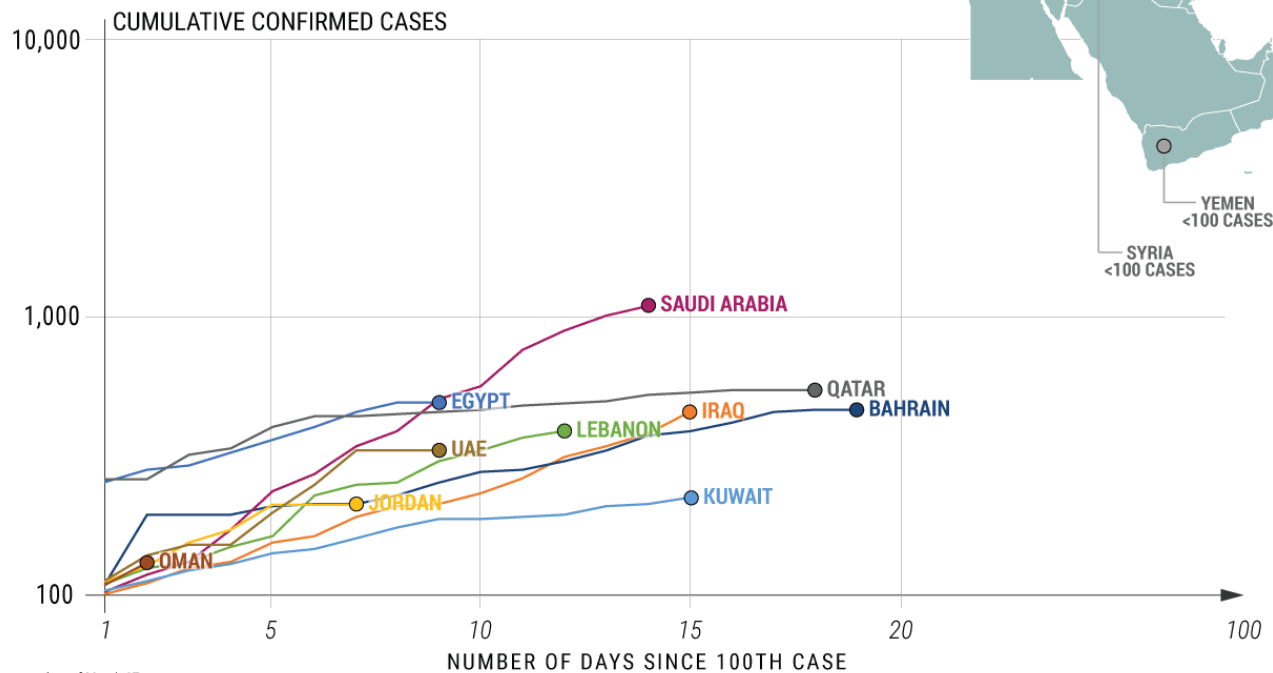
In addition to curtailing air and ground traffic, belated state measures to contain the virus included curfews, social distancing, the suspension of economic and bureaucratic operations and the closure of schools, universities and places of worship. Saudi Arabia closed Islam's holiest sites in Mecca and Medina, and the Assembly of Catholic Ordinaries of the Holy Land shut down the Church of the Holy Sepulcher

in Jerusalem. Arab officials were hesitant to adopt such stringent measures, of course, because they knew how poorly the public would receive it.

Examples of mishandling abound. In February, when the Lebanese media pressed the minister of health about why he had not suspended flights from Tehran to Beirut, he admitted that the decision was political, clearly because of Hezbollah's veto. Unaware of the nature of the virus, he assured the public that Lebanon had the vaccine for it. When the virus spread in China, the Egyptian minister of health visited Beijing in a show of solidarity instead of taking measures to prevent its spread to Egypt.

In Syria, the government opted for denial as the best option to combat it. The police in Damascus arrested a physician because he reported the first positive COVID-19 case in his hospital. He had to rescind the announcement as a misdiagnosis. The Ministry of Health told hospitals to report deaths from the virus as cases of acute pneumonia or advanced pulmonary tuberculosis. Iraqi Shiite leader Muqtada al-Sadr, some of whose followers believe his dress has curative powers, said he opposed the use of U.S. drugs to fight the virus and accused President

COVID-19: Select Arab Countries*



*Case total as of March 27
Sources: Worldometers, Johns Hopkins University

© 2020 Geopolitical Futures

Donald Trump of spreading the disease among his enemies.

The religious establishment in all Arab countries failed to urge the ruling elite to take immediate action to contain the spread of the virus. Religious leaders didn't demand the closures of holy sites, but they defended the governments' decisions immediately after the fact. Some mosques, particularly in Iraq and Lebanon, ignored government calls to close their doors. Others kept their outer gates open to allow worshippers to participate in congregational prayers and made sure to cover the floor with rugs for their convenience. Some clerics proposed that worshippers maintain one meter of distance between each other and isolated those suspected of carrying the virus in a separate prayer room.

Muslim clerics neglected to present the virus in life-or-death terms, as they often do during times of crisis, partly because of al-Jabr, one of the seven articles of Islamic belief that emphasizes divine predestination. The concept submits that man does not possess free will and that God determines the fate of human life. There is, moreover, a complete absence of jurisprudence of foresight and expectation. Religious scholars, especially Sunni scholars, continue to search for edicts dating back to the formative years of Islam. Unfortunately, they live in the present with the mentality of the past. Many people, including clerics, have no clue about the virus and how it is transmitted. They even claim that what you don't see doesn't exist. Some clerics want the virus to afflict a loved one to validate its existence. When they do concede to

reality, they claim that God afflicts whoever he wills to test their faith. Religious scholars who oppose closing mosques argue that preserving the faith has priority over safeguarding an individual's health or life.

Hanbalism, the most austere school of Sunni jurisprudence that gave rise to Salafism, advocates the literal interpretation of religion and ascribes human qualities to God. Abdul-Aziz bin Baz, the late Grand Mufti of Saudi Arabia, even ruled that the earth is flat and the sun revolves around it. Most clerics in the Arab world are either government employees or the product of the oil boom in the 1970s and massive Saudi spending to spread Wahhabism and Salafism to appease its powerful religious establishment.

Practicing Muslims believe that congregational prayers are more spiritually rewarding than praying alone; the more participants, the better. Prayers attract worshippers because of the widespread belief that God's watchful providence covers their participants. Traditional Muslims believe that God is their protector, and nothing could happen to them that he did not ordain. Had Arab governments left people to their own devices, mosques would still attract large crowds of worshippers. In popular Islam, mosques are both spiritual edifices and healing places. Plagues and diseases caused by sins can be cured by praying in mosques. They accept that one can catch the virus in a mosque. In this case, it is because God has willed it so and, therefore, there is no escape from it.

It is a time-honored practice for congregational worshippers to exchange handshakes and hugs after the end of the prayer. During prayer, they kneel on carpets, potentially carrying pathogenic bacteria and viruses. Christians tend to display similar behavior. In one Lebanese Maronite Christian church, the faithful refused hand communion and insisted on receiving communion on the tongue in defiance of the mandatory decree by the church to prevent the spread of the virus.

Traditional and poorly educated people, especially if their knowledge about Islam is superficial, fall victim to religious fatalism and lead a life of cultural apathy. Many people exhibit a reckless disregard for government coronavirus awareness campaigns and warnings against public gatherings.

On Beirut's waterfront corniche that attracts strollers and joggers from all walks of life, the municipal police had to intervene and disperse crowds after the spread of the virus. Similar scenes took place in Baghdad, Algiers, Khartoum and Cairo. A large group took to the streets of Alexandria, Egypt's second-largest city, to plead with God to remove the coronavirus.

Skeptics linked the virus to conspiracy theories and accused China of spreading it to destroy Muslims. Others viewed it as divine punishment for infidels. A Syrian preacher told his congregation during a Friday sermon that the virus is a soldier of God on a mission to annihilate China's communist Buddhists because they persecute

Uighur Muslims. (Muslims, he said, contract the virus for other reasons, mostly because God is testing the strength of their faith.)

The inability to understand how the virus spreads and how to cope with it breeds imaginary explanations. Faith that God can immunize us against the virus without any precautionary measures on our part pervades the minds of traditional Muslims. The practice of kissing the shrines of Muslim holy figures, be they Sunni or Shiite, and appealing to them for a cure to the

virus continues unabated because of clerical support.

There are, of course, rational religious people who abide by the rules of the temporal law, and atheists who say they do not trust conventional medicine and believe instead in unproven alternative medicine. Christianity reformed itself in the 16th century, and so did Judaism in the 19th century. Islam still awaits its own reforms to face the challenges of modernity.

The Method to Bolsonaro's Madness

April 1, 2020

By [Allison Fedirka](#)

Brazil's economy isn't resilient enough to stay shut down for long.

Known for his contrarian and uncouth behavior, Brazilian President Jair Bolsonaro frequently comes under intense scrutiny for his decisions. The latest controversy stems from his refusal to shut down economic activity in response to the coronavirus outbreak. Many governments face this decision but few have opted for Bolsonaro's economy-first approach. The policy hasn't been well received at home: Governors have lined up against him, media outlets have raised the idea of removing him from office, and even Facebook removed a video of Bolsonaro speaking to street vendors on the grounds that the content violated misinformation standards related to the virus. But however controversial it may be, there is a method to Bolsonaro's apparent madness. Brazil's economy is simply too weak to deliberately close down for a prolonged period of time.

Backlash

Brazil first addressed the coronavirus as an economic problem rather than a public health

one because the economic effects arrived a month before its first confirmed case. At the end of January, Brazilian mining giant Vale suspended operations in China and restricted travel to and from the country. In early February the electronics industry, particularly makers of small electronics such as mobile phones, started experiencing supply chain problems, and by mid-month firms were implementing short-term closures and discussing furloughs. Leading solar power companies in Brazil, also highly dependent on China, forecast supply shortages in April and May as well as a 5-10 percent drop in sales. Brazilian beef exports – worth billions of dollars when it comes to China trade – experienced a sharp drop in demand, putting small and medium-sized slaughterhouses in peril of closing. Oil giant Petrobras, which sends 72 percent of its exports to China, also reported slumping demand. The shipping industry and exporters expressed worries about a potential shortage of containers by April. All this occurred before Feb. 25, when Brazil reported its first confirmed case of COVID-19.

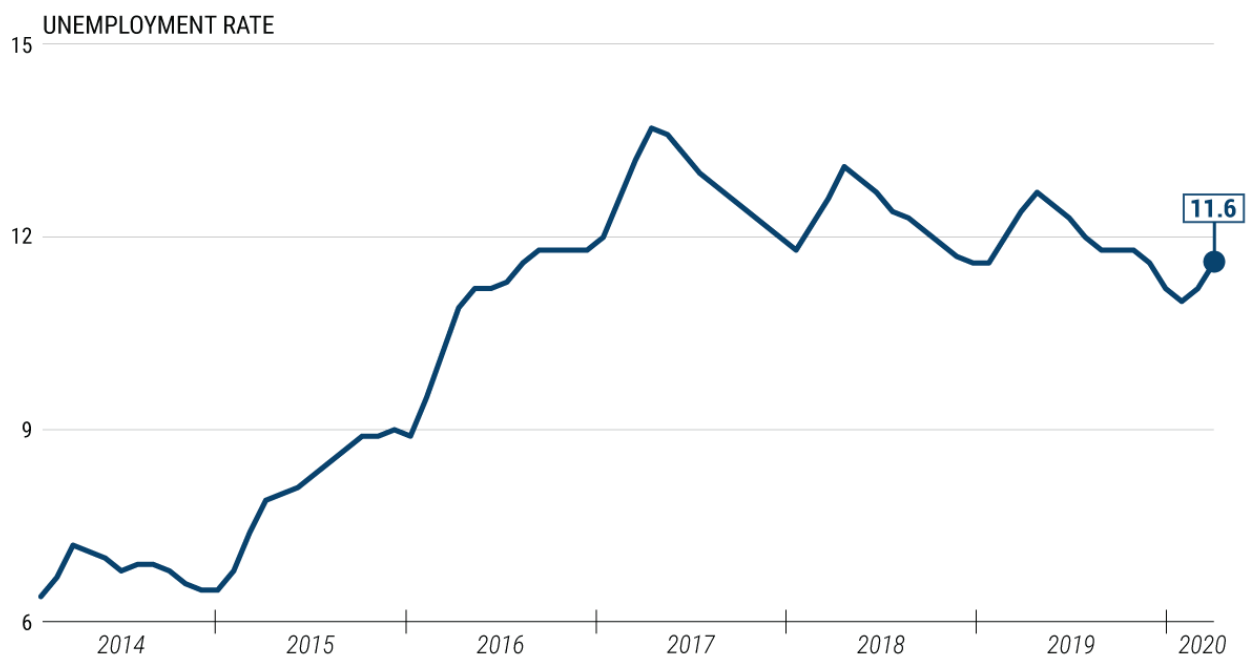
Once the virus arrived in Brazil, the question in the government of balancing competing demands between health and economic needs unsurprisingly turned contentious. Bolsonaro leads the economy-first camp, downplaying

health risks in public and rejecting restrictions on social movement on the grounds that they will destroy the economy. He advocates “vertical isolation,” which calls for the elderly and those with preexisting conditions to self-isolate while everyone else goes about business as usual. On the public health side, several state governors, led by Sao Paulo’s Joao Doria and accompanied by Rio de Janeiro’s Wilson Witzel, have called for restrictions on movement for the whole population. Together, these two states account for nearly 40 percent of national gross domestic product and are home to 63.2 million of Brazil’s 210 million inhabitants. Restricting economic activity in these states will greatly reduce the country’s GDP. On one hand, the governors fear that their densely populated major cities are conducive to the virus’ rapid

spread. But on the other hand, those cities also have concentrations of poor neighborhoods whose residents cannot afford extended periods of limited or no work.

A further complication is the question of jurisdiction. In mid-March, the executive proposed legislation aimed at centralizing power to regulate the closure of businesses and social distancing measures to ensure an efficient response. The proposal now has 126 amendments and is currently in a joint commission for discussion, allowing governors to pursue their own measures in the meantime. A second measure that addresses workers’ rights and unemployment during the crisis has already been rejected by some legislators as unconstitutional. Judges have weighed in, encouraging the

Unemployment Rate in Brazil



Source: IBGE

© 2020 Geopolitical Futures

federal government to coordinate efforts more closely with states.

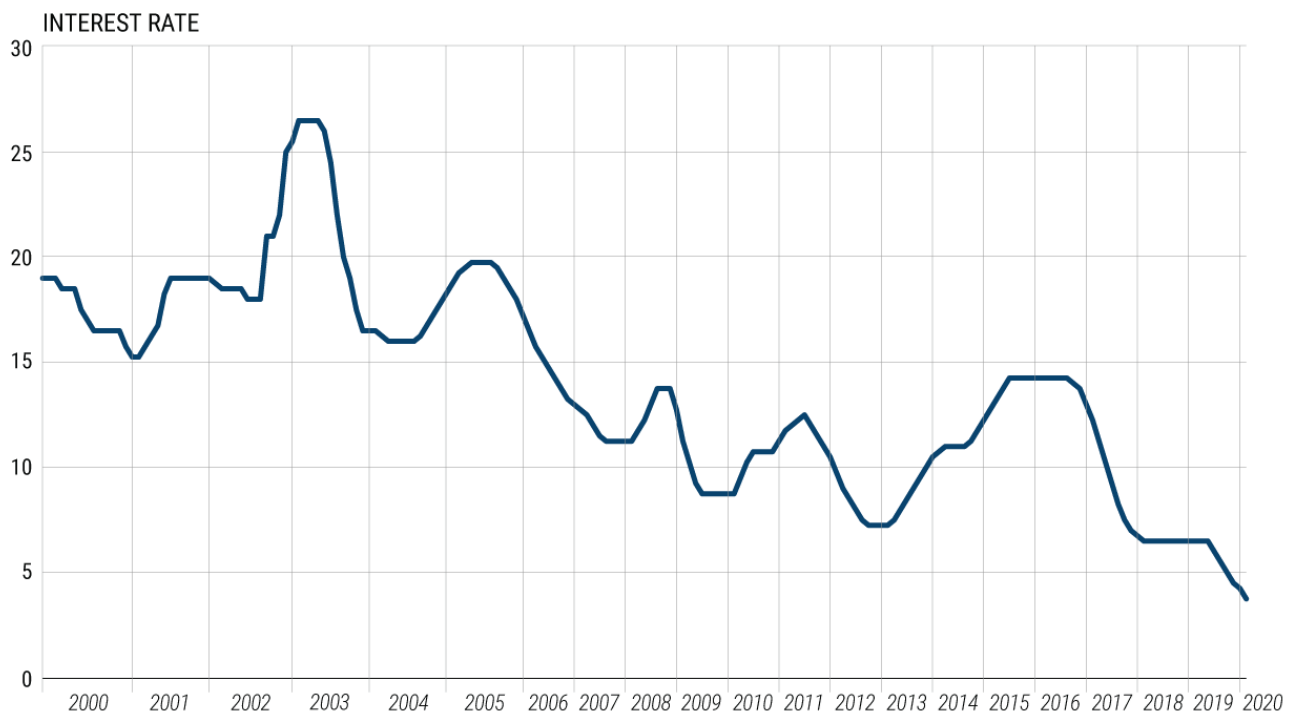
Bolsonaro is reluctant to limit economic activity because the Brazilian economy is weak and can ill afford another economic crisis. Brazil has yet to recover from its two-year recession from 2015 to 2016. During that time, GDP contracted by nearly 7 percent. In the three years since, the economy essentially stagnated, registering growth of just about 1 percent annually. Prior to the recession, in 2014, Brazil overtook the United Kingdom to become the seventh-largest economy in the world, with a GDP of \$2.4 trillion. Now the economy ranks ninth globally, with a GDP of \$1.89 trillion. The unemployment rate in 2014 was 6.8 percent before doubling to

13.7 percent in early 2017. Now unemployment has been reduced to 11.6 percent, though the quality of jobs created is low, as is remuneration.

Plans Interrupted

Bolsonaro was elected in 2018 on a pledge to reform and jump-start the economy, but economic measures taken early in his term have reduced the country's arsenal for dealing with the impending global recession. Last year, the government focused on structural reforms and facilitating household consumption, which accounts for over 70 percent of GDP. The central bank launched monetary easing in July 2019 in an effort to boost lending to consumers. In

Benchmark Interest Rate in Brazil



Source: Central Bank of Brazil

© 2020 Geopolitical Futures

the second half of 2019, the government also permitted individuals to withdraw funds from their Workers' Severance Fund accounts to help boost economic activity. The effect of these policies was supposed to kick in during the first half of 2020, but the onset of the global recession doomed the strategy from the get-go. In just two months, the central bank cut interest rates to 3.75 percent from 4.5 percent. Though there is still room to go lower, these rates are already very low by Brazilian standards.

The global downturn has hampered other stimulus policies. A privatization drive was intended to raise 150 billion reais (\$29 billion) this year, but this week the electric utilities company Eletrobras postponed its privatization plans until 2021, and others will likely follow. The government also loosened rules to give foreign companies equal footing in competition for government contracts, with public tenders valued at 50 billion reais, but foreign investment interest has dried up. Finally, the government planned limited trade deals to open markets and diversification in trade with China, the U.S., Mexico and India. But trade has fallen off a cliff, and governments are focused on mitigating the contagion and economic damage at home.

Other plans to remake the economy have had to be repurposed to limit the short-term damage from the virus. A plan launched in February called Brazil More included funds to incentivize startups and provide more credit to small and medium-sized businesses, but it will now be used to save existing companies. Around the

same time, after months of study, the central bank loosened reserve requirements in a move that could inject up to 135 billion reais into the economy. The central bank will also allow individuals to use personal retirement plans as collateral to access lower interest loans.

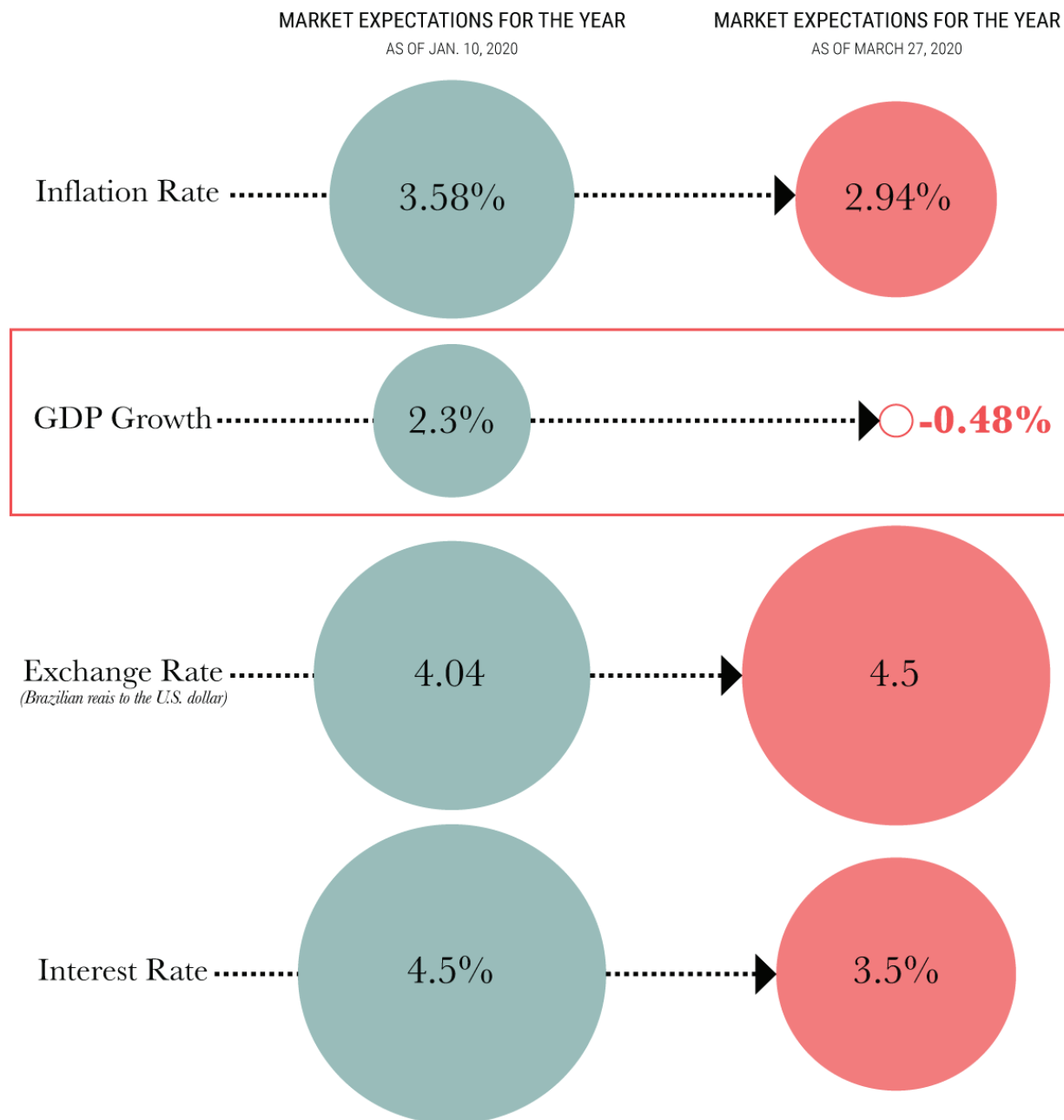
And lastly, there are the reforms that risk being undone as a result of the government's all-out effort to mitigate the impact of the recession. One of the main objectives of the reforms was to cap government spending and reduce debt. However, in mid-March, it became apparent that government bailouts and other costly measures would be necessary to prop up the Brazilian economy. A state of emergency was declared, enabling the government to remove national spending caps and launch a 147.3 billion-real support package to ensure liquidity, prevent layoffs and support vulnerable groups. The government also intended to reduce its support for states' debt but has now released an 85.8 billion-real bailout package for them (and that's after suspending debt payments). At the end of 2019, the government stayed on track for a primary budget surplus of 1 percent of GDP, well below the official goal of 2.3 percent. The National Treasury now anticipates a primary deficit for 2020 of 4.5 percent of GDP (over 350 billion reais), well over the previous goal of 124.1 billion reais.

Difficult Choices Ahead

Support packages like these can keep firms afloat only for so long, and the ability to extend

them depends on disposable resources. Here-
in lies the problem for Brazil: It has very limited
headroom to deal with these matters. There are
already concerns over the potential for a credit
crisis and future lack of investment. The gov-
ernment does have \$359 billion in reserves, but
it is extremely reluctant to tap these resources
– the government would do so only if it believed
it was entering the worst-case scenario. All of
this is further complicated by the fact that dollar
gains against the real since the start of this year
resulted in a 43.4 billion-real increase in gross

Central Bank of Brazil Market Expectations



Source: Central Bank of Brazil

© 2020 Geopolitical Futures

debt, and low oil prices have wiped out tens of billions of reais in oil-related royalties and tax revenue (the budget was based on an average price of oil of \$61.25 per barrel).

Under these circumstances, Bolsonaro's effort to preserve what's left of Brazil's economy at any cost does not seem unfounded. At present, the economic pause in parts of Brazil has been in place for only a couple of weeks. During this time, the government has worked to better position the economy to stay afloat. The calls

for vertical isolation demonstrate that the government believes it is reaching the limits of its ability to save the economy from severe recession if more economic activity is not restored soon. Bolsonaro, of course, is not alone in being trapped between two bad policy options, and many leaders will soon have to decide when measures to protect public health no longer outweigh the economic cost. When this shift will occur depends on the economic resilience of the country in question, and Brazil came in with a weak hand already half-played.

George Friedman's Thoughts: Thinking About This Moment

April 2, 2020

By [George Friedman](#)

My job is to write, and my goal in writing is to put things in perspective. The world has been to me an endlessly shifting kaleidoscope of nations, all moving in different directions that can be predicted by understanding the forces that shape their actions. I take pleasure in seeing the order behind the chaos. Sometimes I succeed, sometimes I fail, but I have lived in a world of many colors, shapes and tempos.

For the past month, a vast fog has made that world difficult to see. The coronavirus pandemic has rendered normal global events irrelevant. Something deadly is stalking the world, and it respects neither power nor money. Governments are obsessed with protecting us, or at least with appearing to protect us, but there is no protection except for what we provide ourselves. An infection cannot be destroyed yet. It will run whatever course it runs. Our bodies may or may not rally to overcome it. Our will has nothing to do with what happens.

Therefore, the only action we can take is to not allow the virus to enter our bodies, and the way it can enter our bodies is not through the air, or through food, or even through dirt. The disease

invades our bodies from the bodies of other human beings. So we avoid contact with others. Governments have adopted a policy of building barriers between nations and sometimes barriers within their nations. The choice of families is to build barriers between themselves and their neighbors. Our politics and our lives are focused on this at the moment, and the distance we put between ourselves and the rest of the world.

The other consequences of doing social distancing are not at the moment of prime importance. There is something unseen out there that will sicken us and even kill us, and we cling to whatever safety there is by being alone. But we are social animals. We do not live alone. Love of one's own is not simply love of those in our household but of those with whom we share language, faith and history. If we see our neighbors, our countrymen and the world as being potentially infected with a hidden pestilence, if the barriers of borders and doors supplant all of these other things, then how do we remain human?

I have been at home for nearly a month, my wife making heroic forays to pick up pre-ordered food at the supermarket, commanding me not to share her risks for I must not get ill so I can

think and write and earn money. I am the man, and I am supposed to risk my life at the supermarket, yet she insists I must not get ill. The oddity of all of this is not only that this reduces my sense of manhood, but that a trip to the supermarket has become an act of quiet heroism.

What is most frightening in all of this madness is that it is not madness. It is all we can do, and we are for the most part doing it. We are not doing it because of threats from the government; we are doing it because it is all we can do. I used to think about the Russia-Turkey confrontation in Libya, about Brexit, and about the development of hypersonic missiles. All that is still there, but for now none of it matters. There are slight glimpses of U.S.-China tensions or a Belarusian leader saying that the cure to all this is vodka. In some ways he makes more sense. Doctors tell us to wait. The president of Belarus tells us to get drunk. That won't save us, but at least we won't be afraid.

This is an extraordinary moment in human history. Our world has contracted. And this is true not in one country but in virtually all countries. In some countries, of course, life goes on unchanged along with all too common disease and death. In most countries, those violating the new laws and customs are seen as social deviants. But even in wartime, perhaps especially in wartime, I have not seen social responsibility being defined as refusing to enter into social life.

I am a fan of science fiction, and I love

post-apocalypse novels. This is not playing out as it's supposed to. We have our disease, but it will not wipe out everyone but a lone woman, as happened in "Extinction Point." In novels like these, the virus would be delivered by aliens even now colonizing the planet, and the woman making contact with a crippled man in Alaska plans survival and resistance. Reality is even more stunning. We do not face the annihilation of the species – or so it seems – but we do, almost seamlessly, face the danger and transform our lives. We face combat not with aliens but at most with our own boredom.

What is perhaps most different in our apocalypse novel is that we have not seen a surge of banditry roving over the landscape. For me, one of the most remarkable things – and from what I can see, this is true globally – is that our retreat into our homes and ourselves has been remarkably orderly. But that I suppose is because heroes are still at work in our warehouses and trucks and stores, and food is still ample. That may continue indefinitely, but in a world we can't recognize, nothing is certain.

That this cannot become the new model of human existence is obviously true. It can be done only if we accept a level of poverty and loneliness until the day medicine finds a solution. And since the experts speak in terms of years, maintaining our current stance will be difficult. Our position now is that preventing deaths from the virus takes precedence over all other things. Whether this posture can be maintained in the face of massive social and economic failure,

where the trip to the supermarket is pointless, is unknown. But for the moment that is not the question. For the near future this will go on, and my world will contract, and my kaleidoscope will see grey, not the vivid colors I have lived with. And I do take walks, seeing occasionally other neighbors out walking, and we pass on opposite sides of the street each wondering whether the other is in the grip of the invisible plague. We can do this. For a while longer.

Not Another Eurozone Crisis

April 3, 2020

By [Ryan Bridges](#)

It didn't take long for the pandemic-induced economic downturn in Europe to uncover the skeletons of the previous decade's eurozone crisis. The Dutch finance minister suggested that Brussels investigate why southern states had less fiscal capacity than the north to respond to the crisis. Berlin reflexively said "nein" to jointly issued debt. A key word in an interview with the European Commission president, who is German, was supposedly mistranslated in a way that suggested an offhand dismissal of the south's proposed solution. Italian leaders reacted angrily, but the most heated reply came from Portugal's prime minister, who labeled the Dutch finance minister's remarks "repugnant." It was like a replay of 2012, only faster.

Wounds on both sides of the rough divide between north and south have yet to heal, and on the surface it seems the sequel will surpass the original crisis. The economic collapse itself, unprecedented in nature, is expected to be worse. Brexit and the emergence of euroskeptic political parties after more than a decade of European crises have intensified the debate. The battle lines are more clearly drawn, with the southern states this time united and fiercely opposed to

austerity, which is thought to have made their recoveries harder and ultimately to have been counterproductive to the European experiment. The days of France and Germany moving in lockstep on the eurozone appear to be over, with French President Emmanuel Macron serving as a leader of the southern bloc – even if in practice he is still functioning as a mediator.

But this isn't yet a second crisis of the euro – the European Central Bank has seen to that. For now, it's just a nasty political dispute that looks like a crisis. Still, sooner or later – probably sooner – the eurozone states will have to deal with structural contradictions at the heart of the union, and it can't be taken for granted that public fury at the bloc's failures can be boxed up forever.

Backdoor Solidarity

The first sign of trouble came at the end of February, when peripheral eurozone bond yields started creeping up. It briefly became an emergency when, on March 12, European Central Bank President Christine Lagarde raised doubts about her commitment to, as her predecessor famously said in 2012, do "whatever it takes" to save the euro. Over the next six days, Italian, Spanish, Portuguese and Greek bond yields

surged. They came nowhere near the levels seen during the eurozone crisis, but they were enough to summon memories of the darkest days of that crisis.

Just before midnight on March 18, the ECB announced a 750 billion-euro (\$813 billion) Pandemic Emergency Purchase Program, raising to some 1.1 trillion euros the total amount of assets due to be purchased by the bank for the rest of the year. More important, the ECB ignored its self-imposed limitations by saying the emergency program would not be bound by rules dictating the quantity of a state's debt that the bank can buy. It also said rules that determine what share of each country's debt it must buy (to keep the ECB from disproportionately funding one state's borrowing) will be interpreted flexibly, meaning, for instance, that purchases of Italian bonds can be frontloaded. These constraints had been in place to satisfy hawkish central bank chiefs and leaders in the north, and indeed, the Dutch and German central bank chiefs reportedly protested but were overruled by Lagarde.

The ECB announcement had two important consequences. First, it worked: Bond yields fell close to pre-crisis levels. Second, because it worked, it absolved European capitals of the need to show solidarity, at least for now.

Whistling Past the Graveyard

With the luxury of time, leaders have pitched their own preferences for remaking the euro-

zone. The northerners suggested that the 410 billion-euro European Stability Mechanism bailout fund could extend credit lines to member states in need. Tapping the ESM would make a state eligible for the ECB's Outright Monetary Transactions program, which entails unlimited bond purchases. Critics pointed out that, in light of PEPP, a promise of unlimited bond-buying was redundant. With that program due to expire at the end of 2020, however, this may not be the case by next year.

The bigger problem is political. The ESM was designed to help specific states in need, not to fix a generalized shock, so it is pathologically conditional. This makes the ESM toxic in Italy, where it is synonymous with austerity and sovereignty sacrificed to cold northerners. (In an amusing twist, Italian Prime Minister Giuseppe Conte initially supported the ESM plan, apparently underestimating the level of contempt it engenders in Italy.) With the euro-critical League currently sitting as Italy's most popular political party by a wide margin, Rome's tenuous ruling coalition has limited political space to maneuver. Germany has signaled that it would be willing to apply only the faintest hint of conditionality to ESM credit lines – just enough to ensure that funds are spent on coronavirus-related expenses – but the Netherlands and Austria have been less flexible. Their hard-line stance is first and foremost about domestic politics – the Dutch ruling coalition is itself fragile – but it's no coincidence that the ESM approach could force Italy and other recipients in the south to undergo structural reforms that the north has

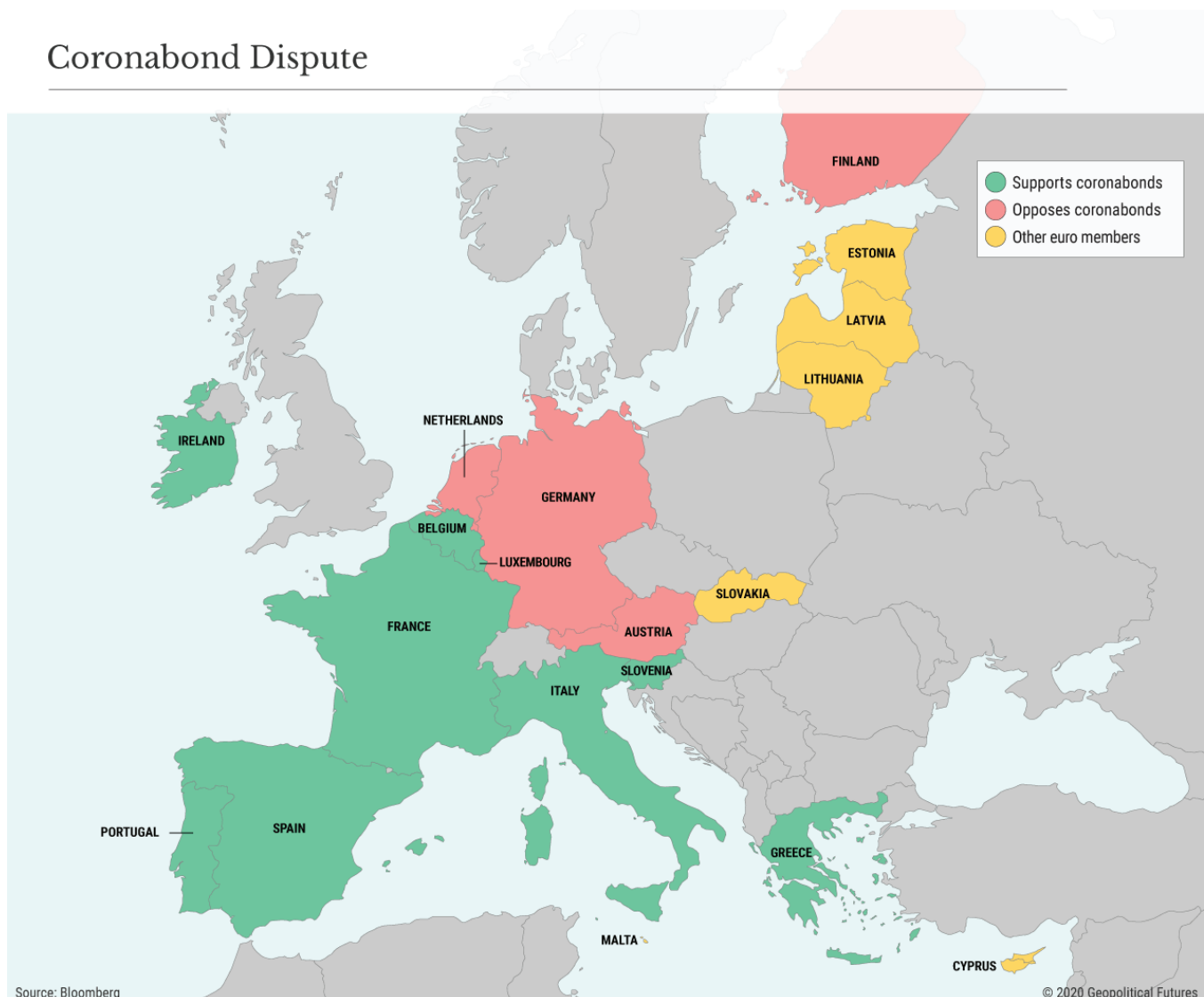
long demanded. (The debate in the north is still shaped by moral hazard concerns, even though Italy has run larger primary surpluses on average than either Germany or the Netherlands since 2008.)

The south's counteroffer came on March 25, when nine eurozone states including France, Italy and Spain presented their own plan for a "common debt instrument" colloquially known as a coronabond. According to the proposal, coronabonds should be of "sufficient size and

long maturity to be fully efficient and avoid roll-over risks." Proponents argue that the coronavirus crisis is a symmetric shock, and thus that there is no moral hazard, and that coronabonds would by definition be an extraordinary one-off measure.

The north, however, smells a trap. It worries that an acceptance of debt mutualization now – even if only for debts incurred responding to the pandemic, not preexisting debts – would normalize debt mutualization as a policy tool

Coronabond Dispute



for future crises. More fundamentally, there's the political problem of convincing national parliaments in the north to agree to coronabonds. German Chancellor Angela Merkel in particular has dismissed the idea on the basis that eurobonds by any name would never pass the Bundestag.

The result is a bitter stalemate. On Wednesday, France tried to bridge the divide with a proposal to create a temporary rescue fund controlled by the European Commission. (In essence, coronabonds by a different name.) Germany came back with light-conditionality ESM loans, an expansion of the European Investment Bank's firepower to fund the recovery and an EU-wide unemployment fund of up to 100 billion euros. And the Netherlands proposed a modest grant of up to 20 billion euros, with the only conditions being that the money be spent on health care systems or the labor market. None of these proposals will be accepted as-is, but they will be discussed by eurozone finance ministers on April 7.

Approaching the Rubicon

In the meantime, there's a political crisis brewing, with Rome at its center. Italy was already one of the most euroskeptic member states before Brussels and the other capitals botched their initial handling of the pandemic. While Italy, whose outbreak started before the rest of Europe's, was asking for help, its neighbors were putting up border checks and placing restrictions on exports of personal protective

equipment. Brussels, with no authority in public health matters, could only move around relatively meager funds to help Italy, propose joint procurement of equipment and try to put national leaders in the same room. After a few days, the European Commission had browbeaten Germany into dropping its intra-EU export restrictions and proposed a strategic reserve of medical supplies. German hospitals took in dozens of Italian coronavirus patients. French officials were angrily demanding recognition that, together with the Germans, they had donated more masks to Italy than had China, whose assistance came earlier and with vastly more fanfare. (Enthusiasm in Italy for China's aid has not been much dented by revelations that some of Beijing's supposed donations turned out to be purchases and that tests and equipment were apparently of low quality.)

But the damage to Europe's image was done. In a March 25 survey by Termometro Politico, 42 percent of Italians said Europe had hindered the country's response and that this was a reason to leave the bloc. A Monitor Italia poll on March 12-13 found that 67 percent of Italians considered EU membership a disadvantage, a jump of 20 percentage points compared to November 2018. Luigi Di Maio, Italy's foreign minister and former leader of the euroskeptic Five Star Movement, has been a cheerleader of Chinese assistance, drawing an implicit contrast to Europe. Matteo Salvini, the leader of the opposition League and an on-again-off-again proponent of leaving the euro, tweeted that Italy should defeat the virus and then reconsider its

EU membership. In this environment, Italy's demand for "solidarity" – which for Rome means coronabonds – takes on greater significance.

This battle will likely drag out for months – thanks in part to the ECB's intervention. By soothing sovereign bond markets, the central bank bought European leaders time to debate, but, ironically, it also removed the sense of urgency. In fact, it's possible that – in an almost implausible scenario involving a rapid economic recovery – no further massive European response will be necessary at all. But every eurozone state's finances will be in worse shape after the pandemic is over, and each state's tolerance for more debt is different. Goldman Sachs forecasts that Italy's debt-to-GDP will climb above 160 percent this year, from about 135 percent today. With numbers like that, there's only so much can-kicking Europe can do before it runs out of road. Italy and others will likely continue

to need help refinancing their extra debt burdens from fighting COVID-19.

To date, when it comes to sharing the economic costs of the pandemic, Europe's elected leaders have chosen to show solidarity in secret, via the actions of unelected officials at the ECB. But as the crisis draws to a close, pressure from Amsterdam and Frankfurt to wind down the ECB's extraordinary measures will grow – particularly given fears that post-crisis demand could outstrip supply and lead to inflation, a bugbear in German folklore. Calls from Berlin to rein in public spending – EU caps on deficits have been lifted to address the coronavirus crisis – will also return as loud as ever. At that point, what is mostly a low-stakes, if animated, political dispute will turn back into a full-blown eurozone crisis, and decisions about the future of Europe will need to be made.

What We're Reading: The Plague

April 7, 2020

Review by [Antonia Colibasanu](#)

In February, when France announced that Paris would be under emergency laws effectively shutting the city down for the first time in history, I thought about “The Plague” by the French philosopher Albert Camus. It is a fictional novel set in the Algerian city of Oran. Camus transposes a 19th-century cholera outbreak to the 1940s, turning it into the rat-borne epidemic that killed tens of millions in the past.

Though the book is an allegory of fascism and Nazi occupation in France — which is why it is a must-read for those interested in European geopolitics — it is also a guide to understanding social life during pandemics. Camus’ historical knowledge of the Black Death in Europe, the great plague of London of 1665, the Italian plague of 1629, and plagues that ravaged China’s eastern coast during the 18th and 19th centuries makes “The Plague” extremely helpful in considering the effects of pandemics on society. In the book, the Oranians were completely unprepared when rats began to die in the streets. They remained unprepared when men, women and children started to fall ill with high fever, difficulties breathing (sound familiar?) and fatal buboes. The people of Oran initially “dis-

believed in pestilences,” and so they were slow to accept the gravity of what was occurring. Infections rose, first slowly and then exponentially. By the time summer arrived, over 100 deaths daily was the new normal in Oran.

Camus’ fiction resembles our 2020 reality. In Oran, authorities hastily implemented emergency measures: Martial law was declared and the city gates were shut. The harbor was closed to sea traffic and social gatherings were prohibited. Some Oranians became plague profiteers, preying on the desperation of their fellow citizens amid shortages of food and other goods (toilet paper is not mentioned). Rationing began for basic necessities, and anyone showing symptoms of the disease was isolated. Houses, then entire suburbs, were locked down. When the sick overwhelmed hospitals, public buildings were converted into plague hospitals. Camus describes the steps that authorities



take as if he were here today — and we can read about the human reactions to each new restriction. Fear shapes all social relations, as everyone realizes that everyone else — even those they love — could be a carrier.

The protagonists, Dr. Rieux and his friends Tarrou, Grand and Rambert, set up teams of voluntary workers to administer serums and ensure the sick are quickly diagnosed and hospitalized. The sanitary teams are a metaphor for the resistance against the “brown plague” of fascism.

Camus’ plague is also an allegory for the force of what Dr. Rieux calls “abstraction” in humans’ lives: all those impersonal rules and processes that can make human beings statistics to be treated by governments inhumanely during epidemics. Obviously, the shadow of the then-still-recent Holocaust darkens the novel’s pages; the Nazis characterized those whom they targeted for extermination as “a pestilence.” In talking about the politics of the epidemic, the enigmatic character Tarrou identifies the plague with people’s propensity to rationalize killing others for philosophical, religious or ideological causes.

At the same time, Dr. Rieux also embodies another theme: that of the endless human capac-

ity for denial, even among knowledgeable experts. Despite his observation of the outbreak, he fails to acknowledge the disease for what it is until an older colleague says to him, “Naturally, you know what this is,” and he is forced to say the word: plague. This way, Dr. Rieux allows the epidemic to become real for the first time — and enables people to fight it.

“The Plague” is about existential value in a life devoid of meaning. It is about free will and choice in the face of absurdity. The message carried on by Camus during the 1940s, as the Nazis’ shadows were still remembered in Paris, is that we will all die, but we can choose what to do with our lives. Reading it today, as the world fights its own plague, the novel helps us understand what we are dealing with. I found the meditative observations of the social and psychological effects of the epidemic on the townspeople to be extremely helpful.

And I found Camus’ words to still ring true: “Everybody knows that pestilences have a way of recurring in the world; yet somehow we find it hard to believe in ones that crash down on our heads from a blue sky. There have been as many plagues as wars in history; yet always plagues and wars take people equally by surprise.”

The Indo-Pacific After COVID-19

April 8, 2020

By [Phillip Orchard](#)

In late March, senior officials from the Quadrilateral Security Dialogue, a loose coalition of the Indo-Pacific's four most powerful democracies, quietly launched a series of meetings aimed at forging a coordinated response to the coronavirus pandemic. "The Quad" (comprising Japan, Australia, India and the United States) has come to symbolize both the grand plans of those seeking to cement the Indo-Pacific's status quo and the more complicated reality of a region in flux.

On paper, the Quad makes sense as a potent alliance capable of pooling immense resources and leveraging distinct geographic advantages to limit Chinese influence and deter Chinese attempts to establish military dominance in the Indo-Pacific — especially if other regional states such as Singapore, Taiwan and South Korea could be enticed to join. In reality, though, the Quad has been slow to coalesce into something equaling more than the sum of its parts, due in large part to economic fears of antagonizing China and inadequate budgets that cannot keep up with China's breakneck military modernization. Though military cooperation has increased modestly among its members, the

grouping itself has struggled to implement any substantive joint initiatives, much less forge an integrated security alliance capable of pulling off complex military coordination in a combat environment.

The COVID-19 pandemic could realistically push the Quad — and thus, the future power balance of the Indo-Pacific — in a number of directions. There's a scenario in which members rise to the occasion, realize their capacity for collective action and reinforce the regional multilateral architecture ahead of the daunting challenges to come. On the other end of the spectrum is an outcome where the virus guts members' military budgets, saps political support from multilateral initiatives and presages an era of regional disorder that China can reshape to its tastes. The United States, more than any other country, will determine which direction the Quad goes.

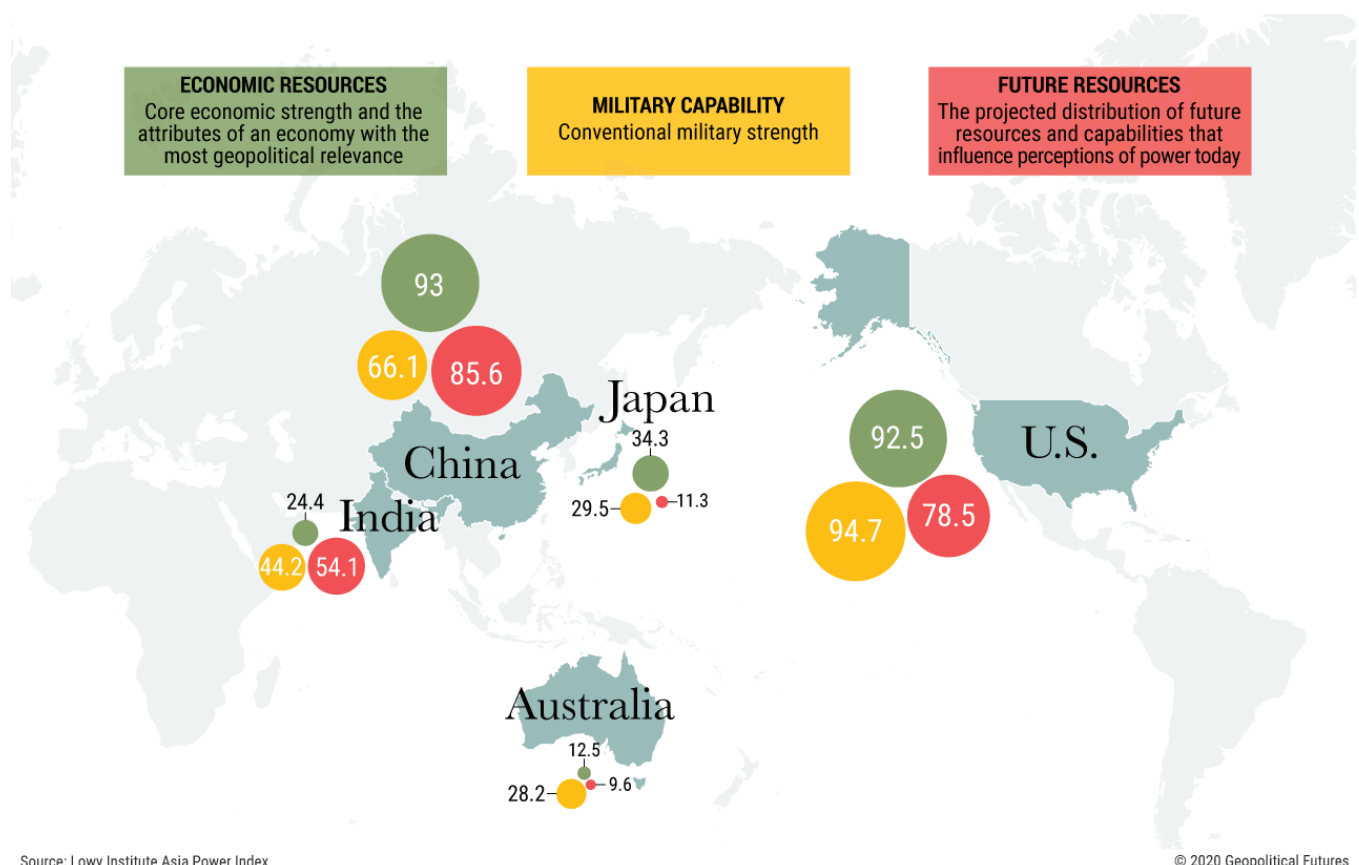
Quad Goals

For those alarmed by China's military buildup, the idea of the Quad is certainly seductive. The three non-U.S. members are ideally positioned to exploit China's biggest geographic dilemma: its dependence on sea lanes that run through chokepoints in the first island chain and the Strait of Malacca. To deter Chinese aggression,

the thinking goes, Quad members could threaten to cut off Chinese maritime traffic at these chokepoints. India, which has grown increasingly concerned about encirclement by China's People's Liberation Army, would ostensibly be tasked with blocking the mouth of the Malacca Strait from its bases in the Andaman and Nicobar Islands. Japan, whose near-total dependence on imported natural resources makes it particularly vulnerable to sea lane threats, would cover the East China Sea down to New Guinea. Australia, itself highly dependent on global sea lanes and wary of China's push into the Coral Sea, would cover the southern outlets through Indonesia.

In coordination with U.S. firepower, these positions would form a tight containment line. But the approach would also provide a degree of reassurance to Japan, Australia and India that their ability to deter China doesn't hinge solely on a distant, distracted United States' appetite for conflict. This, in turn, would allow the group to woo other strategically located regional states — ones like the Philippines and Indonesia, whose own concerns about U.S. commitments have made them exceedingly reluctant to anger China. Unlike the United States, Japan, Australia and India can't one day decide to simply leave the Indo-Pacific. Indeed, in Southeast Asian states where tight cooperation with ei-

Quad Countries + China Power Index Rankings



ther China or the U.S. is politically problematic, partnerships with the other Quad states have proved to be welcome alternatives.

Quad Problems: Money Matters

Of course, geopolitical competition isn't as simple as a game of Risk — and the COVID-19 pandemic has the potential to alter nearly every component of the regional landscape. For one thing, the military balance is only part of the equation. To prevent strategically valuable countries from concluding that siding with China (or, at minimum, refusing to cooperate with Quad members) is in their best interest, the group also needs a comprehensive — and invariably expensive — soft power strategy involving hefty economic and security assistance.

Moreover, China has ample ability to hurt each of the Quad members outside the military realm. More than a third of Australian exports head to China, for example. (Australian wariness of angering China after the 2008 financial crisis was central to the demise of the first version of the Quad.) India, among other things, is worried about China's ability to use Pakistan as a proxy to keep the Indian military bogged down in Kashmir. Japan is the most willing to challenge China, but even it is dependent enough on Chinese consumers and supply chain links that it is typically keen to keep relations with Beijing reasonably stable.

If China weathers the pandemic fallout better than most, its economic leverage over regional

states would almost certainly increase. (Many regional states are in a fix either way; if China's economy can't pull out of its COVID-19 tailspin, Japan's and Australia's economies will go down with it.)

Quad Problems: Military Might

Still, the military balance factors into nearly all other aspects of regional relationships; countries are much more likely to cede to Chinese demands on oil drilling in the South China Sea, for example, if they believe that it is impossible to stop China from settling the dispute by force. To be sure, Japan, India and Australia don't need to be able to match China, which is on track to build a 425-ship navy by 2030, ship for ship. They just need to be confident that each would be willing and capable of controlling certain maritime chokepoints in tandem, thus providing enough of a threat to Chinese shipping to convince Beijing that it is better off living with the status quo.

But while the pandemic's economic toll creates incentives for deeper cooperation among the non-U.S. Quad members — it's certainly cheaper to share base networks and divide up responsibilities — the crisis will make it even harder for the Quad to reach the sustained military spending needed to project sufficient power in distant waters. This would be especially crucial in a scenario in which China remains ascendant and the United States loses interest in putting its blood and treasure on the line in the Indo-Pacific. It's just very hard and very expen-

sive to build a force capable of matching China in multi-domain operations.

The non-U.S. Quad member most capable of doing this over the long term is Japan. But as it stands, the Japan Self-Defense Forces are a superb complementary force tailored to operate close to home in tight coordination with the United States. To replicate the roles that the United States presently fills, Japan would need to dramatically reorient its force structure and procurement priorities, shed steep legal constraints and surge spending indefinitely (and go nuclear, for that matter). It won't happen fast. In a conflict in the East China Sea in the next decade, Japan would be unable to rely on India and Australia; even if the countries were fully committed to Japan's defense, their forces would be too far away to help. Their ability to disrupt Chinese maritime shipping in their respective areas could act as a deterrent against Chinese aggression elsewhere. But if Beijing was willing to accept the cost and concentrate its forces to secure access to the Pacific, Japan may be overmatched. The odds would be stacked even higher against Indian (set to spend some \$73 billion on defense this year, the bulk of it on personnel costs) or Australian (\$27.5 billion) forces if China tried to make a break for it in their respective domains.

These scenarios expose another problem inherent in the sort of decentralized alliance that would result without robust U.S. leadership. It's too easy for strategic interests among coalition partners to diverge and for an adversarial pow-

er to exploit the cracks — especially a country with China's coercive capacity in the economic, cyber and diplomatic realms. Symbolic shows of unity that aren't backed up by real readiness to act collectively are not a deterrent. At the end of the day, if India, for example, thinks Japan, Australia and the United States would not help enough for it to win an Indian-Chinese conflict at an acceptable cost, then it has ample reasons to limit tensions with China — even if that means capping military cooperation with its Quad partners at a level that won't incur major retaliation from Beijing.

The U.S.-China Dynamic at the Center

All these problems make clear that the Quad's future will be primarily determined by the fates of its most powerful member, the United States, and the group's *raison d'être*, China. While Beijing appears to have handled the pandemic relatively well so far, it's still facing truly immense economic and political pressures as the world sinks into a deep recession. If the fiscal constraints exposed by the crisis lead to a dramatic reversal in spending on China's military and its Belt and Road Initiative — or, of course, if they cause China to collapse into an inward-focused basket case of political mayhem — then Quad members could lick their own wounds in peace, and the regional status quo would survive.

But let's say the Communist Party of China muddles through the immediate economic crisis intact, leans on military spending as a form of stimulus, invokes external aggression to cur-

ry nationalist support and tries to use the pandemic to reveal that its neighbors' best bets for prosperity lie in a Sino-centric order. The question then centers on how the U.S. bounces back from the pandemic.

The United States, for example, won't be immune to deep cuts in military spending — even if such cuts were more the result of political forces than fiscal constraints. It took the better part of a decade for Pentagon budgets to recover from sequestration following the 2008 crisis. This time around, as the death toll from coronavirus climbs toward levels seen only in U.S. wars and the U.S. economy sinks into a deep recession, the pressure to redirect spending will be immense. The more overstretched the U.S. military becomes, the less it will invest in expensive assets that will be vital in 20 to 30 years — and the more regional friends and allies will worry if they can really depend on U.S. defense commitments. A U.S. aircraft carrier getting sidelined in Guam at a time when Chinese vessels are ramming Japanese warships, sinking Vietnamese fishing boats, locking weapons on Taiwanese jets and flooding the Spratlys doesn't exactly inspire confidence, even if the U.S. Navy wasn't going to stop Chinese "salami-slicing" anyway.

Perhaps a bigger issue for the United States is regional concerns about the U.S. ability to continue delivering public benefits — and these are growing amid the pandemic. Since World War II, the U.S. role as guarantor of open sea lanes, its advocacy for a rules-based trading system, and its unmatched ability to take on global lead-

ership roles in the face of natural disasters and shared threats have all been immense sources of American power. The brilliance of the U.S. approach was its focus on building systems — on setting out relatively clear rules, expectations and benefits, and inviting just about anyone to participate. These systems created a sense of certainty and stability around which countries could organize themselves, expanding U.S. influence and, at least over the long term, supporting U.S. interests without requiring U.S. omnipresence.

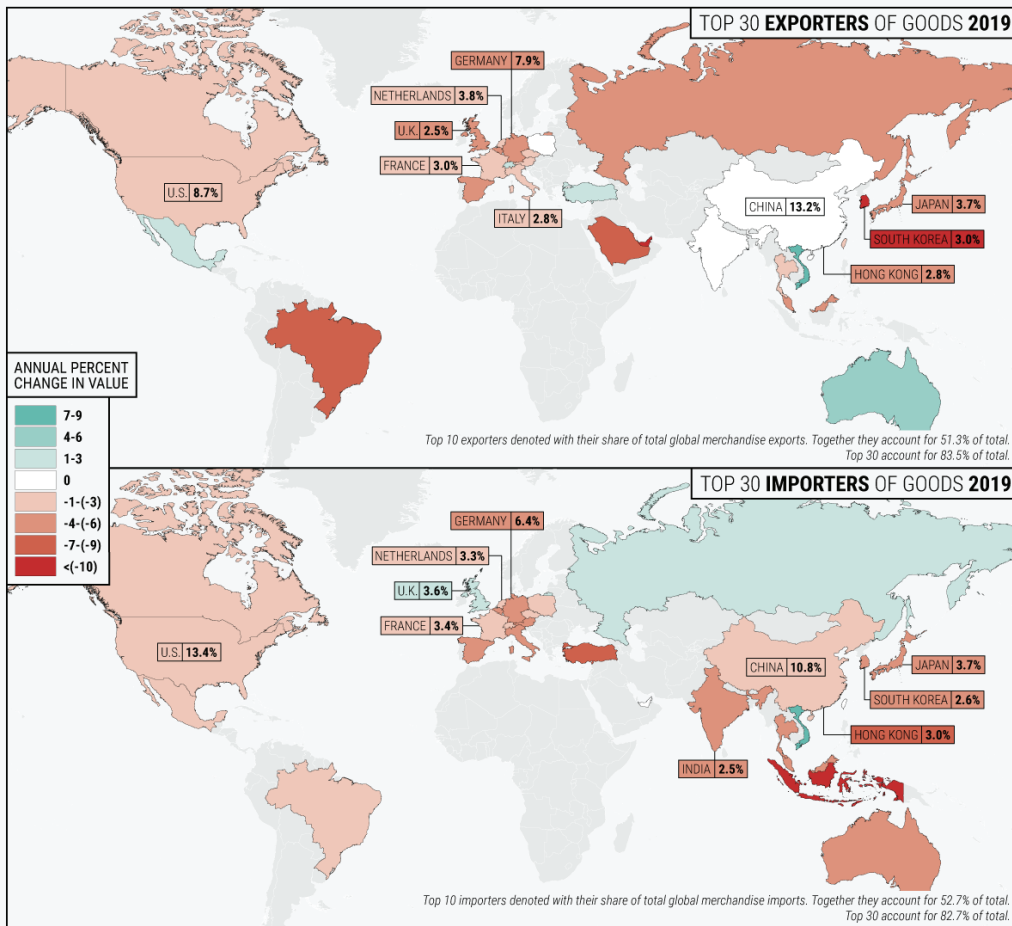
For various reasons — chief among them China's challenge to the rules-based order and internal U.S. political pressures — Washington has moved toward ad hoc, transactional means of pursuing short-term interests. This, incidentally, is how China prefers to play the game of influence. It prefers bilateral settings in which it can tailor its coercive tools around a counterpart's specific vulnerabilities and chip away at the regional order bit by bit. The problem for the United States, at least in the Indo-Pacific, is that China, with its focus comparatively confined to a single region, is better positioned to channel its resources and sustain this approach. If it's every country for itself in the Indo-Pacific, China thrives.

The problem for China, however, is that, even if it wanted to, it can never replicate the U.S. role as a benevolent hegemon at the center of a mutually prosperous order. It's physically too close to the other countries in the region, and its strategic and material needs are too immense.

Moreover, China's role in unleashing the coronavirus on the world will only deepen regional wariness of the Chinese Communist Party, no matter how many masks and tests it distributes in an effort to portray itself as a regional benefactor. The country is stuck taking an inherently coercive approach, and coercion isn't a great way to win lasting trust and support if there's an alternative. These conditions create space for groups like the Quad to take root. It's just a matter of whether the U.S. reemerges from the pandemic ready to lead.

LOOMING DIVE IN GLOBAL TRADE

On the heels of a slowdown in 2019, global trade will suffer an even larger setback due to COVID-19.



Source: World Trade Organization

© 2020 Geopolitical Futures

Weekly Graphic: The Coming Decline of Global Trade

April 10, 2020

The World Trade Organization revised its forecast for global trade this year to reflect the impact of the coronavirus pandemic — and the outlook is bleak. Just how bad things get will depend on how long social distancing mea-

asures are in place. Countries that depend on exports, such as China and Germany, will be especially vulnerable to the crash in global trade. The trade problems first kicked off with the Wuhan lockdown and travel restrictions within China, which ground factories to a halt and disrupted global supply chains. Since then, the problems have grown. Many countries have suspended nonessential production. Others, such as South Korea, have kept economic activity running but suffered negative consequences due to the absence of buyers. There are breakdowns on the supply and demand sides of the trade equation. Looking at the scale of the economic downturn, nearly all countries will experience a strong downturn in trade.

In the WTO's optimistic scenario, global merchandise trade will fall by 13 percent compared to last year. By volume, exports of merchandise will fall by 17.1 percent in North America, 13.5 percent in Asia and 12.2 percent in Europe. Imports will fall by 14.5 percent, 11.8 percent and 10.3 percent, respectively.

In the worst-case scenario, global merchandise trade will plummet by 32 percent relative to 2019. This includes a fall in merchandise exports from North America of 40.9 percent, from Asia of 36.2 percent and from Europe of 32.8 percent. Imports would drop by 33.8 percent to North America, 31.5 percent to Asia and 28.9 percent to Europe.

The Beginning of Social Dysfunction

April 13, 2020

By [George Friedman](#)

A few weeks ago, I laid out a model for thinking about the coronavirus crisis. I argued that there were four structures operating: medical, economic, social and military, with the political structure attempting to coordinate all four while managing its own disorder. This is an American model, but it maps to other nations reasonably well.

To this point, the medical structure has defined the basic framework. Having no vaccine to prevent the virus, nor proven medications for alleviating symptoms (I stay out of the chloroquine debate, lacking any right to an opinion), the only medical option was a social one: social distancing. Put differently, where quarantines were meant to create barriers to those who were ill with a disease, this was extended to everyone. In its most extreme form, this meant shelter in place: Stay home with your family and don't venture out. Even the more moderate forms, such as putting six feet between yourself and others, were fairly radical.

The medical solution created an economic crisis. Many cannot go to work. Shopping, eating out and other activities are limited. Unemploy-

ment soared, supply chains are strained, demand for goods and services has fallen. The political structure crafted strategies for mitigating the crisis, cushioning unemployment and preventing business failures with stimulus packages and so on. The amount of money committed is about 10 percent of U.S. gross national product, with the assurance that more will be committed. It is not clear that these economic events will cause economic failure, but it is clear that they will cause distortions in the economy on the order of the infusions. The economy will not function as it has before, and the distortion will not rapidly end.

The social consequences are perhaps even more profound. At its core, the social is the family. The functioning of the family assumed that children would go to school, one or both parents would go to work, and all would have periods of being alone, or being in other places with other people. On the broadest level, the social is our mingling with strangers, from going to the movies, to standing in line and chatting, to discussing the purchase of a computer with a salesman. There are a billion kinds of social interactions, and each has its rituals. We know how to find a seat in a movie, and how to excuse ourselves as we pass by those already seated. We know how to appear amiable and

unthreatening when standing in line. We understand the rituals when buying a computer, the carefully crafted pretense of knowing what you are talking about.

Human beings mediate their relations with other people through rituals — sometimes called manners and sometimes having no name at all. We know the rituals in our home. We know what will make mom and dad sad, we know how to come to dinner, and we know when we may disappear into our rooms to chat online. When we look at social organization, the family, dysfunctional or robust, is the most intense experience we have, and that experience is filled with safety valves, ritualized opportunities to be free of the family. This may be school, work, parties, whatever.

If social distancing and the economic crisis will have a social impact, it will be sensed first in the most delicate seismograph humans have: the home. Nowhere are the stresses so intense and continuous, nowhere are the safety valves so essential and rigidly prescribed. So when the medical structure requires that families dramatically alter their behavior, and the economic system generates such fear and uncertainty, the pressures are first felt in the family. Outside the family the pressures can be diffused, but now the family is the only sphere there is, and it becomes the sum of all fears, a place whose releases have been closed down.

The social system, including the family, has endured through the first month of social separa-

tion quite well. Gallup polls show happiness and contentment at normal levels. But under the hood, we can see the first signs of dysfunction. The secretary-general of the United Nations, for example, has issued a warning that domestic violence is surging. There have been scattered reports coming in as well, from Italy to Ohio.

Family violence, normally man against woman, secondarily either against children, is a constant reality. Individuals who are psychologically dysfunctional, and families that are fractured, cause a constant and predictable level of family violence. When violence surges globally, it is unlikely that the numbers are being cooked, and unlikely that the violence is coincidental. There are two forces at work. First, homes and apartments are frequently built with the expectation that a substantial amount of time will be spent outside. They are not designed for constant occupation by all. The pressure of 24-hour intimacy coupled with a situation that has no clear endpoint can create tension between even the most loving families. And many families are not particularly loving. These are the ones that explode first, most without violence, all with a high degree of rancor that can't be escaped. In some cases both parents are home without work. The parents must finally face each other, along with their unruly children. The family explodes inside of walls from which there is no escape. Family violence is not the norm. It is simply the first statistically collectible indicator. Many or most families will accommodate with love. But some won't.

When I look at the pressure on our essential rituals, I note that Dr. Anthony Fauci has said that no one should shake hands now or ever again. It is common for male friends to hug. In Europe, when I greet a woman, I know I must kiss near the cheek but not quite on it. I always forget how many times — whether one or both sides, or even three times — I must kiss in each country. When I was young, a date ended in a kiss. When I was older, it could, with luck, end in more.

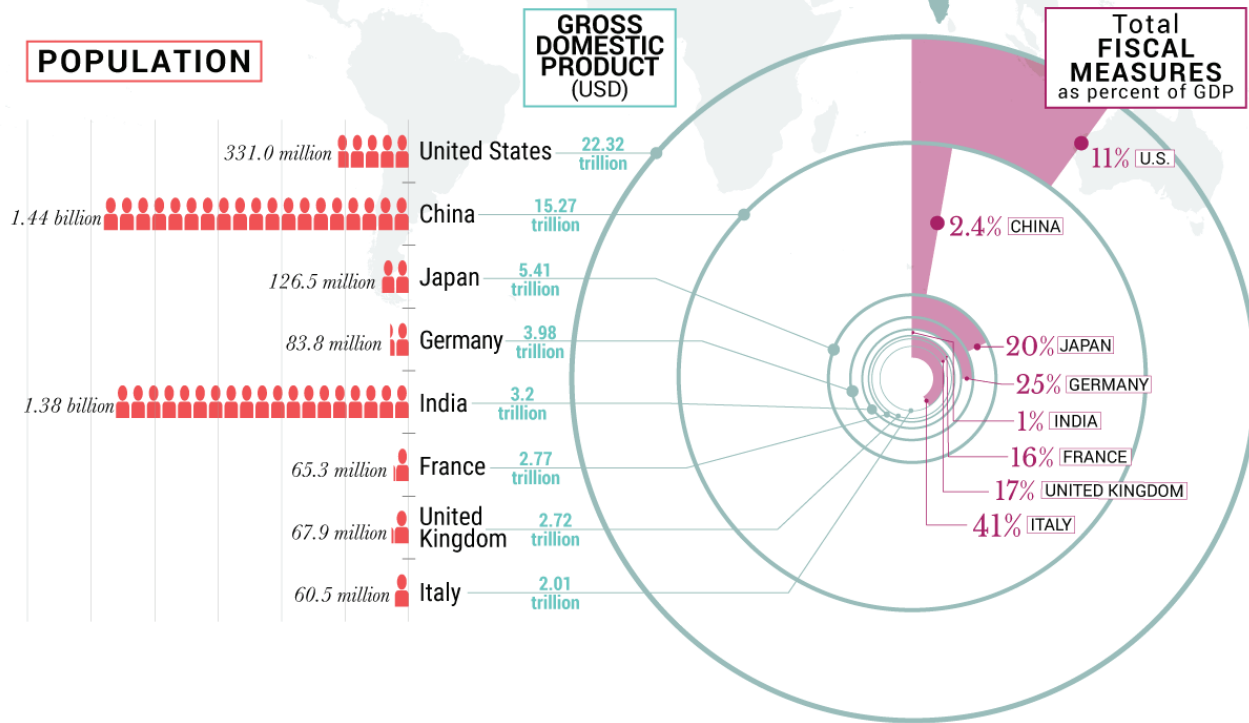
Are all these rituals of our life, along with all other rituals of touching that I don't at the moment remember, to be abolished along with the handshake? The job of the medical community is to protect our health and life. But health is not simply a matter of medicine. It is also a matter of enormously complex and individual rituals. Last week, Jews celebrated Passover, remembering how God freed them from slavery. On Sunday, Christians celebrated Easter. These are communal celebrations of families and congregants who speak, touch and hug.

We are in an enormously difficult position. We cannot accept the death of fellow human beings who might be saved. We also cannot readily live with the restraints required to minimize those deaths. And we must calculate the suffering and death caused by economic depressions — a very real event.

The obvious solution is medical — a medicine that will not require quarantine and will allow us to go back to work. Given the virulence of the virus, the problem is that even lifting the social distancing might allow a return of its spread. I suspect we could take a risk with a poorly proven drug more than we can endure the limited lives we lead. But that is a suspicion. The point is that family violence has surged and it has surged because of the measures we must take to prevent the spread of disease. The rise in family violence is real but not decisive. The other social breakdowns will happen as the economy fails and our lives become crippled. Then choices will have to be made. Perhaps Fauci and his colleagues will find a cure we can live with. I wish them all the best in their quest.

Fiscal Measures to Combat Coronavirus

[top 8 economies]



Source: International Monetary Fund, GPF calculations

© 2020 Geopolitical Futures

Weekly Graphic: Fiscal Measures to Combat the Coronavirus

April 17, 2020

As the coronavirus has spread across the globe, it has paralyzed economies. With widespread quarantines, demand has lagged, supply chains

have been disrupted, businesses have closed and workers have been laid off, paving the way for a serious recession. The International Monetary Fund has forecast that the coronavirus pandemic will prompt the worst financial crisis since the Great Depression.

To limit this economic shock, national governments have rushed to inject cash into their

economies. The above countries account for close to two-thirds of the global economy. These measures aim to prop up companies, preserve jobs and provide income to consumers who are currently out of work or not getting a paycheck. How much is enough to mitigate the shock will depend in part on an economy's health going into the crisis and how long economies remain in quarantine.

One recommendation circulating among economists is for governments to commit emergency response packages that constitute at least 5 percent of their gross domestic product. While some of the world's largest economies have far surpassed the 5 percent recommendation, others have been cautious about increasing pub-

lic spending, or have indicated a second round of stimulus is on the way. China, despite being heavily afflicted by the virus, has implemented a stimulus package but has placed a heavy focus on infrastructure and investment in state-owned companies to alleviate market pressure.

The truth is that these countries find themselves in uncharted territory, and no one knows what amount is enough. What we do know is that these moves are the first step toward dealing with the global recession. These first-round stimulus measures will ideally help economies avoid complete collapse while waiting for economic activity to resume more regularly. At that point, more measures for recovery will likely be needed.

From Our Daily Memos

January 31, 2020

The novel coronavirus outbreak is, you guessed it, still getting worse. There's now nearly 10,000 confirmed cases worldwide, plus another 15,000 suspected cases in China alone. Two hundred and thirteen people have died. The World Health Organization declared the pandemic a "global health emergency," but, notably, also recommended against travel restrictions. As we noted last week, the biggest long-term consequences of the pandemic will be economic and political, and in truth, political pressures will compel governments to respond in disruptive ways that dramatically amplify the economic pain. This makes implementation of new border closings and travel restrictions in the region worth watching closely. On Thursday, the U.S. State Department increased its travel advisory regarding China to its highest level: "Do Not Travel." This is still merely an advisory, but it will have the same effect as an outright ban, since such warnings can, for example, affect insurance rates for shippers and reduce consumer demand to the point where airlines start cancelling flights on their own accord (something we already see happening). Naturally, this puts China-U.S. trade and thus the global economy at higher risk.

February 3, 2020

More coronavirus fallout. The coronavirus out-

break in China is still spreading – and so too are the disruptions in the flows of people and goods in and out of China. There have now been more than 17,300 confirmed cases worldwide, including 2,296 patients showing severe symptoms, and another 21,558 suspected cases. The death toll stands at 361. The first confirmed human-to-human transmission outside of China occurred over the weekend in Thailand, while the first death overseas from the virus occurred in the Philippines. Now that the U.S. and others are trying block incoming flights from China, the economic disruption may only get worse. On Monday morning, flight tracking data showed that some 18 percent of scheduled flights out of Shanghai (the world's third-busiest air cargo hub) and 8 percent of flights out of Hong Kong (the busiest) had been canceled. The biggest economic impact would come from a disruption to maritime shipping, which for now appears mostly unimpeded.

February 6, 2020

A growing sense of urgency in China. Heads continue to roll in China over the coronavirus outbreak. There are now more than 28,000 confirmed infections and 560 deaths on the mainland alone. There's been a slew of anecdotal reports of rising public discontent and, presumably, an increasing sense of urgency in Beijing to keep the anger from triggering a destabilizing power struggle at senior levels. A health official

in Yunnan, for example, was fired Thursday for intercepting and requisitioning a shipment of masks en route to Chongqing, a vital economic hub that's grappling with its own outbreak of the virus. The growing sensitivity was best illustrated Thursday by the firing of a pair of Communist Party officials in Huajiahe, Hubei province, purportedly over the death in late January of a teenager with cerebral palsy who had been left alone for a week while his relatives were quarantined, sparking outrage on social media. Also stoking public anger: a Chinese doctor who was censored for sounding the alarm about the virus in December died.

February 7, 2020

Beijing's coronavirus mismanagement. We noted Thursday that a 34-year-old doctor in Wuhan who had been detained in early January for sounding the alarm about the appearance of a mysterious new coronavirus, Dr. Li Wenliang, had become one of the 638 people who have succumbed to the disease – and that it was exactly the sort of development that Beijing feared could crystallize rising public anger at the government's mismanagement of the pandemic. Sure enough, news of the death of the doctor sparked a torrent of outrage on Chinese social media platforms like Weibo and WeChat. Posts praising whistleblowers and calling for free speech received millions of views over the course of a couple hours before censors caught up. Making matters worse for itself, the government also appeared to spike several stories in state media announcing the death after they

had already been published and gone viral on social media, effectively pouring gas on what was already a bonfire of public anger over the heavy hand of censorship.

China's much-feared anti-graft agency, the CCDI, announced it would launch a probe into the death of the doctor, and a prominent official or two may have to take the fall, raising the risk of a destabilizing power struggle in Beijing. One other takeaway from the incident: State media and the government's censorship apparatus are enormously powerful tools for shaping public opinion, but Beijing's control over information is hardly airtight, particularly in a crisis, when it has the potential to do more harm than good to the party's legitimacy.

February 13, 2020

False hope over the coronavirus. It appeared as though the coronavirus outbreak in China had finally crested, if only for a moment. The death toll was still accelerating, but the pace of new reported cases was finally slowing to around 3,000 per day. On Thursday morning, though, authorities in Hubei province announced nearly 15,000 new cases. Altogether, there are now more than 60,000 confirmed cases worldwide and 1,370 deaths (including 242 in the past day alone – the highest single-day total to date). The official rationale for the spike is merely a reclassification of diagnostic criteria. Still, the news sent markets briefly into free fall and put the spotlight back on the opacity with which Beijing has managed the epidemic. As a result,

higher-level officials are starting to get the ax, with the party chiefs of Hubei province and Wuhan, the provincial capital, both going down on Thursday. The Hubei provincial chief, Jiang Chaoliang, was replaced by former Shanghai Mayor Ying Yong, who first rose to prominence in Zhejiang when President Xi Jinping was the province's party chief and is still considered a close ally. One other new political flashpoint to watch: Shenzhen and Guangzhou were given the authority to requisition private property to help fight the outbreak.

February 14, 2020

Worst-case scenarios. Global health experts are starting to roll out some pretty alarming forecasts for just how far the coronavirus epidemic can spread. On Friday, for example, a prominent World Health Organization adviser said as much as two-thirds of the global population could ultimately get the bug. (There were 64,460 confirmed cases as of Friday morning, including 1,384 deaths.) The modeling that produced the estimate was based on data on the high transmissibility of the virus, as well as factors like its long incubation period and delayed appearance of symptoms – factors that are likely to complicate containment efforts. The estimate is full of assumptions and caveats, and it's incongruous with the "mere" 218 cases that have been reported outside mainland China so far. It's best to read these sorts of worst-case scenarios as just that, so that policymakers know the outer bounds of what possibilities they need to prepare for. During the 2014 Ebo-

la outbreak, for example, 11,000 people were killed, despite well-reasoned predictions that death tolls would approach 1 million. Either way, the biggest economic and political effects of the coronavirus will result from fear – and moves by various players to exploit the crisis for strategic ends – not directly from the virus itself. From that perspective, highly-publicized predictions of the apocalypse can matter quite a bit.

February 17, 2020

CPC under duress? A speech delivered to the Chinese Politburo by President Xi Jinping was published in a Communist Party of China magazine over the weekend in an apparent attempt to ease mounting pressure on the government's bungled response to the coronavirus outbreak. In the speech, Xi tried to correct the official record on his involvement in that effort by claiming that he'd ordered a robust response to the outbreak as early as Jan. 7 rather than on Jan. 20, as previously claimed in state media. This ostensibly implicates Xi in problems that accelerated the virus' spread in mid-January, but the president is trying to make the case that the outbreak got out of hand primarily because his orders were ignored by local officials.

Either way, Beijing is now responding with an even stronger hand. Activists who criticized Beijing's mismanagement are being silenced. Beijing is clamping down on rumors a bit tighter. And authorities are leaning on armies of volunteers and local-level officials to control people's movements. According to a New York Times

analysis, some 760 million people in China are now living under some kind of residential lockdown.

If the hope was that the CPC would conclude that its over-centralization had contributed to the government's mismanagement of the outbreak, its heavy-handedness seems counter-productive. This is because whenever faced with a choice between letting go and doubling down on micromanagement, the CPC tends to reflexively choose the latter. It's a big bet.

February 20, 2020

Cautious optimism on the coronavirus. It's looking more and more like the coronavirus outbreak has crested, as the pace of new reported infections continues to slow – all while Beijing crafts cautious narratives that it finally has matters under control. There's plenty of reason to doubt China's official figures, of course, and the virus remains unpredictable enough that a resurgence shouldn't be a surprise. Given its long incubation period, the pace of new cases reported overseas may actually accelerate for some time, and if it stealthily runs amok in a place that's ultra-dense or ill-equipped to handle an outbreak – like North Korea, the Philippines or South Asia, to name a few such places – things could get bad again in a hurry.

Caveats aside, the main thing to watch now is how quickly China can get back to work. There's been an endless stream of anecdotal reports about worker shortages even in areas where companies have been authorized to resume op-

erations. And survey after survey makes clear that a staggering number of small businesses in China are on the brink of failing if they don't start earning again in the next few weeks.

February 21, 2020

Coronavirus spreads. The secondary wave of coronavirus infections outside China is continuing to worsen. In South Korea, for example, 100 new cases were reported on Friday alone, more than doubling the nationwide total. At least 46 of the new infections were connected to a single church in the city of Daegu. Meanwhile, back in China's Hubei province, there's reportedly been a surge of cases in local prisons. What these sorts of reports illustrate is that though the spread of the outbreak is slowing more generally, it's still capable of popping up in places far and wide in clusters, especially in places where people are ignoring precautions against mass gatherings. Clusters are quite a bit easier for public health authorities to respond to than a decentralized outbreak. But, as noted by the Chinese Politburo on Friday, it's too soon to rest easy just yet – meaning economic disruption will continue. Newly released South Korean data, for example, showed a 9.3 percent drop in outbound shipments since the beginning of the month.

February 24, 2020

Coronavirus spreads. The pace of new coronavirus infections inside China continues to slow, allowing authorities to nervously begin lifting

quarantine measures even in Hubei province, where the outbreak originated. Outside China, though, it's a different story. New clusters of cases are being reported across the Eastern Hemisphere, sparking a mad scramble to impose disruptive containment measures. South Korea has stormed into second place in the global infections rankings, with 833 confirmed cases at last count, including eight deaths. What's most alarming, though, is how the virus is starting to run wild outside East Asia. As recently as Friday, there were just three infections in Italy. By Monday, there were at least 230 (at least seven of them fatal), and authorities had put at least 11 towns across northern Italy on lockdown, canceling football matches and cutting short Carnival in Venice. EU officials are ruling out a suspension of the Schengen passport-free travel area, for now, though Austria briefly suspended rail travel to Italy.

In Iran, the coronavirus outbreak strikes at a sensitive time, as the government is divided and facing increased public pressure. Iran has reported just 61 cases but 12 deaths, which suggests the outbreak is much worse than reported. (An Iranian lawmaker from Qom said the virus has killed 50 people in his city alone.) As a result, nine countries – five of which share land borders with Iran – have closed their borders with Iran. The outbreak also sparked protests in northern Iran, where locals in Taleh clashed with authorities over the government's handling of the disease and its spread. The virus also dampened turnout in Iran's national elections over the weekend, with voter turnout

at 42.57 percent, according to the Interior Ministry, the lowest since the 1979 revolution. Another factor in the low turnout was calls by reformists to boycott the polls after the Guardian Council barred several reformist and moderate candidates from running. At any rate, the conservatives appeared to win in a landslide, taking control of 221 of the 290 seats in the Iranian parliament. Just 56 incumbent lawmakers held onto their seats, substantially weakening relatively moderate President Hassan Rouhani's base of support in the parliament and setting up a potential vote of no confidence in Rouhani's Cabinet.

February 26, 2020

The coronavirus' global impact. Public health officials across the globe, including in the U.S., are starting to concede that the epidemic may be uncontrollable, with the virus effectively turning into another seasonal illness that everyone just learns to deal with without blowing up the global economy. Disruptive panic won't subside quickly, though. For the first time, on Tuesday, the number of new cases reported outside China was higher than those inside China. The global count stands at 81,191 cases, with 2,768 fatalities. Infections in Italy have begun to spread south from its original epicenter in the north in Lombardy, with new cases in Sicily and Tuscany. Switzerland, Croatia, Austria and Spain have also reported cases involving people who had traveled to Italy. The potential economic impact remains a top concern, and the European Commission has reassured member

states that it will be flexible on fiscal targets that may be affected by the outbreak. In Iran, the lack of medical supplies and protective gear has sparked criticism of the government, and the country's cyberpolice unit arrested 24 Iranians for spreading rumors about the outbreak.

March 3, 2020

Chinese imports. Chinese authorities reported 125 new coronavirus infections on Tuesday. A twist: At least 19 patients had contracted the virus from elsewhere, particularly Italy, prompting Beijing to issue a slew of warnings against travel abroad and urging Chinese citizens currently abroad to stay put. Stories such as this enable Chinese propaganda chiefs to shift the narrative toward the complexities of epidemiology or the relative inefficiency of democracies' efforts to mobilize against the outbreak. The problem for China (among many others) is the global spread will only compound its economic crisis. The issue now for China isn't just the herculean task of getting people back to work and its factories up and humming (without refueling the outbreak), but also the risk that, if much of Europe, Japan and the U.S. go into lockdown – and if the resulting panic triggers a global recession – the loss of external demand for Chinese goods could torpedo the “V-shaped recovery” that would normally follow a public health crisis.

In the U.S., the virus has now been detected from the West Coast to the East Coast, and as of publication, six people have died in the

United States, all in Washington state. There is, however, a possible silver lining. Based on a genetic analysis, scientists believe that the coronavirus has been circulating in the Seattle area for about six weeks. If that's really the case, then it is almost certainly true that hundreds if not thousands of people in Greater Seattle alone already have been exposed to and infected by the virus. That only six people have died is further evidence, then, that the case fatality rate is far below the widely cited 2 percent estimate, which has likely been inflated because of the concentration of deaths in Hubei province. Some 4.2 percent of patients have died in the province, where hospitals are overwhelmed, compared to just around 0.8 percent elsewhere in mainland China. In South Korea, the rate is just above 0.53 percent, while in Italy it's about 2.5 percent. Iran's case fatality rate has started to normalize now that Tehran is acknowledging the scale of its outbreak (835 new confirmed cases on Tuesday alone). A lower case fatality rate would suggest the virus is more akin to a severe cold or seasonal flu than the more dire comparisons that have been made.

March 4, 2020

Coronavirus spreads globally. Reported cases of COVID-19 have dramatically risen in countries like Germany, India and the United States, causing experts to predict that the outbreak will soon be classified as a pandemic. Iraq, the United Arab Emirates, Italy and France have all closed down schools, universities and public programs in some regions, while Saudi Arabia

suspended the Umrah pilgrimage to Mecca and Medina for Saudi citizens and residents. The World Health Organization said the global supply of protective equipment was short of what's needed to manage the outbreak and called on governments and companies to increase production by 40 percent. Meanwhile, Russia and Germany have introduced bans on the export of medical masks, protective respirators, goggles, masks with aerosol filters, chemical protective suits, shoe covers, cotton wool and gauze, disinfectant and antiviral agents, bandages and gloves.

As the outbreak has spread, so too has disinformation about the virus. The European Union's "Red Alert System" for monitoring disinformation has begun to flag content that contradicts official health reports and expert guidance on various news and social media platforms. Russia and Iran have blamed foreign actors for perpetuating "fake" reports to incite panic in their countries over the dangers of COVID-19. But the scientific community has also managed to learn more about the virus. The Chinese Medical Association has reported that the virus' median incubation period lasts five to seven days, with the maximum period lasting two weeks.

March 5, 2020

Chinese stimulus. Beijing is nervously firing up the stimulus cannon. At a meeting of the Politburo Standing Committee, China's top leadership body, President Xi Jinping endorsed massive new infrastructure outlays in hopes of

easing the staggering economic impact of the coronavirus. Beijing has been hellbent on breaking its habit of returning to the fiscal stimulus well at the first sign of trouble. The problem is that it's still cleaning up the mess left behind by the 2008-2010 stimulus bonanza, which created alarming debt risks in several corners of the economy and fueled corruption and reckless investment. Perhaps most problematic going forward, it gradually weakened the bang for the buck China was getting from new spending. Simply put, the country was running out of productive investments. So Beijing has been willing to sacrifice growth somewhat in order to put the economy on firmer footing and keep its powder dry for the next global recession.

The coronavirus, however, is forcing Beijing to abandon its best-laid plans. To make the best of a bad situation, Xi is emphasizing spending on capital-intensive projects that are most likely to pay dividends a decade or two down the road – 5G, data centers and high-speed rail. By comparison, in 2008, the main thrust of China's stimulus was giving local governments (now swimming in debt) an open checkbook to spend on whatever they deemed fit. For now, at least, Beijing is still steering well clear of going back down this road.

Trade and defense disruptions. As the coronavirus outbreak becomes more widespread, the effects on trade and even military operations are becoming more clear. The United Nations recently estimated that the outbreak could result in a \$50 billion decrease in exports worldwide.

Among the most affected economies besides China are the European Union (\$15.6 billion), the United States (\$5.8 billion), Japan (\$5.2 billion) and South Korea (\$3.8 billion). The slowdown in demand is also affecting commodity prices. Oil remains around the \$50 range, and there are now reports that steel prices could see a major decline as inventories accumulate in China. Steel product prices in China have fallen 10 percent in the past month and inventories in February totaled 21.34 million tons, up 45 percent from the previous year.

In addition, there have been some disruptions in the shipping industry. Azerbaijan, for example, has temporarily banned all Iranian ships from accessing its ports, a measure several other countries have already adopted. And logistics firm Maersk has warned that its Brazilian operations, particularly exports of food and chemicals, are facing potential container shortages. The Kyrgyz prime minister, meanwhile, has ordered his Cabinet to make an inventory of food supplies and identify alternative suppliers for foodstuffs as trade with China declines.

Some countries are also making changes to their military operations. The United Arab Emirates has paused all military drills for its active and reserve forces over coronavirus concerns. Similarly, Israel Defense Forces said soldiers would no longer be allowed to take leave and placed 500-600 soldiers in quarantine, measures the IDF said were necessary to prevent the spread of the virus and maintain operational readiness. This comes just days after the U.S.

and Israel canceled the Juniper Cobra joint military drills. The U.S. also canceled other drills, including some in Italy, and imposed travel restrictions and limitations on access to bases to prevent the spread of the virus. There's also concern that the outbreak could affect production of certain military hardware, including the F-35s, which use factories in Italy and Japan that have paused production for at least a week and have no date scheduled for reopening. While this doesn't amount to a long-term shift in military capabilities, the potential short-term impacts are worth watching.

March 9, 2020

Coronavirus in North Korea? Pyongyang has yet to officially confirm a single coronavirus case, but given its extremely poor health care system, widespread poor nutrition and lack of access to international supplies, it's highly vulnerable to an uncontrolled outbreak. And there have been ample hints in recent weeks that the secretive regime is behaving in a way that suggests it's scrambling to respond, especially this past weekend. According to unconfirmed reports in South Korean media, as many as 10,000 people have been quarantined, including some 3,700 soldiers (nearly 200 of whom have reportedly died). One thing we do know for certain: Foreign diplomats are hightailing it out of the country. The potential political and military consequences of the outbreak merit close watch, even if events in North Korea remain as difficult to interpret as ever. For now, the epidemic hasn't dramatically altered Pyongyang's

geopolitical behavior, though: On Sunday, for example, it conducted yet another test of its mysterious new short-range missile system.

March 10, 2020

Signs of a rebound in China. Chinese President Xi Jinping on Tuesday visited Wuhan, the epicenter of the coronavirus outbreak, for the first time since the epidemic began. This is one of a handful of developments we've been watching for from Beijing that would signal it truly thinks it has the outbreak under control – even if Xi didn't explicitly say as much during his trip. The data coming out of China on the spread of the virus, assuming authorities aren't somehow hiding legions of unreported cases, gives Beijing ample reason to feel confident that touting its success won't come back to haunt it. Nearly all the new cases reported outside of Hubei province over the past few days were from people who had contracted the virus while abroad. In Hubei, meanwhile, the drop in new cases has enabled authorities to begin closing down makeshift hospitals and reportedly start considering lifting some restrictions on travel from the province. The data on the Chinese economy will stay extremely ugly for a while to come, especially as the global spread dampens consumption of Chinese exports. But it'll be much easier to rebound with the virus broadly contained at least at home.

Preparing for the fallout. More countries are taking extraordinary measures to mitigate the impact of low oil prices and other economic

fallout from the coronavirus. Russian Energy Minister Alexander Novak and a Kremlin spokesperson both suggested that the Russian government would be open to further talks with Saudi Arabia over oil prices. The Trump administration is studying several measures – such as cash injections, tax credits, payroll tax cuts and tariff reductions on some Chinese imports – to help support those affected by the plunge in prices and slow global demand. President Donald Trump already called on Congress to approve a payroll tax cut and relief for hourly workers. In Alberta, Canada's major oil-producing province, the provincial premier said local officials were bracing for impact and would prioritize jobs and the economy. Japan's finance minister announced that the government would spend 1 trillion yen (\$9.6 billion) in the next two to three weeks to help those impacted by the virus, particularly small and medium-sized enterprises and self-employed workers. Similarly, Italy's industry minister announced that the government would provide 10 billion euros (\$11.35 billion) to help small businesses and would suspend household payments on bills, taxes and mortgages. The measures bring the budget deficit close to the 3 percent limit set by the EU, though the bloc said it would be flexible on such rules following the coronavirus outbreak.

March 11, 2020

Economic fallout. The European Union has mobilized 25 billion euros (\$28 billion) in emergency funding to help alleviate the economic costs of the coronavirus outbreak through a new pro-

gram called the Corona Response Investment Initiative. The program will extend a line of credit to support national health care systems, employees and businesses affected by the outbreak. The EU also agreed to ease national spending rules.

In addition, the German government is considering domestic measures to support those hit by the economic fallout. Chancellor Angela Merkel, when asked whether her government would stick to its balanced-budget policy, said Berlin would do what was necessary without regard for the deficit. Officials from the German Finance Ministry and legislature also met to discuss options for providing capital relief to banks. In the U.K., the Bank of England cut interest rates by half a percentage point to 0.25 percent to incentivize small businesses and boost credit by as much as 100 billion pounds (\$130 billion). Capital requirements were also reduced, freeing up an additional 190 billion pounds for lending.

In the Middle East, countries have doubled down on restricting cross-border travel and trade, despite the heavy economic impact. On Wednesday, Jordan announced it would close its ports to Egypt and ban overland passenger traffic from Iraq. And the Iraqi government has once again closed its border with Iran and barred entry into Najaf province, the location of an important Shiite holy shrine, for non-residents. In China, while the outbreak has begun to slow, food prices (particularly for pork) have reportedly skyrocketed, and the consumer price

index increased by 5.2 percent. China has also reported that the outbreak has stranded migrant workers in rural areas.

March 12, 2020

Pandemic pandemonium. The coronavirus has spread globally, infecting more than 127,000 people, and government responses are bordering on panic. On Wednesday night, the United States announced restrictions on all travel to and from nearly all of Europe. Though the president initially said a total ban would also apply to incoming trade, the White House quickly clarified that this was not the case. Restrictions will begin on Friday at midnight. In several countries governments have implemented quarantines, closed schools and canceled events. The outbreak and travel ban have also shaken markets, forcing U.S. stock market trading to halt temporarily after a sudden drop for the second time this week.

March 13, 2020

Whatever it takes. European Commission President Ursula von der Leyen vowed maximum flexibility on EU fiscal rules and an easing of state aid restrictions in response to the coronavirus outbreak. Brussels will expand its investment initiative to 37 billion euros (\$41 billion), she said, adding that the bloc was ready to do more as the situation changed. European Commission Vice President Valdis Dombrovskis said Brussels was activating an “unusual event clause,” which would permit member states to increase spending without regard for public

debt and deficits, and that the bloc could even use a “general escape clause,” which would lift budgetary targets altogether. State aid will be handled flexibly, and Brussels will accelerate approvals of national plans to assist struggling sectors. Von der Leyen also said France and Germany had agreed to adjust unilateral restrictions they had placed on the cross-border sale of medical equipment, and she cautioned other states against implementing their own barriers. In the wake of events on Thursday, the gestures and actions of solidarity were sorely needed. During her press conference on Thursday, European Central Bank chief Christine Lagarde responded to a question about the European Central Bank’s role in keeping government bond spreads in check by saying that was “not the function or the mission of the ECB.” The spread between Italian BTP and German bunds exploded in response, to as high as 273 basis points from 193 basis points at the close on Wednesday, and Italy’s stock market index fell nearly 17 percent on the day. It wasn’t long before Lagarde was back on television, telling CNBC that she was “fully committed to avoid any fragmentation” in bond markets. Italy’s strains are well-known – the country has at least 15,000 confirmed cases of coronavirus, an official case fatality rate of 6.7 percent (well above the global average), public debt-to-GDP of more than 136 percent, and in recent days has announced emergency spending measures of an ever-increasing amount, now totaling 25 billion euros (about 1.5 percent of gross domestic product). Euroskepticism in Italy is already high and potentially getting worse due to the sense that

Europe has abandoned it to face the pandemic alone, reducing it to pleading for help from outside. China, the origin of COVID-19, is seeking to move past its own initially bungled handling of the outbreak, and thus was none too happy to oblige – even if there are questions about how much of the equipment it is sending to Italy is a “donation.” (An Italian Foreign Affairs undersecretary confirmed on Thursday that Rome was looking to purchase medical equipment from China.) Italy’s prime minister criticized the ECB, and even the country’s president, normally an apolitical figure, issued a statement calling for solidarity and urging the EU to refrain from actions that hinder Rome’s efforts. For now, following additional clarification by the ECB, markets appear to have settled down some. As of writing, the BTP-bund spread is back down to 225 basis points, and the Italian stock index is up by more than 6 percent. But Lagarde’s words – whether a misstep by an inexperienced central bank chief or a miscalculated challenge for national governments to act – have dug up fears about the eurozone’s future that leaders would have preferred stay buried.

March 16, 2020

Coronavirus comes for the U.S. economy.

We’ve been writing about COVID-19 since mid-January, and despite the staggering drops in equity and energy markets and more than a month of warnings that Washington was ill-prepared to manage the epidemic, the vulnerability of the U.S. economy hit home only last week. Empty grocery shelves, blanket cancellations of

public events and widespread social distancing make it impossible to dismiss the scale of disruption from panic that's setting in, and put the Fed's extraordinary rate cut on Sunday in an understandable light.

The U.S. and Europe may want to check out the latest numbers from China for a taste of the damage to come. In January and February, Chinese industrial production dropped a record 13.5 percent year-over-year, compared to 6.9 percent growth in December. Retail sales, meanwhile, dove 20.5 percent year-over-year, following 8 percent growth at the end of 2019. This, too, was a record drop for China — as was the 24.5 percent swan dive in fixed asset investment. Foreign direct investment in February dropped 25.6 percent. All this suggests first-quarter growth in China is likely to contract, especially since various surveys show that just around two-thirds of the Chinese economy is back up and running and that Chinese exporters are facing a prolonged loss of Western demand. We're in uncharted territory here.

Every country for itself in Europe? The way Europe's leaders formulate emergency plans in response to the coronavirus outbreak has brought into relief, again, the cracks that exist in the European Union. The EU internal market commissioner, Thierry Breton, warned that the outbreak will cause a 2-2.5 percent bloc-wide economic contraction, plunging the EU into recession. The EU has rushed to assemble a coordinating strategy, suspending limits on national government spending to fight the epidemic. After delaying closures within the Schengen zone,

EU members have now begun to restrict border crossings. Germany's decision to unilaterally impose border restrictions has drawn criticism from EU allies, and has caused panic in the EU about basic supply chains and the flow of goods as shops struggle to replace their stocks and meeting demand. In response, the European Commission called on member states to create priority lanes for freight transport to ensure the easy cross-border flow of goods. EU leaders have also placed restrictions on masks, face shields, and other protective medical equipment exports, including to the U.K.

Stemming the fallout. The Federal Reserve announced on Sunday that it would cut interest rates to zero and introduce a quantitative easing program worth \$700 billion. The Fed plans to use \$500 billion to purchase Treasury securities to ease market disruptions. The remaining \$200 billion will be used to purchase agency-backed mortgage securities over the next few months. The measures aim to help support businesses and households affected by the outbreak. Regulators have also encouraged banks to access short-term loans, if they need help easing the financial strain, since banks have hesitated to do so in the past. The move suggests the Fed is trying to stave off a recession, as the U.S. is due for one.

Coronavirus and Brexit. The U.K. has until Dec. 31 to negotiate its new, post-Brexit relationship with the European Union, but some are speculating that the fallout from the COVID-19 outbreak could lead to a request for an extension. British

Prime Minister Boris Johnson's office said that there were no plans to ask for an extension at this time and that negotiations would continue through conference calls and similar measures. More important, COVID-19 has raised, yet again, the question of Northern Ireland's border with the Irish Republic. London and Dublin have adopted different approaches to tackling the outbreak, leaving Northern Ireland stuck in the middle. The U.K. is expected to go into lockdown this week, but it's unclear whether the measure would include Northern Ireland. National unity was already a big concern in the wake of Brexit, and the stress of an event like the coronavirus outbreak could put further strain on these relationships.

March 17, 2020

Europe on lockdown. Several European countries have enacted stricter quarantine and isolation measures. France said it was "at war" as the number of infections exceeded 6,650. President Emmanuel Macron imposed stringent restrictions on movement, drafting the army to help move the sick to hospitals and ordering the police to enforce a lockdown, vowing to fine anyone who violated the rules. France will also postpone local elections, suspend the government's pension reform initiative, and try to keep businesses afloat with 300 billion-euro (\$330 billion) loan assistance and waiving rent and utility bills.

Meanwhile, the U.K. has reversed its "herd immunity" policy to combat the virus in favor of a new

"suppression" strategy after a report revealed that the old policy could kill 250,000 people and would overwhelm the health care system several times over. The new policy is akin to China's and Italy's. European leaders still disagree on how to further prevent a recession. After a joint teleconference of EU finance ministers on Monday, officials diverged over adopting joint European stimulus as demanded by heavily affected countries like France and Italy. Though the Eurogroup mobilized around 1 percent of the eurozone's gross domestic product (around 120 billion euros) to forestall the economic fallout and 10 percent of GDP for liquidity facilities for deferred tax payments, many states have called the EU out for not doing more.

Russian countermeasures. The Russian government has announced new measures to support the economy amid the coronavirus outbreak, the instability of the ruble and the fall of oil prices. This comes after an announcement to create a crisis fund of 300 billion rubles (\$4 billion). The Russian central bank and the government jointly have put in place some financial safeguards as they monitor the financial health of significant companies. Moscow said suppliers will not be fined for any disruptions in state contracts. The central bank will allow banks to lend and restructure loans to transportation and tourism companies, and state guarantees will be provided for restructuring loans to transport and tourism companies. Also, the central bank will soften the capital requirements for banks, which will provide manufacturers of pharmaceuticals and medical equipment with addi-

tional lending opportunities. The program for preferential lending to small and medium-sized businesses will be expanded, and the amount of subsidies on loans will increase by 1 percentage point up to two years.

March 18, 2020

Economic stimulus. In an effort to stave off a recession resulting from the coronavirus outbreak, Western countries have started introducing economic stimulus packages. The U.K. unveiled an “unprecedented package” of loans worth 330 billion pounds (\$355 billion) for struggling businesses, while U.S. President Donald Trump said his administration was working on a spending bill that reportedly could total \$1 trillion in payments to airlines, local businesses, individuals and banks. Meanwhile, France introduced an initiative worth 345 billion euros (\$370 billion) to protect French employees and companies. And Spain announced an aid package worth 200 billion euros – half of which will be used for state-backed credit guarantees – to support companies, workers and vulnerable segments of the population.

March 19, 2020

China’s coronavirus numbers. As the number of global coronavirus cases exceeded 200,000, Chinese authorities first time since they were actively suppressing the coronavirus outbreak in December announced zero new domestic infections. (Thirty-four new infections were reported among overseas arrivals.) We’ve been getting

lots of questions lately on just how much anybody should trust Beijing’s numbers – and, by extension, whether there’s really much to learn from its apparent success in keeping the outbreak largely contained to Hubei. Here’s how we look at it: Sure, China has a long history of “cooking the books,” and the central government itself often struggles to get a clear picture of what’s going on on the ground – whether because local governments and companies are incentivized to massage the data or just because China is really big and accurate data collection is really hard. (See: authorities pushing empty factories to run equipment in order to boost power usage figures – a metric Beijing was using to gauge the success of local officials in getting people back to work.) And given Beijing’s extreme sensitivity to discontent both at home and abroad over its handling of the outbreak, it also has incentives to downplay new cases – especially now that Xi Jinping is staking his own legitimacy on his success in combating the virus.

So, Chinese data should always be seasoned with more than a pinch of salt. Still, here are several reasons to think the numbers reported in China at least broadly reflect the reality of the situation: One, the measures that have succeeded elsewhere in bringing the outbreak under control have been implemented in China at an extraordinary scale. Two, though China tightly controls official media and has an army of censors monitoring social networks, it’s not particularly good at keeping bad news from leaking out – and a wave of deaths would be very difficult to hide. Finally, if there were a surge in infections, it would likely

lead to changes in state behavior – e.g. new lockdowns – that would be easily detectable. Bottom line: As with just about anything in intelligence analysis, Chinese data should be considered only in context of the broader body of evidence and incentives, and scrutinized with a healthy degree of skepticism and an awareness that grand conspiracies in most cases are really hard to pull off.

March 20, 2020

Unemployment in the U.S. is about to skyrocket. Public panic over the coronavirus outbreak in the U.S. really set in only around the middle of last week. Companies, however, were worried much sooner. Initial jobless claims jumped by 70,000 last week – the largest spike since 2012 – to 281,000, according to U.S. Labor Department data released on Thursday. This week's figures will be much uglier: A Reuters survey of economists forecasts as many as 1.5 million new claims, almost triple the U.S. record. Goldman Sachs is predicting 2.25 million. A poll by SurveyUSA, meanwhile, suggests around 9 percent of the U.S. workforce (14 million people) won't take home a paycheck this week, while another quarter are working reduced hours. The staggering economic and social implications of the coronavirus outbreak in the U.S. are only beginning to become clear.

Coronabonds. European Commission President Ursula von der Leyen indicated Friday that the European Commission is ready to consider backing common eurozone debt issuance in the form of "coronabonds." Calls from several capi-

tals to mutualize debt have been growing in recent days, and it's not a significant surprise that the European Commission would get behind the idea. But the real obstacle is in wealthier northern capitals, particularly The Hague and Berlin, which have opposed pooling eurozone debt since the 2008 financial crisis. German Chancellor Angela Merkel was evasive when asked about the suggestion a few days ago, and there's no indication that Germany's position has changed. While the EU considers policies to reduce and share the costs of protecting Europe's economy, individual states are pouring funds into banks, businesses and their workforces. France has announced it will implement a 345 billion-euro (\$370 billion) backstop to save its companies from bankruptcy, a plan that experts predict will raise its budget deficit to 7 percent of gross domestic product in 2020. In Germany, the Cabinet is reportedly preparing to ask parliament on Monday for authorization to suspend a constitutional debt brake, freeing the government up to implement fiscal measures of up to 180 billion euros (5 percent of GDP). Poland's stimulus package is worth 9.2 percent of GDP (\$52 billion) and is also expected to drive up a hefty budget deficit.

March 23, 2020

Germany's economic rescue package. Germany's economy was already teetering on the edge of recession prior to the coronavirus outbreak, and in light of the toll the pandemic is having on the German and other European economies, the government is adopting strong measures to stave off a prolonged downturn. The German

Cabinet approved on Monday the creation of an economic stabilization fund that includes a 600 billion-euro (\$648 billion) economic rescue package. The package includes up to 400 billion euros in guarantees to address liquidity problems and refinancing on the capital market, plus 100 billion euros in lending and 100 billion euros for direct corporate investments. Some analysts in Europe have noted that the recapitalization efforts could lead to partial government control over affected companies. The legislation will be presented in the lower house on Wednesday in an emergency session and could move to Germany's upper house on Friday. In addition, the government will seek to borrow 156 billion euros. Approximately 33.5 billion euros of this sum will offset losses in tax revenue that had been anticipated in the 2020 budget.

Relief for banks. Over the weekend, the European Central Bank introduced further relief for banks, including lenience on payments for bad loans and regulatory controls. The ECB will be more flexible on debtor banks that it deems "unlikely to pay," due to the anticipated recession triggered by the coronavirus pandemic. The ECB's moves are in line with the EU's recent decision to suspend budget rules by triggering the "general escape clause," allowing member states to inject more cash into their economies. The European Commission is still considering issuing common eurozone bonds, which some refer to as coronabonds. However, the continued market volatility indicates that, at least for now, these efforts by the ECB and member states may not be enough to ease investor concerns.

The U.S. economic impact. The world's largest economy is in trouble. On Sunday, the president of the St. Louis Fed, James Bullard, said U.S. unemployment could rise to 30 percent and overall gross domestic product could plummet by 50 percent in the second quarter. Cornell University's U.S. Private Sector Job Quality Index suggests that some 37 million low-wage jobs are at risk. At this point, these figures are shocking only in how realistic they appear. The Federal Reserve, which had previously committed to \$700 billion in bond purchases, announced on Monday an unprecedented move in which it would buy whatever amounts of bonds are needed to keep markets afloat and the economy stable. The U.S. Senate (home to at least five possible infections) remains at loggerheads over the details of a stimulus package worth as much as \$2 trillion – though there was some optimism on Monday about its passage. The Trump administration appears to be looking for ways to ease the nationwide "social distancing" campaign as soon as possible. The president, for example, tweeted on Sunday that the U.S. could not let the cure be worse than the problem itself, and that the White House would reassess its approach to combating the outbreak at the end of March. Vice President Mike Pence, meanwhile, said the CDC would issue guidance encouraging some exposed individuals to return to work so long as they wear masks.

March 24, 2020

Checking in on Italy. Italy is struggling to meet the demands of a long-term lockdown. Though

the number of new coronavirus cases has slowed in the past few days, essential workers are expressing concern for their well-being. Gas stations across the country have started to close citing health risks to workers. Bankers are considering going on strike if protective measures are not taken. Italy's economy and industry ministers will talk to the country's top three unions, which have called on the government to expand the list of non-essential jobs.

To help Italy fill the gaps of its crisis management, Russia has increased its assistance efforts by deploying more military specialists and equipment, particularly for diagnostics and disinfection. Russia has also sent eight mobile brigades of medics and about 100 military virologists and epidemiologists. Germany has also expressed a willingness to support Italy by floating the idea of an enhanced credit line through the European Stability Mechanism. The details are still up for discussion; Germany is pushing for minimal conditionality while Italy argues for none.

This is, of course, in keeping with the geopolitical imperatives of the region. Germany needs cohesion in the eurozone; Italy needs a lot of help; Russia needs an ally in Europe, especially one with a robust energy industry, a prominent voice in EU politics, and access to the Mediterranean Sea.

From bad to worse in the U.S.? Isolation, social distancing and sheltering in place have led some to stockpile and hoard certain household

goods and foodstuffs in the U.S. Which is why on Monday, President Donald Trump signed an executive order meant to curb hoarding and price gouging of supplies necessary to counter the outbreak. This comes amid warnings from the World Health Organization that the U.S., with its accelerated rates of infection (40 percent of all new cases in the past 24 hours), could become an epicenter of the coronavirus outbreak.

Shutdowns spreading. British Prime Minister Boris Johnson announced a nationwide lockdown on Monday evening. Over the weekend, Indian Prime Minister Narendra Modi announced stringent measures that will put more than a billion people under shelter-in-place orders, sending Indian stock markets crashing by some 13 percent. Leaders in Nepal, South Africa, Colombia and a number of other countries have also announced lockdowns over the past few days.

The growing sense of alarm in the developing world is particularly concerning as lagging testing capacity and overmatched health care systems fuel worries that a new, deadlier phase of the global coronavirus crisis is on the horizon. There are some glimmers of hope, though. The extreme measures enacted in Italy have slowed infection rates. On Monday, there were just 4,789 new infections and 602 deaths – the second straight day of lower numbers. Elsewhere, the leader of a prominent German public health institute said there were indicators that the exponential progress curve was starting to flatten. China continues to lift restrictions on

movement so that the country can get back to work. On Tuesday, Chinese authorities said they will allow transportation to resume for the city of Wuhan on April 8.

March 25, 2020

Desperate times, mammoth measures. The U.S. Senate has agreed on an emergency fiscal package that will cost in the ballpark of \$2 trillion, or just under 10 percent of U.S. gross domestic product. The House appears likely to pass the Senate bill unchanged in the next few days. It'd be inaccurate to label this as stimulus; it's a flat-out rescue of countless pillars of the U.S. economy – corporations, small businesses, consumers, state and local governments, health care, airlines and so forth – that are all on the brink of going bust at once. The legislation is certainly ambitious in scale: It includes more than \$800 billion in emergency loans for businesses, funding for a dramatic expansion in unemployment insurance, some \$150 billion for hospitals and another \$150 billion for tapped out state and local governments – plus direct one-time payments to most U.S. households. Despite its size, the package is little more than a short-term life raft. But it gives the U.S. at least some room to continue implementing painful yet critical measures to combat the coronavirus for another two months or so. It will also help keep the pandemic from doing long-term structural damage to the U.S. economy (by, say, triggering a housing or banking crisis), thus making it easier to get back to business once the scare subsides.

Inching toward an EU deal. A meeting of eurozone finance ministers ended Tuesday as expected: without agreement on fiscal support for member states struggling to scrape together the cash for a response to the coronavirus crisis. But a deal is close, according to Mario Centeno, Portugal's finance minister and the Eurogroup's president. Attention has focused on two main options. One would involve the issuance of joint "coronabonds." The less ambitious and likelier route involves tapping the EU's 410 billion-euro (\$443 billion) bailout fund, the European Stability Mechanism, which would extend so-called enhanced conditions credit lines to states in need. The ESM's managing director said the amount for each state could be around 2 percent of that state's GDP. There are still some details for national leaders to work out, in particular what conditions should be attached to the credit lines and who should participate. The likely recipients, like Italy and Spain, are staunch opponents of conditionality and insist that participation should be broad to avoid the stigma of needing help in the eyes of investors. The least likely recipients, led by the Netherlands, want to hold off on using the ESM until the scale of the crisis becomes clearer. The European Central Bank's enormous emergency bond-buying program announced last week has bought EU member states some time, but in the process it has reduced leaders' appetites for aggressive measures. We'll know more when EU leaders chat again on Thursday.

Protecting food supplies. Countries are beginning to adopt measures to secure their own

food supplies amid fears of shortages. Kazakhstan halted food exports to non-Eurasian Economic Union countries while Kyrgyzstan stopped exporting food entirely and made state funds available to purchase food products. In Russia, grain exports were put on a 10-day hold, expiring March 30. There are also reports that Vietnam has refused to sign new rice export contracts and that Serbia has placed restrictions on the export of select food products. In Europe, concerns over the agriculture sector revolve mainly around labor shortages. France has called on citizens who have been laid off due to the coronavirus to consider work in the agriculture industry – in what the Agricultural Ministry has termed “agricultural patriotism” – as border closures have led to labor shortages on French farms and many seasonal workers from North Africa and Spain have returned home. In Germany, the government has extended work permits from 70 days to 115 days, and exempted these workers from paying social security contributions, in an effort to keep 300,000 seasonal workers in the farming sector. There are also growing concerns over workers’ safety in the food processing business and their availability for harvest, which will be picking up soon in South America.

March 26, 2020

Coronavirus and the U.S. military. On Wednesday, the Pentagon issued a stop-movement order that will affect all military and civilian personnel. The order will affect some 90,000 servicemembers who were set to deploy or

redeploy over the next two months, including those slated to take part in exercises and combat operations in Afghanistan, Iraq and Syria. Following the departure of French forces from the anti-Islamic State coalition in Iraq, the U.S. military has formally transferred its Qayyarah air base in southern Mosul to Iraq. A major annual Marine Corps exercise in Arizona underway since March 8 has also been cut nearly a month short. This comes as infections among U.S. troops increased by nearly 60 percent over the past week (to 227 from 133). The outbreak is affecting development and deliveries of new arms systems too. Supply chain disruptions and shutdowns at arms manufacturers like Boeing have halted production of systems such as KC-46 tankers and P-8 sub hunters and have suspended testing of the F-35 aircraft.

One exception to the Pentagon’s order is movements of U.S. warships. And despite grappling with its own surge of cases, the U.S. Navy remains active on the high seas. On Tuesday, for example, it announced that a Burke-class guided-missile destroyer had fired a missile during a live-fire exercise in the South China Sea amid a buildup of Chinese maritime militia in the disputed Spratly archipelago. And yesterday, another U.S. destroyer sailed through the Taiwan Strait following an uptick in Chinese incursions into Taiwanese airspace and new Taiwanese drills simulating defense against a mock invasion. The current orders on restricted movement expire in 60 days, though the extent of their impact will be unclear for some time. The important thing to watch for are changes

in the strategic balance of power among armed forces.

Iran on lockdown. After recording nearly 30,000 cases of COVID-19, Iran has begun imposing lockdowns. Officials have begun to warn of a “second wave” of infections and have blamed citizens for violating health advice and traveling during the Iranian New Year. The government has therefore imposed an intercity travel ban and has extended university and school closures. President Hassan Rouhani has announced that the country will be able to contain the virus within the next two weeks. He has also called for a financial stimulus package to be issued for local businesses and afflicted lower-income citizens and to withdraw \$1 billion from Iran’s Sovereign Wealth Fund, but doing so will require Supreme Leader Ayatollah Ali Khamenei’s approval.

The government has been accused of delaying its response and of widespread medical mismanagement. A nurse from a hospital in Qazvin reported that she had treated coronavirus cases well before the government reported it on Feb. 4, accusing Tehran of covering up the spread until the Health Ministry announced its first case in Qazvin on Feb. 28.

March 27, 2020

A global leader. The U.S. has surpassed China as the world leader in confirmed coronavirus cases. There are all sorts of problems with the numbers in both countries, of course, but there’s

little reason to doubt the broader trends we’re seeing. The U.S. is on an exponential growth curve, and its limited testing capacity means the vast majority of infections, particularly mild or asymptomatic ones, aren’t even being counted. The true scale of the U.S. outbreak, along with the success of its social distancing measures, probably won’t become clear for at least another month.

Whatever it takes at the G-20. Yesterday, G-20 members held a virtual teleconference during which leaders promised to do “whatever it takes” to combat the coronavirus pandemic. They collectively committed \$5 trillion to limit job and income losses, as well as fund health measures necessary to flatten the curve of infections. The amount is roughly the same that G-20 leaders committed to spending in 2009 following the 2008 financial crisis. They also stressed how important it was for the World Bank to assist vulnerable countries, particularly developing countries in Africa and those hosting large refugee populations. The managing director of the International Monetary Fund asked the G-20 to temporarily draw on part of its \$1 trillion in overall resources to boost liquidity in the global market.

March 30, 2020

The U.S. braces for April. U.S. President Donald Trump announced on March 29 that federal guidelines for quarantines and other social distancing practices will extend to April 30. The measures are meant to mitigate the damage

of the peak death rate, which may come in two weeks, he said. Before the announcement, major retailers in the U.S. said they would be unable to meet April rent. Major restaurant chains, fast food and clothing stores have entered into talks with landlords for deferrals or other payment plans. According to Coresight Research, as many as 630,000 outlets have closed their doors, and the National Retail Federation estimates the industry could lose as much as \$430 billion in the second quarter. Solutions include additional lines of credit, furloughs and postponement of dividend payments. Some workers are calling for a nationwide walkout and demanding hazard pay, while others pledge to continue working given layoffs in other areas. In the month ahead maintaining essential supply chains and consumer services will be a top priority in the United States and other countries with social restrictions.

Small riots in China. In a desperate attempt to get China's economy back up and running, the government in Beijing has relaxed some of its stricter measures meant to combat the coronavirus outbreak, including restrictions on movement in Hubei, the province where this all started. But not everyone believes the country is ready to get back to work. Over the weekend, for example, fights broke out between police officers from Hubei and from Jiangxi who apparently were trying to keep migrant workers from Hubei from crossing into the province. A small riot ensued. This underscores the pressure- and confusion-laden environment in which authorities at all levels of government are operating.

Any misstep risks triggering either a new outbreak or bouts of economic and political chaos. As always with China, watch closely for splits among the security forces and military and signs of regional rupturing.

March 31, 2020

Anticipating an economic crash. According to a European Commission report, the economic crash resulting from the coronavirus pandemic could cause a recession deeper than the one that followed the 2008 financial crisis, which saw a 4.3 percent drop in the European Union's gross domestic product. The report did not, however, specify by how much the economy would contract this time around. So far, European countries have introduced stimulus packages worth on average 2 percent of GDP and provided liquidity of around 13 percent – but the European Central Bank has already warned that 2 percent will not be nearly enough. Italian business lobby Confindustria has said it expects Italy's GDP to shrink this year by 6 percent, it's biggest fall since 1946. And though the EU is considering issuing so-called "coronabonds," the head of the eurozone's bailout fund warned that it could take up to three years to set them up.

U.S.-South Korea cooperation. Absent any last-minute breakthrough in cost-sharing talks between Washington and Seoul, at least 4,000 South Korean civilian personnel at U.S. military bases in the country will be furloughed on Wednesday. The previous stopgap cost-shar-

ing arrangement expired on Dec. 31, with the Trump administration demanding as much as a five-fold increase in South Korean contributions to the cost of hosting some 28,000 U.S. troops in the country. The furlough itself is mostly just a headache for the two militaries – albeit a particularly painful headache given that both sides are also grappling with disruptions stemming from the coronavirus outbreak on the peninsula. But these sorts of bilateral disputes are worth watching closely in the context of the broader strategic divergence between the U.S. and South Korea.

Increasing uncertainty about how North Korea will handle potential political upheaval due to its own coronavirus outbreak likewise gives any potential hit to U.S.-South Korea operational readiness added significance. U.S. Secretary Mike Pompeo on Monday reiterated that the Trump administration will not relax sanctions on North Korea without substantial steps on denuclearization – but also that Washington remains keen to resume negotiations with Pyongyang. North Korea's Foreign Ministry dismissed Pompeo's remarks.

April 1, 2020

The European divide. Divisions within the European Union over how best to address the fallout from the coronavirus pandemic are growing. Spain, Italy and France – some of the hardest-hit countries in Europe – have expressed frustration with Germany's hesitance to agree to a shared debt instrument called "corona-

bonds." Italian Prime Minister Giuseppe Conte, who originally proposed the coronabonds idea, called on Europe to show a united front. Meanwhile, the European Commission has begun discussions on an EU-wide unemployment re-insurance scheme that would top up national unemployment benefits. And though the virus has paralyzed much of the EU's pre-pandemic agenda, the European Commission is trying to make some progress on its Green Deal proposal, launching on Tuesday a public consultation on the bloc's updated greenhouse gas emissions targets for 2030.

Iran catches a break. The mechanism designed to allow EU-Iran trade without incurring U.S. sanctions, referred to as INSTEX, completed its first transaction to facilitate the transfer of medical supplies to Iran, which has been hit hard by the coronavirus outbreak. Pressure has been mounting on the U.S. to ease sanctions amid the escalating public health crisis. U.S. Secretary of State Mike Pompeo said on Tuesday that Washington would consider such a move. And the U.S. extended on Monday waivers to Russian, European and Chinese companies to continue working with Iranian nuclear facilities without incurring sanctions.

Tensions between the U.S. and Iran remain high, however. Iran condemned the U.S. deployment of Patriot missile defense systems in Iraq following attacks on bases housing U.S. troops by Iran-backed Shiite militias. Two Iran-backed groups, Kataib Hezbollah and al-Nujabaa, have vowed to retaliate against U.S. forces after re-

ports emerged that Washington was planning an attack on Iranian proxies. The government in Baghdad has tried to rein in Shiite paramilitary forces operating in Iraq, warning them that military action should only be carried out by the Iraqi government. Though the anti-Islamic State coalition has suspended many of its training activities due to the COVID-19 outbreak, a spokesperson said the coalition will operate in Arbil and Al-Asad Air Base in western Iraq, where the Patriot missiles have been deployed.

April 6, 2020

Japan mobilizes. Japanese Prime Minister Shinzo Abe is expected to declare a state of emergency over the coronavirus crisis as early as Tuesday. But Japan is already declaring war on the economic impact of the virus, rolling out a stimulus package on Monday worth as much as \$1 trillion, or 20 percent of gross domestic product. Tokyo had been trying to get by with a relatively relaxed approach to managing COVID-19. Its main goal had been to keep panic from overwhelming the Japanese health care system, so it declined to implement strict social distancing measures, instead trusting the Japanese public to adopt prudent practices on its own. The Japanese government also declined to follow South Korea's lead in implementing widespread testing – a good strategy for keeping official infection rates low, even if it means cases are not being documented. Even so, confirmed coronavirus cases are starting to pile up; at latest count, the country had 3,654 cases, including 84 deaths. Additionally, Ja-

pan's population density, high dependence on public transportation and relatively large elderly population all suggest the country's coronavirus situation could get particularly ugly. Even if Tokyo manages to stave off a public health disaster, the Japanese economy, which was already wheezing before the pandemic and is now reeling from the cancellation of the Summer Olympics, will be slammed by the collapse of global demand for Japanese exports.

April 8, 2020

Wuhan opens up ... The 11 million residents in the Chinese city of Wuhan, the center of the coronavirus pandemic, are finally free to leave town after 77 days on lockdown. Around 75 checkpoints were closed down on Wednesday, and highways and rail lines filled up quickly as the city – home to untold numbers of migrant workers desperately needed in factories elsewhere (except in Beijing, which is still being tightly guarded against a new outbreak) – scrambled back to work. For urban areas worldwide, the reopening will serve as an invaluable case study in the risks of lifting stringent measures aimed at containing the virus – and the efficacy of tools intended to limit the likelihood of new uncontrolled outbreaks. For example, to leave the city, or even to carry out a number of daily tasks inside it, Wuhan residents must download a smartphone app containing their health status and level of risk of infection. Beijing is rolling out the measure nationwide. China also still has aggressive screening measures in place; temperatures are taken at the entrance

of nearly every public facility, as well as many private homes and businesses. The lesson for other governments if the move doesn't backfire: Life can restart even if uncertainties about the pandemic remain. It's just a matter of having widespread measures in place to mitigate risks – and being ready to reverse course if such measures prove inadequate. It'll be an uneven process, at best.

... just in time? The main thing motivating China to risk lifting its lockdown in Wuhan is, of course, its urgent need to bring the economy as close to full speed as possible. According to new estimates from investment bank UBS, around 70 to 80 million people remain unemployed in China's services, manufacturing and construction sectors alone. For a country as hellbent on keeping employment stable as China, this is a staggering figure, and it may well be accurate. Beijing's official figures showed joblessness increasing from 5.2 percent in December 2019 to 6.2 percent for January and February of this year – an unprecedented jump. But China's problem now is less about supply than about dramatic drops in demand, both domestically and, in particular, from foreign countries overwhelmed with their own COVID-19 problems. In other words, a lot of Wuhan workers won't have a job to return to. A joint survey by Peking University and job-listing website Zhaopin.com, for example, showed new Chinese job listings in the first two months this year plunging more than 32 percent compared to this time last year. The survey also revealed that more than a third of Chinese companies had layoff plans. UBS estimates that the

total number of jobs in China will shrink by more than 10 million this year.

April 10, 2020

The first battle of the coronabonds. After many torturous hours spread throughout the week, eurozone finance ministers agreed Thursday night on what the bloc's fiscal response to the coronavirus pandemic ought to be. The short version: a 540 billion-euro (\$590 billion) safety net for member states, companies and workers. The key takeaway is that the wealthy northern states were mostly able to impose their will. There was no agreement on shared borrowing via so-called coronabonds, and access to credit lines from the bloc's bailout fund, the European Stability Mechanism, will come with some (admittedly weak) strings attached. After weeks of saying it was coronabonds or bust, and of renouncing the ESM, the Italian government will struggle to sell this compromise to its citizens, even if there is enough ambiguity for Rome to try.

More important, the agreement calls for the creation of a "Recovery Fund" in the EU budget that would be "temporary, targeted and commensurate with the extraordinary costs" of the crisis to "help spread them over time." It will be up to national leaders to decide the fund's "sources of financing" and whether it involves "innovative financial instruments," which is code for coronabonds. There's little reason to think the second battle of the coronabonds will end differently, but remarks by French, Italian, Austrian and

Dutch officials demonstrate that it will nonetheless be fought. the FAO reports.

April 13, 2020

Food supply. There are currently no major shortages of staple foods, but that hasn't stopped consumers and governments from worrying. Last week, Romania banned grain exports to non-EU countries until at least mid-May. Uzbekistan introduced measures to increase agricultural production and ensure efficient water management, food storage and price controls. In Africa, where food shortages are a familiar problem, food riots prompted Kenya to mandate coordinated food distribution. Meanwhile, Ethiopia's ambassador to Djibouti said on his Facebook page that the two countries were in a standoff over food transit. One logistical obstacle concerns ports, where containers shipped weeks ago are finally arriving only to find no buyers and reduced numbers of port workers. Another problem concerns reduced factory output in places like the U.S., where some food processing plants have temporarily shut down in response to infections among their workforces.

Still, the international Food and Agriculture Organization (FAO) has tried to calm nerves, noting that world cereal stocks currently have a comfortable stock-to-use ratio of 30.7 percent and that wheat production estimates remain unchanged, standing at 763 million tons, with ample inventories. Localized supply chain issues of limited duration and magnitude are unlikely to significantly affect global food markets,

April 14, 2020

Economic damage assessment. The International Monetary Fund trimmed its global growth forecast on Tuesday. The IMF is projecting the coronavirus slowdown to be the deepest since the Great Depression (albeit not nearly as long-lasting), with advanced economies expected to contract by 6.1 percent this year and most emerging economies to shrink by at least 1 percent. The U.S. is facing a 5.9 percent contraction, with unemployment remaining above 9 percent through 2021. The U.K. is looking at a 6.5 percent contraction in 2020, while the eurozone is expected to drop by 7.5 percent (led by Italy at 9.1 percent). China and India are forecast to stay in the black at 1.2 percent and 1.9 percent growth, respectively. But neither country can politically afford anemic growth, and those projections are likely too optimistic. On Tuesday, for example, Indian Prime Minister Narendra Modi extended his country's lockdown — the world's largest and perhaps most difficult to manage amid a pandemic — and pledged to curb the virus "at any cost." Given the uncertainty about how the pandemic will play out, economic forecasts must be handled with care. But the IMF is putting some money where its mouth is, canceling \$214 million in debt for 25 of the world's poorest countries ahead of an expected announcement of a debt suspension plan covering some \$18 billion in repayments.

Quarantining the banks. A core priority for gov-

ernments across the globe is preventing the economic shutdowns from triggering financial crises. We're watching the Chinese and Japanese banking systems particularly closely. China, which was already struggling to clean up its banking sector before the virus hit and was forced to rescue several regional banks last year, is now desperately trying to get lending to ailing small and medium-sized enterprises to stave off an unmanageable spike in unemployment. The problem is that it will weaken bank balance sheets even further, as the bulk of SMEs lack collateral and credit histories, making them risky bets even in more stable times. According to S&P, the outbreak is expected to saddle banks with another \$500 billion in non-performing loans and \$224 billion in provisions.

In total, then, the Chinese commercial banking sector is likely to be stuck with some \$2.1 trillion in bad loans, or 11.5 percent of total loans. On Monday, the People's Bank of China acknowledged that substantially more financial support will be needed in the coming months. And banking regulators are reportedly set to rescue yet another Chinese regional bank. In Japan, meanwhile, years of extremely loose monetary policy have left commercial banks, especially regional lenders (which held \$3 trillion in assets last year), without much in the way of a cushion to absorb this kind of crisis. It also forced them to invest more heavily overseas. This means the Japanese banking sector will be exposed to shocks both at home and abroad.

Mission Statement of GPF

The mission of Geopolitical Futures is contained in its name. Geopolitical Futures understands the world through the rigorous application of geopolitics: the political, economic, military and geographic dimensions that are the foundation of a nation. The imperatives and constraints contained in these define the nation. We study first the past and thereby understand the future. At its core geopolitics assumes, as does economics, that events are governed by these impersonal forces and not by individual whim or ideology. Geopolitical Futures is rigorously non-ideological. Our staff may have their personal beliefs, but they must check them at the door.

We therefore strive to be objective, not merely neutral, but indifferent to the opinions swirling around the world. We have one underlying belief, which is that liberal democracy can survive only if there is a segment of society, which we call the learned public, who is not caught up in the passions of the moment, but is eager to look at the world as it is, and influence the polity toward the prudence that flows from understanding. It is this learned public we serve with the methods we have developed. Above all, Geopolitical Futures is an intellectual undertaking, an ongoing experiment in finding order in the apparent chaos of the world. We are a business that lives the life of the mind.

GPF | GEOPOLITICAL FUTURES



facebook.com/geopoliticalfutures



twitter.com/GPFutures



linkedin.com/company/geopolitical-futures



instagram.com/geopoliticalfutures

www.geopoliticalfutures.com