

THE GLOBAL ECONOMY IN THE POST-PANDEMIC RECOVERY PERIOD

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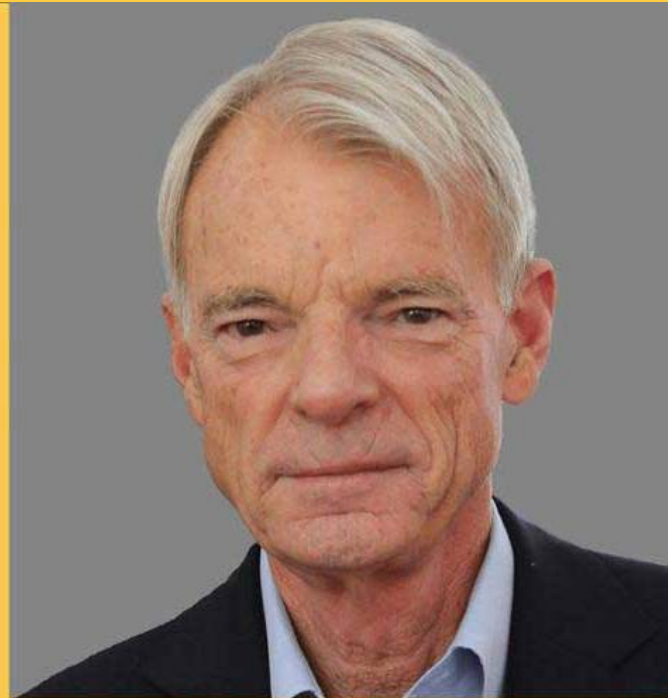
THE GLOBAL ECONOMY IN THE POST-PANDEMIC RECOVERY PERIOD

**INVITED GUEST LECTURE
WITH A NOBEL LAUREATE,
PROF. A. MICHAEL SPENCE.**



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**MODERATOR
NADEEM UL HAQUE**



**PROF. A. MICHAEL SPENCE.
(PROFESSOR OF ECONOMICS)**

ABOUT PROF. A. MICHAEL SPENCE

Spence is the Philip H. Knight Professor Emeritus of Management in the Graduate School of Business at Stanford University, a Senior Fellow of the Hoover Institution at Stanford and a Distinguished Visiting Fellow of the Council on Foreign Relations. He is an Adjunct Professor at Bocconi University in Milan, and an Honorary Fellow of Magdalen College, Oxford University. In 2001, he received the Nobel Prize in Economic Sciences for his work in the field of information economics.

He is a Senior Advisor to Jasper Ridge Partners and a Senior Advisor to General Atlantic Partners. He co-chairs (with Dr. Victor Fung) the Advisory Council of the Asia Global Institute, and was the Chairman of The Independent Commission on Growth and Development (2006-2010), where he served with Montek Singh Ahluwalia. He is a member of the Advisory Council of the Luohan Academy in Hangzhou. He served as Dean of the Stanford Business School from 1990 to 1999 and Dean of the Faculty of Arts and Sciences at Harvard University from 1984 to 1990. He was a member of the Board of the Stanford Management Company, which manages the Stanford University endowment, and the International Chamber of Commerce Research Foundation.

He was awarded the John Kenneth Galbraith Prize for excellence in teaching and the John Bates Clark Medal for a "significant contribution to economic thought and knowledge". The Clark Medal was awarded, at that time, every two years to an Economist under the age of 40. He is the author of "The Next Convergence: The Future of Economic Growth in a Multispeed World," 2010. He currently co-chairs the Commission on Global Economic Transformation with Joseph Stiglitz.



PREAMBLE

There is no question that the COVID-19 outbreak has negatively impacted economies around the world. It's not only pandemically disrupting people's health, but it is also responsible for a dramatic decline in economic activities. As a result, millions of people worldwide have lost their jobs, resulting in a collapse in growth. This pandemic not only caused a dramatic drop in jobs and economic activities but also led to digital transformation (a new home – especially for developing nations). Governments around the world are doing their best to put economies back on track. Therefore, this webinar is organized to discuss the world after the pandemic. The discussion is majorly revolving around the recovery patterns, vaccine, rapid recovery patterns, and post-recovery global economy – trends and issues.

PANDEMIC PATTERN(S)

During the onset of the pandemic, the virus spread very quickly. In the graph (Figure 1) below we can see an ascending slope at the beginning, but that has been reproduced everywhere, which led to enormous economic contractions. However, the magnitude can be varied. Then we saw a period of recovery, and the countries that have had problems are the ones that are having a hard time containing the virus.

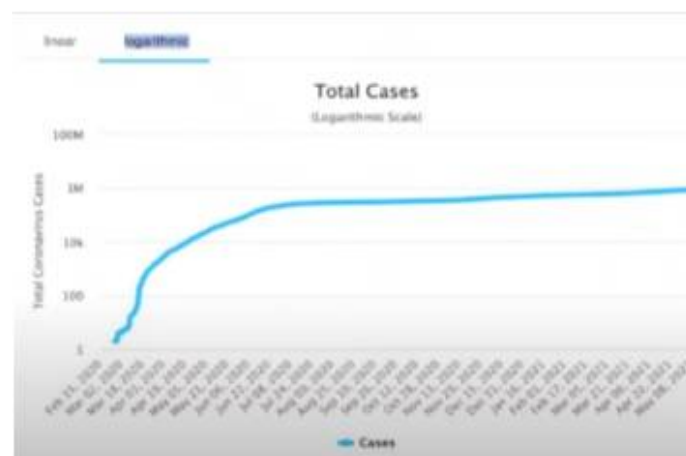


Figure : Total Coronavirus Cases in Pakistan

Fighting the spread of the virus has become a challenge everywhere, but Brazil and India are facing very difficult times in this regard. This may be because of the lack of adequate vaccination. While Brazil has some Chinese vaccines, it is still unclear whether the Chinese vaccine is effective against the so-called Brazilian variant. Similarly, the situation in India becomes worse and there is an enormous increase going on day by day, as three hundred thousand confirmed cases are registered per day. Now, it seems to have shifted to rural India. Countries cannot recover the economies where people live near the margin. By the same token, countries that cannot afford total and complete shutdown can face the spread of the virus too.

VACCINE ROLLOUT SITUATION

Now, there is a major issue about the vaccine rollout. When historians write about this it is not going to be pretty. Because the countries that make the vaccine put themselves at the top of the queue. There is an element of being inevitable. In addition, we do not live in a world with governance structures that are sufficiently respectful of global public goods and fairness to avoid that kind of outcome. However, vaccines are rolled out very fast in few places such as the United States with the new administration and Israel vaccinating every citizen. Now Europe is rolling out pretty fast. Similarly, China had a kind of outbreak but they controlled it very aggressively. Once we take care of that then there is a reasonable amount of vaccine manufacturing capability and a pretty strong push to get rid of any obstacles associated with intellectual property.

The question is how this is going to work. We do not know, however, there are reasonable chances of acceleration in the availability of vaccines on a very wide front through middle-income countries and even into lower-income countries. Moreover, the binding constraint is not intellectual property but its manufacturing capacity. Accordingly, the global economy in one version or another is going to be back to functioning at a reasonably normal level by the end of 2022. Hopefully, the desired results will be seen in about a year from now.

SUPPLY PROBLEMS AND BLOCKAGES

There is a sort of shift which we are experiencing in the recoveries. The first thing is that these recoveries are just going to be spectacular looking. If we look at the growth numbers, the reason for this is that the pandemic economy essentially required a partial shutdown of really important high employment sectors like hospitality and retail.

- **Skilled Labor:** Some surprising supply problems are emerging as this recovery occurs, however, it and it may not be the same in every part of the world. We had a stunningly big miss in the latest forecast from economists. They were predicting that as the economy recovered in the US a million new jobs and the number came in at like 250000.
- **Semiconductors:** A range of industries from computers to automobiles to mobile phones used semiconductors and semiconductors are everywhere. As a result of this pandemic, we have got a global shortage of semiconductors that are threatening a sort of shutdown or partial shutdown.
- **Commodities:** As a result, we have a huge commodity price across the globe. For instance, the price of lumber in the United States and Canada is astronomical. The thing we do not know is whether these are transitory or not. Moreover, nowadays, there is a very large discussion for those who are in macroeconomics. Very distinguished people are essentially raising somewhere between yellow and red flags on inflation.

MACRO POLICIES

Macro policies vary enormously across the world. The reason for this is that the countries just differ in the sense of how much fiscal space they have to mount these programs. However, now we have both monetary and fiscal stimulus together. Majorly macro policies around the world are hugely stimulative, a combination of monetary and fiscal measures, inflation threat, and markets are overvalued.

HIGH GROWTH SECTORS

In the macro sense by sector, we are going to see extraordinarily high growth in digital transformation, biomedical science & technology & health care, and energy transformation of economies sectors. With tons of entrepreneurial activities, large amounts of investment going in, rates of returns going up, and so on in these sectors.

- **Digital Transformation:** Digital transformation in the economy is accelerating rapidly. The reason is two-fold. One the pandemic itself. It played the role of lit a fire. It caused people to work remotely or from home. One of the major consequences is a huge surge in e-commerce activities. Similarly, a huge surge in mobile payments and a whole bunch of fintech. If we study which sectors of the economy had adopted a lot of powerful digital tools in the pandemic.

Undoubtedly, that is health care; however, we were lagging in these sectors before the pandemic. In a pandemic, we had to have telemedicine which we did not have enough of in the past. Fortunately, we are not going back as it is more efficient relative to traditional methods. In addition, it will get better over time; likewise, the home diagnostic will get better, and so on. Similarly, to the above, we are going to see an accelerated major transformation of economies. There are a lot of good things along with bad.

- **Biomedical Sciences & Technology and Health Care:** Undoubtedly, this sector has enormously powerful technologies and tools they have been in development for a long time but they are now being deployed and solutions to diseases, drugs, etc. Most importantly, this is one of the major growth areas.
- **Energy Transformation of Economies:** This is a slightly more speculative area because this problem of energy transformation and climate change has been with us for a long time. However, now this is again a pretty much global situation with the Biden administration as they rejoined the Paris accords. Likewise, at the micro-level such as from the ordinary citizens to businesses to the financial community has decided to take it seriously and there is tremendous demand for solutions in terms of energy efficiency, green energy production, recycling, and so on. As a result, powerful technologies demand to solve these problems. This is one of the third major growth areas for the next decade or two decades at least.

GLOBAL EXPLOSION OF ENTREPRENEURIAL ACTIVITY

The most interesting thing about the post-pandemic economy to young people is there is a global explosion of entrepreneurial activity. In the past, we had a small number of places with a very high rate of entrepreneurial activities like Silicon Valley. However, after the pandemic, we observed that there is an upsurge in these activities virtually, around the world. This is because of partial digital transformation. In the post-pandemic world, the spread of entrepreneurial activities got a great boost, especially digital activities. These sectors have low entry barriers and are widely available with powerful tools. See the Figure below to see the entrepreneurial activities around the globe.

INCREASING GLOBAL ENTREPRENEURSHIP

ENTREPRENEURSHIP IS NOW A GLOBAL PHENOMENON

As of April 2021, there are now more than 600 unicorns around the world, predominantly led by the U.S. (337 unicorns) and China (138 unicorns)

Global Unicorns: Top 10 Countries by Number of Unicorns					
Country	# of Unicorns	% of Total	Total Valuation (\$B)	% of Total	Top 3 Unicorns by Value
United States	337	52%	\$1,093	51%	Stripe, SpaceX, Instacart
China	138	21%	\$547	26%	ByteDance, Didi Chuxing, Tencent
India	31	5%	\$106	5%	One97 Communications, BYJU'S, QTV Power
United Kingdom	29	4%	\$96	5%	Checkout.com, Global Switch, Hugin
Germany	16	2%	\$29	1%	Ono, Back Hendlorn, A24, Celonis
Israel	13	2%	\$17	1%	Comet, Monday.com, Wix
Brazil	12	2%	\$42	2%	Nubank, Wolt, Sada, Lufi
South Korea	10	2%	\$22	1%	Krofin, Wix Mobile, SaaS
France	10	2%	\$13	1%	Bilibili, Axa, Minsk
Canada	5	1%	\$11	1%	PanOpticon, Digiplex Labs, Glance
Top 10 Countries	491	92%	\$1,976	92%	
Total Unicorns	654		\$2,147		

Source: PwC, April 2021

CHALLENGES

We have a kind of partial breakdown of international cooperation and institutions that support it. Moreover, we have an ugly form of nationalism rather than a benign form. Besides, there is a lot of political and social polarization and fragmentation; it is a problem because it is hard to have practical economic policies emerge and sensible rebuilding of international cooperative agreements. To reflect new realities when you have got a kind of inward-looking focus in many countries; for instance, the Trump administration was a kind of exaggerated extreme version of this, and even at the end of that administration, it's not gone away. Another potential challenge for us in regulatory terms is digital technologies because they are a double-edged sword. They have an enormous capacity to build inclusive growth models but they can also divide us. Furthermore, the early-stage growth model, the one we

learned from Asia, is based on comparative advantage engaging with the global economy largely in labor-intensive manufacturing and process-related manufacturing and assembly. This kind of model in the digital era may not work or may not be powerful. As evident, if we see the studies of Danny Roderick and others, they suggest that premature deindustrialization which means when you look at the manufacturing that is being undertaken in some countries does not generate much employment. This is a challenge because if you do not have employment engines then you do not have a mechanism for growth to spread and generate the demand that in middle-income countries helps in sustaining growth.

Q & A SESSION

1. What about vaccine nationalism?

We should be optimistic. However, we are in a bad period where the USA and Europe put themselves at the top of the queue. This means that there was a lag in getting the vaccine to everybody. Europe was a bit of a victim of that because they were not aggressive in acquiring vaccines and even though they had the resources to do so. On the other hand, that is going away now quite quickly. Further, the rate of vaccination is going up. Once we take care of people who put themselves at the top of the queue, two things will happen. First, the vaccination production will start flowing into a much larger range of countries. Secondly, international arrangements will be facilitated as Kovacs is an international effort to get the vaccine spread around the world. Sooner, we will see a very rapid increase in the availability of vaccines globally. As the binding constraint (manufacturing capacity) is going to turn out.

2. How do you see the labor market implications of that or major shifts in inequalities?

Yes, we are in a tough period. If we go back 10 years we had a problem rising in inequalities driven by automation. It is also written in David studies that we are losing routine jobs. We will have a tough transition as people's human capital adapts to different sets of technological characteristics in the environment. It is not unsolvable as different countries and societies will handle it differently. In his opinion, Sweden will do a better job than the US because they have an attitude toward redistributing income. That helps limit inequality and gives people resources to invest in their human capital. Secondly, both the government and corporate sector have an attitude to be a part of the solution game. Which means essentially retraining people.

3. How the independence of central banks can be justified as the governments need more money?

Extreme independence is not a good idea. Central Banks ultimately like every other institution in society and ideally at least need to be accountable. One way to make the central bank limited in terms of how much it can muck around in the economy is to narrowly define its mandate. A central bank with a mandate that includes inflation, financial stability, employment, and growth is a reasonable mandate.

4. Is there a financial crisis brewing in the backdrop similar to 2007? If yes, which area do you suspect it to be in?

The probability of expecting financial crises is not high but it's a risky environment for two reasons. First, after the global financial crises when people might have expected the global economy to deleverage a bit we did the opposite. Therefore, it's quite different from what happened in the last couple of years. Secondly, we have run-up debt again. The system is in some sense more fragile.

5. Which country would be able to recover fastest from this post-pandemic period? Do you think loan repayment extensions would help in recovery?

Undoubtedly, China recovers fastest. We have already seen they controlled the virus. The only major country in the world that had positive real growth in 2020. The second fastest recovery in major economies will probably be the US because of the vaccines. The extensions in loan repayments, by and large, is a good idea but it has to be backed up by substantial fiscal resources.

6. How are we going to open our economic system while staying in the pandemic and post-pandemic periods?

We cannot open the economy successfully until we control the pandemic. There are only two ways to do that. First, the way China did, or secondly by vaccination.



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