



WBN and AXCO- a different view of COVID-19

At WBN we partner with our Associate Member Axco to provide us with a layer of intelligence about our member markets worldwide, across both insurance and employee benefit markets. Axco's intelligence and insight allows WBN members to stay ahead of the game in markets that their clients are expanding into, giving them country information, local legislation, market practice and compliance information from territories across globe.

One of the main roles of Axco's Global Risk Intelligence and Data (GRID) team is to monitor emerging risks around the world, particularly those which affect the strategic activities of governments, companies and individuals.

There are many updates, comments and opinion pieces out there at this point, but this article covers a different perspective, one which may be far more reaching than the health aspects of the pandemic, one which focuses on governmental responses, collaborations or not as the case maybe, and the fact that many responses have been about protectionism.

WBN provide this insight to RES Forum members through Axco.

Thanks

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AXCO

Reconciliation and Retrenchment

The challenge of the COVID-19 epidemic threatens to overwhelm the political systems of many countries. However, in democracies in the Euro-Atlantic world that have been rocked by the rise of anti-elite populism and bitter partisan rancour, the crisis has prompted an unlikely coming together.

In the UK, scenes of some of the worst division over Brexit, legislation to provide billions of pounds in support for workers and grant emergency powers to temporarily restrict movements were nodded through parliament without the opposition calling for a meaningful vote. Unions, usually some of the Conservative government's most vocal opponents, have welcomed financial support for their members and praised the response. Likewise, President Trump's tantrums and confusion notwithstanding, the normally bitterly divided and jaded US Senate worked through the night to pass a USD 2.2trn stimulus bill in a unanimous 96-0 vote, then passed by the House with a simple voice vote.

These green shoots of bi-partisanship stand in sharp contrast to other responses. In Hungary the right-wing government of Viktor Orban voted itself sweeping powers to bypass parliament with no apparent time limit. In authoritarian Cambodia has arrested 17 people over COVID-19 social media posts. Azerbaijan's main opposition party had its headquarters closed "for health reasons", while in Russia a new 170,000 camera facial recognition system, introduced earlier this year prompting an opposition outcry, is being expanded to track quarantine dodgers, and appears ripe for abuse after the restrictions have lapsed.

So far, different administrations' responses have provided both hopeful signs of reconciliation and disappointing indications of authoritarian retrenchment. Governments that are overly partisan, institutionally hollow, or highly personalised will struggle to respond to the social and economic threat. However, any newfound solidarity in the face of the crisis will be severely tested as the human and economic toll increases.

III Winds of Change

The rapid escalation of the COVID-19 outbreak into a global pandemic has sent shockwaves through the world economy. Since its emergence in December, global stock markets have fallen an average of 30% in Asia, Europe and the Americas as companies have grappled with falling sales and shuttered industries amid enforced lockdowns on every continent. In March business activity in the Eurozone halted, and both the UK and US were declared to be in recession. The OECD has already declared the scale of the crisis larger than the financial crisis of 2008, with the potential for a sharp crash and long-term recovery.

While governments have announced huge grants to subsidise the wages of those laid off or unable to work, such support cannot restore one of the major components of aggregate demand: consumption. Without a safe way to get people out spending many companies with thin margins will fold, especially those dependent on just in time supply chains and cheap consumer debt. These include car manufacturers, retail giants and airlines, with the aviation sector alone facing lost revenues of USD 252bn this year. The International Air Transport Association warned that dozens of European and Asian airlines could collapse.

Governments across the world have responded by ripping up spending playbooks after a decade of austerity and pulling every monetary lever. Interest rates in mature and developing economies alike have been slashed, some to near negative territory, and huge stimulus packages introduced, capped by the United States' USD 2trn effort. France, Germany and the UK have also raised the possibility of mass nationalisations to prevent collapse.

Government action has been prompt compared to 2008, which could avert disaster, but the scale and scope of these responses could mean that 2021 dawns on a global economy that is structurally very different.

Zero Sum Politics and a Crisis of Cooperation

During the last global crisis that pitched economies into freefall, international cooperation by independent central banks stemmed the bleeding. In March, the same institutions initiated similarly drastic measures, exhausting most of the monetary levers left over from the last crisis. The task of arresting the cascading shocks caused by COVID-19 now falls to governments. In most developed nations, the threat has forced a break from economic orthodoxy; even Germany dropped its cherished "black zero" budget rule to fund a EUR 750bn rescue package.

While many countries have arrived at similar solutions of social distancing and expansive fiscal policy, initial hopes that this uniquely transnational threat would prompt governments to work together have dimmed. In a global climate crowded with inward looking populists with protectionist instincts, fewer leaders are willing to trust expert advice or coordinate to address common problems. Instead, the prospect of a savage economic recession and limited medical resources has sparked a scramble to respond.

Cooperation to ensure the widest possible mitigation, testing, and treatment of Covid-19 should be a priority, but even this has been haphazard and counterproductive. The EU's attempt to jointly secure ventilators for its member states with export controls paralysed the supply chains of one major Swiss manufacturer. Meanwhile, the US reportedly attempted to secure exclusive rights to a German company's vaccine, as Chinese diplomats spread disinformation about the origin of the outbreak.

This failure to cooperate risks becoming self-reinforcing. The OECD's chief economist noted that the uncoordinated country-by-country response has spooked markets, limiting the effectiveness of monetary and fiscal measures. More worryingly, export restrictions on vital medical supplies could prove catastrophic in developing countries with weak healthcare systems. A zero-sum approach to the crisis will intensify the crisis now and could poison international politics for years to come, entrenching instability and conflict.

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